



ECONOMIC RESEARCH DEPARTMENT

Summary

Eurozone

Four inflation criteria

Inflation surged in January, reaching 1.8%. ECB's target is far from achieved yet.

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China

The threat of capital outflows

"Stability" will be the top priority of China's authorities in 2017, but it will be hard to maintain a steady course. Downside risks on economic growth are substantial and capital outflows could also be a source of instability. Beijing is tightening capital control measures in order to curb depreciation pressures on the yuan and foreign reserves.

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Market overview

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Summary of forecasts

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Also in



Wait and see

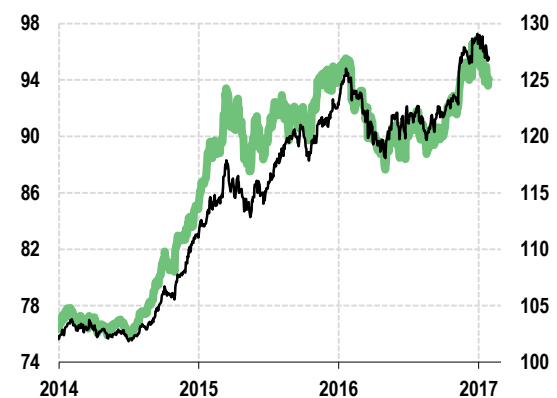
■ Fed leaves policy unchanged ■ FOMC more confident about inflation reaching target ■ Monetary path dependent on fiscal policy

Unveiling the details of its fiscal policy does not look like a top priority for the new US administration. This leaves the Fed in the dark and explains the wait-and-see mode. At the latest FOMC meeting, the Fed decided to leave rates unchanged and the rewording of the statement was more about grammar than about sense. While the strengthening in the business sentiment is noted, FOMC members also appear more confident in inflation reaching target in the medium-term. The target could actually be hit (and broken) in the very near future as the 2016 oil price rebound will feed large base effects in early 2017. Beyond the first half of 2017, however, it gets very difficult to forecast the path the US monetary policy will follow. Under the hypothesis that a large fiscal stimulus is actually implemented, the normalisation of the monetary policy would be sped up. Janet Yellen made it clear back in December that she and her colleagues viewed the output gap as closed, implying that a stimulus would overheat the economy. Absent such a fiscal stimulus, interest rates would be increased more gradually. All these remain dependent on the possible negative consequences on activity from tighter monetary and financial conditions since the November elections. In short, we do not know what the Fed will decide this year. Our only comfort is that we are definitively sure that the Fed itself does not know much more than we do...

USD EFFECTIVE EXCHANGE RATE

-- Major currencies ; -- Broad Index (r.h.s.)

January 1st, 1999 = 100



Source: Federal Reserve

THE WEEK ON THE MARKETS

Week 27-1 17 > 2-2-17

▼ CAC 40	4 840	► 4 794	-0.9 %
▼ S&P 500	2 295	► 2 281	-0.6 %
↗ Volatility (VIX)	10.6	► 11.9	+1.4 %
↗ Euribor 3M (%)	-0.33	► -0.33	+0.0 bp
▼ Libor \$ 3M (%)	1.04	► 1.03	-0.4 bp
▼ OAT 10y (%)	1.04	► 1.04	-0.3 bp
▼ Bund 10y (%)	0.46	► 0.43	-3.7 bp
▼ US Tr. 10y (%)	2.48	► 2.47	-1.0 bp
↗ Euro vs dollar	1.07	► 1.08	+0.9 %
↗ Gold (ounce, \$)	1 189	► 1 217	+2.4 %
↗ Oil (Brent, \$)	55.5	► 57.0	+2.8 %

Source: Thomson Reuters