

Week Ahead

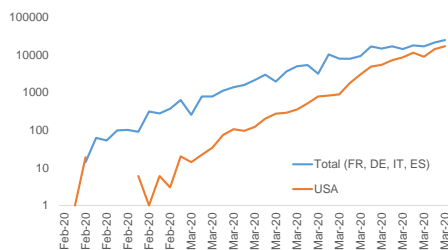
Focus: Markets, stimulus packages, Eurozone inflation

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Daily new infections, log scale



Source: European Center for Disease Prevention and Control, Erste Group Research

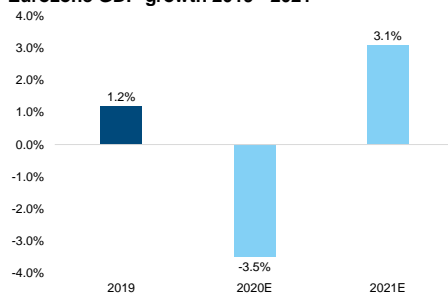
Are markets too optimistic?

This week brought massive gains on the stock markets and yield premiums on the interest rate markets fell for the riskier investments. Spreads on Italian government bonds also fell. The markets have thus reacted to the abundance of countermeasures, such as the economic stimulus packages mentioned below and the massive support purchases by the central banks. In addition, there were signs in Europe that the spread of Covid-19 was slowing down, which additionally supported speculation that the protective measures would end in the foreseeable future. Finally, it should not be forgotten how much the markets were sold off before that. Nobody can predict how the infection figures will develop. At present, however, the markets have cause for cautious optimism, at least for Europe. In the US, on the other hand, the infection figures are still rising rapidly. However, developments in China and South Korea have shown that when new infections peak, the decline can be very rapid. We therefore certainly regard the recent price movements as speculative, but overall the outlook has improved with the measures taken and the course of the spread.

Stimulus packages against economic downturn

Eurozone – severe downturn in HY1

Eurozone GDP-growth 2019 - 2021



Source: Eurostat, Erste Group Research

The comprehensive quarantine measures in all countries of the Eurozone to contain the spread of the coronavirus will cause a considerable economic slump in the first half of the year. We have therefore lowered our GDP forecast for the Eurozone for 2020 to -3.5%, before a recovery of +3.1% that should take place in 2021 (for details, see our [EZ-GDP Short Note](#)). Although the economic damage will be considerable, it should also be taken into account that all countries will provide substantial sums (up to 10% of GDP) to minimize the damage.

However, given the very different credit ratings of the Eurozone countries, the significant increase in new government bond issues required for this could lead to an increased divergence of yield levels within the Eurozone. In order to counteract this, the ECB has already decided on extensive new liquidity measures (for details, see the [Weekahead of March 20, 2020](#)). In addition, the euro finance ministers are considering the possibility that the ESM (European Stability Mechanism) could grant member countries with weaker credit ratings credit lines of up to 2% of the GDP of the respective country, so that overall we do not expect a significant increase in the financing costs of individual Eurozone countries - despite the fact that, in our estimation, the crisis measures in large Eurozone countries such as France, Italy and Spain will cause the national debt ratios to rise to historic highs by the end of 2020.

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Note: Past performance is not necessarily indicative of future results

US - Covid-19 outbreak at earlier stage

The US is becoming the epicenter of the coronavirus crisis. Covid-19 is spreading rapidly in the US and the countermeasures, which have only been used for a relatively short time, have so far had little effect. We therefore expect the economy to be severely restricted for at least the whole of April. A significant economic slump is thus also pre-programmed in the US. However, the question is not only how long it will last, but also how strong the recovery will be afterwards. Given the recently put together economic stimulus package, there is reason for cautious optimism here. The package, which will probably be signed by the president this week, is worth just under 10% of GDP (USD 2trn) and includes a number of measures. These include the payment of USD 1200 to every American up to an annual income of USD 75,000, the extension and increase of unemployment benefits and loans to small businesses that can be converted into a grant. In addition, there will be loans to businesses that run into difficulties during the crisis, as well as more funds for the states and municipalities and for healthcare. Together with our assumption that there will be an easing of protective measures after April, this suggests that the US economy will recover relatively quickly from the current expected low point in April. We expect growth of 0.2% in 2020 and 3.2% in 2021.

Eurozone – Oil price puts pressure on inflation

We expect headline inflation in the Eurozone to fall significantly to +0.8% y/y in March (to be published on March 31). The main reason for this is the sharp fall in global crude oil prices. In view of the significantly higher crude oil prices in 1H19, we expect the downward pressure from energy prices on headline inflation in the Eurozone to continue until June. Core inflation has levelled off at between +1.1% and +1.3% y/y in recent months. It remains to be seen in the coming months how strongly the economic slump will affect core inflation.

Economic calendar

Ctry	Date	Time	Release	Period	Consens	Prior
Eurozone						
FR	1-Apr	9:50	PMI Index	Mar F	42.6 Index	42.9 Index
IT	1-Apr	9:45	PMI Index	Mar	41.8 Index	48.7 Index
DE	1-Apr	9:55	PMI Index	Mar F	45.1 Index	45.7 Index
EA	1-Apr	10:00	PMI Index	Mar F	43.8 Index	44.8 Index
EA	31-Mar	11:00	CPI flash y/y	Mar	0.8%	1.2%
USA						
	1-Apr	14:15	ADP Employment	Mar	-148.6 Tsd	182.8 Tsd
	1-Apr	16:00	PMI Index	Mar	44.7 Index	50.1 Index
	3-Apr	14:30	Wages y/y	Mar	3.0%	3.0%
	3-Apr	14:30	Unempl. Rate	Mar	3.9%	3.5%
	3-Apr	14:30	Chg. Non-Farm Payrolls	Mar	-65.9 Tsd	273.0 Tsd
China						
	1-Apr	3:45	PMI Index	Mar	45.1 Index	40.3 Index

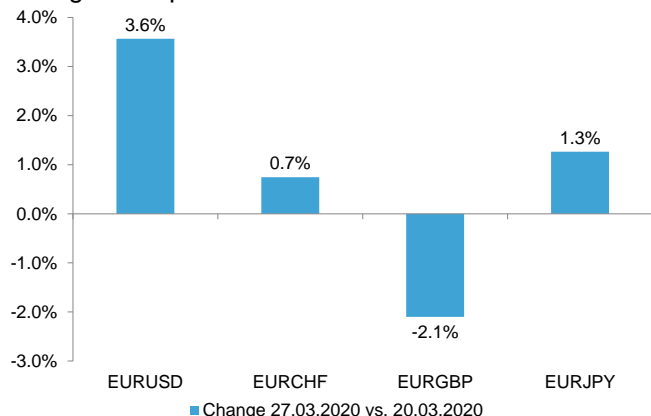
Central bank events

	Date	Time	Event
ECB			No monetary policy relevant events
Fed			No monetary policy relevant events

Source: Market Data Provider, ECB, Federal Reserve, Erste Group Research

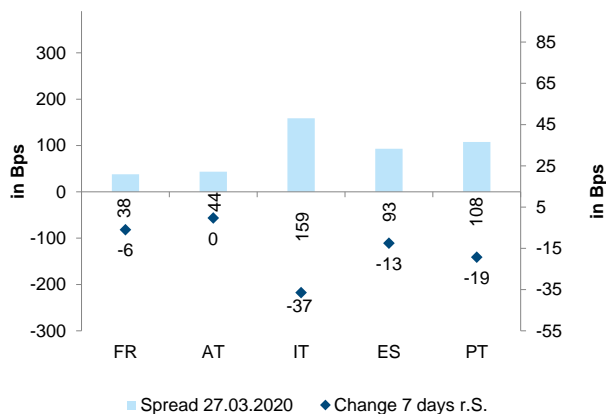
Forex and government bond markets

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



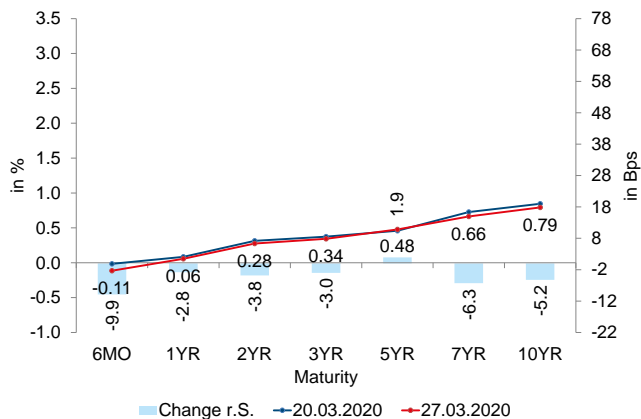
Source: Market Data Provider, Erste Group Research

Eurozone spreads vs. Germany 10Y government bonds



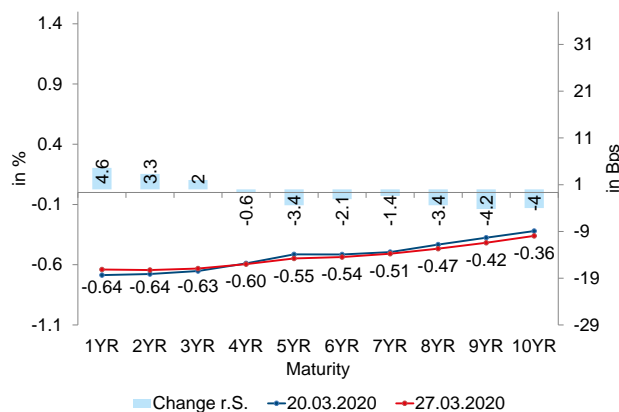
Source: Market Data Provider, Erste Group Research

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

Forecasts¹

GDP	2018	2019	2020	2021
Eurozone	1.9	1.2	-3.5 ↓	3.1 ↑
US	2.9	2.3	0.2 ↓	3.2 ↑

Inflation	2018	2019	2020	2021
Eurozone	1.7	1.2	0.9	1.6
US	2.4	1.8	2.1	2.0

Interest rates	current	Jun.20	Sep.20	Dec.20	Mar.21
ECB MRR	0.00	0.00	0.00	0.00	0.00
3M Euribor	-0.35	-0.50	-0.50	-0.50	-0.50
Germany Govt. 10Y	-0.36	-0.50	-0.40	-0.20	-0.10
Swap 10Y	0.06	-0.20	-0.10	0.10	0.20

Interest rates	current	Jun.20	Sep.20	Dec.20	Mar.21
Fed Funds Target Rate*	0.10	0.13	0.13	0.13	0.13
3M Libor	1.27	0.40	0.40	0.60	0.80
US Govt. 10Y	0.80	0.70	1.00	1.20	1.40
EURUSD	1.10	1.08 ↓	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: Market Data Provider, 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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