

Week Ahead

Focus: Trade conflict US/China, elections in the UK, monetary policy decisions of the US Fed and the ECB

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Trade agreement before December 15?

The most important event for the global markets next week will be the decision on further US tariffs on Chinese imports from December 15. This will affect annual imports of about USD 150bn; the tariff rate would be 15%. The basis for this will be whether the two governments can agree beforehand on a partial trade agreement. As in previous weeks and months, recent statements in this regard did not give a clear picture. President Trump said an agreement only after the US elections in November was possible. Meanwhile, the media quoted sources shortly thereafter speaking of a possible agreement before December 15 this year. An agreement next week would be received by the markets as a positive signal. This would fulfill hopes that had been fueled not least by President Trump himself already in October. Market sentiment would improve and yields on US government bonds would rise. In the other case, the signs would then be pointing to an escalation of the conflict again, which would trigger a correspondingly different reaction on the markets.

What do elections in UK mean for Brexit?

Parliamentary elections will be held in the UK next week. For the global markets, the focus will be on what the outcome means for Brexit. The polls currently show a clear lead for Prime Minister Boris Johnson's Tories. If the Conservatives reach a majority, this would make Brexit very likely by January 31, 2020, even if the negotiated package still has to go through Parliament. Markets should be relieved, as a factor of uncertainty would be removed in the foreseeable future. If Labour were to win, which is possible, the process of disentanglement from the EU would probably drag on. Labour wants to renegotiate the agreement with the EU and then hold a referendum on this package or remain. Markets would probably assume that the EU would grant a Labour government a further extension of the deadline. This would argue for further muddling through, but at least this government would have a majority in Parliament. The prospect of a new referendum would open the door to the UK staying in the EU, which could raise hopes on the markets. However, this could be overshadowed by the shock that the outlook for a Labour government's future economic policy would trigger. If neither party gets a clear majority, it means more of what we had throughout 2019. Like other deadlines before, the January 31 deadline also would be at risk. This would increase the risk of a hard Brexit. However, the events in October have shown that both negotiating parties absolutely want to avoid such an outcome and the markets would assume this again this time.

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Note: Past performance is not necessarily indicative of future results

Fed to confirm course - market doubts to continue

The last meeting of the Federal Reserve's FOMC this year should confirm the current course. This consists of keeping interest rates unchanged as

long as the economic data roughly follows expectations. According to Fed Chairman Powell, only a material change in the outlook would trigger a reaction from the central bank. After a solid third quarter, the US economy got off to a relatively weak start to the fourth quarter. The latter, however, is a snapshot with little significance. The same can be said about the last two weak inflation figures. This data will certainly not trigger a fundamental reassessment of the situation at the central bank. In addition to the decision on monetary policy, a new survey of FOMC participants will be published after the meeting. The focus of attention will be on the estimates for the Fed Funds Rate at the end of 2020. In the last survey in September, none of the respondents expected an interest rate below the current one, some a higher one, but that was before the last two rate cuts. We assume that the estimates that had anticipated the interest rate at the current level will not be altered, while those that had estimated a higher interest rate at the end of 2020 should revise their expectations downwards. Thus, the median of the estimates is likely to be lower than in September and will correspond to unchanged rates until the end of 2020. This should have little impact on the markets. The futures are currently pricing in 1-2 rate cuts until the end of 2020, and this is unlikely to change much after the FOMC's new forecast.

ECB Strategy Review could take center stage next week

Next week, the ECB's Governing Council will meet for the first time under the leadership of Christine Lagarde. Changes in monetary policy can be ruled out and the new president will confirm the course. At the press conference, the focus of questions could therefore be on the Strategy Review announced for next year. What is clear is that it will be a process that will probably continue well into 2020. So far, however, there is no clear agenda for this internal discussion process, but a few indications. One of the issues will be how to implement the price stability mandate. That includes the inflation target and how to deal with deviations. The timeframe of the mandate could also be discussed. A contribution by the ECB to the fight against climate change will also be an issue. Christine Lagarde will probably remain as nebulous on these issues as she was in her report to the European Parliament this week. The outcome of the Strategy Review is hard to predict. We do not currently expect any significant impact on our forecasts for interest rates. Next week, there will also be new ECB economists' forecasts. The slow recovery of the economy should be confirmed. The inflation forecasts could be raised slightly, which should result from somewhat higher assumptions for oil prices and other commodity prices. This will have little impact on the markets.

Economic calendar

Ctry	Date	Time	Release	Period	Consens	Prior
Eurozone						
USA						
	6-Dec	14:30	Wages y/y	Nov	3.0%	3.0%
	6-Dec	14:30	Unempl. Rate	Nov	3.6%	3.6%
	6-Dec	14:30	Chg. Non-Farm Payrolls	Nov	179.7 Tsd	128.0 Tsd
	11-Dec	14:30	Inflation y/y	Nov	2.0%	1.8%
	13-Dec	14:30	Retail Sales mom	Nov	0.4%	0.3%
China						
	10-Dec	3:30	Inflation y/y	Nov	4.2%	3.8%

Central bank events

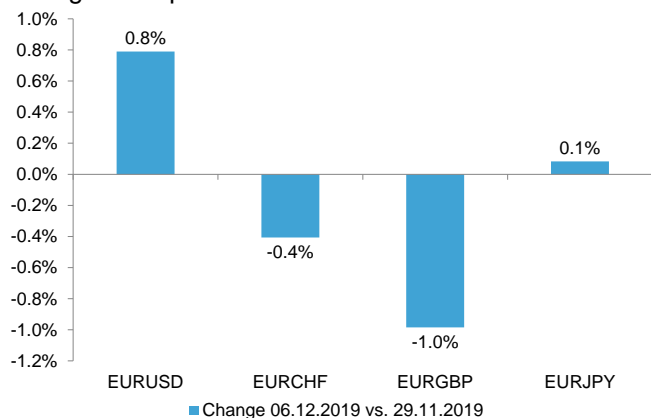
	Date	Time	Event
ECB			
	12-Dec	13:45	Monetary Policy Decision
	12-Dec	14:30	Press conference after the ECB Council meeting
Fed			
	11.Dez	20:00	Monetary Policy Decision
	11.Dez	20:30	Press conference after the FOMC meeting

Source: Market Data Provider, Erste Group Research

Forex and government bond markets

Exchange rates EUR: USD, CHF, GBP and JPY

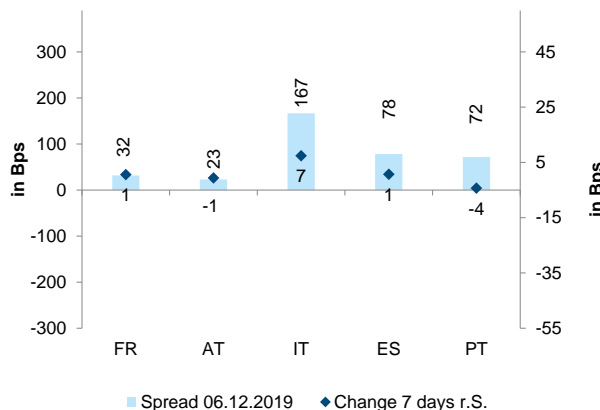
Changes compared to last week



Source: Market Data Provider, Erste Group Research

Eurozone spreads vs. Germany

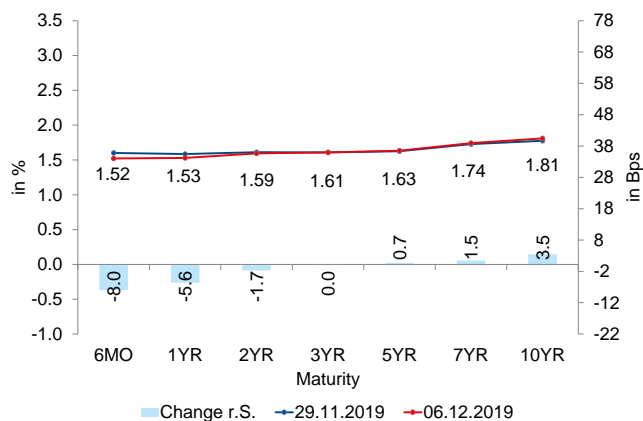
10Y government bonds



Source: Market Data Provider, Erste Group Research

US Treasuries yield curve

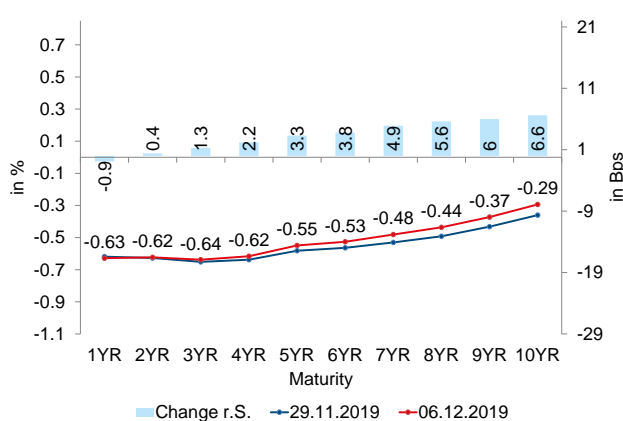
Changes compared to last week



Source: Market Data Provider, Erste Group Research

DE Bund yield curve

Changes compared to last week



Source: Market Data Provider, Erste Group Research

Forecasts¹

GDP	2018	2019	2020	2021
Eurozone	1.9	1.1	1.2	1.3
US	2.9	2.2	1.8	2.2

Inflation	2018	2019	2020	2021
Eurozone	1.7	1.2	1.3	1.5
US	2.4	1.9	2.1	2.1

Interest rates	current	Mar.20	Jun.20	Sep.20	Dec.20
ECB MRR	0.00	0.00	0.00	0.00	0.00
3M Euribor	-0.39	-0.40	-0.40	-0.40	-0.40
Germany Govt. 10Y	-0.30	-0.30	-0.20	-0.20	-0.10
Swap 10Y	0.11	0.00	0.10	0.10	0.20

Interest rates	current	Mar.20	Jun.20	Sep.20	Dec.20
Fed Funds Target Rate*	1.55	1.63	1.63	1.63	1.63
3M Libor	1.89	1.90	1.90	1.90	2.10
US Govt. 10Y	1.79	2.00	2.00	2.10	2.20
EURUSD	1.11	1.15	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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