

WEEK AHEAD | INFLATION | EZ

# Is inflation falling further?

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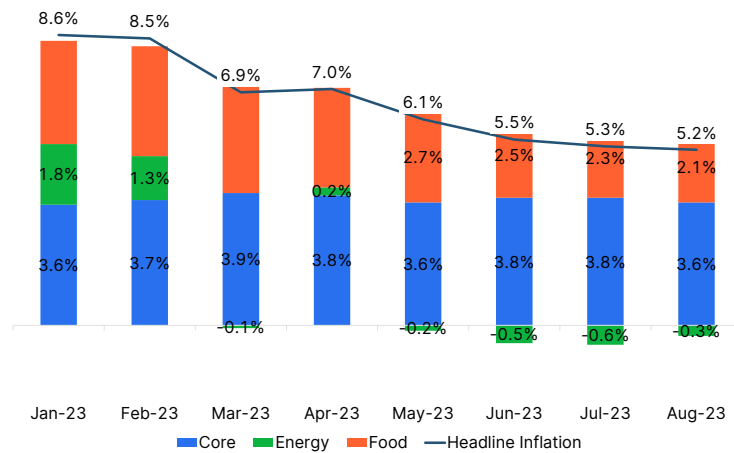
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## EZ Inflation for September expected

Next week (September 29), a first flash estimate of Eurozone inflation in September is expected. In August, inflation fell slightly to 5.2%. While the downward pressure from energy prices has eased slightly, the momentum of food prices has continued to decline. Core inflation also fell slightly for the first time in a while.

## Core inflation declines slightly for the first time in August

EZ Inflation weighted by components Y/Y



Source: Eurostat, Erste Group Research

The recent rise in the oil price represents an uncertainty factor for inflation in September. As a result, energy inflation could gain further slight momentum. By contrast, the downward trend in food prices should continue. In addition, core inflation (inflation adjusted for energy and food prices) is expected to decline again slightly. This is mainly due to a special statistical effect from Germany, as a result of which core inflation in Germany should fall noticeably in September. Overall, the inflation rate in September should fall compared with August.

From the ECB's perspective, further progress in bringing core inflation down remains important for the future direction of monetary policy. The goods component of core inflation has already been on a visible downward trend for several months. Due to the sharp drop in producer prices, this trend is likely to continue in the coming months. By contrast, services price momentum has initially stabilized at a high level over the past few months.

Now that economic momentum has also weakened significantly in the services sector, the likelihood of declining inflationary momentum in services in the coming months has increased. The already declining trend in hourly labor costs also points to falling momentum in services prices in the near future. In 2Q23, these were down for the second quarter in a row, rising by just 4.5% y/y. Due to the personnel intensity, the development of wage and labor costs

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Note: Information on past performance is not a reliable indicator of future performance.

is particularly important for the further development of prices in the services sector. Based on these factors, we also expect prices for service providers to lose momentum in the near future.

## Economic calendar

| Ctry            | Date   | Time  | Release       | Period | Consens | Prior      |
|-----------------|--------|-------|---------------|--------|---------|------------|
| <b>Eurozone</b> |        |       |               |        |         |            |
| DE              | 25-Sep | 10:00 | Ifo Index     | Sep    |         | 85.7 Index |
| EA              | 29-Sep | 11:00 | CPI flash y/y | Sep    | 4.6%    | 5.3%       |
| <b>USA</b>      |        |       |               |        |         |            |
|                 | 28-Sep | 14:30 | GDP q/q       | 2Q T   | 2.3%    | 2.1%       |
|                 | 29-Sep | 14:30 | PCE Deflator  | Aug    | 3.5%    | 3.3%       |

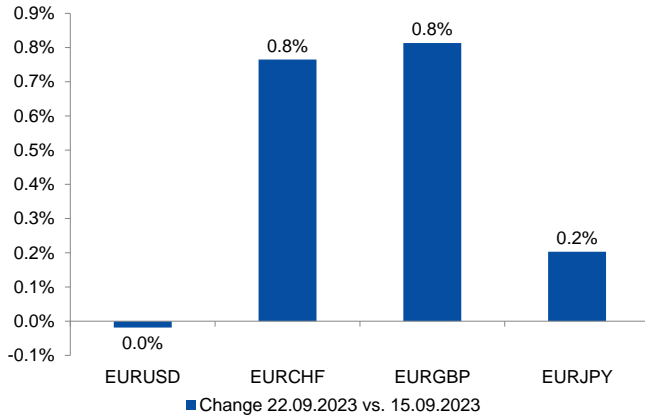
## Central bank events

|            | Date   | Time  | Representative    | Forum      | Location                    |
|------------|--------|-------|-------------------|------------|-----------------------------|
| <b>ECB</b> |        |       |                   |            |                             |
|            | 25-Sep | 10:00 | Christine Lagarde | Speech     | Europäisches Parlament      |
|            | 25-Sep | 15:00 | Isabel Schnabel   | Lecture    | University Regensburg       |
|            | 26-Sep | 09:00 | Philip Lane       | Speech     | Banque de France            |
|            | 29-Sep | 09:40 | Christine Lagarde | Speech     | International Energy Agency |
| <b>Fed</b> |        |       |                   |            |                             |
|            | 28-Sep | 22:00 | Jerome Powell     | Discussion | Fed                         |

Source: Market data provider, ECB, US Fed, Erste Group Research

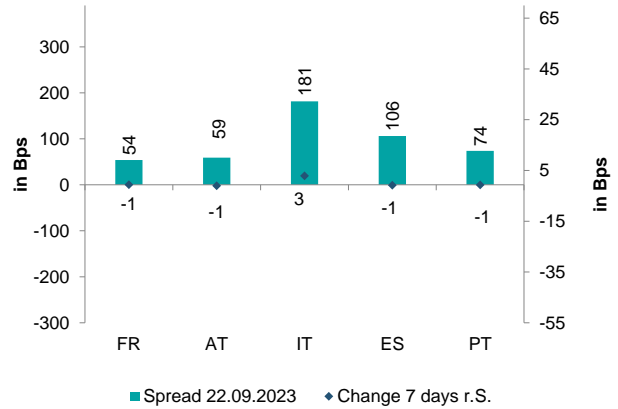
## Forex and government bond markets

### Exchange rates EUR: USD, CHF, GBP and JPY Changes compared to last week



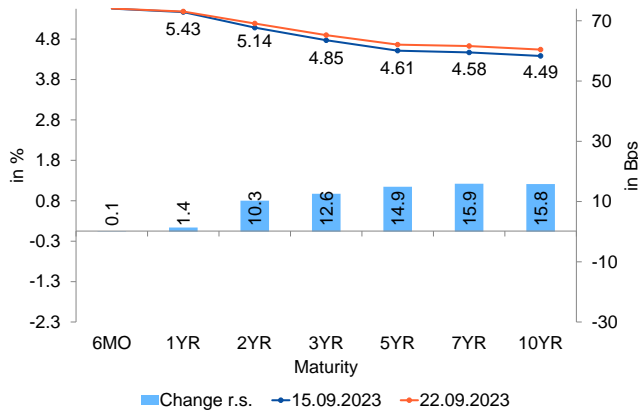
Source: Market data provider, Erste Group Research

### Eurozone spreads vs. Germany 10Y government bonds



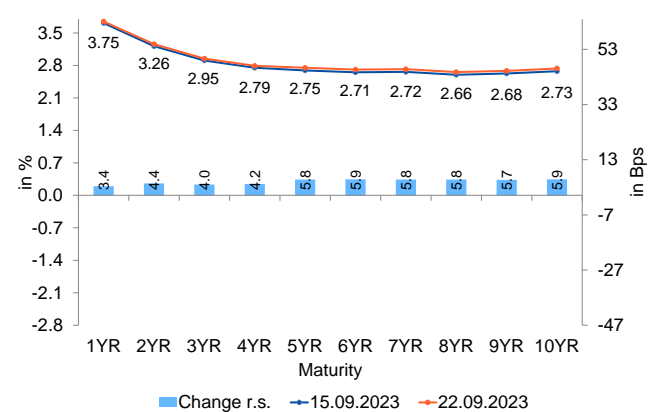
Source: Market data provider, Erste Group Research

### US Treasuries yield curve Changes compared to last week



Source: Market data provider, Erste Group Research

### DE Bund yield curve Changes compared to last week



Source: Market data provider, Erste Group Research

## Forecasts<sup>1</sup>

| <b>GDP</b>      | <b>2021</b> | <b>2022</b> | <b>2023</b> | <b>2024</b> |
|-----------------|-------------|-------------|-------------|-------------|
| <b>Eurozone</b> | 5.3         | 3.5         | 0.5         | 1.2 ↓       |
| <b>US</b>       | 5.9         | 2.1         | 2.0         | 1.1         |

| <b>Inflation</b> | <b>2021</b> | <b>2022</b> | <b>2023</b> | <b>2024</b> |
|------------------|-------------|-------------|-------------|-------------|
| <b>Eurozone</b>  | 2.6         | 8.4         | 5.6         | 2.8         |
| <b>US</b>        | 4.7         | 8.0         | 4.1         | 2.5         |

| <b>Interest rates</b>    | <b>current</b> | <b>Dec.23</b> | <b>Mar.24</b> | <b>Jun.24</b> | <b>Sep.24</b> |
|--------------------------|----------------|---------------|---------------|---------------|---------------|
| <b>ECB MRR</b>           | 4.50           | 4.50          | 4.50          | 4.25          | 4.00          |
| <b>ECB Deposit Rate</b>  | 4.00           | 4.00          | 4.00          | 3.75          | 3.50          |
| <b>3M Euribor</b>        | 3.96           | 3.99          | 4.02          | 3.79          | 3.57          |
| <b>Germany Govt. 10Y</b> | 2.73           | 2.40          | 2.40          | 2.40          | 2.40          |
| <b>Swap 10Y</b>          | 3.27           | 2.90          | 2.90          | 2.90          | 2.90          |

| <b>Interest rates</b>         | <b>current</b> | <b>Dec.23</b> | <b>Mar.24</b> | <b>Jun.24</b> | <b>Sep.24</b> |
|-------------------------------|----------------|---------------|---------------|---------------|---------------|
| <b>Fed Funds Target Rate*</b> | 5.33           | 5.38          | 5.38          | 5.13          | 4.63          |
| <b>3M Libor</b>               | 5.66           | 5.46          | 5.46          | 5.04          | 4.54          |
| <b>US Govt. 10Y</b>           | 4.49           | 3.70          | 3.50          | 3.50          | 3.50          |
| <b>EURUSD</b>                 | 1.07           | 1.14          | 1.16          | 1.19          | 1.19          |

\*Mid of target range

Note: If the forecasts have been changed from the previous week, the arrows indicate the direction.  
 Source: Market data provider, Erste Group Research

<sup>1</sup> By regulations we are obliged to issue the following statement: Forecasts are no reliable indicator of future performance.

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