

# Week Ahead

Focus: US inflation

Analyst:

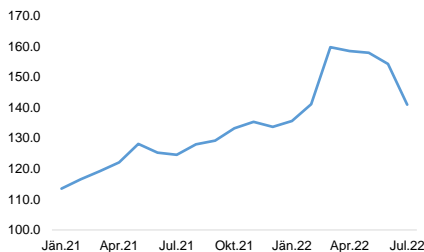
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## Markets look to US inflation

While US inflation does not trigger any particular interest among European consumers, it is the decisive indicator for global capital markets. This is because the further course of the US Fed, and thus the development of interest rates in the US, depends on the inflation trend. The great importance of US inflation was confirmed again this week. The inflation rate for July came in below market expectations and triggered significant price rises on the stock markets, as this mitigated the upside risks for interest rates.

The markets had already anticipated a decline in the inflation rate from the June figure of 9.1% in advance, as oil prices, and thus gasoline prices, had fallen in July. What was surprising, however, was that core inflation (inflation excluding food and energy) did not rise, but stagnated. In total, this resulted in a significant drop in the inflation rate to 8.5%. The question is whether this marks a turnaround in inflation and that an end to interest rate hikes is moving within in sight.

### FAO Food Price Index



Source: FAO, Erste Group Research

We assume that inflation actually peaked in June. However, we do not expect a continuous decline going forward; rather, there should be a sideways trend for the time being, as the contributions from energy and food should remain high for the time being and only fall noticeably from October onwards. However, a decline in price increases for energy and food is becoming relatively clear. The weak economy should continue to put pressure on the price of oil, and the prices of agricultural products have already reversed their trend on the global markets, which should reach consumers with a time lag.

Core inflation is more difficult to assess. Here, different developments overlap. Price increases for cars, for example, remain high, but are declining, while inflation in the housing sector continues to accelerate unabated. Covid related (easing) supply bottlenecks and the overheated US economy are reflected in price momentum. However, a normalization of supply chains is emerging, with renewed lockdowns in China remaining a risk. The US economy has already cooled significantly, but demand is at a high level and an easing on the overheated US labor market is only slowly getting underway.

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Note: Past performance is not necessarily indicative of future results

All in all, this means that the inflation rate in the US has peaked, but should fall only slowly. The decline in price momentum will vary between product groups, and inflation could prove particularly stubborn in the housing sector. We expect inflation to have fallen so far by December that the US Fed will then decide on the last interest rate step for the time being.

## Economic calendar

Ctry	Date	Time	Release	Period	Consens	Prior
<b>Eurozone</b>						
EA	17-Aug	11:00	GDP q/q	2Q P		0.7%
EA	17-Aug	11:00	GDP y/y	2Q P		4.0%
<b>USA</b>						
	17-Aug	14:30	Retail Sales mom	Jul	0.1%	1.0%
<b>China</b>						

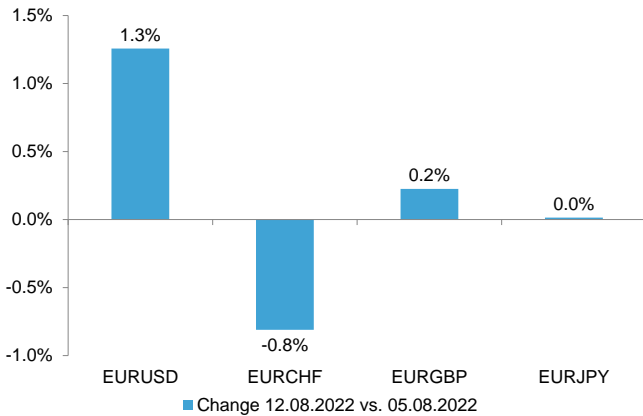
## Central bank events

	Date	Time	Representative	Forum	Location
<b>ECB</b>	18-Aug	19:15	Isabel Schnabel	Speech	IHK, Bonn
<b>Fed</b>	17-Aug	20:00	FOMC	Minutes	

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

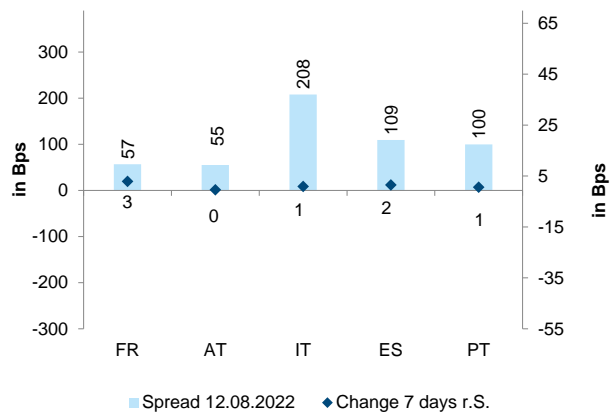
## Forex and government bond markets

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



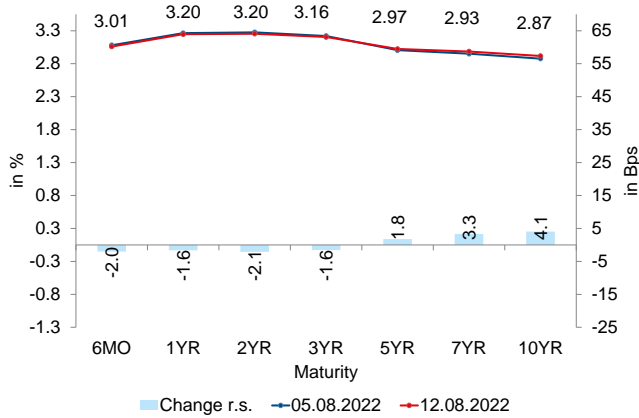
Source: Market Data Provider, Erste Group Research

### Eurozone spreads vs. Germany 10Y government bonds



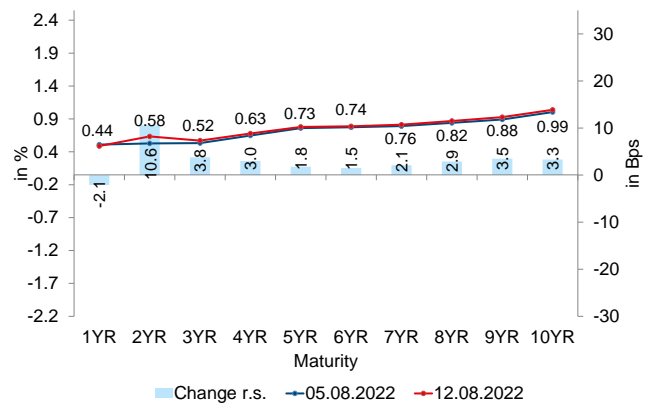
Source: Market Data Provider, Erste Group Research

### 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

## Forecasts<sup>1</sup>

GDP	2020	2021	2022	2023
Eurozone	-6.5	5.3	2.7	1.8
US	-3.5	5.7	1.8 ↓	1.5 ↓

Inflation	2020	2021	2022	2023
Eurozone	0.3	2.6	7.6	3.9
US	1.2	4.7	8.0	3.0

Interest rates	current	Sep.22	Dec.22	Mar.23	Jun.23
ECB MRR	0.50	1.00	1.25	1.25	1.25
ECB Deposit Rate	0.00	0.50	0.75	0.75	1.00
3M Euribor	0.32	0.72	0.72	0.80	0.97
Germany Govt. 10Y	0.98	1.20	1.20	1.20	1.30
Swap 10Y	1.84	1.90	1.80	1.70	1.80

Interest rates	current	Sep.22	Dec.22	Mar.23	Jun.23
Fed Funds Target Rate*	2.33	2.88	3.38	3.38	3.38
3M Libor	2.92	3.04	3.46	3.46	3.46
US Govt. 10Y	2.87	3.00	2.70	2.60	2.50
EURUSD	1.03	1.03	1.05	1.10	1.13

\*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*

<sup>1</sup> 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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**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**

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