EDMOND DE ROTHSCHILD

WEEKLY ECONOMIC INSIGHTS

25 JUNE 2018 – THE WEEKLY OF THE ECONOMIC RESEARCH TEAM

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HIGHLIGHTS OF THE WEEK

Economist insights: International trade tensions are mounting, the agreement between France and Germany contains the institutional risk in the eurozone (p.2)

- Trade tensions have continued to escalate, with the US threatening to apply trade tariffs of 10% on USD200 million in US imports from China…
- … preventing Beijing from retaliating on the same scale, as Chinese imports of US goods total just USD130 billion
- The European Union's retaliation to US trade measures was contained, in accordance with the rules of the WTO...
- ... and the 20 June Franco-German agreement seeks to maintain cohesion ahead of the upcoming European summit, limiting a further rise in the institutional risk

Focus Central Banks: H1 2018 review, outlook and implications (p.5)

- In H1 2018, the Fed raised its key rate and revised up its rate outlook, while the other major central banks delayed the exit from their accommodative monetary policies
- This divergence in monetary stance is likely to continue to widen in the upcoming months, according to our analysis, but gradually, as the Fed should not be able to accelerate the pace of its rate hike cycle...
- ... without becoming exposed to an abrupt appreciation of the dollar, which would be harmful to the US economy and dangerous for international financial stability
- Thus, the decorrelation of US bond yields from those of the other major economies should persist and the dollar should continue to appreciate against the main currencies, but at a moderate pace

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INTERNATIONAL TRADE TENSIONS ARE MOUNTING, THE AGREEMENT BETWEEN FRANCE AND GERMANY CONTAINS THE INSTITUTIONAL RISK IN THE EUROZONE

TRADE TENSIONS ARE MOUNTING BETWEEN THE US, CHINA AND THE EUROPEAN UNION

Over the past few weeks, trade tensions between the US, China and the European Union have increased. Following the application of trade tariffs on aluminium and steel on 8 March 2018, the Trump administration announced new measures concerning China. China and the EU have retaliated, leading US authorities to make new threats. There has thus been an undeniable escalation in trade tensions that could increase economic uncertainty and affect investor confidence. This week, we present you with a chronological overview of these announcements, allowing for a better understanding of this rise in tension:

22 Jan. 2018

Announcement by the **US** administration of import tariffs of 30% on solar panels and 20% on washing machines.

8 March 2018

Announcement by the **US** that it would impose trade tariffs on steel (25%) and aluminium (10%) imports. The exemptions initially granted to Canada, Mexico and the European Union ended on 1 June 2018. South Korea, Australia, Argentina and Brazil will be exempt from these tariffs but will have to limit their export volumes. According to data published by the Peterson Institute[1], USD40.9 billion worth of goods would be affected by the tariffs (measures effective since 23 March), i.e. 1.7% of total US imports in 2017.

15 June 2018

Announcement by the **US** of additional trade tariffs of 25% on USD50 billion worth of goods coming from China. The tariffs will enter into force on 6 July 2018 for USD34 billion worth of goods. The list of remaining goods (USD16 billion) have been submitted for a more in-depth review before being defined.

Based on the accusation of unfair practices by Beijing with respect to intellectual property, technological transfers and innovation, the Trump administration announced it was imposing trade tariffs on 1,102 technology products coming from China. The US Trade Representative specified that the list of goods specifically targets products related to the Chinese industrial policy, “Made in China 2025”. The Americans thus targeted the aerospace, IT and communications, robotics, industrial equipment, new metals and automobile sectors. The tariffs will enter into force on 6 July for USD34 billion worth of goods, and at a later date for the remaining USD16 billion. The USD50 billion in goods represent 2.1% of total goods imported to the US, 9.9% of Chinese exports to the US and 2.2% of total Chinese exports.

15 June 2018

In response to the trade measures imposed by the US, **China** also announced tariffs on goods imported from the US for a total of USD50 billion. This measure will be applied as from 6 July for an initial amount of USD34 billion - most of which agricultural products, such as soya or seafood products, and the automotive segment - while the remaining USD16 billion will be announced and applied at a later date. For the latter, mainly Chinese imports of US products linked to energy such as oil are set to be targeted. These Chinese retaliation measures could discomfit the Republicans ahead of the mid-term elections in November, due to the concentration of agricultural production in the Midwestern states, several of which are ‘swing states’.

18 June 2018

Following the announcements by **Beijing**, President Trump threatened to apply 10% tariffs on a further USD200 billion in US imports from China. If it were to be applied, this measure would raise the question of how China would retaliate. In fact, Chinese goods imports coming from the US, of around 130 billion, are lower than this amount, preventing an identical retaliation by China. China would thus have to take other types of measures in order to respond to such a measure by the US.

20 June 2018

In reaction to the application of US tariffs on steel and aluminium, of 10% and 25%, respectively, representing EUR6.4 billion in European exports, **the European Commission** voted in favour of a 25% increase in customs duties on imports worth EUR2.8 billion coming from the US. The list of products targeted breaks down into steel products for one-third, agricultural products for one-third (corn, rice, peanut butter, bourbons) and industrial products for one-third (boats, leather shoes, cosmetics, jeans), all exported from states that are politically strategic for Donald Trump. The amount targeted would reach EUR2.8 billion, in line with the rules of the World Trade Organisation (WTO), and represent less than half of the EUR6.4 billion in European exports concerned by the new US duties.

24 June 2018

The **US** president threatened to implement additional measures if the countries concerned retaliate, and notably asked the US Treasury to draw up a series of restrictions to limit direct Chinese investment in the US, primarily in the

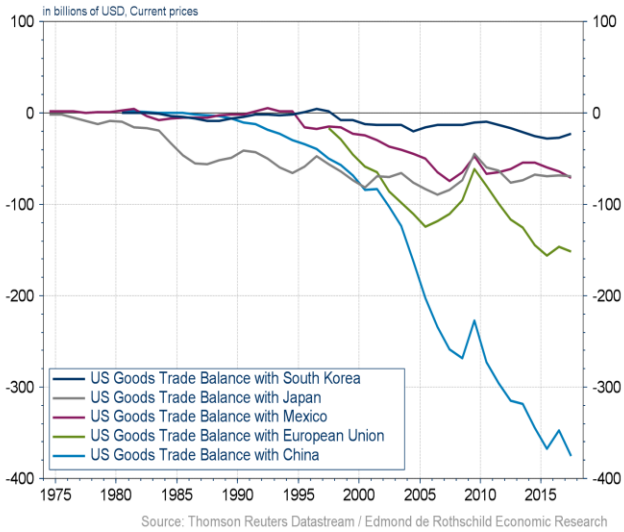
[1] https://piie.com/blogs/trade-investment-policy-watch/trumps-long-awaited-steel-and-aluminum-tariffs-are-just

technology sectors. According to the US Bureau of Economic Analysis, while net direct investment flows from China in US companies had reached USD25.4 billion[2] in 2016, in 2017 they were negative at -USD504 million (see right-hand chart).

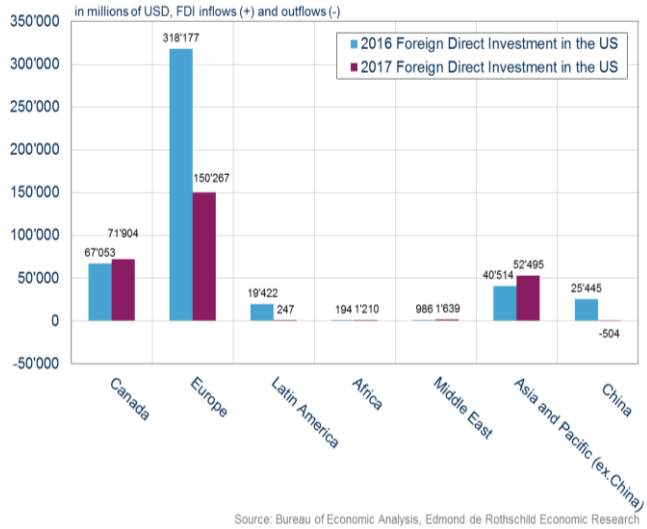
Implications:

- At present, the trade barriers in place are set to have a limited impact, notably on the US and Chinese economies. In the US, while some sectors could suffer from the measures implemented, the impact on the economy as a whole should remain limited, as the share of goods concerned by the hike in tariffs represents less than 4% of total imports.
- However, this trade conflict creates economic uncertainty that could weigh on the confidence of investors. Moreover, if the escalation were to continue, the macroeconomic impact could be greater.

The US trade deficit with China totalled USD375 billion in 2017



China's net direct foreign investment in the US dropped to -USD504 million in 2017



THE FRANCO-GERMAN AGREEMENT SEEKS COHESION AHEAD OF THE UPCOMING EUROPEAN SUMMIT

Following the changes in the Spanish and Italian governments, the agreement between Angela Merkel and Emmanuel Macron on a set of reforms that aim to improve the economic and monetary union (EMU) prevented a further rise in the institutional risk and confirmed that Angela Merkel still has room for manoeuvre despite the internal tensions within her government. These agreements nevertheless must be submitted for validation during the European summit on 28 and 29 June, and notably obtain the adherence of the Nordic countries, which have recently denounced the lack of inclusiveness of discussions on the future of the EMU.

The importance of the Franco-German agreement is thus reinforced due to the lack of political support of the other large European nations:

- In Spain, the new government led by Pedro Sanchez has a minority in Parliament, already fragmented by the different political currents. While the new ministers remain pro-European, domestic issues (possible revising of the constitution) appear to be a priority compared to the reform of the European institutions.
- In Italy, the new eurosceptic government is putting pressure on all European partners to improve the management of migrant flows, relegating the issue of the financial and institutional stability of the eurozone to secondary importance. Furthermore, the announced fiscal expansion (introduction of a universal income and tax cuts for households and businesses) would call into question Italy's budget commitments to its European partners.

[2] https://www.bea.gov/international/di1fdibal.htm

However, tensions within the German government could limit Angela Merkel's room for manoeuvre. The Chancellor, who is the leader of the Christian Democratic Union (CDU), has to contend with the demands of her interior minister and leader of the Christian Social Union (CSU), Horst Seehofer, to find a solution to the migrant issue during the European summit of 28 and 29 June.

- These internal tensions stem from a German political environment that saw the Alternative for Germany (AfD) party, which is highly critical of the 2015 policy for accepting refugees, obtain 94 seats in Parliament in the elections of 24 September 2017, notably at the expense of the CSU electoral base.
- As we near the Bavarian legislative elections to be held on 14 October, Horst Seehofer - formerly the prime minister of Bavaria - would thus want to reclaim part of his electorate in order to stand out from Angela Merkel's stance, implying tougher positions on the migrant issue.

This position would call into question the CSU-CDU government coalition and would thus weaken Chancellor Merkel's room for manoeuvre, particularly for implementing new European and structural reforms.

Thus, the Franco-German summit of 20 June 2018 confirms the good intentions for cooperation between Angela Merkel and Emmanuel Macron to demonstrate European cohesion and obtain an agreement on the second pillar of the Economic and monetary union:

- The setting of a European budget for the period 2021-2027. This would be the first mechanism offering funding capacity specific to the eurozone that would aim to (1) improve the competitiveness of the euro zone through new investments in human capital and innovation, and (2) play the role of stabiliser in the event of an economic shock in one of the Member States. This second objective would require one of the two following proposals to be put in place: the temporary suspension of the contribution to the budget of the euro zone for the State in question, or the set-up of a European employment-insurance stabilisation fund with no rule of transfer among States. This last solution will be subject to proposals during the European Council meeting of December 2018.
- The reinforcement of the European Stability Mechanism (ESM), which could change name (European Monetary Fund?), via the set-up of new financial support instruments.
- The reinforcement of the banking union with notably a target gross NPL ratio (excluding provisions) of 5% and a target net NPL ratio of 2.5% (including provisions).
- The reinforcement of the capital markets union, notably by putting in place a pan-European personal pension product and via the harmonisation of insolvency rules among the countries.

However, no mention was made regarding the migrant policy, which will be discussed during the European summit this coming 28 and 29 June.

The adherence of all European partners to these proposals for a strengthening of the economic and monetary union would contribute to lowering the institutional risk of the eurozone following the agreement reached on Greece's exit from its bailout plan. Eurogroup has thus reached a deal to allow Greece to exit from its 2012 bailout plan on 20 August 2018. This agreement will also enable the country to alleviate its debt. The average maturity of the debt was thus increased by 10 years to 42.5 years, while the grace period for paying back the capital and interest was extended by 10 years, implying an initial repayment in 2033. Lastly, Greece received the last tranche of the 15-billion-euro bailout, providing it with a cash buffer in the event of new shocks in the short term.

We nevertheless maintain our scenario that includes a deceleration in economic growth in the eurozone. Despite the improvement in lead indicators for overall activity (PMI) in the eurozone, the sub-indicators still point to downward trends. While there is an improvement in services, the industrial sector is decelerating as a result of the rise in input prices and production growth that is higher than growth in new orders, which implies that purchasing managers have revised down their business expectations.

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H1 2018 REVIEW, OUTLOOK AND IMPLICATIONS

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In the first half of 2018, the divergence between the monetary policy of the United States and that of the other main central banks continued to grow. Not only has the US Federal Reserve continued to raise its key rate while the other central banks have opted for the monetary status quo, it has also indicated that it could, over the next few quarters, lift it further than it had initially planned, while the European Central Bank, Bank of Japan and the Bank of England have pushed back the timing of the exit from their non-conventional monetary policies and of an increase in their key rates.

Over the next few months, this gap in monetary policies should widen, but nevertheless still in a gradual manner. In fact, despite the momentum of the US economy, according to our analysis, the Fed could not significantly accelerate the pace of its rate hike cycle without becoming exposed to an abrupt rise in the dollar that would be both harmful for the US economy and dangerous for international financial stability. Moreover, persisting high uncertainty relating to the international trade conflicts should lead central banks to maintain a very cautious stance, as analysed by Mathilde Lemoine[3].

These prospects underpin our interest and exchange rate forecasts for 2018 and H1 2019, according to which:

- The differential between the key rates in the US and the other main economies should continue to grow, but at a pace that would remain gradual;
- The decorrelation of US bond yields from those of the other major economies is set to last, with the former buoyed by the stronger outlook for nominal GDP growth in the US, while the latter are likely to see their upside potential limited by the extension of the accommodative monetary policies of the European Central Bank and the Bank of Japan in particular;
- The dollar should continue to appreciate against all of the other developed countries' currencies.

The Fed: The US Federal Reserve is planning further upcoming rate increases, but is unlikely to accelerate the pace of its monetary tightening in order to limit the appreciation of the dollar

In the US, the Federal Reserve (Fed) continued to increase its key rate, the fed funds rate, at the beginning of 2018, raising it twice by 25 basis points each time, in March and June, bringing it to 2.00%.

Moreover, its communication has become more hawkish, i.e. more restrictive, over the past few months. Although the Fed has reiterated that it would continue its monetary tightening at a "gradual" pace, and stated that its inflation target was symmetrical (meaning that it would not make stronger rate hikes if core inflation were to stand above its 2.0% target), the FOMC members significantly revised up their projections for the federal funds rate on two occasions. This change in the projected trend in the key rate results from their stronger growth forecasts, as the FOMC members notably estimate that the Trump administration's fiscal stimulus plan would support economic activity more than they had initially anticipated in 2017.

Thus, a majority of FOMC members now expect US GDP growth to come in at 2.8% in 2018 on average and at 2.4% in 2019. Consequently, they forecast that the fed funds rate could be at 2.50% at end-2018 and reach 3.25% at end-2019. Moreover, the Fed has maintained an upward bias on its rate projections, suggesting that it could revise them upwards in the next few months, according to the trend in economic data.

Analysis and implications:

- The further hike in its key rate by the Fed at the start of 2018 was in line with our forecast. Moreover, the revision by the FOMC members of their projections for the fed funds rate for 2018 and 2019 was in line with our scenario. In fact, as we were anticipating stronger GDP growth than the Fed (3.0% in 2018 and 2.8% in 2019), we had expected that the fed funds rate could be increased further than indicated by its projections at end-2017 and the start of 2018.

[3] See Mathilde Lemoine's Monthly Insights : « Our new macro forecasts: A destabilising return of US dominance?", No. 5 – May / June 2018

- In the upcoming months, the Fed should maintain an upward bias on its projections for its key rate, meaning that it will continue to indicate that would be ready to raise it further if the economic momentum were to strengthen further. According to our analysis, the positioning of the US in the economic cycle, characterised notably by accelerating GDP growth, a very low unemployment rate and inflation close to the Fed's target should lead the Fed to indicate that it especially does not intend to fall behind in its monetary tightening cycle, as this would lead to a risk of de-anchoring inflation expectations, and thus of a sharp rise in long-term yields.

- However, we do not expect that the Fed could raise its key rate above 2.50% at end-2018 and 3.00% at end-H1 2019, despite the fact that our GDP growth forecasts remain higher. While the Fed would be the only major central bank to tighten its monetary policy in 2018 and 2019, according to our scenario, it could not move away from the gradual pace of its rate hikes (i.e. no more than a 25 basis-point increase in its key rate each quarter) without becoming exposed to an abrupt appreciation of the dollar, which could weigh heavily on economic activity in the US and renew international financial tensions.

- Especially as the increasing uncertainty with respect to world trade is likely to lead the Fed to remain cautious. Jerome Powell confirmed this in his remarks made on 20 June, recognising that the concerns over world trade "seem to be rising", and adding that in principle changes in trade policy could cause [the Fed] to have to question the outlook.

- Continuing to raise its key rate at a gradual pace and maintaining an upwards bias would enable the Fed to contain inflation expectations. As a result, we expect the 10-year Treasury yield to continue to increase at a moderate pace and that it could reach 3.30% at-end-2018.

- The growth differential between short-term and long-term rates in the US and in the other major developed economies would favour an appreciation in the dollar against the other main currencies. We anticipate that, at end-2018, the euro could stand at USD1.15, the pound sterling at USD1.29 and the Japanese yen at USD115.

The ECB: The European Central Bank has postponed the end of its asset purchase programme to end-2018 and confirmed that it would not speed up the exit from its monetary policy

In the eurozone, the European Central Bank (ECB) pursued its monetary policy at the start of 2018 by continuing its asset purchases at a monthly pace of 30 billion euros and maintaining its key rates, the deposit rate and the refining rate, at -0.40% and 0.00%, respectively.

It also stated that it intends to adopt a cautious stance, as the slowdown in economic activity in the eurozone at the start of 2018 had been more marked than it was expecting (it has revised down its GDP growth forecast from 2.4% to 2.1% for 2018)[4].

This cautious stance was fully confirmed in June, when, following its monetary policy meeting, the ECB provided details regarding the outlook for its monetary policy, notably announcing that:

- it would continue, as it had previously committed to, to make net asset purchases at a monthly pace of EUR30 billion until the end of September 2018 and would then, subject to data confirming a return of inflation to its medium-term target, reduce them to EUR15 billion between October and December, before stopping them at the end of the year;

- its policy of reinvesting the principal payments from maturing securities purchased would be continued "for an extended period of time after the end of the net asset purchases, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation";

- the deposit and refinancing rates would remain at their present levels "at least through the summer of 2019 and in any case for as long as necessary".

[4] See our Weekly of 18 June 2018

Analysis and implications:

- The ECB fully confirmed not only that it was not intending to speed up its rate hike cycle, but that it was ready to defer it further if necessary. These announcements thus supported our scenario.

- While we anticipate a slowdown in GDP growth in the eurozone to 1.8% in 2018 and 1.6% in 2019, we maintain our forecast according to which the ECB's monetary tightening cycle could be pushed back to 2020. It would be characterised by a very gradual rise in key rates. Conversely, reinvestments would be continued, in an initial stage.

- Thus, we also maintain our forecast according to which, while the prospect of the end of the ECB's net asset purchases could favour a rise in long-term bond yields, its extent would be limited, as the ECB would conserve a significant stock of sovereign bonds on its balance sheet. We expect the yield on the 10-year Bund at 1.00% at end-2018.

- Key rates maintained at their current level and the relatively low level of bond yields should result in downward pressure on the euro against the dollar. We forecast that the euro could reach USD1.15 at end-2018.

The SNB: Despite the acceleration in GDP growth, the Swiss National Bank is not likely to exit its monetary policy

In Switzerland, the Swiss National bank (SNB) maintained its key rate at -0.75% in H1 2018 and continued to indicate that it was ready to intervene on the currency market if necessary.

Following its monetary policy meeting of 21 June, the SNB reaffirmed that the Swiss franc is at a high level and that the foreign exchange market remains fragile.

Analysis and implications:

- The SNB's communication strategy remains very different than that of the other major central banks: Firstly, the SNB does not communicate a forecast for its key rate and does not give any indication on the timing of its normalisation, and, secondly, it does not inform the public of the economic and monetary conditions that would lead it to normalise its rate. Thus, the only available benchmark is its inflation target, which is 2.0%.

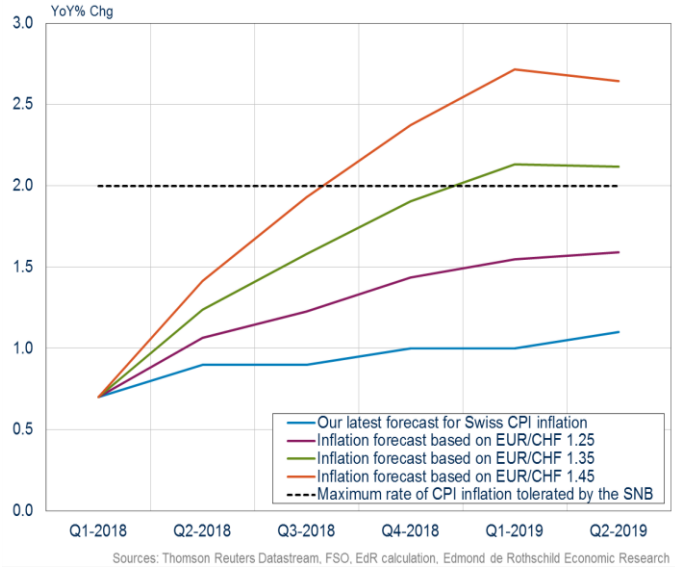
- Given this inflation target and the weak domestic inflationary pressure, the only scenario that could lead the SNB to speed up the exit from its monetary policy would be that of a significant depreciation in the Swiss franc against the euro. This would in fact support the price of imported goods and enable overall inflation to accelerate rapidly.

- Moreover, according to our estimates, in order for overall inflation to accelerate and exceed the threshold of 2.0% as of the beginning of 2019, the Swiss franc would have to depreciate immediately and remain sustainably at 1.35 to the euro (see box below), i.e. a level that has not been seen since 2010.

- Consequently, despite our expectation of an acceleration in Swiss GDP growth to 2.2% in 2018 that would be followed by a very slight slowdown to 1.9% in 2019, we maintain our scenario according to which the SNB is unlikely to hasten its exit from its accommodative monetary policy.

Box: Our estimates of the sensitivity of Swiss inflation to changes in the exchange rate

According to our estimates, the Swiss franc would have to depreciate immediately and remain sustainably at 1.35 to the euro in order for Swiss inflation to be able to exceed the maximum rate of 2.0% tolerated by the SNB at the beginning of 2019



The BoJ: By omitting to give a timeframe for a return to its target inflation of 2.0%, the Bank of Japan confirmed that it could be the central bank to pursue the longest non-conventional monetary policy

The Bank of Japan (BoJ) maintained its deposit rate at -0.10% in H1 2018 and continued its asset purchases to keep the 10-year JGB yield at close to 0.00%.

During his confirmation hearing to the Senate in March 2018 for another term as BoJ Governor, Haruhiko Kuroda had stated that an exit from the monetary policy was not currently on the agenda, and that the bank would not start to discuss the modalities of an exit before the fiscal year starting in April 2019.

Furthermore, while the BoJ had already pushed back six times its expected date for a return of inflation to its 2.0% target, and in January 2018 it estimated that this target could not be reached before the fiscal year 2019-20, at its meeting in April it finally gave up on providing a timeline for reaching this target.

Analysis and implications:

- As we were anticipating, the Bank of Japan continued its quantitative easing and confirmed that an exit from its monetary policy was not on the immediate agenda.
- The fact that is has given up on attempting to provide a timeframe for a return of inflation to its 2.0% target underpins our scenario according to which the BoJ could be the central bank that will maintain a non-conventional monetary policy for the longest among developed countries.
- Thus, in 2019, the BoJ would be the last major central bank to continue to increase the size of its balance sheet, which could increase the downward pressure on the yen against the main currencies. However, according to our analysis, although this additional weakening of the yen could be favourable to economic activity in Japan via the support it would provide to exports, it would not be sufficient to prevent a further slowdown in GDP growth. We anticipate GDP growth of just 1.1% in 2018 and 0.9% in 2019.

The BoE: The Bank of England is maintaining an upward bias on its key rate but its room for manoeuvre is likely to be reduced

In the UK, the Bank of England (BoE) decided not to raise its key rate in May 2018 despite having prepared investors for such a move. While it justified this monetary status quo by the weak activity in Q1, with q-o-q GDP growth of only +0.1% following

+0.4% in Q4 2017, it had considered it would be temporary, leading it to maintain an upward bias on its key rate, which is at 0.50%.

This upward bias was confirmed at its June monetary policy meeting, during which three of the nine members of the monetary policy committee were in favour of an immediate 25 basis-point increase in the key rate.

Analysis and implications:

- While the UK has limited bargaining power with regard to Brexit and the government has not clearly indicated what the country's long-term growth drivers will be[5], uncertainty is set to persist. The slowdown in GDP growth is thus likely to continue according to our forecasts (to 1.2% in 2018 and to 1.0% in 2019).

- As a result, while we anticipate that the BoE could maintain an upwards bias on its key rate in order to limit the downward pressure on the pound that is linked to the uncertainty and slowdown in activity, we believe that its room for manoeuvre to raise its key rate nevertheless should be reduced.

[5] See our "Macroeconomic Forecasts no. 5, Summer 2018".

APPENDIX 1 – LATEST CHANGES ON FINANCIAL MARKETS

PERFORMANCE IN LOCAL CURRENCY	LAST PRICE	WEEKLY CHANGE	MONTHLY CHANGE	YEAR-TO-DATE CHANGE	1-YEAR CHANGE
Equities *(total return)*					
World (MSCI)	504	-2.0%	-1.5%	-0.3%	10.7%
United States (S&P 500)	2'722	-2.0%	0.0%	2.6%	13.6%
Eurozone (Euro Stoxx)	375	-2.9%	-3.5%	-0.3%	1.0%
Germany (DAX)	12'245	-4.4%	-5.2%	-5.0%	-3.6%
France (CAC 40)	5'293	-3.0%	-3.7%	2.0%	3.5%
Spain (IBEX 35)	9'656	-1.5%	-1.6%	-2.4%	-6.1%
Italy (FTSE MIB)	21'433	-3.4%	-4.4%	-0.2%	5.5%
Portugal (PSI 20)	5'586	-0.7%	-0.3%	6.4%	10.5%
United Kingdom (FTSE 100)	7'556	-1.6%	-2.6%	-0.1%	5.2%
Switzerland (SMI)	8'476	-0.7%	-3.4%	-6.8%	-3.1%
Japan (Nikkei)	22'342	-1.5%	-0.5%	-1.0%	13.1%
Emerging Markets (MSCI)	1'071	-3.0%	-5.4%	-6.5%	8.7%
Sovereign Bonds, 10Y *(change in basis point)*					
United States	2.88%	-2.0	-5.5	47.1	74.0
Eurozone	0.34%	-3.4	-6.7	-8.7	9.3
Germany	0.34%	-3.4	-6.7	-8.7	9.3
France	0.73%	3.4	2.6	-4.5	13.9
Spain	1.39%	15.1	-6.7	-17.0	2.2
Italy	2.88%	33.1	43.1	87.7	99.4
Portugal	1.87%	14.3	-6.1	-3.9	-103.8
United Kingdom	1.30%	1.8	-2.2	11.1	28.9
Switzerland	-0.06%	1.7	-3.0	12.0	12.3
Japan	0.03%	0.2	-0.4	-1.2	-1.8
Emerging Markets (local currency)	5.31%	1.8	23.0	50.4	45.4
Corporate Bonds *(change in basis point)*					
United States (IG Corp.)	4.04%	2.8	7.5	73.4	93.7
Eurozone (IG Corp.)	0.96%	-0.6	-0.5	20.8	3.3
Emerging Markets	5.86%	-0.7	21.4	135.0	133.1
High-Yield Bonds *(change in basis point)*					
United States (HY Corp.)	6.33%	9.4	-4.2	61.4	70.7
Eurozone (HY Corp.)	3.78%	18.8	26.4	81.8	60.1
Convertible Bonds *(price change)*					
United States (Convert. Barclays)	53	-2.7%	0.1%	6.5%	10.3%
Eurozone (Convert. Exane)	7'745	-1.2%	-0.8%	0.2%	0.6%
Commodities					
Commodities (TR)	420	-1.5%	-4.8%	-0.4%	7.6%
Gold	1'263	-1.2%	-3.5%	-4.6%	-0.3%
Crude Oil (Brent)	75	-0.6%	-2.1%	11.1%	64.4%
Currencies					
Dollar Index	94.5	-0.5%	0.3%	2.6%	-3.0%
EURUSD	1.17	0.7%	0.4%	-2.7%	4.4%
GBPUSD	1.32	0.5%	-0.5%	-2.0%	4.1%
USDCHF	1.01	-0.4%	-0.3%	1.6%	1.8%
USDJPY	109.9	-0.1%	0.5%	-2.5%	-1.7%

Source : Bloomberg

APPENDIX 2 – LEADING ECONOMIC INDICATORS

Main Economic Indicators - Released (18 - 22 June) and to be released (25 - 29 June)

US

Date	Indicator	Period	Consensus	Actual	Prior	Revised
19/06	**Housing Starts, month**	**May**	**1314k**	**1350k**	**1287k**	**1286k**
19/06	**Building Permits, month**	**May**	**1350k**	**1301k**	**1352k**	**1364k**
20/06	**Existing Home Sales, month**	**May**	**5.55m**	**5.43m**	**5.46m**	**5.45m**
25/06	*New Home Sales, month*	*May*	*666k*	-	*662k*	-
26/06	*Case-Shiller 20-City Home Price index, YoY*	*Apr*	*6.8%*	-	*6.8%*	-
27/06	*Durable Goods Orders, MoM*	*May P*	*-1.0%*	-	*-1.6%*	-
28/06	*GDP, QoQ annualized*	*Q1 T*				
28/06	*GDP, YoY*	*Q1 T*			*2.8%*	-
29/06	*Core PCE index, Yoy*	*May*	*1.9%*	-	*1.8%*	-
29/06	*Personal Income, MoM*	*May*	*0.4%*	-	*0.3%*	-
29/06	*Personal Spending, MoM*	*May*	*0.4%*	-	*0.6%*	-
29/06	*PCE index, YoY*	*May*	*2.2%*	-	*2.0%*	-

Euro zone

Date	Indicator	Period	Consensus	Actual	Prior	Revised
22/06	**Manufacturing PMI, month**	**June P**	**55.0**	**55.0**	**55.5**	**-**
22/06	**Services PMI, month**	**June P**	**53.7**	**55.0**	**53.8**	**-**
22/06	**Composite PMI, month**	**June P**	**53.9**	**54.8**	**54.1**	**-**
27/06	*M3 Money Supply, YoY*	*May*	*3.8%*	-	*3.9%*	-
27/06	*Loans to non-financial corporations, YoY*	*May*			*3.3%*	
27/06	*Loans to households, YoY*	*May*			*2.9%*	
28/06	*Economic Confidence, month*	*June*	*112.0*	-	*112.5*	-
29/06	*Core HICP, YoY*	*June A*	*1.0%*	-	*1.1%*	-
29/06	*HICP, YoY*	*June*	*2.0%*	-	*1.9%*	-

Germany

Date	Indicator	Period	Consensus	Actual	Prior	Revised
22/06	**Manufacturing PMI, month**	**June P**	**56.2**	**55.9**	**56.9**	**-**
22/06	**Services PMI, month**	**June P**	**52.3**	**53.9**	**52.1**	**-**
22/06	**Composite PMI, month**	**June P**	**53.3**	**54.2**	**53.4**	**-**
25/06	*IFO Business Climate, month*	*June*	*101.8*	-	*102.2*	-
28/06	*HICP, YoY*	*June P*	*2.1%*	-	*2.2%*	-

France

Date	Indicator	Period	Consensus	Actual	Prior	Revised
21/06	**INSEE Business Confidence, month**	**June**	**106.0**	**106.0**	**106.0**	**-**
22/06	**GDP, QoQ**	**Q1 F**	**0.2%**	**0.2%**	**0.2%**	**-**
22/06	**GDP, YoY**	**Q1 F**	**2.2%**	**2.2%**	**2.2%**	**-**
22/06	**Manufacturing PMI, month**	**June P**	**54.0**	**53.1**	**54.4**	**-**
22/06	**Services PMI, month**	**June P**	**54.3**	**56.4**	**54.3**	**-**
22/06	**Composite PMI, month**	**June P**	**54.2**	**55.6**	**54.2**	**-**
29/06	*HICP, YoY*	*June P*	*2.4%*	-	*2.3%*	-

Switzerland

Date	Indicator	Period	Consensus	Actual	Prior	Revised
21/06	**Exports Real, MoM**	**May**	**-**	**0.0%**	**0.0%**	**0.4%**
21/06	**Imports Real, MoM**	**May**	**-**	**3.1%**	**-0.4%**	**-**
21/06	**SNB 3-Month Libor Lower Target Range**		**-1.25%**	**-1.25%**	**-1.25%**	**-**
21/06	**SNB 3-Month Libor Upper Target Range**		**-0.25%**	**-0.25%**	**-0.25%**	**-**
29/06	*KOF Leading Indicator, month*	*June*	*100.4*	-	*100.0*	-

UK

Date	Indicator	Period	Consensus	Actual	Prior	Revised
21/06	**Bank of England Bank Rate**		**0.5%**	**0.5%**	**0.5%**	**-**
21/06	**BOE Asset Purchase Target**	**June**	**435b**	**435b**	**435b**	**-**
28/06	*Nationwide House Price Index, MoM*	*June*	*0.3%*	-	*-0.2%*	-
28/06	*Nationwide House Price Index, YoY*	*June*	*1.7%*	-	*2.4%*	-
29/06	*GDP, QoQ*	*Q1 F*	*0.1%*	-	*0.1%*	-
29/06	*GDP, YoY*	*Q1 F*	*1.2%*	-	*1.2%*	-

Japan

Date	Indicator	Period	Consensus	Actual	Prior	Revised
22/06	**CPI, YoY**	**May**	**0.6%**	**0.7%**	**0.6%**	**-**

APPENDIX 3 – OUR GROWTH AND INFLATION FORECASTS

GDP GROWTH IN VOLUME (%)	2015	2016	2017	Q1 18	Q2 18f	Q3 18f	Q4 18f	2018f	Consensus	Q1 19f	Q2 19f	2019f	Consensus
United States	2.9	1.5	2.3	2.9	3.2	2.9	3.0	3.0	2.8	2.7	2.9	2.8	2.5
Eurozone	2.0	1.8	2.5	2.5	2.0	1.5	1.4	1.8	2.3	1.4	1.5	1.6	2.0
France	1.0	1.1	2.0	2.1	1.8	1.5	1.2	1.6	2.0	1.2	1.4	1.5	1.8
Germany	1.5	1.9	2.5	2.3	2.2	1.9	1.7	2.0	2.3	1.7	1.8	1.8	2.0
Spain	3.4	3.3	3.3	2.8	2.4	2.6	2.7	2.6	2.7	2.6	2.4	2.1	2.3
Italy	0.8	1.0	1.6	1.5	1.4	1.3	1.2	1.4	1.4	1.0	1.1	1.1	1.2
Luxembourg	2.9	3.1	2.3	3.2	2.9	2.8	3.3	3.0	3.5	2.9	3.1	2.9	3.0
Portugal	1.8	1.6	2.7	0.9	-0.4	0.7	0.8	2.0	2.3	0.9	-0.4	1.9	1.9
Europe ex-Eurozone													
United Kingdom	2.3	1.9	1.8	1.2	1.3	1.2	1.0	1.2	1.5	1.2	1.0	1.0	1.5
Switzerland	1.2	1.4	1.1	2.2	2.3	2.3	2.2	2.2	2.1	2.0	1.9	1.9	1.7
Israel	2.6	3.9	3.3	4.0	3.7	3.4	3.3	3.6	3.5	3.3	3.6	3.5	3.4
Japan	1.4	1.0	1.7	0.9	1.2	1.1	1.1	1.1	1.3	1.3	1.0	0.9	1.0
Emerging countries	4.0	4.1	4.9	5.4	5.2	5.1	5.0	5.1	-	5.0	4.9	4.9	-
China	6.9	6.7	6.9	6.8	6.7	6.5	6.5	6.6	6.6	6.5	6.4	6.4	6.4
Brazil	-3.5	-3.5	1.0	2.1	2.2	2.3	2.5	2.3	2.5	2.5	2.5	2.5	2.8
India	7.6	7.9	6.3	7.3	7.3	7.4	7.4	7.4	7.3	7.4	7.5	7.5	7.5

CONSUMER PRICE INDEX (%)	2015	2016	2017	Q1 18	Q2 18f	Q3 18f	Q4 18f	2018f	Consensus	Q1 19f	Q2 19f	2019f	Consensus
United States	0.1	1.3	2.1	2.2	2.7	2.8	2.7	2.6	2.5	2.5	2.2	2.3	2.2
Eurozone	0.0	0.2	1.5	1.3	1.6	1.9	1.8	1.7	1.5	1.7	1.6	1.6	1.5
France	0.0	0.2	1.0	1.6	1.7	1.6	1.5	1.6	1.6	1.4	1.2	1.3	1.5
Germany	0.3	0.5	1.8	1.6	1.8	1.8	1.7	1.7	1.6	1.6	1.4	1.5	1.7
Spain	-0.5	-0.2	2.0	1.2	1.6	1.5	1.4	1.5	1.5	1.4	1.4	1.4	1.6
Italy	0.0	-0.1	1.2	1.4	1.6	1.4	1.4	1.4	1.2	1.3	1.3	1.3	1.3
Luxembourg	0.1	0.0	2.1	1.2	1.3	1.9	1.8	1.5	1.5	1.8	1.8	1.9	2.0
Portugal	0.5	0.6	1.4	0.7	1.4	1.2	1.2	1.2	1.4	1.2	1.1	1.2	1.5
Europe ex-Eurozone													
United Kingdom	0.0	0.7	2.7	2.7	2.5	2.4	2.3	2.5	2.5	2.3	2.3	2.3	2.1
Switzerland	-1.1	-0.4	0.5	0.7	0.9	0.9	1.0	0.9	0.7	1.0	1.1	1.1	0.9
Israel	-0.6	-0.5	0.2	0.2	0.6	0.9	1.0	0.7	0.8	1.0	1.1	1.2	1.2
Japan	0.8	-0.1	0.5	0.7	0.8	0.8	0.9	0.8	1.0	0.9	0.9	1.0	1.1
Emerging countries	4.3	3.8	3.0	3.1	3.4	3.6	3.4	3.4	-	3.3	3.4	3.3	-
China	1.4	2.0	1.6	2.2	2.1	2.3	2.2	2.2	2.3	2.2	2.3	2.3	2.3
Brazil	9.0	8.8	3.5	2.8	3.0	3.5	3.4	3.2	3.3	3.7	4.0	3.8	4.0
India	4.9	5.0	3.3	4.6	4.9	5.2	5.0	4.9	4.7	4.9	4.8	4.8	4.7

APPENDIX 4 – OUR RATE AND CURRENCY FORECASTS

INTEREST RATES AND YIELDS (%)*	2015	2016	2017	Q1 18	Q2 18f	Q3 18f	Q4 18f	2018f	Consensus	Q1 19f	Q2 19f	2019f	Consensus
United States													
Policy rate	0.50	0.75	1.50	1.75	2.00	2.25	2.50	2.50	2.40	2.75	3.00	3.25	3.05
2-year yield	0.68	0.83	1.39	2.27	2.45	2.65	2.80	2.54	2.51	3.00	3.20	3.30	3.01
10-year yield	2.13	1.83	2.33	2.74	3.00	3.20	3.30	3.06	2.95	3.35	3.40	3.45	3.36
Eurozone													
Policy rate	0.05	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.30
2-year Schatz yield	-0.25	-0.59	-0.72	-0.60	-0.50	-0.40	-0.30	-0.45	-0.50	-0.20	-0.15	-0.05	-0.07
10-year Bund yield	0.54	0.14	0.37	0.50	0.70	0.85	1.00	0.76	0.73	1.15	1.25	1.35	1.22
2-year OAT yield	-0.18	-0.51	-0.48	-0.49	-0.40	-0.30	-0.25	-0.36	-0.37	-0.15	-0.10	0.00	0.19
10-year OAT yield	0.86	0.48	0.81	0.72	0.90	1.05	1.20	0.97	1.14	1.30	1.40	1.50	1.82
United Kingdom													
Policy rate	0.50	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.80	0.50	0.50	0.50	1.15
2-year yield	0.54	0.29	0.25	0.82	0.80	0.80	0.75	0.79	0.98	0.70	0.70	0.70	1.41
10-year yield	1.82	1.22	1.20	1.35	1.40	1.45	1.45	1.41	1.60	1.40	1.35	1.35	2.01
Switzerland													
Policy rate	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.70	-0.75	-0.75	-0.50	-0.50
2-year yield	-0.89	-0.91	-0.85	-0.85	-0.75	-0.60	-0.50	-0.68	-0.64	-0.40	-0.25	-0.05	-0.06
10-year yield	-0.09	-0.35	-0.09	0.03	0.10	0.30	0.45	0.22	0.23	0.65	0.80	0.85	0.72
Japan													
Policy rate	0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	0.00	-0.10	-0.10	-0.10	0.00
2-year yield	0.01	-0.21	-0.17	-0.13	-0.10	-0.10	-0.10	-0.11	-0.13	-0.10	-0.05	0.00	-0.09
10-year yield	0.36	-0.04	0.06	0.05	0.05	0.05	0.10	0.06	0.11	0.15	0.25	0.30	0.16
Emerging countries - Policy rates													
China	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35
Brazil	14.25	13.75	7.00	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.75	7.25	7.75
India	6.75	6.25	6.00	6.00	6.00	6.25	6.25	6.25	6.15	6.25	6.50	6.50	6.35

* data at end of period for trimestrial values and period average for annual values

TAUX DE CHANGE**	2015	2016	2017	Q1 18	Q2 18f	Q3 18f	Q4 18f	2018f	Consensus	Q1 19f	Q2 19f	2019f	Consensus
Dollar													
EUR/USD	1.08	1.11	1.13	1.23	1.20	1.17	1.15	1.19	1.24	1.15	1.16	1.17	1.29
USD/JPY	120	109	112	108	110	113	115	112	108	115	115	115	105
GBP/USD	1.47	1.36	1.29	1.39	1.36	1.33	1.29	1.34	1.40	1.29	1.29	1.29	1.44
USD/CHF	1.00	0.98	0.98	0.95	0.99	1.03	1.04	1.00	0.96	1.06	1.08	1.06	0.95
USD/CNY	6.28	6.65	6.75	6.36	6.38	6.40	6.45	6.40	6.36	6.45	6.45	6.45	6.28
USD/BRL	3.34	3.48	3.19	3.24	3.45	3.50	3.50	3.45	3.40	3.50	3.55	3.50	3.31
Euro													
EUR/JPY	130	120	127	133	132	132	132	132	133	132	133	133	135
EUR/GBP	0.73	0.81	0.88	0.88	0.88	0.88	0.89	0.88	0.88	0.89	0.90	0.91	0.89
EUR/CHF	1.09	1.09	1.11	1.17	1.19	1.20	1.20	1.19	1.18	1.22	1.25	1.24	1.21
EUR/SEK	9.36	9.47	9.64	9.97	10.10	9.90	9.75	9.93	10.10	9.65	9.55	9.45	9.50

**period average

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