Week Ahead

Focus: German Federal Constitutional Court ruling, US Labor Market Report, Eurozone public debt

Analysts:

Rainer Singer
rainer.singer@erstegroup.com

Gerald Walek
gerald.walek@erstegroup.com

Major Markets & Credit Research
Gudrun Egger, CEFA (Head)
Rainer Singer (Senior Economist EZ, USA)
Gerald Walek, CFA (Economist EZ)
Margarita Grushanina (Economist AT, Quant. Analyst EZ)

Note: Past performance is not necessarily indicative of future results

Who decides on ECB purchases?

This week, the German Federal Constitutional Court ruled on a lawsuit against the purchase of government bonds by the ECB and thus the Bundesbank under the PSPP. The court found partially in favor of the complainants. Although the Federal Constitutional Court did not find any monetary financing of the states, it did find a violation of the German Constitution. This was due to the fact that neither the German government nor the German Bundestag examined whether the adopted measures complied with the principle of proportionality. This should have consisted in working towards a more precise weighing of all the effects of the PSPP by the ECB. "The unconditional pursuit of the monetary policy objective, while ignoring the economic policy implications of the program, clearly disregards the principle of proportionality ...". A period of three months has been allowed for this weighing of effects to be submitted. Until then, the German Bundesbank may continue its bond purchases.

This requirement should be relatively easy to meet, as there is of course a wealth of studies that shed light on the effects of the PSPP, and extending it to include the side effects and the overall positive benefits should not present the ECB's economists with an insoluble task. Even if it did, in our view, no further purchases and reinvestments by the Bundesbank would not in themselves be a disaster. After all, German government bonds have the least need of the ECB's programs. Since there is free movement of capital in a monetary union and massive excess liquidity throughout the Eurozone, other (private) buyers should close the gap.

However, the ruling could trigger a discussion about the structures of the monetary union, which could ultimately occupy the markets more than the Bundesbank's purchases. The Federal Constitutional Court has denied jurisdiction to the EU Court of Justice, whose jurisdiction the ECB falls under. "...related jurisdiction of the Court of Justice of the European Union ends where an interpretation of the Treaties is not comprehensible and therefore objectively arbitrary". If this limit is exceeded, it is further stated that, at least under German law, there is a lack of democratic legitimacy. Thus, the final decision on ECB decisions obviously does not lie with the ECJ, at least for Germany. The European Commission has stood in front of the ECB and said that decisions of the ECJ are binding for all member states. There is, however, a risk that the example of the German Federal Constitutional Court will be used in other countries of the Union. Politicians are now being called upon to provide certainty that ECB measures cannot be overturned by national courts in future.

The markets have hardly reacted to the decision of the Federal Constitutional Court and therefore do not currently expect the conflict to escalate or extend to a structural issue. However, the discussion process has only just begun. We are monitoring the development for the time being.
and do not consider the risks to be high enough at the moment to be considered in our forecasts.

US labor market dives in April

The US labor market report showed the expected massive slump, which was not quite as dramatic as the market had estimated, but the difference is of no consequence on this scale. For April, a decline in employment of 19.52mn was reported; the market had estimated 22mn. By far the most affected sector was leisure and hospitality, where 7.7mn jobs were cut. The second most affected sector, at 2.5mn, was, surprisingly, health and education, as many jobs were lost in health care and private education. The unemployment rate rose from 4.4% to 14.7%; the market estimate was 16%. The sharp rise in average wages may come as a surprise in this environment. The reason is that jobs with low wages were particularly hard hit by the job losses and therefore average wages rose by 4.7% compared to the previous month.

EZ: record deficit for 2020 expected

The European Commission this week published the first official estimates for the public budgets of all EU member states. As expected, the EC forecasts a substantial budget deficit of 8.5% of GDP for all Eurozone countries in 2020. This means that the emissions requirements for all Eurozone countries in 2020 will amount to EUR 950bn.

In our view, the financing of this amount is ensured above all by the comprehensive measures of the ECB, supplemented by the flexible use of the credit lines of the ESM. At the country level, the situation is particularly delicate for Italy, Spain and France. In all three countries, the public debt ratio will climb to historic highs by the end of 2020. Italy in particular stands out negatively, with a projected government debt ratio of 159%. Downgrades of the credit ratings of these three countries by the rating agencies, as has recently happened with Italy, cannot therefore be ruled out. After the crisis-induced increase in the public debt ratio, it will be important for all Eurozone countries to return to a plausible consolidation path in subsequent years. This should also have a positive effect on assessments by the rating agencies.
Economic calendar

<table>
<thead>
<tr>
<th>Ctry</th>
<th>Date</th>
<th>Time</th>
<th>Release</th>
<th>Period</th>
<th>Consens</th>
<th>Prior</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eurozone</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DE</td>
<td>15-May</td>
<td>8:00</td>
<td>GDP y/y</td>
<td>1Q P</td>
<td>-2.0%</td>
<td>0.4%</td>
</tr>
<tr>
<td>EA</td>
<td>15-May</td>
<td>11:00</td>
<td>GDP q/q</td>
<td>1Q P</td>
<td>-3.9%</td>
<td>-3.8%</td>
</tr>
<tr>
<td>EA</td>
<td>15-May</td>
<td>11:00</td>
<td>GDP y/y</td>
<td>1Q P</td>
<td>-3.3%</td>
<td>-3.3%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>USA</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>12-May</td>
<td>14:30</td>
<td>Inflation y/y</td>
<td>Apr</td>
<td>0.4%</td>
<td>1.5%</td>
<td></td>
</tr>
<tr>
<td>15-May</td>
<td>14:30</td>
<td>Retail Sales mom</td>
<td>Apr</td>
<td>-12.1%</td>
<td>-8.4%</td>
<td></td>
</tr>
</tbody>
</table>

China

<table>
<thead>
<tr>
<th>Date</th>
<th>Time</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>12-May</td>
<td>3:30</td>
<td>Inflation y/y</td>
</tr>
</tbody>
</table>

Central bank events

<table>
<thead>
<tr>
<th>Date</th>
<th>Time</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>ECB</td>
<td>11-May</td>
<td>12:45 Yves Mersch, speech at 2020 Consensus forecast, virtual</td>
</tr>
<tr>
<td></td>
<td>13-May</td>
<td>13:00 Philip Lane, discussion at Room for Discussion, virtual</td>
</tr>
<tr>
<td>Fed</td>
<td></td>
<td>No monetary policy relevant events</td>
</tr>
</tbody>
</table>

Source: Market Data Provider, ECB, Federal Reserve, Erste Group Research
Forex and government bond markets

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

![Currency exchange rate chart](chart)

*Source: Market Data Provider, Erste Group Research*

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

![Graph showing Eurozone spreads vs. Germany](chart)

*Source: Market Data Provider, Erste Group Research*

**US Treasuries yield curve**
Changes compared to last week

![Graph showing US Treasuries yield curve](chart)

*Source: Market Data Provider, Erste Group Research*

**DE Bund yield curve**
Changes compared to last week

![Graph showing DE Bund yield curve](chart)

*Source: Market Data Provider, Erste Group Research*
Forecasts

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>GDP</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Eurozone</td>
<td>1.9</td>
<td>1.2</td>
<td>-4.7</td>
<td>3.9</td>
</tr>
<tr>
<td>US</td>
<td>2.9</td>
<td>2.3</td>
<td>-3.7</td>
<td>4.2</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Inflation</strong></th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eurozone</td>
<td>1.7</td>
<td>1.2</td>
<td>0.7</td>
<td>1.7</td>
</tr>
<tr>
<td>US</td>
<td>2.4</td>
<td>1.8</td>
<td>1.2</td>
<td>2.2</td>
</tr>
</tbody>
</table>

**Interest rates**

<table>
<thead>
<tr>
<th></th>
<th>current</th>
<th>Jun.20</th>
<th>Sep.20</th>
<th>Dec.20</th>
<th>Mar.21</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ECB MRR</strong></td>
<td></td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td><strong>3M Euribor</strong></td>
<td>-0.26</td>
<td>-0.40</td>
<td>-0.40</td>
<td>-0.40</td>
<td>-0.40</td>
</tr>
<tr>
<td><strong>Germany Govt. 10Y</strong></td>
<td>-0.55</td>
<td>-0.50</td>
<td>-0.40</td>
<td>-0.20</td>
<td>-0.10</td>
</tr>
<tr>
<td><strong>Swap 10Y</strong></td>
<td>-0.14</td>
<td>-0.20</td>
<td>-0.10</td>
<td>0.10</td>
<td>0.20</td>
</tr>
</tbody>
</table>

**Fed Funds Target Rate**

<table>
<thead>
<tr>
<th></th>
<th>current</th>
<th>Jun.20</th>
<th>Sep.20</th>
<th>Dec.20</th>
<th>Mar.21</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>US Govt. 10Y</strong></td>
<td>0.63</td>
<td>0.70</td>
<td>0.80</td>
<td>1.00</td>
<td>1.10</td>
</tr>
<tr>
<td><strong>EURUSD</strong></td>
<td>1.08</td>
<td>1.08</td>
<td>1.10</td>
<td>1.10</td>
<td>1.12</td>
</tr>
</tbody>
</table>

*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

Note: In accordance with regulations, we are obliged to issue the following statement:
Forecasts are not a reliable indicator of future performance.
Contacts

Group Research

Head of Group Research
Friedrich Mostbkock, CEFA  +43 (0) 0100 11902

CEE Macro/Fixed Income Research
Head: Juraj Kofman (Macro/FI)  +43 (0) 0100 17357
Zoltan Aronszalassi, CFA (Fixed income)  +361 373 2830
Katarzyna Rzentarzeswa (Fixed income)  +43 (0) 0100 17356
Malgorzata Krzywek (Fixed income, Poland)  +43 (0) 0100 17338

Croatia/Serbia
Alen Kovac (Head)  +385 72 37 1383
Mate Jedlić  +385 72 37 1443
Ivana Rogić  +385 72 37 2419

Hungary
Orsolya Nyeste  +361 268 4428

Romania
Ciprian Dascalu (Head)  +40 3735 10108
Eugen Sirca  +40 3735 10435
Dorina Iasaco  +40 3735 10436

Slovakia
Maria Valachyova (Head)  +421 2 4862 4185
Katarina Muchova  +421 2 4862 4762

Major Markets & Credit Research
Head: Gudrun Egger, CEFA  +43 (0) 0100 11909
Ralf Burchert, CEFA (Sub-Sovereigns & Agencies)  +43 (0) 0100 16314
Hans Engel (Global Equities)  +43 (0) 0100 19835
Margitta Grushanina (Austria, Quant Analyst)  +43 (0) 0100 11957
Peter Kaufmann, CFA (Corporate Bonds)  +43 (0) 0100 11183
Heiko Langer (Financials & Covered Bonds)  +43 (0) 0100 85509
Stephan Lingnau (Global Equities)  +43 (0) 0100 16574
Carina Riefereier (Financials & Covered Bonds)  +43 (0) 0100 19632
Rainer Singer (Euro, US)  +43 (0) 0100 17331
Bernadett Povazsai-Róbi (Corporate Bonds)  +43 (0) 0100 17203
Elena Stadlov, CFA (Corporate Bonds)  +43 (0) 0100 19641
Gerald Walek, CFA (Euro, CHF)  +43 (0) 0100 16360

CEE Equity Research
Head: Henning Elskuchen  +43 (0) 0100 19634
Daniel Lion, CIIA (Technology, Ind. Goods&Services)  +43 (0) 0100 17422
Michael Marschallinger, CFA  +43 (0) 0100 17906
Nora Nagy (Telecom)  +43 (0) 0100 17416
Christoph Schultes, MBB, CIIA (Real Estate)  +43 (0) 0100 11523
Thomas Ungier, CFA (Banks, Insurance)  +43 (0) 0100 17344
Vladimira Urbankova, MBA (Pharma)  +43 (0) 0100 17343
Martina Valenta, MBA  +43 (0) 0100 11913

Major Markets & Credit Research
Head: Petr Bartek (Head)  +420 956 765 227
Marko Dongres  +420 956 765 218
Jan Safrañek  +43 (0) 0100 11902

Hungary
Joszef Miró (Head)  +361 235 5131
András Nagy  +361 235 5132
Tamás Pieter, CFA  +361 235 5135

Poland
Tomasz Duda (Head)  +48 22 330 6253
Cezary Bernatek  +48 22 538 6256
Konrad Grygo  +48 22 330 6254
Michał Pilch  +48 22 330 6255
Emil Poplawski  +48 22 330 6252
Marcin Gornik  +48 22 330 6251

Romania
Cătău Rapanu  +40 3735 10441

Treasury – Erste Bank Vienna
Group Markets Retail and Agency Business
Head: Christian Reiss  +43 (0) 0100 84012
Markets Retail Sales AT
Head: Markus Kaller  +43 (0) 0100 84239

Group Markets Execution
Head: Kurt Gerhold  +43 (0) 0100 84232
Retail & Sparkassen Sales
Head: Uwe Kolar  +43 (0) 0100 83214

Corporate Treasury Product Distribution AT
Head: Christian Skopek  +43 (0) 0100 84146

Fixed Income Institutional Sales

Institutional Distribution non CEE
Head: Margit Hraschek  +43 (0) 0100 84117
Karin Rattay  +43 (0) 0100 84118
Christian Kienesberger  +43 (0) 0100 84323
Bernd Bollhoff  +49 (0) 30 8105800 5525
Rene Klasein  +49 (0) 30 8105800 5521
Christopher Lampe-Traupe  +49 (0) 30 8105800 5523
Charles-Henry La Coste de Fontenilhes  +43 (0) 0100 84115
Bernd Thaler  +43 (0) 0100 84119

Bank Distribution
Head: Marc Freibertshäuser  +49 (0) 711 810400 5540
Sven Kienele  +49 (0) 711 810400 5541
Michael Schmotz  +43 (0) 0100 85544
Ulrich Inhoffer  +49 (0) 30 8105800 5550
Klaus Vosseler  +49 (0) 711 810400 5560
Andreas Goll  +49 (0) 711 810400 5561
Mathias Gindele  +49 (0) 711 810400 5562

Institutional Distribution CEE
Head: Jaromir Malak  +43 (0) 0100 84254

Institutional Distribution PL and CIS
Pawel Kiełek  +48 22 538 6223
Michał Jarmakowicz  +43 50100 85611

Institutional Distribution Slovakia
Head: Sarolta Sipulova  +421 2 4862 5619
Monika Smelikova  +421 2 4862 5625

Institutional Distribution Czech Republic
Head: Ondřej Cech  +420 2 4999 5577
Milan Bartos  +420 2 4999 5562
Barbara Suvedova  +420 2 4999 5560

Institutional Asset Management Czech Republic
Head: Petr Holecek  +420 956 765 453
Martin Penina  +420 956 765 106
Petr Valenta  +420 956 765 140
David Petracek  +420 956 765 809
Blanca Weinrova  +420 956 765 317

Institutional Distribution Croatia
Head: Antun Burić  +385 (0) 7237 2439
Zvonimir Tukač  +385 (0) 7237 1787
Natalija Zujic  +385 (0) 7237 1638

Institutional Distribution Hungary
Head: Peter Csizmadia  +3 61 237 8211
Gabor Balint  +3 61 237 8205

Institutional Distribution Romania and Bulgaria
Head: Ciprian Miu  +43 (0) 50100 85612
Cristian Adascalita  +40 3735 10441

Group Institutional Equity Sales
Head: Brigitte Zeitlinger-Schmid  +43 (0) 50100 83123
Werner Fürst  +43 (0) 50100 83121
Josef Kerekes  +43 (0) 50100 83125
Cormac Lyden  +43 (0) 50100 83120

Business Support
Bettina Mahoric  +43 (0) 50100 86441
Disclaimer

This publication was prepared by Erste Group Bank AG or any of its consolidated subsidiaries (together with consolidated subsidiaries “Erste Group”) independently and objectively as general information pursuant. This publication serves interested investors as additional source of information and provides general information, information about product features or macroeconomic information without emphasizing product selling marketing statements. This publication does not constitute a marketing communication pursuant to Art. 36 (2) delegated Regulation (EU) 2017/565 as no direct buying incentives were included in this publication, which is of information character. This publication does not constitute investment research pursuant to Art. 36 (1) delegated Regulation (EU) 2017/565. It has not been prepared in accordance with legal requirements designed to promote the independence of investment research and it is not subject to the prohibition on dealing ahead of the dissemination of investment research. The information only serves as non-binding and additional information and is based on the level of knowledge of the person in charge of drawing up the information on the respective date of its preparation. The content of the publication can be changed at any time without notice. This publication does not constitute or form part of, and should not be construed as, an offer, recommendation or invitation to subscribe for or purchase any securities, and neither this publication nor anything contained herein shall form the basis of or be relied on in connection with or act as an inducement to enter into any contract or inclusion of a security or financial product in a trading strategy. Information provided in this publication are based on publicly available sources which Erste Group considers as reliable, however, without verifying any such information by independent third persons. While all reasonable care has been taken to ensure that the facts stated herein are accurate and that the forecasts, opinions and expectations contained herein are fair and reasonable, Erste Group (including its representatives and employees) neither expressly nor tacitly makes any guarantee as to or assumes any liability for the up-to-dateness, completeness and correctness of the content of this publication. Erste Group may provide hyperlinks to websites of entities mentioned in this document, however the inclusion of a link does not imply that Erste Group endorses, recommends or approves any material on the linked page or accessible from it. Neither a company of Erste Group nor any of its respective managing directors, supervisory board members, executive board members, directors, officers of other employees shall be in any way liable for any costs, losses or damages (including subsequent damages, indirect damages and loss of profit) howsoever arising from the use of or reliance on this publication. Any opinion, estimate or projection expressed in this publication reflects the current judgment of the author(s) on the date of publication of this document and do not necessarily reflect the opinions of Erste Group. They are subject to change without prior notice. Erste Group has no obligation to update, modify or amend this publication or to otherwise notify a reader thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate. The past performance of securities or financial instruments is not indicative for future results. No assurance can be given that any financial instrument or issuer described herein would yield favorable investment results or that particular price levels may be reached. Forecasts in this publication are based on assumptions which are supported by objective data. However, the used forecasts are not indicative for future performance of securities or financial instrument. Erste Group, its affiliates, principals or employees may have a long or short position or may transact in the financial instrument(s) referred to herein or may trade in such financial instruments with other customers on a principal basis. Erste Group may act as a market maker in the financial instruments or companies discussed herein and may also perform or seek to perform investment services for those companies. Erste Group may act upon or use the information or conclusion contained in this publication before it is distributed to other persons. This publication is subject to the copyright of Erste Group and may not be copied, distributed or partially or in total provided or transmitted to unauthorized recipients. By accepting this publication, a recipient hereof agrees to be bound by the foregoing limitations.

Erste Group is not registered or certified as a credit agency in accordance with Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies (the Credit Rating Agencies Regulation). Any assessment of the issuers creditworthiness does not represent a credit rating pursuant to the Credit Rating Agencies Regulation. Interpretations and analysis of the current or future development of credit ratings are based upon existing credit rating documents only and shall not be considered as a credit rating itself.

© Erste Group Bank AG 2020. All rights reserved.

Published by:
Erste Group Bank AG
Group Research
1100 Vienna, Austria, Am Belvedere 1
Head Office: Wien
Commercial Register No: FN 33209m
Commercial Court of Vienna

Erste Group Homepage: www.erstegroup.com