

Week Ahead

Focus: US Fed, EZ PMI data

Analysts:

Rainer Singer
rainer.singer@erstegroup.com

Gerald Walek
gerald.walek@erstegroup.com

Clear signals expected for US interest rate hike in March

Next week, the FOMC, the US Federal Reserve's monetary policy-making body, meets. The meeting will receive a lot of attention from the markets, as indications are expected as to when the first rate hike can be expected. At the beginning of the year, a number of FOMC members argued for an early first rate move. This bias should be confirmed next week and we expect clear indications for a rate hike at the March meeting. We therefore bring forward our expectations for a first rate move of 0.25% from May to March. Isolated market expectations of a 0.5% rate hike in March, on the other hand, should be disappointed. The FOMC would thus signal haste and interest rate expectations would probably rise in the markets for the rest of the year. This could trigger another wave of selling, which the FOMC wants to prevent, especially in the equity markets.

The interest rate trend beyond that remains uncertain. With four rate hikes this year, the markets are betting on relatively continuous development. However, in our view, there are a number of risks to this. The current COVID-19 wave has led to daily new infections that are many times higher than previous waves. This should dampen the economy during the first months of the year. Added to this are the risks of a military conflict between Russia and Ukraine. The impact will depend on what sanctions the US and Europe decide to impose and how Russia responds.

It is clear that inflation rates will fall in the course of the year, as strong price increases will drop out of the calculation. The question is whether new inflationary pressures will emerge from elsewhere. Wage growth has indeed accelerated significantly during the last six months, but sectors that were hit hard by the effects of the pandemic (leisure, transport) have contributed significantly to this. The most important question for the development of monetary policy will be how many more Americans will return to the labor market and thus ease the tensions. We believe there will be many more once the pandemic subsides.

We remain more cautious than the market. However, recent statements by Federal Reserve officials now lead us to expect two rate hikes this year.

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

EZ - important sentiment data expected

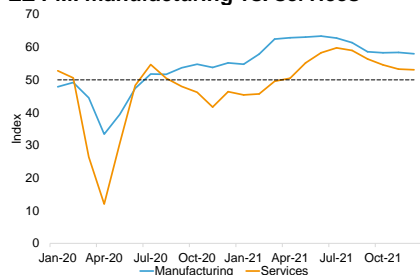
PMI data for the Eurozone will be published next week (January 24). This is the first important data point for the economy in 2022. In December, manufacturing sentiment stabilized at a high level as supply chain problems gradually eased. In contrast, service provider sentiment has weakened, due to rapidly rising new COVID-19 infections.

Erste Group Research

Week Ahead | Major Markets | Eurozone, USA

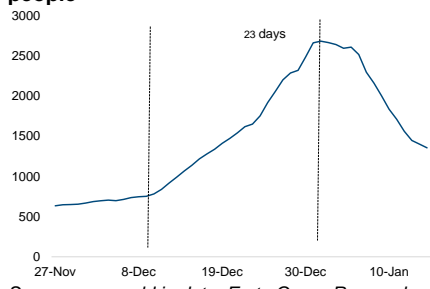
21. January 2022

EZ PMI manufacturing vs. services



Source: Eurostat, Erste Group Reserach

UK new infections Covid-19 per 100,000 people



Source: our world in data, Erste Group Reserach

We expect purchasing manager sentiment to stabilize to a large extent in January, although there may already be a slight brightening among service providers. Due to the Omicron variant, the infection figures in all Eurozone countries have risen rapidly and significantly since the beginning of January. However, the example of the United Kingdom shows that the Omicron wave should quickly subside again after around three weeks. The UK will therefore lift all Corona measures (including no more mandatory masks, no more verification of vaccination or test certificates) as early as next week. Although the way in which the pandemic is being dealt with differs greatly from country to country in Europe, this outlook should brighten the mood of service providers in the Eurozone somewhat in January.

Economic calendar

Ctry	Date	Time	Release	Period	Consens	Prior
Eurozone						
FR	24-Jan	9:15	PMI Index	Jan P		55.6 Index
DE	24-Jan	9:30	PMI Index	Jan P	57.2 Index	57.4 Index
EA	24-Jan	10:00	PMI Index	Jan P	57.6 Index	58.0 Index
DE	25-Jan	10:00	Ifo Index	Jan	94.3 Index	94.7 Index
FR	28-Jan	7:30	GDP y/y	4Q P		3.3%
DE	28-Jan	10:00	GDP y/y	4Q P	2.2%	2.5%
USA						
	27-Jan	14:30	GDP q/q	4Q A	5.7%	2.3%
	28-Jan	14:30	PCE Deflator	Dec	5.8%	5.7%

China

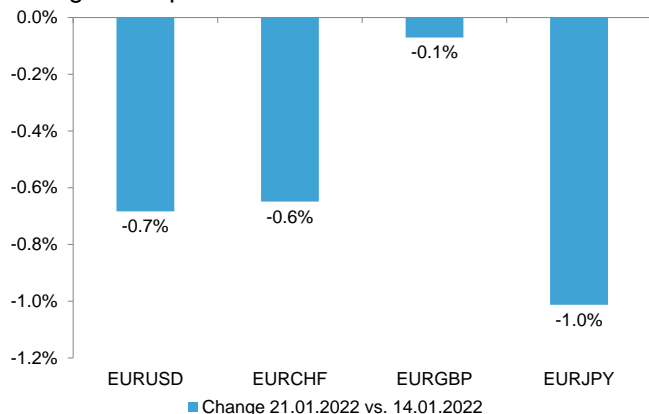
Central bank events

	Date	Time	Event
ECB			No relevant events
Fed	26-Jan	20:00	Monetary policy decision
		20:30	Jerome Powell, press conference

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

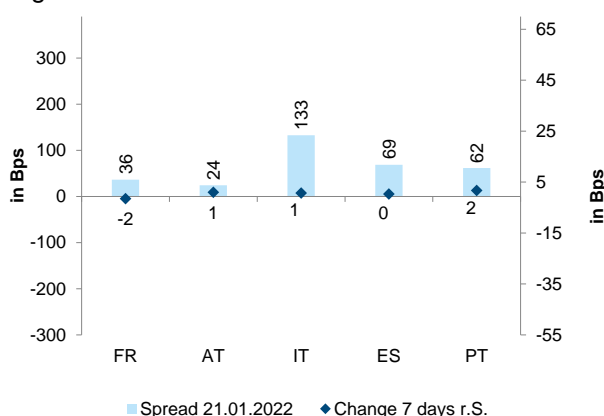
Forex and government bond markets

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



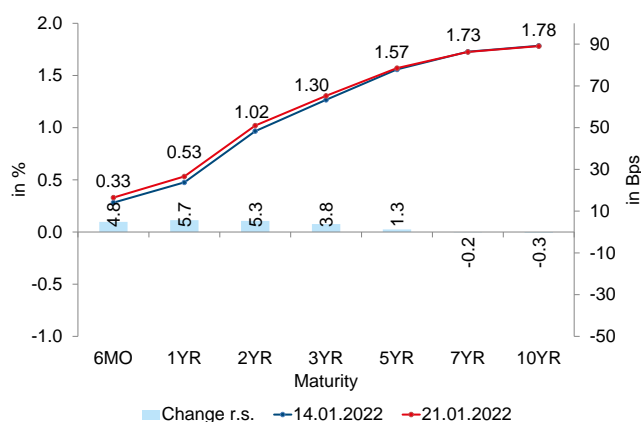
Source: Market Data Provider, Erste Group Research

Eurozone spreads vs. Germany
 10Y government bonds



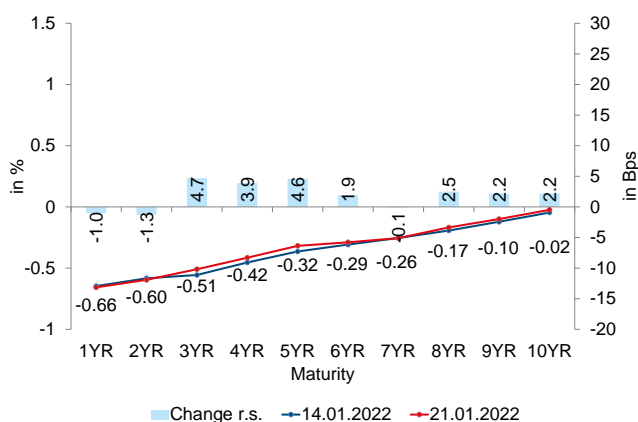
Source: Market Data Provider, Erste Group Research

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	2020	2021	2022	2023
Eurozone	-6.5	5.2	4.4	2.2
US	-3.5	5.7	3.3	2.3

Inflation	2020	2021	2022	2023
Eurozone	0.3	2.6	2.9	1.8
US	1.2	4.6	3.3	2.1

Interest rates	current	Mar.22	Jun.22	Sep.22	Dec.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	-0.06	-0.10	0.00	0.10	0.20
Swap 10Y	0.38	0.20	0.30	0.40	0.50

Interest rates	current	Mar.22	Jun.22	Sep.22	Dec.22
Fed Funds Target Rate*	0.08	0.38 ↑	0.63 ↑	0.63 ↑	0.63 ↑
3M Libor	0.26	0.43 ↑	0.68 ↑	0.68 ↑	0.85 ↑
US Govt. 10Y	1.78	1.60	1.80	1.90 ↑	2.00
EURUSD	1.13	1.15	1.15	1.15	1.15

*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
 Małgorzata Krzywicka (Fixed income, Poland) +43 (0)5 0100 17338
 Katarina Gumanova +43 (0)5 0100 17336

Croatia/Serbia
 Alen Kovac (Head) +385 72 37 1383
 Mate Jelić +385 72 37 1443
 Ivana Rogić +385 72 37 2419

Czech Republic
 David Navrátil (Head) +420 956 765 439
 Jiri Polansky +420 956 765 192
 Michal Skorepa +420 956 765 172

Hungary
 Orsolya Nyeste +361 268 4428
 János Nagy +361 272 5115

Romania
 Ciprian Dascalu (Head) +40 3735 10108
 Eugen Sinca +40 3735 10435
 Dorina Ilaşco +40 3735 10436
 Iulian George Misu +40 758484043

Slovakia
 Maria Valachyova (Head) +421 2 4862 4185
 Matej Hornak +421 902 213 591

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 Povaszai-Römhild, CEFA (Corporate Bonds) +43 (0)5 0100 17203
 Elena Statelov, CIIA (Corporate Bonds) +43 (0)5 0100 19641
 Gerald Walek, CFA (Euro, CHF) +43 (0)5 0100 16360

CEE Equity Research
 Head: Henning Eßkuchen +43 (0)5 0100 19634
 Daniel Lion, CIIA (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, CIIA (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 Basic +385 72 37 1407
 Davor Spoljar, CFA +385 72 37 2825

Czech Republic
 Petr Bartek (Head) +420 956 765 227
 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
 Cezary Bernatek (Head) +48 22 257 5751
 Piotr Bogusz +48 22 257 5755
 Łukasz Jańczak +48 22 257 5754
 Krzysztof Kawa +48 22 257 5752
 Jakub Szkopek +48 22 257 5753

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
 Šarlota Šípulová +421 2 4862 5619
 Monika Směliková +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 Cech +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 Petráček +420 956 765 809
 Blanka 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 Szényi +36 1 237 8213

Romania and Bulgaria
 Head: Ruxandra Lungu +40 373516562

Group Institutional Equity Sales
 Head: Brigitte Zeittberger-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
 Jiffi Fereš +420 224 995 554
 Martin Havlan +420 224 995 551
 Pavel Krabička +420 224 995 411

Poland
 Head: Jacek Jakub Langer +48 22 257 5711
 Tomasz Galanciak +48 22 257 5715
 Wojciech Wysocki +48 22 257 5714
 Przemyslaw Nowosad +48 22 257 5712
 Grzegorz Stepien +48 22 257 5713

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 Hoblaj +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 Hoblaj +43 (0)50100 84403

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

Business Support
 Bettina Mahoric +43 (0)50100 86441

Disclaimer

This publication was prepared by Erste Group Bank AG or any of its consolidated subsidiaries (together with consolidated subsidiaries "Erste Group") independently and objectively as general information pursuant to Art. 36 (2) delegated Regulation (EU) 2017/565 as no direct buying incentives were included in this publication, which is of information character. This publication does not constitute investment research pursuant to Art. 36 (1) delegated Regulation (EU) 2017/565. It has not been prepared in accordance with legal requirements designed to promote the independence of investment research and it is not subject to the prohibition on dealing ahead of the dissemination of investment research. The information only serves as non-binding and additional information and is based on the level of knowledge of the person in charge of drawing up the information on the respective date of its preparation. The content of the publication can be changed at any time without notice. This publication does not constitute or form part of, and should not be construed as, an offer, recommendation or invitation to subscribe for or purchase any securities, and neither this publication nor anything contained herein shall form the basis of or be relied on in connection with or act as an inducement to enter into any contract or inclusion of a security or financial product in a trading strategy. Information provided in this publication are based on publicly available sources which Erste Group considers as reliable, however, without verifying any such information by independent third persons. While all reasonable care has been taken to ensure that the facts stated herein are accurate and that the forecasts, opinions and expectations contained herein are fair and reasonable, Erste Group (including its representatives and employees) neither expressly nor tacitly makes any guarantee as to or assumes any liability for the up-to-dateness, completeness and correctness of the content of this publication. Erste Group may provide hyperlinks to websites of entities mentioned in this document, however the inclusion of a link does not imply that Erste Group endorses, recommends or approves any material on the linked page or accessible from it. Neither a company of Erste Group nor any of its respective managing directors, supervisory board members, executive board members, directors, officers or other employees shall be in any way liable for any costs, losses or damages (including subsequent damages, indirect damages and loss of profit) howsoever arising from the use of or reliance on this publication. Any opinion, estimate or projection expressed in this publication reflects the current judgment of the author(s) on the date of publication of this document and do not necessarily reflect the opinions of Erste Group. They are subject to change without prior notice. Erste Group has no obligation to update, modify or amend this publication or to otherwise notify a reader thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate. The past performance of securities or financial instruments is not indicative for future results. No assurance can be given that any financial instrument or issuer described herein would yield favorable investment results or that particular price levels may be reached. Forecasts in this publication are based on assumptions which are supported by objective data. However, the used forecasts are not indicative for future performance of securities or financial instrument. Erste Group, its affiliates, principals or employees may have a long or short position or may transact in the financial instrument(s) referred to herein or may trade in such financial instruments with other customers on a principal basis. Erste Group may act as a market maker in the financial instruments or companies discussed herein and may also perform or seek to perform investment services for those companies. Erste Group may act upon or use the information or conclusion contained in this publication before it is distributed to other persons. This publication is subject to the copyright of Erste Group and may not be copied, distributed or partially or in total provided or transmitted to unauthorized recipients. By accepting this publication, a recipient hereof agrees to be bound by the foregoing limitations.

Erste Group is not registered or certified as a credit agency in accordance with Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies (the Credit Rating Agencies Regulation). Any assessment of the issuers creditworthiness does not represent a credit rating pursuant to the Credit Rating Agencies Regulation. Interpretations and analysis of the current or future development of credit ratings are based upon existing credit rating documents only and shall not be considered as a credit rating itself.

© Erste Group Bank AG 2022. All rights reserved.

Published by:

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