

Week ahead

EZ – Weak inflation data for June expected

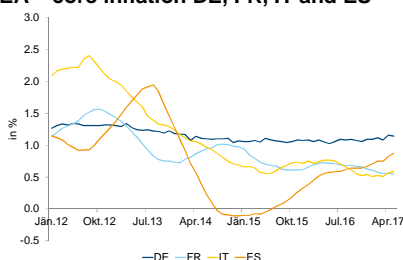
Oil price – Falling to levels seen before OPEC production cuts

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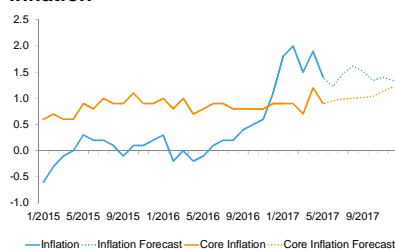
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EA – core inflation DE, FR, IT and ES



Source: Bloomberg, Erste Group Research

EA – headline inflation vs. core inflation



Source: Eurostat, Erste Group Research

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

EZ - Inflation expected to further decrease in June

Next week (June 30), the flash June industry PMI data for the Eurozone will be released. In May, headline inflation declined to +1.4% y/y, largely due to waning base effects from energy prices. Core inflation, however, remained largely unchanged, at +0.9% y/y in May. Among the big four national economies of the Eurozone, a clear upward trend in core inflation can currently be ascertained, especially in Spain. Since February, a slight upward trend (in line with the recently positive economic data) also became apparent in Italy. In Germany, on the contrary, the pressure of core inflation remained restrained despite the robust labor market. In France, core inflation moved sideways on a very low level, consonant with the weak economic development.

Because of further waning base effects from energy prices, we expect a slight decrease of headline inflation to +1.2% y/y to 1.3% y/y for June. Conversely, and for the first time in a considerable period, we anticipate a sustainable (not based on seasonal effects) slight increase of core inflation to +1.0% y/y. Based on the Eurozone's pursued economic recovery, we expect core inflation to marginally rise to 1.2% y/y by the end of the year. For the annual average, we estimate headline inflation unchanged at +1.5% y/y.

Too soon for reaction of monetary policy to deterioration of oil price

This week, the decrease of oil prices continued. **The price Brent, for instance, has declined 20% compared to this year's highs** seen at the beginning of the year, which corresponds to the definition of a bear market. The downturn returned the prices to the level prior to OPEC's decision for a cutback in production in November last year. The stated reason for the falling prices is the favorable supply situation. In particular, US producers have increased their production volumes and appear unimpressed by the falling prices so far. Another contributor is the increased production in Libya and Nigeria, which are exempt from the OPEC cutbacks. A report from the International Energy Agency, which assumes that next year's oil supply will be more than sufficient, further fanned the flames.

*Of course, the falling oil price is also a factor for monetary policy, as inflation rates are dropping correspondingly. At the same time, relatively strong price fluctuations are a constant that central banks have learned to deal with. Not only the extent of price movements, but also the duration is important for the central banks. **We assume that the latest price development will not have any significant impact on US or Eurozone central banks yet.** However, if the downward trend continues and, as a consequence, a prolonged price slack becomes likely, it could be relevant especially for the ECB (as they struggle harder to elevate the inflation rate*

Erste Group Research

Week ahead | Macro, Fixed Income | Eurozone, USA

23 June 2017

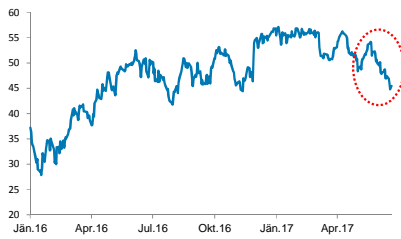
US Crude Oil Production, ths barrel/day



Source: EIA, Erste Group Research

to the desired level), more so than the US Fed. In this case, a tightening of monetary policy, namely the reduction of monthly securities purchases, could be further delayed. For the moment, we assess the development of the oil price as not decisive for the bond market, but as an additional factor supporting the lower yield level (10Y maturity) compared to spring.

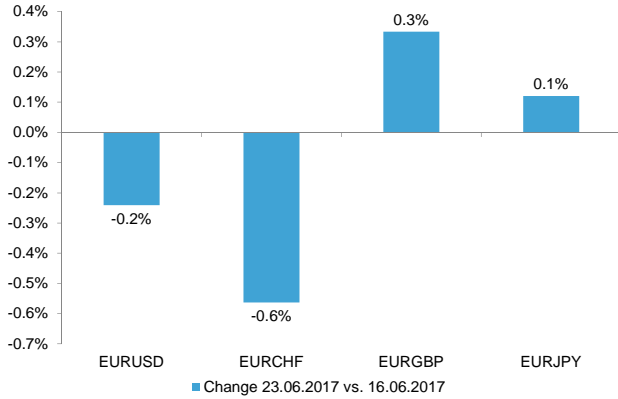
Crude Oil Price (Brent), in USD



Source: Eurostat, Erste Group Research

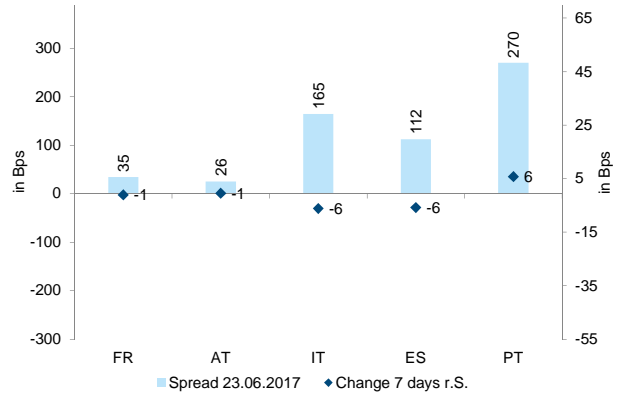
Forex and government bond markets

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



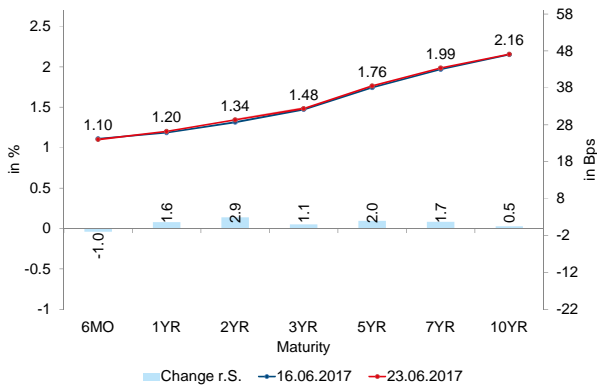
Source: Bloomberg, Erste Group Research

Eurozone – spreads vs. Germany
10Y government bonds



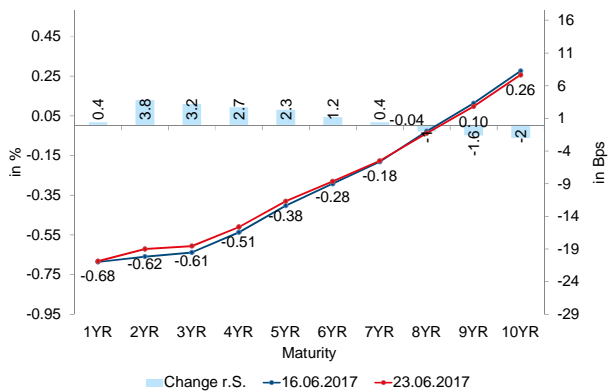
Source: Bloomberg, Erste Group Research

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
23-Jun	8:450	FR	GDP y/y	1Q F	1.0%	1.0%
	8:45	FR	GDP q/q	1Q F	0.4%	0.4%
	9:00	FR	PMI Manufacturing	Jun P	53.9 index	53.8 index
		AT	Ind. Prod. y/y	Apr		3.3%
	9:30	DE	PMI Manufacturing	Jun P	59.0 index	59.5 index
	10:00	EA	PMI Manufacturing	Jun P	56.7 index	57.0 index
	16:00	US	New Home Sales	May	592.6 thd	569.0 thd
26-Jun	14:30	US	Durable Goods Orders	May P	-0.9%	-0.8%
27-Jun	n.a.	DE	Retail Sales y/y	May		-0.9%
	16:00	US	Consumer Conf.	Jun	116.0 index	117.9 index
28-Jun	10:00	AT	PMI Manufacturing	Jun		58.0 index
	11:00	IT	Inflation y/y	Jun P		1.6%
		IT	CPI m/m	Jun P		-0.1%
	12:00	IT	PPI y/y	May		4.4%
29-Jun	n.a.	FR	Consumer Conf.	Jun		-7.0 index
		DE	Consumer Conf.	Jun		3.1 index
		IT	Consumer Conf.	Jun		-15.7 index
		AT	Consumer Conf.	Jun		4.3 index
	11:00	EA	Business Conf.	Jun		109.2 index
	14:00	DE	Inflation y/y	Jun P		1.4%
		DE	CPI m/m	Jun P		-0.2%
	14:30	US	GDP q/q	1Q T	1.2%	1.2%
30-Jun	8:45	FR	CPI m/m	Jun P		0.0%
		FR	PPI y/y	May		3.3%
		FR	Inflation y/y	Jun P		0.9%
	9:00	AT	PPI y/y	Jun P		2.8%
	14:30	US	PCE Deflator	May		1.7%
	16:00	US	Univ. Michigan Index	Jun F	93.9 index	94.5 index

Source: Bloomberg, Erste Group Research

FORECASTS¹⁾

GDP	2014	2015	2016	2017	2018
Eurozone	1.2	2.0	1.8	1.9	1.7
US	2.4	2.4	1.6	1.9	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	2.3	2.0

Interest rates	current	Sep.17	Dec.17	Mar.18	Jun.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	0.26	0.60	0.80	1.00	1.20
Swap 10Y	0.72	0.90	1.10	1.30	1.50

Interest rates	current	Sep.17	Dec.17	Mar.18	Jun.18
Fed Funds Target Rate*	1.16	1.38	1.38	1.63	1.88
3M Libor	1.29	1.70	1.70	1.90	2.20
US Govt. 10Y	2.16	2.50	2.80	3.00	3.00
EURUSD	1.12	1.10	1.12	1.12	1.14

*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

23 June 2017

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