

Week ahead

US – Markets unimpressed by labor market report and new Fed chair Emerging Markets – Capital keeps flowing in

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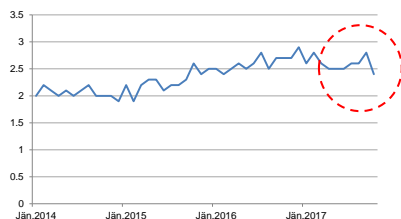
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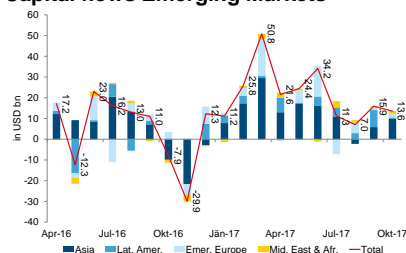
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Average hourly earnings y/y in %



Source: BLS, Erste Group Research

Capital flows Emerging Markets



Source: IIF, Erste Group Research

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

Further improvement on labor market, new Fed chair should offer continuity

At first glance, non-farm payroll growth fell short of expectations (+313,000) and reached +261,000 in October, offsetting the impacts of Hurricanes Irma and Harvey last month. The September data was revised from -33,000 to +18,000 and August from +169,000 to +208,000. Therefore, the two-month payroll net revision amounted to +90,000. Despite a further decline of the unemployment rate to 4.1%, average hourly earnings showed a lower increase of 2.4% y/y compared to last month's 2.8% y/y.

Today's labor market report reflects once more the ongoing recovery, although wage dynamics still lack a convincing upward trend. There was barely any market reaction, as the release just confirms the widespread expectation of a rate hike in December. Yesterday, President Trump announced his nomination of Jerome Powell as the next Fed chair. Powell is currently the Fed governor and he has worked alongside Janet Yellen for the last five years, supporting her decisions. Therefore, the current monetary policy stance, with gradual, data-driven interest rate normalization, should be continued. His academic background is in law (and not economics) and it is said that he might introduce some regulatory relief. In our view, this nomination offers continuity and thus the financial market reaction was subdued.

Emerging Markets – Capital inflows support growth outlook

Based on first estimates from the IIF, the positive capital inflows destined for Emerging Markets kept going in October, with a volume of around USD 13.6bn. On a regional basis, especially Asia (mainly India and Indonesia) and Latin America benefited the most in September and October.

The continued capital flows into Emerging Markets are also reflected in a persistent good currency development in many of these countries. In addition, the capital flows are enhancing the growth prospects of the corresponding countries, in our assessment. The Eurozone's export growth, and hence ultimately the entire Eurozone economy, should also benefit from the good economic condition of Emerging Markets over the coming months. In 3Q17, the Eurozone again slightly exceeded expectations with GDP growth of 2.5% y/y. France, for instance, registered the highest growth rate within a quarter since 2011, with GDP growth of 2.2% (based on consumption and investments) in 3Q17. This positive economic momentum should facilitate further reform measures for Macron. Therefore, at present, it is above all the weak dynamics in core inflation (which decreased from +1.1% y/y to +0.9% y/y in October) that remain the primary problem from the Eurozone's perspective. Especially

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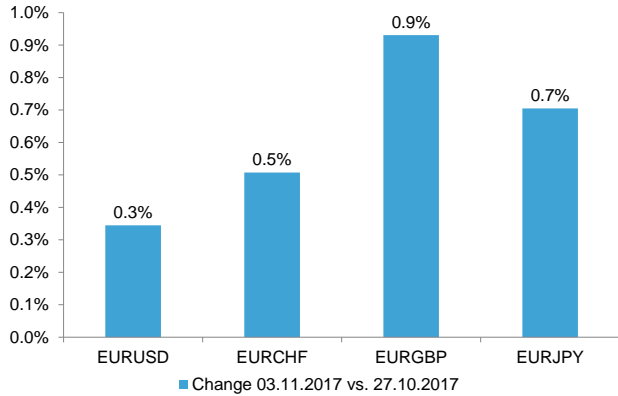
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in France, the level of core inflation is particularly low (+0.6% y/y in September), though this should change over the coming months, due to the current economic dynamics, in our assessment.

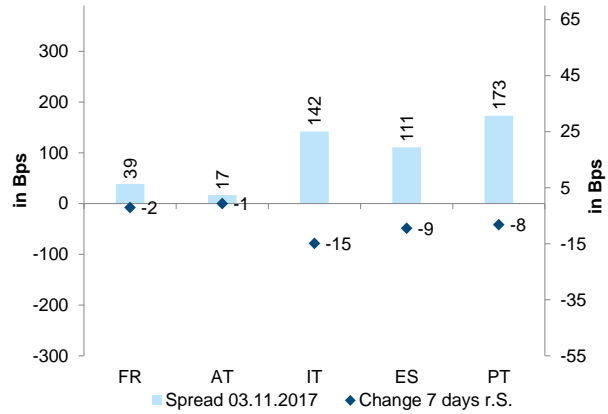
Forex and government bond markets

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



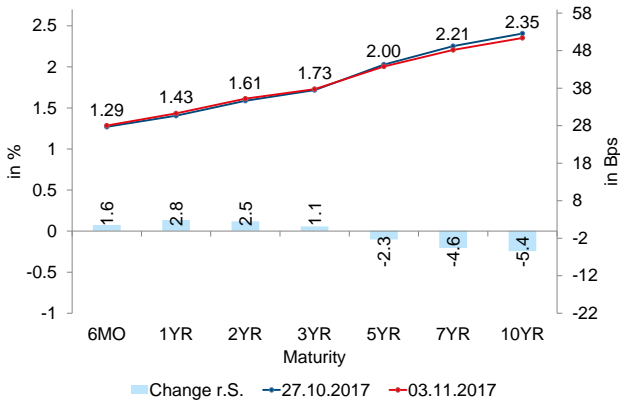
Source: Bloomberg, Erste Group Research

Eurozone – spreads vs. Germany
10Y government bonds



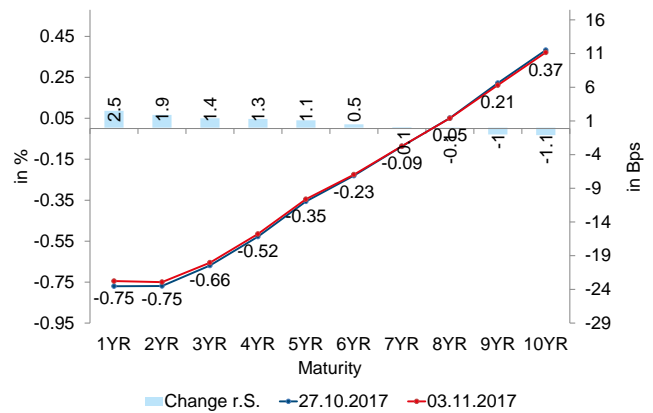
Source: Bloomberg, Erste Group Research

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
3-Nov	13:30	US	Wages y/y	Oct	2.7%	2.9%
		US	Trade Balance	Sep	-43m	-42m
		US	Unempl. Rate	Oct	4.2%	4.2%
	15:00	US	Chg. Non-Farm Payrolls	Oct	302.1 thd	-33.0 thd
		US	ISM Non-Manufacturing	Oct	58.4 index	59.8 index
		US	Durable Goods Orders	Sep F	1.5%	2.2%
6-Nov	11:00	EA	PPI y/y	Sep	2.8%	2.5%
7-Nov	n.a.	CN	Forex Reserves	Oct	3109bn	3109bn
	8:00	DE	Ind. Prod. y/y	Sep	-0.9%	2.6%
	11:00	EA	Retail Sales y/y	Sep	3.2%	1.2%
8-Nov	8:45	FR	Trade Balance	Sep		-4514m
		FR	CA Balance (m)	Sep		-1468 m
9-Nov	n.a.	FR	Cap Util.	Oct	-1.7 index	80.1%
	3:30	CN	Inflation y/y	Oct	1.7%	1.6%
	8:00	CN	PPI y/y	Oct	6.6%	6.9%
		DE	CA Balance (m)	Sep		18 m
	14:30	DE	Trade Balance	Sep	24m	20m
10-Nov	14:30	US	Jobless Claims	-	235.6 thd	229.0 thd
	n.a.	CN	CNY new loans	Oct	818bn	1270bn
	8:45	CN	M2 yoy	Oct	9%	9%
		FR	Ind. Prod. y/y	Sep		1.1%
	10:00	IT	Ind. Prod. y/y	Sep		5.7%
	16:00	US	Univ. Michigan Index	Nov P	100.0 index	100.7 index
	n.a.	CN	Ind. Prod. y/y	Oct	6.3%	6.6%
	8:00	DE	GDP q/q	3Q P		0.6%

Source: Bloomberg, Erste Group Research

FORECASTS¹⁾

GDP	2014	2015	2016	2017	2018
Eurozone	1.2	2.0	1.8	2.0	1.8
US	2.6	2.9	1.5	2.1	2.2

Inflation	2014	2015	2016	2017	2018
Eurozone	0.5	0.1	0.2	1.5	1.5
US	1.6	0.1	1.2	2.1	1.9

Interest rates	current	Dec.17	Mar.18	Jun.18	Sep.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	0.37	0.60	0.80	1.00	1.10
Swap 10Y	0.84	0.90	1.10	1.30	1.40

Interest rates	current	Dec.17	Mar.18	Jun.18	Sep.18
Fed Funds Target Rate*	1.16	1.38	1.63	1.88	2.13
3M Libor	1.38	1.70	1.90	2.20	2.40
US Govt. 10Y	2.35	2.50	2.80	2.90	3.00
EURUSD	1.16	1.15	1.13	1.14	1.16

*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

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