

## Week ahead

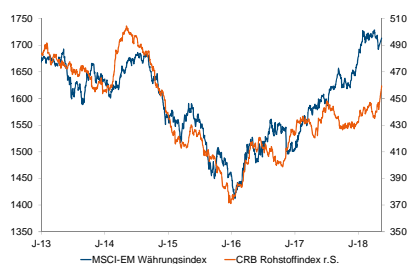
### EZ - Industry sentiment to decline further in May? Bond market - Nervousness on US treasury market on rise

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#### Emerging Markets currency index vs. commodity prices



Source: Bloomberg, Erste Group Research

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

#### EZ – Industry sentiment expected at stable level in May

Next week (May 23), the first flash estimate for industry PMI data will be released for Germany, France and the Eurozone. In April, the trend indicator once more declined marginally, to 56.2 index points. On a regional level, sentiment remained highest in the Netherlands, Germany and Austria in April. The drop in sentiment was mainly driven by the decline in order inflow. However, this is no surprise after the previous boom phase. The recent weakness of the euro vs. the dollar might once again offer support, especially to export orders in the near future.

**After the deterioration of sentiment during the first four months in 2018, we expect stabilization of the Eurozone's industry sentiment in May.** Despite volatility on financial markets, the global economic environment remains solid. Emerging Market currencies recorded almost stable development despite the recent dollar strength and the fact that commodity prices rose to new annual highs in mid-May (due to the oil price development). After a period of weak growth in 1Q18, we expect growth acceleration in 2Q18 within the Eurozone. The weakness in foreign trade should especially be adjusted in this environment. **Unchanged, we expect Eurozone GDP to grow by approx. +2.4% in 2018.**

#### US treasuries and Italian government bonds under pressure (this week)

This week, the bond markets began to stir, especially in the US. **US treasury yields** increased markedly and all maturities reached multiannual highs. This movement was triggered by the release of April retail sales data. This market reaction came as a surprise, as the growth rates conformed to market expectations to a great extent. However, the data did display good development for the second month in a row and thus confirmed expectations of a recovery after very weak retail sales data from December to February. Besides, **nervousness is justified** on the market. Even though the inflation data does not reveal any clear indications of a pickup so far, the environment justifies the market movement, in our view. The persistently sound economy, combined with a very low unemployment rate, represents an inflation risk. Simultaneously, the yield level is still low by historical standards and thus provides hardly any buffers for negative surprises on the part of inflation development.

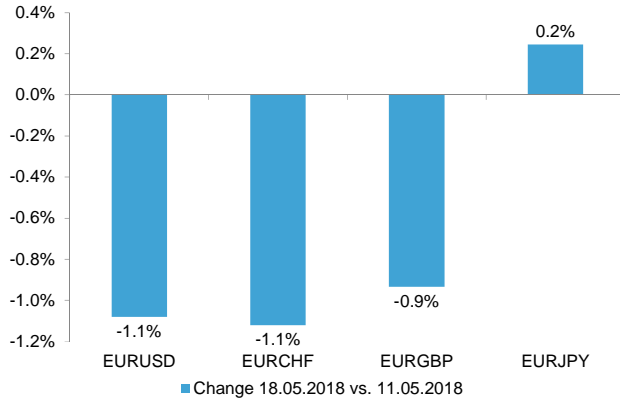
*We maintain our forecast of moderately rising yields in the upcoming quarters. But we are currently evaluating our assessment of the US treasury market with regard to a possible elevation of our yield forecast.*

Market movements were also noticeable for Eurozone government bonds. The yield of the **10-year German Bund** bond rose, though significantly less than its US counterpart. The US treasury bond reached its highest reading since 2014, whereas the corresponding 10-year German

government bond still remained clearly behind this year's high. **Italian government bonds** recorded significant movements. Key points of the government program from the presumable new government caused upheaval on the markets. An EU-critical position combined with an increase in expenditure led to rising yield premiums of Italian government bonds. However, the yield markup is still lower than it was a year ago. Further development will depend on the political news flow.

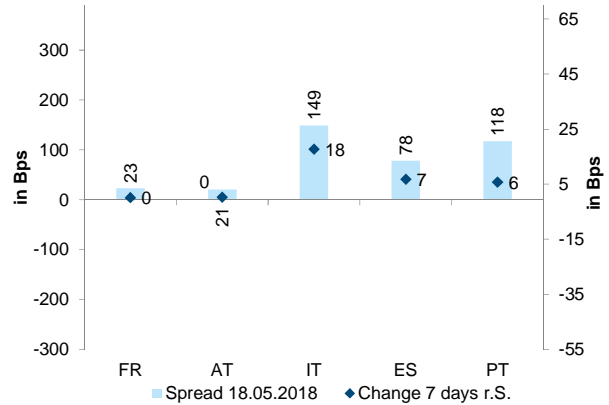
**Forex and government bond markets**

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



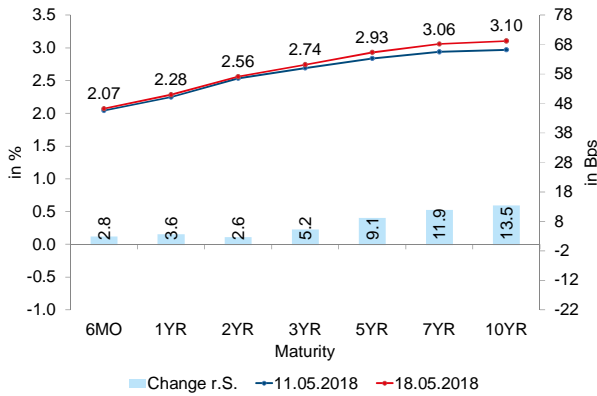
Source: Bloomberg, Erste Group Research

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



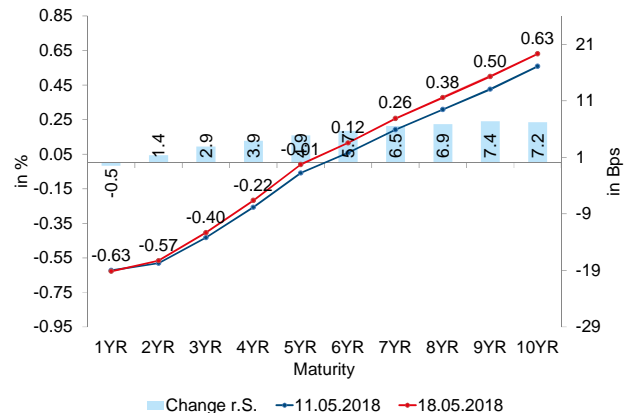
Source: Bloomberg, Erste Group Research

**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
18-May	8:00	DE	PPI y/y	Apr	1.8%	2.0%
	10:00	IT	CA Balance (m)	Mar		839 m
		EA	CA Balance (m)	Mar		35 m
23-May	11:00	EA	Trade Balance	Mar	21m	20988m
	9:00	FR	PMI Manufacturing	May P	53.8 index	53.8 index
	9:30	DE	PMI Manufacturing	May P	57.9 index	58.1 index
	10:00	EA	PMI Manufacturing	May P	56.1 index	56.2 index
24-May	16:00	US	New Home Sales	Apr	679.3 thd	694.0 thd
		EA	Consumer Conf.	May A	0.3 index	0.4 index
	8:00	DE	GDP q/q	1Q F	0.3%	0.3%
24-May	14:30	DE	GDP y/y	1Q F	2.3%	2.3%
		US	Jobless Claims	May 19	215.8 thd	222.0 thd
	16:00	US	Existing Home Sales	Apr	5.6 m	5.6 m
25-May	9:00	AT	Ind. Prod. y/y	Mar		5.1%
	14:30	US	Durable Goods Orders	Apr P	-1.1%	2.6%
	16:00	US	Univ. Michigan Index	May F	98.7 index	98.8 index
27-May	n.a.	DE	Retail Sales y/y	Apr		1.3%

Source: Bloomberg, Erste Group Research

**FORECASTS<sup>1)</sup>**

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

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

<b>Interest rates</b>	<b>current</b>	<b>Jun.18</b>	<b>Sep.18</b>	<b>Dec.18</b>	<b>Mar.19</b>
<b>ECB MRR</b>	0.00	0.00	0.00	0.00	0.00
<b>3M Euribor</b>	-0.33	-0.40	-0.40	-0.40	-0.40
<b>Germany Govt. 10Y</b>	0.63	0.70	0.90	1.10	1.30
<b>Swap 10Y</b>	1.08	1.00	1.20	1.40	1.60

<b>Interest rates</b>	<b>current</b>	<b>Jun.18</b>	<b>Sep.18</b>	<b>Dec.18</b>	<b>Mar.19</b>
<b>Fed Funds Target Rate*</b>	1.70	1.88	2.13	2.13	2.38
<b>3M Libor</b>	2.33	2.20	2.40	2.40	2.70
<b>US Govt. 10Y</b>	3.10	3.00	3.10	3.20	3.30
<b>EURUSD</b>	1.18	1.15	1.14	1.13	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

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Week ahead | Macro, Fixed Income | Eurozone, USA  
18 May 2018

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