

Week Ahead

Focus: Theresa May's resignation, trade war USA-China, European Elections

Analysts:

Rainer Singer
rainer.singer@erstegroup.com

Gerald Walek
gerald.walek@erstegroup.com

Markets still taking cover

As the week draws to a close, events in the United Kingdom have turned upside down. At the end of last week, negotiations between the Conservatives (Tories) and the Labor Party over an EU exit procedure broke apart. The following weekend, Theresa May announced some bold new proposals to push through the withdrawal package. These included giving Parliament the opportunity to vote on a second Brexit referendum. These proposals were largely rejected by both the party itself and the opposition, culminating in the resignation of the minister who would have been responsible for bringing the bill to Parliament. The new vote on the resignation package was subsequently postponed indefinitely from the beginning of June. Today, Theresa May announced her resignation on June 7.

After Theresa May's resignation, the next step is the appointment of a successor. This process should start on June 10 and will probably last at least until the end of July. From the extension of the deadline for an agreement to the end of October, which was granted by the EU, four out of seven months will have passed without any progress having been made in the matter. On the contrary, a new prime minister will probably have to start from scratch, and even under a new prime minister, a package that the British Parliament and EU can agree to seems a long way off. If an uncompromising Brexiteer becomes the new prime minister, such an agreement can almost be ruled out. A solution through a second referendum or early elections seem unlikely from today's perspective. The risks for a hard Brexit have thus increased significantly.

A hard Brexit would worsen the economic outlook for the Eurozone in the third and fourth quarters. The companies would be unsettled and at least for the months after October, the exit date, a clear impairment of the trade would be expected. German government bonds will continue to benefit from the ongoing uncertainty over the UK's final divorce procedure from the EU for the time being. Should a hard Brexit actually occur, this would leave yields at a very low level for some time to come. We will wait for the political events of the coming days and then assess the impact on our forecast from the changed political situation.

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

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

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

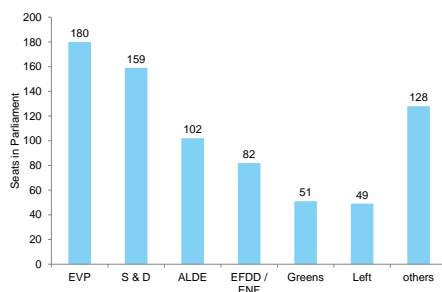
The second big issue in the markets is the trade war between China and the US. Negotiations are currently at a standstill. The conflict was recently fueled by the US government's decision to blacklist Huawei and thus prohibit US companies from doing business with Huawei. The trade conflict thus shows no signs of easing.

From our point of view, however, an agreement over the coming months remains the most likely scenario. The escalation of the conflict since early May, when US President Trump announced an increase in tariffs and

promised additional tariffs, has increased the risks to the US economy. Experience has shown that the resulting volatility on the stock markets alone has a direct negative impact on overall economic demand. If raised tariffs from 10% to 25% to USD 200bn in imports remain and if tariffs are raised for a further USD 300bn, the economy would not only be burdened beyond this, there is also a high probability that inflation will rise noticeably. All this would probably still be felt shortly before the next presidential election in 2020 and this suggests to us that the US side is interested in a settlement of the conflict in the foreseeable future.

EU – Europe elects new parliament

EU Parliament expected seat distribution based on poll data 2019



Source: euronews, Erste Group Research

Elections for a new European Parliament will take place from May 23 to 26. So far, the Conservatives and Christian Democrats (about 29% of the seats) and the Social Democrats (about 25% of the seats) dominate the Parliament. Based on current polls, however, both the Conservatives (around 24% of seats) and the Social Democrats (around 21% of seats) must expect significant losses on the coming election day. After Macron's governing party 'En Marche', which will run in European elections for the first time in 2019, joined the Liberal Alliance, this camp can expect substantial gains (around 14% of seats). According to surveys, Eurosceptic parties can expect gains as well. The question of whether the top candidate of the winning electoral alliance will also become president of the European Commission is still open. Recently, both Macron and Merkel have spoken out against this mode.

For the citizens of Europe, there are clear differences in policy priorities at the regional level. In Scandinavia and Western Europe, climate protection has become the main concern of citizens, whereas for the Portuguese, Spanish and Greeks, the economy is the main concern. In Central and Eastern Europe, migration remains the top concern of citizens. Against this background, it is to be expected that the new EU Commission will focus on these issues. In addition, numerous challenges await the new Commission president, such as the unresolved Brexit issue, the trade dispute with the US, the still open framework agreement with Switzerland and the question of taxation of the digital economy.

Erste Group Research

Week Ahead | Major Markets | Eurozone, USA

24. May 2019

Economic calendar

Ctry	Date	Time	Release	Period	Consens	Prior
Eurozone						
FR	29-May	8:45	GDP y/y	1Q F	1.1%	1.1%
IT	31-May	10:00	GDP y/y	1Q F	0.1%	0.1%
USA						
	30-May	14:30	GDP q/q	1Q S	3.0%	3.2%
	31-May	14:30	PCE Deflator	Apr	1.3%	1.5%
China						

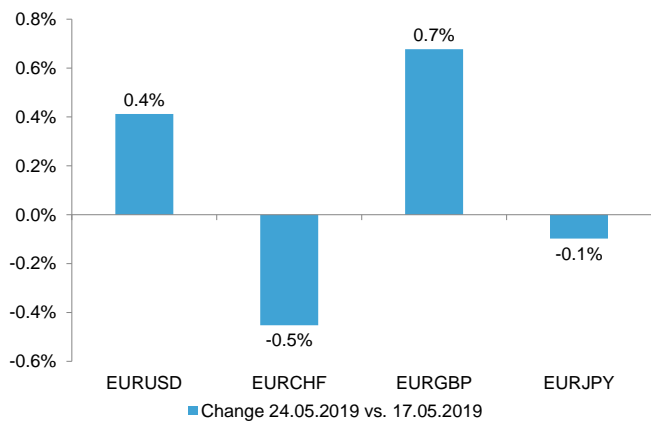
Source: Bloomberg, Erste Group Research

Central bank events

	Date	Time	Event
ECB			No monetary policy relevant events
Fed	30-May	18:00	Richard H. Clarida, Sustaining Maximum Employment and Price Stability

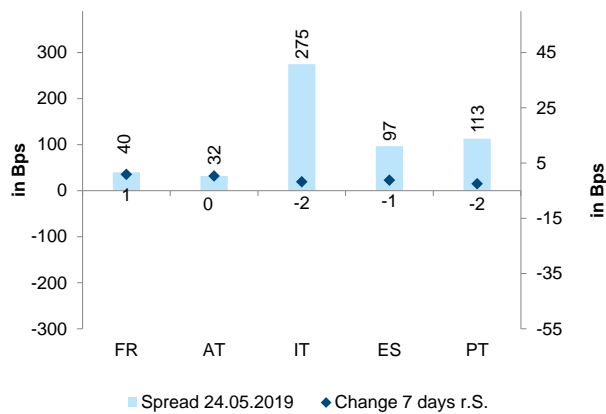
Forex and government bond markets

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



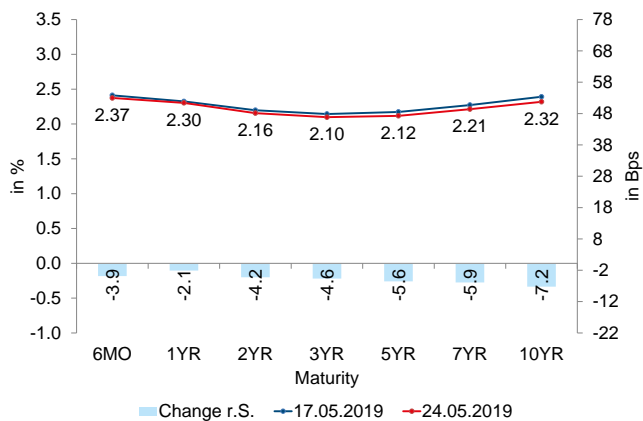
Source: Bloomberg, Erste Group Research

Eurozone spreads vs. Germany
 10Y government bonds



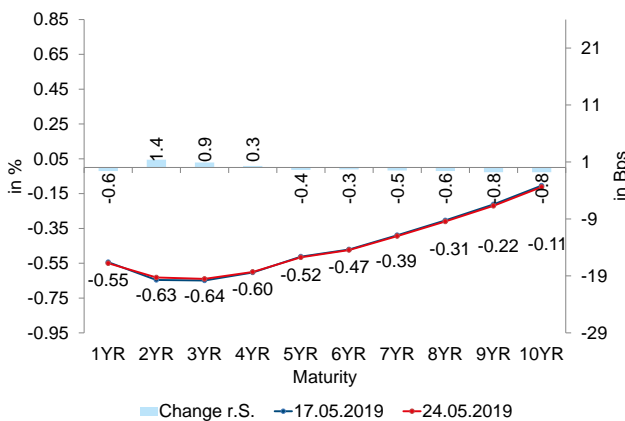
Source: Bloomberg, Erste Group Research

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	0.41	0.50	0.60	0.80	0.80

Interest rates	current	Jun.19	Sep.19	Dec.19	Mar.20
Fed Funds Target Rate*	2.38	2.38	2.38	2.68	2.68
3M Libor	2.52	2.70	2.70	3.00	3.00
US Govt. 10Y	2.33	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.

Contacts

Group Research

Head of Group Research
 Friedrich Mostböck, CEFA +43 (0)5 0100 11902

CEE Macro/Fixed Income Research
 Head: 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
 Malgorzata Krzywicka (Fixed income, Poland) +43 (0)5 0100 17338

Croatia/Serbia
 Alen Kovac (Head) +385 72 37 1383
 Mate Jelčić +385 72 37 1443
 Ivana Rogic +385 72 37 2419

Czech Republic
 David Navratil (Head) +420 956 765 439
 Jiri Polansky +420 956 765 192
 Michal Skorepa +420 956 765 172

Hungary
 József Miró (Head) +361 235 5131
 Orsolya Nyeste +361 268 4428
 Zsombor Varga +361 373 2830

Romania
 Horia Braun-Erdei (Head) +40 3735 10424
 Eugen Sinca +40 3735 10435
 Dorina Ilasco +40 3735 10436

Slovakia
 Maria Valachyova (Head) +421 2 4862 4185
 Katarina Muchova +421 2 4862 4762

Major Markets & Credit Research
 Head: Gudrun Egger, CEFA +43 (0)5 0100 11909
 Ralf Burchert, CEFA (Agencies) +43 (0)5 0100 16314
 Hans Engel (Global Equities) +43 (0)5 0100 19835
 Margarita Grushanina (Austria, Quant Analyst) +43 (0)5 0100 11957
 Peter Kaufmann, CFA (Corporate Bonds) +43 (0)5 0100 11183
 Heiko Langer (Covered Bonds/Financials) +43 (0)5 0100 85509
 Stephan Lingnau (Global Equities) +43 (0)5 0100 16574
 Carmen Riefler-Kowarsch (Covered Bonds/Financials) +43 (0)5 0100 19632
 Rainer Singer (Euro, US) +43 (0)5 0100 17331
 Bernadett Povaszai-Römhild, CEFA (Corporate Bonds) +43 (0)5 0100 17203
 Elena Statelov, CIIA (Corporate Bonds) +43 (0)5 0100 19641
 Gerald Walek, CFA (Euro, CHF) +43 (0)5 0100 16360

CEE Equity Research
 Head: Henning Eißkuchen +43 (0)5 0100 19634
 Daniel Lion, CIIA (Technology, Ind. Goods&Services) +43 (0)5 0100 17420
 Michael Marschallinger, CFA +43 (0)5 0100 17906
 Christoph Schultes, MBA, CIIA (Real Estate) +43 (0)5 0100 11523
 Vera Sutedja, 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

Croatia/Serbia
 Mladen Dodig (Head) +381 11 22 09178
 Anto Augustinovic +385 72 37 2833
 Magdalena Dolenc +385 72 37 1407
 Davor Spoljar, CFA +385 72 37 2825

Czech Republic
 Petr Bartek (Head) +420 956 765 227
 Marek Dongres +420 956 765 218
 Jan Safranek +420 956 765 218

Hungary
 József Miró (Head) +361 235 5131
 András Nagy +361 235 5132
 Tamás Pletser, CFA +361 235 5135

Poland
 Tomasz Duda (Head) +48 22 330 6253
 Cezary Bernatek +48 22 538 6256
 Konrad Grygo +48 22 330 6254
 Mateusz Krupa, CFA +48 22 330 6251
 Michal Pilch +48 22 330 6255
 Emil Poplawski +48 22 330 6252

Romania
 Caius Rapanu +40 3735 10441

Turkey
 Umut Cebir +90 212 371 2537
 Lina Barokas +90 212 371 2530

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

Institutional Distribution non CEE
 Head: Jaromir Malak +43 (0)5 0100 84254
 Karin Rattay +43 (0)5 0100 84118
 Christian Kiennesberger +43 (0)5 0100 84323
 Bernd Bollhof +49 (0)30 8105800 5525
 Rene Klasen +49 (0)30 8105800 5521
 Christopher Lampe-Traupe +49 (0)30 8105800-5507
 Charles-Henry La Coste de Fontenilles +43 (0)5 0100 84115
 Bernd Thaler +43 (0)5 0100 84119

Bank Distribution
 Head: Marc Frieberthshäuser +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 Holecek +420 956 765 453
 Martin Perina +420 956 765 106
 Petr Valenta +420 956 765 140
 David Petracek +420 956 765 809
 Bianca Weinerova +420 956 765 317

Institutional Distribution Croatia
 Head: Antun Buric +385 (0)7237 2439
 Zvonimir Tukač +385 (0)7237 1787
 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 general information pursuant to Art. 36 (2) delegated Regulation (EU) 2017/565 as no direct buying incentives were included in this publication, which is of information character. This publication does not constitute investment research pursuant to Art. 36 (1) delegated Regulation (EU) 2017/565. 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. Erste Group is not registered or certified as a credit agency in accordance with Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies (the Credit Rating Agencies Regulation). Any assessment of the issuers creditworthiness does not represent a credit rating pursuant to the Credit Rating Agencies Regulation. Interpretations and analysis of the current or future development of credit ratings are based upon existing credit rating documents only and shall not be considered as a credit rating itself.

© Erste Group Bank AG 2019. 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