WORLD

MACRO-ECONOMIC SCENARIO 2023-2024

Quarterly – June 2023

ECO
ÉTUDES ÉCONOMIQUES GROUPE

Normalisation plays hard to get

With a strong labour market and savings that remain abundant, albeit not untouched, household spending has absorbed the erosion of purchasing power and the rise in interest rates better than expected. Growth has also been more resilient than its forecasts, and core inflation has followed suit. The scenario for deceleration, but not collapse, hinges on the slow decline of inflation – a welcome respite for revenue and a green light for the end of monetary tightening measures. Here is hoping it happens soon and mitigates the inversion of yield curves.

The US economy has been resilient but is starting to crack, and these cracks get deeper as the repressive effects of monetary and financial tightening make themselves known. Housing investment has already experienced a sharp adjustment, and real investment in turn should fall substantially. After dipping into their savings and relying on credit, the consumers who underpinned such resilient growth may be less confident and more thrifty. While a stronger-than-expected labour market may allow for a soft landing, these fractures expose the economy to the risk of a recession in the second half of the year – a mild recession leading to average growth of roughly 1.2% in 2023 and just 0.7% in 2024. This slowdown, which is ultimately natural, is based on the assumption that headline inflation and especially core inflation will continue to fall, reaching approximately 3.2% and 3.6% respectively at end-2023 before they both descend to around 2.5% at end-2024. The risk weighing on this scenario is that inflation will be more persistent than expected, leading to a more aggressive monetary scenario than expected.

The scenario for deceleration, but not collapse, hinges on the slow decline of inflation – a welcome respite for revenue and a green light for the end of monetary tightening measures.

In the Eurozone, the path to "normalcy" is fairly straightforward. Absorbing shocks as out of the ordinary as the pandemic followed by an energy crisis has caused a fairly brutal drop in the pace of growth – one that does not foreshadow a recession, but rather a normalisation of behaviours exacerbated by that of economic policies which have switched gears from one-off support to a more restrictive direction. So the scenario is the result of opposing forces: the positive impact of tensions easing on the world's value chains and energy prices settling is providing a positive countershock and offsetting – if only partially – the drag of economic policies on activity. **Assuming average inflation falls from 8.4% in 2022 to 5.5% in 2023 and 2.9% in 2024, this scenario leads to modest growth of 0.6% in 2023 and 1.3% in 2024, which is still below its potential rate.**

In the 'emerging universe', **far from the glorious return it hoped for, China's economy is struggling to regain its momentum**. The deep household confidence crisis (fears over unemployment and increased rainy-day savings) as well as unresolved troubles on the real-estate market continue to justify stagnant domestic demand. This means inflation has weakened demand so much that the prospect of deflation hangs overhead. Chinese authorities cannot ignore the fact that this is not the recovery that was promised, but they still do not have the recovery tools they need to boost consumer spending. The annual growth target of "around 5%" cautiously announced by authorities should be achieved (thanks to favourable base effects), but doubts remain as to whether China can maintain this pace with no drivers to sustain activity in the medium term.

As for **emerging countries** in a very broad sense, as the global economy decelerates and a modest and more service-oriented Chinese recovery takes shape, **there is a divide according to their level of openness**. While growth in the major countries with strong domestic demand has proved more resilient than expected, the usual engines – the more advanced, more open countries that are more closely linked to the global technology cycle – are struggling a little more. **However, all of them are likely to gradually benefit from slow monetary 'normalisation', which is conducive to a scenario of slowed growth with no crash.**

But we have yet to finally see the key rates of major central banks clearly reach their peaks. While headline inflation has already fallen sharply in a largely mechanical fashion, persistent core inflation fuelled by higher-than-expected growth has led central banks to respond aggressively. If inflation keeps falling – especially core inflation – rate hikes should (finally) come to an end very soon.

After ten consecutive rate hikes totalling 500bp, the **Federal Reserve** just decided to maintain the status quo (upper limit of the Fed funds rate target range at 5.25%) while clearly indicating that further hikes could take place and presenting a dot plot which suggests another 50bp increase. Our neutral scenario for the economy is less optimistic than the Fed's and the median projection for 2023 is currently aggressive. The environment seems to vote in favour of stable key rates, but as the market suggests, a hike limited to 25bp is highly likely. As for the **ECB**, it should keep its monetary policy somewhat or even very restrictive in the coming quarters, as inflation is falling too slowly and there is still a long road ahead before achieving the target. As such, the ECB stands to raise its rates twice (once in July and once in September, bringing the deposit rate to 4%) while pursuing its monetary tightening policy.

Lastly, by clearly prioritising the fight against inflation over growth, monetary strategies helped keep inflation expectations from coming unglued and long-term rates from overreacting, but led to inverted yield curves and low-to-negative real yields. Unless inflation comes back with a vengeance, **the risk of a rise in long-term 'risk-free' rates and a tangible increase in sovereign spreads within the Eurozone is limited**. **The risk that the curve will remain inverted in the long term is very real**. Our scenario calls for 10Y US and German rates of approximately 3.75% and 2.60% at end-2023, respectively.

Catherine LEBOUGRE

DEVELOPED COUNTRIES
The slow boat to normalisation

USA – Recession still the base case, though path to soft landing exists

Eurozone – The bumpy road back to normal

United Kingdom – Crises that fit together like Russian dolls

Japan – Domestic demand to offset weakening external demand

The slow boat to normalisation

With a strong labour market and savings that remain abundant, albeit not untouched, household spending absorbed the erosion of purchasing power and the rise in interest rates better than expected. Growth was also more resilient than its forecasts. Core inflation followed suit. The scenario for deceleration, but not collapse, is based on the slow decline of core inflation – a welcome respite for revenue and a green light for the end of monetary tightening measures in the very near future.

USA: RECESSION STILL THE BASE CASE, THOUGH PATH TO SOFT LANDING EXISTS

The US economy has continued to chug along thus far, maintaining positive growth into the beginning of 2023, though we see some cracks starting to form. As such, we maintain our base case that a mild recession will arrive in the second half of the year. This leaves growth at 1.2% in 2023 on an annual average basis, followed by just 0.7% in 2024 despite the beginning of a recovery taking root in Q124.

On a quarterly basis, Q123 growth came in below expectations at 1.3% QoQ SAAR, though underlying details were more upbeat with final sales to domestic purchasers rising at a more robust 3.3% pace led by strong consumption growth of 3.8%. This momentum should keep the economy in expansion in Q223, where we currently expect growth of around 1.8%, though numerous indicators have begun to slow, driving the economy to dip into modest contractions in both Q223 and Q423 in our current base case.

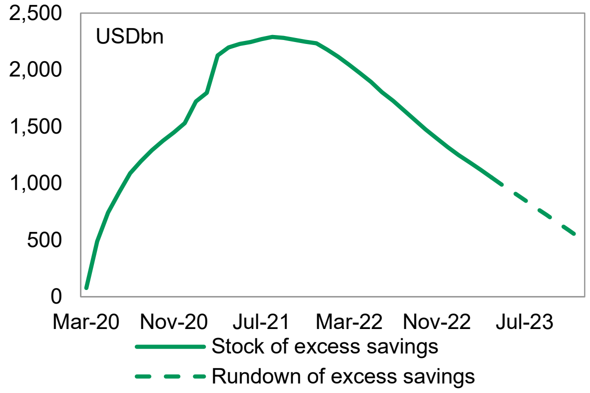
In terms of the drivers of the downturn, we look for the recession to be investment-led as the investment outlook faces a number of headwinds including:

- ✓ Residential investment plunged last year given the spike in mortgage rates as the Fed hiked aggressively. While we have seen some stabilisation recently, we expect levels to remain subdued given still elevated mortgage rates and affordability issues.
- ✓ The Fed's aggressive rate hikes have also led to tighter lending standards, with the Fed's Senior Loan Officer Opinion Survey (SLOOS) indicating a sharp tightening in standards for a variety of types of loans. The SLOOS has more recently pointed towards a decline in demand for loans as well.
- ✓ After spiking in the early portion of the recovery, corporate profits have now declined for two straight quarters in Q123 and Q422 after coming in essentially flat in Q322, a trend which tends to presage a pullback in investment.
- ✓ Business surveys have been fairly weak as well, including an ISM manufacturing index that has been in contraction for seven straight months and an ISM services index that has been on a downward trend and currently sits just above the cut-off.
- ✓ Core capital goods orders tend to act as a solid leading indicator for equipment investment and momentum has slowed here as well. While there has been some choppiness from month-to-month, we have seen outright declines in four of the past eight months.

Labour market strength could keep consumer spending robust enough for a softer landing.

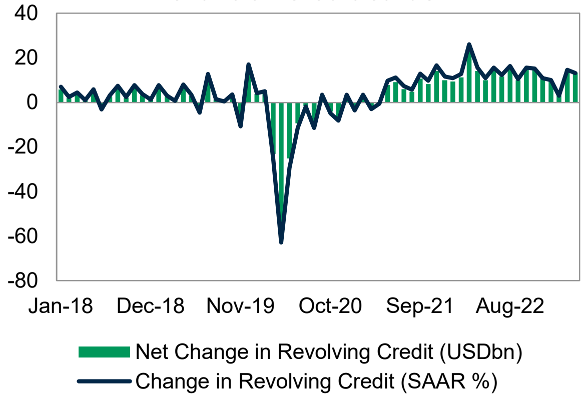
While this combination has already resulted in some declines in certain components of investment within the GDP report, including a pullback in equipment investment in Q123, **given the above we expect the trend to both deepen and broaden, with overall non-residential fixed investment leading the charge lower in H223.**

US: consumers have continued to draw down savings



Sources: BLS, Bloomberg, CACIB

US: consumers increasingly reliant on credit cards



Sources: Fed, Bloomberg, CA CIB

While investment has already begun to weaken, a resilient consumer has been keeping the economy afloat thus far. However, we again see signs of slowing momentum, such as retail sales having dipped below 2% YoY as of May, and expect consumers to rein in spending further for a handful of reasons:

- ✓ While consumers have continued to grow spending, they have become increasingly reliant upon excess savings, and this stockpile has been declining. We estimate that the stock peaked at USD2.3trn last August, but now sits around USD1trn given a continued drawdown. While we do not have the breakdown, we would expect that many lower income households, who tend to have a higher marginal propensity to consumer, have fully drawn down this cushion. As such, this support cannot be counted on quite so much as we move forward.

- ✓ In addition to excess savings, consumers have also become increasingly reliant on credit cards, with revolving credit outstanding at an all-time high. While the ratio of revolving credit to personal income remains manageable for now, the trend has been clearly moving higher and there is not unlimited room for this to continue rising.

- ✓ A bit more under the radar has been the fact that the student loan moratorium is likely to end by August, depending on how the courts rule. If this happens as expected, it would act as a tax on the affected households. In this case, they would be required to resume monthly student loan payments, meaning that less money would be available for consumption.

Taken together with consumer sentiment that remains at rock-bottom levels, these factors are likely to lead consumers to pull back on spending in the latter portion of the year. Given that household balance sheets are still very healthy, with net worth around USD30trn above pre-Covid levels, we do not expect spending to fall off a cliff, but we expect that a modest decline combined with the drop in investment would be enough to lead to a mild recession.

We see risks on both sides, including a path to a softer landing that would likely involve the labour market. The labour market has been extremely resilient thus far, with payrolls continuing to rise by 200-300k+ per month and the unemployment rate near the cycle low at 3.7%. We do see some cracks beginning to form, including a jump in Challenger job cut announcements, an increase in jobless claims, and a decline in household survey employment in the most recent report. This drives our base case of a modest cooling that brings the unemployment rate to around 4.3% by yearend and the mid-4% range early next year.

However, labour demand continues to significantly outpace labour supply, and given the possibility of labour hoarding as well, there is a chance that the labour market remains even more resilient than we are currently expecting. In this case, labour market strength could keep consumer spending robust enough for a softer landing, with below trend growth but a recession avoided.

Annual change	2023	2024
GDP	1.2%	0.7%
Inflation	3.9%	2.5%

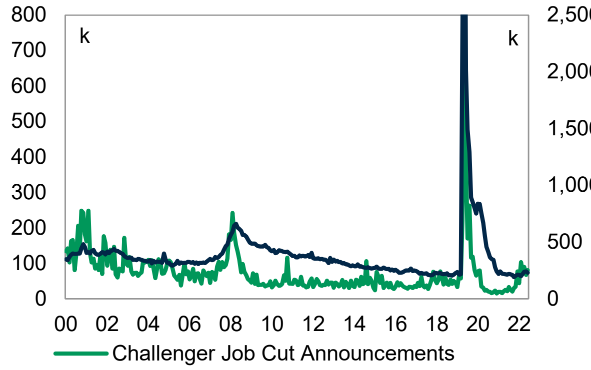
On the downside, inflation remains a key risk. In our base case, we see some tentative green shoots, including:

- ✓ Base effects having taken headline inflation down sharply;
- ✓ Core goods inflation having notably slowed, a recent bump in used cars that is unlikely to be sustained aside;

US: domestic respondents tightening standard for commercial & industrial loans

Sources: Fed, Bloomberg, CA CIB

US: job cuts becoming more common



Sources: Challenger, BLS, Bloomberg, CA CIB

- ✓ Shelter looking to finally be past a peak, with further decline suggested by movement in rent and home prices;
- ✓ And some cooling in core services excluding shelter CPI the past few months.

Still, this results in a slow pace of decline with headline and core CPI finishing 2023 around 3.2% and 3.6%, respectively, before dipping closer to the mid-2% range by end-2024 in each case.

However, inflation has been stickier than many expected, and there is a risk that the decline may be slower than we anticipate. This would likely drive the Fed to raise rates further above current levels and would eat further into consumer purchasing power, potentially resulting in a recession that is more severe than we anticipate in our base case, especially as we see additional fiscal support as unlikely to be forthcoming.

Nicholas VAN NESS

EUROZONE: THE BUMPY ROAD BACK TO NORMAL

After overcoming the consequences of the pandemic in 2021 and taking the brunt of the energy crisis in 2022, it looks like 2023 might be the year we move past the effects of the energy crisis. After absorbing these extraordinary shocks, we will return to more usual dynamics, with Eurozone YoY growth brutally slowing down from 5.5% in Q122 to 1% in Q123. This dive does not foretell a recession, but instead a normalisation in behaviours following some major shocks that set off an abnormal amplitude of the cycle.

The slowdown is being aggravated by economic policies that are mutating from exceptional support into a more restrictive stance, with a shift in monetary policy that is preceding the one in fiscal policy.

The competitive shock of higher energy prices has been partly absorbed, and this will be good for terms of trade over the coming quarters. However, energy prices remain higher than before the shock and, with energy-intensive sectors operating below capacity, are leaving a permanent scar on the growth trajectory.

So the scenario is the result of opposing forces: the positive impact of tensions easing on global value chains and energy prices settling is providing a positive countershock and offsetting – if only partially – the drag of economic policies on activity.

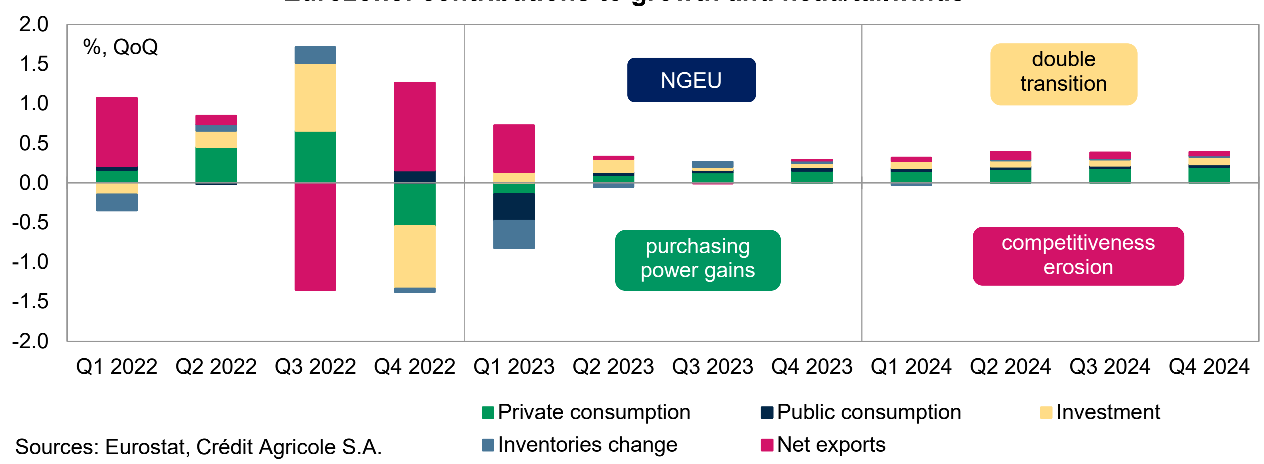
For the time being, the pressure points that could tip the cycle are not all lined up. Job creation is still very dynamic and, most of all, the strength of the service sector continues to drive margins and inflation. As monetary restriction ramps up, however, inflation shock will subside, giving consumers back their rightful purchasing power.

And so we are projecting modest growth of 0.6% in 2023 and 1.3% in 2024, still beneath the Eurozone's potential.

A natural – but pronounced – slowdown in activity

With real GDP currently 2.2% above its pre-pandemic level, the slowdown in activity is natural. However, it is pronounced: growth YoY sagged from 1.8% in Q422 to 1.0% in Q123. In Q123, Eurozone GDP growth declined for the second consecutive quarter (-0.1% QoQ), dragged down by German growth (-0.3%) which also fell two quarters in a row. With the exception of Germany, Ireland, the Netherlands and Greece, all of the Eurozone's major countries reported growth.

Eurozone: contributions to growth and head/tailwinds



Sources: Eurostat, Crédit Agricole S.A.

Whereas domestic demand made another negative contribution to growth (-0.3ppt), the latter has moderated compared to the previous quarter (-1.2ppt). Consumer spending declined for a second consecutive quarter (-0.3%), though by less than the previous quarter, with inflation down compared to its Q422 peak. After providing a strong impulse at year-end, public spending dipped sharply (-1.6%) in response to the withdrawal of income-support measures. Investment rebounded (+0.6% after -3.5%), but growth remains modest. The downward adjustment in inventories took 0.4ppt away from growth. Once again, foreign trade's positive contribution to growth is due to a more pronounced downturn in imports than exports. While exports are not gaining momentum, the import slump is moderating.

The expansion phase is coming to an end, according to several indicators, specifically in the manufacturing sector. Normalisation of consumption and investment behaviours has been followed by their blockage caused by increased production costs and prices that drove orders down. After tensions on the value chains were resolved, precautionary stocks naturally declined, and the inventory cycle is now adapting to weaker demand.

Despite a distinct slowdown in activity signalled by the June surveys, average Q2 growth is still slightly outpacing Q1 growth. There are two opposing forces behind this trend: one, the steepening downturn in manufacturing, and two, the robust (although moderating) growth in services. However, industrial activity will benefit from an easing of tensions on input prices. Conversely, demand for services continues to drive production as well as higher prices in the sector.

Weaker manufacturing activity has not yet triggered a rise in corporate failures. In the manufacturing sector, the corporate failure rate remains lower than before the pandemic. For the Eurozone economy as a whole, this rate remains relatively low and with the rebound underway for the past year it is scarcely higher than before Covid. Their increase remains limited to specific sectors (in hospitality, transport and logistics, the number of defaults is higher than pre-pandemic).

Not all the pressure points that could tip the cycle are aligned.

The countershock is limiting the slowdown in activity

Starting in Q2, our scenario shows moderate positive quarterly sequential growth. Such growth is conditional on a gradual but moderate recovery in consumption benefiting from the decline in inflation, from improvement in real income and from the demand for travel and leisure services remaining high through the end of summer. This expenditure component may still be fuelled by surplus savings held by the wealthiest households, although a large portion of this has already been converted to illiquid real estate and financial assets.

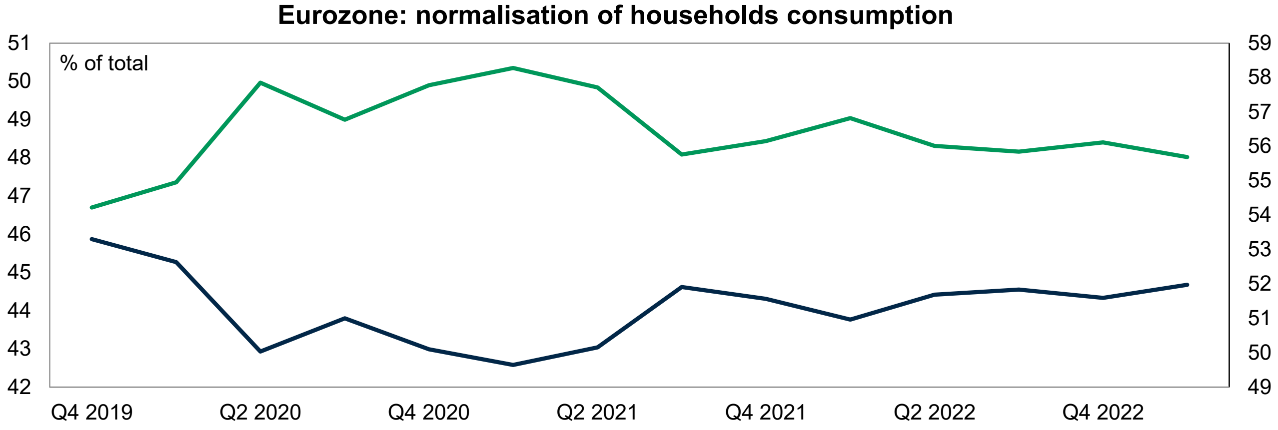
Growth in investment ex housing is expected to persist, with the decline in the cost of intermediate goods and strong support from European funds. High profitability and solid corporate finances are also hampering the transmission of monetary tightening to investment. The real estate cycle is in a normalising phase and will have to adjust to an interest rate that has abruptly come out of the zone of deflationary risk and pandemic urgency and into restrictive territory. While monetary transmission has been quick, it is not over yet, which increases the downside risk weighing down this investment component.

The resilient labour market

Though activity did hit a slump, job creation picked up speed in Q123 (+0.6% after +0.3%), and the number of hours worked continued to rise (+0.6%). Productivity growth was weaker as a result. Employment held on to its momentum in Q2, though job creation was at a one-year low. This moderation is also visible in the lower job vacancy rate (3.1% in Q123), which has not increased in three quarters.

Slowing productivity and a slight projected rise in unemployment are limiting the potential for wage

Eurozone: normalisation of households consumption



Sources: Eurostat, Crédit Agricole S.A.

hikes in most sectors except services. Any potential should be limited by the downward adjustment of inflation expectations, lesser need for real wage catch-up, and anticipated reduction in margins (ECB business survey). We are counting on per capita wages to pick up 5.1% in 2023 before slowing to 4% in 2024, with a lower contribution from minimum wage hikes, hours worked and bonuses.

Fiscal and monetary restriction join forces

Fiscal policy was relaxed in 2022 to support income in the face of inflation, but it has begun tightening again as those measures are withdrawn. Once again, the fiscal stimulus from national budgets will be negative (-0.8ppt in 2023 and -0.9ppt in 2024) as measures to ease the impact of the energy crisis are phased out. However, the general stance will be less negative, particularly in the southern Eurozone countries, due to expenditure financed by European funds. Fund disbursements will accelerate in 2023 and 2024, causing those economies to outperform their central Eurozone neighbours.

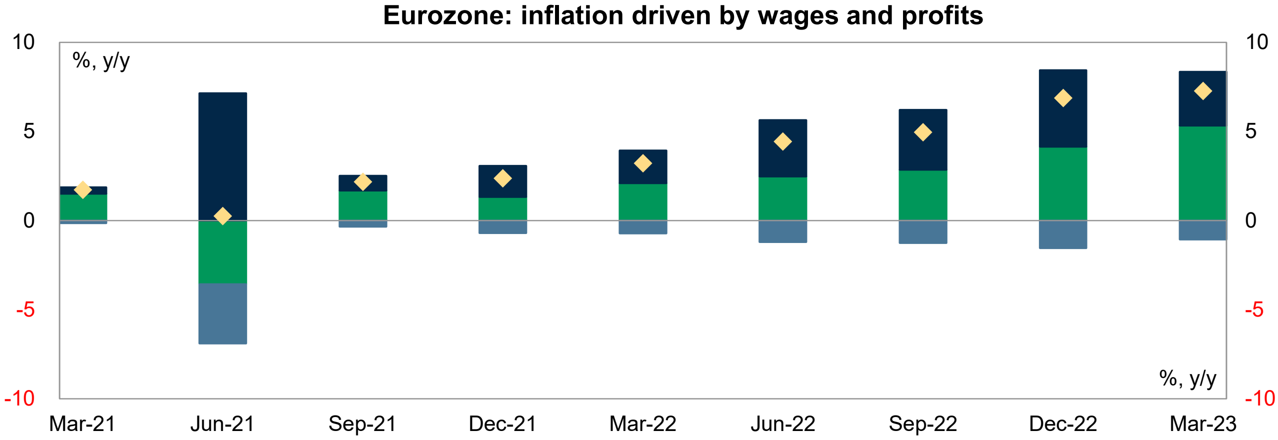
Mostly downside risks

Now that monetary policy has moved into its restrictive phase aimed at moderating demand, the tightening of credit conditions is one factor that may tip growth normalisation over to a more pronounced correction of the cycle. The other factor is the anticipated margin squeeze. The slowdown in activity and in the productivity cycle, as well as the inflation downturn limiting price "blurring", will interfere with the opportunistic profit-taking. While wage growth is lagging inflation, pressures to reduce the workforce and investment are on the rise. The scenario is moving into riskier territory, where all the trade-offs between monetary and fiscal objectives become more acute in the short term and pose major challenges to macroeconomic stability and the sustainability of growth.

Annual change	2023	2024
GDP	0.6%	1.3%
Inflation	5.6%	2.9%

Paola MONPERRUS-VERONI

Eurozone: inflation driven by wages and profits



Sources: Eurostat, Crédit Agricole S.A.

UNITED KINGDOM: CRISES THAT FIT TOGETHER LIKE RUSSIAN DOLLS

The UK economy escaped recession over the winter with growth just above zero. Real GDP grew by 0.1% (QoQ) in both Q422 and Q123. **Household consumption has held up better than expected despite the crisis in purchasing power** (real disposable household income fell by 1.5% last year, despite the energy price cap introduced in October 2022 and extended until the end of June), with quarterly growth averaging zero over the last 12 months. It has been supported by state aid for the most vulnerable, a more buoyant labour market than expected, and the significant savings surplus accumulated during the pandemic. Against a backdrop of uncertainty, increasing production costs and rising interest rates, **investment also provided a positive surprise**. Business investment rose by 0.7% in Q123, following annual average growth of over 10% in 2022. While government support measures in the form of tax credits may have played a role, this is more a case of a post-pandemic catch-up effect because, unlike in other advanced countries, business investment in the UK has still not returned to its pre-crisis level. In Q1, it was still 1.4% below where it was in Q419. **Even if disaster has been averted, the economy has remained stagnant over the past year, with average growth limited to 0.1% per quarter.** The real GDP data for April did not deviate from this virtually 'flat' trend: GDP grew by 0.2%, following a fall of 0.3% in March.

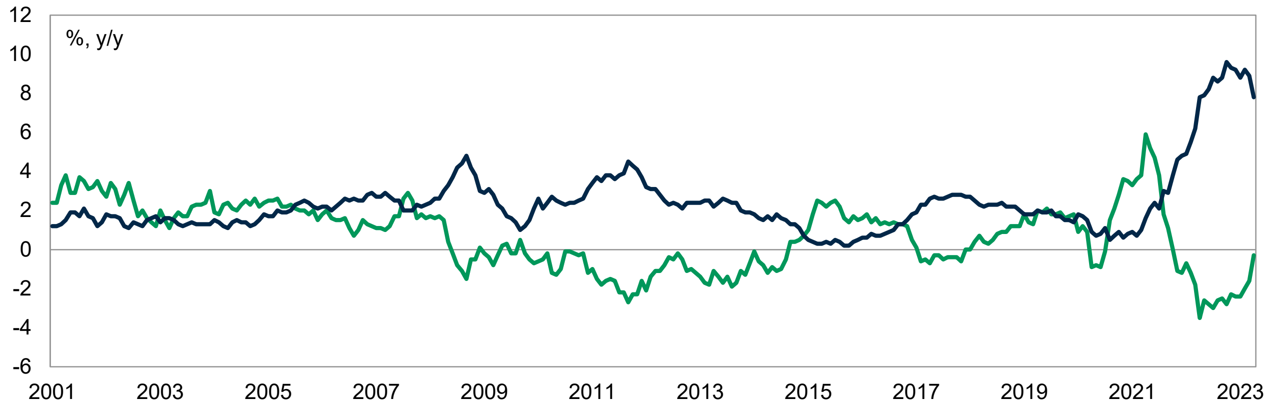
The rise in interest rates should affect fewer households than in the past, as the proportion of households with a mortgage fell sharply during the 2000s.

The resilience of domestic demand has contributed to sticky inflation, with core inflation in particular having surprisingly risen significantly over the last four months. Energy prices are contributing less and less to headline inflation, while food inflation also seems to have peaked in March. The **dissipation of the energy crisis suggests that the purchasing power crisis will soon be resolved**, and consumer confidence is improving. In fact, when we use the monthly data for wages and salaries and the CPIH price index (consumer price index including owner-occupier housing costs), the fall in real wages and salaries appears to be nearing an end. Nominal wage and salary growth reached 7.5% YoY in April, very slightly below CPIH inflation (7.8%), suggesting a fall in real wages and salaries of just 0.3%, whereas they were losing up to 3.5% exactly one year ago. In the short term, the labour market will remain very tight and conducive to sustained, albeit moderating, wage growth, while inflation is expected to remain on a downward trend. Nonetheless, the labour market has begun to soften. The fall in the number of vacancies and the decline in inactivity attest to this, while the REC/KPMG surveys suggest a slight contraction in employment over the next six months.

Annual change	2023	2024
GDP	0.5%	1.1%
Inflation	7.8%	4.1%

As if to prevent British households from rejoicing too much, the rebound in wage growth has caused interest rate expectations to soar (to almost 6% for mid-2024, close to the peak reached last September following Liz Truss's "mini-budget"), **raising mortgage rates in their wake**. Bad news for the 3.3m households (12% of the total number of households) whose fixed-rate mortgages expire over the next year and who will have to refinance at higher rates. According to the Resolution Foundation, the increase in debt servicing for indebted households is expected to be higher (estimated at around 3% of annual income) than during the periods of rising interest rates in the 1980s and 1990s, mainly because of the higher overall indebtedness of households. So, like Russian dolls, each shock facing households is followed by another one that was previously hidden. The crisis in

UK: the real pay squeeze



Source: ONS (single month data)

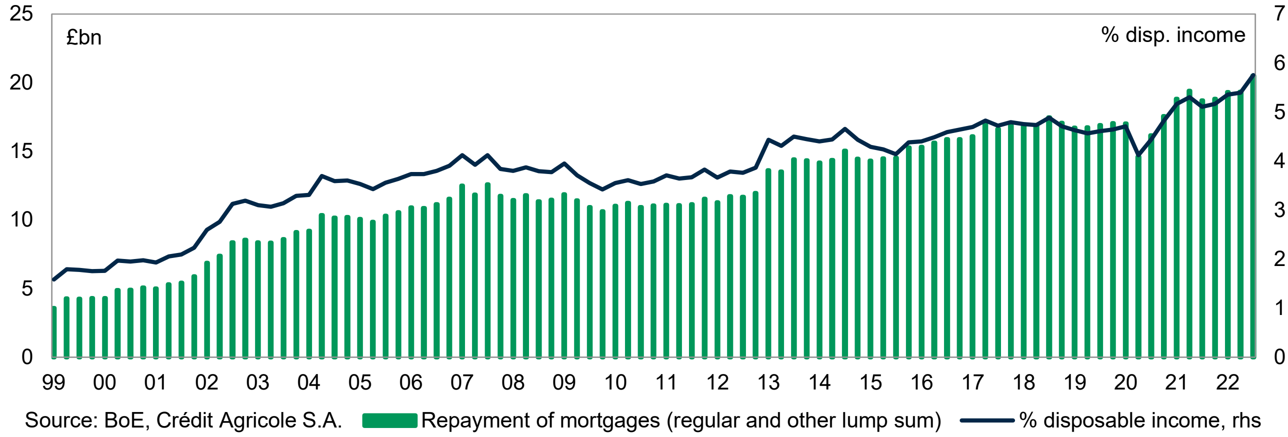
purchasing power has been followed by a shock to interest rates, which could turn into a crisis in the property market, posing risks to financial stability.

Good news? The rise in interest rates should affect fewer households than in the past, as the proportion of households with a mortgage fell sharply during the 2000s to less than 30%, compared with almost 40% in 1989. In theory, the impact of the rise in interest rates on household consumption therefore looks set to be less significant than in the 1990s (household consumption contracted by 0.4% between Q390 and Q391). It will also likely be more spread out over time, with the majority of loans now at fixed rates (maturing in five years or less) rather than variable rates.

Even though the worst of the purchasing power crisis seems to be over, monetary tightening, which is set to continue, will put the brakes on any recovery in domestic demand. After a possible slight rebound in growth in Q2, supported in part by the coronation of King Charles, we expect growth to slow again in H2.

Slavena NAZAROVA

United Kingdom: mortgage repayments



Source: BoE, Crédit Agricole S.A.

JAPAN: DOMESTIC DEMAND TO OFFSET WEAKENING EXTERNAL DEMAND

Domestic demand to continue supporting growth

Japan's move to a *post*-Covid world continues. Public health measures were significantly relaxed in March and the government lowered the public health designation of Covid-19.

The economic recovery will likely continue throughout CY23 and CY24. Net trade will likely become negative as the global economy shows signs of a slowdown. However, resilient domestic demand will likely offset the decline in external demand. Furthermore, the revival of inbound tourism in light of border restrictions being lifted should act as an additional boost to Japan's economic growth.

The government and the BoJ maintain the view that ***Japan's economy has yet to achieve the 2% inflation*** *target in a stable and sustainable manner.*

We expect private consumption to continue to remain resilient as the transition to a *post*-Covid world continues. A tight labour market continues to exert upward wage pressures, with the latest wage negotiations showing resilient results. Businesses' capex plans also remain strong as they move to increase investments not only to alleviate supply chain disruptions but also to offset the increasing labour shortage they face with capital.

Meanwhile, the government reaffirmed its commitment to the Abenomics policy framework in the basic policies for the FY24 budget. The basic policies for the FY24 budget maintained the Abenomics policy framework of "bold monetary policy, flexible fiscal policy, and a growth strategy that stimulates private sector investment". The government emphasizing the importance of wage growth to achieve the 2% inflation target can be interpreted as a *de facto* nominal GDP growth target of around 3%. We expect fiscal and monetary policies to remain accommodative as the government and BoJ maintain their commitment to the policy-mix approach. With private demand still below the pandemic level (CY19 average), the need for continued policy support to maintain domestic demand despite stronger external headwinds remains strong.

Recent spike in inflation likely to be temporary as structural deflationary pressure remains

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

Annual change	2023	2024
GDP	1.5%	2.0%
Inflation (ex-fresh food & energy)	3.7%	1.7%

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

In the short term, the recent spike in inflation will likely cause a strong base effect to appear starting in the latter half of CY23 and suppress core CPI growth. We expect core CPI (ex-fresh food and energy) to come in at 3.7% in CY23 but decelerate to 1.7% in CY24. However, with structural deflationary forces gone by then, we expect inflation to reaccelerate toward the 2% target and the 2% target to be met in a sustained manner sometime in CY26.

Takuji AIDA – Arata OTO

Key points of the basic policies for the FY24 budget

①	②	③	④
Cabinet decision of **maintaining Abenomics'** fiscal and monetary policy stance	Effectively **removing the primary balance surplus objective** by a fixed date	**No budget limit** on key policies deemed necessary by Kishida administration	Avoid falling back to deflation by stimulating investment and remove the state of excess corporate savings

EMERGING COUNTRIES

Monetary normalisation in piecemeal fashion

Monetary normalisation in piecemeal fashion

While growth in the major countries with strong domestic demand has proved more resilient than expected, the usual engines **–** the more advanced, more open countries that are more closely linked to the global technology cycle **–** are struggling a little more. However, all of them are likely to gradually benefit from slow monetary normalisation, which is conducive to growth.

Against a backdrop of multiple shocks – war, inflation, rising interest rates – and a slowdown in exports since the end of 2022 (with the exception of some favourable trends for certain agricultural products), **growth in emerging markets held up better in the first half of 2023 than might have been feared**. While investment has been hobbled by the rise in interest rates, consumption has proved resilient overall, with labour markets fairly solid, consumption of goods down but shifting back to services, and workers abroad remitting their earnings. Overall, expectations of price rises remained relatively unanchored.

An expected slowdown, but with mitigating factors

As the scenario of a deceleration (albeit a gentle one) becomes clearer in the US and that of a Chinese recovery geared more to services than to demand for goods takes shape, a dividing line can be drawn based on how open the countries are. Those that are most open and connected to the global semi-conductor and electronics cycle, such as Korea, Taiwan and Malaysia, risk being penalised. The 'vast' economies (India and Indonesia in particular), on the other hand, benefit from a kind of comparative advantage. Furthermore, over the next few months, the emerging world as a whole could see its growth trajectory favourably affected by three factors: **tourism, continued disinflation (already well underway) and, finally, gradual monetary normalisation**.

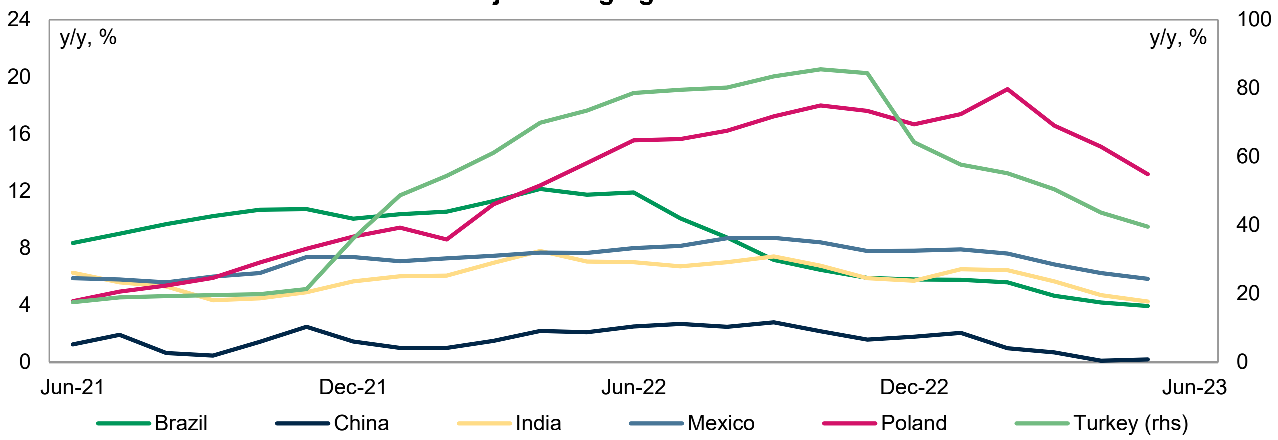
The **upturn in tourism** is expected to drive economic growth in countries such as Turkey, Thailand, Croatia and Morocco. While the return of tourists only benefits certain countries, **disinflation** benefits everyone (albeit to varying degrees). The normalisation of world freight prices and of value chains in general is rapidly favourable to many countries, as it is quickly becoming part of their price structure. Similarly, food prices coming back down to earth is a major contributor to disinflation, as the share of food in the price index is higher in the least developed countries. However, the FAO food price index has fallen by 2.6% compared to April 2023, and by 22.1% compared to the record level of March 2022. As for the cereals price index, it is 25.3% below last year's level.

Food prices coming back down to earth is a major contributor to disinflation, as the share of food in the price index is higher in the least developed countries.

Gradual monetary normalisation

Although uncertain, the international economic situation should enable emerging markets to more clearly enter into a phase of gradual disinflation in H2. This will allow central banks to gradually loosen their grip. There will obviously be differences in the pace of **monetary easing**. The first rate cuts are expected in Latin America, where inflation and monetary tightening have been both strong and early. In Asia, inflation has been lower and the need for monetary normalisation is less pressing. It is, however, in Eastern Europe, which is more exposed to the effects of the conflict and still has high levels of inflation, particularly in Hungary and Serbia – where annual price rises were 21.5% and 19.8% respectively in May. While all the countries in the zone can hope to see their inflation rate fall back below 10% by the end of the year, Poland, which is currently seeing 13% inflation, should nevertheless be the first to loosen its monetary policy.

"Major emerging countries": inflation



Sources: central banks, Crédit Agricole S.A

A few unique cases to cover

This broad overview of the emerging world is reassuring, but unfortunately it masks **the specific risks**. Egypt and Turkey are good examples.

Egypt is set to benefit from the upturn in tourism flows. A record 15m visitors are expected this year (the last peak was in 2010) and the authorities' stated ambition is for 30m tourists a year starting in 2028, as part of a national transformation and digitalisation plan focusing on this specific sector. Nevertheless, Egypt is still in a difficult situation in terms of USD shortages and currency fragility, and tourism will not be enough to restore investor confidence. Above all, investors are expecting a net contribution from the Gulf States to the privatisation plan being run by the IMF. So far, there have been many announcements, but the privatisation timetable remains unclear and the IMF's long-awaited interim report is still a way off. Inflation is high (32.8% in May) and the difference between the official and parallel exchange rates is widening again. At 40% of total public spending, interest payments on public debt are among the highest in EM, so Egypt is one of the latent risks in a fairly resilient emerging world.

Of course, there is also the case of **Turkey**, which has adopted an unusual monetary policy – cutting rates as prices rise – which has pushed inflation upwards (it was still almost 40% in May). The announced return to monetary reality will shake up a currency that has already been weakened by the elections, and this will hamper Turkish growth in 2023. This is not the first time that the TRY has 'yo-yoed', and companies are used to hedging their exchange rate risks. Nevertheless, Turkey's financing needs also remain a latent risk for EM, even though the Gulf States are working to replenish their reserves, whose sporadic moves into negative territory are giving sovereign analysts cold sweats. But Turkey's liquidity risk has been held aloft for so long that it is hard to believe that it has become reality, like a financial version of the boy who cried wolf.

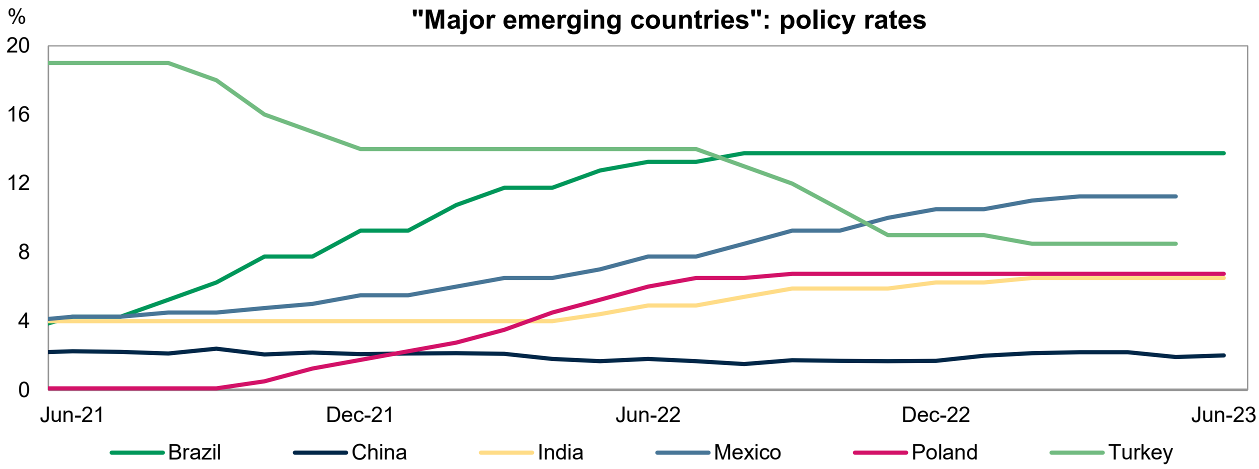
The crisis of democracy is not over

Finally, **Ankara is also playing the role of scarecrow this year, reminding analysts that the crisis of democracy is far from over, in Europe and elsewhere**. The polarisation of electorates will continue to shape the scenarios. In Turkey, the pro-Erdogan vote is not an accident, but a vote of conviction by a segment of the population that prefers security and Islamo-nationalism to democratisation and the unknown of a divided opposition. This is an important signal to ponder as we await other elections, in Argentina and Poland for example.

Annual change	2023	2024
GDP	3.7%	3.9%
Inflation	5.9%	4.3%

While political risk is a cause for concern in many countries, and geopolitical risks are having an impact on the economy in Eastern Europe and the China Sea, some countries are making the most of the global geo-economic domino chain. Leading the way is India, which is ready to benefit from diversification away from Chinese risk. But the "China+1" moment will be limited to certain sectors, and the US "friendshoring" will not solve India's structural problems. There is also still strong competition from Vietnam in terms of attracting investors. However, the time is well and truly ripe for an "Indian moment", and with India currently holding the presidency of the G20, PM Narendra Modi is being courted by Western capitals. Similarly, the 'normalisation' of the Saudi image is continuing, supported by a more favourable perception of risk by investors, who are observing with interest and caution the structural reforms, the transition of Saudi society, and the continued growth of non-oil GDP.

Tania SOLLOGOUB



Sources: central banks, Crédit Agricole S.A

CHINA: CAUGHT BETWEEN CAUTION AND RECOVERY

Far from the glorious return it hoped for, China's economy is struggling to regain its momentum. The conservative stance of authorities, who announced the annual target of "around 5%" growth would require much effort, ultimately is not cutting it. While 5% is certainly within reach, there are doubts about China's ability to keep up that pace, and it will probably prove impossible without some accommodating public policies in place.

Post-Covid euphoria has already died down

After a Q1 boosted by the reopening economy, the growth trend quickly petered out. There should be more positive base effects in Q2 and Q3, particularly for domestic consumption, but there is a shortage of drivers that can power activity in the medium term. Growth is not expected to top 4.5% in 2024.

At 300% of GDP, the economy's total debt is more than most economies – advanced or emerging.

Domestic consumption has been disrupted ever since Covid. Try as the authorities might to proclaim 2023 a "Year of Consumption Boosting," consumer confidence is in profound crisis. It is being exacerbated by continued turbulence on the real estate market and by fears that unemployment – which is already sky high among young people (20.8% of 16-24-year-olds in May) – will spread through the rest of the economy. Households added nearly CNY10trn (c.EUR1.3trn) to their savings in Q1. With outstanding mortgages declining for the first time in 20 years, paying down their debt is still consumers' top priority, followed by precautionary savings and then consumption.

This stagnation is reflected in the inflation figures. For three months, the country has been flirting with deflation, with prices increasing less than 1% YoY (0.2% in May). Inflation is not expected to top 1.5% in 2023, well below the central bank's 3% target. Meanwhile, production prices have been sinking since the year began.

Weak domestic demand coupled with slowing external trade – which is expected to make a negative contribution this year – is also hampering industrial production and private investment, which continues to be impacted by problems in the real estate sector.

Waiting for the word from on high

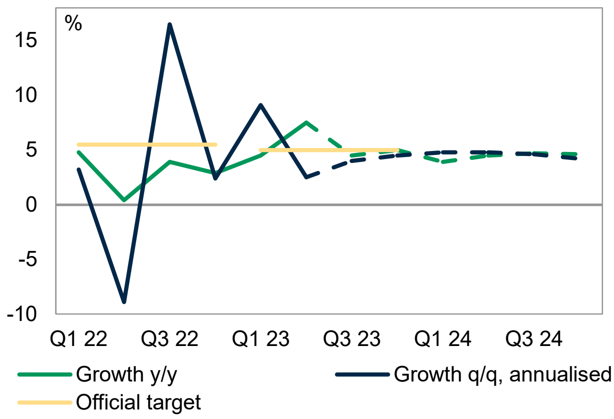
In a sense, **Chinese authorities are caught in the crossfire.** They cannot ignore that the recovery has failed to keep its promises, but they still do not have the tools they need. The 'old formulas' have lost their power: massive investments during the last two slowdowns, in 2008 and 2015, ushered in an upsurge in the economy's debt level, and capital lost its force. At 300% of GDP, the economy's total debt is more than most economies – advanced or emerging.

Worries are crowding around local governments, which have gone into massive debt via the local government financing vehicles (LGFV), financial instruments used extensively to finance major infrastructure projects, particularly in real estate. With nothing coming in from land sales, which had accounted for as much as 40% of revenues for some cities and were squeezed by the zero-Covid policies, local governments have watched their debt levels spike over the past three years. Although difficult to assess given the lack of transparency on the LGFV, local government debt reportedly sits between CNY30-50trn, or 25-40% of GDP.

Annual change	2023	2024
GDP	5.4%	4.5%
Inflation	1.5%	2.4%

Chinese authorities are expecting the new economic stimulus measures to grant some leeway – but rather less than usual. For the time being, any easing is mostly monetary; short- and medium-term key rates have been cut by 10bp, and new decisions are awaited on the long end of the curve and on reserve requirement ratios. On the fiscal side, we are expecting new tax exemptions, consumer stimulus policies and boosted financing through public banks, but how much remains unknown.

China: growth forecasts



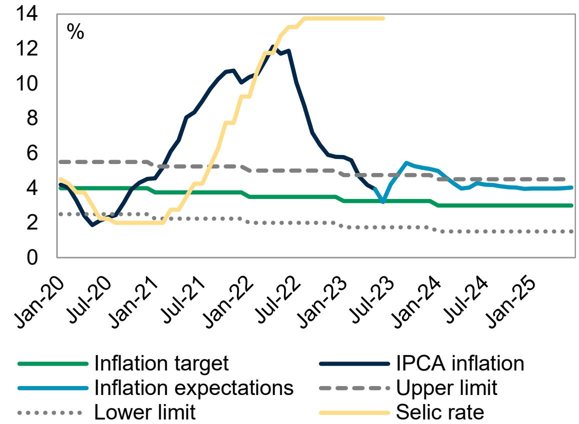
Sources: NBS, Crédit Agricole S.A/ECO

Sophie WIEVIORKA

BRAZIL: WHY WASTE A CHANCE TO CELEBRATE?

Just don't let this strong and unexpected Q1 growth fool you. As for supply, growth was sustained by the major rebound in the agricultural sector alone, and when it comes to demand, consumer spending is still slowing down, investments are still shrinking and the positive contribution of net exports merely reflects the drop in imports. The natural slowdown looks set to persist or even intensify, meaning that the forecast has to be revised up but cannot be pegged to the carry-over effect (which is already high at 2.4%). Despite an excellent trade performance (surplus of nearly 2.8% of GDP[1]) due to agricultural exports, the current account balance is well in the red (-2.8% of GDP), but gross capital inflows from foreign direct investment (4.2% of GDP) make for sound (albeit costly) financing.

Brazil: inflation and Selic rate



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

After peaking in June 2022, headline inflation has continued to fall (favourable base effect) and is now within the BCB's target range. Due to the price of services, core inflation is still too high. With key rates stuck at a high plateau (the Selic rate has stood at 13.75% since August 2022), the BCB is implementing a restrictive policy considering a neutral real interest rate which it has estimated at 4%. The BCB continues to emphasise the upside risks for its inflationary scenario (projected at 5% for end-2023, then 3.6% for end-2024), including concerns over the new fiscal anchor.

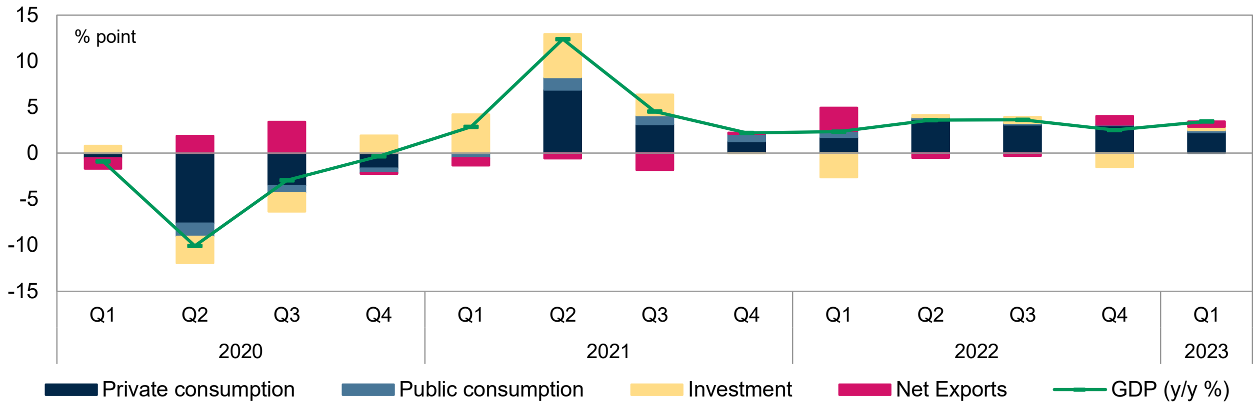
The central bank of Brazil (Banco Central do Brasil – BCB) continues to emphasise the upside risks for its inflationary scenario, including concerns over the new fiscal anchor.

Although the risk of execution still remains, the new fiscal anchor[2] is reassuring: (1) it is less radical than the spending cap; (2) it implements the adjustment over the long term, admittedly; and (3) it focuses efforts on inflows while calling for an improvement in the tax base and tax collection. The government has also developed a draft tax reform which should boost revenue (1.5% of GDP targeted). Lastly, the CMN[3] just set the inflation target for 2026 (3%, with a tolerance of +/-1.5 percentage points but a “continuous targeting”). The stars now appear to be aligned for cautious monetary easing starting in August.

Annual change	2023	2024
GDP	2.0%	1.5%
Inflation	5.1%	4.0%

Catherine LEBOUGRE

Brazil: GDP growth & contributions



Sources: IBGE, CA SA/ECO

[1] Data from the balance of payments at end-May; cumulative balances/flows over 12 months.

[2] The target is now expressed in terms of the primary balance (breakeven for 2024, surplus of 0.5% of GDP in 2025, and 1.0% of GDP in 2026). In conjunction with the new rules governing increased spending, with increases contingent upon increased revenue, this strategy, according to the government, should cap the debt-to-GDP ratio at under 80% in 2026 (based on the national definition).

[3] The Brazilian National Monetary Council (*Conselho Monetário Nacional* – CMN) is comprised of the Minister of Finance; the Minister of Planning, Development and Management; and the Governor of the BCB.

RUSSIA: ONGOING DETERIORATION

Weak growth

Russia's economic momentum has remained lacklustre. Looking at the data releases, one could believe that there has been a recent improvement. The YoY change in retail sales and industrial production has returned to positive territory since March and April. However, this largely reflects a base effect (low base last year after the beginning of the invasion). Overall, we expect economic growth to remain subdued in the second half of the year. After a contraction in 2022, we expect flat or very low growth in 2023.

Long-term headwinds

The sanctions have led to a partial substitution of foreign producers by Russian producers. However, this substitution has been easier to implement in low value-added sectors and services, rather than in higher value-added sectors. The reduced access to technology is likely to remain a key difficulty facing the Russian economy. Russia was already struggling with the issue of low potential growth before the war; which has been made significantly worse by the war and the sanctions. These are long-term headwinds, which should continue to weigh on economic growth in coming years.

Reduced access to technology is likely to remain a key difficulty facing the Russian economy.

Twin balances deteriorating

Moreover, the twin balances are deteriorating. Russia enjoyed a strong position before the beginning of the war, both in terms of fiscal leeway (with particularly low government debt-to-GDP ratio) and the balance of payment (with a large commodity-supported current account surplus).

However, the government balance has deteriorated over the past few months. The government budget has shifted into a deficit since the end of 2022. War-related spending along with lower prices and volumes of energy exports have weighed on government expenses and revenue. Interestingly, the government halted the publication of detailed data on budget spending, earlier this month.

On the external front, Russia posted large trade and current account surpluses last year. But the trade balance deteriorated in H222 and at the beginning of 2023. It has deteriorated by more than what would be suggested by the oil price.

Such deterioration, coupled with lower interest rates, has contributed to sending the RUB lower vs USD since the end of last year.

Annual change	2023	2024
GDP	0.0%	1.0%
Inflation	5.0%	4.0%

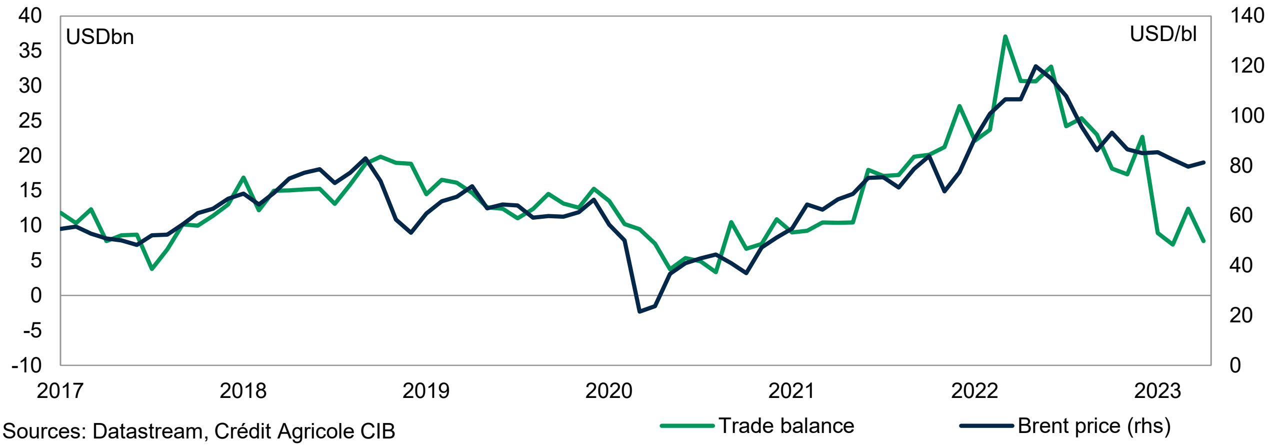
The end of disinflation

Inflation has fallen quickly over the past year, and reached record low levels in Q2. However, after having cut rates strongly last year, the central bank has remained on the cautious side, keeping its policy rate stable at 7.5% in 2023. The central bank is careful about the risk of higher inflation; particularly should the government budget become more expansionary. In our view, the RUB depreciation and the tight job market also suggest some upside risks on prices.

That being said, our base case scenario is for interest rates to be kept stable in H2, as real interest rates are currently well anchored in positive territory. Unless the currency depreciation accelerates, this should be suitable to keep inflation pressures in check.

Sébastien BARBÉ

Russia: trade deterioration



Sources: Datastream, Crédit Agricole CIB

INDIA: STILL LOOKING STRONG, BUT WEATHER AN UNCERTAINTY

So far in 2023, India's economy is proving to be the outperformer in Asia we expected. Real GDP growth registered a strong 6.1% in Q1 beating all but the Philippines in Asia. Despite a higher cost of living and rising interest rates, household consumption has held firm supported by strong rural incomes on the back of high levels of agricultural production. Strong services and manufacturing activity also mean urban incomes are helping support consumption. The Indian economy also continues to benefit from "friendshoring" as large technology companies such as Apple and Foxconn set up factories in India in order to re-orient their supply chains away from China. In its most recent budget, the government pushed back the return to a balanced budget by a year in order to increase some spending ahead of the national election in April and May 2024. Public sector infrastructure spending, already at high levels, was further increased. The government also provided some middle-class tax cuts. We continue to expect slowing in real GDP growth in 2023 to 5.5% from 6.7% in 2022.

Inflation has fallen to 4.25%, close to the central ***bank's target of 4% and well within its 2**-6% tolerance.*

India's economy faces several challenges in the coming quarters. First, slowing global growth will weigh on the country's manufacturing and technology sectors. Second, higher interest rates have dented business sentiment and will weigh on investment along with slowing global growth. And third, and the largest risk to the economy, is the development of an El Nino weather system carrying significant downside risks to the monsoon rains and therefore India's agricultural production and economic growth. The India Meteorological Department (IMD) has a forecast for about an average monsoon season with rains forecast to come in at 96% of their long-term average. IMD expects the impact of El Nino to be offset by a positive India Ocean Dipolar event.

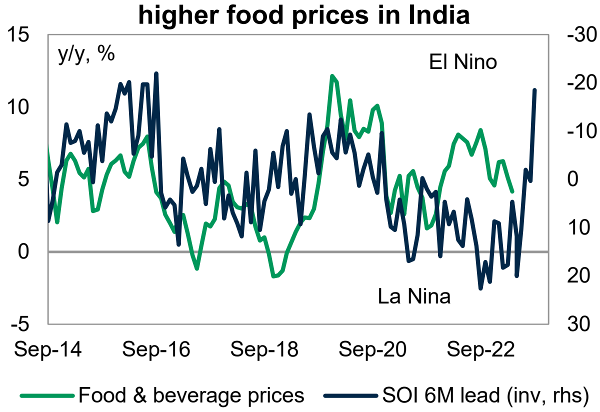
Weak monsoons would weigh on growth, but also push up food prices and risk forcing RBI to hike rates further. Inflation has fallen to 4.25%, close to the central bank's target of 4% and well within its 2-6% tolerance, however. RBI rate hikes as well as lower food and oil prices have helped drag inflation lower. We think RBI has likely finished its tightening cycle with the Repurchase Rate peaking at 6.50% and 25bp lower than we expected. RBI is on-hold with a tightening bias while awaiting the outcome of the monsoon rains.

Annual change	2023	2024
GDP	5.5%	6.0%
Inflation	5.5%	4.0%

Despite RBI's rate hikes and softer oil prices during H123, the INR has been under downward pressure. The currency was weighed by the strong USD and rising UST yields as well as investor concerns about local corporate governance following a tumble in Adani Group's share price. We note that unlike the subjects of other Hindenburg short-selling attacks, Adani Group was relatively rich in physical income-producing assets such as ports and railways, which allowed the company to ride out the short-selling storm. Rallies in the INR have also been held back by RBI selling in order to rebuild the central bank's FX reserves. With inflation under control, a relatively high real yield and oil prices struggling to rally in the face of a faltering Chinese post-pandemic recovery, the outlook for the INR is positive assuming average monsoon rains and a weaker USD into year-end as the market begins to look for FOMC rate cuts. We forecast USD/INR to finish 2023 at 81.

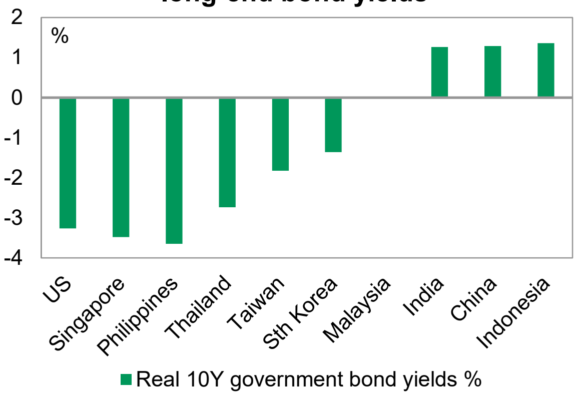
David FORRESTER

An El Nino event threatens higher food prices in India



Sources: Bloomberg, Crédit Agricole CIB

India has relatively high real long-end bond yields



Sources: Bloomberg, Crédit Agricole CIB

SECTORS

Oil – The price recovery is playing hard to get

Gas – Long live frugality

Food prices inflation – Signs of a decline

Oil – The price recovery is playing hard to get

While the production cuts announced by OPEC+ have not had the expected effect on prices, they could well end up adding tension to the market over the second half of 2023 and into 2024, provided they are properly implemented.

Successive quota cuts by OPEC+ and the recent announcement by Saudi Arabia that it will cut a further 1m barrels a day in July have failed to boost prices above the USD80 a barrel mark. It has to be said that fears of recession are weighing on demand, particularly in OECD countries. While global demand for oil is set to rise by 2.2m barrels a day in 2023 according to the International Energy Agency, demand growth in OECD countries is unlikely to exceed 300k barrels a day**.** Asia therefore looks set to remain the key driver of growth in oil demand in 2023, as suggested by the increase in Chinese demand in March and April.

Asia therefore looks set to remain the key driver of growth in oil demand in 2023.

Despite a stated desire to reduce production, OPEC+ is still unable to meet its targets. Combining the cuts announced in November 2022 and April 2023, OPEC+ is expected to produce 3.66m barrels less than in August 2022. According to data from the International Energy Agency, by May 2023, OPEC+ will have reduced its production by only 1.35m barrels per day compared to August 2022. While the four major producers in the Middle East (Saudi Arabia, Iraq, Kuwait and the United Arab Emirates) have cut their production by 1.9m barrels a day, other OPEC+ members are less disciplined. This is particularly true of Nigeria and Kazakhstan, whose oil is particularly popular in Europe as a preferred alternative to Russian oil. Iran, which is not subject to the quota systems, is also increasing its production despite the embargo. A few cracks are appearing in the cohesion of OPEC+. Several countries appear to be criticising the lack of transparency in the quota system set up by the Saudi-Russian axis. Many non-OPEC producer countries have also increased their oil production. This is the case in the US, with around 650k barrels per day between August 2022 and April 2023. Over the same period, the US also drew down the equivalent of 350k barrels a day from its strategic reserves, thereby offsetting most of OPEC+'s net production cuts.

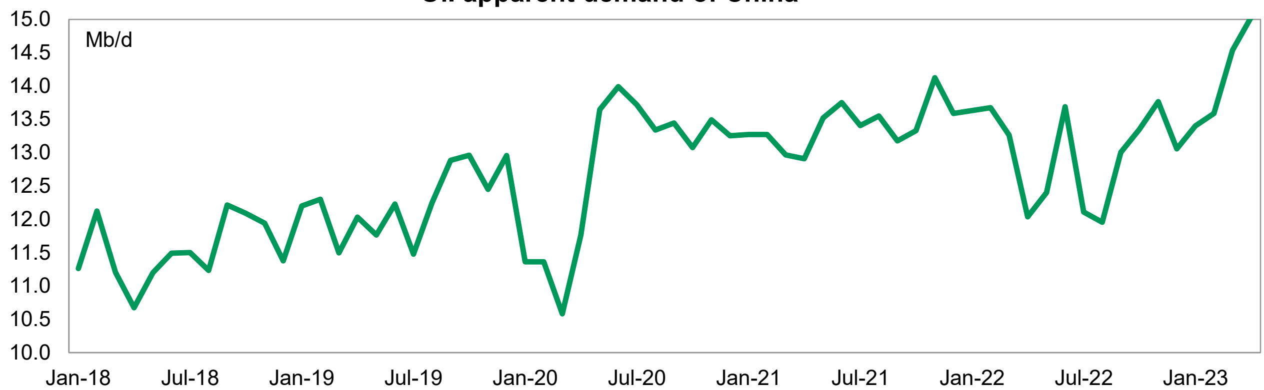
Our scenario is based on relatively good cohesion within the OPEC+ group in 2023 and 2024, with Saudi Arabia always ready to defend the cartel it leads, by modulating its production in line with the group's other members. US production is likely to start to reach a possible plateau of around 19m barrels a day. We believe that the technologies needed to boost bedrock production will not yet be widely deployed in 2023 and 2024. To limit the effect on prices of the reduction of 1m barrels a day this summer during the peak driving season in the US and Europe, the US will continue to draw on its strategic reserves until the end of Q323, albeit at a lower rate than the 670k barrels a day between 25 February and 31 December 2022.

	Average oil price (barrel)
H223	$78.8
2023	$82.5

Assuming relatively good discipline and cohesion on the part of OPEC+, the ability of supply to adapt to an increase in demand should weaken. With demand for oil expected to increase by 1m barrels per day by 2024, the oil market should gradually tighten. **Our scenario is therefore based on an average oil price of USD83 and USD93 per barrel respectively in 2023 and 2024.**

Stéphane FERDRIN

Oil apparent demand of China



Source: Crédit Agricole S.A./ ECO

Gas – Long live frugality

Frugal energy use enabled Europe to get through this past winter without shortages or blackouts. This approach will have to continue, **in order to strengthen Europe's ability to meet the challenges that the gas market is likely to face in the future.**

As winter came to an end, natural gas prices continued to fall, reaching levels well below those of last year, when the Nord Stream 1 pipeline was still operational in Q222. This miracle is essentially due to the reduction in demand for natural gas, both in Europe and Asia. Many Asian countries have reduced their natural gas consumption, often by increasing their coal consumption. This drop in demand for LNG (Liquefied Natural Gas) in Asia means that Europe can maintain its LNG imports, which are so crucial to its energy security. Europe has also reduced its consumption of natural gas. The frugal measures taken over the winter, and continued this spring and summer, have ensured that inventories are filled to capacity. Now almost 75% full, European inventories are almost a month-and-a-half ahead of the average fill rate. The combination of LNG imports and lower consumption means that we can look forward to the coming winter with more confidence than last year.

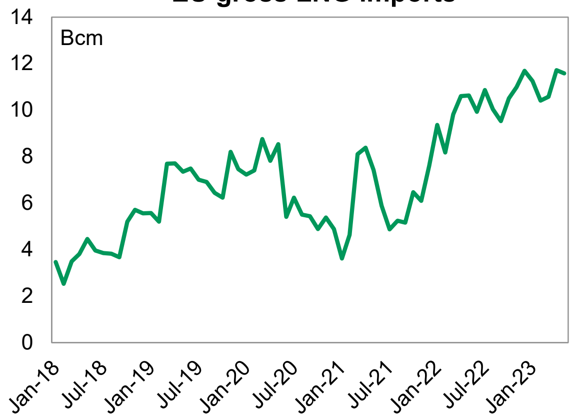
The frugal measures taken over the winter, and continued this spring and summer, have ensured that Europe's inventories are filled to capacity.

However, we need to remain cautious and maintain the frugal measures over 2023 and 2024. It is possible that the Dutch authorities will announce the permanent end of operations at the Groningen gas field, which has supplied Europe since 1963, before the end of 2023. With peak production of 88bn m³ in 1976, Groningen, which was responsible for the "Dutch disease" that affected the Dutch economy in the 1960s, was a major source of supply for Europe until the mid-2010s. While Groningen was still producing 57bn m³ in 2013, the accumulation of earthquakes in the operational zone has prompted the Dutch authorities to significantly reduce its production. By 2022, Groningen was producing just 4.8bn m³. If its shutdown is confirmed before the end of 2023, Europe will then either have to import more LNG or reduce its consumption by the same amount to avoid tension in a gas market with little new capacity in 2023 and 2024. What is more, even though Europe has enjoyed relatively mild winters in recent years, we cannot rule out the possibility of a harsher winter in the future, which will inevitably increase natural gas consumption to meet greater heating needs.

Excluding exceptional weather conditions, **if the natural gas market in Europe manages to maintain its current balance around the two pillars of LNG and frugal energy use, then natural gas prices should remain stable**, albeit with the risk of volatility from time to time.

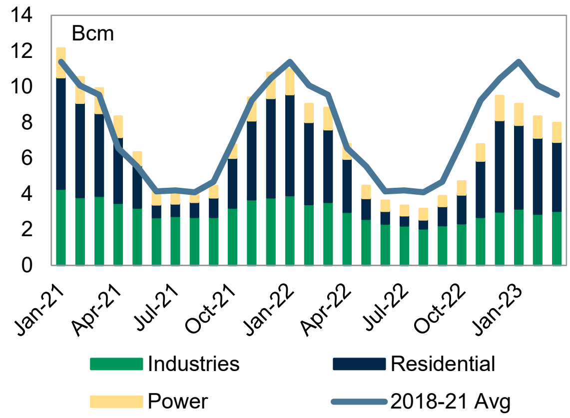
Stéphane FERDRIN

EU gross LNG imports



Source: Crédit Agricole S.A.

German gas demand



Sources: © Bundesnetzagentur, Destatis, CA S.A./ECO

Food prices inflation – Signs of a decline

In December 2022, consumer prices in the EU rose by 10.4% YoY. Food products rose by 18.2%. Inflation was initially fuelled by the energy crisis, which was on its way to normal in the spring of 2023. But price distortions specific to the food industry are now taking over.

In France, the cumulative, self-sustaining nature of food price rises was a feature of 2022. From 0.16% in January, they ended at 12.6% in December (Insee IPA food prices, YoY). **In March 2023, the general index and the food index began to moderate at the same time.** It would appear the data for March-April 2023 heralds a downturn. According to INSEE, between April and May, the general consumer price index fell from 5.9% to 5.1%, and the food price index from 15% to 14.3%. For the first time in 14 months, the statistics for the fast moving consumer goods (FMCG) sector saw a 16% rise in May (YoY).

In 2022 and Q123, food industry players passed on "imported" inflation to downstream buyers, reflecting the need to absorb sharp increases in upstream costs that had originated from outside the industry: energy, then agricultural inputs, stock-building, and packaging products. The mechanism of compulsory trade negotiations is playing out, slowing down decisions, in an admittedly uncertain environment. The negotiations finished in late February, but prices still rose in March and April.

In the supply chain from farmers to processors to distributors, French agricultural products have partially benefited from the EGAlim laws (non-negotiability of certain agricultural prices). It is up to the next one in line to cushion the blow. Some processors have mentioned a price impact of around 7% (supplier price to distributors). At the end of the chain, the FMCG index reached 16.2% in March, grew slightly in April (16.4%) and recorded its first decline in May (16%). It was about time: the consumer price of key products was becoming a deterrent.

Whatever happens to these prices in the future, consumers have already changed their habits significantly:

- ✓ Food purchase volumes have seen an unprecedented decline.
- ✓ Consumers are turning to private labels and even bargain brands. Organic food sales in 2022 will fall more sharply (-6%), confirming that price is a priority. Measurement tools are struggling to keep up: are benchmarks and panels still relevant?

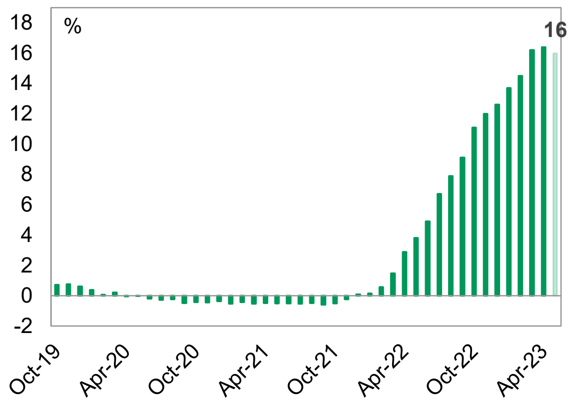
Faced with these challenges, the sectors have been strongly encouraged to revisit the trade pacts for the 2022-23 negotiations. The aim is to "re-circulate" input costs by revising prices, this time downwards, between two compulsory trade negotiation periods. This trend towards price-cutting agreements has necessarily begun, if only for reasons of competition, particularly in supermarkets. This mechanism will be slow to take effect, mainly because of how long it takes to liquidate the stocks built up at the peak.

	Food prices
2023 inflation	7.5%

If energy prices remain stable, we will see a moderation in food prices this year. First, a base effect (energy prices peaked at the end of 2022), then later amplified by increasingly active renegotiations on raw material inputs. Food inflation could therefore be halved by the end of the year (May 2023: 14.3% (Insee), December: 7.5%).

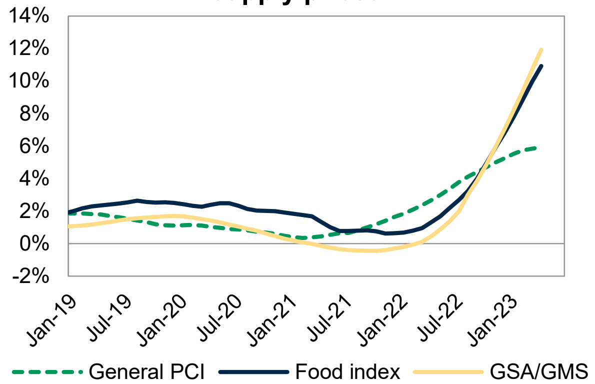
Noël ISORNI

Supermarket FMCG price index (YoY inflation)



Sources: IRI Circana, Crédit Agricole SA / ECO

General inflation vs food inflation: supply prices



Sources: Insee, Credit Agricole SA / ECO

MARKETS

Monetary policy – An end to rate hikes in sight (finally)

Interest rates – Not out of the woods just yet

Exchange rates – Extended lockdown

Monetary policy – An end to rate hikes in sight (finally)

While headline inflation has already fallen sharply in a largely mechanical fashion, persistent core inflation fuelled by higher-than-expected growth led central banks to respond aggressively. If inflation keeps falling – especially core inflation – rate hikes may (finally) come to an end very soon.

FEDERAL RESERVE: A SKIP OR A PAUSE?

The Fed delivered a well-telegraphed hawkish hold at the June FOMC, keeping rates unchanged after ten consecutive hikes worth 500bp, while offering guidance that more tightening could be on the way. The most notable development was the dot plot, which came in a bit more hawkish than we (and the market) had expected as the 2023 median suggested 50bp of additional tightening as opposed to 25bp.

However, we are not convinced that this implied terminal rate will be realised:

- ✓ For one, we expect that the dot plot was integral in a compromise between doves and hawks on the committee, with the suggestion of multiple hikes potentially needed to get hawks on board with the decision to keep rates on hold.
- ✓ Secondly, we expect that the new dot plot provides an element of signalling. With the Fed cognizant of the fact that the market has been eager to latch on to any sign of a potential pivot, it was likely worried about an easing of financial conditions in reaction to keeping rates unchanged. Thus, we see the dot plot as, at least in part, a deliberate move to pre-empt this type of reaction and ensure that the market did not quickly pivot back towards pricing cuts in the latter portion of the year.
- ✓ Finally, we would note that the Fed's forecasts are more optimistic than our own. The Fed raised its 2023 median GDP projection to 1.0%, whereas our forecast translates to just 0.3% on a Q4/Q4 basis. Hence, we currently expect a less aggressive path for the Fed funds rate.

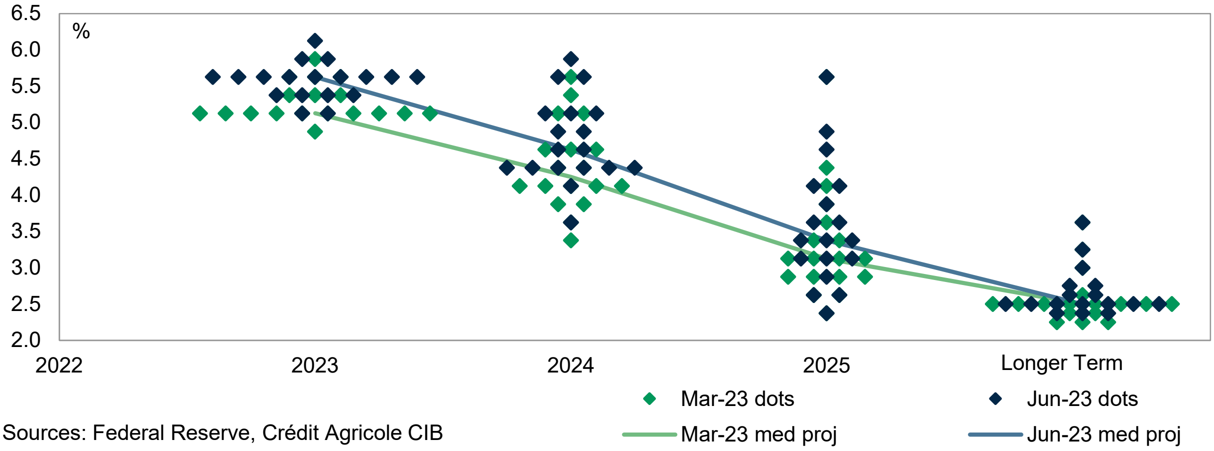
The CPI report released ahead of the July FOMC will likely see a sharp drop in headline inflation.

As such, for now we maintain our call that the Fed will leave rates on hold for the rest of the year. In terms of timing, the one CPI report released ahead of the July FOMC will likely see a sharp drop in headline inflation due to energy base effects with core softening as well in our current forecast. This may keep the Fed on hold in July, and then by September we expect that data will have begun to deteriorate more broadly, leaving the Fed to keep rates on hold.

However, we acknowledge that the risks of a higher terminal rate have risen given the suggestion from the new dot plot, and further hikes are certainly a realistic possibility if the economy is more resilient than we expect.

Nicholas VAN NESS

June dot plot suggests further tightening



Sources: Federal Reserve, Crédit Agricole CIB

EUROPEAN CENTRAL BANK: GOING HIGHER

Despite the fall in inflation since the end of 2022, the ECB is likely to maintain a restrictive, if not very restrictive, monetary policy over the coming quarters.

Indeed, beyond the reassuring headline inflation figures, core inflation remains high and is likely to remain around its current levels of between 5.0% and 5.5% over the coming months. Furthermore, although both indices are set to fall more or less continuously over the next two years, not only will this fall be too slow, but it is far from certain that inflation will spontaneously converge towards the ECB's target.

Against this backdrop, we expect the ECB to raise rates twice more, in July and September. At the end of the September meeting, the deposit rate should reach 4% – we expect it to remain at this level. As for other rates, the ECB could decide to make its corridor more symmetrical again by contracting it, which would put the refi rate at 4.25% and the rate on the marginal lending facility at 4.5%.

As indicated by the ECB and justified by the inflation outlook, the ECB is likely to keep rates unchanged between September 2023 and September 2024. Beginning in September 2024, when medium-term inflation – 18 months ahead – is expected to be around the ECB's target, the ECB will be able to converge its key rates towards its neutral rate, ie, just above 2%. This normalisation of monetary policy could take place gradually (25bp per meeting), depending on the economic environment.

The ECB is likely to keep rates unchanged between September 2023 and September 2024.

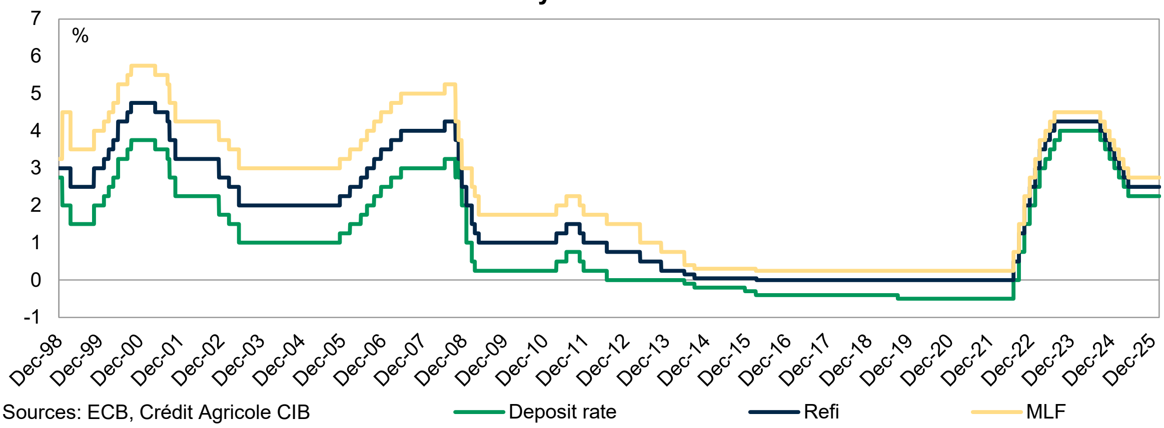
Alongside its rate hikes, the ECB will continue its quantitative tightening. As announced and confirmed in June, the ECB will cease all reinvestments in its APP from July 2023, reducing its balance sheet by around EUR27bn per month.

However, with regard to the PEPP, the ECB has confirmed its intention to continue reinvesting until the end of 2024. From our point of view, the continuation of this programme is incompatible with the monetary tightening implemented by the other tools. As a result, we expect a change in the ECB's forward guidance between now and the end of the year and a halt to reinvestments in 2024.

Repayment of the TLTROs will continue until the end of 2024, and more gradually after the June 2023 repayment. They will make a major contribution to monetary tightening, by reducing liquidity and increasing the cost of financing for the banking system.

Louis HARREAU

ECB: key interest rates



Sources: ECB, Crédit Agricole CIB

BANK OF ENGLAND: DOMESTIC INFLATIONARY PRESSURES PERSIST AS THE BoE CONTINUES ITS TIGHTENING

In May, the BoE adopted a significant change in tone. Sounding more hawkish, it revised two forecasts significantly upward: growth (now ruling out the recession in the central scenario) and inflation (with a target not met until early 2025, unlike the earlier projection of mid-2024). Meanwhile, it ratcheted its unemployment outlook down to below 4% through the end of next year. Indeed, consumer price inflation has continued to surprise on the upside, specifically due to rebounds in core components (and food). The labour market was also more dynamic than anticipated: unemployment fell to 3.8% in April, job creations increased (+250k over the past three months), and wage growth rebounded (7.2%). With domestic demand relatively resilient and labour market conditions still tight, the BoE accelerated its monetary policy tightening in June with a 50bp rate increase. This set the Bank rate at 5%, its highest since February 2008.

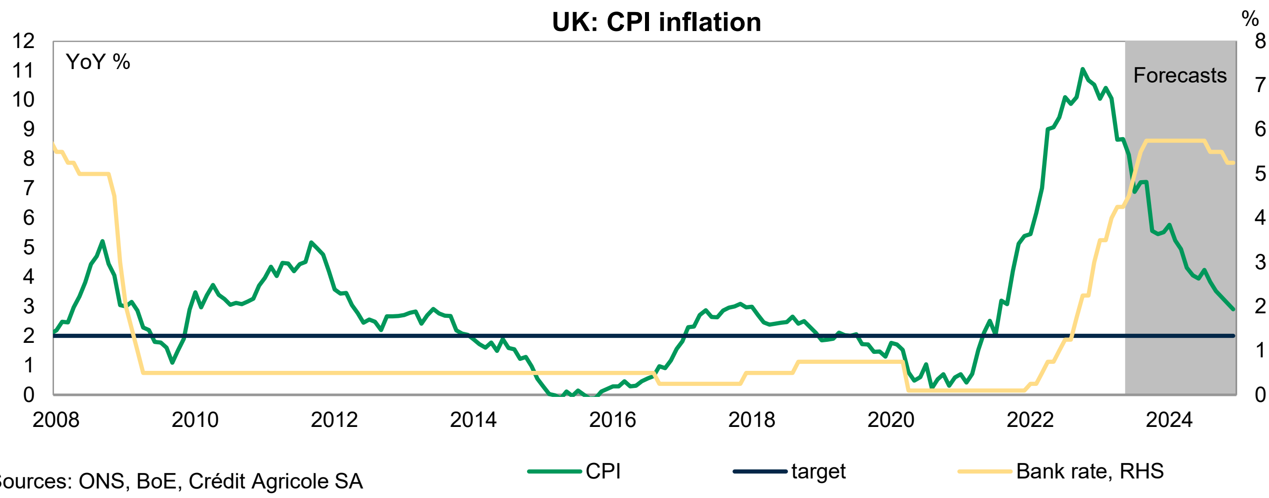
While the external shocks gradually dissipate, the UK's inflation is increasingly being influenced by domestic factors. Clearly, there are second-round effects at work: first, there have been major wage renegotiations in certain sectors in response to higher inflation, and second, companies are having little trouble passing the higher costs of production on to end prices, thanks to domestic demand holding up in spite of declining purchasing power and monetary tightening. And the effects of the latter will be felt with more of a lag than in past tightening episodes, because the share of variable-rate mortgages is lower.

We are likely at the peak of core inflation, even though it seems increasingly likely that this peak will look more like a plateau for the rest of the year. While labour market conditions are still favourable, vacancies have been declining for several months and the participation rate is rebounding, signs that the imbalances are slowly starting to be absorbed. Leading indicators suggest that wage growth is likely to weaken in the coming months. Furthermore, household inflation expectations for the next twelve months fell to 3.5% in May (its lowest point since November 2022, down from 3.9% in February per the latest IPSOS/BoE survey), which also makes a case for fewer wage demands ahead. In terms of external pressure, corporate production costs have plummeted, and output producer price inflation fell in May (to 2.9% from 5.2% in April). But here again, the margin rebuilding that companies seem to be doing could delay any moderating of consumer price inflation.

We are likely at the peak of core inflation, even though it seems increasingly likely that this peak will look more like a plateau for the rest of the year.

If these projections bear out (ie, core inflation declines slightly – or not at all – in the short term), **the BoE's next move will likely be more monetary tightening in the coming months, no doubt with another rate hike in August.** We expect to see a rate increase of 50bp in August, followed by a 25bp hike in September, which would bring the Bank rate to 5.75%.

Slavena NAZAROVA



Sources: ONS, BoE, Crédit Agricole SA

BANK OF JAPAN: NO CHANGE IN 2023

BoJ to remain on hold throughout 2023 as structural deflationary pressures remain

With key inflation data reaching above the BoJ's 2% target, speculation lingers that the Bank of Japan (BoJ) will adjust its current easing framework soon.

However, we maintain our view that the BoJ will maintain its accommodative policy stance throughout 2023 and not move toward any tightening measures. The central bank's assessment of Japan's economy continues to be that the state of excess corporate savings, a structural deflation pressure, remains. Tightening at the moment would increase the risk of a repeat of the mid-2000s, when the BoJ failed to pull Japan out of deflation.

The bank announced it will conduct a broad-perspective review of monetary policy with a planned time frame of around one to one and a half years at the April monetary policy meeting. The review will likely assess how the BoJ can maintain the current easing policies in a sustainable manner in order to fully achieve the 2% inflation target. We believe that the review is not a precursor for policy normalisation or tightening.

The BoJ will likely continue with the current monetary easing policies until 2025.

Former Governor Haruhiko Kuroda aimed to achieve 2% inflation within two years of taking office. Upon taking office, the BoJ announced that it would aim to "achieve the price stability target of 2 percent as soon as possible, keeping in mind a period of about two years" and implemented the qualitative & quantitative easing programme in order to achieve this target.

We believe that under Governor Kazuo Ueda, the BoJ has set a similar target. However, instead of aiming to "achieve" the 2% target in two years, the new BoJ leadership will likely aim to create an environment where it can foresee the 2% inflation target being met in a sustainable manner in two years, ie, in April 2025. Thus, the BoJ will likely continue with the current monetary easing policies until 2025.

The BoJ appears ready to be one cycle behind other central banks in tightening its monetary policy in order to make certain that (1) Japan's economy fully exits from deflation and (2) an inflationary environment driven by sustained wage increases and a strong recovery of domestic demand materialises. The central bank seems to be aiming to achieve the 2% inflation target by the time the global economic recovery materialises in a few years' time. We expect the BoJ to start normalising monetary policy only after it forecasts inflation to reach 2% in FY26 and FY27 in the April 2025 Outlook report.

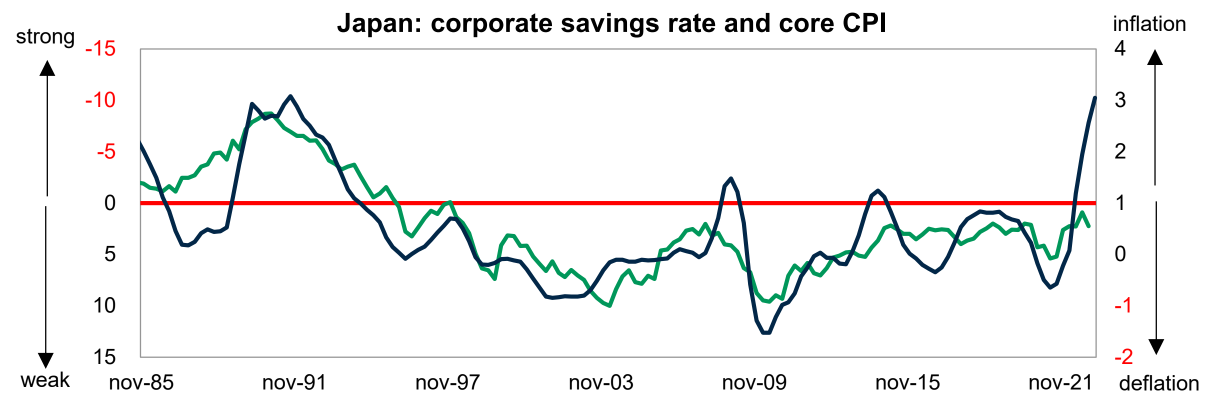
If by April 2025, the BoJ cannot foresee achieving the 2% inflation target, the BoJ will likely consider implementing a new framework that will allow the central bank to continue with monetary easing while minimising any side effects, taking into account the result of the latest announced review. Thus,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

Whether YCC will be slightly adjusted will depend on upward pressure on global bond yields strength

Our main scenario continues to be that if (1) the US economy slows down and the Fed stops raising interest rates over the coming months (our US economist expects no more rate increases by the Fed); and (2) financial markets price possible interest rate cuts in 2024, then global upward pressure on yields will likely weaken, giving the BoJ room to maintain the current YCC policies.

We see a risk scenario if the US economy remains strong, the Fed continues to raise its policy rate and strengthen upward pressure on global bond yields. Such scenario would put pressure on the BoJ to adjust the current YCC framework.

Arata OTO – Takuji AIDA



Sources: Cabinet Office, BoJ, MIAC, CA CIB

Interest rates – Not out of the woods just yet

By clearly prioritising the fight against inflation over growth, monetary strategies helped keep inflation expectations from coming unglued and long-term rates from overreacting, but led to inverted yield curves and low-to-negative real yields. Unless inflation comes back with a vengeance, the risk of a rise in long-term rates is limited. The risk that the curve will remain inverted is very real.

USA: INFLATION BATTLE NOT YET COMPLETE

Labour market resilience and sticky core inflation complicate the Fed's inflation fighting battle, allowing a skip at the 14 June meeting. However, the outlook remains far from certain. Although the May headline non-farm payrolls number of 339k beat the consensus forecast by a wide margin, cracks emerged elsewhere in the labour market, with the household survey showing job losses to result in the unemployment rate moving higher, average hourly earnings ticking lower and the average workweek edging down as well.

The latest inflation prints were mixed: headline CPI lower than expected but core stronger. While inflation is falling in the near term due to base effects, it is likely to rebound in H223. Our economists forecast the headline CPI to dip towards sub-3.0% by June before returning to 3.1% by December, and core CPI heading towards 3.4% by year-end. Either way, high and sticky core inflation will likely stay, with few signs that it is hitting the Fed's 2.0% target anytime soon.

On balance, a strong labour market and high inflation have reinforced the division on the FOMC as to its rate decisions for H223. The major development in the June FOMC meeting was the upward shift of the dots. In particular, 2023 median was revised up 50bp, implying two additional hikes by year-end. A hawkish dot plot can be seen as a compromise between the hawks, who are in favour of continued hikes, and the doves, who prefer a pause, helping drive a unanimous decision.

Chair Jerome Powell has emphasized that the 26 July FOMC meeting would be "live," meaning no decision has been made and that the outcome would depend on incoming data. We believe the June payroll report and CPI data (to be released on 7 and 12 July, respectively) will be key inputs for the July FOMC meeting.

The market is not fully convinced that the Fed will reach the 5.50-5.75% policy rate at the peak, with the OIS implied rate rising to around 5.30% and a 25bp rate hike at the 26 July meeting priced with a 70% probability. We side more with the markets, and as our base case for the economy is less optimistic than that of the Fed, do not currently expect the 2023 median to be realised.

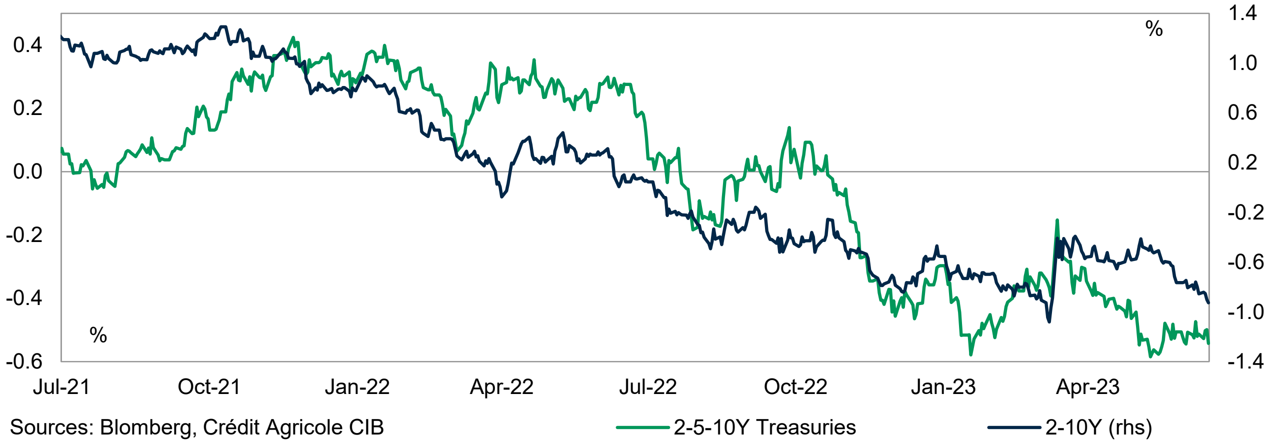
Core CPI heading towards 3.4% by year-end. Either way, high and sticky core inflation will likely stay.

Our new Treasury forecast incorporates a wait-and-see Fed, pushing out the peak in rates until H223. The market is pricing around a 70% chance of one 25bp hike by the 26 July meeting. While such pricing is volatile, it biases towards yet higher Treasury yields.

We believe the 10Y yield has room to rise. The curve has further flattening potential, in our view. We expect the 2-10Y curve to continue to invert. The 2-10Y curve hit a trough of -108bp on 8 March, right before the banking sector turmoil. The intermediate sector, eg, the 2-5-10Y spread, is likely to stay rich given its correlation with curve slope.

The lagged effects from the cumulative tightening of monetary policy, as well as from the banking turmoil on growth, inflation, and financial conditions are far from clear. Although there remains a path towards soft

Flat curve keeps intermediate sector rich

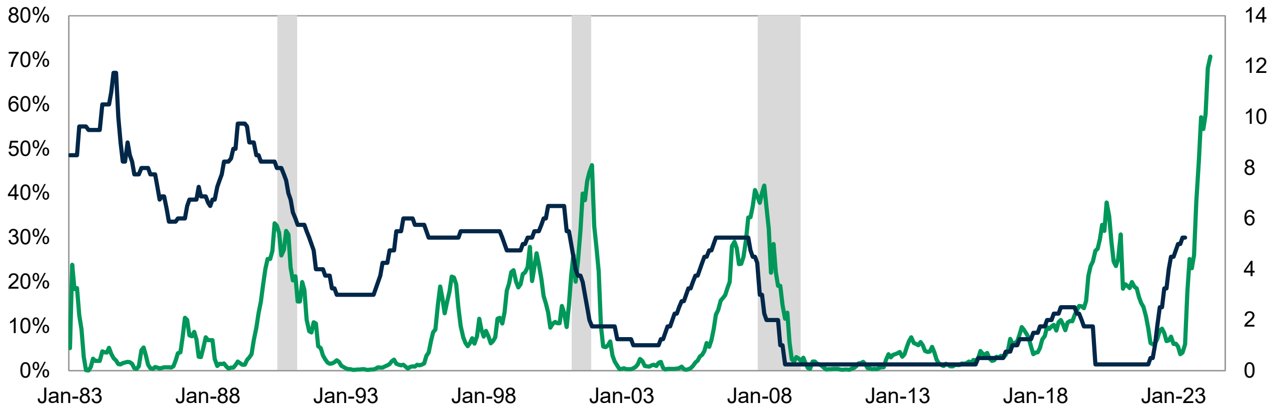


Sources: Blomberg, Crédit Agricole CIB

landing, the journey could be bumpy, as inflation risks are to the upside. At 70%, the New York Fed recession probability is at the highest level since the early 1980s. Against this backdrop, we expect rates to stabilise and start declining in late 2023, as the economy slows down. To anticipate Fed easing, the yield curve should start to steepen in late 2023 and early 2024.

Alex LI

Rising recession probability



Sources: Bloomberg, CA CIB

EUROPE: STILL OFF COURSE

Although Eurozone headline inflation has finally started to descend at a more rapid pace, one should not forget the still very elevated levels we are at and not take for granted how far inflation targets remain from sight. This is because a very slow reduction of core inflation in the months ahead should be expected. The problem for the ECB has transitioned from very high levels of inflation to its persistency above target. Acknowledging the sticky elements of core inflation and difficulty in its forecasting, higher ECB staff inflation forecasts imply policy must be adjusted to an even more restrictive setting.

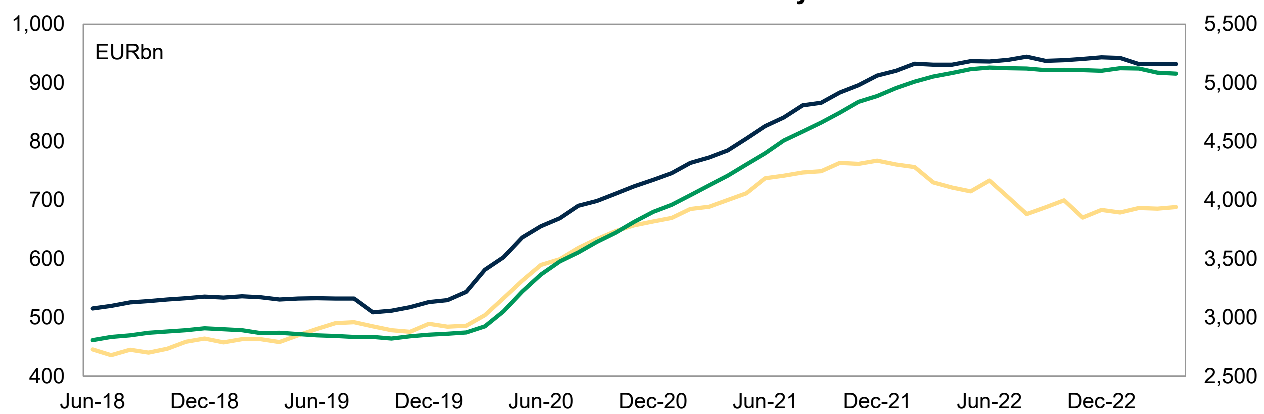
The base case has become the ECB attaining 4% policy rates which augurs for a very inverted curve if we still consider that neutral rates are around 2%. And yet we need to stress that central bank inflation targets are *symmetrical* around 2% and so rate cuts, in light of new ECB inflation forecasts still above that level in 2025 are a very distant prospect unless we get a much bigger slow- down as no significant recession is forecast either.

With very tight labour markets and fiscal policy that remains in expansionary mode, the risk in our view lies in still higher money market rates and EGB yields. This implies further flattening is possible as policy becomes more and more restrictive and investors deploy capital into bond markets at historically high nominal yields at the longer end of the curve. Given central banks' commitment and steps taken to battle inflation, longer-term inflation expectations should remain anchored.

The mix of high inflation and low growth favours lower real yields.

A major anomaly remains the tiny level of risk free real yields observed through Bunds or swaps. No doubt this

Stock of securities held by ECB



Sources: Bloomberg, Crédit Agricole CIB

remains a tailwind for risky assets as nominal growth exceeds policy rates and the system is still awash in plenty of excess liquidity. Adding fuel to perceived riskier assets, such as periphery EGBs, we also have volatility declining. With 10Y Bund real yields barely positive, financial conditions remain loose. True, the mix of high inflation and low growth favours lower real yields but negligible real yields do not point to value in EGB markets in our opinion. For this reason, we suggest investors remain cautious on the EUR rates market. Any upside inflation surprise will prompt higher yields still.

Under normal market conditions, and a well communicated exit strategy, a faster pace of QT should not pose a problem in our view. Hence, the APP can achieve its maximum run-off pace of about EUR25bn per month from July onwards. To date, most of the ECB's balance sheet contraction has occurred via unwinding of TLTROs. Comparing the stock of securities owned (rather than held as collateral) between the ECB and Fed, effectively shows hardly any shedding of bonds has happened as of yet. Only henceforth will QT start being noticeable for the Eurozone and discussions or the inclusion of the PEPP in this process later this year could prove to be more complicated for markets because of the flexibility that would be lost in the process as well as higher pace.

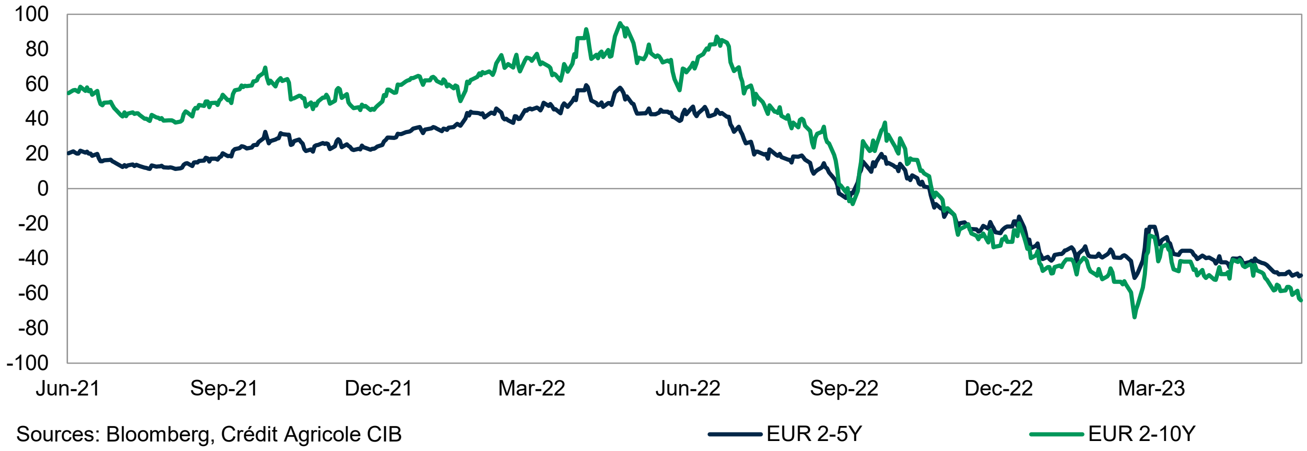
As mentioned, still low real yields and falling volatility with a backdrop of high nominal growth has helped contain EGB spreads. However, another important development this year has been the increased interest in government securities on the part of retail investors. The creation of new products to satiate this demand has also prompted less government bond issuance than might be expected from Portugal and Italy whilst high tax receipts (due to inflation) continues to fill the coffers of national treasuries.

Overall, our forecast updates have focused on increasing the level of curve inversion mostly through slightly higher front-end rates and keeping our old targets for core rates through 2023. For 2024, we would reasonably expect more long-end driven steepening (10-30Y) but retaining levels of money market sector (2-5Y) inversion. The main risk to this would be a significant exogenous event (from JGBs or USTs yields rising dramatically) as an ECB focused on its inflation mandate should keep longer-term inflation expectations in check.

Our view this year has been for only modest widening of EGB spreads based on higher policy rate and generally more restrictive policy rather than any credit or fundamental outlook change. Given the technical factors discussed, we pared back our limited spread widening view and remain loathe to chase performance as QT is yet to really start which we think should push real yields higher still. And while there is no redenomination risk event in sight, net issuance calendars will continue to be heavy, and the transmission of monetary policy on the real economy is yet to have its full effect.

Bert LOURENCO

EUR curve continues its relentless flattening



Sources: Bloomberg, Crédit Agricole CIB

Exchange rates – Extended lockdown

The USD may suffer from slight downward pressure against the main G10 currencies, including the EUR. Any rise in EM currencies will only be able to last once concerns over the peak in US rates and China's recovery potential subside.

DEVELOPED COUNTRIES: RANGY WITH A CHANCE OF A BREAKOUT

We believe that the G10 USD-crosses could remain confined by the broad trading ranges that have dominated price action so far this year in Q323 and potentially beyond as well. In the case of EUR/USD, our current forecasts are for the currency pair to trade around 1.09 next quarter and 1.10 in Q423 – moving towards the upper end but staying inside its H123 trading range. The view reflects our expectation that while the EUR/USD-positives should continue to more than offset the negatives in coming months, a lot of positives seem to be in the price already.

The relative resilience of the Eurozone economy could mean that the regional stock market would continue to attract both repatriation flows as well as foreign portfolio inflows.

With the notable exception of the GBP, G10 FX markets have remained confined to broad ranges so far this year and we believe that this could remain the case for Q323 and potentially beyond as well. In the case of EUR/USD, our current forecasts are for the currency pair to trade around 1.09 in Q323 and 1.10 in Q423 – moving towards the upper end but staying inside its H123 trading range. The view reflects our expectation that while the EUR/USD-positives should continue to more than offset the negatives in coming months, a lot of positives seem to be in the price already.

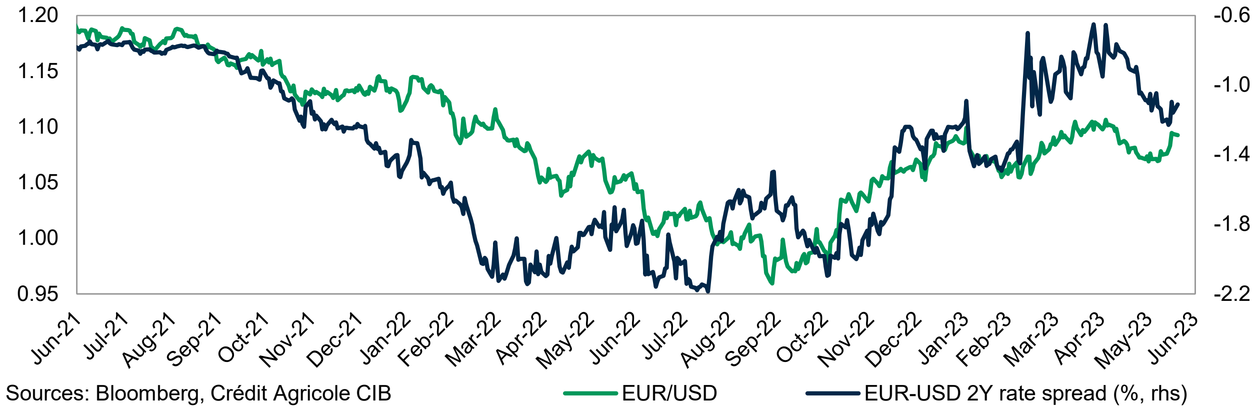
Starting with the EUR/USD-positives, the policy convergence between the ECB and the Fed should continue to support the pair in coming months in our view. This reflects the fact that while the Fed tightening cycle is close to peaking, we believe that the ECB is still on course to hike rates twice more in July and September. That being said, we also note that a big part of the ECB-Fed policy convergence is already in the price of EUR/USD as highlighted by the historically elevated EUR-USD 2Y nominal rate spread.

Furthermore, we think that the ECB's increasingly hawkish relative policy stance could give EGB yields an additional boost relative to UST yields and thus continue to encourage repatriation flows in the coming months. These flows could continue to keep a lid on the peripheral yields to Bund yields, thus allowing the ECB to accelerate its QT from July without disrupting the EGB markets. Last but not least, the relative resilience of the Eurozone economy could mean that the regional stock market would continue to attract both repatriation flows as well as (unhedged) foreign portfolio inflows.

On the EUR/USD negative side, we note that the rates markets are quite sceptical not only about the Fed's ability to hike further but also to keep policy rates in restrictive territory in coming months. Indeed, the markets think that the FOMC could deliver at least another hike and in any rate we believe it should resist calls to cut rates well into 2024. This could further suggest that the scope for further convergence between the ECB and Fed policy rates may be limited and this, in turn, should limit the scope for more aggressive EUR/USD appreciation.

We further note that, historically, the USD has remained supported in the months preceding the peaks of all Fed tightening cycles since 1980s. In particular, the USD did quite well on average across G10 with the

EUR/USD vs EUR-USD 2Y swap rate spread: some positives already in the price of the currency pair



Sources: Bloomberg, Crédit Agricole CIB

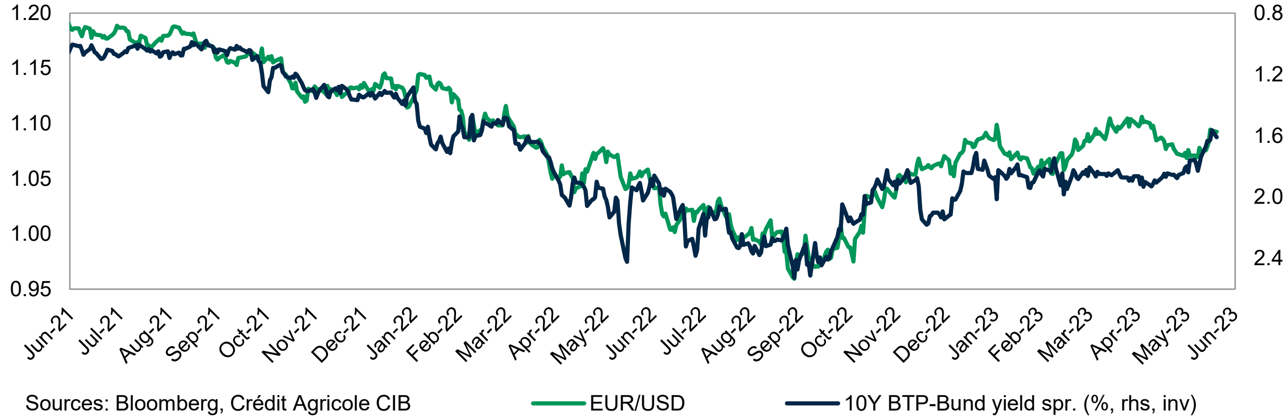
gains most pronounced vs risk-correlated and commodity currencies. We further note that the outperformance has been quite consistent with the USD losing ground ahead of the Fed peak only once – in 2006. This is also one of the main downside risks to our EUR/USD outlook in Q323 in particular.

Looking beyond Q323, we think that two additional FX drivers will start dominating the price action of EUR/USD and the USD-crosses in general. The first is the end of the Fed tightening cycle, which historically has been associated with USD underperformance in the months following the Fed peak. It is worth highlighting that the USD tended to lose ground mainly vs liquid safe-havens like the JPY, CHF and EUR. The second FX driver would be a US recession that we still expect to start in H223. Our analysis of the last six US recessions since 1980 suggests that the USD gained ground at the start of the recession especially vs risk-correlated currencies but ended up depreciating in the subsequent six months, with its losses most pronounced vs the JPY, CHF and EUR.

The above results underpin our forecast profile for the USD according to which the currency should ultimately remain under pressure for the remainder of 2023. In that, any USD underperformance should be more pronounced vs safe-havens like the JPY, CHF and EUR as well as gold while the USD could hold its ground better vs risk-correlated currencies against the backdrop of heightened market uncertainty surrounding the peak of the Fed tightening cycle and a US recession.

Valentin MARINOV

EUR/USD vs 10Y BTP-Bund yield spread: contained peripheral risks to remain a support



Sources: Bloomberg, Crédit Agricole CIB

EMERGING COUNTRIES: STRUGGLING TO APPRECIATE

EM currencies have been soft in the first half of the year. Following the initial appreciation related to the market pricing some positive effect from China's reopening, EM FX came down in February and then remained range-bound (on average) until May, when they softened again. Our index of EM currencies finished H1 about 4% below its peak reached in early February.

In H2, we expect a slight improvement in EM FX performance. But such improvement should materiallise only gradually, and only once the two main headwinds facing EM currencies moderate.

Uncertainty on US rates

The first headwind relates to US rates. EM currencies have been fairly well correlated with US yields in H1, and we expect this correlation to remain in place in H2. The recent comments by Fed Chair Jerome Powell suggest that the recent pause in US monetary tightening is not the end of the story, and that further rate hikes are likely. This, plus the resumption of US government bond issuance, leaves the door open to an upside risk on US rates.

In our view, it will be difficult for EM currencies to sustainably appreciate as long as there remains a high level of uncertainty about the peak in US interest rates. This is all the more the case given that most EM central banks are done with their tightening cycles. Most central banks in Latin America and EMEA have tightened strongly, in a way that put pressure on growth. With the current (gradual) disinflation, some of them will cut rates in H2 – making the EM-US interest rate differential les favourable.

It will be difficult for EM currencies to sustainably appreciate as long as a high level of uncertainty remains about the peak in US interest rates.

The second headwind relates to China. Recent economic data releases have disappointed, casting some doubt about the post-Covid recovery.

China disapointment

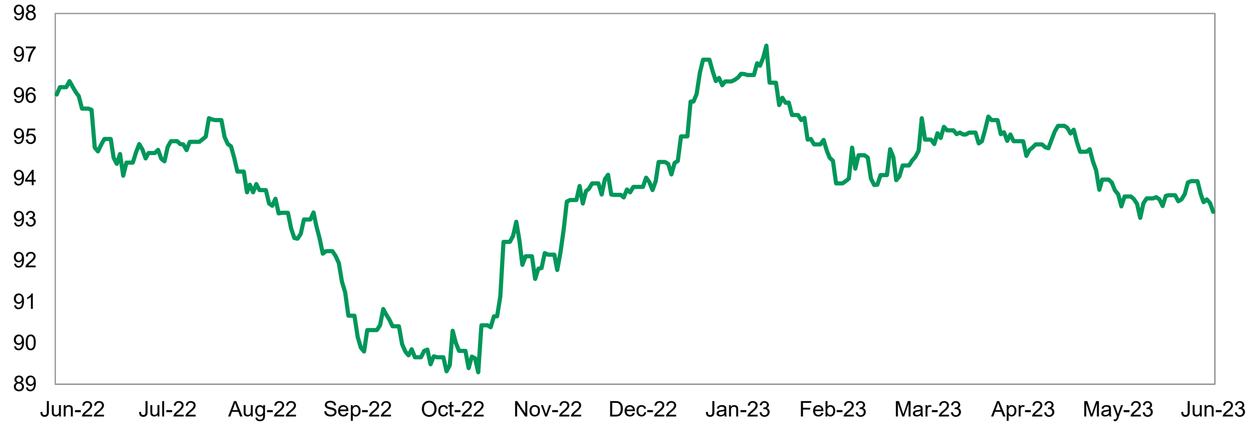
The fact is that the Chinese economy has changed in recent years (with the rise in geopolitical tensions and Covid). Currently, the framework of China's economic growth is more difficult to handle compared to six or seven years ago. The real estate crisis has weakened what used to be a key source of growth (property investment). It has also eroded the attractiveness of housing as a saving instrument. Covid restrictions tended to increase the propensity to save, whereas the increasing volatility of unemployment has capped household investment. These factors have capped the strength of the post-Covid recovery, and have made the rebalancing of economic growth towards more private consumption, more challenging.

The Chinese policy reaction has been muted so far, apart from a limited rate cut. There will likely be more to come (including some significant measures targeting the property market), but the authorities will likely remain cautious when it comes to unveiling a strong stimulus plan. Therefore, China's pro-active policies should not be expected to support EM currencies the same way they used to a few years back.

In addition, the softness of the CNY makes it more difficult for other Asian currencies to appreciate, particularly the likes of the SGD, THB, KRW and TWD.

Sébastien BARBÉ

EMFX index vs USD



Source: Crédit Agricole CIB

ECONOMIC AND FINANCIAL FORECASTS

Economic forecasts

Interest rates

Exchange rates

Commodities

Public accounts

ECONOMIC FORECASTS

	GDP (yoy, %)			Consumer price (yoy, %)			Current account (% of GDP)		
	2022	2023	2024	2022	2023	2024	2022	2023	2024
United States	**2.1**	**1.2**	**0.7**	**8.0**	**3.9**	**2.5**	**-3.7**	**-3.3**	**-3.2**
Japan	**1.4**	**1.5**	**2.0**	**2.3**	**3.1**	**1.8**	**1.0**	**1.3**	**1.3**
Eurozone	**3.5**	**0.6**	**1.3**	**8.4**	**5.5**	**2.9**	**0.8**	**2.1**	**1.9**
Germany	1.9	-0.3	1.0	8.7	6.1	2.7	4.0	3.6	3.3
France	2.5	0.6	1.0	5.9	5.0	3.2	-2.2	-0.2	0.0
Italy	3.8	1.2	1.1	8.7	6.3	2.9	-1.3	2.5	2.3
Spain	5.5	2.0	1.6	8.3	3.0	2.5	0.6	1.0	1.2
Netherlands	4.5	0.5	1.2	11.6	4.7	4.6	4.4	5.1	5.2
Belgium	3.2	1.3	1.5	10.3	2.0	2.4	-3.6	-0.8	-0.7
Other advanced									
United Kingdom	4.1	0.5	1.1	9.1	7.8	4.1	-3.8	-2.4	-0.7
Canada	3.3	1.1	0.9	6.9	3.7	2.3	0.7	0.5	0.2
Australia	4.0	1.9	1.6	6.5	4.5	2.5	0.9	-0.2	-0.4
Switzerland	2.1	0.6	1.4	2.9	2.5	1.5	6.5	5.8	6.3
Sweden	2.9	-0.5	0.3	8.4	8.4	3.0	4.7	3.9	3.0
Norway	3.2	2.0	1.5	5.8	5.8	3.6	30.3	26.8	25.5
Asia	**4.2**	**5.0**	**4.7**	**3.7**	**2.9**	**2.8**	**1.3**	**1.0**	**1.0**
China	3.0	5.4	4.5	2.0	1.5	2.4	2.3	1.6	1.2
India	6.7	5.5	6.0	6.7	5.5	4.0	-3.0	-2.8	-2.5
South Korea	2.6	1.2	2.6	5.1	3.5	2.3	1.8	2.4	3.0
Indonesia	5.3	5.0	4.5	4.2	3.5	3.0	1.0	-1.2	-0.5
Taiwan	2.4	1.4	3.0	2.9	2.2	1.6	13.3	11.0	11.2
Thailand	2.6	4.0	3.6	6.1	3.0	1.8	-3.4	2.8	4.5
Malaysia	8.8	5.0	4.5	3.6	3.0	2.5	2.6	3.0	2.8
Singapore	3.6	2.2	2.6	6.1	4.0	2.8	19.3	17.6	16.2
Hongkong	-3.5	3.6	3.7	1.9	2.4	2.2	10.7	7.1	5.8
Philippines	7.6	5.4	5.9	5.8	4.5	3.5	-4.4	-4.0	-2.0
Vietnam	8.0	6.7	6.7	3.2	4.0	3.0	0.2	1.6	2.0
Latin America	**3.0**	**0.6**	**1.9**	**9.9**	**5.9**	**3.4**	**-7.0**	**-3.4**	**-2.8**
Brazil	2.9	2.0	1.5	9.3	5.1	4.0	-2.9	-2.4	-2.5
Mexico	3.1	1.8	1.5	7.9	5.8	3.8	-1.8	-1.2	-1.0
Emerging Europe	**1.8**	**1.0**	**2.2**	**29.8**	**15.1**	**8.5**	**1.8**	**-0.1**	**0.1**
Russia	-2.1	0.0	1.0	13.8	5.0	4.0	10.2	4.0	4.0
Turkey	5.4	2.5	3.5	73.0	36.0	20.0	-5.0	-4.0	-3.0
Poland	5.1	1.2	3.1	14.3	11.8	4.9	-3.0	-1.1	-2.3
Czech Republic	2.2	-0.5	2.4	15.0	9.5	3.8	-5.0	-2.5	-2.0
Romania	4.6	2.2	2.4	13.8	11.1	5.1	-8.8	-6.9	-6.2
Hungary	5.1	0.5	2.3	14.6	14.0	4.0	-6.7	-3.7	-3.2
Africa, Middle East	**4.9**	**2.4**	**2.9**	**13.2**	**13.0**	**8.9**	**7.3**	**4.0**	**2.8**
Saudi Arabia	8.7	2.4	2.8	2.5	2.2	2.1	13.6	7.5	6.3
United Arab Emirates	7.3	3.3	3.7	4.6	3.2	2.5	17.0	12.5	11.2
South Africa	2.0	0.5	1.8	6.9	5.8	4.8	-0.5	-1.2	-1.8
Egypt	4.1	3.6	4.4	13.8	31.2	15.2	-3.5	-3.0	-3.0
Algeria	3.2	2.9	2.3	9.7	7.9	6.2	6.3	2.4	0.5
Qatar	4.8	2.7	2.5	5.0	2.5	2.2	25.9	13.1	10.1
Koweit	8.0	1.9	2.5	4.0	2.9	2.3	29.0	19.0	15.0
Morocco	1.3	2.7	3.0	6.7	5.8	3.0	-4.0	-3.5	-2.9
Tunisia	2.5	1.7	2.5	8.3	9.1	5.9	-8.6	-6.9	-6.0
Total	**3.3**	**2.5**	**2.7**	**8.3**	**5.4**	**3.6**	**0.2**	**0.2**	**0.2**
Advanced economies	**2.7**	**1.0**	**1.1**	**7.4**	**4.6**	**2.6**	**-1.0**	**-0.4**	**-0.3**
Emerging countries	**3.8**	**3.7**	**3.9**	**8.9**	**5.9**	**4.3**	**1.2**	**0.7**	**0.7**

	2022				2023				2024			
Real GDP growth, QoQ %	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
USA (annualised)	-1.6	-0.6	3.2	2.6	1.3	1.8	-1.3	-0.8	1.2	1.5	1.7	1.9
Japan	-0.7	1.4	-0.4	0.1	0.7	0.3	0.4	0.3	0.4	0.4	0.4	0.4
Eurozone	0.7	0.8	0.4	-0.1	-0.1	0.3	0.3	0.3	0.3	0.4	0.4	0.4
Germany	1.0	-0.1	0.5	-0.5	-0.3	0.1	0.2	0.3	0.3	0.3	0.3	0.3
France	-0.1	0.5	0.2	0.0	0.2	0.1	0.1	0.2	0.3	0.4	0.3	0.4
Italy	0.1	1.0	0.4	-0.1	0.6	0.0	0.4	0.3	0.1	0.4	0.4	0.4
Spain	-0.4	2.5	0.4	0.4	0.5	0.3	0.2	0.3	0.5	0.6	0.4	0.3
United Kingdom	0.5	0.1	-0.1	0.1	0.1	0.3	0.2	0.1	0.3	0.3	0.4	0.4

	2022				2023				2024			
Consumer prices, YoY %	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
USA	8.0	8.6	8.3	7.1	5.8	4.0	3.1	2.9	2.6	2.5	2.4	2.4
Japan	0.6	2.1	2.7	3.8	3.5	3.3	3.1	2.5	2.5	2.1	1.5	1.2
Eurozone	6.1	8.1	9.3	10.6	9.6	8.8	7.2	4.9	3.9	3.1	3.3	3.2
Germany	6.1	8.2	9.4	11.8	11.0	10.7	9.3	6.3	4.7	3.1	3.3	3.2
France	4.2	5.9	6.5	7.3	7.3	6.4	5.6	4.5	3.5	3.0	3.2	3.1
Italy	6.0	7.4	9.0	12.3	10.6	10.6	8.6	4.4	3.4	2.5	2.6	2.5
Spain	7.9	8.9	10.1	7.2	5.2	4.1	2.1	3.2	2.7	2.5	2.8	2.8
United Kingdom	6.2	9.2	10.0	10.7	10.2	8.5	7.1	5.5	5.3	4.1	3.9	3.1

	2022				2023				2024			
Unemployment rate, %	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
USA	3.8	3.6	3.5	3.6	3.5	3.5	3.8	4.3	4.5	4.5	4.4	4.4
Japan	2.7	2.6	2.6	2.6	2.6	2.7	2.7	2.9	2.9	2.8	2.6	2.5
Eurozone	7.0	6.8	6.8	6.8	6.7	6.9	6.9	6.8	6.9	6.9	6.9	6.8
Germany	3.1	3.0	3.1	3.1	3.0	3.2	3.2	3.2	3.3	3.3	3.3	3.3
France	7.3	7.5	7.2	7.2	7.0	7.3	7.4	7.5	7.6	7.7	7.8	7.8
Italy	8.4	8.1	8.0	7.9	8.0	7.9	8.0	8.0	8.0	8.0	8.0	7.9
Spain	13.2	12.7	12.7	13.0	12.8	12.4	12.8	12.4	12.7	12.2	12.1	11.7
United Kingdom	3.8	3.6	3.7	3.5	3.6	3.7	3.9	4.1	4.1	4.1	4.1	4.1

	GDP (b)	Private consump-tion (b)	Public consump-tion (b)	Investment (b)	Exports (b)	Imports (b)	Net exports (a)	Changes in inventories (a)
Eurozone								
2022	3.3	4.0	1.1	4.2	7.4	8.7	-0.3	0.8
2023	0.1	0.0	0.8	1.9	2.8	4.4	-0.7	1.0
2024	1.1	1.2	0.7	1.7	2.8	3.0	0.0	1.0
Q2 2023	*-0.3*	*-0.6*	*0.3*	*-0.5*	*0.5*	*0.6*	*0.0*	*1.0*
Q3 2023	*-0.3*	*-0.6*	*0.2*	*-0.2*	*0.3*	*0.4*	*0.0*	*1.0*
Q4 2023	*0.1*	*0.1*	*0.2*	*0.3*	*0.5*	*0.6*	*0.0*	*1.0*
Q1 2024	*0.3*	*0.3*	*0.2*	*0.4*	*0.6*	*0.7*	*0.0*	*1.0*
Germany								
2022	1.8	4.6	1.8	0.3	3.3	6.8	-1.5	0.4
2023	-0.5	-0.4	1.3	-0.6	2.3	3.7	-0.6	0.1
2024	0.9	1.0	1.2	0.9	1.5	1.8	-0.1	0.0
Q2 2023	*-0.6*	*-0.9*	*0.6*	*-0.6*	*0.6*	*0.8*	*-0.1*	*0.0*
Q3 2023	*-0.5*	*-0.8*	*0.3*	*-0.2*	*0.3*	*0.5*	*-0.1*	*0.0*
Q4 2023	*0.1*	*0.2*	*0.3*	*0.1*	*0.3*	*0.5*	*-0.1*	*0.0*
Q1 2024	*0.2*	*0.3*	*0.3*	*0.3*	*0.3*	*0.5*	*-0.1*	*0.0*
France								
2022	2.6	2.5	2.5	2.0	8.0	9.1	-0.6	0.7
2023	0.2	0.1	0.7	0.0	3.3	3.9	-0.3	0.3
2024	1.0	1.3	0.4	1.2	2.8	2.6	0.0	0.0
Q2 2023	*0.0*	*-0.2*	*0.2*	*-0.5*	*0.7*	*0.5*	*0.0*	*0.1*
Q3 2023	*-0.4*	*-0.3*	*0.2*	*-0.7*	*0.5*	*0.5*	*0.0*	*-0.1*
Q4 2023	*0.1*	*0.2*	*0.2*	*-0.1*	*0.8*	*0.5*	*0.1*	*-0.1*
Q1 2024	*0.4*	*0.5*	*0.1*	*0.2*	*0.5*	*0.6*	*-0.1*	*0.1*
Italy								
2022	3.9	4.7	0.3	9.7	10.0	13.9	-1.0	0.1
2023	0.0	0.5	-0.1	1.7	1.5	3.7	-0.7	0.1
2024	0.9	1.0	0.1	1.9	1.9	1.9	0.0	-0.1
Q2 2023	*-0.1*	*-0.3*	*0.1*	*0.2*	*0.2*	*0.4*	*-0.1*	*0.1*
Q3 2023	*-0.6*	*-1.2*	*0.1*	*0.0*	*0.3*	*0.3*	*0.0*	*0.1*
Q4 2023	*-0.1*	*-0.1*	*0.1*	*0.4*	*0.3*	*0.4*	*0.0*	*-0.1*
Q1 2024	*0.3*	*0.2*	*0.1*	*0.5*	*0.3*	*0.3*	*0.0*	*0.1*
Spain								
2022	4.6	1.9	-1.8	5.3	18.1	9.7	3.0	-0.2
2023	0.7	1.0	1.1	2.1	3.0	5.0	-0.5	0.0
2024	1.0	1.4	0.9	3.2	1.7	3.7	-0.6	0.0
Q2 2023	*-0.2*	*-0.5*	*0.5*	*0.1*	*0.2*	*0.4*	*-0.1*	*0.0*
Q3 2023	*0.0*	*0.1*	*0.2*	*0.3*	*0.2*	*0.8*	*-0.2*	*0.0*
Q4 2023	*0.2*	*0.2*	*0.4*	*0.6*	*0.4*	*0.7*	*-0.1*	*0.0*
Q1 2024	*0.3*	*0.3*	*0.3*	*0.5*	*0.7*	*1.0*	*-0.1*	*0.0*
Portugal								
2022	6.6	5.1	2.2	3.7	17.0	10.9	2.0	0.1
2023	1.0	0.5	-0.6	5.4	3.3	3.5	-0.2	-0.1
2024	1.7	1.6	-0.3	4.1	3.2	3.2	-0.1	0.0
Q1 2023	*-0.3*	*-0.5*	*0.2*	*1.5*	*0.4*	*1.0*	*-0.3*	*0.0*
Q2 2023	*0.2*	*0.1*	*-0.3*	*1.4*	*0.6*	*0.7*	*-0.1*	*0.0*
Q3 2023	*0.4*	*0.4*	*-0.4*	*1.7*	*0.6*	*0.8*	*-0.1*	*0.0*
Q4 2023	*0.6*	*0.5*	*-0.3*	*1.5*	*0.8*	*0.7*	*0.0*	*0.0*
Netherlands								
2022	4.2	5.5	0.5	2.8	4.8	3.8	1.3	-0.1
2023	0.4	-0.9	0.6	0.7	2.5	2.3	0.4	0.0
2024	1.3	1.2	0.8	0.6	2.7	2.6	0.5	0.0
Q2 2023	*-0.4*	*-1.4*	*0.1*	*0.2*	*1.0*	*1.0*	*0.1*	*0.0*
Q3 2023	*-0.2*	*-0.6*	*0.2*	*0.1*	*0.2*	*0.2*	*0.0*	*0.0*
Q4 2023	*0.2*	*0.2*	*0.2*	*0.1*	*0.2*	*0.2*	*0.0*	*0.0*
Q1 2024	*0.3*	*0.5*	*0.2*	*0.1*	*0.2*	*0.2*	*0.0*	*0.0*
United Kingdom								
2022	4.4	4.6	1.4	5.2	9.1	11.7	-0.9	1.8
2023	-0.8	-1.3	1.9	-1.9	3.0	-3.8	2.1	-1.1
2024	1.1	1.1	1.3	1.2	3.7	3.7	0.0	0.0
Q2 2023	*-0.4*	*-0.6*	*0.5*	*-1.5*	*-2.0*	*-2.0*	*0.0*	*0.1*
Q3 2023	*-0.4*	*-0.6*	*0.5*	*-1.5*	*-0.5*	*-0.8*	*0.1*	*0.0*
Q4 2023	*-0.3*	*-0.3*	*0.5*	*-0.2*	*-0.5*	*-0.3*	*-0.1*	*-0.2*
Q1 2024	*0.3*	*0.3*	*0.5*	*0.0*	*1.0*	*1.0*	*0.0*	*0.0*

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

INTEREST RATES

Taux courts		29-juin	juin-23	sept.-23	déc.-23	mars-24	juin-24	sept.-24	déc.-24
Etats-Unis	Fed funds	5.25	5.25	5.25	5.25	5.00	4.75	4.50	4.25
	Sofr	5.06	5.05	5.05	5.05	4.80	4.55	4.30	4.05
Japon	Call rate	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01
	Tonar	-0.08	0.02	0.03	0.03	0.03	0.03	0.03	0.03
Zone euro	Dépôt	3.50	3.50	4.00	4.00	4.00	4.00	4.00	3.50
	€str	3.40	3.40	3.94	3.98	4.00	4.02	4.05	3.55
	Euribor 3m	3.59	3.75	4.00	4.00	4.05	4.05	3.75	3.00
Royaume-Uni	Taux de base	5.00	5.00	5.75	5.75	5.75	5.75	5.50	5.25
	Sonia	3.95	3.95	3.95	3.95	3.95	3.95	3.95	3.95
Suède	Repo	3.50	3.75	4.00	4.00	4.00	4.00	4.00	4.00
Norvège	Deposit	3.75	3.75	4.00	4.50	4.50	4.50	4.50	4.50
Canada	Overnight	4.75	4.75	4.75	4.75	4.75	4.75	4.25	3.75

Taux 10 ans	29-juin	juin-23	sept.-23	déc.-23	mars-24	juin-24	sept.-24	déc.-24
Etats-Unis	3.83	3.75	3.80	3.75	3.70	3.65	3.60	3.50
Japon	0.39	0.43	0.50	0.48	0.45	0.45	0.42	0.40
Zone euro (Allemagne)	2.41	2.75	2.70	2.60	2.85	2.70	2.55	2.60
Spread 10 ans / Bund								
France	0.54	0.60	0.65	0.65	0.65	0.65	0.65	0.65
Italie	1.68	2.00	2.10	2.00	2.05	1.95	1.95	2.00
Espagne	0.99	1.10	1.10	1.10	1.10	1.15	1.15	1.10

Asie		29-Jun	juin-23	sept.-23	déc.-23	mars-24	juin-24	sept.-24	déc.-24
Chine	1Y deposit rate	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
Hong Kong	Taux de base	5.50	5.50	5.50	5.50	5.25	5.00	4.75	4.50
Inde	Taux repo	6.50	6.50	6.50	6.50	6.25	6.00	5.75	5.50
Indonésie	BI rate	5.75	5.75	5.75	5.75	5.75	5.50	5.25	5.00
Corée	Taux de base	3.50	3.50	3.50	3.50	3.25	3.00	3.00	3.00
Malaisie	OPR	3.00	3.00	3.00	3.00	3.00	2.75	2.50	2.50
Philippines	Taux repo	6.25	6.25	6.25	6.25	6.25	6.00	5.50	5.25
Singapour	6M SOR	4.09	4.30	4.30	4.30	4.25	4.25	3.45	3.00
Taïwan	Redisc	1.88	1.88	1.88	1.88	1.75	1.75	1.63	1.50
Thaïlande	Repo	2.00	2.00	2.00	2.00	2.00	2.00	1.75	1.50
Vietnam	Refinancing rate	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50
Amérique Latine									
Brésil	Overnight/Selic	13.75	13.75	13.00	12.00	11.00	10.00	9.50	9.25
Mexique	Taux overnight	11.25	11.25	11.25	11.00	10.75	10.00	9.50	8.75
Europe Emergente									
Rép. tchèque	Repo 14 j.	7.00	7.00	6.75	6.50	6.00	5.75	5.50	5.25
Hongrie	Repo 2 sem.	13.00	13.00	13.00	11.50	9.50	8.00	7.00	6.00
Pologne	Repo 7 j.	6.75	6.75	6.75	6.75	6.50	6.25	6.00	5.75
Roumanie	Repo 2 sem.	7.00	7.00	7.00	7.00	6.75	6.50	6.25	5.75
Russie	1W auction rate	0.00	7.50	7.50	7.50	7.50	7.50	7.50	7.50
Turquie	Repo 1 sem.	8.25	8.25	8.50	8.50	8.00	7.00	6.00	6.00

EXCHANGE RATES

USD Exchange rate

Industrialised countries		29-Jun	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Euro	EUR/USD	1.09	1.07	1.09	1.10	1.11	1.09	1.07	1.05
Japan	USD/JPY	144.6	145.0	150.0	138.0	136.0	135.0	136.0	135.0
United Kingdom	GBP/USD	1.26	1.23	1.27	1.29	1.31	1.28	1.27	1.25
Switzerland	USD/CHF	0.90	0.90	0.89	0.89	0.88	0.89	0.90	0.90
Canada	USD/CAD	1.32	1.33	1.30	1.27	1.26	1.25	1.24	1.25
Australia	AUD/USD	0.66	0.66	0.66	0.65	0.66	0.68	0.68	0.68
New Zealand	NZD/USD	0.61	0.61	0.60	0.60	0.59	0.60	0.60	0.60

Euro Cross rates

Industrialised countries		29-Jun	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Japan	EUR/JPY	157	155	164	152	151	147	146	142
United Kingdom	EUR/GBP	0.86	0.87	0.86	0.85	0.85	0.85	0.84	0.84
Switzerland	EUR/CHF	0.98	0.96	0.97	0.98	0.98	0.97	0.96	0.95
Sweden	EUR/SEK	11.82	11.60	11.20	11.00	10.80	10.70	10.60	10.50
Norway	EUR/NOK	11.75	11.60	11.20	10.80	10.60	10.40	10.30	10.20

Asia		29-Jun	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
China	USD/CNY	7.25	7.25	7.10	6.95	6.90	6.85	6.85	6.80
Hong Kong	USD/HKD	7.84	7.82	7.82	7.81	7.80	7.80	7.78	7.76
India	USD/INR	82.05	82.00	81.50	81.00	79.00	78.00	78.00	78.00
Indonesia	USD/IDR	14990	15300	15200	15100	15100	15100	15000	15000
Malaysia	USD/MYR	4.67	4.65	4.60	4.50	4.40	4.40	4.40	4.40
Philippines	USD/PHP	55.4	55.0	54.8	54.0	53.8	53.2	53.0	52.5
Singapore	USD/SGD	1.35	1.32	1.31	1.30	1.30	1.29	1.29	1.29
South Korea	USD/KRW	1319	1310	1290	1250	1210	1210	1200	1190
Taiwan	USD/TWD	31.1	30.5	30.4	30.1	30.0	30.1	30.0	29.9
Thailand	USD/THB	35.6	33.2	32.8	32.0	32.5	32.5	32.6	31.8
Vietnam	USD/VND	23569	23400	23300	23000	22900	22900	22800	22700
Latin America									
Brazil	USD/BRL	4.86	4.90	5.20	5.25	5.30	5.25	5.20	5.15
Mexico	USD/MXN	17.11	17.25	19.00	19.50	20.00	19.75	19.50	19.25
Africa									
South Africa	USD/ZAR	18.77	19.00	18.50	18.00	17.50	17.50	16.50	16.50
Emerging europe									
Poland	USD/PLN	4.08	4.21	4.11	4.05	4.01	4.07	4.14	4.21
Russia	USD/RUB	87.37	84.00	85.00	86.00	87.00	88.00	89.00	90.00
Turkey	USD/TRY	26.05	27.00	30.00	26.00	26.00	29.00	32.00	35.00
Central Europe									
Czech Rep.	EUR/CZK	23.71	23.60	23.50	23.40	23.30	23.20	23.10	23.00
Hungary	EUR/HUF	372	377	373	368	364	359	355	350
Poland	EUR/PLN	4.44	4.50	4.48	4.46	4.45	4.44	4.43	4.42
Romania	EUR/RON	4.96	4.92	4.90	4.88	4.85	4.85	4.85	4.85

COMMODITIES

Av. quarter price		29-Jun	2023			2024			
			Q2	Q3	Q4	Q1	Q2	Q3	Q4
Brent	USD/BBL	74	81	83	87	90	95	92	95

Av. quarter price		29-Jun	2023			2024			
			Q2	Q3	Q4	Q1	Q2	Q3	Q4
Gold	USD/oz	1,912	1,900	1,950	2,000	2,050	2,000	2,000	1,950

PUBLIC ACCOUNTS

	Government balance (% of GDP)			Public debt (% of GDP)		
	2022	2023	2024	2022	2023	2024
United States	**-5.4**	**-5.7**	**-5.8**	**96.9**	**98.2**	**100.2**
Japan	**-7.0**	**-3.5**	**-4.0**	**244.4**	**244.2**	**240.9**
Eurozone	**-3.8**	**-3.4**	**-2.7**	**94.2**	**93.4**	**92.7**
Germany	-2.6	-2.3	-1.2	66.3	65.4	63.7
France	-4.7	-5.2	-5.0	111.7	110.2	111.3
Italy	-8.0	-5.0	-3.7	144.6	144.6	144.6
Spain	-4.8	-4.1	-3.3	113.2	113.0	110.6
Netherlands	0.0	-2.1	-1.7	51.0	49.1	50.1
Belgium	-4.3	-3.6	-5.5	105.2	108.1	109.9
Greece	-2.3	-1.8	-0.8	171.3	161.2	157.9
Ireland	1.6	1.5	2.5	44.7	41.1	38.1
Portugal	-0.4	-0.4	-0.2	113.5	109.6	107.5
United Kingdom	**-5.4**	**-4.5**	**-3.0**	**100.7**	**101.2**	**100.1**

Completed on 30 June 2023

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