

## Week ahead

US – Muted market reaction to heated political situation

Eurozone – sunny prospects for economy in 2Q17

Analysts:

**Rainer Singer**

*rainer.singer@erstegroup.com*

**Gerald Walek**

*gerald.walek@erstegroup.com*

### **Investigation of ties between President Trump's campaign and Russian officials should trigger further volatility**

The acceleration of the affair about ties between Donald Trump's campaign and Russian officials has **triggered varying reactions on financial markets**; however, the reactions were muted overall. The whole issue gathered pace after Donald Trump surprisingly fired FBI Director James Comey on May 9. The most recent climax was the appointment of Robert Mueller as special counsel for the investigation, with far-reaching powers. For example, Mueller is absolutely independent and not subject to any orders.

The **strongest reaction so far was shown in the EURUSD** exchange rate. The euro reached its strongest level since the election of Trump. Good economic data coming out of the Eurozone also likely played a part on the euro's firming. But political events in the US had undeniably the strongest impact during the last days. During the last week alone, the euro strengthened vs. the dollar by more than two US cents. On the treasury market, longer-term maturities reacted the most. The reason being that it could become increasingly harder for a politically-damaged president to implement his agenda, namely the promised tax cuts. The outlook for tax cuts was the main reason why yields rose strongly after Donald Trump's election in November. At the same time, the fact that yields declined only moderately in recent days shows that previous political events had already decreased market expectations for tax cuts. On the other hand, the markets do not see the recent news as likely to have an impact on the Fed's monetary policy. The priced-in likelihood of a rate hike in June remained above 90%, only dropping for one day to about 80%. Equity markets only reacted most recently to the appointment of Mueller and the indices declined. The price of gold rose, on the other hand, but still remained clearly below this year's highs seen in mid-April.

Currently, it is hard to predict how the whole affair will evolve. The appointment of a special counsel is a clear indication that the scope of the investigation will be comprehensive and will take time. The mandate of the special counsel has no time limit.

We therefore expect any news relating to the **issue to continue to trigger market volatility**. Next week, for example, James Comey has been invited to testify in front of the House Oversight Committee on May 24, which will investigate whether President Trump tried to interfere with FBI investigations concerning his former national security advisor, Michael Flynn. It is currently not clear whether Comey will attend.

The whole affair quite clearly still has the potential to grow bigger. However, the impact on financial markets should remain contained to relatively short-term swings, in our view. Any lasting impact seems unlikely for us, as the affair is **highly unlikely to alter the solid course**

#### *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

of the US economy.

**EZ – will the spell of fine weather continue in Eurozone’s industrial sentiment?**

**EA – Manufacturing PMI**



Source: Markit, Bloomberg, Erste Group Research

The first flash estimate for the manufacturing PMI of Germany, France and the Eurozone will be released next week (May 24). The Eurozone’s industrial sentiment has been flying high for several months, especially in Germany. In April, sentiment even climbed to a six-year high. However, this optimism has not been reflected in the 1Q17 industrial production data; compared to 4Q16, industrial production remained static. At the country level, developments were diverging. While Germany’s industry production increased by 1% compared to the previous quarter, industrial production in France shrank by 1% in 1Q17.

*In light of the dynamic development of sentiment in recent months, we expect no further improvement in May. The example of France also shows that good sentiment is currently no guarantee of dynamic growth (the French economy grew at below-average levels, with +0.8% y/y in 1Q17). Nevertheless, the economic outlook for the Eurozone remains positive in our assessment. The growth dynamic of German exports probably rose further in 1Q17. Considered from a historical point of view, the dynamic of German exports has been an important economic stimulus for other major countries in the Eurozone like France or Italy. However, the euro’s latest relative strength compared to other currencies represents a slight downside risk for the export prospects of the Eurozone. On the other hand, the relative strength of the euro is also signaling increasing trust on the part of global investors in the economic perspectives of the Eurozone, as they are obviously willing to invest their money in Europe. **At present, we expect GDP growth of +1.8% y/y in the Eurozone in 2Q17.***

**Emerging Markets Currency Index vs. CRB Commodity Index**

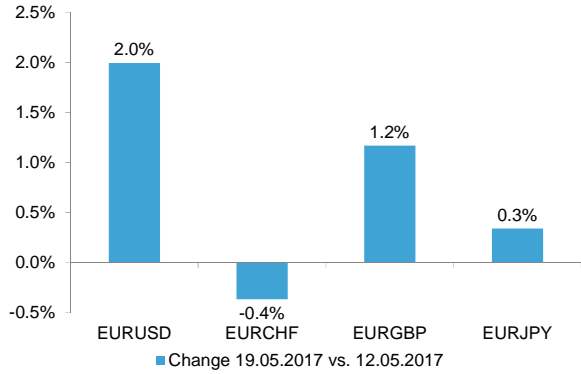


Source: Bloomberg, Erste Group Research

*In Emerging Markets, the pleasant economic development also continues. The relative strength of Emerging Market currencies persisted in May, indicating ongoing capital inflows to Emerging Markets. The IIF estimates capital inflows corresponding to approx. USD 100bn so far in 2017. Even commodity prices, which are vital for economic development, again recorded gains after a weak phase in recent trading days. Positive development in Emerging Markets is important for the outlook for Eurozone exports.*

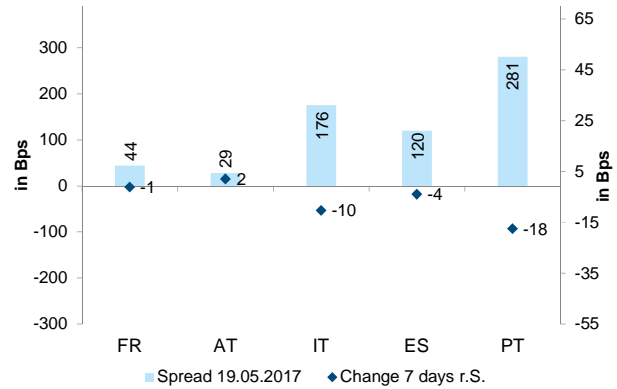
**Forex and government bond markets**

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



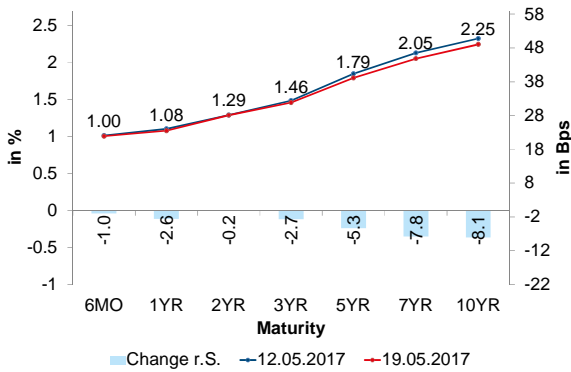
Source: Bloomberg, Erste Group Research

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



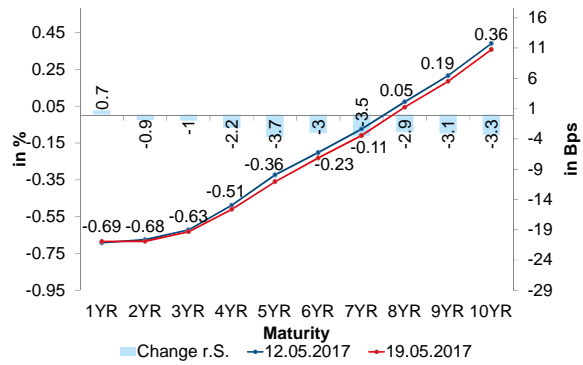
Source: Bloomberg, Erste Group Research

**US Treasuries yield curve**  
change last week



Source: Bloomberg, Erste Group Research

**DE Bund yield curve**  
change last week



Source: Bloomberg, Erste Group Research

## Erste Group Research

Week ahead | Macro, Fixed Income | Eurozone, USA

19 May 2017

### Economic calendar

Date	Time	Ctry	Release	Period	Consens	Prior
19-May	8:00	DE	PPI y/y	Apr	3.2%	3.1%
	10:00	EA	CA Balance (m)	Mar		38 m
	10:30	IT	CA Balance (m)	Mar		1193 m
	16:00	EA	Consumer Conf.	May A	-3.2 index	-3.6 index
23-May	16:00	US	New Home Sales	Apr	613.3 thd	621.0 thd
24-May	9:00	FR	PMI Manufacturing	May P		55.1 index
		AT	Ind. Prod. y/y	Mar		3.1%
	9:30	DE	PMI Manufacturing	May P		58.2 index
	10:00	EA	PMI Manufacturing	May P		56.7 index
	16:00	US	Existing Home Sales	Apr	5.7 m	5.7 m
26-May	14:30	US	GDP q/q	1Q S	1.2%	0.7%
		US	Durable Goods Orders	Apr P	-0.7%	0.9%

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	1.8	1.9	1.7
<b>US</b>	2.4	2.4	1.6	1.9	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>	0.36	0.50	0.60	0.80	1.00
<b>Swap 10Y</b>	0.80	0.80	0.90	1.10	1.30

<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>	1.18	1.20	1.40	1.70	1.90
<b>US Govt. 10Y</b>	2.25	2.50	2.70	2.80	3.00
<b>EURUSD</b>	1.12	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

## Erste Group Research

Week ahead | Macro, Fixed Income | Eurozone, USA

19 May 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, 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 Rzentarowska (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 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

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 Gindler +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 Holecsek +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.

© 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)**