

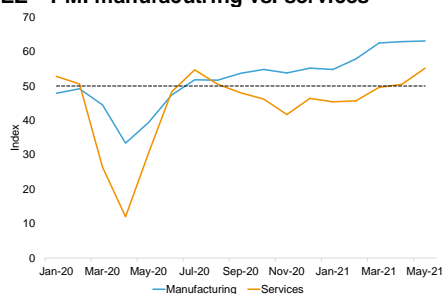
Week Ahead

Focus: EZ PMI data, FR regional elections

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EZ – PMI manufacturing vs. services



Source: Market data provider, Erste Group Research

EZ - is the mood among service providers continuing to rise?

Next week (June 23), a first flash estimate of PMI data for the Eurozone, Germany and France for June will be published. Already in May, sentiment in the services sector improved substantially, by 5 index points. In contrast, sentiment in manufacturing stabilized at historic highs.

Against the backdrop of rapid vaccination progress in the countries of the Eurozone, with around 50% of the population having received at least one vaccination dose by mid-June, we expect sentiment in the services sector to rise further in June. In manufacturing, we expect sentiment to stabilize at best near historical highs. Thanks to sustained opening steps in the services sector in many Eurozone countries, we expect a dynamic recovery of the Eurozone economy also in the further course of the year. Private consumption in particular should make an above-average contribution to this recovery. In the second half of the year, GDP growth, especially in Greece, Portugal, Spain and Italy, should additionally benefit from the first funds from the EU recovery plan.

FR – how dangerous is Le Pen for Macron?

The first round of regional elections will be held in France's 18 regions on Sunday (June 20). The elections are considered an important yardstick for the presidential elections in April 2022, which is why they will attract considerable media interest. The party landscape is characterized by a strongly fragmented - and thus weakened - left-wing and right-wing conservative camp. On the other hand, there is a strongly united Rassemblement National (RN for short - formerly Front National), which is expected to head some regional governments for the first time after the election. President Macron's party (La Republique En March - LRM for short) is strongly focused on Paris and hardly anchored in the regions, which could also benefit the RN.

Reactions on the financial markets will probably only occur in the run-up to the presidential elections in 2022, where a duel between President Macron and Le Pen is expected, as in 2017. Le Pen has changed course with regard to her party's core issues following her election defeat in 2017. On one hand, she deviated from her strongly EU-critical course and refrained from both a return to the franc and an exit from the EU. On the other hand, environmental protection was increasingly included in the election program. A change of direction which - together with the renaming of the party - should serve to position it more strongly in the more moderate conservative camp. The success of the strategy is already evident in the fact that Le Pen's acceptance has risen sharply; 42% of French people no longer see the RN as a danger to democracy.

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Note: Past performance is not necessarily indicative of future results

As a counter-reaction, the LRM around Macron is trying to move further to the right in order to position itself more strongly in the conservative camp; issues such as security, order and social conditions in the suburbs are being emphasized more strongly. At the same time, Macron is trying to focus the election campaign on a duel with Le Pen, hoping that he will be able to prevail against her again in a run-off. Polls currently put Le Pen at 29% and Macron at 28% in the first round of the 2022 election. However, in the event of a run-off election, pollsters expect Macron to win again, even if this could be less clear-cut with 53% approval (after 66.1% in 2017). In contrast, Le Pen could achieve a clearly better result in the run-off with 47% (after 33.9%).

The increased uncertainty regarding the outcome of the election could temporarily lead to increased demand for safe haven investments such as German Bunds or the Swiss franc in the run-up to the presidential election (April 2022). The extent of the price movement on the financial markets will strongly depend on Le Pen's expected election success, based on ongoing poll results. In addition, the question of how credible Le Pen's change of course (turning away from an anti-EU course) is seen by the financial markets will be decisive.

Economic calendar

Ctry	Date	Time	Release	Period	Consens	Prior
Eurozone						
FR	23-Jun	9:15	PMI Index	Jun P		59.4 Index
DE	23-Jun	9:30	PMI Index	Jun P		64.4 Index
EA	23-Jun	10:00	PMI Index	Jun P		63.1 Index
DE	24-Jun	10:00	Ifo Index	Jun		99.2 Index
USA						
	24-Jun	14:30	GDP q/q	1Q T	6.4%	6.4%
	25-Jun	14:30	PCE Deflator	May		3.6%
China						

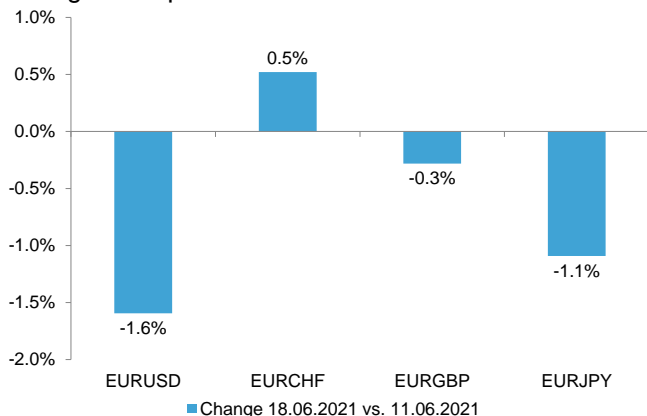
Central bank events

	Date	Time	Event
ECB	18-Jun	18:00	Publication of the ECB Survey of Monetary Analysts June 2021
	21-Jun	16:15	Christine Lagarde, introductory statement at the Hearing before the Committee on Economic and Monetary Affairs of the European Parliament
	22-Jun	12:05	Philip Lane, lecture: <i>The resilience of the euro</i> , Athen University of Economics and Business
	24-Jun	17:30	Isabel Schnabel, lecture, University of Cyprus - School of Economics and Management
Fed	22-Jun	20:00	Jerome Powell, testimony: <i>The Federal Reserve's Response to the Coronavirus Pandemic</i> , US House of Representatives

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

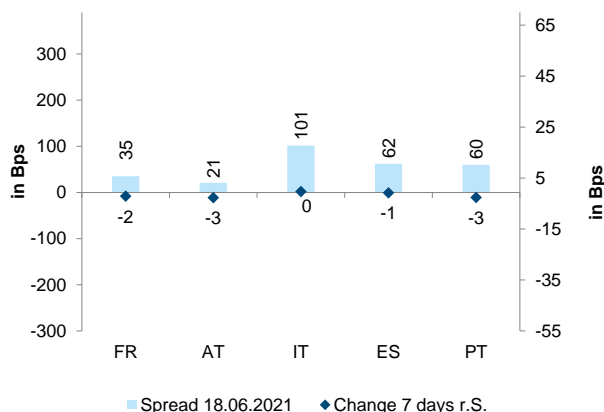
Forex and government bond markets

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



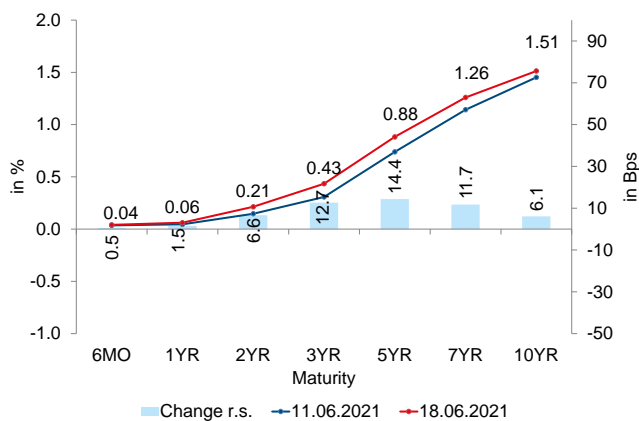
Source: Market Data Provider, Erste Group Research

Eurozone spreads vs. Germany 10Y government bonds



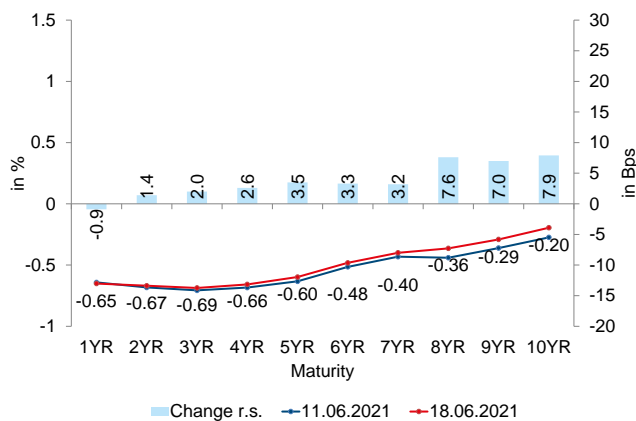
Source: Market Data Provider, Erste Group Research

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	6.1	3.3

Inflation	2019	2020	2021	2022
Eurozone	1.2	0.3	1.5	1.2
US	1.8	1.2	3.3	2.0

Interest rates	current	Sep.21	Dec.21	Mar.22	Jun.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	-0.20	-0.10	0.00	0.00	0.10
Swap 10Y	0.09	0.20	0.30	0.30	0.40

Interest rates	current	Sep.21	Dec.21	Mar.22	Jun.22
Fed Funds Target Rate*	0.06	0.13	0.13	0.13	0.13
3M Libor	0.12	0.20	0.20	0.20	0.20
US Govt. 10Y	1.51	2.00	2.10	2.10	2.20
EURUSD	1.19	1.18	1.20	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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