

Week Ahead

Focus: Spain formation of government, EZ Industry Production

Analysts:

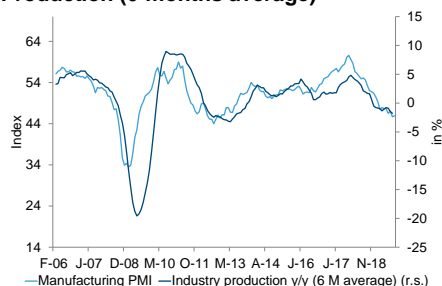
Gerald Walek
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Spain – Podemos frighten financial markets

Following Spain's election last week, the Social Democrats (with the strongest vote) and the left-wing citizens movement Podemos signed a provisional coalition agreement this week. However, both parties still lack another 20 seats for a majority in parliament. The goal is therefore to win smaller regional parties for cooperation.

Due to Podemos' extreme political positions, the financial markets have already reacted skeptically to the agreement this week, as a result of which the general risk appetite for peripheral Eurozone government bonds has slackened. It remains to be seen whether a government will be formed and, if so, what influence Podemos as a junior partner would have on the government program. In essence, Podemos wants to expand government spending and partially reverse the structural reforms that have boosted Spain's growth in recent years. However, with a public debt ratio of 96.7% of GDP and a structural deficit of 3.1%, Spain has no room for maneuver within the Maastricht framework to increase public spending. On the contrary, Spain would have to reduce its structural deficit continuously in the coming years. Against this background, we believe that further moderate increases in risk premiums for Spanish government bonds in the coming weeks are possible. As has already been shown, this could also have a negative impact on Italian government bonds for the time being.

Eurozone Manufacturing PMI vs. Industrial Production (6-months average)



Source: Market data provider, Eurostat, Erste Group Research

Eurozone – Turnaround in industrial sentiment?

A first flash estimate of the industry sentiment for the Eurozone, Germany and France for November will be released next week (November 22). In October, the survey values stabilized at multi-year lows.

During the last few weeks, some political uncertainty factors have calmed down (e.g. hard Brexit, trade conflict). At the end of October, the expectation component of the ifo index had already risen for the first time since March of this year. We therefore also expect industrial sentiment in the Eurozone to rise slightly in November, at least from its most recent very low levels. Due to the profound structural problems of the automotive sector and the unresolved Brexit question, however, we expect only a subdued recovery of Eurozone industry in the coming months.

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Note: Past performance is not necessarily indicative of future results

Economic calendar

Ctry	Date	Time	Release	Period	Consens	Prior
Eurozone						
EA	22-Nov	10:00	PMI Index	Nov P	46.3 Index	45.9 Index
DE	22-Nov	8:00	GDP y/y	3Q F	0.5%	0.5%
DE	22-Nov	9:30	PMI Index	Nov P	42.7 Index	42.1 Index
FR	22-Nov	9:15	PMI Index	Nov P		50.7 Index
USA						
	15-Nov	14:30	Retail Sales mom	Oct	0.2%	-0.3%
China						

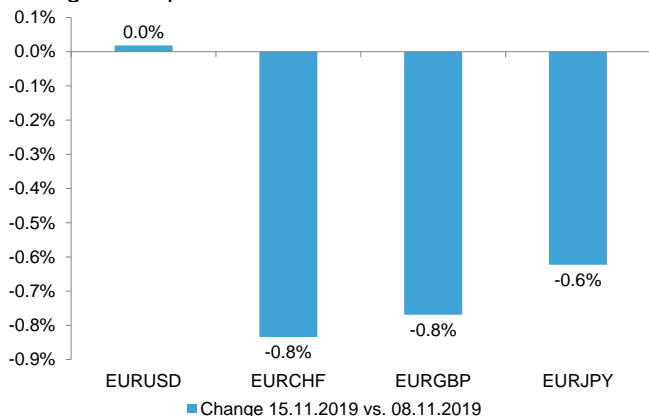
Central bank events

	Date	Time	Event
ECB			
	14.Nov	10:00	Luis de Guindos, speech at Euro Finance Week, Frankfurt
	18.Nov	14:05	Philip Lane, Interview at Fortune Global Forum, Paris
	20.Nov	18:00	Philip Lane, Q&A, Universität Bocconi, Mailand
	21.Nov	13:30	Account of the monetary policy meeting, 23-24 October
	22.Nov	09:30	Christine Lagarde, speech at Frankfurt European Banking Congress, Frankfurt
Fed			
	20.Nov	17:00	Minutes of the FOMC meeting, 29-30 October

Source: Market Data Provider, Erste Group Research

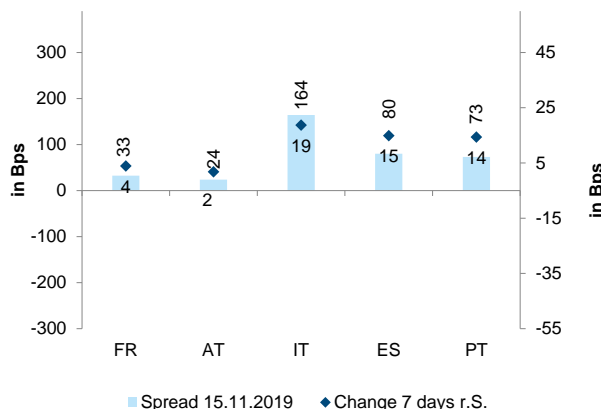
Forex and government bond markets

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



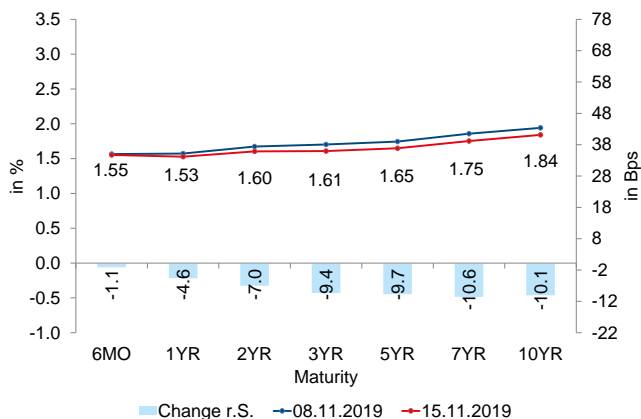
Source: Market Data Provider, Erste Group Research

Eurozone spreads vs. Germany
 10Y government bonds



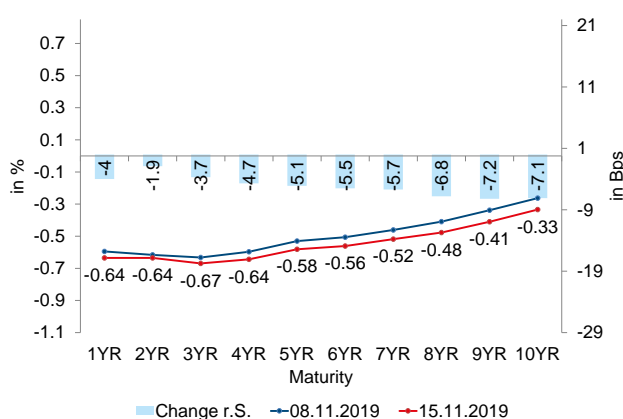
Source: Market Data Provider, Erste Group Research

US Treasuries yield curve
 Changes compared to last week



Source: Market Data Provider, Erste Group Research

DE Bund yield curve
 Changes compared to last week



Source: Market Data Provider, Erste Group Research

Forecasts¹

BIP	2017	2018	2019	2020
Eurozone	2.5	1.9	1.1	1.2
USA	2.3	2.9	2.2	1.8

Inflation	2017	2018	2019	2020
Eurozone	1.5	1.7	1.2 ↓	1.3 ↓
USA	2.2	2.4	1.9	2.1

Interest rates	current	Dec.19	Mar.20	Jun.20	Sep.20
ECB MRR	0.00	0.00	0.00	0.00	0.00
3M Euribor	-0.40	-0.40	-0.40	-0.40	-0.40
Germany Govt. 10Y	-0.33	-0.40	-0.30	-0.20	-0.20
Swap 10Y	0.06	-0.10	0.00	0.10	0.10

Interest rates	current	Dec.19	Mar.20	Jun.20	Sep.20
Fed Funds Target Rate*	1.55	1.63	1.63	1.63	1.63
3M Libor	1.91	1.90	1.90	1.90	1.90
US Govt. 10Y	1.84	1.80	2.00	2.00	2.10
EURUSD	1.10	1.13	1.15	1.15	1.15

*Mid of target range

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

Source: Market Data Provider, 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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