

Week Ahead

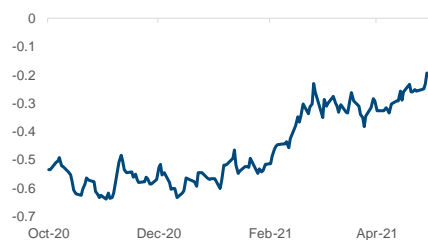
Focus: Rising yields, Emerging Markets Covid-19

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Yield of the 10y German government bond, in %



Source: Market data provider, Erste Group Research

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Note: Past performance is not necessarily indicative of future results

Bond market challenges ECB

Selling pressure increased on the bond market towards the end of the week. Yields on government bonds rose noticeably in both the Eurozone and in the US. While yields in the US remained below the levels seen at the beginning of April this year, German government bond yields reached their highest levels in more than a year. In addition, the yield premiums of Italian government bonds widened. The extent of the yield increases was relatively small, but the credibility of the ECB could nevertheless be called into question by some market participants. The central bank had successfully countered the bond market sell-off in March. In addition to verbal interventions, the announcement of higher securities purchases under the PEPP program in the second quarter was decisive for this. This went well until recently.

Even though the ECB has not quantified its actions in any way, it is clear that the yield increases in February, as well as the latest ones, were not in its interest. The ECB aims to ensure favorable financing conditions depending on the inflation outlook. At the March meeting of the ECB Governing Council, these two were obviously not seen as being in harmony and accordingly higher asset purchases were announced. At the meeting just over a week ago, this course was confirmed. Since then, financing conditions have become even less favorable.

The ECB should aim to stabilize the market soon. Otherwise, in the worst case the market could doubt the implementation of the monetary policy goals, although the necessary instrument for this is available with the PEPP purchase program. The consequence could be a wave of selling. Early intervention by the ECB is all the more important, as strong economic data should come from the Eurozone during the coming months, and thus the environment for the bond market will deteriorate.

Emerging markets - does the current COVID wave threaten the economy?

Unfortunately, there has been a dramatic increase in new infections in Brazil and especially in India in April due to local COVID-19 mutations. In contrast, China has managed to keep the infection under control. The containment measures necessary to prevent a worsening of the situation are likely to weigh on growth in Brazil and India in 2021. Against this background, the question of vaccination progress in emerging markets comes into focus.

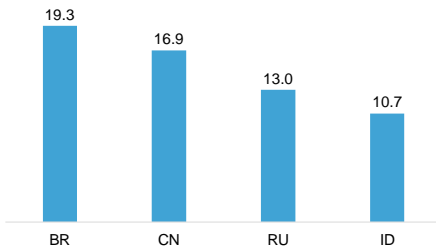
So far, Brazil and China, with about 19 and 17 vaccine doses per 100 inhabitants, respectively, have been faster than Russia (13 vaccine doses per 100 inhabitants) and India (11 vaccine doses per 100 inhabitants). Given the high ongoing vaccination rate, the lead of Brazil and China will increase further in the coming weeks. Against this backdrop, Brazil should be able to

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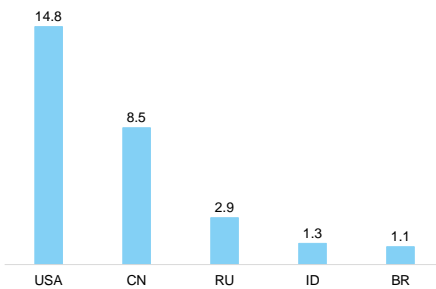
30. April 2021

Vaccine doses per 100 inhabitants



Source: Our world in data, Erste Group Research

EZ – Export share by country 2020 (%)



Source: Eurostat, Erste Group Research

sustainably control the incidence of infection in the coming months. In view of the large population, however, it will take much longer for India. The current situation shows how important it is for Europe and the US to quickly make vaccines available at a low cost on a global scale.

We do not expect any temporary economic weakness in Brazil or India to weigh on the upswing in the Eurozone. This is mainly because both countries, viewed in isolation, play a subordinate role for Eurozone exporters. For example, the share of Eurozone exports to India and Brazil in 2020 was 1% each. With an export share of around 3%, Russia's hesitant vaccination progress hurts somewhat more. In contrast, the US (15%) and China (8.5%) are by far the most important sales markets for the Eurozone economy.

Now that the upswing in both the US and China is in full swing, we expect the tailwind for Eurozone exporters to continue thanks to the importance of these two countries. Apart from this, we believe that the vaccination progress within the Eurozone is currently the decisive factor for the economy. Given the acceleration in the pace of vaccination, we expect sustained opening steps in May and June. Against this backdrop, we expect a dynamic recovery of the Eurozone economy from 2Q onwards, irrespective of the current negative developments in Brazil and India.

Economic calendar

Ctry	Date	Time	Release	Period	Consens	Prior
Eurozone						
FR	3-May	9:500	PMI Index	Apr F	59.2 Index	59.2 Index
IT	3-May	9:45	PMI Index	Apr	60.9 Index	59.8 Index
DE	3-May	9:55	PMI Index	Apr F	66.4 Index	66.4 Index
EA	3-May	10:00	PMI Index	Apr F	63.9 Index	63.3 Index
USA						
	3-May	16:00	PMI Index	Apr	65.1 Index	64.7 Index
	5-May	14:15	ADP Employment	Apr	864.6 Tsd	516.8 Tsd
	7-May	14:30	Wages y/y	Apr	0.3%	4.2%
	7-May	14:30	Unempl. Rate	Apr	5.8%	6.0%
	7-May	14:30	Chg. Non-Farm Payrolls	Apr	984.2 Tsd	916.0 Tsd

China

Central bank events

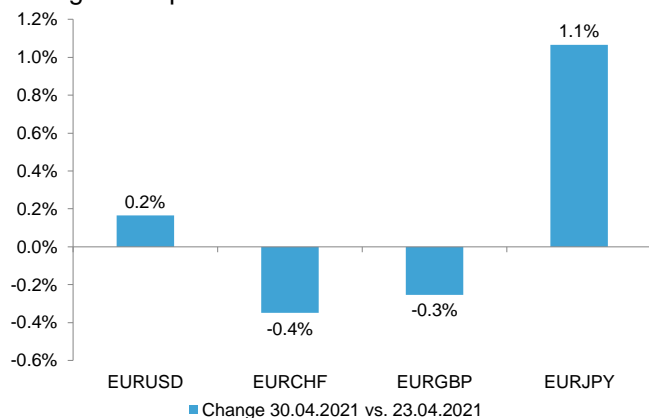
	Date	Time	Event
ECB	5-May	16:00	Philip Lane, panel discussion, <i>Taking stock: ECB strategy and monetary policy challenges</i> , OMFIF strategic review workshop
	7-May	12:00	Christine Lagarde, conversation, The State of the Union 2021, European University Institute Florence

Fed No monetary policy relevant events

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

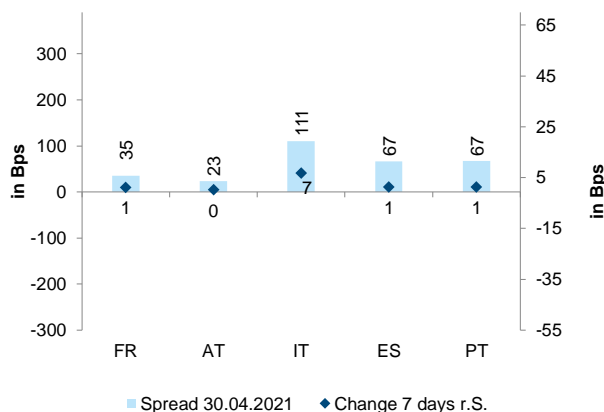
Forex and government bond markets

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



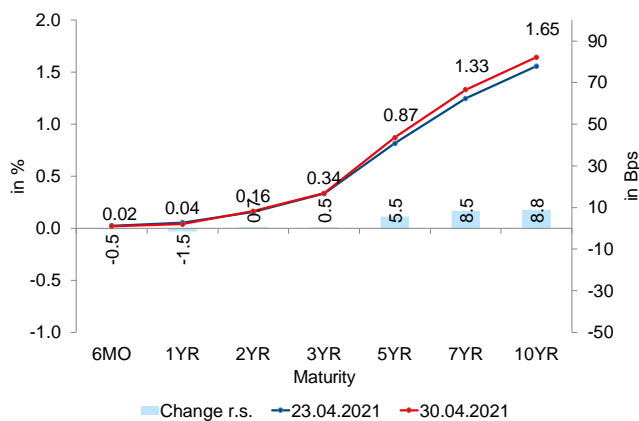
Source: Market Data Provider, Erste Group Research

Eurozone spreads vs. Germany 10Y government bonds



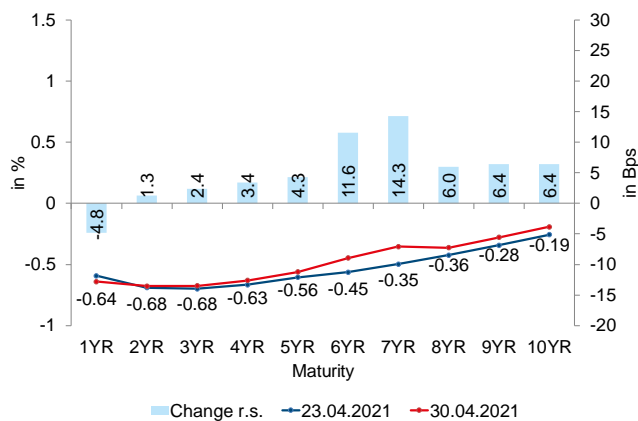
Source: Market Data Provider, Erste Group Research

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	2019	2020	2021	2022
Eurozone	1.3	-6.6	4.0	3.4
US	2.3	-3.5	5.9	3.4

Inflation	2019	2020	2021	2022
Eurozone	1.2	0.3	1.5	1.2
US	1.8	1.2	2.2	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	-0.19	-0.30	-0.20	-0.10	0.00
Swap 10Y	0.15	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	1.65	2.00	2.10	2.20	2.20
EURUSD	1.21	1.16	1.16	1.18	1.20

*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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