

## Week ahead

France's presidential election – Polls point towards tight race

Eurozone – Slight increase of inflation in April expected

ECB – Council meeting should not bring any news

Great Britain – Snap elections in June

Erste Group Research – Interest rate forecasts lowered for June

Analysts:

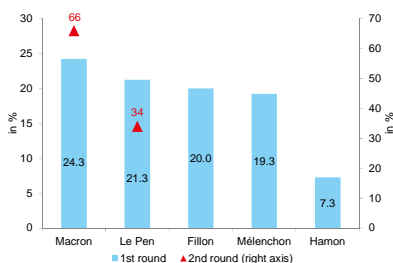
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### Macron is taking the lead in the polls – tight race between Le Pen, Fillon and Mélenchon for the move into the run-off

On Sunday, the first round of the French presidential elections will be held. The poll data has not changed that much in the final days ahead of the election. Based on the most recent poll data, Macron is now the favorite, with an approval rating of 24.5% (prev. 23.3%), while Le Pen's approval rating of 21.3% (prev. 23.3%) has dropped quite substantially. Since Fillon managed to keep his approval rating stable at 20% it currently seems as if a neck-and-neck race between him and Le Pen to make it into the run-off election is quite likely. Given the fact that there is still a vast majority of undecided voters, however, even Mélenchon (approval of 19.3%) still has realistic chances to make it to the second round on May 7.

France – poll results



Source: Harris, Elabe, Erste Group Research

*Our general assessment has not changed. Last week we delivered in our [Week ahead](#) a detailed analysis of the different possible outcomes.*

**Based on most recent poll data Macron will quite likely make it into the second round.** The question is which opponent he is going to face there. Current polls suggest that in the run-off Macron would beat all of them: Le Pen, Fillon or Mélenchon. If the election results on Sunday differ substantially from the current poll data, then the markets might react nervously, especially if the EU-hostile candidates Le Pen and Mélenchon perform significantly better than currently predicted.

### Eurozone – Slight increase of inflation expected in April

Next week (April 28), a first flash estimate of the Eurozone headline inflation for April will be released. In March, headline inflation declined to +1.5% y/y. Easing pressure from energy prices as well as a surprisingly weak development of core inflation (which dropped from +0.9% y/y to +0.8% y/y) led to this result. The declining core inflation, however, seems to have been influenced by seasonal effects (Easter holidays were in March last year).

*For April, we expect a slight increase of headline inflation to +1.7% y/y. Among other factors, a normalization of the core inflation level to around +0.9% y/y to +1.0% y/y should contribute to this increase. Ongoing positive price pressure from energy prices should also be visible. In the course of the year, however, we expect a slight decline of headline inflation, due to easing price pressure from energy prices. In line with the ongoing recovery of the Eurozone economy, we expect core inflation to gradually increase until year-end.*

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

### ECB should stick to wait and see stance

In the coming week, the ECB Council will convene. It is close to certain that there will be **no change to monetary policy**. There is a slight possibility that some crucial wording in the prepared text of the press conference might be changed. For example, the assessment of risks for growth being tilted to the downside. Further wording potentially concerned is the option of cutting rates further and the indication of the duration ('well past the horizon of our asset purchases') of the current low interest rates. The former could be dropped and the latter could be altered to indicate an earlier hike. Any change to these formulations would show markets that the ECB is acknowledging the improved environment and that progress on the (long) path towards normalization of monetary policy is being made.

*We do not think that the time for any significant changes to the above-mentioned wording has come yet. Accordingly, we do not expect the upcoming Council meeting to deliver **any significant news for markets**. However, in the case that the first round of the French presidential elections should yield two EU-hostile candidates for the second round in May, the question of how the ECB will deal with the potential exit of France from the EU and monetary union would move into the foreground, making it an **exciting meeting after all**.*

### UK – parliament approves new elections on June 8

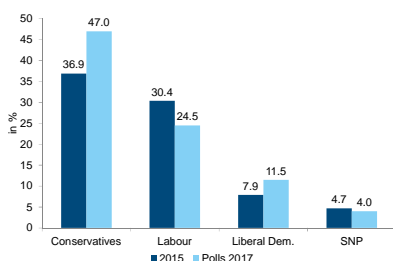
Due to a lack of parliamentary support for the Brexit negotiations, Prime Minister Theresa May this week announced new elections for June 8. Based on the election results from 2015, the Conservative Party has 36.9% of the votes and a slim majority in the House of Commons. Current poll data indicates that the Conservatives, with an approval rating of 47%, could gain substantially. This would clearly strengthen May's position in the Brexit negotiations. The Labor Party is, on the other hand, expected to lose quite substantially (drop from 30% to 24.5% expected).

*The elections are going to be a vote on whether Britons favor hard Brexit, in accordance with May's intentions, or soft Brexit with concessions. The current poll data (substantial gains for the Conservatives) reflect a clear preference for hard Brexit without any concessions. **We do not expect any immediate consequences for the economy of the Eurozone**. If May succeeds in the elections and strengthens her power base, the result should be more clarity and more predictability. This would be positive from an economic perspective because it should simplify the upcoming decisions for businesses.*

### We lower our June forecasts for the Fed Funds Rate, the 10Y US Treasury and 10Y German Bund

*Due to the foreseeable very slow growth of the US economy in 1Q, we move the expected **two interest rate hikes this year back by one quarter**. We now forecast that there will be no rate hike in June and see hikes in September and December by 0.25% each. It is a close call, but the generally very cautious approach by the FOMC to hiking rates during this cycle is the decisive argument for us. Weak growth in the first half of last year (together with Brexit) resulted in only one rate hike, compared to the four rate hikes indicated by the FOMC at the beginning of the year. We also lower our forecast for the **yield of the 10Y Treasury** bond slightly by 10bp to 2.5% as well. We revise our forecast for the yield of the **10Y***

UK – 2015 election results vs. 2017 poll data

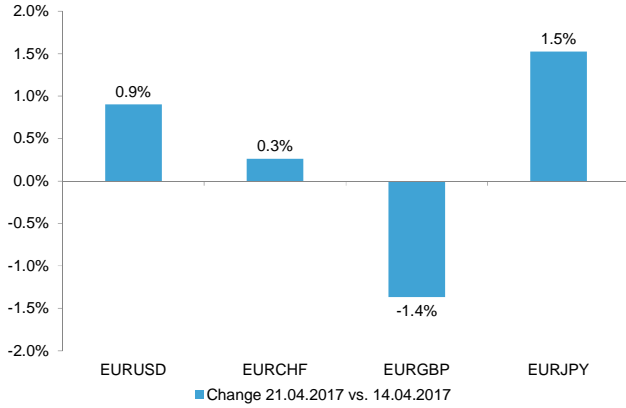


Source: YouGov, ICM, Erste Group Research

**German Bund** more strongly. The weak performance of the US economy so far and a stronger than expected yield drop before the French elections have made the strong increase in yields we anticipated unlikely. So, we currently expect the yield to rise to 0.5% by the end of June. We leave our yield forecasts for the time beyond June untouched, as **our mid-term view has not changed**.

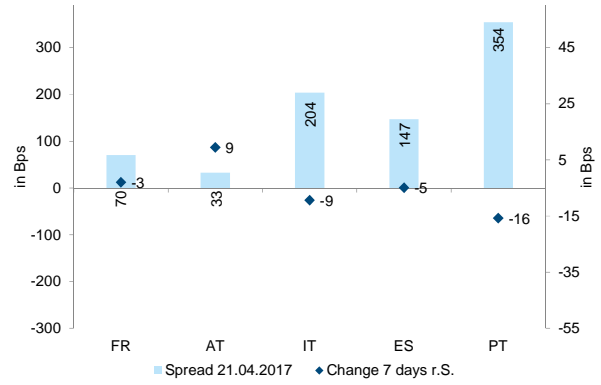
**Forex and government bond markets**

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



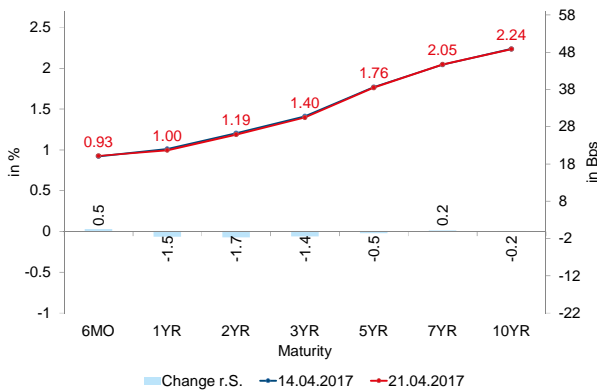
Source: Bloomberg, Erste Group Research

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



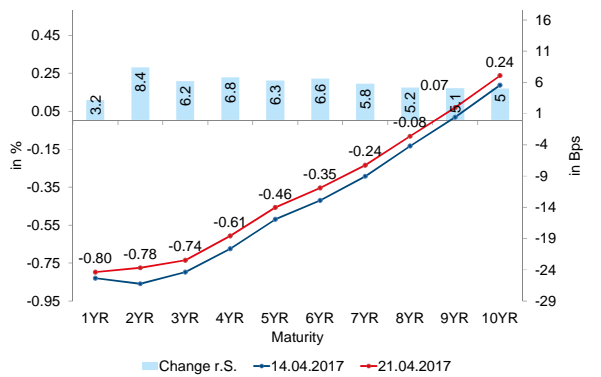
Source: Bloomberg, Erste Group Research

**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-Apr	9:00	FR	PMI Manufacturing	Apr P	53.2 index	53.3 index	
	9:30	DE	PMI Manufacturing	Apr P	58.0 index	58.3 index	
	10:00	EA	CA Balance (m)	Feb		25 m	
		EA	PMI Manufacturing	Apr P	56.0 index	56.2 index	
	10:30	IT	CA Balance (m)	Feb		-1913 m	
25-Apr	16:00	US	Existing Home Sales	Mar	5.6 m	5.5 m	
	9:00	AT	Ind. Prod. y/y	Feb		-1.1%	
27-Apr	n.a.	US	New Home Sales	Mar	589.0 thd	592.0 thd	
		US	Consumer Conf.	Apr	123.2 index	125.6 index	
27-Apr	n.a.	FR	Consumer Conf.	Apr		-9.8 index	
		DE	Consumer Conf.	Apr		0.2 index	
		IT	Consumer Conf.	Apr		-13.6 index	
		AT	Consumer Conf.	Apr		-1.4 index	
		DE	Retail Sales y/y	Mar	2.9%	-2.1%	
		10:00	AT	PMI Manufacturing	Apr		56.8 index
		11:00	EA	Consumer Conf.	Apr F	-4.7 index	-3.6 index
			EA	Business Conf.	Apr	108.0 index	107.9 index
		13:45	EA	Target Rate (lending)	-	-0.40%	-0.40%
			EA	Target Rate	-		0.00%
		14:00	DE	Inflation y/y	Apr P	1.8%	1.5%
			DE	CPI m/m	Apr P	-0.2%	0.1%
		14:30	US	Durable Goods Orders	Mar P	1.5%	1.8%
			US	Jobless Claims	-	241.6 thd	244.0 thd
		28-Apr	7:30	FR	GDP y/y	1Q A	
FR	GDP q/q			1Q A	0.4%	0.4%	
FR	CPI m/m			1Q A		0.7%	
8:45	FR		PPI y/y	Mar		3.9%	
	FR		Inflation y/y	Apr P		1.4%	
	FR		PPI y/y	Mar		2.9%	
9:00	AT		GDP q/q	1Q P		0.6%	
	AT		GDP y/y	1Q P		1.8%	
	IT		Inflation y/y	Apr P	1.5%	1.4%	
11:00	IT		CPI m/m	Apr P	0.4%	1.9%	
	IT		PPI y/y	Mar		3.7%	
12:00	IT		PPI y/y	Mar		3.7%	
14:30	US		GDP q/q	1Q A	1.3%	2.1%	
16:00	US	Univ. Michigan Index	Apr F	98.3 index	98.0 index		

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	2.0	2.1

<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	1.5	1.5
<b>US</b>	1.6	0.1	1.2	2.0	2.3

<b>Interest rates</b>	<b>current</b>	<b>Jun.17</b>	<b>Sep.17</b>	<b>Dec.17</b>	<b>Mar.18</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>	0.24	0.50	0.80	1.00	1.20
<b>Swap 10Y</b>	0.72	0.80	1.10	1.30	1.50

<b>Interest rates</b>	<b>current</b>	<b>Jun.17</b>	<b>Sep.17</b>	<b>Dec.17</b>	<b>Mar.18</b>
<b>Fed Funds Target Rate*</b>	0.91	0.88	1.13	1.38	1.63
<b>3M Libor</b>	1.16	1.20	1.40	1.70	1.90
<b>US Govt. 10Y</b>	2.24	2.50	2.70	2.80	3.00
<b>EURUSD</b>	1.07	1.08	1.10	1.12	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

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Week ahead | Macro, Fixed Income | Eurozone, USA

21 April 2017

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### **Published by:**

**Erste Group Bank AG**  
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**1100 Vienna, Austria, Am Belvedere 1**  
**Head Office: Wien**  
**Commercial Register No: FN 33209m**  
**Commercial Court of Vienna**

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