GLOBAL OUTLOOK Q4 2024

CUTTING IT FINE

SEPTEMBER 2024

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STRATEGY & ECONOMICS

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Global Outlook Q4 2024: Cutting it fine

KEY MESSAGES

Central bank easing in the US and across most developed markets will help stabilise growth in what we would continue to characterise as a soft landing.

However, growth risks have turned more decisively to the downside over the last six months. And in the six months to come, our BNP Paribas US landing dashboard attaches a moderate risk to a recession in the US.

Inflation risks are two-sided, by contrast. Changes to trade and fiscal policy as a result of the US election are an obvious candidate for renewed price pressures.

We forecast a broadly weaker USD but see upside risks should a potential Trump presidency lead to much higher trade tariffs.

We are bullish on DM fixed income (ex-Japan) and favour USTs over European sovereign bonds. We expect EM–DM spreads to narrow in our base case.

Continued disinflation and a more synchronised global easing cycle should be bullish for EM rates and FX. We favour CEEMEA and EM Asia over Latin America.

Commodity price risks are skewed to the upside amid geopolitical tensions – we also expect the pricing in of overly bearish macro sentiment to normalise.

History points to a risk-off environment ahead of the US election, followed by a more positive environment. Therefore, in equities, our bias is to be defensive before the vote and positive afterwards. Hedges should focus on the next two months. In credit, we are positioned defensively in non-cyclicals and for spread decompression.

▶ GLOBAL OUTLOOK Q4 2024

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Markets 360 team

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Central banks have a narrow path to walk – only rarely has monetary policy been tightened in response to inflation without translating into a fully-fledged recession. Most of the time, some slack is required when pushing inflation back down to central bank targets. With the economy responding to monetary policy with long lags, and with information about the current state of the economy arriving with delays, central banks' task is even harder.

Yet, avoiding recession is exactly what we think will happen this time around. Our base case is for the US Federal Reserve and other central banks to cut rates, with GDP growth remaining at trend or slightly below, in what we would characterise as a soft landing.

We see several factors contributing to this rare occurrence.

- Central banks have acquired credibility. Inflation expectations have moved somewhat higher than before the pandemic, but have not become unanchored.
- Tightening may not have bitten as hard as it should have on paper. Excess savings and supportive fiscal policy made the difference, and financial and monetary conditions have already loosened considerably in anticipation of rate cuts.
- The supply-side constraints that triggered the inflation shock subsided relatively quickly.
- Positive supply shocks, such as an immigration-led increase in labour supply in the US, provided a helping hand.

And to that we would add a dose of good luck. The Fed and others will be cutting it fine, and the outcome may yet be decided by the unexpected.

► BNP Paribas key forecasts for 2025

GDP growth (annual, y/y)		**Market rates** (year end)	
US 1.9%	Eurozone 1.4%	US 10y 3.65%	Germany 10y 2.25%
CPI inflation (annual average, y/y)		**FX** (year end)	
US 2.2%	Eurozone 2.0%	EURUSD 1.15	USDJPY 131
Policy rates (year end)		**Brent** (Q4 average)	
Fed 3.25–3.50%	ECB 2.50%	USD77/bbl	

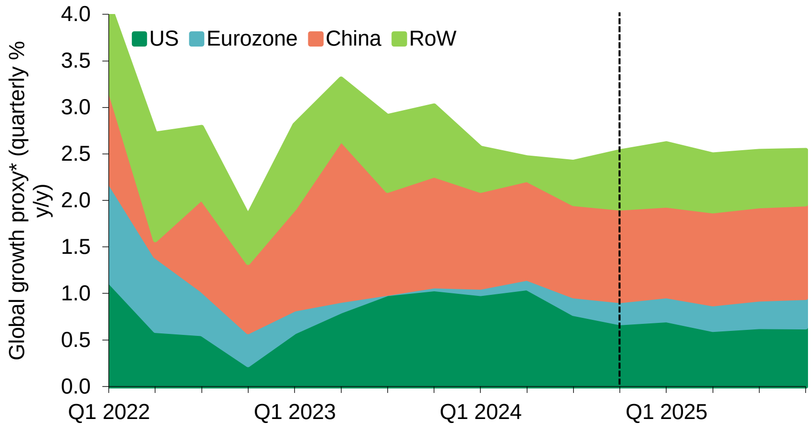
The result is that central banks seem to have the uncommon luxury of easing policy with a view to still-decent, albeit unspectacular, growth and labour markets robust enough to weather the odd bump in the road.

Our base case sees GDP growth at or slightly below trend in most key economies globally, inflation continuing to fall towards target (though stubbornly sticky in places) and policy rates settling at neutral or just above it across both developed and emerging markets.

Japan is the major exception to the easing mood – we expect the central bank there to continue its gradual tightening course, with the next rate hike in December.

Within this scenario, we think markets will soon switch focus towards November's US election. Later in this section, we present different election scenarios, their probabilities and the implications for US fiscal policy, trade and, as a result, financial markets (see pages 6–9).

We expect global GDP growth to remain resilient



**Our global growth proxy is computed in real USD and covers around 75% of global GDP. RoW includes Japan, the UK, India, South Korea, Brazil, Mexico, Poland and South Africa. Data to the right of the vertical dashed line are BNP Paribas forecasts.*
Sources: World Bank, Datastream, BNP Paribas

Luigi Speranza, Global Head of Markets 360 and Chief Economist | BNP Paribas London Branch | and Markets 360 team

Cutting it fine

Risks to our view: Plenty of things could go wrong, and the risks to our growth outlook are skewed clearly to the downside.

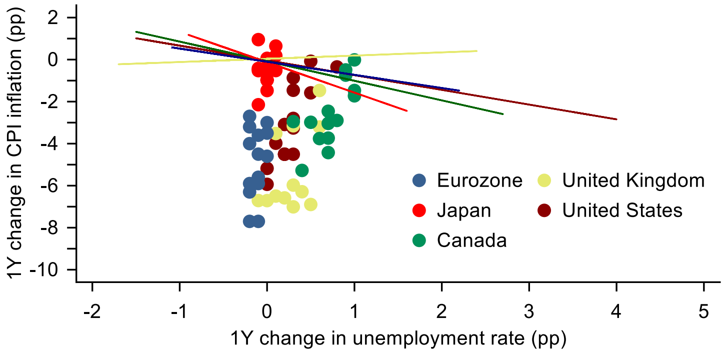
On the one hand, the US labour market might be deteriorating faster than our base case envisages, leaving the Fed somewhat behind the curve. As discussed on page 5, we attribute a 25% probability to this recession scenario.

On the other hand, in the absence of a recession, inflation might prove more persistent than we assume. This is probably more a problem for 2025. But central banks might slow or even stop the easing cycle well before we currently expect, in turn triggering a recession at a later point. (For more, see pages 10–11.)

Aggressive trade policy from the US – if met with retaliation from other countries and/or combined with supportive fiscal policy as a result of a Democrat 'Blue Wave' election victory – might contribute to such an outcome.

The return of some fiscal concern is another source of potential market volatility. With markets focusing on rate cuts, we would regard this as a material risk in our base case. Both lower growth and higher inflation might fuel concern over debt sustainability in a number of countries, including in Europe.

Steep post-Covid Phillips curves have allowed central banks to bring down inflation without much labour market pain



Dots represent points from Jan 2023 onwards. Phillips curve slopes are calculated over 2000–19.
Sources: National sources, OECD, Macrobond, BNP Paribas

Market views: Under our base case, we would expect bond yields to fall slightly (albeit supply concerns might provide more attractive entry points for long positions in coming weeks, in Europe at least). We expect EM rates and in particular CEEMEA to outperform DM, and we see risks as tilted towards steeper curves (reinforced by our view that risks to activity lie to the downside in the near term). Fading US 'exceptionalism' should favour US bond spreads narrowing versus the eurozone, UK and Japan, while pushing down the USD.

Greater supply and increased concern about fiscal sustainability, in France and elsewhere, are likely to widen EUR bond spreads in the short term, but we would see that as an opportunity to re-enter long spread positions ahead of a fall in yields that we expect over the next few months.

Our bearish USD view would be challenged both by a recession and by a victory for Donald Trump in November's election – tariffs in their most aggressive form would push EURUSD down by 7% and see USDRMB rise to 7.7, we estimate.

While fundamentals for energy and gold are soft, the scope for geopolitical tensions to escalate poses an upward risks to those prices. Conversely, the option of OPEC+ flooding the markets is a downward risk, albeit considerably less likely.

Historical evidence points to a risk-off environment ahead of the US election, followed by a more positive environment. Therefore, in equities, our bias is to be defensive before the vote and positive afterwards. Hedges should focus on the next two months. In credit we are positioned defensively in non-cyclicals and for spread decompression.

Luigi Speranza, Global Head of Markets 360 and Chief Economist | BNP Paribas London Branch | and Markets 360 team

US landing dashboard: Risk of recession still low, but edging higher

We judge US recession risk to have edged higher to 25% over the next three to six months – moderate, but still low. We derive this from our US landing dashboard, which combines our models with key market and economic indicators in an effort to track the likelihood of an economic soft landing evolving into a hard landing.

The weakening of the US jobs market is the major component supporting the probability moving to this level. From here, we think the broad range of indicators listed below will provide the best gauge of whether recession risks rise further.

- **Employment metrics:** The health of the jobs market is key for whether a soft landing is becoming a deeper slowdown. In our data-driven approach we see the BNP Paribas US Employment Index as important to monitor. A decline of this indicator below zero (from 0.5 currently) would represent a deeper downturn.
- **Credit fundamentals:** Our credit model reviews fundamentals such as credit availability, leverage growth and non-performing loans. This currently points to a soft landing with a moderate but still low likelihood of recession.
- **BERT market implied regime:** Our BERT framework allows us to calculate an 'implied regime' from the way that assets are trading. We think BERT's 'buying assets' (B) regime is reflective of a soft landing, while the 'recession' (R) regime is reflective of a hard landing. Over the past month the co-movement of assets reflects a 59% likelihood of a soft landing and 22% likelihood of recession.
- **US oil inventories:** Rising inventories are a sign of weakening demand. The 6m change of inventories being in its 90th percentile (above 33,600 bbl) has historically been a sign of a recession over the six months that follow.
- **Economic fundamentals:** We monitor key data used by the National Bureau of Economic Research in its definition of a recession. These data currently point to a gradual slowdown rather than a hard landing, in our view.
- **Rate-cut expectations:** We think the terminal level of rates and pace of cuts can help measure how the likelihood of a soft or hard landing is being priced into money markets (with a negative score for our indicator suggesting a hard landing). Currently, the market appears to be pricing in a soft landing.

Summary of hard/soft landing indicators

	Dec 2023	Mar 2024	Jun 2024	Aug 2024
Employment metrics – We see the labour market as key to define a hard or soft landing				
BNPP US Employment Index	1.20	0.98	1.17	0.50*
NFP/thousands	290	310	118	142
Unemployment rate/%	3.70	3.80	4.10	4.20
Jobless claims/thousands	205.8	214.5	238.8	230.0
Conference Board – Jobs plentiful	40.4	41.7	35.5	32.8
Conference Board – Jobs hard to get	13.1	12.2	15.7	16.4
Credit fundamentals – Assessing the recession probability 12 months ahead				
BNPP credit-based recession model probability	31%	26%		
Corporate interest coverage probability	0%	0%	0%	
Non-performing loans (NPLs) probability	40%	49%		
Fed Senior Loan Officer Survey (SLOS) probability	71%	47%	60%	30%
Leverage probability	12%	9%	8%	
Excess bond premium Fed model probability	19%	15%	18%	18%
$ Cyclical risk-premium (cyclical spreads v non-cyclical)	-1.69	-5.09	-2.13	-1.05*
US IG credit spreads (pp)	1.02	0.92	0.91	0.98*
BERT market regime – Market-implied probability derived from asset performance				
B (Soft landing)	48%	39%	32%	59%
E (Economic expansion)	7%	26%	17%	12%
R (Recession)	39%	14%	29%	22%
T (Tightening financial conditions)	7%	21%	22%	7%
US crude oil inventories – Above 90th percentile has historically been a signal for recession				
Percentile of 6m change	16%	87%	79%	17%
Economic fundamentals (%3mma/3mma, annualised)				***(July)***
Real wholesale sales	4.2%	-8.1%	6.0%	
Real PCE	4.2%	0.9%	3.1%	4.8%
Real retail sales	2.9%	0.0%	0.9%	
Real personal income	2.1%	0.8%	1.6%	2.6%
Industrial production	-2.6%	-0.5%	4.2%	1.5%
Rate cut expectations				
Cutting cycle score (-100 = hard landing, +100 = soft)	74	74	72	59*
End-2024 fed funds	3.75	4.66	4.89	4.17*
End-2025 fed funds	3.11	3.79	3.97	2.94*

**Market data as at 6 September 2024. The BNPP credit-based recession model probability is an average of the four subcomponents. The rate-cutting-cycle indicator is a ratio of the sum of squared errors versus a soft-landing profile (25bp cut per meeting until 3%) and a hard-landing profile (50bp cut per meeting). The higher the score, the more reflective the profile is of a soft landing. For more on our data trackers, see BNP Paribas Global Data Tracker: Granular data summary at your fingertips, 3 May. Our employment index is available on Bloomberg with the ticker BPESUSE Index.*

Sources: Bloomberg, Macrobond, BNP Paribas

Michael Sneyd, Head of Cross-Asset and Macro Quantitative Strategy | Oleksandr Tsymbalov, Macro Quantitative Strategist | BNP Paribas London Branch | Joana Carvalho Oliveira, Macro Quantitative Strategist and Head of Markets 360 Portugal | Joao Torres, European Credit Strategy | BNP Paribas Portugal Branch. Any credit views have been prepared by the Credit Strategy team, which is part of the Credit Trading Desk Analyst team who work closely with the Sales and Trading function. This is not a research report and has not been prepared by the BNP Paribas Research Department. Please see *disclaimer*.

US election: Fiscal scenarios and market impacts

Lawmakers' tax and spending choices after the November election will matter for US growth prospects over our forecast horizon (see next page). They could also affect perceptions of debt sustainability in the longer term. The extension of the 2017 tax cuts – which sunset after 2025 – and corporate taxes are among the most consequential items on the legislative agenda regardless of whether Kamala Harris or Donald Trump wins the presidency.

The table below illustrates our modelling in *BNPP US election tracker: Let's get fiscal* (dated 3 September), in which we assess four scenarios against a baseline that includes policies likely to be extended regardless of the election outcome. Our forecasts in this *Global Outlook* assume a partial extension of the Tax Cuts and Jobs Act of 2017 via tax cuts for lower-earners and a child tax credit extension, with spending growing in line with the latest Congressional Budget Office base case (see *page 16*).

If one party does not control both the presidency and Congress, fiscal policy is likely to play a minimal role in defining the macro outlook, implying little impact on asset prices

Scenarios		Estimated policy impact of scenarios**				Estimated market impact of scenarios***			
Result	Probability*	TCJA 2017 individual taxes****	Child Tax Credit****	Corporate tax rate (federal)	Spending	EURUSD	10y UST	SPX	IG
Blue Wave	15%	Extended for low-earners	Scale up by USD105bn per year	Lift to 28%	Child care, education, housing	-1.3%	+30bp	-9%	+29bp
Harris win + divided government	35%	Extended for low-earners	Extended at TCJA levels	No change (21%)	Some restraint on discretionary spending	+0.2%	-5bp	0%	-1bp
Trump win + divided government	20%	Extended for low-earners, and more	Scale up by USD25bn per year	No change (21%)	No change from CBO base case	-0.2%	+5bp	0%	0bp
Red Wave	30%	TCJA provisions all extended	Scale up by USD50bn per year	Cut to 20%	Grows slightly faster than CBO base case	-1.9%	+45bp	+3%	-9bp

*Blue Wave and Red Wave denote victories in presidential and congressional elections by Democrats and Republicans, respectively. *Subjective judgements based on available opinion polls, prediction markets and betting odds; **Subjective estimates based on candidate plans; ***For more on our modelling of market impacts, see BNPP US election tracker: Let's get fiscal, dated 3 September; ****Items due to sunset at year end 2025*
Sources: BNP Paribas

FX: Additional fiscal stimulus should support the narrative of US 'exceptionalism', with stronger growth and yield differentials crowding in additional capital inflow from the rest of the world. This suggests a higher USD in sweep outcomes.

Rates: In the event of a sweep by either party, we would expect higher inflation and deficits to push the fair value of US yields upward in about equal proportion. We think a Red Wave would be the most impactful.

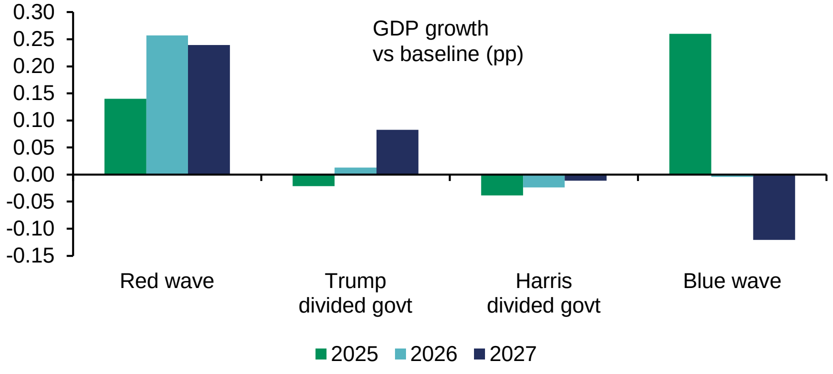
Equities: In a Red Wave, expectations of higher nominal growth and a lower corporate tax rate should benefit US equities. A divided government under either president would likely have a negligible impact. A Blue Wave would be the most impactful, in our view, with potential for a meaningful rise in corporate tax rates.

Credit: Sweep scenarios are likely to be the most impactful for credit, with risks skewed toward wider spreads in a Blue Wave and tighter spreads in a Red Wave.

Calvin Tse, Head of Americas Macro Strategy | Andrew Husby CFA, Senior US Economist | BNP Paribas Securities Corp

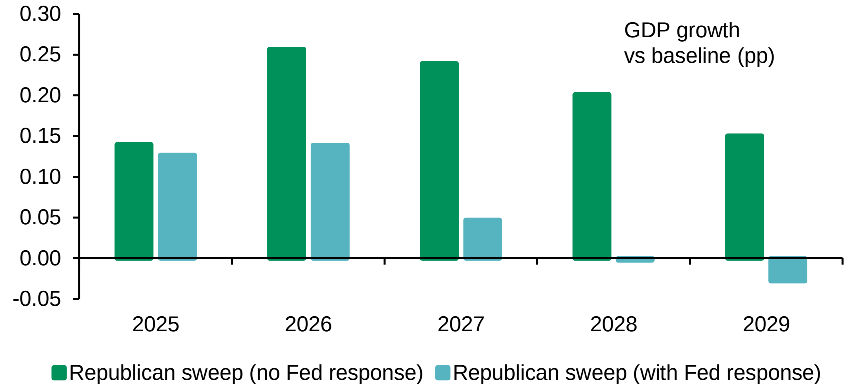
US election: Economic impacts of fiscal policy scenarios

Red Wave likely most positive for GDP growth, as higher corporate taxes could weigh on activity under Democratic sweep



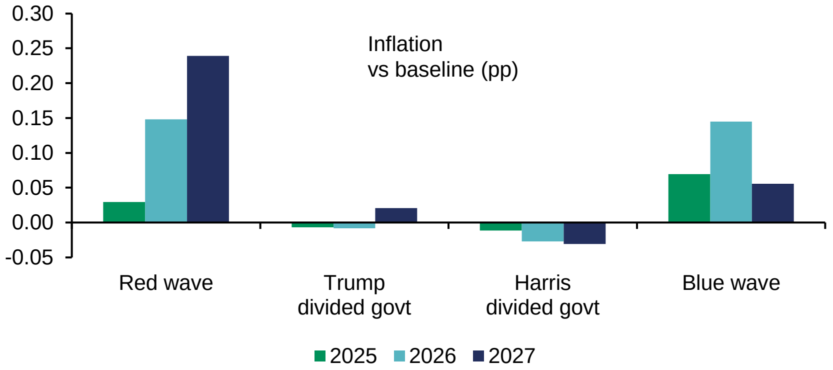
Changes relative to CBO base case and assuming no monetary policy response
Sources: NiGEM, BNP Paribas

Monetary policy response could trim growth impulse of Red Wave



Changes relative to CBO base case
Sources: NiGEM, BNP Paribas

Added fiscal impulse under united government scenarios would mean slightly firmer inflation outlook



Changes relative to CBO base case and assuming no monetary policy response
Sources: NiGEM, BNP Paribas

From tax and spending to economic impact: To model the growth and inflation impacts of post-election fiscal policy, we use the National Institute Global Econometric Model (NiGEM), the large-scale econometric model we employed in *BNPP US election tracker: Trade war strikes back*, dated 4 June.

Republican sweep most positive for growth, ex-tariffs: We find the Red Wave scenario to be the most growth-positive over a three-year span, lifting GDP growth by about 0.2pp annually. We discuss possible offsets from tariffs on the next page. The Blue Wave scenario has the largest single-year bump to GDP growth at 0.2–0.3pp in 2025, but higher corporate taxes would restrain growth later on.

Fed response matters: The Fed is likely to be minding more than just fiscal policy come 2025, including economic developments, tariffs, and other policy changes.

We believe the Fed response to post-election fiscal policy could be muted over the short term, as it digests cross-currents in the data, including potential softening in the job market. In our model, Fed tightening required to offset inflation is limited (about 25bp), but it would trim the growth impulse in a Red Wave.

Andrew Husby CFA, Senior US Economist | Andy Schneider, Senior US Economist | BNP Paribas Securities Corp

US election: Modeling 10% tariffs globally and 60% tariffs on China

In the US, a monetary policy response to higher inflation could have a greater impact on GDP than tariffs alone

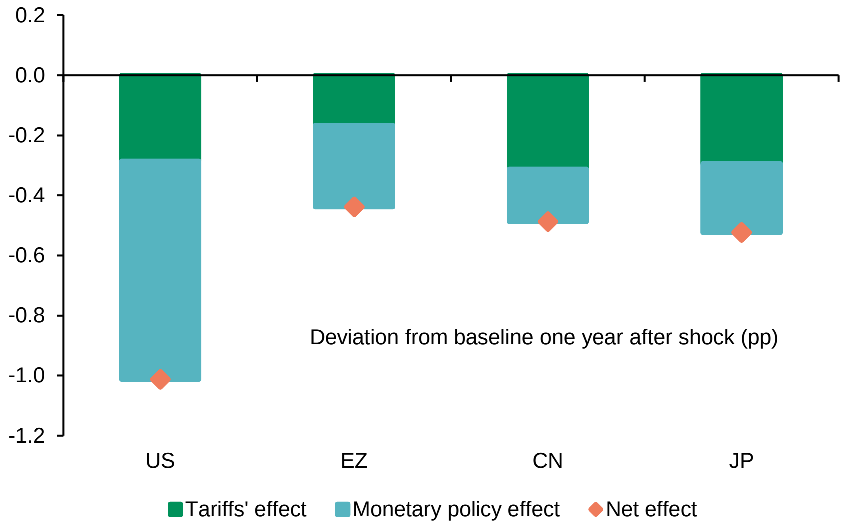


Chart shows growth impact relative to baseline of current tariff regime following imposition of across-the-board tariffs by US, 10% globally and 60% on China, without retaliation
Sources: NiGEM, BNP Paribas

The inflationary impact of broad-based tariffs would be substantial in the US, more limited elsewhere

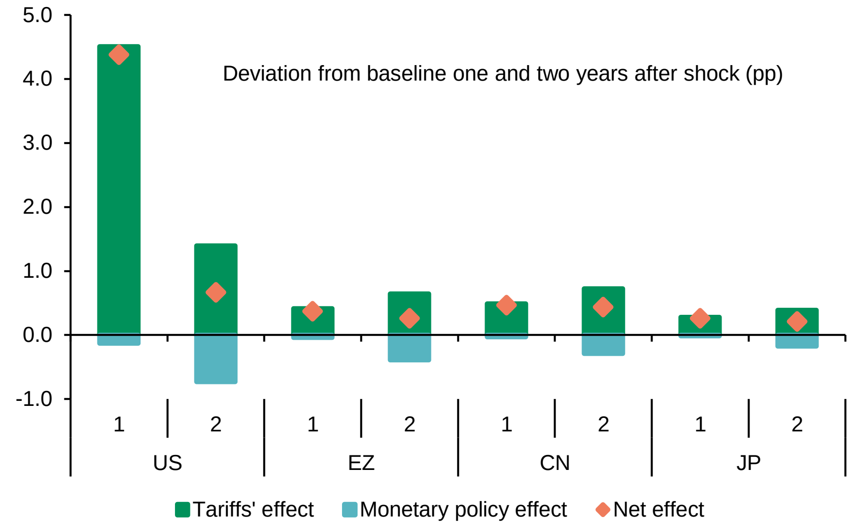


Chart shows inflation impact relative to baseline of current tariff regime following imposition of across-the-board tariffs by US, 10% globally and 60% on China, without retaliation
Sources: NiGEM, BNP Paribas

Of course, fiscal policy is not the only game in town. One consequence of the US election could be a sizable shift in tariff policy that could offset or add to the economic and market impacts discussed on the prior page.

Economic effects: Our analysis suggests that the standalone effect from the US imposing import tariffs of 10% globally and 60% on China would have a disproportionately larger and more persistent impact on inflation than on growth.

The monetary policy tightening required to counteract this higher inflation would amplify the drag on growth, we estimate, in most cases exceeding the hit from tariffs alone.

Free trade in retreat: Regardless of who wins the US presidential election, the trend toward greater protectionism could be tough to shake in the coming years.

Trade barriers are one symptom of the broader rethink of globalization that has already been in process. Elements of that shift include (1) scrutinizing supply-chain resilience, (2) using industrial policy to promote domestic goals, including green technology investments, and (3) addressing geopolitical vulnerabilities and national security concerns related to specific countries.

For more, see BNPP US election tracker: Trade war strikes back, dated 4 June.

Andy Schneider, Senior US Economist | Andrew Husby CFA, Senior US Economist | BNP Paribas Securities Corp

US election: Market implications of broad US tariffs

BNP Paribas assessment of market impact of US import tariffs of 10% globally and 60% on China				
With central bank response*	**EURUSD: -7%**	**10y: +135bp**	**SPX: -12%**	**IG: +42bp**
Without central bank response*	**EURUSD: -4%**	**10y: +105bp**	**SPX: -9%**	**IG: +31bp**

**Central bank response assumes tighter policy by the Fed, ECB, BoJ, and PBoC of 200bp, 30bp, 10bp, and 40bp, respectively, relative to our base case, which assumes the current tariff regime. For more on our modelling of market impacts, see BNPP US election tracker: Trade war strikes back, dated 4 June.*

FX

BNP Paribas CLEER™ highlights that a terms-of-trade shock would be the largest driver of EURUSD in the tariff scenario.

If central banks do not respond, this would imply a 4% drop in fair value, creating further headwinds for the EUR.

If central banks do respond to tariffs, we assume the Fed would hike by more than the ECB. Widening rate differentials in favour of the US would cause further downside to EUR, implying a 7% drop in fair value.

Rates

A responsive Fed (+200bp versus our current forecast) would likely contain long-run inflation expectations and result in bear-flattening.

If the Fed ultimately does not respond, we would expect a larger rise in long-run inflation expectations, resulting in a parallel shift (or even steepening) of the curve.

If markets focus on the growth hit, smaller increases in yields would be likely.

Equities

We would expect higher nominal growth to boost sales for S&P 500 companies. With a modest margin compression (50bp), higher nominal growth would give a small EPS boost of 25–100bp to the SPX, we estimate.

In reaction to higher yields, we would expect downside pressure from P/E multiple compression. If we keep the EY–BY spread constant, we model 17–21% downside. The implied move from an equity–rates daily beta over the YTD period suggests a 3–4% downside. Averaging the two approaches, in addition to the EPS impact, suggests a combined 9–12% downside.

Credit

We estimate IG credit spreads would be +42bp wider in the baseline scenario (or +31bp without a central bank response), by assuming a historical beta of IG performance relative to the S&P.

Within credit, we believe goods-producing sectors would be more at risk of supply-chain disruptions and input cost inflation, while services sectors would be less exposed.

Calvin Tse, Head of Americas Macro Strategy | BNP Paribas Securities Corp

Inflation: Bumpy disinflation to continue

We expect the global disinflationary process to continue across our forecast horizon – albeit in a non-linear fashion – with headline inflation settling at or slightly above central banks' targets by the end of 2025.

While we think risks are skewed to the downside for the global growth outlook, especially in the short term, we see risks to inflation as more two-sided.

Disinflation still the trend: The weaker near-term growth outlook (including the balance of risks) makes us less concerned about a near-term reacceleration of inflationary pressures than we were in *Global Outlook Q2 2024*.

In most regions, inflation is much closer to central banks' target levels now, and we see the trend of bumpy disinflation continuing over the next few months, with data unlikely to challenge policymakers' rate-cutting plans.

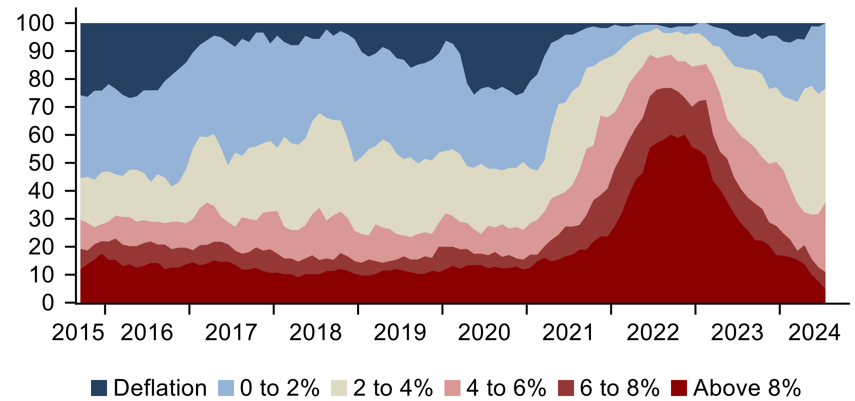
Aided by an improvement in global supply-chain conditions and an easing in energy inflation, the proportion of countries with very high inflation has returned to broadly normal levels (top chart), while we estimate median developed-market inflation is now within touching distance of 2% (bottom chart).

Quick wins exhausted: To date, the improvement in inflation across developed markets has been primarily the result of lower goods and energy prices following the unwinding of supply shocks.

However, this process has largely run its course, in our view, with indicators of supply-chain stress back to more neutral levels, suggesting limited – if any – additional goods disinflation ahead. Our forecasts for oil prices imply energy inflation should largely trend sideways, too.

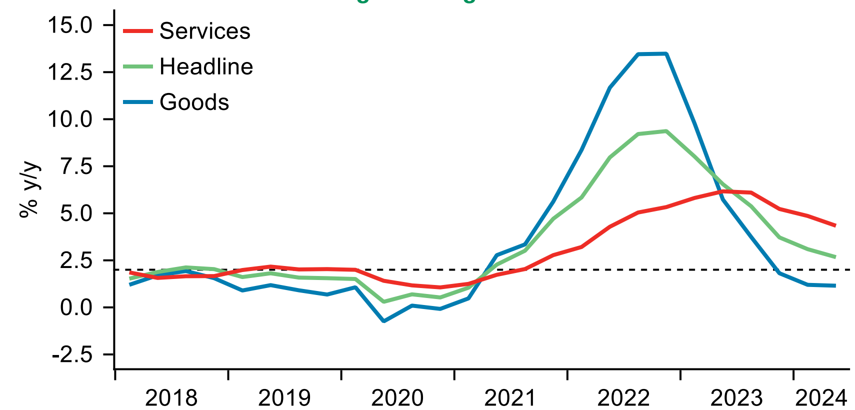
As a result, the final leg of disinflation requires a further easing in services inflation. Our central case is that this will occur gradually, as labour markets normalise further (e.g. in the US) and purchasing power recovers (e.g. in the eurozone). Leading indicators also point to a material cooling in shelter inflation in the US over the next 12 months. However, we see the pace of softening in services inflation curbed by the absence of material economic slack, with growth in developed markets remaining around potential.

The distribution of inflation rates has become less skewed to the upside



Data comprise headline inflation rates of 187 EM and DM economies.
Sources: National statistical offices, Macrobond, BNP Paribas

Median inflation in developed markets has slowed much closer to 2%, thanks to significant goods disinflation

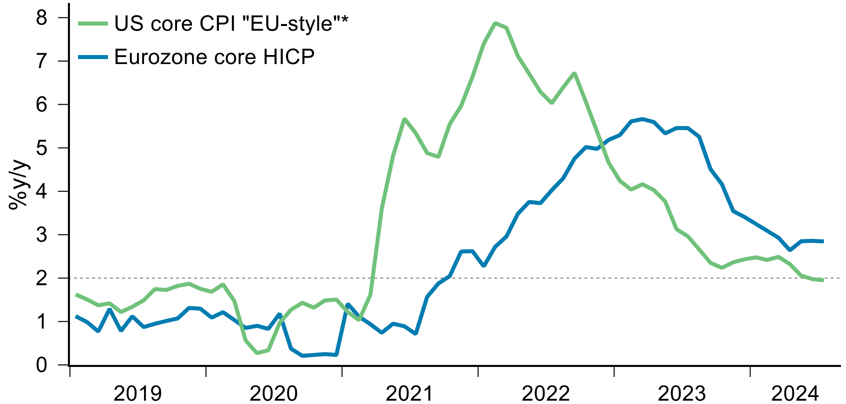


Data comprise 29 DM economies.
Sources: OECD, Macrobond, BNP Paribas

Paul Hollingsworth, Chief Europe Economist | Duncan Forsyth, Global Economist | BNP Paribas London Branch

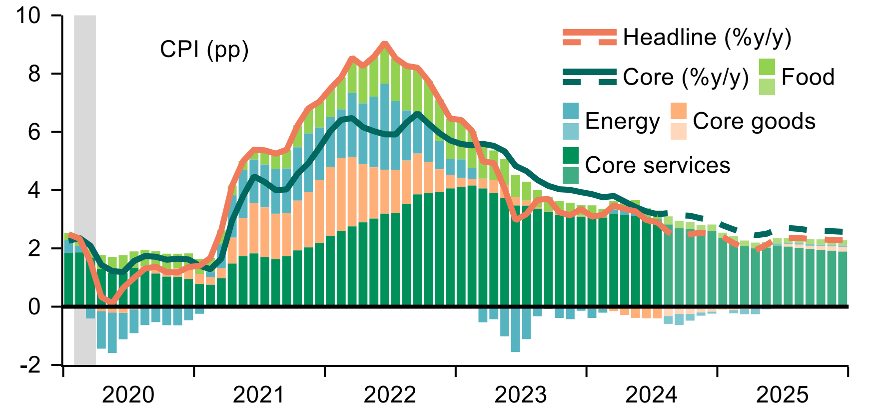
Inflation: Down but not out

Stickiness in wage bargaining is keeping eurozone core inflation more elevated than in the US, when adjusting for methodological differences



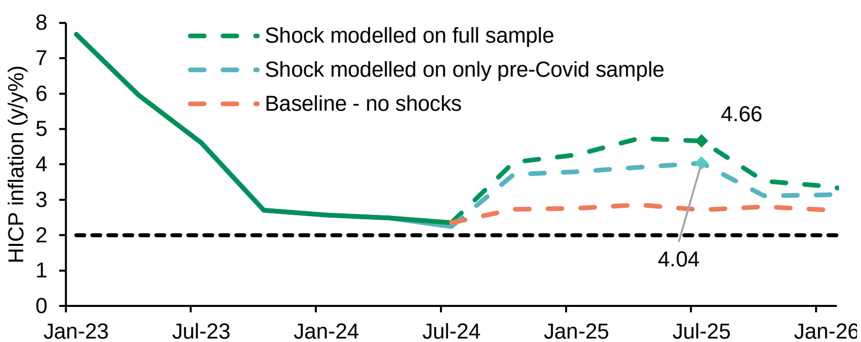
*EU-style US core CPI excludes alcohol, tobacco, rents and OER and includes food away from home in the standard definition of US core CPI inflation.
Sources: BLS, Eurostat, Macrobond, BNP Paribas

Further US disinflation relies on services inflation decelerating further



Shaded area denotes recession. Dashed lines and lighter shades of columns denote BNP Paribas forecasts.
Sources: BLS, Macrobond, BNP Paribas

Recent data suggest the eurozone inflation regime is more vulnerable to supply-side shocks than before Covid



Our baseline model is specified in line with Bernanke-Blanchard (2024). The green dashed line reflects a model that includes a post-Covid sample; the blue dashed line contains only pre-Covid detail. The shock to energy prices and supply chain modelled is similar to that in Q1 2022. For details, see Eurozone inflation: Assessing sensitivity to renewed shocks, 6 September.
Sources: Bernanke-Blanchard (2024), Macrobond, BNP Paribas

Two-sided risks: We see inflation risks as balanced. While a hard landing for the global economy would almost certainly be a net negative for inflation too, several potentially inflationary exogenous risks persist.

- Geopolitical tensions remain elevated and could affect energy prices (e.g. Middle East escalation could drive Brent above USD110/bbl; see *page 37*).
- If a re-elected President Trump imposes stringent tariffs, that would probably also be inflationary (see *page 7*).
- Climate change is another inflationary driver over the short to medium run, in our view. Colossal investment is needed for the transition, and more frequent extreme weather events can damage supply.
- Although inflation expectations, on the surface at least, remain anchored, our models suggest that the memory of high inflation keeps both firms and households vulnerable to renewed shocks (see bottom left chart).

These risks could become more prominent in investor thinking in 2025 if growth concern diminishes and data hold up as we expect over the next three months.

Paul Hollingsworth, Chief Europe Economist | Duncan Forsyth, Global Economist | BNP Paribas London Branch

Forecasts: GDP and inflation

Our up-to-date economic forecasts are always available on the Markets 360 website.

	BNP Paribas GDP growth forecasts											BNP Paribas CPI inflation forecasts										
	Annual avg (% y/y)			Quarterly averages (% q/q)								Annual avg (% y/y)			Quarterly averages (% y/y)							
				2024				2025							2024				2025			
	2023[1]	2024	2025	Q1[1]	Q2[1]	Q3	Q4	Q1	Q2	Q3	Q4	2023[1]	2024	2025	Q1[1]	Q2[1]	Q3	Q4	Q1	Q2	Q3	Q4
US	**2.5**	**2.6**	**1.9**	0.4	0.7	0.4	0.5	0.5	0.4	0.5	0.5	**4.1**	**2.9**	**2.2**	3.2	3.2	2.6	2.5	2.2	2.1	2.3	2.3
Eurozone	**0.5**	**0.8**	**1.4**	0.3	0.2	0.3	0.3	0.4	0.4	0.4	0.4	**5.4**	**2.4**	**2.0**	2.6	2.5	2.3	2.3	2.2	2.1	1.8	2.0
Germany	**-0.1**	**0.1**	**1.0**	0.2	-0.1	0.1	0.3	0.3	0.3	0.3	0.3	**6.1**	**2.5**	**2.4**	2.7	2.6	2.3	2.5	2.4	2.3	2.4	2.4
France	**1.1**	**1.2**	**1.2**	0.3	0.2	0.4	0.1	0.3	0.4	0.3	0.4	**5.7**	**2.5**	**1.1**	3.0	2.5	2.3	2.1	1.5	1.1	0.8	0.9
Italy	**1.0**	**0.9**	**1.2**	0.3	0.2	0.3	0.4	0.3	0.3	0.2	0.3	**6.0**	**1.2**	**2.0**	1.0	0.9	1.4	1.5	1.8	2.3	1.9	2.0
Spain	**2.5**	**2.8**	**2.5**	0.8	0.8	0.6	0.7	0.6	0.6	0.6	0.6	**3.4**	**3.1**	**2.1**	3.2	3.6	2.6	2.8	2.5	2.0	2.0	1.8
China	**5.2**	**4.9**	**4.5**	1.5	0.7	1.2	1.0	1.4	0.8	1.2	1.0	**0.2**	**0.4**	**1.3**	0.0	0.3	0.5	0.9	1.6	1.2	1.1	1.2
Japan	**1.7**	**-0.2**	**0.7**	-0.6	0.8	0.2	0.2	0.2	0.1	0.1	0.1	**3.2**	**2.6**	**2.4**	2.5	2.7	2.6	2.2	2.6	2.5	2.2	2.2
UK	**0.1**	**1.2**	**1.5**	0.7	0.3	0.3	0.3	0.4	0.4	0.4	0.4	**7.4**	**2.6**	**2.5**	3.5	2.1	2.2	2.7	2.9	2.6	2.5	2.1
Switzerland[2]	**1.2**	**1.1**	**1.5**	0.3	0.5	0.3	0.2	0.3	0.4	0.6	0.5	**2.1**	**1.2**	**1.0**	1.2	1.4	1.1	1.0	1.0	0.9	1.0	1.1
India[3]	**8.2**	**6.6**	**6.6**	1.4	1.3	1.7	1.7	2.0	1.3	1.5	1.6	**5.3**	**4.6**	**4.6**	5.0	4.9	4.0	4.9	4.5	4.7	4.5	4.6
South Korea	**1.4**	**2.4**	**1.8**	1.3	-0.2	0.5	0.4	0.6	0.2	0.7	0.7	**3.6**	**2.5**	**2.2**	3.0	2.7	2.2	2.1	2.1	2.2	2.2	2.1
Brazil	**2.9**	**3.1**	**2.0**	0.8	1.4	0.5	0.4	0.9	0.2	0.1	0.0	**4.6**	**4.3**	**3.8**	4.3	4.0	4.5	4.5	4.1	3.9	3.7	3.6
Mexico	**3.2**	**1.7**	**1.2**	0.3	0.2	0.5	0.5	0.1	0.2	0.2	0.1	**5.6**	**4.8**	**4.1**	4.6	4.8	5.2	4.9	4.5	4.3	3.7	3.8
Poland	**0.2**	**3.0**	**3.8**	0.8	1.5	0.5	0.5	1.1	1.1	1.1	1.1	**11.6**	**3.5**	**3.8**	2.8	2.5	4.4	4.4	4.9	4.4	2.9	2.9
South Africa	**0.7**	**1.1**	**1.7**	0.0	0.4	0.7	0.7	0.4	0.2	0.3	0.3	**5.9**	**4.7**	**4.3**	5.4	5.2	4.4	3.9	4.3	4.1	4.4	4.6

(1) 2023 and Q1 and Q2 2024 data are actual. (2) Switzerland's GDP forecasts are adjusted for sporting events. (3) India's annual forecasts are for the fiscal year (April–March).
Sources: National statistical agencies, BNP Paribas forecasts

Markets 360 team

Forecasts: Rates and FX

Our up-to-date rates and FX forecasts are always available on the Markets 360 website.

BNP Paribas end-period interest-rate forecasts (%)

	Spot (2 Sep)	Q4 2024	Q1 2025	Q2 2025	Q3 2025	Q4 2025
US						
Fed funds (upper bound)	5.50	4.75	4.25	4.00	3.75	3.50
2-year	3.92	3.75	3.55	3.45	3.30	3.25
10-year	3.90	3.80	3.70	3.70	3.65	3.65
30-year	4.20	4.10	4.00	4.00	3.95	3.95
Eurozone						
Deposit	3.75	3.25	3.00	2.75	2.50	2.50
2-year(1)	2.42	2.20	2.00	1.95	2.05	2.15
10-year(1)	2.34	2.15	2.10	2.10	2.15	2.25
30-year(1)	2.58	2.40	2.40	2.45	2.52	2.65
10y spreads to Germany (bp)						
France	69	73	70	75	70	70
Italy	143	145	130	135	140	140
Spain	81	78	75	75	73	73
UK						
Bank Rate	5.00	4.75	4.50	4.25	4.00	3.75
2-year	4.12	3.60	3.50	3.30	3.20	3.25
10-year	4.05	3.80	3.80	3.60	3.50	3.65
30-year	4.56	4.25	4.25	4.15	4.00	4.10
Japan						
IOER	0.25	0.50	0.75	1.00	1.00	1.25
2-year	0.36	0.70	0.95	1.05	1.15	1.25
10-year	0.91	1.25	1.40	1.55	1.70	1.80
30-year	2.12	2.05	2.15	2.25	2.30	2.30

(1) German benchmark
Sources: Bloomberg, BNP Paribas forecasts

BNP Paribas end-period FX forecasts

	Spot (2 Sep)	Q4 2024	Q1 2025	Q2 2025	Q3 2025	Q4 2025
EURUSD	1.11	1.12	1.13	1.14	1.14	1.15
EURJPY	163	160	160	160	157	155
GBPUSD	1.31	1.35	1.36	1.37	1.37	1.39
USDJPY	147	139	138	136	132	131
AUDUSD	0.68	0.69	0.70	0.71	0.72	0.73
USDCNY	7.12	7.05	7.05	7.00	6.95	6.90
USDBRL	5.62	5.45	5.45	5.45	5.35	5.30
USDMXN	19.79	21.00	20.50	20.00	19.50	19.50
USDZAR	17.87	17.50	17.40	17.30	17.15	17.00
USDIDR	15,525	15,200	15,000	15,100	15,200	15,300

Sources: Bloomberg, BNP Paribas forecasts

Markets 360 team

Forecasts: Equity, credit and commodities

Our up-to-date commodities and equity forecasts are always available on the Markets 360 website.

BNP Paribas equity forecasts

	Spot (2 Sep)	End-2024
S&P 500	5,648	5,400
Euro STOXX 50	4,973	5,100
NIKKEI 225	38,700	39,500
MSCI China	56	60

Sources: Bloomberg, BNP Paribas forecasts

BNP Paribas credit forecasts (OAS spread, bp)*

	Spot (2 Sep)	End-2024
€ IG: Bloomberg Agg Corp	117	115
€ HY: Bloomberg Pan-European	344	350
$ IG: Bloomberg Agg Corp	93	95
$ HY: Bloomberg US Corp HY	301	350
$ EM: J.P. Morgan EMBI Core	310	300

Sources: Bloomberg, BNP Paribas forecasts

**This Credit section has been prepared by the Credit Strategy team, part of the Credit Trading Desk Analyst team, who work closely with the Sales and Trading function. This is not a research report and has not been prepared by the BNP Paribas Research Department. Please see disclaimer.*

Markets 360 team

BNP Paribas quarterly average commodity price forecasts*

	Spot (2 Sep)	Q4 2024	Q1 2025	Q2 2025	Q3 2025	Q4 2025
ICE Brent 1m (USD/bbl)	77.52	82	79	75	80	77
NYMEX WTI 1m (USD/bbl)	73.62	78	74	72	75	73
Dubai 1m (USD/bbl)	76.49	81	78	75	78	75
EU TTF 1m (EUR/MWh)	38.58	35	38	29	25	29
Asia JKM 1m (USD/MMBtu)	13.56	11	13	9	9	10
NYMEX Henry Hub 1m (USD/MMBtu)	2.19	2.7	3.5	3.8	3.8	4.7
Carbon EUA 1m (EUR/t)	69	77	82	85	86	88
Carbon UKA 1m (GBP/t)	42	44	50	53	60	68
Power French base 1m (EUR/MWh)	76	89	94	58	67	84
Power German base 1m (EUR/MWh)	89	91	99	71	76	87
Power UK base 1m (GBP/MWh)	79	80	93	77	74	81
Gold COMEX 1m (USD/oz)	2,527	2,545	2,595	2,515	2,475	2,410
Silver COMEX 1m (USD/oz)	29.14	30.30	31.05	30.85	30.70	30.85
Palladium COMEX 1m (USD/oz)	963	985	995	1,005	1,000	985
Platinum COMEX 1m (USD/oz)	932	1,070	1,095	1,100	1,120	1,165
Aluminium LME 3m (USD/t)	2,424	2,670	2,750	2,775	2,825	2,950
Cobalt CME 1m (USD/lb)	11.35	11.25	11.05	10.80	10.60	10.65
Copper LME 3m (USD/t)	9,183	9,625	9,750	9,755	9,805	10,125
Lithium hydroxide CME (USD/kg)	11.23	10.90	11.05	11.00	10.80	10.85
Nickel LME 3m (USD/t)	16,625	16,900	16,625	16,250	15,915	16,005
Zinc LME 3m (USD/t)	2,841	2,920	2,955	2,930	2,950	3,075

Sources: Bloomberg, BNP Paribas forecasts

**Any commodities views have been prepared by the Commodities Desk Strategy team, which works closely with the Sales and Trading function. This is not a research report and has not been prepared by the BNP Paribas Research Department. Please see disclaimer.*

GLOBAL ECONOMICS

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US: Avoiding hard landing

BNP Paribas forecasts

	2023	2024	2025
GDP growth (annual average, % y/y)	2.5	2.6	1.9
CPI inflation (annual average, % y/y)	4.1	2.9	2.2
Policy rate (year end, %)	5.25–5.50	4.50–4.75	3.25–3.50

Growth

Growth will moderate to around potential in H2 2024, we expect, with consumers becoming more selective and election uncertainty delaying some investment projects. The US economy will likely avoid a hard landing as the Federal Reserve dials back monetary policy restriction.

The growth impulse from undocumented immigration will likely fade along with a sizable decline in border encounters (see chart), though we see the pass-through of recent immigrants into the labor force continuing to support growth. Immigration flows look set to normalize further in 2025, regardless of the election outcome.

Inflation

We project inflation continuing to moderate thanks to more pronounced deceleration of housing inflation and other services prices. We believe rents are key to continued moderation in US core inflation in 2024–25.

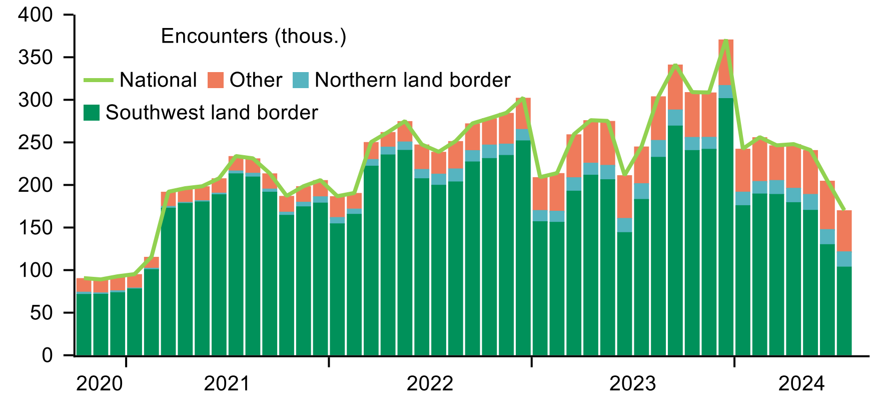
The disinflationary impulse from healing supply chains is waning. Goods inflation might settle at a higher trend rate than before the pandemic, given deglobalization, reshoring, and supply-chain recalibration.

Monetary policy

We see a deeper rate-cutting cycle than we previously projected, given the combination of lower inflation and higher unemployment, particularly relative to the Fed's current restrictive policy stance.

We forecast a series of consecutive 25bp cuts from September to next March, shifting to cuts at every other meeting thereafter until the fed funds rate approaches 3.00%.

Immigration to support growth less than in 2023



Encounters are defined as apprehension or expulsion of migrants by US Border Patrol.
Sources: Department of Homeland Security, Macrobond, BNP Paribas

Fiscal policy

A wide range of tax and spending policies will be on the table after the November election, but we see few signs that politicians will emphasize deficit reduction.

We think a Republican sweep of the presidency and Congress would be the most expansionary outcome for deficits, as that would likely see the 2017 TCJA tax cuts extended in full after 2025, instead of expiring as scheduled.

Our base case is that regardless of the election outcome, popular elements of the TCJA legislation will be extended. As a result, we think deficits are unlikely to narrow below 6% of GDP in the years ahead – historically wide for an economic expansion.

On conventional measures such as the cyclically adjusted primary balance, our base case nevertheless sees fiscal policy as a modest drag on growth in 2024–25.

Yelena Shulyatyeva CFA, Senior US Economist | Andy Schneider, Senior US Economist | Andrew Husby CFA, Senior US Economist | BNP Paribas Securities Corp

Eurozone: Recovery remains imbalanced

BNP Paribas forecasts

	2023	2024	2025
GDP growth (annual average, % y/y)	0.5	0.8	1.4
CPI inflation (annual average, % y/y)	5.4	2.4	2.0
Policy rate (year end, %)	4.00	3.25	2.50

Growth

We expect the eurozone's mild economic recovery to continue, as the impact of the energy shock fades further into the distance, the European Central Bank dials back monetary policy restriction and public investment remains supported by NextGenerationEU funds.

That said, growth remains uneven across sectors and geographies, and we see slightly weaker near-term momentum than we envisaged in our *Global Outlook Q2 2024*, with more prominent downside growth risks.

Inflation

We expect limited further improvement in underlying inflation over the rest of 2024 as services inflation continues to be propped up by elevated wage growth, while the 'quick wins' of lower goods and energy inflation are exhausted.

A moderation in wage gains and a cyclical improvement in productivity, combined with the lagged impact of the easing in other cost pressures, should cause services inflation to lose momentum over the course of 2025.

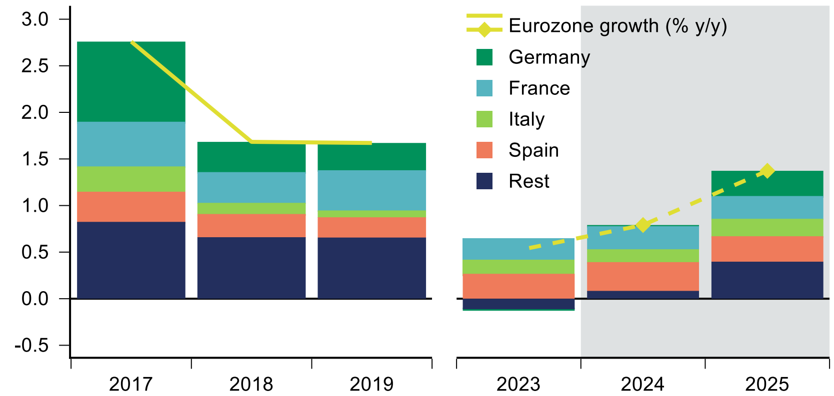
We see inflation broadly around target by the end of our 2024–25 forecast period, with balanced risks around our central case. Given our downward revision to growth and broadly unchanged inflation profile, we assume stickier price pressures than in our previous *Global Outlook*.

Monetary policy

In balancing a slightly weaker growth outlook with still-sticky price pressures, we expect the ECB to continue to chart a gradual path of policy normalisation.

We continue to expect one 25bp cut per quarter until the Deposit Facility Rate reaches 2.5%, a level which we would consider broadly neutral.

Smaller economies are challenging Germany's role as the engine of eurozone growth – notably, Spain



Shaded area denotes BNP Paribas forecasts.
Sources: Eurostat, Macrobond, BNP Paribas

Fiscal policy

With the reintroduction of the EU fiscal rules, we forecast a gradual tightening of policy that should continue even beyond the end of our forecast horizon.

For countries that are under excessive deficit procedures (including France and Italy), we think that yearly fiscal adjustments will amount to around 0.5–0.6pp of GDP (in terms of changes to the structural primary balance).

While this would constitute a drag on growth, we do not think it is comparable to the austerity in 2011–13, when annual adjustments were larger than at present and the consolidation took place after smaller fiscal expansion and amid a weaker economy.

Paul Hollingsworth, Chief Europe Economist | Luca Pennarola, Senior Europe Economist | Dani Stoilova, Europe Economist | BNP Paribas London Branch

Eurozone: Searching for a new growth engine

Germany

We continue to forecast a sequential recovery in the German economy, though we cut our GDP forecasts. With recent surveys pointing to softer-than-expected momentum as domestic and foreign uncertainties continue to weigh on demand, we revise down our forecast by 0.3pp for 2025.

Real wages continue growing apace and should support a gradual recovery in consumption. While geopolitical concerns seem unlikely to abate, we still expect the ongoing global normalisation in borrowing costs to provide some support for net exports from Q4. Investment should return to growth only in 2025.

Inflation is set to abate slowly, primarily due to stickiness in services.

The government is likely to tighten its budget further for next year, as special funds spending runs out and the government sticks to its domestic deficit ceiling.

France

We expect France to grow around trend in 2024–25. This year, our forecast sees it outperforming the eurozone again, thanks to stronger-than-expected carry-over and the positive impact of the Olympics.

Under right-of-centre Michel Barnier as the incoming prime minister, there is likely to be some fiscal tightening through lower spending, while past supply-side policies should remain untouched. A prime minister with no full majority in a fragmented parliament nonetheless raises the risk of the fiscal balance improving more slowly than we previously thought. Investment could still benefit from the lower cost of capital, thanks to ECB rate cuts, although the risk of political instability could weight.

Consumption remains the main growth engine, in our view. We see a further rise in household purchasing power, thanks to a resilient jobs market, mild inflation (we see the headline rate slowing below 1.0% from Q2 2025 compared with the current Bloomberg consensus of 1.9% for 2025) and possibly some slight fiscal support.

BNP Paribas forecasts

Country	GDP growth (annual avg % y/y)			CPI inflation (annual avg % y/y)		
	2023	2024	2025	2023	2024	2025
Germany	-0.1	0.1	1.0	6.1	2.5	2.4
France	1.1	1.2	1.2	5.7	2.5	1.1
Italy	1.0	0.9	1.2	6.0	1.2	2.0
Spain	2.5	2.8	2.5	3.4	3.1	2.1

Italy

We forecast continued growth, supported by real income growth and public investment from the NGEU funds. The view we presented in *Italy outlook: Some more gas left in the tank* on 4 April is broadly on track.

We shave 0.2pp off GDP growth for 2025 as, relative to our previous views, momentum in trade partners has been slower and the estimated negative impact from curtailing the Superbonus tax credit programme higher.

Inflation is set to rise until the end of our forecast horizon, but this merely reflects the end of energy deflation while core pressures abate.

Fiscal policy should continue to tighten, and we think the government will largely comply with the European Commission's recommendations. We see a possibility that the update of national accounts in September will revise up GDP and thus lower the level of debt/GDP across the forecasting horizon.

Spain

Spain should keep outperforming its peers in 2024–25 and become the main engine of eurozone growth. We see several tailwinds supporting the economy, with growth boosts from consumption, investment and exports (for more, see *Spain outlook: Gaining altitude*, dated 14 August).

Inflation should continue to abate, as our view on growth in part reflects a higher potential growth rate, thus keeping inflationary pressures at bay.

The positive growth backdrop will help the country to improve its fiscal metrics, in our view, even if the political situation does not favour big consolidation efforts.

Paul Hollingsworth, Chief Europe Economist | Luca Pennarola, Senior Europe Economist I BNP Paribas London Branch | Frédéric Pretet, Head of Thematic Economics and Chief France Economist | BNP Paribas SA | Francisco Tiago Carvalho, Europe Economist | BNP Paribas Portugal Branch

China: In the doldrums

BNP Paribas forecasts	2023	2024	2025
GDP growth (annual average, % y/y)	5.2	4.9	4.5
CPI inflation (annual average, % y/y)	0.2	0.4	1.3
Policy rate (year end, %)	1.80	1.60	1.30

Growth

We expect China's economic downtrend to continue throughout 2025, with risks skewed to the downside. Property investment (a lagging indicator of sales) will keep weighing on growth, in our view, while negative wealth effects and slack in the labour market will stifle consumption growth. A key risk to growth in 2025 is a potential imposition of steep US import tariffs if Donald Trump wins the election.

Inflation

Though headline inflation is likely to climb in 2025 – driven by higher food prices, particularly meat – we think deflationary pressure will persist amid a negative output gap. Core inflation should be kept soft by a weak labour market and deflationary pass-through from the overcapacity-plagued upstream industry.

Monetary policy

Tepid growth and inflation warrant more monetary easing, and major central banks' unfolding rate cuts would give the People's Bank of China more room to cut. Nonetheless, we expect the PBoC to stick to its established style of measured and gradual easing, considering commercial banks' constrained net interest margins and a still-sizable interest rate spread with the US.

Fiscal policy

We think higher fiscal spending will help GDP growth pick up slightly in Q3, to about 4.9% y/y. However, were the Q3 growth rate to drop below Q2's 4.7% y/y, policymakers might add another RMB1trn to the CGB issuance quota in Q4. For 2025, we expect a modest fiscal impulse. The central government looks set to deepen the budget deficit, probably by 0.5–1.0pp from this year's 3% of GDP; but that might be partly offset by cuts to local governments' off-balance-sheet deficits.

Japan: Bucking global trend

BNP Paribas forecasts	2023	2024	2025
GDP growth (annual average, % y/y)	1.7	-0.2	0.7
CPI inflation (annual average, % y/y)	3.2	2.6	2.4
Policy rate (year end, %)	-0.10	0.50	1.25

Growth

We expect the Japanese economy to continue recovering at a moderate pace in 2025. Corporate appetite for capex remains strong, and rising wages and a temporary tax cut should prevent further contraction in private consumption. Goods exports are unlikely to recover strongly, but inbound tourism should hold up well. The pace of growth is set to be capped by severe labour shortages, however.

Inflation

While headline inflation will be influenced by whether the government ends or extends energy subsidies, we expect an ex-energy rate of about 2% in H2 2024 and in 2025. Recent strengthening of the yen has reduced upside risks. Rising wage costs should steadily pass through into services prices, however, and severe labour shortages will likely mean another large pay hike in 2025.

Monetary policy

Given market volatility after its July rate hike, the Bank of Japan will likely refrain from increases this autumn. But with the real rate still deep in negative territory, we expect the BoJ to resume hiking in December if market conditions remain stable and its projections stay broadly on track. We expect quarterly rises until the policy rate reaches 1.00%, the bottom of the estimated range of the neutral rate, followed by a slower pace to a terminal 1.50% by mid-2026.

Fiscal policy

A temporary income tax cut is now being implemented, and the government is in the multi-year process of expanding defence and childcare spending. With inflation fuelling tax revenue and national elections approaching, we expect the fiscal stance to remain loose for the time being. The longer-term outlook depends on who becomes the new leader of the ruling Liberal Democratic Party on 27 September.

Jacqueline Rong, Chief China Economist | BNP Paribas (China) Limited | Ryutaro Kono, Chief Japan Economist | BNP Paribas Securities (Japan) Limited

UK: Staying sticky

BNP Paribas forecasts	2023	2024	2025
GDP growth (annual average, % y/y)	0.1	1.2	1.5
CPI inflation (annual average, % y/y)	7.4	2.6	2.5
Policy rate (year end, %)	5.25	4.75	3.75

Growth

We expect quarterly GDP growth to slow a little in H2 2024 and in 2025, relative to recent quarters, but remain above trend. Loosening financial conditions and a brief pause in the UK's fiscal consolidation are likely to take over as growth drivers from the fading tailwinds of falling household energy bills and the run-down of excess savings. We expect a small but positive output gap to open by end-2025.

Inflation

The pickup in headline inflation that we forecast for H2 2024 and early 2025 partially reflects energy base effects. We expect core inflation to ease back in 2024–25 but still to end next year above 2%. Despite excess demand developing towards the end of next year, we think reduced near-term inflation expectations and less aggressive wage bargaining will pare back domestically generated inflation, albeit slowly.

Monetary policy

We expect the Bank of England to cut Bank Rate by 25bp per quarter through 2024 and 2025, reaching 4.75% at end-2024 and 3.75% at end-2025 (previously 4.50% and 3.50%, respectively). Our forecast is for further cuts in 2026 to reach a terminal rate of 3.00% around the middle of the year. The BoE's willingness to cut throughout 2025, even in the face of sticky inflation, reflects its reaction function reverting to preferring slightly above-target inflation and lower unemployment.

Fiscal policy

At its first 'fiscal event' on 30 October, we expect the Labour government to announce further consolidation measures to tackle the spending shortfall it identified soon after taking power. However, even with these measures, we expect some modest additional borrowing relative to the March budget.

Switzerland: Stable trajectory

BNP Paribas forecasts	2023	2024	2025
GDP growth, adjusted (annual avg, % y/y)*	1.2	1.1	1.5
GDP growth (annual average, % y/y)	0.7	1.5	1.3
CPI inflation (annual average, % y/y)	2.1	1.2	1.0
Policy rate (year end, %)	1.75	0.75	0.75

We initiate our full economic coverage of Switzerland.
***Sporting-event adjusted GDP, as forecast by the Swiss National Bank*

Growth

We forecast some moderation in quarterly GDP growth in H2 2024 due to slight weakening in the US and Europe, Switzerland's primary trading partners, and a loss of momentum in leading indicators.

Nonetheless, growth will remain supported by loosening in financial conditions and improvements in global trade, in our view. We expect a return to trend in the sport-event-adjusted GDP measure in H2 2025.

Inflation

Our forecasts see headline inflation remaining within the Swiss National Bank's 0.0–2.0% target throughout 2024–25, with further easing from current levels in 2025. Alongside the slightly weaker global demand backdrop than that assumed by the SNB in June, the benign outlook reflects CHF appreciation and moderation in both wage growth and inflation expectations.

Monetary policy

We expect the SNB to continue its easing cycle in 2024, cutting its policy rate by 25bp in both September and December, for a terminal rate of 0.75%. The benign inflation outlook, growing concerns about the global demand backdrop, and the potential for a more dovish US Federal Reserve support the case for rate cuts.

While the low level of Swiss interest rates on a global scale effectively limits the room for the SNB to reduce rates further, a meaningful appreciation in CHF or a repricing in US or European rates could warrant a larger incremental move.

Paul Hollingsworth, Chief Europe Economist | Dani Stoilova, Europe Economist | BNP Paribas London Branch

CEEMEA: Disinflation keeps policy easing outlook intact

BNP Paribas forecasts

Country	GDP growth (annual avg % y/y)			CPI inflation (annual avg % y/y)			Policy rate (year end %)		
	2023	2024	2025	2023	2024	2025	Current	End-2024	End-2025
Czech Republic	-0.4	0.9	2.0	10.9	2.4	2.3	4.50	4.00	2.75
Hungary	-0.5	1.4	2.3	17.8	3.8	3.7	6.75	6.25	4.50
Poland	0.2	3.0	3.8	11.6	3.5	3.8	5.75	5.75	4.00
South Africa	0.7	1.1	1.7	5.9	4.7	4.3	8.25	7.75	7.00
Türkiye	5.1	3.0	3.0	53.9	57.3	27.9	50.00	45.00	25.00

Czech Republic

Low and stable inflation in combination with still-struggling economic activity and a negative output gap should see the Czech National Bank cut again at its September and November meetings but then stand pat until late Q1 2025. This reflects our expectation of a temporary spike in core CPI due to an increase in negotiated wages and rising house prices. The extent of the pause will be contingent on CNB's observation of any impact of wage hikes on the services CPI.

Hungary

Weak industrial activity is already evident in decelerating wage growth, and we think non-core base effects are likely to slow CPI inflation below 3.0% y/y by September. As the sticky core and services inflation that kept the National Bank of Hungary on pause in August should prove fleeting, we expect rate cuts to resume in September. We see downside risks to our end-2024 forecast of a 6.25% policy rate if the external backdrop and global risk sentiment buoy forint performance.

Poland

With the softest inflation momentum in the CEE, we think the National Bank of Poland will change its hawkish rhetoric before the year end. Even though Polish growth momentum looks better supported than that of regional peers due to a relatively resilient domestic market, a negative output gap is likely to keep inflationary pressures well-behaved. We continue to expect the NBP to react to a softening inflation backdrop by resuming its easing cycle no later than Q1 2025.

South Africa

The economic outlook has brightened since the general election. We expect stronger growth momentum to be led by rising business confidence and investment in H2 2024 and into 2025. With robust disinflation due to a still-negative output gap and falling inflation expectations, we see inflation slipping below the central bank's 4.5% midpoint target from late Q3, prompting a steady policy recalibration with 25bp rate cuts between September 2024 and May 2025. A firm commitment to fiscal consolidation, despite underperforming corporate tax revenues, is likely to sustain performance of ZAR assets after the October medium-term budget.

Türkiye

We see increasingly restrictive ex-ante monetary policy bringing both more meaningful disinflation and weaker growth in H2. Our end-2024 inflation forecast underpins our out-of-consensus call for the central bank to cut its policy rate by 500bp in Q4 and a further 2,000bp in 2025. We think TRY assets will perform well in H2, thanks to broadening disinflation, falling inflation expectations and a significant narrowing of the current account deficit due to weakening import demand. The setting of minimum wages will be the biggest test for the policy backdrop in late Q4, in our view, considering inflation's sensitivity to wages.

Jeffrey Schultz, Chief CEEMEA Economist | BNP Paribas London Branch | Wojciech Stepien CFA, Senior Central and Eastern Europe Economist | BNP Paribas Bank Polska | Hakan Aklar, Chief Turkey Economist | Türk Ekonomi Bankasi A.S.

Latam: Political complications

BNP Paribas forecasts

Country	GDP growth (annual avg % y/y)			CPI inflation (annual avg % y/y)			Policy rate (year end %)		
	2023	2024	2025	2023	2024	2025	Current	End-2024	End-2025
Argentina	-1.6	-3.8	3.5	133.5	221.0	54.0	40.00	45.00	30.00
Brazil	2.9	3.1	2.0	4.6	4.3	3.8	10.50	11.75	10.75
Chile	-0.1	2.5	2.2	7.6	4.0	4.4	5.50	5.25	4.50
Colombia	0.6	1.5	1.5	11.8	6.9	4.4	10.75	9.00	6.50
Mexico	3.2	1.7	1.2	5.6	4.8	4.1	10.75	10.00	8.00

Argentina

Following a significant and prolonged economic contraction in 2023 and 2024, we expect the Argentinian economy to rebound in 2025. Our base case assumes that the government will lift capital controls. However, we believe the maturity profile of local debt is incompatible with lifting the controls at the current real exchange rate, while postponing would likely weigh on the economy further, with consequent negative impacts on the fiscal outlook.

Brazil

We expect the BCB to initiate a 175bp hiking cycle on 18 September with a 25bp rate rise, followed by two 50bp hikes in November and December and a couple of 25bp moves in Q1 2025. The tightening is required given a heated labor market, loose fiscal policy and expectations of firmly above-target inflation as far as 2027, in our view, with this year's loosening cycle having taken place before the disinflation process was complete.

Chile

Reduced concern about higher electricity prices leading to a persistent inflation shock will see Chile's central bank cut its policy rate to a neutral level in 2025, we expect. With GDP growth around potential and inflation above target, the BCCh is unlikely to enter expansionary territory and cut below 4.5%, in our view. That would require a hard landing by the US economy, which is not our base case.

Colombia

Both the domestic and external outlook appear favourable for Colombia's central bank to keep cutting its policy rate. However, we do not expect BanRep to accelerate the pace of the easing cycle in the near term, as actual and expected inflation remain well above target and BanRep prioritises FX stability. In our view, fiscal conditions remain fragile, and spending cuts are needed to mitigate the risks of non-compliance with the fiscal rule in 2025.

Mexico

We revise down our policy-rate forecasts, as Banxico's communication is shifting towards a more dovish tone, with the majority of the board saying that rates are too restrictive given progress on disinflation. While risks related to domestic institutional reforms and an upward skew to inflation remain, the economic slowdown should start to become more prominent in Banxico's reaction function, in our view, leading to more cuts next year than we previously expected.

Florencia Blanc, Latam Economist | BNP Paribas Sucursal Buenos Aires | Laiz Carvalho, Brazil Economist | Banco BNP Paribas Brasil S.A. | Felipe Klein, Argentina, Chile and Colombia Economist | BNP Paribas Securities Corp | Pamela Díaz Loubet, Mexico Economist | Debora Lunacorte, Mexico Economist | BNP Paribas Mexico S.A.

EM Asia: Closer to rate cuts but expect a gradual pace

BNP Paribas forecasts

Country	GDP growth (annual avg % y/y)			CPI inflation (annual avg % y/y)			Policy rate (year end %)		
	2023	2024	2025	2023	2024	2025	Current	End-2024	End-2025
India*	8.2	6.6	6.6	5.3	4.6	4.6	6.50	6.25	5.75
Indonesia	5.1	5.1	5.1	3.7	2.7	2.7	6.25	6.25	5.50
Malaysia	3.6	5.1	4.5	2.5	2.1	2.8	3.00	3.00	3.00
South Korea	1.4	2.4	1.8	3.6	2.5	2.2	3.50	3.25	2.75
Thailand	1.9	2.8	3.0	1.3	0.7	1.7	2.50	2.50	2.00
Singapore**	1.1	2.3	2.4	4.2	3.0	2.0	1.50	1.50	1.50

**India's GDP and CPI forecasts are for the fiscal year, while the policy rate forecasts are for the calendar year. **Singapore's CPI forecasts are for core CPI.*

India

Our base case sees the Reserve Bank of India's first rate cut in December, followed by just two more for a terminal 5.75% by end-2025. We see a risk of the first move being delayed to next year by food price volatility and its feedthrough to core inflation. In our view, the RBI will not act before it sees a dwindling of the second-order effects of inflation persistence stemming from supply shocks. We expect relatively resilient GDP growth that should not require faster or larger cuts.

Indonesia

The necessary conditions for a rate cut in Indonesia will soon be in place, we think. Inflation remains comfortably within target and the IDR has strengthened considerably against the USD. With the Federal Reserve likely to ease policy in September, Bank Indonesia might look to cut rates soon. However, the return of a current account deficit implies more structural USD demand, and we think BI will try to manage this cautiously. Our base case sees the first BI cut in January 2025, though we see risks of an earlier move in December 2024.

Malaysia

With resilient growth momentum alleviating the need for looser monetary policy, and with continued upside risk to inflation, we think Bank Negara Malaysia will be in no rush to cut rates. Nor do we expect BNM to hike pre-emptively to rein in the effects of the likely eventual removal of petrol subsidies. Accordingly, we expect the policy rate to stay at 3.00% through 2024 and 2025.

South Korea

We think the Bank of Korea is likely to remain cautious amid financial stability risks from a recent surge in household debt, though we saw strong hints of a likely rate cut in Q4 at the August policy meeting. We think the effects of the government's macroprudential measures will be important to monitor and believe the BoK will opt for a gradual cutting cycle – in 25bp increments – to avoid side effects on financial stability. We expect it to reach a terminal rate of 2.50% in 2026.

Thailand

We expect Thailand's economic momentum to improve with the upcoming tourism season. CPI inflation has been higher than expected recently, and we expect some acceleration from the low base of Q4 2023. In our view, easing monetary policy settings into a rising inflation backdrop would be negative for central bank optics. Overall, we think recent data strengthen the case for a continued hold in 2024 by the Bank of Thailand, followed in 2025 by 50bp of cuts as the strength in private consumption fades after the tourism season in Q2 2025.

Singapore

Despite some concerning growth dynamics, we note that the Monetary Authority of Singapore has tended to focus on taming inflation, with government policy perhaps better suited to supporting growth. In our view, the MAS will keep policy tight until inflationary pressures have clearly receded, and we expect unchanged SGD NEER policy settings – slope, mid-point and width – through 2024 and 2025.

Chris Poh, APAC Economist | BNP Paribas Singapore Branch | Jeeho Yoon, Senior South Korea Economist | BNP Paribas SA Seoul Branch

Central banks: Synchronised cutting

We expect most central banks globally to be cutting policy rates in 2025

Country	Policy rate (%)		Most recent move		Next expected move		Cycle cut pace	Cuts thus far	Year-end policy-rate forecasts (%)		Nominal neutral rate (%, range)
	Current	Cycle peak	Size (bp)	Date	Size (bp)	Date	Size per quarter (bp)**	Size (bp)	2024	2025	
US	5.50	5.50	25 ▲	26 Jul 2023	-25 ▼	18 Sep 2024	▼▼ 40.0	–	4.75	3.50	2.40–3.80
Eurozone	3.75	4.00	-25 ▼	6 Jun 2024	-25 ▼	12 Sep 2024	▼ 25.0	25	3.25	2.50	1.50–2.50
UK	5.00	5.25	-25 ▼	1 Aug 2024	-25 ▼	7 Nov 2024	▼ 25.0	25	4.75	3.75	2.00–3.00
China	1.70	2.55	-10 ▼	20 Jul 2024	-10 ▼	20 Nov 2024	▼ 8.0	85	1.60	1.30	2.00–3.00
Japan	0.25	*1.50	15 ▲	31 Jul 2024	25 ▲	19 Dec 2024	– –	–	0.50	1.25	1.00–1.50
Switzerland	1.25	1.75	-25 ▼	21 Jun 2024	-25 ▼	26 Sep 2024	▼ 25.0	50	0.75	0.75	0.50–1.50
Latam											
Brazil	10.50	13.75	-25 ▼	9 May 2024	25 ▲	18 Sep 2024	– –	325	11.75	10.75	8.50–9.50
Chile	5.50	11.25	-25 ▼	3 Sep 2024	-25 ▼	17 Dec 2024	▼ 25.0	575	5.25	4.50	4.00–5.00
Colombia	10.75	13.25	-50 ▼	31 Jul 2024	-50 ▼	30 Sep 2024	▼▼ 80.0	250	9.00	6.50	6.00–7.00
Mexico	10.75	11.25	25 ▼	8 Aug 2024	-25 ▼	26 Sep 2024	▼▼ 55.0	50	10.00	8.00	4.80–6.60
CEEMEA											
Czech Republic	4.50	7.00	-25 ▼	27 Jun 2024	-25 ▼	25 Sep 2024	▼ 35.0	250	4.00	2.75	2.75–3.25
Hungary	6.75	13.00	-25 ▼	7 Jul 2024	-25 ▼	24 Sep 2024	▼▼ 45.0	625	6.25	4.50	3.25–3.75
Poland	5.75	6.75	-25 ▼	5 Oct 2023	-50 ▼	Q1 2025	▼ 35.0	100	5.75	4.00	3.00–3.50
Türkiye	50.00	50.00	250 ▲	23 Mar 2024	-250 ▼	21 Nov 2024	▼▼▼ 500.0	–	45.00	25.00	10.00–15.00
South Africa	8.25	8.25	50 ▲	25 May 2023	-25 ▼	19 Sep 2024	▼ 25.0	–	7.75	7.00	6.50–7.00
EM Asia											
India	6.50	6.50	25 ▲	22 Feb 2023	-25 ▼	8 Dec 2024	▼ 15.0	–	6.25	5.75	5.50–6.00
Indonesia	6.25	6.25	25 ▲	24 Apr 2024	-25 ▼	17 Jan 2025	▼ 18.8	–	6.25	5.50	4.00–4.50
Malaysia	3.00	3.00	25 ▲	3 May 2023		–	– –	–	3.00	3.00	2.75–3.00
South Korea	3.50	3.50	25 ▲	13 Jan 2023	-25 ▼	11 Oct 2024	▼ 15.0	–	3.25	2.75	2.00–3.00
Thailand	2.50	2.50	25 ▲	27 Sep 2023	-25 ▼	7 Feb 2025	▼ 12.5	–	2.50	2.00	2.00–2.50

**BNP Paribas projection of cycle peak (i.e. terminal) policy rate*
***Projected pace per quarter during the cutting cycle until end 2025: for countries where the cutting cycle is underway (e.g. China, Brazil, Chile, Colombia, the Czech Republic, Hungary and Poland), we show the pace starting from the current policy rate; the number of arrows indicates our subjective assessment of the pace relative to either the DM or EM average, as applicable*
Sources: National central banks for actual data only, BNP Paribas forecasts and estimates

Markets 360 Global Economics team

SUSTAINABILITY

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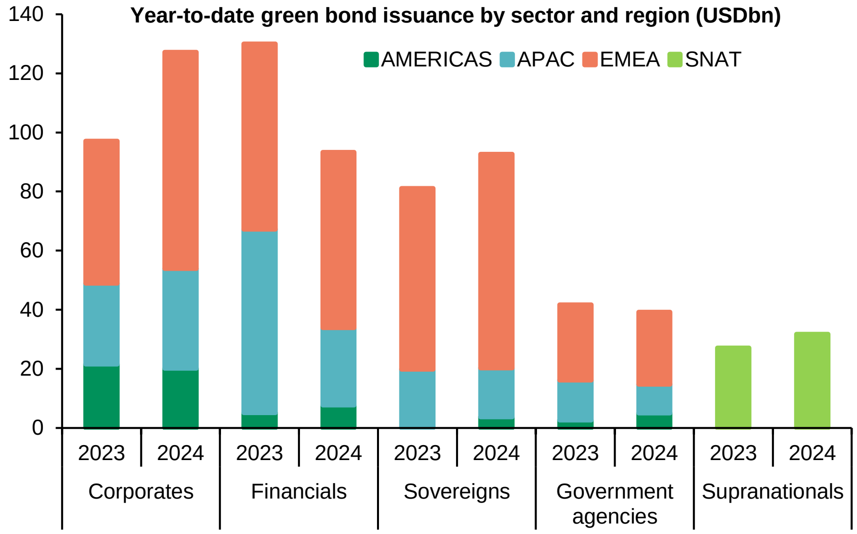
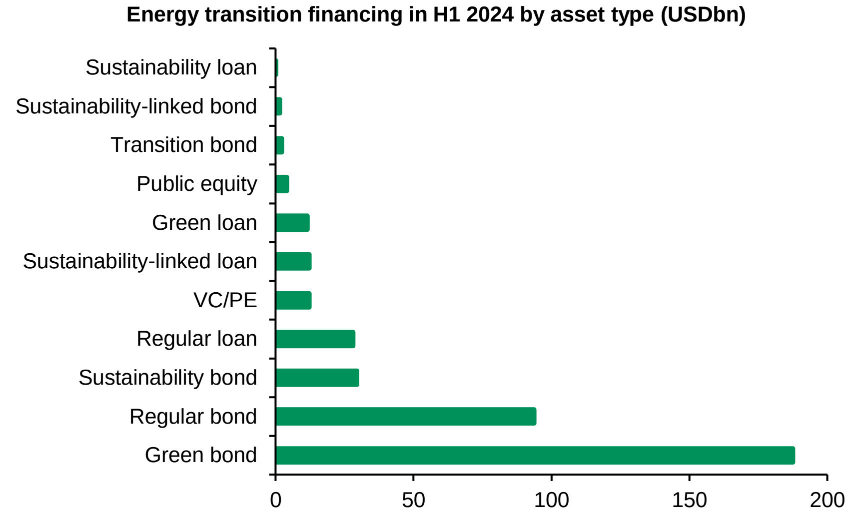
Green bonds: European corporates to dominate 2024 issuance

We continue to forecast green bond supply of USD600bn in 2024, with issuance so far showing a 31% y/y increase for corporates and a 28% fall for financials, largely driven by the APAC region



Includes all currencies and excludes US municipals
Sources: BloombergNEF, BNP Paribas

Labelled debt issuance already accounts for 60% of energy transition financing and we expect strong issuance of green bonds to finance the energy transition in coming years, especially from corporates and financials



Labelled debt is filtered by clean energy use of proceeds. Regular debt and equity values are adjusted by company-revenue exposure, using BNEF's clean energy exposure ratings.
Sources: BloombergNEF, Bloomberg, BNP Paribas

Full-year issuance forecast in reach: We continue to expect total green bond issuance of USD600bn this year, with 65% of that achieved in the first seven months of the year, slightly ahead of January–July 2023. EUR-denominated issuance will capture the majority this year, we think; it has already increased its share to 56% from 49% last year.

EM issuance has been stable on last year, as has that of SSAs, which we expect to remain strong in H2 in the lead-up to COP29. We continue to expect greater regional diversification. This year, new sustainable bond issuers already include Australia, Qatar, Romania, the Dominican Republic and Côte d'Ivoire (in USD).

Powered by European corporates: We expect corporate green bond issuance to continue to rise sharply in Q4 2024 in line with our forecasts, especially in Europe. Utilities and materials have contributed most this year, showing that the energy transition is still a priority, despite persistently high borrowing rates in H1.

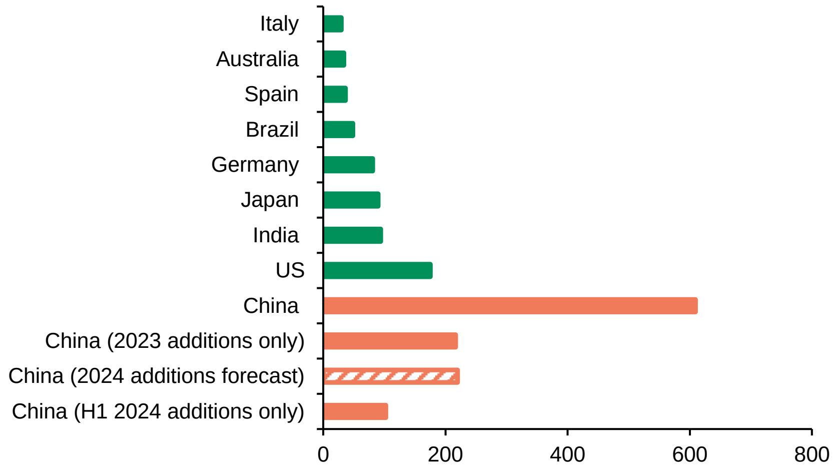
We expect the financial sector to issue more in Q4 to coincide with COP29, following a lag this year due to slow Chinese issuance. We expect green bond issuance to rise from USD600bn in 2024 to USD700bn in 2025 and USD850bn in 2026. Our upbeat outlook is supported by the large maturity wall in 2024–26 creating a push-pull effect.

Trevor Allen, Head of Sustainability Research | Sumati Semavoine-Jain, Sustainability Research Analyst | BNP Paribas London Branch

From solar to EVs: China's role in the global environmental agenda

China's solar installation efforts are likely to see another boost in Q4, helping it reach its 2024 goal

Cumulative installed solar capacity of selected countries, 2023 and H1 2024 (GW)



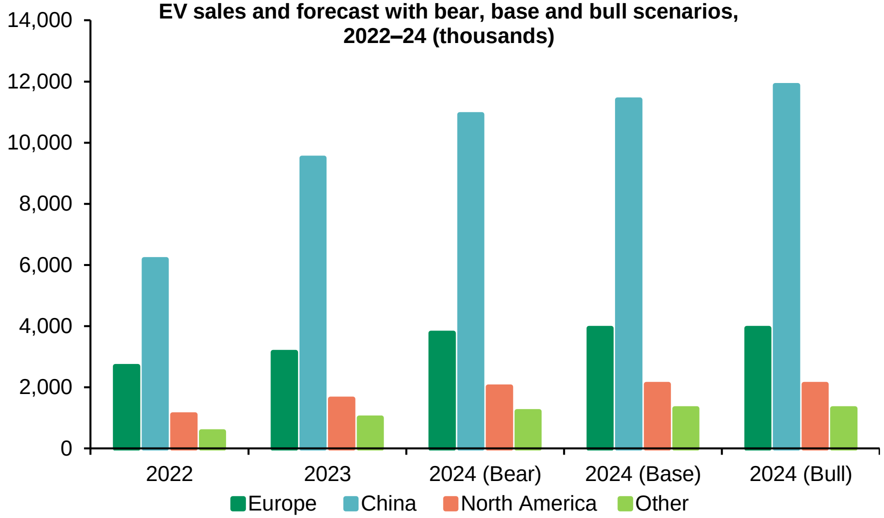
End-2023 data compiled by BloombergNEF and 2024 additions forecast by CPIA. China measures capacity in alternative current, other countries in direct current.
Sources: BloombergNEF, China NEA, CPIA, BNP Paribas

Another record solar installation year: The China Photovoltaic Industry Association has set an annual solar installation goal of 220GW for 2024, maintaining roughly the same as last year, which surpassed the cumulative installed capacity in any other country by end-2023. Looking at growth to date and the potential for an installation boom in Q4, as occurred in 2023, achieving the target this year should not be challenging, in our view.

We expect the government's recent policy announcements – such as the lifting of renewable curtailment thresholds, fast-tracking of grid and storage investment and reform of the power market – to sustain momentum in solar installation. See *China solar: Moves being made in the oversupply chess game*, dated 9 August 2024.

We estimate global sales of electric vehicles to reach about 18.7 million units in 2024 from about 15 million in 2023, with China as the market leader, followed by Europe and North America

EV sales and forecast with bear, base and bull scenarios, 2022–24 (thousands)



Sources: CAAM, Marketlines, ACEA, OICA, Bloomberg, BNP Paribas

Driven to be the first: The key driver behind the increase in sales of electric vehicles is price competitiveness. We expect EV prices in China to continue to decline in 2024 and 2025, as ample metal supplies are likely to help sustain downward pressure on battery prices. Price wars will probably also seep into North America and Europe, where we think prices are likely to drop significantly in 2025 and 2026.

China, the US and Australia are the frontrunners in EV transition, according to our EV readiness scores, which assess markets on macro-environmental factors, policy, market competitiveness, public charging, critical minerals and battery production. See *Global EV Readiness: Who'll take charge?* dated 3 May 2024.

Trevor Allen, Head of Sustainability Research | Jinyi Yue, Sustainability Research Analyst | BNP Paribas London Branch

Sustainable investing: Sophistication of thematic screening

Our materials sector credit basket looks at value through the double lens of sustainability and macro-quantitative factors. It offers exposure to green leaders that could perform in the current macro context

Log z-spread movement for EUR-denominated leaders versus laggards in the materials sector by regime* over the past two years

Annualised returns	**B**(uying)	**E**(xpansion)	**R**(ecession)	**T**(ightening)
Leaders	-1.5	-0.3	-0.9	1.2
Laggards	-3.0	-0.8	0.4	1.7

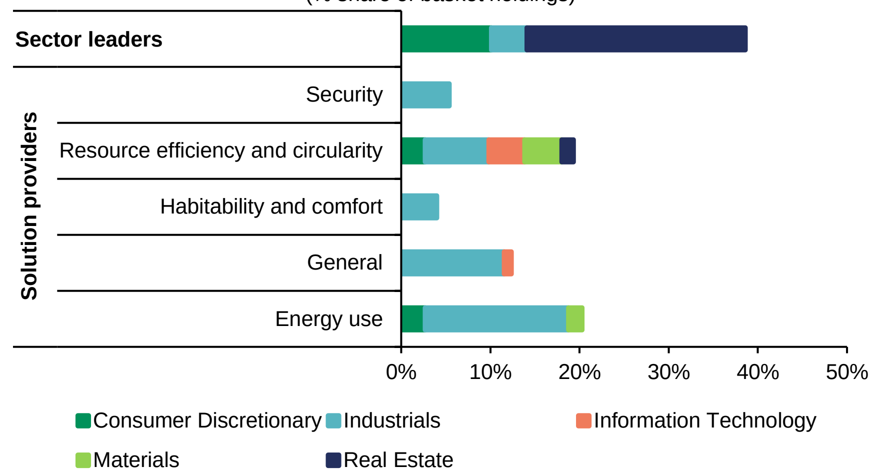
Std. deviation	B	E	R	T
Leaders	5.2	4.7	6.7	6.5
Laggards	12.6	11.9	16.2	17.7

Standardised**	B	E	R	T
Leaders	-0.3	-0.1	-0.1	0.2
Laggards	-0.2	-0.1	0.0	0.1

**The BERT (Buying, Expansion, Recession, Tightening) regime model links monetary policy to changes in breakeven inflation (BE) and real yields (RY). **Standardised values are calculated by logging day-on-day movement in z-spread, averaged for each regime and annualised, then divided by standard deviation.*
Source: BNP Paribas

Thematic baskets, such as our social value housing basket, aim to improve on the impact and sector diversification of typical risk-mitigation screenings

BNPP social value housing basket breakdown by sector and solution (% share of basket holdings)



Sources: Bloomberg, BNP Paribas

Combining thematic screening and quantitative analysis for impact and performance: We see the next stage of sustainable investing as the integration of sustainability factors with robust quant modelling.

We have developed a quantitative model which allows us to identify bonds issued by the sustainability leaders that are best aligned with the current macroeconomic regime. Starting with the materials sector, we found that leaders have better vol-adjusted returns in three out of four possible BERT regimes, and we launched a basket of best-aligned names. For more, see *Credit picks through a double lens: A quant approach to sustainability*, dated 14 June.

Going beyond the E, S and G framework: Thematic investors are increasingly looking for impact and turning to multi-faceted and full supply-chain screening criteria personalised for each theme or sector of interest.

For example, our recently launched housing equity basket looks at both real-estate leaders and 'solution' companies generating uplift in social value for residential housing. We define social value in terms of its green and social goals. In our view, an integrated approach benefits not only people but also governments, banks and insurers. See *Housing basket: Building blocks for long-term value*, dated 25 July.

Sumati Semavoine-Jain, Sustainability Research Analyst | Alexander Slaughter Sustainability Research Analyst | BNP Paribas London Branch

GLOBAL MACRO STRATEGY

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Global Macro Strategy: Bullish on fixed income, eyeing election risk

Bullish bonds in Q4 – we favour buying dips: There is scope for a continued retracement higher in bond yields in September as we believe the market rallied too far, too fast in August. But we will see pullbacks as buying opportunities into year-end as we think the broad backdrop is bullish for fixed income. EM rates will likely outperform DM rates in our base-case soft-landing scenario. Latam may struggle to perform in line with its normal beta, given idiosyncratic negative factors, so we favour CEEMEA – where ZAR and TRY are our top picks.

Asymmetric risks improve DM bull case, worsen it for EM: The bull case for fixed income is enhanced by what we see as an asymmetric distribution of risks. In our central case, we see scope for moderately lower yields. In a recession scenario – the main macro risk to our central case – yields could fall much more. The same is true for the curve, where risks skew towards a steeper curve. Skewed risks mean we have a bullish stance across our G10 rates trade ideas, despite forecasts generally in line with current forwards. A US recession outcome offers a potentially negative backdrop for EM rates: we would expect EM–DM rate differentials to widen and EM curves to steepen in this environment. APAC is likely to be the outperformer in a hard landing, but we would expect EM returns overall to be negative.

Commodity risks skewed to upside on geopolitical risks: Tensions in the Middle East and Ukraine create upward risks for energy and gold even where underlying markets are soft (oil, gas), as reflected in our trade ideas. In our central case both conflicts remain stable – an escalation would increase upward pressure on prices. We see as less likely, but plausible, a scenario where OPEC+ floods the market or European gas demand falls sharply. For industrial metals, US rate cuts and USD expectations remain key global macro drivers, while micro supply-side differences provide a degree of price trend differentiation.

BoJ may raise rates much more than is priced in: The exception to our bullish DM rates view is Japan. We expect the BoJ to raise its policy rate to 1.25% by end-2025 and 1.50% in 2026 – well above market pricing. We think the market is likely to be cautious on pricing this in, after recent BoJ hikes triggered global risk-off moves. Still, we are biased to pay rates in Japan during retracements, especially around the 5y sector.

Fading US 'exceptionalism': The USD has been supported by US exceptionalism in recent years, with US growth outpacing growth in the rest of world, rates rising faster than elsewhere and the equity market outperforming. This is changing – we expect fading US exceptionalism – resulting in a weakening USD trend and a continued narrowing of US bond spreads versus the eurozone, UK and Japan.

Levels versus changes: However, while the delta of our forecast revision is less US exceptionalism, the backdrop for the USD is not **that** bearish, as we expect US conditions to remain strong in level terms. The Fed is likely to end its rate-cutting cycle at levels higher than peers and the US economy is likely to grow at a similar pace versus trend as the eurozone – and at a stronger pace than China.

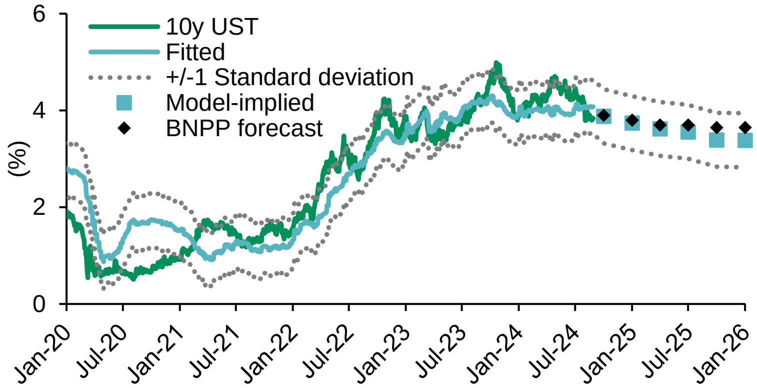
EURUSD can rally in a recession: If there were to be a recession, against our forecast, we would expect USD gains to be smaller than during previous recessions and only against high-beta currencies. In recent years, the USD's high yield has limited its use as a funding currency for carry trades. Also, we think strong global liquidity (G4 bank reserves) and Fed facilities to mitigate funding stress lessen the likelihood of risk-off sentiment permeating to USD funding markets (and, crucially for FX, widening OIS–OIS xccy basis). Moreover, we see the market as much less likely than in previous recessions to price in eurozone systemic risk. Therefore, we think EURUSD could rally in a US recession scenario, as front-end rate differentials tighten between the US and eurozone.

Trump risk: In line with opinion polls, our central case assumes Kamala Harris wins the US presidential election and Congress is divided. In the event Donald Trump is elected, potential US tariffs would drive FX. We estimate tariffs in their most aggressive form would lead to a 7% hit to EURUSD while USDRMB would rise to around 7.70 from 7.12 at the time of writing. We also see high sensitivity to geographical proxies (MXN, CAD) and the commodity complex. A Trump win poses the main risk to our bearish USD view limiting our short USD conviction ahead of the election. Tariffs may also pose a risk to our bullish rates view in a soft-landing scenario if higher inflation prompts more cautious Fed rate cutting. We think Trump may be bullish for oil in the near term on stronger Iran sanctions but bearish for oil and gas longer term on risks to growth from trade wars and fewer domestic constraints to upstream exploration and infrastructure build out.

Sam Lynton-Brown CFA, Global Head of Macro Strategy | BNP Paribas London Branch | and Markets 360 Global Macro Strategy team

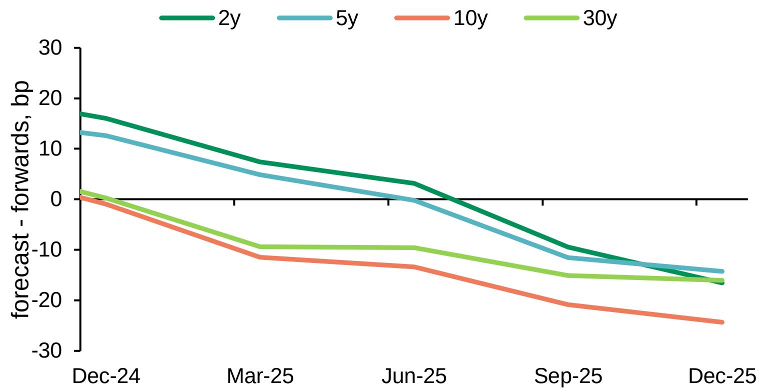
US rates: Modestly lower, but risks skewed to the downside

Heavy UST supply and a relatively shallow expected cutting cycle point to a modest fall in 10y yields, but we see risks as skewed to the downside



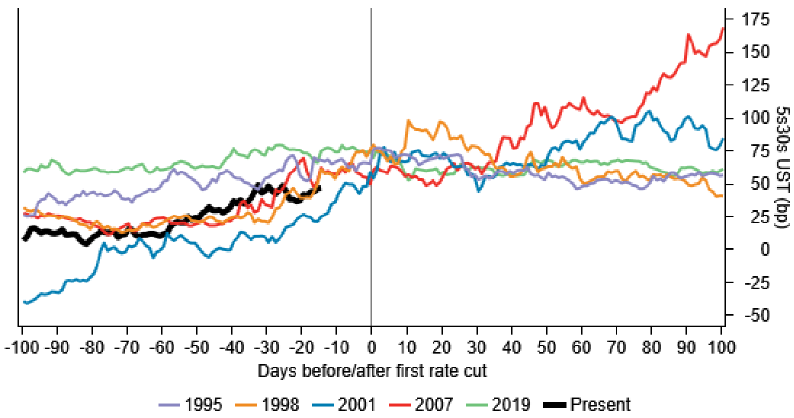
Sources: Federal Reserve, BLS, University of Michigan, Bloomberg, BNP Paribas

We forecast slightly higher yields and a flatter curve in the near term before modest outperformance of the forward curve



Sources: Bloomberg, BNP Paribas

The US yield curve tends to begin steepening more sustainably within 3m of a first rate cut with the ultimate level determined by the depth of the cycle



Sources: Macrobond, Bloomberg, BNP Paribas

Modest outperformance of the forward curve: In our base case for a US soft landing and 200bp of rate cuts by end-2025, we think UST supply should remain heavy with risks to coupon supply increases in H2 2025 if the deficit deteriorates further (we forecast USD1.975trn for FY25). Overall, we expect yields to modestly outperform the forward curve by the end of our forecast horizon.

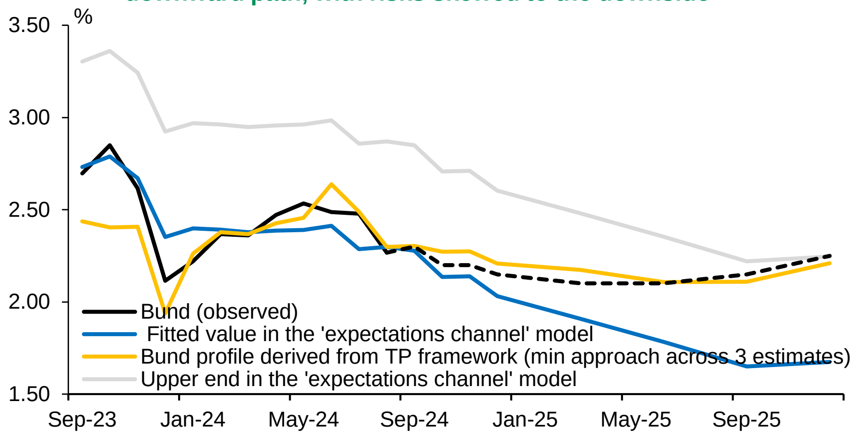
Risks skewed to bull steepening: With a disinflation trend in place, the Fed has shifted its focus to the labour market. For US yields, this means that the upside is more limited, and the downside will be determined by growth and activity data. Risks until the year-end are therefore skewed to lower yields and a steeper curve, in our view.

Yield curve following historical patterns: Our research suggests that the US curve begins to steepen more sustainably within three months of a first rate cut with the ultimate steepness determined by the scale of the cutting cycle. We continue to favour 5s30s UST steepeners, however, if the labour market were to weaken more than we forecast in Q4, we would expect more downside to US yields and would favour shifting to 2s5s or 2s10s UST steepeners.

Timothy High, Senior US Rates Strategist, US | Sebastian Mauleon, US Rates Strategist, US | BNP Paribas Securities Corp

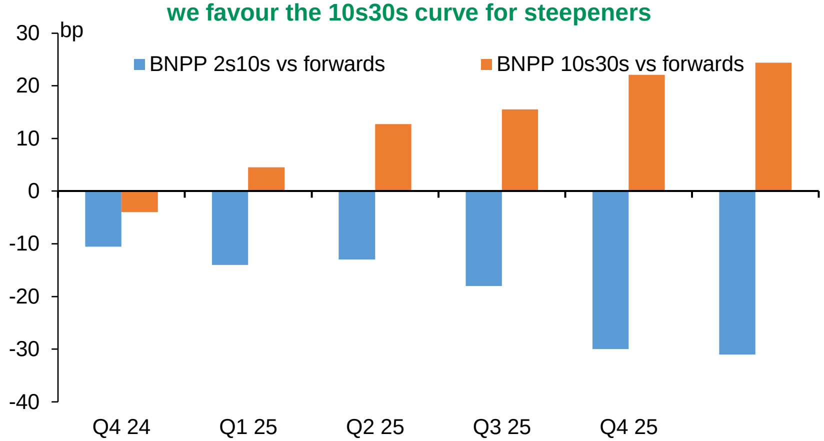
EUR rates: Moving to the next phase of the cycle

After a setback going into September, bond yields appear to be on a downward path, with risks skewed to the downside*



We see a notable risk of a temporary break below the 2% level.
Sources: Bloomberg, BNP Paribas

Given the steepness of the 2s10s Bund forwards curve, we favour the 10s30s curve for steepeners



Sources: Bloomberg, BNP Paribas

After a setback, yields head for downward path: We have seen a justified, upward correction in yields as September supply gets priced in and yields catch up with fair values. That may persist for a short time, but we then expect the bond rally to resume during Q4 as fair values continue to decline quarter on quarter, even after adjusting for high supply and term premia factors. The rate-cutting cycle is now confirmed across the US, eurozone and UK, a disinflation trend is in place and the ECB has highlighted downside risks to growth (we have revised down our GDP forecasts). Meanwhile, fears of the US economy overheating have dissipated with the Fed now treading carefully around the other side of its dual mandate.

Risks shift to the downside: In other words, risks to yields have shifted to the downside. Compared with our base case (continued European recovery, US soft landing), and relative to our yield forecasts (limited rally amid above-fair-value forecasts), we think risks to yields are clearly skewed to the downside. As such, we prefer to keep a long bias in DM rates, currently expressed in the form of a long US versus short EUR rates spread.

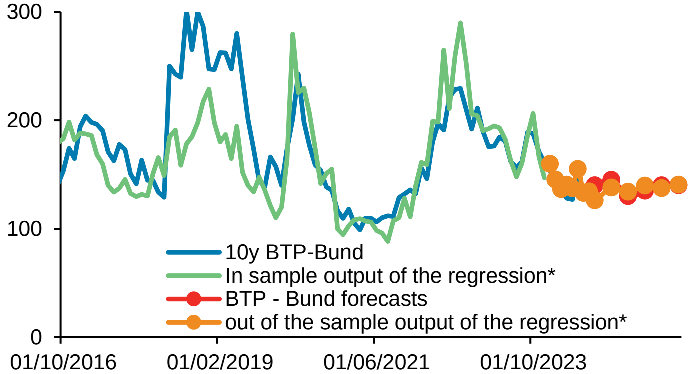
Caution on steepeners: We see 2s10s steepeners as unappealing. With the forwards far steeper than our forecasts, it will be hard to just break even on 2s10s Germany. Instead, we continue to favour 10s30s steepeners over the long run, seeing a better risk–reward, especially in swaps. However, we will remain very tactical going into the year end with pension funds' indexation season in full swing.

Term premium to remain sticky but a fading concern: We forecast the amount of net supply to be sold to the market will reach a new high in 2025. This would argue for a higher term premium, as would a slow rate-cutting cycle and an ongoing decline in central bank liquidity. Hence, our forecasts embed persistent term premia in 2025 and lie above our model estimates of fair-value levels. Nearer term, inflation risks have receded, rates volatility is trending downward and issuance will fall after September, improving conditions. Moreover, the 'risk-free-rate component' should be the main driver of rates as we move to the next phase of the cycle (further rate cuts). So overall, our framework does not suggest significant upside risks to the term premium, rather that it will remain sticky. To position for persistent term premia across our forecast horizon, we still favour tactical positioning in the EUR5y5y, especially as a hedge to end-cycle type trades.

Camille de Courcel, Head of DM Rates Strategy, Europe | BNP Paribas London Branch

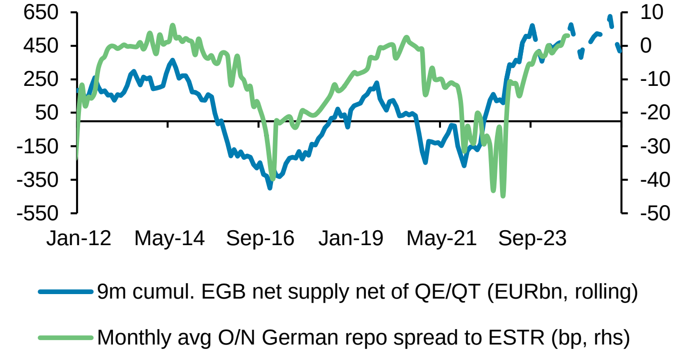
EGB spreads: Macro backdrop and technicals to favour range trading

A positive risk environment would cap the 10y BTP–Bund spread, while technicals provide a floor in our modelling (bp)



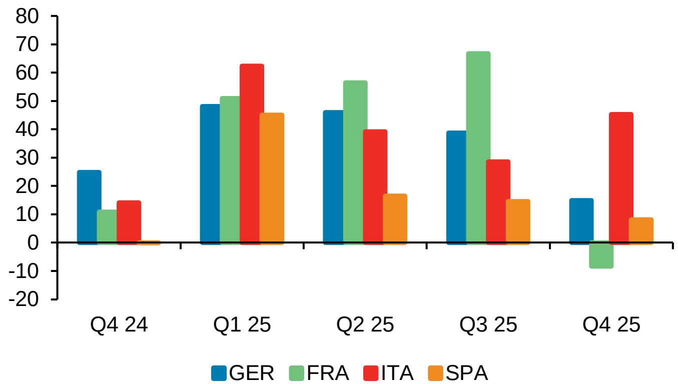
*Regression using 1y ahead consensus forecast for growth and deficit, ITRAXX Main and 6m ahead expected Italian net supply
Sources: Bloomberg, BNP Paribas

Repo cheapening on the back of an increasing stock of collateral could support the cheapening of German ASW



Dashed line shows BNP Paribas forecasts.
Sources: National Treasuries, RFR, Bloomberg, BNP Paribas

Net supply, net of QT, looks set to be elevated throughout the year for Italy (EURbn)



Source: BNP Paribas

Buy the budget wides: September kickstarts budget season and the year's last heavy supply window. Political tensions in France, Superbonus accounting talks in Italy and excessive deficit procedures across Europe could exacerbate the supply-led widening of EGB spreads, we think. We would look to use the initial widening in spreads to position ourselves in tighteners ahead of an expected duration rally. BTP–Bund tightener positions may also benefit from positive carry and a cheapening of the German ASW (top-right chart).

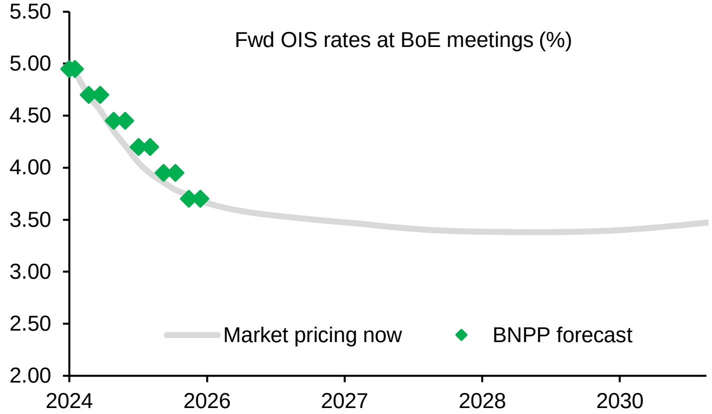
A supportive macroeconomic backdrop: While we forecast eurozone growth to continue to pick up in 2025, we expect ECB rate cuts to lead to a downward trend in yields, reducing the widening risk for EGB spreads.

No ECB support in 2025: For the first time since the launch of QE the market will face Q1 without any supply support from the Eurosystem. We estimate QT of around EUR266bn for 2025 (increasing net supply by 62%) with EUR66bn for Italy alone (see lower left chart). Despite the absence of ECB purchases, we think demand will meet Q1 supply. Beyond then, with no major risk of recession and lower yields, absorption of supply will likely be more difficult in H2 2025, we think.

Camille de Courcel, Head of DM Rates Strategy, Europe | Jean-Christophe Machado, Europe Rates Strategist | Anubhav Lamichhane, Europe Rates Strategist | BNP Paribas London Branch

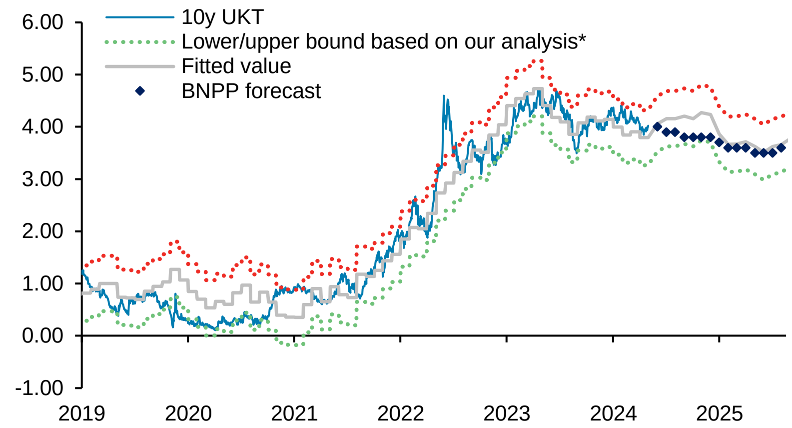
UK rates: Uncertainty over budget could delay rates rally

Market sits at the top of our estimated 3.00–3.50% range for neutral rates



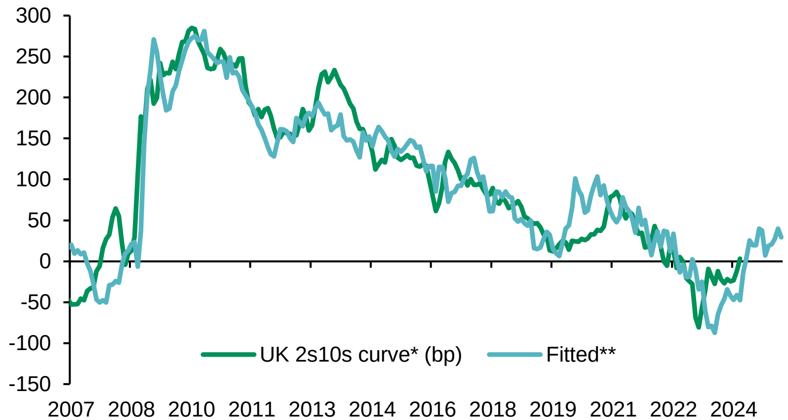
Source: BNP Paribas

Yields already back to fair value after August's short-lived rally



**Following the same methodology as the Bund 'expectations channel' model*
Sources: Bloomberg, BNP Paribas

We see further steepening amid rate cuts, QT and supply



Using Bloomberg's spline;Following the same methodology as the Bund 'expectations channel' model*
Sources: Bloomberg, BNP Paribas

Gradual return to neutral: Our base case for BoE rate cuts puts our end-2025 forecast in line with the market. We think further cuts in 2026 are likely in order to take Bank Rate back to neutral.

More patience needed for a rally: Similar to other regions, we think the asymmetry of risks to yields is tilted to the downside. After a short-lived rally in early August, gilt yields have quickly retraced back to fair values, much like their eurozone counterparts. Uncertainty over the 30 October budget could delay a rates rally in the UK for a little bit longer, in our view.

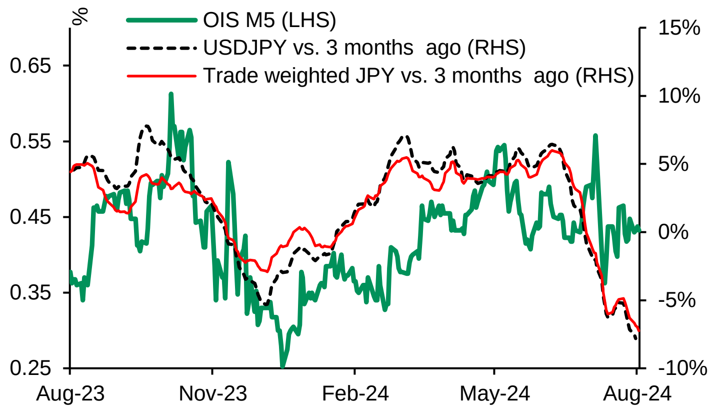
A clearer supply picture will be key to reassessing the appeal of longer-term gilts. We note the potential decline in active sales in the Oct 2024–Sep 2025 QT period, which could be a mitigating factor in the longer part of the curve.

Further steepening largely priced in: We see potential for at least 30–40bp more steepening in 2s10s into the end of 2025. This is, however, largely priced in already by forwards.

Camille de Courcel, Head of DM Rates Strategy, Europe | Katherine Yoon, Europe Rates Strategist | BNP Paribas London Branch

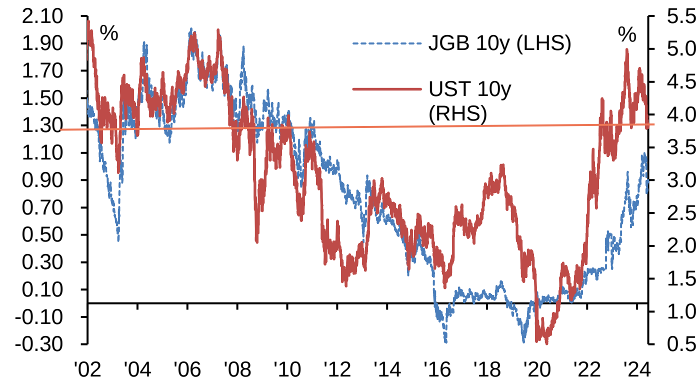
JPY rates: Moving to price in at least one more hike for 2025

Market rate hike expectations remain firm, considering the JPY's recovery



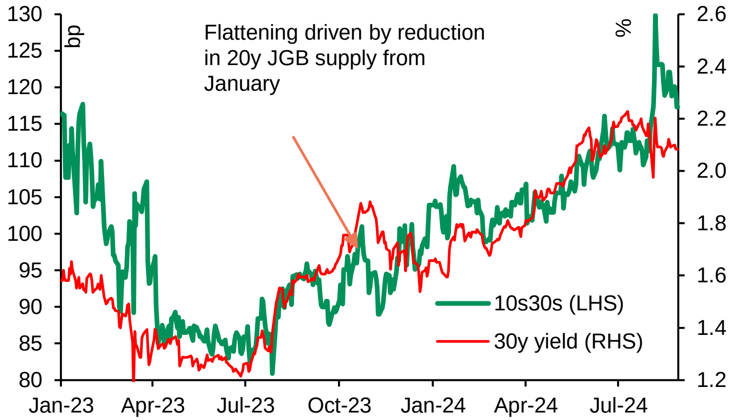
Sources: Bloomberg, BNP Paribas

10y JGB yields have room for upside based on the relationship with USTs in the early 2000s positive policy rate period



Sources: Bloomberg, BNP Paribas

The last leg of JGB 10s30s steepening has been driven by 10y



Sources: Bloomberg, BNP Paribas

Market pricing of BoJ hikes modest but steady: The market is not yet pricing in a full single 25bp hike until end-2025 – June 2025 3m IMM swaps lie below 0.5% versus a current policy rate of 0.25%. We think the market has actually held relatively firm on its rate hike view, considering the JPY rally since June (+8%). The market may not rush to price in our end-2025 base case for 100bp of policy-rate hikes, but we expect at least one more hike to be priced in once the Fed cuts.

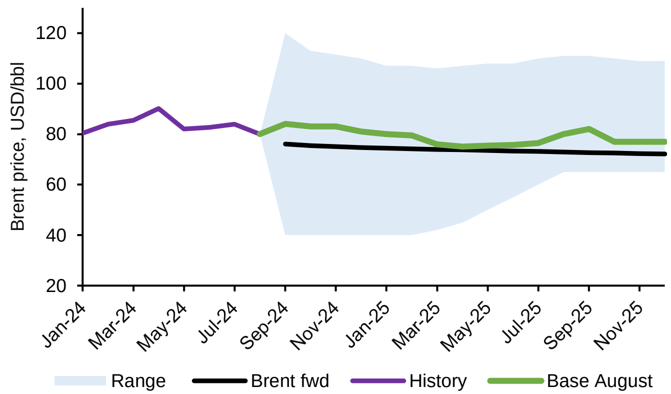
Room for higher JGB yields: Given our view of a limited potential fall in US 10y yields after a Fed cut, we think 10y JGB yields could rise after the Fed moves. This would chime with the historical balance between USTs and JGBs, notably during the positive policy rate period of the early 2000s.

Super-long-end flattening supported by 2025 supply reduction: We expect the finance ministry to cut both 30y and 40y JGB supply by JPY100bn per auction from January as it did for the 20y in 2024 (it also cut the liquidity tap auction for 15.5y+ by JPY100bn from August). The last leg of 10s30s steepening in early August was sharp and driven by lower 10y yields. We see room to flatten back, with support from the likely issuance reduction.

Reiko Tokukatsu, Head of G10 Rates Strategy, APAC | Yusuke Ikawa, Market Strategist | BNP Paribas Securities (Japan) Limited

Oil: No room for OPEC

We see moderate upside for Brent in Q3 at around USD80/bbl, with risks coming from the Middle East conflict and OPEC supplies



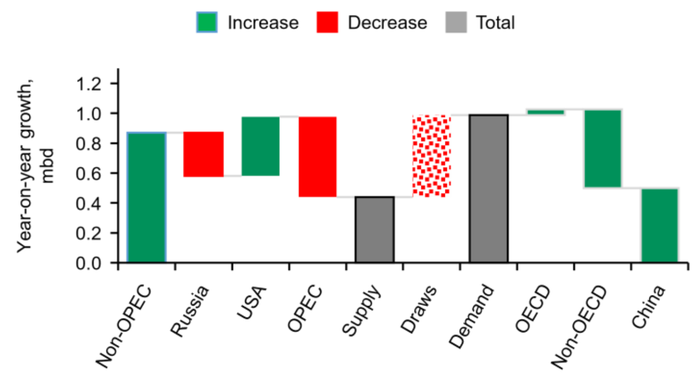
Source: BNP Paribas

BNP Paribas oil price forecasts

Average USD/bbl	ICE Brent 1m	NYMEX WTI 1m	Dubai 1m
Spot*	77.52	73.62	76.49
Q4 2024	82	78	81
2024	**83**	**78**	**81**
Q1 2025	79	74	78
Q2 2025	75	72	75
Q3 2025	80	75	78
Q4 2025	77	73	75
2025	**78**	**73**	**76**

**Spot as at 2 September*
Source: BNP Paribas

2024 market growth: We believe crude prices will not be strong enough to allow OPEC+ to bring back significant volumes in 2024



Source: BNP Paribas

Bearish sentiment – given concerns about Chinese demand and US growth, alongside the prospect of a Gaza ceasefire – has reduced crude prices, despite ongoing stock draws and low stocks. We think light crude balances will continue to tighten in September, due to sustained OPEC+ restraint and the seasonal rise in demand, before loosening from October onwards.

We believe OPEC+ will, at best, be able to bring back only a fraction of its voluntary cuts, as we do not expect crude markets to be strong enough to sustain a full unwinding of the 2.2mbd of voluntary cuts by October 2025.

Any additional OPEC+ barrels will, however, lengthen crude markets because non-OPEC supply growth will be enough to satisfy normalising demand growth. The need to refill stocks will keep prices in the high USD70s/bbl, in our view.

The key uncertainty for us is OPEC+'s response to missing its price target structurally. We think the risk of OPEC+ flooding the market rises in 2025, even as our base case assumes OPEC+ retains its policy of cutting supplies.

Aldo Spanjer, Senior Commodities Desk Strategist | BNP Paribas London Branch | Any commodities views have been prepared by the Commodities Desk Strategy team, which works closely with the Sales and Trading function. This is not a research report and has not been prepared by the BNP Paribas Research Department. Please see *disclaimer*.

Oil scenarios: OPEC and ME conflict drive a wide range of outcomes

Brent cheaper in 2025 but supported by need to refill stocks – OPEC floods the market in the low case, while Hormuz constraints drive the high case

BNPP crude price scenarios, September 2024 ICE Brent 1m			
USD/bbl	Low	Base	High
Q4 2024	40	82	112
2024	**64**	**83**	**96**
Q1 2025	41	79	107
Q2 2025	50	75	108
Q3 2025	63	80	111
Q4 2025	65	77	109
2025	**55**	**78**	**109**

Source: BNP Paribas

WTI remains strong in 2024 due to a relatively tight US light market – Discount to Brent rises in the low case and narrows in the high, due to constrained flows

BNPP crude price scenarios, September 2024 WTI 1m			
USD/bbl	Low	Base	High
Q4 2024	34	78	109
2024	**58**	**78**	**92**
Q1 2025	35	74	104
Q2 2025	45	72	106
Q3 2025	57	75	108
Q4 2025	59	73	107
2025	**49**	**73**	**106**

Source: BNP Paribas

Dubai remains strong with limited OPEC+ barrels returning – Stronger in the high case, as Hormuz constraints severely limit Middle East flows

BNPP crude price scenarios, September 2024 Dubai 1m			
USD/bbl	Low	Base	High
Q4 2024	36	81	111
2024	**61**	**81**	**96**
Q1 2025	38	78	106
Q2 2025	46	75	107
Q3 2025	60	78	110
Q4 2025	62	75	109
2025	**51**	**76**	**108**

Source: BNP Paribas

Base case: The price of crude oil is not high enough to justify significant levels of OPEC+ supplies returning to the market. The need to refill low crude stocks will support crude prices in 2025, in our view, despite a long market where non-OPEC supply grows enough to satisfy global crude demand growth.

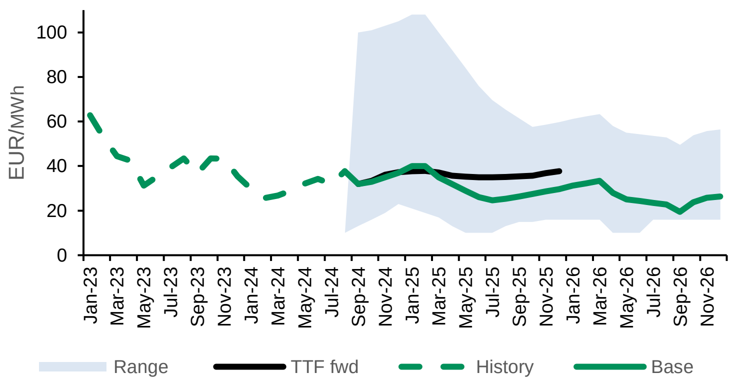
Low case: Harder-than-expected economic landings in Europe and the US, and continued disappointing Chinese growth sap demand, while OPEC decides to flood the market to squeeze out non-OPEC production. Brent would need to fall to about USD40/bbl. As there would be significant demand at these prices and global balance requires prices that incentivise US crude, we would expect Brent prices eventually to settle at USD65/bbl in Q4 2025.

High case: Fundamentals turn bullish, thanks to economic growth and demand rising before stocks have been fully replenished. The prime driver in this scenario is escalating tensions in the Middle East, constraining flows through the Strait of Hormuz. This could push Brent to USD120/bbl before demand destruction moderates the peak.

Aldo Spanjer, Senior Commodities Desk Strategist | BNP Paribas London Branch | Any commodities views have been prepared by the Commodities Desk Strategy team, which works closely with the Sales and Trading function. This is not a research report and has not been prepared by the BNP Paribas Research Department. Please see *disclaimer*. Forecasts subject to revision once full details of OPEC agreement are known.

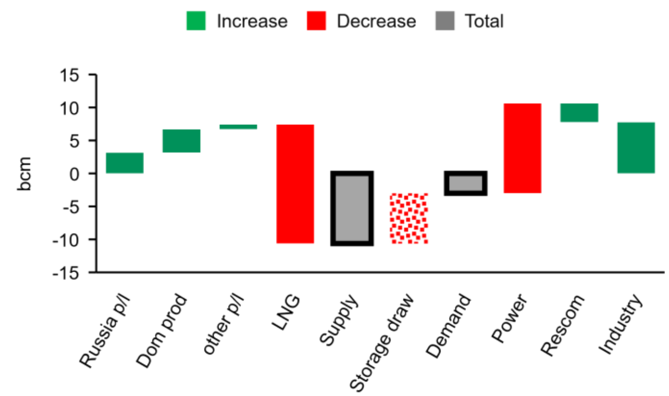
Gas: LNG supply improves EU gas competitiveness in 2025

TTF: We expect EU gas prices to weaken progressively, as US liquefaction capacity ramps up



Source: BNP Paribas

LNG: 2024 market growth – stock draws and reduced power demand balance the EU market with significantly less LNG



Source: BNP Paribas

BNP Paribas gas price forecasts

Average	EU TTF 1m (EUR/MWh)	Asia JKM 1m (USD/MMBtu)	NYMEX Henry Hub 1m (USD/MMBtu)
Spot*	38.58	13.56	2.19
Q4 2024	35	11	2.7
2024	**32**	**11**	**2.4**
Q1 2025	38	13	3.5
Q2 2025	29	9	3.8
Q3 2025	25	9	3.8
Q4 2025	29	10	4.7
2025	**30**	**10**	**4.0**

**Spot as at 2 September*
Sources: Bloomberg, BNP Paribas

We expect the current strength in TTF gas prices to fade when cargoes return to Europe, as temperatures and geopolitical risk moderate. At the same time, tighter global LNG balances, more typical weather and risks to Russian supply imply EU gas prices will face one more tricky winter before normalising, in our view.

To keep stocks filled through a possible halt of Russian gas shipments this winter, we see TTF at the top of the coal-switching range (about EUR40/MWh) in winter 2024 before dropping to delivered costs for US LNG (about EUR30/MWh) by H2 2025.

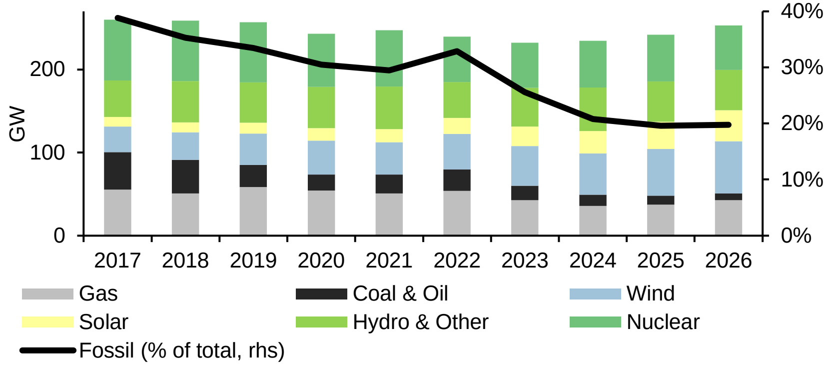
We expect the US gas storage overhang to reduce through 2024, shifting to a deficit when LNG feedgas demand picks up.

We expect Henry Hub to increase to levels that incentivise dry gas production in 2024. Through 2025, we see HH rising almost to USD5/MMBtu by end-2025 as stocks fall below their five-year average before supply catches up, in a market with limited flexibility.

Aldo Spanjer, Senior Commodities Desk Strategist | BNP Paribas London Branch | Any commodities views have been prepared by the Commodities Desk Strategy team, which works closely with the Sales and Trading function. This is not a research report and has not been prepared by the BNP Paribas Research Department. Please see *disclaimer*.

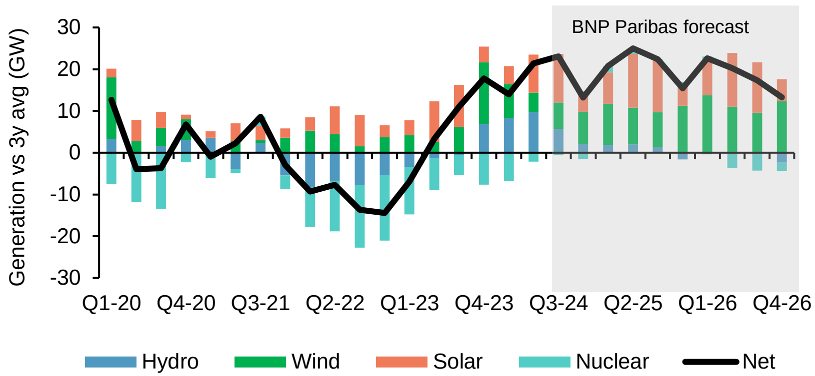
Power: Renewable thresholds breached, unlocking industrial recovery

European fossil fuel generation will fall to a new low in 2025, we expect, as the recovery in demand fails to catch up with growth in renewable energy



Data cover UK, France, Germany, Italy, Spain, Portugal, Netherlands, Belgium, Austria and Switzerland
Sources: SPGCI, BNP Paribas

Wind and solar generation growth remains high, while hydro and nuclear generation have rebounded



Data cover UK, France, Germany, Italy, Spain, Portugal, Netherlands, Belgium, Austria and Switzerland
Sources: SPGCI, BNP Paribas

We forecast power prices will fall to globally competitive levels in 2025

Average	French base 1m (EUR/MWh)	German base 1m (EUR/MWh)	UK base 1m (GBP/MWh)
Spot*	76	89	79
Q4 2024	89	91	80
2024	**59**	**75**	**70**
Q1 2025	94	99	93
Q2 2025	58	71	77
Q3 2025	67	76	74
Q4 2025	84	87	81
2025	**76**	**83**	**81**

**Spot as at 2 September*
Sources: Bloomberg, BNP Paribas

Falling power prices help Europe regain competitiveness: The decline in the need for fossil-fuel generation continues to weigh on power prices in Europe. In 2024, gas and coal burn has fallen to its lowest level for more than 25 and 50 years, respectively. The fall suppresses power prices, as the average marginal efficiency of fossil-fuel generation rises and there are more periods of 'zero priced' power, when renewable or inflexible generation meets all the demand. Periods of near-zero price power will become longer and more frequent in the next 18 months, we forecast, as growth in renewable generation outpaces the recovery of industrial demand, data-centre growth, electrification and increasing flexibility (battery storage and demand response).

Healthy winter buffer: Despite expectations of a return to more normal weather (colder and less windy than last year), power stocks look comfortable and will cap prices. A wet H1 2024 replenished hydro stocks, French nuclear generation is exceeding expectations, and the rapid renewable build-out continues. In contrast, Europe's power demand recovery has only just begun. We forecast a 2–3% y/y rise in 2025 but for demand to remain slightly below winter-2021 (pre-crisis) levels.

James Huckstepp, Senior Commodities Desk Strategist | BNP Paribas London Branch | Any commodities views have been prepared by the Commodities Desk Strategy team, which works closely with the Sales and Trading function. This is not a research report and has not been prepared by the BNP Paribas Research Department. Please see *disclaimer*.

Gas and power scenarios: Geopolitical and economic risks dominate

TTF price scenarios

BNPP gas price scenarios, September 2024 EU TTF			
EUR/MWh	**Low**	**Base**	**High**
Q4 2024	19	35	103
2024 average	**24**	**32**	**57**
Q1 2025	19	38	105
Q2 2025	11	29	84
Q3 2025	13	25	65
Q4 2025	16	29	59
2025 average	**15**	**30**	**78**

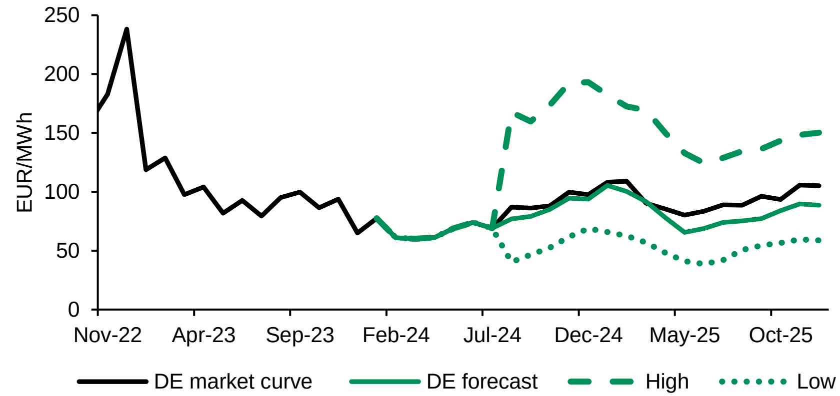
Source: BNP Paribas

JKM price scenarios

BNPP gas price scenarios, September 2024 Asia JKM			
USD/MMBtu	**Low**	**Base**	**High**
Q4 2024	6	11	34
2024 average	**6**	**11**	**30**
Q1 2025	6	13	35
Q2 2025	4	9	28
Q3 2025	5	9	23
Q4 2025	6	10	21
2025 average	**5**	**10**	**27**

Source: BNP Paribas

Despite a bearish base case, the risk to German power prices is now weighted to the upside, mirroring the risk to gas and coal pricing



Sources: Bloomberg, BNP Paribas

Base case: EU industrial demand recovers slowly, while normal weather supports higher heating demand in 2024 and 2025. We see end-Q1 2025 gas stocks at 2022 levels, while stocks from hydro and French nuclear are now healthier, with significant wind and solar build-out. Next year starts tight on high APAC demand and a fall in Russian imports, before new LNG supply lengthens the market.

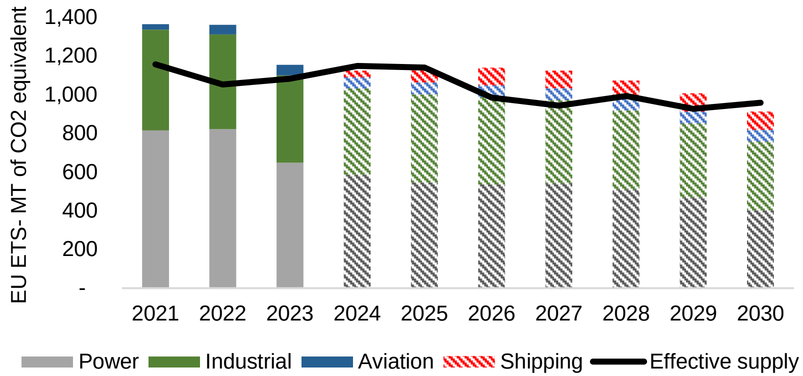
Low case: The industrial recovery continues to disappoint, and warmer temperatures linger into winter. Europe ends up with sufficient stocks to negate most demand concerns and TTF prices fall below the EU coal- and lignite-switching range, even testing US shut-in levels. Low HH prices and LNG tank rates reduce the low-case trough to EUR10/MWh.

High case: Fundamentals tighten, due to structural demand growth and rising tensions in the Middle East that sharply impede LNG exports, while ongoing Panama Canal constraints raise freight costs. Even in this scenario, we expect fragile gas and power demand, and therefore demand destruction, to cap TTF at around EUR100/MWh (though temporary higher peaks are likely).

Aldo Spanjer, Senior Commodities Desk Strategist | James Huckstepp, Senior Commodities Desk Strategist | BNP Paribas London Branch | Any commodities views have been prepared by the Commodities Desk Strategy team, which works closely with the Sales and Trading function. This is not a research report and has not been prepared by the BNP Paribas Research Department. Please see *disclaimer*.

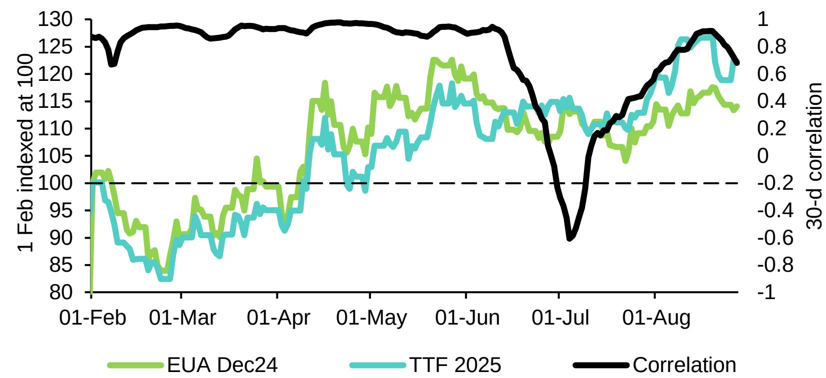
Carbon: Energy decoupling allows prices to march higher

A record drop in emissions and a temporary supply increase have left the EUA market loose in 2024, but fundamentals will soon re-tighten



Sources: EU Commission, Energy Aspects, BNP Paribas forecasts

Gas and carbon have become closely correlated again following the recent gas rally, but we expect the relationship to break down in 2025



Sources: Bloomberg, BNP Paribas

We forecast carbon prices to recover, with EUAs above EUR80/t in 2025

Average	Carbon EUA 1m (EUR/t)	Carbon UKA 1m (GBP/t)
Spot*	69	42
Q4 2024	77	44
2024	**70**	**40**
Q1 2025	82	50
Q2 2025	85	53
Q3 2025	86	60
Q4 2025	88	68
2025	**85**	**58**

**Spot as at 2 September*
Sources: Bloomberg, BNP Paribas

Climbing out of the trough: We maintain a bullish outlook on carbon prices for Q4 2024. Emitters are starting to look beyond 2024's weak fundamentals and take the opportunity to hedge, ahead of a significant 2026–27 market tightening.

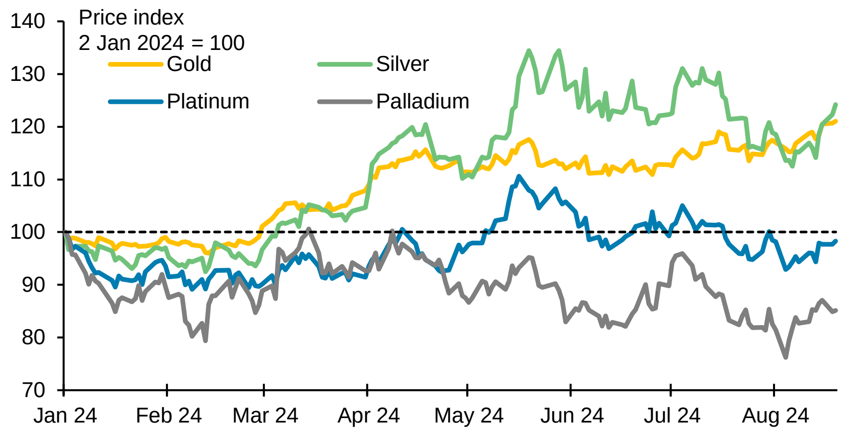
Pre-empting the squeeze: We expect EU ETS-covered emissions to fall a further 2% y/y in 2024, despite shipping's partial (40%) inclusion, primarily because of a 10% fall in power sector emissions. This comes with a temporary step-up in supply, due to frontloaded RePowerEU sales and a lagged market stability reserve adjustment. However, economic growth and shipping's greater ETS exposure (fully covered in 2026) will support demand, keeping it flat in 2025–26, on our forecasts. RePowerEU sales end in 2026, just when free allowances start to disappear, with the introduction of the carbon border adjustment mechanism.

Decoupling in prospect: Given the divergence in supply trends, the correlation between emission and gas prices will break down next year, we forecast, with carbon EUA prices holding up. Lower fossil-fuel prices should be bullish for carbon as they support higher-emitting industrial activity.

James Huckstepp, Senior Commodities Desk Strategist | BNP Paribas London Branch | Any commodities views have been prepared by the Commodities Desk Strategy team, which works closely with the Sales and Trading function. This is not a research report and has not been prepared by the BNP Paribas Research Department. Please see *disclaimer*.

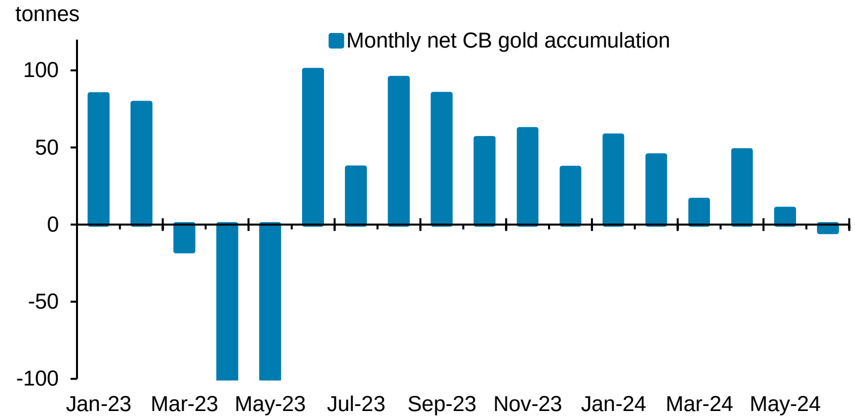
Precious metals: Gold and silver upgrades, PGM views unchanged

The price of gold and silver has risen strongly this year as gold's correlation with its historical drivers has weakened



Sources: Bloomberg, BNP Paribas

Central bank buying strongly supported the gold price in H2 2023, but has not been an important driver of more recent price gains



Sources: World Gold Council, BNP Paribas

Near term, we are bullish on precious metal prices, having raised our gold and silver forecasts

	Gold COMEX 1m (USD/oz)		Silver COMEX 1m (USD/oz)		Platinum COMEX 1m (USD/oz)		Palladium COMEX 1m (USD/oz)	
Spot*	2,527		29.14		932		963	
	Average	End	Average	End	Average	End	Average	End
Q4 24	2,545	2,565	30.30	31.00	1,070	1,100	985	990
2024	**2,350**		**27.85**		**980**		**945**	
Q1 25	2,595	2,565	31.05	31.15	1,095	1,090	995	1,000
Q2 25	2,515	2,470	30.85	30.55	1,100	1,110	1,005	1,010
Q3 25	2,475	2,480	30.70	30.80	1,120	1,130	1,000	990
Q4 25	2,410	2,340	30.85	30.90	1,165	1,200	985	980
2025	**2,500**		**30.85**		**1,120**			

**Spot as at 2 September*
Sources: Bloomberg, BNP Paribas

Gold: We increase our price forecasts, targeting USD2,565/oz by the end of 2024. The upgrade partially reflects a change in our model methodology given a breakdown in correlations to historical drivers. Whilst our new model helps explain actual price levels, we continue to see the main upside drivers being expectations regarding the pace of US rate cuts, a weaker USD and geopolitical risks.

Silver: We raise our silver forecast, targeting USD31.00/oz by the end of 2024. While the upgrade is partly driven by the increase in our gold price forecast, we see continued strong physical demand from China as a key fundamental driver, narrowing the gold–silver ratio from around 87 currently to about 76 by end-2025.

Platinum: Our bullish platinum forecast is unchanged, targeting USD1,100/oz by the end of 2024 (see *To palladium parity and beyond*, dated 18 June). We see demand support for prices from increased hybrid auto vehicle production and rising levels of physical investment, combined with a lack of supply growth.

Palladium: We continue to expect palladium to rally to USD990/oz by end 2024, driven by stronger auto demand and an unwinding of speculative short positions.

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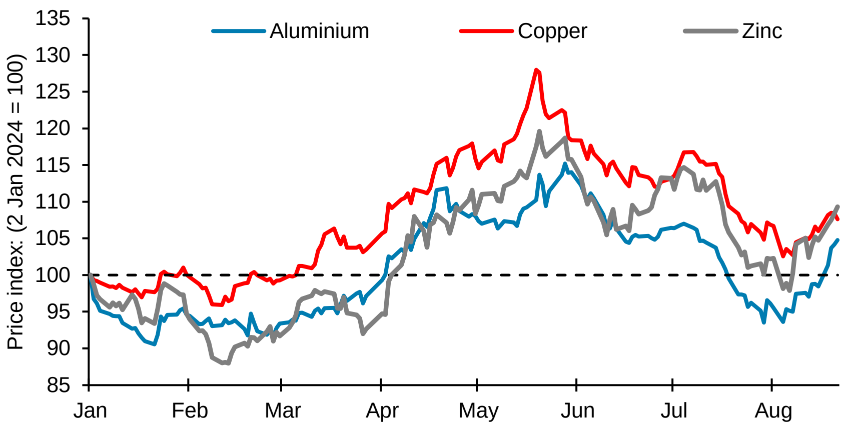
Base metals: Rate cuts and supply concerns to support prices in Q4

The fund-driven rally in April to May had no real support, but fundamentals began to turn more supportive from August, pushing up prices again



Sources: Bloomberg, BNP Paribas

China's net refined copper imports have recovered from June 2024's low

Sources: Bloomberg, BNP Paribas

We maintain our moderately bullish Q4 2024 copper and aluminium price outlook, and upgrade our projections for zinc

	Copper LME 3m (USD/t)		Aluminium LME 3m (USD/t)		Zinc LME 3m (USD/t)	
Spot*	9,183		2,424		2,841	
	Avg	End	Avg	End	Avg	End
Q4 24	9,625	9,700	2,670	2,700	2,920	2,950
2024	**9,315**		**2,480**		**2,775**	
Q1 25	9,750	9,800	2,750	2,700	2,955	2,960
Q2 25	9,755	9,710	2,775	2,750	2,930	2,900
Q3 25	9,805	9,900	2,825	2,850	2,950	3,000
Q4 25	10,125	10,300	2,950	3,050	3,075	3,150
2025	**9,860**		**2,825**		**2,980**	

**Spot as at 2 September*
Sources: Bloomberg, BNP Paribas

Copper: Our moderately bullish copper price forecasts for end-2024 and through 2025 are unchanged. We continue to forecast LME 3-month copper to end 2024 and 2025 at USD9,700/t and USD10,300/t respectively. We expect the copper market to remain in modest surplus through 2025, with prices supported by a softening USD (see *Back to reality (almost)*, dated 28 June).

Aluminium: Our end-2024 and 2025 aluminium price targets are also unchanged. We see a lack of supply growth, most notably in China, tightening the market, leading to a global deficit of 415kt next year. We expect fundamentals to provide price support and to tighten time spreads through 2025.

Zinc: We raise our end-2024 and end-2025 zinc price targets to USD2,950/t and USD3,150/t, respectively. Despite clear signs of weakness in global zinc demand, especially from the construction sector in all the main economic regions, supply concerns have dominated, providing fundamental price support. Constrained mine supply, prompting negative spot treatment charges, has led to production cuts by Chinese smelters since early July.

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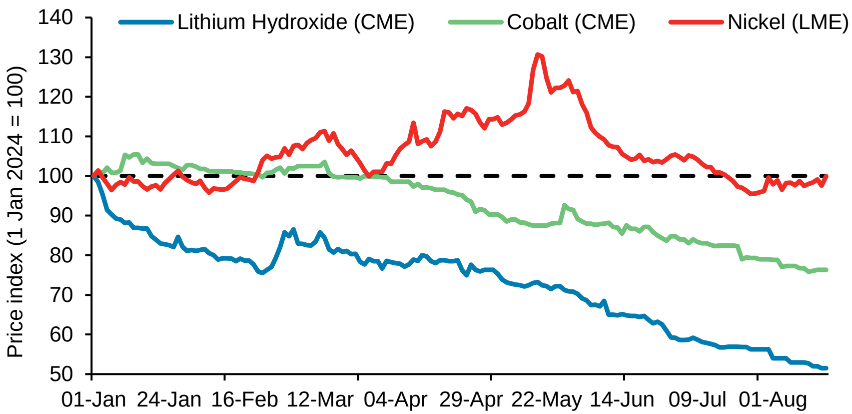
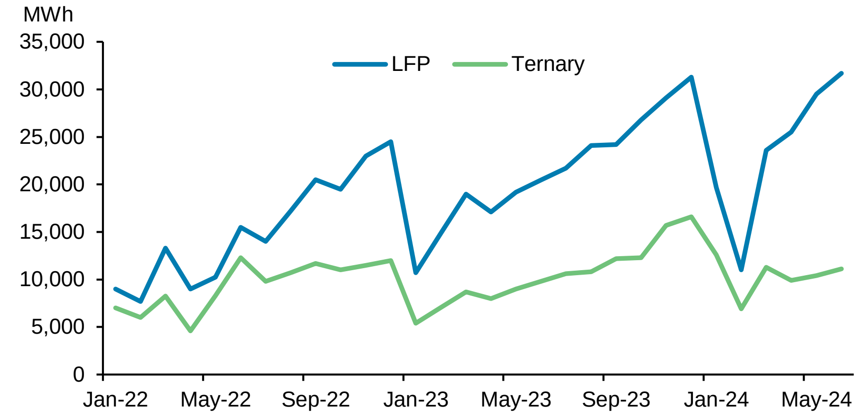
Battery metals: Struggling under the weight of supply

Lithium has underperformed an underperforming battery metals sector



Sources: Bloomberg, BNP Paribas

LFP battery installations continue to grow against ternary, reaching a 73% market share so far in 2024



Sources: Bloomberg, BNP Paribas

We expect continued oversupply to maintain downward pressure on battery metal prices

	Cobalt CME 1m (USD/lb)		Lithium hydroxide CME (USD/kg)		Nickel LME 3m (USD/t)	
Spot*	11.35		11.23		16,625	
	Avg	End	Avg	End	Avg	End
Q4 24	11.25	11.15	10.90	10.80	16,900	16,750
2024	**13.20**		**14.30**		**17,245**	
Q1 25	11.05	11.00	11.05	11.00	16,625	16,500
Q2 25	10.80	10.65	11.00	10.85	16,250	16,000
Q3 25	10.60	10.55	10.80	10.75	15,915	15,825
Q4 25	10.65	10.70	10.85	10.90	16,005	16,100
2025	**10.80**		**10.95**		**16,200**	

**Spot as at 2 September*
Sources: Bloomberg, BNP Paribas

Oversupply to weigh on battery metal prices: We revise down our lithium and cobalt price forecasts, as we expect the market to remain oversupplied in 2025.

Slowing EV sales growth, alongside the outperformance of hybrid electric vehicle (HEV) sales, has weighed on battery markets so far this year, particularly lithium, which has underperformed its battery metal counterparts.

We see these bearish demand trends continuing in 2025, although we note that lithium iron phosphate (LFP) battery chemistry, which does not contain cobalt or nickel, has gained significant market share relative to ternary batteries. We see cobalt underperforming nickel, given nickel's importance in HEVs and our expectation that HEV demand will be strong in the near term.

Nickel: Our forecasts are unchanged. We continue to expect growth in Indonesian/Chinese Class 1 nickel production to weigh on LME nickel prices (see *Back to reality (almost)*, dated 28 June). However, growing concern about the negative environmental impact from the surge in Indonesian nickel mining and processing presents a key upside risk to our longer-term price view.

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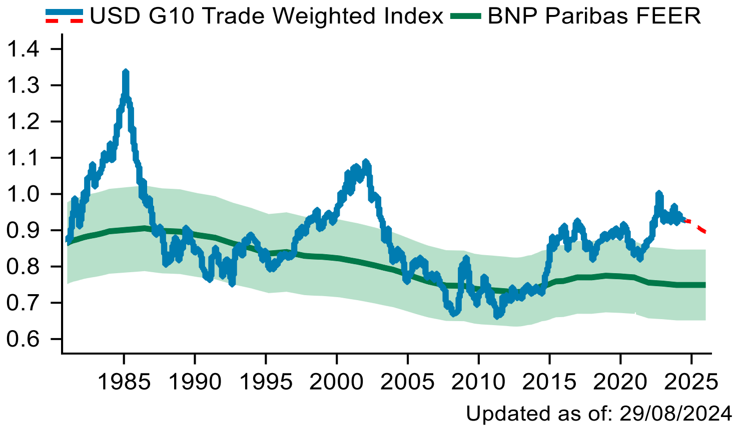
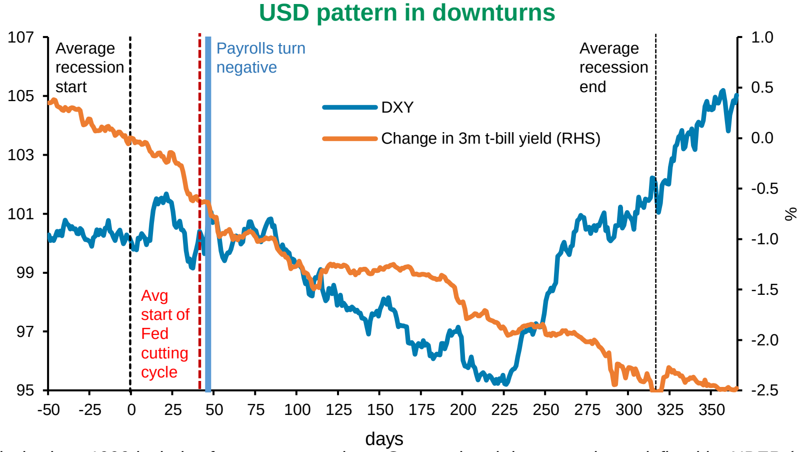
G10 FX: A gradually weaker USD

The USD appears overvalued



BNP Paribas FEER is our measure of a currency's long-term fair value and provides an anchor around which currencies tend to deviate over a 2–5-year horizon. The USD Trade Weighted Index forecasts (red line) are constructed by taking our forecasts for each of the individual G10 currencies and applying export-related weights to them. Sources: Bloomberg, Macrobond, BNP Paribas

USD pattern in downturns



Analysis since 1990 includes four past recessions. Start and end dates are those defined by NBER (see [Business Cycle Dating | NBER](#)). Sources: Bloomberg, BNP Paribas

Turning USD bearish: We think the USD's bull run has come to an end. Over the medium term we therefore project a weaker USD.

The USD is significantly rich against our estimate of its long-term fair value (see top chart). In our view, valuations have reached a level that is difficult to sustain at a time when the Fed is commencing its easing cycle.

The start of the Fed's easing cycle also means we think US yields have peaked and see risks as asymmetrically skewed towards lower yields – if an economic slowdown proves more pronounced than we expect, the market has scope to price in an even deeper Fed cutting cycle. Such environments have historically been associated with even steeper declines in the USD (see bottom chart). As such, we think the downtrend in the USD could be accelerated versus low-yielders in a recession scenario.

Additionally, we think the US easing cycle could increase the risk that global investors begin to reduce their overweight USD exposure.

US election could preclude a material weakening in the USD: If Donald Trump is elected president, we think a potential blanket imposition of tariffs on US trading partners would become a key factor driving the USD. We estimate the effect of tariffs, in the most aggressive outcome (10% blanket, 60% tariff on China with no retaliation) could suggest a hit of up to 7% to EURUSD while USDRMB would rise to 7.70 (see *Trade war strikes back*, dated 4 June). Our analysis suggests high sensitivity to geographical proxies (MXN, CAD) and the commodity complex too (see *FX: Quantifying potential impact of US tariffs*, dated 19 July).

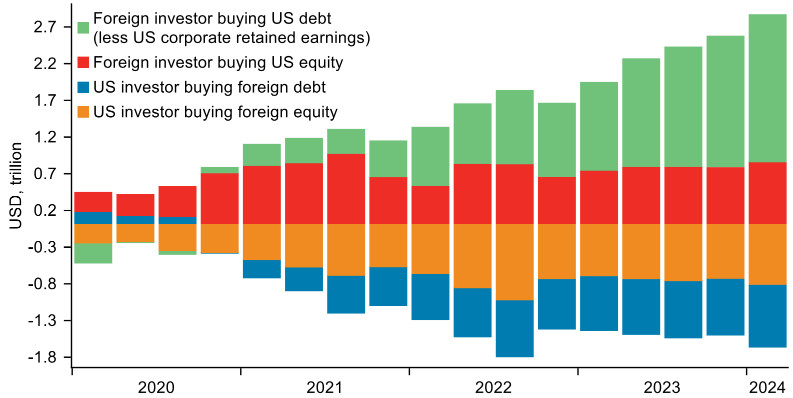
Therefore, as we approach the November election, we think these risks will dissuade the market from continuing to add USD shorts into the event – even if Kamala Harris maintains her current polling lead. As such, we project a stable USD this year with weakness resuming in 2025.

While the evolution of US data remains important, we think the bar is high for the Fed to pause its easing cycle, assuming it starts in September. As such, the main upside risk for the USD comes from the US election rather than data, in our view.

Alex Jekov, Head of G10 FX Strategy, Europe | Joshua Wilcock, FX Strategist, G10 | BNP Paribas London Branch | and Markets 360 FX Strategy team

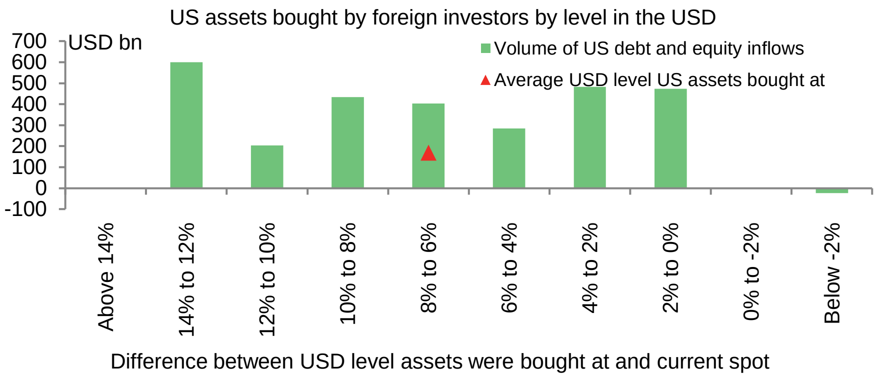
G10 FX: USD downside risk from cross-border flows

Foreign investors have accumulated a large stock of US assets



Sources: Macrobond, BNP Paribas

The USD would have to depreciate by 6–8% for foreign investor FX returns to turn negative



Analysis focuses on purchases of USD assets since 2020. We assume: (1) the majority of purchases of US assets come from Europe, Japan, and China; (2) all investor flows are not currency hedged; and (3) the level of the USD at the time US assets were bought is a weighted average of the USD forward vs EUR, JPY, and CNH. The start date of the FX forward is at the time of the purchase and the end date is 28 August 2024. Sources: Macrobond, BNP Paribas

Foreign investor holdings of US assets: Foreign investors have built a very large stock of assets in the US. Given the Fed's hiking cycle has made it prohibitively expensive to hedge FX for many investors, we think hedge ratios on USD-denominated assets now sit at low levels. As the cutting cycle gets underway and the US curve steepens, hedging costs will fall. We think this could result in a greater hedging away of USD risk which could make USD weakening moves self-fulfilling. In other words, the more the USD weakens, the greater foreign investors' reluctance to hold large USD FX risk. Quantifying these US holdings is challenging but our work suggests the eurozone, Japan and China are the largest holders.

Since 2020, we estimate foreign investors have accumulated around USD840bn of US equities and roughly USD2trn of US fixed income (as a significant portion of foreign-investor buying of US debt represents US corporate overseas cash, which is reinvested in US debt, we subtract US retained earnings accumulated over the period). The actual level of US equity holdings is larger (USD6.8trn) and vice versa slightly smaller for debt holdings (USD1.6trn), as these estimates do not take into account valuation changes and are therefore likely to be conservative, in our view.

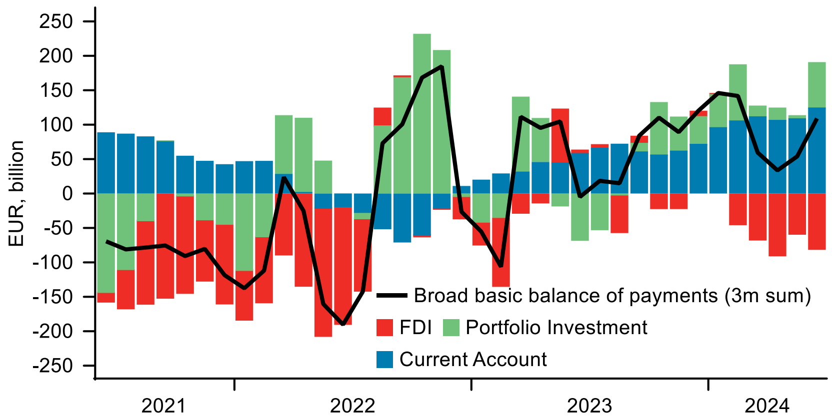
We think a tightening of rate spreads between the US and RoW (i.e. a lower cost to hedge USD FX risk), the easing cycle and bearish USD momentum may combine to make foreign investors reluctant to continue to hold USD FX exposure, leading to a gradual increase in hedge ratios on US asset holdings.

Large FX P&L buffer: An estimate of FX mark-to-markets on eurozone, Chinese and Japanese investor purchases of US debt is valuable, as it offers an estimate of the average level of FX – weighted by outflow volumes – at which investors have sold domestic currency to buy the USD. Our analysis suggests global investors have some breathing room before potentially encountering negative mark-to-market on USD currency risk. We estimate a 6–8% decline in the USD would be required. The buffer is less for the eurozone and China, at around −2% and −4%, respectively in EURUSD and USDCNH, given that the USD has not appreciated as much versus these currencies as it has against the JPY in the post-Covid era. This dynamic may preclude a sharp rise in hedge ratios in our view, meaning USD depreciation from hedge ratio adjustments is more likely to be gradual.

Alex Jekov, Head of G10 FX Strategy, Europe | Joshua Wilcock, FX Strategist, G10 | BNP Paribas London Branch | and Markets 360 FX Strategy team

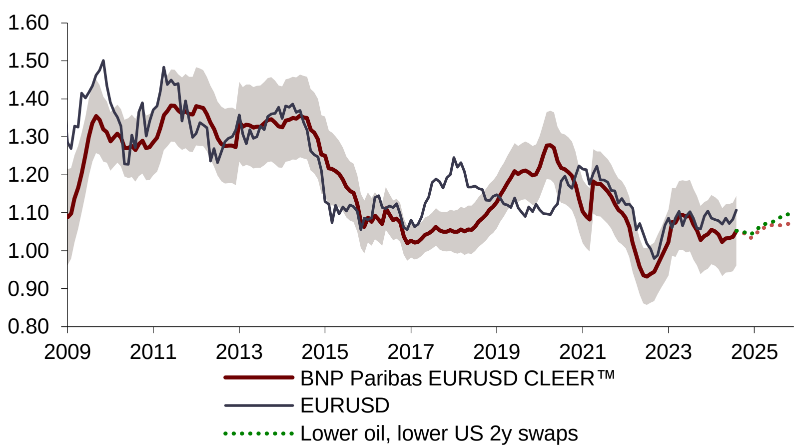
G10 FX: EUR upside

EUR balance-of-payments picture is favourable



Sources: Macrobond, BNP Paribas

EURUSD CLEER™



For more details see our CLEER™ methodology. Sources: Bloomberg, Macrobond, BNP Paribas

Favourable flow dynamics: For the EUR we see additional factors that underpin our bullish view. First, we think broad basic balance-of-payments dynamics are favourable. We note that the current account reached an all-time wide level in June while portfolio inflows were net positive owing to flows into European equities. If this is sustained, it could be even more supportive for EURUSD now than in the past, in our view. This is because the US requires greater inflow to sustain USD strength, which may be difficult to obtain during the Fed cutting cycle.

EURUSD could rally in a recession: Historically, the USD has broadly strengthened throughout a recession. We expect this time to be different, with USD gains narrower and only against high-beta currencies. This is because the USD has been a high-yielding currency in recent years, meaning it is not as useful as a funding currency for carry trades.

In addition, given high levels of global liquidity (G4 bank reserves), as well as several Fed facilities designed to mitigate funding stress, the chance of risk-off permeating to USD funding markets (and crucially for FX, driving wider OIS–OIS xccy basis) appears less likely to us.

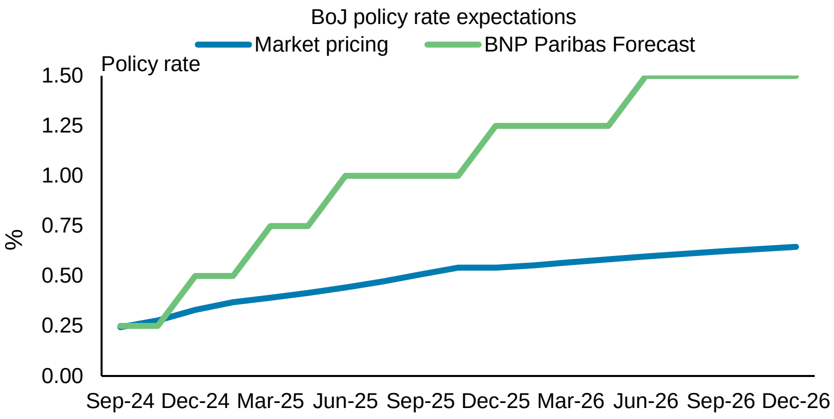
Furthermore, in prior recessions the market priced in eurozone systemic risk, something we see as much less probable now. Therefore, we think EURUSD could rally in a US recession scenario, as front-end interest rate differentials tighten between the US and eurozone.

Cyclical valuations also supportive: Long-term valuations point to EURUSD upside but cyclical valuations, as captured by our CLEER™ model, also suggest room for appreciation. We note that although EURUSD CLEER is currently beneath spot, it is expected to rise by around 2.1% based on our projections for rates, oil and other macroeconomic fundamentals. The model suggests EURUSD's largest sensitivity is to rates and oil. Should US 2y rates finish the year 50bp beneath our forecasts and Brent at USD75bbl, EURUSD's fair value would rise by around 4.5%, according to the model.

Alex Jekov, Head of G10 FX Strategy, Europe | Joshua Wilcock, FX Strategist, G10 | BNP Paribas London Branch | and Markets 360 FX Strategy team

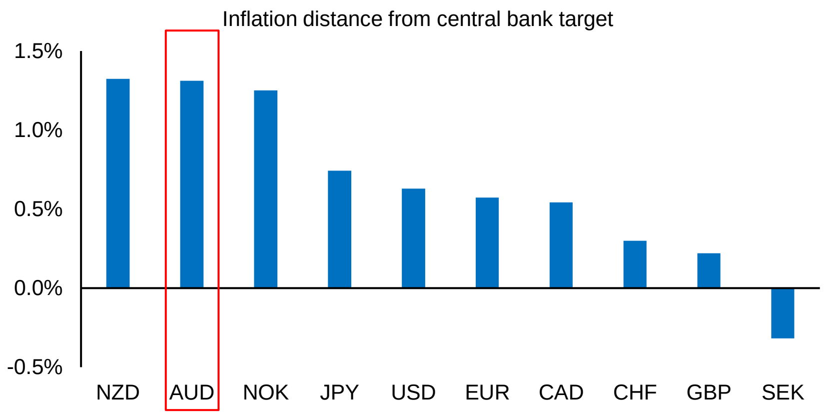
G10 FX: JPY, GBP and AUD

BoJ rate hikes could compound the tightening in US–Japan rate differentials



Sources: Macrobond, BNP Paribas

A hawkish RBA could support rate differentials between Australia and elsewhere



Sources: Bloomberg, Macrobond, BNP Paribas

Tighter rate spreads to drive USDJPY lower: For the JPY, on top of the flow arguments mentioned previously, we expect policy rates between the US and Japan to continue to compress, as the Fed embarks on its easing path while the BoJ continues to tighten. This partly reflects that we have a more hawkish view on the extent of the BoJ's tightening cycle than the market (see top chart). A US economic hard landing would exacerbate the move lower in USDJPY, in our view, as the pair remains highly sensitive to US yields. That said, we think sharp moves are less likely in the near term in USDJPY, in the absence of a hard landing, as positioning in USDJPY has adjusted considerably, with the market no longer holding longs, according to our metrics.

As we project a soft-landing scenario in the US, we expect high-beta, equity-sensitive G10 currencies to outperform lower-yielding currencies. As such, we maintain a positive view on the GBP and the AUD.

GBP hanging on to yield advantage: For the GBP, its high-yielding status in G10 could continue to prove a source of support. We think this is reinforced by a now more stable political environment in the UK and a less concerning flow backdrop. Our expectations for Bank of England rate cuts were not fully priced in by the market at the time of writing, but still, we do not expect those cuts to derail the bullish GBP outlook. Additionally, the UK growth outlook remains upbeat, which we think limits the likelihood that rate cuts will outpace those elsewhere, and in turn means the GBP's yield advantage can be maintained.

AUD favourable fundamentals: As discussed in *Australia: Understanding the macro picture*, dated 26 July, Australian inflation remains sticky at levels above the Reserve Bank of Australia's target level. This could ultimately make the RBA one of the less dovish central banks globally with a more cautious approach to rate cuts. This dynamic could bode well for the AUD, in our view. Beyond this, leading indicators point to a pickup in mining capex in Australia going forward, which could allow the AUD to benefit further from higher commodity prices (for more detail, see *AUD: Diving deeper into fundamentals*, dated 25 June).

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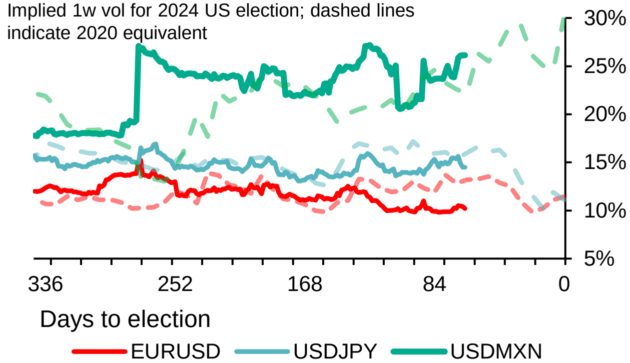
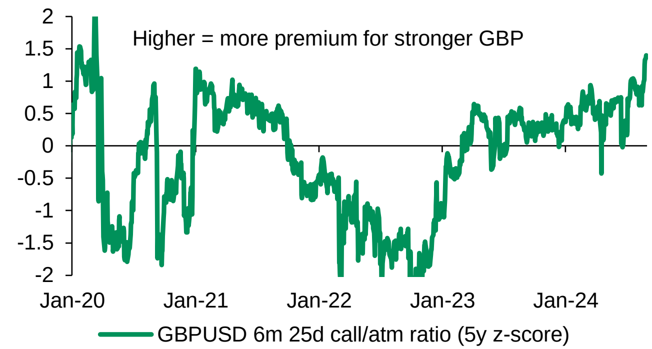
FX vol: Political risks before a soft landing for vol

US election FX risk premium is likely to rise as the vote approaches



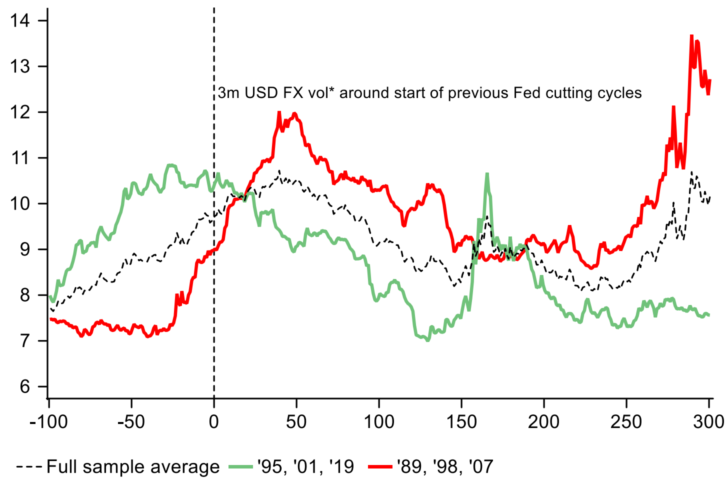
Source: BNP Paribas

Rich USD-put vanna could offer selling opportunities in the medium term



Source: BNP Paribas

A Fed rate-cut cycle in a shallow GDP dip regime might be bearish vol



**USD FX vol is the DXY-weighted average of USD-pair implied vol.*
Sources: Bloomberg, Macrobond, BNP Paribas

Election event risk: We see FX risk premium around the US election as relatively low and likely to rise as the vote approaches. But with the election likely to be a bi-modal event, this volatility is probably short-lived – as risk premium rises convexity in some pairs could become over-priced. We are long a digital strangle, funded by a pre-election one-touch strangle, in EURUSD (see *FX vol: Fade high US election vol for zero cost*, 14 May), and long a USDCNH calendar risk reversal to hedge tariff risks (*FX vol roadmap: Lower macro uncertainty but political risk*, 10 July).

Preparing for landing: The Fed rate-cutting cycle will also be key for the direction of volatility. In a recessionary rate-cut cycle, implied vol tends to rise (as in 1989 or 2007) but a shallow GDP dip (as in 1995 or 2019) is typically vol-bearish. In the former, post-election digitals in EURUSD, USDCAD vega and USDCNH convexity could hedge the risk of higher vol; in the latter, USD-put vol may be over-priced in some pairs. In this case, we would like a long GBPUSD 6m digital call with reverse knockout, which sells elevated USD-put vanna (see FX vol roadmap, above).

Hedging for Godot: High vol (or a US recession) is not inevitable but low vol may be an opportunity, in our view. We like long convexity where it scans as cheap: USDCNH (where the carry unwind has led to the risk reversal turning bid for USD-puts) and remain long USDCAD vega through realised vol seagulls.

Oliver Brennan, FX Volatility Strategist | BNP Paribas London Branch | and Markets 360 FX Strategy team

EM: Optimistic but wary of risks

EM local debt return estimate remains positive for the rest of the year

Year	Total return	FX return	Carry	Duration	Other
2011	-9.2%	-12.8%	2.7%	0.6%	0.8%
2012	16.6%	3.2%	6.0%	6.3%	0.3%
2013	-8.2%	-8.8%	5.7%	-5.2%	0.4%
2014	-4.1%	-11.5%	6.2%	0.6%	1.4%
2015	-14.0%	-16.7%	6.3%	-3.4%	0.6%
2016	8.2%	-0.5%	6.1%	1.7%	0.7%
2017	15.4%	6.3%	6.0%	2.2%	0.1%
2018	-5.3%	-8.0%	6.4%	-4.3%	1.1%
2019	15.4%	1.5%	5.8%	7.1%	0.4%
2020	3.8%	-4.7%	4.6%	4.7%	-0.5%
2021	-10.4%	-6.9%	5.3%	-10.1%	1.7%
2022	-10.6%	-5.2%	7.2%	-8.6%	-3.7%
2023	12.5%	2.2%	7.1%	1.8%	1.0%
2024 so far	1.6%	-2.9%	4.8%	0.1%	-0.3%
rest of 2024	2.3%	-0.2%	2.2%	0.3%	0.0%
2025 total	11.6%	2.4%	6.5%	2.3%	0.0%

Total return is calculated for a target portfolio of country bond indices with market cap weights capped at 10% (CNY, IDR, MYR, PHP, THB, CZK, HUF, PLN, TRY, BRL, MXN, CLP, COP, PEN).
Sources: Bloomberg, BNP Paribas forecasts, as at 4 September

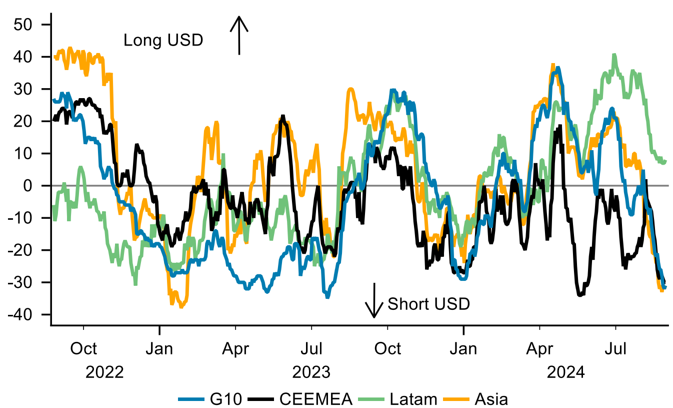
The rate cut cycle looks well priced, assuming a soft landing in the US

	Market pricing* (%)		BNPP forecast (%)		Difference (bp)	
	Q4 2024	2025	2024	2025	2024	2025
Poland	5.47	3.88	5.75	4.00	28	12
Czech Republic	3.38	2.56	4.00	2.75	62	19
Hungary	5.97	4.75	6.25	4.50	28	-25
South Africa	7.23	6.50	7.75	7.00	52	50
Türkiye	45.07	27.58	45.00	25.00	-7	-258
CEEMEA**					**42**	**14**
Brazil	11.69	12.01	11.75	10.75	6	-126
Mexico	10.03	8.32	10.00	8.00	-3	-32
Colombia	8.84	7.16	9.00	6.50	16	-66
Chile	5.01	4.26	5.25	4.50	24	24
Latam					**11**	**-50**
Thailand	2.21	1.83	2.50	2.00	29	17
South Korea	3.04	2.51	3.25	2.75	21	24
India	6.34	5.87	6.25	5.75	-9	-12
Malaysia	3.10	2.85	3.00	3.00	-10	15
Asia					**8**	**11**

Forecast higher than mkt pricing
Forecast lower than mkt pricing

**Calculated as the forward rate less the 2010–19 average 'bor spread over the policy rate; **Excluding Türkiye*
Source: BNP Paribas, as at 6 September

We see EM FX positioning scores at extreme bullish levels except for Latam



Source: BNP Paribas

EM local debt returns: Our central case remains a soft landing for the US and therefore a positive backdrop for EM. According to our forecasts, EM local debt portfolios will deliver a 3.0% total return over the remainder of the year. However, we think technicals are now more stretched, while macro risk scenarios suggest that a more selective and cautious approach might be appropriate for EM.

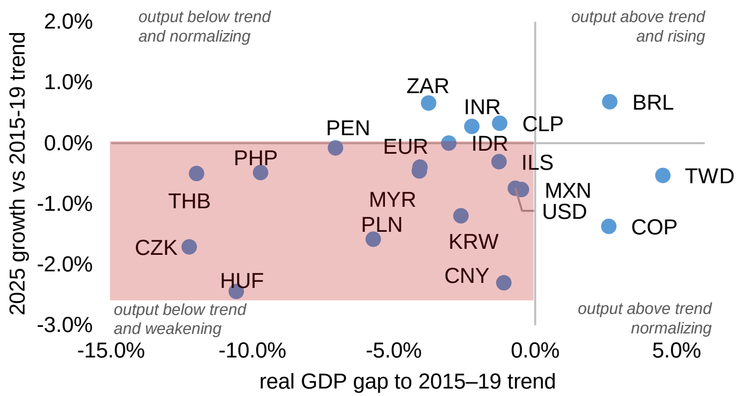
Technicals: Terminal rates in EM are priced close to our forecasts and even to neutral rates in most cases. So, the central case of a soft landing looks well priced to us, leaving little room to chase rates lower. Similarly, FX positioning scores are back to short USD, with the exception of Latam. We therefore favour looking for pullbacks to add directional risks in EM during Q4.

Fatter tails with binary risks: The coming months are dominated by binary risks such as a potential hard landing, US elections, tariff shocks and geopolitics. All these risks bring different implications for EM local assets. Hence, we aim to construct portfolios and trade ideas that can be robust under multiple scenarios.

Burak Baskurt CFA, Chief EM Strategist | BNP Paribas London Branch | and Markets 360 FX Strategy team

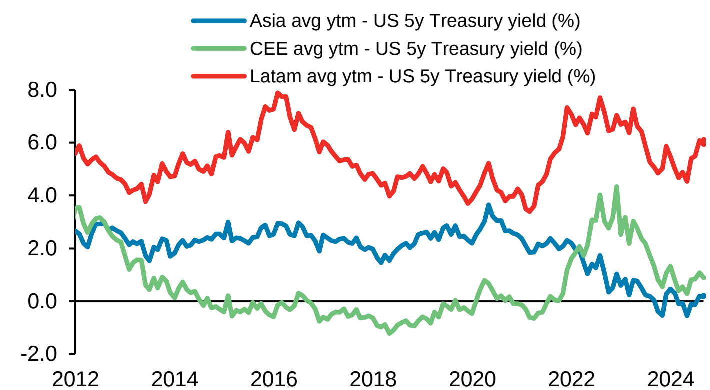
EM: Risk scenarios

More dovish asymmetry for parts of EM, particularly CEE and Asia



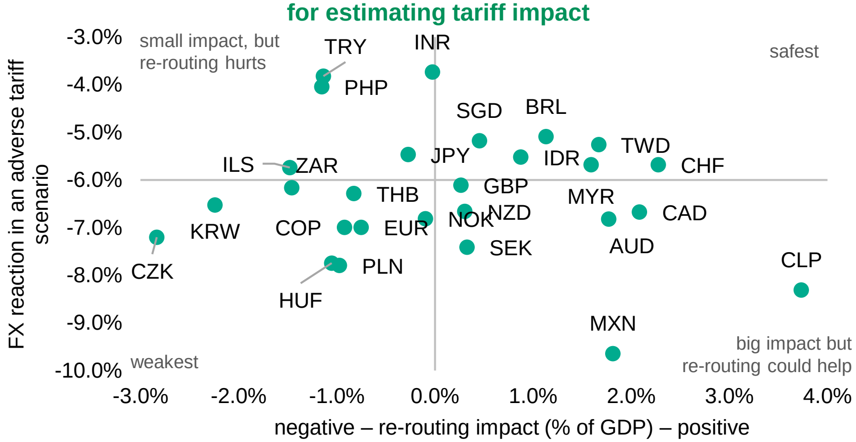
Shaded area shows economies with real GDP below 2015–19 trend and 2024 growth also below historical trend. Hence, it represents negative and widening output gaps.
Sources: Macrobond, Bloomberg, BNP Paribas

EM–DM spreads are tight, particularly in Asia and CEE



Sources: Bloomberg, BNP Paribas

Reliance on US and proximity to China are crucial drivers for estimating tariff impact



Sources: Bloomberg, Macrobond, IMF, BNP Paribas

Growth risks: Despite our central case for a soft landing, a sustained cooling in US data could push core rates lower and more steeply to price terminal rates below neutral. In this scenario, EM rates would price in lower terminal rates, albeit with some EM–DM spread decompression. We think this risk scenario could justify adding receivers in EM on pullbacks. In CEE and Asia especially, we think the growth backdrop might justify a more dovish policy switch in such a scenario.

US elections and tariffs: We see a blanket imposition of US trade tariffs as a key risk for EM currencies and predict a 6–7% DXY boost in a worst-case scenario. MXN, COP, CEE and KRW appear the most exposed while ZAR, IDR, BRL, INR and TRY could outperform (*FX: Quantifying potential impact of US tariffs*, 19 July).

Latam issues: We see the MXN underperforming on domestic politics and sensitivity to the US cycle. The COP may also underperform as BanRep cuts accelerate. We see the BRL stabilising as we expect the BCB to start hiking at its September meeting. The PEN is the only currency we like in Latam. Hard-landing risk may amplify pressure, so we expect a continued reversal in Latam versus Asia FX crosses and reflect this in our model portfolio.

Burak Baskurt CFA, Chief EM Strategist | BNP Paribas London Branch | and Markets 360 FX Strategy team

EM local debt: Model portfolio

BNP Paribas model portfolio for EM local debt: A summary of our medium-term views

		Target portfolio			BNPP model portfolio				Active positions	
Country	**Region**	**Weight**	**Duration**	**Duration contribution**	**Cash exposure**	**Duration**	**Duration contribution**	**FX hedge**	**Currency**	**Duration contribution**
China	ASIA	10.0%	7.48	0.75	11.3%	8.43	0.95	-1.3%	-	0.2
India	ASIA	2.6%	-	-	2.7%	7.50	0.20	-0.1%	-	0.2
Indonesia	ASIA	10.0%	6.20	0.62	12.2%	7.55	0.92	1.8%	4%	0.3
Korea	ASIA	-	-	-	1.9%	10.62	0.20	0.1%	2%	0.2
Malaysia	ASIA	10.0%	7.59	0.76	10.7%	8.09	0.86	2.3%	3%	0.1
Philippines	ASIA	5.6%	5.53	0.31	5.6%	5.53	0.31	-	-	0.0
Taiwan	ASIA	-	-	-	-2.2%	8.74	-0.20	0.2%	-2%	-0.2
Thailand	ASIA	10.0%	9.00	0.90	10.6%	9.50	1.00	1.4%	2%	0.1
Czech Rep	CEEMEA	5.0%	5.85	0.29	5.7%	6.75	0.39	-3.8%	-3%	0.1
Egypt	CEEMEA	-	-	-	-	-	-	-	-	0.0
Hungary	CEEMEA	2.6%	4.65	0.12	3.5%	6.35	0.22	-3.9%	-3%	0.1
Israel	CEEMEA	-	-	-	1.5%	6.60	0.10	-1.5%	-	0.1
Poland	CEEMEA	7.3%	4.21	0.31	7.3%	4.21	0.31	2.0%	2%	0.0
Romania	CEEMEA	-	-	-	2.2%	4.55	0.10	-2.2%	-	0.1
S. Africa	CEEMEA	7.9%	6.25	0.49	10.6%	8.45	0.90	1.2%	4%	0.4
Türkiye	CEEMEA	2.1%	2.56	0.05	5.4%	6.66	0.36	-1.3%	2%	0.3
Brazil	LATAM	9.2%	2.65	0.24	6.8%	1.95	0.13	1.4%	-1%	-0.1
Chile	LATAM	2.1%	7.00	0.15	2.1%	7.00	0.15	-	-	0.0
Colombia	LATAM	3.9%	5.58	0.22	5.4%	7.68	0.42	-4.5%	-3%	0.2
Mexico	LATAM	10.0%	4.86	0.49	7.9%	3.86	0.31	-1.9%	-4%	-0.2
Peru	LATAM	1.9%	7.06	0.13	1.9%	7.06	0.13	1.0%	1%	0.0
Duration				5.82			7.76		4%	1.9
Expected return (rest of 2024)		2.3%			3.1%				Expected alpha	0.8%
Portfolio vol		5.0%			5.6%				Tracking error	1.1%
Avg YTM		6.8%			8.3%				Information ratio	0.7

FX	Target	BNPP	Active exposure
ASIA	48%	57%	9%
CEEMEA	25%	27%	2%
LATAM	27%	20%	-7%
Total	100%	104%	4%

Duration	Target	BNPP	Active exposure
ASIA	3.3	4.3	0.9
CEEMEA	1.3	2.4	1.1
LATAM	1.2	1.1	-0.1
Total	5.8	7.8	1.9

Target portfolio consists of country indices for local currency government bonds with market cap weights capped at 10%. The model portfolio is a result of our active overweight and underweight views for duration and currency. Expected returns calculated using BNP Paribas forecasts for FX, policy rates, US 10y and US curve steepness.

Sources: Bloomberg, BNP Paribas

CEE: Despite some base-effect-driven acceleration of headline inflation already in H2, the growth backdrop remains weak in the region. In particular, we think the Hungarian and Czech central banks might grow more dovish in late Q4 or early Q1 2025. Hence, we expect FX and rates correlations to decline (FX weaker, rates lower), and our bias remains for receivers and underweights in FX.

CEEMEA high-yielders: Türkiye and South Africa are our top picks in the region for both FX and rates. We expect rate cuts to kick off in both countries and see value in bonds. In Türkiye, our preference is front-end bonds (*see [Türkiye: Lower economic activity to support disinflation](), 8 August*), whereas in South Africa we think the belly and back end remain attractive for outright longs.

Asia: We expect USD/Asia to decline, assuming a US soft landing, with repatriation flows of domestic FX holdings (see *FX: Room for more EM Asia appreciation as exporters sell USD*, 26 August). In the event of a hard landing, this decline could even accelerate as we think rate differentials versus the US could improve in favour of Asian currencies, unlike in past recessions. The IDR, KRW and MYR are our top picks in terms of total return from local currency bonds.

China: Exporters remain under-hedged and the Fed's current policy outlook suggests more USD supply via this channel. Hence, we will reconsider going back to short USDCNH and USDTWD trades (see *China FX: Corporate FX conversion ratio likely to see a cyclical upswing*, 28 August).

Burak Baskurt CFA, Chief EM Strategist | BNP Paribas London Branch | and Markets 360 FX Strategy team

CREDIT AND EQUITY & DERIVATIVES STRATEGY

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Global equities: Value in volatility

BNP Paribas end-2024 global equity index targets: US (downside) versus the rest of the world (upside)

Index	Spot*	Target	Price return
S&P 500	5,648	5,400	-4.4%
Euro STOXX 50	4,973	5,100	2.6%
Nikkei 225	38,700	39,500	2.1%
MSCI China	56.3	60	6.6%

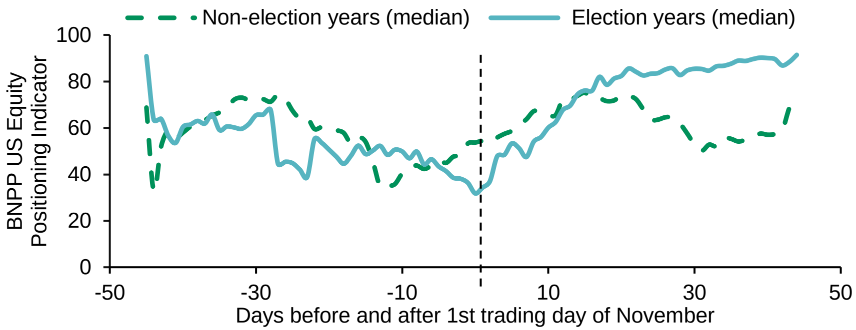
**Spots as at 2 September*
Sources: Bloomberg, BNP Paribas

Directional view – 'Sluggish but dovish' favours some cyclical exposure: Equity markets tend to perform well when central banks cut mid-cycle, even as growth slows. In the US and Europe (but not Japan), this regime favours a cyclical tilt. In the US, we view the Russell 2000 index (RTY) as most sensitive to the Fed cycle. In Europe, history favours exposure to manufacturing, such as construction. In Japan, by contrast, the policy cycle is hawkish, favouring banks, in our view.

Favour optionality for main event of US election: There is some historical evidence that markets are risk-off before a US presidential election and then risk-on after. This reflects rising risk premium and position de-risking into a major event fraught with uncertainty. The election itself reduces uncertainty, almost regardless of outcome, and is typically followed by a sharp positioning rebuild. This template also applies to 2024, in our view: a close race with very divergent policy platforms.

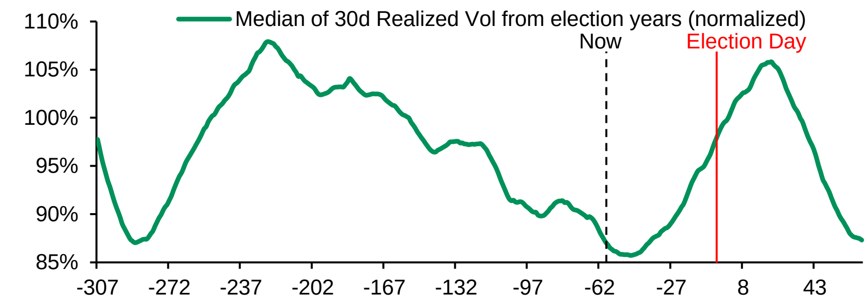
Risk-off first; risk-on later: Our bias is to be defensive before the US election and positive afterwards. Hedges should focus on the next two months, and steep skew makes put-spreads (e.g. SPX) or gamma (e.g. European energy) attractive, in our view. Japan volatility has most room to normalise (lower) although political risks will pick up in the next few months.

Equity positions:
Typically, de-risked into the election and added back after



Source: BNP Paribas. Past performance is not indicative of future performance.

US election year seasonal pattern:
Rising volatility into the election, then fading



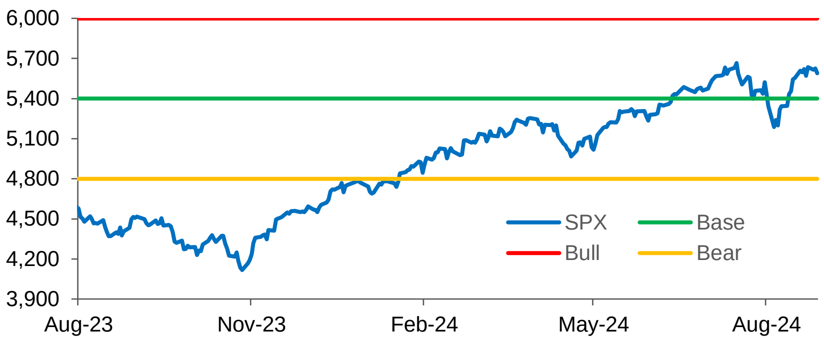
Elections since WW2
Source: Bloomberg, BNP Paribas. Past performance is not indicative of future performance.

Markets 360 Equity & Derivatives Strategy Team

US equities: A ‘non-random walk’

A wide distribution of returns: The past two US elections have seen much larger spot moves than implied by the options market ahead of the events. This was not due to large daily spot moves, but to the market trending. In 2016, around the election, RTY went up in 15 consecutive sessions, a very ‘non-random walk’. Our view is that after the 2024 election, US equities could again move much more than implied by options pricing. The election is not the only variable driving markets into year-end. The Fed is about to embark on a cutting cycle. Fed cutting cycles tend to fall into two regimes: 1) preemptive cuts: in 1995, 1998 and 2019, returns were 34%, 27% and 29%, respectively; 2) cuts at the start of a recession: in 2000, 2007 and 2020, cutting cycles preceded some of the largest and most volatile risk-off periods for equities.

SPX and BNP Paribas scenarios



Sources: Bloomberg, BNP Paribas. Past performance is not indicative of future performance.

Bull case – Goldilocks and Red Wave (6,000): SPX at 6,000 at year end implies a percentage gain, as was the case after the 2016 election. In our view, a Red Wave alone might not be sufficient to trigger a rally of that size in this election. A 6,000 SPX level would also need an improvement in the recent trajectory of macro data to ’just right’.

Base case – Muddling through (5,400): Our base case is a modally most likely outcome, based on a divided government and a lack of macro clarity. However, we emphasise this is one point on a wide distribution of probable returns, which could have fat tails, both on the upside and downside.

Bear case – Blue Wave and rising recession risk (4,800): In *Let’s get fiscal* on 3 September, we suggested a Blue Wave could trigger a 10% correction. Separately, the July mini-crash highlighted how violent a repricing of recession fears can be. Together, a Blue Wave and a deterioration in macro data would present a tail risk for US equities.

US equities: Key views	
Directional view (3–6m)	**Binary outcomes:** Prior election years have tended to see investors de-risk ahead of the election. Flows then turn more bullish after the event risk. With equities at the top end of the trading range, our bias is for the market to gravitate back towards the middle of the 5,200–5,600 range into November. After the election, a divided government is unlikely to be a large market catalyst regardless of who is in the White House, but a sweep could drive a large equity move.
Upside/downside	**IWM upside:** We expect RTY to be the most sensitive US equity index to both the election and the macroeconomic tug-of-war between the recession and soft-landing narratives. As such, the index lends itself to trading directional views and optionality. **Downside:** Risks remain to the consumer and US names with China revenue exposure. We prefer to express shorts in the D1 space through our consumer discretionary+ basket (BNPUDPL) and sector-capped US–China Revenue Exposure basket (BNPUCSLC).
Volatility	**Own optionality:** We see scope for the market to be much higher or lower than the range implied by the options market come year end. Realised volatility declined following the 2016 and 2020 elections. However, the absolute spot moves were very large and owning optionality for directional trades performed well. IWM upside is our preferred right-tail trade, For hedges, given skew has steepened significantly, SPX put spreads remain our preferred hedging strategy.
Themes: High conviction	**Energy upside:** We see energy as a sector that is well placed to benefit from a Trump victory, even in a divided government. Owning upside optionality on energy stocks also might be better suited, if inflation and rates do start to turn higher again, than either RTY or banks to trade a cyclical rally. **Short consumer:** The recent earnings season saw misses in the consumer space. The sector is vulnerable to any further weakening in the labour market. Additional pressures such as supply-chain disruptions, weakening of the consumer sector in China and election fears continue to pressure consumer discretionary spending.

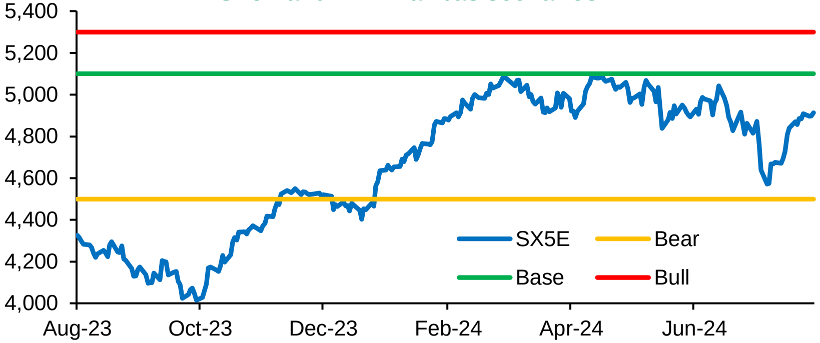
Greg Boutle, Head of US Equity and Derivatives Strategy | BNP Paribas Securities Corp

Europe equities: Kicking the can down the road

Cyclical recovery delayed but in the wings: Despite risk tilted to a slowing economy in Q4, we maintain our base case. We still expect a cyclical recovery, due to rising real incomes and looser credit. However, equity markets have returned to investors' familiar range, fluctuating between sluggish fundamentals and appealing technicals. While valuations, allocation and positioning favour European equities, in our view, volatility and returns will mainly be driven by the US election and labour market strength.

A tale of two halves: US presidential elections display a seasonal pattern, particularly in September and October, favouring owning volatility and staying defensive until the election day. In light of recent earnings momentum, we prefer to stay cautious for the next couple of months before fading a long vol bias and investing in manufacturing-led industry. These should benefit from lower yields, while many firms already show depressed levels of activity, creating a lower bar for upside surprise.

SX5E and BNP Paribas scenarios



Sources: Bloomberg, BNP Paribas. Past performance is not indicative of future performance.

Bull case (5,300): A significant shift in monetary policy and resurgent manufacturing, supported by a stabilisation or unexpected rise in activity in China, could drive up the market. This would depend on US growth persisting without significant disruption to the employment market and no detrimental foreign policies after the US election.

Base case (5,100): We see a two-step process, with potential volatility increasing due to weak seasonality and the US election before recovering in the second half of Q4, led by reassuring corporate guidance and a sequential demand uptick.

Bear case (4,500): If the labour market trend deteriorates, increasing recession fears, and there are geopolitical escalations or policies that penalise European companies, then the SX5E could return to its lows of the year.

Europe equities: Key views	
Directional view (3–6m)	We keep our defensive tilt ahead of weak seasonality and then raise our cyclical exposure post US elections.
Upside/downside	**Upside:** Electrification Miners (long-term boost from AI demand for copper), Utilities (rates-sensitive defensive sector), Real Estate (rates sensitivity, focus on Prime) **Downside:** Luxuries (lack of visibility on growth path), Diversified Chemicals (risk of downgrade to FY25 numbers), Industrials (manufacturing-exposed cyclical sector)
Volatility	**Normalisation mostly done – strategically long vol ahead of US election:** Vol spikes did not last long, with investors quick to sell at high vol levels. Skew, the parameter that picked up most, still has room to normalise. From here, we like to own volatility through forward vol, as a strategy that carries efficiently.
Themes: High conviction	**US election – Trump vs Harris (BNPPEUDT/KH):** As the focus shifts to the US election, we build EU baskets of names exposed to each candidate's policies. A Trump basket has names exposed to the US and those impacted by a trade war and a reversal of the IRA, while a Harris basket has EU-exposed and renewables companies. We like to position for this binary outcome via an outperformance straddle on these baskets. **Gamma in Energy:** We like to own gamma in the energy sector, as a potential hedge against geopolitical unrest (up) or rising fear of recession (down). **Selling SX7E skew**, which has seen multi z-score moves, has reached its highest level since 2010. Given the remaining risk premium priced into the down-skew, we like positioning on further fading of the SX7E's skew. This can be paired against DAX or SX5E skew.

Georges Debbas, Head of European Equity & Derivatives Strategy | BNP Paribas London Branch

Japan equities: More sector divergence after index normalisation

We maintain our NKY end-2024 base case and shift our risk scenarios: While we maintain our base case of 39,500 (4% vs current spot), with our economists pushing back the next Bank of Japan hike to December 2024, we also see the upside and downside scenarios have lowered, due to changes in macroeconomic drivers. We reduce our bull case to 42,000, as the rising headwind to US growth could offset the tailwind from robust AI capex. On the downside, if the Fed cuts interest rates more aggressively than our base case in H2 2024, then the NKY could fall to 35,000, on expectations of a stronger JPY and US economic weakness. If the BoJ hikes more slowly than we expect, but with a higher terminal rate (1.5%), we think the financial sector could outperform the broader market in the medium term, given higher interest income. Meanwhile, Japanese automakers could continue to face several headwinds (volatility in USDJPY, competition from China and concern about a US recession).

Nikkei 225 and BNPP scenarios

Sources: Bloomberg, BNP Paribas. Past performance is not indicative of future performance.

Bull case – Robust AI spending (42,000): Japanese semiconductor stocks (15% of NKY) have underperformed their peers globally, and they may be able to close the performance gap if global semiconductor capex remains robust. But the upside in the overall index could be limited by risk concerning any US economic weakness.

Base case – Further normalisation thanks to domestic support (39,500): We believe domestic institutional investors, pension funds in particular, have more capacity to accumulate Japan equities, assuming they intend to maintain the 25%-each allocation to bonds and equities across domestic and international markets.

Bear case – Hawkish BoJ normalisation (35,000): If the BoJ were to surprise the market with a rate hike in October, then investors would be pricing in a much faster pace of policy normalisation and a higher terminal interest rate assumption. Under such a scenario, the NKY could re-test the 35,000 range, as overall positioning has lightened up substantially since July.

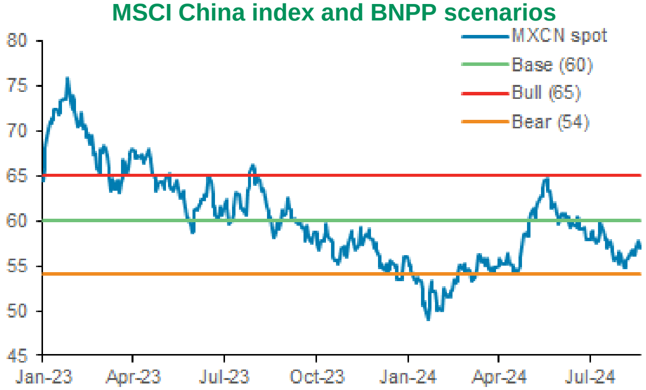
Japan equities: Key views	
Directional view (3–6m)	Assuming no recession in the US and Japan, inflation remains on a sustainable path to 2%, we believe that the Nikkei 225 index could continue to recover from its Q3 losses and gradually return to the 39,000–40,000 range. The upside is likely to be driven by a combination of foreign investors returning to their core positions in Japan and portfolio rebalancing by the domestic pension funds.
Tactical view (1m)	**Two-way volatility:** Japanese equity indices have shown a high correlation with global factors such as USDJPY and semiconductors. With NKY trading near its MarFA™ fair value, we expect more two-way volatility in the near term until the LDP leadership election (and therefore a new prime minister) in late September.
Upside/downside	**Most upside:** Banks – slower pace of policy normalisation but higher terminal rate than market expectations. **Most downside:** Autos – sensitivity to USDJPY, risk of US car market softening and more limited EV strategy than Chinese or European automakers.
Volatility	**Jan25 to trade at a premium versus other short-dated maturities:** As NKY volatility parameters continue to normalise from extremes, we believe the Jan25 tenor should price in more event risk premium – LDP leadership election (Sep), possible snap election (Oct), US election (Nov), potential BoJ rate hike (Dec).
Thematic baskets	**Looking beyond NKY for Japan-specific themes:** These could be low price-to-book stocks with a high cash balance (BNPBJPB2) and large-cap financials ex-lifers (BNPBJPFI). Specifically, we anticipate more shareholder-friendly measures as Japanese financial companies come under more pressure to sell down their non-strategic cross-holdings.

Jason S. Lui CFA, Head of East Asia Strategy | BNP Paribas Hong Kong Branch | Yusuke Ikawa, Japan Markets Strategist | BNP Paribas Securities (Japan) Limited

China equities: Lower index target due to lower growth forecasts

Index target lowered, due to limited stimulus and external headwinds, but we still see rich alpha opportunities: We adjust down our MSCI China target slightly in our base scenario by 3% to 60, due to a slower FY2024 China GDP growth forecast. July's Third Plenum and Politburo meeting set a pro-growth tone but with a lack of detailed incremental policy stimulus, suggesting that weakness in property and consumption could continue. The uncertainty of the US election outcome and potential tariff risks could also weigh on market sentiment. In the external environment, USD weakness and JPY strength have prompted the RMB to appreciate, allowing China more space to implement easing in H2. Given current depressed valuations and light positioning, we believe a beta relief rally is possible, while its duration and size would depend on policy execution and corporate fundamentals. We also see rich alpha opportunities amid considerable sector divergence and targeted policy support, in baskets such as China's power sector reform and HK corporate governance enhancement.

MSCI China index and BNPP scenarios



Sources: Bloomberg, BNP Paribas. Past performance is not indicative of future performance.

Bull case – Execution of decisive policy measures (65): Effective execution of more decisive pro-growth policy measures could help relieve deflationary pressure and support corporate fundamentals. The signs of significant improvement in property and consumption could boost investor confidence.

Base case – Commitment to pro-growth policy stance (60): The Third Plenum and Politburo meeting have set a pro-growth tone, despite a lack of detailed policy stimulus. RMB strengthening could offer some space for easing. The follow-up progress of policy execution is likely to support market sentiment, in our view.

Bear case – Policy constraints and external headwind (54): The MSCI China index tested our bear case in early August amid limited policy stimulus and the global equities sell-off. The downside risks should be limited in light of depressed valuation, light positioning and more stable earnings. But policy constraints and potential tariff shocks could drag on market sentiment.

China equities: Key views	
Directional view (3–6m)	**Range-bound for the time being:** We expect the market to be range-bound until there is more clarity about the execution of China's policy stimulus and trade tariff risks after the US presidential election. We believe a short-term beta rally is possible thanks to the strengthening RMB and USD weakness, but its sustainability and magnitude depend on corporate fundamentals.
Tactical view (1m)	**Beta rally possible:** We see solid fundamentals in technology companies and enhanced shareholder return initiatives, including buybacks and dividend payouts. With the RMB strengthening on USD weakness, the offshore market could see a short-term beta rally as a result of better earnings momentum, while the onshore market could be weaker, due to consumption weakness and shrinking liquidity.
Upside/downside	**Most upside:** Technology and consumer services with meaningful buybacks, and high dividend stocks with improved payout policies could have more upside. **Most downside:** Defensive stocks with large gains so far this year, but poor results, could underperform the market.
Volatility	**Volatility parameters to normalise:** HSI/HSCEI/HSTECH short-dated implied vols remain quite elevated in absolute terms, and they might fall gradually as investors await more follow-up measures. Put/call skew ratios could also rebound from their lows, thanks to less upside positioning.
Themes: High conviction	**Structural alpha:** For onshore market, we like the targeted-policy beneficiaries, including the BNP Paribas China Power Reform (BNPBPREF) and China up-and-mid stream (BNPBUMID). For offshore market, we favour adopting both an offensive and defensive approach and create the BNP HK Governance (BNPDIVBB) by combining HK High and Stable Dividend (BNPBHDIV) and HK Buyback + Positive EPS Revision (BNPBHKBB).

Jason S. Lui CFA, Head of East Asia Strategy | Scarlett Liu CFA, APAC Equity & Derivative Strategist | BNP Paribas Hong Kong Branch

Global equities: Top trades

Region	Index / basket / theme	Trade	Rationale
US	Upside optionality	IWM Call Spreads	**New:** We expect RTY to be the most sensitive US equity index to both the elections and the macroeconomic tug of war between the recession and soft-landing narratives. In 2016 and 2020 respectively the RTY 3m ATM straddles just prior to the election were priced at 8% and 13%. The subsequent 3m spot moves were 18% and 35%. Given the flat skew, IWM Call Spreads screen well, in our view, for a bullish cyclical trade under a Trump second-term scenario. For more, see *Let's get fiscal*, dated 30 August.
	Index hedges	Resettable SPX Put Spreads	The July mini-crash led skew to steepen significantly, leaving SPX put spreads as our preferred index hedge. One risk of adding hedges is that the rally could continue before the market then declines. A put with a resettable strike could be one solution to partially mitigate the strike risk, for a modest increase in premium. For more, see *100 years of crashes – Recession watch*, dated 7 August.
Europe	Relative value	Long FTSE vs DAX	We remain bullish on UK equities, which could benefit from a favourable economic backdrop, political stability and rate cuts. We like to be long UKX against DAX, which tends to be more cyclical and could come under pressure given the bearish September and October seasonality and volatility around the US election. The German index is heavy in China-exposed names, notably Autos, where the earnings outlook remains weak. For more, see *European Equities: Sluggish growth meets momentum unwind*, dated 5 August.
	Summer sell-off normalisation	SX7E Risk-reversal delta-hedged	After the summer sell-off, global vol parameters quickly normalised, though some risk-premium pockets remain. SX7E 3m skew is still trading 2.6 z-scores above its one-year average. We like positioning on further fading of the skew, monetising the remaining downside risk premium to enter a risk-on position via a long risk-reversal delta-hedged. For the trade idea details, see *100 years of crashes – Recession watch*, dated 7 August.
Asia	Relative value	Long BNPP Japan Financials (BNPBJPFI) vs short BNPP Japan Autos (BNPBJPAU)	BoJ Governor Kazuo Ueda recently commented that the bank might hike rates further, if economic data are in line with its projections. If the BoJ is setting a higher terminal rate than current market expectations, the banking sector is likely to outperform the broader market in the medium term, in our view, given higher interest income. Meanwhile, Japanese automakers could continue to face a multitude of headwinds (volatility in USDJPY, competition from Chinese automakers and concern about US recession). For more, see *BoJ: Next hike delayed, but still in Q4*, dated 22 August.
	Thematic basket	Long BNPP HK Governance (BNPDIVBB)	**New:** We are combining two of our preferred thematic baskets in Hong Kong amid a rising focus on shareholder returns and governance. Specifically, we have 50% allocation to our Hong Kong High and Stable Dividend basket (BNPBHDIV) given the ongoing inflows from insurance and pension investors. The remaining 50% is allocated to our Hong Kong Buyback and positive EPS Revision basket (BNPBHKBB), as the HK-listed companies are resuming their buyback activities after a black-out period.

Greg Boutle, Head of US Equity and Derivatives Strategy | BNP Paribas Securities Corp I Georges Debbas, Head of European Equity & Derivatives Strategy | BNP Paribas London Branch I Jason Lui CFA, Head of East Asia Strategy | BNP Paribas Hong Kong Branch

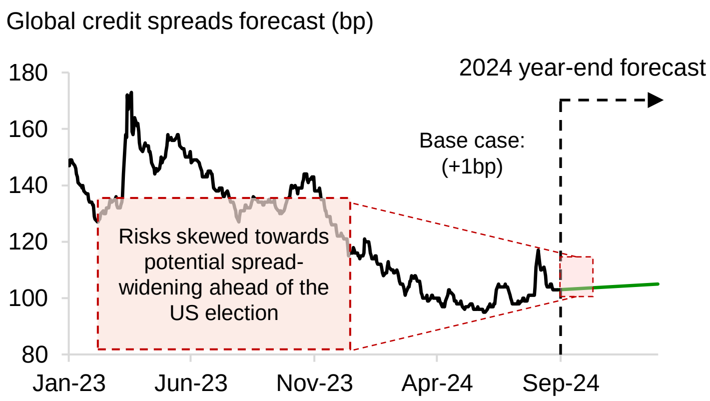
Credit: Risk-off ahead of the US election

BNP Paribas end-2024 forecasts

	EUR			USD			EM		
	IG	**HY**	**LL**	**IG**	**HY**	**LL**	**EMBI core**	**IG**	**HY**
Current spreads (bp)*	117	344	486	93	301	467	310	114	624
BNP Paribas spread forecast (bp)	115	350	490	95	350	485	300	125	550
Spread change forecast (bp)	-2	6	4	2	49	18	-10	11	-74
Annual roll down (bp)	10	10	-10	10	15	-20	0	0	0
Duration	4.6	3	2.8	7.1	3	2.8	7.1	8.1	4.9
12m excess return Sep24 - Sep25	1.7%	3.6%	4.5%	1.5%	2.0%	3.7%	2.9%	0.3%	7.5%
Default/downgrade rate	0.5%	2.5%	3.5%	1.5%	4.0%	5.0%			
Recovery rate	80%	0.3	0.55	0.8	0.3	0.5			
Avg price before default	90%	0.65	0.8	0.9	0.65	0.8			
Loss rate	0.1%	0.9%	0.9%	0.2%	1.4%	1.5%			
12m excess return Sep24 - Sep25	1.7%	2.7%	3.7%	1.4%	0.6%	2.2%	2.9%	0.3%	7.5%

**Current spreads as at 2 September; **For loans, we use a 3Y average life*
Sources: Bloomberg, LCD, BNP Paribas

The credit cycle is stable, but risks shift to slow growth



Sources: Bloomberg (LGCPOAS Index), BNP Paribas

We see volatility ahead. The credit cycle remains in recovery and recession probabilities remain too low to justify a growth scare, according to our estimates. For now, though, these trends could be superseded by political risk.

The months before US presidential elections are typically risk-off as political uncertainty rises, potentially followed by post-election rebounds. In our view, this is a reasonable template for 2024, and so we are positioned defensively in non-cyclical credit and for decompression.

Viktor Hjort, Global Head of Credit and Equity & Derivatives Strategy | Josh Farber, Head of European Credit Strategy | BNP Paribas London Branch | Meghan Robson, Head of US Credit Strategy | BNP Paribas Securities Corp | Trang Nguyen, Global Head of EM Credit Strategy | BNP Paribas London Branch | Joao Torres, Credit Strategist, Europe | BNP Paribas Portugal Branch.

Credit: Top 10 themes to trade

Overview: Our top trades seek to preserve carry by favouring high-quality, liquidity-sensitive assets. We position for a move from a high growth and tight-money world to a low-growth and looser-money world.

We are seeing decompression in many forms. Historically stretched valuations combine with several other potential catalysts – the rates cycle, fundamental risk and supply dynamics. In cash we prefer buying seniority, defensiveness and liquidity, while we prefer selling cyclicality, subordination and lower-rated assets. In derivatives, we prefer gamma, selected CDS outright, and CDS versus cash.

	Global and EUR trades and our rationale
1	**New:** Global BBB / Single-A decompression – cheap and defensive
2	**New:** Long EUR IG non-cyclicals versus cyclicals – positive carry and very asymmetric upside
3	**New:** Long EUR BB senior versus BB hybrids – hybrid fundamentals are over-priced
4	**New:** Long IEAC versus IHYG – stretched valuations and HY supply point to decompression
5	Global CLOs - buy IG high coupon tranches for attractive carry

	USD trades and our rationale
1	**New:** Long USD Single-B loans versus Single-B high yield – loans are cheap and rate cuts will bring fundamental relief, in our view
2	**New:** Long USD IG non-cyclicals versus cyclicals – positive carry and very asymmetric upside
3	**New:** Long LQD versus CDX HY – basis is cheap and likely to tighten as the supply wave ebbs
4	**New:** Buy CDX HY November ATM puts, sell CDX HY ATM December puts – vol likely to spike over the election
5	**New:** Buy Mexico sovereign CDS – tight versus Mexican assets and our preferred hedge in the event of volatility in the run-up to the US election

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European CBs: Valuation and one-year risk–reward on top in Q4

European and US CBs: The expected drop in interest rates raises the one-year risk–reward profile

REFINITIV PREFORMANCE OVERVIEW OVER 1 YEAR							
		Shares: 10% FALL over 1 year					
	CREDIT	delta	carry	credit	valuation	FINAL	FINAL + Rates -50 bp
US Focus	10% widening	-4.3%	1.3%	-0.5%	-0.4%	-3.8%	-3.1%
	30% widening	-4.3%	1.3%	-1.4%	-0.6%	-4.9%	-4.2%
Europe Focus	10% widening	-3.1%	1.3%	-0.2%	-0.4%	-2.4%	-1.4%
	30% widening	-3.1%	1.3%	-0.7%	-0.5%	-3.0%	-2.1%
		Shares: 10% RISE over 1 year					
		delta	carry	credit	valuation	FINAL	FINAL + Rates -50 bp
US Focus	10% tightening	4.2%	1.3%	0.5%	1.2%	7.1%	7.9%
	30% tightening	4.2%	1.3%	1.4%	1.6%	8.4%	9.3%
Europe Focus	10% tightening	3.5%	1.3%	0.2%	1.1%	6.1%	7.1%
	30% tightening	3.5%	1.3%	0.7%	1.4%	6.9%	8.0%

Sources: Bloomberg, BNP Paribas

Valuations of CBs as measured by implied volatility still appear discounted on both an absolute and relative basis

Sources: Bloomberg, BNP Paribas

The convertible bond asset class still has a **positive one-year carry of 1.3%** for both Europe and the US.

The equity/credit/valuation/carry correlation points to an **excellent one-year risk–reward profile** for the asset class, in our view, both in Europe and in the US: +6.1/−2.4% for Europe versus +7.1/−3.8% for the US for changes of +/−10% in underlying share prices and credit risks.

An additional 50bp drop in interest rates in the next 12 months would amplify this estimated one-year convexity: +7.1/−1.4% for Europe versus +7.9/−3.1% for the US for changes of +/−10% in underlying share prices and credit risks.

From a geographical standpoint, **Europe has always had a more defensive profile than the US** in the convertible bond asset class.

In a summer of high volatility in equity markets the **convertible bond asset class has come out on top**: +0.7% for the Refinitiv Europe index versus −1.5% for the SX5E – and all this amid slightly decreasing valuations: −0.9pt for CB implied volatility (IV) since 5 July 2024.

The asset class has seen **technical momentum** this year.

- **A significant valuation discount:** 49% of balanced CBs have lower IV than the one-year IV of the corresponding listed option, while 52% of bond profile CBs with a comparable straight bond (same issuer/ranking and comparable maturity) have a wider implied spread than the spread of the cash base.
- **A return of mergers and acquisitions** (Encavis, Neoen and MorphoSys)
- **A return of the primary market:** There have been profitable buyback offers for outstanding CBs (Schneider Electric, Ocado, TUI, DocMorris and Pharming Group).

Stéphane Renaud, Head of Convertible Bond Strategy | BNP Paribas SA

CROSS-ASSET AND MACRO QUANTITATIVE STRATEGY

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Tactical asset allocation views: Q4 2024

	Chg*	UW/N/OW	Comment
Equities			
US		0	Weakening fundamental momentum and elevated positioning and valuations offset positive price momentum. We like owning optionality given fat tails on the return distribution.
Europe		0	Low conviction at index level, but we continue to favour value exposure: fundamentals and price momentum remain supportive, while positioning and valuations are undemanding.
Japan		0	Risks are increasing, with potential headwinds from a stronger JPY and BoJ policy normalisation. But domestic investors' rebalancing towards equities and AI provides an upside catalyst.
EM		0	Fundamentals and price momentum remain poor. Low positioning and valuations raise the risk of a short squeeze, but a trigger is needed. We prefer policy-aligned themes.
Rates			
US		+1	Medium term, we still like the 2y sector, though the risk–reward is more symmetric now. We lean long across the curve but expect 2s10 to steepen. Agency MBS remain attractive.
Europe		0	Leaning long, we expect supply to weigh near term, so look to buy on dips. We prefer Spain among the periphery. Spread volatility is likely to be limited but mind budget events.
Japan	−1	−1	BoJ policy normalisation suggests underweight front-end positioning and bear flatteners. Carry remains strong but cleaner positioning has removed a support from the back-end.
EM local		+1	We see an opportunity for long bond positions in CEEMEA (TRY, ZAR) on elevated real yields, disinflation trends and the prospect of Fed rate cuts from September.
Credit			
US IG		0	We prefer cash to synthetic and defensive sector positioning (healthcare over retail). Spreads are tight but lack of catalysts for a repricing continues to reward carry. Supply is falling.
Europe IG		0	We favour the 5–7y sector, the more rate-sensitive sectors and non-cyclicals (utilities). We also like deleveraging stories (real estate). Supply is falling on deleveraging.
US high yield	−1	−2	We see limited excess return at current spreads and default rates. Recession risk is not priced in, while a reacceleration of growth could challenge spreads on tighter Fed policy.
Europe high yield		0	We see a carry play in a range-bound market. We prefer BB non-cyclicals and hybrids.
Leveraged loans	−1	−1	We have a strong preference for Europe over US, shying away from weaker US balance sheets.
EM hard-currency		+1	We continue to prefer USD-denominated EM credit as a carry play.
Commodities			
Energy	−1	0	Potential OPEC+ policy change or disunity present downside risk. Non-OPEC supply growth can meet demand growth given weak Chinese demand. Geopolitics is an upside risk.
Industrial metals		0	Chinese economic weakness is reflected in copper prices, but we see limited catalysts for sustained near-term outperformance.
Precious metals		0	Gold is very expensive relative to its typical macro drivers and suffers negative carry, but it maintains strong momentum amid geopolitical tensions and Chinese demand.
Funding/FX			
Cash allocation		+1	Elevated short-term rates mean investors are rewarded for keeping high cash buffers and waiting for better entry points in global assets (buy the dip in range-bound markets).
USD	−1	−1	The USD is likely to remain range-bound ahead of the US elections. We see upside risk in a Red Wave election outcome, but the USD could underperform if recession fears grow.
EUR		0	The EUR is unlikely to outperform unless the US economy falls into a recession. We like funding in CHF as a pro-cyclical trade.
JPY	+1	+1	Momentum is turning for the JPY, with lower interest-rate differentials and attractive valuations pointing to an appreciation. Positioning in carry has already partly cleared.
Emerging markets		+1	We continue to like carry with a preference for CEEMEA (ZAR, TRY) and Asian high-yielders versus Asian low-yielders.

Change from Global Tactical Asset Allocation Chartbook, dated 7 June

Asset allocation key									
−2	Underweight	−1	Moderate underweight	0	Neutral	+1	Moderate overweight	+2	Overweight

Vincent Berthelemy, Head of QIS and Asset Allocation Strategy I BNP Paribas London Branch

Tactical asset allocation views: Q4 2024

No time for large overweights: We stay close to neutral with lower conviction across directional views versus the forwards. We stay neutral on equities – although preferring it to credit – and are biased towards long positions in US and European bonds. We focus on identifying opportunities with mispriced optionality, ahead of a US election that could bring about a significant change in economic fundamentals. Q3 2024's sharp unwinding of the JPY carry trade provides a useful reminder of the risks posed by positioning and valuation trends.

A marathon, not a sprint: US and, to a lesser extent, European bond duration looks increasingly attractive, but higher supply amid stretched pricing could lead to better entry points for long positions in the coming weeks.

Defence in depth: We see value in layering protection against both an increasingly likely left-tail scenario of a sharp US economic slowdown and a still possible right-tail scenario that inflation remains stickier than we forecast, limiting the pace and depth of central bank rate cuts. Forward volatility trades screen attractive in rates and equities. Meanwhile, positioning has normalized in FX and rates but remains elevated in credit and equities. These relative positioning dynamics open opportunities including in the CDS basis, defensive equity repo opportunities or optionality in crowded hedge fund or asset manager longs. After surging in H1, equity cross-sectional momentum could also come under pressure as popular positions suffer from a changing macroeconomic landscape.

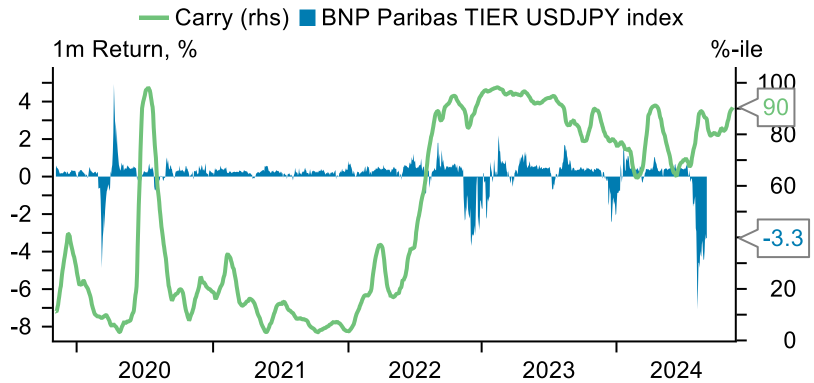
Carry the day: We are selective in carry but see potential in EM hard-currency credit and European high yield, Agency MBS, defensive volatility income strategies and selective foreign exchange carry opportunities.

What if the pendulum swings again? Although right-tail risks appear to have fallen, they should not be underestimated, in our view. In particular, watch out for a possible Red Wave result in the US elections in November given the potential implications for US trade tariffs. To protect against this risk, we favour forward rates volatility trades and European and Japanese equity value exposure.

Vincent Berthelemy, Head of QIS and Asset Allocation Strategy I BNP Paribas London Branch

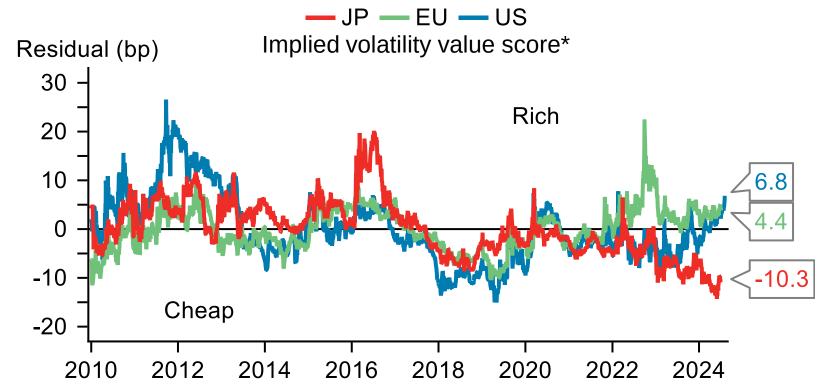
Liquid alternative strategies: A few twists and turns on the carry road

We see elevated carry as offering an attractive entry point for the systematic selling of out-of-the-money USDJPY puts (TIER) amid cleaner positioning



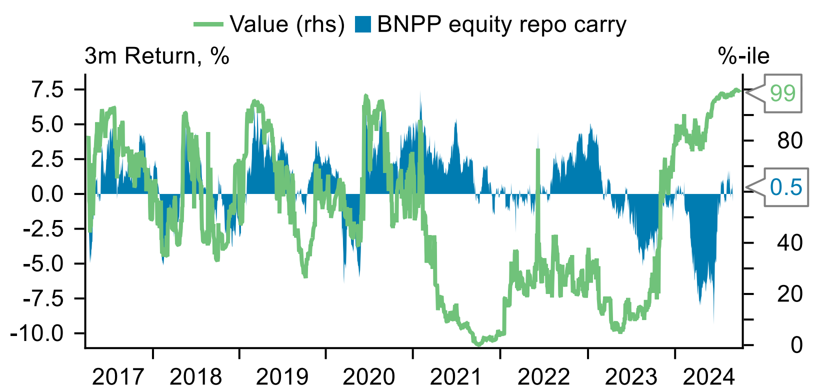
The carry signal is equal to the 20-day rolling put premium sold by the strategy.
Sources: Macrobond, BNP Paribas

We favour US long-dated rates volatility to hedge against an election-induced rise in inflation expectations, while Japanese rates vol is cheap



**Derived from rate levels*
Sources: Macrobond, BNP Paribas

We expect a mean reversion in repo rates to be helped by a reduction in the large stock of equity futures positioning as equity momentum slows



The value signal is the duration-weighted level of TRF spreads in the strategy.
Sources: Macrobond, BNP Paribas

US soft landing remains our base case: A soft landing in the US economy supports carry strategies. Meanwhile, slower US growth and a fall in the odds of a Red Wave in November's election have raised our estimate of the probability of a left-tail scenario of a sharp US slowdown (from 20% to 25%).

Carry: Our pro-cyclical carry theme takes advantage of the rise in USDJPY implied volatility (via TIER) and we are sellers of short-dated equity volatility and energy's volatility. We are buyers of TIER gold and global FX carry.

Defence via diversification: Our defensive liquid alternative strategies include commodity curve carry, equity low beta (L/S), a credit-defensive equity basket, equity repo, vega-neutral dispersion and FX value. If volatility were to rise, we would favour adding to mean-reversion strategies.

Right-tail defence: We protect against the right tail, mainly via US and Japanese forward rates volatility and a combination of US inflation call delta replication and commodity curve carry. We also favour European and Japanese equity value.

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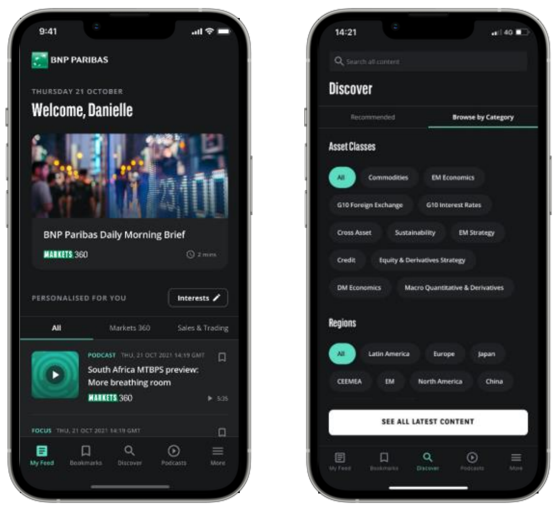

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