

Week Ahead

Focus: US labor market report, Global growth

Analysts:

Rainer Singer
rainer.singer@erstegroup.com

Gerald Walek
gerald.walek@erstegroup.com

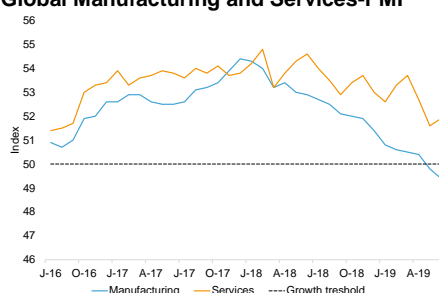
US labor market report surprises markets

The US labor market data for June was better than expected. 224,000 new jobs were created, well above market expectations of 160,000. The unemployment rate rose slightly, from 3.6% to 3.7%. The market had expected this figure to remain unchanged. Growth in average hourly earnings, which rose by 3.1% y/y, remained marginally below the market estimate of 3.2% y/y. As expected, average weekly working hours remained unchanged from the previous month, at 34.4.

Today's data confirms that the weakness in the labor market in May was due to the environment and was not an indication of the onset of a sustained downturn. In May, the trade war with China had intensified and triggered a temporary sell-off on stock markets. With today's data, a rate cut at the end of the month has become less likely, and the markets should in turn react negatively. However, the issue is not off the table yet, as recent data from the manufacturing sector has once again been weak. Next week, Fed Chairman Jerome Powell will report to both chambers of the US Congress and will probably shape interest rate expectations. We continue not to expect any rate cuts in the US this year.

Global sentiment remains weak

Global Manufacturing and Services-PMI



Source: Bloomberg, Erste Group Research

The leading indicators for June released this week show that the global manufacturing sector remains under pressure. The current weakness is particularly pronounced in the capital goods sector, while the consumer goods sector is performing better. On the other hand, sentiment for global services improved slightly in June after a sharp slump in May.

The data shows how important the resumption of trade talks between the US and China on the fringes of the G20 summit is, particularly for global manufacturing (especially machinery and equipment manufacturers). Given the economic need (especially for China), we expect a gradual rapprochement on both sides in the second half of 2019, which should gradually brighten global growth prospects. In this context, next week's release of Eurozone industrial production data in May will be of interest. Industrial production in April was around 0.7% below the average for 1Q19 and thus far points to a slight decline in industrial production in 2Q19.

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

Economic calendar

Ctry	Date	Time	Release	Period	Consens	Prior
Eurozone						
USA						
	5-Jul	14:30	Wages y/y	Jun	3.2%	3.1%
	5-Jul	14:30	Unempl. Rate	Jun	3.6%	3.6%
	5-Jul	14:30	Chg. Non-Farm Payrolls	Jun	162.7 Tsd	75.0 Tsd
	11-Jul	14:30	Inflation y/y	Jun	1.6%	1.8%
China						
	10-Jul	3:30	Inflation y/y	Jun	2.7%	2.7%

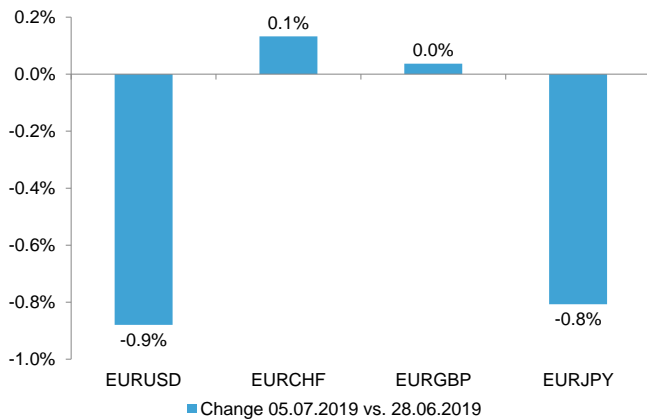
Central bank events

	Date	Time	Event
ECB			
			No events relevant for monetary policy scheduled
Fed			
	10-Jul	16:00	Jerome Powell, Semiannual Monetary Policy Report to the Congress, House of Representatives
	11-Jul	16:00	Jerome Powell, Semiannual Monetary Policy Report to the Congress, Senate

Source: Bloomberg, Central Banks, Erste Group Research

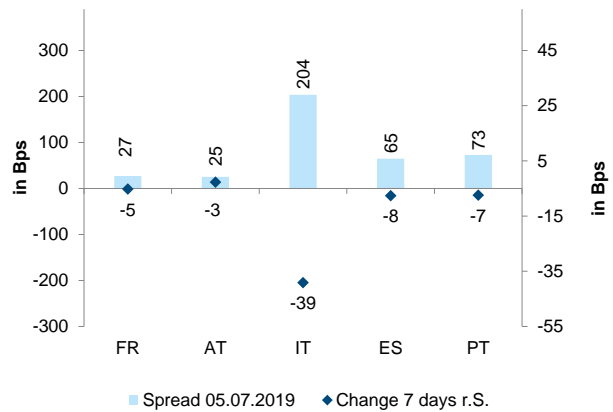
Forex and government bond markets

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



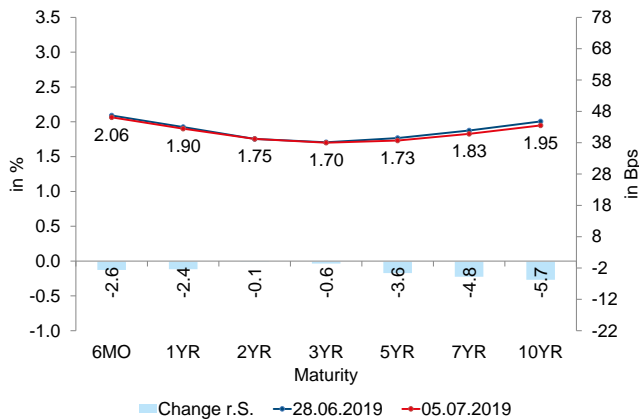
Source: Bloomberg, Erste Group Research

Eurozone spreads vs. Germany
 10Y government bonds



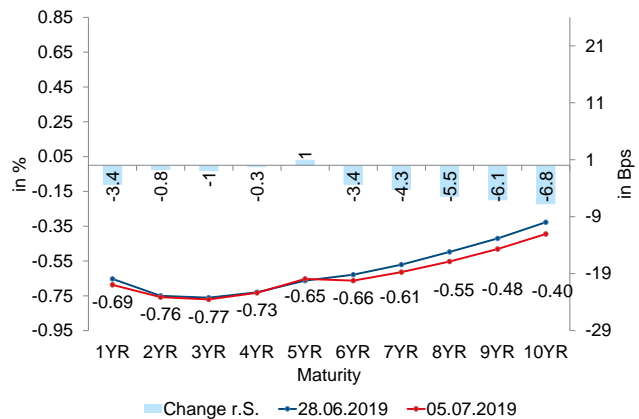
Source: Bloomberg, Erste Group Research

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	1.1	1.0
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	Sep.19	Dec.19	Mar.20	Jun.20
ECB MRR	0.00	0.00	0.00	0.00	0.00
3M Euribor	-0.35	-0.30	-0.30	-0.30	-0.30
Germany Govt. 10Y	-0.40	-0.30	-0.10	0.10	0.40
Swap 10Y	0.08	0.00	0.20	0.40	0.70

Interest rates	current	Sep.19	Dec.19	Mar.20	Jun.20
Fed Funds Target Rate*	2.40	2.38	2.38	2.38	2.38
3M Libor	2.29	2.70	2.70	2.70	2.70
US Govt. 10Y	1.95	2.40	2.50	2.50	2.50
EURUSD	1.13	1.10	1.13	1.15	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 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 Arokszallasi, CFA (Fixed income) +43 (0)5 0100 18781
 Katarzyna Rzentarzewska (Fixed income, Poland) +43 (0)5 0100 17356
 Malgorzata Krzywicka (Fixed income) +43 (0)5 0100 17338

Croatia/Serbia
 Alen Kovac (Head) +385 72 37 1383
 Mate Jelić +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
 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 Eßkuchen +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
 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
 Caliu Rapanu +40 3735 10441

Turkey
 Umut Cebir +90 2129120445
 Berke Gümüs +90 2129120445

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 Kienesberger +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 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 Vosseleer +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
 Blanca 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 Cszizmadia +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 Zeilberger-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

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Group Research
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