

Macroeconomic Insight- April 2018- Situation & Outlook

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MAIN TAKEAWAYS

- **The global economy continues its cyclical upswing** in a synchronized pace across regions and industries. We expect the growth momentum to sustain in 2018 but at a more modest pace.
- **Across developed economies, the robust cyclical upturn will continue in 2018.** In the **US**, growth should remain solid on the back of a healthy labour market and expansionary fiscal policy supporting internal demand. Therefore, the FED will gradually tighten its monetary stance. In **Japan**, growth is forecasted to slowdown on a less supportive external environment. In the **Eurozone**, growth is set to remain strong but heightened trade tensions between the US and China could be a headwind for growth outlook. ECB's monetary policy normalization will thus depend on the evolution of the external environment. In the **UK**, GDP growth will slow down gradually to its potential. Thus the BoE should tighten monetary policy.
- **Across emerging markets, growth should remain solid** but geopolitical and overheating risks could derail the growth momentum. In China, growth is expected to slow down as monetary conditions tighten.



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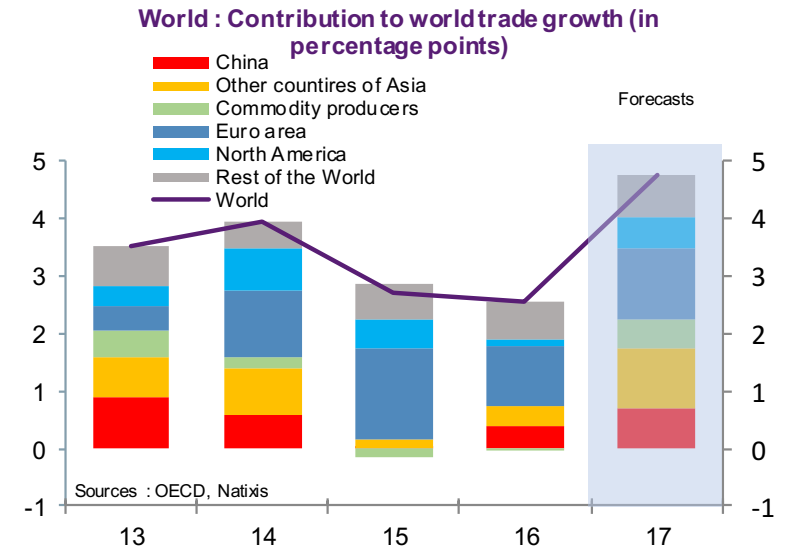
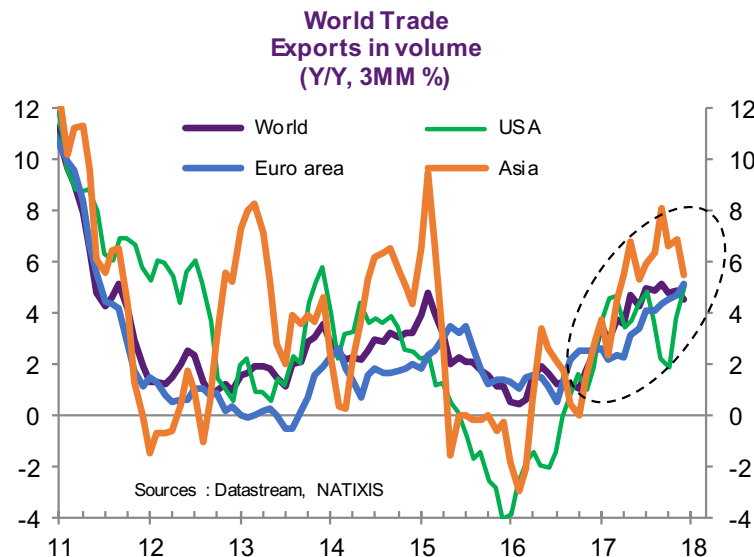
2018 MACROECONOMIC OUTLOOK

—
Steady and sustainable growth ahead ?

World: growth momentum is keeping pace

A synchronized and widespread growth across regions and industries

- A strong recovery in global trade since end-2016
Started in Asian countries, the recovery spread progressively, to the Eurozone and North America

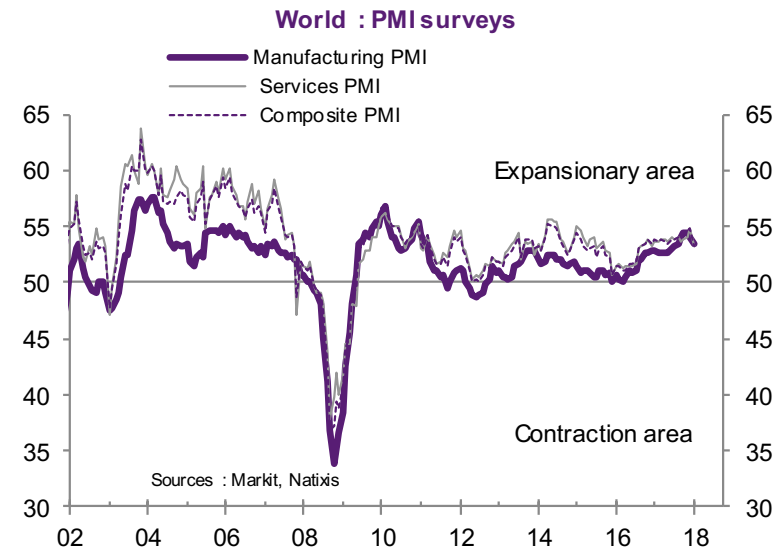
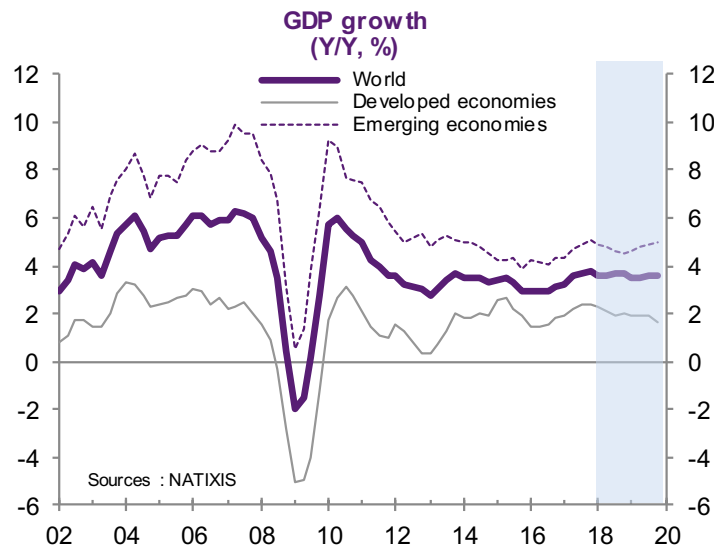


World: growth momentum is keeping pace

A synchronized and widespread growth across regions and industries

- A strong recovery in global trade since end-2016
Started in Asian countries, the recovery spread progressively, to the Eurozone and North America
- A global growth more robust than expected in 2018
Widespread across developed and emerging economies
- Outlooks are well oriented (PMI figures)
No brutal downturn within one year

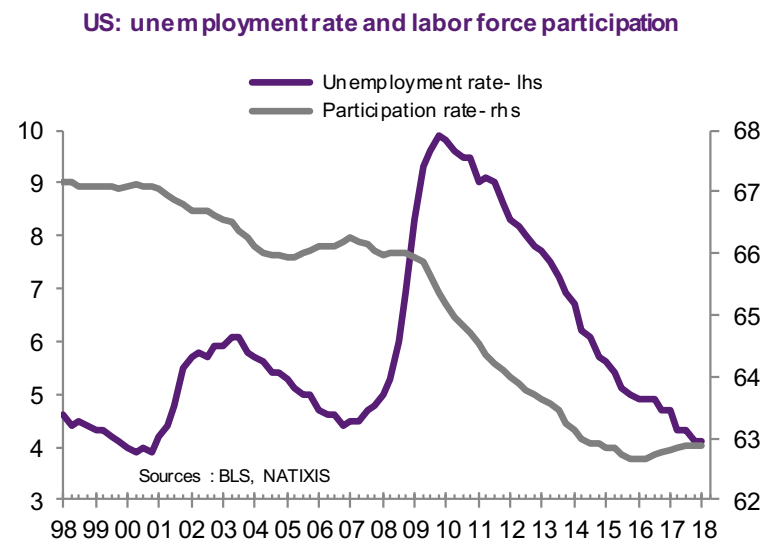
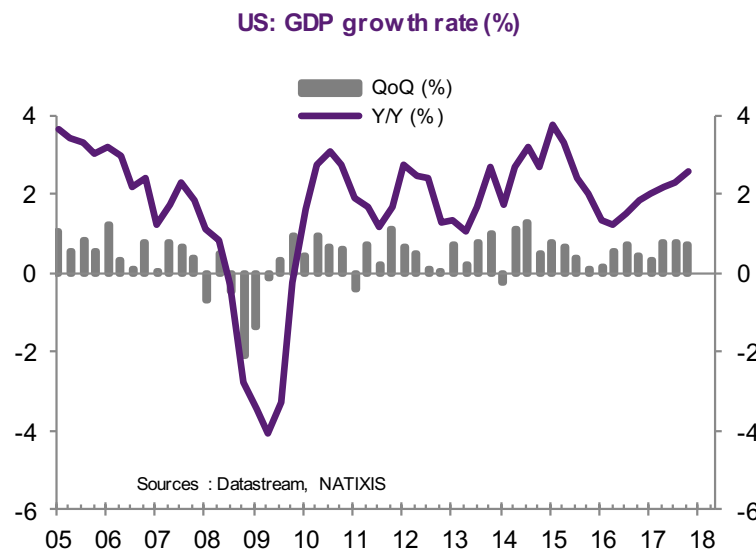
► Therefore, a steady and sustainable growth ahead ?



United States : expect another year of solid growth

A robust expansion in 2018 supported by an expansionary fiscal policy

- A fiscal stimulus should extend the cycle of expansion
Growth is expected to accelerate to +2.6% in 2018 from +2.3% in 2017
 - The economy will be closer to full-employment
Unemployment rate is set to edge down to 4% in 2018 at an all-time low from 4.4% in 2017 bolstering households' consumption, the main engine of growth in the US
 - Inflation should pick-up slightly allowing the FED to tighten gradually
We expect thus the FED to deliver three rate hikes in 2018
- Upbeat growth outlook for the US in 2018

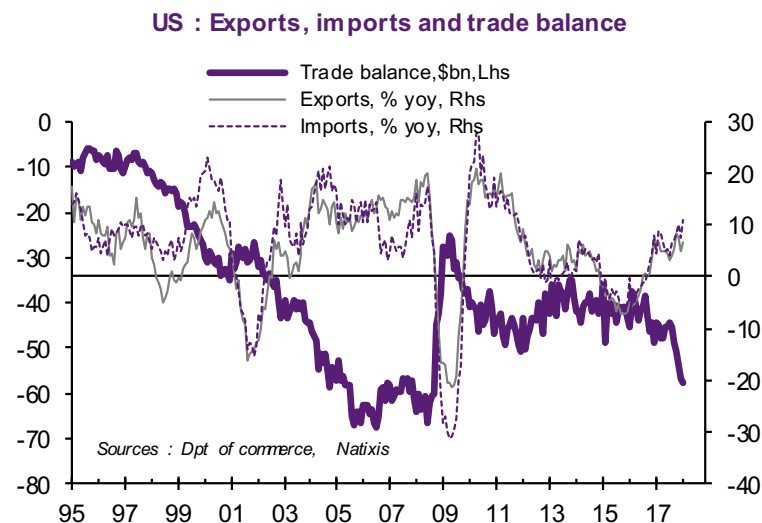
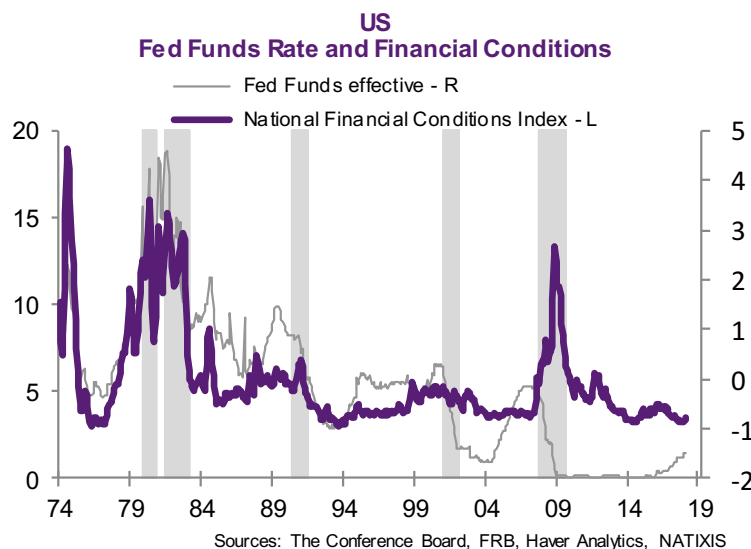


United States : expect another year of solid growth

But upbeat growth outlooks are subject to downside risks

- Heightened trade tensions with China could weigh negatively on growth
Inflationary risks could emerge as a result of those tensions
- Tightening financial conditions could dampen growth if too fast normalization by the FED
Financial conditions are already deteriorating (decrease in share prices, rise in short-term rates....)

► The unconventional fiscal policy of Trump Administration should extend the duration of the long-economic cycle despite the existence of headwinds no recession is looming ahead



Euro area : growth still in good shape but external risks are mounting

A sound and widespread growth momentum but external risks could derail this dynamic

- A synchronized and widespread growth across eurozone countries

A pick-up in economic activity is noticed in all Eurozone countries

Disparities between the four Eurozone major economies are declining

- A slight slowdown is expected but the pace is set to remain robust

Growth fundamentals are more solid with a higher contribution from investment and private consumption

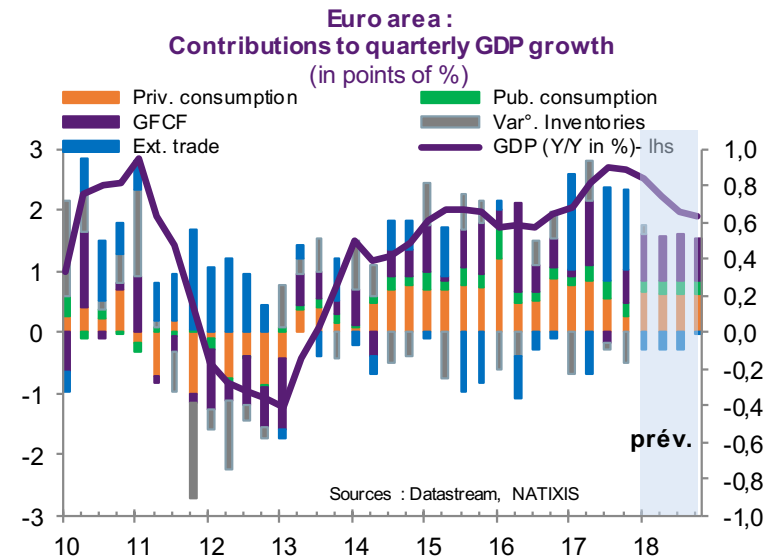
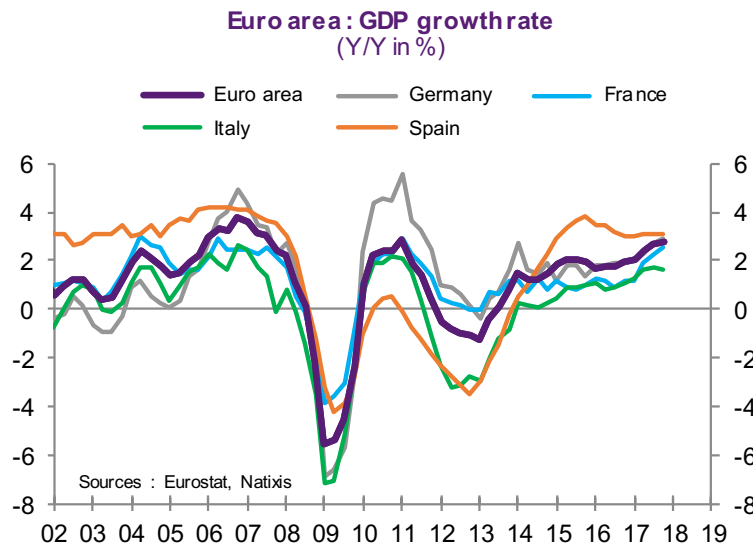
- Paving the way for monetary policy normalization this year

We expect the ECB to start reducing monthly purchases by EUR10 billion from September onwards, implying an end of net purchases by December 2018 while the first rate hike should take place in June 2019

- Main risks stem from the external environment

Intensification of trade tensions as well as geopolitical tensions in the world could derail the growth momentum

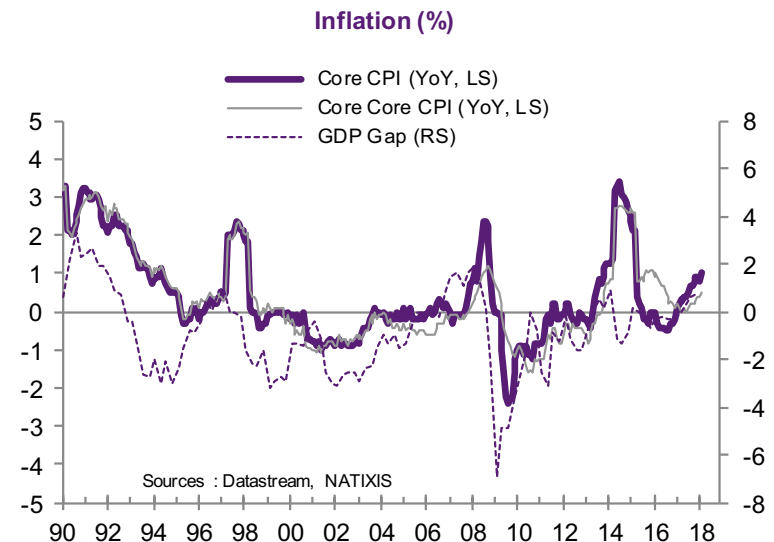
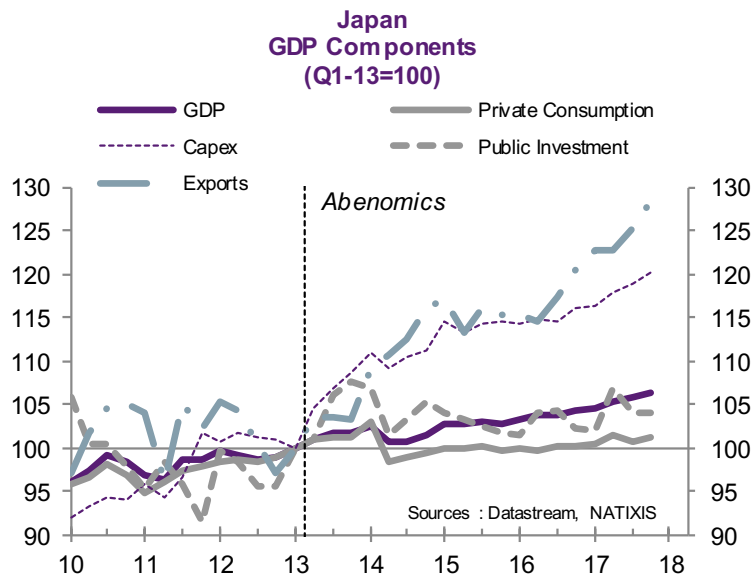
► A sound and balanced growth seems to be entrenched in the euro area



Japan: rising uncertainties on growth engines

Growth profile is expected to deteriorate in 2018 as uncertainties grow

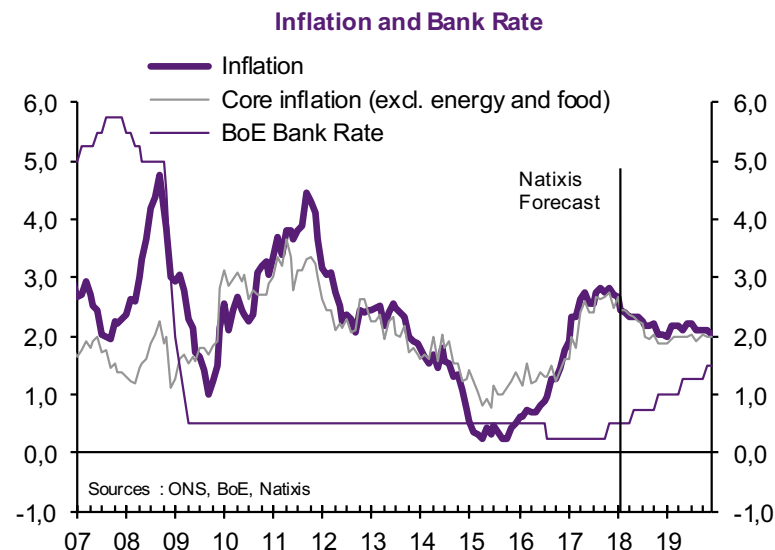
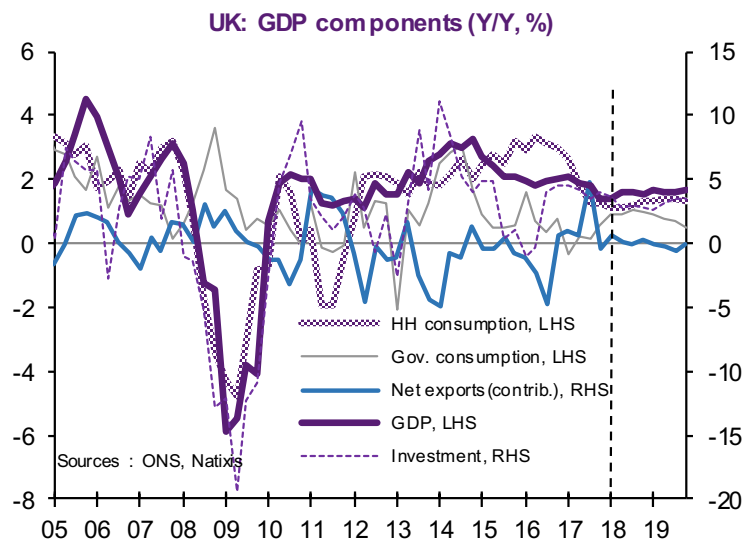
- Growth is forecasted to slow down in 2018 to +1.2% from +1.7% in 2017
Trade tensions between US and China add uncertainties to exports while fiscal stimulus is fading weighing negatively on investment
 - Private consumption should remain depressed
Wage growth remains anemic enabling to contain inflation despite unemployment rate reaching an all-time low level.
Households' purchasing power could deteriorate further if wage growth stalls and inflation picks-up
 - We expect Mr. Abe to win the LDP elections in September but we don't exclude a cabinet shuffle
Resilient economic growth and labor market should enable Mr. Abe to be re-elected at the party's election
- The fragile macroeconomic backdrop should allow the BoJ to maintain an accommodative monetary stance



UK: lagging behind as Brexit is looming ahead

Growth performance is set to deteriorate this year but overshooting inflation should lead the BoE to react

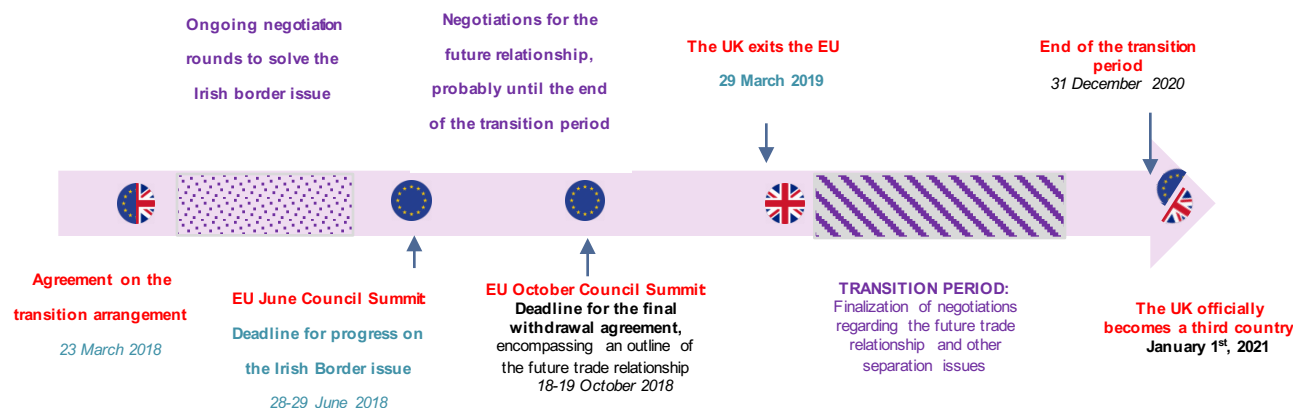
- Growth is expected to slowdown in 2018 to +1.5% from 1.7% in 2017
Households consumption should decelerate amid depressed real incomes and rising borrowing costs
Investment and external trade are set to be subject to uncertainty and Brexit risks
 - After printing at 2.7% in 2017, inflation should slightly loose steam this year (+2.5%)
Pass-through effects from sterling losses should fade away
but wage pressures could strengthen as unemployment goes down
 - Despite sluggish growth, we expect the BoE to tighten monetary policy
As inflation picks-up, the BoE should deliver two rate hikes in May (+25 bps) and November (+25 bps)
- Growth outlooks for the UK will strongly depend on Brexit negotiations



UK: lagging behind as Brexit is looming ahead

Downsides risks related to Brexit negotiations remain

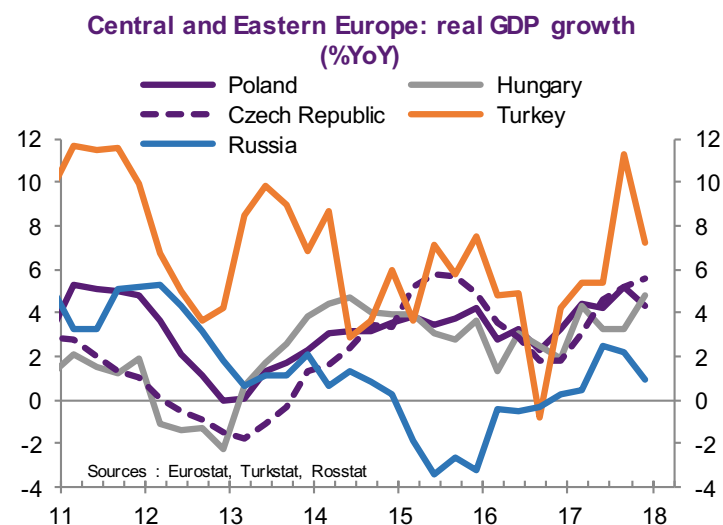
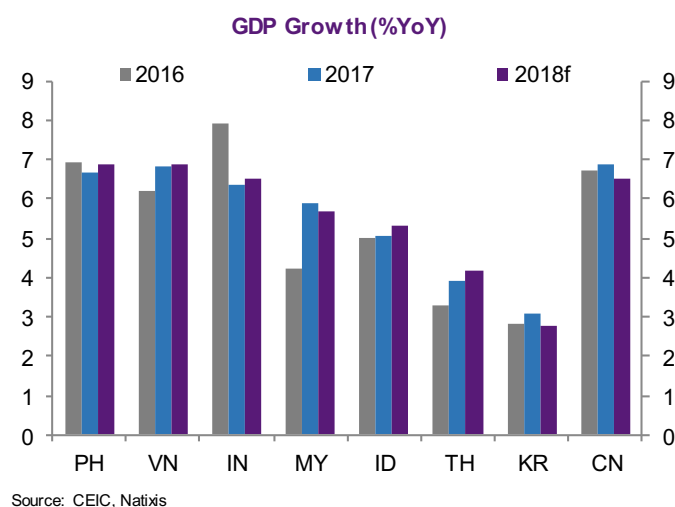
- The main risk stems from a lack of a solution for the Irish border derailing the deal on the transition period
The EU Council Summit of June sets the deadline for progress on the Irish border issue
 - The failure of reaching a deal on the Irish border by June would increase the likelihood of a disorderly exit
 - Brexit trade talks deteriorate leading to very limited access to EU market in the post-Brexit future
This situation could lead to a sharp reduction in UK's potential growth impacting negatively medium-term growth prospects
- EU June and October Council Summit are two landmark summits for Brexit negotiations



Emerging Economies: diverging trends

Emerging Asia should sustain growth momentum while Emerging Europe is approaching the end of the cycle

- China to slow down a bit in 2018 while EM Asia ex China should continue to perform well
China is expected to expand by 6.5% this year (+6.9% in 2017)
Domestic demand should remain the main driver of growth in EM Asia and China enabling growth to remain resilient despite headwinds
- After very strong performance in 2017, EM Europe growth is expected to lose momentum in 2018
Central Europe (CE) and Turkey recorded robust growth on the back of expansionary fiscal policies (except Russia)
Deceleration expected in Turkey and CE due to strong base effect
In Russia, growth should be steady despite higher oil prices as US sanctions could dampen the recovery
Central Banks expected to tighten monetary stance
- Geopolitical tensions and overheating risks are the principal source of concern for EMs
Escalated trade tensions between US and China as well as rising corporate debt are the main risks for EM Asia
Heightened tensions between Russia and the US and a deterioration in the external environment could be headwinds for EMs in Europe



Summary of Natixis forecasts

	GDP (YoY)			Inflation (YoY)			Fiscal balance (% of GDP)		
	2017	2018	2019	2017	2018	2019	2017	2018	2019
United States	2,3	2,6	2,4	2,1	2,5	2,1	-3,5	-3,9	-5,2
Latin-America*	1,4	2,2	2,5	8,1	6,2	5,7	-1,4	-1,8	-1,9
<i>Brazil</i>	1,0	2,5	3,0	3,9	3,5	4,0	-9,0	-8,5	-7,7
<i>Mexico</i>	1,9	1,7	2,0	5,9	4,7	3,9	-2,2	-2,3	-2,5
<i>Argentina</i>	2,5	3,5	3,2	25,0	17,0	14,0	-5,8	-5,5	-5,0
United Kingdom	1,7	1,5	1,6	2,7	2,5	2,1	-2,5	-2,1	-1,7
Eurozone	2,5	2,2	1,7	1,5	1,5	1,6	-1,1	-1,0	-1,0
<i>Germany</i>	2,5	2,1	1,4	1,7	0,8	1,8	1,2	0,9	0,6
<i>France</i>	2,0	2,1	1,5	1,2	1,4	1,5	-2,8	-2,8	-3,0
<i>Italy</i>	1,5	1,4	1,3	1,3	1,3	1,2	-2,1	-2,0	-1,8
<i>Spain</i>	3,1	2,5	2,0	2,0	1,3	1,4	-3,1	-2,5	-2,5
<i>Netherlands</i>	3,3	1,8	1,7	1,3	1,5	1,4	-0,8	-0,5	-0,1
Central Europe**	4,2	3,5	3,1	2,2	2,3	2,6	-2,2	-2,2	-2,3
Turkey	7,4	4,7	3,8	11,1	9,7	8,5	-1,5	-2,2	-2,5
Russia	1,7	1,5	1,9	3,7	3,0	4,1	-1,5	-1,0	-0,6
China	6,9	6,5	6,3	1,6	1,8	2,0	-3,7	-2,6	-2,8
Japan	1,7	1,2	1,0	0,5	0,9	1,1	-4,8	-4,7	-4,6
Asia excluding China & Japan***	4,8	4,7	4,8	2,5	3,1	3,2	-1,8	-2,2	-2,5
<i>India (FY)</i>	6,4	6,5	7,4	3,3	4,4	4,7	-3,5	-3,6	-4,0
<i>Korea</i>	3,1	2,8	2,5	1,9	2,1	1,5	0,8	-1,0	-1,5
Developed economies	2,2	2,2	1,9	1,7	2,0	1,8	-	-	-
Emerging economies	4,8	4,7	4,9	4,1	3,8	3,8	-	-	-
World GDP	2,9	2,8	2,6	2,2	2,3	2,3	-	-	-
World (PPP)	3,6	3,7	3,5	-	-	-	-	-	-

* Inflation excluding Venezuela

** Poland, Hungary, Czech Republic

*** Korea, Thailand, Malaysia, Singapore, Hong-Kong, Indonesia, Philippines, India, Taiwan, Vietnam

Summary of Natixis forecasts

US bond & swap Markets

United States	12/30/16	12/29/17	04/09/18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19
Sovereign yields & spreads (end of period)									
2-year	1,19	1,91	2,28	2,53	2,66	2,72	2,80	2,85	2,90
<i>Fwd</i>	-	-	-	2,40	2,48	2,55	2,61	2,66	2,71
5-year	1,93	2,24	2,60	2,85	2,95	3,05	3,15	3,15	3,15
<i>Fwd</i>	-	-	-	2,67	2,72	2,76	2,81	2,84	2,86
10-year	2,44	2,43	2,78	3,00	3,15	3,25	3,35	3,35	3,30
<i>Fwd</i>	-	-	-	2,84	2,87	2,89	2,92	2,94	2,96
30-year	3,07	2,76	3,01	3,25	3,35	3,45	3,50	3,50	3,45
<i>Fwd</i>	-	-	-	3,05	3,06	3,07	3,09	3,09	3,10
2Y - 5Y	74	33	32	32	29	33	35	30	25
2Y - 10Y	126	52	50	47	49	53	55	50	40
10Y - 30Y	62	33	23	25	20	20	15	15	15

Sovereign Spread	12/30/16	12/29/17	04/09/18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19
10Y spreads in bp (end of period)									
TNotes - Bund	224	201	228	225	225	220	220	205	190
TNotes - Gilt	121	123	137	146	154	155	158	151	140

European bond & swap Markets

Germany	12/30/16	12/29/17	04/09/18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19
Sovereign yields & spreads (end of period)									
2-year	-0,80	-0,66	-0,58	-0,53	-0,40	-0,20	0,00	0,20	0,45
<i>Fwd</i>	-	-	-	-0,52	-0,46	-0,41	-0,35	-0,26	-0,16
5-year	-0,53	-0,20	-0,09	0,10	0,23	0,35	0,52	0,70	0,85
<i>Fwd</i>	-	-	-	-0,03	0,04	0,11	0,18	0,25	0,32
10-year	0,21	0,42	0,50	0,75	0,90	1,05	1,15	1,30	1,40
<i>Fwd</i>	-	-	-	0,57	0,62	0,68	0,73	0,79	0,84
30-year	0,94	1,24	1,17	1,40	1,50	1,58	1,65	1,77	1,84
<i>Fwd</i>	-	-	-	1,18	1,20	1,22	1,24	1,26	1,28
2Y - 5Y	27	46	49	63	63	55	52	50	40
2Y - 10Y	101	108	108	128	130	125	115	110	95
10Y - 30Y	74	82	67	65	60	53	50	47	44

Sovereign spreads	12/30/16	12/29/17	04/09/18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19
10Y spreads, in bp (end of period)									
OAT - BUND	48	34	23	25	24	23	26	25	25
BTP - BUND	161	153	127	140	135	150	140	145	155
BONO - BUND	118	110	73	65	60	70	65	60	60

Summary of Natixis forecasts

Money Markets

Official Rates / Eonia, Euribor & Libors		12/30/16	12/29/17	04/09/18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19
FED		0,75	1,50	1,75	2,00	2,25	2,25	2,50	2,50	2,75
	3M Libor \$	1,00	1,69	2,34	2,55	2,70	2,60	2,85	2,85	3,10
	Forward				2,31	2,39	2,50	2,59	2,68	2,74
BCE		0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,10	0,25
	3M Euribor	-0,32	-0,33	-0,33	-0,32	-0,32	-0,30	-0,22	0,05	0,22
	Forward				-0,33	-0,32	-0,30	-0,27	-0,18	-0,09
BOE		0,25	0,50	0,50	0,75	0,75	1,00	1,00	1,25	1,25
	3M Libor £	0,37	0,52	0,76	0,80	0,85	1,05	1,10	1,30	1,30
	Forward				0,89	0,97	1,06	1,14	1,22	1,29
BOJ		-0,10	-0,10	-0,10	-0,10	-0,10	-0,10	-0,10	-0,10	-0,10
	3M Libor ¥	-0,05	-0,02	-0,04	-0,05	-0,05	-0,05	0,00	0,00	0,00
	Forward				0,08	0,08	0,09	0,09	0,10	0,11
SNB		-0,75	-0,75	-0,75	-0,75	-0,75	-0,75	-0,75	-0,75	-0,75
	3M Libor CHF	-0,73	-0,75	-0,74	-0,75	-0,75	-0,75	-0,75	-0,75	-0,75
	Forward				-0,73	-0,71	-0,67	-0,62	-0,55	-0,47

Foreign exchange rates

G10 (end of period)	12/30/16	12/29/17	04/09/18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19
EUR/USD	1,05	1,20	1,23	1,24	1,25	1,26	1,28	1,28	1,28
EUR/GBP	0,85	0,89	0,87	0,89	0,90	0,90	0,91	0,91	0,90
EUR/CHF	1,07	1,17	1,18	1,16	1,16	1,17	1,18	1,19	1,20
EUR/SEK	9,58	9,83	10,31	10,30	10,15	9,85	9,70	9,60	9,40
EUR/NOK	9,09	9,84	9,60	9,75	9,60	9,50	9,40	9,30	9,10
GBP/USD	1,23	1,35	1,41	1,39	1,39	1,40	1,41	1,41	1,42
USD/JPY	117	113	107	105	105	106	107	107	108
USD/CNY	6,95	6,51	6,31	6,31	6,28	6,26	6,26	6,21	6,21

Commodity Markets

Energy prices (end of period)	12/30/16	12/29/17	04/09/18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19
Brent spot	55,2	66,7	68,2	67	68	70	69	70	72
Future	-			67,7	66,4	65,3	64,2	63,3	62,4
WTI spot	53,8	60,5	63,4	63	64	65	65	66	69
Future	-			63,2	62,1	60,9	59,6	58,4	57,4

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