Week ahead

US – FOMC meeting could disappoint markets
Eurozone – GDP growth should accelerate slightly in 1Q 2017
US – Government shutdown?

Analysts:

Rainer Singer
rainer.singer@erstegroup.com

Gerald Walek
gerald.walek@erstegroup.com

Probability of US interest rate hike in June has decreased after soft 1Q

The next meeting of the Monetary Policy Committee of the Federal Reserve (FOMC) is scheduled for next week. The decision and the statement will be published on Wednesday. There will be no press conference and the participants will not make any new forecasts for the most important macroeconomic variables. A change of key rates can practically be ruled out. Nonetheless, this meeting could **bring motion into the markets**.

The question for the upcoming meeting will be whether or not the FOMC will react to the significant ***slowdown of economic growth*** *in the first quarter. Until now, there were no clear signals for the date of the next rate hike. However, the market predominantly expects a rate hike in June. We doubt this and think that, due to the weak economic data of the last months, the FOMC will wait for the time being. Therefore, we expect the next interest rate move to be in September. However, uncertainty is high. A lot of macroeconomic data will still be published by the FOMC meeting in June, which could steer the decision of the FOMC in one or the other direction. For us, the possibility of no rate hike in June prevails currently. Next week, the FOMC could already communicate in this direction, or keep all its options open and leave the wording in the statement more or less unchanged.* ***The most unlikely outcome is that the market expectations for a rate hike in June will be reassured****. This would be hard to argue, viewing the economic data for the last months. Thus, there is a significantly high probability that, next week, the interest rate expectations of the market will not be reinforced, and perhaps will be outright disappointed.*

The FOMC statement could also contain hints on how the discussion about the ***end of the reinvestments*** *of redemptions from the securities portfolio could develop. Most probably, however, the FOMC will wait with it until the next press conference of Chair Yellen, thus until June. Drawing on the protocol of the last FOMC meeting, a reduction of the reinvestments starting at the end of this year looks likely.*

Major Markets & Credit Research

Gudrun Egger, CEFA
(Head)

Rainer Singer
(Senior Economist Eurozone, US)

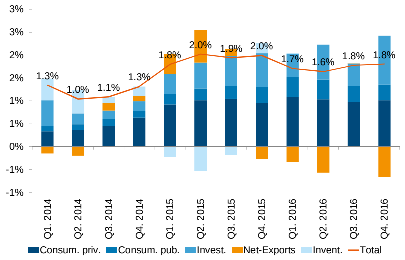
Gerald Walek, CFA
(Economist Eurozone)

Margarita Grushanina
(Economist Austria, Quant Analyst EZ)

Eurozone – 1Q 2017 GDP growth should slightly accelerate to +1.9% y/y

Next week (May 3), a first flash estimate of GDP growth of the Eurozone in 1Q17 is to be released. In 4Q16, the Eurozone grew, mainly supported by strong investment growth, by +1.8% y/y. Export growth in 4Q16 accelerated as well. However, due to faster growing imports, foreign trade continued to weigh on the growth of the Eurozone. Except for Italy, all major countries contributed substantially to the growth of the Eurozone in

EZ: GDP-growth y/y



Source: Bloomberg, Erste Group Research

4Q16.

All main economic indicators performed quite strongly in 1Q17. ***We thus expect at least a slight acceleration of growth to +1.9% y/y.*** *Consumption growth should remain stable, while we do not expect that investment growth will be able to keep its brisk growth pace from 4Q16 (+5.1% y/y). With regards to exports, we expect (in line with the global upswing) a further slight acceleration of growth (previously +3.8% y/y); thus, foreign trade should no longer weigh on the growth in 1Q17e. Since leading indicators improved further in April, our models currently indicate another slight acceleration of GDP growth for the Eurozone in 2Q17 to +2.0% y/y. For the entire year 2017, we continue to expect GDP growth for the Eurozone of +1.9%.*

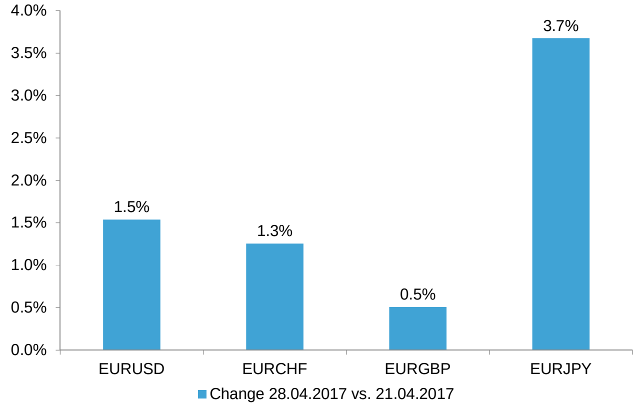
Can Republicans and Democrats agree upon the financing of the government functions?

Today is **the deadline** for the US Congress to agree on a continuing resolution to keep ministries and government agencies financed and running. Otherwise, a shutdown looms, ceasing payments. This would affect employees (they would be sent on unpaid leave) and suppliers. However, there is a difference between essential government services (to which the military and the police belong and which would not be affected) and the rest. The decision where the line will finally be drawn lies with the government. According to media reports, an **agreement seems within reach**. Thus, a short-term extension of the financing (1-2 weeks) would be possible, before a long-term solution would be found. The last time a shutdown occurred was in 2013 and it lasted 16 days.

The ***implications for the markets*** *should be relatively small, and would nevertheless ultimately depend on* ***how long the shutdown would last****. The longer the payments would cease, the more likely an impairment of economic growth (in at least the second quarter) would be. Furthermore, a shutdown would once again be evidence of the inability of the US Congress to find majorities to make decisions.*

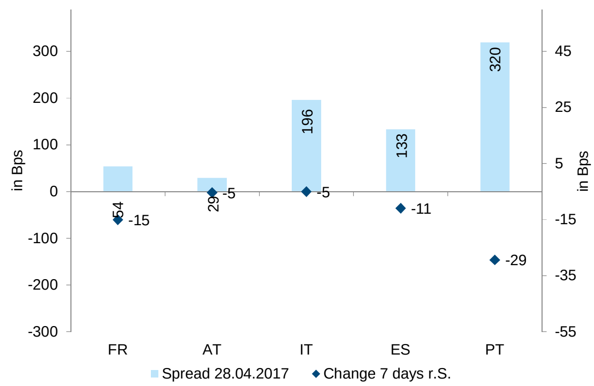
Forex and government bond markets

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



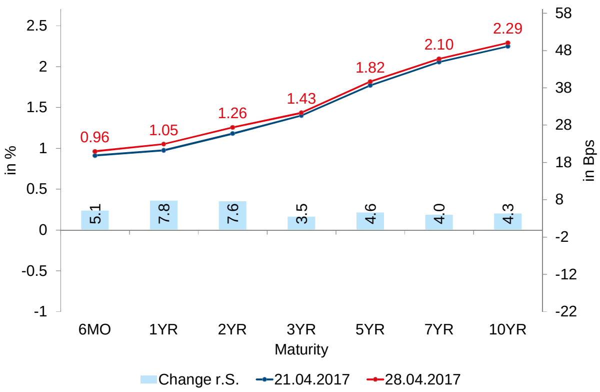
Source: Bloomberg, Erste Group Research

Eurozone – spreads vs. Germany
10Y government bonds



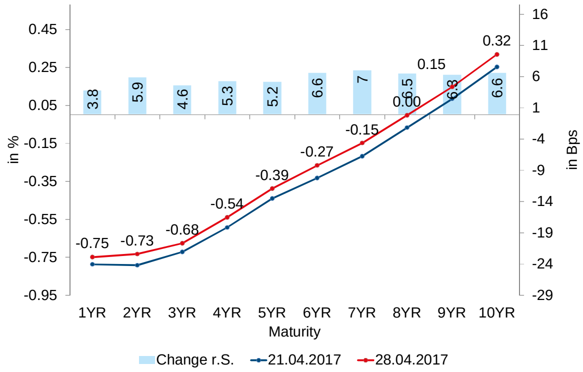
Source: Bloomberg, Erste Group Research

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
28-Apr	7:30	FR	GDP y/y	1Q A	0.9%	0.8%
		FR	GDP q/q	1Q A	0.3%	0.3%
	8:00	DE	Retail Sales y/y	Mar	2.3%	2.3%
	8:45	FR	CPI m/m	Apr P	0.2%	0.1%
		FR	PPI y/y	Mar		2.9%
		FR	Inflation y/y	Apr P	1.5%	1.4%
	9:00	AT	PPI y/y	Mar		2.7%
		AT	GDP q/q	1Q P		0.5%
		AT	GDP y/y	1Q P		2.0%
	11:00	IT	Inflation y/y	Apr P	1.6%	1.4%
		IT	CPI m/m	Apr P	0.5%	1.9%
	12:00	IT	PPI y/y	Mar		3.7%
	14:30	US	GDP q/q	1Q A	1.0%	2.1%
	16:00	US	Univ. Michigan Index	Apr F	97.9 index	98.0 index
1-May	14:30	US	PCE Deflator	Mar	1.9%	2.1%
	16:00	US	PMI Manufacturing	Apr	56.5 index	57.2 index
2-May	3:45	CN	PMI Manufacturing	Apr	51.3 index	51.2 index
	9:50	FR	PMI Manufacturing	Apr F		55.1 index
	9:45	IT	PMI Manufacturing	Apr	56.3 index	55.7 index
	9:55	DE	PMI Manufacturing	Apr F	58.2 index	58.2 index
	10:00	EA	PMI Manufacturing	Apr F	56.8 index	56.8 index
	11:00	EA	Unempl. Rate	Mar	9.4%	9.5%
3-May	11:00	EA	GDP q/q	1Q A	0.5%	0.5%
		EA	GDP y/y	1Q A	1.7%	1.8%
		EA	PPI y/y	Mar	4.2%	4.5%
	14:15	US	ADP Employment	Mar	182.5 thd	263.5 thd
	16:00	US	ISM Non-Manufacturing	Apr	55.9 index	55.2 index
	20:00	US	Target Rate	-	1.00%	1.00%
4-May	11:00	EA	Retail Sales y/y	Mar		1.8%
	14:30	US	Jobless Claims	-	244.4 thd	257.0 thd
		US	Trade Balance	Mar	-45m	-44m
	16:00	US	Durable Goods Orders	Mar F	1.4%	0.7%
5-May	14:30	US	Wages y/y	Apr	2.7%	2.7%
		US	Unempl. Rate	Apr	4.6%	4.5%
		US	Chg. Non-Farm Payrolls	Apr	197.3 thd	98.0 thd

Source: Bloomberg, Erste Group Research

FORECASTS[1])

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

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	0.34	0.50	0.80	1.00	1.20
Swap 10Y	0.80	0.80	1.10	1.30	1.50

Interest rates	current	Jun.17	Sep.17	Dec.17	Mar.18
Fed Funds Target Rate*	0.91	0.88	1.13	1.38	1.63
3M Libor	1.17	1.20	1.40	1.70	1.90
US Govt. 10Y	2.30	2.50	2.70	2.80	3.00
EURUSD	1.09	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

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, Quant Analyst) +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 Povazsai-Römhild (Corporate Bonds) +43 (0)5 0100 17203
Elena Statelov, CIIA (Corporate Bonds) +43 (0)5 0100 19641
Gerald Walek, CFA (Economist Euro, CHF) +43 (0)5 0100 16360

Macro/Fixed Income Research CEE
Head CEE: Juraj Kotian (Macro/FI) +43 (0)5 0100 17357
Zoltan Arokszallasi, 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 Aarons +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 Dolenec (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
Vit Machacek (Fixed income) +420 956 765 456
Jiri Polansky (Fixed income) +420 956 765 192
Roman Sedmera (Fixed income) +420 956 765 391
Michal Skorepa (Fixed income) +420 956 765 172
Pavel Smolik (Equity) +420 956 765 434
Jan Sumbera (Equity) +420 956 765 218
Research Hungary
Head: József Miró (Equity) +361 235 5131
Gergely Ürmössy (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 Friebertshäuser +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
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
Sarlota Sipulova +421 2 4862 5619
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 Mortun 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.

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