

# Week Ahead

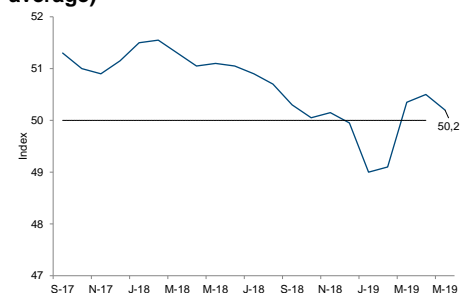
Focus: China manufacturing PMI, Austria GDP forecasts

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China manufacturing PMI data (2-month average)



Source: Bloomberg, Erste Group Research

## China – manufacturing PMI data should stabilize

Next week (July 1), China's manufacturing PMI data for June will be published. Following the intensification of the trade conflict between the US and China, manufacturing sentiment fell slightly in April and May and industrial production growth dropped to a multi-year low of +5% y/y in May. Accordingly, the renminbi has also come under pressure against the US dollar since the beginning of May. However, since the statements of Draghi in Sintra and the Fed meeting last week, the risk appetite of global investors has risen, from which the renminbi also benefited.

*We expect manufacturing sentiment to stabilize in June. The outcome of the trade conflict with the US will remain decisive for China in the long term, so the focus will be on the expected meeting between Trump and Xi this weekend. We expect the situation to ease in the second half of the year, because Trump in particular will not want to risk further weakening of the US economy by intensifying the trade conflict ahead of the US elections scheduled for the end of 2020. Currently, Bloomberg's leading indicator suggests a further slight weakening of China's growth momentum in 2Q19 to around +6.3% y/y (+6.5% y/y in 1Q19). The continuing weakness of commodity prices indicates that other emerging market countries are also currently experiencing weak economic momentum. Against this backdrop, we do not expect any substantial upturn in Eurozone exports yet. However, rapprochement between China and the US could be a possible initial spark for the global economy and thus also for Eurozone exports.*

## AT – weaker growth momentum expected

This week, WIFO (Austrian Institute of Economic Research) lowered its 2019 growth forecast for Austria's economy by 0.3% to +1.7%. A further slowdown in GDP growth to +1.5% is expected for 2020. The lower forecasts are mainly due to the weakening of foreign demand, which is weighing on industry. WIFO therefore anticipates declining growth momentum in exports and investments. On the other hand, private consumption should remain the growth driver of Austria's economy in 2019 and 2020 thanks to fiscal measures (including a family bonus), strong wage settlements and rising employment. The IHS institute also expects growth to slow in 2019 (+1.5%), followed by slight acceleration in 2020 (+1.6%). Our GDP forecasts for 2019 (+1.7%) and 2020 (+1.6%) are roughly in line with the expectations of both WIFO and IHS.

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

## Economic calendar

Ctry	Date	Time	Release	Period	Consens	Prior
<b>Eurozone</b>						
EA	28-Jun	11:00	CPI flash m/m	Jun	1%	1%
FR	1-Jul	9:50	PMI Index	Jun F	52.0 Index	52.0 Index
IT	1-Jul	9:45	PMI Index	Jun	48.3 Index	49.7 Index
DE	1-Jul	9:55	PMI Index	Jun F	45.4 Index	45.4 Index
EA	1-Jul	10:00	PMI Index	Jun F	47.8 Index	47.8 Index
<b>USA</b>						
	28-Jun	14:30	PCE Deflator	May	1.5%	1.5%
	1-Jul	16:00	PMI Index	Jun	51.4 Index	52.1 Index
	3-Jul	14:15	ADP Employment	Jun	133.8 Tsd	27.4 Tsd
	5-Jul	14:30	Wages y/y	Jun	6.6%	3.1%
	5-Jul	14:30	Unempl. Rate	Jun	3.6%	3.6%
	5-Jul	14:30	Chg. Non-Farm Payrolls	Jun	155.4 Tsd	75.0 Tsd
<b>China</b>						
	1-Jul	3:45	PMI Index	Jun	50.1 Index	50.2 Index

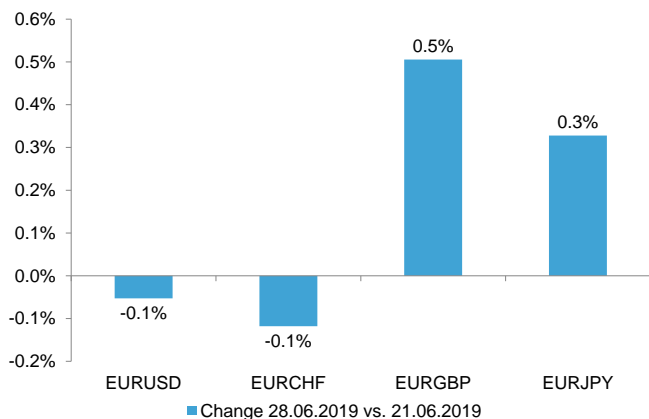
Source: Bloomberg, Erste Group Research

## Central bank events

	Date	Time	Event
<b>ECB</b>			
	1-Jul	08:15	Luis de Guindos, <i>Monetary policy in the euro area</i>
		12:15	Philip Lane, Keynote speech
<b>Fed</b>			
	1-Jul	08:15	Richard Clarida, <i>The Federal Reserve's Review of Its Monetary Policy Strategy, Tools, and Communication Practices</i>

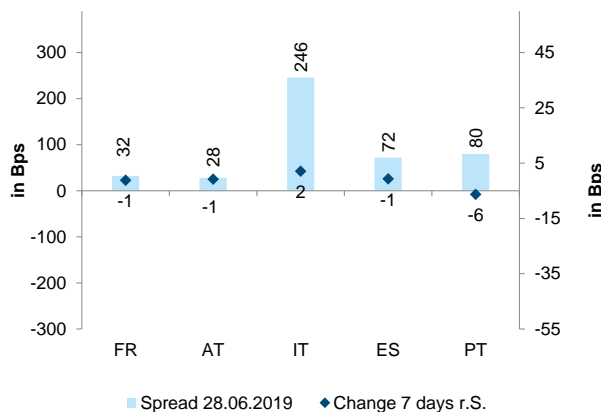
## Forex and government bond markets

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



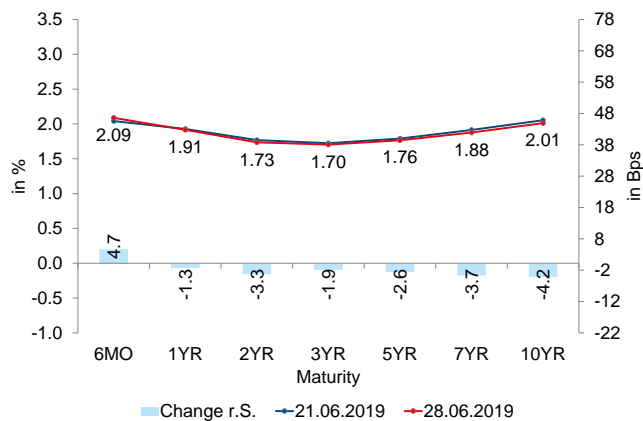
Source: Bloomberg, Erste Group Research

**Eurozone spreads vs. Germany**  
 10Y government bonds



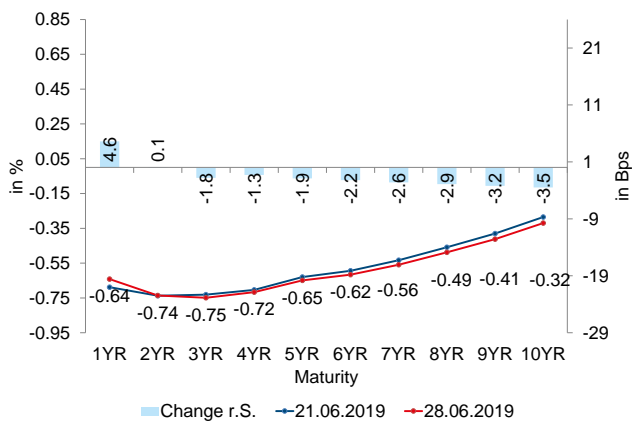
Source: Bloomberg, Erste Group Research

**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

## Forecasts<sup>1</sup>

<b>GDP</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
<b>Eurozone</b>	<b>2.4</b>	<b>1.8</b>	<b>1.1</b>	<b>1.0</b>
<b>US</b>	<b>2.3</b>	<b>2.9</b>	<b>2.5</b>	<b>2.1</b>

<b>Inflation</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
<b>Eurozone</b>	<b>1.5</b>	<b>1.7</b>	<b>1.4</b>	<b>1.5</b>
<b>US</b>	<b>2.2</b>	<b>2.4</b>	<b>1.8</b>	<b>1.9</b>

<b>Interest rates</b>	<b>current</b>	<b>Sep/19</b>	<b>Dec/19</b>	<b>Mar/20</b>	<b>Jun/20</b>
<b>ECB MRR</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
<b>3M Euribor</b>	<b>-0.34</b>	<b>-0.30</b>	<b>-0.30</b>	<b>-0.30</b>	<b>-0.30</b>
<b>Germany Govt. 10Y</b>	<b>-0.32</b>	<b>-0.30</b>	<b>-0.10</b>	<b>0.10</b>	<b>0.40</b>
<b>Swap 10Y</b>	<b>0.18</b>	<b>0.00</b>	<b>0.20</b>	<b>0.40</b>	<b>0.70</b>

<b>Interest rates</b>	<b>current</b>	<b>Sep/19</b>	<b>Dec/19</b>	<b>Mar/20</b>	<b>Jun/20</b>
<b>Fed Funds Target Rate*</b>	<b>2.38</b>	<b>2.38</b>	<b>2.38</b>	<b>2.38</b>	<b>2.38</b>
<b>3M Libor</b>	<b>2.33</b>	<b>2.70</b>	<b>2.70</b>	<b>2.70</b>	<b>2.70</b>
<b>US Govt. 10Y</b>	<b>2.02</b>	<b>2.40</b>	<b>2.50</b>	<b>2.50</b>	<b>2.50</b>
<b>EURUSD</b>	<b>1.14</b>	<b>1.10</b>	<b>1.13</b>	<b>1.15</b>	<b>1.18</b>

\*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*

<sup>1</sup> 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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