

Week Ahead

Focus: New forecasts due to improved outlook

Analysts:

Rainer Singer
rainer.singer@erstegroup.com

Gerald Walek
gerald.walek@erstegroup.com

Called-off hard Brexit improves outlook

The struggle for the United Kingdom's withdrawal from the EU is going into extra innings. The package negotiated with the EU has yet to be approved by the British Parliament, with new elections scheduled for December 12. Whether government formation and majority voting for the package will run out by the new deadline of January 31 is more than questionable, from our point of view. What is crucial, however, is that the probability of a hard Brexit, which was our original baseline scenario, has been significantly reduced by the negotiated agreement.

With a hard Brexit off the table for the foreseeable future, we have slightly raised our GDP forecast for the Eurozone for 2020 from +1.0% to +1.2%. Since Brexit will nevertheless remain unresolved for some time to come, we expect growth in the Eurozone to continue to be dampened in 2020. In addition, there is still the danger that the sharp downturn in German industry could have a more severe impact on the domestic economy with a time lag in 2020. In Q3, GDP growth in the Eurozone stabilized at +0.2% q/q. Leading indicators this week have been mixed. While German exporters' expectations rose sharply, the general economic climate in the euro zone (ESI indicator) dropped in October to its lowest level since early 2015. At the global level, however, there are reasons that justify cautious optimism about the growth outlook. The announcement of a partial settlement between China and the US in the trade conflict is likely to have been the main trigger for this.

The unlikelihood of a hard Brexit also allows us to change our forecasts for the interest rate and currency markets. A further cut in the ECB's deposit rate has become unlikely. We therefore do not expect the ECB to take any further steps in the foreseeable future. The economic upturn we expect next year will not be enough to trigger a change in monetary policy either. For German government bonds, we no longer expect a sideways movement over most of 2020, but a slow rise in yields. However, the boost to yields from the economic recovery should remain limited by the continued excess liquidity in the market, which will continue to rise as a result of the ECB's new QE. The dollar should already have reached its peak and the euro should rise slowly from now on. Following the latest interest rate decision in the US, there is now no interest rate fantasy on either side of the Atlantic for the foreseeable future. However, the Eurozone economy has more potential to benefit from the improved environment than the US economy. Together with the current high valuation of the US dollar, this suggests that the euro is slowly strengthening.

Major Markets & Credit Research
Gudrun Egger, CEFA (Head)

Rainer Singer (Senior Economist EZ, USA)
Gerald Walek, CFA (Economist EZ)
Margarita Grushanina (Economist AT, Quant. Analyst EZ)

Note: Past performance is not necessarily indicative of future results

Economic calendar

Ctry	Date	Time	Release	Period	Consens	Prior
Eurozone						
EA	31-Oct	11:00	GDP q/q	3Q A	0.1%	0.2%
EA	31-Oct	11:00	GDP y/y	3Q A	1.1%	1.2%
EA	31-Oct	11:00	CPI flash y/y	Oct	1%	1%
EA	4-Nov	10:00	PMI Index	Oct F		45.7 Index
DE	4-Nov	9:55	PMI Index	Oct F		41.9 Index
FR	4-Nov	9:50	PMI Index	Oct F		50.5 Index
IT	31-Oct	12:00	GDP y/y	3Q P	0.2%	0.1%
IT	4-Nov	9:45	PMI Index	Oct		47.8 Index
USA						
	31-Oct	13:30	PCE Deflator	Sep	1.4%	1.4%
	1-Nov	13:30	Wages y/y	Oct	3.0%	2.9%
	1-Nov	13:30	Unempl. Rate	Oct	3.6%	3.5%
	1-Nov	13:30	Chg. Non-Farm Payrolls	Oct	86.8 Tsd	136.0 Tsd
	1-Nov	15:00	PMI Index	Oct	48.9 Index	47.8 Index
China						
	1-Nov	3:45	PMI Index	Oct	51.0 Index	51.4 Index

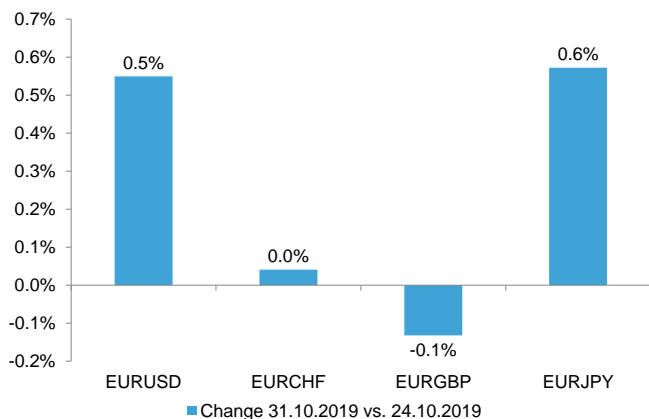
Central bank events

	Date	Time	Event
ECB			ECB releases calendar on Nov 1, at 12:00h (https://www.ecb.europa.eu/press/weekly/html/index.en.html)
Fed	1-Nov	18:00	Richard Clarida, speech <i>The United States, Japan, and the Global Economy</i> , Japan Society, New York

Source: Market Data Provider, Erste Group Research

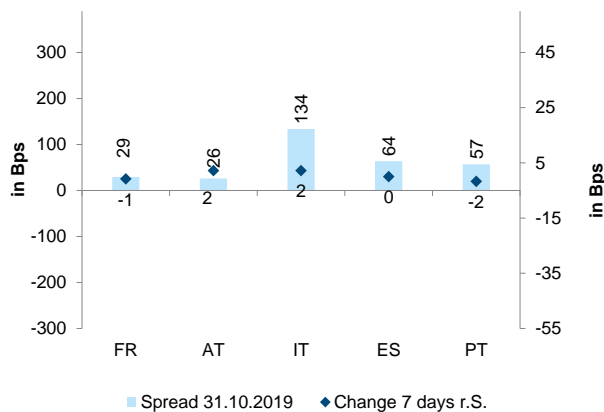
Forex and government bond markets

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



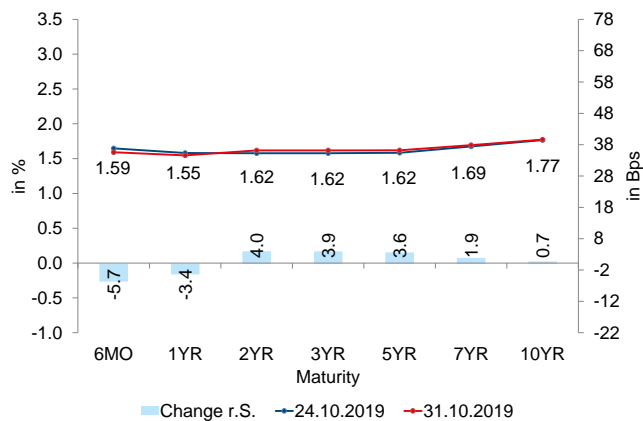
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Eurozone spreads vs. Germany
 10Y government bonds



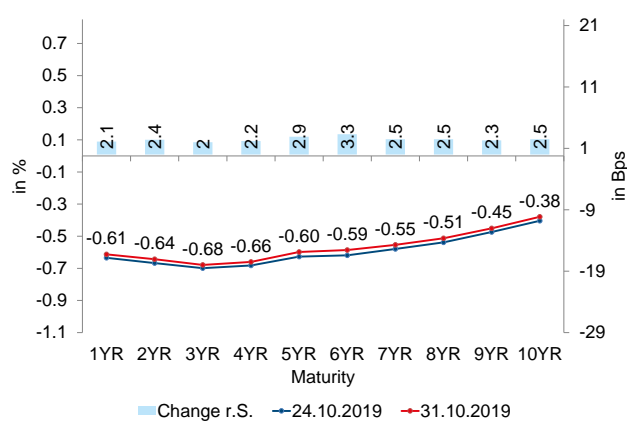
Source: Market Data Provider, Erste Group Research

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	2017	2018	2019	2020
Eurozone	2.5	1.9	1.1	1.2 ↑
US	2.3	2.9	2.2	1.8

Inflation	2017	2018	2019	2020
Eurozone	1.5	1.7	1.3	1.5
US	2.2	2.4	1.9	2.1

Interest rates	current	Dec.19	Mar.20	Jun.20	Sep.20
ECB MRR	0.00	0.00	0.00	0.00	0.00
3M Euribor	-0.39	-0.40 ↑	-0.40 ↑	-0.40 ↑	-0.40 ↑
Germany Govt. 10Y	-0.40	-0.40	-0.30 ↑	-0.20 ↑	-0.20 ↑
Swap 10Y	0.03	-0.10	0.00 ↑	0.10 ↑	0.10 ↑

Interest rates	current	Dec.19	Mar.20	Jun.20	Sep.20
Fed Funds Target Rate*	1.82	1.63	1.63	1.63	1.63
3M Libor	1.93	1.90 ↑	1.90 ↑	1.90 ↑	1.90 ↑
US Govt. 10Y	1.74	1.80	2.00	2.00	2.10
EURUSD	1.12	1.13 ↑	1.15 ↑	1.15	1.15

*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.

Contacts

Group Research

Head of Group Research
 Friedrich Mostböck, CEFA +43 (0)5 0100 11902

CEE Macro/Fixed Income Research
 Head: Juraj Kotian (Macro/FI) +43 (0)5 0100 17357
 Zoltan Arokszallasi, CFA (Fixed income) +43 (0)5 0100 18781
 Katarzyna Rzentarzewska (Fixed income, Poland) +43 (0)5 0100 17356
 Malgorzata Krzywicka (Fixed income) +43 (0)5 0100 17338

Croatia/Serbia
 Alen Kovac (Head) +385 72 37 1383
 Mate Jelić +385 72 37 1443
 Ivana Rogic +385 72 37 2419

Czech Republic
 David Navratil (Head) +420 956 765 439
 Jiri Polansky +420 956 765 192
 Michal Skorepa +420 956 765 172

Hungary
 Orsolya Nyeste +361 268 4428

Romania
 Horia Braun-Erdei (Head) +40 3735 10424
 Eugen Sinca +40 3735 10435
 Dorina Ilasco +40 3735 10436

Slovakia
 Maria Valachyova (Head) +421 2 4862 4185
 Katarina Muchova +421 2 4862 4762

Major Markets & Credit Research
 Head: Gudrun Egger, CEFA +43 (0)5 0100 11909
 Ralf Burchert, CEFA (Sub-Sovereigns & Agencies) +43 (0)5 0100 16314
 Hans Engel (Global Equities) +43 (0)5 0100 19835
 Margarita Grushanina (Austria, Quant Analyst) +43 (0)5 0100 11957
 Peter Kaufmann, CFA (Corporate Bonds) +43 (0)5 0100 11183
 Heiko Langer (Financials & Covered Bonds) +43 (0)5 0100 85509
 Stephan Lingnau (Global Equities) +43 (0)5 0100 16574
 Carmen Riefler-Kowarsch (Financials & Covered Bonds) +43 (0)5 0100 19632
 Rainer Singer (Euro, US) +43 (0)5 0100 17331
 Bernadett Povaszai-Römhild, CEFA (Corporate Bonds) +43 (0)5 0100 17203
 Elena Statelov, CIIA (Corporate Bonds) +43 (0)5 0100 19641
 Gerald Walek, CFA (Euro, CHF) +43 (0)5 0100 16360

CEE Equity Research
 Head: Henning Eßkuchen +43 (0)5 0100 19634
 Daniel Lion, CIIA (Technology, Ind. Goods&Services) +43 (0)5 0100 17420
 Michael Marschallinger, CFA +43 (0)5 0100 17906
 Christoph Schultes, MBA, CIIA (Real Estate) +43 (0)5 0100 11523
 Thomas Unger, CFA (Banks, Insurance) +43 (0)5 0100 17344
 Vladimira Urbankova, MBA (Pharma) +43 (0)5 0100 17343
 Martina Valenta, MBA +43 (0)5 0100 11913

Croatia/Serbia
 Mladen Dodig (Head) +381 11 22 09178
 Anto Augustinovic +385 72 37 2833
 Magdalena Dolenc +385 72 37 1407
 Davor Spoljar, CFA +385 72 37 2825

Czech Republic
 Petr Bartek (Head) +420 956 765 227
 Marek Dongres +420 956 765 218
 Jan Safranek +420 956 765 218

Hungary
 József Miró (Head) +361 235 5131
 András Nagy +361 235 5132
 Tamás Pletser, CFA +361 235 5135

Poland
 Tomasz Duda (Head) +48 22 330 6253
 Cezary Bernatek +48 22 538 6256
 Konrad Grygo +48 22 330 6254
 Michal Pilch +48 22 330 6255
 Emil Poplawski +48 22 330 6252

Romania
 Caius Rapanu +40 3735 10441

Turkey
 Umut Cebir +90 2129120445
 Berke Gümüş +90 2129120445

Treasury – Erste Bank Vienna

Corporate Treasury Product Distribution AT
 Head: Christian Reiss +43 (0)5 0100 84012

Markets Retail Sales AT
 Head: Markus Kaller +43 (0)5 0100 84239

Group Markets Execution
 Head: Kurt Gerhold +43 (0)5 0100 84232

Retail & Sparkassen Sales
 Head: Uwe Kolar +43 (0)5 0100 83214

Corporate Treasury Product Distribution AT
 Head: Christian Skopek +43 (0)5 0100 84146

Fixed Income Institutional Sales

Institutional Distribution non CEE
 Head: Jaromir Malak +43 (0)5 0100 84254
 Karin Rattay +43 (0)5 0100 84118
 Christian Kienesberger +43 (0)5 0100 84323
 Bernd Bollhof +49 (0)30 8105800 5525
 Rene Klasen +49 (0)30 8105800 5521
 Christopher Lampe-Traupe +49 (0)30 8105800-5507
 Charles-Henry La Coste de Fontenilles +43 (0)5 0100 84115
 Bernd Thaler +43 (0)5 0100 84119

Bank Distribution
 Head: Marc Friebertshäuser +49 (0)711 810400 5540
 Sven Kienzle +49 (0)711 810400 5541
 Michael Schmotz +43 (0)5 0100 85542
 Ulrich Inhofner +43 (0)5 0100 85544
 Klaus Vosseler +49 (0)711 810400 5560
 Andreas Goll +49 (0)711 810400 5561
 Mathias Gindele +49 (0)711 810400 5562

Institutional Distribution CEE
 Head: Jaromir Malak +43 (0)5 0100 84254

Institutional Distribution PL and CIS
 Pawel Kielek +48 22 538 6223
 Michal Jarmakowicz +43 50100 85611

Institutional Distribution Slovakia
 Head: Sarlota Sipulova +421 2 4862 5619
 Monika Smelikova +421 2 4862 5629

Institutional Distribution Czech Republic
 Head: Ondrej Cech +420 2 2499 5577
 Milan Bartos +420 2 2499 5562
 Barbara Suvadova +420 2 2499 5590

Institutional Asset Management Czech Republic
 Head: Petr Holecek +420 956 765 453
 Martin Perina +420 956 765 106
 Petr Valenta +420 956 765 140
 David Petracek +420 956 765 809
 Blanca Weinerova +420 956 765 317

Institutional Distribution Croatia
 Head: Antun Buric +385 (0)7237 2439
 Zvonimir Tukač +385 (0)7237 1787
 Natalija Zujic +385 (0)7237 1638

Institutional Distribution Hungary
 Head: Peter Csizmadia +36 1 237 8211
 Attila Hollo +36 1 237 8209
 Gabor Balint +36 1 237 8205

Institutional Distribution Romania and Bulgaria
 Head: Ciprian Mitu +43 (0)50100 85612
 Crisitan Adascalita +40 373 516 531

Group Institutional Equity Sales
 Head: Brigitte Zeitlberger-Schmid +43 (0)50100 83123
 Werner Fürst +43 (0)50100 83121
 Josef Kerekes +43 (0)50100 83125
 Cormac Lyden +43 (0)50100 83120

Business Support
 Bettina Mahoric +43 (0)50100 86441

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Erste Group Bank AG
Group Research
1100 Vienna, Austria, Am Belvedere 1
Head Office: Wien
Commercial Register No: FN 33209m
Commercial Court of Vienna

Erste Group Homepage: www.erstegroup.com