



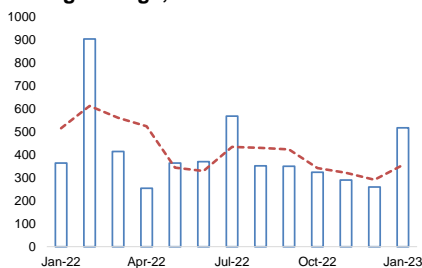
Week Ahead

Focus: Bonds markets

Analyst:

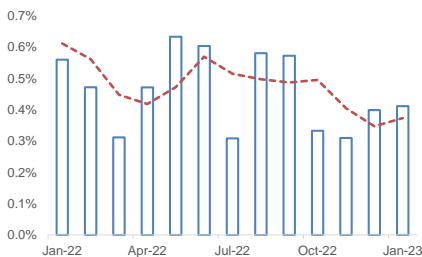
Rainer Singer
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Change of nonfarm payrolls and 3m moving average, in ths.



Source: Bureau of Labor Statistics, Erste Group Research

Core CPI and 3m moving average, m/m in %



Source: Bureau of Labor Statistics, Erste Group Research

Major Markets & Credit Research

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Note: Past performance is not necessarily indicative of future results

What's next for the bond markets?

Since the beginning of February, there has been a sell-off on the government bond markets in the US and Eurozone, resulting in sharp increases in yields across all maturities. This movement was triggered primarily by US economic data, and Eurozone government bonds were unable to escape its pull. The data surprised the markets. The economy performed better than expected, the inflation data worse. In the case of short maturities, the sharp correction can be explained by the markets' previously aggressive expectations for US key interest rates, where a series of rate cuts had already been expected from the summer onward. This was in clear contradiction to the course communicated by the US Fed, and thus it did not take much to trigger the aforementioned market movement.

However, what the latest data do not show in our view is an end to the disinflationary environment. It remains the case that investments will suffer from higher interest rates and consumers from a loss of purchasing power in real terms. In our view, the latest data has not changed this situation, but has only put a damper on expectations about the speed of the decline in inflation.

We have calculated three-month averages for the key economic data that was essential for the bond market sell-off, showing a smoothed trend. US employment growth continues to show a clear downward trend, as do monthly inflation rates for core inflation and private consumption demand, as measured by monthly growth rates for real consumer spending.

In the Eurozone, the data situation was somewhat different and less clear-cut. The purchasing managers' index for services rose for the third month in a row, indicating growth in this area of the economy for the second month in a row. The purchasing managers' index for manufacturing, on the other hand, fell slightly, confirming the ongoing contraction in this area. Inflation data - and this is probably most important - showed stable but high monthly inflation for January in early February. On balance, this did not justify a fundamental change in interest rate expectations. In contrast, the February data, published in early March, showed a significant acceleration in the monthly price dynamics of core inflation, which is relevant for the ECB's monetary policy.

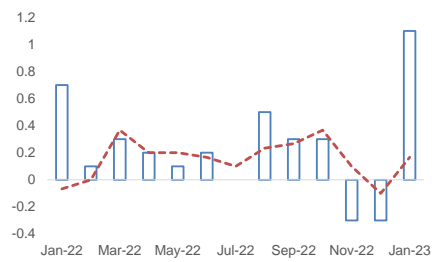
For us, the latest developments mean that we are now raising our interest rate expectations by 25 basis points (bp) for both the ECB and the US Fed. We now expect the ECB to raise rates by a total of 100bp by June, 50bp of which will be at the upcoming March meeting and the rest split between the May and June meetings. For the US Fed, we expect two more rate hikes of 25bp each in March and May. By contrast, we expect yields on medium and longer maturities on the bond market to fall. In the US, we continue to see a disinflationary environment in which the

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Week Ahead | Major Markets | Eurozone, USA

3. March 2023

Real private consumption expenditure and 3m moving average, m/m in %



Source: Bureau of Economic Analysis, Erste Group Research

economy is weakening and inflationary pressure is easing. This speaks in favor of the maturities mentioned. The US market has confirmed its leading role for European government bonds over the past few weeks. In our view, Eurozone government bonds will not be able to escape the impact of falling US yields in the coming months, especially as, even if the Eurozone economy regains some footing from de facto stagnation, growth will remain weak. The risk for the Eurozone is that, although the environment points to a slowdown in inflation momentum, this is not yet reflected in the data.

Economic calendar

Ctry	Date	Time	Release	Period	Consens	Prior
Eurozone						
EA	8-Mar	11:00	GDP q/q	4Q F	0.1%	0.1%
EA	8-Mar	11:00	GDP y/y	4Q F	1.9%	1.9%
USA						
	8-Mar	14:15	ADP Employment	Feb	198.8 Tsd	106.0 Tsd
	10-Mar	14:30	Wages y/y	Feb	4.7%	4.4%
	10-Mar	14:30	Unempl. Rate	Feb	3.4%	3.4%
	10-Mar	14:30	Chg. Non-Farm Payrolls	Feb	225.0 Tsd	517.0 Tsd
China						
	9-Mar	3:30	Inflation y/y	Feb	1.8%	2.1%

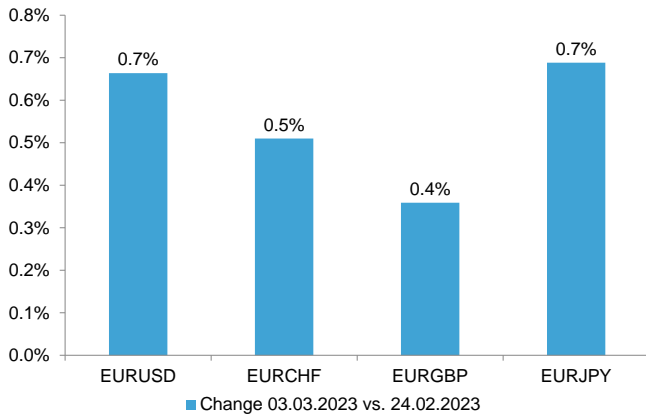
Central bank events

	Date	Time	Representative	Forum	Location
ECB	6-Mar	10:00	Philip Lane	Lecture	Trinity College
	8-Mar	11:00	Christine Lagarde	Minutes	World Trade Organization
Fed	7-Mar	16:00	Jerome Powell	Testimony	US Senate
	8-Mar	16:00	Jerome Powell	Testimony	US House of Representatives

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

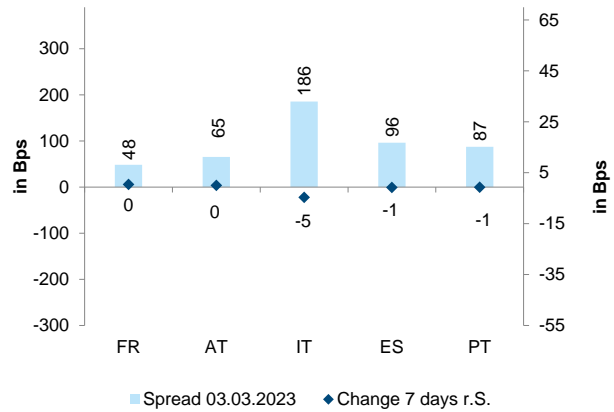
Forex and government bond markets

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



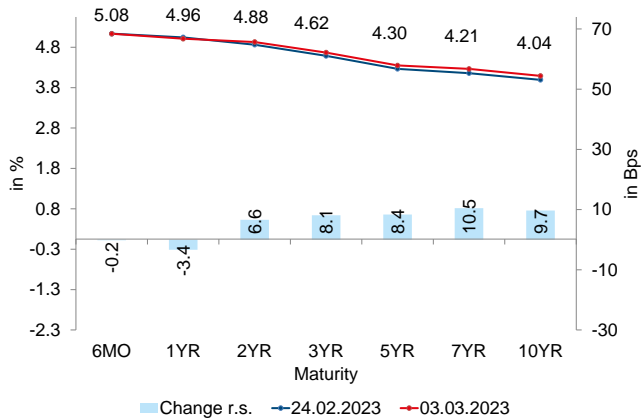
Source: Market Data Provider, Erste Group Research

Eurozone spreads vs. Germany
 10Y government bonds



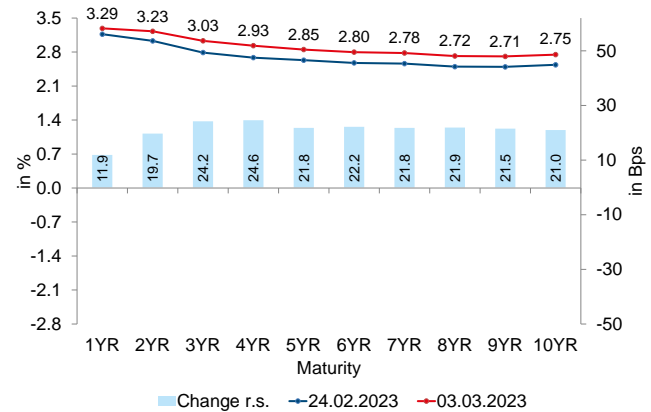
Source: Market Data Provider, Erste Group Research

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	2021	2022	2023	2024
Eurozone	5.3	3.5	0.6	1.2
US	5.7	2.0	1.2	1.1

Inflation	2021	2022	2023	2024
Eurozone	2.6	8.4	5.6	2.3
US	4.7	8.0	2.9	1.9

Interest rates	current	Jun.23	Sep.23	Dec.23	Mar.24
ECB MRR	3.00	4.00 ↑	4.00 ↑	4.00 ↑	4.00
ECB Deposit Rate	2.50	3.50 ↑	3.50 ↑	3.50 ↑	3.50
3M Euribor	2.85	3.45 ↑	3.49 ↑	3.53 ↑	3.48
Germany Govt. 10Y	2.71	2.20 ↑	2.00 ↑	2.00 ↑	2.00
Swap 10Y	3.28	2.70 ↑	2.50 ↑	2.50 ↑	2.50

Interest rates	current	Jun.23	Sep.23	Dec.23	Mar.24
Fed Funds Target Rate*	4.58	5.13 ↑	5.13 ↑	4.88 ↑	4.63
3M Libor	4.98	5.21 ↑	5.21 ↑	4.96 ↑	4.71
US Govt. 10Y	4.00	3.30	3.10	2.90	2.90
EURUSD	1.06	1.08	1.10	1.12	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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