

## Week ahead

US – FOMC should leave major decisions for September meeting

EA – Industry sentiment should weaken in July

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### **Environment speaks for unchanged monetary policy stance in the US next week**

After the ECB Council this week, the **Fed's FOMC is scheduled to decide on monetary policy next week**. This will be the most important event for global financial markets. However, there will not be a press conference following the meeting, nor will new forecasts of FOMC participants for the most important macro variables be released. So, the FOMC will only be able to communicate any changes to markets via the statement. A change of interest rates can all but be ruled out.

**From our perspective, the environment since the last meeting of the FOMC has hardly changed.** The labor market remains a stronghold. In June, growth of non-farm payrolls increased significantly, reaching the highest number since February. Data from industrial production was also favorable, showing continued strong growth of the sector. At the same time, weaker areas also did not show any change. Recent data confirmed the unspectacular growth of private consumption expenditures. The growth reported for May was slightly weaker than in April. However, the growth rate for March was revised upwards slightly. In total, consumption seems to have picked up in the second quarter, after a poor first quarter, but the dynamics in this area are moderate overall. Inflation rates remained low and no indications for an acceleration of prices were visible. Rates of core inflation (excluding food and energy) have even declined since March, mainly due to a steep decline of prices of wireless telephone services. The FOMC reacted at the June meeting and stated it would monitor inflation developments closely. At the same time, the idiosyncratic cause of the decline and the confidence that the inflation goal of 2% would be reached in the coming years were also emphasized. This assessment was confirmed by Chair Yellen only recently at her testimony to the US Congress on July 12 and 13.

**So, in total, we do not see a basis or any indications that the FOMC will signal to markets a change to its monetary stance next week.** Hints for the starting date for the Fed balance sheet reduction through less reinvestment of the proceeds from its bond portfolio (balance sheet normalization) are possible, but in our view unlikely. The uncertainty in this regard is in any case quite low. As the FOMC has made it very clear that the process will start this year, it is only a question of which of the remaining months. **So, we think that we will have to wait for the September FOMC meeting for some news.** At that meeting, the FOMC should announce the start of balance sheet normalization in October and increase key rates the last time this year.

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

**EA – First flash estimate of July's industry sentiment indicator expected**

Next week, the first flash estimate for July's sentiment indicator for the Euro Area, Germany and France will be published. In 2Q17, the values rose on average to peak levels. The industry of the Euro Area is still taking advantage of the strong export and investment dynamics. Viewed regionally, Germany in particular was convincing, while France also reported an all-time high in the July outlook.

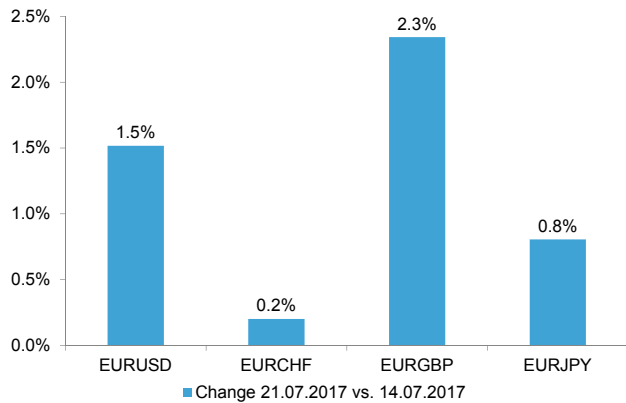
Considering the so far strong dynamic in the first half of 2017, we expect a broad stabilization of the very good sentiment in July. On the global level, capital inflows to emerging markets have persisted, thus strengthening the prospects for economic growth. This has a positive effect on the exports of the Euro Area. In the short term, it remains to be seen to what degree the strong euro dampens the export dynamics. Overall, in 3Q17, the industrial production of the Euro Area should continue to grow and thus support Euro Area GDP.

## Forex and government bond markets

### Exchange rates EUR: USD, CHF, GBP and JPY

change last week

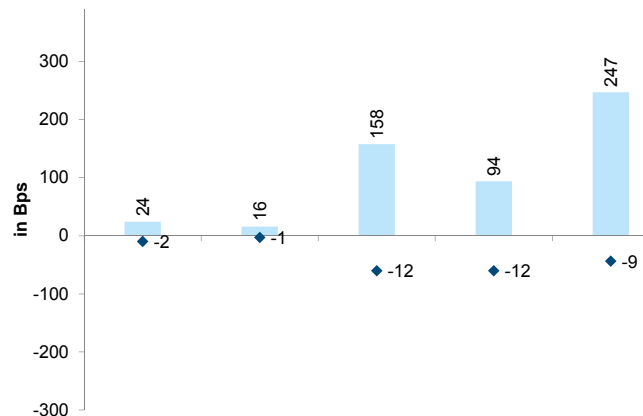
(+ stronger euro / - weaker euro)



Source: Bloomberg, Erste Group Research

### Eurozone – spreads vs. Germany

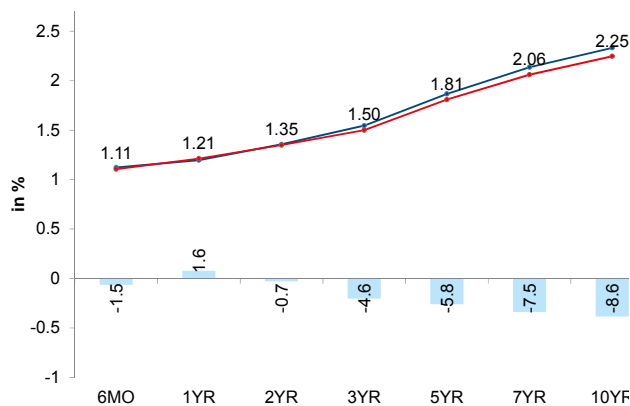
10Y government bonds



Source: Bloomberg, Erste Group Research

### US Treasuries yield curve

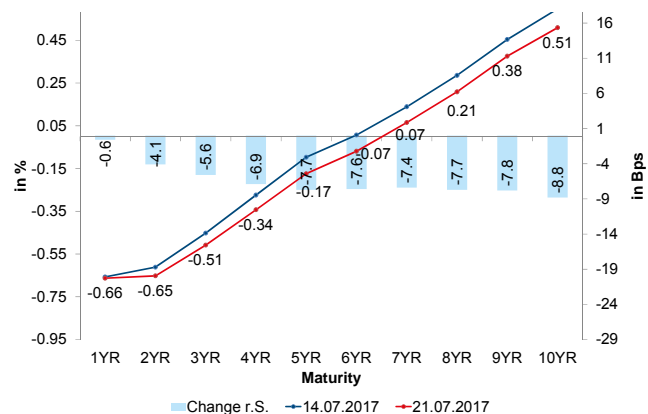
change last week



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-Jul	3:30	DE	PMI Manufacturing	Jul P	59.3 index	59.6 index
	4:00	EA	PMI Manufacturing	Jul P	57.2 index	57.4 index
	10:00	US	Existing Home Sales	Jun	5.6 m	5.6 m
25-Jul	2:45	FR	PPI y/y	Jun		2.1%
	3:00	AT	Ind. Prod. y/y	May		3.3%
	10:00	US	Consumer Conf.	Jul	116.1 index	118.9 index
26-Jul	10:00	US	New Home Sales	Jun	612.6 thd	610.0 thd
	14:00	US	Target Rate	-	1.25%	1.25%
27-Jul	n.a.	DE	Retail Sales y/y	Jun	2.1%	4.8%
	8:30	US	Durable Goods Orders	Jun P	3.3%	-0.8%
		US	Jobless Claims	-	244.5 thd	233.0 thd
28-Jul	n.a.	FR	Consumer Conf.	Jul		0.5 index
		IT	Consumer Conf.	Jul		-16.3 index
		AT	Consumer Conf.	Jul		3.8 index
	1:30	FR	GDP y/y	2Q A	1.6%	1.1%
		FR	GDP q/q	2Q A	0.5%	0.5%
	2:45	FR	Inflation y/y	Jul P	0.8%	0.8%
	3:00	AT	PPI y/y	Jun		2.0%
		AT	GDP y/y	2Q P		2.3%
	4:00	AT	PMI Manufacturing	Jul		60.7 index
	5:00	EA	Consumer Conf.	Jul F	-1.5 index	-1.7 index
		EA	Business Conf.	Jul	110.9 index	111.1 index
	8:00	DE	Inflation y/y	Jul P	1.4%	1.5%
		DE	CPI m/m	Jul P	0.3%	0.2%
	8:30	US	GDP q/q	2Q A	2.4%	1.4%
	10:00	US	Univ. Michigan Index	2Q A	93.3 index	93.1 index

Source: Bloomberg, Erste Group Research

## FORECASTS<sup>1)</sup>

GDP	2014	2015	2016	2017	2018
Eurozone	1,2	2,0	1,8	2,0	1,8
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	0,50	0,60	0,80	1,00	1,20
Swap 10Y	0,90	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	1,31	1,70	1,70	1,90	2,20
US Govt. 10Y	2,24	2,50	2,80	3,00	3,00
EURUSD	1,16	1,12	1,12	1,12	1,14

\*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 July 2017

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