

Week ahead

IT – Budget dispute with Brussels goes into next round

US – Political pressure on Trump to increase

EZ – We expect slightly higher inflation for 2018-19

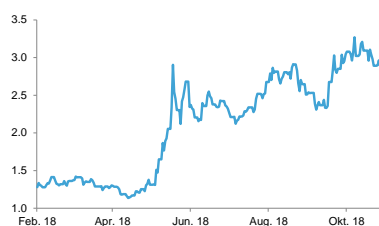
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Riskspread 10 year bonds IT vs. DE



Source: Bloomberg, Erste Group Research

IT – Commission expects higher deficit for Italy

Since Italy's current budget draft for 2019, and beyond, deviated substantially from the requirements of the Stability and Growth Pact (see our [Week ahead](#) from October 19), on October 22 the European Commission asked Italy to revise the draft budget. The deadline set by the EC for revising the budget will expire next week, on November 13.

Perhaps Italy's Treasury Secretary Tria will try to better justify the expected growth stimulus triggered by the significant increase in government spending. However, apart from that, we do not expect any significant concessions from Italy. The EC will therefore have to carry out its objective assessment on the existing figures. To conclude the assessment, the EC has, starting from November 13, approx. three weeks. A result should therefore be available by December 4 at the latest. Accordingly, Italy's budget will also be the focus of the monthly meeting of the Eurogroup finance ministers on December 3. The EC is already forecasting a substantial rise of the deficit to -2.9% of GDP for 2019 as part of its autumn forecast based on Italy's current budget draft (Italy expects a deficit of -2.4%). Italy's government debt will not fall, according to the calculations of the EC, but should stabilize at around 131% of GDP. According to the current situation, therefore, the opening of a deficit procedure against Italy can hardly be averted in our opinion. The risk spreads for Italian government bonds have recently narrowed a bit when compared to the highs seen in October. However, in the course of the evaluation of the budget by the EC, tensions between Brussels and Rome could again arise. This might trigger a widening of risk spreads. The conflict could very well drag on far into next year.

Results of Robert Mueller's investigation pending

With this week's mid-term elections, the political risks arising from the US have not yet been overcome. This is not primarily due to the majority regained by the Democrats in the House of Representatives, but rather because the results of Robert Mueller, the special investigator, will come into focus. In the run-up to the elections, Mueller probably refrained from reporting in order not to expose himself to accusations of exerting influence. Mueller is investigating a number of allegations against President Trump and his former election campaign team. What these investigations will bring to light is completely uncertain. However, domestic political pressure on the president will probably increase, as the now strengthened opposition will in any case try to benefit from the results of the investigation. The Democrat majority in the House of Representatives would make it possible to initiate impeachment procedures against the president. For this, however, the accusations would have to be severe, because otherwise the population would probably fail to understand the

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Indications of past performance are no guarantee of a positive performance in the future

need for such a step. The procedure for the removal from office would then find its way into the Senate. A two-thirds majority would be necessary for a removal from office. This is unrealistic from today's point of view, all the more as the Republicans were able to expand their majority in the Senate. All in all, we expect charged political debate and an increase in domestic pressure on the president in the coming weeks. In order to have a clear influence on the markets, however, the investigations would have to point to very serious offences. We are currently assuming that this will not happen. Due to the uncertainty, we expect only slight support for US Treasuries, which should only be temporary.

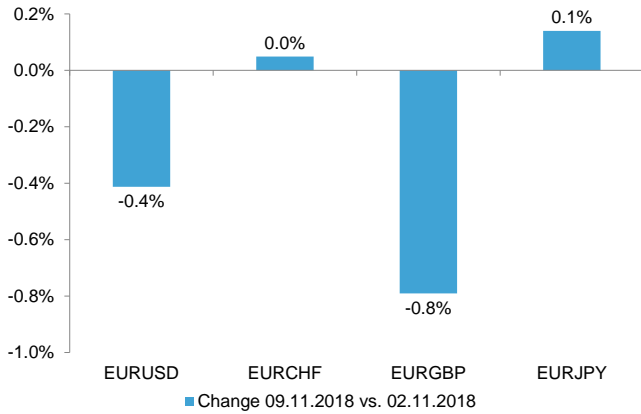
Eurozone – We expect slightly higher inflation for 2018-19

Since May, the headline inflation rate has been fluctuating close to the price stability level. This rise in inflation was primarily supported by the strong growth in energy and food prices. In view of the EIA oil price forecast and our estimation of the electricity price development, we expect energy and fuel prices to keep these strong dynamics well into the first half of 2019. Afterwards, the main driver of the price increase should become core inflation, as the recent favorable macroeconomic and labor market developments in many Eurozone countries already exercise upward pressure on wages. This process should further accelerate in 2019.

Due to the above-mentioned factors, we have adjusted upward our inflation forecast from 1.7% to 1.8% for 2018 and from 1.8% to 1.9% for 2019. From 2019, the main contribution to the price increase should come from core inflation.

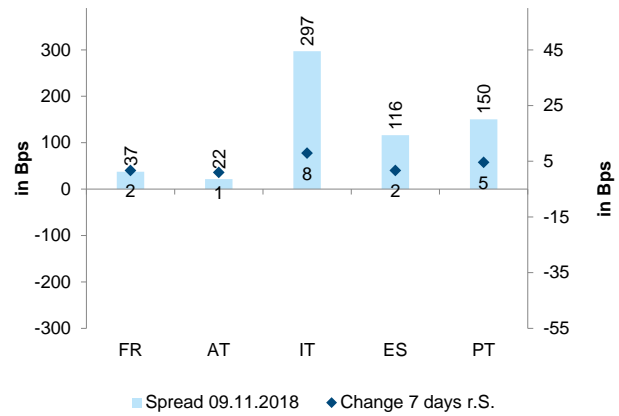
Forex and government bond markets

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



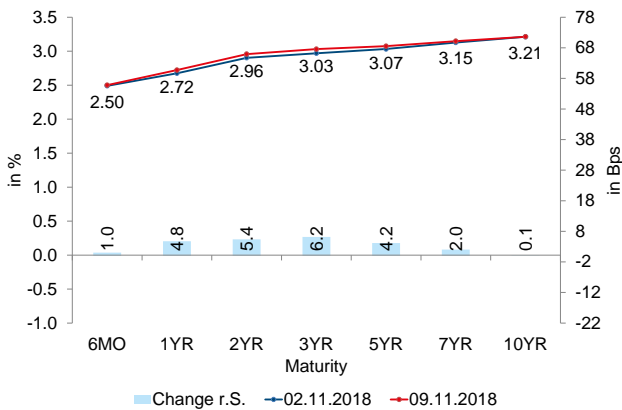
Source: Bloomberg, Erste Group Research

Eurozone – spreads vs. Germany
10Y government bonds



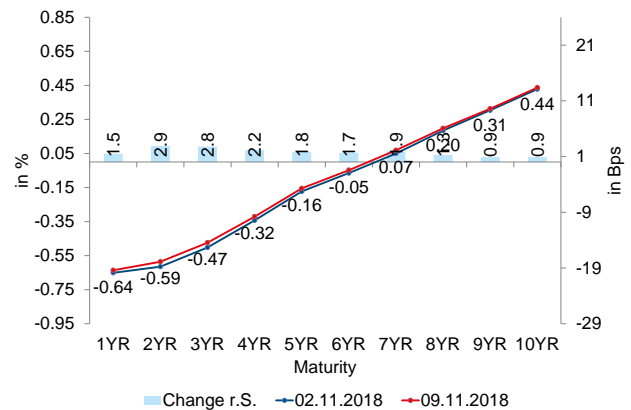
Source: Bloomberg, Erste Group Research

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
9-Nov	3:30	CN	Inflation y/y	Oct	2.5%	2.5%
		CN	PPI y/y	Oct	3.3%	3.3%
	8:45	FR	Ind. Prod. y/y	Sep	0.9%	-1.1%
	14:30	US	PPI y/y	Oct	2.6%	2.6%
	16:00	US	Univ. Michigan Index	Nov P	97.9 index	98.6 index
10-Nov	n.a.	CN	CNY new loans	Oct	974bn	1380bn
		CN	M2 yoy	Oct	8%	8%
12-Nov	10:00	FR	Cap Util.	Oct		80.0%
		IT	Ind. Prod. y/y	Sep		-0.8%
13-Nov	8:00	DE	Inflation y/y	Oct F	2.4%	2.4%
		DE	CPI m/m	Oct F	0.1%	0.1%
14-Nov	n.a.	CN	Ind. Prod. y/y	Oct	5.8%	5.8%
		DE	GDP q/q	3Q P		0.5%
	DE	GDP y/y	3Q P	1.3%	2.0%	
	8:45	FR	CPI m/m	Oct F		0.1%
		FR	Inflation y/y	Oct F		2.5%
	11:00	EA	GDP q/q	3Q P	0.2%	0.2%
		EA	Ind. Prod. y/y	Sep	0.7%	0.9%
		EA	GDP y/y	3Q P	1.7%	1.7%
		14:30	US	Inflation y/y	Oct	2.5%
	US		CPI m/m	Oct	0.3%	0.1%
15-Nov	11:00	EA	Trade Balance	Sep		16573m
	14:30	US	Retail Sales mom	Oct	0.5%	0.1%
		US	Jobless Claims	-	213.0 thd	214.0 thd
16-Nov	n.a.	AT	Inflation y/y	Oct		2.1%
		AT	CPI m/m	Oct		1.2%
		US	Ind. Prod. y/y	Oct		5.1%
	11:00	IT	Inflation y/y	Oct F		1.7%
		EA	CPI m/m	Oct	0.2%	0.2%
	12:00	EA	Inflation y/y	Oct F	2.2%	2.2%
		IT	Trade Balance	Sep		2564m

Source: Bloomberg, Erste Group Research

FORECASTS¹⁾

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

Inflation	2015	2016	2017	2018	2019
Eurozone	0.1	0.2	1.5	1.8 ↑	1.9 ↑
US	0.1	1.2	2.2	2.4	1.8

Interest rates	current	Dec.18	Mar.19	Jun.19	Sep.19
ECB MRR	0.00	0.00	0.00	0.00	0.00
3M Euribor	-0.32	-0.30	-0.30	-0.30	-0.10
Germany Govt. 10Y	0.44	0.50	0.70	0.90	1.10
Swap 10Y	0.97	0.80	1.00	1.20	1.40

Interest rates	current	Dec.18	Mar.19	Jun.19	Sep.19
Fed Funds Target Rate*	2.20	2.38	2.63	2.88	3.13
3M Libor	2.60	2.70	2.90	3.20	3.40
US Govt. 10Y	3.21	3.00	3.20	3.40	3.50
EURUSD	1.13	1.13	1.15	1.16	1.18

*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

Erste Group Research

Week ahead | Macro, Fixed Income | Eurozone, USA

09 November 2018

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