

Week Ahead

Focus: EZ inflation

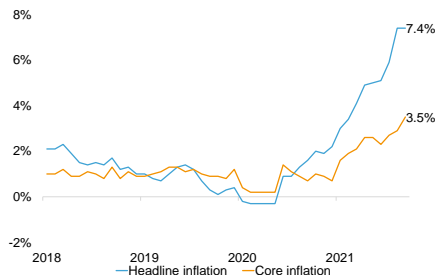
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EZ - Inflation should stabilize at high level

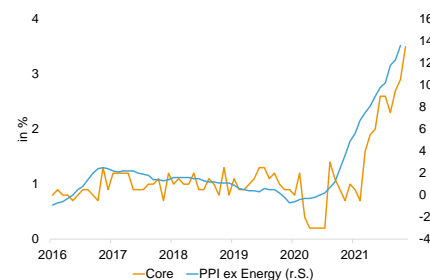
Next week (May 31), a first flash estimate of Eurozone inflation in May will be published. In April, inflation stabilized at its historical high of 7.4% y/y. Although upward pressure from energy prices has eased, price pressures from core inflation have increased significantly to 3.5% y/y.

EZ headline inflation vs. core inflation



Quelle: Eurostat, Erste Group Research

EZ producer prices ex energy vs. core inflation



Quelle: Eurostat, Erste Group Research

Based on current indications, we expect inflation to stabilize at a high level in May. Upward pressure from energy prices may ease further. However, in this context, the acute capacity problems of French nuclear power plants pose a short-term upside risk to Euro Area electricity and energy prices. By contrast, core inflation could pick up again slightly in May.

Due to weakening base effects for energy prices, we expect a gradual decline in the inflation rate in the second half of the year. In this context, however, the current upward trend in core inflation represents a risk factor. In our view, two factors are key to the outlook for core inflation: producer prices on one hand and wage developments on the other. Due to the cooling of leading economic indicators at the global level, we expect producer prices to lose momentum with a time lag in the coming months. This should have a dampening effect on core inflation with a further time lag. By contrast, we expect upward wage pressure on core inflation to increase, due to the necessary catch-up effects from strong wage increases to compensate for real wage losses in recent quarters.

In the short term, these two factors continue to pose upside risks to the outlook for core inflation. If these risks materialize, we believe this could lead to increased nervousness in the markets. We currently expect a gradual decline in the monthly core inflation rate starting in the summer. For 2022 as a whole, we expect an average inflation rate of 6.4%. As we do not expect any further significant increases in energy prices, we forecast a significant drop in inflation to 2.4% in 2023.

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Note: Past performance is not necessarily indicative of future results

Economic calendar

Ctry	Date	Time	Release	Period	Consens	Prior
Eurozone						
FR	31-May	8:45	GDP y/y	1Q F		5.3%
IT	31-May	10:00	GDP y/y	1Q F		5.8%
FR	1-Jun	9:500	PMI Index	May F	55.2 Index	54.5 Index
IT	1-Jun	9:45	PMI Index	May		54.5 Index
DE	1-Jun	9:55	PMI Index	May F	53.8 Index	54.7 Index
EA	1-Jun	10:00	PMI Index	May F	54.7 Index	54.4 Index
EA	31-May	11:00	CPI flash y/y	May		7.5%
USA						
	26-May	14:30	GDP q/q	1Q S	-1.3%	-1.4%
	27-May	14:30	PCE Deflator	Apr	6.2%	6.6%
	1-Jun	16:00	PMI Index	May	54.8 Index	55.4 Index
	2-Jun	14:15	ADP Employment	May	295.7 Tsd	247.2 Tsd
	3-Jun	14:30	Wages y/y	May	5.2%	5.5%
	3-Jun	14:30	Unempl. Rate	May	3.5%	3.6%
	3-Jun	14:30	Chg. Non-Farm Payrolls	May	345.8 Tsd	428.0 Tsd
China						
	1-Jun	3:45	PMI Index	May	48.9 Index	46.0 Index

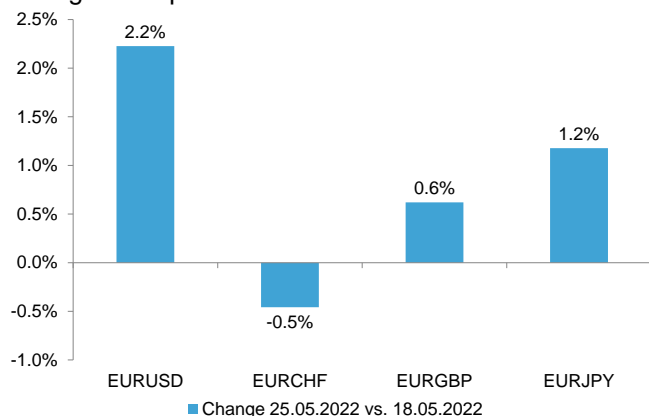
Central bank events

	Date	Time	Representative	Forum	Location
ECB			Calendar available on May 27, 12:00h, https://www.ecb.europa.eu/press/calendars/weekly/html/index.en.html		
Fed			No monetary policy relevant events		

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

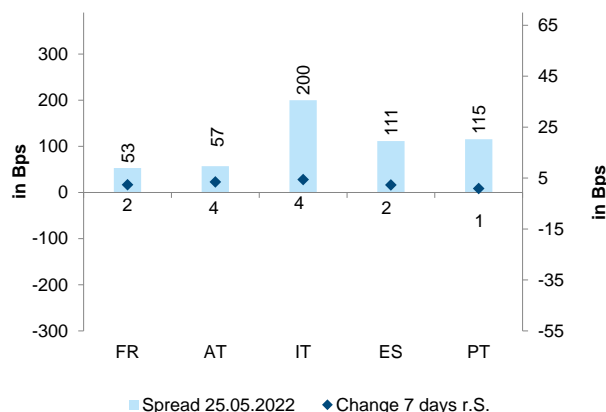
Forex and government bond markets

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



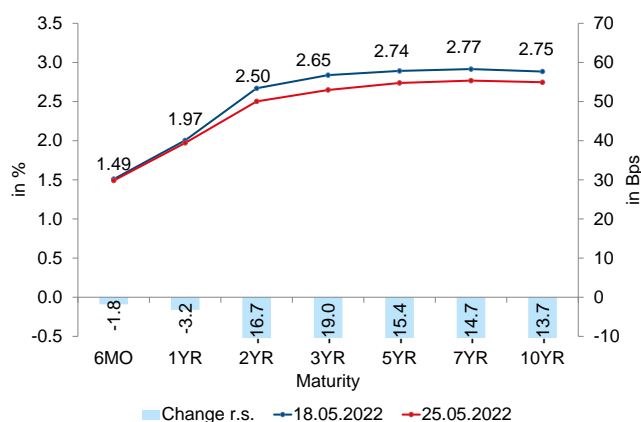
Source: Market Data Provider, Erste Group Research

Eurozone spreads vs. Germany 10Y government bonds



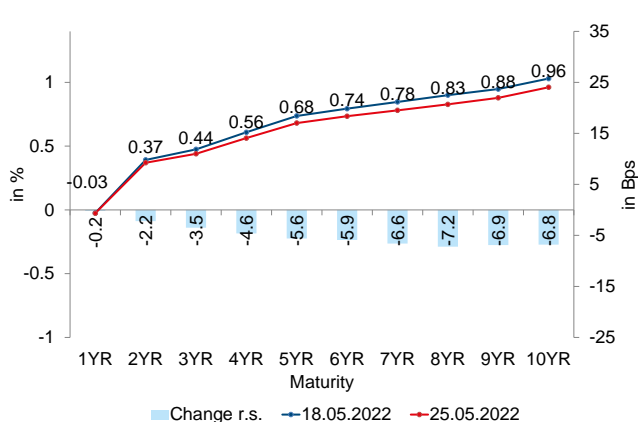
Source: Market Data Provider, Erste Group Research

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	2020	2021	2022	2023
Eurozone	-6.5	5.3	2.8	2.6
US	-3.5	5.7	2.6	2.1

Inflation	2020	2021	2022	2023
Eurozone	0.3	2.6	6.4	2.4
US	1.2	4.7	6.4	2.0

Interest rates	current	Jun.22	Sep.22	Dec.22	Mar.23
ECB MRR	0.00	0.00	0.25	0.50	0.50
ECB Deposit Rate	-0.50	-0.50	0.00	0.25	0.25
3M Euribor	-0.36	-0.33	0.00	0.25	0.25
Germany Govt. 10Y	0.97	0.70	0.70	0.80	0.90
Swap 10Y	1.69	1.50	1.50	1.50	1.40

Interest rates	current	Jun.22	Sep.22	Dec.22	Mar.23
Fed Funds Target Rate*	0.83	1.38	1.88	2.38	2.38
3M Libor	1.52	1.63	2.04	2.46	2.46
US Govt. 10Y	2.75	2.60	2.60	2.50	2.50
EURUSD	1.07	1.08	1.13	1.13	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.

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