

Week Ahead

Focus: US rate-setting meeting

Analyst:
Rainer Singer
rainer.singer@erstegroup.com

How dovish will FOMC be?

Next week the US Federal Reserve's interest rate-setting body (FOMC) will meet. The outcome of the meeting could set the markets in motion again before the end of the year. A rate hike is widely expected and should not surprise the markets. The outlook for the further development of monetary policy will be more exciting. Speeches by Jerome Powell, Chairman of the Central Bank, suggest that there will be a change here. Until now, the FOMC has communicated further gradual interest rate hikes. Over the past two years, this has meant quarterly interest rate hikes. After the interest rate hike next week, however, interest rates should have reached a level that will make a more differentiated approach necessary. Passages in Powell's speeches in which he pointed out both the risks of too fast and too slow interest rate hikes point in this direction for us. We therefore expect the FOMC to make further rate hikes dependent on incoming data and to communicate this new guidance to the markets next week.

For the markets, the new survey among local central bank governors and the Fed's Board of Directors will also be important. As always, special interest will be paid to interest rate expectations. In the last survey in September, the median of the estimates had corresponded to three rate hikes for 2019. However, the majority was tight and could shift, given the current uncertain environment. We expect the new median to fall to two rate hikes in 2019. This is certainly not a commitment by the FOMC, but "only" a current assessment. Furthermore, only slightly more than half of the participants in the survey also vote on the level of interest rates.

Overall, the central bank should communicate a more cautious stance to the markets, which is what the markets expect. At the same time, we do not believe that the interest rate decision-makers will fully adopt the currently very depressed mood on the markets. However, experience has shown that it is difficult for a more optimistic US Federal Reserve to affect the markets. The statements made by Chairman Jerome Powell at the press conference will also be important. We regard the current gloomy outlook of the markets for the economy as exaggerated and continue to expect three interest rate hikes next year. With the expected stronger significance of current data for interest rate decisions next year, however, the further interest rate path will become more uncertain.

Major Markets & Credit Research
Gudrun Egger, CEFA (Head)

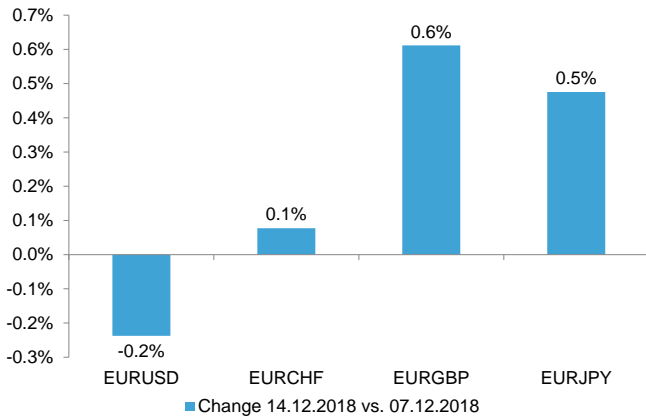
Rainer Singer (Senior Economist EZ, USA)
Gerald Walek, CFA (Economist EZ)
Margarita Grushanina (Economist AT)

Note: Past performance is not necessarily indicative of future results.



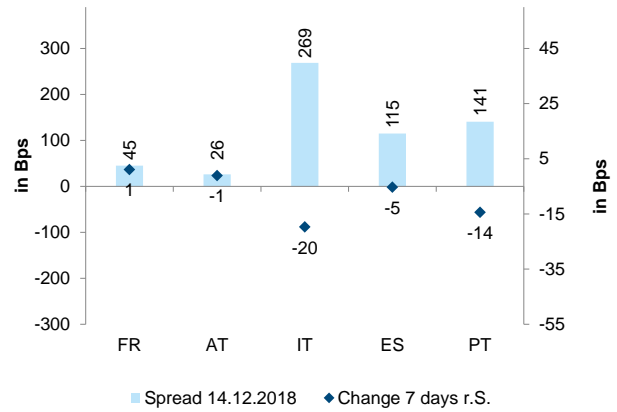
Forex and government bond markets

Exchange rates EUR: USD, CHF, GBP and JPY
 Changes compared to last week



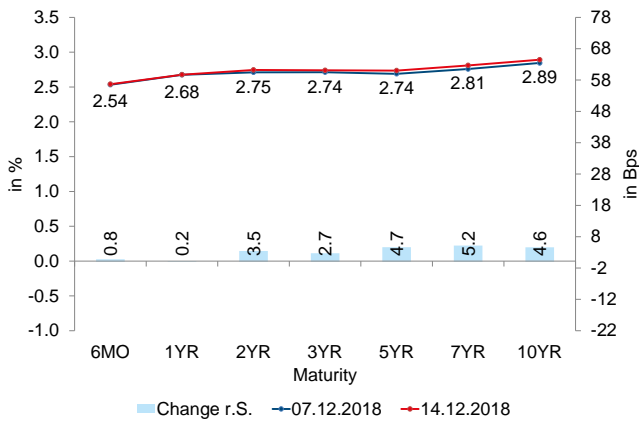
Source: Bloomberg, Erste Group Research

Eurozone-spreads vs. Germany
 10Y government bonds



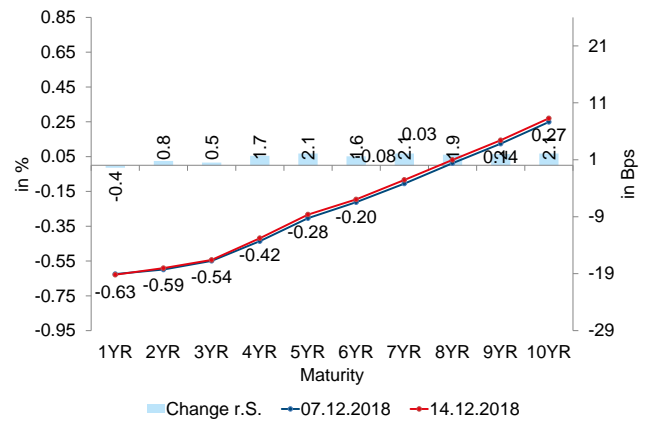
Source: Bloomberg, Erste Group Research

US Treasuries yield curve
 Changes compared to last week



Source: Bloomberg, Erste Group Research

DE Bund yield curve
 Changes compared to last week



Source: Bloomberg, Erste Group Research

Economic calendar

Date	Time	Ctry	Release	Period	Consens	Prior
14-Dec	n.a.	CN	Ind. Prod. y/y	Nov	5.9%	5.4%
		US	Ind. Prod. y/y	Nov		4.1%
	9:15	FR	PMI Manufacturing	Dec P	50.7 index	50.8 index
	9:30	DE	PMI Manufacturing	Dec P	51.8 index	51.8 index
	10:00	EA	PMI Manufacturing	Dec P	51.8 index	51.8 index
	11:00	IT	Inflation y/y	Nov F	1.7%	1.7%
		EA	Wages y/y	3Q		2.2%
	14:30	US	Retail Sales mom	Nov	0.1%	0.8%
17-Dec	n.a.	AT	Inflation y/y	Nov		2.4%
		AT	CPI m/m	Nov		0.5%
	10:00	IT	Trade Balance	Oct		1274m
	11:00	EA	CPI m/m	Nov	-0.1%	-0.2%
		EA	Inflation y/y	Nov F	2.0%	2.0%
		EA	Trade Balance	Oct		13415m
19-Dec	8:00	DE	PPI y/y	Nov		3.3%
	14:30	US	CA Balance (q)	3Q		-101 m
	16:00	US	Existing Home Sales	Nov	5.2 m	5.2 m
	20:00	US	Target Rate	-	2.49%	2.25%
20-Dec	10:00	IT	CA Balance (m)	Oct		3154 m
		EA	CA Balance (m)	Oct		17 m
		IT	PPI y/y	Nov		7.1%
	14:30	US	Jobless Claims	Dec 15	227.0 thd	206.0 thd
21-Dec	8:45	FR	PPI y/y	Nov		3.9%
		FR	GDP y/y	3Q F		1.4%
		FR	GDP q/q	3Q F		0.4%
	9:00	AT	Ind. Prod. y/y	Oct		2.6%
	14:30	US	GDP q/q	3Q T	3.5%	3.5%
		US	Durable Goods Orders	Nov P	2.1%	-4.3%
	16:00	US	Univ. Michigan Index	Dec F	97.5 index	97.5 index
		US	PCE Deflator	Nov		2.0%
	EA	Consumer Conf.	Dec A	-4.4 index	-3.9 index	

Source: Bloomberg, Erste Group Research

Forecasts¹

GDP	2016	2017	2018	2019	2020
Eurozone	1.8	2.4	1.9 ↓	1.5 ↓	1.4 ↓
US	1.5	2.3	2.9	2.3	2.1

Inflation	2016	2017	2018	2019	2020
Eurozone	0.2	1.5	1.8	1.9	1.6
US	1.2	2.2	2.4	1.8	1.9

Interest rates	current	Mar.19	Jun.19	Sep.19	Dec.19
ECB MRR	0.00	0.00	0.00	0.00	0.25
3M Euribor	-0.31	-0.30	-0.30	-0.10	0.10
Germany Govt. 10Y	0.27	0.70	0.90	1.00	1.10
Swap 10Y	0.87	1.00	1.20	1.30	1.40

Interest rates	current	Mar.19	Jun.19	Sep.19	Dec.19
Fed Funds Target Rate*	2.19	2.63	2.88	3.13	3.13
3M Libor	2.78	2.90	3.20	3.40	3.40
US Govt. 10Y	2.89	3.20	3.40	3.50	3.50
EURUSD	1.14	1.11	1.12	1.14	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 Note: By regulations we are obliged to issue the following statement: Forecasts are no reliable indicator of future performance.

Erste Group Research

Week Ahead | Major Markets | Eurozone, USA

14. December 2018

Contacts

Group Research

Head of Group Research

Friedrich Mostböck, CEFA +43 (0)5 0100 11902

Major Markets & Credit Research

Head: Gudrun Egger, CEFA +43 (0)5 0100 11909
Ralf Burchert, CEFA (Agency Analyst) +43 (0)5 0100 16314
Hans Engel (Senior Analyst Global Equities) +43 (0)5 0100 19835
Christian Enger, CFA (Covered Bonds) +43 (0)5 0100 84052
Margarita Grushanina (Economist AT, Quant Analyst) +43 (0)5 0100 11957
Peter Kaufmann, CFA (Corporate Bonds) +43 (0)5 0100 11183
Stephan Lingnau (Global Equities) +43 (0)5 0100 16574
Carmen Riefler-Kowarsch (Covered Bonds) +43 (0)5 0100 19632
Rainer Singer (Senior Economist Euro, US) +43 (0)5 0100 17331
Bernadett Povaszai-Römhild (Corporate Bonds) +43 (0)5 0100 17203
Elena Statelov, CIIA (Corporate Bonds) +43 (0)5 0100 19641
Gerald Walek, CFA (Economist Euro, CHF) +43 (0)5 0100 16360

Macro/Fixed Income Research CEE

Head CEE: Juraj Kotian (Macro/FI) +43 (0)5 0100 17357
Zoltan Arokszállasi, CFA (Fixed income) +43 (0)5 0100 18781
Katarzyna Rzentarzewska (Fixed income) +43 (0)5 0100 17356

CEE Equity Research

Head: Henning Eßkuchen +43 (0)5 0100 19634
Daniel Lion, CIIA (Technology, Ind. Goods&Services) +43 (0)5 0100 17420
Michael Marschallinger +43 (0)5 0100 17906
Christoph Schultes, MBA, CIIA (Real Estate) +43 (0)5 0100 11523
Vera Sutudja, CFA, MBA (Telecom, Steel) +43 (0)5 0100 11905
Thomas Unger, CFA (Banks, Insurance) +43 (0)5 0100 17344
Vladimira Urbankova, MBA (Pharma) +43 (0)5 0100 17343
Martina Valenta, MBA +43 (0)5 0100 11913

Editor Research CEE

Brett Aarons +420 956 711 014

Research Croatia/Serbia

Head: Mladen Dodig (Equity) +381 11 22 09178
Head: Alen Kovac (Fixed income) +385 72 37 1383
Anto Augustinovic (Equity) +385 72 37 2833
Milan Deskar-Skrbic (Fixed income) +385 72 37 1349
Magdalena Dolenc (Equity) +385 72 37 1407
Ivana Rogic (Fixed income) +385 72 37 2419
Davor Spoljar, CFA (Equity) +385 72 37 2825

Research Czech Republic

Head: David Navratil (Fixed income) +420 956 765 439
Head: Petr Bartek (Equity) +420 956 765 227
Jiri Polansky (Fixed income) +420 956 765 192
Michal Skorepa (Fixed income) +420 956 765 172
Jan Sumbera (Equity) +420 956 765 218
Jan Žemlička (Fixed income) +420 956 765 456

Research Hungary

Head: József Miró (Equity) +361 235 5131
András Nagy (Equity) +361 235 5132
Orsolya Nyeste (Fixed income) +361 268 4428
Zsombor Varga (Fixed income) +361 373 2830
Tamás Pletser, CFA (Oil&Gas) +361 235 5135

Research Poland

Director of Research: Tomasz Duda (Equity) +48 22 330 6253
Cezary Bernatek (Equity) +48 22 538 6256
Konrad Grygo (Equity) +48 22 330 6254
Mateusz Krupa (Equity) +48 22 330 6251
Emil Poplawski (Equity) +48 22 330 6252

Research Romania

Head: Horia Braun-Erdei +40 3735 10424
Caius Raoanu (Equity) +40 3735 10441
Eugen Sinca (Fixed income) +40 3735 10435
Dorina Ilasco (Fixed income) +40 3735 10436

Research Slovakia

Head: Maria Valachyova, (Fixed income) +421 2 4862 4185
Katarina Muchova (Fixed income) +421 2 4862 4762

Research Turkey

Ender Kaynar (Equity) +90 212 371 2530
Umut Cebir (Equity) +90 212 371 2537

Treasury - Erste Bank Vienna

Group Markets Retail Sales

Head: Christian Reiss +43 (0)5 0100 84012

Markets Retail Sales AT

Head: Markus Kaller +43 (0)5 0100 84239

Group Markets Execution

Head: Kurt Gerhold +43 (0)5 0100 84232

Retail & Sparkassen Sales

Head: Uwe Kolar +43 (0)5 0100 83214

Corporate Treasury Product Distribution AT

Head: Christian Skopek +43 (0)5 0100 84146

Fixed Income Institutional Sales

Group Securities Markets

Head: Harald Müller +43 (0)5 0100 84890

Institutional Distribution non CEE

Head: Jaromir Malak +43 (0)5 0100 84254
Bernd Bollhof +49 (0)30 8105800 5525
Charles-Henry La Coste de Fontenilles +43 (0)5 0100 84115
Rene Klases +49 (0)30 8105800 5521
Christopher Lampe-Traupe +49 (0)30 8105800-5507
Thomas Rakosi +43 (0)5 0100 84116
Karin Rattay +43 (0)5 0100 84118
Bernd Thaler +43 (0)5 0100 84119

Bank Distribution

Head: Marc Friebertshäuser +49 (0)711 810400 5540
Sven Kienzle +49 (0)711 810400 5541
Michael Schmotz +43 (0)5 0100 85542
Ulrich Inhofner +43 (0)5 0100 85544
Klaus Vosseler +49 (0)711 810400 5560
Andreas Goll +49 (0)711 810400 5561
Mathias Gindele +49 (0)711 810400 5562

Institutional Distribution CEE

Head: Jaromir Malak +43 (0)5 0100 84254

Institutional Distribution PL and CIS

Pawel Kielek +48 22 538 6223
Michal Jarmakowicz +43 50100 85611

Institutional Distribution Slovakia

Head: Sarlota Sipulova +421 2 4862 5619
Monika Smelikova +421 2 4862 5629

Institutional Distribution Czech Republic

Head: Ondrej Cech +420 2 2499 5577
Milan Bartos +420 2 2499 5562
Barbara Suvadova +420 2 2499 5590

Institutional Asset Management Czech Republic

Head: Petr Holecsek +420 956 765 453
Martin Perina +420 956 765 106
Petr Valenta +420 956 765 140
David Petracek +420 956 765 809
Blanca Weinerova +420 956 765 317

Institutional Distribution Croatia

Head: Antun Buric +385 (0)7237 2439
Željko Pavičić +385 (0)7237 1494
Natalija Zujic +385 (0)7237 1638

Institutional Distribution Hungary

Head: Peter Csizmadia +36 1 237 8211
Attila Hollo +36 1 237 8209
Gabor Balint +36 1 237 8205

Institutional Distribution Romania and Bulgaria

Head: Ciprian Mitu +43 (0)50100 85612
Crisitan Adascalita +40 373 516 531

Group Institutional Equity Sales

Head: Brigitte Zeitlberger-Schmid +43 (0)50100 83123
Werner Fürst +43 (0)50100 83121
Josef Kerekes +43 (0)50100 83125
Cormac Lyden +43 (0)50100 83120

Business Support

Bettina Mahoric +43 (0)50100 86441

Disclaimer

This publication was prepared by Erste Group Bank AG or any of its consolidated subsidiaries (together with consolidated subsidiaries "Erste Group") independently and objectively as other information pursuant to the Circular of the Austrian Financial Market Authority regarding information including marketing communication pursuant to the Austrian Securities Supervision Act. This publication serves interested investors as additional source of information and provides general information, information about product features or macroeconomic information without emphasizing product selling marketing statements. This publication does not constitute marketing communication pursuant to Art. 36 (2) Austrian Securities Supervision Act as no direct buying incentives were included in this publication, which is of information character. This publication does not constitute investment research pursuant to § 36 (1) Austrian Securities Supervision Act. It has not been prepared in accordance with legal requirements designed to promote the independence of investment research and it is not subject to the prohibition on dealing ahead of the dissemination of investment research. The information only serves as non-binding and additional information and is based on the level of knowledge of the person in charge of drawing up the information on the respective date of its preparation. The content of the publication can be changed at any time without notice. This publication does not constitute or form part of, and should not be construed as, an offer, recommendation or invitation to subscribe for or purchase any securities, and neither this publication nor anything contained herein shall form the basis of or be relied on in connection with or act as an inducement to enter into any contract or inclusion of a security or financial product in a trading strategy. Information provided in this publication are based on publicly available sources which Erste Group considers as reliable, however, without verifying any such information by independent third persons. While all reasonable care has been taken to ensure that the facts stated herein are accurate and that the forecasts, opinions and expectations contained herein are fair and reasonable, Erste Group (including its representatives and employees) neither expressly nor tacitly makes any guarantee as to or assumes any liability for the up-to-dateness, completeness and correctness of the content of this publication. Erste Group may provide hyperlinks to websites of entities mentioned in this document, however the inclusion of a link does not imply that Erste Group endorses, recommends or approves any material on the linked page or accessible from it. Neither a company of Erste Group nor any of its respective managing directors, supervisory board members, executive board members, directors, officers of other employees shall be in any way liable for any costs, losses or damages (including subsequent damages, indirect damages and loss of profit) howsoever arising from the use of or reliance on this publication. Any opinion, estimate or projection expressed in this publication reflects the current judgment of the author(s) on the date of publication of this document and do not necessarily reflect the opinions of Erste Group. They are subject to change without prior notice. Erste Group has no obligation to update, modify or amend this publication or to otherwise notify a reader thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate. The past performance of securities or financial instruments is not indicative for future results. No assurance can be given that any financial instrument or issuer described herein would yield favorable investment results or that particular price levels may be reached. Forecasts in this publication are based on assumptions which are supported by objective data. However, the used forecasts are not indicative for future performance of securities or financial instrument. Erste Group, its affiliates, principals or employees may have a long or short position or may transact in the financial instrument(s) referred to herein or may trade in such financial instruments with other customers on a principal basis. Erste Group may act as a market maker in the financial instruments or companies discussed herein and may also perform or seek to perform investment services for those companies. Erste Group may act upon or use the information or conclusion contained in this publication before it is distributed to other persons. This publication is subject to the copyright of Erste Group and may not be copied, distributed or partially or in total provided or transmitted to unauthorized recipients. By accepting this publication, a recipient hereof agrees to be bound by the foregoing limitations.

Copyright: 2018 Erste Group Bank AG. All rights reserved.

Published by:

Erste Group Bank AG
Group Research
1100 Vienna, Austria, Am Belvedere 1
Head Office: Wien
Commercial Register No: FN 33209m
Commercial Court of Vienna

Erste Group Homepage: www.erstegroup.com