

WEEK AHEAD | INFLATION | EUROZONE

Eurozone inflation falls more than expected

Analyst:

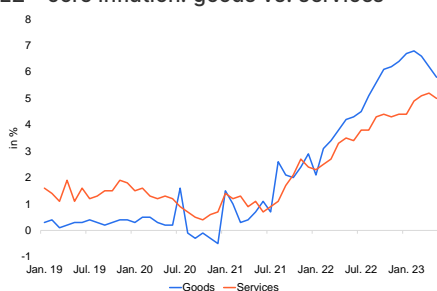
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All components contribute to inflation decline

In May, Eurozone inflation unexpectedly fell significantly to 6.1% y/y, from 7.0% y/y previously. Fortunately, for the first time in a long time, all major components contributed to this decline. Thanks to declining prices for oil and gas, the energy component made a slightly negative contribution to inflation. Food price dynamics also continued their downward trend in May, falling to 12.5% y/y (previously 13.5% y/y). Of particular importance from a monetary policy perspective was the further decline in the core rate to 5.3% y/y (previously 5.6% y/y) in May.

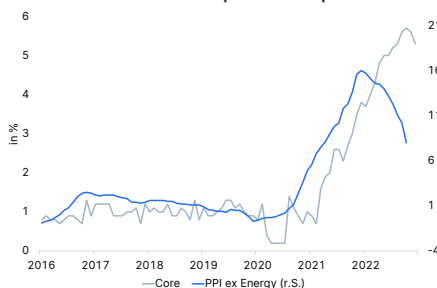
EZ – core inflation: goods vs. services



Source: Eurostat, Erste Group Research

Given the unchanged subdued economic outlook for global industry (due to continued destocking), we also expect energy prices to remain subdued. Due to base effects, the dampening impact of energy prices on headline inflation is likely to intensify slightly in 2H.

EZ – core inflation vs. producer prices



Source: Eurostat, Erste Group Research

Since the price dynamics of agricultural commodities are also declining at the global level, the downward trend in food prices should also continue and probably intensify in the second half of the year. Another positive aspect is that the index for calculating food inflation has been showing initial signs of stabilization since March. The continuation of the falling price dynamics in energy and food prices should provide increasing financial relief for lower-income households, particularly in the coming months. This should gradually ease the pressure in upcoming wage negotiations.

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With regard to the core rate, the downward trend widened in May. Not only did the price dynamics for goods continue to decline, but services also saw a slight decrease in dynamics for the first time in a long time. With regard to prices for goods, we expect a continuation of the decline in the coming months, in view of the further rapid decline in producer price inflation. In services, tourism as well as culture and leisure are currently mainly responsible for inflationary pressures. An analysis of detailed data in the course of the month will show whether there has already been a slight trend reversal here in May.

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

The inflation trend in May was a first step in the desired direction. It is highly likely that the downward trend in inflation for energy, food and goods will continue in the coming months. However, it remains to be seen whether the downward trend in services in particular will continue. In this area, the ECB will keep a particularly critical eye on the development and analyze the individual components closely.

Economic calendar

Ctry	Date	Time	Release	Period	Consens	Prior
Eurozone						
EA	8-Jun	11:00	GDP q/q	1Q F	0.1%	0.1%
EA	8-Jun	11:00	GDP y/y	1Q F	1.3%	1.3%
USA						
China						
	9-Jun	3:30	Inflation y/y	May	0.2%	0.1%

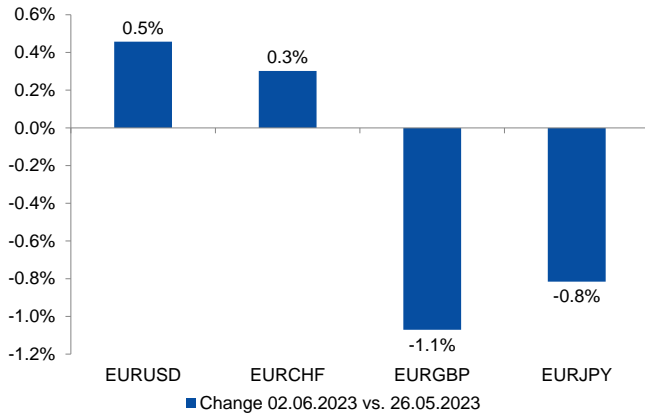
Central bank events

	Date	Time	Representative	Forum	Location
ECB	5-Jun	15:00	Christine Lagarde	Speech	European Parliament
	7-Jun	09:50	Luis de Guindos	Speech	European Comission and ECB
Fed			No monetary policy relevant events		

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

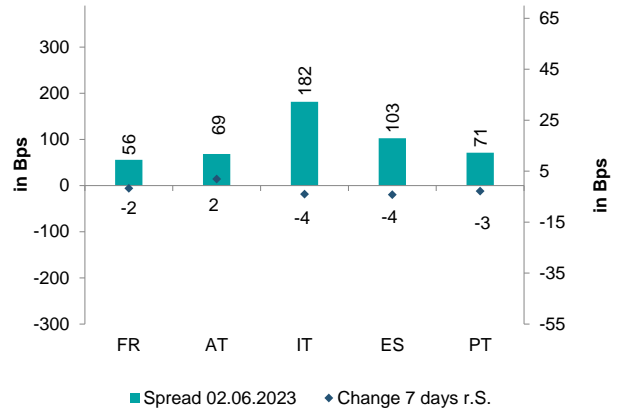
Forex and government bond markets

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



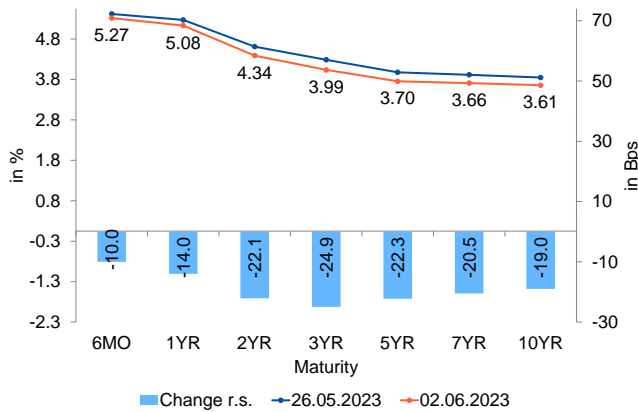
Source: Market data provider, Erste Group Research

Eurozone spreads vs. Germany 10Y government bonds



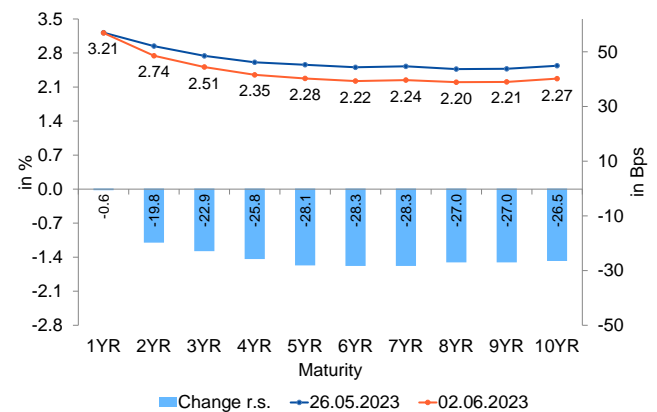
Source: Market data provider, Erste Group Research

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

Forecasts¹

GDP	2021	2022	2023	2024
Eurozone	5.3	3.5	0.6	1.2
US	5.7	2.0	1.4	1.1

Inflation	2021	2022	2023	2024
Eurozone	2.6	8.4	5.6	2.7
US	4.7	8.0	4.0	1.9

Interest rates	current	Sep.23	Dec.23	Mar.24	Jun.24
ECB MRR	3.75	4.25	4.25	4.25	4.00
ECB Deposit Rate	3.25	3.75	3.75	3.75	3.50
3M Euribor	3.46	3.72	3.74	3.77	3.54
Germany Govt. 10Y	2.28	2.20	2.20	2.20	2.30
Swap 10Y	2.93	2.70	2.70	2.70	2.80

Interest rates	current	Sep.23	Dec.23	Mar.24	Jun.24
Fed Funds Target Rate*	5.08	5.13	4.88	4.63	4.38
3M Libor	5.52	5.21	4.96	4.71	4.21
US Govt. 10Y	3.61	3.10	2.90	2.90	2.80
EURUSD	1.08	1.14	1.16	1.18	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

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

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