Week ahead

US - Markets waiting for new FOMC interest rate forecasts
US - Will the US Congress agree on a budget?
EZ - Slightly weaker industry sentiment expected for March

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FOMC meeting will bring rate hike and new estimates for 2018 and beyond

The Federal Open Market Committee (FOMC) will next week decide upon its future monetary policy stance. A rate hike seems almost certain and is already entirely anticipated by the markets. As in every quarter, the latest survey among the committee members will also be released.

In contrast to the rate hike next week, the outcome of the survey is more uncertain. Committee members will be asked to give their assessment of the development of major macro variables, among other things the federal funds rate. At the last survey in December, the median estimate corresponded to three rate hikes for 2018. However, the environment has changed since then. While tax cuts had already been foreseeable in December, the announcement of large-scale public sector spending increases at the beginning of February came as a surprise. This is not negligible for the determination of monetary policy, as the fiscal stimulus, expected economic growth and thereby the inflation risks have risen. How the new risks will be assessed by the committee members will become visible next Wednesday. Further, former Fed chair Yellen will no longer attend the meeting. Impact on the outcome is unlikely, but possible in a universe of only 15 votes.

It is thus entirely possible that the median of given forecasts will go up and thus will end at four rate hikes this year in total. Currently, futures anticipate a probability of little more than 25% for a fourth rate hike this year, so it would not entirely be a surprise from the market's perspective.

Still, we reaffirm our forecast of three rate hikes for the present year and also expect this to be the most likely outcome of the FOMC survey. The reason for that is not that the US economy could not withstand a fourth rate hike – it certainly could from our perspective, and we have long taken the view that the Fed proceeds too slowly. However, to change the median it would be necessary for at least four committee members formerly expecting three rate hikes to increase their estimates. Such a radical plan seems rather unlikely to us. At the same time, we reiterate that the risks for the development of the central bank rate this year are clearly tilted to the upside.

US Congress starts next attempt to agree on budget

Next Friday, the next deadline for the US Congress to agree on a budget looms once again. After the deadlines in September, December, January and February, the struggle to provide legislation for public expenditures right up until the last minute (and beyond) has already become a routine. However, it should be noted that the threshold of pain among the

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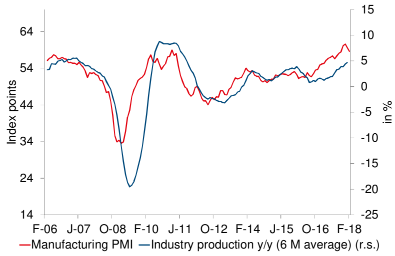
members of Congress has decreased in the process. In September, an agreement was reached a few weeks before the deadline, in December just in time and in January and February there were already limited short-term suspensions of payments.

However, this time, the chances of reaching an agreement look somewhat better. In mid-February, both parties agreed on an expenditure framework for the next two years. What remains to be resolved is the allocation of the money. It even seems possible that the parties could agree on a budget until the end of September. The other already previously used option - leaving the expenses unchanged and setting yet another deadline before or after partial suspension of payments occur - certainly remains on the table as well. In any case, as in the past, the markets likely will observe the political debate with composure. An escalation of the situation, which would trigger a reaction of the market, is hard to imagine at the moment.

Slightly weaker manufacturing PMI for March expected, global environment remains supportive

Manufacturing PMI vs. industry production



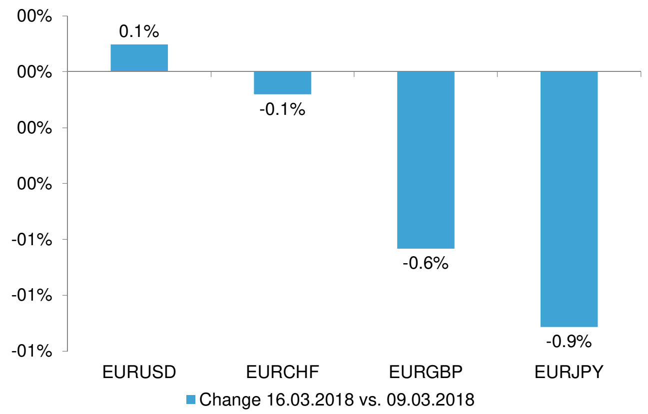
Source: Bloomberg, Erste Group Research

Next week (March 22), the first flash estimate of manufacturing PMI for March for the Eurozone, Germany and France will be released, In February, sentiment declined slightly; however, with an index reading of 58.6 points, it remained close to its historic highs. Even though the growth pace of new orders and production eased slightly, the growth pace of the Eurozone's manufacturing sector remained robust. On the regional level, the Netherlands, Germany and Austria remained on top.

For March, we expect a slightly weaker reading for Eurozone industry sentiment. *Nevertheless, the prolonged uptrend of commodity prices signals unchanged robust global demand. The global world trade outlook indicator from the WTO gained slightly in dynamics in 1Q18, signaling a continuation of the global trade upswing. In this environment we expect that the positive growth dynamics of Eurozone industry will continue and should in turn have a positive impact on the dynamic of investments in 2018. Overall, we forecast GDP growth of +2.4% for the Eurozone in 2018.*

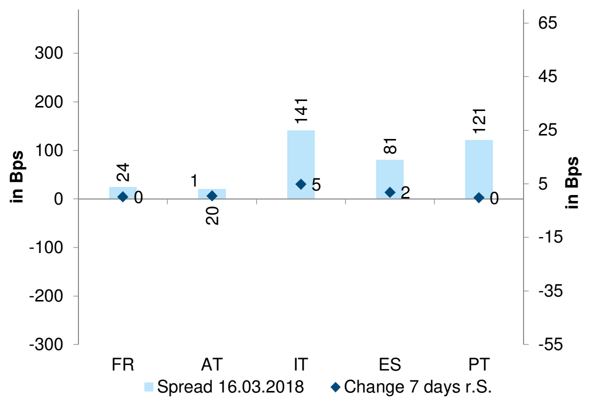
Forex and government bond markets

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



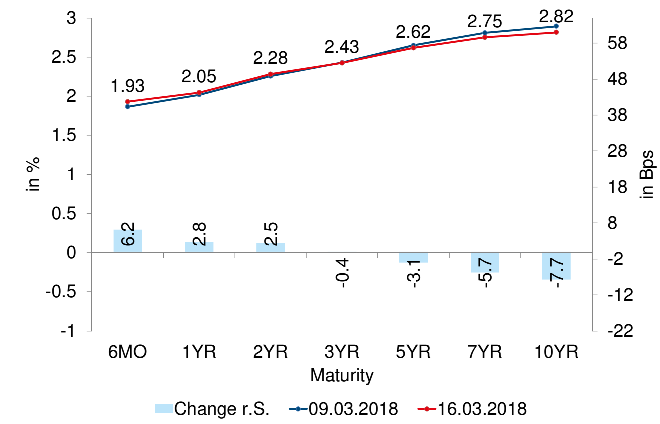
Source: Bloomberg, Erste Group Research

Eurozone – spreads vs. Germany
10Y government bonds



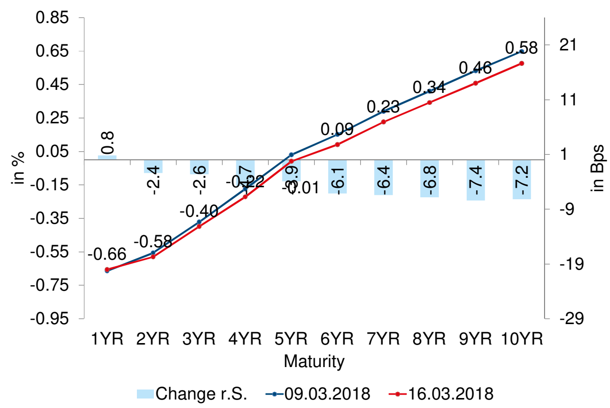
Source: Bloomberg, Erste Group Research

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
16-Mar	n.a.	US	Ind. Prod. y/y	Feb		3.7%
	9:00	AT	Inflation y/y	Feb		1.8%
		AT	CPI m/m	Feb		-0.7%
	10:00	IT	Inflation y/y	Feb F	0.7%	0.7%
	11:00	EA	CPI m/m	Feb	0.2%	0.2%
		EA	Wages y/y	4Q		1.6%
		EA	Inflation y/y	Feb F	1.2%	1.2%
	15:00	US	Univ. Michigan Index	Mar P	99.3 index	99.7 index
19-Mar	10:00	IT	Ind. Prod. y/y	Jan		4.9%
	11:00	IT	Trade Balance	Jan		5253m
		EA	Trade Balance	Jan		23757m
20-Mar	8:00	DE	PPI y/y	Feb	1.5%	2.1%
	16:00	EA	Consumer Conf.	Mar A	0.0 index	0.1 index
21-Mar	13:30	US	CA Balance (q)	4Q	-127 m	-101 m
	15:00	US	Existing Home Sales	Feb	5.4 m	5.4 m
	19:00	US	Target Rate	-	1.74%	1.50%
22-Mar	9:00	FR	PMI Manufacturing	Mar P		55.9 index
	9:30	DE	PMI Manufacturing	Mar P	59.4 index	60.6 index
	10:00	IT	CA Balance (m)	Jan		5872 m
		EA	CA Balance (m)	Jan		30 m
		EA	PMI Manufacturing	Mar P	58.1 index	58.6 index
	13:30	US	Jobless Claims	Mar 17	227.3 thd	226.0 thd
23-Mar	9:00	AT	Ind. Prod. y/y	Jan		3.5%
	13:30	US	Durable Goods Orders	Feb P	1.6%	-3.6%
	15:00	US	New Home Sales	Feb	620.5 thd	593.0 thd

Source: Bloomberg, Erste Group Research

FORECASTS[1])

GDP	2015	2016	2017	2018	2019
Eurozone	2.0	1.8	2.3	2.4	2.2
US	2.9	1.5	2.3	2.8	2.2

Inflation	2015	2016	2017	2018	2019
Eurozone	0.1	0.2	1.5	1.4	1.6
US	0.1	1.2	2.2	2.2	1.9

Interest rates	current	Jun.18	Sep.18	Dec.18	Mar.19
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	0.58	0.70	0.90	1.10	1.30
Swap 10Y	1.01	1.00	1.20	1.40	1.60

Interest rates	current	Jun.18	Sep.18	Dec.18	Mar.19
Fed Funds Target Rate*	1.42	1.88	2.13	2.13	2.38
3M Libor	2.15	2.20	2.40	2.40	2.70
US Govt. 10Y	2.82	3.00	3.10	3.20	3.30
EURUSD	1.23	1.15	1.14	1.13	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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