

## Week ahead

ECB – Markets waiting to see extent of monetary easing

Austria – 3Q GDP confirms slow recovery

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### Outcome of ECB council meeting on Thursday highly uncertain

Even with the US labor market report scheduled for release, the most watched event next week will be the ECB council meeting on Thursday. At its previous meeting, the council announced that it would re-examine the degree of monetary accommodation at the December meeting. Since then, statements by decision makers have differed, but statements pointing towards further monetary stimulus were in the majority.

Accordingly, the markets expect the ECB to loosen its monetary stance further; however, the degree is highly uncertain, not least because of the continuing good economic data from the Eurozone, which raises (also in our view) justified doubts about the necessity of any further monetary support for the economy. From the account of the previous council's meeting, it could be seen that the stagnant core inflation rate after months of increase was a main cause of concern for decision makers. Core inflation was recently reported at 1.1% and from that level an overall inflation rate of slightly below 2% by the end of 2017 does not seem out of reach, even more so as the economy is performing well. This notwithstanding, a significant number of members of the council see risks for the attainment of the inflation goal and therefore monetary policy is likely to be loosened on Thursday.

The most likely measure is, in our view, a change in guidance for the duration of asset purchases. Currently, September 2016 is communicated as the most likely end of QE. On Thursday, this date is likely to be pushed backwards well into 2017. At the same time, the ECB will leave all doors open and we expect the following phrase to be repeated: *asset purchases will continue in any case until a sustained adjustment path of inflation that is consistent with the aim of achieving inflation rates below, but close to 2% over the medium term, is seen*. Further, we expect the ECB's deposit rate to be lowered from -0.2% to -0.3%. The media reported discussion within the ECB concerning a two-tier deposit rate, where a lower rate would apply to deposits above a certain threshold. Such a measure would aim to distribute the excess liquidity among Eurozone banks more evenly. Finally, as a third measure, an increase in monthly purchases seems to be in the cards. However, the extent of this is difficult to forecast, as the impact of QE on inflation can hardly be quantified. Based on the good economic data, we think that the council will only agree on a rather moderate increase of monthly purchases by EUR 10bn. In recent weeks, rumors have spread that the ECB was considering extending its universe of investable securities to municipalities. However, the availability of these assets differs strongly among Eurozone member countries and asset purchases would have to be spread unevenly, which speaks against this option.

In summary, the outcome of the upcoming ECB council meeting is highly uncertain. Considering the good economic data, the weak euro and opposing statements from leading ECB officials (ECB Executive Board

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Member Lautenschlaeger), we expect measures at the lower end of expectations.

### **Austrian GDP growth in 3Q15 in line with expectations**

According to the estimates of the Austrian Institute of Economic Research (WIFO), Austrian GDP grew by 0.3% q/q and 1.0 y/y in 3Q15, exactly in line with the flash estimates published the previous month. The yearly growth of the previous quarter has been revised upwards from 0.7% to 0.8%. The main drivers of growth were a revival of investment growth stimulated by the recovery in important export destinations and increased government spending due to the refugee crisis. Private consumption remained subdued. Despite noticeable acceleration in export growth, net exports made a negative contribution to GDP due to the increased growth of imports because of the increased demand for imported investment goods. We expect that, if the positive tendency persists for the next quarter, Austrian yearly economic growth in 2015 could turn out to be higher than the forecasted 0.7%.

**Economic calendar**

Date	Time	Ctry	Release	Period	Consens	Prior
27-Nov	8:45	FR	PPI y/y	Oct		-2.5%
	10:00	AT	PMI Manufacturing	Nov		51.4index
	11:00	EA	Consumer Conf.	Nov F		-5.9index
30-Nov		EA	Business Conf.	Nov	105.7index	106.1index
	8:00	DE	Retail Sales y/y	Oct		3.4%
	9:00	AT	PPI y/y	Oct		0.0%
	11:00	IT	Inflation y/y	Nov P	0.4%	0.3%
		IT	CPI m/m	Nov P	0.0%	0.5%
	12:00	IT	PPI y/y	Oct		-3.8%
	14:00	DE	Inflation y/y	Nov P	0.3%	0.2%
1-Dec		DE	CPI m/m	Nov P	0.2%	0.0%
	9:50	FR	PMI Manufacturing	Nov F	50.8index	50.8index
	9:45	IT	PMI Manufacturing	Nov		54.1index
	9:55	DE	PMI Manufacturing	Nov F	52.6index	52.6index
	10:00	EA	PMI Manufacturing	Nov F	52.8index	52.8index
	11:00	EA	Unempl. Rate	Oct	10.8%	10.8%
		IT	GDP y/y	3Q F		0.9%
		IT	GDP q/q	3Q F		0.2%
2-Dec	16:00	US	PMI Manufacturing	Nov	50.4index	50.1index
	11:00	EA	PPI y/y	Oct	-3.2%	-3.1%
3-Dec	14:15	US	ADP Employment	Nov	182.9thd	181.9thd
	11:00	EA	Retail Sales y/y	Oct	2.7%	2.9%
04. Dez.	13:45	EA	Target Rate (lending)	-	-0.34%	-0.20%
		EA	Target Rate	-	0.04%	0.05%
	14:30	US	Jobless Claims	-	270.4thd	260.0thd
	16:00	US	ISM Non-Manufacturing	Nov	58.1index	59.1index
04. Dez.		US	Durable Goods Orders	Oct F	1.7%	3.0%
	14:30	US	Wages y/y	Nov	2.3%	2.5%
		US	Trade Balance	Oct	-41m	-41m
		US	Unempl. Rate	Nov	5.0%	5.0%
	US	Chg. Non-Farm Payrolls	Nov	199.6thd	271.0thd	

Source: Bloomberg, Erste Group Research

**FORECASTS**

<b>GDP</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
<b>Eurozone</b>	-0.6	-0.5	0.9	1.5	1.8
<b>US</b>	2.8	1.9	2.4	2.4	3.0

<b>Inflation</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
<b>Eurozone</b>	2.3	1.3	0.5	0.3	1.5
<b>US</b>	2.1	1.5	1.6	0.1	1.8

	<b>current</b>	<b>Dec.15</b>	<b>Mar.16</b>	<b>Jun.16</b>	<b>Sep.16</b>
<b>ECB MRR</b>	0.05	0.05	0.05	0.05	0.05
<b>3M Euribor</b>	-0.11	-0.10	-0.10	-0.10	-0.10
<b>Germany Govt. 10Y</b>	0.46	0.70	1.10	1.50	1.60
<b>Swap 10Y</b>	0.84	1.00	1.40	1.80	1.90

	<b>current</b>	<b>Dec.15</b>	<b>Mar.16</b>	<b>Jun.16</b>	<b>Sep.16</b>
<b>Fed Funds Target Rate*</b>	0.12	0.38	0.63	0.88	1.38
<b>3M Libor</b>	0.41	0.63	1.00	1.30	1.80
<b>US Govt. 10Y</b>	2.21	2.40	2.80	3.20	3.40
<b>EURUSD</b>	1.06	1.05	1.08	1.10	1.12

\*Mid of target range

Source: Bloomberg, Erste Group Research

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Week ahead | Macro, Fixed Income | Eurozone, USA

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