

## Week ahead

Eurozone – 1Q16 GDP data for DE and IT due next week

US – Labor market report came weaker than expected

Emerging Markets – China: FX reserves data due; capital flows into EMs continue

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### Euro area: 1Q16 GDP data for Germany and Italy expected

Next week (May 13), the first flash estimate of GDP growth in 1Q16 for Germany and Italy will be released. The first flash estimate for the entire Eurozone for 1Q16 (+1.6% y/y) already surprised on the upside last week.

*Given the strong showing of the Eurozone on the aggregate level, **we would also expect similarly strong performance from Germany in 1Q16.** Italy is, however, currently difficult to assess. On the one side, the business and consumer climates are performing well, while the ailing banking sector is obviously burdening the economic recovery (see also [week ahead from April 15, 2016](#)). **We thus expect below-average growth performance from the Italian economy in 1Q16.** According to recent statements, **we cannot expect any final breakthrough regarding Greece during the extraordinary meeting of Eurogroup finance ministers on May 9.***

### US labor market report falls short of expectations

**Non-farm payrolls declined to 160,000 in April** and thus **fell short of estimates** (200,000), while the March data was slightly adjusted from 215,000 to 208,000. The **unemployment rate remained stable at 5%** compared to March. Average hourly earnings increased by 0.3% compared to the previous month, pretty much in line with expectations. Compared to last year (April 2015), hourly earnings increased by +2.5%.

*Overall, the labor market report was weaker than expected and will therefore support the more cautious members of the US Fed in their argument that there is no hurry for further rate hikes. ISM manufacturing index was published at a less optimistic 50.8 in April and core inflation recently remained stable at +1.6% y/y; the exciting question therefore remains as to whether rates will be increased in June. Bloomberg indicates a 10% probability of a rate hike in June.*

### Emerging Markets – China: development of FX reserves in April in focus; capital flows into EMs continued in April

On May 7, **China will release the status of its FX reserves as of April.** In March, general stabilization of the situation in combination with positive currency effects led to a slight increase in the reserves to USD 3,213bn. The market expects stabilization of the value at around USD 3,200bn.

*From a fundamental perspective, it is our opinion that two factors with contrary impact currently point to the rough stabilization of FX reserves for April. On the one hand, the offshore USDRMB exchange rate traded in*

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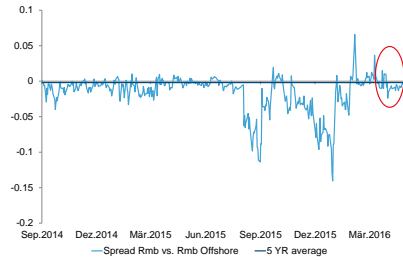
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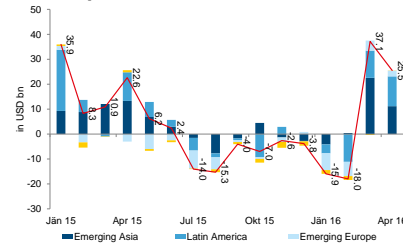
**USDRMB official vs. offshore**



Source: Bloomberg, Eurostat

April with a slight discount vs. the official exchange rate, which indicates a slight decline in FX reserves in April. Thanks to the continued weakness of the USD index (-1.6% m/m) in April, however, China's reserves should again have benefited from a positive currency effect. **Any unexpected strong decline of China's FX reserves could again unsettle financial markets.** Furthermore, the release of credit data, M2 growth as well as industrial production data for April will be of interest next week. The industry PMI data for April declined despite an improved market environment and this points towards stable industry production growth of 6-7%.

**EM's capital flows**



Source: Bloomberg, Erste Group Research

**Capital flows into EMs continued in April with an estimated volume of USD 25.5bn**, even though the dynamic slowed down slightly compared to March.

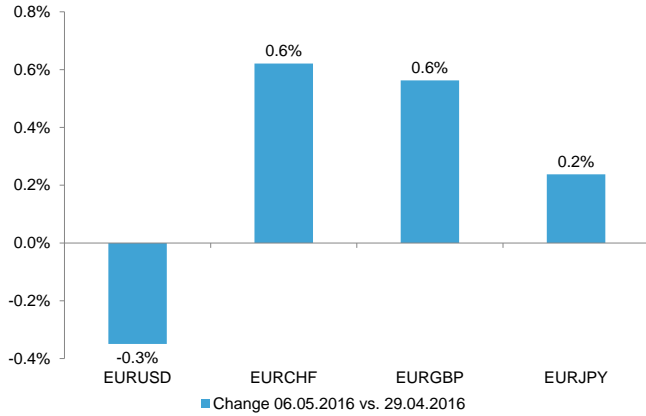
The data regarding the economic development of Emerging Markets is currently mixed. The continued capital inflow is, in our opinion, a positive indication for expected economic development in 2Q16. However, the recent weak industry sentiment (April industry PMI data declined in India, China and Brazil, against market expectations) calls for prudence.

**Brazil.** On May 11, the senate will decide on the possible impeachment of President Rousseff. The first stage of impeachment would last for 180 days in order to allow for the legal examination of the accusations (failure to correctly disclose the true state of public finances). Definitive impeachment could follow in fall.

*In the event of impeachment, Vice-President Temer, representing the conservatives, would take over as president. He is already working on a cabinet in order to put public finances in order again. **The situation in Brazil remains difficult even though the sentiment of capital markets regarding EMs has recently improved.** This week the rating agency Fitch has lowered the rating for Brazil due, among other things, to the unstable political situation and has set the outlook to negative.*

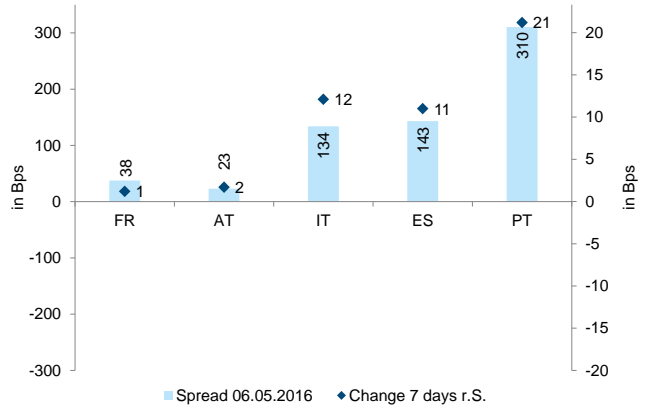
**Forex and government bond markets**

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



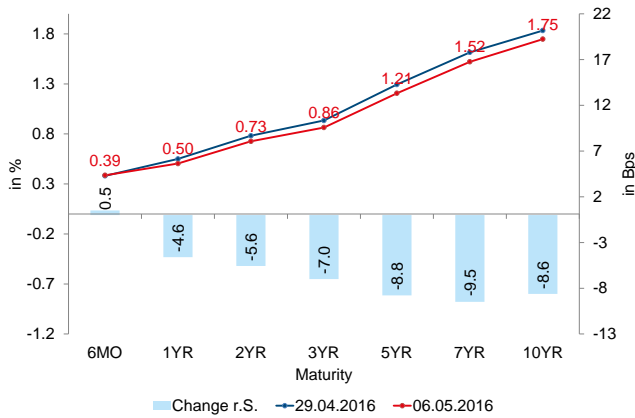
Source: Bloomberg, Erste Group Research

**Eurozone – spreads vs. Germany**  
10Y government bonds



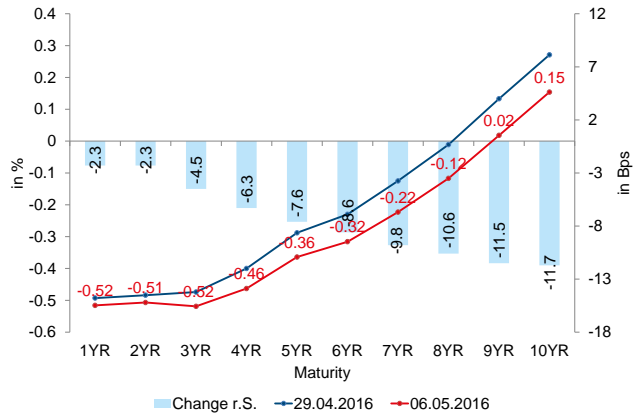
Source: Bloomberg, Erste Group Research

**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
6-May	14:30	US	Wages y/y	Apr	2.4%	2.3%
		US	Unempl. Rate	Apr	4.9%	5.0%
		US	Chg. Non-Farm Payrolls	Apr	205.4thd	215.0thd
7-May	n.a.	CN	Forex Reserves	Apr	3207bn	3213bn
10-May	n.a.	CN	CNY new loans	Apr	841bn	1370bn
		CN	M2 yoy	Apr	14%	13%
		FR	Cap Util.	Apr		78.2%
	3:30	CN	Inflation y/y	Apr	2.3%	2.3%
		CN	PPI y/y	Apr	-3.8%	-4.3%
	8:00	DE	CA Balance (m)	Mar	24m	20m
		DE	Trade Balance	Mar	21m	20m
		DE	Ind. Prod. y/y	Mar	-0.1%	-0.5%
	8:45	FR	Ind. Prod. y/y	Mar		0.6%
		IT	Ind. Prod. y/y	Mar		1.2%
12-May	8:45	FR	CPI m/m	Apr F		0.1%
		FR	Inflation y/y	Apr F		-0.1%
	11:00	EA	Ind. Prod. y/y	Mar	1.0%	0.8%
13-May	8:00	DE	GDP q/q	1Q P	0.6%	0.3%
		DE	GDP y/y	1Q P	1.5%	1.3%
		DE	Inflation y/y	Apr F	-0.3%	-0.3%
		DE	CPI m/m	Apr F	-0.5%	-0.5%
	10:00	IT	GDP y/y	1Q P		1.0%
		IT	GDP q/q	1Q P		0.1%
	11:00	IT	Inflation y/y	Apr F		-0.3%

Source: Bloomberg, Erste Group Research

**FORECASTS**

<b>GDP</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
<b>Eurozone</b>	-0.5	0.9	1.5	1.6	1.8
<b>US</b>	1.9	2.4	2.4	2.3	2.3

<b>Inflation</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
<b>Eurozone</b>	1.3	0.5	0.1	0.6	1.5
<b>US</b>	1.5	1.6	0.1	1.5	2.1

	<b>current</b>	<b>Jun.16</b>	<b>Sep.16</b>	<b>Dec.16</b>	<b>Mar.17</b>
<b>ECB MRR</b>	0.00	0.00	0.00	0.00	0.00
<b>3M Euribor</b>	-0.26	-0.25	-0.25	-0.25	-0.22
<b>Germany Govt. 10Y</b>	0.17	0.50	0.70	1.00	1.30
<b>Swap 10Y</b>	0.56	0.80	1.00	1.30	1.60

	<b>current</b>	<b>Jun.16</b>	<b>Sep.16</b>	<b>Dec.16</b>	<b>Mar.17</b>
<b>Fed Funds Target Rate*</b>	0.37	0.63	0.88	1.13	1.63
<b>3M Libor</b>	0.63	0.93	1.18	1.59	1.80
<b>US Govt. 10Y</b>	1.76	2.30	2.70	3.00	3.10
<b>EURUSD</b>	1.14	1.08	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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