# International developments

# Oil and raw materials

## The market has not yet found its equilibrium price

*In Q1 2015 oil prices rallied to reach $55.8 per barrel in March, after hitting $47 in mid-January, their lowest level since May 2009. This rebound is largely a result of the announcement of weaker investment by the major oil groups and the declining rig count in the United States. Since March oil prices have risen again, hovering around $65 in early June, still far below the levels seen one year ago ($103).*

*In Q2 2015, global supply should see a modest rise, while demand should fall slightly, leading to an increase in the surplus on the global market. In H2, global supply and demand should converge, thanks in large part to a decrease in unconventional oil production in the USA, while the dynamism of demand from the emerging economies should remain robust.*

*For forecasting purposes the per-barrel price has been nominally set at $65. Nonetheless, in a context where supply still outstrips demand, the price of Brent crude could fall again. The saturation of storage capacities in the USA could also weigh upon the price of crude. On the other hand, in addition to geopolitical uncertainty in the Middle East, the reduced rig count in the USA could weigh more heavily than expected on oil production in H2, leading to an increase in prices.*

### In Q1 2015, oil prices picked up slightly

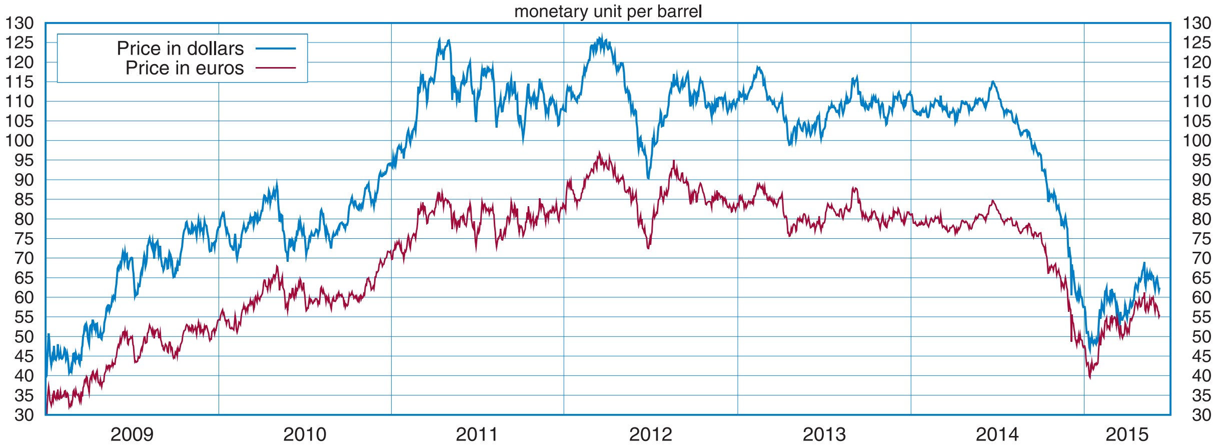
Having declined sharply since 2014, oil prices (Brent crude) hit their lowest level since May 2009 in mid-January 2015, to stand at $47 per barrel. The per-barrel price has since picked up, hovering at around $65 since late April (*Graph 1*). The announced reduction in the rig count in the USA, along with the decrease in investment by the major international oil companies, appear to be the principal factors behind the downward revision of production forecasts, and hence the rebound in the per-barrel price.

### In Q2 2015, supply should increase and demand decrease slightly

In Q2 2015, supply should increase slightly more noticeably than it did in the previous quarter: this rise should reach 0.2 million barrels per day (million bpd) in total (*Graph 2*). Despite the decrease in investments, unconventional oil output from the USA increased again in early 2015. Nonetheless, this output seems to have stabilised since the spring (*Graph 3*), which could limit the rise in output in Q2.

Meanwhile, global demand for crude oil should decrease slightly (-0.1 million bpd, *Graph 4*). The increase in demand from outside the OECD

**1 - Price of Brent in € and in $**




*Source: Macrobond*

countries, including both China and the Middle East, should be offset by a the decline in demand from Europe, the USA and Japan, due to a reduction in stocks and a downturn in petrochemical activities in these countries.

### In H2 2015, supply and demand should converge

In H2 2015, global production should decrease slightly (-0.1 million bpd on average in each quarter), particularly in the USA, Canada and Russia.

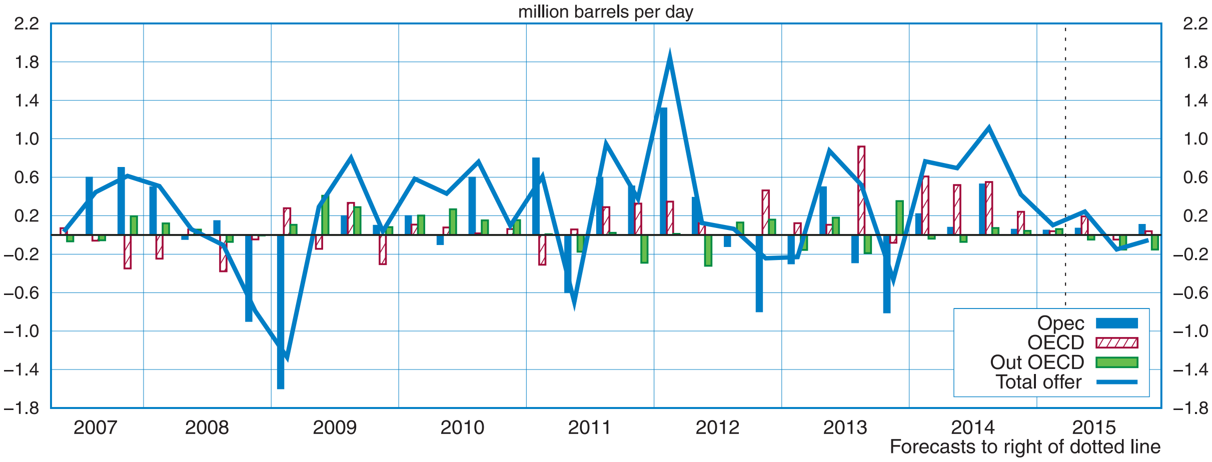
Meanwhile, global demand for crude oil should return to its previous trend (+0.3 million bpd then +0.4 million bpd in Q3 and Q4 2015), driven upwards primarily by demand from China and other non-OECD member countries.

### In this forecast, the price per barrel of crude is likely to hover around $65

The price of a barrel of Brent crude has been nominally set at its latest recorded price ($65 in early June 2015). Nevertheless, in a context where supply is still outstripping demand, the price of Brent crude could decline again. Furthermore, the framework agreement on the Iranian nuclear programme reached in early April could lead to a relaxing of the embargo on Iran's oil exports. An increase in Iranian output is not expected before the end of 2015, but such a development could have an impact on prices this year. American oil stocks are also particularly high, at their highest level for 80 years. The prospect of a saturation of storage capacities could help to drive down global prices.

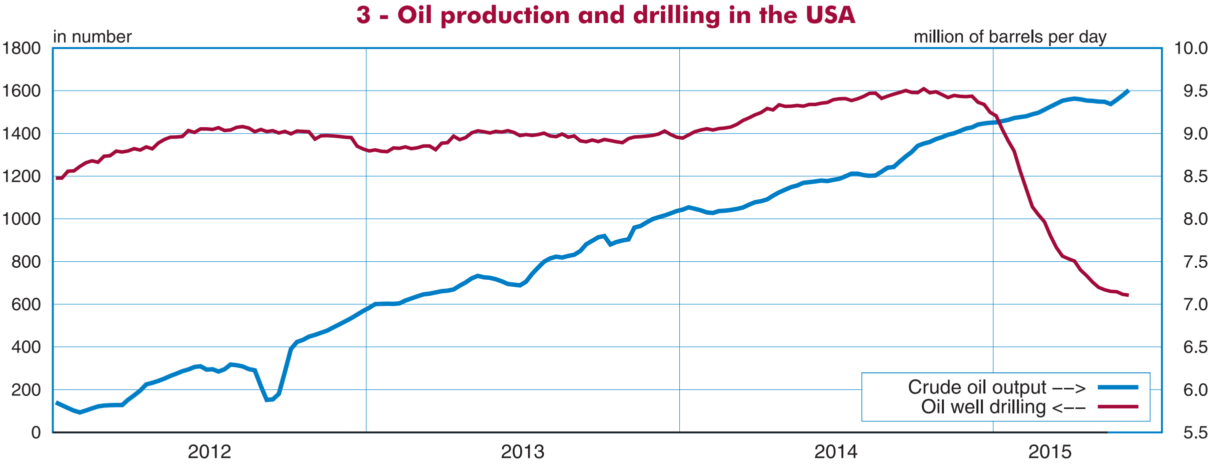
Conversely, geopolitical tensions in Iraq and Libya could limit production in both countries. The conflict in Yemen could also lead to an increase in prices: the country's output remains low (0.1 million bpd in April 2015 compared with 0.3 million bpd in late 2014), but the involvement of the region's leading oil-producing nations in this conflict could serve to aggravate the impact on oil prices, not least because any security threat affecting the Bab-el-Mandeb strait between Yemen and Djibouti could disrupt deliveries from the Gulf nations. Furthermore, the fall in the rig count in the USA could have a stronger-than-anticipated effect on the production of unconventional oil in H2, thus driving an increase in prices.

**2 - Principal contributing factors to the variation in global oil supply**




*Source: AIE*

**3 - Oil production and drilling in the USA**




*Source: Energy Information Administration, Baker Hughes*

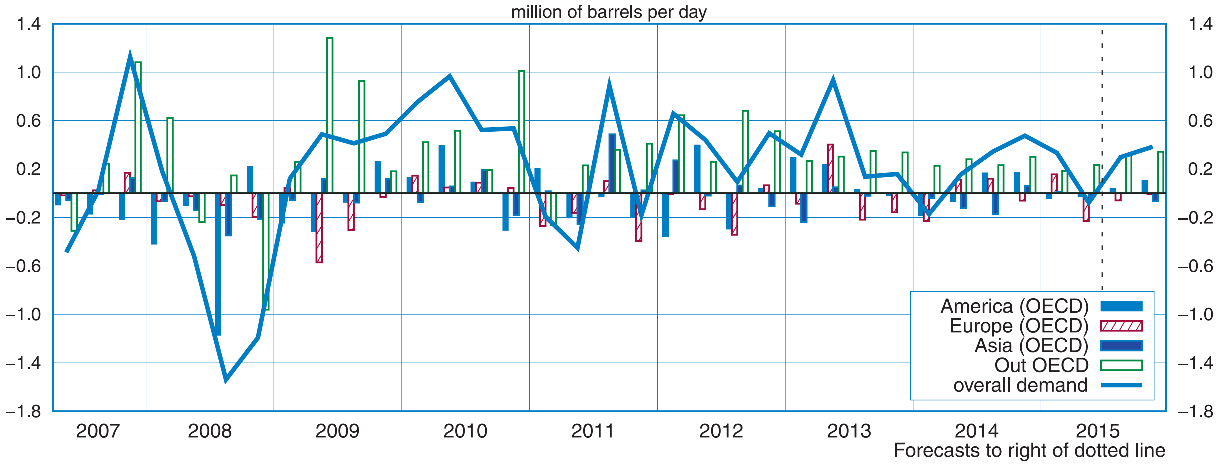
## In Q1 2015 prices of commodities increased significantly in Euros

Prices in Euros of commodities excluding energy rose sharply in Q1 2015 (+5.3%, *Graph 5*). This is a result of the depreciation of the Euro over this period: prices in dollars actually fell by 5.0%.

Agro-industrial commodities in particular saw significant price increases (+7.9%), specifically natural textile fibres (+10.4%) and paper pulp (+7.9%). Mineral prices bounced back (+2.9%), bolstered by the increase in the price of precious metals (+15.0%), primarily gold and silver. Iron ore prices, however, continued to fall (-6.7%).

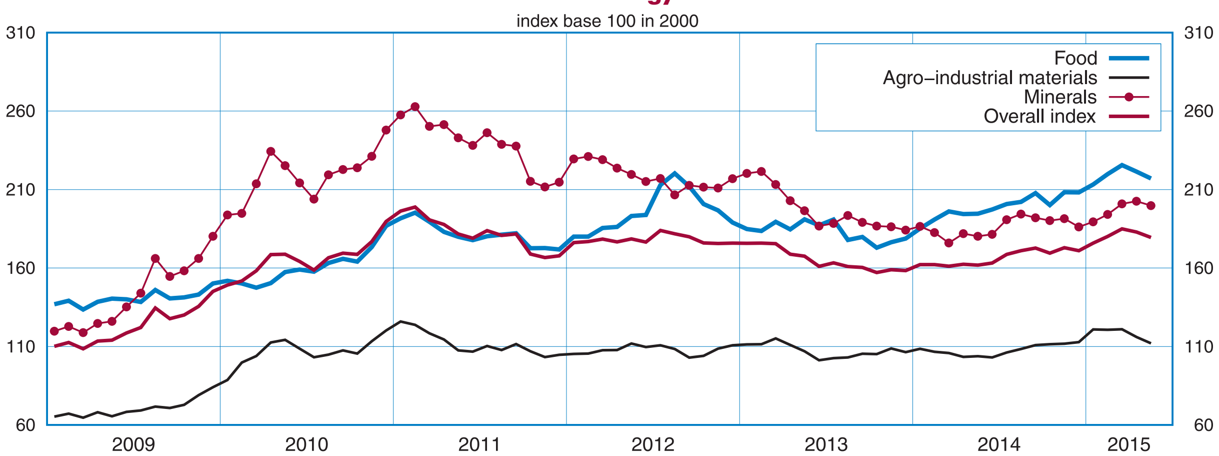
Food commodity prices also increased sharply (+6.8%), particularly as a result of the rising price of beef (+12.1%). ■

**4 - Principal contributing factors to the variation in global oil demand**




*Sources: AIE*

**5 - Prices of non-energy commodities**




*Source: INSEE*

# Financial markets

## The Fed reserves a tightening of its monetary policy for the end of the year

*After six years of stability at a minimal level, the Federal Reserve may increase its base interest rate in H2 2015, as the labour market continues to improve steadily. In the United Kingdom the end of the status quo in base rates is also on the horizon, but the lack of tension affecting wages and prices and the recent slowdown in activity may encourage the Bank of England to postpone any tightening of monetary policy until after the end of 2015. In Japan, the central bank is maintaining its expansionist policy and continues to substantially increase its monetary base.*

*Meanwhile, since March the ECB has been implementing the massive asset purchase programme announced in January 2015. One of the initial results of these operations was to put an end to the slide in inflation expected by the markets and a reduction in sovereign bond yields for all Eurozone countries except Greece. These rates nevertheless saw a pronounced rebound in early May and early June, partially correcting the sharp decrease seen in previous months.*

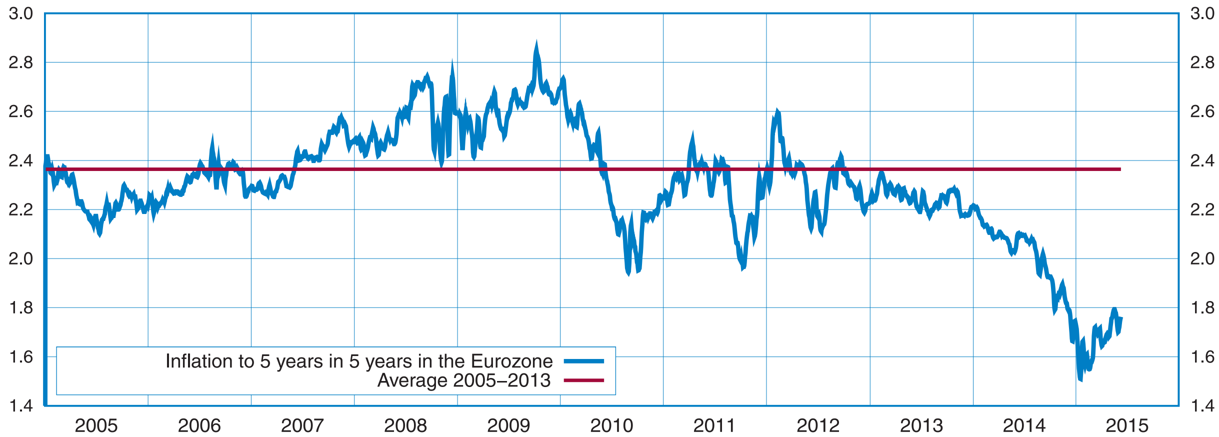
*At the same time, the Euro bounced back slightly in April after several months of decline. The conventional assumptions for stable exchange rates over the forecasting period are 1.12 Dollars, 140 Yen and 0.73 Pounds sterling to the Euro.*

### The Federal Reserve should raise its interest rates before the end of the year

With improvement in the labour market and an improved outlook for inflation, the Fed should raise its base rates in H2 2015 - there appears to be a consensus emerging among market players that an initial increase could come in the autumn. This increase would put an end to more than six years of stability in the Fed's base rate, fixed at 0.25%. In the United Kingdom the continuous fall in the unemployment rate also seems to be heralding the end of the status quo in interest rates. Nevertheless, the lack of tension affecting wages and prices and the recent slowdown in activity may see any tightening of monetary policy pushed back beyond the end of 2015: the Bank of England should thus maintain both interest rates and its balance sheet at their current levels until the end of the year. In Japan the central bank is still pursuing an expansionist policy, and continues to increase its monetary base at a rate of 80,000 billion yen per annum, equivalent to 16 GDP points.

Since March 2015 the European Central Bank (ECB) has been implementing an extensive programme of asset purchasing, including public debt. The Eurosystem is now buying up €47.5 billion of public debt every month, as well as €12.5 billion of private securities, amounting to total purchases of €60 billion per month, in line with the targets set out in January 2015. The scale of this

**1 - Inflation expectations in the Eurozone**




*Source: Macrobond*

programme has served to increase the ECB's balance sheet (up to 28 Eurozone GDP points by the end of the year) and put an end to the fall in inflation expected by the markets: five-year, five-year forward inflation, calculated from inflation swaps, rose to almost 1.8% in early May 2015 (*Graph 1*), which nonetheless remains well below the average for the period 2005-2013 (2.4%).

## Persistent signs of fragmentation on the interbank market in the Eurozone

After broadly stabilising in late 2014, imbalances in the TARGET2 interbank payment system deteriorated again in early 2015: Germany's balance increased while the deficits of certain peripheral countries, already very large, grew further still, indicating that German banks are still reluctant to finance banks in Southern European nations, and particularly the Greek banks.

Furthermore, outstanding deposits by resident non-financial agents fell by over 19% year-on-year in Greece, reflecting a large-scale outflow of capital linked to fears of potential restrictions on the movement of capital, or even a Greek default.

## Outstanding loans to NFCs are stabilising in the Eurozone

After three years of decreases, outstanding loans to non-financial corporations in the Eurozone stabilised in April 2015. In Italy and Spain, companies continued to deleverage in early 2015: the fall in outstanding loans, which was particularly pronounced in late 2013, continues, albeit at a less dramatic pace (*Graph 2*). In France and Germany the increase in outstanding loans has consolidated since summer 2014, but remains modest in Germany.

Borrowing rates for business loans still vary widely across the Eurozone, a sign that the capital market remains fragmented. Average interest rates applied to new loans to Italian and Spanish companies are still almost one point higher than those applied to business loans to German and French companies. However, this gap has narrowed in the last few months, first in Italy, then more recently in Spain.

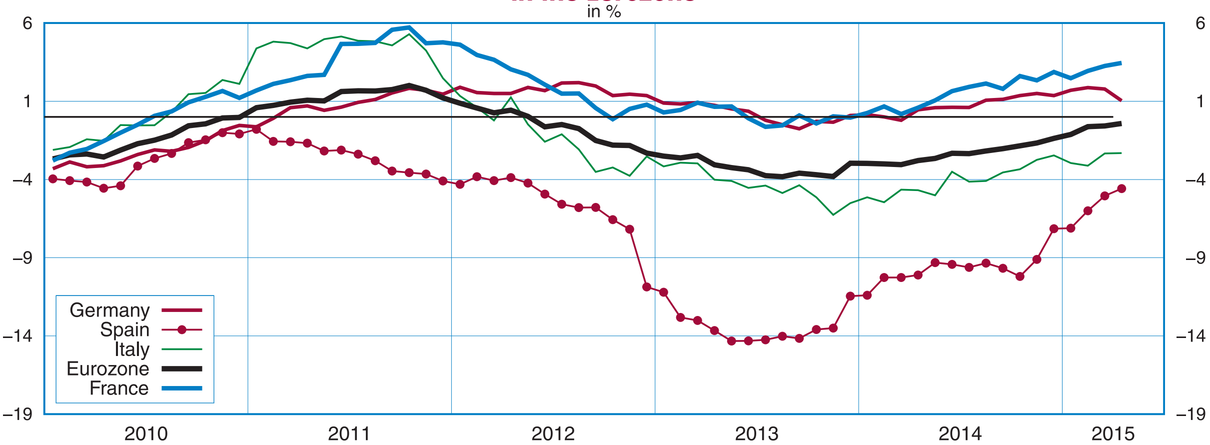
## After a significant decrease in Q1, sovereign rates rallied in the spring

Lending conditions in Germany and France reached a low point in Q1 2015 (*Graph 3*). As a result of the ECB's asset purchase programme, both countries enjoyed increasingly favourable financing conditions (ten-year rates at 0.1% and 0.4% respectively in April). Nonetheless, European sovereign yields bounced back sharply in early May and early June, partially correcting the recent fall, and the German ten-year bond yield exceeded 0.8%. This rebound in sovereign yields could represent a correction for previous expectations regarding inflation and the ECB's monetary policy.

Meanwhile, the negotiations between Greece and its creditors have revived concerns on the markets. The prospect of a restructuring of Greek debt has become increasingly likely, but the conditions are largely still to be determined. As the wait continues, Greek ten-year bond yields rose sharply to exceed 13% in late April, for the first time since late 2012. Nonetheless, in the other countries affected by the sovereign debt crisis of 2011 (Spain, Portugal, Ireland), the Greek risk contagion seems to have been contained. In spite of a short-lived and limited increase in their lending rates in April, when fears over the Greek debt situation were at their highest, the return to normal of their financing conditions is now well-established.

**2 – Annual growth rate of the volume of outstanding loans to non-financial corporations in the Eurozone**

in %

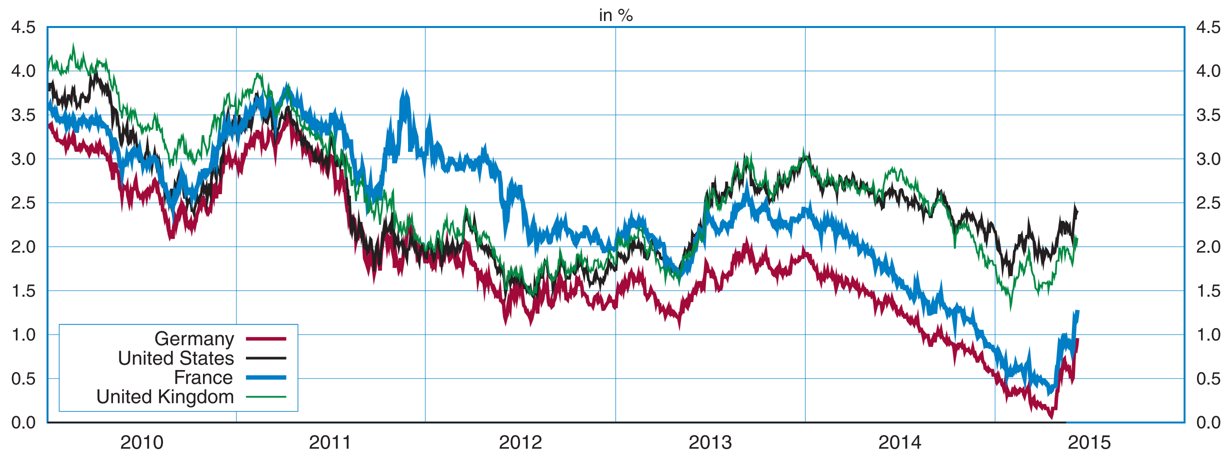



*Source: European Central Bank*

## Euro exchange rates remain low, despite a rebound in April

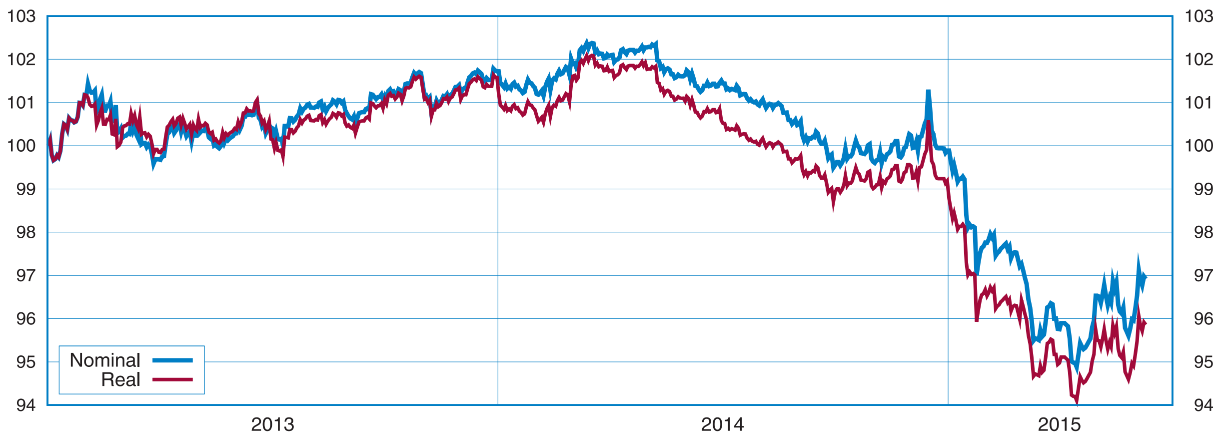
In Q1 2015, expectations of quantitative easing in the Eurozone and the subsequent introduction of this policy took their toll upon the exchange rate of the single currency. The real effective exchange rate for France, which had fallen sharply, rebounded in late April (*Graph 4*), but still remains 6 points below its April 2014 level. Under the conventional assumptions for stable exchange rates over the forecasting period (1.12 Dollars, 140 Yen and 0.73 Pounds sterling to the Euro), France's real effective exchange rate should continue to fall in Q2 (-1.0%), before virtually stabilising in H2 (+0.4% then +0.2% in Q3 and Q4). ■

**3 - Ten-year sovereign yields**




*Source: Macrobond*

**4 - Effective exchange rate for France**




*Source: European Central Bank, Insee*

# Eurozone

## Recovery spreading

*In Q1 2015, activity in the Eurozone maintained the same pace of growth as in late 2014 (+0.4%), due in particular to strong momentum in France (+0.6%) and in Spain (+0.9%). Activity should grow at a similar pace through to the end of 2015 (+0.4% in Q2, then +0.5% in Q3 and Q4), driven mainly by domestic demand. All in all, growth should reach +1.4% in 2015, after +0.9 % in 2014. This sharp acceleration should come from France, Italy and Spain. It should be primarily driven by the upturn in household purchasing power, which should sustain household consumption, and by increasingly robust productive investment. Germany should maintain the momentum it regained in 2014 (+1.6%).*

### Eurozone GDP has maintained the pace of growth achieved at the end of 2014

The recovery has been consolidated in the Eurozone and activity in Q1 2015 grew at the same pace as in the previous quarter (+0.4%). Domestic demand, and particularly household consumption, progressed significantly, while strong imports weighed down on growth. The acceleration was particularly noticeable in France (+0.6% after 0.0%), while Italy also returned to growth (+0.3 % after 0.0%). The Spanish economy also surged once again (+0.9% after +0.7%), whereas German growth was at a standstill (+0.3% after +0.7%), again adversely affected by foreign trade.

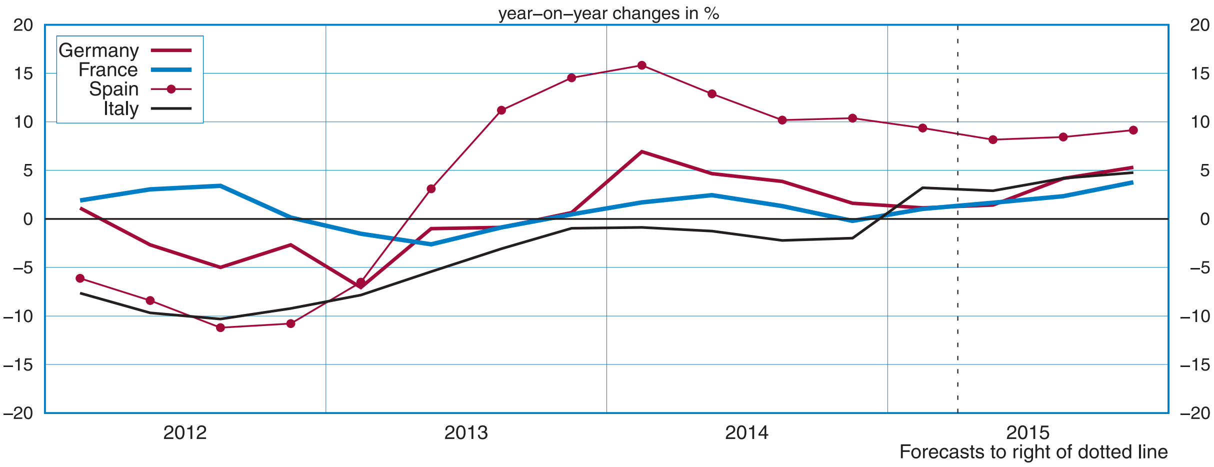
### A rebound in foreign trade should sustain growth in Q2

In the Eurozone, the business climate kept to a level close to its long-term average, which suggests that activity should keep the same pace of growth in Q2 (+0.4%). Household consumption is expected to slow down (+0.4% after +0.5%), most notably in France in reaction to a particularly dynamic Q1. Investment in construction should drop, particularly in France, Italy and Germany. Conversely, foreign trade should sustain growth (contribution of +0.1 points after -0.2 points): imports, which were very strong in Q1, particularly in France and Germany, should slow down in a backlash effect.

### Domestic demand should take over in H2

In H2, growth should remain vigorous (+0.5% per quarter), driven by domestic demand. The labour market situation should improve in the Eurozone and the unemployment rate should once again fall, down to 10.6% at the end of 2015, against 11.5% one year previously. This should encourage an upturn in real wages over the year and, along with a rise in employment, produce purchasing power gains which should be substantial enough to maintain the momentum of household consumption (+0.5% per quarter). Country by country, the situation remains contrasted: Spanish household consumption should again increase

**1 - Investment in capital goods in the Eurozone**




*Sources: National Statistical Institutes, INSEE forecasts* rapidly (+1.0% per quarter) and that of Germany should remain sustained (+0.6% then +0.7%), whereas consumption should grow more moderately in France (+0.3 % then +0.4%) and in Italy (+0.2% per quarter).

### Growth marked by the upswing in productive investment

In 2015, productive investment is likely to be buoyed up by an upturn in activity and should gradually accelerate throughout the Eurozone (+0.9% in Q2, +1.3% in Q3 and +1.5% in Q4, *Graph 1*). It should pick up in Italy in particular, after three years of decline.

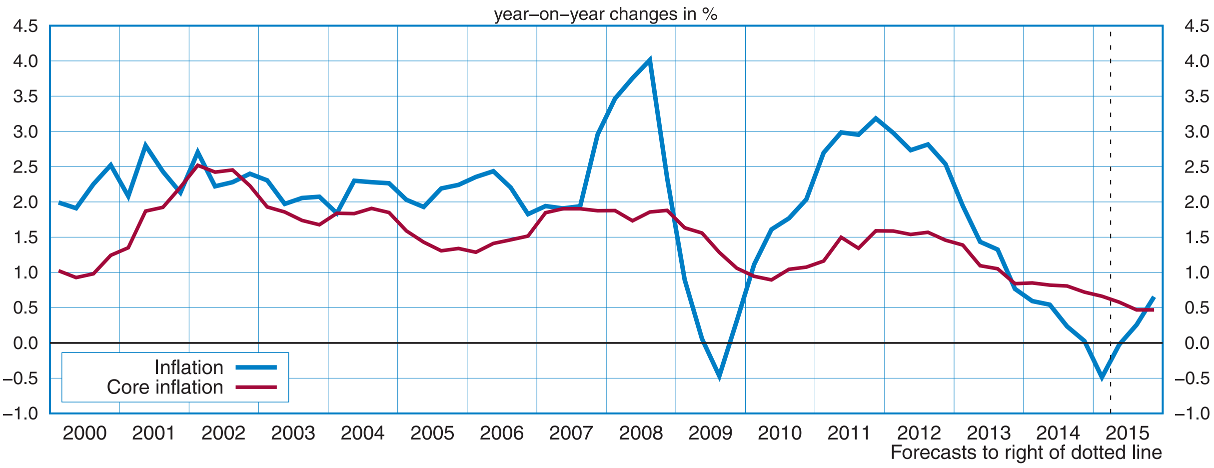
### The decline in core inflation expected to come to a halt

Core inflation should almost totally stop declining throughout the Eurozone: it should reach +0.5% at the end of the year, against +0.6% in May and +0.8% at the end of 2014. The past fall in oil prices led to a one-off decline in prices in Q1 2015 (-0.5%). With the price of oil expected to pick up slightly in Q2, energy prices should rebound somewhat (+2.7% compared to the previous quarter after -4.4%). All in all, headline inflation should recover over the course of the year, reaching +0.7% by the end of 2015 after a low point in Q1 2015 (-0.5%, *Graph 2*).

### Cyclical divergences are expected to diminish in the Eurozone

Growth is expected to remain variable between Eurozone countries, but the divergences should diminish a little: Spain should continue its rapid recovery (+0.9% in Q2 then +0.8% per quarter in H2), sustained as in 2014 by corporate investment and household consumption, but also by the recovery of activity in construction. Growth should be more moderate in Germany (+0.5% per quarter) and in France (+0.3% in Q2 and Q3 then +0.4% in Q4), sustained primarily by household consumption. In Italy, corporate investment should cease to weigh down on growth, which should remain modest (+0.2% to +0.3% per quarter). ■

**2 – Inflation in the Eurozone**




*Sources: Eurostat, INSEE forecasts*