

## Week ahead

### USA/Eurozone – Yellen and Draghi in Jackson Hole

### Eurozone – industry sentiment expected to cool slightly in August

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#### Heads of most important central banks set to speak next week

Next week, the annual **Symposium of the Federal Reserve Bank of Kansas City** will take place in **Jackson Hole**. This year's topic is "Fostering a Dynamic Global Economy". The topic is likely to be of secondary significance for the markets, as the center of attention will be on whether one of the high-profile lecturers will use this opportunity to indicate the future course of monetary policy.

ECB President Draghi will speak on Friday and, since the next monetary policy decision of the ECB is going to be made less than two weeks later, Draghi might utilize the opportunity. The key question for the markets is when the ECB could begin to reduce its monthly asset purchases. According to the latest statements made by the ECB Council, discussion on this will take place in autumn. From our point of view, this was a clear indication that a decision at the September meeting of the ECB Council is highly unlikely. We anticipate a decision being made no earlier than in October, most likely, however, in December.

Should **Draghi** make any statements regarding monetary policy next week, he should confirm the current course of the ECB and keep all options available for autumn. If he does set any emphasis, this is likely to be on a dampening of market expectations for a quick change in the purchase program. From our perspective, Draghi does not really have a choice in this regard. Statements in a different type of direction would increase yields on the bond market and trigger a rise of the euro – especially in comparison to the USD – which would certainly not be the intention of Draghi and the ECB. The account of the most recent ECB Council meeting, released this week, showed that the panel had already been concerned at a EURUSD rate of 1.16. Since then, the euro has risen slightly further. According to recent media reports, Draghi might choose not to comment on monetary policy at all. However, even that could be understood as an indirect indication that a decision regarding the purchase program is not to be expected in September, which should therefore further remove such expectations from the market. It would be difficult to imagine that the market would not be prepared for such a far-reaching immediate decision. Overall, our view is that the risks prevail that the expectations of the markets **for a quick reduction in the ECB's purchases of securities will be disappointed next week.**

Fed Chair **Yellen** will also give a speech at the symposium in Jackson Hole on Friday – on the topic of financial stability. Yellen could also use the opportunity to give guidance for the path of monetary policy. The next meeting of the US Federal Open Market Committee (FOMC) will take place on September 19-20. Alongside an interest rate decision, the committee is also likely to decide on a slow reduction of the Fed's portfolio of securities. Yellen could further support the markets in this assumption. For the further development of interest rates, the question as to whether

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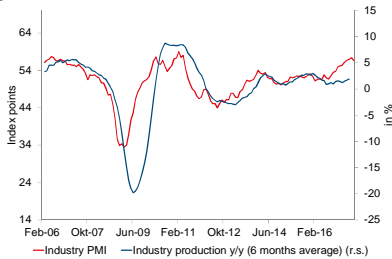
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Indications of past performance are no guarantee of a positive performance in the future

Yellen and the FOMC are holding to their assessment that the decline in the core inflation in recent months was mainly due to one-off effects and thus was temporary is likely to be crucial. As of now, we see no reason why rate-setters should change their opinion in this regard. In our view, the market currently underestimates the risks of a further rate hike in the US this year. Therefore, should Yellen give any indications, we **rather assume to see an increase in interest rate expectations on the market.** In any case, the markets will probably receive a wealth of information and volatility on the markets could increase at the end of the week.

### EA – Manufacturing PMI vs. industry production



Source: Bloomberg, Markit, Erste Group Reserach

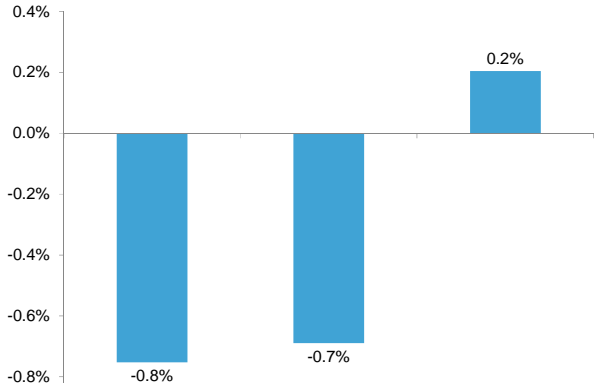
### EA – Industry sentiment expected to cool slightly in August

Next week (August 23), the first flash estimate for the industry sentiment of the Eurozone as well as Germany and France is going to be released. Since reaching a multi-year high of 57.4 index points in June, sentiment has already slightly cooled down to 56.6 index points in July. On a regional basis, Austria, the Netherlands and Germany delivered the highest index readings.

*For the month of August, we expect Eurozone industry sentiment to cool slightly further. Nevertheless, the global economic environment remains in good condition. Prices for industrial metals (an important economic indicator) have been steadily increasing since mid-June; for example, the price of copper is currently the highest it has been in years. The trend for Emerging Markets currencies is also positive and signals a sustained and continuing inflow of capital, which supports the growth prospects of Emerging Markets. Based on the first early indicators, we expect mainly stable GDP growth in the Eurozone of approx. 2.0% y/y in 3Q17. The most significant factor of uncertainty for the economy of the Eurozone is the current strength of the euro, which is likely to dampen export dynamics.*

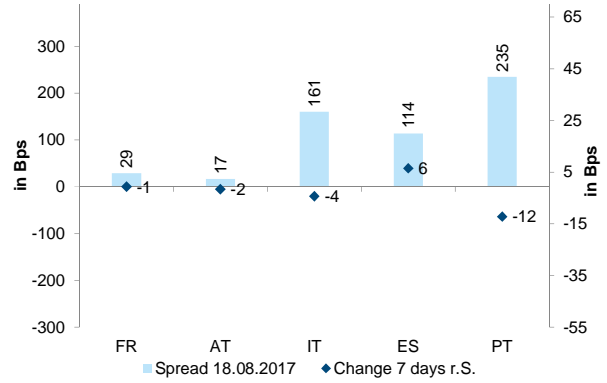
**Forex and government bond markets**

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



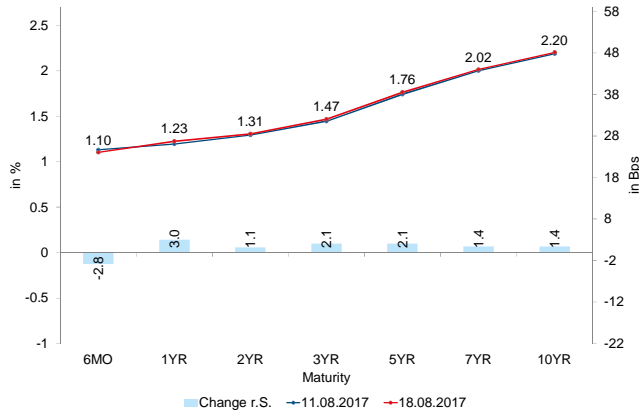
Source: Bloomberg, Erste Group Research

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



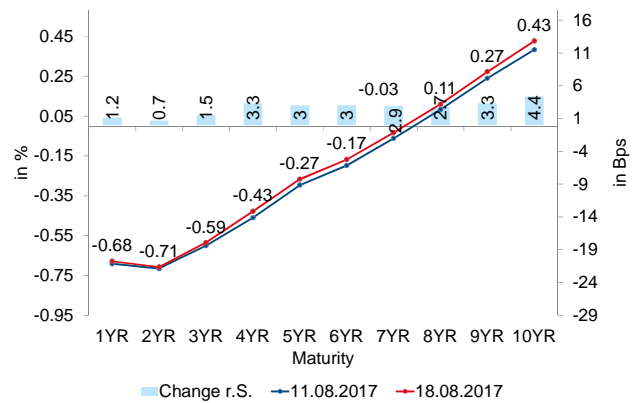
Source: Bloomberg, Erste Group Research

**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

18 August 2017

### Economic calendar

Date	Time	Ctry	Release	Period	Consens	Prior
18-Aug	8:00	DE	PPI y/y	Jul	2.2%	2.3%
	10:00	IT	CA Balance (m)	Jun		5257 m
		EA	CA Balance (m)	Jun		21 m
23-Aug	16:00	US	Univ. Michigan Index	Aug P	94.1 index	93.4 index
	9:00	FR	PMI Manufacturing	Aug P	54.6 index	54.9 index
	9:30	DE	PMI Manufacturing	Aug P	57.6 index	58.1 index
	10:00	EA	PMI Manufacturing	Aug P	56.2 index	56.6 index
	16:00	US	New Home Sales	Jul	609.2 thd	610.0 thd
24-Aug	14:30	EA	Consumer Conf.	Aug A	-1.8 index	-1.7 index
		US	Jobless Claims	-	241.0 thd	232.0 thd
	16:00	US	Existing Home Sales	Jul	5.5 m	5.5 m
25-Aug	8:00	DE	GDP q/q	2Q F	0.6%	0.6%
	9:00	DE	GDP y/y	2Q F	-1.7 index	2.1%
		AT	Ind. Prod. y/y	Jun		3.6%
	14:30	US	Durable Goods Orders	Jul P	-5.2%	6.4%

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>	0.41	0.60	0.80	1.00	1.20
<b>Swap 10Y</b>	0.83	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>	1.32	1.70	1.70	1.90	2.20
<b>US Govt. 10Y</b>	2.20	2.40	2.50	2.80	2.90
<b>EURUSD</b>	1.17	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

18 August 2017

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