

Week Ahead

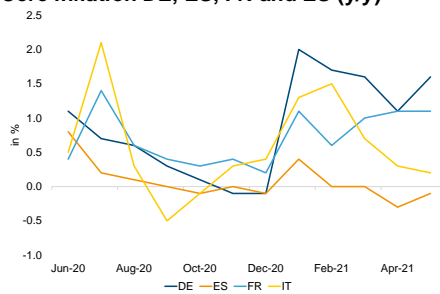
Focus: EZ Inflation, Financing of the EU recovery plan

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Core inflation DE, ES, FR and ES (y/y)



Source: Eurostat, Erste Group Research

EZ - is inflation still rising?

Next week (June 30), a first flash estimate of Eurozone inflation for June will be published. In May, inflation rose to its highest level for the time being at 2.0% y/y. The main driver for the increase was energy prices, which rose by 13% y/y in May. Core inflation rose from 0.7% y/y to 1.0% y/y in May and thus also contributed to the increase in headline inflation, although the level of core inflation varies considerably at the country level. While core inflation in Germany recently reached 1.6% y/y, it was significantly lower in Italy and Spain. Due to the after-effects of the pandemic, Eurozone core inflation data is currently still volatile and difficult to interpret. Averaged over the last 12 months, Eurozone core inflation was 0.7% y/y, well below the ECB's price stability target.

Since the upward pressure of energy prices should gradually ease, we expect headline inflation to slightly decline in June. For the second half of the year, we expect inflation to develop in two directions. On one hand, the upward pressure of energy prices should ease, thanks to expiring base effects. On the other hand, we forecast rising upward pressure from core inflation. The pandemic has caused core inflation to plummet from August 2020. A temporary tax cut in Germany has exacerbated this. We would therefore expect a rise in Eurozone core inflation from August, at the latest (in Germany, already from July). However, this should be temporary. With the beginning of 2022, we expect a normalization and a decline in monthly core inflation data.

EZ – inflation forecast raised

This week, we raised our inflation forecast for the Euro Area to 1.8% in 2021 (previously 1.5%) and to 1.4% in 2022 (previously 1.2%), partly due to higher energy price forecasts and stronger food price dynamics. The concretization of projects for the EU recovery plan at the country level (plans should be approved soon) has increased the likelihood of stronger growth momentum in the Eurozone in 2022. This has an impact on our increased inflation forecast as well

EU starts series of bond issuances

On June 15, the European Commission issued the first bond on behalf of the EU to finance the EU's recovery plan (Next Generation EU). The maturity is 10 years and the issue size was EUR 20bn. The issue attracted great interest from investors and bids exceeded EUR 142bn. This year, the European Commission plans to issue a total of EUR 80bn in bonds, plus several tens of billions in bills. However, the volume will ultimately depend on the projects submitted and how quickly they can be implemented. This also applies to the total planned issuance volume of EUR 800bn by 2026,

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Note: Past performance is not necessarily indicative of future results

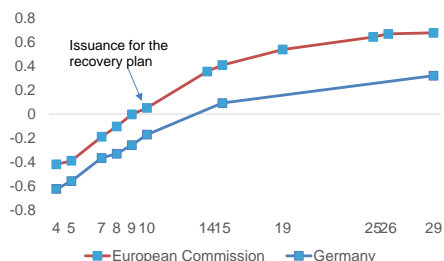
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25. June 2021

which will most likely make the European Commission by far the largest net issuer of Eurobonds in the coming years. The offering will not only include different maturities, but also, for example, green bonds.

Yield Curves, in %



Source: Market data providers, Erste Group Research

The issue on June 15 was not the European Commission's first. Since last year, EUR 90bn in bonds has already been issued to finance the SURE program, which serves to finance labor market measures in the member states. Different maturities have already been issued here, so that a yield curve is now in place, into which the latest issue to finance the recovery plan fits. The EU bonds are traded at a spread to German Bunds, for the 10-year maturity at about 20 basis points. In our view, these spreads can only be justified by the still significantly lower volumes available and thus the lower liquidity. The credit rating differs only insignificantly. EU issues have the highest rating from all but one of the major rating agencies, while Germany has the best rating across the board. As availability increases, we expect the spread of EU bonds over German Bunds to narrow over the coming years.

Economic calendar

Ctry	Date	Time	Release	Period	Consens	Prior
Eurozone						
FR	1-Jul	9:50	PMI Index	Jun F		58.6 Index
IT	1-Jul	9:45	PMI Index	Jun		62.3 Index
DE	1-Jul	9:55	PMI Index	Jun F	64.9 Index	64.9 Index
EA	1-Jul	10:00	PMI Index	Jun F	63.1 Index	63.1 Index
EA	30-Jun	11:00	CPI flash y/y	Jun	1.8%	2.0%
USA						
	30-Jun	14:15	ADP Employment	Jun	538.6 Tsd	978.2 Tsd
	1-Jul	16:00	PMI Index	Jun	61.0 Index	61.2 Index
	2-Jul	14:30	Wages y/y	Jun	3.6%	2.0%
	2-Jul	14:30	Unempl. Rate	Jun	5.7%	5.8%
	2-Jul	14:30	Chg. Non-Farm Payrolls	Jun	679.7 Tsd	559.0 Tsd
China						
	1-Jul	3:45	PMI Index	Jun	52.0 Index	52.0 Index

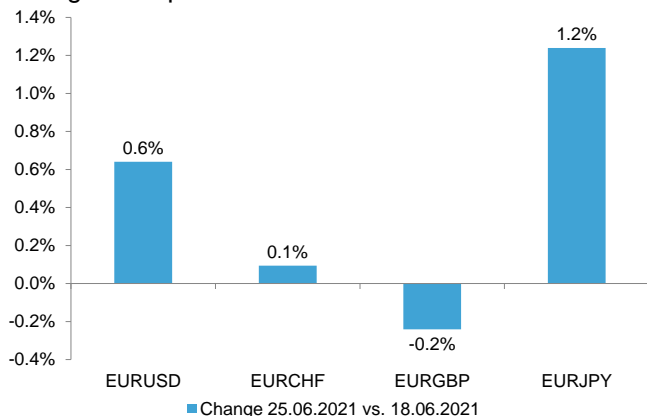
Central bank events

	Date	Time	Event
ECB	28-Jun	10:10	Fabio Panetta, speech: Central Banks at the frontline of the COVID-19 crisis: weathering the storm, spurring the recovery, Governors of Mediterranean Central Banks
	29-Jun	15:40	Christine Lagarde, speech, Brussels Economic Forum 2021
	1-Jul	09:00	Christine Lagarde, introductory statement, Committee on Economic and Monetary Affairs
Fed			No monetary policy relevant events

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

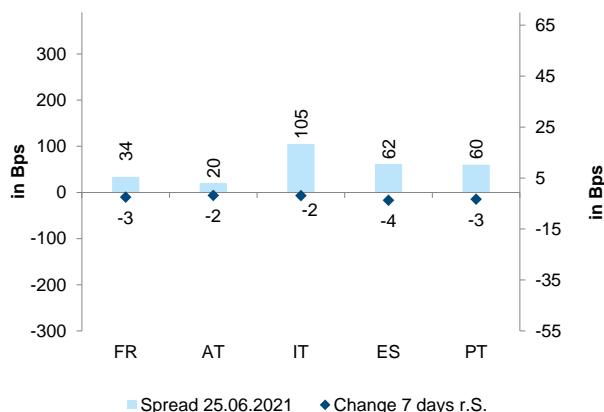
Forex and government bond markets

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



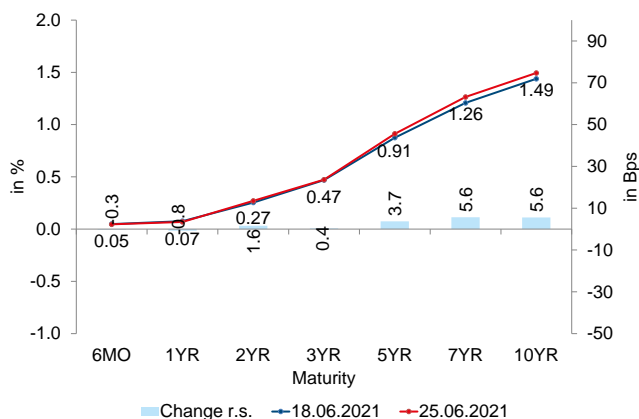
Source: Market Data Provider, Erste Group Research

Eurozone spreads vs. Germany 10Y government bonds



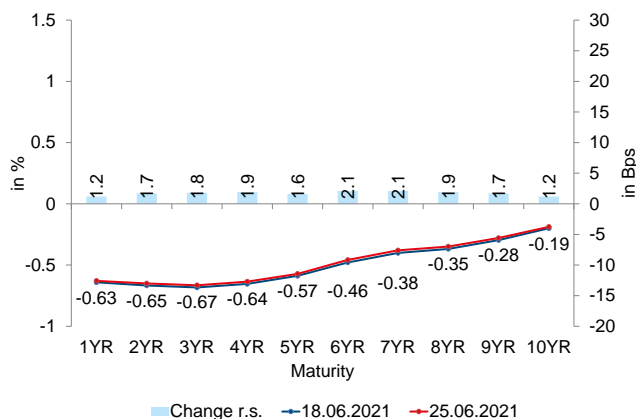
Source: Market Data Provider, Erste Group Research

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	6.1	3.3

Inflation	2019	2020	2021	2022
Eurozone	1.2	0.3	1.8 ↑	1.4 ↑
US	1.8	1.2	3.3	2.1 ↑

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	-0.19	-0.10	0.00	0.00	0.10
Swap 10Y	0.10	0.20	0.30	0.30	0.40

Interest rates	current	Sep.21	Dec.21	Mar.22	Jun.22
Fed Funds Target Rate*	0.10	0.13	0.13	0.13	0.13
3M Libor	0.15	0.20	0.20	0.20	0.20
US Govt. 10Y	1.49	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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