Week ahead

Markets look towards Turkey
How much Trump can German economy bear?

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Crash of lira puts pressure on Turkish borrowers

At the end of the week, global markets were in a state of perturbation, caused by the crash of the Turkish lira. Concerns focus on foreign currency debt, especially of Turkish companies. The lira has lost 20% against the dollar since the beginning of August, which triggered an increase of unhedged foreign currency debt. This led to higher concerns about the Turkish banks and the European banks that provided the financing. The situation was heated up by media reports stating that the Single Supervisory Mechanism of the ECB is increasingly concerned about the exposure of European to Turkish banks. The current situation was not yet denoted as critical. The sources were not named. The political situation certainly adds to the increasing instability. The ‘common’ reaction of a central bank with a pressurized currency would be to stabilize the situation through interest rate hikes. It seems that markets doubt that this is going to happen to a sufficient extent, as President Erdogan has repeatedly expressed his preference for low interest rates and in an interview in May pointed to his increased influence on monetary policy, in the case of his re-election. In total, this environment led to a search for safe havens on the markets during recent days. Government securities with the highest ratings, the Swiss franc and US dollar, rose. The Turkish lira already had some periods of crisis in the past, but stabilized regularly. In general, one can say that the dynamics and their development in such an environment of market turbulence are unforeseeable. It is quite possible that Turkey might keep the markets busy for a longer period of time.

Germany reports economic growth for second quarter

Next week, further information about the development of the Eurozone economy will be published. A first flash estimate had shown a 0.3% growth rate of the economy compared to the previous quarter. This corresponds to a slight slowdown compared to the growth rate of 0.4% in the first quarter. It is not known yet how the growth is distributed among the (large) countries and across individual sectors. The next week should shed more light on that matter in this regard. Up to now, of the four large countries, only Spain has reported a first estimate, which amounted to +0.6%, after +0.7% in the first quarter. Germany will report the corresponding figures next week. The distribution among the sectors will be described only verbally at first; the respective figures will be handed out in a few weeks.

The German data should be given special attention from the markets in many respects. First of all, Germany is by far the biggest economy of the Eurozone; secondly, it has been the engine of the economy so far, and finally, as the ‘global export champion’, it is the best indicator of how the trade disputes, which have existed since spring, affect the economy. The focus will probably not be on the impacts on the exports themselves, but on consumption and investments. In fact, the sentiment indicators have

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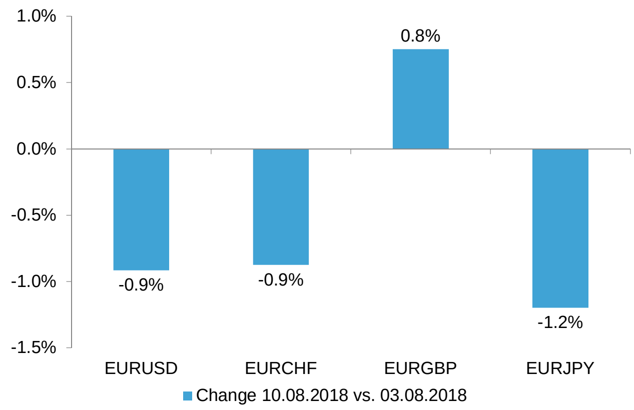
shown a significantly weaker assessment of the production in Germany since the beginning of the year. At the same time, consumer confidence for the economy has also suffered. The question is how much of an impact on the growth rate this had in the second quarter.

We expect that it will be crucial for the markets how the German growth rate totals relative to the Eurozone average. Lower values would likely weigh on sentiment, while higher values could brighten the mood, as this would indicate resilience to the unfavorable environment. In the first quarter, the German economy grew at a slightly slower rate compared to the average of the Eurozone.

From our perspective, growth in the Euro Area should have touched bottom in the second quarter, as suggested by first indicators for the third quarter. We expect a slight acceleration. In general, the downturn in the first half of the year is, however, lasting. The reasons for this were probably only partly the latent trade disputes. In the second half of 2017, the growth was so high that a slowdown was unavoidable. This was probably intensified by the campaign rhetoric of the American president. In this regard, there are signs of a slight improvement at present. We therefore maintain our guidance of a solid economic situation in the Eurozone in the second half of the year. However, the final months of the year will not pass by without risks. If the expectations for a hard Brexit condense and/or the trade dispute with the US reaccelerates, this would cause uncertainty again and therefore have a negative impact.

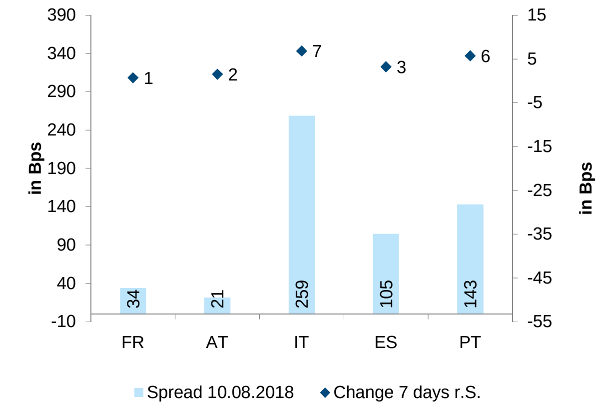
Forex and government bond markets

Exchange rates EUR: USD, CHF, GBP and JPY
change last week
(+ stronger euro / - weaker euro)



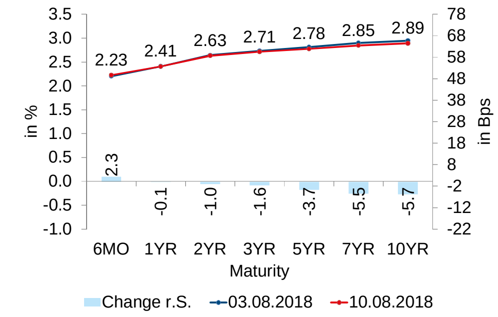
Source: Bloomberg, Erste Group Research

Eurozone – spreads vs. Germany
10Y government bonds



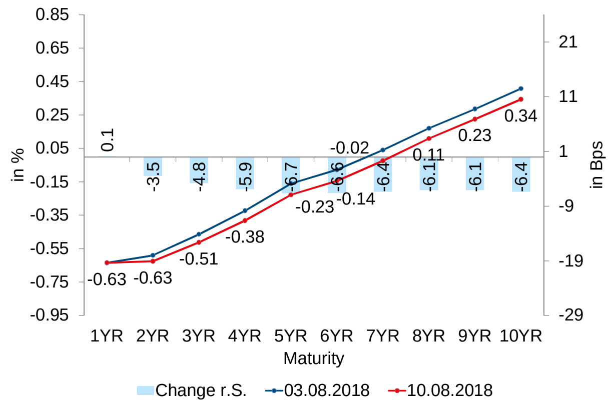
Source: Bloomberg, Erste Group Research

US Treasuries yield curve
change last week



Source: Bloomberg, Erste Group Research

DE Bund yield curve
change last week



Source: Bloomberg, Erste Group Research

Economic calendar

Date	Time	Ctry	Release	Period	Consens	Prior
10-Aug	n.a.	CN	CNY new loans	Jul	1269bn	1840bn
		CN	M2 yoy	Jul	8%	8%
	8:45	FR	Ind. Prod. y/y	Jun	1.2%	1.7%
	10:00	IT	Trade Balance	Jun		5071m
	14:30	US	Inflation y/y	Jul	2.9%	2.9%
		US	CPI m/m	Jul	0.2%	0.1%
13-Aug	10:00	IT	Inflation y/y	Jul F	1.9%	1.9%
14-Aug	n.a.	CN	Ind. Prod. y/y	Jul	6.3%	6.0%
	8:00	DE	GDP q/q	2Q P	0.4%	0.3%
		DE	GDP y/y	2Q P	2.1%	2.3%
		DE	Inflation y/y	Jul F	2.1%	2.1%
		DE	CPI m/m	Jul F	0.4%	0.4%
	8:45	FR	CPI m/m	Jul F	-0.1%	-0.1%
		FR	Inflation y/y	Jul F	2.6%	2.6%
	11:00	EA	GDP q/q	2Q P	0.3%	0.3%
		EA	Ind. Prod. y/y	Jun	2.6%	2.4%
		EA	GDP y/y	2Q P	2.1%	2.1%
15-Aug	n.a.	US	Ind. Prod. y/y	Jul		3.8%
	14:30	US	Retail Sales mom	Jul	0.2%	0.5%
16-Aug	11:00	EA	Trade Balance	Jun		16885m
	14:30	US	Jobless Claims	-	218.9 thd	213.0 thd
17-Aug	n.a.	AT	Inflation y/y	Jul		2.3%
		AT	CPI m/m	Jul		0.1%
	10:00	IT	CA Balance (m)	Jun		2226 m
		EA	CA Balance (m)	Jun		22 m
	11:00	EA	CPI m/m	Jun	-0.3%	-0.3%
		EA	Inflation y/y	Jun	2.1%	2.1%
	16:00	US	Univ. Michigan Index	Jun	97.8 index	97.9 index

Source: Bloomberg, Erste Group Research

FORECASTS[1])

GDP	2015	2016	2017	2018	2019
Eurozone	2.0	1.8	2.4	2.3	2.2
US	2.9	1.5	2.3	2.8	2.2

Inflation	2015	2016	2017	2018	2019
Eurozone	0.1	0.2	1.5	1.7	1.7
US	0.1	1.2	2.2	2.2	1.9

Interest rates	current	Sep.18	Dec.18	Mar.19	Jun.19
ECB MRR	0.00	0.00	0.00	0.00	0.00
3M Euribor	-0.32	-0.30	-0.30	-0.30	-0.30
Germany Govt. 10Y	0.35	0.60	0.70	0.90	1.00
Swap 10Y	0.90	0.90	1.00	1.20	1.30

Interest rates	current	Sep.18	Dec.18	Mar.19	Jun.19
Fed Funds Target Rate*	1.91	2.13	2.38	2.63	2.88
3M Libor	2.34	2.40	2.70	2.90	3.20
US Govt. 10Y	2.89	3.20	3.30	3.50	3.50
EURUSD	1.15	1.14	1.13	1.15	1.16

*Mid of target range

In case of changes to our forecasts compared to the previous issue, arrows show the direction of the change.

Source: Bloomberg, Erste Group Research

[1] By regulations we are obliged to issue the following statement: Forecasts are no reliable indicator for future performance

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