

Week ahead

Eurozone – 1Q16 GDP growth surprises positively

US - FOMC lowers risk assessment

Emerging Markets – April Manufacturing PMI data expected to rise

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Euro Area: 1Q16 surprises positively with GDP growth of 0.6% q/q and 1.6% y/y

The first flash estimate of GDP of the Euro Area in 1Q16 showed an acceleration on a quarterly basis; at +0.6% q/q, it was clearly above the market expectations of -0.4% q/q. On a yearly basis, the 1.6% GDP growth has remained stable since 2Q15. France and Spain surprised positively. With strong consumption and a positive trend in investments, France exhibits a good structure/composition. As expected, due to low exports, the current account of France was negative. Spain, with its stable growth of 0.8% q/q, surprised slightly positively. No details were published for the other countries.

EZ: ESI and GDP



Source: Eurostat, Erste Group Research

Economic Sentiment Indicator (ESI) rose to 103.9 in April

The ESI of the Euro Area saw a positive development. Positive triggers came from consumer trust, the service sector and the industry sector. For insight into the second quarter of 2016, increased expectations with regard to future demand are to be evaluated positively. On the country level, sentiment rose in Italy and Germany. In France and Spain, the slightly decreasing trend persists.

EZ: Inflation



Source: Bloomberg, Eurostat

Drawing on the positive surprise regarding GDP for 1Q16 and the increased ESI survey results in April, for 2Q16, we expect a stabilization of the Euro Area growth at 1.5% to 1.6% y/y. However, the upward risks to our forecast have increased with the data presented today.

Inflation fell to -0.2% y/y in April

Inflation showed a negative development. At -0.2% y/y, it is still under the market expectations of -0.1% y/y. Core inflation fell from 1% y/y in March to 0.8% y/y in April. Energy prices continue to be a burden. The negative pressure from energy prices was enhanced by the pressure from service prices, which fell from +1.4% y/y in March to +1.0% y/y in April.

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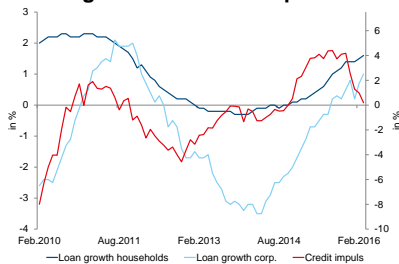
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For 2016, we expect inflation to be at 0.6%. A further decrease in oil prices below USD 40 in the annual average represents a downwards risk for our forecast.

Loan growth in March continues, but is losing momentum. Based on seasonally-adjusted data from the ECB, loan growth to households stabilized at 1.6% y/y in March, while loan growth to companies decelerated slightly to 1.0% y/y (previously 1.0%). The credit impulse (ratio of changes in the growth pace of loans to GDP), however, which is of importance for the dynamics of the economy, eased further in March.

EZ loan growth vs. credit impulse



Source: Bloomberg, Erste Group Research

Continued loan growth is a major supporting element for Eurozone economy. Since banks in the Eurozone expect a further easing of credit standards in 2Q16, we deem a further slight acceleration of loan growth in 2Q16 as realistic, which should render support to consumption and investments. However, it would be important for the April loan data to lift the credit impulse again.

Spain – snap elections in June almost inevitable. The Spanish King will not be able to propose a candidate for head of government to the Parliament, due to a lack of agreement between the political parties. Snap elections (on June 26) thus seem very likely at the moment.

On the basis of the favorable economic development, capital markets remain calm. Nonetheless, the unexpectedly high public deficit for 2015 (above 5%) has shown that **Spain urgently needs a new government in order to consolidate its public finances.** Due to the financial position of the public finances, the room for manoeuvre of the new government will be limited.

Greece – EC cites important progress in talks. The creditors and Greece have made important progress on a policy package that should pave the way for discussions on the conclusion of the first review of the aid program.

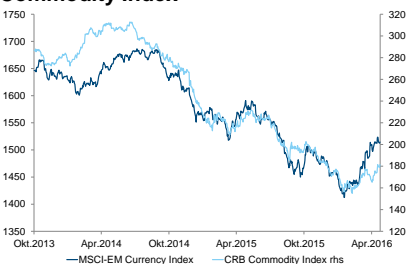
Based on statements from several representatives of the EC regarding the status of the negotiations with Greece, the probability of a successful conclusion of the first program review has risen. There are still issues with additional austerity steps that would kick in if the original agreed targets are missed. **On May 9, Eurozone finance ministers will hold an extraordinary meeting to discuss the progress.** In July, large debt repayments are due (more than EUR 2bn) and without fresh money from the current support program, Greece will not be able to meet them. Thus, time is running out. But, based on statements from all parties, an agreement is getting closer.

FOMC leaves door open for rate hike in June

After the most recent two-day meeting of the FOMC toned down its risk assessment.

This is not a clear signal for a rate hike in June, but certainly a step in this direction. The FOMC will still want to wait for further data before deciding on the next hike. We think that economic demand should pick up going forward and, accordingly, **a rate hike at the next FOMC meeting in June is for us the most likely outcome.**

MSCI-EM Currency Index vs. CRB Commodity Index



Source: Bloomberg, Erste Group Research

Emerging Markets – Manufacturing PMI data due May 2/3

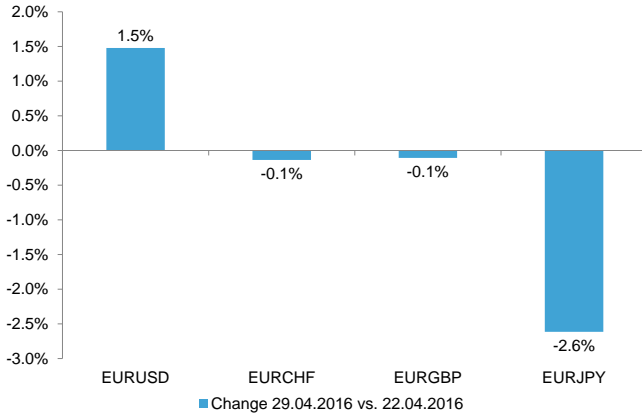
For major Emerging Markets, manufacturing PMI data for April will be released next week (May 2/3). In March, the sentiment already improved slightly, mainly due to the positive data from India and China.

In line with the encouraging development of several other indications (rising commodity prices together with rising Emerging Market currencies), **we expect manufacturing PMI data next week in Emerging Markets to rise as well.** Despite the recent political turmoil, the sentiment in Brazil should benefit from the encouraging environment as well, since the

*market's focus has now shifted to economic measures of a possible new government. Provided that the positive environment for Emerging Markets continues in 2Q16, the Eurozone economy should benefit as well. During **the next few weeks, it remains to be seen whether the conditions for Emerging Markets would worsen in the case that the US Fed hikes rates in June (as we expect).***

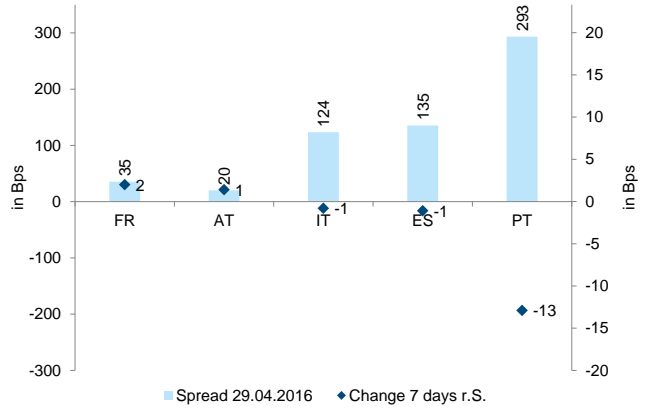
Forex and government bond markets

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



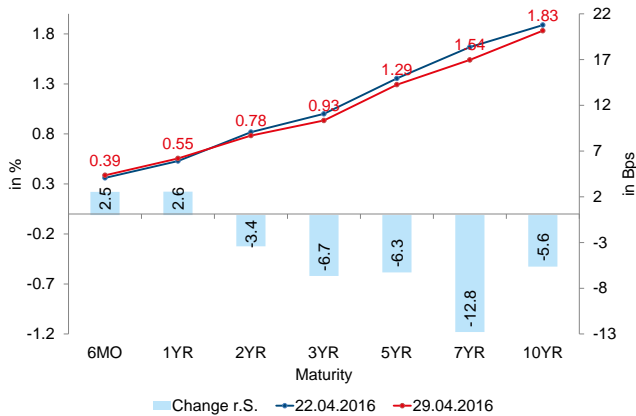
Source: Bloomberg, Erste Group Research

Eurozone – spreads vs. Germany
10Y government bonds



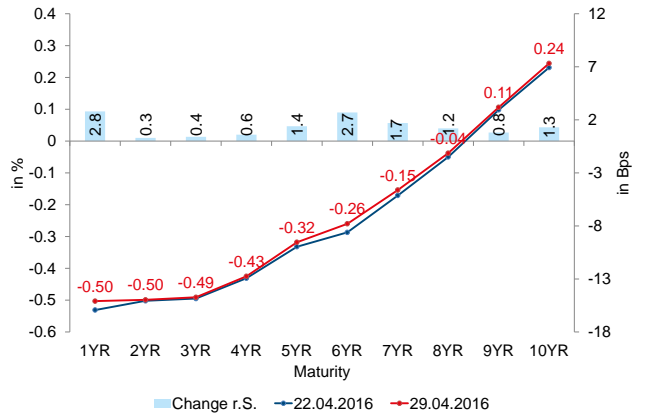
Source: Bloomberg, Erste Group Research

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-Apr | 7:30 | FR | GDP y/y | 1Q A | 1.0% | 1.3% | |
| | | FR | GDP q/q | 1Q A | 0.3% | 0.5% | |
| | 8:00 | DE | Retail Sales y/y | Mar | 2.8% | 0.7% | |
| | | 8:45 | FR | CPI m/m | Apr P | 0.1% | 0.8% |
| | FR | | PPI y/y | Mar | | -4.1% | |
| | FR | | Inflation y/y | Apr P | -0.1% | -0.1% | |
| | 9:00 | AT | PPI y/y | Mar | | -3.1% | |
| | | AT | GDP q/q | 1Q | | 0.3% | |
| | 11:00 | AT | GDP y/y | 1Q | | 1.1% | |
| | | IT | Inflation y/y | Apr P | -0.2% | -0.2% | |
| | | EA | Unempl. Rate | Mar | 10.3% | 10.3% | |
| | | EA | GDP q/q | 1Q A | 0.4% | 0.3% | |
| | | IT | CPI m/m | Apr P | 0.5% | 2.1% | |
| | 12:00 | EA | GDP y/y | 1Q A | 1.5% | 1.6% | |
| | | IT | PPI y/y | Mar | | -4.1% | |
| | 14:30 | US | PCE Deflator | Mar | 0.8% | 1.0% | |
| 16:00 | US | Univ. Michigan Index | Apr F | 90.1index | 89.7index | | |
| 2-May | 9:50 | FR | PMI Manufacturing | Apr F | | 48.3index | |
| | | IT | PMI Manufacturing | Apr | | 53.5index | |
| | 9:55 | DE | PMI Manufacturing | Apr F | 51.9index | 51.9index | |
| | | EA | PMI Manufacturing | Apr F | 51.5index | 51.5index | |
| | | US | PMI Manufacturing | Apr | 51.3index | 51.8index | |
| 3-May | 3:45 | CN | PMI Manufacturing | Apr | 49.9index | 49.7index | |
| 4-May | 11:00 | EA | PPI y/y | Mar | -4.5% | -4.2% | |
| | | 8:45 | FR | Trade Balance | Mar | | -5177m |
| | FR | | CA Balance (m) | Mar | | -3924m | |
| | 11:00 | EA | Retail Sales y/y | Mar | 2.6% | 2.4% | |
| | | 14:15 | US | ADP Employment | Apr | 190.1thd | 200.1thd |
| | US | | Trade Balance | Mar | -45m | -47m | |
| | US | | ISM Non-Manufacturing | Apr | 54.8index | 54.5index | |
| | 16:00 | US | Durable Goods Orders | Mar F | 1.9% | 0.8% | |
| | | 5-May | US | Jobless Claims | - | 258.9thd | 257.0thd |
| | 6-May | | 14:30 | US | Wages y/y | Apr | 2.4% |
| | | US | | Unempl. Rate | Apr | 5.0% | 5.0% |
| US | | Chg. Non-Farm Payrolls | Apr | 202.5thd | 215.0thd | | |

Source: Bloomberg, Erste Group Research

FORECASTS

| GDP | 2013 | 2014 | 2015 | 2016 | 2017 |
|-----------------|-------------|-------------|-------------|-------------|-------------|
| Eurozone | -0.5 | 0.9 | 1.5 | 1.6 | 1.8 |
| US | 1.9 | 2.4 | 2.4 | 2.3 | 2.3 |

| Inflation | 2013 | 2014 | 2015 | 2016 | 2017 |
|------------------|-------------|-------------|-------------|-------------|-------------|
| Eurozone | 1.3 | 0.5 | 0.1 | 0.6 | 1.5 |
| US | 1.5 | 1.6 | 0.1 | 1.5 | 2.1 |

| | current | Jun.16 | Sep.16 | Dec.16 | Mar.17 |
|--------------------------|----------------|---------------|---------------|---------------|---------------|
| ECB MRR | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| 3M Euribor | -0.25 | -0.25 | -0.25 | -0.25 | -0.22 |
| Germany Govt. 10Y | 0.28 | 0.50 | 0.70 | 1.00 | 1.30 |
| Swap 10Y | 0.66 | 0.80 | 1.00 | 1.30 | 1.60 |

| | current | Jun.16 | Sep.16 | Dec.16 | Mar.17 |
|-------------------------------|----------------|---------------|---------------|---------------|---------------|
| Fed Funds Target Rate* | 0.37 | 0.63 | 0.88 | 1.13 | 1.63 |
| 3M Libor | 0.64 | 0.93 | 1.18 | 1.59 | 1.80 |
| US Govt. 10Y | 1.85 | 2.30 | 2.70 | 3.00 | 3.10 |
| EURUSD | 1.14 | 1.08 | 1.08 | 1.10 | 1.12 |

*Mid of target range

| | current | Jun.16 | Sep.16 | Dec.16 | Mar.17 |
|-----------------------|----------------|---------------|---------------|---------------|---------------|
| Austria 10Y | 0.50 | 0.65 | 0.85 | 1.15 | 1.45 |
| Spread AT - DE | 0.21 | 0.15 | 0.15 | 0.15 | 0.15 |

Source: Bloomberg, Erste Group Research

Erste Group Research

Week ahead | Macro, Fixed Income | Eurozone, USA

29 April 2016

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Published by:

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

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