

## Week ahead

Deutsche Bank – US Department of Justice claim of USD 14bn renews concerns  
Emerging Markets – Manufacturing PMI and China's FX reserves to be released next week

Analysts:

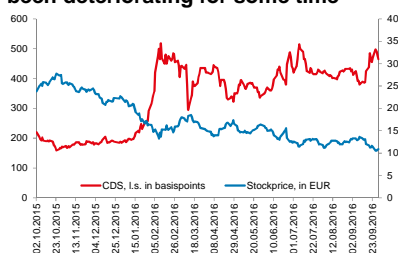
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**Markets trust in Deutsche Bank has been deteriorating for some time**



Source: Bloomberg, Erste Group Research

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Indications of past performance are no guarantee of a positive performance in the future!

### Eurozone – Deutsche Bank

Deutsche Bank took the center stage on markets this week. The reason was the US Justice Department's offer to settle a probe for USD 14bn tied to the issuance and underwriting of mortgage-backed securities. This amount must be seen as the first offer in a negotiation process. As similar cases with peers were settled at a considerably lower amount than the initial offer, the same can be expected for any settlement Deutsche Bank might reach. Nonetheless, the news flow triggered a decline of the stock, bringing the losses since the beginning of the year to above 50%. Market trust in Deutsche Bank has already been deteriorating for some time. At the beginning of the year, Deutsche's CDS Spreads – the cost for insuring subordinated bonds against a default – more than doubled. The concerns about securities issued by Deutsche Bank mirrors the high share of derivatives on its balance sheet, the risks of which are difficult to assess for outsiders, and legal risks from various ongoing probes. The markets question whether Deutsche Bank's equity will suffice to meet all these potential obligations. At the most recent stress test conducted by the European Banking Authority (EBA), Deutsche showed sufficiently high equity ratios, but came in at the lower end of the 51 banks assessed. Directly tied to the uncertainty over Deutsche's capital is the question of whether the German government would use taxpayer money to shore up the bank, should it become necessary; the necessary legal framework exists.

Thanks to the implementation of the Banking Union (with the aim being to improve the stability and transparency of the banking sector), the supervisory authorities are already well prepared, in an emergency case (e.g. a financial institution suffering from severe financial problems), to ensure the continuity of the institution's critical financial and economic functions, while minimizing the impact of the institution's failure on the economy and financial system. In such an event, the country-specific law of the Bank Recovery and Resolution Directive (BRRD) will be applied. Depending on the dimension of the capital problems, not just shareholders but also creditors must bear losses (at least 8% of liabilities). Furthermore, substantial restructuring of the institute in question (e.g. disposal of business, asset separation (bad bank)) will occur.

Provided that a number of conditions are met, extraordinary public financial support as a precautionary measure is possible in order to avert severe economic disturbances and preserve financial stability without triggering resolution. However, the institution has to fulfill its capital requirements and public support has to be precautionary and temporary.

*If there were to be an intervention at Deutsche Bank or any another large European bank due to a decision of the supervision authorities, sentiment on financial markets and in the economy would suffer. Investors would be more prudent with their investment decisions and/or would delay them*

*altogether. This in turn could dampen growth of the Eurozone economy. The already predefined processes and regulations of the resolution mechanism should, however, prevent any far reaching effects within the financial system on the back of the intervention. Based on our assessment, the bigger the institution in question, the higher the probability for public support without triggering a resolution (as long as all preconditions are met). Ultimately, it would be a political decision.*

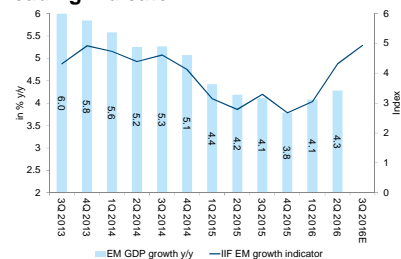
*The markets have reacted to the news with risk-off mode. While stock markets suffered, government bonds with the best rating (German Bund and US Treasuries) and the Swiss franc benefited.*

### Emerging Markets – Industry PMIs for September as well as China's FX Reserves to be released

September industry PMI data for major countries among Emerging Markets will be released next week. While sentiment was mixed in July and August, the general superordinate trend is positive. This can also be seen based on the leading indicator of the IIF for Emerging Markets.

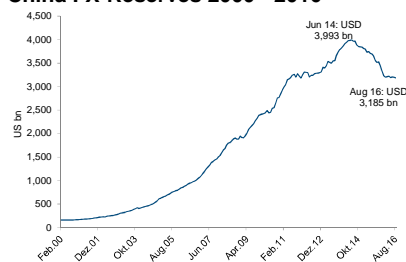
*In line with current developments, we expect that overall industry sentiment for September in the major Emerging Markets should at least have stabilized. After the turbulence at the beginning of this year, the situation in Emerging Markets has stabilized; however, major structural problems still dampen the growth outlook. In addition, on October 7, China will release the September value of its FX reserves. Since March this year, the value of China's FX reserves has stabilized at around USD 3.2tn; indicating that capital outflows have slowed down significantly. The development of exchange rates in Septembers points towards a stable value for China's FX reserves. For China, October 1, 2016, will be an important date. As of October 1, 2016, the renminbi will be part of the currency basket for the calculation of the IMF's Special Drawing Rights. In the short term, this is mainly a question of prestige, but the renminbi will also gain in importance in terms of international trade thanks to this step.*

**Emerging Markets GDP-growth vs. IIF leading indicator**



Source: Bloomberg, IIF

**China FX-Reserves 2000 - 2016**



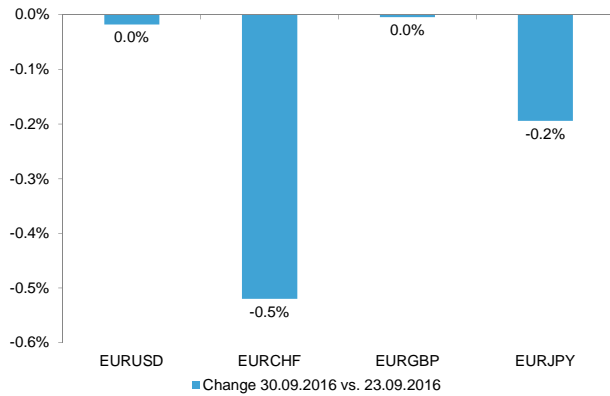
Source: Bloomberg

## Forex and government bond markets

### Exchange rates EUR: USD, CHF, GBP and JPY

change last week

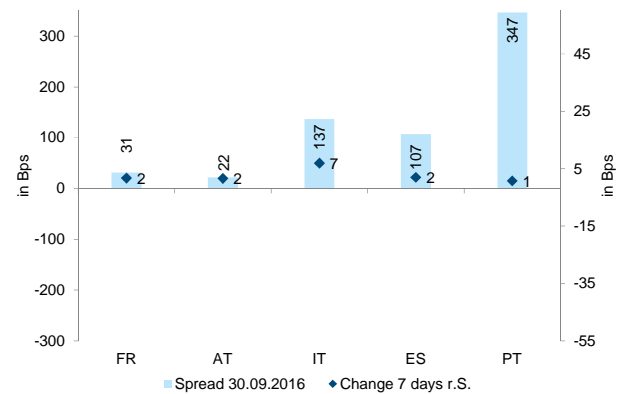
(+ stronger euro / - weaker euro)



Source: Bloomberg, Erste Group Research

### Eurozone – spreads vs. Germany

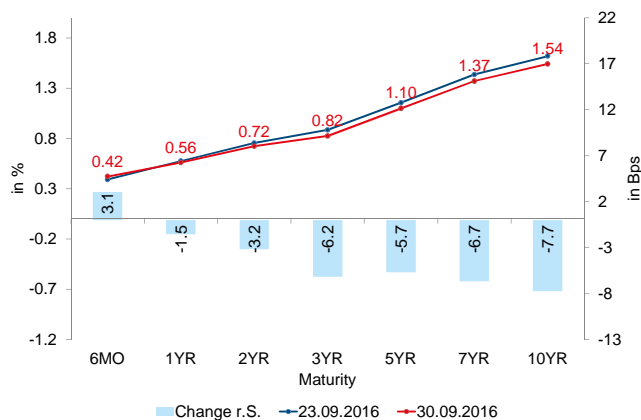
10Y government bonds



Source: Bloomberg, Erste Group Research

### US Treasuries yield curve

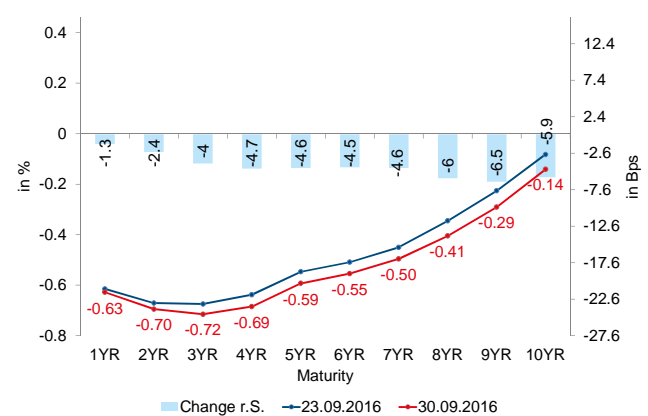
change last week



Source: Bloomberg, Erste Group Research

### DE Bund yield curve

change last week



Source: Bloomberg, Erste Group Research

### Economic calendar

Date	Time	Ctry	Release	Period	Consens	Prior
3-Oct	9:50	FR	PMI Manufacturing	Sep F		49.5index
	9:45	IT	PMI Manufacturing	Sep		49.8index
	9:55	DE	PMI Manufacturing	Sep F	54.3index	54.3index
	10:00	EA	PMI Manufacturing	Sep F	52.6index	52.6index
	16:00	US	PMI Manufacturing	Sep	50.3index	49.4index
4-Oct	11:00	EA	PPI y/y	Aug	-2.2%	-2.8%
5-Oct	11:00	EA	Retail Sales y/y	Aug	1.4%	2.9%
	14:15	US	ADP Employment	Sep	163.7thd	176.9thd
	14:30	US	Trade Balance	Aug	-41m	-39m
	16:00	US	ISM Non-Manufacturing	Sep	53.1index	51.4index
		US	Durable Goods Orders	Aug F		0.0%
6-Oct	14:30	US	Jobless Claims	Oct 1	259.9thd	254.0thd
7-Oct	n.a.	CN	Forex Reserves	Sep	3185bn	3185bn
	8:00	DE	Ind. Prod. y/y	Aug	0.9%	-1.5%
	8:45	FR	Trade Balance	Aug		-4505m
		FR	CA Balance (m)	Aug		-2550m
		FR	Ind. Prod. y/y	Aug		-0.1%
	14:30	US	Wages y/y	Sep	2.6%	2.4%
		US	Unempl. Rate	Sep	4.9%	4.9%
		US	Chg. Non-Farm Payrolls	Sep	176.5thd	151.0thd

Source: Bloomberg, Erste Group Research

## FORECASTS<sup>1)</sup>

GDP	2013	2014	2015	2016	2017
Eurozone	-0.2	1.1	1.9	1.5	1.7
US	1.9	2.4	2.4	1.9	1.9

Inflation	2013	2014	2015	2016	2017
Eurozone	1.3	0.5	0.1	0.3	1.5
US	1.5	1.6	0.1	1.3	1.9

	current	Dec.16	Mar.17	Jun.17	Sep.17
ECB MRR	0.00	0.00	0.00	0.00	0.00
3M Euribor	-0.30	-0.30	-0.30	-0.25	-0.03
Germany Govt. 10Y	-0.15	0.50	0.70	1.00	1.00
Swap 10Y	0.25	0.80	1.00	1.30	1.30

	current	Dec.16	Mar.17	Jun.17	Sep.17
Fed Funds Target Rate*	0.40	0.63	0.88	1.13	1.38
3M Libor	0.84	0.94	1.19	1.44	1.70
US Govt. 10Y	1.54	2.10	2.30	2.60	2.70
EURUSD	1.12	1.10	1.12	1.14	1.16

\*Mid of target range

	current	Dec.16	Mar.17	Jun.17	Sep.17
Austria 10Y	0.07	0.70	0.90	1.20	1.20
Spread AT - DE	0.23	0.20	0.20	0.20	0.20

Source: Bloomberg, Erste Group Research

<sup>1</sup> By regulations we are obliged to issue the following statement: Forecasts are no reliable indicator for future performance

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Week ahead | Macro, Fixed Income | Eurozone, USA

30 September 2016

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