

Week in Focus

13 April 2017

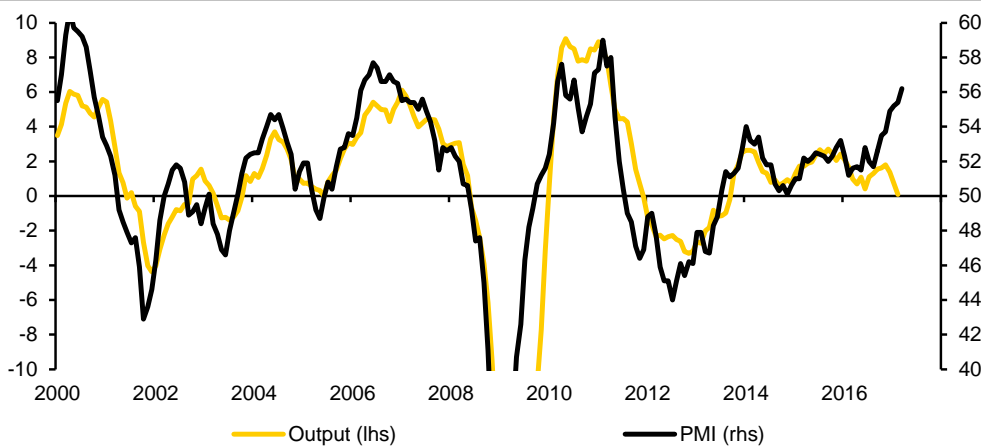
Euro area: Sentiment still upbeat, but what does this mean?

The purchasing managers' indices (PMIs) in the euro area ought to have maintained their recent high levels in April. So far, however, upbeat business sentiment has not been confirmed by a corresponding increase in "hard" data. We nonetheless stick to our view that a "sentiment bubble" is unlikely and therefore believe that production will rise in the months ahead. In China, the economy should again have expanded by 6.8% in the first quarter.

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Euro area – Unusual divergence

Purchasing managers' indices for manufacturing, industrial production, year-over-year change in per cent, 3-month average



Source: Bundesbank, Global Insight, Commerzbank Research

*We wish all our readers
a Happy Easter!*

The next regular issue of "Week in Focus" will be published on Friday, 21 April.

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Economic data preview:

Euro area: Sentiment still upbeat, but what does this mean?

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Business sentiment in the euro area is currently excellent, as illustrated by the continued rise in sentiment indicators. Although a noticeable setback seems unlikely in April, the probability of another visible increase is low given already high levels (chart 1). In our opinion, the purchasing managers' indices should more or less have maintained their March levels. For the manufacturing and services PMI, we reckon with 56.0 (March: 56.2) and 55.5 (March: 56.0), respectively.

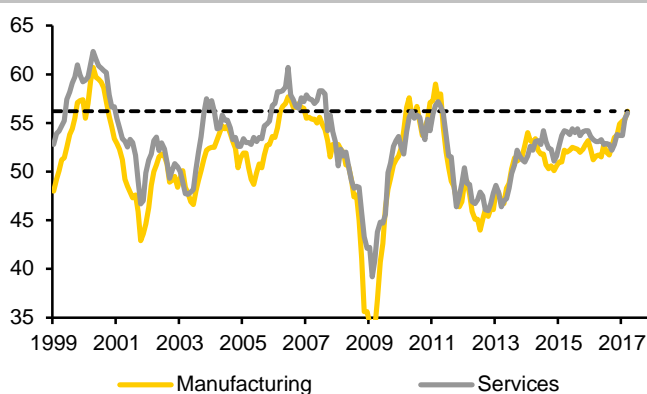
But the question has to be asked: What does this mean? So far, "hard" data such as industrial production have not followed the rise in sentiment indicators. Admittedly, there has not been a perfect correlation between the PMI for manufacturing and year-over-year production growth in the past. But since the start of the millennium, the gap between the two parameters has never been as pronounced as in the past six months. Whilst the PMI has inched up on a straight line, the rise in production has, in fact, slowed (chart on frontpage).

The longer this divergence lasts, the greater the doubts that rising sentiment will be followed by meaningful growth. However, such a "sentiment bubble" would be unprecedented. We therefore believe that production will pick up visibly in the months ahead, which would argue for a moderate uptick in economic growth. Moreover, part of the gap between sentiment indicators and production should also be closed as sentiment indicators in the months ahead look set to come down somewhat from their high levels.

China: Growth stable at 6.8%

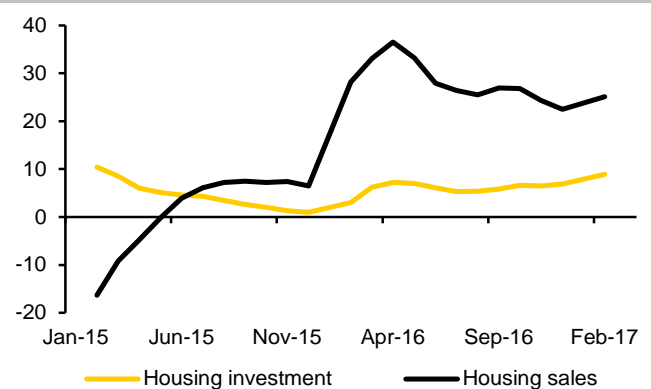
China's economy probably grew 6.8% y/y in the first quarter of 2017. In general, China's growth trajectory remains quite steady, supported by resilient investment growth. While the property prices appear to have peaked, the construction activities still illustrate an upward trend due to delayed effect of the property boom (chart 2). In the meantime, there emerged some sort of improvement in private investment as the authorities launched public-private-partnership (PPP) program to encourage participation of private funds in the infrastructure investment. Against this backdrop, growth of industrial production will likely remain stable, at around 6.2% y/y in March.

CHART 1: Euro area – Upside potential for PMIs unlikely
Purchasing managers' indices



Source: Bloomberg, Commerzbank Research

CHART 2: China: Housing investment is rising modestly
Change on year, year to date, in %



Source: Wind, Commerzbank Research

Preview – The week of 17 to 21 April 2017

Time	Region	Indicator	Period	Forecast	Survey	Last	
Monday, 17 April 2017							
3:00	CHN	Industrial production	Mar	yoy	6.2	6.3	6.0
		GDP	Q1	yoy	6.8	6.8	6.8
13:30	USA	Empire State Index	Apr	sa	14.0	15.0	16.40
15:00		NAHB index	Apr	sa	70	70	71
GER: Easter Monday.							
Tuesday, 18 April 2017							
13:30	USA	Housing starts	Mar	SAAR, k	1200	1260	1288
		Housing permits	Mar	SAAR, k	1250	1258	1213
14:15		Industrial production	Mar	mom, sa	0.4	0.5	0.1
Wednesday, 19 April 2017							
10:00	EUR	CPI, final	Mar	yoy	1.5	–	1.5 (p)
		CPI excl. food and energy, final	Mar	yoy	0.7	–	0.7 (p)
USA: Fed releases Beige Book (19:00)							
Thursday, 20 April 2017							
13:30	USA	Initial claims	15 Apr	k, sb	240	–	–
15:00		Philadelphia Fed Index	Apr	sa	24.0	25.0	32.8
	EUR	Consumer confidence	Apr	sa	-4.5	–	-5.0
Friday, 21 April 2017							
8:00	FRA	PMI, manufacturing	Apr	sa	53.0	–	53.3
		PMI, services	Apr	sa	57.0	–	57.5
8:30	GER	PMI, manufacturing	Apr	sa	58.0	–	58.3
		PMI, services	Apr	sa	55.5	–	55.6
9:00	EUR	PMI, manufacturing	Apr	sa	56.0	–	56.2
		PMI, services	Apr	sa	55.5	–	56.0
9:30	GBR	Retail sales	Mar	mom, sa	-0.2	-0.2	1.3
				yoy	3.7	3.6	4.1
15:00	USA	Existing home sales	Mar	SAAR, mn	5.53	5.55	5.48
IMF & World Bank Spring Meeting (21 to 23 April)							

Source: Bloomberg. Commerzbank Economic Research; *Time GMT (subtract 5 hours for EDST, add 1 hour for CET). # = Possible release; mom/qqq/yoy: change to previous period in percent. AR = annual rate. sa = seasonal adjusted. wda = working days adjusted; • = data of highest importance for marketsCommerzbank forecasts

Commerzbank forecasts

TABLE 1: Growth and inflation

	Real GDP (%)			Inflation rate (%)			
	2016	2017	2018	2016	2017	2018	
USA	1.6	2.3	2.3	1.3	2.5	2.5	<ul style="list-style-type: none"> Having corrected its imbalances, the US economy continues growing at decent rates. Growth in China is decelerating due, among other things, to high corporate indebtedness and industrial overcapacity. The ECB's expansionary monetary policy glosses over the structural problems of the euro zone and allows the economy to grow more strongly. EMU has survived the sovereign debt crisis, but is gradually evolving into an "Italian-style monetary union" – structural weaknesses are preserved by the loose monetary policy. The German economy is experiencing a consumption-driven boom; below this glossy surface, however, its competitiveness is gradually eroding. High unemployment in most EMU countries is keeping inflation low for the time being.
Japan	1.0	1.0	1.0	-0.1	0.7	1.0	
Euro area	1.7	1.8	1.6	0.2	1.4	1.4	
- Germany	1.9	1.6	1.5	0.5	1.7	1.6	
- France	1.1	1.6	1.7	0.2	0.9	0.9	
- Italy	0.8	1.0	1.1	-0.1	0.7	0.9	
- Spain	3.2	2.8	2.5	-0.2	2.4	1.3	
- Portugal	1.3	2.0	1.5	0.6	1.3	1.5	
- Ireland	4.4	3.5	3.0	-0.2	0.8	1.3	
- Greece	0.3	1.8	2.5	-0.8	0.7	1.0	
United Kingdom	1.8	1.8	1.7	0.7	2.8	2.8	
Switzerland	1.3	1.2	1.7	-0.4	0.4	0.7	
China	6.7	6.5	6.3	2.0	2.0	2.2	
India	7.5	7.3	7.4	5.0	5.3	5.1	
Brazil	-3.6	0.1	2.0	8.8	4.3	4.5	
Russia	-0.2	1.3	2.0	7.1	4.5	4.5	
World	2.8	3.3	3.4				

TABLE 2: Interest rates (end-of-quarter)

	12.04.2017	Q2 17	Q3 17	Q4 17	Q1 18	Q2 18		
USA								
Federal funds rate, upper bound	1.00	1.25	1.25	1.50	1.50	1.75	<ul style="list-style-type: none"> With the Fed having almost reached its targets, the speed of tightening has increased. We expect two more hikes in 2017 by 25 bps each, followed by a further three hikes in 2018. Due to accelerating core inflation and Fed rate hikes, US government bond yields should rise somewhat. As euro zone core inflation should stay below ECB expectations, we forecast no hike in 2017 or 2018. Contrary to the US setting, 10y Bund yields seem unlikely to increase significantly until year-end. The multi-year trend of falling periphery spreads has run out of steam. With ECB support reaching limits and political risks on the rise, we anticipate rising risk premia. 	
3-months Libor	1.16	1.40	1.45	1.65	1.70	1.95		
2 years*	1.24	1.50	1.70	1.90	2.10	2.30		
5 years*	1.84	2.30	2.50	2.60	2.70	2.80		
10 years*	2.30	2.60	2.70	2.80	2.85	2.90		
Spread 10-2 years	106	110	100	90	75	60		
Swap-Spread 10 years	-3	-15	-15	-15	-10	-10		
Euro area								
Minimum bid rate	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40		
3-months Euribor	-0.33	-0.30	-0.30	-0.30	-0.30	-0.30		
2 years*	-0.84	-0.80	-0.75	-0.75	-0.70	-0.65		
5 years*	-0.51	-0.50	-0.45	-0.40	-0.35	-0.35		
10 years*	0.22	0.25	0.30	0.40	0.50	0.60		
Spread 10-2 years	106	105	105	115	120	125		
Swap-Spread 10 years	51	50	50	55	55	55		
United Kingdom								
Bank Rate	0.25	0.25	0.25	0.25	0.25	0.25		
3-months Libor	0.34	0.40	0.40	0.35	0.35	0.35		
2 years*	0.11	0.15	0.15	0.20	0.20	0.25		
10 years*	1.06	1.25	1.25	1.30	1.35	1.40		

TABLE 3: Exchange rates (end-of-quarter)

	12.04.2017	Q2 17	Q3 17	Q4 17	Q1 18	Q2 18	
EUR/USD	1.06	1.09	1.12	1.10	1.08	1.06	<ul style="list-style-type: none"> Medium term we see upside risks to the EUR as QE tapering fuels unjustified ECB rate hike speculation. However, in the long run USD outperforms the EUR as monetary policy in the Eurozone will in general remain expansionary for an extended period of time while the Fed continues its cautious rate hiking cycle. With a view to Brexit negotiations, our working assumption is that ultimately there will be an amicable agreement. However, uncertainty will remain high for a long period so that sterling will not recover for the time being. CNY seems set to further depreciate against the dollar over the coming quarters.
USD/JPY	110	109	110	112	115	110	
EUR/CHF	1.07	1.07	1.09	1.08	1.07	1.06	
EUR/GBP	0.85	0.88	0.90	0.91	0.90	0.89	
EUR/SEK	9.58	9.55	9.55	9.40	9.30	9.20	
EUR/NOK	9.11	9.20	9.30	9.20	9.10	8.90	
EUR/PLN	4.25	4.25	4.30	4.35	4.40	4.50	
EUR/HUF	312	310	312	315	317	320	
EUR/CZK	26.64	26.00	25.50	25.00	25.00	25.00	
AUD/USD	0.75	0.75	0.74	0.75	0.76	0.77	
NZD/USD	0.69	0.70	0.69	0.70	0.71	0.72	
USD/CAD	1.33	1.35	1.35	1.36	1.37	1.35	
USD/CNY	6.89	6.95	7.00	7.10	7.15	7.20	

Source: Bloomberg. Commerzbank Economic Research; bold change on last week; * Treasuries, Bunds, Gilts

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