

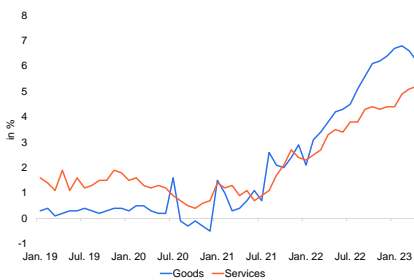
# Week Ahead

Focus: EZ Inflation

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## EZ core inflation goods vs. services



Source: Eurostat, Erste Group Research

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Note: Past performance is not necessarily indicative of future results

## EZ – Inflation should fall slightly in May

Next week (June 1), a first flash estimate of Eurozone inflation for May will be published. In April, headline inflation broadly stabilized at 7.0% y/y. Currently, core inflation and food prices are the main drivers of inflation. However, for the first time in a long time, both components showed a slight decline in momentum in April. We expect this slight downward trend to continue in the coming months.

Against this background, we expect a further slight decline in inflation in May. We expect all major components (energy, food and core inflation) to contribute to this decline. The decline in food prices should continue after prices for agricultural commodities have been declining or been stable for some time and because energy prices are also already at a significantly low level. In the case of core inflation, the price dynamics for goods in particular should continue to fall rapidly, after a clear decline in producer prices has already been observed for some time. This decline reflects the sustained easing of the situation in global supply chains, where there is now a destocking that is putting pressure on the price level. Accordingly, industrial sentiment in the Eurozone has recently weakened further. In contrast, we expect only a slow decline in the momentum of services prices. The services sector continues to benefit from catch-up effects after the end of the pandemic. However, we expect the situation for service providers to gradually normalize in the course of the second half of the year.

In the short term, therefore, the development of services inflation will remain in focus from a monetary policy perspective. For the situation to ease, a stable and sustained decline in services inflation in the Eurozone in the coming months would be important. Wage developments will play an important role here. Now that the energy price dynamic is already negative in some countries and the price dynamic for food has also begun to decline, the pressure in upcoming wage negotiations should gradually decrease. This should reduce the risk of further sharp increases in wage demands. As the catch-up effects of the pandemic fade, the pressure on the labor market for service providers should also gradually ease and have an additional dampening effect on future wage demands. For the current year, we expect inflation to fall to 5.6% and in 2024 to drop significantly to 2.7%. Only in 2025 do we forecast inflation to fall to the ECB's target of 2%.

## Economic calendar

Ctry	Date	Time	Release	Period	Consens	Prior
<b>Eurozone</b>						
EA	1-Jun	10:00	PMI Index	May F	44.6 Index	44.6 Index
EA	1-Jun	11:00	CPI flash y/y	May	6.3%	7.0%
DE	1-Jun	9:55	PMI Index	May F	42.9 Index	42.9 Index
FR	31-May	8:45	GDP y/y	1Q F	0.8%	0.8%
FR	1-Jun	9:50	PMI Index	May F	46.1 Index	46.1 Index
IT	31-May	10:00	GDP y/y	1Q F		1.8%
IT	1-Jun	9:45	PMI Index	May	45.7 Index	46.8 Index
<b>USA</b>						
	1-Jun	14:15	ADP Employment	May	164.4 Tsd	296.0 Tsd
	1-Jun	16:00	PMI Index	May	46.9 Index	47.1 Index
	2-Jun	14:30	Wages y/y	May	4.3%	4.4%
	2-Jun	14:30	Unempl. Rate	May	3.5%	3.4%
	2-Jun	14:30	Chg. Non-Farm Payrolls	May	178.8 Tsd	253.0 Tsd
<b>China</b>						
	1-Jun	3:45	PMI Index	May	49.4 Index	49.5 Index

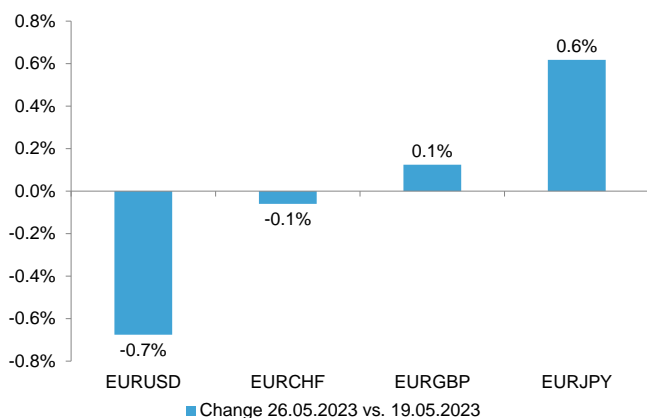
## Central bank events

	Date	Time	Representative	Forum	Location
<b>ECB</b>	1-Jun	11:30	Christine Lagarde	Speech	German Savings Bank Conference
	1-Jun	13:30	ECB Council	Account of Monetary Policy Meeting	ECB
<b>Fed</b>	31-May	14:50	Michelle Bowman	Speech	Federal Reserve Bank of Boston
	31-May	19:30	Philip Jefferson	Speech	International Conference on Policy Challenges for the Financial Sector

Source: Market Data Provider, ECB, Federal Reserve, Erste Group Research

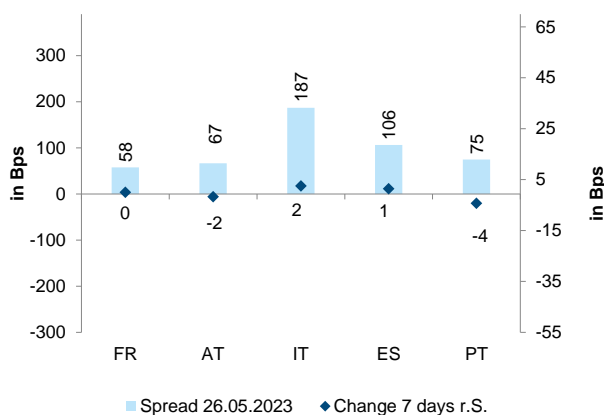
## Forex and government bond markets

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



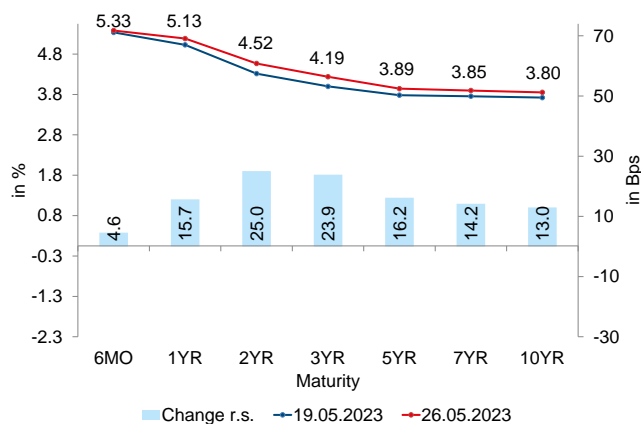
Source: Market Data Provider, Erste Group Research

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



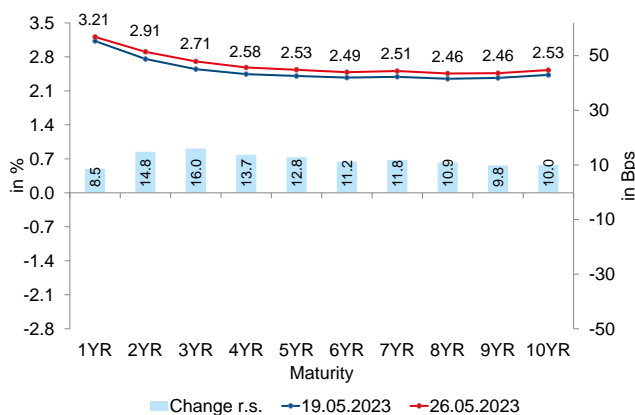
Source: Market Data Provider, Erste Group Research

**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	0.6	1.2
<b>US</b>	5.7	2.0	1.4	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	2.7
<b>US</b>	4.7	8.0	4.0	1.9

<b>Interest rates</b>	<b>current</b>	<b>Jun.23</b>	<b>Sep.23</b>	<b>Dec.23</b>	<b>Mar.24</b>
<b>ECB MRR</b>	3.75	4.00	4.25	4.25	4.25
<b>ECB Deposit Rate</b>	3.25	3.50	3.75	3.75	3.75
<b>3M Euribor</b>	3.46	3.61	3.72	3.74	3.77
<b>Germany Govt. 10Y</b>	2.53	2.20	2.20	2.20	2.20
<b>Swap 10Y</b>	3.18	2.70	2.70	2.70	2.70

<b>Interest rates</b>	<b>current</b>	<b>Jun.23</b>	<b>Sep.23</b>	<b>Dec.23</b>	<b>Mar.24</b>
<b>Fed Funds Target Rate*</b>	5.08	5.13	5.13	4.88	4.63
<b>3M Libor</b>	5.42	5.21	5.21	4.96	4.71
<b>US Govt. 10Y</b>	3.80	3.30	3.10	2.90	2.90
<b>EURUSD</b>	1.07	1.12	1.14	1.16	1.18

\*Mid of target range

*In case of changes to our forecasts compared to the previous issue, arrows show the direction of the change.*

*Source: Market Data Provider, Erste Group Research*

<sup>1</sup> Note: In accordance with regulations, we are obliged to issue the following statement:  
 Forecasts are not a reliable indicator of future performance.

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