

## Week ahead

Eurozone – Industry sentiment expected to remain around its currently high levels  
 US - Rate hike in March remains unlikely  
 Markets – Political risks become noticeable

Analysts:

**Gerald Walek**

gerald.walek@erstegroup.com

**Rainer Singer**

rainer.singer@erstegroup.com

### EZ – Industry-PMI vs. industry production



Source: Markit, Datastream, Erste Group Research

### Eurozone – Industry sentiment should remain strong in February

Next week (February 21), the first flash estimate for February's industry PMI data will be released for the Eurozone, Germany and France. In January, industry sentiment climbed, against all expectations, to a 5½-year high of 55.2 index points. Geographically, sentiment in January was encouraging in all important countries, with Austria exhibiting the highest reading among Eurozone countries, with 57.3 index points. Sentiment benefited from higher volumes of total new business and new export orders (3-year high). The surveyed companies attributed the growth to both the recent depreciation of the euro and to signs of improving global market demand.

*In light of the very high index level in January, we expect a slight depreciation of Eurozone industry sentiment in February. However, industrial production in the Eurozone should continue growing in 1Q17. Due to the freezing temperatures across Europe in January, the main contribution to growth should stem from energy production in 1Q17. In general, this confirms our current very positive assessment of the Eurozone economy; we expect slight acceleration of growth of +1.8 to +1.9% y/y in 1Q17.*

### Yellen and macro data increase yields and dollar only temporary, political risks gain in importance

The center of the market's attention was Fed Chair Yellen's statement in front of committees of the US House of Representatives and the US Senate this week. Through her statements, Yellen triggered immediate yield increases. From our perspective, the testimonies did not contain any significant changes and merely confirmed the current course of slow rate hikes, as was signaled at the last FOMC meetings. 'At our upcoming meetings the Committee will evaluate whether employment and inflation are continuing to evolve with these expectations (labor market strengthening and inflation moving up to 2%), in which case a further adjustment of the federal funds rate would likely be appropriate,' said Yellen. In our view, **this wording indicates no accelerated course of action on the part of the FOMC**. The FOMC remains on course for its forecast of three interest rate hikes this year and it is hardly a surprise to expect the first rate hike before mid-year, which is what Yellen signaled.

**We consider an interest rate hike in March as unlikely and assume April or June to be more probable.** The data published this week (consumer prices, retail sales) did not change our view either. They admittedly increased the risks for a rate hike in March, but should not be sufficient to convince the FOMC of the immediate need of a rate hike.

### Major Markets & Credit Research

Gudrun Egger, CEFA  
(Head)

Rainer Singer  
(Senior Economist Eurozone, US)

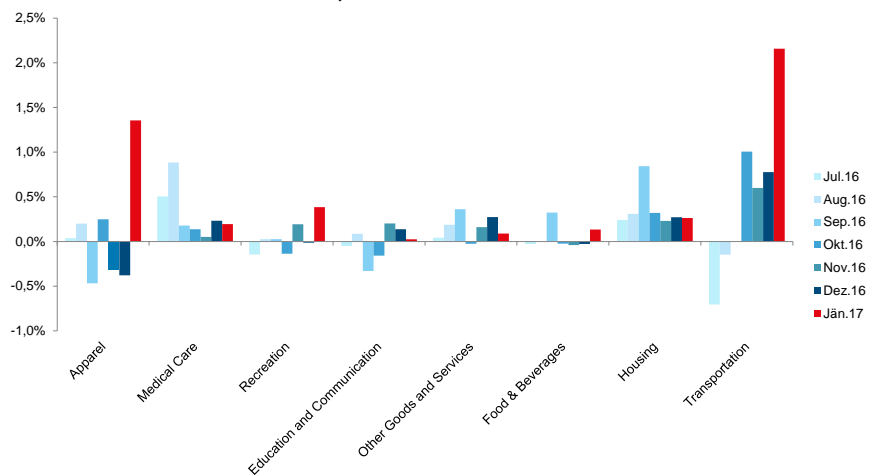
Gerald Walek, CFA  
(Economist Eurozone)

Margarita Grushanina  
(Economist Austria, Quant Analyst EZ)

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

**The reported rise of consumer prices** for January was 2.5%, slightly above market expectations of 2.4%. Core inflation rose to 2.3%; the market expectation was at 2.1%. While it was foreseeable that increased oil prices would lead to an acceleration of inflation, the rise of core inflation was a surprise. However, the reported data did not contain any indication of a general acceleration of inflation. The acceleration in prices in January was not widely spread, but stemmed from only two product categories. Prices for Apparel skyrocketed in January and prices for recreational activities (Recreation) accelerated to a lesser extent. The other categories showed continuing trends. It is unknown why apparel prices rose that sharply. However, it appears evident to us that this will not change the FOMC's inflation forecast significantly and consequently will not lead to an accelerated course of action.

**Consumer Price Increases, m/m in %**



Source: Bloomberg, Erste Group Research

Retail sales also surpassed expectations in January and displayed an acceleration of consumer demand. Not only did the January data indicate a good start to 2017, but rather the revised data for December improved the outcome for the last quarter of 2016. By levelling the data and looking at the yearly growth rates, an acceleration over the last several months becomes apparent. However, this starts from relatively low levels and therefore only returned growth rates to the levels of the first half of 2015. From our view, these are not growth rates that would put any pressure on the Fed to take immediate action.

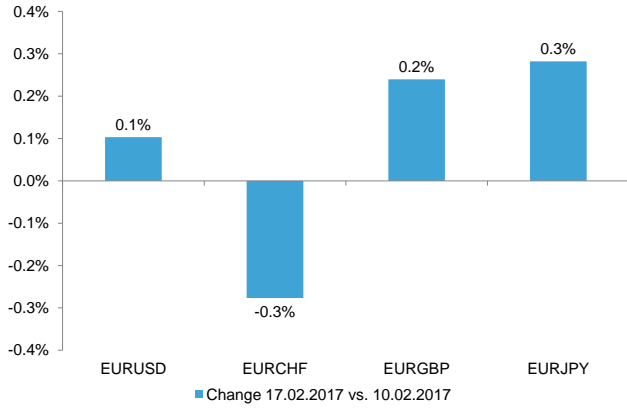
Our assessment of the recent data does not change the fact that we see the risks for rising inflation due to the tightening labor market and growing wages in the US and generally view the FOMC's current monetary stance as too loose. However, the crucial point is that the recently issued data should not be sufficient to change the Fed's current stance. We consequently **maintain our expectation of three rate hikes this year**. The risks are tilted to the upside, but have not materialized so far.

*The impact of these events on markets was not lasting, at least for bond and currency markets. Towards the end of the week, yields declined again and returned to levels seen before Yellen's first speech, while the dollar was even significantly weaker. We attribute this development to increasing political risks. President Trump not only lost his national security advisor and nominee for labor secretary this week, but in America's Congress, calls for an investigation into the ties of the new administration to Russia are intensifying - also from the Republican side.*

*Such an investigation would likely **bring the ability of the new administration regarding any political measures (tax cuts) to a standstill.** But the outlook for tax cuts was decisive for the markets' reaction to the election of Trump. Should the uncertainty over their realization increase, bond markets could profit at least temporarily, while the dollar would suffer.*

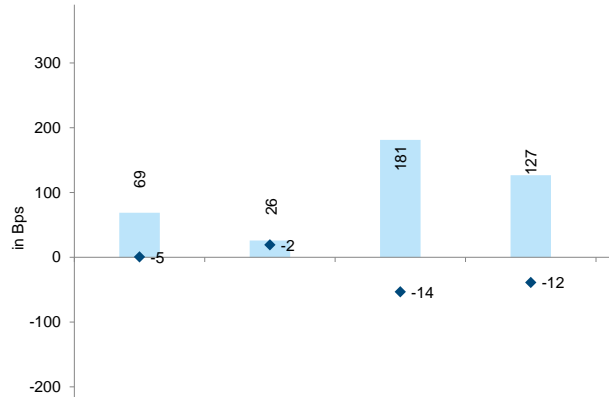
**Forex and government bond markets**

**Exchange rates EUR: USD, CHF, GBP and JPY**  
change last week  
(+ stronger euro / - weaker euro)



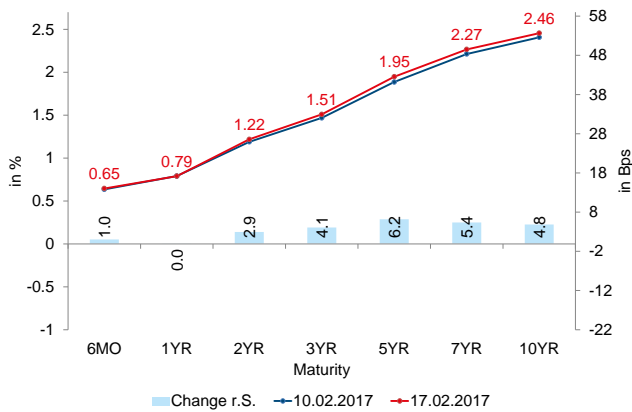
Source: Bloomberg, Erste Group Research

**Eurozone – spreads vs. Germany**  
10Y government bonds



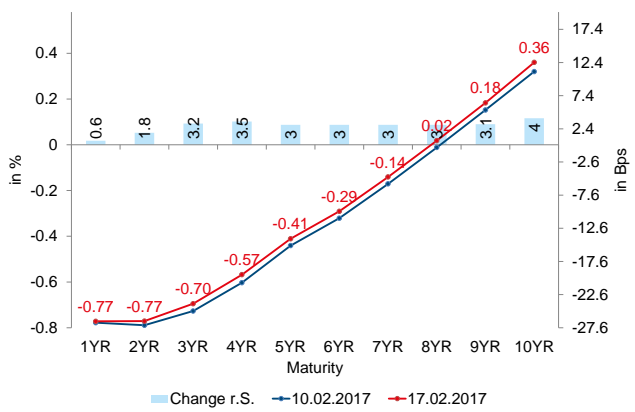
Source: Bloomberg, Erste Group Research

**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
17-Feb	10:00	EA	CA Balance (m)	Dec		36 m
	10:30	IT	CA Balance (m)	Dec		4640 m
20-Feb	8:00	DE	PPI y/y	Jan	1.6%	1.0%
	16:00	EA	Consumer Conf.	Feb A	-4.8 index	-4.9 index
21-Feb	8:45	FR	CPI m/m	Jan F		-0.2%
		FR	Inflation y/y	Jan F		1.6%
	9:00	FR	PMI Manufacturing	Feb P	53.6 index	53.6 index
	9:30	DE	PMI Manufacturing	Feb P	56.2 index	56.4 index
22-Feb	10:00	EA	PMI Manufacturing	Feb P	55.0 index	55.2 index
	10:00	IT	Inflation y/y	Jan F	0.7%	0.7%
		EA	CPI m/m	Jan	-0.2%	-0.8%
	11:00	EA	Inflation y/y	Jan F	1.8%	1.8%
23-Feb	16:00	US	Existing Home Sales	Jan	5.5 m	5.5 m
		DE	GDP q/q	4Q F		0.4%
23-Feb	8:00	DE	GDP y/y	4Q F		1.7%
		US	Jobless Claims	-	243.5 thd	239.0 thd
	9:00	AT	Ind. Prod. y/y	Dec		2.3%
24-Feb	16:00	US	Univ. Michigan Index	Feb F	96.4 index	95.7 index
		US	New Home Sales	Jan	574.5 thd	536.0 thd

Source: Bloomberg, Erste Group Research

**FORECASTS<sup>1)</sup>**

<b>GDP</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
<b>Eurozone</b>	1.2	2.0	1.7	1.9	1.7
<b>US</b>	2.4	2.4	1.6	2.1	2.2

<b>Inflation</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
<b>Eurozone</b>	0.5	0.1	0.2	1.3	1.4
<b>US</b>	1.6	0.1	1.2	2.0	2.3

<b>Interest rates</b>	<b>current</b>	<b>Mar.17</b>	<b>Jun.17</b>	<b>Sep.17</b>	<b>Dec.17</b>
<b>ECB MRR</b>	0.00	0.00	0.00	0.00	0.00
<b>3M Euribor</b>	-0.33	-0.30	-0.30	-0.30	-0.30
<b>Germany Govt. 10Y</b>	0.30	0.50	0.80	0.80	1.00
<b>Swap 10Y</b>	0.73	0.80	1.10	1.10	1.30

<b>Interest rates</b>	<b>current</b>	<b>Mar.17</b>	<b>Jun.17</b>	<b>Sep.17</b>	<b>Dec.17</b>
<b>Fed Funds Target Rate*</b>	0.66	0.60	0.90	1.10	1.40
<b>3M Libor</b>	1.04	1.00	1.30	1.50	1.80
<b>US Govt. 10Y</b>	2.40	2.40	2.60	2.70	2.80
<b>EURUSD</b>	1.07	1.08	1.08	1.10	1.12

\*Mid of target range

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

## Erste Group Research

Week ahead | Macro, Fixed Income | Eurozone, USA

17 February 2017

### Contacts

#### Group Research

##### Head of Group Research

Friedrich Mostböck, CEFA +43 (0)5 0100 11902

##### Major Markets & Credit Research

Head: Gudrun Egger, CEFA +43 (0)5 0100 11909

Ralf Burchert, CEFA (Agency Analyst) +43 (0)5 0100 16314

Hans Engel (Senior Analyst Global Equities) +43 (0)5 0100 19835

Christian Enger, CFA (Covered Bonds) +43 (0)5 0100 84052

Margarita Grushanina (Economist AT, CHF) +43 (0)5 0100 11957

Peter Kaufmann, CFA (Corporate Bonds) +43 (0)5 0100 11183

Stephan Lingnau (Global Equities) +43 (0)5 0100 16574

Carmen Riefler-Kowarsch (Covered Bonds) +43 (0)5 0100 19632

Rainer Singer (Senior Economist Euro, US) +43 (0)5 0100 17331

Bernadett Povaszai-Römhild (Corporate Bonds) +43 (0)5 0100 17203

Elena Statelov, CIIA (Corporate Bonds) +43 (0)5 0100 19641

Gerald Walek, CFA (Economist Euro) +43 (0)5 0100 16360

##### Macro/Fixed Income Research CEE

Head CEE: Juraj Kotian (Macro/FI) +43 (0)5 0100 17357

Zoltan Arokszállasi, CFA (Fixed income) +43 (0)5 0100 18781

Katarzyna Rzentarzewska (Fixed income) +43 (0)5 0100 17356

##### CEE Equity Research

Head: Henning Eßkuchen +43 (0)5 0100 19634

Daniel Lion, CIIA (Technology, Ind. Goods&Services) +43 (0)5 0100 17420

Christoph Schultes, MBA, CIIA (Real Estate) +43 (0)5 0100 11523

Vera Sutedja, CFA, MBA (Telecom) +43 (0)5 0100 11905

Thomas Unger, CFA (Banks, Insurance) +43 (0)5 0100 17344

Vladimira Urbankova, MBA (Pharma) +43 (0)5 0100 17343

Martina Valenta, MBA (Real Estate) +43 (0)5 0100 11913

##### Editor Research CEE

Brett Arons +420 956 711 014

##### Research Croatia/Serbia

Head: Mladen Dodig (Equity) +381 11 22 09178

Head: Alen Kovac (Fixed income) +385 72 37 1383

Anto Augustinovic (Equity) +385 72 37 2833

Milan Deskar-Skrbic (Fixed income) +385 72 37 1349

Magdalena Dolenc (Equity) +385 72 37 1407

Ivana Rogic (Fixed income) +385 72 37 2419

Davor Spoljar, CFA (Equity) +385 72 37 2825

##### Research Czech Republic

Head: David Navratil (Fixed income) +420 956 765 439

Head: Petr Bartek (Equity) +420 956 765 227

Jiri Polansky (Fixed income) +420 956 765 192

Pavel Smolik (Equity) +420 956 765 434

Jan Sumbera (Equity) +420 956 765 218

Roman Sedmera (Fixed income) +420 956 765 391

Jana Urbankova (Fixed income) +420 956 765 456

##### Research Hungary

Head: József Miró (Equity) +361 235 5131

Gergely Úrmösy (Fixed income) +361 373 2830

András Nagy (Equity) +361 235 5132

Orsolya Nyeste (Fixed income) +361 268 4428

Tamás Pletser, CFA (Oil&Gas) +361 235 5135

##### Research Poland

Head: Magdalena Komaracka, CFA (Equity) +48 22 330 6256

Marek Czachor (Equity) +48 22 330 6254

Tomasz Duda (Equity) +48 22 330 6253

Mateusz Krupa (Equity) +48 22 330 6251

Karol Brodziński (Equity) +48 22 330 6252

##### Research Romania

Head: Mihai Caruntu (Equity) +40 3735 10427

Head: Dumitru Dulgheru (Fixed income) +40 3735 10433

Chief Analyst: Eugen Sinca (Fixed income) +40 3735 10435

Dorina Ilasco (Fixed Income) +40 3735 10436

##### Research Slovakia

Head: Maria Valachyova, (Fixed income) +421 2 4862 4185

Katarina Muchova (Fixed income) +421 2 4862 4762

#### Treasury - Erste Bank Vienna

##### Group Markets Retail Sales

Head: Christian Reiss +43 (0)5 0100 84012

##### Markets Retail a. Sparkassen Sales AT

Head: Markus Kaller +43 (0)5 0100 84239

##### Equity a. Fund Retail Sales

Head: Kurt Gerhold +43 (0)5 0100 84232

##### Fixed Income a. Certificate Sales

Head: Uwe Kolar +43 (0)5 0100 83214

##### Markets Corporate Sales AT

Head: Christian Skopek +43 (0)5 0100 84146

##### Fixed Income Institutional Sales

##### Group Markets Financial Institutions

Head: Manfred Neuwirth +43 (0)5 0100 84250

##### Bank and Institutional Sales

Head: Jürgen Niemeier +49 (0)30 8105800 5503

##### Institutional Sales Western Europe AT, GER, FRA, BENELUX

Head: Thomas Almen +43 (0)5 0100 84323

Charles-Henry de Fontenilles +43 (0)5 0100 84115

Marc Pichler +43 (0)5 0100 84118

Rene Klasen +49 (0)30 8105800 5521

Dirk Seefeld +49 (0)30 8105800 5523

Bernd Bollhof +49 (0)30 8105800 5525

##### Bank and Savingsbanks Sales

Head: Marc Frieberthäuser +49 (0)711 810400 5540

Sven Kienzle +49 (0)711 810400 5541

Michael Schmotz +43 (0)5 0100 85542

Ulrich Inhofner +43 (0)5 0100 85544

Martina Fux +43 (0)5 0100 84113

Michael Konczer +43 (0)5 0100 84121

Klaus Vosseler +49 (0)711 810400 5560

Andreas Goll +49 (0)711 810400 5561

Mathias Gindele +49 (0)711 810400 5562

##### Institutional Sales CEE and International

Head: Jaromir Malak +43 (0)5 0100 84254

##### Central Bank and International Sales

Head: Margit Hraschek +43 (0)5 0100 84117

Christian Kössler +43 (0)5 0100 84116

Bernd Thaler +43 (0)5 0100 84119

##### Institutional Sales PL and CIS

Pawel Kielek +48 22 538 6223

Michal Jarmakowicz (Fixed Income) +43 50100 85611

##### Institutional Sales Slovakia

Head: Peter Kniz +421 2 4862 5624

Monika Smelikova +421 2 4862 5629

##### Institutional Sales Czech Republic

Head: Ondrej Cech +420 2 2499 5577

Milan Bartos +420 2 2499 5562

Barbara Suvadova +420 2 2499 5590

##### Institutional Asset Management Sales

##### Czech Republic

Head: Petr Holecek +420 956 765 453

Martin Perina +420 956 765 106

Petr Valenta +420 956 765 140

David Petracek +420 956 765 809

##### Institutional Sales Croatia

Head: Antun Buric +385 (0)7237 2439

Željko Pavičić +385 (0)7237 1494

Ivan Jelavic +385 (0)7237 1638

##### Institutional Sales Hungary

Attila Hollo +36 1 237 8209

Borbala Csizmadia +36 1 237 8205

##### Institutional Sales Romania

Head: Ciprian Mitu +43 (0)50100 85612

Stefan Racovita +40 373 516 531

##### Business Support

Tamara Fodera +43 (0)50100 12614

Bettina Mahoric +43 (0)50100 86441

**Disclaimer**

This publication was prepared by Erste Group Bank AG or any of its consolidated subsidiaries (together with consolidated subsidiaries "Erste Group") independently and objectively as other information pursuant to the Circular of the Austrian Financial Market Authority regarding information including marketing communication pursuant to the Austrian Securities Supervision Act. This publication serves interested investors as additional source of information and provides general information, information about product features or macroeconomic information without emphasizing product selling marketing statements. This publication does not constitute marketing communication pursuant to Art. 36 (2) Austrian Securities Supervision Act as no direct buying incentives were included in this publication, which is of information character. This publication does not constitute investment research pursuant to § 36 (1) Austrian Securities Supervision Act. It has not been prepared in accordance with legal requirements designed to promote the independence of investment research and it is not subject to the prohibition on dealing ahead of the dissemination of investment research. The information only serves as non-binding and additional information and is based on the level of knowledge of the person in charge of drawing up the information on the respective date of its preparation. The content of the publication can be changed at any time without notice. This publication does not constitute or form part of, and should not be construed as, an offer, recommendation or invitation to subscribe for or purchase any securities, and neither this publication nor anything contained herein shall form the basis of or be relied on in connection with or act as an inducement to enter into any contract or inclusion of a security or financial product in a trading strategy. Information provided in this publication are based on publicly available sources which Erste Group considers as reliable, however, without verifying any such information by independent third persons. While all reasonable care has been taken to ensure that the facts stated herein are accurate and that the forecasts, opinions and expectations contained herein are fair and reasonable, Erste Group (including its representatives and employees) neither expressly nor tacitly makes any guarantee as to or assumes any liability for the up-to-dateness, completeness and correctness of the content of this publication. Erste Group may provide hyperlinks to websites of entities mentioned in this document, however the inclusion of a link does not imply that Erste Group endorses, recommends or approves any material on the linked page or accessible from it. Neither a company of Erste Group nor any of its respective managing directors, supervisory board members, executive board members, directors, officers of other employees shall be in any way liable for any costs, losses or damages (including subsequent damages, indirect damages and loss of profit) howsoever arising from the use of or reliance on this publication. Any opinion, estimate or projection expressed in this publication reflects the current judgment of the author(s) on the date of publication of this document and do not necessarily reflect the opinions of Erste Group. They are subject to change without prior notice. Erste Group has no obligation to update, modify or amend this publication or to otherwise notify a reader thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate. The past performance of securities or financial instruments is not indicative for future results. No assurance can be given that any financial instrument or issuer described herein would yield favorable investment results or that particular price levels may be reached. Forecasts in this publication are based on assumptions which are supported by objective data. However, the used forecasts are not indicative for future performance of securities or financial instrument. Erste Group, its affiliates, principals or employees may have a long or short position or may transact in the financial instrument(s) referred to herein or may trade in such financial instruments with other customers on a principal basis. Erste Group may act as a market maker in the financial instruments or companies discussed herein and may also perform or seek to perform investment services for those companies. Erste Group may act upon or use the information or conclusion contained in this publication before it is distributed to other persons. This publication is subject to the copyright of Erste Group and may not be copied, distributed or partially or in total provided or transmitted to unauthorized recipients. By accepting this publication, a recipient hereof agrees to be bound by the foregoing limitations.

© Erste Group Bank AG 2017. All rights reserved.

**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**

**Erste Group Homepage: [www.erstegroup.com](http://www.erstegroup.com)**