

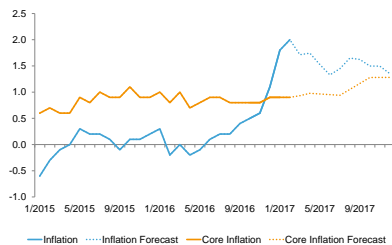
Week ahead

EZ – inflation dynamics expected to slightly wane in March
Brexit – formal application expected on March 29

Analysts:

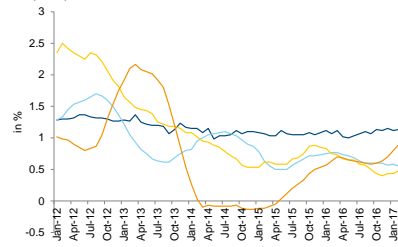
Gerald Walek
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EZ – inflation vs. core inflation



Source: Eurostat, Erste Group Research

Core inflation 6-months average – DE, FR, IT, ES



Source: Bloomberg, Erste Group Research

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

EZ – Energy component should lead to lower inflation dynamics in March

The first flash estimate for Eurozone inflation in March will be released next week (March 31). In February, Eurozone inflation reached the highest level to date with +2.0% y/y. The main driver behind the vibrant development of inflation in January and February was energy prices, where base effects had a positive impact. In addition, food prices showed strongly positive dynamics. By way of contrast, core inflation consolidated at +0.9% y/y in January as well as in February. On the regional level, the upward trend regarding core inflation in Spain continued (+1.3% y/y). Slight upward tendencies became apparent recently in Germany (+1.1% y/y) and Italy (+0.7% y/y) as well. Only in France (+0.3% y/y) is the momentum currently still negative.

*Due to the decreasing base effect relating to the oil price, we expect the inflation dynamics of the energy component to wane in March. **As a result, we expect a slightly lower headline inflation at around +1.7% to 1.8% y/y in March.** In the coming months, we forecast a further marginal decline of inflation rates, based on the lighter inflation pressure from energy prices. However, with an ongoing recovery of the Eurozone economy, we expect core inflation to rise slowly and gradually in the coming months until the end of the year to approx. +1.2% to +1.3% y/y.*

Brexit – British government expected to formally apply to exit EU on March 29

British government is expected to formally apply to exit the EU next Wednesday (March 29) by triggering Article 50 of the Lisbon treaty. Official negotiations can then start. The treaty allows the negotiations to last a maximum of two years. Representatives from the EU have already hinted that it might take several weeks until the remaining 27 EU member states have agreed on a common negotiating line.

We do not expect any immediate negative impact on the Eurozone economy due to the official start of negotiations. For the time being, the positive development of the global economy prevails, thereby supporting the foreign trade of the Eurozone and leading to a positive development of business and consumer sentiment. Nevertheless, in the mid-term, the expected revision of the economic relationship between the UK and the EU will have an impact on trade and on supply chains.

Based on our assessment, negotiations will focus on future trade relations between the UK and EU. Prime Minister May already stated in autumn that she is prepared to give up access to the single market in order to clamp down on the free movement of people and in order to be

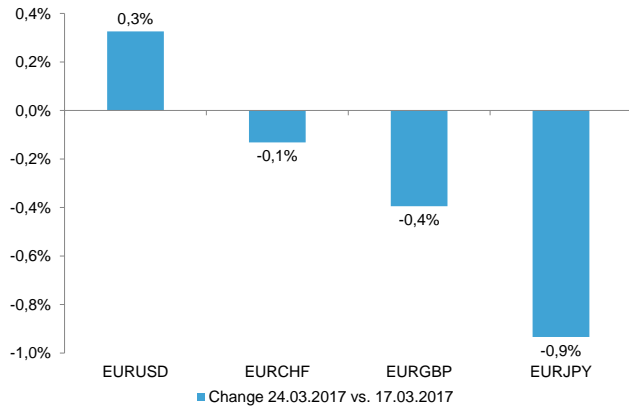
able to leave the jurisdiction of the European Court. It seems as if the UK is aiming for a comprehensive free trade agreement with the EU for the period after March 29, 2019. Experts, however, believe that two years will not be sufficient to reach such an agreement. It might thus be necessary to agree on transitional rules or times. A free trade agreement also means that the UK (depending on which sectors or industries would be covered) will have to stick to or keep EU law and minimum standards in place.

Forex and government bond markets

Exchange rates EUR: USD, CHF, GBP and JPY

change last week

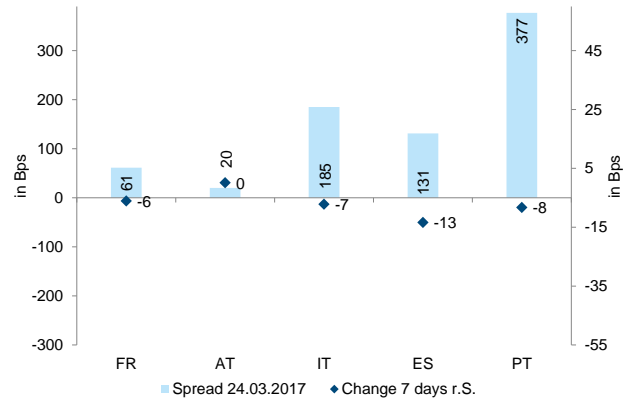
(+ stronger euro / - weaker euro)



Source: Bloomberg, Erste Group Research

Eurozone – spreads vs. Germany

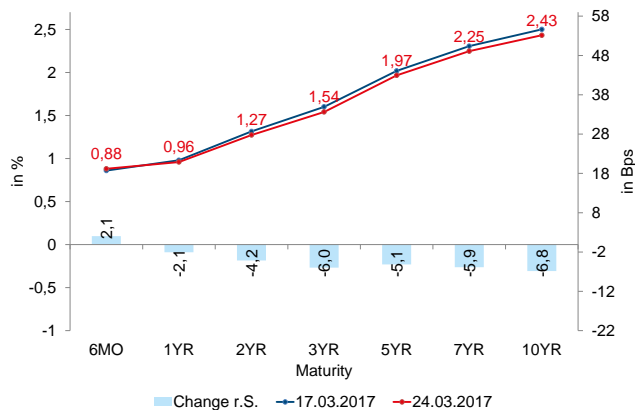
10Y government bonds



Source: Bloomberg, Erste Group Research

US Treasuries yield curve

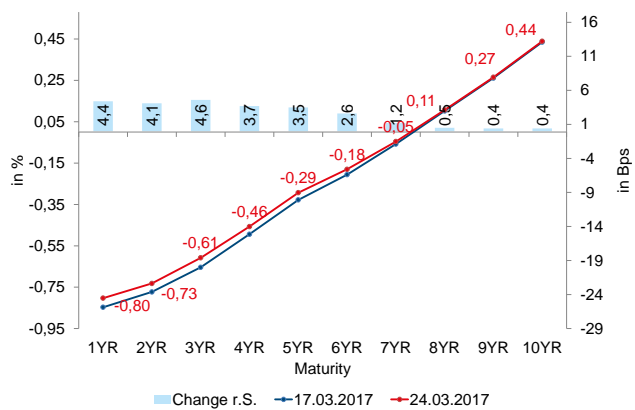
change last week



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
24-Mar	8:450	FR	GDP y/y	4Q F	1.2%	1.2%
	8:45	FR	GDP q/q	4Q F	0.4%	0.4%
	9:00	FR	PMI Manufacturing	Mar P		52.2 index
		AT	Ind. Prod. y/y	Jan		2.1%
	9:30	DE	PMI Manufacturing	Mar P	56.5 index	56.8 index
	10:00	EA	PMI Manufacturing	Mar P	55.3 index	55.4 index
	13:30	US	Durable Goods Orders	Feb P	1.3%	2.0%
27-Mar	n.a.	DE	Retail Sales y/y	Feb		2.3%
28-Mar	16:00	US	Consumer Conf.	Mar	112.0 index	114.8 index
30-Mar	n.a.	FR	Consumer Conf.	Mar		-9.8 index
		DE	Consumer Conf.	Mar		-2.1 index
		IT	Consumer Conf.	Mar		-14.6 index
		AT	Consumer Conf.	Mar		-1.5 index
		9:00	AT	PPI y/y	Feb	
	10:00	AT	PMI Manufacturing	Mar		57.2 index
	11:00	EA	Business Conf.	Mar		108.0 index
	14:00	DE	Inflation y/y	Mar P	2.2%	2.2%
		DE	CPI m/m	Mar P	0.7%	0.7%
	14:30	US	GDP q/q	4Q T	2.0%	1.9%
	31-Mar	8:45	FR	CPI m/m	Mar P	0.1%
		FR	PPI y/y	Feb		3.3%
		FR	Inflation y/y	Mar P	1.4%	1.4%
11:00		IT	Inflation y/y	Mar P	1.6%	1.6%
		IT	CPI m/m	Mar P		0.2%
12:00		IT	PPI y/y	Feb		2.8%
14:30		US	PCE Deflator	Feb		1.9%

Source: Bloomberg, Erste Group Research

FORECASTS¹⁾

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

Inflation	2014	2015	2016	2017	2018
Eurozone	0.5	0.1	0.2	1.5	1.5
US	1.6	0.1	1.2	2.0	2.3

Interest rates	current	Jun.17	Sep.17	Dec.17	Mar.18
ECB MRR	0.00	0.00	0.00	0.00	0.00
3M Euribor	-0.33	-0.30	-0.30	-0.30	-0.30
Germany Govt. 10Y	0.44	0.80	0.80	1.00	1.20
Swap 10Y	0.86	1.10	1.10	1.30	1.50

Interest rates	current	Jun.17	Sep.17	Dec.17	Mar.18
Fed Funds Target Rate*	0.91	1.13	1.38	1.38	1.63
3M Libor	1.16	1.40	1.70	1.70	1.90
US Govt. 10Y	2.43	2.60	2.70	2.80	3.00
EURUSD	1.08	1.08	1.10	1.12	1.12

*Mid of target range

Source: Bloomberg, Erste Group Research

¹ 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

24 March 2017

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Published by:

Erste Group Bank AG
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Commercial Register No: FN 33209m
Commercial Court of Vienna

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