

Week Ahead

Focus: US Fed, EZ Inflation, EZ GDP 2Q

Analysts:

Rainer Singer

rainer.singer@erstegroup.com

Margarita Grushanina

margarita.grushanina@erstegroup.com

Gerald Walek

gerald.walek@erstegroup.com

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

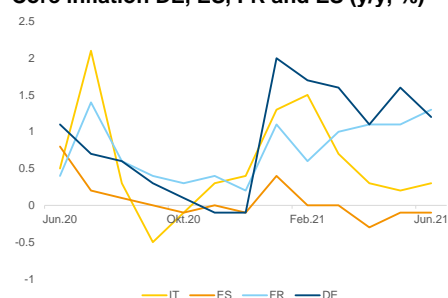
When will the US Fed decide on tapering?

Next week, the Federal Open Market Committee (FOMC), which decides on monetary policy, will meet. A decision on tapering, i.e. on the reduction of monthly securities purchases, is possible, but unlikely. The conditions set by the FOMC are still unlikely to be sufficiently met. These conditions are significant progress toward the monetary policy goals of maximum employment and 2% inflation. The strongest monthly employment growth this year was reported for June, but the unemployment rate has barely declined during the last few months. Inflation rates have risen massively during the past few months, although this is partly due to temporary effects from the run-up in the economy as well as base effects. Finally, Fed Chairman Powell has also stressed several times that a series of data would be needed to demonstrate the progress desired from the central bank's perspective.

Thus, there should be no decision on tapering next week. However, it could be communicated to the markets that a decision is possibly to be expected for September. It will then be some time before the actual tapering, as has been assured by the Fed Chairman several times in the past. The FOMC should therefore stay on course to scale back its purchases around the turn of the year - we assume January. Once there is a high degree of certainty about the start of tapering, the question arises as to the speed. There are no indications from the Fed yet in this respect. In 2014, monthly purchases of USD 80bn were reduced to zero within 10 months. Due to the far advanced recovery of the US economy, the process could be faster next year. It is possible that, as a first step, purchases of mortgage bonds will be ended, as the strong housing market does not need additional support. Mortgage bonds currently account for USD 40bn of the total USD 120bn of monthly purchases.

EZ - Inflation should remain near 2%

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



Source: Eurostat, Erste Group Research

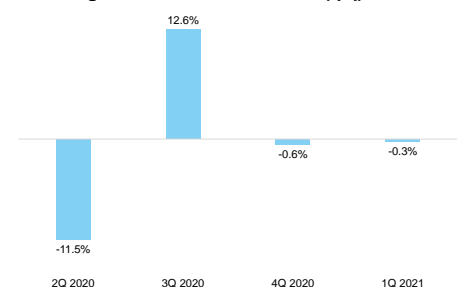
Next week (July 30), a first flash estimate of Euro Area inflation for July will be published. In June, inflation declined slightly compared with May to 1.9% y/y. The main reason for this decline was slightly lower core inflation, which stood at 0.9% in June (May: 1.0%). Energy prices continued their high growth at 12.6%, while food price inflation remained stable at 0.5%. The level of core inflation continues to vary widely at the country level. While core inflation in Germany and France is at levels above 1%, core inflation rates in Italy and Spain remain extremely low. Due to the aftermath of the pandemic, core inflation data in the Euro Area is currently still volatile and difficult to interpret. On average, over the past 12 months, core inflation in the Euro Area was 0.7% y/y.

As the base effect from the unusually high food prices in early summer last year should disappear, we expect food inflation to be higher in July. Consequently, we forecast a slight increase in headline inflation in July.

Later in the year, we expect increased upward pressure on inflation from continued high contributions from the energy component and food prices. At the same time, we expect core inflation to exert increasing upward pressure. This could push Eurozone inflation above 2% in the months ahead.

EZ - How much did GDP rise in 2Q?

EZ GDP-growth 2Q 2020 – 1Q 2021 (q/q)



Source: Eurostat, Erste Group Research

Next week, a first flash estimate of Eurozone GDP growth in 2Q21 will be published. Due in particular to the severe restrictive measures in Germany, Eurozone GDP contracted again slightly, by 0.3% q/q, in 2Q21.

Due to the sustained opening steps, which have been reflected in a significant improvement in mobility data, we expect GDP growth of between 0.8% and 1.5% q/q in 2Q21. The growth should benefit mainly from a recovery in private consumption. The economic recovery should continue in 3Q21, despite rising COVID-19 infection figures. We currently assume that the burden on healthcare systems from the already advanced vaccination campaign should be significantly lower than in the spring of this year. This should help avoid severe retrenchment measures with potential consequences for the economic recovery.

Economic calendar

Ctry	Date	Time	Release	Period	Consens	Prior
Eurozone						
DE	26-Jul	10:00	Ifo Index	Jul	101.7 Index	101.8 Index
FR	30-Jul	7:30	GDP y/y	2Q P		1.2%
DE	30-Jul	10:00	GDP y/y	2Q P	9.8%	-3.1%
IT	30-Jul	10:00	GDP y/y	2Q P		-0.8%
EA	30-Jul	11:00	GDP q/q	2Q A	1.5%	-0.3%
EA	30-Jul	11:00	GDP y/y	2Q A	13.5%	-1.3%
EA	30-Jul	11:00	CPI flash y/y	Jul	2.0%	1.9%
USA						
	29-Jul	14:30	GDP q/q	2Q A	8.4%	6.4%
	30-Jul	14:30	PCE Deflator	Jun	4.1%	3.9%

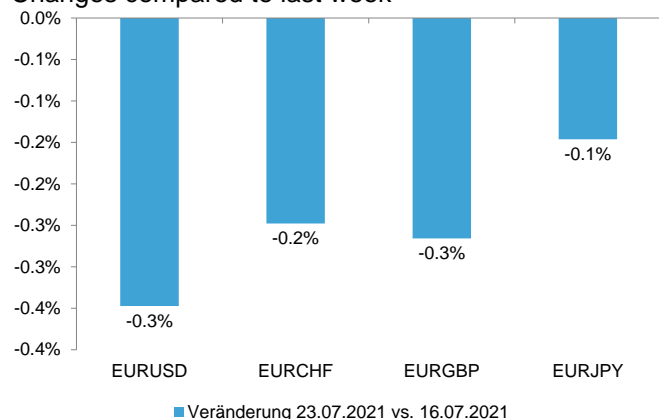
Central bank events

	Date	Time	Event
ECB	29-Jul	13:30	Publication of the account of the meeting of the Governing Council held on 7-8 July 2021
Fed	28-Jul	20:00	FOMC Meeting, Jerome Powell, Press conference
	31-Jul	02:30	Lael Brainard, Speech: Rebuilding the Post-Pandemic Economy, Annual Meeting of the Aspen Economic Strategy Group

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

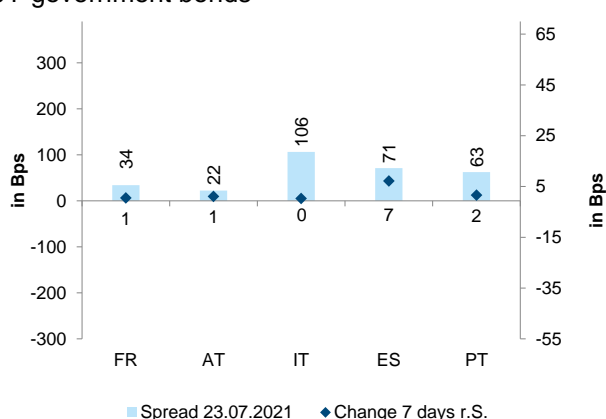
Forex and government bond markets

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



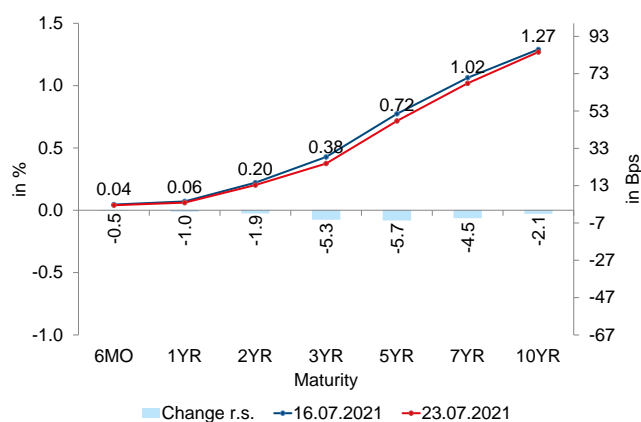
Source: Market Data Provider, Erste Group Research

Eurozone spreads vs. Germany
 10Y government bonds



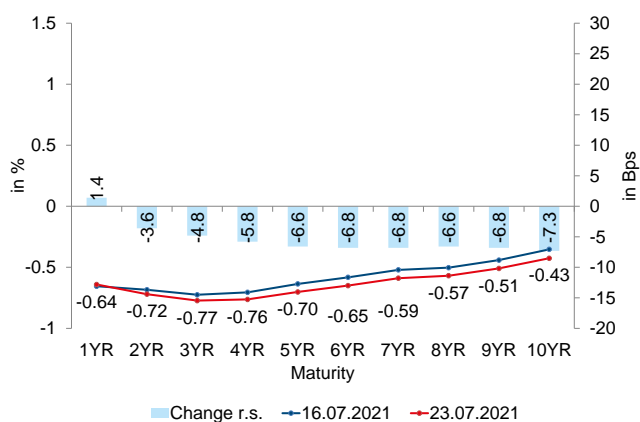
Source: Market Data Provider, Erste Group Research

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	-6.5	4.4	4.1
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	-0.55	-0.54	-0.54	-0.54	-0.54
Germany Govt. 10Y	-0.41	-0.10	0.00	0.00	0.10
Swap 10Y	-0.05	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	0.14	0.20	0.20	0.20	0.20
US Govt. 10Y	1.28	2.00	2.10	2.10	2.20
EURUSD	1.18	1.18	1.20	1.20	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.

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
 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 Jelic +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 Povazsai-Romhild, CEFA (Corporate Bonds) +43 (0)5 0100 17203
 Elena Statelov, CIA (Corporate Bonds) +43 (0)5 0100 19641
 Gerald Walek, CFA (Euro, CHF) +43 (0)5 0100 16360

CEE Equity Research
 Head: Henning Eißkuchen +43 (0)5 0100 19634
 Daniel Lion, CIA (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, CIA (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
 Emil Poplawski +48 22 330 6252
 Marcin Gornik +48 22 330 6251

Romania
 Caius Rapanu +40 3735 10441

Group Markets

Head of Group Markets
 Oswald Huber +43 (0)5 0100 84901

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

Group Securities Markets
 Head: Thomas Einramhof +43 (0)50100 84432

Institutional Distribution Core
 Head: Jürgen Niemeier +49 (0)30 8105800 5503

Institutional Distribution DACH+
 Head: Marc Friebertshäuser +49 (0)711 810400 5540
 Bernd Bollhof +49 (0)30 8105800 5525
 Andreas Goll +49 (0)711 810400 5561
 Mathias Gindele +49 (0)711 810400 5562
 Ulrich Inhofner +43 (0)5 0100 85544
 Sven Kienzle +49 (0)711 810400 5541
 Rene Klasen +49 (0)30 8105800 5521
 Christopher Lampe-Traupe +49 (0)30 8105800 5523
 Karin Rattay +43 (0)5 0100 84118
 Michael Schmotz +43 (0)5 0100 85542
 Klaus Vosseler +49 (0)711 810400 5560

Slovakia
 Sariota Sipulová +421 2 4862 5619
 Monika Smělková +421 2 4862 5629

Institutional Distribution CEE & Insti AM CZ
 Head: Antun Burić +385 (0)7237 2439
 Jaromir Malak +43 (0)5 0100 84254

Czech Republic
 Head: Ondrej Čech +420 2 2499 5577
 Milan Bartoš +420 2 2499 5562

Institutional Asset Management Czech Republic
 Head: Petr Holeček +420 956 765 453
 Petra Maděrová +420 956 765 178
 Martin Peřina +420 956 765 106
 David Petrášek +420 956 765 809
 Bianca Weinerová +420 956 765 317
 Petr Valenta +420 956 765 140

Croatia
 Head: Antun Burić +385 (0)7237 2439
 Zvonimir Tukač +385 (0)7237 1787
 Natalija Zujic +385 (0)7237 1638

Hungary
 Head: Peter Csizmadia +36 1 237 8211
 Gábor Bálint +36 1 237 8205
 Ádám Szónyi +36 1 237 8213

Romania and Bulgaria
 Head: Ruxandra Lungu +40 373516562

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

Czech Republic
 Head: Michal Řízek +420 224 995 537
 Jiří Fereš +420 224 995 554
 Martin Havlan +420 224 995 551
 Pavel Krabička +420 224 995 411

Poland
 Head: Jacek Jakub Langer +48 22 538 62 65
 Tomasz Galanciak +48 22 538 62 12
 Przemyslaw Nowosad +48 22 538 62 66
 Stepien Grzegorz +48 22 538 62 11
 Wysocki Wojciech +48 22 538 62 17

Croatia
 Damir Eror +385 (0)72 37 2836

Hungary
 Nandori Levente +36 1 23 55 141
 Krisztian Kandik +36 1 23 55 162
 Balasz Zankay +36 1 23 55 156

Romania
 Liviu Avram +40 3735 16569

Group Fixed Income Securities Markets
 Head: Goran Hobljaj +43 (0)50100 84403

FISM Flow
 Head: Aleksandar Doric +43 (0)5 0100 87487
 Margit Hraschek +43 (0)5 0100 84117
 Christian Kienesberger +43 (0)5 0100 84323
 Ciprian Mitu +43 (0)5 0100 85612
 Bernd Thaler +43 (0)5 0100 84119
 Zsuzsanna Toth +36-1-237 8209

Poland:
 Pawel Kielek +48 22 538 6223

Michal Jarmakowicz +43 50100 85611

Group Fixed Income Securities Trading
 Head: Goran Hobljaj +43 (0)50100 84403

Group Equity Trading & Structuring
 Head: Ronald Nemeč +43 (0)50100 83011

Business Support
 Bettina Mahoric +43 (0)50100 86441

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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