

Week Ahead

Focus: UK elections, Eurozone PMIs and Irish investments

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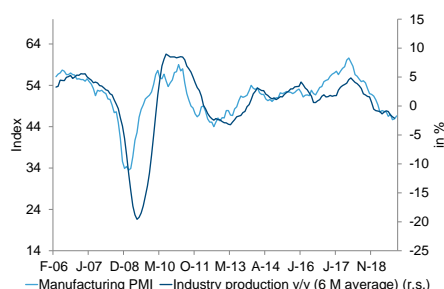


Elections clear way for Brexit

The clear victory of Boris Johnson's conservative Tories in the election means that Brexit is almost certain by January 31, at the latest. The Conservatives should receive 363 seats in the new British Parliament, well above the 326 necessary for an absolute majority. The package negotiated with the EU still has to pass the British Parliament, but with such a clear vote, there will hardly be any dissenters within the Conservative Party.

The risks of a hard break as of January 31 were already low, but are now off the table. For the markets, this should mean a little more confidence in an - albeit slow - recovery of the Eurozone economy. For this reason, we are raising our forecasts for yields on German government bonds slightly during 2020. However, the ECB's purchases of securities should continue to set tight limits on yield increases for the foreseeable future. For the time being, not much will change with the United Kingdom's withdrawal from the EU. In terms of relations with the EU, the status quo is frozen until the end of 2020. Until then, a trade agreement would have to be negotiated; otherwise, the equivalent of a hard Brexit would threaten again, i.e. a separation without a follow-up agreement. This deadline can be extended, but both parties must agree on this by the end of June at the latest. The markets are aware that there are further obstacles ahead. For the time being, however, the relief that the first hurdle has been cleared will prevail.

EZ manufacturing PMI vs. Industry Production



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Note: Past performance is not necessarily indicative of future results

Improved manufacturing sentiment expected in December

Next week a first flash estimate of the manufacturing sentiment will be released in December for the Eurozone, Germany and France. Sentiment improved for the second month in a row in November, but remained at historically very low levels. Germany continued to be the worst performer in the Eurozone.

Now that an economic upturn is gradually emerging at the global level (supported, among other things, by lower political risks and an easing of monetary policy by the ECB and the US Fed), we assume that the manufacturing sentiment in the Eurozone will continue to brighten in December. In this environment, we expect industrial production in the Eurozone to gradually return to growth in 2020 after the downturn in 2019.

Causes Ireland and investment boom?

Ireland's investments jumped over 200% year-on-year in the 2nd quarter. Behind this are global corporations that transfer assets to Ireland for tax reasons and thus strongly inflate Ireland's investment volume in the short term. This also has a one-off positive impact on investment growth in the

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Eurozone. This effect has accelerated investment growth in the Eurozone to +5.4% in 2019 thus far (previously +2.4%), although industrial production has weakened sharply over the same period.

Due to this substantial shift in assets, we are raising our GDP growth forecast for the Eurozone in 2019 from +1.1% to +1.2%. For 2020, we expect GDP growth to remain stable at +1.2%.

Economic calendar

Ctry	Date	Time	Release	Period	Consens	Prior
Eurozone						
FR	16-Dec	9:15	PMI Index	Dec P	51.4 Index	51.7 Index
DE	16-Dec	9:30	PMI Index	Dec P	44.8 Index	44.1 Index
EA	16-Dec	10:00	PMI Index	Dec P	47.1 Index	46.9 Index
DE	18-Dec	10:00	Ifo Index	Dec	95 Index	95 Index
USA						
	13-Dec	14:30	Retail Sales mom	Nov	0.4%	0.3%
	20-Dec	14:30	GDP q/q	3Q T	2.1%	2.1%
	20-Dec	16:00	PCE Deflator	Nov		1.3%

China

Central bank events

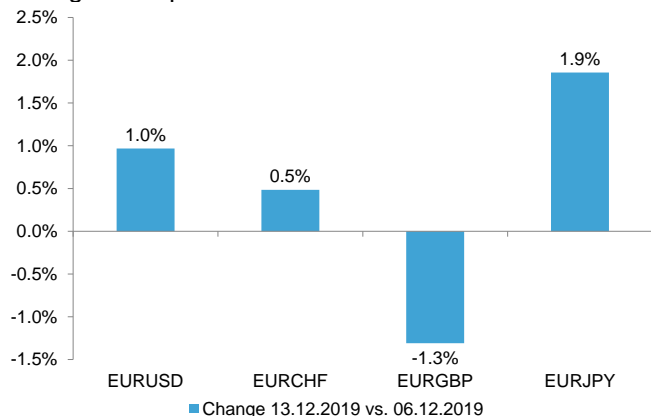
Date	Time	Event
ECB		
		Philip Lane, 6th Conference on on Household Finance and Consumption
Fed		
		No monetary policy relevant events

Source: Market Data Provider, Erste Group Research

Forex and government bond markets

Exchange rates EUR: USD, CHF, GBP and JPY

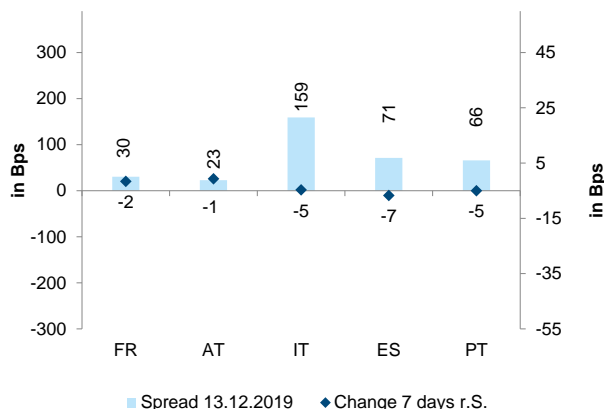
Changes compared to last week



Source: Market Data Provider, Erste Group Research

Eurozone spreads vs. Germany

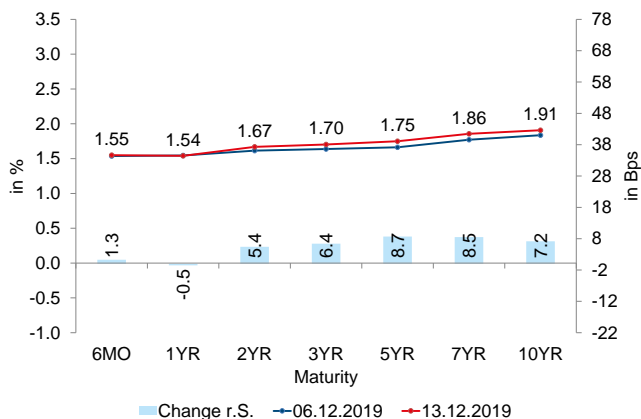
10Y government bonds



Source: Market Data Provider, Erste Group Research

US Treasuries yield curve

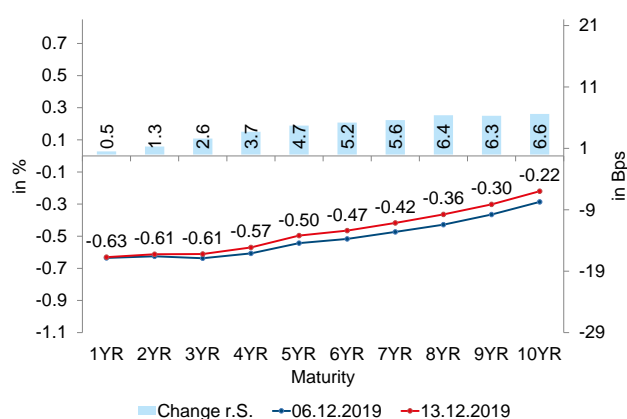
Changes compared to last week



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	1.2 ↑	1.2	1.3
US	2.9	2.2	1.9 ↑	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	-0.40	-0.40	-0.40	-0.40	-0.40
Germany Govt. 10Y	-0.24	-0.20 ↑	-0.20	-0.10 ↑	-0.10
Swap 10Y	0.14	0.10 ↑	0.10	0.20 ↑	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	1.89	2.00	2.00	2.10	2.20
EURUSD	1.12	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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