

Week Ahead

Focus: ECB, 3Q GDP

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Will ECB announce extension of PEPP?

ECB President Lagarde recently pointed out that there is a risk that the economic recovery of the euro area could lose momentum due to increasing new infections. So far, the ECB's baseline scenario included a slowdown in the euro area economy in 4Q and recovery next year. The assumption behind this was temporary outbreaks of the virus (COVID-19) and then temporary resurgences, as it is not unusual for a pandemic to develop in waves. Given the current rapid increase in new infections and stronger local containment measures, uncertainty about the extent of the recovery has increased. The recovery will depend on how the pandemic, and the consumption behavior of households, or the investment behavior of companies, develop further.

The central bank will monitor all data and indicators very closely in the coming weeks. In December, new ECB staff projections will be published and the outlook for 2021 will also be relevant for further central bank policy. The ECB currently assumes that the shock of the pandemic to the economy will be temporary and should be largely gone by 2022. While interest rate cuts usually have longer-term effects, the PEPP (pandemic emergency purchase program) aims to provide temporary support by returning inflation to its pre-crisis path. The PEPP should therefore remain the preferred instrument. If the ECB concludes in the coming weeks that the momentum of the recovery is significantly weaker than expected, it could react by extending the PEPP. At next week's central bank meeting, we do not yet expect a concrete announcement on the expansion of the PEPP, but there is some risk of this happening. Alternatively, the ECB could confirm its readiness to take further steps (extension of the PEPP) should this become necessary.

EZ: 3Q GDP data and COVID-19 in focus

A first flash estimate of Eurozone GDP growth for 3Q is to be published next week (October 30). Based on the rebound of the economy, we expect substantial q/q growth of around 9%. After a particularly severe GDP slump in Spain, France and Italy in 2Q, we expect these countries to show above-average growth in 3Q. Looking at 2020 as a whole, however, we expect a sharper GDP decline in Spain, Italy and France than in Germany. For the Eurozone, we expect GDP to fall by 7.6% in 2020. In addition, Eurostat will release a flash estimate for inflation in October, which is expected to remain unchanged at -0.3% y/y, weighed down by energy prices and core inflation.

At present, however, the focus is on the increasing numbers of new infections with COVID-19, because the restriction measures required as a result (which primarily affect the hospitality and service sectors) represent a short-term downward risk for the economy of the Eurozone in the current 4Q. As a result, the costs of the crisis for the states are rising, because

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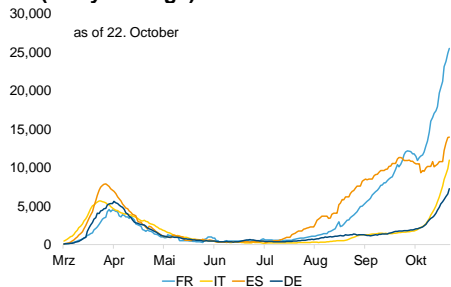
Note: Past performance is not necessarily indicative of future results

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23. October 2020

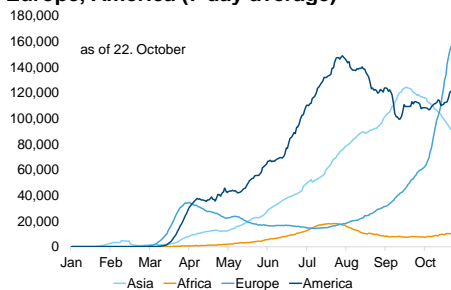
Daily new infections COVID-19: DE, FR, IT, ES (7 day average)



affected companies and their employees are once again increasingly dependent on state aid. However, the aid funds should dampen any possible economic damage. In the medium term, we expect the gradual recovery of the Eurozone to continue. This is partly because the incidence of infection in Asia is under control, which means that, unlike in the spring, there is currently no danger of an interruption in global value chains. Therefore, a sharp fall in the Eurozone's industrial production such as that seen in spring should not be repeated. On the other hand, comprehensive stimulus measures (e.g. EU recovery plan) should provide substantial support to Eurozone growth from 2021 onwards.

Source: ECDC, Erste Group Research

Daily new infections COVID-19: Asia, Africa, Europe, America (7 day average)



Source: ECDC, Erste Group Research

Economic calendar

Ctry	Date	Time	Release	Period	Consens	Prior
Eurozone						
DE	26-Oct	10:00	Ifo Index	Oct	92.5 Index	93.4 Index
FR	30-Oct	7:30	GDP y/y	3Q P		-18.9%
DE	30-Oct	8:00	GDP y/y	3Q P	-5.3%	-11.3%
EA	30-Oct	11:00	GDP q/q	3Q P	8.8%	-11.8%
EA	30-Oct	11:00	GDP y/y	3Q P	-8.1%	-14.8%
IT	30-Oct	12:00	GDP y/y	3Q P	-9.3%	-18.0%
EA	30-Oct	11:00	CPI flash y/y	Oct	-0.3%	-0.3%
USA						
	29-Oct	13:30	GDP q/q	3Q P	32.6%	-31.4%
	30-Oct	13:30	PCE Deflator	Sep		1.4%
China						

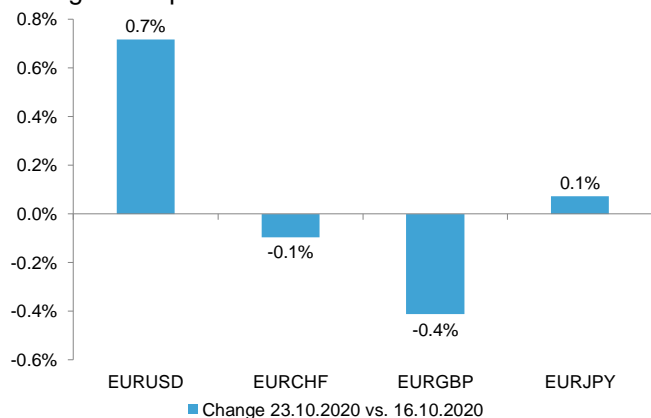
Central bank events

	Date	Time	Event
ECB	27-Oct	13:45	Andrea Enria: Introductory statement at the ECON Committee of the European Parliament
	29-Oct	13:45	Release of decision on monetary policy
	29-Oct	14:30	Christine Lagarde, Press conference
Fed			No monetary policy relevant events

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

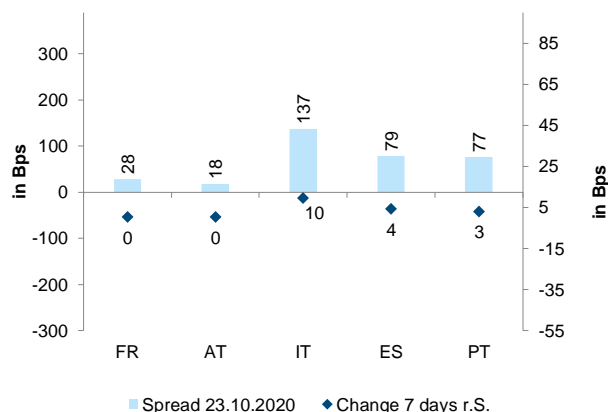
Forex and government bond markets

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



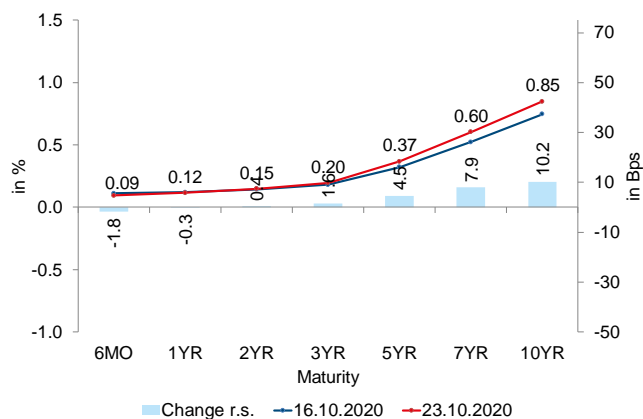
Source: Market Data Provider, Erste Group Research

Eurozone spreads vs. Germany 10Y government bonds



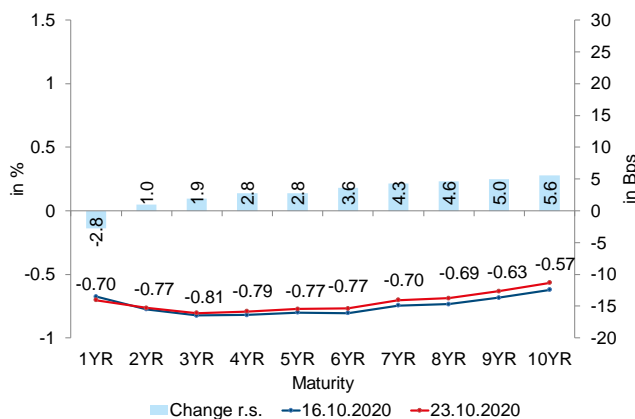
Source: Market Data Provider, Erste Group Research

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	1.8	1.3	-7.6	5.4
US	2.9	2.3	-4.3	3.8

Inflation	2018	2019	2020	2021
Eurozone	1.7	1.2	0.2	1.1
US	2.4	1.8	1.2	1.9

Interest rates	current	Dec.20	Mar.21	Jun.21	Sep.21
ECB MRR	0.00	0.00	0.00	0.00	0.00
3M Euribor	-0.51	-0.50	-0.50	-0.50	-0.50
Germany Govt. 10Y	-0.57	-0.40	-0.10	0.00	0.00
Swap 10Y	-0.24	-0.10	0.20	0.30	0.30

Interest rates	current	Dec.20	Mar.21	Jun.21	Sep.21
Fed Funds Target Rate*	0.09	0.13	0.13	0.13	0.13
3M Libor	0.21	0.30	0.30	0.30	0.30
US Govt. 10Y	0.85	1.00	1.10	1.20	1.20
EURUSD	1.18	1.18	1.18	1.20	1.22

*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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