

## Week ahead

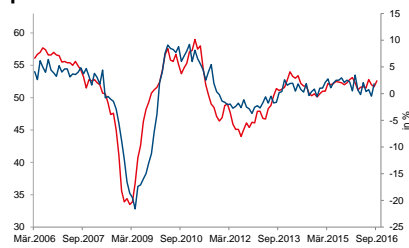
EA – October industry-PMI data due next week

Spain – last chance to form new government next week / urgent need to restore public finances

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### EA: industrial production vs. industrial production



Source: Bloomberg, Erste Group Research

### Spread Spanish gov. bonds vs. German gov. bonds



Source: Bloomberg, Erste Group Research

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

### Eurozone: October industry PMI data due next week

On October 24, the first flash estimate for October industry PMI data for Germany, France and the Eurozone will be released. In September, the poll data improved in line with the global market environment. Overall, the industrial sentiment of the Eurozone remained stable in 3Q16, despite the Brexit vote. With a gain of 1.5% y/y in August, Eurozone industrial production surprised on the upside.

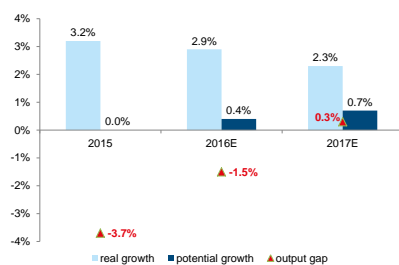
*Given the fact that the flash PMI data will be the first important economic data point for 4Q16, we expect that the markets will pay special attention to the release. Since uncertainty has picked up again somewhat due to fears surrounding a possible 'Hard Brexit', we expect industrial sentiment to slightly ease in October. For the time being, we expect the Eurozone economy to exhibit a stable growth pace of around 0.2% q/q for 3Q and 4Q16. In the coming months, however, political developments (preparation for Brexit negotiations, pre-elections for the French presidential elections, a constitutional referendum in Italy on December 4) will influence markets in the Eurozone.*

### Spain: last chance to form new government next week; urgent need to get public finances in order

Almost 12 months after the first elections, there is a chance that Spain might succeed in forming a new government. The socialist party PSOE is due to hold a meeting on Sunday, when it will decide whether it is willing to allow the conservative party to form a minority government (via abstention). After a leadership change in the socialist party, political observers deem it more likely that the socialists will accept a conservative minority government. Without a new government, King Felipe will have to announce snap elections on October 31 at the latest.

*Thus far, Spain's economy has survived the interregnum of no government quite unscathed. In 1H16, the economy grew quite rapidly, by 3.3% y/y. **The public household, however, is not in such a good shape.** Based on the most recent budgetary draft, the EC expects a public deficit of 4.6% of GDP for 2016. In spring, the EC expected a far lower public deficit for Spain of 3.9% of GDP. Due to the high public deficit, Spain's government forecasts that the public debt level in % of GDP will rise from 99.2% in 2015 to 99.8% despite strong economic growth in 2016. Thus any new Spanish government has to focus on bringing the public household in order, without burdening growth too much. **For the time being, spreads on Spanish government bonds are close to all-time lows since the euro crises.** In our view, this can be explained by the current high economic growth rates as well as the monetary support measures from the ECB. **However, if Spain does not***

**ES: real GDP-growth vs. potential;  
output gap in % of GDP**



Source: AMECO, Spanish Government, Erste Group Research

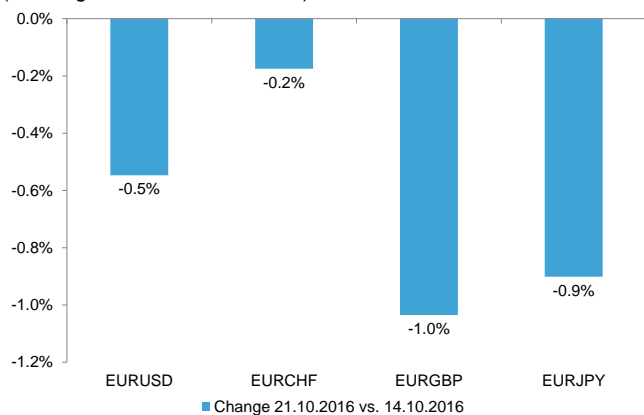
*manage to restore the health of its public finances, spreads might rise in a sustainable manner if growth disappoints and/or the ECB lowers or terminates its support measures. As soon as the output gap of Spain's economy is closed, the growth pace of Spain's economy will certainly fall back to its potential growth (currently slightly below 1%) without any additional reform measures. Based on EC estimates, Spain could already close its output gap by 2017 which will be reflected in a gradual decline of Spain's economic growth pace. A running public deficit above 3% of GDP, accompanied by sluggish growth of around 1% is quite likely to make the financial markets quite nervous. **Spain's time window to bring its public household in order is thus quite narrow before pressure from capital markets could start to rise again.** Ideally restoration of public finances should be accompanied by reforms (e.g. measures to lower high youth unemployment) aimed at raising growth potential.*

## Forex and government bond markets

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

change last week

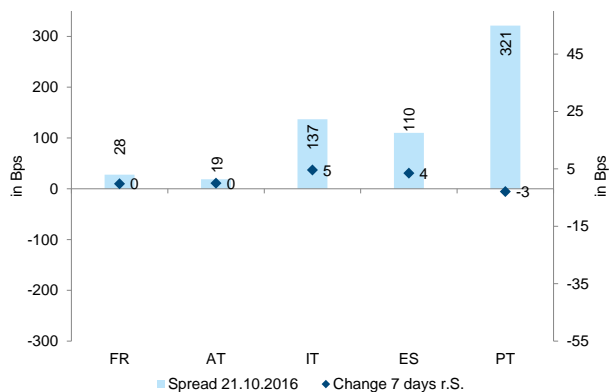
(+ stronger euro / - weaker euro)



Source: Bloomberg, Erste Group Research

### Eurozone – spreads vs. Germany

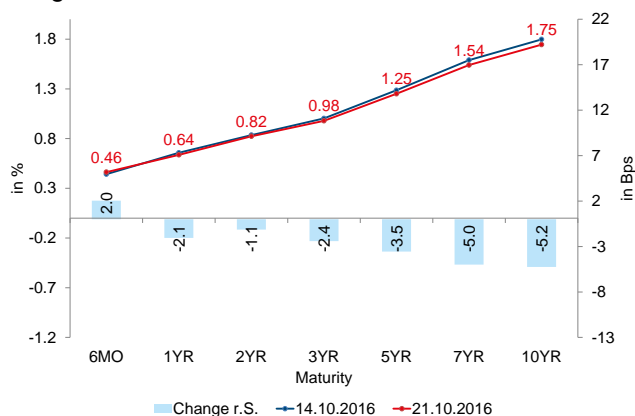
10Y government bonds



Source: Bloomberg, Erste Group Research

### US Treasuries yield curve

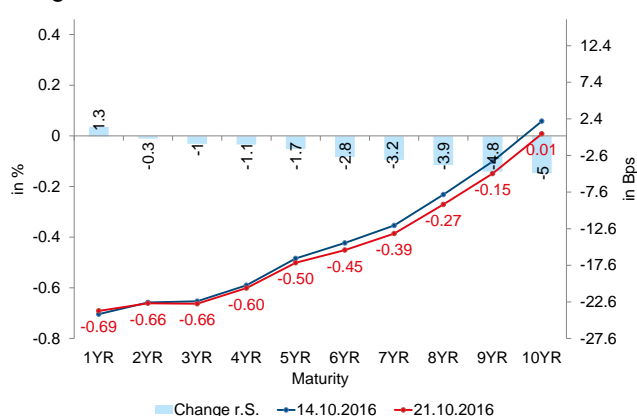
change last week



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
21-Oct	16:00	EA	Consumer Conf.	Oct A	-7.9index	-8.2index
24-Oct	9:00	FR	PMI Manufacturing	Oct P		49.7index
	9:30	DE	PMI Manufacturing	Oct P		54.3index
	10:00	EA	PMI Manufacturing	Oct P		52.6index
25-Oct	9:00	AT	Ind. Prod. y/y	Aug		-0.3%
	16:00	US	Consumer Conf.	Oct	101.3index	104.1index
26-Oct	16:00	US	New Home Sales	Sep	600.6thd	609.0thd
27-Oct	n.a.	DE	Retail Sales y/y	Sep		3.7%
	14:30	US	Durable Goods Orders	Sep P	0.0%	0.1%
28-Oct	7:30	FR	GDP y/y	3Q A		1.3%
		FR	GDP q/q	3Q A		-0.1%
	8:45	FR	CPI m/m	Oct P		-0.2%
		FR	PPI y/y	Sep		-2.0%
		FR	Inflation y/y	Oct P		0.5%
	9:00	AT	PPI y/y	Sep		-1.8%
	10:00	AT	PMI Manufacturing	Oct		53.5index
	11:00	EA	Business Conf.	Oct		104.9index
	14:00	DE	Inflation y/y	Oct P		0.5%
		DE	CPI m/m	Oct P		0.0%
	14:30	US	GDP q/q	3Q A	2.4%	1.4%
	16:00	US	Univ. Michigan Index	Oct F	89.3index	87.9index

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	1.7	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	-0.31	-0.30	-0.30	-0.25	-0.03
Germany Govt. 10Y	0.01	0.50	0.70	1.00	1.00
Swap 10Y	0.39	0.80	1.00	1.30	1.30

	current	Dec.16	Mar.17	Jun.17	Sep.17
Fed Funds Target Rate*	0.41	0.63	0.88	1.13	1.38
3M Libor	0.88	0.94	1.19	1.44	1.70
US Govt. 10Y	1.75	2.10	2.30	2.60	2.70
EURUSD	1.09	1.10	1.12	1.14	1.16

\*Mid of target range

	current	Dec.16	Mar.17	Jun.17	Sep.17
Austria 10Y	0.19	0.70	0.90	1.20	1.20
Spread AT - DE	0.18	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

21 October 2016

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