

Week Ahead

Focus: Eurozone GDP, IMF forecasts, EU's plan to save gas

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GDP growth in 2Q higher than expected

Today, flash estimates for 2Q GDP growth in the Eurozone countries were released. The EZ surprised markets with strong q/q momentum of +0.7% (1Q: +0.5%), despite inflationary pressures and global uncertainty. Compared to the previous year, 2Q GDP growth was a solid +4.0% (1Q: +5.4%). Top performers included Italy (+1.0% q/q) and Spain (+1.1% q/q), where the tourism sector flourished in the wake of the lifting of COVID-19 restriction measures. France also posted growth of +0.5% q/q (1Q: -0.2%), while GDP in Germany stagnated vs. 1Q.

Although GDP growth in the major European economies was well above expectations in 2Q, one should be cautious when assessing economic developments in the coming months. The current boom in summer tourism will subside by the end of 3Q, and high prices will eventually be passed on to consumers. We expect high inflation and the impact of the Ukraine war to increasingly weigh on the Eurozone economy in the second half of 2022 and in 2023. Overall, we expect GDP growth of +2.7% in 2022 on the back of solid first and second quarters, slowing down to +1.8% in 2023.

Austria also surprised positively, with higher-than-expected preliminary estimated GDP growth in 2Q. According to the Austrian Institute of Economic Research (WIFO), Austrian GDP grew by +4.7% y/y (1Q: +8.7%) and +0.5% q/q (1Q: +1.5%). The accommodation and food sector, as well as services in general, were the main growth drivers. In other sectors of the economy, growth momentum slowed compared with 1Q. The biggest negative development was seen in private consumption, which contracted by -1.9% compared with the previous quarter. For 2022 as a whole, we expect solid growth of +3.8%, driven by strong economic activity in the first two quarters. For 2023, we forecast a slowdown in growth dynamics to +1.8%.

IMF revises growth forecasts down

The International Monetary Fund (IMF) has revised its growth forecasts significantly downwards. The IMF now expects global growth of +3.2% (-0.4 pp compared to April) in 2022 and +2.9% (-0.7 pp compared to April) in 2023. The revisions for China and the US are the main drivers of lower global growth expectations and mainly reflect the realization of downside risks highlighted in the April 2022 World Economic Outlook. These include a more pronounced slowdown in China, a tightening of global financial conditions due to expectations of stronger interest rate hikes by major central banks, and spillovers from the war in Ukraine.

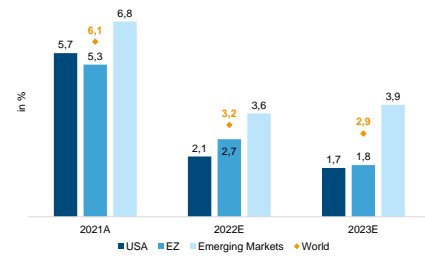
China is now expected to grow +3.3% (-1.1pp) in 2022 and +4.6% (-0.5pp) in 2023. Growth in the US is expected at +2.3% (-1.4pp) in 2022 and +1.0% (-1.3pp) in 2023 (Erste Group Research: +1.7% for 2023).

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Note: Past performance is not necessarily indicative of future results

GDP growth forecasts (y/y, %)



Source: IMF, Erste Group Research

This revision reflects weaker than expected growth in 1Q and 2Q22. Private consumption dynamics are suffering from the erosion of purchasing power due to higher-than-previously-expected inflation and the expected impact of stronger monetary tightening. The recent strengthening of the dollar is also likely to have a dampening effect on global trade growth, given the dollar's dominant role in trade.

Eurozone growth was also revised downward, but mainly for 2023, with the IMF now expecting EZ GDP growth of +2.6% (-0.2pp) in 2022 and +1.2% (-1.1pp) in 2023 (Erste Group Research: +1.8% for 2023). The largest negative revision from April was made for Germany, at -0.9pp in 2022 and -1.9pp in 2023, while Italy experienced a positive revision of +0.7pp for 2022 due to an improved outlook for tourism and industrial activity. These overall negative downgrades for the euro area reflect the impact of the war in Ukraine and the adoption of more restrictive financial conditions, as the ECB ended net asset purchases and raised interest rates in July 2022 for the first time since 2011.

EU saves gas

This week, the European Council agreed on savings targets for gas consumption. The big difference from the Commission's original proposal was that the 15% savings target between August 1, 2022, and March 31, 2023, is voluntary, compulsory targets can be decided by the Council via qualified majorities and there are exceptions for many countries. Countries, for example, that are not connected to the European gas grid and whose savings could therefore not accrue to other countries, or countries that are not synchronized with the European electricity grid and require gas for electricity generation, to name just a few of the exception criteria.

It is not surprising that a mandatory savings target was not accepted by all countries. Energy intensity, energy mix, and dependence on Russian gas vary widely among EU countries. The countries therefore wanted it to remain at their discretion for the time being how much gas is actually saved.

There are big differences in energy demand alone. Bulgaria is at one end of the spectrum and has nine times more energy demand relative to its economic output than Ireland, which is at the other end. In terms of gas demand, the Netherlands leads the way, covering about 38% of its total energy needs with natural gas, while Sweden covers only about 1%. At the same time, however, the Netherlands meets only 5% of its gas needs with Russian gas. The range of dependence on Russian gas extends from Bulgaria's 99% to Ireland's 0%. Of the major countries, Germany leads the way with 54%, followed by Italy with 33% and France with just under 8%. Spain imports virtually no gas from Russia. In a study, the think tank Bruegel calculates no shortages for Spain, Portugal and France, for example, in the event of a Russian supply freeze, although such calculations depend on a number of assumptions, including about winter temperatures.

What is clear is that the greatest immediate impact of a Russian supply freeze would be felt primarily in Central and Eastern Europe, while for other countries the risk of contingency is very low. Nevertheless, there are good reasons for solidarity-based savings for these countries as well. Shortages in individual countries would affect gas and electricity prices

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29. July 2022

throughout the EU. Savings in all countries and the exchange of gas counteract this.

Economic calendar

Ctry	Date	Time	Release	Period	Consens	Prior
Eurozone						
EA	1-Aug	10:00	PMI Index	Jul F	49.0 Index	49.6 Index
DE	1-Aug	9:55	PMI Index	Jul F	49.2 Index	49.2 Index
FR	1-Aug	9:50	PMI Index	Jul F	49.6 Index	49.6 Index
IT	1-Aug	9:45	PMI Index	Jul	49.2 Index	50.9 Index
USA						
	1-Aug	16:00	PMI Index	Jul	52.2 Index	53.0 Index
	5-Aug	14:30	Wages y/y	Jul	4.9%	5.1%
	5-Aug	14:30	Unempl. Rate	Jul	3.6%	3.6%
	5-Aug	14:30	Chg. Non-Farm Payrolls	Jul	219.6 Tsd	372.0 Tsd
China						
	1-Aug	3:45	PMI Index	Jul	45.6 Index	51.7 Index

Central bank events

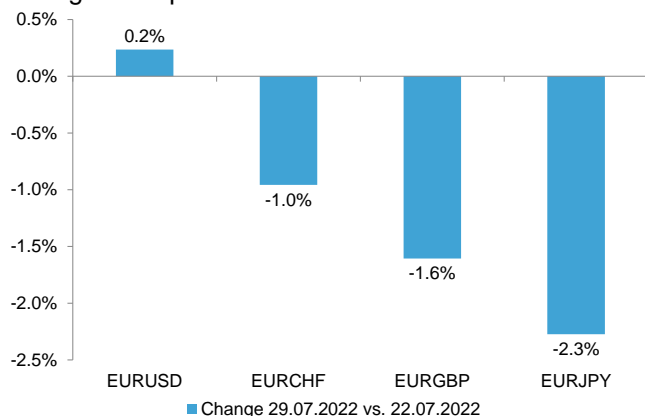
	Date	Time	Representative	Forum	Location
ECB			No monetary policy relevant events		
Fed			No monetary policy relevant events		

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

Forex and government bond markets

Exchange rates EUR: USD, CHF, GBP and JPY

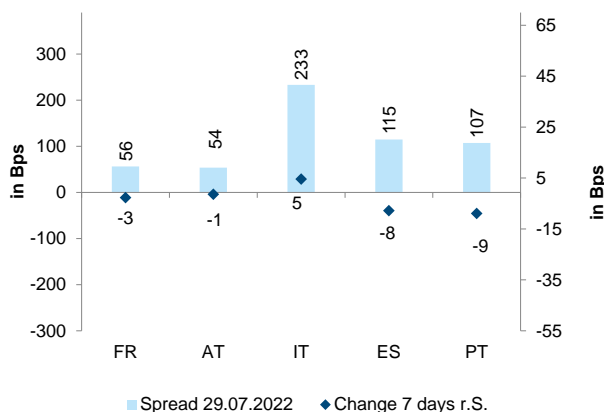
Changes compared to last week



Source: Market Data Provider, Erste Group Research

Eurozone spreads vs. Germany

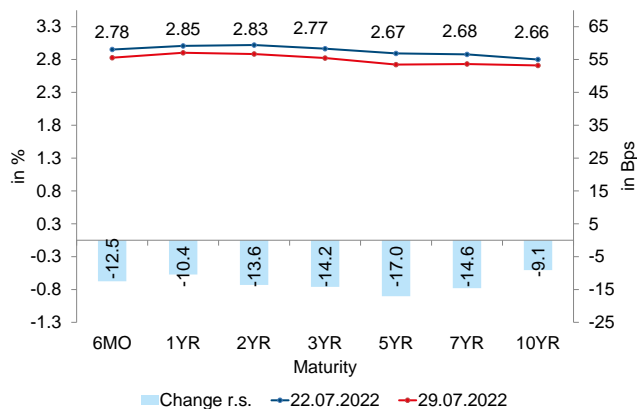
10Y government bonds



Source: Market Data Provider, Erste Group Research

US Treasuries yield curve

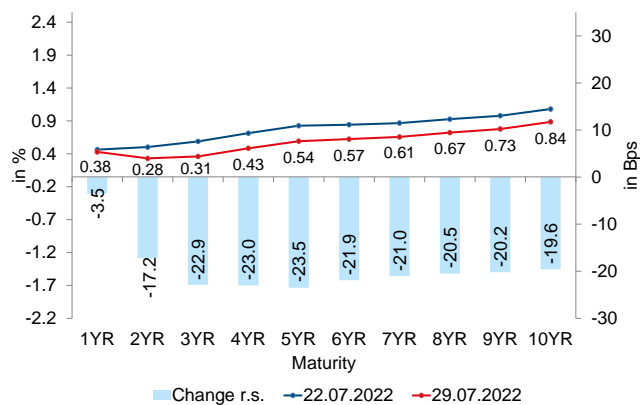
Changes compared to last week



Source: Market Data Provider, Erste Group Research

DE Bund yield curve

Changes compared to last week



Source: Market Data Provider, Erste Group Research

Forecasts¹

GDP	2020	2021	2022	2023
Eurozone	-6.5	5.3	2.7	1.8
US	-3.5	5.7	2.1	1.7

Inflation	2020	2021	2022	2023
Eurozone	0.3	2.6	7.6	3.9
US	1.2	4.7	8.0	3.0

Interest rates	current	Sep.22	Dec.22	Mar.23	Jun.23
ECB MRR	0.50	1.00	1.25	1.25	1.25
ECB Deposit Rate	0.00	0.50	0.75	0.75	1.00
3M Euribor	0.23	0.73	0.73	0.81	0.98
Germany Govt. 10Y	0.90	1.20	1.20	1.20	1.30
Swap 10Y	1.72	1.90	1.80	1.70	1.80

Interest rates	current	Sep.22	Dec.22	Mar.23	Jun.23
Fed Funds Target Rate*	1.58	2.88	3.38	3.38	3.38
3M Libor	2.81	3.04	3.46	3.46	3.46
US Govt. 10Y	2.71	3.00	2.70	2.60	2.50
EURUSD	1.02	1.03	1.05	1.10	1.13

*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*

¹ 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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