

# Week Ahead

Focus: ECB Council meeting, EZ manufacturing PMI, impeachment trial of President Trump starts

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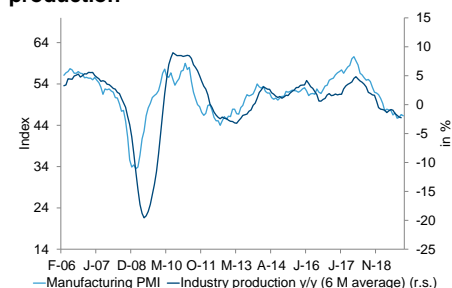
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## New information on Strategy Review?

The ECB's Governing Council will meet next week. Both the meeting and the following press conference by President Lagarde should be uneventful. In any case, monetary policy is not at issue. New indications regarding the course of the Strategy Review could be communicated, but should have no impact on the markets. President Lagarde already announced at the last meeting that the discussion would cover many topics, but that the core would be the definition of the mandate of price stability. Here we expect a discussion between three basic approaches: leaving a target value, perhaps with a more precise definition (2%), setting a range as an inflation target or aiming for a multiannual average inflation rate. The Strategy Review has not yet officially started. But perhaps next week there will be statements on the process. The US Federal Reserve held a conference in the summer of 2019 with technical discussions for its Strategy Review, which started earlier. In addition, publicly accessible discussion events have been and are being held across the country. The ECB's Strategy Review will last for at least the whole of 2020. Changes will come, but we expect no or little impact on future monetary policy.

## EZ Manufacturing PMI vs. industry production



Source: Market data provider, Erste Group Research

## EZ – Manufacturing sentiment should rise

Looking ahead to next week, the first major economic indicator for 2020 will be released with the first flash estimate of the Eurozone manufacturing sentiment (January 24). In December, sentiment weakened slightly, against expectations. With an index reading of 46.3, sentiment in the Eurozone industry sector remained at a multi-year low.

*Thanks to the signing of the Phase 1 deals between the US and China, global economic growth prospects for 2020 have brightened further. Against this background, we expect Eurozone manufacturing sentiment to brighten up in January. In this environment, we expect the Eurozone's foreign trade to become more dynamic in 2020.*

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Note: Past performance is not necessarily indicative of future results

## Impact of impeachment proceedings against President Trump?

It is no coincidence that a partial trade agreement (Phase 1) between the US and China was signed on the same day this week as the US House of Representatives decided to forward charges to the Senate as part of the impeachment proceedings. Both were foreseeable events for weeks and therefore there was no immediate market reaction.

The impeachment trial will probably begin next week. The course of events is uncertain, the result less so. A two-thirds majority in the Senate would be required for a presidential impeachment. This would require 20 of the 53

Republican senators to vote in favor, which can almost be ruled out. As for the course of events, the process could be very short. With their majority in the Senate, the Republicans could dismiss the articles of impeachment immediately. However, that is unlikely, so the trial is likely to last several weeks. The question is which witnesses will be summoned, which is also a decision by the majority, and whether new information will come to the table. Politically, this could be interesting, but it would be of importance to the markets only if the accusations against the president were to worsen to such an extent that public opinion would be tilted. Then the support of the Republican senators could also waver. In this very unlikely case, we would expect yields to rise slightly, as removal of President Trump would probably put the conflict with China on hold for the time being.

*Our core scenario, however, is that President Trump will remain in office and the conflict with China will simmer over the course of the year on a smaller flame than in 2019. The conflict should continue to be politically exploited in the current election year. This means that tweets from the US president will continue to cause ups and downs on the markets. At the same time, we do not expect any escalation, as this could endanger the US economy.*

## Economic calendar

Ctry	Date	Time	Release	Period	Consens	Prior
<b>Eurozone</b>						
EA	24-Jan	10:00	PMI Index	Jan P	46.7 Index	46.3 Index
DE	24-Jan	9:30	PMI Index	Jan P	44.3 Index	43.7 Index
FR	24-Jan	9:15	PMI Index	Jan P		50.4 Index

### USA

### China

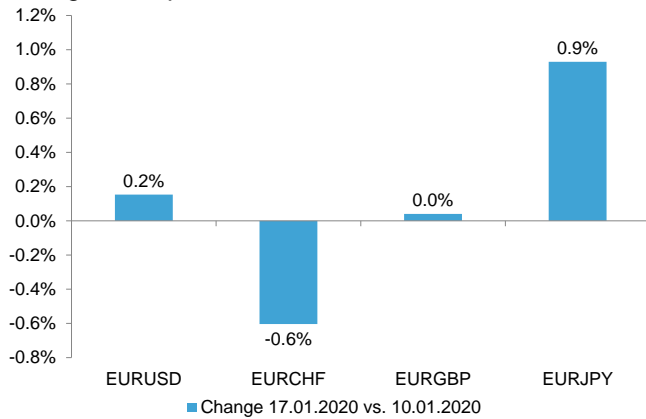
## Central bank events

	Date	Time	Event
<b>ECB</b>	23-Jan	13:45	Monetary policy decision fo the ECB Council
	16-Jan	14:30	Christine Lagarde, press conference, Frankfurt
<b>Fed</b>			No monetary policy relevant events

Source: Market Data Provider, Erste Group Research

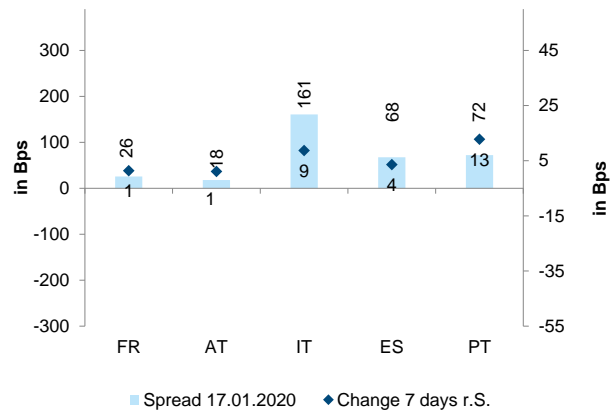
## Forex and government bond markets

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



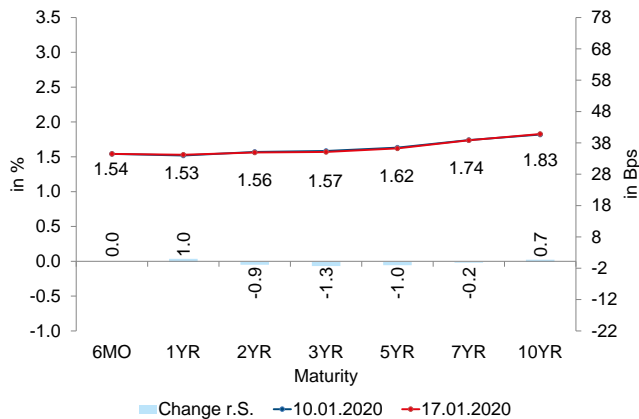
Source: Market Data Provider, Erste Group Research

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



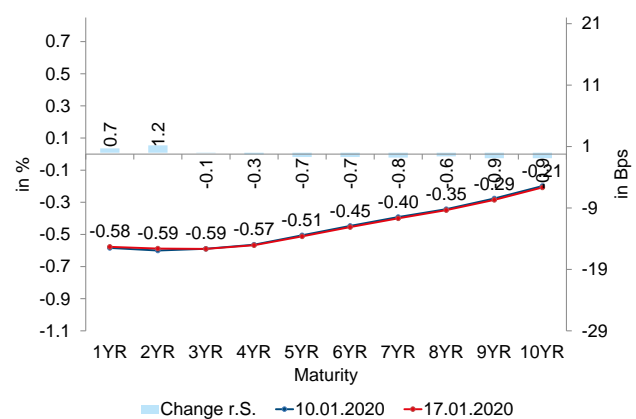
Source: Market Data Provider, Erste Group Research

**US Treasuries yield curve**  
 Changes compared to last week



Source: Market Data Provider, Erste Group Research

**DE Bund yield curve**  
 Changes compared to last week



Source: Market Data Provider, Erste Group Research

## Forecasts<sup>1</sup>

<b>GDP</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
<b>Eurozone</b>	1.9	1.2	1.2	1.2
<b>US</b>	2.9	2.3 ↑	1.9	2.2

<b>Inflation</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
<b>Eurozone</b>	1.7	1.2	1.3	1.5
<b>US</b>	2.4	1.9	2.1	2.1

<b>Interest rates</b>	<b>current</b>	<b>Mar.20</b>	<b>Jun.20</b>	<b>Sep.20</b>	<b>Dec.20</b>
<b>ECB MRR</b>	0.00	0.00	0.00	0.00	0.00
<b>3M Euribor</b>	-0.39	-0.40	-0.40	-0.40	-0.40
<b>Germany Govt. 10Y</b>	-0.21	-0.20	-0.20	-0.10	-0.10
<b>Swap 10Y</b>	0.14	0.10	0.10	0.20	0.20

<b>Interest rates</b>	<b>current</b>	<b>Mar.20</b>	<b>Jun.20</b>	<b>Sep.20</b>	<b>Dec.20</b>
<b>Fed Funds Target Rate*</b>	1.54	1.63	1.63	1.63	1.63
<b>3M Libor</b>	1.84	1.90	1.90	1.90	2.10
<b>US Govt. 10Y</b>	1.83	2.00	2.00	2.10	2.20
<b>EURUSD</b>	1.11	1.15	1.15	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: Market Data Provider, 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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**Published by:**

**Erste Group Bank AG**  
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**1100 Vienna, Austria, Am Belvedere 1**  
**Head Office: Wien**  
**Commercial Register No: FN 33209m**  
**Commercial Court of Vienna**

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