

Economic Weekly: Views from Paris

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Key element of the week starting March 23

Confidence indicators follow a stronger profile in the euro zone.

Households and companies have a more positive perception of their foreseeable future.

For **households**, confidence indicator is back, in March, to its 2007 level if we follow the European Commission survey.

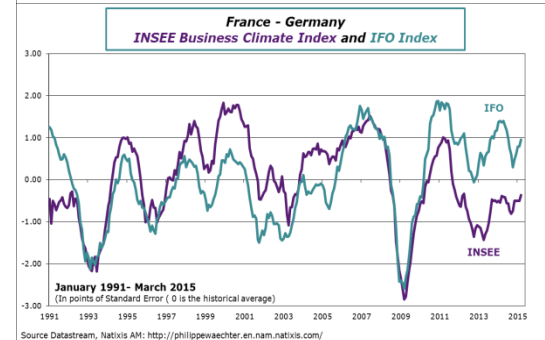
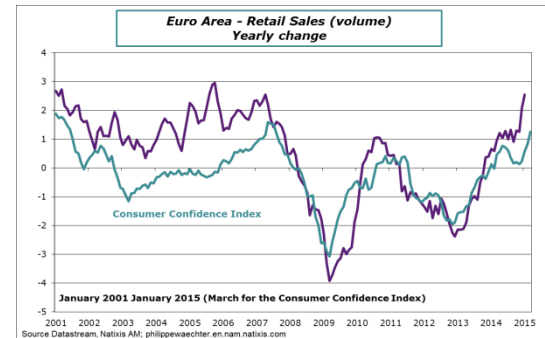
The situation is changing as a result of the cheaper oil, low interest rates and a more buoyant labor market (employment was up in 2014 for the Euro Area (+0.6%) This will continue in 2015.

This more robust perception of the future is seen through stronger retail sales. (April 8 for February data)

On **companies' side** indices also are improving. Markit indices for March are more robust and are consistent with an increase in activity in the first quarter. The momentum in orders and employment suggest an increase in business dynamics leading to the convergence towards a virtuous circle.

The **IFO** survey rose rapidly in March as it did in recent months. German indicators appear robust and Germany seems to be the engine of recovery with a stronger internal demand

The **INSEE business climate** index rose slightly in March. 3-month improvement is significant, but does not reflect a violent acceleration of activity.



Other Important Issues

- Janet Yellen speech in San Francisco suggests that the Fed's president wants to see higher fed funds this year. If the economy converges to the Fed's scenario then the FOMC will have to increase rates. The argument that inflation will accelerate due to the improvement in the labor market is not completely convincing. The idea of defeating inflation before it starts follows the assumption that the moment where inflation will accelerate is known in advance. Some Very Serious People point to a high probability of high inflation since 2009 and the implementation of unorthodox monetary policies, but with little success. The inflation rate is just 0.3% in February following the PCE index.
- The Markit index for Chinese manufacturing was down in March but the average figure for the quarter was the same than the 4th quarter average at 50- The activity is still sluggish
- In the US, the Markit index is up but the average T1 is slightly lower than that of T4
- The US inflation rate has registered a slight increase of 0% in February (-0.1% in CVS) and 1.7% underlying rate - Do not forget that "Shelters" in the index has a contribution of 0.95%. Other sub-indices do not change a lot.
- In Japan, retail sales improved moderately and the gap with the first quarter of 2014 (before the VAT rate hike) is still 6.5%. Decline in industrial production in February
- British inflation was 0%. This is the lowest figure since March 1960. Retail sales were strong in February

What will happen this coming week?

- Employment figures in the US for March are the key number this week. It is reinforced by the fact that Yellen conditions even more now her strategy on employment. It will be Friday at 14:30 (Paris time)
- In the euro zone, the inflation rate in March and the unemployment rate for the month of February will be released Tuesday at 11 am. The inflation rate should approach 0%
- Markit and ISM surveys for the manufacturing sector will be published Wednesday. Then we will have a fuller understanding of the global economic dynamics.
- On 1 April, the Bank of Japan will release its Tankan quarterly survey
- Publication of household spending in France for the month of February, Tuesday morning

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Weekly Column

What did we learn last week?

The first point to mention is the improvement of the Eurozone' surveys in March.

Those from businesses are reflecting a more robust environment that is becoming stronger and more consistent with an acceleration of growth.

Those from households suggest that they perceive a loosening of their constraints and are able now to imagine a future. This was not the case a few months ago

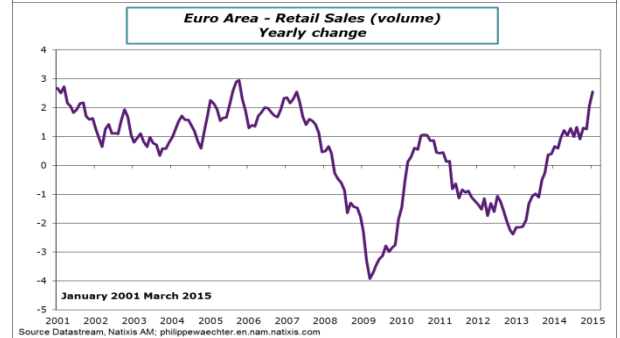
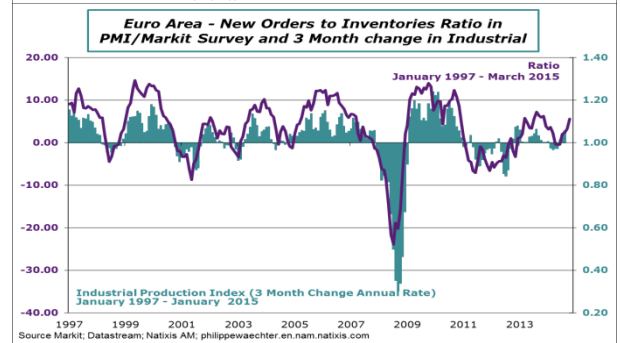
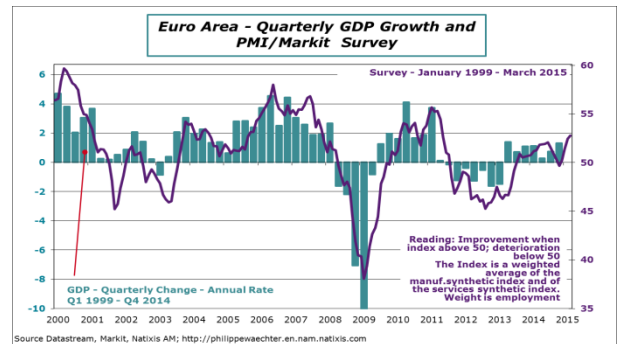
On **companies' side** it is worth noting that the composite index of the euro zone in the Markit survey continues to increase. On March the figure is higher than in February and the highest since May 2011. The first quarter average of the index is higher than the last 3 months of 2014. The figure is 52.2 in the first quarter against 50.1 in the last quarter of 2014. This increase was seen both in manufacturing than in services.

The positive point is the **improvement of the "New Orders to Inventories" ratio**. It is still growing significantly in March. The Euro Area industrial production index will accelerate in spring.

The employment indicator is also on the upside. The increase (+0.6%) in employment in 2014 throughout the area is expected to continue at the beginning of 2015.

Countries' details show a marked improvement in Germany, but a more limited one in France in the Markit surveys. We find the same hierarchy by comparing the **IFO** survey in Germany and that of the INSEE on business climate for France. France is a little less reactive to the signals that move all the other European countries

Households in the euro area became really optimistic in March. The level of the confidence index is at its highest since 2007. The horizon is deeper allowing households to make plans for the future. In France, too, the household survey continues to increase reflecting stronger expectations in the near future. This is certainly a positive effect of lower energy prices but it allows households to converge to a more positive trajectory.



The flash estimates of the Markit survey were also available in China and in the USA

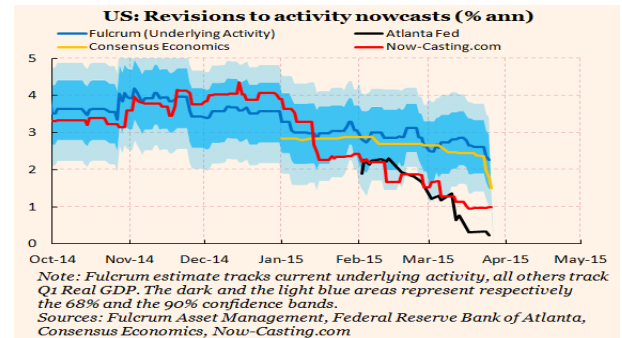
In China, the manufacturing index dropped below the threshold of 50 to 49.2. New orders momentum is weaker and the "New Orders to Inventories" ratio was below 1 in March. There is no need to increase production to satisfy new orders. For the entire first quarter, the index in China was almost stable at 49.9 against 50 for the last 3 months of 2014. The activity, on average stabilized.

In contrast, the index for the US manufacturing sector continues to improve with a stronger momentum on new orders. The regularity of the relation of this indicator with industrial production suggests an improvement in the production index during the 2nd quarter. Beware though, the quarter the average index of the manufacturing sector is slightly below the last 3 months of 2014 at 54.5 against 54.9. The activity remains robust following this indicator.

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On the US economy, we note that the consensus on the first quarter growth slowed sharply. For the Atlanta Fed, growth would be only 0.2%, and tend towards 1% annualized rate for the consensus of major banks. This reflects the low figures recorded on retail sales, industrial production or orders for capital goods.

(graph from the blog Gavyn Davies in the FT (<http://on.ft.com/1CCOWNy>))

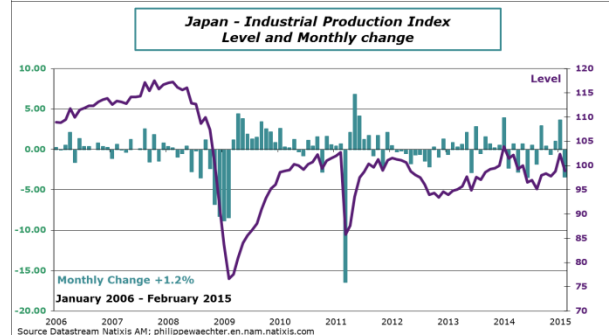
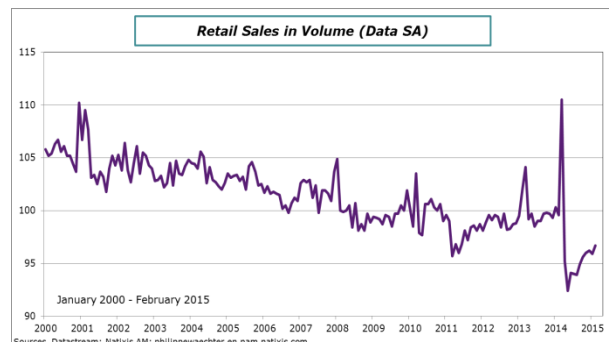


The third point is the rapid rise in oil prices that is due to tensions in the Middle East. The production continues to increase but the geopolitical uncertainties are a strong source of volatility

It is also worth to be noted that, in the Euro Area, **monetary aggregates are now growing rapidly**. This is a positive signal about the upcoming activity. The efforts made by the ECB starting to bear fruit.

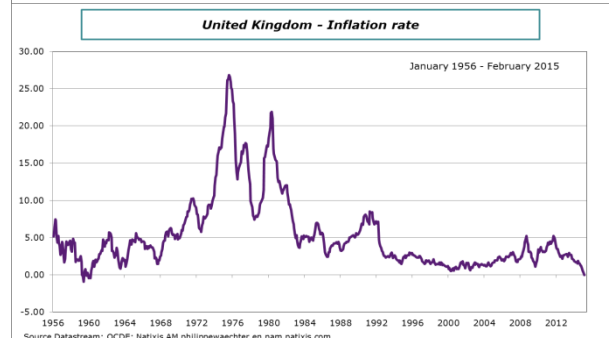
In **Japan**, retail sales were up in February. But the catching up effect, after the shock of the VAT hike, is slow. On the first two months of the year increased spending however is a little slower than in the last quarter 2014.

At the same time, there is a rapid decline in production indicators. Industrial production fell by -3.4% in February after rising 3.6% in January. The carryover remains positive at 1.8% in the first quarter. The synthetic index for the manufacturing sector in the Markit survey was down to 50.4 in March against 51.5 in February. The quarterly average is 51.3 against 52.3 in the last quarter of 2014. The business is struggling to keep a steady pace



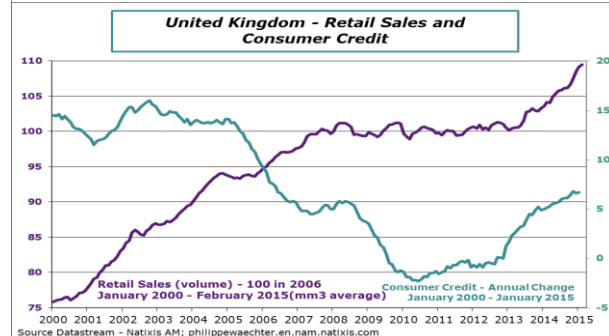
In the **United Kingdom**, the inflation rate fell to 0% which is historic since 1960 while inflation was at 1.2% still well below the 2% target of the Bank of England.

Retail sales accelerated in February in the UK after two months of near stagnation. The carryover is 1.1% in the first quarter against 2.2% in the last three months of 2014



In **France**, the number of people on job centers (Pôle Emploi) is rising again in February with +12 800. Nevertheless, the labor market dynamics figures recorded by the Ministry of Labor seem excessive in relation to surveys on the labor market (Markit) and surveys on activity (I have written a post in French on this point:

(<http://philippewaechter.nam.natixis.com/2015/03/26/chiffres-de-pole-emploi-en-fevrier-une-anomalie/>)



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EQUITY MARKETS MARCH 27, 2015

	Level		On a year (close)		Change in local currency			Change in Euro		
	12/31/14	03/27/15	Min	Max	1 Y	YTD	1w	1 y	YTD	1 w
CAC 40	4272.75	5034.06	3918.62	5088.28	14.96	17.82	-1.05			
DAX	9805.55	11868.33	8571.95	12167.72	25.57	21.04	-1.42			
EuroStoxx	3146.43	3679.03	2874.65	3731.35	17.40	16.93	-1.26			
FTSE	6566.09	6855.02	6182.72	7037.67	4.05	4.40	-2.39	17.55	10.68	-3.53
SNP 500	2058.90	2061.02	1815.69	2117.39	11.46	0.10	-2.23	40.62	11.22	-3.10
Nasdaq	4736.05	4891.22	3999.73	5026.42	17.83	3.28	-2.69	48.64	14.75	-3.55
Nikkei 225	17450.77	19285.63	13910.16	19754.36	31.89	10.51	-1.40	42.61	23.55	-1.38
MSCI Emerging	956.31	958.11	909.98	1100.98	-1.76	0.19	-1.18	23.93	11.32	-2.05
MSCI World USD	1709.67	1744.82	1592.60	1778.00	5.55	2.06	-1.68	33.15	13.39	-2.55

INTEREST RATES – MARCH 27, 2015

	Interest Rates – March 27, 2015							Interest Rates December 31, 2014			
	Level				Weekly Change			Central Bank	3 month	2 Year	10 Year
	Central Bank	3 month*	2 Year	10 Year	3 month	2 Year	10 Year				
USA	0 - 0.25	0.273	0.58	1.95	0.01	-0.02	0.02	0 - 0.25	0.26	0.67	2.17
Zone Euro	0.05	0.021	-0.238	0.215	0.00	-0.01	0.03	0.05	0.08	-0.07	0.54
UK	0.5	0.53	0.398	1.599	0.00	-0.03	0.06	0.5	0.53	0.51	1.76
Japan	0.1	0.172	0.035	0.377	0.00	0.02	0.05	0.1	0.18	-0.03	0.33
SPREADS		3 month* (03/27/15)	2 year (03/27/15)	10 year (03/27/15)	3 month (12/31/14)	2 year (12/31/14)	10 year (12/31/14)				
USA – Euro Area		0.25 (0.25) [§]	0.82 (0.83) [§]	1.73 (1.74) [§]	-0.04	0.19	1.1				
UK – Euro Area		0.51 (0.51) [§]	0.64 (0.66) [§]	1.38 (1.36) [§]	0.24	0.37	1.09				

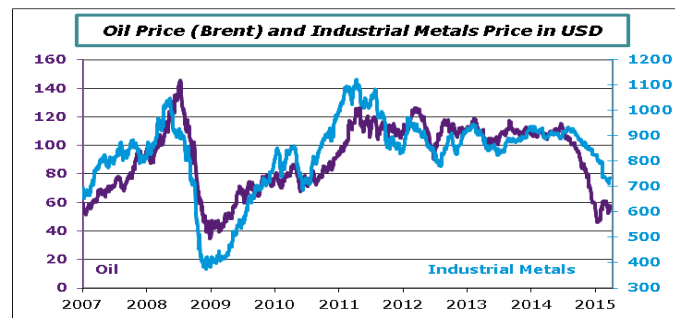
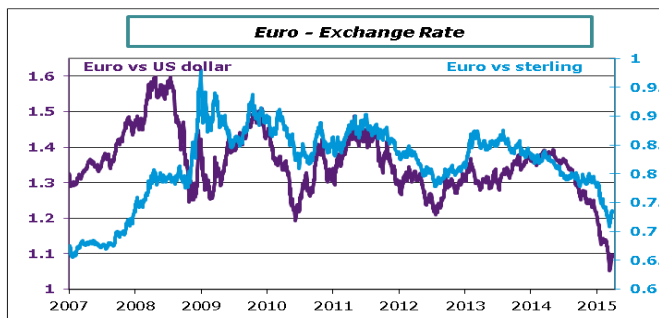
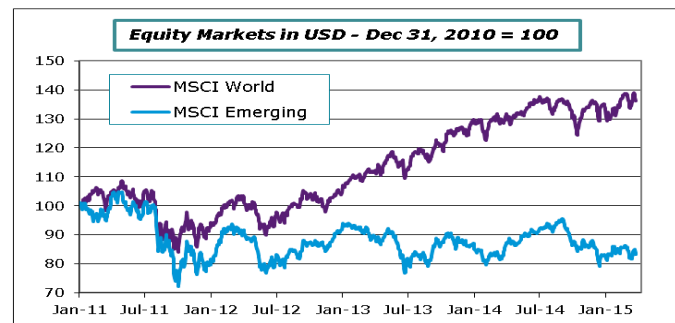
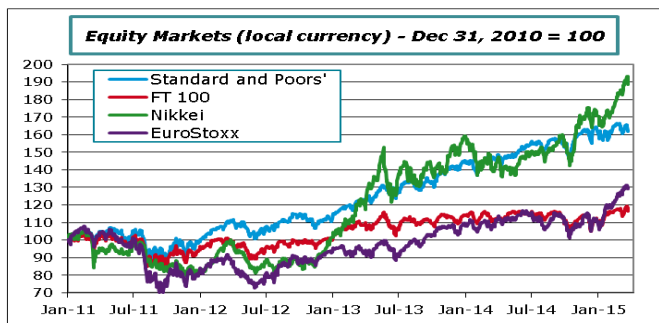
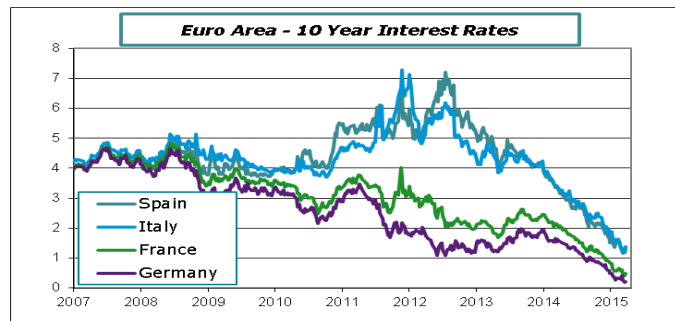
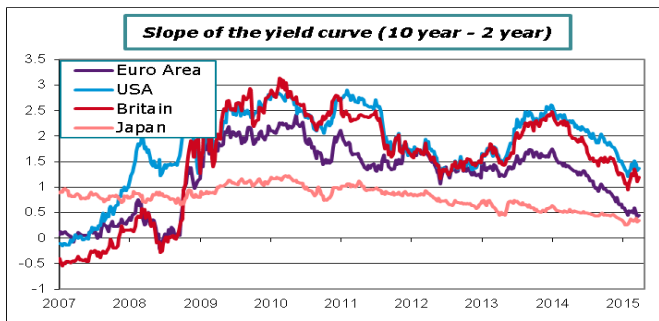
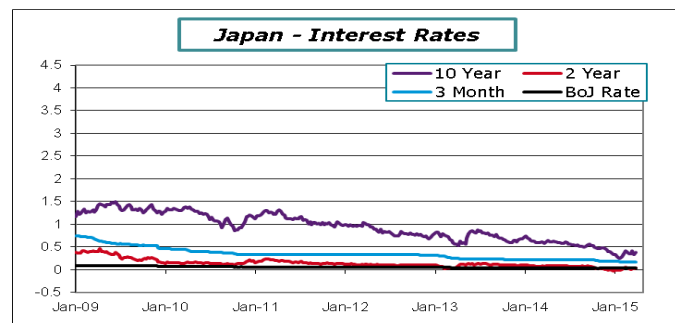
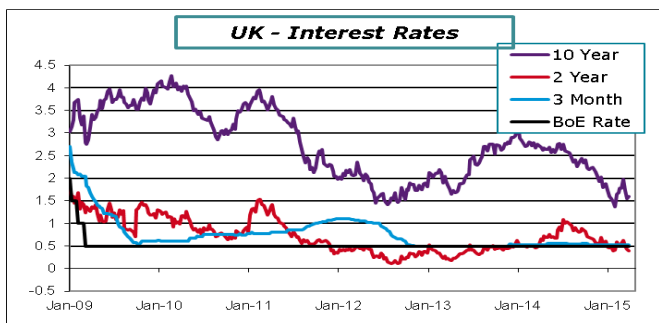
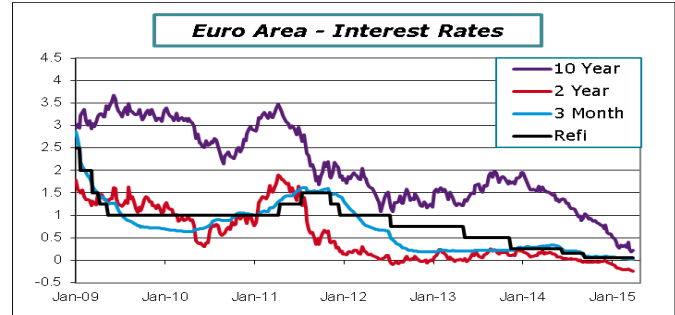
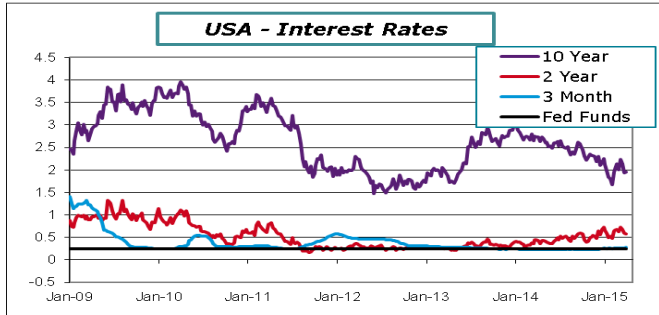
* 3 month interbank rate, [§] previous week

FOREX – GOLD – OIL MARKET – MARCH 27, 2015

	Level		Change			
	12/31/2014	03/27/15	1 week	YTD	1 year	
Euro – Dollar (var. + higher euro)	1.210	1.089	0.89	-10.00	-20.74	
Euro – Yen (var. + higher euro)	145.079	129.771	-0.03	-10.55	-7.52	
Euro – Sterling (var. + higher euro)	0.779	0.730	0.59	-6.30	-11.83	
Dollar – Yen (var. + higher dollar)	120.550	119.170	-1.31	-1.15	17.01	
Dollar – Sterling (var. + higher sterling)	1.559	1.488	-0.29	-4.58	-10.44	
Dollar – Yuan (var. + higher dollar)	6.206	6.215	0.16	0.14	0.03	
Oil Price (Brent)	Dollar	55.84	57.98	6.15	3.83	-46.19
	Euro	46.15	53.24	5.21	15.37	-32.11
Gold Price (Ounce)	Dollar	1186.33	1200.63	1.34	1.21	-7.35
	Euro	980.39	1102.44	0.44	12.45	16.88

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Financial Markets – March 27, 2015



Sources DataStream; Natixis AM; philippewaechter.en.nam.natixis.com

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