

Week Ahead

Focus: Important hints at next week's ECB meeting

Analysts:

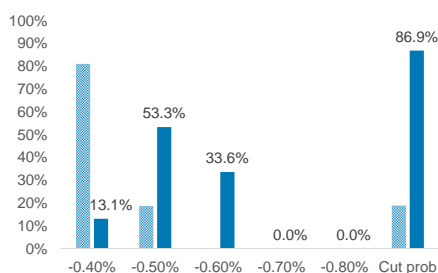
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How much will ECB commit itself next week?

Both M. Draghi (ECB) and J. Powell (US Fed) recently stressed that the price stability and inflation targets are "symmetrical" - a small word that makes a big difference. Inflation values would then have to be above 2% for a certain time in the future so that a 2% price stability or inflation target can be achieved "symmetrically", since inflation rates have remained below 2% for some time. This would probably dampen short-term interest rate expectations for a longer period of time, so that inflation rates above 2% can be achieved in the longer term.

The ECB has a mandate to keep prices stable in the medium term. To date, the Governing Council has given the following quantitative definitions: 1998: Price stability is the annual increase in the Euro Area HICP (inflation) of less than 2%. In 2003, the price stability target was changed to "...below but close to 2%". Should the ECB in the near future change its target to the wording "symmetrically at 2%", this would be a significant change in direction.

Deposit rate cut on 12.9. vs. 6.6.
(Probability accord. to market expectations)



Source: Bloomberg, Erste Group Research

It is therefore unlikely that the Governing Council will adopt such a wording by next week already. However, we expect the central bank to open up more room for maneuver and change its forward guidance with regard to short-term interest rate developments. Instead of indicating that interest rates should remain at the "current" level, the ECB could use the phrase "at an appropriate level." This would prepare the markets for the possibility of interest rate cuts.

The announcement of interest rate cuts or net asset purchases would not make sense until September at the earliest, when the ECB economists' new assessments of the economic environment and inflation forecasts are available. In the Eurozone, inflation is still a long way from its target. According to the ECB, it should be 1.3% this year and rise to 1.6% by 2021, and would thus remain well below the medium-term price stability target for the foreseeable future. In particular, domestic price pressure (core inflation) is still too low, although short-term interest rates are already in negative territory and excess liquidity from securities purchases and TLTROs to the banking sector is substantial (~1,800bn).

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Note: Past performance is not necessarily indicative of future results

Market expectations for interest rate cuts have risen significantly since the meeting at the beginning of June (see graph). Accordingly, the probability that the ECB will lower interest rates at the September meeting is currently around 87%. 53% of market participants expect the deposit rate to be lowered by -0.1% and 34% by -0.2% from the current level of -0.4%.

Economic calendar

Ctry	Date	Time	Release	Period	Consens	Prior
Eurozone						
FR	24-Jul	9:15	PMI Index	Jul P		51.9 Index
DE	24-Jul	9:30	PMI Index	Jul P	45.2 Index	45.0 Index
EA	24-Jul	10:00	PMI Index	Jul P	47.7 Index	47.6 Index
DE	25-Jul	10:00	Ifo Index	Jul	97 Index	97 Index
USA						
	26-Jul	14:30	GDP q/q	2Q A	1.8%	3.1%
China						

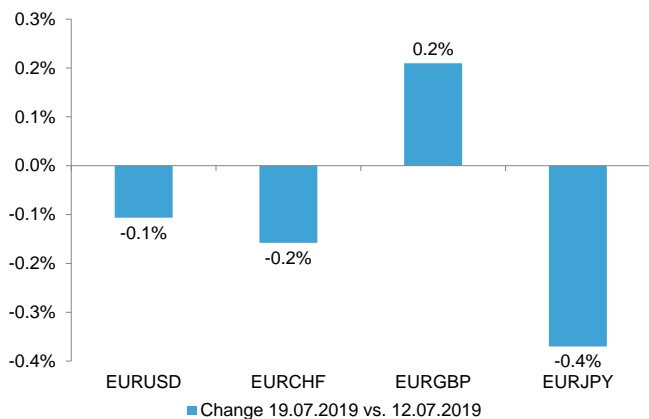
Central bank events

	Date	Time	Event
ECB			
	25-Jul	13:45	Monetary policy decision
		14:30	Mario Draghi, press conference following the Governing Council meeting
Fed			
			No events relevant for monetary policy scheduled

Source: Bloomberg, Central Banks, Erste Group Research

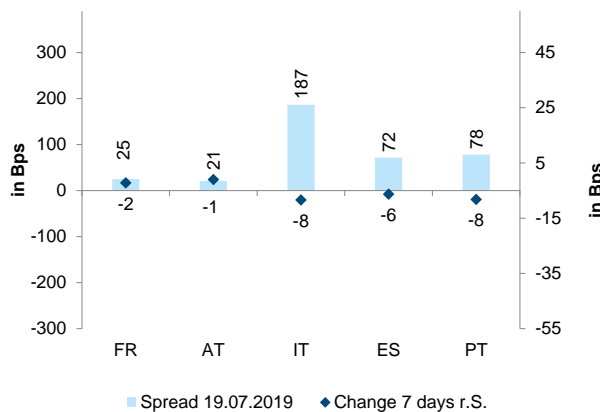
Forex and government bond markets

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



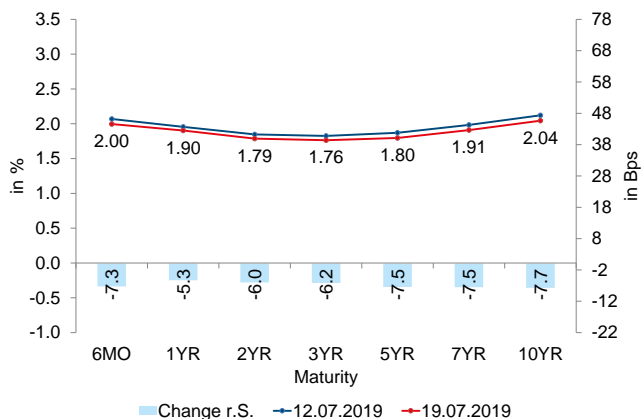
Source: Bloomberg, Erste Group Research

Eurozone spreads vs. Germany
 10Y government bonds



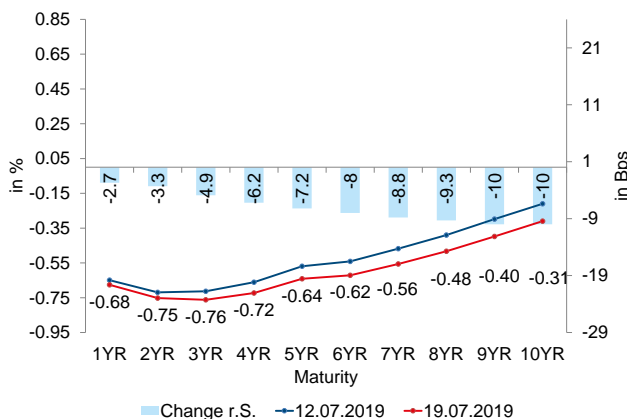
Source: Bloomberg, Erste Group Research

US Treasuries yield curve
 Changes compared to last week



Source: Bloomberg, Erste Group Research

DE Bund yield curve
 Changes compared to last week



Source: Bloomberg, Erste Group Research

Forecasts¹

GDP	2017	2018	2019	2020
Eurozone	2.4	1.8	1.1	1.0
US	2.3	2.9	2.5	2.1

Inflation	2017	2018	2019	2020
Eurozone	1.5	1.7	1.4	1.5
US	2.2	2.4	1.8	2.0

Interest rates	current	Sep.19	Dec.19	Mar.20	Jun.20
ECB MRR	0.00	0.00	0.00	0.00	0.00
3M Euribor	-0.37	-0.30	-0.30	-0.30	-0.30
Germany Govt. 10Y	-0.31	-0.30	-0.10	0.10	0.40
Swap 10Y	0.13	0.00	0.20	0.40	0.70

Interest rates	current	Sep.19	Dec.19	Mar.20	Jun.20
Fed Funds Target Rate*	2.41	2.38	2.38	2.38	2.38
3M Libor	2.30	2.60	2.70	2.70	2.70
US Govt. 10Y	2.05	2.40	2.50	2.50	2.50
EURUSD	1.13	1.10	1.13	1.15	1.18

*Mid of target range

In case of changes to our forecasts compared to the previous issue, arrows show the direction of the change.

Source: Bloomberg, 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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Published by:

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

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