

Week Ahead

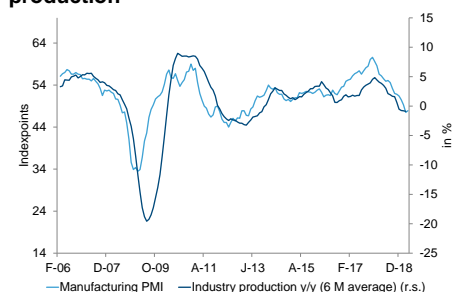
Focus: Eurozone Manufacturing-PMI, trade conflict EU vs. USA

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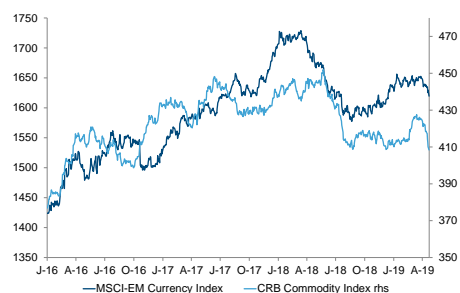
EZ - manufacturing sentiment expected to remain weak

EZ manufacturing-PMI vs. industrial production



Source: Bloomberg, Erste Group Research

MSCI EM currency index vs. CRB commodity index



Source: Bloomberg, Erste Group Research

Next week (May 23) the flash estimate of the manufacturing PMI of the Eurozone, Germany and France for the month of May will be released. In April, sentiment improved at least slightly for the first time since July 2018. Capital goods remain the hardest hit by the current downturn, while consumer goods remained on a moderate growth path. With an index value of 44.4, Germany continued to be the worst performer among Eurozone countries. Due to a continuing decline in orders, companies do not yet see any light at the end of the tunnel.

In view of the current escalation in the global trade conflict, we expect at best stabilization of the manufacturing PMI in the Eurozone in May. Unfortunately, the short-term growth outlook at the global level has also deteriorated recently. The Emerging Markets currency index has weakened significantly since mid-April, indicating that investors have withdrawn capital from Emerging Markets. In our opinion, this will have negative impact on the short-term growth prospects of Emerging Markets. In addition, prices for cyclically sensitive commodities have also fallen significantly in recent weeks. This shows that global economic momentum has also slowed. Based on this picture, it will be at least until 3Q19 before the Eurozone can benefit from an increase in export momentum. If China and the US were to get closer to resolving the trade conflict, growth prospects could improve; there may be a meeting between Trump and Xi on the fringes of the next G-20 summit at the end of June. Based on current leading indicators, we expect stable GDP growth in the Eurozone of +0.4% q/q in 2Q19, with the domestic demand remaining the main pillar of the economy.

EU – US duties on cars: will there be postponement?

The US administration has long threatened the EU and Japan with tariffs on imports of passenger cars and car parts. A first deadline for a possible decision by President Trump expires at the end of this week. Trade data shows that, in the event of US tariffs on passenger cars and car parts, the threatened exports would amount to 0.3% of EU GDP. At this magnitude, we believe the immediate economic damage to Europe should be limited. At the country level, however, Germany in particular is particularly exposed, with export volume of 0.7% of GDP. The German Association of the Automotive Industry estimates that US tariffs on cars and parts could burden Germany's GDP by around 0.2%. Italy's economy would also have to expect noticeable negative effects. On the other hand, US tariffs on passenger cars should have no significant negative impact on the growth of France or Spain.

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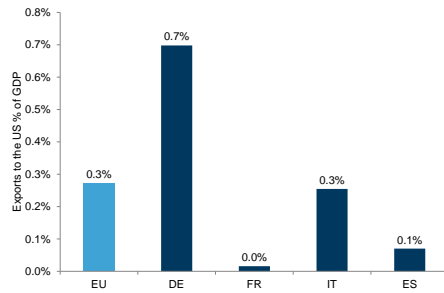
Note: Past performance is not necessarily indicative of future results.

Erste Group Research

Week Ahead | Major Markets | Eurozone, USA

17. May 2019

Exports of cars and parts to the US in % of GDP



Source: ICT, Erste Group Research

Due to the current escalation in the conflict with China, rumors have recently grown that a decision on US tariffs on cars and car parts could be postponed by several months. However, a postponement of the decision does not solve the fundamental problem and leads to continued uncertainty among companies and consumers (especially in Germany). In the medium term, Germany's domestic economy, which has so far been stable, could suffer as a result. Some companies have already reacted and German automotive groups signaled an increased willingness to invest in the US at the end of last year. However, as exports by US companies themselves are threatened by retaliatory measures, investments in production facilities in the US are also exposed to increased risks. Note that German automobile manufacturers are already being affected by Chinese import duties on their vehicles produced in US plants.

Economic calendar

Ctry	Date	Time	Release	Period	Consens	Prior
Eurozone						
EA	23-May	10:00	PMI Index	May P	48.2 Index	47.9 Index
DE	23-May	8:00	GDP y/y	1Q F	0.7%	0.7%
DE	23-May	9:30	PMI Index	May P	44.9 Index	44.4 Index
DE	23-May	10:00	Ifo Index	May	99 Index	99 Index
FR	23-May	9:15	PMI Index	May P	49.9 Index	50.0 Index

USA**China**

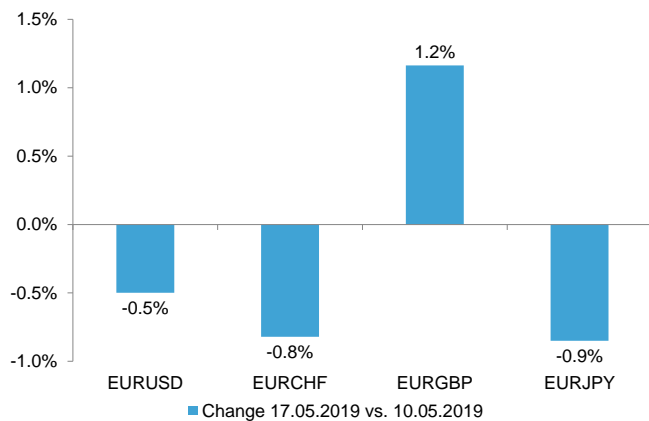
Source: Bloomberg, Erste Group Research

Central bank events

	Date	Time	Event
ECB			
	20-May	10:00	Peter Praet, Introductory statements
	22-May	11:30	Peter Praet, Challenges to the single monetary policy and ways forward
Fed			
	17-May	19:40	Richard H. Clarida, The Federal Reserve's Review of its Monetary Policy Strategy, Tools, and Communication Policies
	22-May	20:00	FOMC Minutes, Meeting of April 30 - May 1

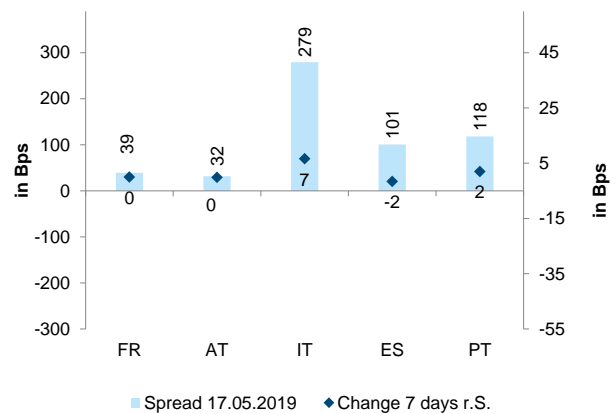
Forex and government bond markets

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



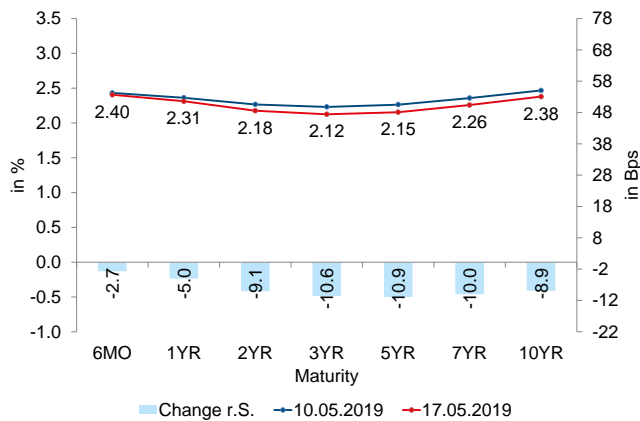
Source: Bloomberg, Erste Group Research

Eurozone spreads vs. Germany
 10Y government bonds



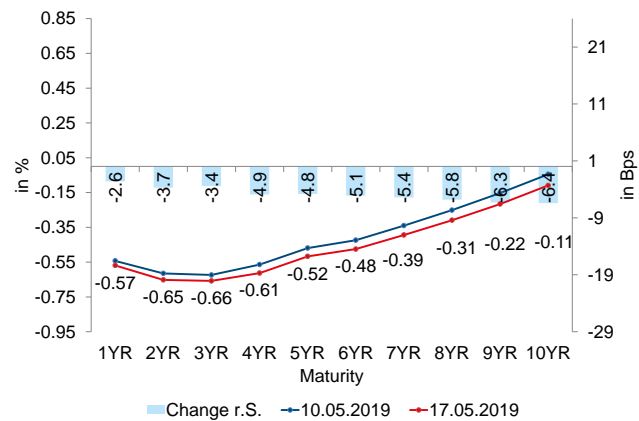
Source: Bloomberg, Erste Group Research

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

Forecasts¹

GDP	2017	2018	2019	2020
Eurozone	2.4	1.8	1.3	1.4
US	2.3	2.9	2.5	2.1

Inflation	2017	2018	2019	2020
Eurozone	1.5	1.7	1.4	1.5 ↓
US	2.2	2.4	1.8	1.9

Interest rates	current	Jun.19	Sep.19	Dec.19	Mar.20
ECB MRR	0.00	0.00	0.00	0.00	0.00
3M Euribor	-0.31	-0.30	-0.30	-0.30	-0.30
Germany Govt. 10Y	-0.11	0.20	0.30	0.50	0.50
Swap 10Y	0.43	0.50	0.60	0.80	0.80

Interest rates	current	Jun.19	Sep.19	Dec.19	Mar.20
Fed Funds Target Rate*	2.40	2.38	2.38	2.68	2.68
3M Libor	2.53	2.70	2.70	3.00	3.00
US Govt. 10Y	2.38	2.60	2.70	2.80	2.80
EURUSD	1.12	1.15	1.18	1.18	1.20

*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: In accordance with regulations, we are obliged to issue the following statement:
Forecasts are not a reliable indicator of future performance.

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Published by:

Erste Group Bank AG
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Commercial Register No: FN 33209m
Commercial Court of Vienna

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