

Week ahead

EZ – moderate increase of inflation in August expected

EZ – PMI slightly lower in August (by 0.2 points)

EZ – Consumer Confidence fell slightly to -8.5 in August

Emerging Markets – industry PMI data for August due next week

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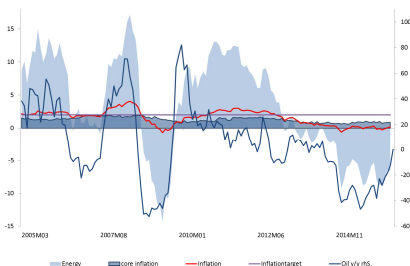
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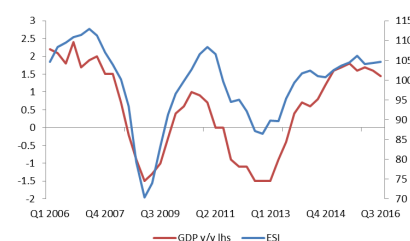
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EZ - Inflation



Source: Eurostat, Bloomberg

EZ – ESI vs. BIP



Source: Eurostat, Erste Research

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Indications of past performance are no guarantee of a positive performance in the future!

EA - moderate increase of inflation in August expected

Next week, the flash estimates for the inflation rate of the Eurozone for August will be published. Our and market expectations are at +0.4% y/y (previously: +0.2% y/y). The main reason for the increase is the oil price. The annual rate of change in oil prices in the monthly average is expected to be for the first time since mid-2014 in the range of +/-0%. Thus, the energy component of inflation, and consequently headline inflation, should improve. For core inflation, no significant change is expected. It is still anticipated that core inflation is just below 1% (0.9-1% in August).

Assuming that the oil price and the Euro Area economy continue to stabilize, we expect an increase in inflation by the end of this year to 1.3-1.4% y/y. Core inflation, which reacts a little more slowly and therefore does not respond to the same extent as headline inflation (because energy and food prices affect headline inflation only with second-round effects), should stabilize by the end of the year at 1%.

EZ - PMI slightly lower in August (by 0.2 points)

The industry PMI for August published this week slightly decreased for the Eurozone, by 0.2 points to 51.8 points. In Germany, we observed a slight cooling from 53.8 points in July to 53.6 points in August. Positively, the purchasing manager indices in France increased by 0.2 points to 50 points in August. The PMI for Italy is to be published next week (02/09). Given the tense situation in the Italian banking sector, we expect the PMI to cool a bit further.

EZ - Consumer confidence fell slightly to -8.5 in August

The flash estimate of consumer confidence was published this week, slightly decreasing in August, in the context of the Brexit vote, from -7.9 in July to -8.5. Together with the relatively stable PMI data, consumer confidence indicates a neutral picture for the expected indicator of economic development (ESI), which is afflicted by slight downside risks, due to the Brexit vote. Given the above-mentioned indicators, we expect that the ESI, an important leading indicator of GDP growth in the Eurozone, will remain stable at the current level of about 104 points.

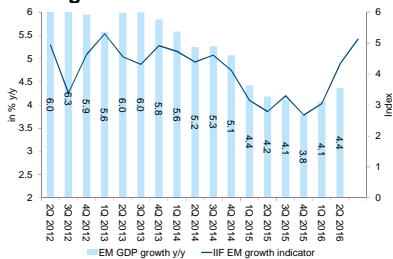
In general, leading indicators thus far point to a stable growth pace for the Eurozone in 3Q16, despite the Brexit vote.

Emerging Markets: Industry PMI data for August due next week

Next week (September 1), Industry PMI data for August for major Emerging Markets (China, India, Brazil and Russia) will be released. In July, the business climate improved markedly in Brazil, while it remained stable in the other countries.

*Based on the GDP dynamics, main Emerging Market countries (China, India, Brazil, Russia and Mexico) seem to have bottomed out in 4Q15. As of 1Q16, growth started to accelerate and the EM leading indicator from the IIF currently indicates further growth acceleration for 3Q16. **Despite the ongoing recovery, Emerging Market countries are still struggling with different kinds of structural issues that, in our opinion, are dampening the future growth prospects.** For example, China still has not solved its debt issues, while Brazil remains politically unstable after the impeachment of President Rousseff. **Short-term, however, the recovery is of course positive and should also give Eurozone exports positive impulses during the coming quarters.***

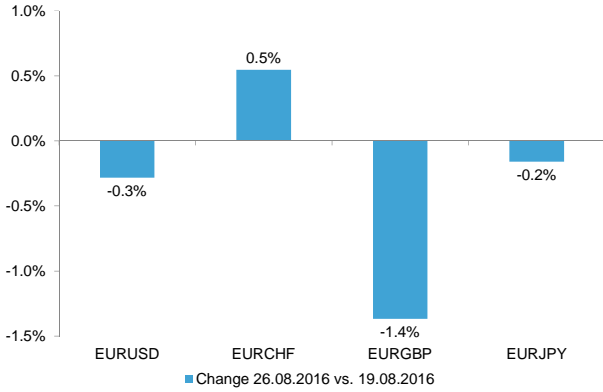
IIF EM growth indicator vs. GDP



Source: IIF, Bloomberg, Erste Group

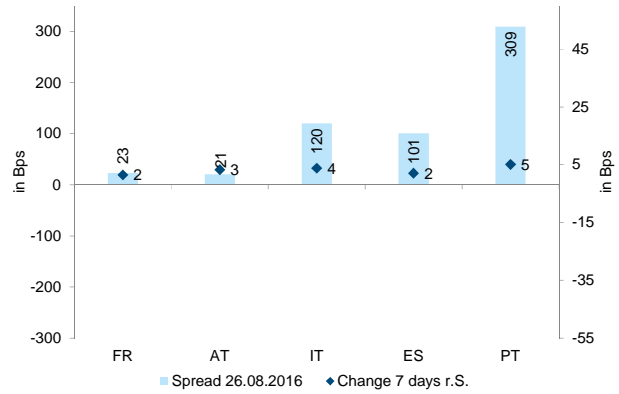
Forex and government bond markets

Exchange rates EUR: USD, CHF, GBP and JPY
change last week
(+ stronger euro / - weaker euro)



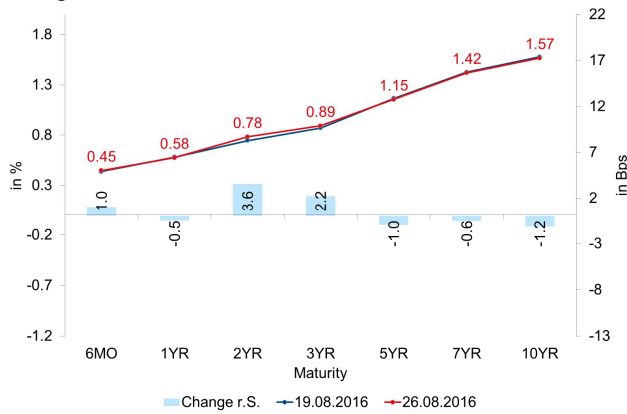
Source: Bloomberg, Erste Group Research

Eurozone – spreads vs. Germany
10Y government bonds



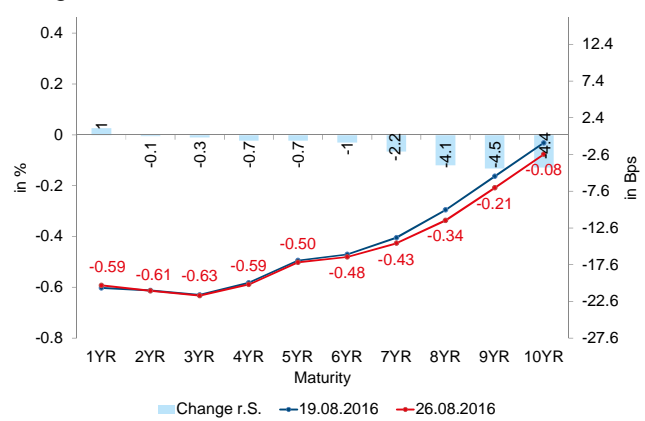
Source: Bloomberg, Erste Group Research

US Treasuries yield curve
change last week



Source: Bloomberg, Erste Group Research

DE Bund yield curve
change last week



Source: Bloomberg, Erste Group Research

Economic calendar

Date	Time	Ctry	Release	Period	Consens	Prior	
29-Aug	n.a.	DE	Retail Sales y/y	Jul		2.7%	
	14:30	US	PCE Deflator	Jul	0.8%	0.9%	
30-Aug	9:00	AT	PPI y/y	Jul		-2.4%	
	10:00	AT	PMI Manufacturing	Aug		53.4index	
	11:00	EA	Consumer Conf.	Aug F	-7.7index	-8.5index	
		EA	Business Conf.	Aug		104.6index	
	14:00	DE	Inflation y/y	Aug P		0.4%	
		DE	CPI m/m	Aug P		0.4%	
31-Aug	16:00	US	Consumer Conf.	Aug	96.6index	97.3index	
	8:45	FR	CPI m/m	Aug P		-0.4%	
		FR	PPI y/y	Jul		-3.1%	
		FR	Inflation y/y	Aug P		0.4%	
	11:00	IT	Inflation y/y	Aug P		-0.2%	
		EA	Unempl. Rate	Jul		10.1%	
		IT	CPI m/m	Aug P		-1.9%	
	14:15	US	ADP Employment	Aug	162.8thd	178.6thd	
	3:45	CN	PMI Manufacturing	Aug	50.2index	50.6index	
	9:50	FR	PMI Manufacturing	Aug F	48.8index	48.5index	
	9:45	IT	PMI Manufacturing	Aug		51.2index	
	9:55	DE	PMI Manufacturing	Aug F	53.6index	53.6index	
	10:00	EA	PMI Manufacturing	Aug F	51.9index	51.8index	
	16:00	US	PMI Manufacturing	Aug	52.2index	52.6index	
	2-Sep	10:00	IT	GDP y/y	2Q F		0.7%
			IT	GDP q/q	2Q F		0.0%
		11:00	EA	PPI y/y	Jul		-3.1%
14:30		US	Wages y/y	Jul	2.5%	2.6%	
		US	Trade Balance	Jul	-44m	-45m	
		US	Unempl. Rate	Aug	4.8%	4.9%	
	US	Chg. Non-Farm Payrolls	Aug	177.4thd	255.0thd		

Source: Bloomberg, Erste Group Research

FORECASTS¹⁾

GDP	2013	2014	2015	2016	2017
Eurozone	-0.5	0.9	1.5	1.3	1.6
US	1.9	2.4	2.4	1.9	1.9

Inflation	2013	2014	2015	2016	2017
Eurozone	1.3	0.5	0.1	0.3	1.5
US	1.5	1.6	0.1	1.3	1.9

	current	Sep.16	Dec.16	Mar.17	Jun.17
ECB MRR	0.00	0.00	0.00	0.00	0.00
3M Euribor	-0.30	-0.25	-0.25	-0.25	-0.22
Germany Govt. 10Y	-0.08	0.10	0.50	0.90	1.20
Swap 10Y	0.28	0.40	0.80	1.20	1.50

	current	Sep.16	Dec.16	Mar.17	Jun.17
Fed Funds Target Rate*	0.40	0.38	0.63	0.88	1.13
3M Libor	0.83	0.66	0.94	1.19	1.44
US Govt. 10Y	1.57	1.60	2.10	2.40	2.80
EURUSD	1.13	1.12	1.10	1.12	1.14

*Mid of target range

	current	Sep.16	Dec.16	Mar.17	Jun.17
Austria 10Y	0.13	0.30	0.70	1.10	1.40
Spread AT - DE	0.21	0.20	0.20	0.20	0.20

Source: Bloomberg, Erste Group Research

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

Erste Group Research

Week ahead | Macro, Fixed Income | Eurozone, USA

26 August 2016

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