WORLD

MACRO-ECONOMIC SCENARIO 2023-2024

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ECO
ÉTUDES ÉCONOMIQUES GROUPE

An unprecedented reversal

The scenario spins on, in the shadow of the Russia-Ukraine war. A war that is affecting not only the countries close to its epicentre, but also those farther off, through its immediate impacts such as higher food and energy costs – and the risk **of shortages. While Russia's economy is not on the verge of collapse, and Ukrainians are putting up an impressive fight,** the most likely mid-range scenario, alas, is that the war will go on. And although a welcome surprise on negotiations did not seem possible until recently, it is more plausible now, though not to the point of becoming the preferred scenario.

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Inflation has taken solid hold – both demand-side and supply-side; both surging inflation and inflation that just edged up slightly due to the shock of the war in Ukraine. Monetary tightening is stinging – whether it is aggressive and almost complete, or more hesitant and limited. **The powerful mainsprings of the post-Covid recovery are relaxing, and economies – at varying degrees of proximity – are getting ready to tangle with recession**. It appears that a deep recession will be avoidable, but (paradoxically) thanks to the shock absorbers left over from the pandemic in the form of (still-ample) private savings and relatively resilient labour markets.

In the **US**, a soft landing is not out of the question. However, our scenario is leaning towards a clear slowdown in growth starting in 2022 (1.9% after 5.9% in 2021), and worsening in 2023 (0.5%), with a slight recession mid-year. Inflation is high and is not expected to cool in a hurry. The pillars that held steady growth (especially in consumption) above expectations are starting to cave in. These include (1) a tight labour market but slowing job creation; (2) high growth in nominal wages but loss of purchasing power that calls for dipping into savings built up during the pandemic and using credit-card debt; (3) business surveys trending down; and (4) a downturn in residential and non-residential investment. Still, there is no sense counting on any countercyclical action by fiscal and/or monetary policies. The Fed has clearly stated it would focus on inflation at the cost of enduring a short-term recession, and the 2022 midterm elections created a power split that will be of no help with any fiscal stimulus.

In the **Eurozone**, the natural collapse of growth in the wake of the pandemic has been joined by the new, longer-term shock of the war in Ukraine. The shocks are coming in rapid succession, with the tracks of the past (temporary) shock overlaid by the effects of the new (more permanent) shock, and they have made the economic cycle harder to read. **What are we inheriting from the pandemic?** A still-solid labour market; a savings surplus that is substantial, but that has already been tapped by the lowest-income households; and inflation that we were hoping was temporary. With the debate still open as to the exact nature of inflation and how much blame to assign supply or demand, there is no denying that supply chain tensions are easing and a moderation of global inflation is spreading, but the second-round effects are visible. Energy price increases are clearly being passed on through production costs, even before any price-wage loop is singled out as the cause. **What has the war in Ukraine brought us?** Higher prices on energy imports which, over the first nine months of 2022 compared to the same period in 2021, add up to 4.3ppt of GDP. The dynamic effects of worsening terms of trade, inflation and lost competitiveness on export volumes and market shares will gradually spread, adding to this toll. And so, our scenario is of a marked deceleration in growth (0.1% in 2023 after 3.4% in 2022) as well as a lower growth rate for the long term, below potential growth which has itself weakened.

The powerful mainsprings of the post-Covid recovery are relaxing, and economies are getting ready to tangle with recession.

Finally, in **China**, while domestic demand has seized up and growth might not exceed 3% in 2022 (far from the initial forecast of "about 5.5%"), the reversal of the zero-Covid policy was embraced by observers. Their objection will be that it has yet to be formally enacted by the authorities. They will also specify that predicted acceleration of growth to around 5% in 2023, with a net external contribution of zero at best, and investment still hobbled by restructuring in the real estate sector, presumes that the government can manage to create enough of a confidence shock to free up some precautionary savings and stimulate consumption.

In terms of monetary policy, fighting inflation is still the top priority. Still, no matter how quickly economies are heading toward a recession, central banks are not finished with inflation. They will not risk putting down their guard too soon, especially since core inflation could turn out to be more resilient than anticipated. **The 'pivot' the markets are hoping for is less likely to**

usher in a rapid decline than a pause, one which will come with some quantitative tightening. In the **US**, after aggressive rate hikes in 2022 totalling 425bp and bringing the target range to 4.25-4.50%, the Fed indicated that it intended to slow down the pace of hikes but clarified that tightening had not come to an end. It is expected to continue during Q123 and bring the Fed funds target up to 5.00-5.25%. Inflation's long-term return to the 2% goal is a precondition for easing, which means it would not come before 2024. In the **Eurozone**, the ECB also committed to the path of monetary tightening and raised its deposit rate, moving from extremely accommodating to a restrictive threshold. After being fairly aggressive, the pace of increases is likely to slow and we expect the terminal rate to be reached in March 2023, with a deposit rate below 3%. But alongside higher rates, there will be a change in TLTRO terms prompting banks to prepay these loans. This could be the most powerful channel in terms of monetary tightening. And lastly, the start of quantitative tightening in 2023 will complete the scheme.

Inflation has yet to surrender, monetary policies are set on combating it, and the recession is in focus. These are the key ingredients in the interest rate scenario. The recovery in long-term rates is still attached to an at-best mediocre and perhaps even outright weak growth forecast. This is causing a modulated curve inversion based on the maturity of the economic and monetary cycle: full-on in the US, but moderate in Germany. As such, our scenario is calling for US 2Y and 10Y sovereign rates at 4.90% and 4.00%, respectively, at the end of 2023, while in Germany they are expected to be 3.10% and 2.60%.

And finally, after being buoyed by risk aversion, turbocharged growth and early & forceful monetary tightening in the US, the USD's stellar run is certainly over. Indeed, **the USD is expected to lose some ground in 2023**, due to several factors: (1) recession (even a mild one) and a pause in monetary tightening in the US; (2) aggravated US external imbalances; (3) an overvalued USD; (4) the size of short positions; and (5) possible interventions on the FX market intended to weaken the USD.

Catherine LEBOUGRE

Focus – Geopolitics – The reality? Trench warfare in Europe

Geopolitics is still remodelling the economy: through shocks, yes, but also through fear. Indeed, no matter what the scenarios are today on the European front, the damage is done. The idea of the war economy is changing minds, industrial policy and government decision-making. China and the US are now in a bipolar friend/foe relationship. The paradox: this massive fragmentation, which is pulling the European economic cycle with it, is also opening up opportunities for peripheral states, the so-called secondary powers attempting to make the most of the major geo-economic reshuffling going on.

On the war front, things are still just as unreadable, which is to be expected: this is what the military calls the fog of war, and it bears repeating. Claiming you want to lift this fog is more a poker game than an exercise in forecasting. War is never predictable – even less so in a world of information warfare. On the other hand, we can point to power shifts (gaining or weakening) to help steer our base-case scenario.

On the Russian side, the failures in the field seem obvious, but the front is moving less and less as winter approaches. And Russian soldiers will not be as well-provisioned as the Ukrainians, who have the support of the local population. In the same vein, Moscow is having more and more trouble withstanding the intensity of a war so technological it is draining Western reserves. Besides, the mobilisation has left deep scars on the Russian social contract, and the power is weakening. But the net of sanctions has a very wide mesh, limiting the impact on the economy. The scenario of Russia's economic collapse is likely not imminent unless the political fabric gives way.

At the same time, the longer the war goes on, the more Ukrainian strikes spill over into Russian territory, and the more Moscow – including a part of the population initially hostile to the war – sees it as an existential conflict and (what is more) a war against NATO as a whole. Therefore, Russia has dug in to its stance as the revisionist power, in the world order described in Henry Kissinger's "path to peace". Revisionist powers, feeling fundamentally insecure, are hard-liners. That is to say, they are assuaged by nothing less than permanently weakening the adversary, whom they see as a threat to their own security.

The global geopolitical scenario continues to show signs of fragmentation, and this affects the macro-economy in multiple ways.

This logic leads straight to the infrastructure war that Moscow is now waging, knowing too that, in this kind of full-scale war (because that is what it is), the first recorded defeat would be a demoralised people. As to that, though, Ukrainians are amazingly tough. At this stage, they do not want some half-measure of peace like they got in 2014. So the signals from the Russia-US negotiations these past few weeks are – for now – colliding with the very nature of President Volodymyr Zelensky's legitimacy, which was very low before the war and has actually been built on the theme of total resistance and recovery of their territory.

The extended warcast

Here we are, then, in a phase of the conflict where all paths are open: escalation if the war spills over into a NATO country or, more significantly, into Russia; peace negotiations, although Ukrainians will drag their feet on accepting it, if any loss of land is involved; or a stalemate, with ongoing news that may create shocks (specifically on wheat prices). The base-case scenario of a war dragging on seems, unfortunately, the most plausible, in the hope of a welcome surprise on negotiations. Over the past few quarters, we did not consider this a possibility. It is easier to imagine now, but not as the central scenario.

The overall fragmentation continues

Meanwhile, the global geopolitical scenario continues to show signs of fragmentation, and this affects the macro-economy in multiple ways. Fragmentation means, first of all, that the 'big game' between the US and China will go on, and even accelerate, decoupling strategic sectors that are considered relevant to national security, including artificial intelligence, semiconductors, quantum computing and bioindustry.

American strategic documents are clear: it is no longer a question of maintaining a technological edge, but of stopping China in its tracks. Fragmentation also means that the 'friend-shoring' Janet Yellen is trying to sell in every corner of the globe is not putting European friends at ease, as they face the temptation to delocalise in view of the Inflation Reduction Act. On the other hand, German Chancellor Olaf Scholz's narrow escape in China proves that, even if the West shows a united front against the technology war, the alliance is crumbling in several other sectors: many European countries are choosing to Sinicise their business activities and local staff more fully, rather than do without the Chinese market.

For secondary powers, the game is on

This concept of a multi-speed, sector-dependent alliance is valid for many other countries. Saudi Arabia is still militarily allied with the US, but is not applying the sanctions against Russia, and is taking generous liberties with its US 'big brother'. Japan is part of the military alliance known as the Quad, but it is quietly staying in the Sakhalin-2 project, and will benefit from the customs agreements of the vast Asian trade alliance RCEP formed in 2020… which China is part of. India is looking to gain from the huge geopolitical reconfiguration by purchasing Russian oil at low prices, while attracting investors fleeing Chinese lands. Turkey, meanwhile, is milking its status as a key state, being granted 'multi-focal' geopolitical leeway that most other countries do not have. So this great fragmentation is also a major reconfiguration, in which many of the middle powers are trying to play their hand and find new opportunities.

A final point in the geopolitical scenario: fragmentation is also opening up space for other conflicts. We have seen this already for Turkey in Syria, but we must keep a close eye on the Mediterranean in general, where tensions among Greece, Cyprus and Turkey are high; this is not going to sort itself out with the Turkish elections coming up in 2023. Eyes on northern India, too, where Sino-Indian relations are deteriorating, with military stockpiling on both sides of a border where the 2020 conflict served only to reawaken the war of 1962...

Tania SOLLOGOUB

DEVELOPED COUNTRIES

Getting ready to tangle with recession, at varying degrees of proximity

USA – Soft landing still possible, but not the base case

Eurozone – Shock behind, shock ahead

United Kingdom – Difficult times lie ahead

Japan – Growth driven by domestic demand to pick up

Focus – The European banking sector amid inflation and monetary normalisation

Getting ready to tangle with recession, at varying degrees of proximity

Inflation has taken solid hold – both demand-side and supply-side; both surging inflation and inflation that just edged up slightly due to the shock of the war in Ukraine. Monetary tightening is stinging – whether it is aggressive and almost complete, or more hesitant and limited. The powerful mainsprings of the post-Covid recovery are relaxing, and economies – at varying degrees of proximity – are getting ready to tangle with recession.

USA: SOFT LANDING STILL POSSIBLE, BUT NOT THE BASE CASE

Though the economy remains relatively resilient for now and looks likely to maintain positive growth in H222, we expect the combination of elevated inflation and an aggressive Fed to lead to a mild recession in mid-2023, pushed back slightly from H123 in our previous forecast.

Despite the contractions in both Q122 and Q222 GDP, we think it is unlikely that the NBER will determine that the economy was in recession in H122 given greater resilience in the data points the NBER focuses on, along with gross domestic income expanding in both Q122 and Q222. As a result, we do not expect a recession to arrive this year and anticipate that there is enough momentum for growth to remain in positive territory in Q422 after rebounding in Q322. Combined with the soft prints in H122, this results in 2022 annual growth slowing to around 1.9% compared to a 5.9% surge last year.

In 2023, however, we continue to expect a sharper downturn and look for a mild recession to arrive in Q223 and Q323. Housing has already weakened significantly, along with sentiment indicators, though other portions of the economy – in particular the labour market and, relatedly, the consumer – have remained more resilient for now, with this resilience greater than expected through October.

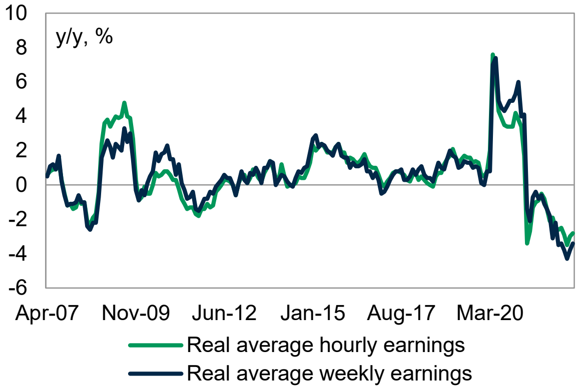
Consumers facing negative real wage growth have become increasingly reliant on dipping into savings and borrowing on credit cards to cope with broad-based inflation.

The stronger momentum through October, with contributions from cost-of-living adjustments in social security and stimulus cheques from state and local governments, may allow consumers to hold on for another quarter through Q123. That said, we see growing signs pointing towards a sharper slowdown by the middle of next year.

For one, consumers facing negative real wage growth have become increasingly reliant on dipping into savings and borrowing on credit cards to cope with broad-based inflation that will likely remain elevated well into 2023. A solid pile of savings still exists and credit card debt is manageable in the near term, hence the positive growth we expect through Q123, but these sources of support will not last forever and should drive a consumer slowdown by the middle of next year, in our view. Household balance sheets remain in good shape compared to before the pandemic, which may work to mitigate the severity of the downturn, but we do not expect this support to be enough to avoid recession entirely.

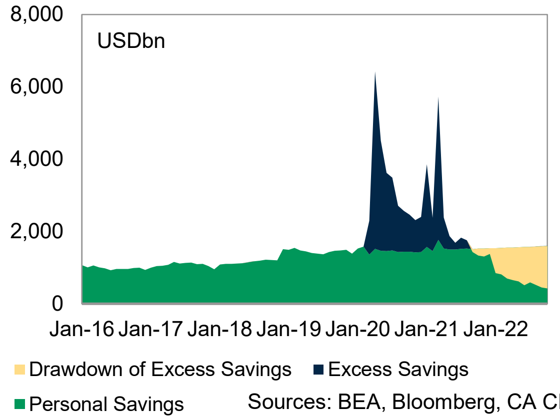
The labour market has also supported consumers and remains extremely tight at the moment, with monthly nonfarm payroll gains still above 250k and the unemployment rate only just above the pre-Covid low at 3.7%. However, signs of slowing momentum have begun to grow here as well, including job losses in the

US: negative real wage growth a headwind to consumers



Sources: BLS, Bloomberg, CA CIB

US: consumers have begun to draw down savings



Sources: BEA, Bloomberg, CA CIB

household survey in four of the past eight months. When combined with increasing anecdotal evidence of hiring freezes and/or layoffs announcements, we look for the labour market to soften further as we enter into 2023. We see nonfarm payroll gains continuing to trend downwards and the unemployment rate jumping to around 4.5% by year-end, which should lessen consumer support from the labour market and add to the factors contributing to softening consumption by mid-2023.

On top of this, business surveys have been trending downwards as well, with both ISMs trending down from the recent peak, including the manufacturing ISM now having dipped into contractionary territory below 50, and capex intentions in regional Fed surveys also declining. Combined with rising rates and a number of companies indicating concerns around the profit outlook, this highlights the likelihood of slowing non-residential investment going forward as well.

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

Taking everything together, we now anticipate this mild recession arriving in the middle portion of 2023, with contractions in both Q2 and Q3. Recession is not a given and we do still see a narrow path to a softer landing, especially if inflation were to ease faster than expected, but we believe that odds tilt in favour of recession, at around a 65% probability for next year.

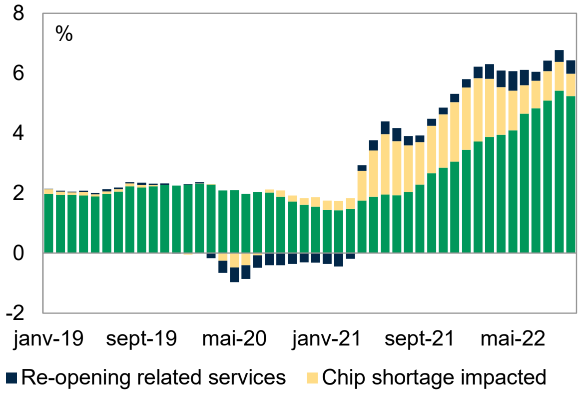
By the end of 2023, we see more substantial inflation relief beginning to emerge as the combination of slowing growth and improving supply chains drives headline CPI closer to 3% and core below 3% by year-end, lessening the burden of price increases on consumers. This improvement in inflation data would also allow the Fed to begin laying the groundwork for cuts in 2024, setting the stage for growth to rebound back to positive territory in Q423, though at a below trend rate, with modest acceleration continuing into 2024. **Still, this pattern leaves 2023 annual growth at just 0.5% and 2024 growth at a still below-trend pace of 1.3%.**

Annual change	2022	2023
GDP	1.9%	0.5%
Inflation	8.1%	4.0%

As growth slows further, some have expressed optimism that fiscal and/or monetary policy could ride to the rescue, as happened prominently during the Covid induced recession of 2020, though we expect these hopes to be dashed. On the monetary policy front, the Fed has made its inflation focus clear, and has essentially indicated that it views the short-term pain of a recession that brings inflation to heel as preferable to the long-term pain that could result if inflation were to become de-anchored. As a result, we believe the Fed is unlikely to cut rates in 2023 even in the face of mild recession. Meanwhile, the 2022 midterm elections resulted in a divided government, with Republicans in control of the House and Democrats in control of the Senate, and agreement on any major spending package looks very unlikely, especially while inflation continues to rage.

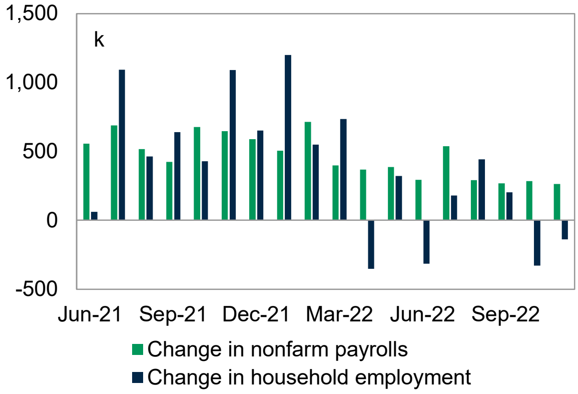
Nicholas VAN NESS

US: inflation increasingly broad-based



Sources: BLS, Bloomberg, CACIB

US: tentative signs of softening labour market



Sources: BLS, Bloomberg, CA CIB

EUROZONE: SHOCK BEHIND, SHOCK AHEAD

The lengthy post-pandemic rebound wave is settling down, and growth normalisation is hitting another, more lasting shock from the war in Ukraine. This is an exceptional slowdown for the economy: annual growth of 5.5% in Q122 fell to 2.3% in Q3. The scale of this decline is not just a factor of the war's impact on the cycle. With special support measures withdrawn, and surplus demand back to normal after having been being 'bottled up', the cycle is back to a more 'normal' magnitude. Still, this downward spiral is bigger than the Eurozone's last (non-pandemic) recession (2011-12). Consumption, driven by substantial surplus savings, might be resilient enough to delay the contraction we expect in Q422 and Q123. The economic downturn cannot be avoided, though, and a new growth pattern threatens to be weaker for a long time and lower than (also weaker) potential growth. **We expect GDP to grow by 0.1% in 2023 and 1.1% in 2024.**

A lasting – and uneven – loss of income

The loss in revenue for the Eurozone economy, triggered by the rise in energy commodities prices, can be measured in the rise in the value of energy import costs over the first nine months of 2022 compared to the same period in 2021: those extra costs amount to 4.3pt of GDP. The dynamic effects of worsening terms of trade and lost compete-tiveness on export volumes and market shares will gradually spread, adding to this toll. The never-ending power bill overload in Europe is translating to a long-term downturn in business activity. Presumably, the spread of losses among economic actors can be quantified in a static framework, based on their relative energy use: 29% of losses can be attributed to households, 68% to companies and 3% to governments. But when the load is reshuffled among economic agents (government support to consumers and businesses, cost increases passed from producers to consumers, corporate profits redistributed to consumers), the distribution changes. The behavioural changes caused by the new price signal are affecting the agents' relative losses, as well as the total loss for the nation. While over the first eleven months of the year, **the steepest decline in natural gas consumption in Germany (-20% compared to the 2019-21 average) and Italy (-12%) goes to industry, in France it applies more to consumers (-15%).**

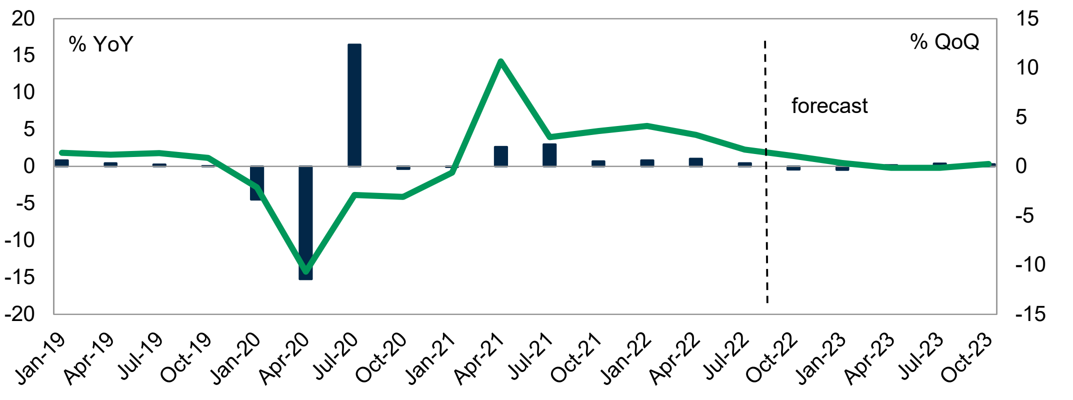
Dissecting the multiple shocks and their different time frames

Getting a read on the economic situation is being complicated by the series of shocks: past (temporary) shocks are dovetailing with a new (more persistent) shock, making it hard to pin the blame on either. Exiting this pandemic crisis is not business as usual. It is a sequence of two adjustments: first to durable goods (already well underway) and then to services (now deploying more extensively). They are the result of the release of pent-up demand and the dislocation of production chains. And piling on to these adjustments is the new energy supply shock. This shock, powerful and more persistent, is still scrambling the signal: what is the extent of the damage, what is the potential impact on inflation, what adjustments have already been made, and which ones are still called for?

It is an upside risk in the short term, downside in the long term

Our scenario includes a sharp slowdown in private consumption, with stagnation in 2023. Losses in purchasing power (to the tune of -0.5% of real disposable income in H122) have yet to morph into a decline in consumption, which is likely to come at the end of the year. The surplus savings left over from the crisis – around EUR1trn as of mid-2022 – has been a powerful engine for the consumer recovery, and once again made domestic demand more resilient in Q3. But those savings have been drained for lower-income households with a higher propensity to consume, and their savings rate has already tipped to negative. For the lowest-income households, a serious decline in their financial outlook means a growing number of people in financial distress will be dipping into their savings or going into debt.

Eurozone - GDP growth : exceptional momentum loss



Sources: Eurostat, Crédit Agricole S.A.

Inflation has also eroded the buying power of the net wealth accumulated since Covid. In Q222, net wealth in real terms made up “just” 8.7 times the real value of consumption (down from 9.4 times at end-2021). In the short term, the surplus savings may still act as a shock absorber to consumption, specifically of services and durable goods for more affluent households. **Public support was deployed with varying time frames according to country, but reached 1.3% of GDP in 2022, more than half of which went to consumers. Our scenario of a contained downgrade in household spending rests on this public backing.** In the medium term, the stress of pursuing the financial goal of rebuilding real cash holdings back up will begin to ‘bite’; the reduction in inflation pressures in 2023 should, however, counteract the decline in purchasing power and allow private consumption to rebound.

The legibility of the economic situation is complicated by the succession of shocks: past (temporary) and new (more persistent) shocks

Inflation: an unresolved debate

How inflation develops will depend on its true nature: mostly a supply shock, to a lesser extent a demand shock, but also a supply destruction shock – which can result from the inflation shock itself and the economic policies applied. And the debate over its nature is not yet settled: for the ECB, current inflation is due to demand and supply in equal measures, while the European Commission blames supply shocks for 80% of production prices. Yet really, the mixed impact of both shocks is at work. The bump-up in core inflation (5%), which began in Q321, was caused mainly by supply-side constraints (bottlenecks in industrial goods supply and input shortages), then the volume of demand-side factors gradually increased over time as pandemic restrictions were lifted, specifically in services.

However, **relative price adjustments are now well underway** in both sectors, and survey data points to the end of supply chain tensions: with supplier delivery times slashed, the price increase on input is at its lowest point in a year in manufacturing, and sale prices are also rising less. The first declines in import prices for intermediate goods and non-food consumer goods are channelling the moderation of global inflation, despite a heavily devalued exchange rate. However, now we begin to see the second-round effects, with energy price increases spreading to the other components through production costs.

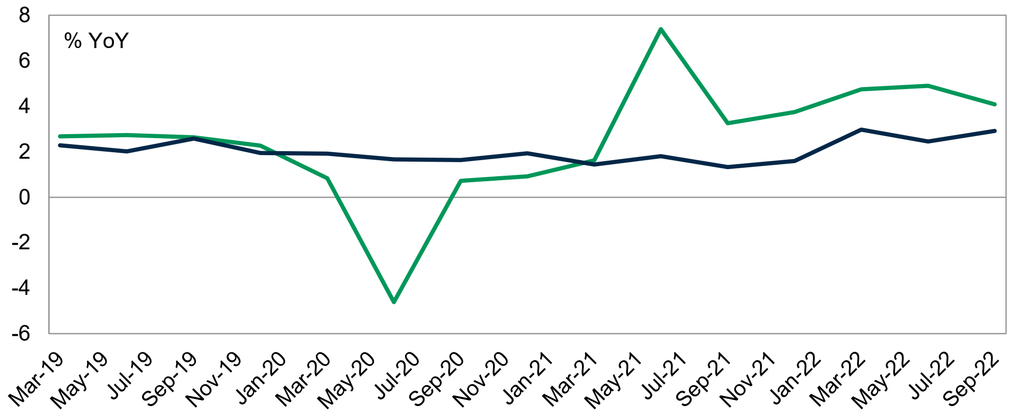
Limited turnaround for employment

Job retention – a key component of the Covid response – **is helping a solid job market, which, amid a downturn inactivity, is adding to the confusion of reading the environment, especially prices.** Employment rose again in Q3, but there is a clear loss of momentum YoY (1.7% after 2.6% in Q2). After tipping above pre-pandemic levels, hours worked showed its first decline due to the activity slowdown, which is expected to progressively spread to employment itself. And wages per worker, no longer benefiting from the increase in working hours, also posted lower (from 4.9% in Q2 to 3.6%). However, growth in unit labour costs remains high at 4% for 2022.

The latest wage negotiations were marked by a flexible wait-and-see attitude, multiplying bonuses and extraordinary pay components: these do not preserve workers’ purchasing power. In Q322, they do foretell a 3% nudge to wages in 2023 – admittedly higher than past years, but still moderate. Actual pay will increase by more, but its acceleration will be limited by less wage drift than in 2021 or 2022. **The rise in the jobless rate to 7.2% in 2023 (after 6.8% in 2022) will be capped by the use of short-time work arrangements in the industries hardest hit by the energy crisis.**

Annual change	2022	2023
GDP	3.4%	0.1%
Inflation	8.5%	7.5%

Eurozone - Wages: second round effects still far away



Sources: Eurostat, BCE, Crédit Agricole S.A.

Policy mix taken hostage

There is legitimate concern over how effective monetary tightening will be: what power does it have to reduce inflation when a majority of it is imported? How much activity should be sacrificed to achieve that? Fiscal policy is now mainly geared toward limiting the costs of higher energy prices for households and companies. International institutions are asking for better targeting so they do not interfere with the workings of monetary policy, increase the risk of financial instability or scramble the price signal and thwart a decline in energy use. But this kind of targeting is complicated, and politically costly, in the face of a crisis that is affecting the middle classes. **Therefore, we predict that the fiscal stimulus will be just barely negative in 2023, with a very marginal reduction in deficit and debt.** Monetary and fiscal policy are also overtasked by the lack of regulatory policy for keeping imbalances in the natural gas market from spreading over to electricity. Alas, such a solution in our scenario is now a vain hope.

Paola MONPERRUS-VERONI

UNITED KINGDOM: DIFFICULT TIMES LIE AHEAD

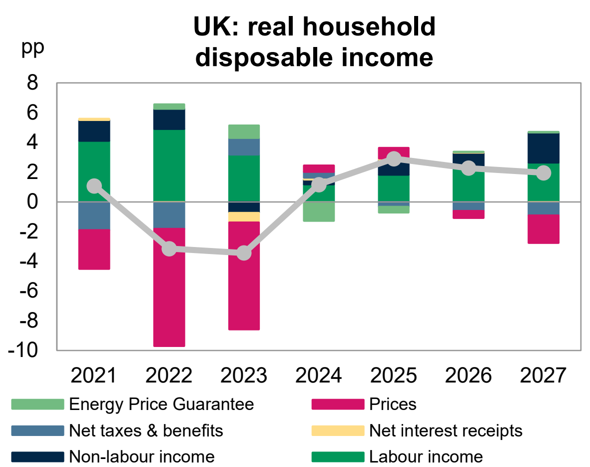
A recession is looming

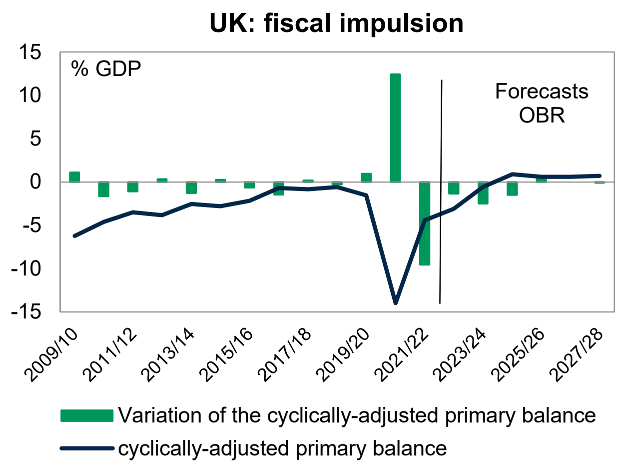
GDP growth came in line with expectations at -0.2% QoQ in Q322 (after an upwardly revised Q2 to +0.2% QoQ from -0.1% QoQ previously) as household consumption fell (-0.5% QoQ) and business investment remained weak (-0.5% QoQ). GDP had stayed broadly stable during the first half of the year, having printed zero growth on average on a monthly basis due to weak consumer spending, especially retail sales, and the contracting industrial sector. In Q3, the death of Queen Elizabeth II likely amplified the downturn of activity as there was an additional bank holiday and many businesses closed activities, so actual underlying growth was again likely close to stagnation. Still, we expect Q3 to mark the beginning of a four-quarter recession. We expect activity to contract by 0.4% QoQ in Q4. Consumer confidence has stayed close to all-time lows and business surveys such as PMIs have fallen into contraction territory consistent with activity falling in line with our forecast. This would lead to annual growth for 2022 of 4.4%, unchanged vs our previous forecast. However, we revise 2023 growth downwards significantly to -0.8% (from +0.1% previously) given that the government's fiscal stance has changed from ultra-expansionary after the "mini-budget" on 23 September to contractionary in the Autumn statement on 17 November. We expect positive albeit below-potential growth of +1.1% in 2024 as the squeeze in real incomes comes to an end that year, but fiscal policy remains contractionary dampening activity.

We revise 2023 growth downwards significantly to -0.8% given that the government's fiscal stance has changed from ultra-expansionary after the "mini-budget" on 23 September to contractionary in the Autumn statement on 17 November.

Households are experiencing a historical squeeze in their living standards due to elevated inflation

The real disposable income is set to decline by a cumulative 7% this year and next (according to the OBR), its biggest fall on record since 1956. This is despite the expectation of continued strong growth in the labour income next year and the large cost-of-living support in the near term announced since March (amounting to about GBP114bn according to our estimate, including the GBP37bn support announced by ex-chancellor Rishi Sunak in March and May). In his Autumn statement, the Chancellor Jeremy Hunt announced that the Energy Price Guarantee (EPG) would last 18 months capping energy prices at GBP2500/year on average from October to April and then at GBP3000/year for the following 12 months. He also enhanced cost-of-living payments to those





Sources: OBR, Crédit Agricole S.A.

households on means-tested benefits and to pensioners. However, this support is largely insufficient to compensate for the erosion to incomes coming from inflation. Meanwhile, rising borrowing costs (effective mortgage rate reached 2.8% in September, while the two-year fixed term rate 75% LTV surged to as high as 6% in October) are likely to lead to a decline in housing prices, further weighing on household consumption.

Annual change	2022	2023
GDP	4.4%	-0.8%
Inflation	9.1%	7.3%

On the verge of another era of austerity

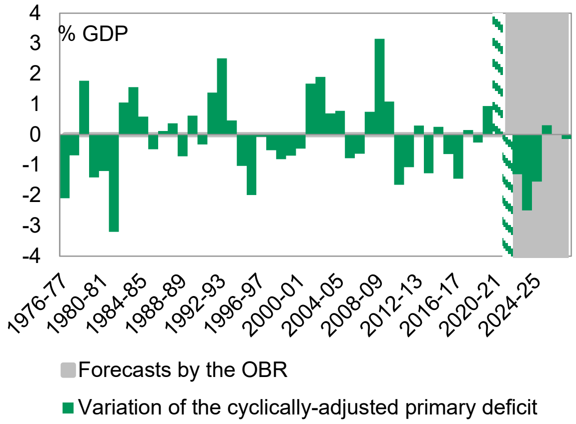
Substantial fiscal tightening is planned in the medium term in order to stabilise public debt over the next five years. The government has announced a GBP55bn fiscal consolidation plan over the next five years split between tax increases of GBP25bn and spending cuts of GBP30bn (in both capital and current spending). Tax increases are essentially composed of freezing the income tax thresholds, increasing the business tax rate from 19% to 25% in April 2023 and increasing and extending the energy profit levy. The fiscal tightening (measured by the variation in the structural primary deficit) is set to amount to 1.3% of GDP in 2022-23, 2.5% in 2023-24 and 0.9% in 2024-25. The government plans to eliminate the primary structural deficit by 2024-25 and register a surplus each year by 2027. The surge in debt servicing costs alongside the rise in interest rates and in inflation (one-quarter of public debt being composed of inflation-linked gilts) is largely responsible for the tightening in fiscal policy.

Upward revisions to inflation

CPI inflation reached 11.1% in October as utilities prices increased in line with the cap of the EPG. Inflation is likely to remain above 10% in the near term. Meanwhile, the EPG implies a rebound in energy prices by 20% in April next year as the energy price cap is adjusted to the government's GBP3000/year. Our inflation forecast is revised upwards this year and next to 9.1% and 7.3% respectively (against 8.9% and 6.2% previously). Still our baseline scenario remains one of sharply falling CPI inflation in the course of 2023 on the back of base effects, normalisation in global bottlenecks and lower domestic demand. Inflation is expected to fall back to target in Q224 only.

Slavena NAZAROVA

UK: fiscal stance



Sources: OBR, Crédit Agricole SA / ECO

UK: retail sales and consumer confidence

Sources: Gfk, ONS, Crédit Agricole SA

JAPAN: GROWTH DRIVEN BY DOMESTIC DEMAND TO PICK UP

Growth to be driven by domestic demand even as net trade takes a hit

Japan's move to a post-Covid world had been delayed compared to other major economies. However, since the autumn, the government has significantly loosened restrictions and resumed programmes to increase service consumption. As a result, we expect **Q4 real GDP growth to rebound firmly**. The economic recovery will likely continue throughout CY23 and CY24. Our main scenario is that Covid-related measures will further be eased throughout next year, paving the way for Japan's economy to accelerate.

Private consumption will continue to remain firm, supported by a further pick up in consumption as people further adjust to a post-Covid life and supply chain disruptions are alleviated. Furthermore, a tight labour market is helping household income remain firm, acting as support for consumption to remain firm.

Businesses' capex plans remain strong as they move to increase investments not only to alleviate supply chain disruptions but to offset the increasing labour shortage they face with capital. **Private capex** as a percentage of GDP has remained below 16% since pandemic but, with the pickup in capex, we expect this ratio **to head toward 17% over the coming years**. The pick-up in capex combined with continued wage growth amid a tight labour market should help dissolve the abnormal state of excess corporate savings.

The economic recovery will likely continue throughout CY23 and CY24.

Recent spike in inflation likely to be temporary

Core CPI (ex-fresh food) has surpassed 2%. However, the key drivers of inflation are energy prices and food prices. Once removing those elements, core CPI (ex food and energy), which are correlated more to domestic demand, remain below 2%.

We believe that any spikes in CPI will be temporary unless structural deflationary pressures, ie, excess corporate savings, are fully removed. With the recent spike in CPI, we expect a strong base effect to appear in the latter half of CY23 and suppress core CPI growth. Thus, we expect core CPI to decelerate to 1.8% in CY23.

However, 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. We believe that core CPI will continue to fall below 2% in CY24, and core CPI will sustainably pass 2% only in CY 25.

Annual change	2022	2023
GDP	1.6%	1.8%
Inflation	2.3%	1.8%

Another supplementary budget to come in the new year

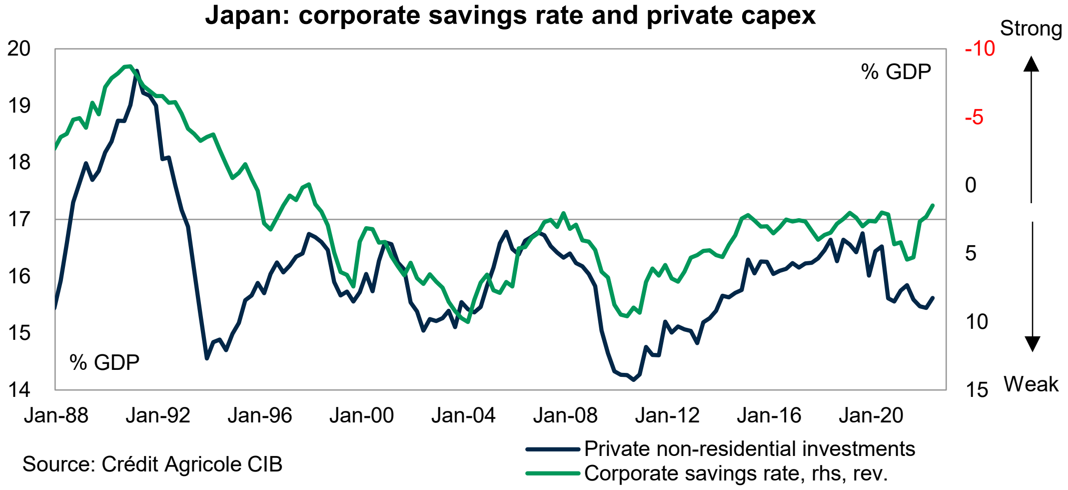
PM Fumio Kishida's popularity has taken a hit since the summer. For the moment, we do not expect PM Kishida to resign, as the LDP has control of both houses of the Diet, but the need for the government to strengthen the economy to maintain support has likely increased

The government has already passed a supplementary budget for FY22 and we expect another round to be implemented in Q123. The reserve funds and increased tax revenue will likely finance most of the supplementary budget, but a small amount of new JGBs could be issued.

With the government effectively nullifying its goal of achieving a primary balance surplus, an accommodative FY23 budget that includes further economic support will be passed during the ordinary session of the Diet.

Takuji AIDA

Japan: corporate savings rate and private capex



Source: Crédit Agricole CIB

Focus – The European banking sector amid inflation and monetary normalisation

European banks are facing the war in Ukraine with solid fundamentals, but inflation pressures and the tightening of monetary policies are putting new challenges in their path, ie, credit risk, cash management and their profitability.

Solid bank balance sheets

Europe's banks have faced Covid and the war in Ukraine with a sound financial position, so they have been key players in the economic stimulus effort. The share of non-performing loans in particular, which has been sinking since the sovereign debt crisis, reached its historic low at the end of H122, demonstrating that banks had managed their loan portfolios prudently.

And those banks are also posting high capitalisation levels, which were rising until the end of 2021. Nonetheless, we see a slight loss in the CET1 ratio over H122, due not just to an increase in risk-weighted assets but also to a slowdown in issuances as the cost of capital rose. The CET1 ratio at most European banks is still well above regulatory requirements.

Headed for a resurgence in credit risk?

Still, macroeconomic developments could end up hurting bank asset quality. For consumers, soaring prices of fixed expenses (food, transport) may hamper the ability of financially vulnerable individuals to honour their loan repayments. This is especially true in countries where households have variable-rate debt and are simultaneously facing an increase in the cost of their credit due to rising interest rates, ie, Italy, Spain and Austria.

While we are far from a wave of bank loan defaults at this stage, non-performing loan ratios did increase slightly over the early part of 2022 in some European jurisdictions and in some industrial sectors that are exposed to price increases in energy and agricultural commodity prices. Furthermore, the loans on which no payment incident has yet been recorded, but which are considered as downgraded because of their associated increased credit risk (IFRS 9 "stage 2"), are up in the Eurozone (9.7% Q222 compared to 8.9% one year earlier). This increase is particularly acute in France and Germany.

Another worry: certain banks in southern Europe are highly exposed to sovereign bonds, in some cases even more so than in the early 2010s. When credit spreads widen, the cut to sovereign bond prices can also negatively impact these banks' solvency.

Worsening economic conditions caused many banks to increase their credit risk provisions in Q2 and Q322 to contend with a potentially worsening default rate, which dented their profitability. The cost of risk could increase further in the future if the default rate continues to climb or starts to affect other industries.

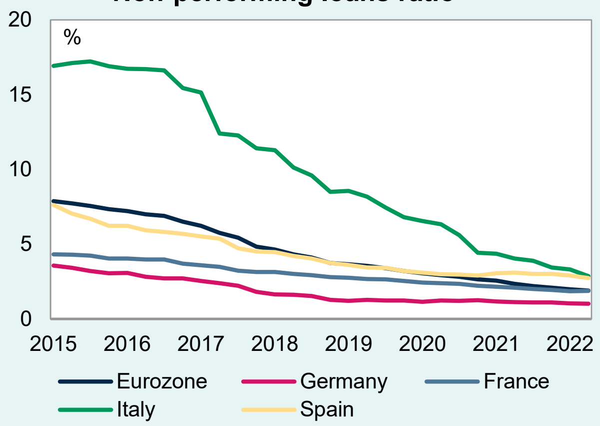
Monetary normalisation and cash

The other threat to Europe's banks is worsening liquidity. The soaring bank loan rate during Covid increased banks' financing needs. In France especially, banks are showing far higher outstanding loans than deposits. These liquidity needs have been met by bond issuances and, above all, by the ECB's refinancing tools. TLTRO 3 in particular have become a major instrument for bank financing, specifically in southern Europe.

Tighter monetary policy bumps up European banks' financing costs.

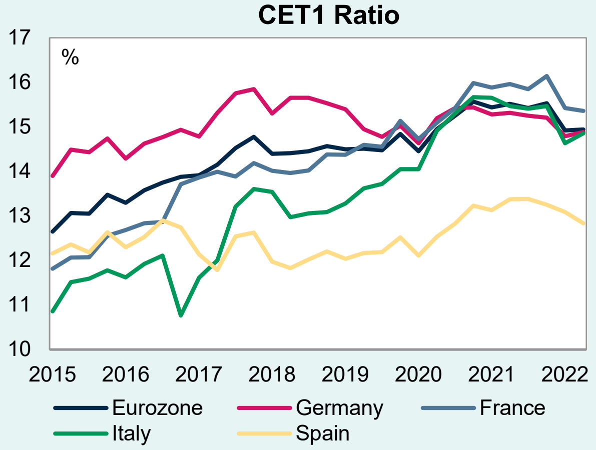
The policy rate increase, the scheduled end of quantitative easing, and the rise in interest rates on TLTRO 3, coupled with a slight widening of credit spreads on bank bonds, is leaving European banks with increased liabilities. Yet the liquidity crisis scenario is still improbable, since the ECB is still very attentive to the money market's smooth operation.

Non-performing loans ratio



Sources: ECB, Crédit Agricole SA / ECO

CET1 Ratio

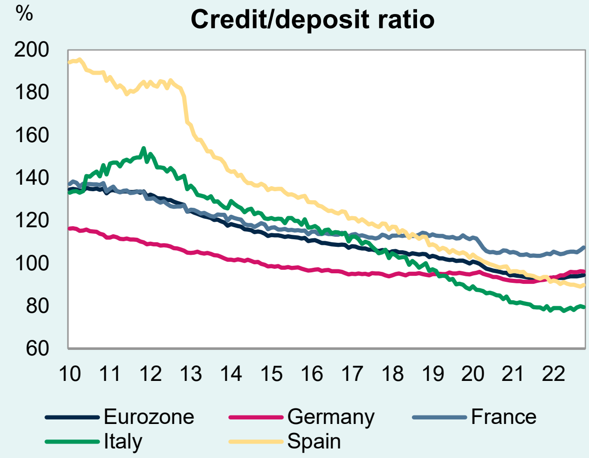


Sources: ECB, Crédit Agricole SA / ECO

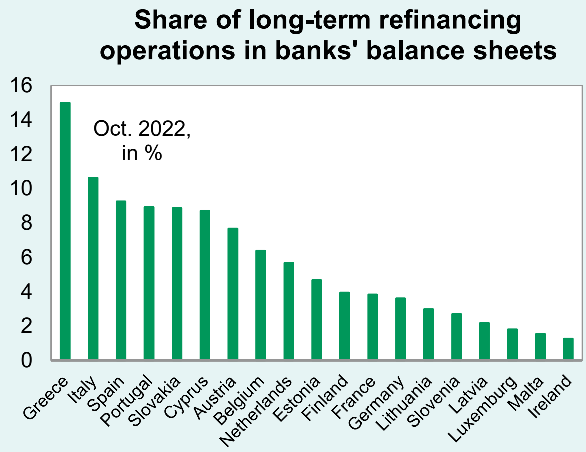
Persistent threats to profitability

Rising financing costs are forcing banks to raise interest rates on their customers in order to increase the net margin. Sometimes this increase is limited by competitive pressures and, in France, by usury laws, which force banks to raise rates very gradually on the consumer segment. In a sign of this special constraint on French banks, the average interest rate on home loans rose by just 55bp in France between its low point of mid-2021 and September 2022, compared to double that (110bp) on average in the Eurozone. Surging inflation is also reaching other operating expense items, which could undermine the banks' cost-to-income ratios.

Lionel POTIER



Sources: ECB, Crédit Agricole SA / ECO



Sources: ECB, Crédit Agricole SA / ECO

EMERGING COUNTRIES

When short-term emergencies meet long-term ones

When short-term emergencies meet long-term ones

In 2022, EM growth held up surprisingly well amid the shocks of war, rate hikes, the climbing USD, the energy and food **crisis, and China's zero**-Covid policy. Yet the downturn awaits in 2023 – though still with cautious hopes that the end of the rate increase cycle and the end of zero-Covid in China, will give way to a sunnier second half. Still, geopolitics will feed into other shocks, and those countries have also been weakened by inflation leaving its mark on prices and revenues.

Meanwhile, the public health crisis is leaving its own scars in the form of frequently substantial budget shortfalls. All of which leaves these governments little clearance to juggle the short-term social emergencies with the long-term climate crisis. 2023 will bring up many social and political risks.

The advanced indicators on EMs show last quarter's downturn in the industrial cycle. In November, the median PMI on EMs dipped beneath 50, down from 51.7 in June. Signs of a slowdown in manufacturing output are piling up in Poland, Turkey, Mexico, South Korea, Malaysia and Taiwan. Conversely, Thailand and Vietnam are holding on to better performance, which confirms the lag between North Asia and South Asia, where countries are positioned further downstream on the value chains. South-East Asia is also starting to take advantage of deferred investment by China, but this is a region where per capita income is low and infrastructure deficit is high. In 2023, Eastern Europe, still on the front lines of the war and the energy crisis, will feel the slowdown most. It will not be spared the recession. Latam, too, will feel the pain. As for the Gulf nations, they have been the real winners of the war in 2022, and this year, Saudi Arabia will post the highest growth rate in the G20. How they land in 2023 will depend on energy prices, of course, but for now the region has investors' confidence.

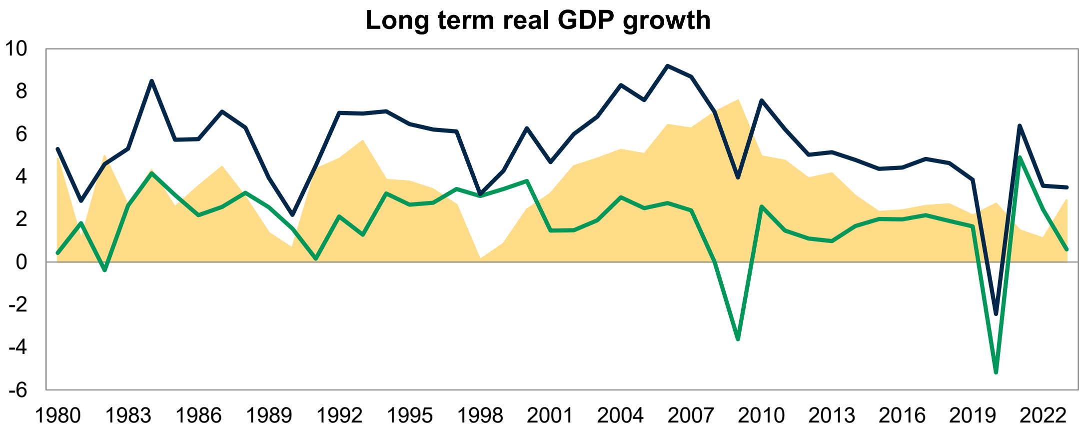
Foreign trade-driven slowdown

Foreign trade will be a powerful driver of the global slowdown. The IMF predicts that the increase in trade volume will adjust from 4.3% in 2022 down to 2.5% in 2023, far below historic averages. Chinese exports have actually declined for the first time since 2020, and the electronics downturn is affecting orders in many Asian countries. In Central Europe, current account deficits are deepening, with lower demand from EU countries dragging down export volumes, despite competitive gains from currency depreciations. So, many EMs are going to be facing the growth deceleration phase with higher external deficits and fewer currency reserves to keep currencies afloat.

With a declining foreign contribution, consumer behaviour will be critical. In China, specifically, the markets are hoping that the end of the zero-Covid policy might drive up household consumption, which authorities have long failed to stimulate. Still, behind this anticipation of a nice surprise from China, which would have positive effects on many Asian as well as Latam countries, there will also certainly be the nostalgia of a 'back to normal' that no longer fits with reality. Not only will exiting zero-Covid be an ordeal in terms of health care, economics and politics, but, more importantly, many more of China's indicators are red right now—from geopolitics to real estate to debt. Admittedly, Chinese growth may be one of the positives in the 2023 economy, but it is also one of the very weakest points in the scenario of a business recovery in H2. Besides, the slightest disappointment can trigger massive volatility, especially on exchange rates.

More currency arbitrage – and soon

As the economic downturn looms, EMs are straggling toward the moment when their currency arbitrages will be reversed. Inflation has already surpassed its peak in many countries, especially Latam, which will be followed a quarter later by Eastern



Source: Crédit Agricole CIB

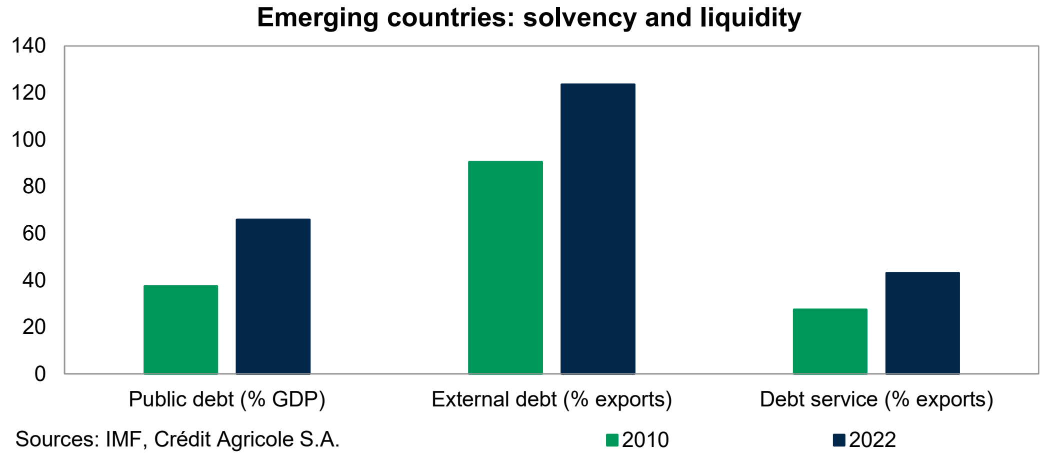
Europe. In Asia, the price curve has stabilised or declined in Indonesia, Thailand, South Korea and Malaysia. But inflation remains an issue for India and the Philippines. However, many of the central banks have announced the end of the hiking cycle, including in Poland, Hungary and other countries where inflation remains very high. It is also likely that the first rate cuts will be made where rates were first raised, in Chile and Brazil. Yet monetary easing will be prudent because, almost everywhere, inflation is higher than the central banks' targets, and in many EMs, core inflation is very high. Most importantly, food and fertiliser prices may remain under pressure, hanging on Russia's goodwill in the Black Sea. Lastly, the geopolitical-plus-climate context may lead to more disruptions in value chains in one sector or another, weighing down the countries' relative price equilibriums. The structural sources of supply-side inflation are still there.

Ultimately, **even if disinflation does take hold in EMs in 2023, this is nothing like real normalisation, because prices will remain high**. Firm monetary policy will box many governments in as they try to carry out radical reforms, and it will drag down investment. Add on the budget deficits, which have increased during Covid and are no longer useful for leveraging ambitious economic policy, as in Latam. The Gulf countries are the only striking exception. Apart from Bahrain, every Gulf nation will post internal and external surpluses in 2022, and the region's total budget surplus is expected to climb to USD100bn. Furthermore, the Gulf States have decided to use those surpluses to finance the climate transition.

In the most vulnerable fringes of the less-developed world, the nightmare of the three-headed debt/food/climate crisis is already a reality.

On the other hand, **for those countries, 2023 will be the year of political and social risks**, specifically in those regions, as in Latam and Central Europe, where political polarisation is growing relentlessly. And in all EMs, inflation and rate increases are disproportionately affecting the purchasing power of the lowest-income people and the smallest businesses, which carry more short-term debt. All over, petrol and food prices are spiking tensions, and labour strikes are popping up in the most vulnerable countries as well as the most advanced, including Tunisia's and Mongolia's distressed populations, but also Chilean and Korean truckers. In South Africa, the employment rate is falling as the informal market grows, and blackouts remain a major problem. In sub-Saharan Africa, especially, prices for staples, those core goods in the food basket, were 24% higher YoY in October. In all, 35 countries are reportedly in a food crisis. Add to this that many sub-investment grade states are increasingly vulnerable when it comes to their debt maturities: Sri Lanka and Pakistan, of course, but also Tunisia, Ghana, Mongolia, El Salvador, Turkey, Kenya and Egypt. The IMF has listed a total of 16 countries facing both food insecurity and a debt problem. In fact, in the most vulnerable fringes of the less-developed world, the nightmare of the three-headed debt/food/climate crisis is already a reality.

Tania SOLLOGOUB



Sources: IMF, Crédit Agricole S.A.

CHINA: WHAT WILL THE ECONOMY BRING IN 2023?

Jiang Zemin, China's president from 1993 to 2003, died on 30 November. And with him died a certain idea of the "socialist" market economy, which had ushered China into the WTO in 2001 and opened many sectors up to private interests. Yet it was also Jiang who crafted the power grab after the events of May 1989. It is hard not to draw a parallel with what is currently playing out in China, as the spectre of Tiananmen Square hovers over the repression of protesters fed up with three years of hard-line zero-Covid policy that has left the private sector particularly fragile.

With the Congress deadlines past, will rational economic behaviour win out over political display?

Turning the page on 2022

After 2021, a year driven by strong but uneven growth supported mainly by an export sector hopped up on Western stimulus plans and a highly accommodating monetary policy, **2022 has been the very definition of a slowdown**.

Real estate, private consumption, foreign trade—every driver of the economy has been hit at the intersection of three factors:

- ✓ Anti-Covid restrictions, which disrupted industrial output and consumption, particularly in the service sector;
- ✓ The global slowdown and higher commodity prices, which are beginning to drag down the trade balance, even as flat domestic demand has helped contain inflation so far;
- ✓ Structural imbalances (real estate, debt, population), which are exacerbating the cycle's impact on activity.

This means Chinese growth is not expected to do much better than 3% this year – far from the initial target of "around 5.5%". Such failure –the second time in three years – did not keep Xi Jinping from winning his third term after the 20th Communist Party Congress, nor from lining up his loyal lieutenants by his side, signalling his iron grip on China's future.

2023: a domestic economic rebound is needed

With the Congress deadlines past, will rational economic behaviour win out over political display? The government eventually announced some inflexion in the zero-Covid policy, but did not fully end it. The propaganda campaign over the past three years has finally convinced the population that the virus is dangerous – but has yet to win them over on getting vaccinated. A new increase of cases, and the saturation of emergency services, could therefore lead the authorities to backpedal.

"Living with the virus" will take yet more time, and will continue to hamper **growth**. Owing to base effects, growth **should accelerate to about 5%** in the service sectors. The rebound is needed, because foreign trade's contribution is expected to be slightly negative – zero at best – and investment is still being slowed by the restructuring in real estate.

Annual change	2022	2023
GDP	3.0%	5.0%
Inflation	2.1%	2.4%

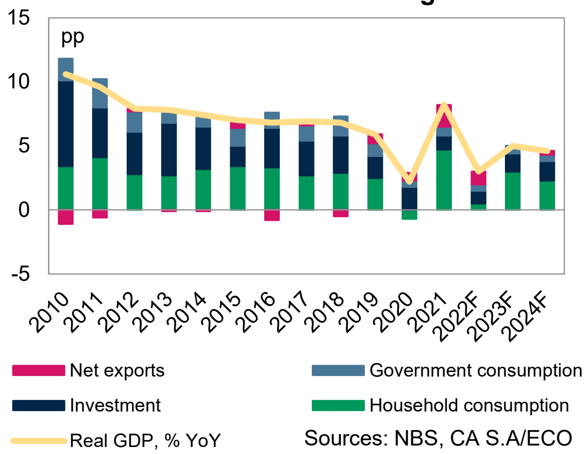
Internally, three trends will be decisive in the 2023 scenario:

- ✓ The scope of government support for the real estate sector, as the first measures are announced, even though Chinese authorities do not want to be positioned as a lender of last resort in a sector it blames for its excessive debt;
- ✓ The government's capacity to create enough of a confidence shock to free up some of the precautionary savings and stimulate consumption;
- ✓ The stance toward the private sector, which has been punished these past two years by zero-Covid and tighter regulations, and whose performance, specifically on the stock market, has been especially disappointing.

After three years of trade-offs that have hurt the economy, **2023 will reveal how much space growth will take up in the Chinese model**. And it will tell us whether the spirit of Jiang survives.

Sophie WIEVIORKA

China: contributions to growth



Sources: NBS, CA S.A/ECO

BRAZIL: FISCAL POLICY, THE KEY TO THE 2023 SCENARIO (AND BEYOND)

After a massive recovery in 2021 (growth revised upward to 5%), a natural deceleration toward the potential rate (low, about 1.5%) was expected. **Growth turned out to be more resilient than anticipated, despite high inflation and early, forceful monetary tightening.** This dynamic was maintained by the post-pandemic reopening, which drove manufacturing performance and bolstered momentum in the service sector. But it was also preserved by an unexpected buffer, in the form of commodity price increases caused by the war in Ukraine, loosening (strong) budget constraints and (moderate) external constraints.

Obviously, the continued decline in inflation is a necessary condition, but not enough for monetary easing.

In Q3, driven by consumption (about two-thirds of GDP) and investment but stifled by net exports, growth decelerated appreciably. Its supports are crumbling. Credit is still growing at a high rate but has declined since the spring (monetary tightening took some time to bite); net job creation weakened after a powerful catch-up (unemployment is at 8.3% compared to 11.4% before the pandemic and nearly 15% at its peak); and public support has fallen since the pre-electoral budget loosening. The erosion of these supports and a sharp global downturn suggest that growth might not get past 0.8% in 2023, and there is no point counting on monetary easing to stimulate it.

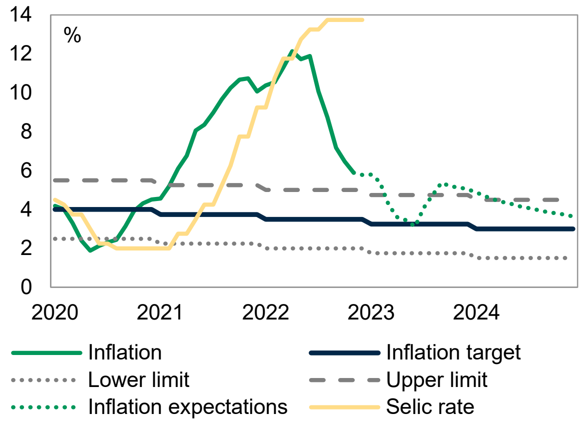
Inflation has clearly fallen back, but core inflation has yet to take such a downward trajectory. Obviously, the continued decline in inflation (the projected best-case is 4.5% at end-2023) is a necessary condition, but not enough for monetary easing. While foreign factors (external accounts[1], the Fed's pace of monetary tightening, the USD strength and the imported inflation risk) are significant in the eyes of Brazil's central bank, those same eyes are riveted on domestic factors such as the inflation outlook and the upside risks surrounding it which are, first and foremost, how fiscal policy will evolve, and how it will affect asset prices and inflation expectations.

Annual change	2022	2023
GDP	2.7%	0.8%
Inflation	5.8x%	4.5%

The next government's fiscal stance will be the key to monetary policy. A revised 2023 budget is being prepared by the president's team – Luiz Inácio Lula da Silva (Lula) will not take office until January – which is an arduous task, because it means including additional social expenditures, which requires an exception to the spending cap rule. This essential rule, which has been amply broken since the fiscal counter-offensive (legitimately) deployed against Covid, must next be reworked for a new fiscal anchor, preferably setting a credible cap rather than an exaggeratedly ambitious one.

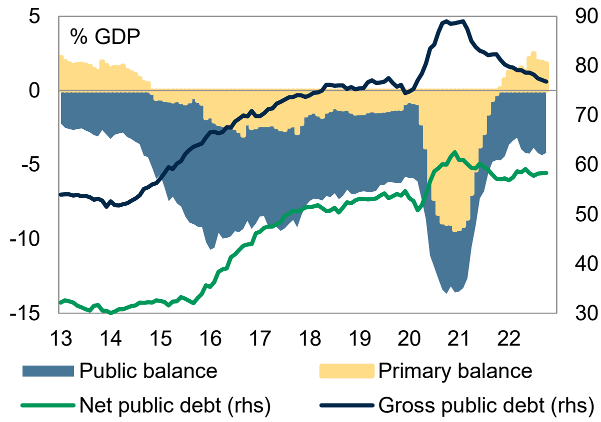
Catherine LEBOUGRE

Brazil: inflation & Selic



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

Brazil: fiscal accounts



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

[1] Supported by the trade surplus, but more significantly burdened by the net income deficit (interest and dividends), the current account deficit (-3.3% of GDP in October) has deepened almost without interruption since January 2021. Still, gross capital inflow in foreign direct investment stands at nearly 4% of GDP.

RUSSIA: ON A NARROW PATH

Ongoing contraction

Economic growth has been hit hard by the sanctions. But the impact has actually been less severe than what could have been expected at an initial stage. We expect GDP to have contracted by 4% in 2022. In 2023, GDP may continue to contract (we expect -3%).

Consumer: strongly challenged

On the one hand, the shock has impacted both supply and demand. However, consumer demand has been impacted more deeply. In recent months, retail sales have continued to contract more strongly than manufacturing production. The military mobilisation has capped confidence and has also had an impact on production chains.

Hydrocarbon exports fuelling the current account surplus

On the other hand, the Russian economy has continued to benefit from export proceeds. Russia has been able to partly offset the decline of its energy exports to Europe by increasing exports to other countries, such as India (oil), Turkey (coal), and China to some extent.

> *The disconnection with the West (including because of the sanctions), the capacity of Russia to upgrade its value-added creation process is strongly jeopardised.*

This, combined with weak domestic demand, has allowed the economy to post widening current account surpluses in 2022. These surpluses may gradually narrow looking forward, particularly as Europe continues to diversify its energy imports out of Russia. But even if it narrows, the external surplus should remain in place, and provide a lasting buffer against possible RUB depreciation.

Rates: lower on disinflation

The economic contraction has favoured disinflation. This has allowed the central bank to lower interest rates strongly. However, we believe that monetary easing has come to an end for now, with the 1W repo rate at 7.5% (the same level as at the end of 2021).

Lower potential growth

Beyond the tremendous increase in uncertainty stemming from the conflict in Ukraine, from both an economic and political point of view, Russia is also facing other significant medium-term uncertainties. From an economic point of view, the disconnection with the West (including because of the sanctions), Russia's capacity to upgrade its value-added creation process is strongly jeopardised. Upgrading itself in terms of technology and innovation has become a challenging process and long-term potential growth will likely suffer.

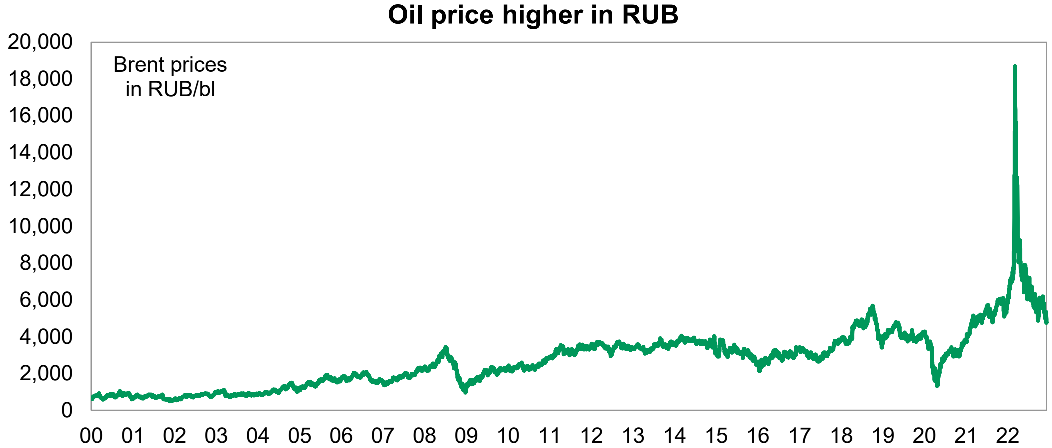
Annual change	2022	2023
GDP	-4.0%	-3.0%
Inflation	14.7%	4.8%

Increased dependence on China

From a geopolitical point of view, strengthening ties with China may help Russia and its balance of payments in the short term. However, it may also fuel a relation of dependence that will only grow as the economic and geopolitical role of China itself increases further.

Sébastien BARBÉ

Oil price higher in RUB



Sources: Bloomberg, Crédit Agricole CIB

INDIA: STILL AN OUTPERFORMER

We expect the Indian economy to be a relative outperformer in Asia during 2023 and to grow by 5.5%. While slowing global growth and trade will weigh on the Indian economy along with rising interest rates, India's manufacturing and construction sectors are continuing a strong post-pandemic recovery as is the services sector. India's manufacturing sector is also benefiting from a re-orienting of global supply chains away from China. A high level of government spending on infrastructure is also boosting growth along with favourable weather conditions, which are boosting agricultural output.

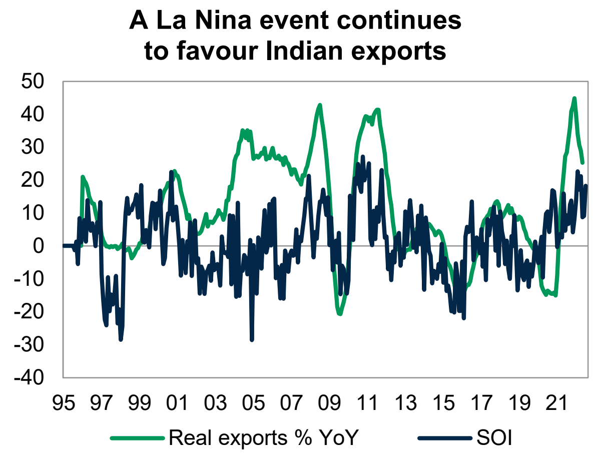
***India's manufacturing sector is also benefiting from** a re-orienting of global supply chains away from China.*

Inflation remains a significant problem for the economy, however, and is eroding the purchasing power of households. Inflation is running at 6.8% YoY and significantly above RBI's 2-6% target band. Inflation is peaking, however, as oil prices stabilise, food prices decline with rising production both locally and globally (especially grain being exported from Ukraine) and RBI's aggressive tightening cycle during 2022. India's buying of discounted Russian oil is also weighing a little on inflation and could further weigh on inflation in 2023 as Russia's share of Indian energy imports grows. Currently, still over half of India's oil imports continue to come from the Middle East. We expect inflation to fall from 5.5% in 2022 to 4% in 2023 and back into RBI's 2-6% target band. Consequently, we forecast RBI's tightening cycle to conclude in Q223 with the Repo rate topping out at 6.75% and look for rate cuts to begin in late 2023 and ahead of the general election in May.

Annual change	2022	2023
GDP	6.8%	5.5%
Inflation	6.9%	5.5%

Despite RBI's rate hikes, the INR was under downward pressure during 2022. The currency was weighed by the strong USD and high UST yields, but also a negative terms-of-trade shock due to higher energy prices. We expect India's current account deficit to be -3% of GDP in 2022 and to rise slightly to -3.2% of GDP in 2023. While stronger agricultural exports will help alleviate some of the upward pressure on India's trade balance, its outperforming economy as well as resilient oil prices will keep the current account balance significantly in deficit. Therefore, for the INR to recover, there will have to be a peak in the USD, which we expect to occur in Q422 as the US recession approaches in H123 and peak Fed hawkishness passes. We forecast USD/INR to finish 2022 at 82 and to fall to 80 by end-2023.

David FORRESTER



Sources: Bloomberg, Crédit Agricole CIB

Sources: Bloomberg, Crédit Agricole CIB

SECTORS

Oil – Not enough leeway for a significant price drop

Gas – A gloomy perspective

Shipping – Containers are back to reality

Oil – Not enough leeway for a significant price drop

The oil & gas outlook suggests a market without enough margin to absorb any more cuts to production, let alone the surge in demand that m**any dread as China's "zero-Covid" policy comes to an end. Our scenario is based on oil prices** remaining above USD100 per barrel in 2023 and 2024.

Since its peak in June, oil has fallen by almost USD30 a barrel. This is due to a combination of lower demand and higher supply from OPEC over the summer. High oil prices and refinery margins are dragging down consumption in developed countries, particularly the US. Gasoline consumption during the summer driving season came in 600k barrels below last year's level. Demand for oil in China was also weaker this summer, with the continuation of the "zero-Covid" policy. Moreover, OPEC's production has increased by a million barrels since June thanks to an upturn in Libya's production and higher output from producers in the Middle East. The announced cut of 2m barrels per day, which started in November, should bring the cartel's production back to its November 2021 level.

High oil prices and refinery margins are dragging down consumption in developed countries, particularly the US.

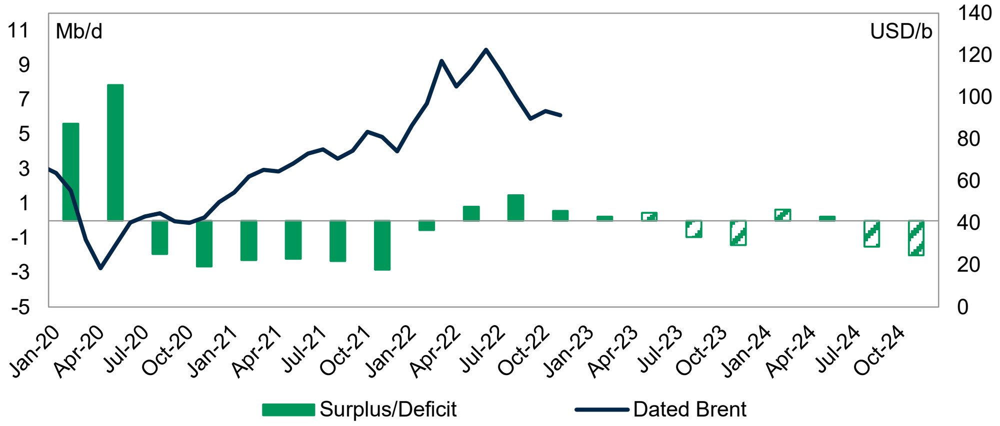
With inventory below historic levels in OECD countries and scarcely any increase in US production, oil market equilibrium is back under OPEC's control. Assuming the Russia-Ukraine conflict drags on without a political accord to end the sanctions on Russian oil, we expect that OPEC will adjust production to keep oil prices above USD80/barrel. OPEC and the oil market must contend with a structural drop in production from many countries, such as Nigeria and Angola, given the insufficient investment in recent years. Presumably it also faces fluctuating output from Libya due to the fighting between militias. The oil market will likely be confronted with renewed Chinese demand as the "zero-Covid" policy approaches its end. In our view, **the G7's price cap on Russian oil will have little effect on Russian exports to emerging countries like India, China and Turkey**.

	Average oil price (barrel)
H422	USD 93
2023	USD 106

Our scenario is based on the oil market remaining very tight until sanctions on Russian and Iranian oil are lifted. **We are forecasting average oil prices of USD106 and USD111 per barrel respectively in 2023 and 2024.**

Stéphane FERDRIN

Oil market balance



Sources : ©OECD/IEA, OMR, Thomson Reuters, Crédit Agricole SA/ECO

Gas – A gloomy perspective

In 2022, Europe had to face higher natural gas prices as pipeline gas imports from Russia fell. This situation is expected to last until 2023 or even 2024 if the Russia-Ukraine conflict does not reach a political solution.

Over the summer and autumn, natural gas prices were on a roller coaster. After peaking at the end of August, prices plummeted in October, though not quite as low as in 2020. The decline is only cyclical, due to exceptionally mild temperatures and the fact that natural gas reserves in Europe were already nearly 90% full at the end of September, needing no major injections to reach the 90% threshold set by the European authorities. **As cold weather reached Europe in early December, natural gas prices almost doubled from October's—to over EUR130/MWh**.

To meet its needs, Europe will have to supply itself heavily on the flexible short-term LNG market.

Europe can be pleased it has managed to fill its inventories for winter, even as Russia has complicated things by choking off its natural gas flows starting last June. That said, the winter of 2022/23, especially the upcoming injection period over spring and summer 2023, will not be plain sailing. To match current consumption levels, Europe must find an additional 34bn/m^3 on the Liquefied Natural Gas (LNG) market between November 2022 and March 2023. Otherwise, Europe will be forced to dip into its own reserves – at the risk of running dry by winter's end and having to somehow replenish between April and October 2023. In fact, during this period Europe will be short 20bn/m^3 in Russian gas which will have to be made up on the LNG market, where supply is not expected to increase in 2023.

As a result, to meet its needs, Europe will have to supply itself heavily on the flexible short-term LNG market. Europe will probably need to divert more LNG carriers in 2023 than it did in 2022. Nearly 40% of American LNG moves via "aggregators" – and that will not be enough. So, Europe will have no choice but to continue paying steep premiums to divert LNG carriers initially headed for Asian customers.

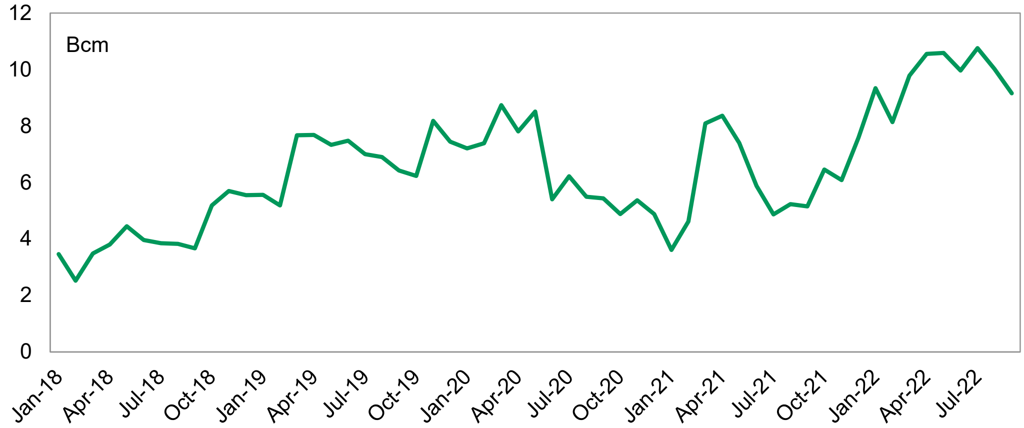
Ergo, **if Europe fails to cut back its natural gas consumption significantly, it will continue to be in competition with Asia** and doomed to pay high premiums, both to meet peak winter demand and to build up reserves in the spring.

Increase in EU LNG imports	
January-September 2022	+40 billion m^3

Ergo, **if Europe fails to cut back its natural gas consumption significantly, it will continue to be in competition with Asia** and doomed to pay high premiums, both to meet peak winter demand and to build up reserves in the spring.

Stéphane FERDRIN

EU: gross LNG imports



Source : Crédit Agricole S.A.

Shipping – Containers are back to reality

After two years of stratospheric prices resulting from an exceptional US comeback after the first lockdowns and unprecedented disruptions in global logistics, maritime container shipping is having a harder landing than expected. The sector is bracing for the supply backlash expected from port de-congestion and the upcoming arrival of a stream of deliveries.

Beginning their slide with the war in Ukraine, **spot freight rates have been circling the drain since August**, led by a dramatic drop in demand and the return of oversupply. Carriers are attempting to curb the fall by cutting capacity with service closures and blank sailings (when the carrier cancels a call or the entire scheduled route of a ship)—with scant success so far. As spot freight rates quickly close in on their pre-pandemic levels, the more resilient contract rates are taking their turn on the slide.

According to shipping association BIMCO, **head-haul**[2] **container traffic was down by 15% in September from a year ago**, with losses of more than 20% on the Transpacific and Asia-Europe routes, pushing volumes down below their 2019 levels. With inflation and the energy crisis eroding purchasing power, the shift in consumer spending from goods to services, and high inventory levels, de-stocking effects could cause demand to fall by 4% in 2022, the steepest decline since 2009.

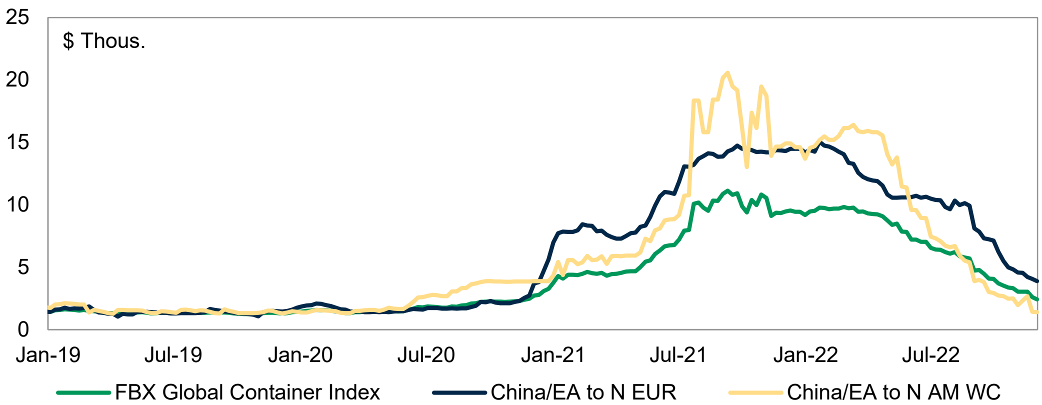
Adding to the supply of available vessels, port congestion is receding in spite of repeated lockdowns disrupting land logistics in China and labour unrest affecting the port and railway sectors in Europe and North America. While disruptions persist locally along with the risk of new blockages, the lower traffic is easing pressure on ports, and delays for late vessel arrivals are dwindling.

With a massive order book that will generate record deliveries in 2023-24 and global trade facing headwinds (economic sovereignty issues, geopolitical fragmentation risk), **the sector is about to see a long period of overcapacity.** Paradoxically, carriers who have raked in exceptional profits over the past two years are still ordering new ships that are equipped to meet decarbonisation commitments.

Keeping freight rates acceptable will depend on the extent to which defensive measures are taken, including demolitions, postponing deliveries, reducing speeds (which also cuts carbon emissions) and anchoring vessels. Carriers will likely resort to active capacity management via blank sailings, to the detriment of service reliability and market competition, presumably bringing more criticism of industry concentration and the system of ocean alliances.

Bertrand GAVAUDAN

Transport price of a 40-foot container



Sources: Datastream, Freightos, Crédit Agricole S.A.

[2] Direction of a shipping trade route with the highest container volume, the key driver of ship capacity requirements.

MARKETS

Monetary policy – A definite priority focus on fighting inflation

Interest rates – Not betting on early monetary loosening

Exchange rates – The USD falling somewhat into the shadow

Monetary policy – A definite priority focus on fighting inflation

No matter how quickly economies are heading toward a recession, central banks are not finished with inflation. They will not risk putting down their guard too soon, especially since core inflation could turn out to be more resilient than anticipated. The ‘pivot’ that markets are hoping for is less likely to usher in a rapid decline than a pause, one which will come with some quantitative tightening.

FEDERAL RESERVE: A DOWNSHIFT IS NOT A PIVOT

After aggressive hikes this year totaling 375bp through November, the Fed recently began to signal its intention to downshift to a slower pace of tightening, though has also made clear that is has more work to do. While inflation looks to have moved past a peak with some encouraging numbers for October and November, those reports were only one step in the right direction, and the labour market remains very tight, meaning that it is far too early for a declaration of victory.

In December, the Fed followed through on its well-telegraphed downshift with a 50bp hike to bring the target range to 4.25-4.50%, though a pause is not imminent. Instead, we expect the Fed to continue hiking through Q123, with a second 50bp hike in February followed by a 25bp hike in March to result in a terminal rate with the target range at 5.00-5.25%. At the time of writing, markets are pricing a terminal rate a bit below 5%, which looks a touch too low, in our view.

However, our larger disagreement with market pricing comes in the latter portion of 2023, when markets are pricing close to 4.90bp of cuts by year-end, which we continue to view as overly optimistic. Instead, we expect the Fed to leave rates on hold for the remainder of 2023, even in the face of mild recession, as inflation remains far and away the number one priority. We continue to believe that the Fed would prefer to err on the side of over-tightening as opposed to under-tightening.

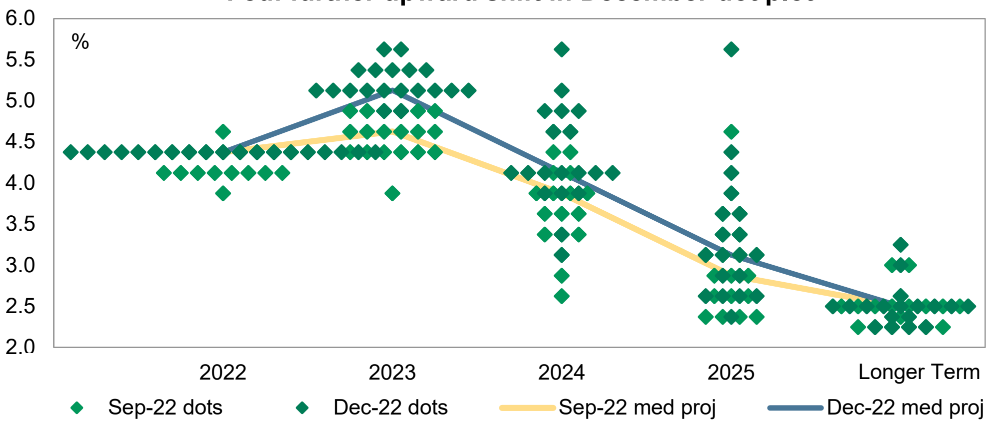
While the mild recession in our base case would call for some monetary accommodation in more normal times, given the current backdrop we expect that the Fed will want to wait until inflation moves more sustainably back towards the 2% target before being ready to ease. We expect this will only happen in 2024, when we look for a total of 100bp of cuts as the Fed moves gradually on the way down, a risk management strategy that allows it to closely monitor inflation data for any signs of renewed acceleration.

The Fed will want to wait until inflation moves more sustainably back towards the 2% target before being ready to ease.

Balance sheet run-off will continue as announced in May, having reached its peak pace in September. QT officially kicked off on 1 June, with monthly redemption caps of USD30bn Treasuries and USD17.5bn MBS for a sum of USD47.5bn, which was subsequently doubled to result in monthly caps totalling USD95bn. QT would likely be ended once rate cuts begin so the two policy tools are not working at cross-purposes, but that will not happen next year in our base case.

Nicholas VAN NESS

Fed: further upward shift in December dot plot



Sources: Fed, Crédit Agricole CIB

EUROPEAN CENTRAL BANK: MORE MONETARY TIGHTENING

The ECB's first response has been raising rates: in less than six months, the central bank has hiked its deposit rate by more than 200bp, from an extremely accommodative level to a restrictive threshold.

The ECB has hiked considerably this year, but it is not over: the ECB is clearly set to keep going. However, while rates are in restrictive territory, future increases will no doubt be more modest. Besides, the ECB is expected to hit its terminal rate soon. **We think the bank will stop raising rates in March 2023, with its deposit rate ending up below 3%.**

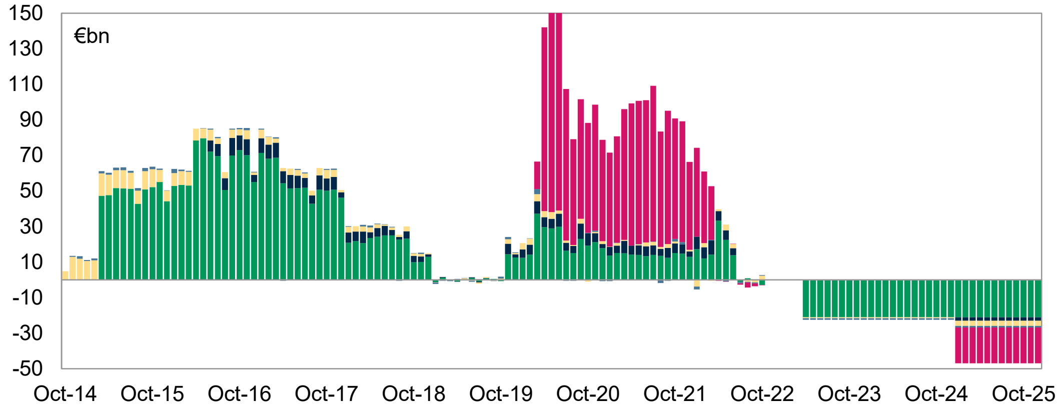
QT may last as long as the ECB has securities on its balance sheet.

However, the ECB's monetary tightening will continue: the change in TLTRO terms will prompt banks to prepay these loans, in keeping with the November-December 2022 prepayments. **These repayments will have a huge impact on bank credit terms in the Eurozone**: with the relative cash shortfall, we expect banks to be more careful with their lending terms. Given how important bank lending is in the Eurozone, this could be the most powerful channel for monetary tightening.

Finally, **the ECB will start quantitative tightening in Q223.** These money market portfolios will most likely be depleted gradually and predictably. Nonetheless, it will have an impact on the degree of monetary accommodation: by recreating the term premium and potentially widening spreads (sovereign and private), QT will complete the squeeze triggered by TLTRO repayments. Unlike (1) rate hikes, which we expect to conclude in March 2023 and (2) TLTRO repayments, which will wrap up no later than December 2024, QT may last as long as the ECB has securities on its balance sheet, ie, for several decades.

Louis HARREAU

ECB: QT, net negative purchases in money market portfolios



Sources: ECB, Crédit Agricole CIB

BANK OF ENGLAND: PLAYING ON TWO FRONTS

QE for financial stability issues, QT for monetary policy purposes

September was an exceptional month for the UK. The Bank of England had to come to the rescue of the gilts market amidst turmoil in the pension funds triggered by the 23 September 'mini-budget'. The BoE bought long-term government bonds and index-linked gilts between 28 September and 4 October on a temporary and targeted basis, de facto restarting its quantitative easing programme in order to stabilise the long-term government debt market where a massive sell-off threatened to drive the pension funds into insolvency and the housing market into collapse. The BoE's intervention helped stabilise the situation, but investor confidence was restored only after the change of government and the reset in fiscal policy.

Other episodes of stress remain a possibility as the UK government debt market faces substantial gilt supply in the coming years. Gross financing needs for the next four years have been revised up by over GBP300bn since March, but contrary to the previous years of the low inflation environment, the government can no longer rely on the BoE to participate in the financing of those needs. In November, the BoE started selling gilts from its stock of assets held for monetary policy purposes (comprising GBP837bn of government bonds and GBP17.4bn of corporate bonds as of early November) as part of its quantitative tightening programme and retained a target of GBP80bn of reduction of the stock of gilts per year. Following the turmoil in the long-term government debt market however, it decided to distribute the gilt sales evenly across the short- and medium-maturity sectors only. Meanwhile, gilts purchased within the financial stability portfolio were also made available for interested buyers in late November.

Bank rate closer to its peak

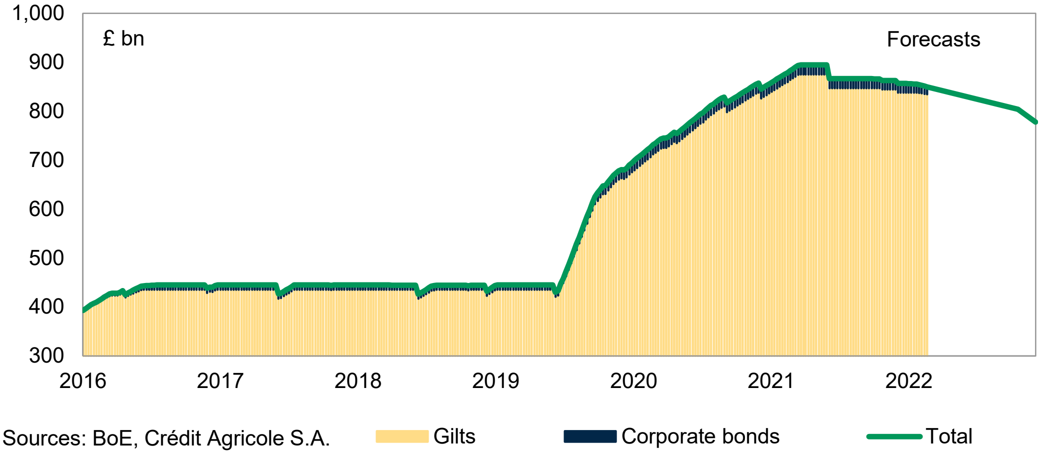
We expect the prospect of a recession starting from Q3 on the back of a historical cost-of-living crisis will lead to increased dovishness within the MPC and to slower monetary policy tightening going forward. The BoE has delivered eight increases of the Bank rate since December 2021 bringing it from 0.1% to 3% in November. In November, it accelerated the tightening, increasing the Bank rate by 75bp. However, the MPC's stance was unambiguously dovish, declaring that the peak of the Bank rate would be lower than priced by markets (5.25% in Q323). Meanwhile, inflation forecasts were well below the 2% target in two and three years, even though surrounded by the highest upside risks on record. The fiscal consolidation announced after the MPC's November meeting is likely to add to the downward pressures on inflation in the medium term.

The prospect of a recession starting from Q3 on the back of a historical cost-of-living crisis will lead to increased dovishness within the MPC and to slower monetary policy tightening going forward.

Therefore, we revise down our profile for the Bank rate from a peak at 4.5% in June 2023 expected after the 'mini-budget' to a peak of 4% in February 2023 at present. We expect two more rate hikes of 50bp each in December and then in February, when the BoE will release its next monetary policy report. In 2023, the fiscal stance will be more contractionary than in 2022 and inflation likely moderating from Q223, allowing the BoE to be more confident in bringing CPI inflation sustainably to target in the medium term. Risks remain tilted to the upside mainly due to the persistent tensions in the labour market on the back of high and still rising inactivity.

Slavena NAZAROVA

UK: stock of purchased assets of the BoE



Sources: BoE, Crédit Agricole S.A.

BANK OF JAPAN: NO CHANGE IN 2023

BoJ to remain on hold throughout 2023 as inflation is likely to revert back to below 2%

With core CPI (ex-fresh food) reaching above 2%, markets' speculation that the Bank of Japan (BoJ) will adjust its current easing framework in 2023 has strengthened. However, we expect **no change to the BoJ's policy in 2023**, and the bank will continue with its YCC framework to maintain an easing environment to stimulate the further recovery of domestic consumption and private capex. The bank's assessment of Japan's economy that the current recovery is premature and tightening at the moment would increase the risk of a repeat of the mid-2000's, when the BoJ failed to pull Japan out of deflation.

The corporate savings rate returning to negative territory is a necessary condition for the BoJ to start normalizing

There is a strong correlation between the corporate savings rate and core CPI (excluding fresh food). Even if the energy price overshoots, historical experience has shown that core CPI tends to revert back to growth proportional to the corporate savings rate. Thus, with the corporate savings rate still positive, we believe core CPI above 2% is not sustainable and will eventually return to the level indicated by the corporate savings rate.

Furthermore, core CPI (excluding all food and energy), which more strongly reflects domestic demand, is still weak at +1.5% YoY, below the 2% target. A necessary condition for inflation to stick is for domestic demand to pick up enough to bring the savings rate back to its normally negative level and fully removing structural deflationary forces on the economy.

Policy adjustment to occur in 2024, but no policy change until 2025

We expect the first policy adjustment to occur in 2024, when the +/- 0.25% range around the 0.0% 10Y JGB target is expanded. The BoJ will likely justify the move by stating that Japan's excess corporate savings have decreased enough that the risk of the economy returning to deflation has significantly reduced.

However, we do not expect actual policy changes to occur until the corporate savings rate falls back to its normal negative territory, which we expect will be in 2025, when the BoJ will likely move to raise the 10Y JGB target from the current 0.0%. By then inflation should run at around 2% supported by firm domestic demand and wage growth

We do not expect actual policy changes to occur until the corporate savings rate falls back to its normal negative territory.

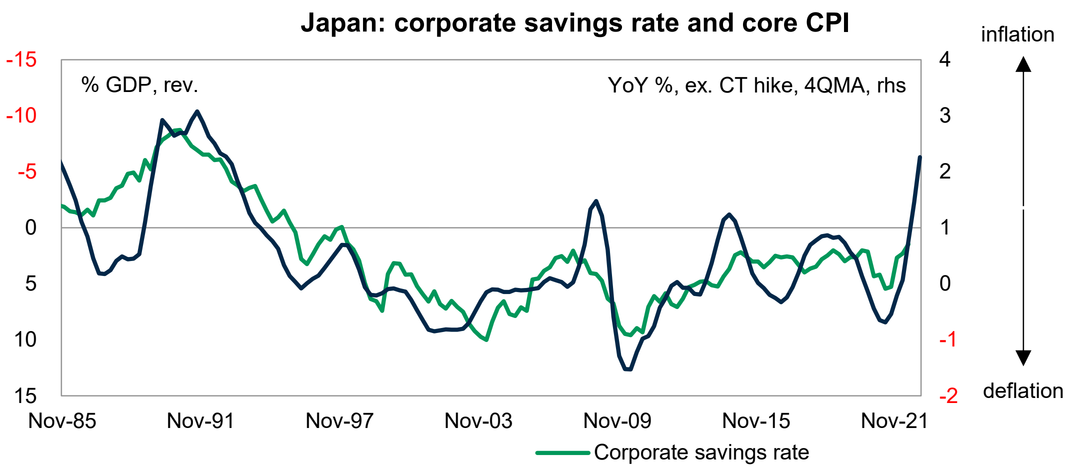
The negative interest rate will not be raised until 2026, after the BoJ assesses the effect of removing the YCC target and confirming that Japan's economy is strong enough for full normalisation of monetary policy and full normalisation (a return to a normal positive policy rate framework) to materialise in 2027.

Next BoJ governor to continue with current easing framework

Governor Haruhiko Kuroda's term ends in April 2023. Speculation is brewing that the central bank could reassess its views on inflation and policies under a new leadership.

However, we expect that regardless of who is picked as the next BoJ governor, the current easing framework will continue until the 2% target is met in a sustainable manner. With the government reaffirming its commitment to maintaining the Abenomics policy framework, any candidate who does not support easing will unlikely be confirmed by the current Diet.

Arata OTO



Source: Crédit Agricole CIB

Interest rates – Not betting on early monetary loosening

Inflation has yet to surrender; monetary policy is set on combating it, and the recession is in focus. These are the key components in the interest rate scenario. The recovery in long-term rates is still attached to an at-best mediocre and perhaps even outright weak growth forecast. This is causing a modulated curve inversion based on the maturity of the economic and monetary cycle: full-on in the US, but moderate in Germany.

USA: A DOWNSHIFT IS NOT A PIVOT, HIGHER TERMINAL RATES FURTHER INVERT CURVE

The Fed raised rates by a well-telegraphed 50bp to bring the target range to 4.25-4.50% on 14 December, downshifting the pace of hikes after four consecutive 75bp moves. To offset the downshift, officials raised the 2023 median dot by 50bp to 5.125%, which is considered as the terminal policy rate for the current tightening cycle. Officials are taking into account the cumulative tightening and the lags with which rising rates impact growth, inflation and financial conditions.

Recent Fed speakers have emphasized their fight against high inflation is far from over, and the terminal policy rate is more important than the size of individual hikes. In their view, monetary policy has entered a different "cadence," as policy rates are now in restrictive territory.

Against the backdrop of rising policy rates, **we expect Treasury yields to grind higher over the coming months and the curve to invert more** (see chart "Curve inversion has room to go"). While the market is pricing the peak of policy rates close to 4.90%, we think the risk is biased towards higher rates. In our forecast, the 10Y yield peaks around 4.15% in H123, and 2-10Y curve inversion hits a low point of -105bp in Q123, a level not seen since the 1980s, when the policy rate jumped to 20% with core CPI at 12%. While the all-time low on the 2-10Y curve was -242bp in early 1980, a -150bp inversion was not uncommon during that high inflation period.

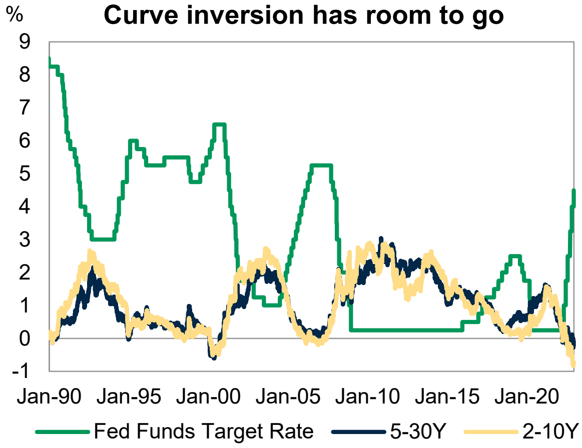
While the growth soft patch in 2023 would likely call for some monetary support, we believe that still elevated inflation will prevent the Fed from easing until inflation is closer to the central bank's target, as ensuring price stability remains its primary focus. **In our base case of a mild recession in mid-2023 along with the unemployment rate ticking up throughout the year, and inflation slowly coming down**, we expect the Fed to delay easing until sometime in 2024.

Still elevated inflation will prevent the Fed from ***easing until inflation is closer to the central bank's*** *target.*

Our forecast is less dovish than the current market pricing, which calls for around 50bp easing in 2023, and a total of 200bp easing between June 2023 and June 2025. We believe the market is overly dovish in its interpretation of the downshift. 10Y real yields have dropped about 50bp recently, which complicate the Feb's fight against high inflation (see chart "Decline in real yields complicates Fed's fight against inflation").

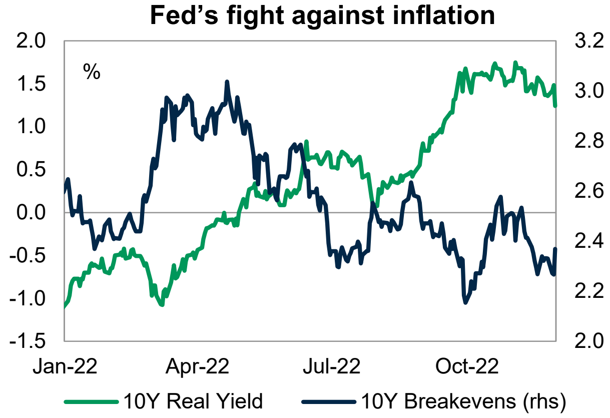
By 2024, inflation moving much closer to 2%, even if it is still modestly above target, will likely mean **the Fed is comfortable beginning to cut rates as a means to revive the economy** from its sustained period of below-trend growth.

Curve inversion has room to go



Sources: Bloomberg, Crédit Agricole CIB

Decline in real yields complicates Fed's fight against inflation



Sources: Bloomberg, CA CIB

Treasury yields will likely start declining around mid-2023. The trend of lower rates and a steeper curve continues throughout H223 and H124 in our forecast. The 2-10Y curve should become upward sloping by late 2024. We expect 2Y to be about 100bp below policy rate by late 2024, as further easing is likely in 2025.

Alex LI

EUROPE: DON'T COUNT YOUR CHICKENS

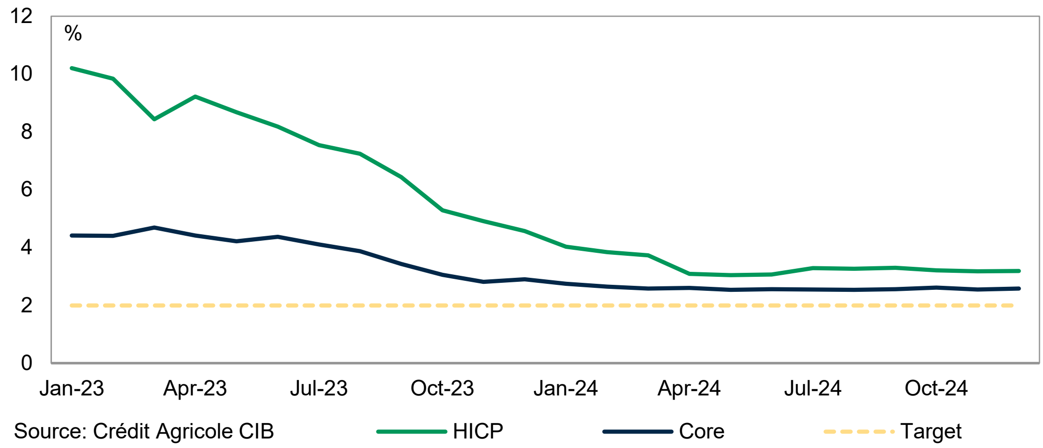
With total return losses in excess of 20%, **2022 provided the worst year's performance for EGBs**. After such poor performance, investors are pinning their hope for positive returns next year because inflation will have peaked. Whilst we agree that 2023 will not be as bad as 2022, we are of the opinion that 2023 will deliver negative returns again primarily because the stickiness of inflation remains underappreciated by investors. Moreover, recent relief from lower energy prices can quickly change as we are yet to go through winter, we have yet to go through the process of China re-opening from Covid and we are yet to experience the full effects on elevated headline inflation on core prices and wages.

The surge of inflation in the last few quarters clearly bodes for a restrictive policy setting from the ECB, but the peak of core inflation probably still lies ahead. Worth emphasizing is that the peak level of inflation would still imply a massive deviation from the 2% target which should take all of 2023 and well into 2024 to come back to normality if we also make the assumption that supply side factors will not flare up again. Given the volatility of its components, forecasting inflation is fraught with difficulties but we think by the end of 2023, core should be around 3% and headline 5% (see chart: "Our estimates of EZ inflation trajectory"). But with the average over 2023 being around 7.5% for HICP and 4% for Eurozone core inflation, we can describe inflation as pervasive. With limited signs of financial conditions tightening and, as yet, no material signs of slack appearing to reduce demand, risk free rates and real yields seem bound to continue rising next year in our opinion.

To us, **wage increases above the target inflation rate are a consideration not so critical relative to steps taken by governments**. Significant price increases could become socially destabilising so governments are rightfully taking on their stabilisation roles. Aside from energy subsidisation, which supports its consumption, each country is taking on measures to help households manage higher costs, with the concept being extended to mortgage payment alleviation in Spain for example. But if an extension of fiscal measures plays out and nullifies the intended tightening impact of the ECB, market participants should reconsider the expected downward trajectory of inflation. Moreover, if deficits also start to boost growth again, another expected stabilisation task for governments, we should also expect this to impact the ECB policy mix as well as more bond supply coming to the markets whilst the ECB is in the process of reducing its balance sheet.

The idea that higher policy rates will reduce inflation on their own accord strikes us as rather fanciful. The uniqueness of this cycle lies in central banks trying to create a controlled recession so as to reduce demand and build (labour market) slack. Thus it is important that both fiscal and monetary policy cooperate towards that objective. Because of inflation, savings rate should go down to offset lost real income but positive real rates should also help boost demand for safe investments, like government bonds, whilst also discouraging consumption. Also, if real yields are high enough, even governments could reconsider their spending and recurring deficit plans, but we remain very far from such a context. Whilst 10Y BTP real yields are +165bp, for Bunds this is around -30bp, which does not point to overly restrictive policy but does imply a

Estimates of EZ inflation trajectory



Source: Crédit Agricole CIB

return to target inflation in the long run (see chart: "Bund real yields still negative").

The impact of inflation has been positive for governments by boosting revenue and improving mostly nominal debt metrics.

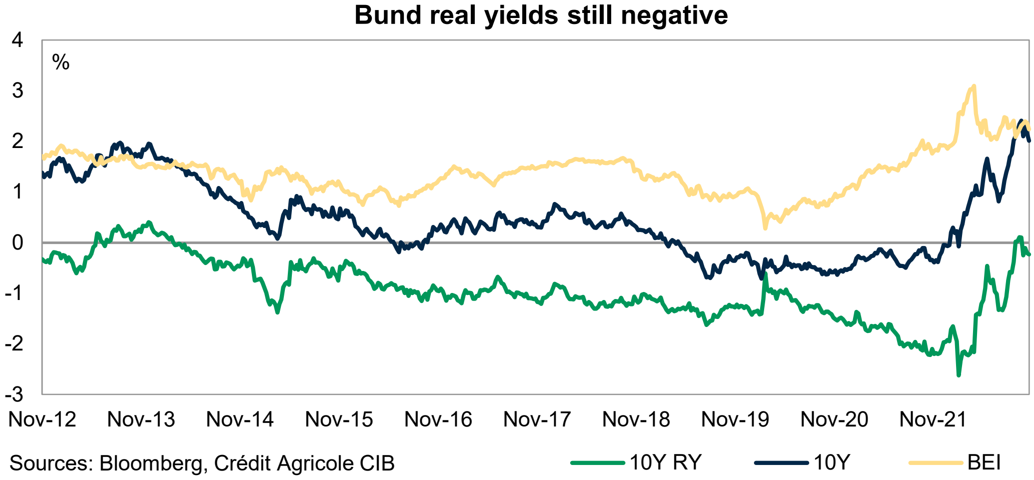
Hence for 2023, we expect higher positive real yields for all EGBs which would be more consistent with a restrictive policy setting. We also expect the yield curve to continue bear flattening prompting bigger levels of inversion for the Bund and swap curves. Expectations of a restrictive ECB policy setting should lower growth prospects and support demand for the long-end of EGB curves. Having fallen out of favour over the last decade due to negative nominal yields, retail investors and the private sector in general should step into the shoes of public sector demand. In our view, the ECB's QT will not prompt a rise in long-end yields but should contribute towards higher real yields as excess liquidity is drained.

QT by letting bonds mature, and assuming no active sales, will be a multi-year process. However, the ECB's balance sheet will fall significantly in the next few months because of TLTRO paybacks which have been given a cost incentive to happen sooner rather than later. To us, this will put some pressure on funding costs and money markets rates reflecting a higher cost of funding for Eurozone banks. Moreover, with around EUR400bn of mostly periphery EGBs used as collateral, there could be some more alleviation of front-end bond scarcity and cheapening of periphery EGBs. We are not expecting much in this regard, still expecting EGB spreads to be well behaved and mostly directional as was the case in 2022; hence still subject to modest widening pressure.

The impact of inflation has been positive for governments by boosting revenue and improving mostly nominal debt metrics. **As a deep recession is not our central economic scenario for the Eurozone next year, governments can continue spending their windfall revenue.** As mentioned earlier, big increases in deficits would however be problematic and prompt us to revise our outlook. Ostensibly, the Eurozone's inflation cycle is running six months behind that of the US. With a bigger deviation from a less flexible inflation target as well, the ECB is sure to revise upwards its upcoming inflation forecasts and respond to these revisions. Once we get better signs of inflation being under control towards the end of 2023, we can finally start think about the rate cycle turning in 2024 whereby we should see some sectors of the curve start to steepen. For now, tepid growth, tight labour markets, steady financial conditions and EGB spreads should allow the ECB to carry on with its tightening cycle.

Bert LOURENCO

Bund real yields still negative



Sources: Bloomberg, Crédit Agricole CIB

Exchange rates – The USD falling somewhat into the shadow

After being buoyed by risk aversion, turbocharged growth and early & forceful monetary tightening in the US, the **USD's** stellar run is certainly over. Indeed, the currency is expected to lose some ground in 2023, due to several factors: (1) recession (even a mild one) and a pause in monetary tightening in the US; (2) aggravated US external imbalances; (3) an overvalued USD; (4) the size of short positions; and (5) possible interventions on the FX market intended to weaken the USD.

DEVELOPED COUNTRIES: 2023 OUTLOOK, PEAK USD NOT A USD SELLOFF

We think that the big theme of 2023 could be the peak of the USD rally due to: (1) a US recession; (2) a peak Fed tightening cycle; (3) US external imbalances; (4) USD overvaluation and overhang of USD longs; and (5) FX intervention(s) to weaken the USD. While we expect the USD to weaken broadly, its losses could be more pronounced vs the JPY, AUD and NZD as well as energy exporters like the CAD and NOK. In contrast, the USD underperformance could be less pronounced vs the EUR, GBP, CHF and SEK and even reverse in 2024.

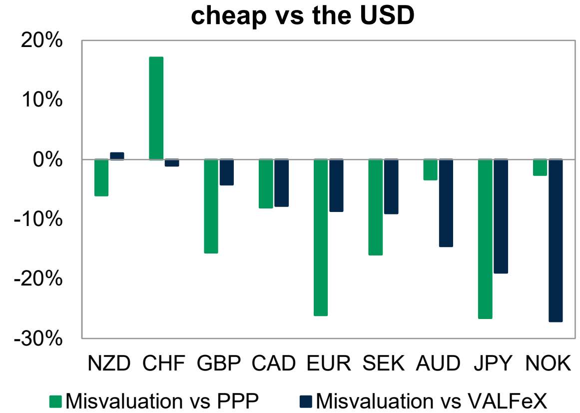
While we still think that **most of the recent USD weakness resulted from a correction of excessive FX market longs**, we further note that investors have more recently started reassessing their Fed outlook against the backdrop of stabilising US inflation and softening growth momentum. Looking ahead into 2023, we expect the recent US macroeconomic trends to persist, and this makes us think that the USD should peak next year. In particular, we expect the USD to lose some ground in 2023 on the back of: (1) a US recession; (2) a peak Fed tightening cycle; (3) worsening US external imbalances; (4) USD overvaluation and overhang of USD longs; and (5) FX intervention to weaken the USD.

Starting with (1), we expect **a mild US recession to halt the Fed tightening cycle in Q123**. Historically, the USD has tended to underperform or has traded flat in the first six months of all US recessions since 1980, bar the one in 2001. In that, the USD NEER weakened by 2% on average with the JPY and CHF emerging as the biggest beneficiaries of any recession-induced USD underperformance. Turning to (2), we expect the Fed tightening cycle to peak in March 2023 and usher in a period of growing market rate cut expectations to the detriment of the USD. The USD could further suffer if easing global financial conditions boost risk sentiment in a similar way the recovering market risk sentiment weighed on the safe-haven USD in recent weeks.

The USD underperformance could be less pronounced vs the EUR, GBP, CHF and SEK and even reverse in 2024.

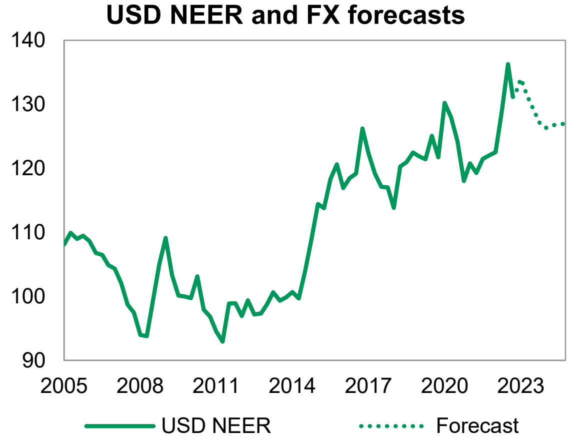
Regarding (3), **the US external imbalances have weakened, with the US broad basic balance deficit hitting a record low in 2022**. We expect the weakness to persist in 2023 and to weigh on the USD given that the hitherto-supportive foreign equity and fixed-income market inflows as well as FDI have been on the wane more recently. This could work to the advantage of the major funding currencies like the JPY, EUR and CHF. Turning to (4), the USD still looks overbought and trades at its most expensive level ahead of any US recession in the past 50 years. These factors could hasten any correction lower in the coming months. And, while the USD remains the most overvalued

Most G10 currencies are still looking cheap vs the USD



Source: Crédit Agricole CIB

USD NEER and FX forecasts



Sources: Bloomberg, Crédit Agricole CIB

currency in G10 FX according to our long-term fair value model VALFeX, it should be mentioned that the latest USD selloff saw the unwinding of a big chunk of the USD shorts in the FX market. Regarding (5), fears about the impact of the USD appreciation on global financial stability could keep the markets expecting more central banks to intervene to prop up their currencies against the USD. The grand total of these actions could facilitate a correction lower in the USD in 2023 even if the current USD overvaluation does not seem to justify a Plaza Accord-type intervention to weaken the currency just yet.

Looking across the rest of G10, we expect that **the tightening cycles of most G10 central banks would peak in H123 and that the Asian economies would outperform** their European and North American counterparts thanks to the post-pandemic reopening of the Chinese economy. In addition, we expect historically elevated energy prices to make the economies of energy exporters more resilient than those of energy importers. As a result, while we expect the USD to weaken broadly, its losses could be more pronounced vs the JPY, AUD and NZD as well as energy exporters like the CAD and NOK. In contrast, the USD underperformance could be less pronounced vs the EUR, GBP, CHF and SEK and even reverse in 2024.

In the long run, we think that the USD outlook could start improving in the longer term, once the US economy starts recovering again and US inflation converges back to the Fed's target. This will likely give the US real rates and yields another boost and together with the still superior US economic productivity could attract renewed portfolio inflows and FDI from abroad. We therefore expect the USD to regain some ground in 2024 especially vs the EUR and GBP which should be further disadvantaged by the negative consequences of the European energy crisis.

Valentin MARINOV

EMERGING COUNTRIES: LOOKING BEYOND THE MIST

EM FX capped in Q1 on global soft patch

The growth/inflation squeeze facing EMs during a large part of 2022 may ease in 2023, but it will likely be a gradual and possibly bumpy process. Economic growth will likely continue to slow at the beginning of 2023 as the US and Europe decelerate, and because of the lagged effect of EM monetary tightening (less so in Asia). This should weigh on EM exports and, as a consequence, on both EM growth and trade balances. That being said, we expect more a soft patch than a strong slowdown of the global economy.

At the same time, the Fed and ECB will continue to tighten monetary policy in the short term, and the upside risk on interest rates should cap EM currencies on average.

Better times after Q2

We then expect EM growth to re-accelerate gradually from Q2, on firmer global demand. After a still challenging Q1, EM currencies should then be supported by three factors. First, stronger global demand should mean relief for EM exports, growth and terms of trade for commodity exporters. Second, the Fed and ECB rates peaking should lift some pressure of the EM's carry attractiveness.

China reopening, not a straightforward process, but EM FX positive

Third, the pace and success of China's re-opening will be a key theme shaping the EM growth outlook in 2023, in Asia and beyond. A more significant sequential growth pick-up in H223 as China reopens more broadly could send another positive signal for these markets that benefit from Chinese demand. That being said, the reopening of China may not be such a straightforward process: it could also lead to a sporadic resurgence of epidemics and, as such, cause economic and market volatility.

Persistent risk factors

In addition, there remain other obvious uncertainty factors on the way, likely putting a floor under EM FX volatility. The global inflation outlook: the current inflation push being a multifactor phenomenon, the pace of disinflation is uncertain. We expect sticky disinflation. EM central banks should not lower rates quickly. This may cap growth. But it may also, paradoxically, support the EM's nominal interest rate attractiveness.

> *In terms of relative value, when the dust settles, the currencies displaying the highest carry may outperform*

Geopolitical volatility: The lifeline of the conflict in Ukraine and the tensions between Russia and the US/Europe is supported by Russia's ability to sell its oil and gas. The tensions between the US and China are unlikely to decline ahead of key elections in the US and Taiwan in 2024.

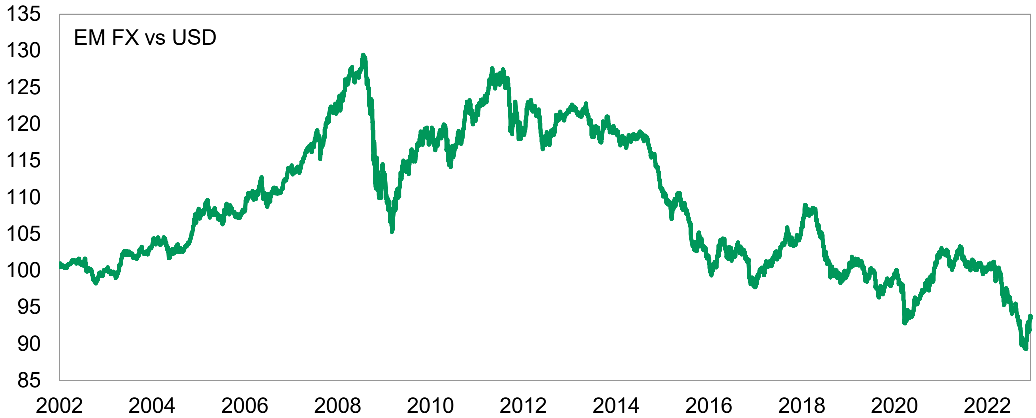
Is carry back?

In terms of relative value, when the dust settles, the currencies displaying the highest carry may outperform. Interestingly, the past year and a half has seen significant changes in the hierarchy of carry in the EM space. Some currencies that were previously considered as funding currencies have morphed into carry currencies. Hence, Central European and some Latin American currencies now offer high carry to investors and could benefit from inflows when global interest rates stabilise.

In Asia, we expect the reopening of China to benefit the CNY (notwithstanding likely volatility), but also the currencies of countries that are economically integrated to China, particularly in North Asia. Commodity currencies should also benefit, including metal currencies.

Sébastien BARBÉ

EM exchange rate index



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	1.9	0.5	1.3	8.1	4.0	2.5	-3.9	-3.4	-3.3
Japan	1.6	1.8	2.0	2.3	1.8	1.8	0.8	1.5	1.8
Eurozone	3.3	0.1	1.1	8.5	7.6	3.4	1.3	1.7	1.8
Germany	1.8	-0.5	0.9	8.9	9.3	3.6	3.8	4.1	4.4
France	2.6	0.2	1.0	6.0	5.9	3.2	-1.9	-1.6	-1.5
Italy	3.9	0.0	0.9	8.7	8.6	2.8	-1.5	-0.9	-1.0
Spain	4.6	0.7	1.0	8.5	3.7	2.7	1.1	1.1	1.3
Netherlands	4.2	0.4	1.3	12.4	10.5	3.8	5.9	5.5	7.1
Belgium	2.9	-0.1	1.2	10.7	9.3	3.5	-4.0	-3.4	-3.2
Other advanced									
United Kingdom	4.4	-0.8	1.1	9.1	7.3	2.2	-6.8	-2.2	-1.3
Canada	3.3	0.4	1.4	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	2.7	-0.7	0.9	8.2	9.2	3.7	2.5	3.1	4.4
Norway	3.7	1.2	2.0	5.8	4.2	2.7	40.9	38.3	37.2
Asia	4.2	4.8	4.7	3.8	3.3	2.7	1.2	1.0	1.0
China	3.0	5.0	4.6	2.1	2.4	2.2	2.2	1.6	1.2
India	6.8	5.5	6.0	6.9	5.5	4.0	-3.0	-2.8	-2.5
South Korea	2.5	1.8	2.5	5.1	3.4	2.0	1.7	2.3	3.0
Indonesia	5.5	5.0	4.5	4.3	3.5	3.0	0.5	-1.2	-0.5
Taiwan	3.0	2.4	2.4	3.0	1.9	1.6	13.2	11.8	10.8
Thailand	3.3	4.0	3.6	6.2	3.0	1.8	-2.9	2.8	4.5
Malaysia	7.5	5.0	4.5	3.5	3.0	2.5	2.0	3.0	2.8
Singapore	3.4	2.2	2.6	6.0	4.0	2.8	18.2	17.6	16.2
Hongkong	-3.4	3.6	3.7	2.0	2.4	2.2	8.2	7.1	5.8
Philippines	7.0	5.4	5.9	5.5	4.5	3.5	-5.1	-4.0	-2.0
Vietnam	7.0	6.7	6.7	3.5	4.0	3.0	0.2	1.6	2.0
Latin America	2.7	0.8	1.4	6.8	4.4	3.0	-2.2	-1.6	-1.5
Brazil	2.7	0.8	1.5	5.8	4.5	3.5	-1.8	-1.5	-1.6
Mexico	2.6	1.2	1.5	8.2	5.5	3.5	-1.3	-1.2	-1.0
Argentina	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Colombia	7.5	1.5	2.2	12.3	6.0	3.8	-6.3	-4.4	-4.0
Emerging Europe	0.5	-0.2	1.8	29.4	14.8	11.1	1.6	0.6	-0.2
Russia	-4.0	-3.0	1.0	14.7	4.8	4.0	10.0	6.0	4.0
Turkey	4.0	3.0	2.0	70.0	35.0	30.0	-5.0	-3.5	-3.5
Poland	4.5	1.2	3.1	14.3	12.1	4.8	-4.0	-3.6	-3.0
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	3.2	3.1	12.7	9.0	6.3	7.5	4.9	3.5
Saudi Arabia	8.9	3.5	2.8	2.5	2.2	2.1	14.9	9.5	7.9
United Arab Emirates	6.2	4.5	3.7	4.8	3.2	0.5	17.0	12.5	11.2
South Africa	2.0	1.2	1.8	6.9	5.0	4.8	1.2	-1.2	-0.8
Egypt	3.6	4.3	5.0	13.4	12.5	8.0	-4.5	-3.2	-3.2
Algeria	3.8	2.9	2.3	9.9	6.5	5.2	5.8	3.2	0.5
Qatar	5.1	3.1	3.2	4.9	3.2	2.2	22.0	16.0	11.0
Koweit	7.8	3.7	2.5	6.5	2.9	1.6	32.0	29.0	21.0
Morocco	0.9	3.2	2.0	6.5	3.2	1.6	-5.9	-4.8	-3.2
Tunisia	2.3	2.0	2.9	7.9	6.8	5.5	-9.2	-6.9	-6.0
Total	3.2	2.2	2.7	8.1	5.4	3.6	0.3	0.4	0.3
Advanced economies	2.6	0.5	1.3	7.5	5.2	2.7	-1.1	-0.5	-0.3
Emerging countries	3.6	3.5	3.8	8.5	5.6	4.2	1.5	1.0	0.8

	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	2.6	1.4	0.6	-0.6	-0.3	1.2	1.6	1.8	1.9	2.0
Japan	-0.9	0.6	0.5	0.6	0.5	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Eurozone	0.6	0.8	0.3	-0.3	-0.3	0.1	0.3	0.2	0.3	0.3	0.3	0.4
Germany	0.8	0.1	0.4	-0.6	-0.5	0.1	0.2	0.2	0.2	0.2	0.3	0.3
France	-0.2	0.5	0.2	0.0	-0.4	0.1	0.4	0.2	0.2	0.3	0.2	0.3
Italy	0.2	1.1	0.5	-0.1	-0.6	-0.1	0.3	0.1	0.2	0.3	0.4	0.3
Spain	-0.2	1.5	0.2	-0.2	0.0	0.2	0.3	0.3	0.3	0.2	0.3	0.3
United Kingdom	0.7	0.2	-0.2	-0.4	-0.4	-0.3	0.3	0.3	0.3	0.3	0.3	0.3

	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	7.4	5.9	4.0	3.2	2.9	2.8	2.6	2.5	2.4
Japan	0.6	1.8	1.6	1.4	1.1	1.2	1.3	1.4	1.4	1.4	1.5	1.5
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	10.8	10.2	7.9	6.7	4.5	3.5	2.2	1.7	1.3

	2022				2023				2024			
Unemployment rate, %	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
USA	3.8	3.6	3.6	3.7	3.9	4.1	4.4	4.6	4.6	4.6	4.5	4.5
Japan	2.7	2.6	2.6	2.6	2.6	2.6	2.5	2.5	2.5	2.5	2.5	2.5
Eurozone	7.0	6.8	6.9	7.2	7.3	7.3	7.3	7.2	7.3	7.3	7.2	7.2
Germany	3.1	3.0	3.3	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5
France	7.3	7.4	7.4	7.5	7.6	7.8	7.8	7.9	7.9	8.0	8.0	8.0
Italy	8.5	8.1	8.2	8.2	8.4	8.6	8.4	8.4	8.4	8.4	8.3	8.2
Spain	13.3	12.7	12.7	13.2	13.4	13.3	13.3	13.1	13.2	13.1	12.6	12.4
United Kingdom	3.7	3.8	3.6	3.9	4.0	4.1	4.2	4.4	4.5	4.4	4.4	4.4

	GDP (b)	Private consumption (b)	Public consumption (b)	Investment (b)	Exports (b)	Imports (b)	Net exports (a)	Changes in inventories (a)
Eurozone								
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
Q4 2022	*-0.3*	*-0.6*	*0.3*	*-0.5*	*0.5*	*0.6*	*0.0*	*1.0*
Q1 2023	*-0.3*	*-0.6*	*0.2*	*-0.2*	*0.3*	*0.4*	*0.0*	*1.0*
Q2 2023	*0.1*	*0.1*	*0.2*	*0.3*	*0.5*	*0.6*	*0.0*	*1.0*
Q3 2023	*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
Q4 2022	*-0.6*	*-0.9*	*0.6*	*-0.6*	*0.6*	*0.8*	*-0.1*	*0.0*
Q1 2023	*-0.5*	*-0.8*	*0.3*	*-0.2*	*0.3*	*0.5*	*-0.1*	*0.0*
Q2 2023	*0.1*	*0.2*	*0.3*	*0.1*	*0.3*	*0.5*	*-0.1*	*0.0*
Q3 2023	*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
Q4 2022	*0.0*	*-0.2*	*0.2*	*-0.5*	*0.7*	*0.5*	*0.0*	*0.1*
Q1 2023	*-0.4*	*-0.3*	*0.2*	*-0.7*	*0.5*	*0.5*	*0.0*	*-0.1*
Q2 2023	*0.1*	*0.2*	*0.2*	*-0.1*	*0.8*	*0.5*	*0.1*	*-0.1*
Q3 2023	*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
Q4 2022	*-0.1*	*-0.3*	*0.1*	*0.2*	*0.2*	*0.4*	*-0.1*	*0.1*
Q1 2023	*-0.6*	*-1.2*	*0.1*	*0.0*	*0.3*	*0.3*	*0.0*	*0.1*
Q2 2023	*-0.1*	*-0.1*	*0.1*	*0.4*	*0.3*	*0.4*	*0.0*	*-0.1*
Q3 2023	*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
Q4 2022	*-0.2*	*-0.5*	*0.5*	*0.1*	*0.2*	*0.4*	*-0.1*	*0.0*
Q1 2023	*0.0*	*0.1*	*0.2*	*0.3*	*0.2*	*0.8*	*-0.2*	*0.0*
Q2 2023	*0.2*	*0.2*	*0.4*	*0.6*	*0.4*	*0.7*	*-0.1*	*0.0*
Q3 2023	*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
Q4 2022	*-0.3*	*-0.5*	*0.2*	*1.5*	*0.4*	*1.0*	*-0.3*	*0.0*
Q1 2023	*0.2*	*0.1*	*-0.3*	*1.4*	*0.6*	*0.7*	*-0.1*	*0.0*
Q2 2023	*0.4*	*0.4*	*-0.4*	*1.7*	*0.6*	*0.8*	*-0.1*	*0.0*
Q3 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
Q4 2022	*-0.4*	*-1.4*	*0.1*	*0.2*	*1.0*	*1.0*	*0.1*	*0.0*
Q1 2023	*-0.2*	*-0.6*	*0.2*	*0.1*	*0.2*	*0.2*	*0.0*	*0.0*
Q2 2023	*0.2*	*0.2*	*0.2*	*0.1*	*0.2*	*0.2*	*0.0*	*0.0*
Q3 2023	*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
Q4 2022	*-0.4*	*-0.6*	*0.5*	*-1.5*	*-2.0*	*-2.0*	*0.0*	*0.1*
Q1 2023	*-0.4*	*-0.6*	*0.5*	*-1.5*	*-0.5*	*-0.8*	*0.1*	*0.0*
Q2 2023	*-0.3*	*-0.3*	*0.5*	*-0.2*	*-0.5*	*-0.3*	*-0.1*	*-0.2*
Q3 2023	*0.3*	*0.3*	*0.5*	*0.0*	*1.0*	*1.0*	*0.0*	*0.0*

INTEREST RATES

Short-term interest rates		15-Dec	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Etats-Unis	Fed funds	4.50	4.50	5.25	5.25	5.25	5.25	5.25	5.25	4.75	4.25
	Sofr	3.80	4.30	5.05	5.05	5.05	5.05	5.05	5.05	4.55	4.05
Japon	Call rate	0.00	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01
	Tonar	-0.06	0.00	0.01	0.02	0.03	0.03	0.03	0.03	0.03	0.03
Eurozone	Deposit	2.00	2.00	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.50
	€str	1.40	1.94	2.70	2.72	2.73	2.75	2.76	2.78	2.79	2.55
	Euribor 3m										
United-Kingdom	Base rate	3.50	3.50	4.00	4.00	4.00	4.00	4.00	3.75	3.50	3.25
	Sonia	3.45	3.45	3.95	3.95	3.95	3.95	3.95	3.95	3.95	3.95
Sweden	Repo	2.50	2.50	3.00	3.00	3.00	3.00	3.00	3.00	2.75	2.50
Norway	Deposit	1.75	2.75	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Canada	Overnight	4.25	4.25	4.50	4.50	4.50	4.50	4.50	4.50	4.00	3.50

10Y rates	15-Dec	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
USA	3.46	3.95	4.10	4.15	4.10	4.05	3.90	3.65	3.80	3.95
Japan	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.40	0.50
Eurozone (Germany)	2.09	2.15	2.35	2.70	2.60	2.60	2.40	2.35	2.45	2.40
Spread 10 ans / Bund										
France	0.51	0.45	0.50	0.65	0.60	0.65	0.60	0.55	0.55	0.55
Italy	2.07	1.95	2.10	2.35	2.20	2.30	2.10	2.05	2.05	2.00
Spain	1.07	1.00	1.05	1.15	1.10	1.15	1.05	1.00	1.00	1.00

Asia		15-Dec	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
China	1Y deposit rate	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
Hong Kong	Base rate	4.25	4.75	5.50	5.50	5.50	5.50	5.50	5.50	5.00	4.50
India	Repo rate	0.00	6.25	6.50	6.75	6.75	6.50	6.25	6.00	5.75	5.50
Indonesia	7D (reverse) repo rate	5.25	5.50	6.00	6.00	6.00	6.00	5.75	5.50	5.25	5.00
Korea	Base rate	3.25	3.25	3.50	3.50	3.50	3.50	3.50	3.50	3.25	2.75
Malaysia	OPR	2.75	2.75	3.00	3.25	3.50	3.50	3.50	3.25	3.00	3.00
Philippines	Repo rate	5.00	5.50	5.75	5.75	5.75	5.75	5.75	5.50	5.00	4.75
Singapore	6M SOR	4.53	4.30	5.05	5.00	4.95	4.90	4.85	4.55	4.05	3.45
Taiwan	Redisc	1.63	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.63
Thailand	Repo	1.25	1.25	1.50	1.75	2.00	2.00	2.00	2.00	1.75	1.50
Vietnam	Refinancing rate	6.00	6.00	6.50	6.50	6.00	6.00	6.00	5.50	5.50	5.00
Latin America											
Brazil	Overnight/Selic	13.75	13.75	13.75	13.50	12.50	11.50	11.00	10.50	10.00	9.50
Mexico	Overnight rate	10.00	10.50	10.75	10.75	10.75	10.75	10.75	10.75	10.25	9.75
Emerging Europe											
Czech Rep.	14D repo	7.00	7.00	7.00	7.00	6.75	6.50	6.00	5.75	5.50	5.25
Hungary	Base rate	13.00	13.00	13.00	13.00	13.00	11.50	9.50	8.00	7.00	6.00
Poland	7D repo	6.75	6.75	6.75	6.75	6.75	6.75	6.50	6.25	6.00	5.75
Romania	2W repo	6.75	6.75	6.75	6.75	6.75	6.75	6.50	6.25	6.00	5.75
Russia	1W auction rate	0.00	7.50	7.50	7.50	7.50	7.50	7.50	7.50	7.50	7.50
Turkey	1W repo rate	7.00	7.00	7.25	7.25	7.25	6.75	6.25	5.75	5.25	5.00

EXCHANGE RATES

USD Exchange rate

Industrialised countries		5-Dec	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Euro	EUR/USD	1.06	1.03	1.00	1.03	1.06	1.09	1.09	1.07	1.05	1.05
Japan	USD/JPY	137.7	137.0	138.0	137.0	135.0	132.0	135.0	132.0	130.0	128.0
United Kingdom	GBP/USD	1.22	1.18	1.15	1.20	1.23	1.28	1.28	1.26	1.25	1.25
Switzerland	USD/CHF	0.93	0.94	0.95	0.93	0.92	0.90	0.90	0.91	0.91	0.90
Canada	USD/CAD	1.36	1.35	1.32	1.29	1.26	1.23	1.21	1.22	1.24	1.25
Australia	AUD/USD	0.67	0.67	0.68	0.72	0.76	0.78	0.80	0.78	0.78	0.76
New Zealand	NZD/USD	0.64	0.63	0.63	0.66	0.68	0.70	0.72	0.70	0.70	0.68

Euro Cross rates

Industrialised countries		5-Dec	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Japan	EUR/JPY	147	141	138	141	143	144	147	141	137	134
United Kingdom	EUR/GBP	0.87	0.87	0.87	0.86	0.86	0.85	0.85	0.85	0.84	0.84
Switzerland	EUR/CHF	0.99	0.97	0.95	0.96	0.97	0.98	0.98	0.97	0.96	0.95
Sweden	EUR/SEK	10.98	10.90	10.80	10.50	10.20	10.00	9.90	10.00	10.10	10.20
Norway	EUR/NOK	10.48	10.40	10.20	10.00	9.70	9.50	9.30	9.20	9.10	9.00

Asia		5-Dec	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
China	USD/CNY	6.97	7.15	7.02	6.92	6.85	6.80	6.70	6.70	6.60	6.60
Hong Kong	USD/HKD	7.77	7.85	7.84	7.82	7.82	7.81	7.80	7.80	7.78	7.76
India	USD/INR	82.89	82.00	80.00	79.00	79.00	80.00	79.00	78.00	78.00	78.00
Indonesia	USD/IDR	15615	15300	15500	15400	15300	15200	15200	15100	15000	15000
Malaysia	USD/MYR	4.42	4.62	4.50	4.48	4.46	4.42	4.40	4.50	4.60	4.80
Philippines	USD/PHP	55.8	57.0	58.0	56.0	55.0	55.0	54.5	54.5	55.0	55.0
Singapore	USD/SGD	1.36	1.40	1.39	1.38	1.36	1.33	1.32	1.32	1.34	1.34
South Korea	USD/KRW	1319	1430	1390	1350	1330	1310	1300	1270	1250	1250
Taiwan	USD/TWD	30.8	32.2	31.8	31.5	30.9	30.5	30.0	29.8	29.6	29.8
Thailand	USD/THB	35.1	36.3	35.5	35.2	34.5	34.5	34.0	33.5	33.0	34.5
Vietnam	USD/VND	23500	24700	24500	24500	24000	24200	23900	23900	24000	24000
Latin America											
Brazil	USD/BRL	5.34	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50
Mexico	USD/MXN	19.80	20.50	21.00	20.50	20.25	20.00	20.00	20.00	20.00	20.00
Africa											
South Africa	USD/ZAR	17.47	18.00	18.00	17.50	16.50	16.50	16.30	16.30	16.50	17.00
Emerging europe											
Poland	USD/PLN	4.42	4.56	4.78	4.59	4.43	4.27	4.27	4.32	4.35	4.29
Russia	USD/RUB	63.80	62.00	64.00	66.00	68.00	70.00	70.00	70.00	70.00	70.00
Turkey	USD/TRY	18.63	19.00	19.50	20.00	20.50	21.00	21.20	21.40	21.60	21.80
Central Europe											
Czech Rep.	EUR/CZK	24.26	24.50	24.50	24.40	24.40	24.40	24.60	24.70	24.80	24.90
Hungary	EUR/HUF	408	411	414	408	400	390	385	380	375	370
Poland	EUR/PLN	4.70	4.70	4.78	4.73	4.70	4.65	4.65	4.62	4.57	4.50
Romania	EUR/RON	4.92	4.94	4.96	4.94	4.92	4.90	4.88	4.88	4.88	4.88

COMMODITIES

Av. quarter price		15-Dec	2022	2023				2024			
			Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Brent	USD/BBL	82	94	100	110	105	110	105	115	110	115

Av. quarter price		15-Dec	2022	2023				2024			
			Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Gold	USD/oz	1,777	1,750	1,750	1,800	1,850	1,900	1,950	1,950	1,900	1,850

PUBLIC ACCOUNTS

	Government balance (% of GDP)			Public debt (% of GDP)		
	2022	2023	2024	2022	2023	2024
United States	**-4.3**	**-4.1**	**-4.1**	**97.8**	**98.0**	**99.5**
Japan	**-7.0**	**-3.5**	**-4.0**	**244.4**	**244.2**	**240.9**
Eurozone	**-3.6**	**-3.4**	**-3.0**	**95.1**	**94.8**	**94.6**
Germany	-3.3	-1.9	-1.9	67.8	66.8	66.0
France	-5.1	-5.5	-5.2	111.8	112.6	113.2
Italy	-5.1	-5.0	-3.7	145.0	144.2	144.5
Spain	-4.8	-4.4	-3.9	114.2	114.1	114.2
Netherlands	-1.1	-4.0	-3.2	50.3	52.4	53.4
Belgium	-4.2	-4.0	-5.6	108.9	107.4	107.4
Greece	-4.2	-1.5	-1.0	192.9	190.5	187.7
Ireland	1.2	1.5	1.2	42.8	40.2	39.1
Portugal	-1.7	-1.3	-1.0	115.0	115.6	114.4
United Kingdom	**-6.7**	**-4.8**	**-3.0**	**102.5**	**101.8**	**101.7**

Completed on 16 December 2022


71.0473


88.9449
3.1225
72.9366