



**WORLD
MACRO-ECONOMIC SCENARIO
2022-2023**

Quarterly – October 2022

ECO

ÉTUDES ÉCONOMIQUES GROUPE



Horizon gloomy... but above all uncertain

Inflation has left its mark on the entire scenario: the same applies to monetary tightening. A number of variables – energy constraints imposed by the war in Ukraine, the expected rate of deceleration of inflation, the severity of the sting imposed by monetary tightening – impact economies' path towards a significant slowdown or even recession.

Our economic scenario is still based on **an unfortunate but still valid premise, one not radically altered by the Ukrainian counter-offensive, that the war between Russia and Ukraine will remain intense and that the peace process will be distant.** Externally, the Russian leadership is increasingly isolated diplomatically and has seen its reputation tarnished; internally, it has been weakened by the rupture of the social contract introduced by the partial mobilisation. But Russia has not collapsed economically.

Inflation – whether due to over-stimulated demand (in the US in particular) or supply constrained by shortages of inputs and then that of energy products (Europe in particular) – **has left its mark on the entire scenario:** the same applies to monetary tightening. A number of variables – energy constraints imposed by the war in Ukraine, the expected rate of deceleration of inflation, the severity of the sting imposed by monetary tightening – impact economies' path towards a significant slowdown or even recession. A slight shift in assumption is enough to singularly modify the outlines of the inflation and growth scenario: from hopes of a little less US inflation pointing to a soft landing, to the risk of a proven gas shortage in Europe causing a more severe recession. However, the imbalances inherited from the pandemic, essentially in the form of still abundant household savings and a still robust labour market, paradoxically provide shock absorbers: if they do not allow us to escape recession, they provide hope that the extent of the recession remains limited.

In Eurozone, Our central scenario is based on the assumption that efforts to diversify gas supplies and the voluntary reduction in consumption will help avoid 'imposed' rationing.

In the **US**, after two quarters of contraction in GDP, not enough to officially be classified as a recession, the momentum seems to be enough to return to positive but modest growth in H222. Annual growth therefore looks set to slow from 5.7% in 2021 to 1.7% in 2022. Signs of a slowdown are starting to emerge, whether discreet (labour market) or obvious (residential investment). Initially forecast for H223, the downturn is likely to be earlier and a little more pronounced, leading to a slight recession and growth of only 0.5% for the whole year. The dampening of consumption and the improvement in supply chains suggest a significant but still-distant decline in inflation (from Q323). However, the Fed has made the decline in inflation a priority, considering it preferable to briefly endure a recession than to suffer the negative consequence of too-high inflation on a

long-term basis. It is therefore unlikely that the Fed will shift its position in 2023, even in the case of a slight recession; just as it is futile to rely on any fiscal support.

After being buoyed in H1 by the post-omicron rebound and by public measures to mitigate rising prices, since summer the **Eurozone** has experienced (1) suddenly much more limited supply of Russian gas; (2) accelerating inflation; and (3) tightening financial conditions. Our central scenario is based on the assumption that efforts to diversify gas supplies and the voluntary reduction in consumption will help avoid 'imposed' rationing. However, it assumes a decline in GDP in Q422 that looks set to continue in Q123: weakening demand, operational constraints affecting companies (more limited energy supply, increasing costs, less accommodative financial conditions) and erosion of profitability. Thanks to a comfortable overhang, growth could exceed 3% in 2022 but only be slightly positive in 2023 (0.4%): a soft landing... A very relative soft landing that conceals the extent of the deceleration and GDP growth exceeding 5% at the beginning of 2022 before becoming slightly negative in mid-2023. Despite a higher gas price, this scenario assumes a decline in average inflation in 2023 (to 6.7%, after 8.3% in 2022): inflation reduces demand and eventually eases price pressures. However, weakening activity in order to stifle inflationary pressures on non-energy goods and services is also the aim of the ECB. Finally, the outlines of a harder landing scenario in 2023 are easy to trace: we only slightly shift the energy assumptions: inflation remains high and GDP declines by 0.6%.

In terms of the **emerging constellation**, the obstacles (inflation, local and global monetary tightening, slowdown in external demand, fiscal room for manoeuvre exhausted, geopolitical risks) do not have the same dimension depending on the country, but they are emerging and impacting growth. In **China**, in particular, the zero-Covid policy, the slowdown in the property sector, the forecast brake on exports suggest mediocre performances. And imbalances (excessive internal debt), the consequences of which are feared in the medium term, are ultimately materialising and hampering the response of China's policymakers, who are reticent to adopt large-scale stimulus plans.

Monetary tightening has taken a more aggressive turn. Higher, more widespread, more durable: inflation is resilient. And reducing inflation is currently major central banks' single priority at the possible expense of growth: It is difficult to see central banks easing

prematurely in 2023. Our scenario assumes a Fed funds rate at 4.00% at end-2022, a forecast surrounded by upside risks, then at 4.25%, a 'high plateau' reached Q123. Recently converted to tightening, the **ECB** is expected to continue to increase rates at least until the beginning of 2023, thereby taking the deposit rate to 2% at end-2022, in line with estimates of a neutral rate, and then to 2.25% in February. The priority given to combating inflation, recent and difficult in the Eurozone or already 'old' in the US, therefore leads key rates to approach neutrality, or even to already venture into restrictive territory.

In sympathy with short rates, sovereign **bond yields** have picked up but, weighed down by sluggish growth prospects, yield curves have inverted. Our scenario assumes US and German 10-year yields at 3.70% and

1.90% respectively at end-2022 (3.35% and 1.90% at end-2023) whereas, in the Eurozone, the ECB's tightening cycle may continue without creating any major tension on peripheral securities (introduction of the TPI which the ECB hopes not to have to use, shift from core European government securities to the periphery, when they reach maturity in the PEPP and must be re-invested). Finally, **the USD continues to smile**. It is buoyed by its status as a safe haven, currently high-yield, currency, factors that are unlikely to erode in the short term. We will have to be patient before its over-valuation becomes evident and other currencies become more attractive: alternative safe-haven currencies in the event of the collapse of growth, more pro-cyclical currencies in the event of a soft landing.

Catherine LEBOUGRE

FOCUS – Geopolitics – Power shift

Ukraine's counter-offensive has changed the power balance on the ground, but this does not fundamentally alter the base-case scenario for the next three months, which is still one of full-on warfare. It is also conceivable that the process of annexing the regions where referendums have taken place could be the basis of a sort of gradual freeze of the conflict; but no matter what, we are still far from any peace process – barring a strategic surprise or the political collapse of either side. However, in the longer term, power is starting to shift in five major areas.

Russia is in the midst of domestic political upheaval

Admittedly, it is not as yet in economic collapse, thanks to energy prices, external surpluses and many trade partners who have chosen not to apply sanctions. **On the other hand, with the partial mobilisation, a domestic political tipping point has been abruptly crossed.** So even if the process becomes more organised over the next few weeks, the social contract between the Russian people and their State has been broken – a contract founded on maintaining domestic security in exchange for handing over most political freedoms.

Russian power is also in trouble on the world stage – increasingly isolated diplomatically, and, most importantly, fast losing its reputation.

In addition, Russian power is also in trouble on the world stage – increasingly isolated diplomatically, and, most importantly, fast losing its reputation due to the atrocities of the conflict; but also, paradoxically, because of a position of weakness that is unacceptable for the strongman archetype that Vladimir Putin embodies in the eyes of part of the world's population.

Many scenarios are now possible in Russia, but the domestic political crisis has already signalled the end of Putin's Eurasian dream

This situation is creating a risk for every remote corner of the empire, in this case the Caucasus in Central Asia (actually in the Arctic). All regional maritime spaces are becoming risky strategic zones. This mess began several years ago between Azerbaijan and Armenia, and between Kyrgyzstan and Tajikistan. Today, no major power seems to be capable of resolving their conflicts. Naturally, the situation raises enormous stakes for China, because this is partly its hinterland, an

energy purveyor that is highly strategic for a power geopolitically hemmed in along its maritime coasts. Turkey is the other regional power that will not let a post-Soviet area break apart without taking its piece.

The third axis of power, currently making an about-turn, comes from the economy: China is weakened

No matter what happens next in the Chinese economy, the immediate geopolitical consequence will be that it will not be able to catch up with the US as quickly. In fact, for the time being, Beijing no longer has the economic resources for its hegemonic ambitions, as evidenced by the financial attrition of the New Silk Roads. Of course, this will not eliminate the strategic rivalry in the long term, nor the risk of short-term pressures. Yet for all that, **China now appears to need time more than tensions.**

Does this mean that the US has 'won', as the strong USD would suggest?

In fact, US power is distorted, as it has been continually for a decade. Though stronger in monetary and military terms, the social fabric is weaker.

The latest trend now asserting itself is the multi-polar reshuffling of the world deck

The **Gulf nations are the winners of the moment** in the great geo-economic game of dominoes, accruing stratospheric external and budget surpluses which are pushing even the zone's most fragile players upward in terms of their debt profile. Meanwhile, (1) **India** is not wealthy, but it is in a strategic situation of geopolitical pivot – to its benefit; and (2) **Brazil**, whether led by Lula or Bolsonaro, will no doubt send out a similar message of non-alignment.

Tania SOLLOGOUB



DEVELOPED COUNTRIES

Soft, Hard or Crash – Enjoy your landing

USA – Economy resilient for now, but mild recession likely in 2023

Eurozone – The perfect storm

United Kingdom – Will the worst be avoided?

Soft, Hard or Crash – Enjoy your landing

A number of variables – energy constraints imposed by the war in Ukraine, the expected rate of deceleration of inflation, the severity of the sting imposed by monetary tightening – impact economies’ path towards a significant slowdown or even recession. A slight shift in assumption is enough to singularly modify the outlines of the inflation and growth scenario: from hopes of a little less US inflation pointing to a soft landing, to the risk of a proven gas shortage in Europe causing a more severe recession.

USA: ECONOMY RESILIENT FOR NOW, BUT MILD RECESSION LIKELY IN 2023

Despite the contractions in both Q122 and Q222 GDP, we think it is unlikely that the NBER will determine the economy was in recession in H1 given more resilience in data points on which the NBER focuses, in particular labour market indicators. Additionally, gross domestic income (GDI) expanded in both Q122 and Q222, leaving the average of GDP and GDI in positive territory and further decreasing the likelihood of a recession determination.

As a result, we see low recession odds in the 15% range for the remainder of the year and expect that there is enough momentum to return to positive growth in H222, albeit at a modest rate. Combined with the weak prints in H122, this results in 2022 annual growth slowing to around 1.7% compared to a 5.7% surge last year.

Next year, however, we now think that the weakness we had expected in H223 is likely to arrive sooner and to be a bit more severe than previously anticipated, resulting in a mild recession in 2023 leading to annual growth of just 0.5%. Housing has already weakened significantly, along with numerous sentiment indicators, though other portions of the economy, in particular the labour market and, relatedly, the consumer, have remained more resilient for now.

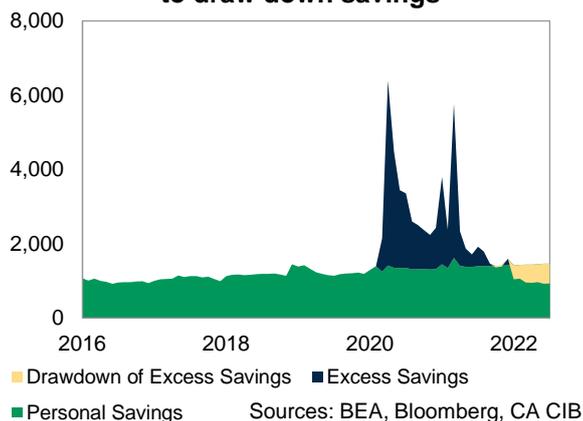
That said, consumers facing negative real wage growth have become increasingly reliant on dipping into savings and borrowing on credit cards to cope with increasingly broad-based inflation

that will likely see a slow grind on the way down and remain elevated well into 2023. A solid pile of savings still exists and credit card debt is manageable in the near term, hence the rebound in H222 growth, but these sources of support will not last forever and should drive a consumer slowdown by early next year, in our view. Household balance sheets remain in good shape compared to before the pandemic, which may work to mitigate the severity of the downturn, but we do not expect this support to be enough to avoid recession entirely.

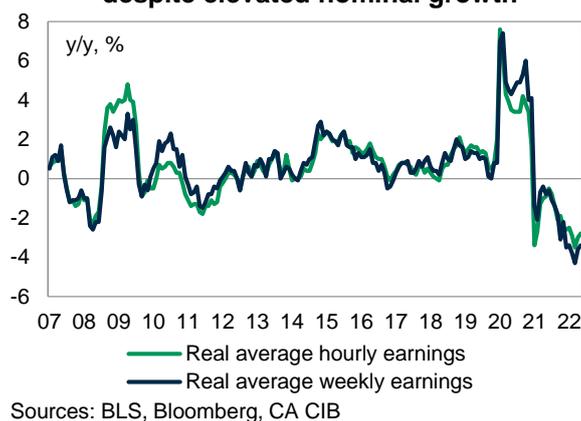
 Annual change	2022	2023
GDP	1.7%	0.5%
Inflation	8.3%	4.7%

The labour market remains extremely tight at the moment, with the pace of recent job gains still above 300k per month and the unemployment rate only just above the pre-Covid low at 3.7% despite some increase in participation. However, there have been some signs of slowing momentum and increasing anecdotal evidence of companies considering hiring freezes and/or layoffs, and as consumer demand softens we look for the labour market to follow suit. We see nonfarm payroll gains continuing to trend downwards and the unemployment rate jumping above 4% by Q2 next year, which should lessen support from

USA: consumers beginning to draw down savings



USA: real wage growth negative despite elevated nominal growth



the labour market and add to the factors contributing to softening consumption by H123.

The labour market remains extremely tight at the moment, with the pace of recent job gains still above 300k per month and the unemployment rate only just above the pre-Covid low at 3.7% despite some increase in participation. However, there have been some signs of slowing momentum and increasing anecdotal evidence of companies considering hiring freezes and/or layoffs, and as consumer demand softens we look for the labour market to follow suit. We see nonfarm payroll gains continuing to trend downwards and the unemployment rate jumping above 4% by Q2 next year, which should lessen support from the labour market and add to the factors contributing to softening consumption by H123.

On top of this, business surveys have been trending downwards as well, with both ISMs down from the recent peak and approaching the breakeven level of 50, even if only gradually, and capex intentions in regional Fed surveys also declining. Combined with rising rates and a number of companies indicating concerns around the profit outlook, this highlights the likelihood of slowing non-residential investment going forward.

Residential investment has already weakened significantly and we expect further decline as housing remains one of the most interest rate-sensitive sectors in the economy. There are some factors that may work to limit spill-overs from housing to the broader economy including (1) historically low inventories for sale that may prevent home prices from falling into outright decline, limiting the negative wealth effect; (2) lending standards that have improved significantly, which should limit defaults/foreclosures; and (3) the predominance of fixed rate mortgages, meaning that many households will not see any impact to monthly payments even as rates have risen. Again, we do not expect this to be enough to avert recession, but it should help to keep any downturn relatively mild.

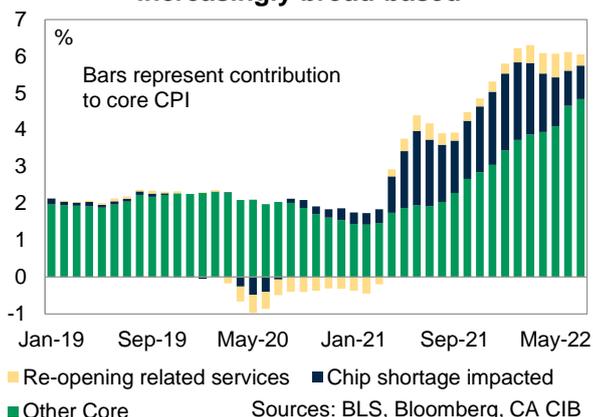
Taking everything together, we anticipate this mild recession arriving in H123. Recession is not a given and we do still see a narrow path to a softer landing, especially if inflation were to ease faster than expected, but we believe that the coin flip tilts modestly in favour of recession, with odds at around 60% for next year.

By Q323, we see more substantial inflation relief beginning to emerge as the combination of slowing growth and improving supply chains drives headline CPI closer to 3% and core below 3%, lessening the burden of price increases on consumers. This improvement in inflation data would also allow the Fed to begin laying the groundwork for cuts in early 2024, potentially easing financial conditions and setting the stage for growth to rebound back to positive territory in Q323 before picking up some further momentum in Q423, though again at a below trend rate. **Still, this pattern leaves 2023 annual growth at just 0.5%, below the latest Bloomberg consensus of 0.9%, though expectations are widely dispersed.**

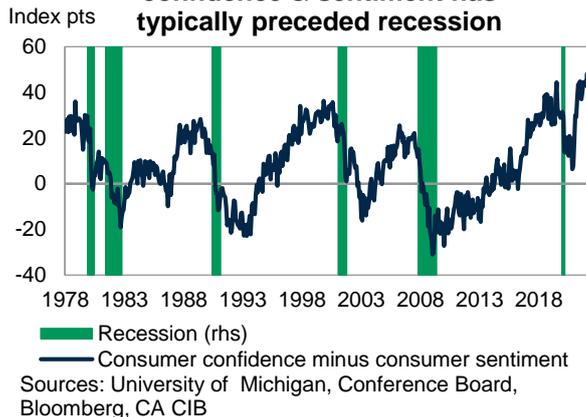
As growth slows further, there may be some optimism that fiscal and/or monetary policy could ride to the rescue, as happened prominently during the Covid induced recession of 2020, though we expect these hopes to be dashed. The Fed has made its inflation focus clear, and has essentially indicated that it views the short-term pain of a recession that brings inflation to heel as preferable to the long-term pain that could result if inflation were to become de-anchored. As a result, we believe the Fed is unlikely to cut rates in 2023 even in the face of mild recession.

On the fiscal side, Republicans look likely to capture at the very least the House in November's mid-term elections, if not the Senate as well, which would make any additional fiscal stimulus dead in the water. If Democrats were to buck the odds and hold on to control of both houses of Congress, they would still have to deal with a very narrow margin in the Senate that puts the filibuster in play and leaves moderates such as Joe Manchin and Kyrsten Sinema with an outsized impact on spending decisions. Given

USA: inflation becoming increasingly broad-based



USA: a rising gap between confidence & sentiment has typically preceded recession



that Manchin and Sinema have already agreed to some additional spending in the Inflation Reduction Act plus Manchin's concern about too large a fiscal boost while

inflation remains high, any substantial spending package looks highly unlikely.

Nicholas VAN NESS

EUROZONE: THE PERFECT STORM

The Russia-Ukraine conflict and the resulting disorderly energy crisis has triggered an immediate, but lasting, structural competitiveness shock in the Eurozone. This shock is asymmetrical in two different ways. Logically, it is impacting Europe more than other advanced economies, but it is affecting European countries differently too. One impact of this shock is expected to be higher prices for energy imports in 2022 than 2021, some of which has already materialised. In line with the assumption of a drawn-out conflict, the assessment of this shock also includes limited Russian gas supply (stabilising at levels seen in July) and gas prices that will exceed EUR200/MWh for a significant period. The cost of this shock in terms of GDP could reach an estimated 6ppt in 2022 and an additional 3ppt in 2023. The impact on the Eurozone economy is already apparent and reflected in the successive downgrades to our scenario since March. Our Eurozone GDP forecast for end-2023 is 3.2ppt lower than before the invasion of Ukraine.

An unprecedented turn

The Eurozone economy has taken a turn. H1 growth was solid on the back of (1) the post-omicron rebound and high levels of consumer spending on services; (2) purchasing power bolstered by robust wage growth; and (3) government measures to mitigate the impact of rising prices. The growth carry-over for 2022 was 3.2%, which warranted the increase in our 2022 growth forecast from 2.5% to 3.2%.

However, over the summer, the threat of limited Russian gas supply materialised, prices soared, and energy inflation increasingly spread to other components of the price index. As a result of this unfortunate sequence of events, central banks are

becoming increasingly concerned, not just about current inflation, but also the risks that price and wage setting mechanisms will shift and that inflation expectations will soar out of control. Their aggressive action on rates, combined with higher inflation, will bring the post-Covid expansion phase to a premature end.

The main concern has shifted away from household purchasing power to the risks to profitability and operational challenges for business, which are having to contend with more limited energy supply, rising costs and less accommodative financial conditions. **As such, we are revising our 2023 growth scenario down from 1.1% to 0.4%.**

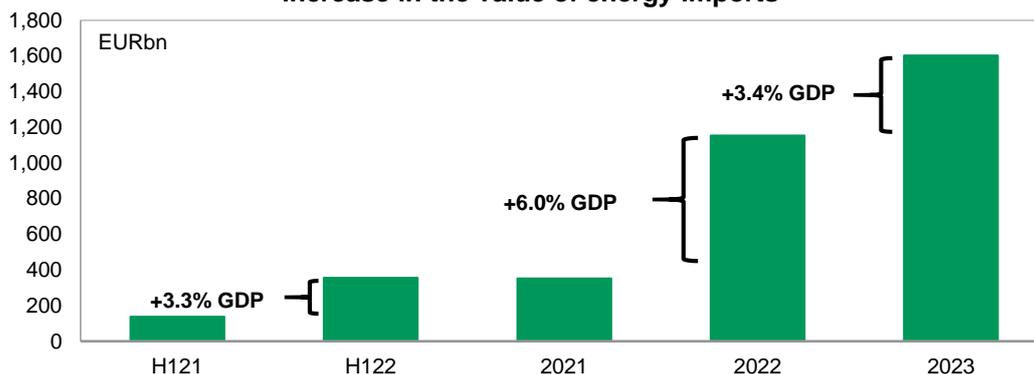
Red October

The Eurozone is weakening sharply, which is reflected in September's latest surveys, particularly in the manufacturing sector where the branches that consume the most energy are already seeing declines in their business.

Although growth remains underpinned by the services and tourism sectors in Q322, **Q4 is expected to see a sharp drop in GDP, one that is likely to continue into Q123.** With two quarters of moderate recession at the turn of the year, our forecast may seem like a relatively soft landing for the Eurozone economy. However, we should not forget that YoY GDP growth is expected to drop from 5.4% in early 2022 to -0.1% in mid-2023.

We have relegated a hard landing to our adverse scenario. **The Eurozone economy may still receive a boost from robust job creation, solid growth in**

Eurozone - a competitiveness shock: increase in the value of energy imports



Sources: Eurostat, Crédit Agricole S.A.

wages and healthy balance sheets at private companies. Labour shortages in certain sectors and the use of the short-time work scheme at businesses hardest hit by rising costs and rationing will curb the rise in the unemployment rate.

In our central scenario, efforts to diversify gas supply and the voluntary reduction of consumption should help to avoid stricter rationing. This reduction will take place via market forces, either through auctions involving the companies consuming the largest amount of gas (as detailed in certain countries' emergency plans) or through 'voluntary' stoppages of businesses that are not profitable enough due to rising costs.

A recession scenario is certainly forming, but it remains very moderate and no wishful thinking is needed for now. Although businesses are having to contend with serious pressure on margins combined with weakening domestic and foreign demand, lower usage of available supply would help ease the bottlenecks in value chains. In the short term, uncertainty over supply tends to drag down demand. The recession could end up being a reliable source of declining inflation. The effect of rising gas prices on inflation could go both ways. Inflation is spreading more persistently throughout the value chains and impacting the prices of other goods and services, but it is also curbing demand, which will ultimately cool rising prices. **Our scenario** is pricing in this second impact outweighing the first and causing **inflation to fall in 2023** (to 6.7% from 8.3% in 2022), **despite higher average prices next year** (EUR220/MWh).

The recession could end up being a reliable source of declining inflation.

The shock will be digested slowly

Only part of the competitiveness shock will be felt immediately and cause growth to weaken. The remainder will be gradually absorbed and trigger a deterioration in economic agents' economic and financial situations and the region's external position. This will significantly hamper the economy's ability to

return to its prevailing pre-war growth trend. The impact on household consumption will be more acute in terms of spending on durable goods, as services spending will remain underpinned by more affluent households that still have substantial excess savings to draw on. Meanwhile, investment will continue to benefit from national and European energy and digital transition plans.

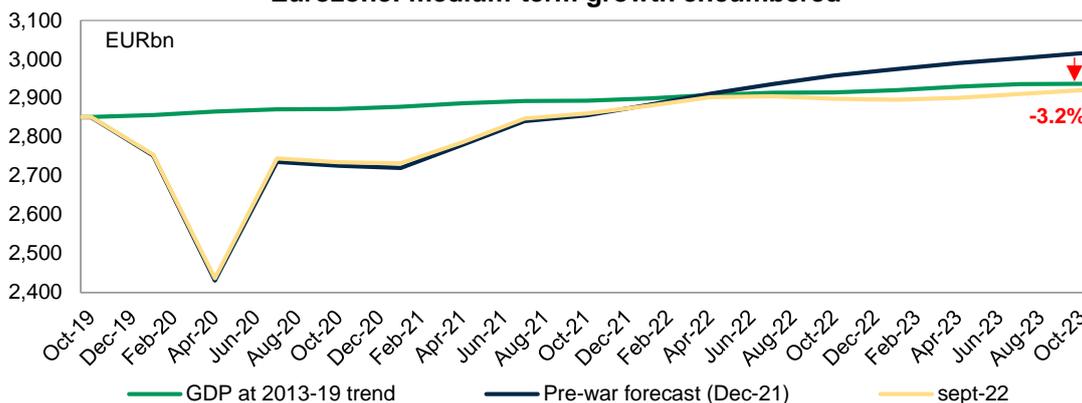
The end of divine coincidence

Governments will be tasked with organising the response to this competitiveness shock, ensuring that certain stakeholders' situation does not deteriorate excessively and exacerbate the initial shock. This task will be all the more challenging since the divine coincidence of fiscal and monetary policy sharing the same goal of stabilising activity and prices is now over. The ECB is now directly targeting weaker activity in order to cool inflationary tension on services and non-energy goods. **Faced with prices having a structurally weaker reaction to the decline in activity, there is a risk that the sacrifice in terms of growth may be greater.** Regulatory policy could help to effectively complement the policy mix and make the ECB's dilemma less acute.

Annual change	2022	2023
GDP	3.2%	0.4%
Inflation	8.3%	6.7%

European-level economic policy has an increasingly important role to play, since the now highly fragmented energy market is increasing the impact of the shock on GDP and inflation. Solidarity between countries is more vital than ever. Supply capacity will have to be shared (otherwise rationing will become unavoidable). Costs will have to be shared too, and income generated from the shortages will have to be redistributed.

Eurozone: medium-term GDP encumbered



Source: Crédit Agricole S.A.

An adverse scenario is not far away

Outlining an adverse scenario is simply a matter of tweaking our energy-related assumptions. This scenario would combine a complete cut-off of Russian gas supply, which is highly likely amid insufficient and very expensive LNG supply, more lasting challenges for the French nuclear industry, and increased tensions over gas demand and prices, with repercussions on electricity prices. **If we also assume that there will be a harsh winter in 2023, European governments would inevitably have to resort to their gas rationing plans**, despite reducing consumption by

15% over the winter. If the average market price for natural gas remains within the EUR275-375/MWh range in 2023, **inflation would remain high at 8.5% next year**. Rationing would primarily impact manufacturing and reduce activity in sectors that are highly dependent on gas. As a result, investment would fall, and consumption would drop slightly on the back of a greater than expected deterioration in the labour market. **Average annual GDP would fall by 0.6% in 2023 in this scenario.**

Paola MONPERRUS-VERONI

UNITED KINGDOM: WILL THE WORST BE AVOIDED?

Fiscal stimulus on one side, monetary tightening on the other

Just a few days after taking office, **PM Liz Truss's government announced a massive fiscal stimulus programme**, consisting mainly of capping energy prices (Energy Price Guarantee) and lowering taxes (Plan for Growth 2022). Completing the picture, promises of supply-side support and deregulation with Thatcherite overtones are aimed at an ambitious (no doubt overly so) growth target of 2.5% in the medium term.

In the medium term, inflation should be stimulated by fiscal easing and the GBP's weakness.

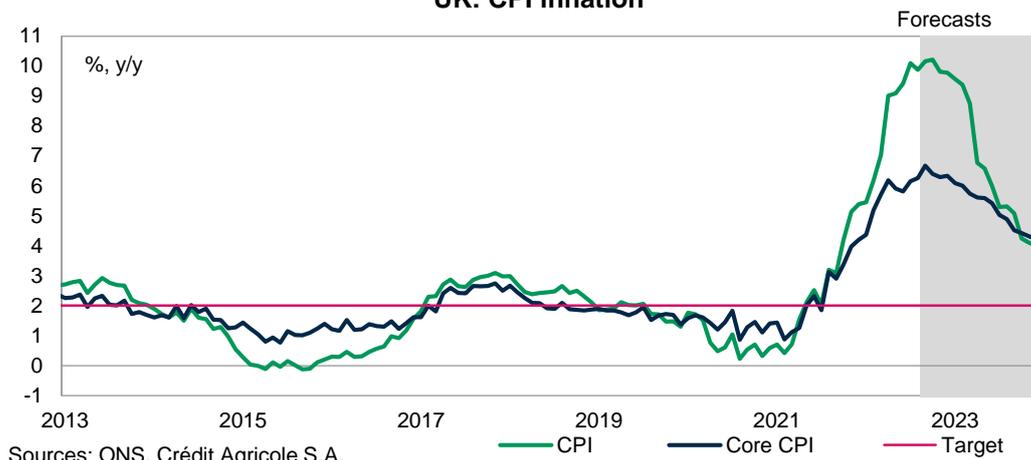
This plan should give demand a major boost against a backdrop of supply-side constraints, a tight labour market, high inflation and monetary & quantitative tightening by the Bank of England (BoE). Word has it this will not be offset by cutting spending, but will instead be fully financed by issuing debt. Over the first six months, from October 2022 to April 2023, its estimated cost is GBP80bn (3.2% of GDP). GBP20bn of that is for fiscal measures, a figure that would rise to GBP45bn in 2026-27, while the energy price cap's estimated cost is as much as GBP150bn over the next two years (subject to market uncertainty over natural gas prices). Odder still is the

absence of any credible government commitment so far to a debt sustainability framework, and the lack of an official analysis by the OBR of the impact of the fiscal stimulus on public finances. Investors reacted violently to this 'irresponsible' policy, triggering a severe crisis on the UK markets as the GBP plunged to record lows against the USD and interest rates soared. Market expectations for the policy rate have risen considerably (to close to 6% in 2023, compared to today's 2.25% and a 100bp hike at the November meeting). The BoE made the emergency decision to purchase long-term government bonds for a short period in order to reduce risks to financial stability.

No skirting a recession

The energy price cap (GBP2,500 per household per year) will likely result in **lower short-term inflation**. Peak CPI inflation will likely come in earlier (October, not January 2023) and lower (just above 10% according to our forecasts, not closer to 14%). Indeed, without this measure, household energy bills would have reached GBP3,549 per year by 1 October (compared to GBP1,971/year today and GBP1,277/year last winter) and potentially more than GBP5,000/year in 2023. This would have triggered a sharp contraction in demand, a severe recession and highly negative growth in 2023. In fact, in August the BoE was counting on GDP declining by 1.5% on annual

UK: CPI inflation



HORIZON GLOOMY... BUT ABOVE ALL UNCERTAIN I DEVELOPED COUNTRIES

average in 2023. **Capping energy prices is expected to be a good way to skirt this very gloomy scenario, easing the shock to consumer purchasing power and stimulating consumption**, particularly by lower-income households with a higher propensity to consume. **Our scenario is still for a recession** (we expect GDP to contract from Q322 to Q123), **albeit a relatively contained one**, with average annual growth of 4.4% in 2022 and then -0.2% in 2023.

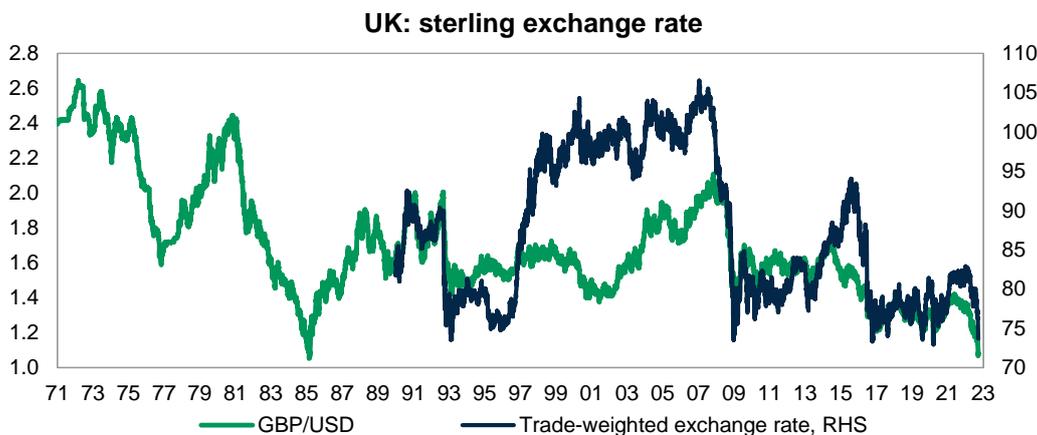
Ambiguous implications for medium-term inflation

In the medium term, inflation should be stimulated by fiscal easing and the GBP’s weakness, while financial and monetary tightening should offset some of these effects. We expect that the net effect of those factors

will likely be positive and revise upwards **our inflation forecasts to 4.1% for headline inflation in Q423 (vs 3% in July) and 4.3% for core inflation (vs 3.1% in July)**.

 Annual change	2022	2023
GDP	4.4%	-0.2%
Inflation	8.9%	6.2%

Slavena NAZAROVA



Sources: Bloomberg, Crédit Agricole S.A.



EMERGING COUNTRIES

No light in sight yet at the end of the tunnel

Overview – No light in sight yet at the end of the tunnel

China – Seeking visibility

Brazil – Lula's comeback: not a question of if, but when?

Russia – Headed for a breaking point?

India – Watch those external balances

No light in sight yet at the end of the tunnel

EM growth should remain soft in the coming quarters, pressured by a flurry of challenges (inflation, local and global monetary tightening, geopolitical risks). Financial pressure should grow but existing buffers fuel resilience of key regions (rather strong balance sheets in Asia and energy prices for oil exporters).

The end of the tunnel is not in sight, yet, for Emerging Markets. On the economic front, economic growth will likely continue to be under pressure from different constraints in the coming months.

Financial pressure

The first constraint will come from inflation and monetary tightening. Inflation has kept on increasing in recent months. It is still much lower in Asia compared with EMEA and Latam, but it has begun to accelerate there, too. Mirroring that, policy rates have increased strongly as well. Asian central banks have initiated their tightening cycles much later than their counterparts in the rest of EM, but apart from China, almost all of them started to hike rates in Q2 or Q3.

We estimate that EM central banks have, on average, done about 80% of the tightening job. Some of them will continue to hike, particularly in Asia. When the peak in rates is reached, policy rates will likely be kept high for some time – all the more since we expect disinflation to be sticky, when it occurs.

Real interest rates are negative in many countries, but the quick increase in nominal rates is capping both investment and consumption. The rise in inflation is also shortening the business horizon and capping investment. Inflation has further eroded the population’s purchasing power and caps the consumption outlook.

Slowing external demand

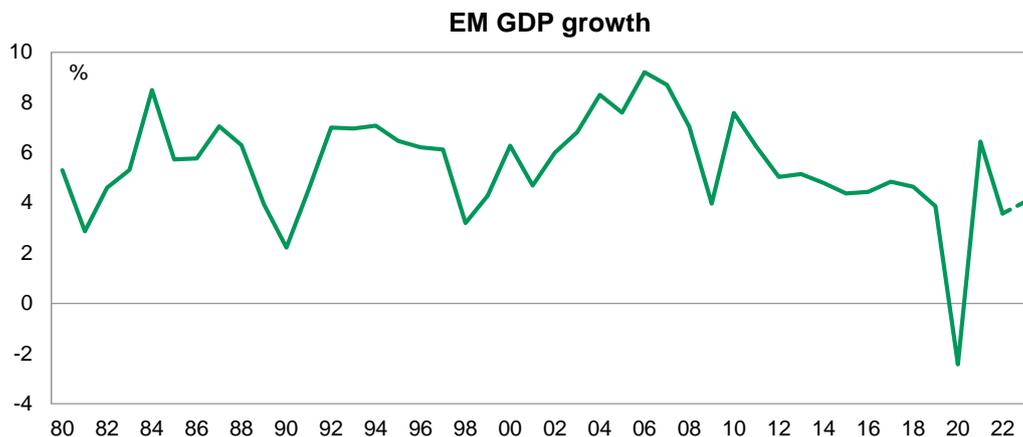
Second, on top of these negative factors, **the coming slowdown in the US and Europe will negatively impact EM exports.** Our US economist forecasts a technical recession in the US in H123; faced with the

energy crisis, Europe is likely to slow in the coming quarters. As a consequence, EM exports are expected to decelerate, from a strong 20% YoY post-Covid jump at mid-2022, to possibly close to 0% or negative at end-2022 and into 2023. Exports to the US and the EU account for about 9% of EM aggregated GDP (13% excluding China). This fuels the case for some EM slowdown in the coming quarters and into 2023.

China’s efforts to support its own economic growth suggests some reacceleration ahead. However, this will likely be a protracted process, leading to a limited reacceleration. The Chinese economy faces serious hurdles, including the gloom of the property market and the negative effect of the zero-Covid strategy on consumption, on top of the external headwinds. In China, the government is keen to limit the rise in corporate debt and will likely remain careful when it comes to monetary and fiscal support. So the improvement in China’s momentum will likely not offset the weakening of demand elsewhere.

At first sight, **our EM GDP growth forecasts look decent.** We see the aggregated GDP growth at 4.1% in 2023, compared with 3.4% in 2022. However, next year’s growth performance is artificially supported by base effects in a number of countries whose growth in 2022 has been hit by Covid and policies aimed at fighting it (incl. China), or by the change in sanctions (Russia). Moreover, the expected rate of growth for 2023 is close to the lowest levels reached during the past three decades (2020 excluded) – close to 2009 (Great Financial Crisis) and 1998-99 (Asian, Russian and LTCM crises).

The combination of slower growth, inflation, and higher global and domestic interest rates will keep EMs under



Sources: IMF, Crédit Agricole CIB

pressure. **The least developed countries**, in particular, **should feel the pain**. They face two big challenges: worsening financial constraints and some possible deterioration of the social fabric as the population's purchasing power remains under increasing pressure. The IMF loans have already reached record-high levels, and there may be more to come.

The expected rate of EM GDP growth for 2023 is close to the lowest levels reached during the past three decades

Buffers and divergences

That being said, **when it comes to more developed emerging markets, there are buffers some of them should benefit from**. More generally, from a regional point of view, there is a case for some differentiation. In Asia, many countries should benefit from stronger balance sheets. Fiscal leeway and relatively strong external liquidity positions should help them to withstand the pressure. Oil exporting countries are also relative winners, particularly as Europe is busy looking for an alternative to Russian energy. Gulf countries are well positioned here.

Latin America is in a less favourable situation. It has benefited from surging commodity prices until mid-2023. However, the backdrop has become less favourable, and that could continue to be the case as

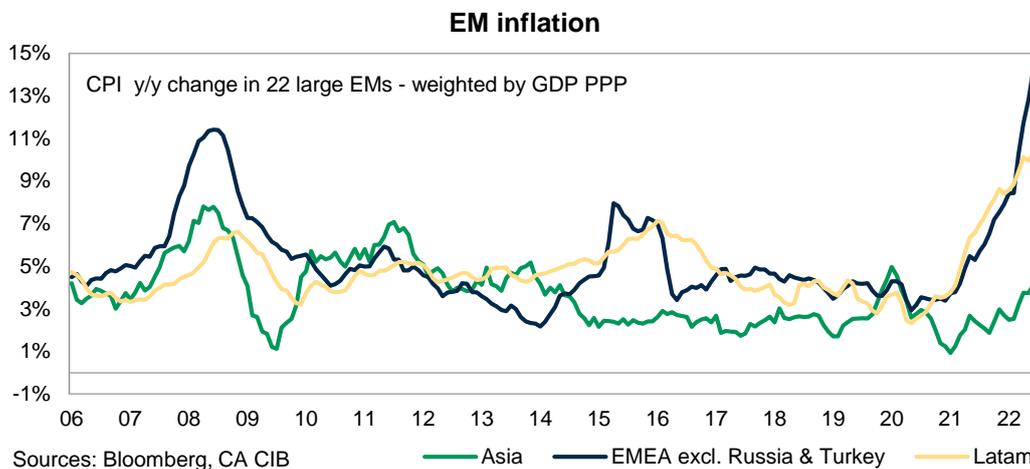
the global slowdown triggers more downside adjustment for commodity prices. Eastern Europe is penalised by particularly high inflation and interest rates, large trade deficits and the uncertainty related to energy procurement during the winter. On top of that, two countries, Poland and Hungary, may not receive the full package of European funds due to disagreements on the issue of Rule of Law.

Key numbers Annual change	2022	2023
GDP	3.4%	4.1%
Inflation	9.2%	5.7%

Overall, there are significant buffers, and while we expect financial pressure to intensify, including on some currencies, a scenario of the generalised EM financial crisis is not the most likely scenario at this stage.

That being said, the risk on growth as well as on EM asset prices is tilted to the downside, given the flurry of uncertainty that lies ahead, first of all inflation, Fed policy and very meaningful & unpredictable geopolitical risks.

Sébastien BARBÉ



CHINA: SEEKING VISIBILITY

A likely weaker and delayed growth recovery

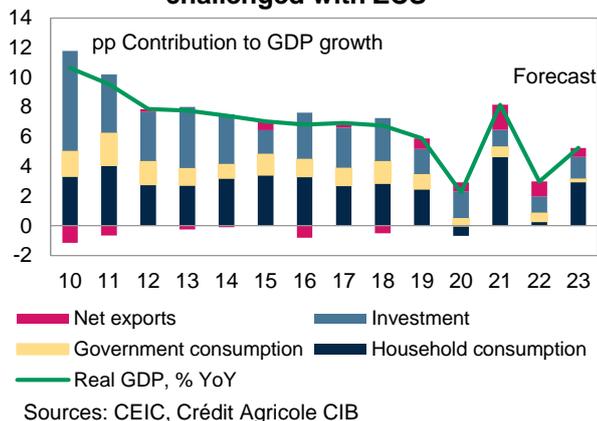
China's economic growth is likely to remain challenging in the near term. Though sequential growth has picked up from the dip in Q2 on the back of the prolonged Shanghai Covid lockdowns, it is still lack of momentum but with great uncertainty, as the key drags of the zero-Covid policy (ZCS) and property sector downturn linger, while exports, which have been

the primary growth driver since Q220, is set to face increasing headwinds as external demand is set to slow more notably.

China is juggling between ZCS, maintaining near-term growth stability and managing long-term financial systemic risks related to property leverage. Given the great emphasis of ZCS for social stability ahead of the twice-in-a-decade political

reshuffling, recurring Covid waves and resulted tightening of pandemic controls have been repeatedly disruptive to growth. That also makes those counter-cyclical policy easing measures become less insufficient boosting growth. Policymakers are also reluctant to introduce any large-scale stimulus, in fear of its long-term consequences on financial leverage. That forms the case of a muddling through for the Chinese economy in the coming months.

China: consumption most challenged with ZCS



But still remains hopeful for a better turn in 2023

That said, **we remain hopeful for a better turn in 2023**, especially starting from Q2 onwards, when there will likely be adjustment to the ZCS, a return of policy focus to growth and better policy clarity. **We maintain our GDP growth forecast of 3.0% in 2022 and 5.3% in 2023**, but acknowledge great uncertainty related to the ZCS which could impose downside risks to our growth forecast.

Regarding the ZCS, we continue to believe there will be no imminent exit after the 20th Party Congress, but more meaningful relaxation towards de-facto living with Covid will likely take place with a gradual approach after the government reshuffling is completed after the annual NPC in March 2023. We think **the economic and political buffers for maintaining ZCS are wearing thin, urging policy adjustment.**

Property sector weakness could remain as a growth drag in the next two to three years.

Property easing measures have been kicking in and more policy supports will likely come through, if the current negative feedback loop of the property sector could not be broken. Property sector weakness could remain as a growth drag in the next two to three years, but Chinese policymakers are still capable of preventing a property-related financial crisis, in our view.

Annual change	2022	2023
GDP	3.0%	5.3%
Inflation	2.2%	2.4%

Mild inflationary pressure amid consumption demand weakness

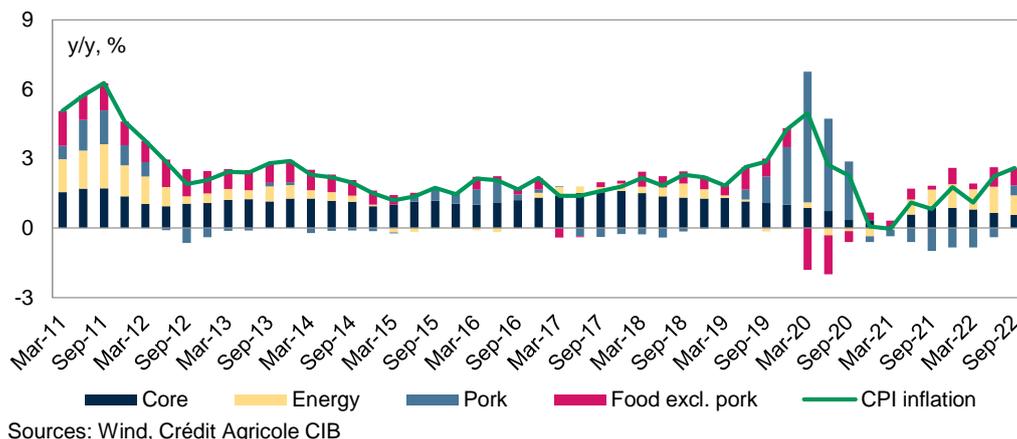
Inflationary pressures will likely remain mild, underpinned by China’s consumption demand weakness, though headline CPI inflation has risen modestly. The risks of global food and energy supply shortage remains manageable for China, as it is largely self-sufficient on grain intake and has a reasonable level of buffer for energy consumption. We expect CPI inflation to average 2.2% YoY in 2022 and 2.4% in 2023.

This leaves room for the PBoC to keep its monetary easing bias to stabilise growth, though the rapid tightening of global monetary and financial conditions has imposed some constraints, concerning the implications on FX and capital flows. We expect China rates to remain relatively low in 2022, before a small rebound in 2023, with 10Y CGB yield at 2.75% at end-2022 and 3.10% at end-2023.

Weaker CNY amidst policy divergence

We think the uptrend in USD/CNY remains intact for the rest of the year, supported by China’s weak macro

China: core inflation curbed by sluggish consumption demand



fundamentals, the US-China monetary policy divergence, cautious global risk sentiment and USD strength. The PBoC has recently signalled its intolerance of a rapid CNY depreciation, but those steps indicate more of an effort to slow CNY

depreciation rather than attempting to reverse the trend. We forecast USD/CNY at 7.15 at end-2022 and 6.80 at end-2023.

Xiaoja ZHI

BRAZIL: LULA’S COMEBACK: NOT A QUESTION OF IF, BUT WHEN?

Brazilians went to the polls on 2 October to elect the president, state governors, all members of the lower house, one third of the senate and state legislature representatives. Prior to the first round, the polls gave former President Luiz Inacio Lula da Silva a wide lead over current President Jair Bolsonaro, suggesting that a victory in the first round of the presidential election was not out of reach. The lead turned out to be much smaller: according to initial estimates, Lula and Bolsonaro received 48.4% and 43.2% of the votes cast, respectively. The second round will take place on 30 October. At the risk of getting ahead of ourselves, we must ask what a potential Lula administration may mean for Brazil’s fiscal outlook?

Debt dynamics turn unfavourable once again

While Brazil’s fiscal metrics, including gross debt and consolidated primary deficit have declined dramatically over the past year, these improvements came from one-off factors, eg, (1) the inflation shock; (2) high commodity prices that boosted growth and government dividend revenues; (3) historically low financing rates carrying over from the pandemic; and (4) non-recurring revenue, notably from Eletrobras’ privatisation earlier this year and BNDES transfers.

We expect that Brazil’s fiscal dynamics will deteriorate considerably, largely due to global developments, but also domestic policy developments.

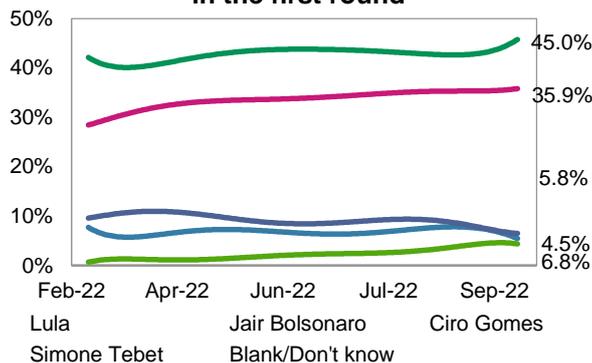
Going forward, we expect that Brazil’s fiscal dynamics will deteriorate considerably, largely due to global developments, but also domestic policy developments. Namely, the rise in real yields in Brazil, falling

commodity prices and decelerating economy (due to lagged effect of monetary tightening and declining global growth) will lead to unfavourable automatic debt dynamics. When real rates exceed real growth, primary surpluses are needed to stabilise the debt ratio. But given Lula’s emphasis on social responsibility and his Workers Party’s orientation towards more spending, fiscal consolidation will be difficult to achieve and sustain.

 Annual change	2022	2023
GDP	0.9%	1.2%
Inflation	7.5%	4.5%

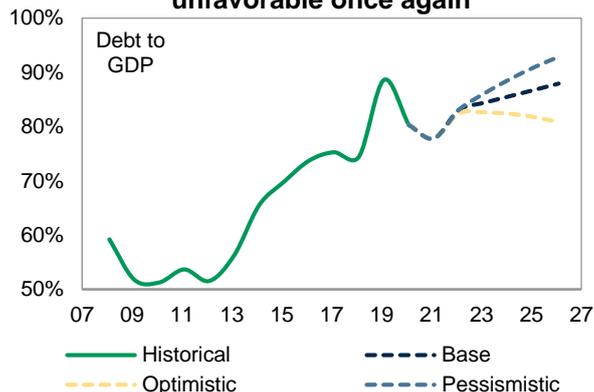
On the expenditure side, heading into 2023, we assume that the increase in Auxilio Brazil payments and fuel tax cuts, introduced this year on a temporary basis, will be extended into 2023 via a provisional measure (and made permanent thereafter via a fiscal reform), promptly tilting Brazil from running a surplus this year to deficit next year. Meanwhile, a new fiscal framework, to be applied from 2024 and beyond, will be the focus of the new administration. The constitutional cap adopted in 2016 limiting expenditure growth to inflation, i.e., forcing expenditures to remain constant in real terms, has been under increasing attack from all sides of the political spectrum. In our base case scenario for debt-to-GDP trajectory (see below), we pencil in that the spending cap will be amended to allow for real expenditure increases in line with real GDP growth.

Brazil: voting intentions in the first round



Sources: Quaest, Ipec, PoderData, Futura, Paraná Pesquisas, Ipespe, AtlasIntel, Ideia Big Data, MDA, CA CIB

Brazil: debt dynamics turn unfavorable once again



Sources: National Treasury, Credit Agricole CIB

On the revenue side, we assume that a redistributive tax reform, also a focus of a potential Lula administration, could largely offset the permanent increase in social spending from 2024 onward. Based on these assumptions, as well as historical average real interest and growth rates, we arrive at an upward sloping debt trajectory with roughly 10% increase in debt-to-GDP over the next five years. That said, as any debt sustainability analysis goes, ours is highly sensitive to assumptions. The key point remains

however that the basic elements driving Brazil's fiscal trajectory, namely the real rate, real growth and fiscal balance, are moving in adverse direction (even in the unlikely event of President Bolsonaro's re-election). With that, we expect investors to start fretting about Brazil's fiscal dynamics once again, driving the country risk premium higher across Brazilian assets.

Olga YANGOL

RUSSIA: HEADED FOR A BREAKING POINT?

While Russia is nearing a breaking point, it is via political channels, not economic, specifically because Western sanctions have so far not had the effect their instigators intended.

For now, the descent of Russia's GDP has been checked by re-routing oil flows to Asia, while high energy prices have offset the discount of USD15-30/bl extended to customers in India. As a result, net energy export revenues have been considerable (USD158bn between February and August)¹. So exports have kept the budget balanced to a degree, supported economic activity and the RUB, and therefore limited inflation. The Russian central bank has even been able to reduce rates (7.50%), although this cycle is probably close to an end.

Of course, some sectors – including automotive, aviation, pharmaceuticals and IT – have been greatly impacted by value chain disruptions. However, nearly 60% of these supply disruptions have been offset by rebuilding new import networks, which are frequently organised across an opaque series of intermediaries through Turkey or Hong Kong. **At first glance, economically, Russia is 'getting by' rather well**, as evidenced by the adjustments to its 2022 growth numbers from most forecasters.

And yet, this economic snapshot is not enough to gauge Russia's reality, for at least two reasons. **The first reason is sanctions.** Their effect will grow and very quickly be multiplied by winter, when spare truck parts will start to be thin on the ground. In addition, some sectors (like shipping) have not managed to find effective enough clearing networks for the 46% of components that were imported before the war, specifically from Korea and Turkey. Finally, faced with an intensifying conflict, even the powers most involved in supplying the Russian market are beginning to have second thoughts. The Turkish government, for

instance, has just put a limit on the number of banks accepting the Russian universal credit card MIR, created after 2014 precisely to give Russian citizens a possible retreat to other countries in case of trouble.

The second reason is the political breaking point. This abruptly became real after a partial mobilisation was announced, spurring at least 250,000 people to leave the country in a single week, numbers not seen since 1917. Such a drain on the labour force will start to drag activity down soon (and later too) as well as consumption, which has already been sandbagged by Russians' sudden drop in morale. The shock could be even greater away from Moscow, where there has been more recruitment. And Russia's projected GDP will certainly head south again.

 Annual change	2022	2023
GDP	-5.0%	2.0%
Inflation	14.7%	4.8%

As for the political shock of the mobilisation, clearly this is the biggest point in the Russian scenario, because it marks a collapse of the social contract between the people and their government. Since Vladimir Putin became president, that government has been founded on power – an implied guarantee of security in exchange for surrendering political freedom. And this is the basis of the contract on which the president's popularity had stayed so high for some twenty years, despite the many crises the country has suffered. Ironically, it is also on the basis of this contract that the same president is now losing his legitimacy.

Tania SOLLOGOUB

¹ In 2021, exports of crude oil, oil products and natural gas represented c.50% of Russia's total export revenue, amounting to c.USD247bn.

INDIA: WATCH THOSE EXTERNAL BALANCES

With its high exposure to the fluctuating price of oil, which counts for 25% of its imports, **India's external balances have been worsening rapidly for a year now.**

In August, the trade deficit reached over USD270bn (compared to USD133bn one year prior). Moreover, **with oil prices likely to stay above USD100/bl, this deficit could go even deeper, exceeding USD300bn by the end of this year.**

As a direct consequence, **the current account**, which had regained its balance in 2020 and 2021, **is expected to post a deficit of at least 2.5% of GDP.** In reality, each month the (rare) profits generated by India during Covid are being erased. This is widening the current account balance, eroding currency reserves and, most importantly, depreciating the INR. Though the currency weathered 2020-21 well, USD/INR has now crossed the symbolic – and historic – threshold of 80.

Growth is holding up

However, with 7.4% growth expected for fiscal year 2022-23, India stands out from the rest of Asia. This high growth rate, when combined with neighbouring China's difficulties, may prove appealing to investors in a world where each country is angling to profit from the reconfiguration of certain value chains.

With 7.4% growth expected for fiscal year 2022-23, India stands out from the rest of Asia.

New productive investment would be a welcome treatment for India's two structural weaknesses: underinvestment, particularly in infrastructure, and the country's inability to create enough jobs and bring newcomers into the labour market. With a workforce participation rate of about 40%, vs more than 65% on average in OECD countries, and with more than 80%

of employees working in the informal economy, India cannot skimp on a sweeping transformation of the labour market if it hopes to develop.

At the moment, then, the main growth driver is public and private consumption, which is holding steady despite a tight monetary environment.

 Annual change	2022	2023
GDP	7.4%	6.0%
Inflation	6.3%	4.5%

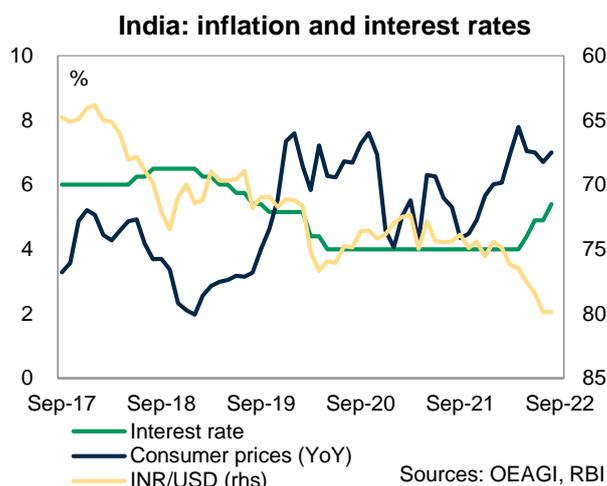
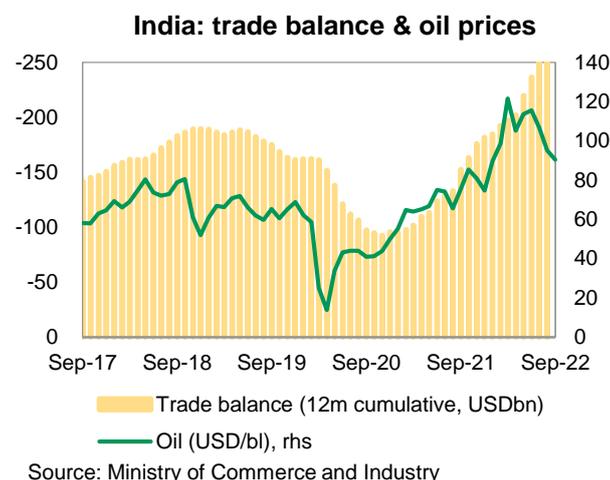
Trade-offs abound at the central bank

As in the rest of the world, **the jump in energy prices has driven up inflation**, which hit 7% YoY in August. Compared to the rest of the world, emerging and developed alike, and even to India's historical average, 7% is hardly alarming.

The central bank began to tighten its rates in May 2022, later than other emerging countries, specifically Latin America, but before most of the other Asian countries. The key policy rate – currently 5.4% – tipped above its pre-Covid level in August and is gradually nearing its historic average of about 6%.

Although the RBI indicated that it meant to slow down the pace of monetary tightening to avoid smothering the recovery, **we anticipate one or two more rate increases bringing it up to 6% before the year is out.** This level would be consistent with inflation at around 6.5%, allowing India to offer rather attractive yields for foreign and domestic investors.

Sophie WIEVIORKA





SECTORS

Oil – Fear of a late-year price bounce

Gas – The test of the first winter without Russian natural gas

Oil – Fear of a late-year price bounce

The current easing in oil prices could prove short-lived, because Europe’s massive embargo on 90% of Russian oil should be in place by the end of this year.

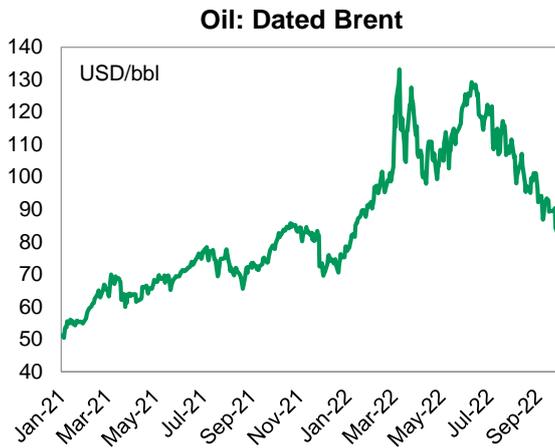
After hitting record highs just before the summer holidays, oil prices have fallen again, under the combined effect of (1) lower summertime fuel demand in the US and (2) OPEC’s ramped-up production. **However, a few months out from the promised European embargo on 90% of Russian oil, this price decline might just be a mirage.** While the market may welcome the increase in OPEC’s output, available capacity is already quite low. Saudi Arabia, the UAE and Iraq, the top contributors to OPEC’s production boost, have also had to offset lower output from certain producers like Nigeria, where crude output has dipped below 1m bpd due to several years of underinvestment.

Logically, demand for petrol has dropped back since the summer, but crack spreads (the difference between the oil price and the price of the petroleum product when it leaves the refinery) for diesel suggest that **the diesel market is still suffering from supply shortages.** The implementation of the European embargo on 90% of Russian oil at the end of this year could therefore tighten the oil markets’ back up, since they have a relatively small production margin.

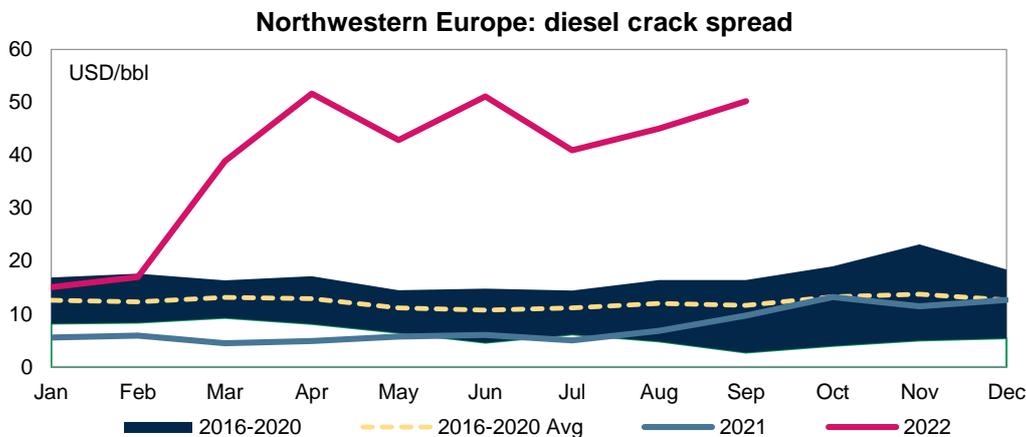
	Average oil price (barrel)
H322	USD 101
2023	USD 105

With these unknowns factored in, our scenario is still prudent for Q422 and for 2023 and hinges on oil prices between USD100-110/bl.

Stéphane FERDRIN



Source: Refinitiv



Sources: Refinitiv, CASA/ECO

Gas – The test of the first winter without Russian natural gas

Europe is about to spend its first winter without Russian natural gas. The continent’s ability to reduce its consumption this winter will be crucial for the natural gas market in 2023.

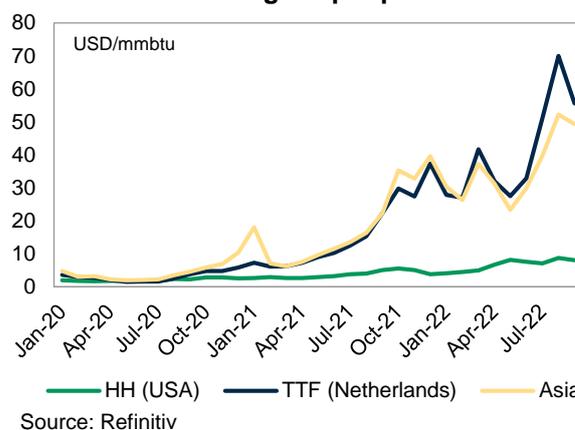
Europe is preparing to spend its first winter with Russian gas flows trickling in at just one-eighth of last year’s levels. **The total shutdown of Nord Stream 1 since September will single-handedly make things sticky for Europe.** Despite ample inventories, Europe will have to increase its liquefied natural gas (LNG) imports to offset the decline in Russian natural gas deliveries. And it will not be an easy ride.

To draw the LNG cargo ships to its regasification terminals, Europe will be competing with Asia, the world’s top LNG importer.

Saving on natural gas consumption this winter and mobilising coal-fired power stations will be unavoidable and could also become the norm for subsequent winters. In fact, without substantial new natural gas liquefying capacity ahead of 2026-27 to replace Russian gas volumes, Europe will be forced to settle for the current LNG supply. To draw the LNG cargo ships to its regasification terminals, Europe will be competing with Asia, the world’s top LNG importer. Europe will therefore be forced to pay a premium to divert the tankers from their initial ports of discharge in Asia. Furthermore, with just a trickle of natural gas out of Russia, it will be of utmost importance to get through

winter before natural gas inventories get too low. This will prevent straining an inflexible LNG market next spring that will already be contending with the spike in demand out of Europe.

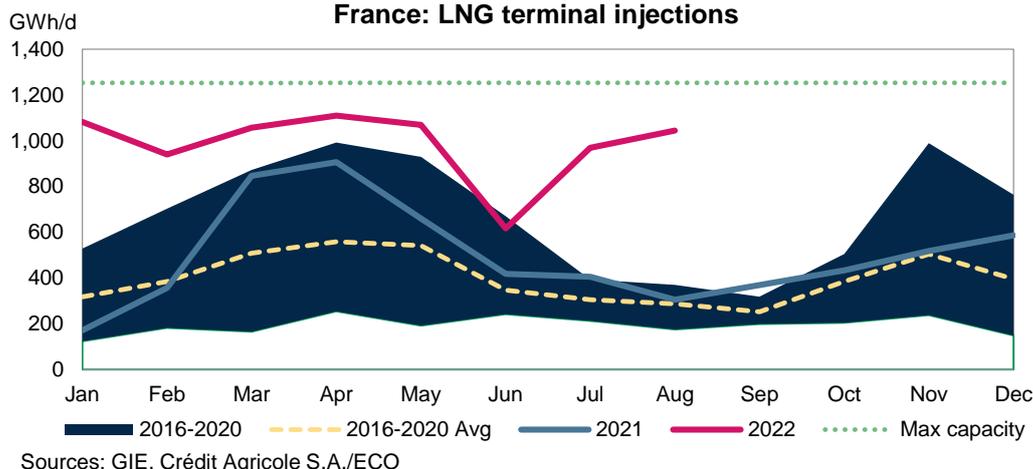
Natural gas spot prices



Unfortunately, this means that we can expect the natural gas market to stay very tight – and expensive – in 2023.

Stéphane FERDRIN

France: LNG terminal injections





MARKETS

Monetary policy – “Whatever it takes” (or almost)
Interest rates – Impacted by monetary tightening
Exchange rates – The dollar continues to smile...

Monetary policy – “Whatever it takes” (or almost)

Inflation is persisting: it is higher, more widespread and longer lasting. Bringing inflation down is major central banks’ sole priority at the moment, even if it comes at the expense of growth. It is difficult to see central banks easing prematurely in 2023.

FEDERAL RESERVE: FOMC EFFECTIVELY A SINGLE MANDATE CENTRAL BANK FOR NOW

After executing an abrupt pivot in a hawkish direction at the end of 2021, the Fed has only continued to gear up its hawkishness, with inflation fairly consistently surprising to the upside throughout 2022. This has driven the Fed to historically aggressive tightening, with three consecutive 75bp hikes in June, July and September that have brought the target range to 3.00-3.25%.

With inflation far too high and increasingly broad-based while the labour market remains extremely tight, all factors push towards the Fed continuing to hike fairly aggressively. Our current base case sees further hikes through Q123 to reach a terminal rate with the upper bound at 4.25%, though the latest dot plot points to upside risks to this forecast, and indeed we may revise our outlook up following the next key data points including the September payrolls report released on 7 October.

All factors push towards the Fed continuing to hike fairly aggressively.

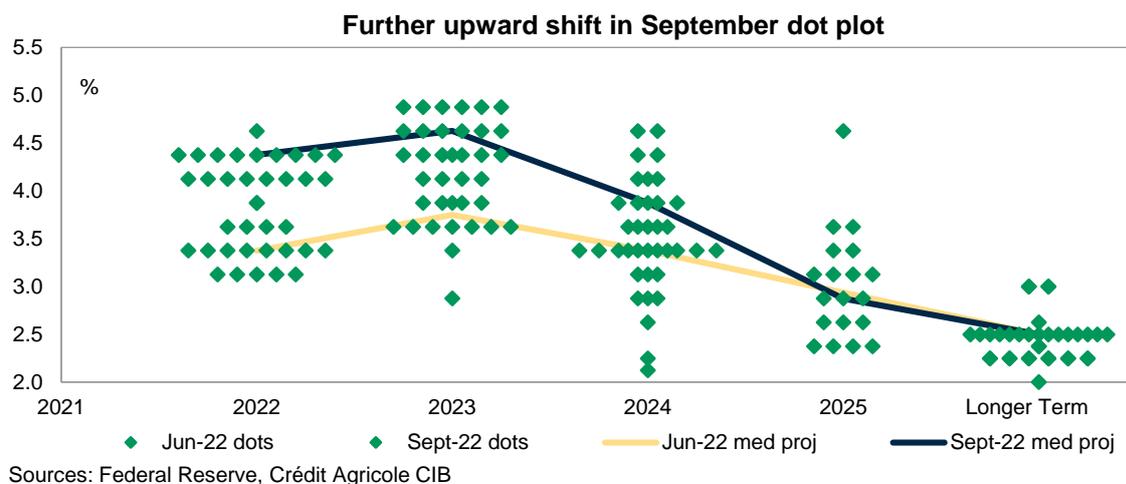
In the September dot plot, the median shows rates rising to 4.375% by end-2022, or an additional 125bp of hikes from current levels, with modest additional tightening in 2023 to reach a terminal

rate of 4.625%. Markets have caught up to the dot plot’s terminal rate after misinterpreting the July FOMC as representing a dovish pivot, and now price the terminal rate hitting just over 4.60% in March 2023.

However, markets also somewhat stubbornly continue to price cuts between March and December 2023, with the Fed Funds rate seen some 30bp lower than the terminal rate by end-2023. As we have mentioned in the past, we see this pricing as overly optimistic, and believe that cuts are unlikely until inflation is much closer to target. With inflation the very clear number one priority for the Fed, we expect that it will act more like a single-mandate central bank in the near future, declining to cut rates even in the face of mild recession.

Balance sheet run-off will continue as announced in May, having reached its peak pace in September, and should also contribute to tightening financial conditions. QT officially kicked off on 1 June, with monthly redemption caps of USD30.0bn Treasuries and USD17.5bn MBS for a sum of USD47.5bn, which was subsequently doubled to result in monthly caps totalling USD95bn.

Nicholas VAN NESS



EUROPEAN CENTRAL BANK: FASTER, HIGHER... STRONGER?

In a still highly uncertain environment, the ECB has – at last – clarified how it plans to respond. Its sole focus now is Eurozone inflation.

Projected growth (or recession) has clearly become a secondary factor for the ECB, rather than the lodestar it had been since 2010. This clarification came in two stages:

- ✓ Operationally, with much quicker monetary tightening than initially planned, despite the darkening growth forecast (at the July, then September meetings)
- ✓ And theoretically when Isabel Schnabel presented a very deliberate speech at the Jackson Hole Symposium.

In this context, and because the inflation outlook will remain a primary concern in the short and medium terms, the ECB is expected to pursue its highly aggressive monetary tightening at least until early next year.

The ECB is expected to pursue its highly aggressive monetary tightening at least until early next year.

We anticipate a 75bp rate increase at the October meeting, which would put the deposit rate at 1.5%, then at least another 50bp hike in December. In this scenario, the deposit rate would then be at 2%, which lines up with the neutral rate estimates.

In 2023, the ECB could continue to raise rates. However, gradually easing inflation should allow it to tighten more gradually. Meanwhile, the economic slowdown might lend the ECB a more conservative approach, even though the bank itself has stated that is not part of its mandate.

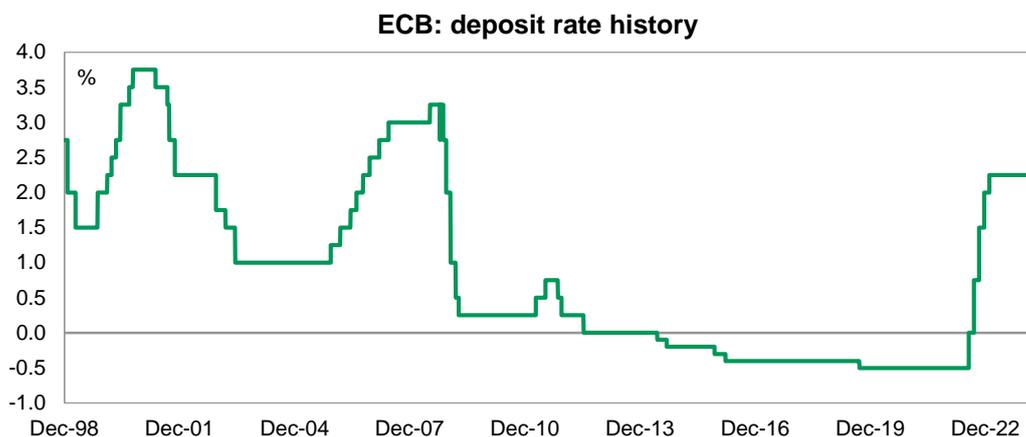
Against this backdrop, we expect a single, relatively limited (25bp) rate increase in February 2023.

Starting in Q223, monetary tightening is expected to naturally continue, with repayments on TLTROs draining the banking system's liquidity and freeing up collateral. This could put pressure on market yields.

Lastly, **we anticipate that quantitative tightening**, ie, reducing the economy's money supply, **will not be implemented until early 2024**, once the ECB's rate increases and the bulk of TLTRO repayments are complete.

Obviously, this scenario of step-by-step monetary tightening, while relatively aggressive, still hinges on growth and inflation trends. **A worsening inflation outlook**, ie, very high long-term inflation, **could persuade the ECB to raise its rates higher, whereas a big wobble in projected growth** – big enough to create disinflationary pressures – **might push the bank to play it safer**, especially on TLTROs and buyback programmes.

Louis HARREAU



Sources: ECB, Crédit Agricole S.A.

BANK OF ENGLAND: TIME TO ACT ‘FORCEFULLY’

Back to ‘Whatever it takes’ to restore financial stability

The UK government’s announcement on 21 September of its huge, debt-funded Growth Plan caused the UK markets to unravel, GBP/USD to plummet to a record low of 1.0327 on 26 September and bond yields to surge. Market anticipations about the Bank rate soared, and speculation that the BoE would intervene outside of its regular monetary policy meeting schedule, in order to support the GBP and the government bond market, did not take long to materialise. The BoE released two statements on the matter. Firstly, on 26 September, to confirm that it would wait for the next scheduled MPC meeting on 3 November to make a full assessment of the impact on demand and inflation from the government’s announcements and act accordingly. Then, on 28 September, to counter the risks to financial stability, announcing that it would immediately resume purchasing long-dated UK government bonds (gilts). The purchases will be for a short time (until 14 October) but will be carried out on whatever scale is necessary to restore market functioning and reduce any risks from contagion to credit conditions for UK households and businesses. Alongside this, the BoE confirmed its “quantitative tightening” plan by an annual amount of GBP80bn, comprising both maturing gilts and gilt sales; only it postponed the start of securities sales to October 31.

Higher rates to counter inflation

Although three members voted in favour of a 75bp hike, the BoE increased its key rate by 50bp to 2.25% following its September meeting. In its minutes, the BoE noted that the fiscal stimulus would add to

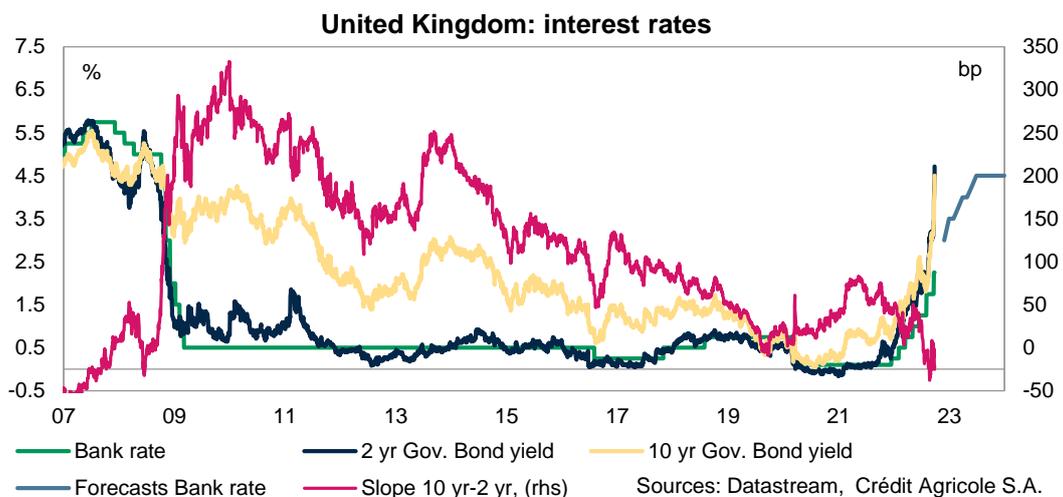
inflationary pressures in the medium term. We believe it will certainly revise its growth forecasts up and the unemployment rate down at its next meeting in November. After the announcement of the Growth Plan, an increase of the key policy rate of at least 75bp in November is all but certain.

We have significantly raised our key rate forecasts and after a 75bp hike in November, we expect the BoE to follow by another 50bp in December, then a 25bp hike at each of the four MPC meetings scheduled for H123. This would give us a key rate of 3.5% at the end of this year and a terminal rate of 4.5% in June 2023.

The purchases will be for a short time (until 14 October) but will be carried out on whatever scale is necessary.

Although a 100bp hike in November, as the markets are pricing in, is not out of the question, expectations for a terminal key rate of close to 6% seem excessive. GDP is likely to experience a mild recession starting from Q322. Confidence surveys continue to deteriorate. Tighter monetary and financial conditions are also likely to offset part of the positive impact of the fiscal stimulus on demand. Finally, the BoE will have to consider the impact of currency depreciation (the GBP is down 10% YTD on nominal trade-weighted terms since the beginning of the year) on its inflation forecasts by revising up its imported inflation projections. This could end up increasing headline inflation in the short term but lowering it in the medium term due to weaker demand.

Slavena NAZAROVA



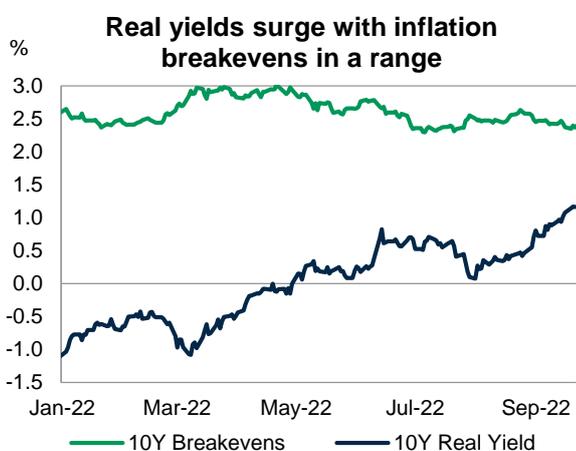
Interest rates – Impacted by monetary tightening

The single priority, which is now focused on fighting inflation in the Eurozone and has already been going on for some time in the US, is pushing key rates towards neutral, possibly even restrictive territory. Long rates are recovering in sympathy with short rates. But weighed down by sluggish growth forecasts, interest rate curves are inverting.

USA: HAWKISH FED PUSHES RATES HIGHER AND INVERTS CURVE FURTHER

With a third straight jumbo hike of 75bp by the Fed in its fight to curb inflation and upward revision to the dot plot, policy rates have entered restrictive territory and will likely stay there for some time. As a result, we expect bond yields to continue rising near term (see Chart 1) and the curve to further invert, with the 2-10Y reaching -60bp.

The market is now pricing for a 71bp increase in the policy rate at the 2 November FOMC meeting, and a total of 119bp for the next two meetings. The market has stayed optimistic in pricing easing starting March 2023. We believe the hurdles are high for the Fed to ease in 2023, given their signals that rates have to stay restrictive for a while to clamp down on inflation.



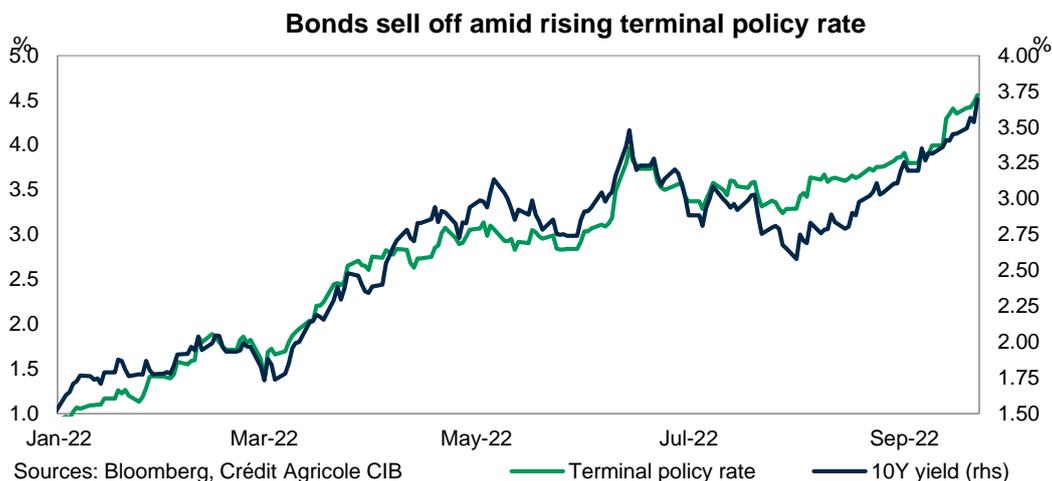
Rates have traded with high volatility in recent sessions. Front end rates have jumped higher to adjust for the upward shift in the dot plot, while long end rates have outperformed on expectations that rising policy rates would weaken growth. The relentless curve flattening accelerated after the September FOMC meeting, with the 2-10Y curve trading to a new cycle trough of -52bp intraday. We expect further flattening as short-dated rates continue to march higher.

We believe the hurdles are high for the Fed to ease in 2023.

There was a meaningful upward shift in the Fed’s dot plot, with the median dot in 2022 now sitting at 4.375% and with every single FOMC member except one now expecting rates to move above 4.00% by year-end. However, it was a close call between this and 4.125%; if only one dot had come in lower, the median would have been lower by 25bp. A 4.375% year-end midpoint rate would imply an additional 125bp of hikes by year-end, eg, a 75bp hike in November and a 50bp hike in December.

Real yields have been the main driver of higher Treasury rates. Since the recent trough in rates on 1 August, the 10Y Treasury yield has increased about 115bp, whereas the 10Y real yield have risen over 125bp (see Chart 2). As a result, TIPS breakevens have been under pressure, with the 10Y breakevens down 25bp from their late August peak, suggesting that aggressive rate hikes hurt risk assets while improving the long-term inflation outlook.

Alex LI



EUROPE: FULL STEAM AHEAD

EGB bond yields are back to their highs of the year driven primarily by expectations of tighter monetary policy. The process of hiking rates in response to the inflation outturn has actually taken on an urgent tone with 50bp in July having been followed by 75bp in September. Having signalled that its tightening cycle would be gradual and measured, this pattern follows that of most other central banks of aiming to get policy rates at a neutral level as fast as possible before contemplating proceeding with their tightening cycle at a slower pace and mindful of data developments, particularly with regards to inflation. This front-loading of the rate cycle has strongly contributed to the EUR and EGB curves flattening very rapidly, coinciding with our long-held view.

With another 75bp hike taking the Deposit Facility rate to 1.5%, a level we would deem as broadly ‘neutral’, further rate hike expectations to about 3% point to market expectations of fairly restrictive policy. In doing so, all segments of the swap curve have now inverted, as we also expected. **Given our view that Eurozone core inflation will continue to increase this year and perhaps early next year to levels above 4.5%**, a restrictive policy is genuinely required because there is also no slack in the economy. Indeed, should we see the potential for further upside inflation risks, we would target a yield curve that is inverted further.

By comparison the USD and GBP 2-5Y swap segments are -55bp and -45bp inverted whereas only -5bp for the EUR IRS curve. This reflects the fact that 4.5% and almost 5% terminal rates are expected for the Fed and BoE. **To be sure, higher inflation prospects combined with lower growth prospects should act to invert the money market segment and overall curves.** Until the prospects of an easing cycle appear, there remains no reason for us to change our yield curve flattening view.

Meanwhile, there are other important developments impacting EGB curves. First, the ECB’s tightening cycle can continue and deliver positive real yields without precipitating significant

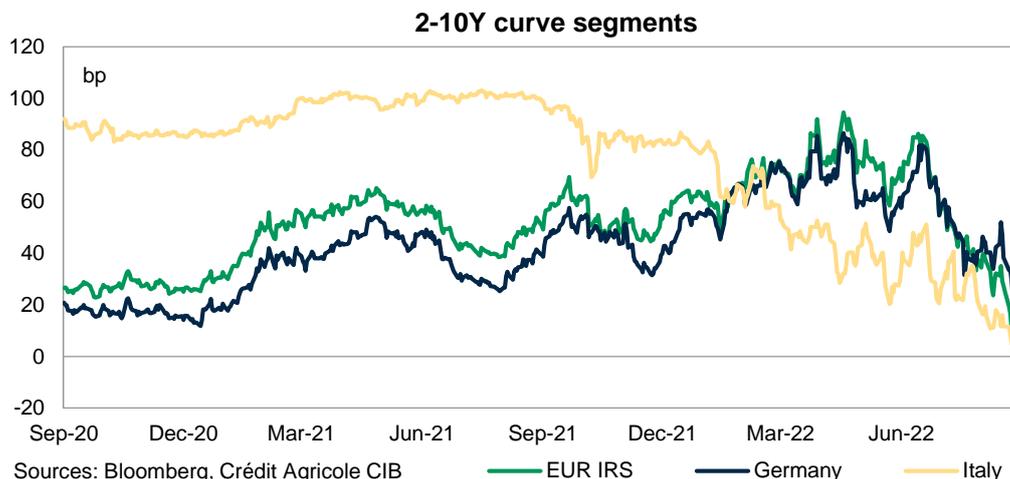
periphery stress because of the introduction of the TPI, which is yet to be activated, and an ongoing rotation out of core into periphery EGBs as these mature in the PEPP and need to be re-invested. In our view, this rotation is likely to continue through next year, whereas other programmes’ validity, given the tightening cycle, will be questioned much sooner.

As for the TPI, like the OMT, it is a tool the ECB hopes not to use because of the series of problems is could launch. As the potential first beneficiary, Italy we think could be subject to ECB buying if yields materially surpass 4% for a prolonged period. Of course, if BTPs are purchased within the TPI, one would expect this not to be related to domestic politics or driven by fiscal profligacy. To be sure Italian elections have delivered a right wing majority, but at the onset, the status quo with regards to the EU should be maintained, partially because Italy remains the biggest recipient of NGEU funds.

This combination of the ECB tightening policy with its rates mechanism while supporting periphery EGBs has worked out in reducing spread volatility. Note that if even higher policy rates are priced in and the TPI is activated, we could see the case whereby spreads unusually compress with a higher yield environment. First however, we expect markets to test the ECB’s resolve and some degree of verbal intervention.

This combination of the ECB tightening policy with its rates mechanism while supporting periphery EGBs has worked out in reducing spread volatility.

Hiking policy rates with over EUR4.5trn of excess and no absorption mechanism (unlike the Fed’s RRP) contributed to much higher levels of money market spread volatility with regards to core government bonds and bills. Given how much collateral resides on the ECB’s balance sheet and how varied these securities are by a number of investors due to their liquidity and credit quality, collateral scarcity has been aggravated with rate hikes. This is partially



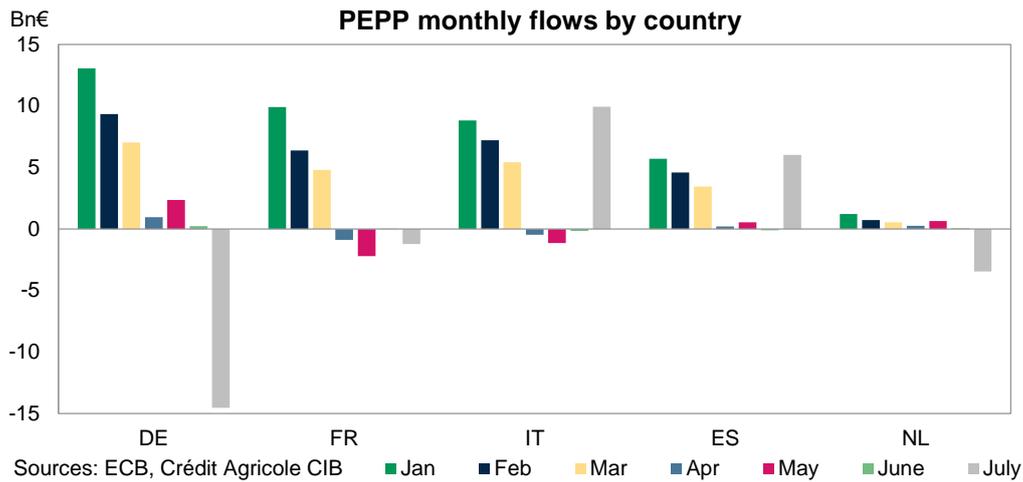
HORIZON GLOOMY... BUT ABOVE ALL UNCERTAIN I MARKETS

because we are in a much higher volatility environment so investors naturally opt for cash-like substitutes. But market volatility, inclusive of commodities and energy prices, also drives up the demand for core bonds to be posted as initial margin at CCPs for derivatives clearing.

In our view, **only the ECB is big enough and has the means to address this issue of falling short end government yields relative to policy rates by unwinding its excess liquidity.** Unfortunately, QT by

letting bonds mature would be a multi-year process and large TLTRO paybacks are only anticipated for June. Between now and then, the ECB will need to devise some mechanism to restore the transmission of its monetary policy at the front end of core EGB curves. Perhaps issuing CDs, as it did concurrently with the SMP, in large size, would do the trick by absorbing excess liquidity and creating a security for investors in competition with bills and short end bonds.

Bert LOURENCO



Exchange rates – The dollar continues to smile...

The USD continues to smile. Its support factors, safe currency and especially a currently high yield, are unlikely to erode in the short term. We will have to be patient while we wait for the USD to show that it is overvalued and for other currencies – alternative safe-haven currencies in the event that growth collapses, more pro-cyclical currencies in the event of a soft landing – to regain their appeal.

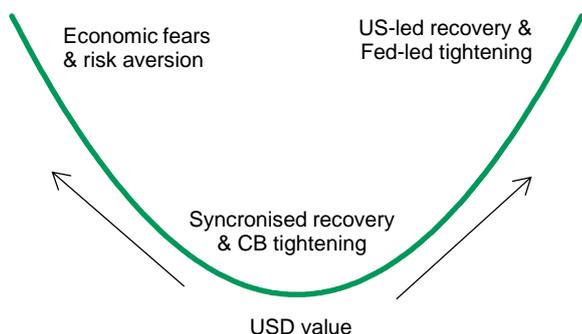
DEVELOPED COUNTRIES: A DELAYED HUMPBACK FOR THE GREENBACK

We upgrade our near-term USD outlook across the board and now expect the USD to peak in Q123 as it remains supported by its status as a high-yielding, safe haven currency. Indeed, the currency could continue to switch between the two extremes of the so-called ‘USD smile’. The growing US real rates and yields should remain a reliable support for now as the Fed continues to tighten and US inflation subsides in the coming months. The fact that the USD is overbought and overvalued also means that the pace of any additional gains could slow down in the next three to six months, however.

September Fed ‘dot plot’, the US rates markets now see its tightening cycle peaking at c.4.64% in Q123 before pausing, presumably expecting that both US growth and inflation would cool down next year. The Ukraine war should further continue to fuel the energy crisis and thus add to the recession risks in Europe while the pandemic and the property sectors should fuel growth headwinds in China.

Further out, depending on the severity of the global downturn, the USD should cede some ground.

The ‘USD-smile’ market paradigm could continue to drive G10 FX price action as a result



Source: CA CIB

We upgrade our near-term USD outlook across the board after our US economist and rates strategist have revised higher their forecasts for Fed rates and UST yields. Moreover, following the release of the

EUR/USD should remain under pressure, touching 0.97 in the next three to six months with the ECB’s own tightening plans standing in the way of a bigger rout. EUR/USD should recover in the next six

The ‘USD-smile’ in practice



Sources: Bloomberg, CA CIB

— USD index — 5Y real UST yield (rhs)

to twelve months, but the risks to our forecast are to the downside given the persistent geopolitical and terms-of-trade threats to any Eurozone recovery. USD/JPY should peak at the start of 2023, but it will take a Fed rate pause and a change of tack at the BoJ to see USD/JPY losing ground on a sustained basis from Q223 onwards.

The GBP should remain an attractive risk aversion and stagflation hedge and continue to underperform both the USD and the EUR in the next three to six months. Further out, recovering UK real rates and yields could usher in a cautious recovery. We maintain a bearish EUR/CHF outlook in the near term after the hawkish shift by the SNB has made the CHF an even more attractive safe haven. The SEK will be driven by the tug of war between global

risks on the one hand and the Riksbank's policy normalisation on the other.

The AUD, CAD, NZD and NOK are set to remain hampered by global growth concerns and risk aversion in the near term but could be the biggest beneficiaries in six to twelve months if a deep global recession is avoided. The AUD and the NOK seem to offer the 'best value for money' with the NOK's appeal further boosted by long-term positives like real rate advantage and superior external position. While recovering global real rates and yields make us less constructive on gold in the next three to six months, we note that persistent risk aversion can offer some support.

Valentin MARINOV

EMERGING COUNTRIES: WINTER IS COMING

We expect the backdrop to remain difficult for EM currencies in the coming months.

Carry attractiveness eroding

The USD's strengthening and the US monetary tightening may continue to put pressure on EMFX. Many EM central banks have already done the bulk of their tightening job. Looking ahead, the Fed still has to hike rates significantly. At the end of the day, the relative balance of hawkishness is moving from EMs to the US – not supportive for EM currencies, as their relative carry attractiveness will erode further, on average.

The relative balance of hawkishness is moving from EMs to the US – not supportive for EM currencies, as their relative carry attractiveness will erode further

On top of this, the risk related to the European energy crisis may weigh on the EUR specifically and as a corollary lift the USD up. At some point, this relative strength of the USD may translate into further EMFX downside risk.

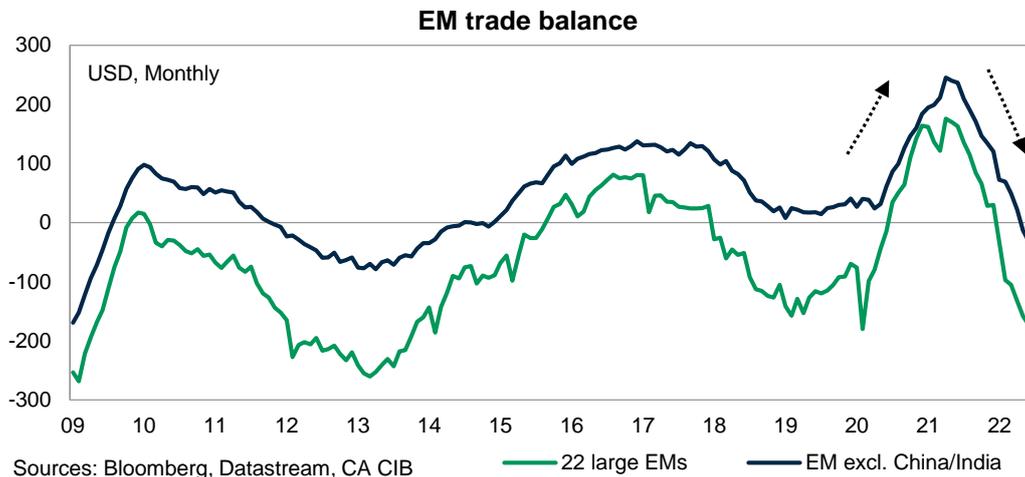
Growth risk to the downside

On the other hand, on top of the USD's strength, EM currencies are also confronted with the risk of a global economic slowdown. Should EM exports continue to slow in the coming months, the market may increasingly price a global slowdown impacting EMs. This should favour capital flows to EMs.

Trade balance: less supportive

Such a deterioration in trade would occur in a context that is already marked by an unfavourable backdrop when it comes to the EM aggregated trade balance. Indeed, in a matter of just one year, the EM trade balance has shifted from a large surplus to a significant trade deficit. This also fuels EMFX vulnerability.

The deterioration of the EM trade balance in recent quarters owes a lot to commodity prices, and the change in terms of trade. This means there are winners and losers among EMs. The likes of the ZAR, IDR and MYR are among the winners, partly because they export commodities. By contrast, energy importers



HORIZON GLOOMY... BUT ABOVE ALL UNCERTAIN I MARKETS

such the TRY, KRW, INR and CE4 currencies are among the losers (see chart below about the three-year change in the trade balances in specific countries).

However, the risk is that these countries that have been more resilient so far could suffer moving forward, should expectations of a global slowdown fuel some downward correction of commodity prices, at least for a while.

CNY: the ability and the willingness to stabilise it

The CNY itself may remain under some pressure, as China faces several challenges (property sector, consumption capped by the zero-Covid strategy, required cap of the corporate sector's debt), on top of less favourable CNY-USD interest rate gap. However, the PBOC has the ability to limit CNY weakness. Recent statements suggest that the willingness to do so is also growing.

Sébastien BARBÉ



ECONOMIC AND FINANCIAL FORECASTS

Economic forecasts

Interest rates

Exchange rates

Commodities

Public accounts

ECONOMIC FORECASTS

	GDP (yoy, %)			Consumer price (yoy, %)			Current account (% of GDP)		
	2021	2022	2023	2021	2022	2023	2021	2022	2023
United States	5.7	1.7	0.5	4.7	8.3	4.7	-3.7	-4.1	-3.7
Japan	1.7	1.6	1.7	-0.2	2.6	1.8	2.8	1.1	1.7
Eurozone	5.2	3.2	0.4	2.6	8.2	6.7	3.4	1.8	1.9
Germany	2.6	1.6	-0.4	3.2	8.6	8.7	7.4	5.4	5.0
France	6.8	2.6	0.6	2.1	5.8	5.2	-1.0	-1.0	-0.7
Italy	6.6	3.4	0.2	2.0	8.0	6.3	2.5	-1.0	-1.9
Spain	5.1	4.5	0.9	3.0	9.0	4.8	0.9	1.5	2.5
Netherlands	4.9	4.7	0.9	2.8	11.7	8.7	9.0	8.5	8.0
Belgium	6.2	2.5	0.1	3.2	9.7	6.7	-0.4	0.3	0.0
Other advanced									
United Kingdom	7.5	4.4	-0.2	2.6	8.9	6.2	-2.0	-5.9	-5.0
Canada	5.1	3.8	2.0	3.4	6.3	2.9	0.6	0.2	-0.2
Australia	5.0	3.9	2.2	2.9	6.3	4.5	3.2	1.8	0.8
Switzerland	3.8	2.2	0.6	0.6	3.0	2.0	9.3	8.3	8.4
Sweden	4.8	2.5	-0.5	2.2	7.8	5.9	5.6	4.6	4.0
Norway	4.0	1.6	0.6	3.5	5.5	3.9	15.4	16.0	12.9
Asia	7.3	4.3	5.1	2.2	3.6	2.9	1.7	1.2	1.1
China	8.1	3.0	5.3	0.9	2.2	2.4	1.8	2.0	1.6
India	9.6	7.4	6.0	5.1	6.3	4.5	-1.0	-2.5	-2.0
South Korea	4.0	2.5	2.2	2.4	5.3	2.9	4.9	1.7	2.3
Indonesia	3.5	5.0	4.5	2.0	3.0	3.0	0.2	-1.3	-2.5
Taiwan	6.3	3.4	2.7	2.0	3.0	1.6	14.2	13.2	13.0
Thailand	1.6	3.4	4.0	1.2	6.0	2.0	-2.8	0.3	3.2
Malaysia	3.5	6.5	6.0	2.5	2.8	2.5	3.0	3.2	2.7
Singapore	7.6	3.8	3.0	2.3	4.8	1.7	18.6	16.8	15.2
Hongkong	6.4	0.0	3.9	1.6	2.1	2.0	11.3	8.2	7.1
Philippines	5.7	6.4	5.7	4.4	5.5	4.1	-1.8	-3.9	-2.6
Vietnam	3.9	6.5	6.7	2.5	3.5	4.0	1.5	2.7	2.5
Latin America	6.1	1.9	1.7	14.0	12.6	8.8	-1.4	-1.3	-1.4
Brazil	4.6	0.9	1.2	10.1	7.5	4.5	-1.4	-1.0	-1.5
Mexico	5.0	2.2	1.8	7.4	7.2	3.8	-0.4	-0.6	-1.0
Argentina	7.8	2.2	2.0	51.0	46.0	40.0	1.0	0.8	0.5
Colombia	10.7	4.5	2.8	5.6	8.4	4.2	-5.5	-6.5	-4.5
Emerging Europe	6.6	-0.1	2.2	9.2	29.3	14.1	1.7	1.7	1.4
Russia	4.7	-5.0		6.7	14.7		6.8		
Turkey	11.0	4.0	3.0	18.0	70.0	35.0	-2.0	-5.0	-3.5
Poland	5.9	4.3	1.2	5.1	14.5	10.4	-1.4	-4.0	-4.3
Czech Republic	3.3	1.8	1.9	3.8	14.7	6.3	-0.8	-3.0	-2.0
Romania	5.8	4.1	2.8	5.0	13.5	10.5	-7.0	-8.6	6.5
Hungary	7.1	4.7	2.1	5.1	12.7	5.5	-3.2	-4.5	-3.5
Africa, Middle East	4.3	4.8	3.4	9.7	12.1	8.5	3.0	6.9	4.6
Saudi Arabia	3.2	8.1	3.5	3.1	2.5	1.8	5.3	14.9	10.1
United Arab Emirates	2.8	5.9	4.5	0.2	4.5	2.9	9.4	14.1	12.5
South Africa	4.9	2.0	1.5	4.6	6.9	5.0	3.7	1.2	-1.1
Egypt	7.1	3.6	4.3	5.2	13.9	9.8	-4.2	-5.0	-4.5
Algeria	3.8	3.8	2.5	6.6	10.7	7.3	-5.0	3.1	0.5
Qatar	1.5	5.1	3.1	2.3	4.6	2.9	14.6	21.0	15.0
Koweit	1.7	7.8	3.7	3.4	5.0	2.9	25.0	35.0	29.0
Morocco	7.7	0.9	3.5	1.4	6.0	2.9	-2.4	-5.9	-4.8
Tunisia	3.3	2.3	2.0	5.7	8.1	6.8	-6.7	-9.2	-6.9
Total	6.1	3.0	2.6	4.4	8.4	5.4	0.9	0.4	0.3
Advanced economies	5.1	2.5	0.6	3.2	7.5	5.0	0.1	-1.1	-0.8
Emerging countries	6.8	3.5	4.1	5.3	9.0	5.7	1.5	1.6	1.2

	2021				2022				2023			
Real GDP growth, QoQ %	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
USA (annualised)	6.3	6.7	2.3	6.9	-1.6	-0.6	1.6	0.7	-0.1	-0.4	0.8	1.5
Japan	-0.3	0.4	-0.4	1.0	0.1	0.9	0.5	0.0	0.4	0.3	0.2	0.3
Eurozone	-0.1	2.0	2.2	0.5	0.7	0.8	0.1	-0.2	-0.1	0.2	0.3	0.3
Germany	-1.5	1.9	0.8	0.0	0.8	0.1	-0.2	-0.4	-0.2	-0.1	0.2	0.3
France	0.0	1.0	3.4	0.5	-0.2	0.5	0.2	0.1	-0.1	0.2	0.4	0.3
Italy	0.2	2.6	2.7	0.7	0.1	1.1	0.1	-0.4	-0.3	0.3	0.3	0.2
Spain	-0.5	1.1	2.6	2.2	0.2	1.1	0.3	-0.1	0.1	0.3	0.3	0.3
United Kingdom	-1.2	6.5	1.8	1.6	0.7	0.2	-0.2	-0.3	-0.3	0.4	0.3	0.3

	2021				2022				2023			
Consumer prices, YoY %	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
USA	1.9	4.8	5.3	6.7	8.0	8.5	8.8	7.8	6.4	4.9	3.7	3.6
Japan	-0.4	-0.4	0.2	0.8	1.2	2.3	2.9	2.6	2.4	2.2	2.0	1.8
Eurozone	1.1	1.8	2.8	4.6	6.1	8.0	9.2	9.5	8.4	7.3	6.5	4.7
Germany	1.7	2.2	3.5	5.4	6.1	8.2	9.1	10.9	10.2	9.6	8.8	6.1
France	1.0	1.8	2.2	3.3	4.2	5.9	6.6	6.4	6.4	5.1	4.8	4.4
Italy	0.8	1.2	2.1	3.8	6.0	7.4	9.0	9.4	7.8	7.5	5.7	4.4
Spain	0.5	2.3	3.4	5.8	7.9	8.9	10.4	9.0	7.0	5.5	3.6	3.0
United Kingdom	0.6	2.1	2.8	4.9	6.2	9.2	10.0	9.9	9.2	6.4	5.2	4.1

	2021				2022				2023			
Unemployment rate, %	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
USA	6.2	5.9	5.1	4.2	3.8	3.6	3.6	3.7	3.9	4.1	4.2	4.2
Japan	2.7	2.9	2.8	2.7	2.6	2.6	2.6	2.6	2.6	2.6	2.5	2.5
Eurozone	8.4	8.2	7.6	7.3	7.0	6.8	7.2	7.5	7.5	7.4	7.5	7.6
Germany	3.9	3.7	3.5	3.3	3.0	2.9	3.3	3.5	3.5	3.5	3.5	3.5
France	8.1	8.1	7.8	7.4	7.3	7.4	7.5	7.5	7.7	7.8	7.8	7.9
Italy	10.2	9.8	9.1	9.0	8.5	8.1	9.4	9.5	9.5	9.5	9.9	10.2
Spain	15.6	15.5	14.6	13.5	13.3	12.7	13.3	13.8	13.4	12.7	13.2	13.2
United Kingdom	4.9	4.6	4.2	4.0	3.8	3.6	3.8	4.0	4.2	4.3	4.4	4.4

	GDP (b)	Private consumption (b)	Public consumption (b)	Investment (b)	Exports (b)	Imports (b)	Net exports (a)	Changes in inventories (a)
Eurozone								
2021	5.2	3.7	4.2	4.1	10.3	8.0	1.4	0.4
2022	3.2	3.9	1.9	2.8	6.5	7.2	0.0	0.7
2023	0.4	0.2	0.9	1.1	2.6	3.0	-0.1	0.6
Q2 2022	0.1	0.1	0.2	0.2	1.0	1.0	0.0	0.6
Q3 2022	-0.2	-0.4	0.2	0.0	0.5	0.6	-0.1	0.6
Q4 2022	-0.1	-0.2	0.2	0.2	0.4	0.5	0.0	0.6
Q1 2023	0.2	0.1	0.2	0.3	0.6	0.7	0.0	0.6
Germany								
2021	2.6	0.4	3.8	1.0	9.5	8.9	0.7	0.6
2022	1.6	4.1	4.3	0.2	2.1	6.4	-1.8	0.3
2023	-0.4	-0.6	1.7	0.1	1.7	2.8	-0.5	0.0
Q2 2022	-0.2	-0.2	0.3	0.1	0.8	1.2	-0.2	0.0
Q3 2022	-0.4	-0.6	0.3	0.0	0.6	0.8	-0.1	0.0
Q4 2022	-0.2	-0.3	0.3	0.1	0.3	0.5	-0.1	0.0
Q1 2023	-0.1	-0.2	0.3	0.1	0.3	0.5	-0.1	0.0
France								
2021	6.8	5.3	6.4	11.4	8.6	7.8	0.0	-0.3
2022	2.6	2.8	1.9	1.2	7.2	6.7	0.0	0.4
2023	0.6	0.7	0.2	0.4	2.7	1.9	0.2	-0.1
Q2 2022	0.2	0.5	0.1	0.1	0.8	0.6	0.1	-0.2
Q3 2022	0.1	0.1	0.1	-0.2	0.6	0.4	0.1	0.0
Q4 2022	-0.1	-0.1	0.0	0.0	0.5	0.4	0.0	-0.1
Q1 2023	0.2	0.2	0.1	0.2	0.8	0.6	0.0	-0.1
Italy								
2021	6.6	5.2	0.6	17.0	13.4	14.3	0.0	0.3
2022	3.4	3.7	-0.5	10.4	10.7	14.8	-1.0	0.3
2023	0.2	0.3	0.2	3.3	2.9	4.2	-0.4	-0.3
Q2 2022	0.1	0.1	0.1	1.2	0.9	1.1	-0.1	-0.2
Q3 2022	-0.4	-0.5	0.1	0.8	0.3	0.9	-0.2	-0.1
Q4 2022	-0.3	-0.4	0.1	0.7	0.5	0.8	-0.1	-0.1
Q1 2023	0.3	0.2	0.2	0.5	0.6	0.8	-0.1	0.1
Spain								
2021	5.1	4.6	3.1	4.3	14.7	13.9	0.6	0.5
2022	4.5	2.9	-0.7	8.7	12.6	9.4	1.3	-0.1
2023	0.9	1.2	1.3	2.7	2.3	4.4	-0.6	0.0
Q2 2022	0.3	0.2	0.5	1.0	1.0	1.5	-0.1	0.0
Q3 2022	-0.1	-0.3	0.5	0.2	0.2	0.4	-0.1	0.0
Q4 2022	0.1	0.1	0.4	0.5	0.2	0.7	-0.2	0.0
Q1 2023	0.3	0.3	0.4	0.6	0.6	1.0	-0.1	0.0
Portugal								
2021	4.9	4.5	4.1	6.6	13.1	13.1	-0.7	0.5
2022	6.5	4.7	2.0	4.1	17.5	11.6	1.9	0.3
2023	1.2	0.8	-0.6	5.6	4.7	5.0	-0.3	0.0
Q2 2022	0.3	-0.4	0.3	2.4	1.0	0.9	0.0	0.0
Q3 2022	0.2	0.1	0.2	2.0	0.4	1.0	-0.3	0.0
Q4 2022	0.2	0.2	-0.3	1.7	1.0	1.4	-0.2	0.0
Q1 2023	0.4	0.5	-0.4	1.7	1.1	1.3	-0.1	0.0
Netherlands								
2021	4.9	3.6	5.2	3.2	5.3	4.0	1.5	-0.2
2022	4.7	5.7	0.6	4.2	4.5	3.2	1.5	-0.2
2023	0.9	-0.3	0.7	1.9	2.4	2.1	0.5	0.0
Q2 2022	0.3	0.2	0.1	0.2	1.0	1.0	0.1	0.0
Q3 2022	-0.4	-1.4	0.1	0.2	1.0	1.0	0.1	0.0
Q4 2022	-0.1	-0.6	0.2	0.1	0.2	0.2	0.0	0.0
Q1 2023	0.4	0.8	0.2	0.2	0.2	0.2	0.0	0.0
United Kingdom								
2021	7.5	6.2	12.6	5.6	-0.3	2.8	-1.0	0.9
2022	4.4	4.8	1.0	3.6	4.6	12.7	-2.5	2.6
2023	-0.2	-0.1	1.5	-3.4	1.2	-2.1	1.0	-0.7
Q2 2022	-0.2	-0.2	0.5	-0.5	-1.0	-1.5	0.2	-0.3
Q3 2022	-0.3	-0.3	0.5	-1.5	-1.0	-2.0	0.3	-0.4
Q4 2022	-0.3	-0.2	0.5	-1.0	0.5	-0.8	0.4	-0.5
Q1 2023	0.4	0.3	0.5	-1.0	0.5	0.8	-0.1	0.4

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

(b) q/q, %

INTEREST RATES

Short-term interest rates		3-Oct	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23
Etats-Unis	Fed funds	3.25	4.00	4.25	4.25	4.25	4.25
	Sofr	2.98	3.75	4.00	4.00	4.00	4.00
Japon	Call rate	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01
	Tonar	-0.07	0.00	0.01	0.02	0.03	0.03
Eurozone	Deposit	0.75	2.00	2.25	2.25	2.25	2.25
	€str	0.64	1.94	2.20	2.20	2.21	2.21
	Euribor 3m						
United-Kingdom	Base rate	2.25	3.50	4.00	4.50	4.50	4.50
	Sonia	1.20	1.20	1.20	1.20	1.20	1.20
Sweden	Repo	1.75	2.25	2.50	2.75	2.75	2.75
Norway	Deposit	2.25	2.75	3.00	3.00	3.00	3.00
Canada	Overnight	4.00	4.00	4.00	4.00	4.00	4.00

10Y rates		3-Oct	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23
USA		3.59	3.70	3.75	3.60	3.45	3.35
Japan		0.25	0.25	0.25	0.30	0.37	0.45
Eurozone (Germany)		1.89	1.90	2.05	2.10	2.00	1.90
Spread 10 ans / Bund							
France		0.61	0.65	0.70	0.65	0.60	0.55
Italy		2.33	2.60	2.60	2.50	2.40	2.30
Spain		1.18	1.25	1.35	1.30	1.25	1.15

Asia		3-Oct	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23
China	1Y deposit rate	1.50	1.50	1.50	1.50	1.50	1.50
Hong Kong	Base rate	3.50	4.25	4.50	4.50	4.50	4.50
India	Repo rate	5.90	6.40	6.75	7.00	7.00	7.00
Indonesia	7D (reverse) repo rate	4.25	5.25	6.00	6.00	6.00	6.00
Korea	Base rate	2.50	3.25	3.50	3.50	3.50	3.50
Malaysia	OPR	2.50	2.75	3.00	3.25	3.25	3.50
Philippines	Repo rate	4.25	4.75	4.75	4.75	4.75	4.75
Singapore	6M SOR	3.36	3.80	3.80	3.80	NA	NA
Taiwan	Redisc	1.63	1.75	1.88	1.88	1.88	1.88
Thailand	Repo	0.75	1.25	1.50	1.75	2.00	2.00
Vietnam	Refinancing rate	5.00	5.00	5.00	5.00	5.00	5.00
Latin America							
Brazil	Overnight/Selic	13.75	13.75	13.50	13.00	11.50	10.00
Mexico	Overnight rate	8.50	10.00	10.00	10.00	10.00	9.50
Emerging Europe							
Czech Rep.	14D repo	7.00	7.00	7.00	7.00	6.75	6.50
Hungary	Base rate	13.00	13.75	13.75	13.75	13.75	11.00
Poland	7D repo	6.75	7.00	7.00	7.00	7.00	6.25
Romania	2W repo	5.50	6.00	6.00	6.00	6.00	5.75
Russia	1W auction rate	7.50	7.50	7.50	7.50	7.50	7.50
Turkey	1W repo rate	12.00	11.00	1.00	11.00	11.00	11.00
Africa & Middle East							
South Africa	Repo	6.25	6.75	6.75	6.75	6.75	6.75
UAE	Repo	2.90	3.65	3.65	3.65	3.65	3.65
Saudi Arabia	Repo	3.00	4.25	4.25	4.25	4.25	4.25

EXCHANGE RATES

USD Exchange rate

Industrialised countries		26-Sep	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23
Euro	EUR/USD	0.96	0.97	0.99	1.01	1.05	1.07
Japan	USD/JPY	144.3	147.0	140.0	138.0	135.0	132.0
United Kingdom	GBP/USD	1.08	1.11	1.14	1.17	1.22	1.26
Switzerland	USD/CHF	0.99	0.98	0.97	0.96	0.93	0.93
Canada	USD/CAD	1.37	1.35	1.32	1.29	1.26	1.23
Australia	AUD/USD	0.65	0.65	0.68	0.72	0.76	0.78
New Zealand	NZD/USD	0.57	0.58	0.60	0.64	0.68	0.70

Euro Cross rates

Industrialised countries		26-Sep	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23
Japan	EUR/JPY	139	143	139	139	142	141
United Kingdom	EUR/GBP	0.89	0.87	0.87	0.86	0.86	0.85
Switzerland	EUR/CHF	0.96	0.95	0.96	0.97	0.98	1.00
Sweden	EUR/SEK	10.90	11.00	10.80	10.50	10.20	10.00
Norway	EUR/NOK	10.36	10.40	10.20	10.00	9.70	9.50

Asia		26-Sep	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23
China	USD/CNY	7.15	7.15	7.02	6.92	6.85	6.80
Hong Kong	USD/HKD	7.85	7.85	7.84	7.83	7.83	7.82
India	USD/INR	81.52	82.00	80.00	79.00	78.00	76.00
Indonesia	USD/IDR	15125	15300	15000	14800	14700	14500
Malaysia	USD/MYR	4.60	4.62	4.52	4.45	4.40	4.35
Philippines	USD/PHP	59.0	59.0	58.0	57.6	57.0	55.5
Singapore	USD/SGD	1.43	1.43	1.40	1.38	1.37	1.35
South Korea	USD/KRW	1425	1430	1390	1350	1330	1310
Taiwan	USD/TWD	31.8	32.2	31.8	31.5	31.2	31.0
Thailand	USD/THB	37.9	37.5	36.3	35.8	35.0	34.5
Vietnam	USD/VND	23715	24000	23600	23400	23300	23200
Latin America							
Brazil	USD/BRL	5.36	5.50	5.50	5.50	5.50	5.50
Mexico	USD/MXN	20.30	21.00	21.50	21.00	20.50	20.25
Africa							
South Africa	USD/ZAR	18.05	18.00	18.00	17.50	16.50	16.50
Emerging europe							
Poland	USD/PLN	4.92	5.05	4.95	4.80	4.48	4.35
Russia	USD/RUB	57.13	62.00	64.00	66.00	68.00	70.00
Turkey	USD/TRY	18.45	19.00	19.50	20.00	20.50	21.00
Central Europe							
Czech Rep.	EUR/CZK	24.66	25.00	24.90	24.85	24.75	24.70
Hungary	EUR/HUF	408	415	412	408	400	390
Poland	EUR/PLN	4.75	4.90	4.90	4.85	4.70	4.65
Romania	EUR/RON	4.94	4.95	4.95	4.94	4.92	4.90

COMMODITIES

Av. quarter price		3-Oct	2022	2023			
			Q4	Q1	Q2	Q3	Q4
Brent	USD/BBL	90	106	100	110	100	105

Av. quarter price		3-Oct	2022	2023			
			Q4	Q1	Q2	Q3	Q4
Gold	USD/oz	1,691	1,600	1,650	1,700	1,750	1,800

PUBLIC ACCOUNTS

	Government balance (% of GDP)			Public debt (% of GDP)		
	2021	2022	2023	2021	2022	2023
United States	-10.8	-4.3	-4.0	99.6	97.8	99.5
Japan	-6.4	-7.4	-3.5	242.3	244.4	244.2
Eurozone	-5.2	-4.1	-3.8	95.7	93.8	94.3
Germany	-3.7	-3.8	-3.2	69.3	69.7	71.0
France	-6.5	-5.0	-5.3	112.8	111.7	112.0
Italy	-7.2	-6.5	-6.2	150.8	148.4	150.0
Spain	-7.0	-4.8	-4.4	119.5	117.5	117.6
Netherlands	-2.5	-1.6	-1.5	53.8	53.1	52.7
Belgium	-5.5	-4.2	-4.0	108.2	108.9	107.4
Greece	-7.4	-4.2	-1.5	193.3	184.7	178.3
Ireland	-1.9	2.5	1.6	56.0	45.3	41.5
Portugal	-2.8	-1.7	-1.0	127.4	118.5	118.3
United Kingdom	-8.3	-7.3	-9.0	102.8	101.1	105.2

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Information centre: Dominique PETIT – **Statistics:** Alexis MAYER

Layout & Editor: Fabienne PESTY

Contact: publication.eco@credit-agricole-sa.fr

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