

## Week ahead

### US/North Korea – Currently no signs of deceleration

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#### **Crisis will determine markets next week as well**

This week, the most important topic on the market was the escalation of the conflict between North Korea and the US. While last week, markets were relatively calm with regard to the tone becoming rougher between the countries, North Korea's threat to attack the US military base on Guam and President Trump's threat ('Fire and fury, like the world has never seen') caused risk aversion to set in on markets. The yields of German and US government bonds fell, as did equity markets, while the Swiss franc and price of gold rose. No one knows how the conflict will develop, **but a continuation of the uncertainty next week seems likely; as of the end of this week, no mitigation of the tone was seen.** On the contrary, President Trump increased the pressure and said that his threats maybe had not gone far enough yet. Thus, the conflict between the two countries will likely remain the determining topic on markets. Markets are currently not pricing in a worsening of the conflict beyond an exchange of threats. This is the most likely scenario, as a military confrontation would be in no one's interest. However, the crisis could escalate further. Should North Korea again perform a missile test (successfully), the US would almost be forced to react, probably with a strengthened military presence. Then, at the latest, the markets would get another push in the direction taken this week. Should the crisis spiral into a military confrontation, negative consequences for the global economy look likely, at least temporarily. High uncertainty could slow down investment and consumption expenditures and trade with the region could be affected, with unknown consequences for global supply chains. South Korea, for instance, has a substantial share in the global export of semiconductors.

Coming back to the most probable scenario (that the conflict remains at the level of words), economic data **should be in the background next week.** The relevance of retail sales for July as an indication for the future path of the economy will likely be seen as limited. The same could be said for the minutes of the last FOMC meeting on the outlook for monetary policy. At the end of the week, the Univ.of Michigan Index, which measures consumer sentiment, will be published. This could get more market attention, as it will be the first indication of the impact of the crisis on consumer confidence and eventually consumer spending.

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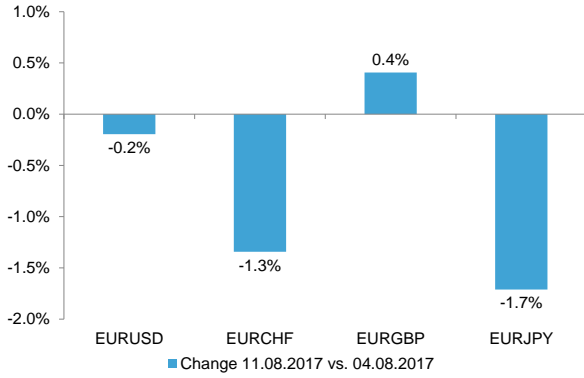
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Indications of past performance are no guarantee of a positive performance in the future

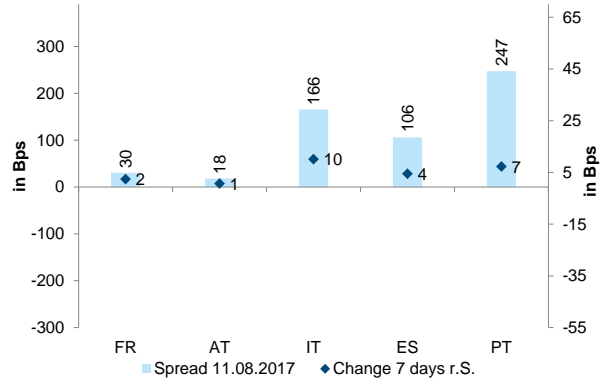
**Forex and government bond markets**

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



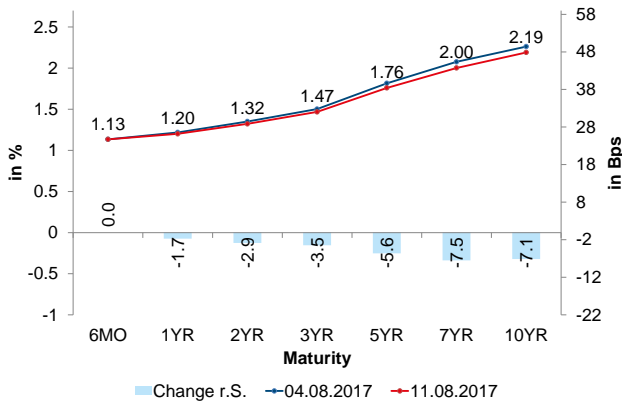
Source: Bloomberg, Erste Group Research

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



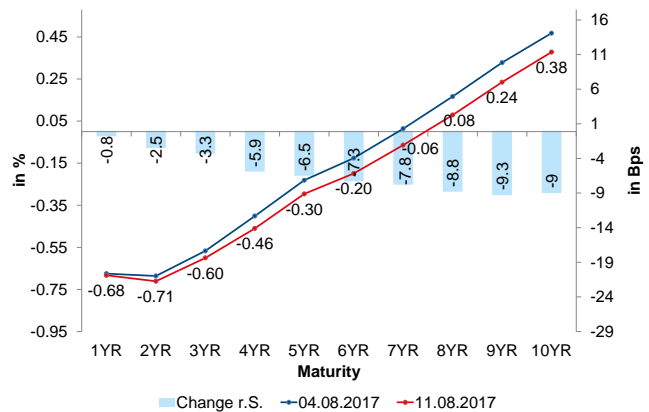
Source: Bloomberg, Erste Group Research

**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
11-Aug	n.a.	CN	CNY new loans	Jul	805bn	1540bn
		CN	M2 yoy	Jul	9%	9%
	8:00	DE	Inflation y/y	Jul F	1.5%	1.5%
		DE	CPI m/m	Jul F	0.4%	0.4%
	8:45	FR	CPI m/m	Jul F	-0.4%	-0.4%
		FR	Inflation y/y	Jul F	0.8%	0.8%
	10:00	IT	Inflation y/y	Jul F	1.2%	1.2%
	14:30	US	Inflation y/y	Jul	1.8%	1.6%
		US	CPI m/m	Jul	0.2%	0.0%
14-Aug	n.a.	CN	Ind. Prod. y/y	Jul	7.2%	7.6%
	11:00	EA	Ind. Prod. y/y	Jun	2.9%	4.0%
15-Aug	8:00	DE	GDP q/q	2Q P	0.7%	0.6%
		DE	GDP y/y	2Q P	-1.7 index	1.7%
	14:30	US	Retail Sales mom	Jul	0.4%	-0.2%
16-Aug	10:00	IT	GDP y/y	2Q P	1.5%	1.2%
		IT	GDP q/q	2Q P	0.4%	0.4%
	11:00	EA	GDP q/q	2Q P	0.6%	0.6%
		EA	GDP y/y	2Q P	2.1%	2.1%
17-Aug	n.a.	US	Ind. Prod. y/y	Jul		2.0%
	9:00	AT	Inflation y/y	Jul		1.9%
		AT	CPI m/m	Jul		0.1%
	11:00	EA	CPI m/m	Jul	-0.4%	-0.5%
		EA	CPI y/y	Jul	1.3%	1.3%
		EA	CPI Core y/y	Jul A	1.1%	1.1%
		EA	Inflation y/y	Jul F	1.3%	1.3%
	14:30	EA	Trade Balance	Jun		19705m
US		Jobless Claims	-	241.4 thd	244.0 thd	
18-Aug	8:00	DE	PPI y/y	-	2.2%	2.4%

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	2.0	1.8
<b>US</b>	2.6	2.9	1.5	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	2.1	1.9

<b>Interest rates</b>	<b>current</b>	<b>Sep.17</b>	<b>Dec.17</b>	<b>Mar.18</b>	<b>Jun.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>	0.38	0.60	0.80	1.00	1.20
<b>Swap 10Y</b>	0.81	0.90	1.10	1.30	1.50

<b>Interest rates</b>	<b>current</b>	<b>Sep.17</b>	<b>Dec.17</b>	<b>Mar.18</b>	<b>Jun.18</b>
<b>Fed Funds Target Rate*</b>	1.16	1.38	1.38	1.63	1.88
<b>3M Libor</b>	1.31	1.70	1.70	1.90	2.20
<b>US Govt. 10Y</b>	2.19	2.40	2.50	2.80	2.90
<b>EURUSD</b>	1.18	1.17	1.15	1.13	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

## Erste Group Research

Week ahead | Macro, Fixed Income | Eurozone, USA

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