



ECB

Money Market Contact Group

Market Update

December 8th, 2015

Frankfurt

ECB Money Market Contact Group – December 2015

Market Update

- **Growth**
- Inflation
- Financial Markets
- Potential risk factors (in 2016)

Growth

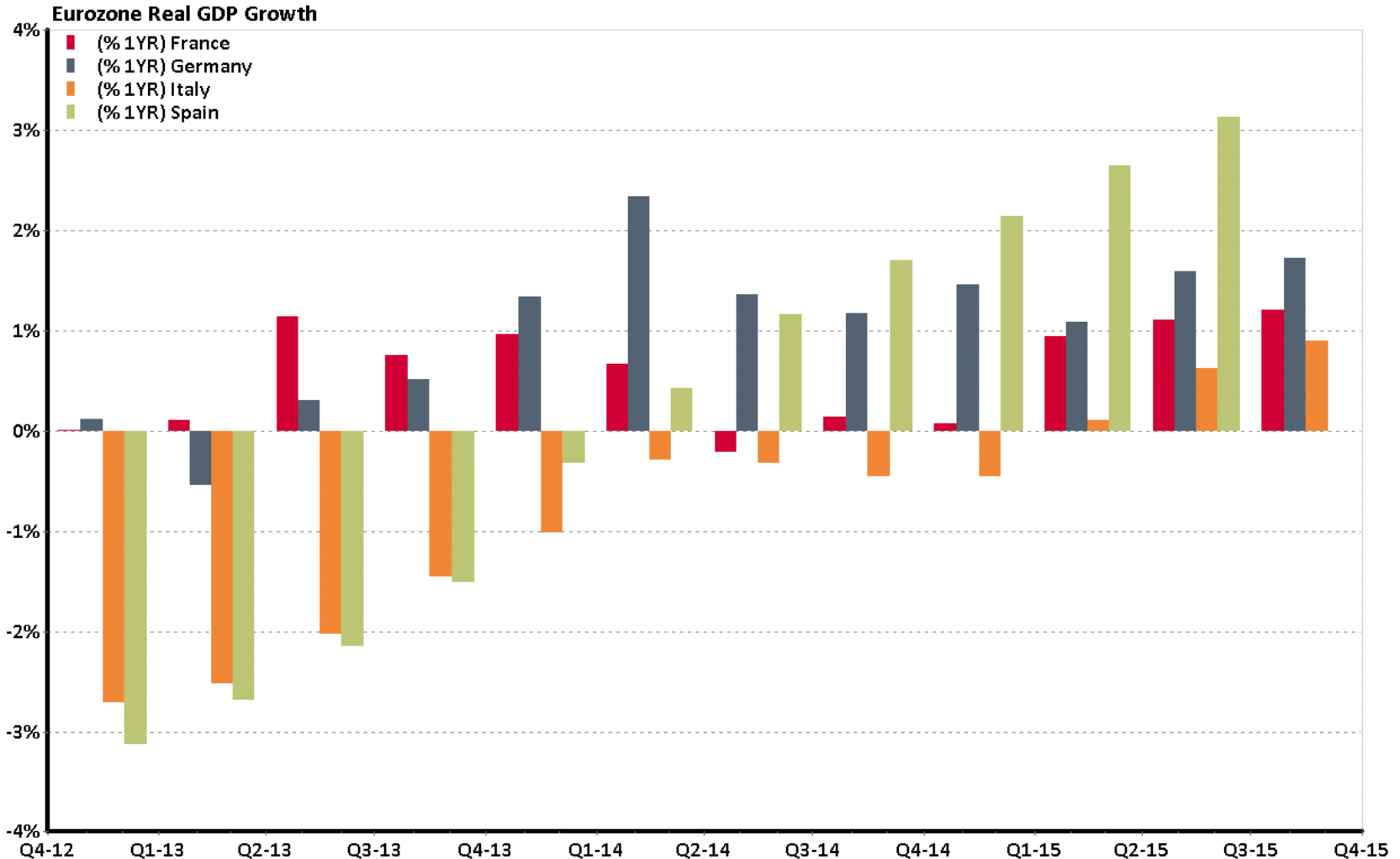
GDP annual growth (IMF Outlook)

IMF outlook 2015	April	October
World	+3,5%	+3,1%
U.S.	+3,1%	+2,6%
Brazil	-1%	-3%
Eurozone	1,5%	1,5%
China	7,0%	6,8%
Japan	1,0%	0,6%

During the summer most forecasters downgraded their forecast for global GDP growth due to the slowdown in China and other emerging economies.

Growth

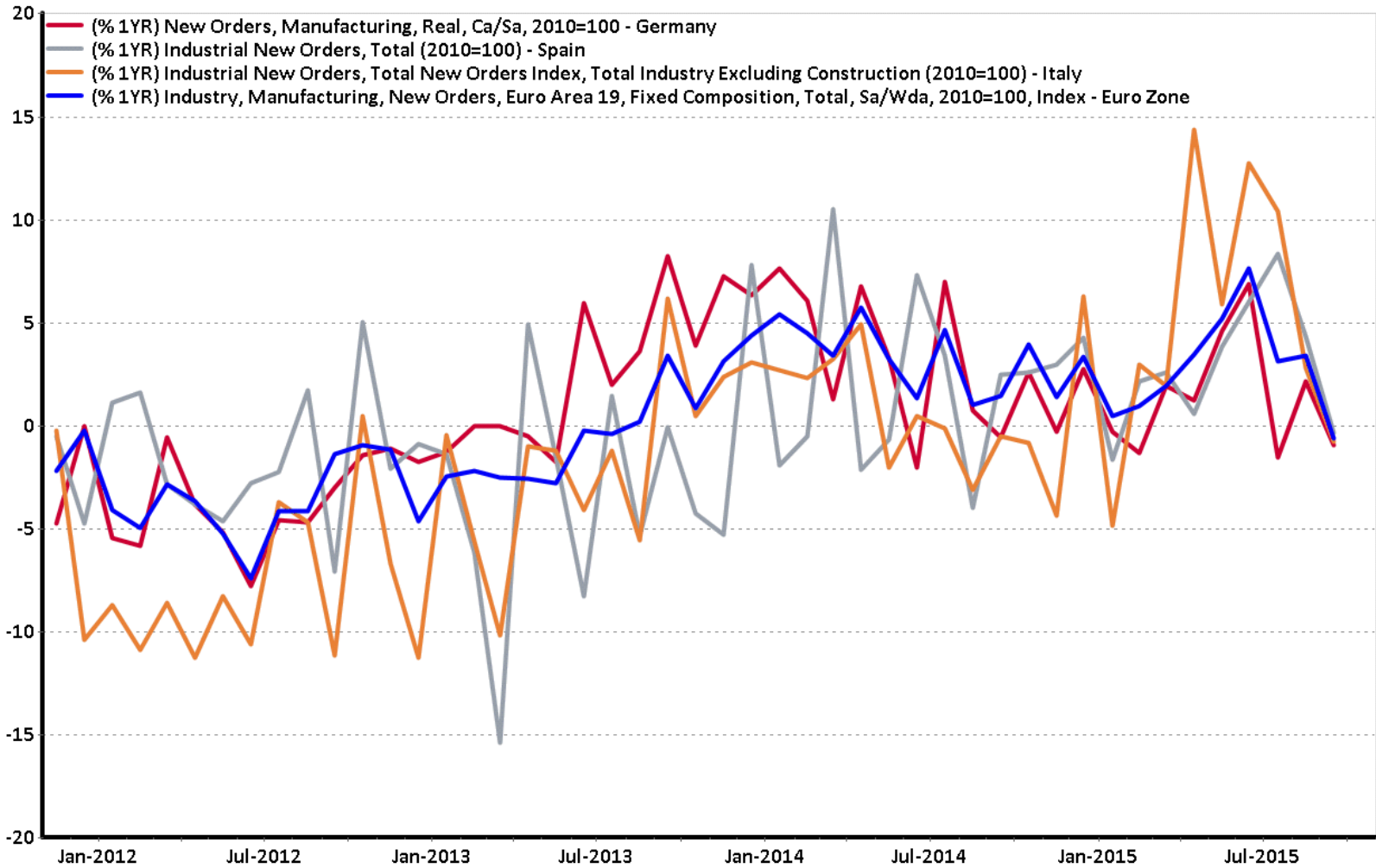
Q2-Q3 GDP in the eurozone: towards a broader based recovery



Source : Factset

Growth

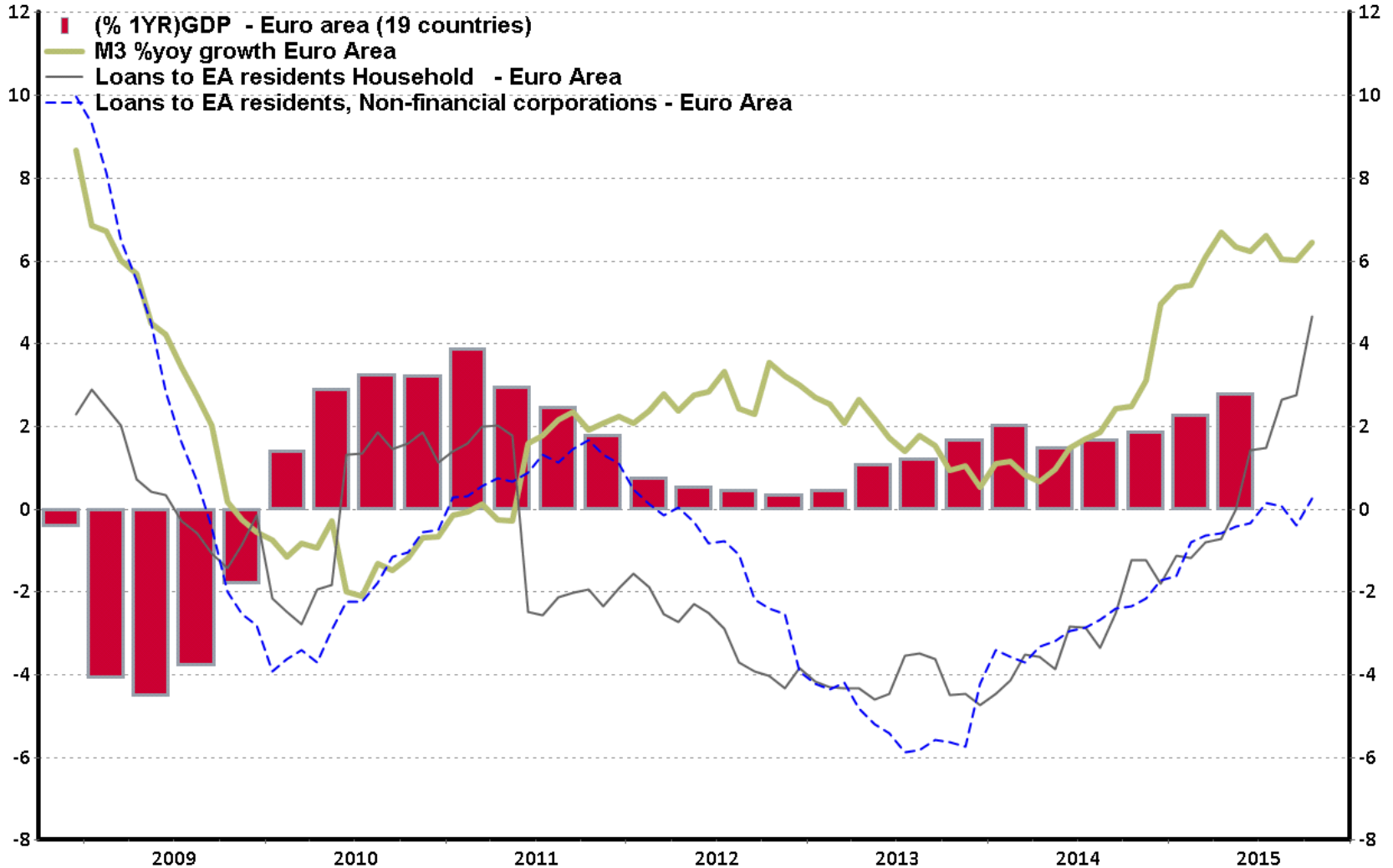
Export growth has stalled in September



Source : Factset

Growth

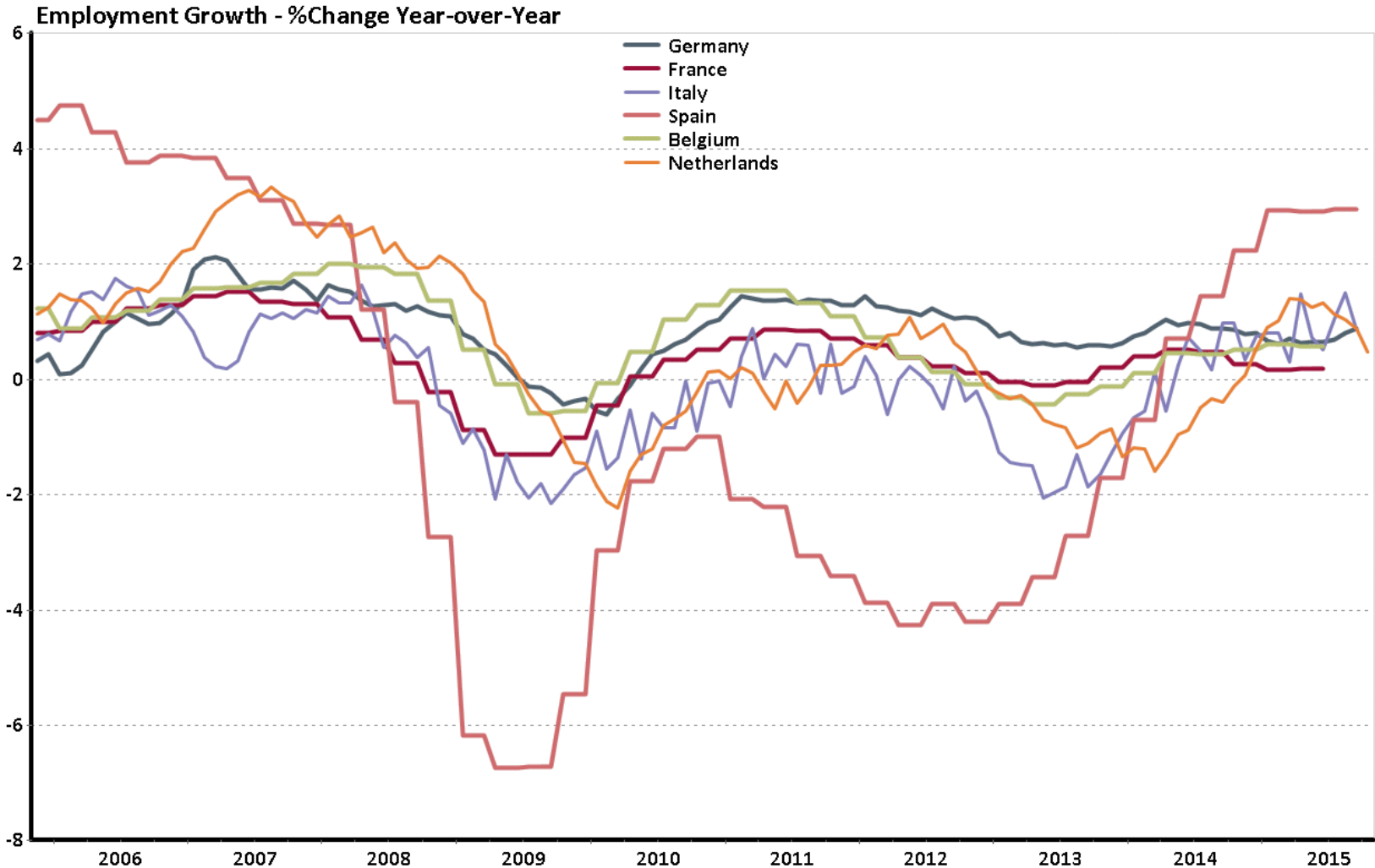
Lending growth is firmly back in positive territory



Source : Factset

Growth

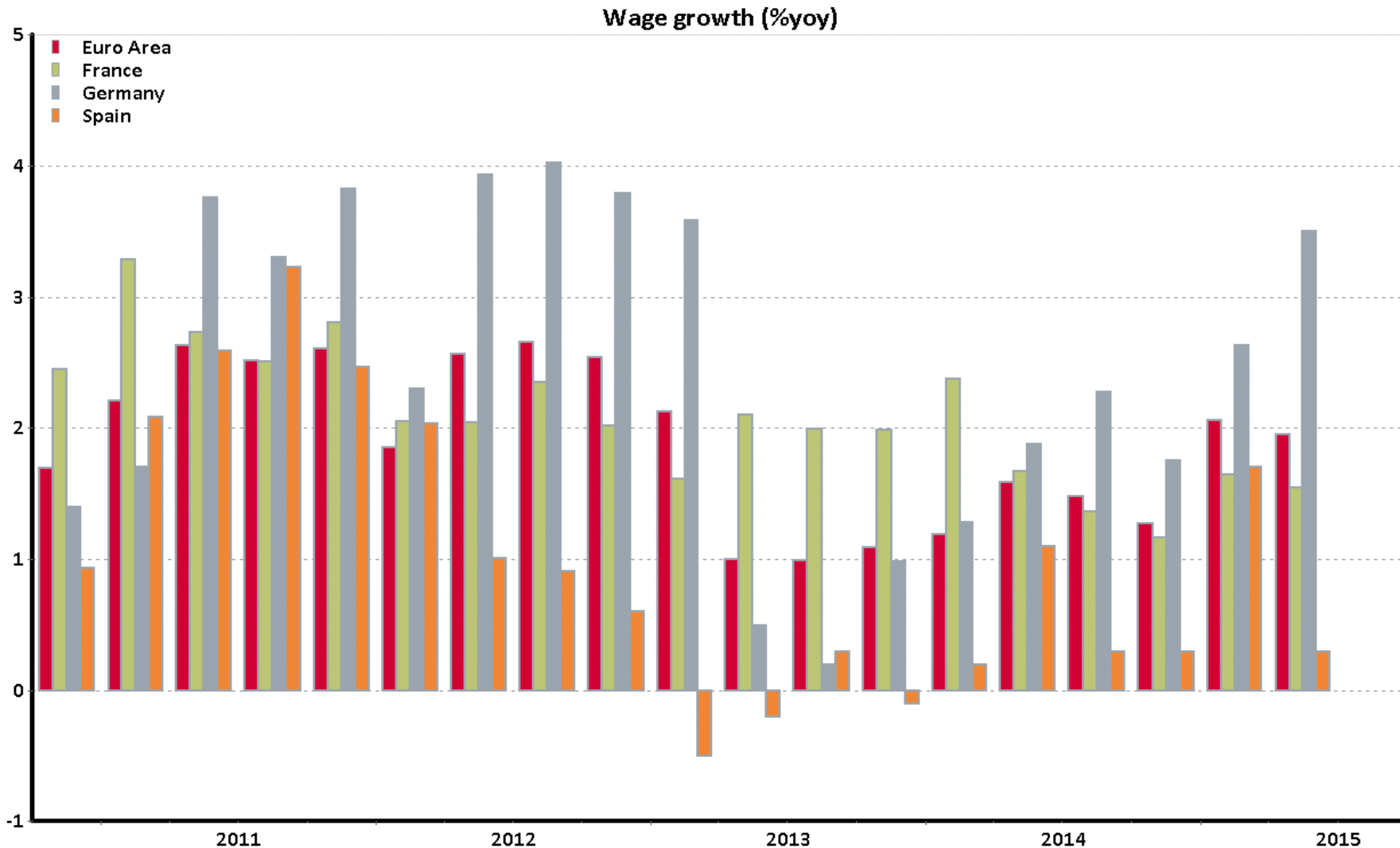
Finally positive job growth in the majority of EA countries



Source : Factset

Growth

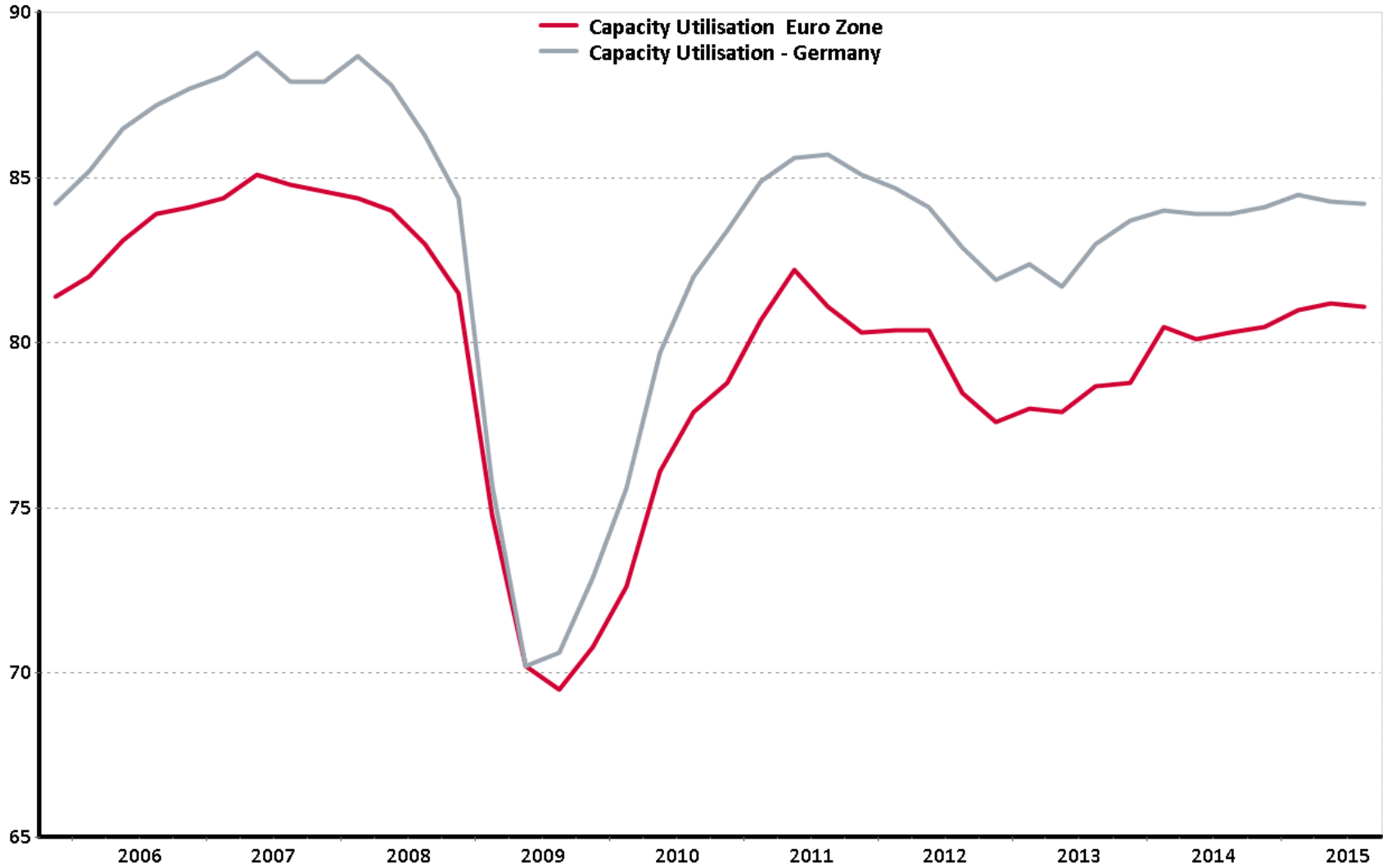
Growth of real wages to support consumer spending going forward



Source : Factset

Growth

Capacity utilisation: the slack is slowly shrinking

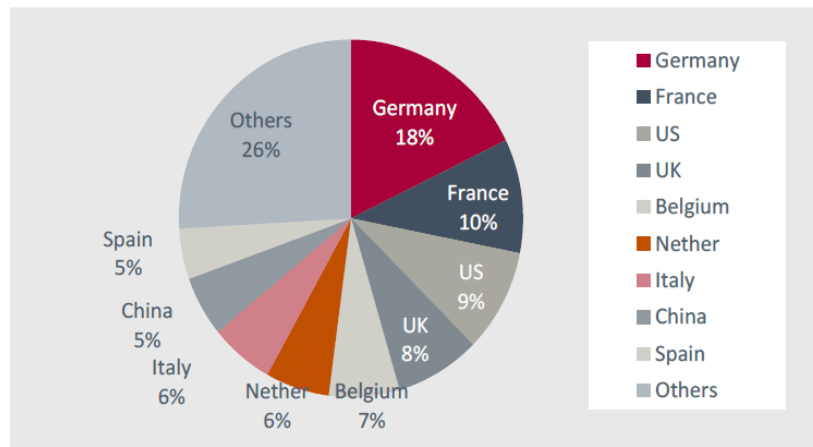


Source : Factset

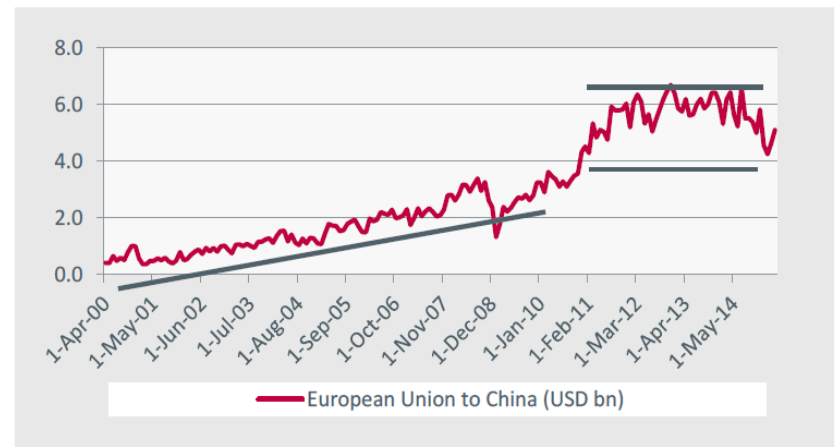
Growth

EZ/U.S. : direct impact of the China slowdown on GDP should be limited...

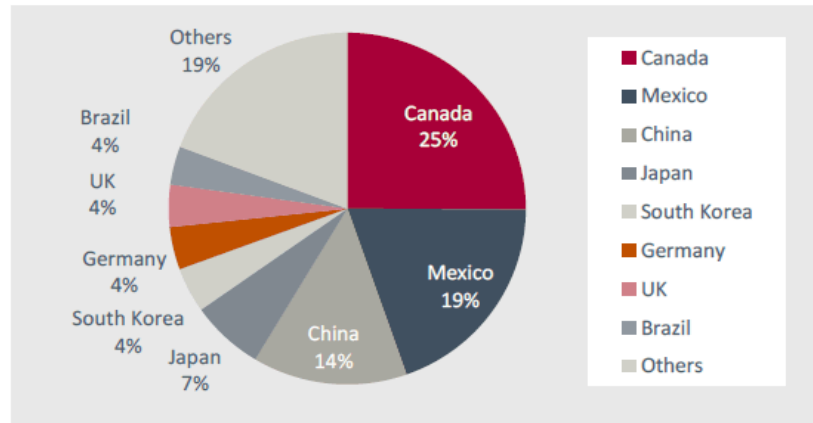
Graph 1 : Top 20 exports markets of the EU (% of total)



- Evolution of Eurozone exports to China



Graph 2 : Most important contributors to US exports



- Evolution of US exports to China



Source: Bloomberg, Belfius Capital Market Research

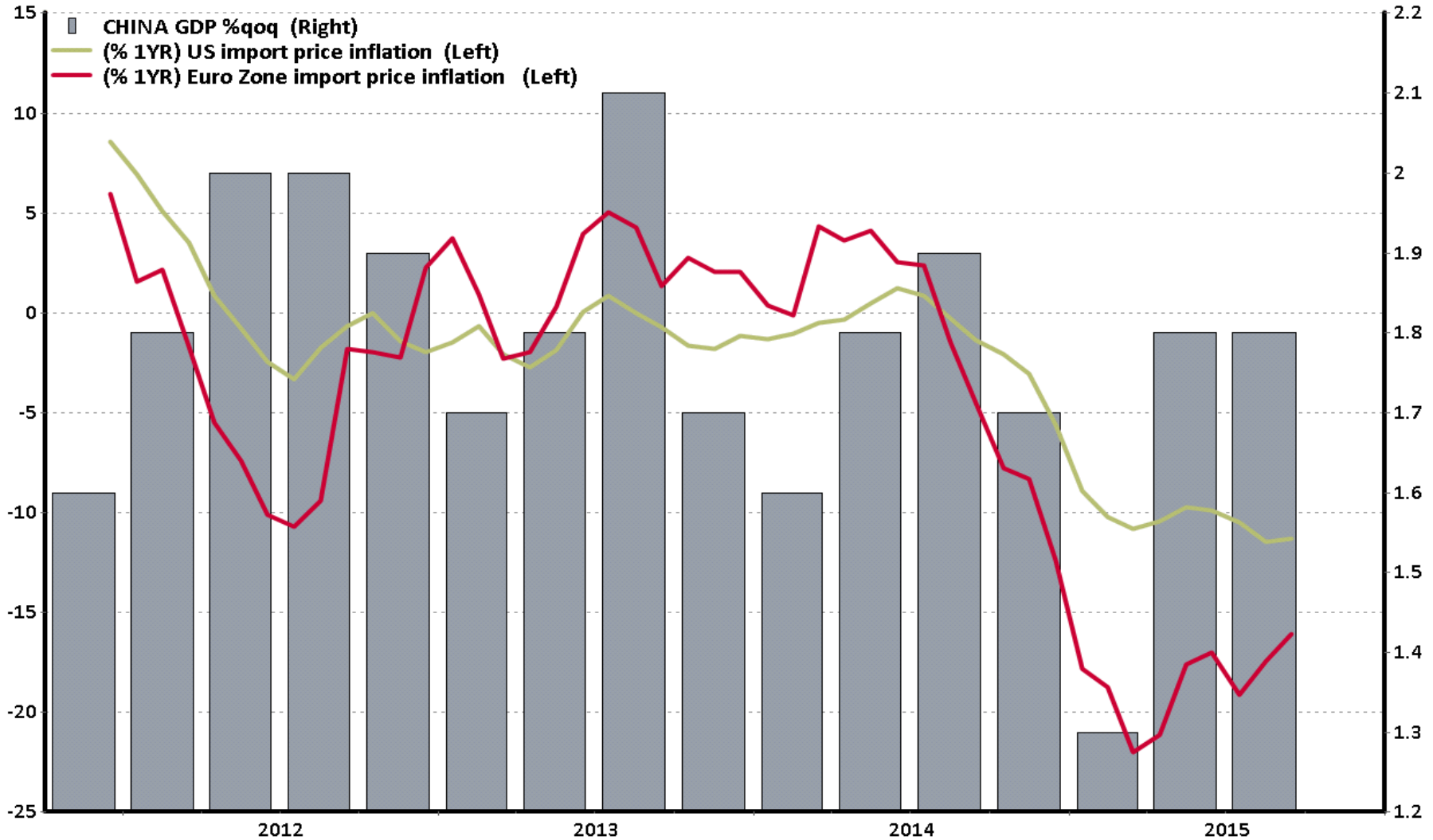
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Inflation

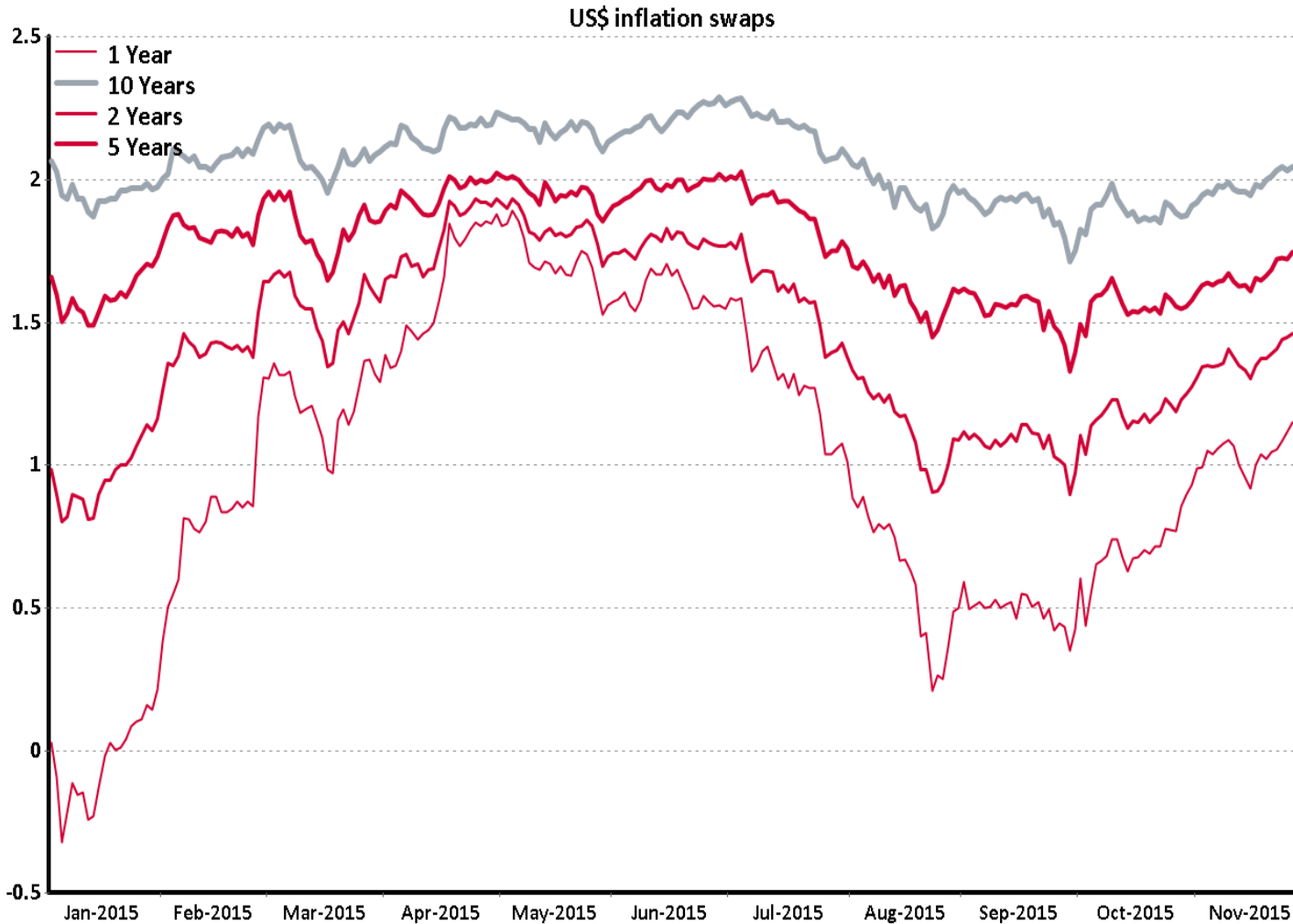
... but the slowdown in China is weighing on inflation through import prices.



Source : Factset

Inflation

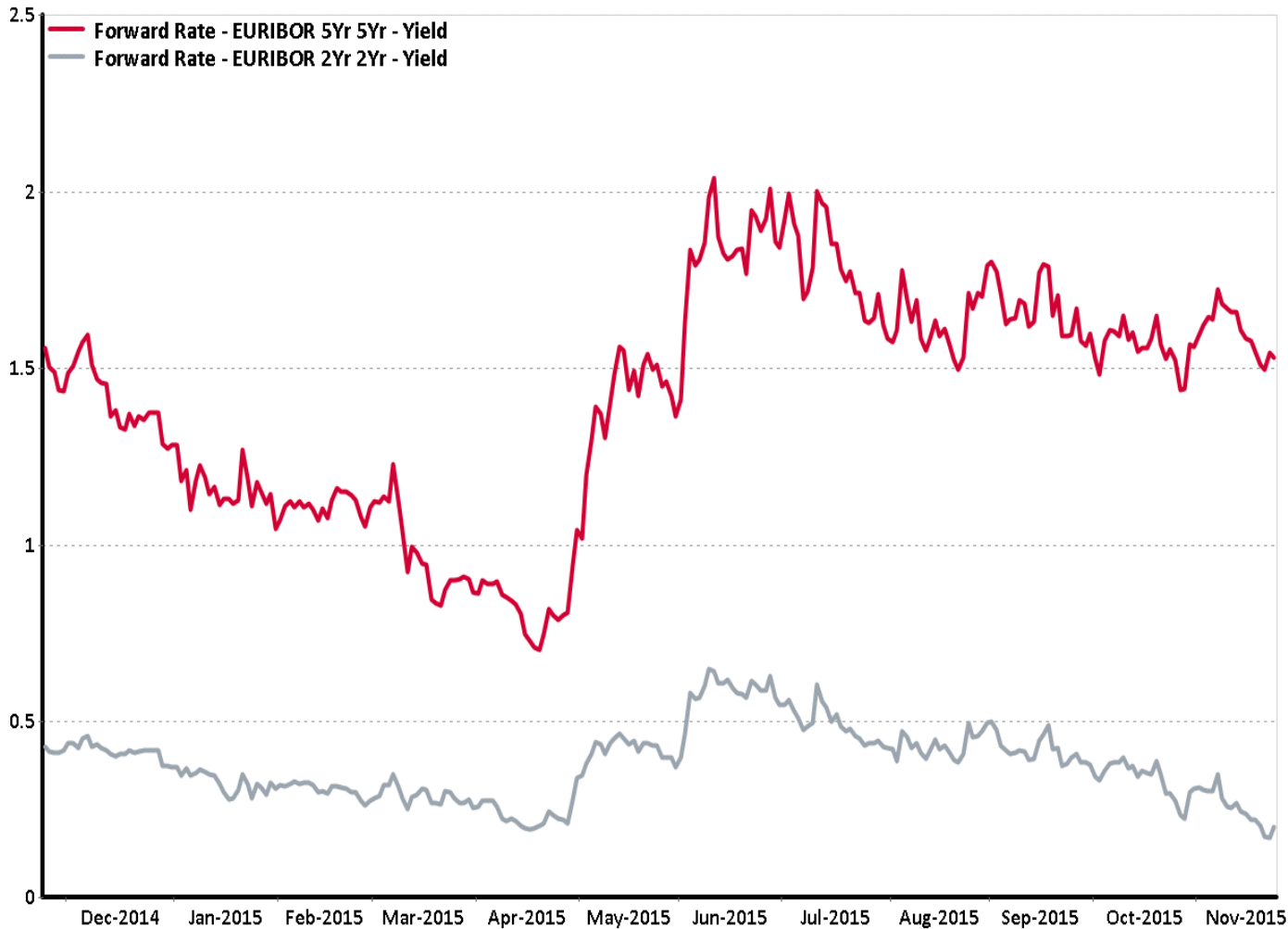
Inflation expectations in the U.S. are rising gently but surely.



The latest U.S. labor report showed growth in hourly earnings rising to a +2,5% yoy pace in October.

Inflation

In the eurozone, inflation expectations have settled lower in Q4.



Medium-term inflation expectations have slipped lower since the summer on the back of weak Chinese growth data and low commodity prices.

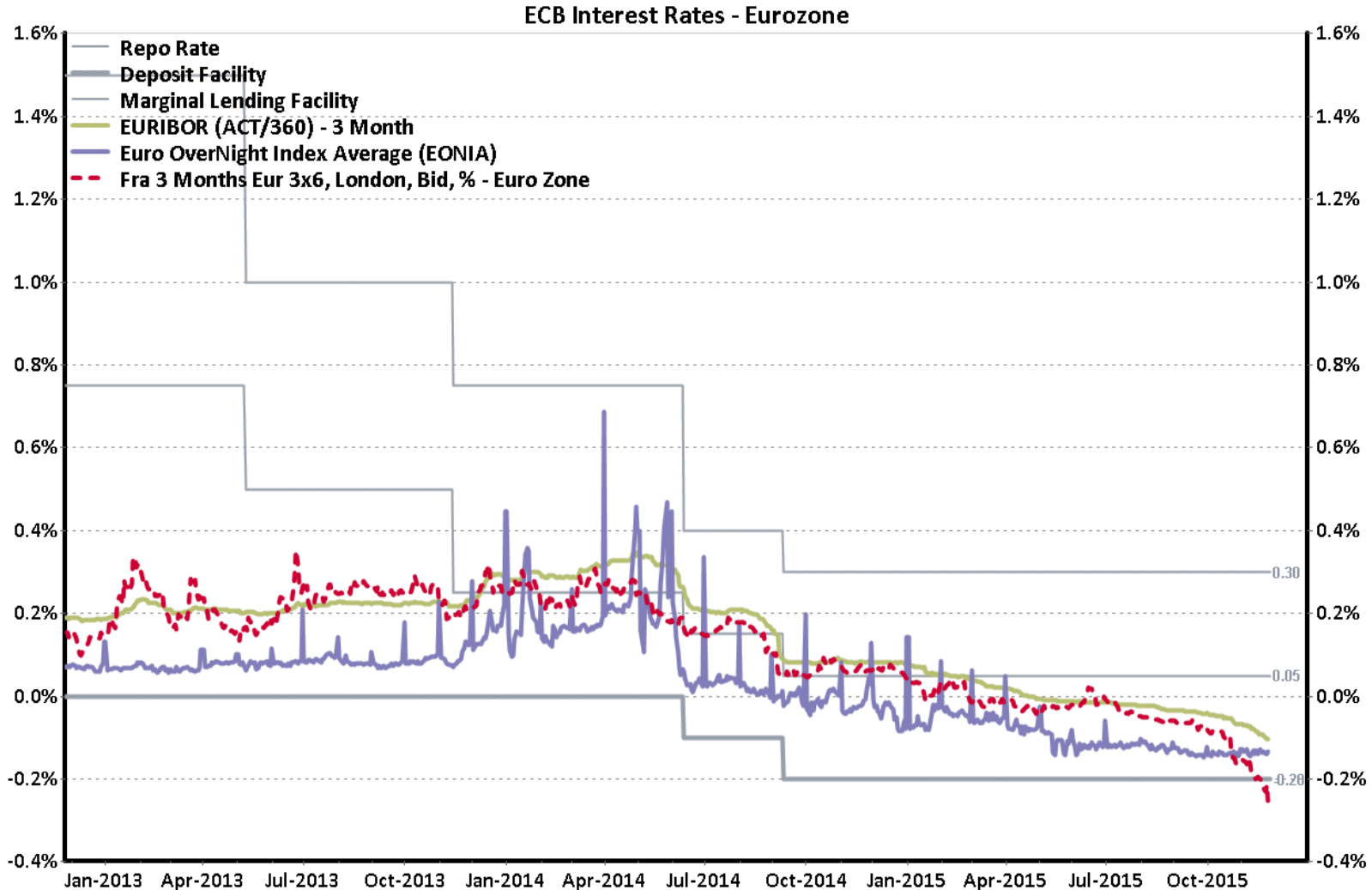
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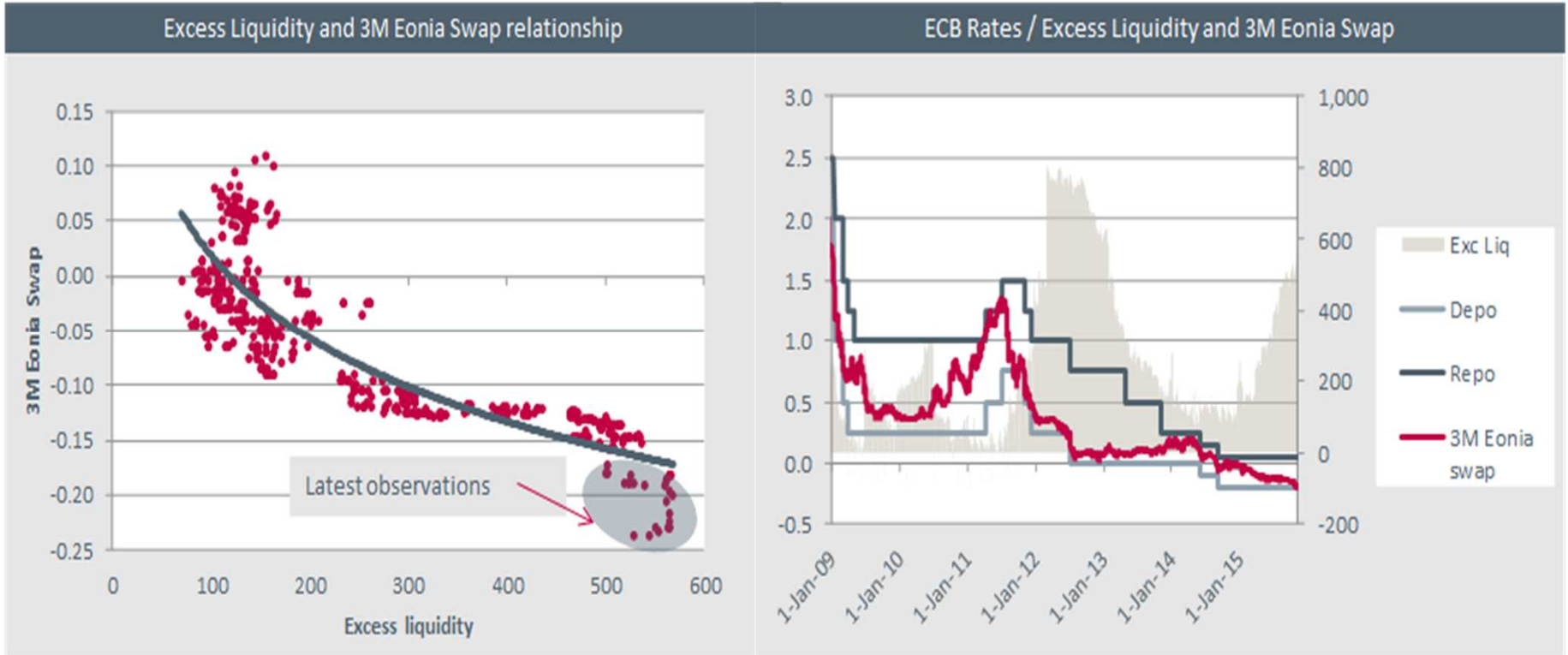
Financial Markets

FRAs already pricing in a lower deposit facility



Financial Markets

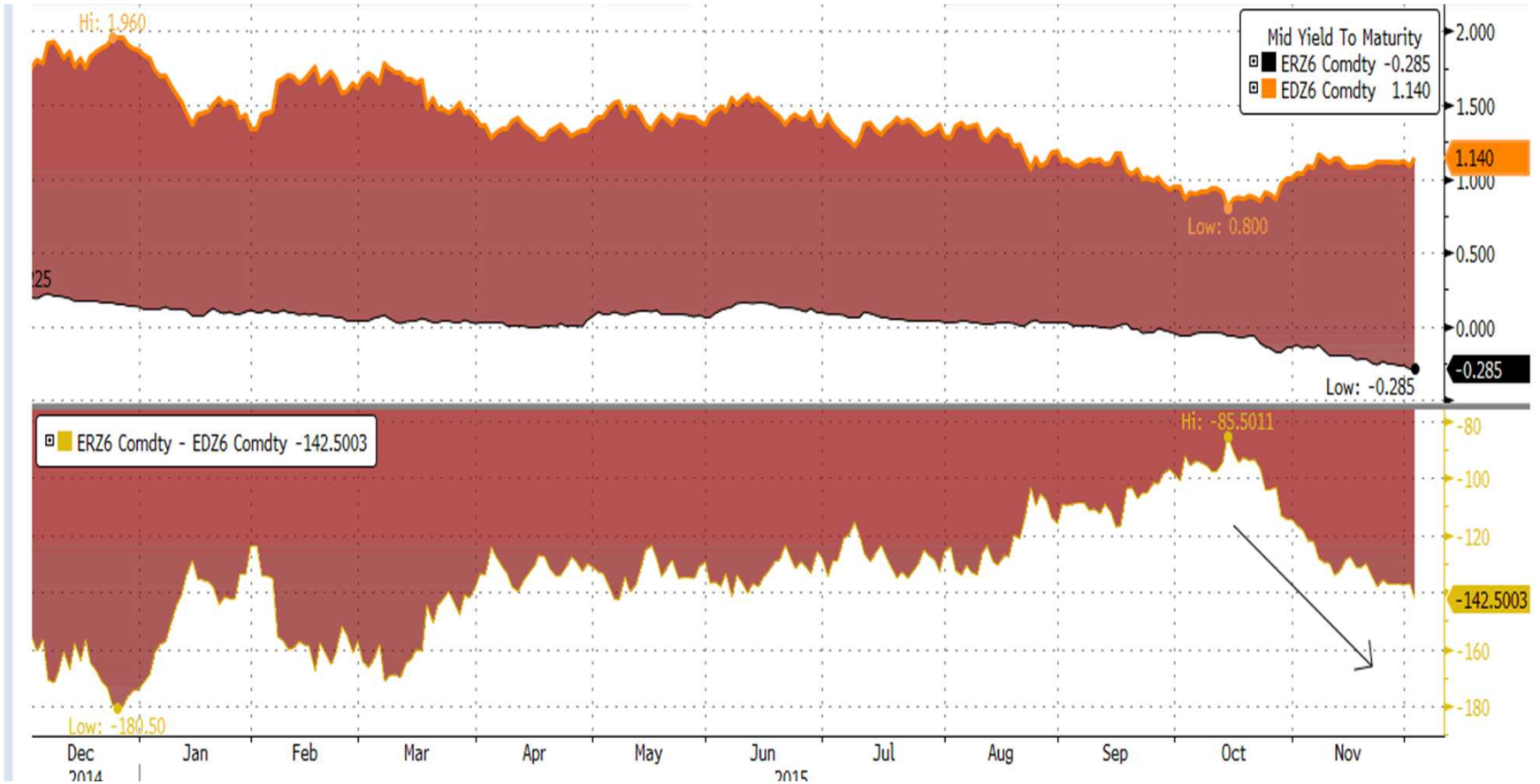
Money markets: excess liquidity (June 2014 – November 2015)



The positive correlation between excess liquidity and negative interest rates has weakened somewhat lately but is still significant.

Financial Markets

Monetary policy divergence between ECB and FED - Futures



Source : Bloomberg

Financial Markets

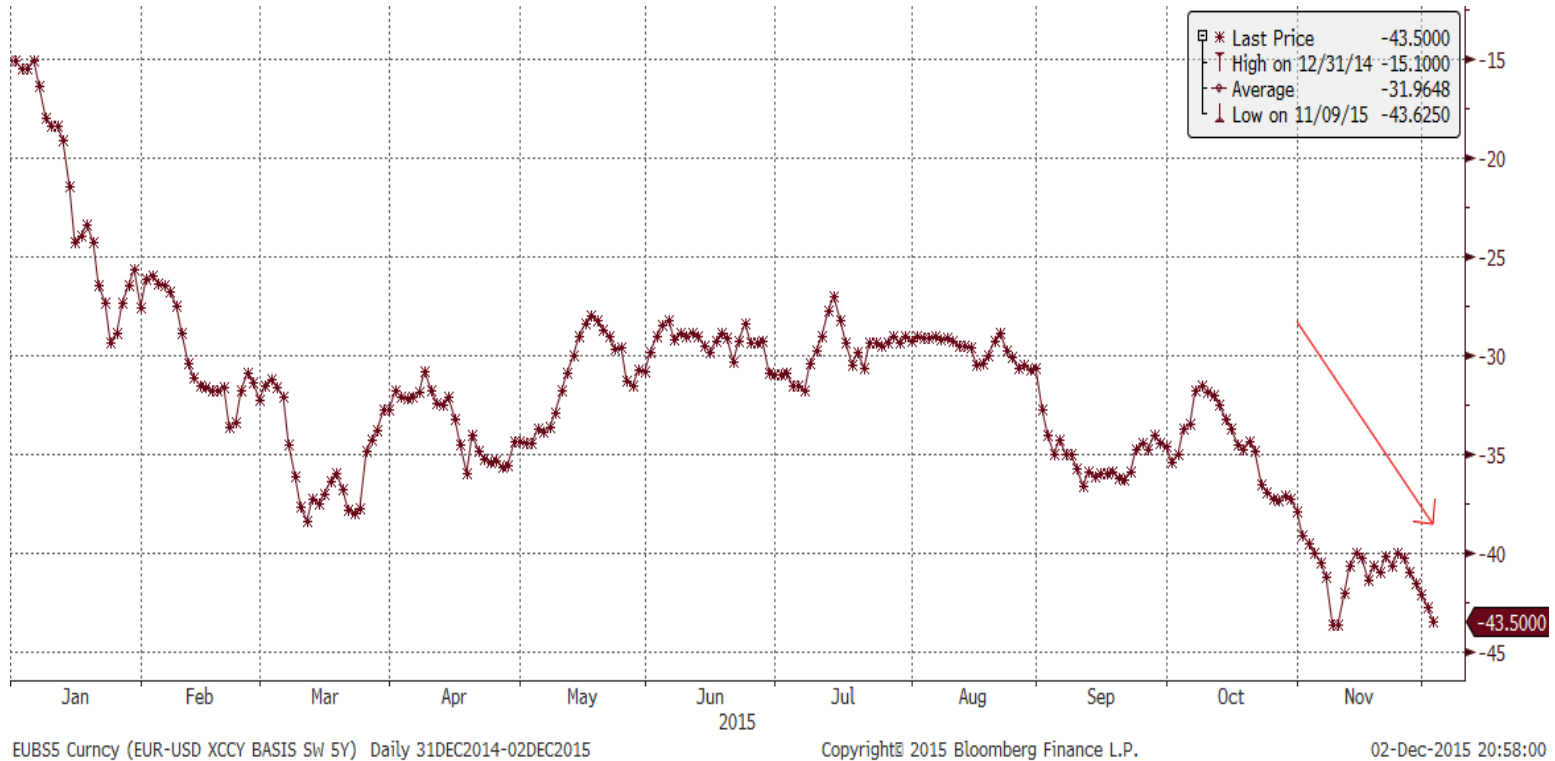
Monetary policy divergence between ECB and FED – FX swaps



Source : Bloomberg

Financial Markets

Monetary policy divergence between ECB and FED – XCCY 5YR EUR USD



Source : Bloomberg

Financial Markets

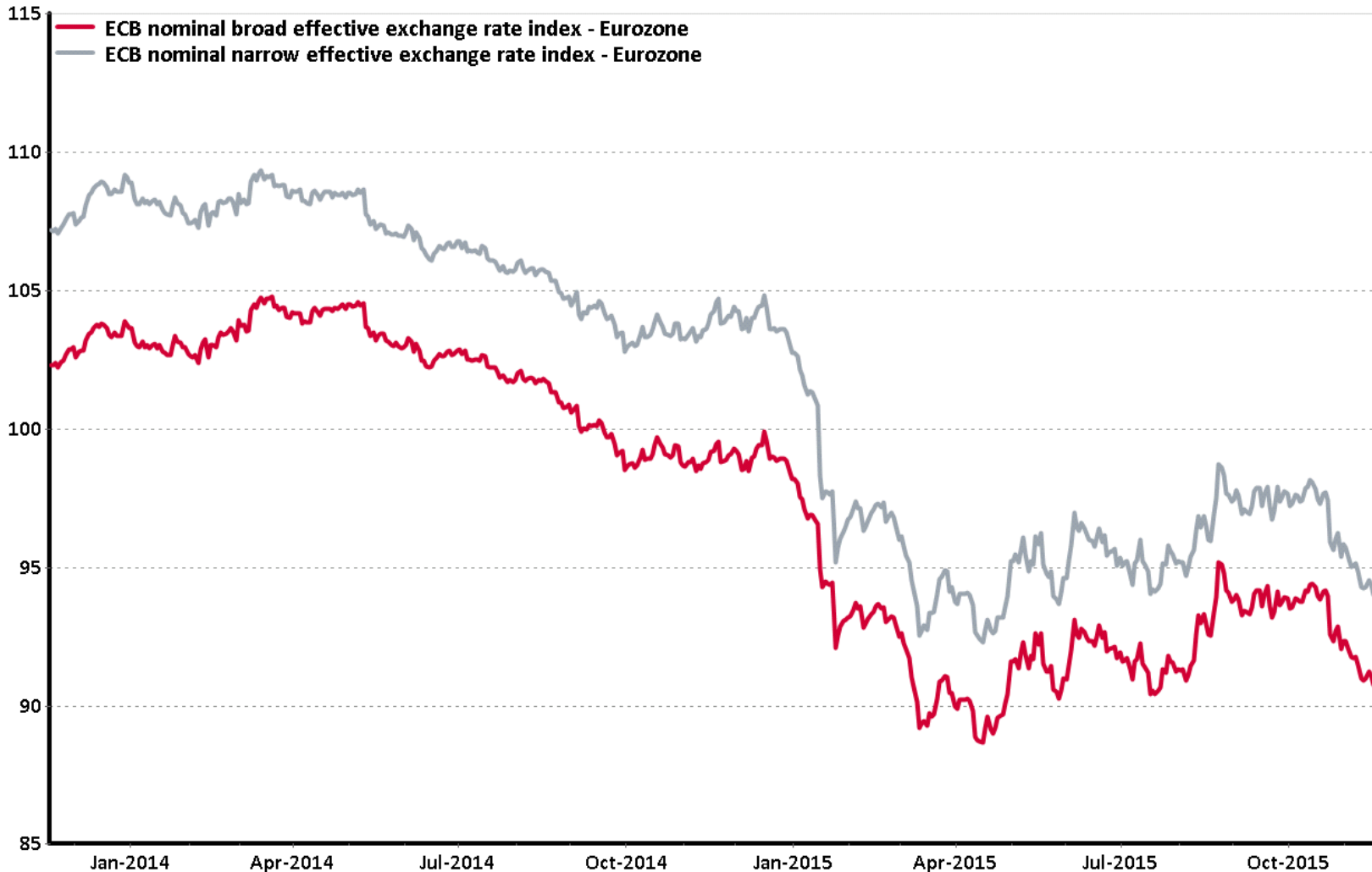
Monetary policy divergence between ECB and FED – XCCY 5YR EUR USD



Source : Bloomberg

Financial Markets

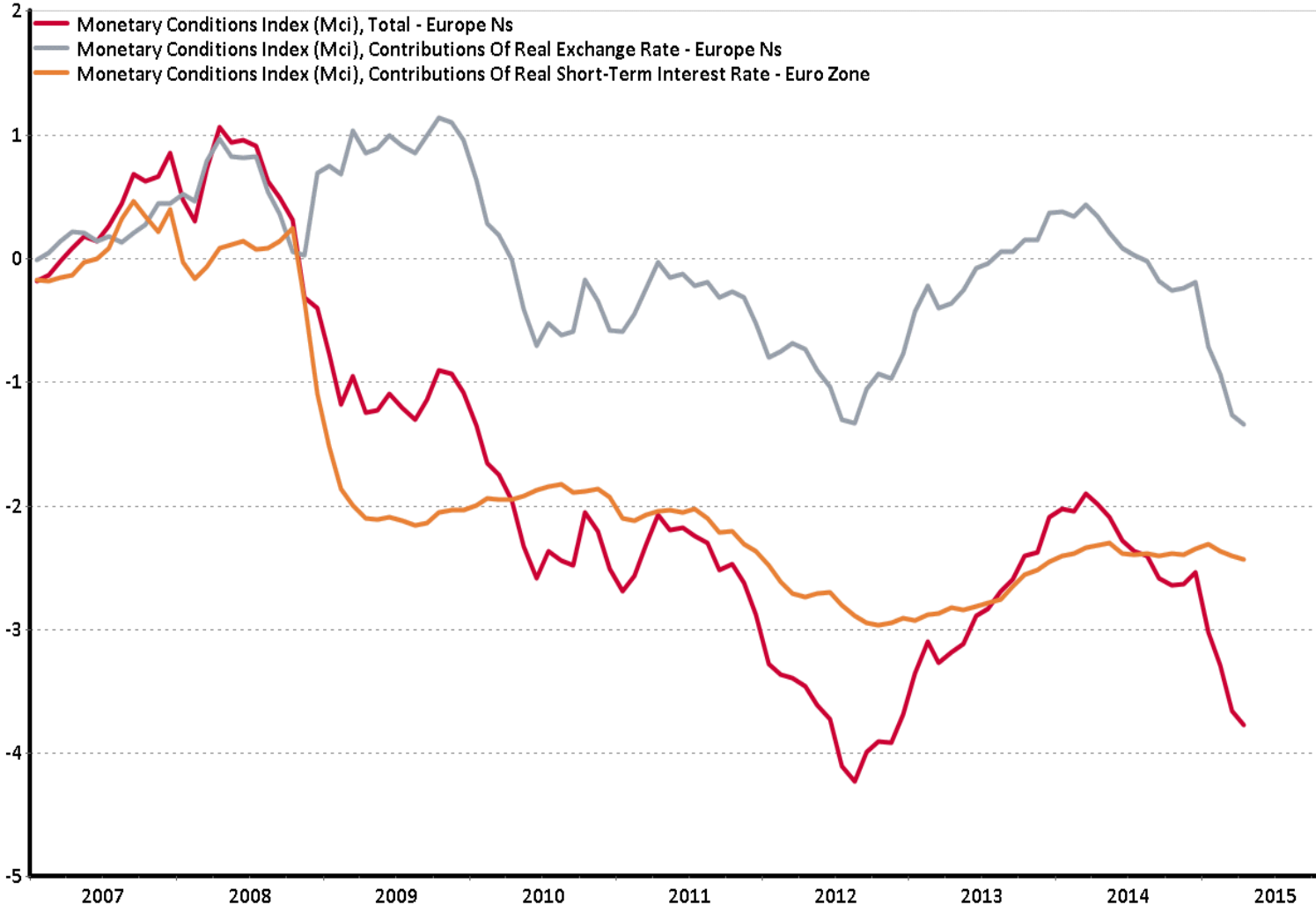
€ cheapens to July levels on the back of Paris attacks and Fed policy outlook



Source : Factset

Financial Markets

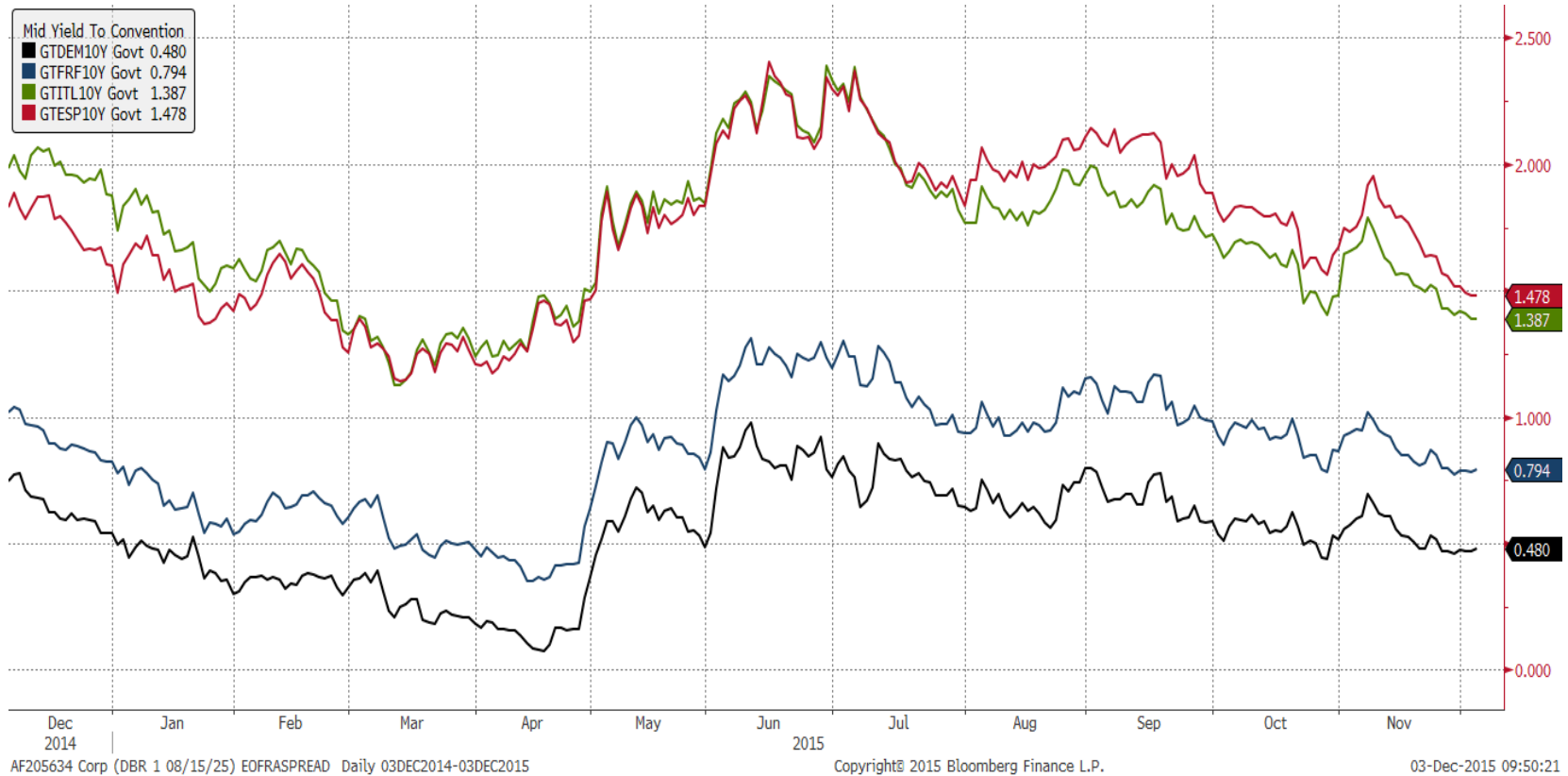
Monetary Conditions benefit from the weaker euro



Monetary conditions in the eurozone have eased in 2015 on the back of the weaker euro but the contribution of real short-term interest rates is roughly the same as in 2014.

Financial Markets

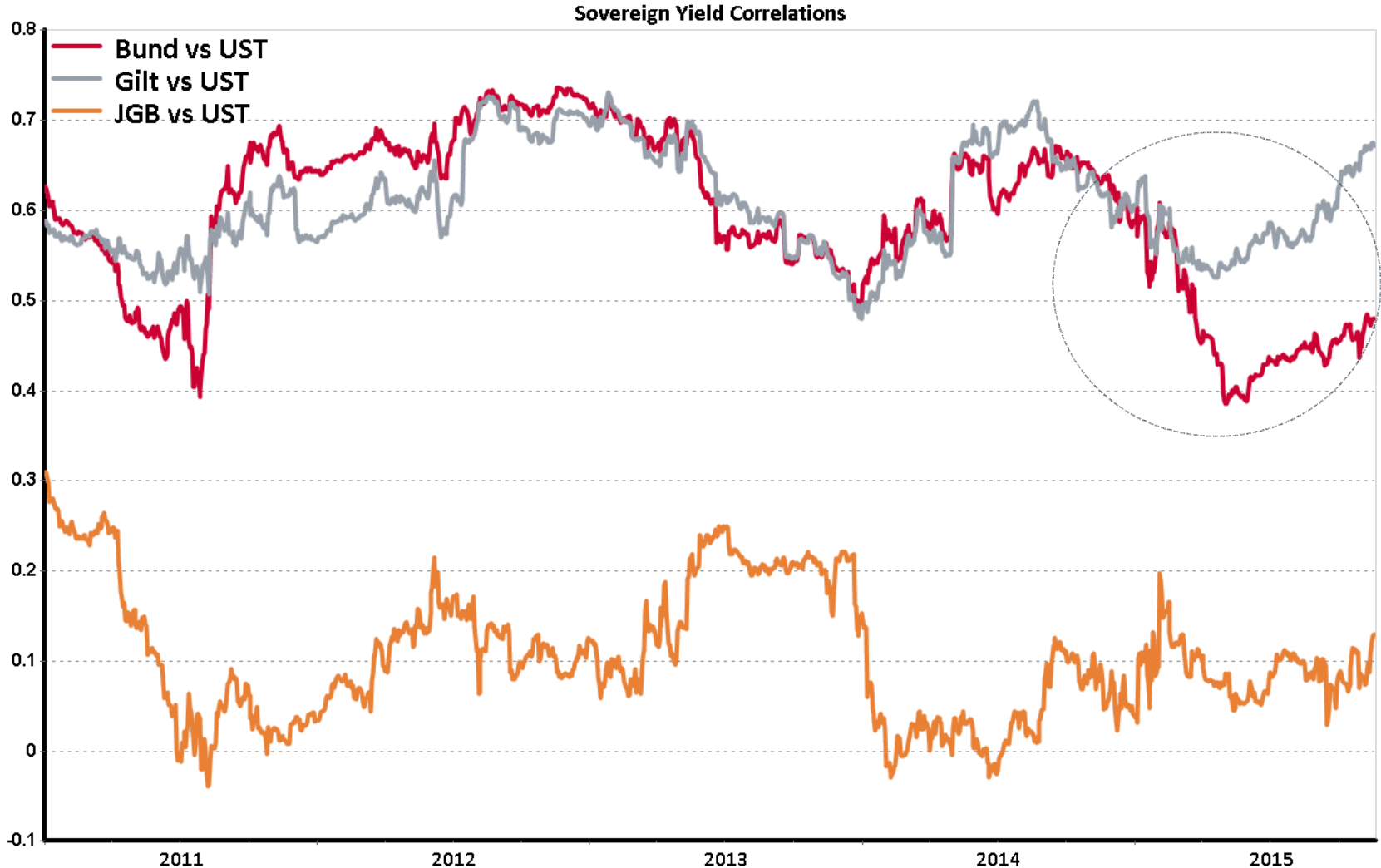
European Government Bonds anticipated new measures



Source : Bloomberg

Financial Markets

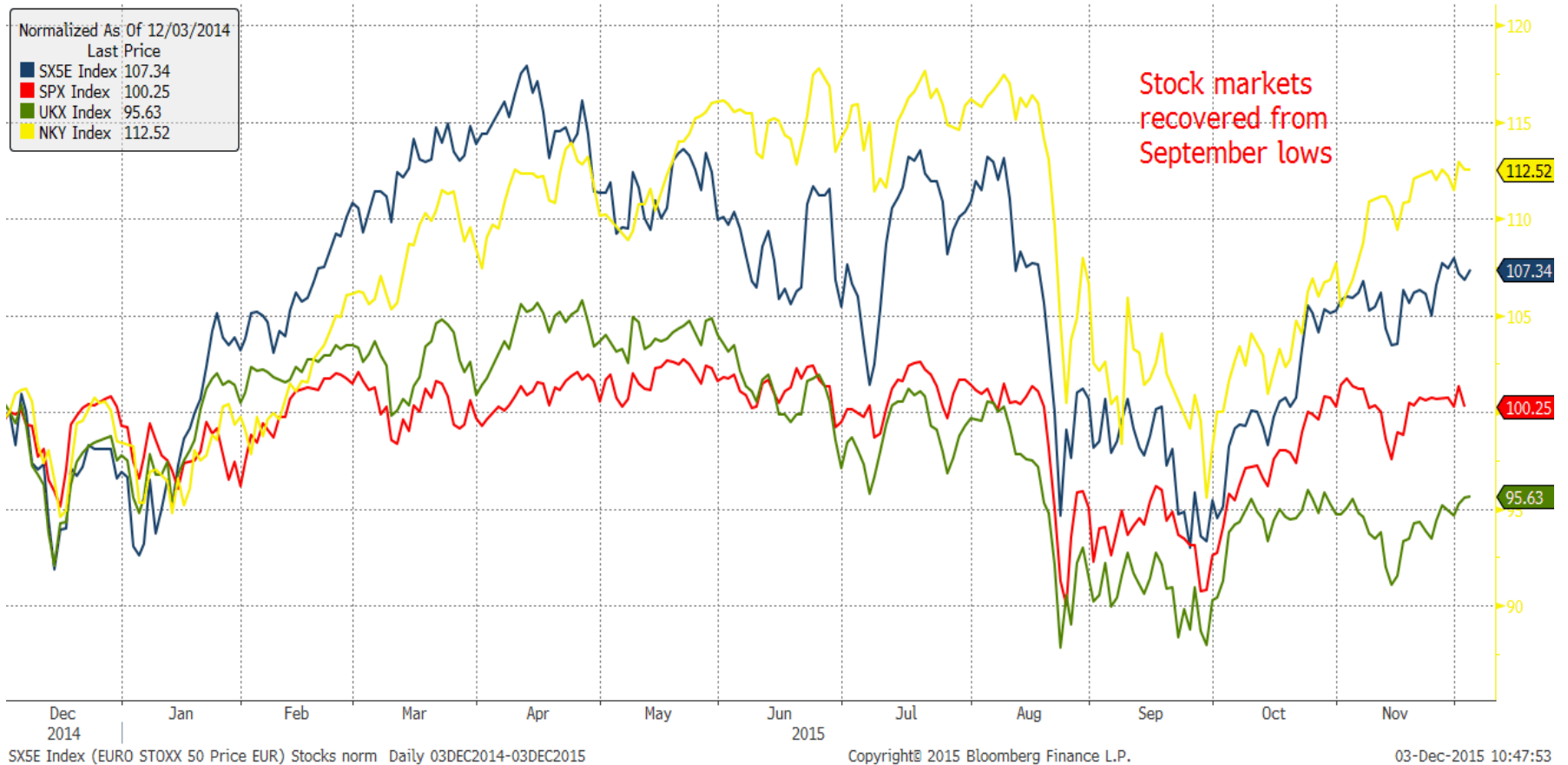
Monetary policy divergence US vs Eurozone translates to lower bond correlation



Source : Factset

Financial Markets

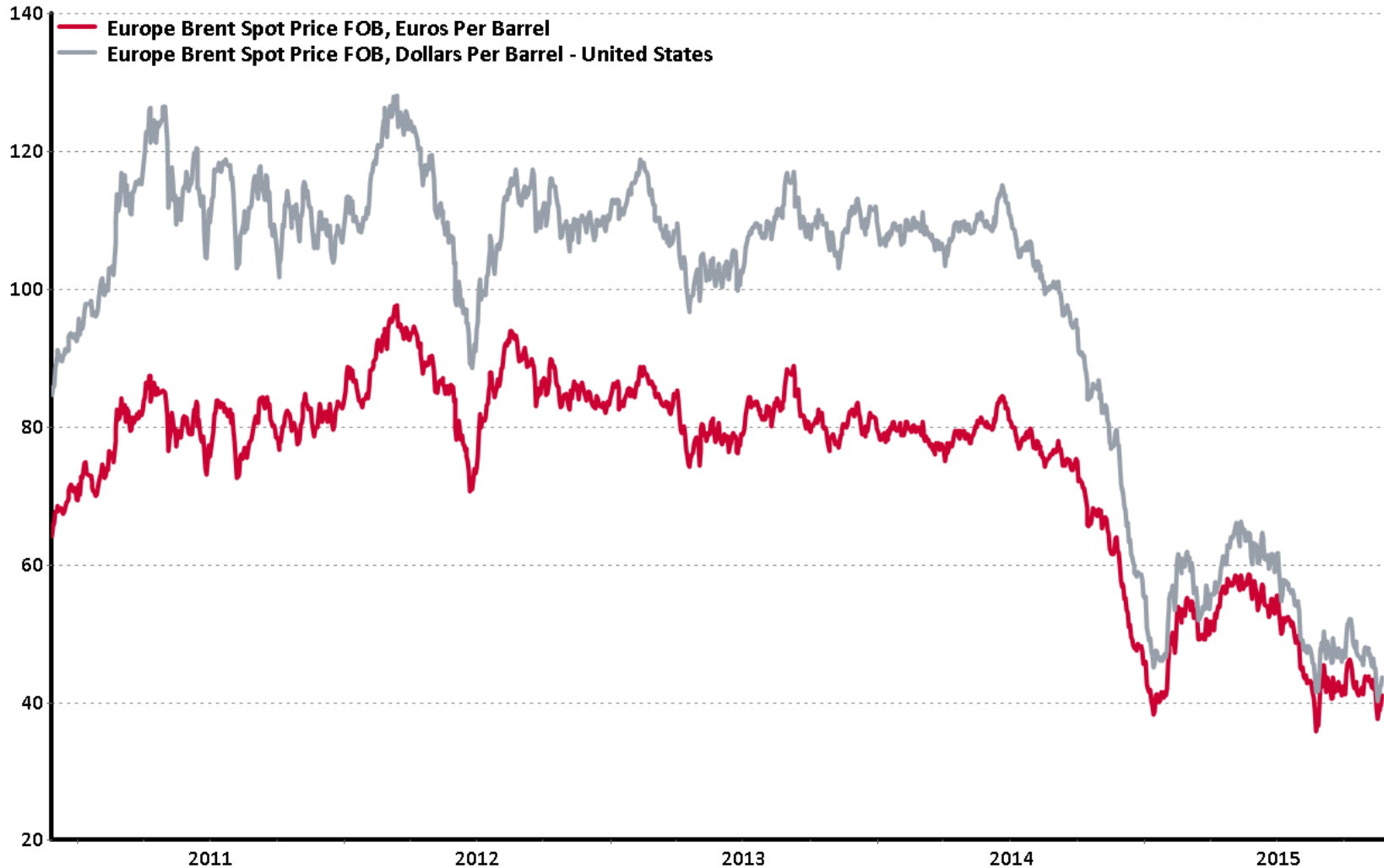
Stock markets in Japan and Europe performed better this year



Source : Bloomberg

Financial Markets

Oil price outlook remains weak but impact on inflation is fading fast



Source : Factset

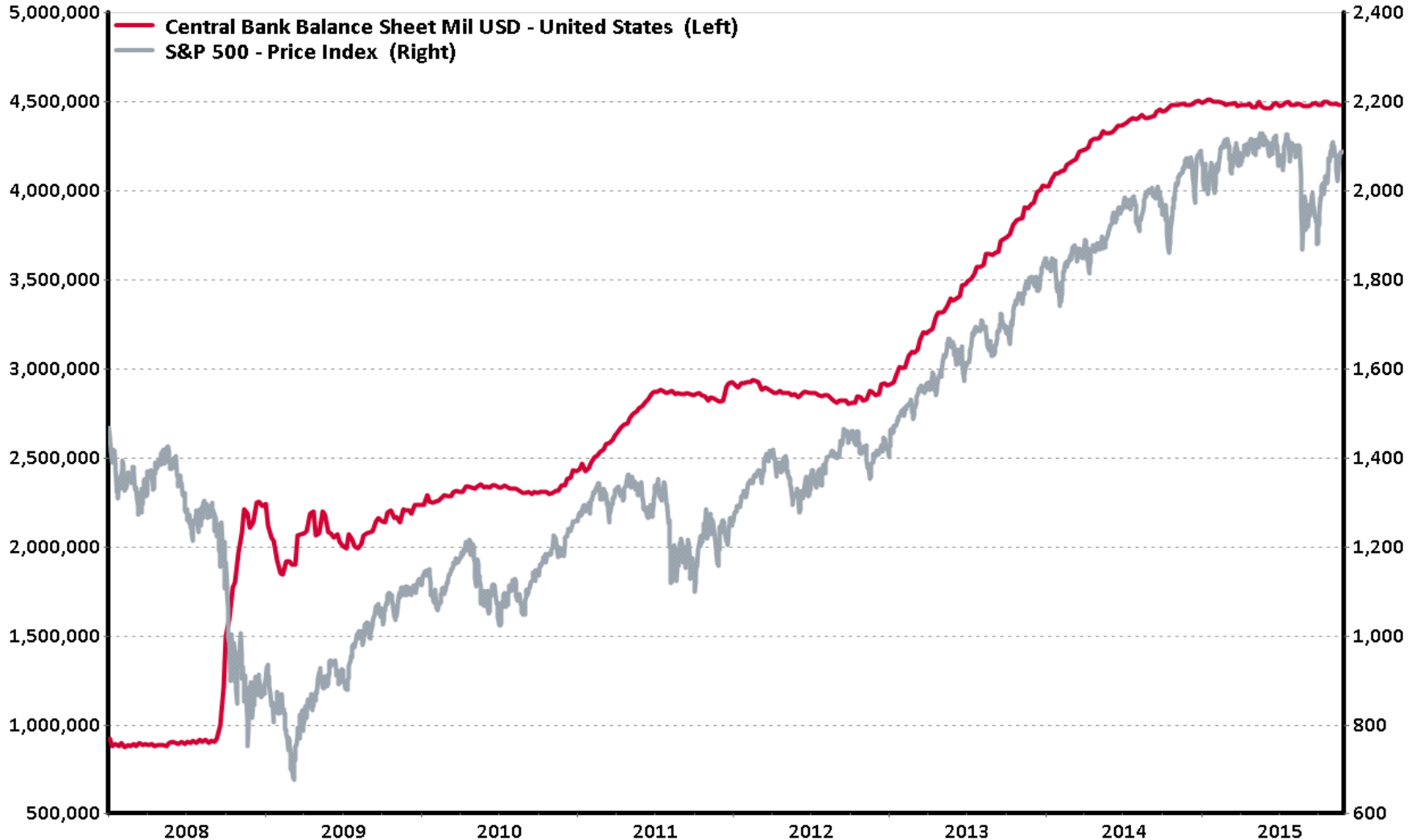
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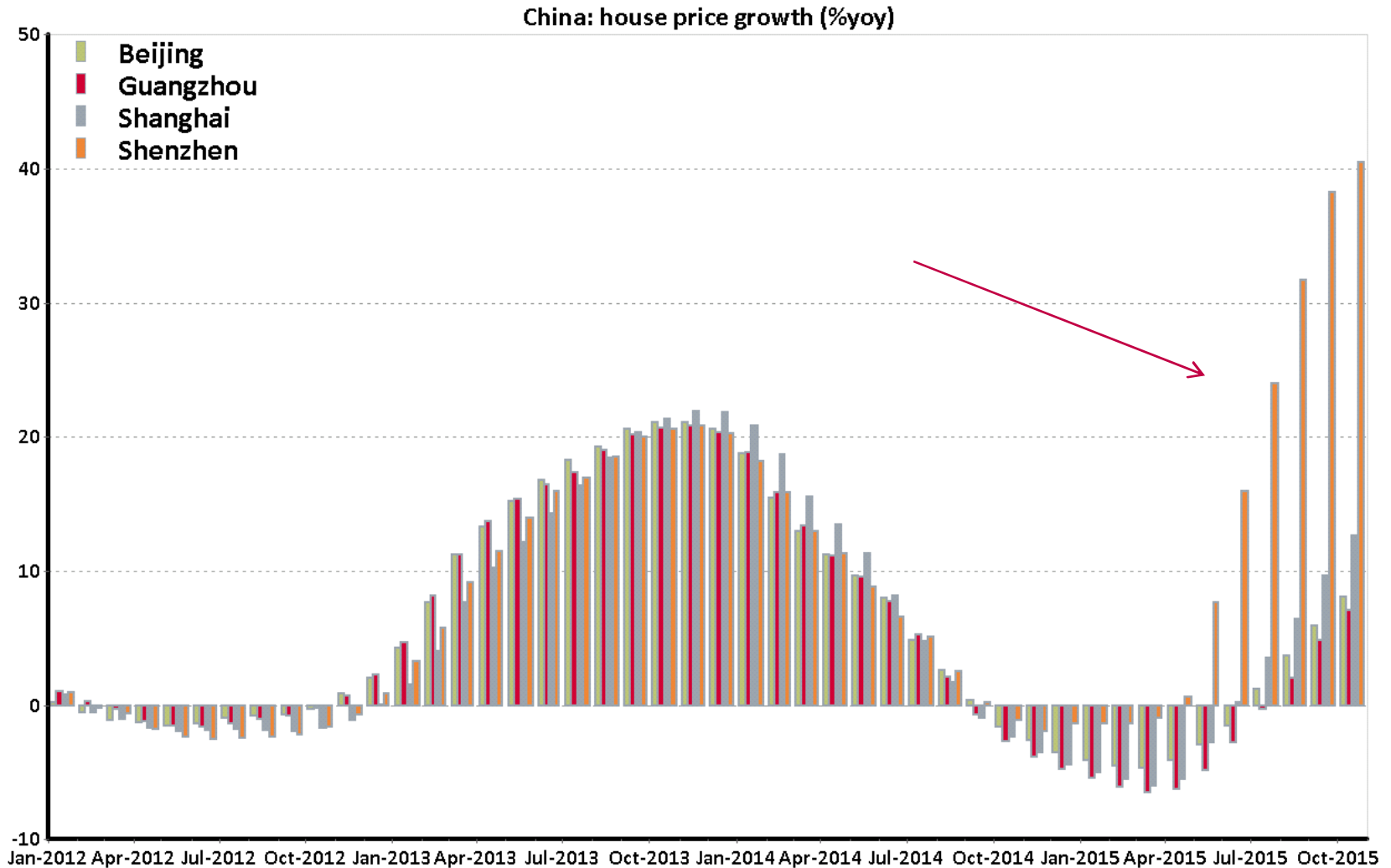
Potential risk factors (in 2016)

Can the Fed reduce its balance sheet in a controlled and orderly fashion?



Potential risk factors (in 2016)

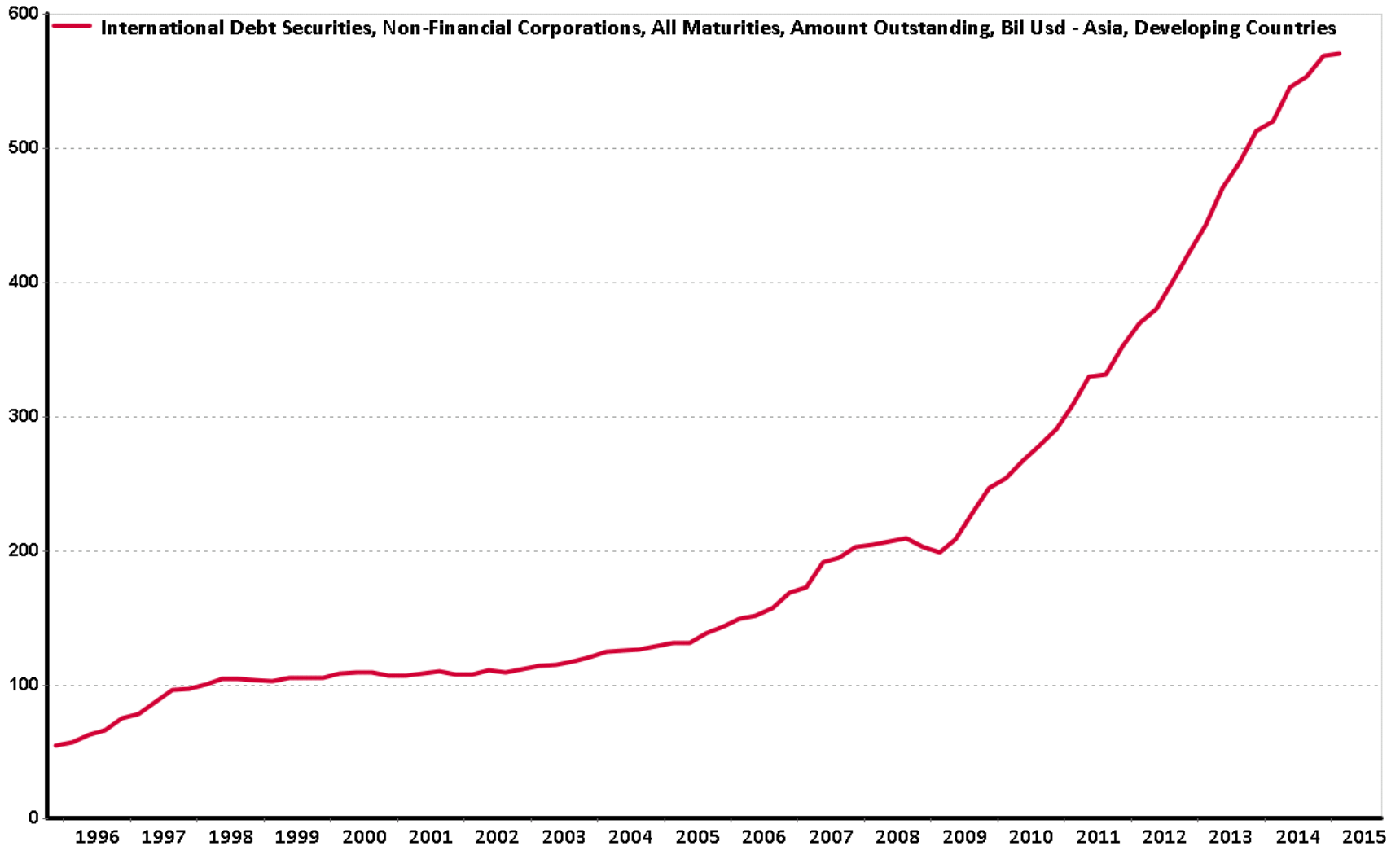
China: too high too fast?



Source : Factset

Potential risk factors (in 2016)

Will Chinese and emerging Asia GDP growth be strong enough to service debt?



Source : Factset



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