

Week Ahead

Focus: US election, FOMC meeting

Analyst:

Rainer Singer
rainer.singer@erstegroup.com

What will happen after US election?

Americans will vote next week. Not only the president will be voted on, but also a third of the senators and all members of the House of Representatives, where possible majority shifts could have major impact. But the primary focus will be on the presidential election. At the moment, the challenger Biden is leading relatively clearly in the polls. However, the US system of state electors makes it more difficult to make a prognosis, since the distribution of votes among the states plays an important role and a winner does not necessarily have to achieve a majority of the votes overall.

A close result on election day could mean that a decision on the winner of the election could take longer. This is for several reasons: projections after the polling stations close on November 3 are likely to be more uncertain this time than usual, as both turnout and the number of postal voters are expected to be very high. It would then be necessary to wait for further vote counting, which could take many weeks. A close initial result will also increase the likelihood of state results being contested, especially if President Trump is behind, as he has already questioned the postal vote in advance. In the worst case, the process of determining the next US president could drag on into next year. A clear majority for one of the two presidential candidates, on the other hand, would reduce the risk of a long period of uncertainty, which should be welcomed by the markets.

However, the markets will also take into account future majorities in the Senate and the House of Representatives when assessing the situation. This is essentially for two reasons: on January 6, the two chambers of the US Congress will meet to count the votes of the electors and to announce the official result. Any objections to the results of individual states will be voted on, whereby a majority by state (delegations) in the House of Representatives is required. Currently, Republicans hold this majority. If this changes in favor of the Democrats, there would potentially be one source less for a protracted dispute over the outcome of the election. The second reason is the pending next stimulus package, on which the two chambers have not yet been able to agree. This is of great importance for the economy. Without fiscal measures, the incomes of the more than 25 million recipients of unemployment benefits are likely to fall sharply as emergency measures expire. If the two houses continue to hold different majorities, agreement on a smaller but earlier (i.e. before the end of the year) stimulus package can be expected. If, on the other hand, the Democrats also take over the majority in the Senate, a larger package can be expected, which, however, might only be decided by the newly constituted Congress in January.

Next Tuesday, therefore, the stakes are high. The markets will consider and weigh a variety of factors, which means a wide range of possible reactions.

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

US Fed will wait

The US Fed's monetary policy decision next week is likely to be lost in the hype over the outcome of the US election. There is no doubt that Election Day has also been incorporated into the Federal Reserve's planning and key decisions have already been taken over the past months.

But with the recent sharp rise in COVID-19 infections over the last few weeks, members of the monetary policy-setting body FOMC will have to rethink their expectations for the economy. However, there is still no data basis for this, as the increase in infections occurred only recently. There is also further cause for concern for the economy, as agreement on a new fiscal package is still awaited. This points to a weak economy in the fourth quarter, although the first few weeks should have been quite good. However, representatives of the Fed have repeatedly stressed the importance of a new fiscal package for the economy. A decision on how monetary policy will react will probably be announced at the last meeting of the FOMC in December. This could consist of the still outstanding specification of a purchasing program, which should be generous and should run at least for the whole of 2021. We consider measures beyond that to be unlikely at present. Not least because the outlook may have improved in December compared to now. It is likely that a new fiscal package will be in place or within reach by then. Furthermore, the availability of a vaccine could become apparent in December, which should also brighten the economic outlook. Next week, we expect a concerned but wait-and-see US Federal Reserve.

Economic calendar

Ctry	Date	Time	Release	Period	Consens	Prior
Eurozone						
FR	2-Nov	9:50	PMI Index	Oct F		51.0 Index
IT	2-Nov	9:45	PMI Index	Oct		53.2 Index
DE	2-Nov	9:55	PMI Index	Oct F	57.9 Index	58.0 Index
EA	2-Nov	10:00	PMI Index	Oct F	54.4 Index	54.4 Index
USA						
	2-Nov	16:00	PMI Index	Oct	55.9 Index	55.4 Index
	4-Nov	14:15	ADP Employment	Oct	708.4 Tsd	748.7 Tsd
	6-Nov	14:30	Wages y/y	Oct	4.5%	4.7%
	6-Nov	14:30	Unempl. Rate	Oct	7.6%	7.9%
	6-Nov	14:30	Chg. Non-Farm Payrolls	Oct	625.0 Tsd	661.0 Tsd
China						
	2-Nov	3:45	PMI Index	Oct	52.8 Index	53.0 Index

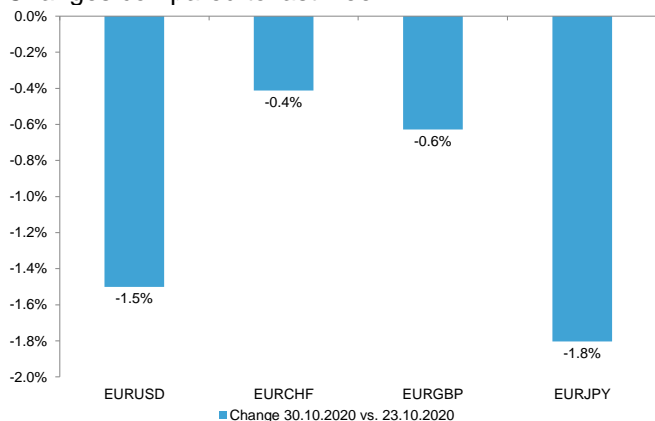
Central bank events

	Date	Time	Event
ECB	4-Nov	09:15	Isabel Schnabel, speech, European Banking Institute Policy Conference
	5-Nov	13:30	Luis de Guindos, speech, Delphi Economic Forum and Greek Federation Industries
	5-Nov	16:10	Isabel Schnabel, speech, ECONtribute University of Bonn
Fed	4-Nov	20:00	Monetary policy decision of the FOMC
		20:30	Jerome Powell, press conference

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

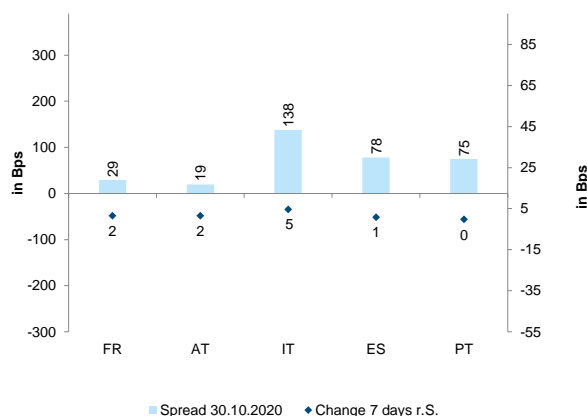
Forex and government bond markets

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



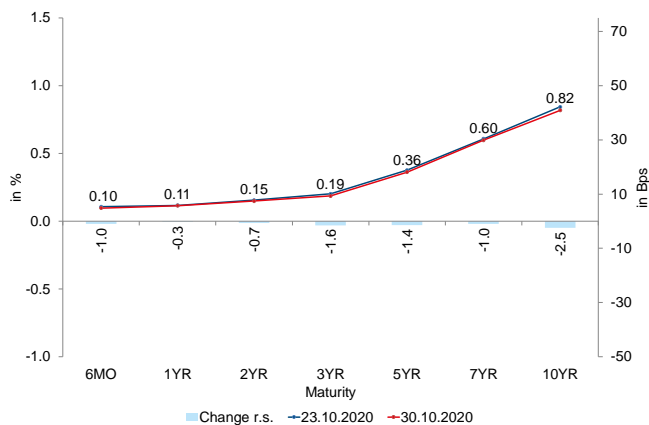
Source: Market Data Provider, Erste Group Research

Eurozone spreads vs. Germany 10Y government bonds



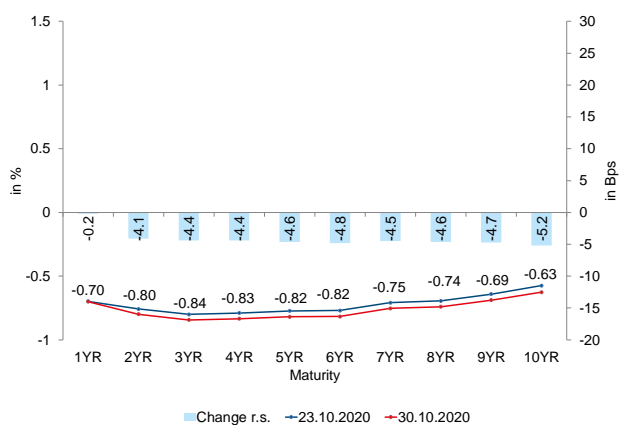
Source: Market Data Provider, Erste Group Research

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	-0.52	-0.50	-0.50	-0.50	-0.50
Germany Govt. 10Y	-0.63	-0.40	-0.10	0.00	0.00
Swap 10Y	-0.27	-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	0.82	1.00	1.10	1.20	1.20
EURUSD	1.17	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.

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) +361 373 2830
 Katarzyna Rzentarzewska (Fixed income) +43 (0)5 0100 17356
 Malgorzata Krzywicka (Fixed income, Poland) +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
 Nicole Gawlasova +420 956 765 456

Hungary
 Orsolya Nyeste +361 268 4428

Romania
 Ciprian Dascalu (Head) +40 3735 10108
 Eugen Sinca +40 3735 10435
 Dorina Ilasco +40 3735 10436
 Iulian George Misu +40 758484043

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 (Sub-Sovereigns & 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 (Financials & Covered Bonds) +43 (0)5 0100 85509
 Stephan Lingnau (Global Equities) +43 (0)5 0100 16574
 Carmen Riefler-Kowarsch (Financials & Covered Bonds) +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 Ebkuchen +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
 Nora Nagy (Telecom) +43 (0)5 0100 17416
 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
 Michal Pilch +48 22 330 6255
 Emil Poplawski +48 22 330 6252
 Marcin Gornik +48 22 330 6251

Romania
 Calius Rapanu +40 3735 10441

Treasury – Erste Bank Vienna

Group Markets Retail and Agency Business
 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: Margit Hraschek +43 (0)5 0100 84117
 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 5523
 Charles-Henry La Coste de Fontenilles +43 (0)5 0100 84115
 Bernd Thaler +43 (0)5 0100 84119

Bank Distribution
 Head: Marc Frieberthäuser +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 Vosseler +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 Csizmadia +36 1 237 8211
 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 Zeitberger-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

Disclaimer

This publication was prepared by Erste Group Bank AG or any of its consolidated subsidiaries (together with consolidated subsidiaries "Erste Group") independently and objectively as general information pursuant to Art. 36 (2) delegated Regulation (EU) 2017/565 as no direct buying incentives were included in this publication, which is of information character. This publication does not constitute investment research pursuant to Art. 36 (1) delegated Regulation (EU) 2017/565. It has not been prepared in accordance with legal requirements designed to promote the independence of investment research and it is not subject to the prohibition on dealing ahead of the dissemination of investment research. The information only serves as non-binding and additional information and is based on the level of knowledge of the person in charge of drawing up the information on the respective date of its preparation. The content of the publication can be changed at any time without notice. This publication does not constitute or form part of, and should not be construed as, an offer, recommendation or invitation to subscribe for or purchase any securities, and neither this publication nor anything contained herein shall form the basis of or be relied on in connection with or act as an inducement to enter into any contract or inclusion of a security or financial product in a trading strategy. Information provided in this publication are based on publicly available sources which Erste Group considers as reliable, however, without verifying any such information by independent third persons. While all reasonable care has been taken to ensure that the facts stated herein are accurate and that the forecasts, opinions and expectations contained herein are fair and reasonable, Erste Group (including its representatives and employees) neither expressly nor tacitly makes any guarantee as to or assumes any liability for the up-to-dateness, completeness and correctness of the content of this publication. Erste Group may provide hyperlinks to websites of entities mentioned in this document, however the inclusion of a link does not imply that Erste Group endorses, recommends or approves any material on the linked page or accessible from it. Neither a company of Erste Group nor any of its respective managing directors, supervisory board members, executive board members, directors, officers of other employees shall be in any way liable for any costs, losses or damages (including subsequent damages, indirect damages and loss of profit) howsoever arising from the use of or reliance on this publication. Any opinion, estimate or projection expressed in this publication reflects the current judgment of the author(s) on the date of publication of this document and do not necessarily reflect the opinions of Erste Group. They are subject to change without prior notice. Erste Group has no obligation to update, modify or amend this publication or to otherwise notify a reader thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate. The past performance of securities or financial instruments is not indicative for future results. No assurance can be given that any financial instrument or issuer described herein would yield favorable investment results or that particular price levels may be reached. Forecasts in this publication are based on assumptions which are supported by objective data. However, the used forecasts are not indicative for future performance of securities or financial instrument. Erste Group, its affiliates, principals or employees may have a long or short position or may transact in the financial instrument(s) referred to herein or may trade in such financial instruments with other customers on a principal basis. Erste Group may act as a market maker in the financial instruments or companies discussed herein and may also perform or seek to perform investment services for those companies. Erste Group may act upon or use the information or conclusion contained in this publication before it is distributed to other persons. This publication is subject to the copyright of Erste Group and may not be copied, distributed or partially or in total provided or transmitted to unauthorized recipients. By accepting this publication, a recipient hereof agrees to be bound by the foregoing limitations. Erste Group is not registered or certified as a credit agency in accordance with Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies (the Credit Rating Agencies Regulation). Any assessment of the issuers creditworthiness does not represent a credit rating pursuant to the Credit Rating Agencies Regulation. Interpretations and analysis of the current or future development of credit ratings are based upon existing credit rating documents only and shall not be considered as a credit rating itself.

© Erste Group Bank AG 2020. All rights reserved.

Published by:

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

Erste Group Homepage: www.erstegroup.com