



## ECONOMIC RESEARCH DEPARTMENT

### Summary

#### United States

##### Ceasing purchases is the plan

Two rate hikes and a supposedly expansionary fiscal policy raise the question of the downsizing of the Fed's balance sheet.

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#### Italy

##### Monte dei Paschi: What's next?

MPS private recapitalisation had not met the expected success. The bank should be subject to a precautionary recapitalisation provided by the Italian state. The terms and conditions of MPS recovery plan need to be reassessed.

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#### Market overview

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#### Summary of forecasts

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Also in :



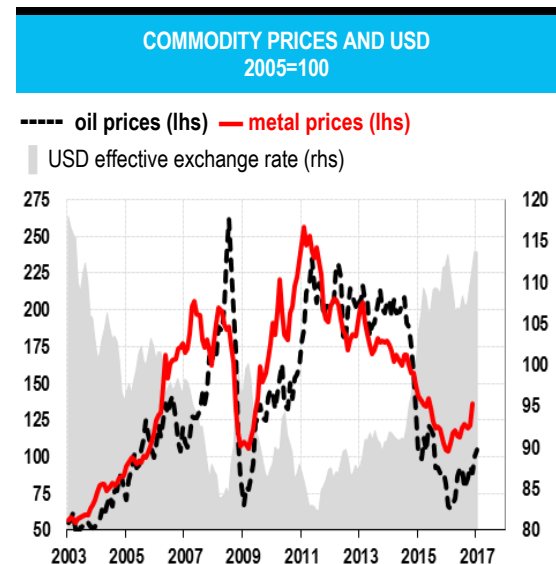
### Focus on a classical nexus

#### ■ The correlation between oil and metal prices and the USD has become positive during 2016 ■ However it remains fragile

Between 2003 and early 2016, the negative correlation between prices of oil and metals, on the one hand, and the USD on the other hand was the rule. Until 2010, this was the result of excess demand of commodities generating upward pressures on prices, and accommodative US monetary policy. From 2011 to mid-2014, as world growth was slowing, quantitative easing in the US maintained the USD at a low level and then reinforced the role of commodities as financial assets. Lastly, from mid-2014 to early 2016, a spike in risk aversion for emerging markets boosted the dollar at the expense of commodity prices.

During 2016, the correlation has become positive again. On the one hand, the recovery in industry and construction in China and growth acceleration in the US have triggered upward pressures on commodity prices again. On the other hand, US monetary tightening and the reduction in the energy trade deficit in the US, thanks to the development in shale gas & oil, are supportive factors for the USD.

Are those factors expected to last? Probably yes regarding the USD. But, the recovery in commodity prices remains fragile because supply of commodities may adjust relatively rapidly to demand, especially for oil, and there remain downward risks on the Chinese growth.



Sources: Datastream – IMF – BNP Paribas

THE WEEK ON THE MARKETS			
Week 13-1 17 > 19-1-17			
▼ CAC 40	4 922	► 4 841	-1.7 %
▼ S&P 500	2 275	► 2 264	-0.5 %
↗ Volatility (VIX)	11.2	► 12.8	+1.6 %
▼ Euribor 3M (%)	-0.33	► -0.33	-0.2 bp
↗ Libor \$ 3M (%)	1.02	► 1.03	+0.7 bp
↗ OAT 10y (%)	0.81	► 0.86	+4.2 bp
↗ Bund 10y (%)	0.18	► 0.38	+20.0 bp
↗ US Tr. 10y (%)	2.38	► 2.46	+8.0 bp
▼ Euro vs dollar	1.06	► 1.06	-0.1 %
↗ Gold (ounce, \$)	1 195	► 1 202	+0.6 %
▼ Oil (Brent, \$)	55.3	► 54.3	-1.8 %

Source: Thomson Reuters