

# Week Ahead

Focus: ECB Council meeting

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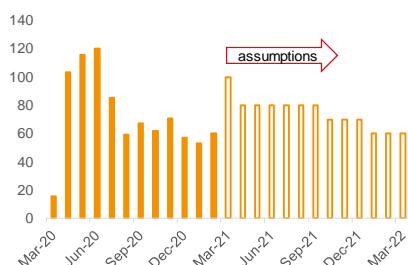
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## ECB to deliver clear message to markets

The ECB Governing Council meets next week. The session will get a lot of attention from the markets. The focus of the deliberations and the subsequent press conference by ECB President Lagarde will undoubtedly be the rise in yields on the bond market. A number of high-ranking ECB officials have already made their disapproval clear, and this has helped to stabilize the market. This week, German bunds managed to decouple themselves from developments in US Treasuries, where yields continued to rise.

No wonder that, in contrast to the US, the ECB's warnings were relatively clear. These ranged from the prevention of any unwarranted tightening of financing conditions (Isabel Schnabel) to the willingness to increase the PEPP purchase program (Philip Lane), to the idea of quantifying the target yield level (Fabio Panetta).

### ECB's monthly security purchases under PEPP, in EUR bn



Source: ECB, Erste Group Research

We do not think there will be any changes in monetary policy at the upcoming meeting. The size of the PEPP purchase program has been set so generously that, within the existing framework of EU 1,850bn, purchases can be increased significantly during the rest of 2021. The chart shows our assumptions. Thus, the coming week should remain one of significant verbal intervention. Once again, the importance of favorable financing conditions will be stressed. The willingness to "recalibrate" all monetary policy instruments, if necessary, will also be emphasized. Furthermore, it will probably be made clear that increases in inflation due to base effects will be seen as temporary and will therefore not trigger a reaction by the central bank.

At next week's meeting, the new forecasts of the ECB economists will also be published. There will be some movement in the figures. The ECB had assumed a significantly stronger contraction of the economy for 2020 than is now certain – after the publication of the data for 4Q. It remains to be seen to what extent the adjustments will have an impact on the forecasts for 2021, as many factors flow into the forecasts. What is clear, however, is that the inflation forecast will be raised, at least for 2021. This results from the massive increase in the oil price. For the December forecasts, the ECB had assumed an oil price of USD 44 (Brent) for 2021. This time, the assumed price should be close to USD 60. In addition, there will be small effects from the new weighting of the consumer basket. But all this will not change the basic message of the ECB. It will be made clear to the markets that monetary policy will remain very expansionary for a long time to come.

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Note: Past performance is not necessarily indicative of future results

*Keeping the bond markets at the desired level will probably be the biggest challenge for the ECB this year. The mix of volatile inflation rates, much better economic data (from 2Q) and rising US yields (our expectation) will repeatedly cause turmoil in the markets. However, we believe that the ECB will be able to keep the markets in check with its securities purchases and*

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*its credible announcement that it will follow up if necessary. Especially since there should not be any sustained, significant rise in inflation. There is no doubt, however, that the ECB will have to increase its monthly purchases, because the selling pressure on bonds will continue.*

## Economic calendar

Ctry	Date	Time	Release	Period	Consens	Prior
<b>Eurozone</b>						
EA	9-Mar	11:00	GDP q/q	4Q F	-0.6%	-0.6%
EA	9-Mar	11:00	GDP y/y	4Q F	-5.0%	-5.0%
<b>USA</b>						
	10-Mar	14:30	Inflation y/y	Feb	1.7%	1.4%
<b>China</b>						
	10-Mar	3:30	Inflation y/y	Feb	-0.4%	-0.3%

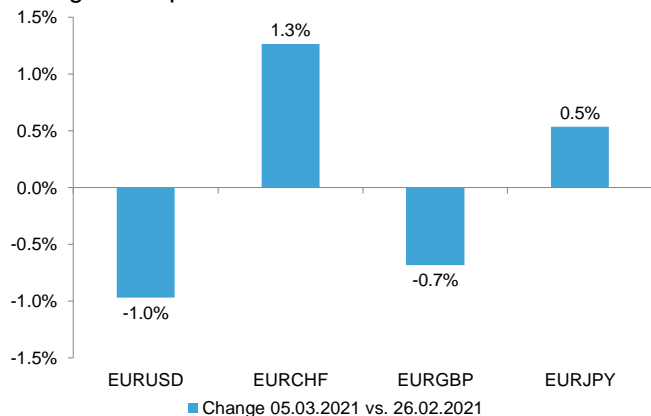
## Central bank events

	Date	Time	Event
<b>ECB</b>	11-Mar	13:45	Monetary policy decision of the ECB-Council
		14:30	Christine Lagarde, press conference
<b>Fed</b>			No monetary policy relevant events

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

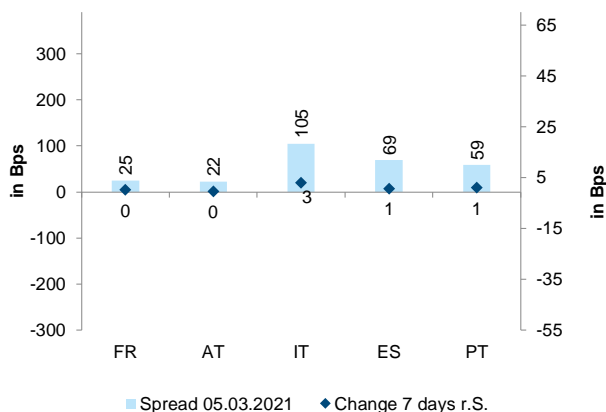
## Forex and government bond markets

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



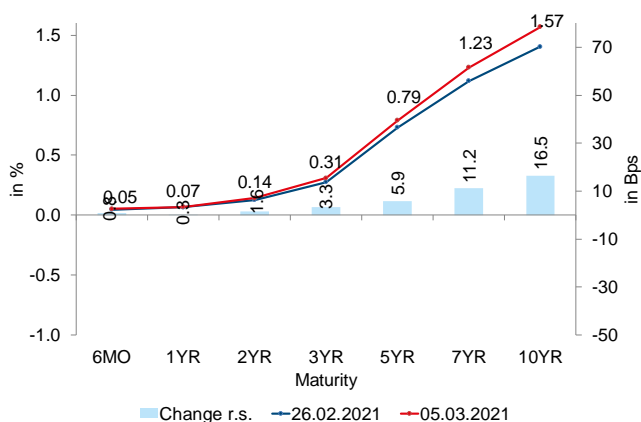
Source: Market Data Provider, Erste Group Research

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



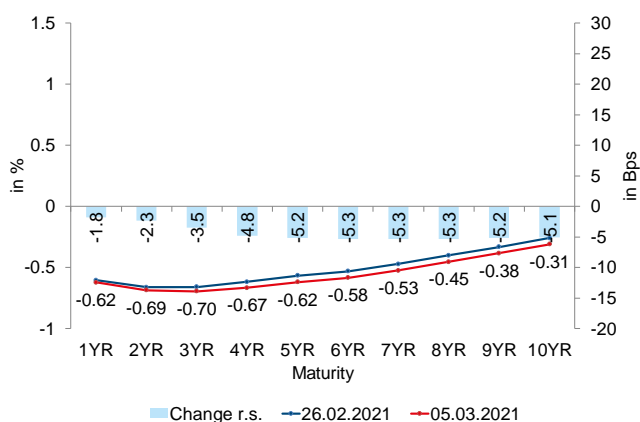
Source: Market Data Provider, Erste Group Research

### 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

## Forecasts<sup>1</sup>

GDP	2019	2020	2021	2022
Eurozone	1.3	-6.8	4.0	2.5
US	2.3	-3.5	5.5 ↑	3.2 ↑

Inflation	2019	2020	2021	2022
Eurozone	1.2	0.2	1.0	1.2
US	1.8	1.2	1.9 ↑	1.9 ↑

Interest rates	current	Jun.21	Sep.21	Dec.21	Mar.22
ECB MRR	0.00	0.00	0.00	0.00	0.00
3M Euribor	-0.54	-0.54 ↑	-0.54 ↑	-0.54 ↑	-0.54
Germany Govt. 10Y	-0.31	-0.30	-0.20	-0.10	0.00
Swap 10Y	0.02	0.00	0.10	0.20	0.30

Interest rates	current	Jun.21	Sep.21	Dec.21	Mar.22
Fed Funds Target Rate*	0.07	0.13	0.13	0.13	0.13
3M Libor	0.19	0.20	0.20	0.20	0.20
US Govt. 10Y	1.56	1.70 ↑	1.70 ↑	1.80 ↑	1.80
EURUSD	1.20	1.18 ↓	1.20 ↓	1.22	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

<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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