

Week ahead

ECB Governing Council – Decision on decision next week EZ – Will the manufacturing sentiment bottom out in April?

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Will the ECB Governing Council restate the monetary policy in June or July?

On Thursday of next week, the ECB Governing Council will convene. We do not expect changes to the key issues of the monetary policy - monetary policy instruments or the crucial statements about the further development, i.e. the guidance. However, a decision on the matter in the summer is inevitable because the minimum duration of the ECB's bond purchases is set until September. So, the ECB Governing Council must tell the market **either in June or July** what will happen after September.

The issue regarding at **which meeting a decision will be made** will be the most important outcome of the meeting next week. It is not the first time that the ECB is facing such a decision. In the autumn of last year, the ECB Governing Council had to decide upon bond purchases after December. Back then, the decision was made in October. We took a look at the communication of the ECB at that time in order to obtain hints regarding the date of the decisive meeting this summer. At the July meeting last year, which corresponds to the April meeting this year, the statements remained very general and Draghi only stated that the further strategy would be discussed in the autumn. At the meeting in September, Draghi became more specific and said that different scenarios regarding the duration and extent of the purchasing program had been discussed. At the meeting in October, the decision to halve the purchases of securities from January 2018 onwards was made. This would correspond to the July date this year. The problem is, though, that, prior to that, the ECB Governing Council had already committed itself during the meeting in December 2016 about the further development of the bond purchases after March 2017, which would correspond time-wise to the June meeting this year. At that time, the decision was tied to the new forecasts of ECB economists, which would be another argument for the decision to take place at the June meeting this year.

*In total, there is **no recognizable pattern** in terms of how long in advance the ECB Governing Council informs the markets about the further plans regarding the purchase program. However, this matter should be resolved next week. If Draghi remains rather nebulous regarding this issue and only announces the beginning of discussions, this would clearly indicate a decision in July. However, if the statements become more concrete and discussions on options and scenarios are mentioned by Draghi, this would be a strong indication for a decision in June.*

*This is of fundamental importance for the markets because the ECB Governing Council **needs to adapt its monetary policy stance**. Not only will the duration and (if necessary) volume of the net bond purchases be decided, there probably also has to be a new guidance for markets. At the moment, we expect the ECB Governing Council to already decide at the June meeting to end the bond purchases in September, but*

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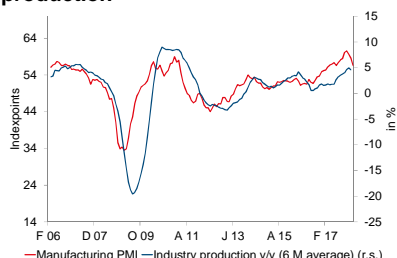
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Indications of past performance are no guarantee of a positive performance in the future

simultaneously to signal to the markets that the first interest rate hike will take some time (we expect summer 2019).

EZ – Manufacturing sector sentiment expected to decline slightly in April

EZ Manufacturing-PMI vs. industry production



Source: Bloomberg, Erste Group Research

Next week (April 23) the first flash estimate of manufacturing PMI data for the Eurozone, Germany and France for April will be released. In December 2017, Eurozone manufacturing sentiment almost climbed to an all-time high level of 60.6 index points. Throughout 1Q18, manufacturing sentiment cooled towards an index level of 56.6. The Netherlands, Germany and Austria delivered the highest index readings in March. Overall, these levels still indicate robust growth of the Eurozone's manufacturing sector; however, the growth dynamics will quite likely slow down slightly in the coming months.

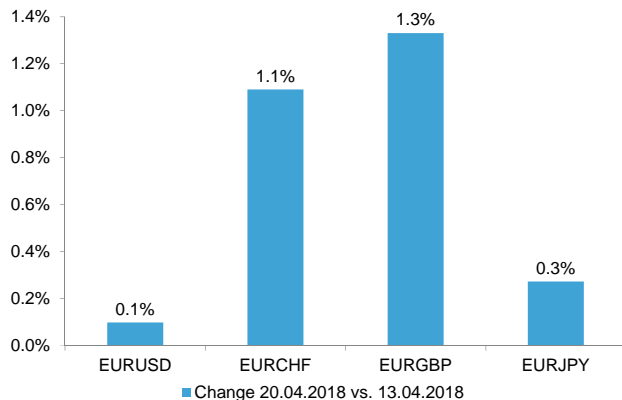
*There are currently several factors generating uncertainty that might weigh on manufacturing sentiment. For one thing, we expect that the trade tensions between the US and its main trading partners could cause uncertainty among businesses. Furthermore, in early April the US imposed sanctions against Russian companies, businessmen and politicians, which led to additional volatility on financial markets. **We thus expect a further slight weakening of Eurozone manufacturing PMI data in April.** Nevertheless, the growth outlook for the Eurozone and its main trading partners remains favorable. China recently reported sustained high GDP growth of +6.8% y/y for 1Q18. Prices for economically sensitive commodities (such as metals and industrial raw materials) continued to rise in April, thus indicating sustained robust demand. Emerging Markets already benefited in March from capital inflows of around USD 8bn (after slight outflows in February), which supports their outlook for growth. This environment should support sustained robust export growth for the Eurozone. **We continue to expect unchanged stable GDP growth of +2.4% for the Eurozone for 2018.***

Forex and government bond markets

Exchange rates EUR: USD, CHF, GBP and JPY

change last week

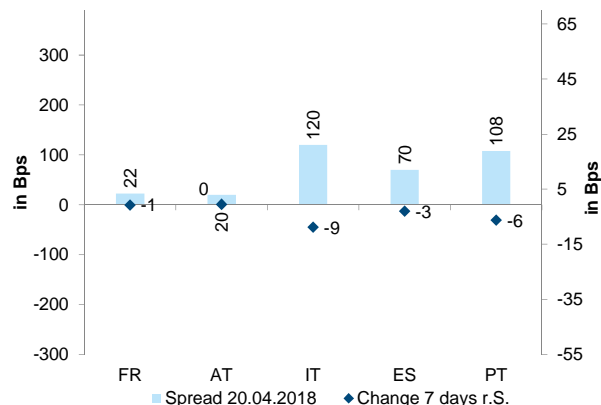
(+ stronger euro / - weaker euro)



Source: Bloomberg, Erste Group Research

Eurozone – spreads vs. Germany

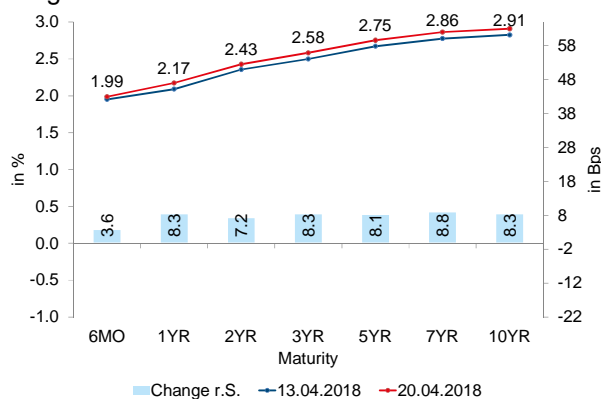
10Y government bonds



Source: Bloomberg, Erste Group Research

US Treasuries yield curve

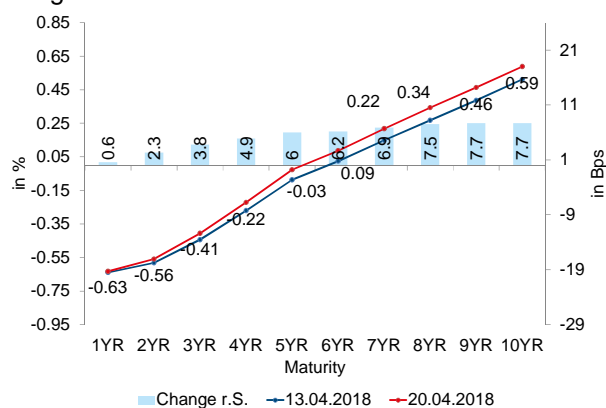
change last week



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
20-Apr	8:00	DE	PPI y/y	Mar	1.6%	1.9%
	16:00	EA	Consumer Conf.	Apr A	-0.2 index	0.1 index
23-Apr	9:00	FR	PMI Manufacturing	Apr P		53.7 index
	9:30	DE	PMI Manufacturing	Apr P	57.4 index	58.2 index
	10:00	EA	PMI Manufacturing	Apr P	55.9 index	56.6 index
	16:00	US	Existing Home Sales	Mar	5.5 m	5.5 m
24-Apr		US	New Home Sales	Mar	625.0 thd	618.0 thd
		US	Consumer Conf.	Apr	125.8 index	127.7 index
25-Apr	9:00	AT	Ind. Prod. y/y	Feb		6.1%
26-Apr	13:45	EA	Target Rate (lending)	-	-0.40%	-0.40%
		EA	Target Rate	-		0.00%
	14:30	US	Durable Goods Orders	Mar P	1.3%	3.0%
		US	Jobless Claims	-	228.7 thd	232.0 thd
27-Apr	n.a.	FR	Consumer Conf.	Apr		-5.9 index
		DE	Consumer Conf.	Apr		6.1 index
		IT	Consumer Conf.	Apr		-5.6 index
		AT	Consumer Conf.	Apr		12.5 index
		DE	Retail Sales y/y	Mar	0.9%	1.3%
		FR	GDP y/y	1Q A	2.3%	2.5%
	7:30	FR	GDP q/q	1Q A	0.5%	0.7%
		FR	CPI m/m	Apr P		1.1%
		FR	PPI y/y	Mar		1.5%
		FR	Inflation y/y	Apr P		1.7%
	9:00	AT	GDP q/q	1Q P		0.8%
		AT	GDP y/y	1Q P		2.9%
	10:00	AT	PMI Manufacturing	1Q P		58.0 index
		IT	PPI y/y	1Q P		1.8%
	11:00	EA	Business Conf.	1Q P	111.9 index	112.6 index
	14:30	US	GDP q/q	Mar	2.1%	2.9%
	16:00	US	Univ. Michigan Index	Apr	98.1 index	97.8 index

Source: Bloomberg, Erste Group Research

FORECASTS¹⁾

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	1.00	1.00	1.20	1.40	1.60

Interest rates	current	Jun.18	Sep.18	Dec.18	Mar.19
Fed Funds Target Rate*	1.69	1.88	2.13	2.13	2.38
3M Libor	2.36	2.20	2.40	2.40	2.70
US Govt. 10Y	2.90	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

Erste Group Research

Week ahead | Macro, Fixed Income | Eurozone, USA

20 April 2018

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Published by:

Erste Group Bank AG
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Commercial Register No: FN 33209m
Commercial Court of Vienna

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