

## Week ahead

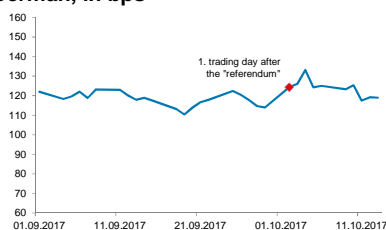
Geopolitics – Spain, Catalonia, US, Iran und Austria  
China – political pathmaking for next five years lies ahead

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### Spread of 10y Spanish Govt. over German, in bps



Source: Bloomberg, Erste Group Research

### Markets relaxed so far ahead of political decisions

This week, the Catalan head of government Puigdemont **refrained from declaring the independence** of Catalonia from Spain. However, his statements were ambiguous. Puigdemont suspended the declaration of independence and called for negotiations. The problem is that, from the side of Spanish Prime Minister Rajoy, the negotiations were tied to certain conditions. He set **a deadline** for Puigdemont to clarify by Monday whether he had declared independence or not. If yes, he would be given another three days to restore constitutional order. Otherwise, Article 155 of the Spanish constitution would be activated, which allows for the **central government to take over the administration of the region**. So, all this bears at least the potential for the situation to heat up again next week. Markets reacted to this week's developments with relief. However, anxiety had not been high before. The risk premium of Spanish government bonds returned to levels seen before the 'referendum' on October 1. Markets seem to be looking with **a lot of faith to the week ahead**. In the end, the development of the crisis will depend on the officials involved and if they manage to avoid another escalation, like on October 1, the day of the 'referendum'.

As the next deadline on October 15 arrives for **President Trump** to certify the compliance of Iran with the nuclear deal, a statement is scheduled for today. Under the terms of the deal, the US president certifies every three months whether **Iran** is in compliance or not. In the case of non-compliance, Congress must debate renewed sanctions and come to a decision within sixty days. Trump has already certified Iran's compliance twice. However, his latest statements have raised expectations that this time, the outcome will be different. Indeed, the media are reporting that the president **will not certify** compliance this time. Trump will reportedly **not ask for new sanctions**, but rather for Congress to establish trigger points that - if crossed - would prompt new sanctions. Should the outcome be as these media reports suggest, yet another potential source of geopolitical conflict would be added and uncertainty on markets would rise again.

**General elections in Austria** have not had any impact on financial markets so far.

### China – President Xi Jinping will consolidate his power

China's communist party will gather at their 19<sup>th</sup> party conference starting on October 18<sup>th</sup>. This meeting takes place only once in five years. Generally, important content related as well as personnel settings of the agenda for the next five years are determined in the course of the party conference. Due to China's importance for the global economy, this event is of special interest from the financial markets' perspective. At the

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

beginning, President Xi Jinping will present the 'political statement'. He takes stock and summarizes the political agenda for the upcoming five years. Observers expect that economic policy (most recently, the focus was on sustainability), the fight against corruption, as well as combating poverty will be the focal points. In terms of staffing, it is generally expected that acting President Xi Jinping will further expand his power by new appointments to the standing committee of the politburo.

**China – Bloomberg GDP-indicator (6-months moving average)**

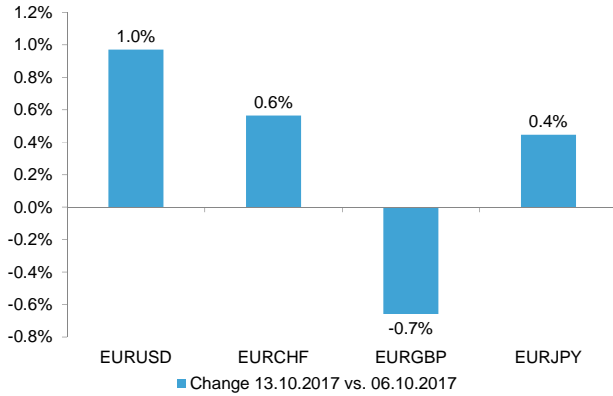


Source: Bloomberg, Erste Group Research

***From the economic point of view, we expect a continuation of the previous course, due to the acting president's rising grip on power. This means that the state influence on the economy will remain substantial, while the implementation of structural reforms (i.e. opening up of certain industries to competition) will be slow and rather limited. The GDP-growth target of around 6.5% per year will quite likely remain unchanged. However, based on our assessment, due to the rising share of services in the economy, as well as the demographic change, this ambitious growth target will be hard to achieve. Therefore, the implementation of reforms (especially the goods market) would be important in order to boost the growth prospects. Nevertheless, since early 2016, China's economy is enjoying an upswing, with an estimated growth pace close to 7%. Based on the far-reaching influence of the state, as well as the solid financial situation (comparatively low public debt level, current account surpluses, high positive net international investment position of the economy, low indebtedness in foreign currency), China has more than enough leeway for financial stimulus in the case of a slowdown of growth dynamics. We thus expect that, for the foreseeable future, China will continue to be a key pillar for global growth dynamics.***

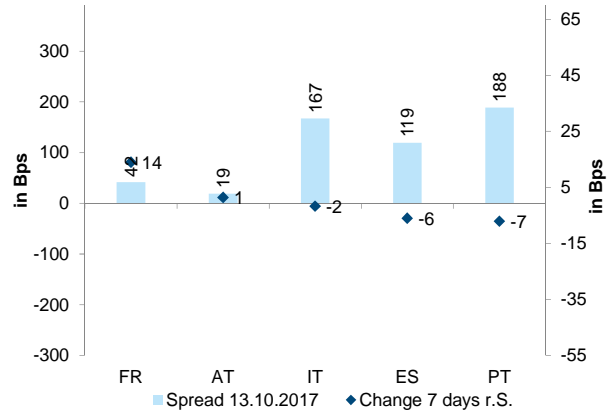
**Forex and government bond markets**

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



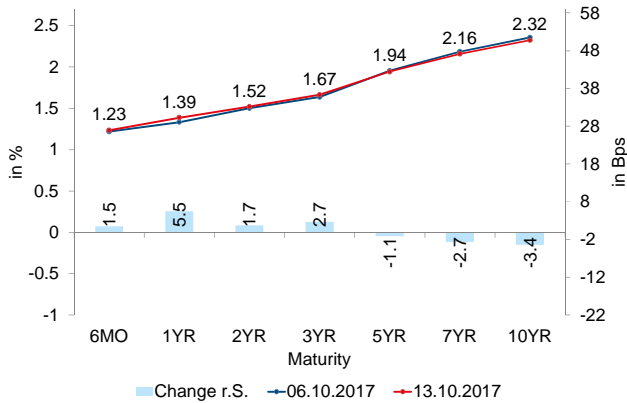
Source: Bloomberg, Erste Group Research

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



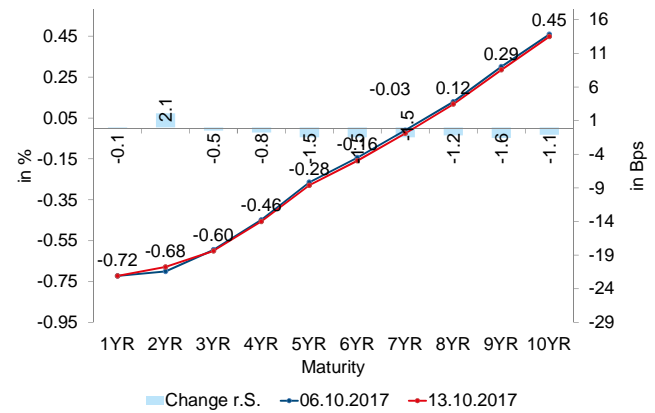
Source: Bloomberg, Erste Group Research

**US Treasuries yield curve**  
change last week



Source: Bloomberg, Erste Group Research

**DE Bund yield curve**  
change last week



Source: Bloomberg, Erste Group Research

**Economic calendar**

Date	Time	Ctry	Release	Period	Consens	Prior
13-Oct	n.a.	CN	CNY new loans	Sep	1190bn	1090bn
		CN	M2 yoy	Sep	9%	9%
	8:00	DE	Inflation y/y	Sep F	1.8%	1.8%
		DE	CPI m/m	Sep F		0.0%
	10:00	IT	Inflation y/y	Sep F	1.3%	1.3%
	14:30	US	Retail Sales mom	Sep	1.6%	-0.2%
		US	Inflation y/y	Sep	2.3%	1.9%
		US	CPI m/m	Sep	0.6%	0.4%
		16:00	US	Univ. Michigan Index	Oct P	95.2 index
16-Oct	3:30	CN	Inflation y/y	Sep	1.6%	1.8%
		CN	PPI y/y	Sep	6.4%	6.3%
	11:00	EA	Trade Balance	Aug		18574m
17-Oct	n.a.	US	Ind. Prod. y/y	Sep	-1.7 index	1.5%
	9:00	AT	Inflation y/y	Sep		2.1%
		AT	CPI m/m	Sep		-0.1%
	10:00	IT	Trade Balance	Aug		6560m
	11:00	EA	CPI m/m	Sep	0.4%	0.4%
		EA	Inflation y/y	Sep F	1.5%	1.5%
19-Oct	n.a.	CN	Ind. Prod. y/y	Sep	6.5%	6.0%
		CN	Unempl. Rate	3Q		4.0%
	14:30	US	Jobless Claims	Oct 14	254.1 thd	243.0 thd
20-Oct	8:00	DE	PPI y/y	Sep	2.9%	2.6%
		EA	CPI y/y	Jul	1.3%	1.3%
		EA	CPI Core y/y	Jul A	1.1%	1.1%
	10:00	IT	CA Balance (m)	Aug		8625 m
		EA	CA Balance (m)	Aug		25 m
	16:00	US	Existing Home Sales	Sep	5.3 m	5.4 m

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	2.1	2.2

<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>Dec.17</b>	<b>Mar.18</b>	<b>Jun.18</b>	<b>Sep.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>	0.44	0.70	1.00	1.20	1.30
<b>Swap 10Y</b>	0.89	1.00	1.30	1.50	1.60

<b>Interest rates</b>	<b>current</b>	<b>Dec.17</b>	<b>Mar.18</b>	<b>Jun.18</b>	<b>Sep.18</b>
<b>Fed Funds Target Rate*</b>	1.16	1.38	1.63	1.88	2.13
<b>3M Libor</b>	1.36	1.70	1.90	2.20	2.40
<b>US Govt. 10Y</b>	2.32	2.50	2.80	2.90	3.00
<b>EURUSD</b>	1.18	1.15	1.13	1.14	1.16

\*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

13 October 2017

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