

Week Ahead

Focus: US rate decision

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What comes after rate cut?

Next week is the next interest rate decision by the US Fed. The FOMC should decide on a further interest rate cut of 0.25%. Then, the range for the key interest rate will be 1.75-2%. The markets are assuming a probability of this step bordering on certainty and in fact there are no real arguments against it. The reasons cited for the rate cut in July were the trade conflict, the weaker global economy and the underperforming US inflation rate. The environment has certainly not improved since then. The trade conflict between the US and China has escalated. In August, further tariffs were imposed on each other. Even though some of them were recently suspended, there are no real signs of a solution to the conflict. The economic data from the Eurozone has deteriorated further and US inflation has risen slightly, but remained noticeably below the 2 percent mark.

The new survey among the 17 participants at the FOMC meeting (10 of whom are entitled to vote in the interest rate decision) will again be exciting. This quarterly survey, which asks about expectations for interest rate developments (and other important economic data), last took place in June. At that time, there was no majority even for one rate cut this year. The fact that interest rates were nevertheless lowered in July with only two dissenting votes shows that the opponents of interest rate cuts were mainly non-voting participants. The uncertainty about the distribution of interest rate expectations between voting and non-voting meeting participants must also be taken into account in next week's survey. Nevertheless, it will be exciting to see whether and how the outlook of the members of the deciding body has changed since June. This will also be the focus of market attention. The markets have recently lowered their expectations for interest rate cuts somewhat and the corresponding future is now pricing in interest rate cuts of 75 basis points by June 2020. We expect an interest rate cut in October after September and then a stable interest rate, so slightly below market expectations.

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Note: Past performance is not necessarily
indicative of future results

Economic calendar

Ctry	Date	Time	Release	Period	Consens	Prior
Eurozone						
USA						
	13-Sep	14:30	Retail Sales mom	Aug	0.2%	0.7%
China						

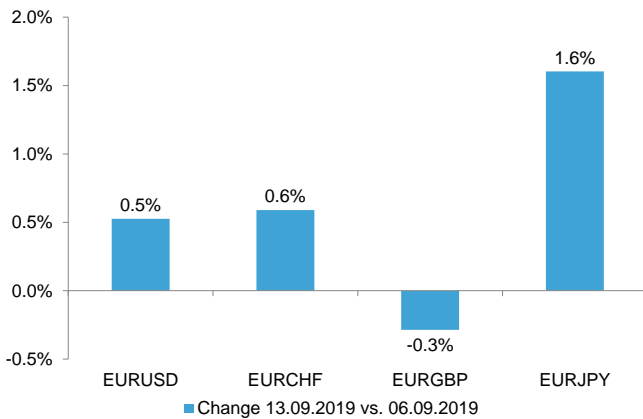
Central bank events

	Date	Time	Event
ECB	16-Sep	14:00	Philip Lane, Speech at Bloomberg, London
Fed	18-Sep	20:00	Monetary policy decision
		20:30	Jerome Powell, press conference

Source: Bloomberg, Central Banks, Erste Group Research

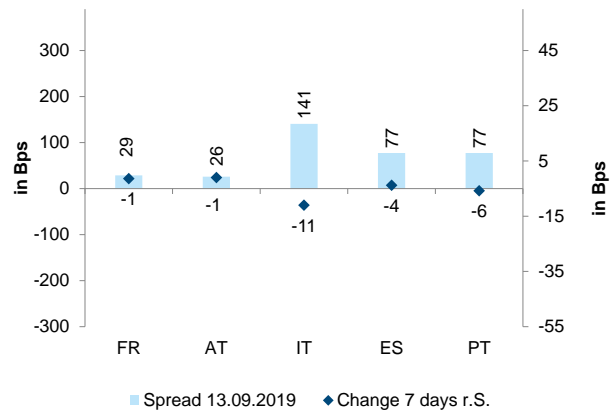
Forex and government bond markets

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



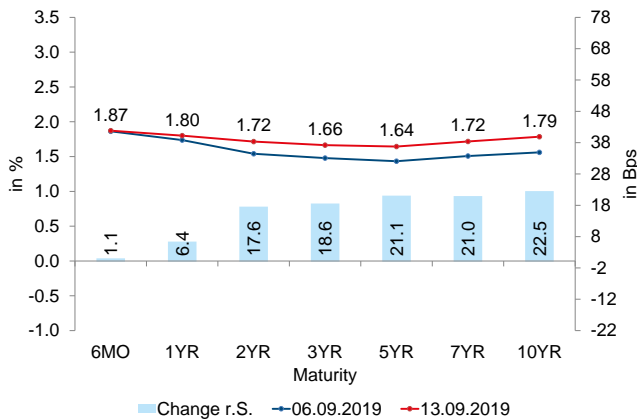
Source: Bloomberg, Erste Group Research

Eurozone spreads vs. Germany
 10Y government bonds



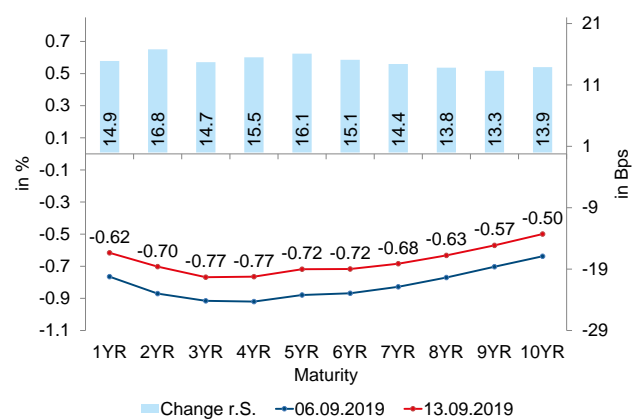
Source: Bloomberg, Erste Group Research

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	2.3	2.1

Inflation	2017	2018	2019	2020
Eurozone	1.5	1.7	1.3	1.5
US	2.2	2.4	1.8	2.0

Interest rates	current	Dec.19	Mar.20	Jun.20	Sep.20
ECB MRR	0.00	0.00	0.00	0.00	0.00
3M Euribor	-0.40	-0.50	-0.50	-0.50	-0.50
Germany Govt. 10Y	-0.48	-0.40	-0.40	-0.40	-0.30 ↓
Swap 10Y	-0.05	-0.10	-0.10	-0.10	0.00 ↓

Interest rates	current	Dec.19	Mar.20	Jun.20	Sep.20
Fed Funds Target Rate*	2.13	1.63	1.63	1.63	1.63
3M Libor	2.13	1.80	1.80	1.80	1.80
US Govt. 10Y	1.83	1.80	2.00	2.00	2.10
EURUSD	1.11	1.10	1.12	1.15	1.15

*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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