WEEK AHEAD | SENTIMENT DATA| CENTRAL BANKS

Sentiment data for June in focus

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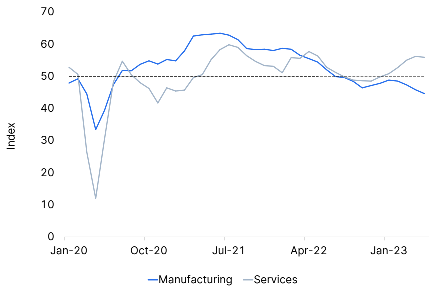
EZ – PMI manufacturing vs. services



Source: Market data provider, Erste Group Research

EZ - divided sentiment will continue

Next week (June 23), a first flash estimate of Eurozone PMI data for June will be published. In May, sentiment among service providers weakened slightly. Nevertheless, the level of sentiment among service providers remained high. Currently, service providers are still likely to benefit from catch-up effects after the end of the pandemic. Contrary to expectations, the mood in manufacturing deteriorated further in May from an already low level. Demand for goods remains weak in view of the ongoing reduction of inventory capacities.

In June, we expect a further slight cooling of sentiment among service providers. Industrial sentiment should gradually find a bottom, despite weak demand, due to the already low level. Currently, we expect destocking to be completed in the course of the second half of the year. By then, at the latest, manufacturing sentiment should also gradually improve again, and the manufacturing sector should again provide slight growth impulses.

The uncertainty for the economic outlook remains high in the current environment. In addition to the weakness in manufacturing, the high level of interest rates and the resulting sharp decline in demand for credit represent an additional burden on the economy. Based on recent data, the Eurozone has already slipped into a slight recession in the winter half-year. This is mainly due to a stronger decline in the GDP level in Germany. In contrast, Spain and Italy were able to convince with above-average growth rates. However, both countries continue to benefit from the high financial support from the EU recovery plan. We currently expect slight growth in the Eurozone again from 2Q onwards, as industrial activity, among other things, should find a bottom.

Central banks signal further interest rate hikes

In an environment defined by robust economic data and excessively high inflation rates on the one hand and downside risks from weaker credit on the other, the US Fed opted for the middle course. Interest rates were left unchanged this week and the central bank adopted a wait-and-see stance. However, the quarterly survey of meeting participants at the rate-setting meeting shows relatively clearly that this wait-and-see attitude should come to an end relatively quickly. Of 18 respondents, only two expect interest rates to remain unchanged until the end of the year. Exactly half expect further hikes totaling 50bp, i.e. de facto two more interest rate steps. Another three meeting participants expect even larger rate hikes. This survey shows the individual opinions of meeting participants, only 11 of whom currently vote on monetary policy, and it is not a coordinated decision of the monetary policy body (FOMC). However, the outcome is an important indicator of sentiment.

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Furthermore, Fed Chairman Powell emphasized in the press conference that there could be a change in interest rates at the next meeting in July (live meeting).

The signals are thus relatively clear, in our view, and lead us to expect another 25bp rate hike in July. Even though the decision will depend on the data between now and then, a significant change in sentiment within the committee is unlikely. We have therefore revised our forecasts, as we had previously assumed no further rate hikes in the US. We now also assume a later cut in key interest rates only from March 2024. These changes are also reflected in our forecasts for US government bond yields and the US dollar. We continue to expect a decline and weakening, respectively, but these developments should be slower.

By contrast, we were able to leave our forecasts for the Eurozone unchanged. The outcome of the ECB Governing Council meeting was largely as we had expected. Key interest rates were raised by 25bp and a further rate hike of the same magnitude was clearly envisaged for July. The next meeting with a de facto open outcome is thus in September. Until then, we expect indications of weakening inflation, which would argue in favor of unchanged key rates.

Economic calendar

Ctry	Date	Time	Release	Period	Consens	Prior
Eurozone						
FR	23-Jun	9:15	PMI Index	Jun P	45.2 Index	45.7 Index
DE	23-Jun	9:30	PMI Index	Jun P	43.5 Index	43.2 Index
EA	23-Jun	10:00	PMI Index	Jun P	44.8 Index	44.8 Index
USA						
China						

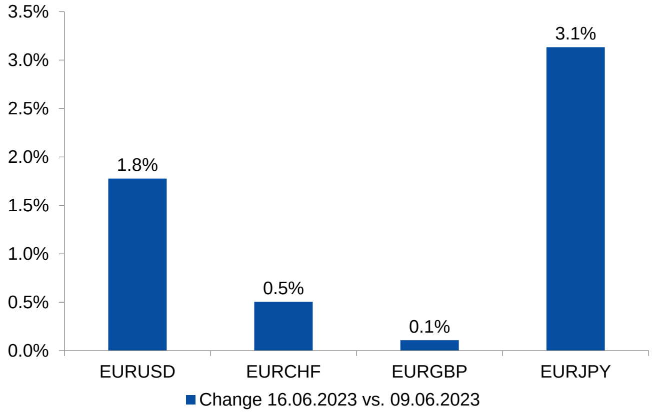
Central bank events

	Date	Time	Representative	Forum	Location
ECB	19-Jun	13:00	Philip Lane	Panel discussion	Rafael del Pino Foundation
	19-Jun	13:40	Isabel Schnabel	Panel discussion	Euro50
	21-Jun	15:45	Isabel Schnabel	Panel discussion	Sachverständigenrat
	22-Jun	16:30	Luis de Guindos	Panel discussion	Spanish association of financial journalists
Fed	21-Jun	16:00	Jerome Powell	Report	US House of Representatives
	14-Jun	20:30	Jerome Powell	Report	US Senate

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

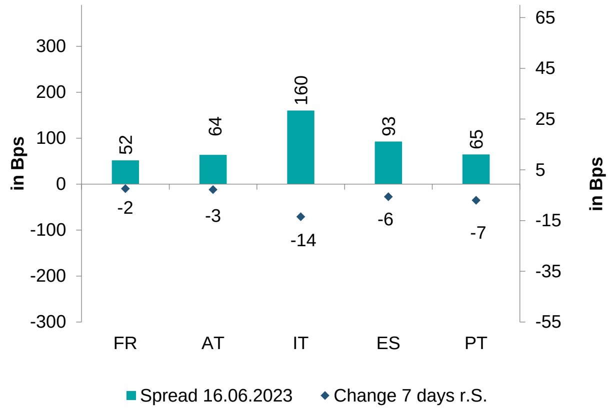
Forex and government bond markets

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



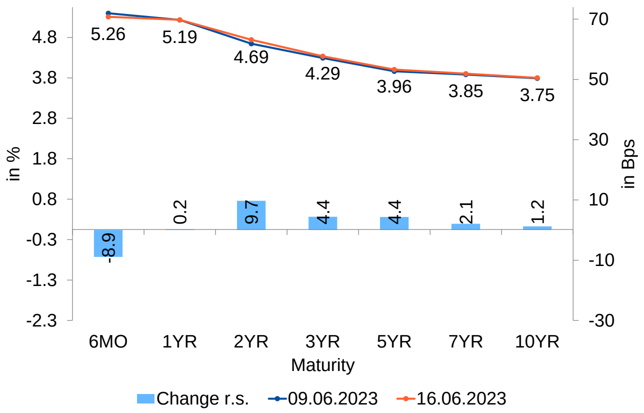
Source: Market data provider, Erste Group Research

Eurozone spreads vs. Germany
10Y government bonds



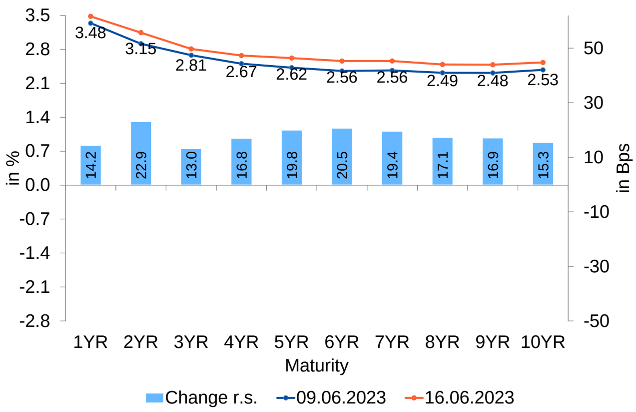
Source: Market data provider, Erste Group Research

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

Forecasts[1]

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	4.4 ↑	2.5 ↑

Interest rates	current	Sep.23	Dec.23	Mar.24	Jun.24
ECB MRR	4.00	4.25	4.25	4.25	4.00
ECB Deposit Rate	3.25	3.75	3.75	3.75	3.50
3M Euribor	3.55	3.72	3.74	3.77	3.54
Germany Govt. 10Y	2.51	2.20	2.20	2.20	2.30
Swap 10Y	3.10	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	5.38 ↑	5.38 ↑	5.13 ↑	4.88 ↑
3M Libor	5.51	5.46 ↑	5.46 ↑	5.21 ↑	4.96 ↑
US Govt. 10Y	3.75	3.60 ↑	3.30 ↑	3.20 ↑	3.10 ↑
EURUSD	1.09	1.11 ↓	1.14 ↓	1.16 ↓	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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