

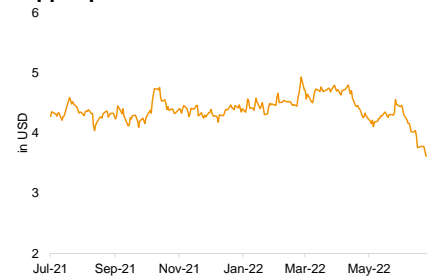
Week Ahead

Focus: Inflation and commodity prices

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Copper price in USD



Source: Refinitiv, Erste Group Research

Crude oil price (Brent) in USD



Source: Refinitiv, Erste Group Research

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Note: Past performance is not necessarily
indicative of future results

Mounting selling pressure on commodities

This week, almost all prices for essential commodities have corrected sharply. The price of the industrial metal copper, which is usually an important leading indicator of global industrial activity, plummeted by around 10% this week to its lowest level since December 2020. The price of crude oil (Brent) also corrected on world markets in the course of this week. It is thus only just above the price level seen before the outbreak of the war in Ukraine. Fortunately, the prices of important agricultural commodities, such as wheat, corn and soybeans have also dropped significantly.

The deepening slump in cyclically sensitive commodities confirms the current weakening of sentiment indicators. All in all, these are signs that the growth momentum of the global economy is weakening. The decline in commodity prices should have a dampening effect on inflation in the Eurozone over time, although consumers in the Eurozone will only feel the decline to a lesser extent, due to the current weakness of the euro. Nevertheless, the drop in the oil price, for example, should have a direct dampening effect on the inflation dynamics of energy prices.

Unfortunately, however, the unabated rise in gas and electricity prices currently poses an upside risk to the development of energy price inflation in the coming months.

The current drastic decline in prices for industrial metals should gradually ease the tightness in the supply of goods, as demand is obviously declining significantly. This should reduce the pricing power of manufacturers, with a corresponding dampening effect on the inflation dynamics of goods. As a result of the collapse in prices for key agricultural commodities, the rise in food prices should also lose momentum in the near future. This is important for the inflation outlook for the Eurozone, after the accelerated rise in food prices in particular caused inflation to rise again to 8.6% y/y in June.

The current weakness on global commodity markets is worsening the growth outlook for the Eurozone, especially for exports. However, falling commodity prices, especially for energy raw materials, should have a positive impact on the external trade balance. Due to the fall in raw material prices, the probability of falling inflation rates in the second half of the year has increased substantially. This should take pressure off the central banks and help calm the situation on the financial markets.

Economic calendar

Ctry	Date	Time	Release	Period	Consens	Prior
Eurozone						
USA						
	13-Jul	14:30	Inflation y/y	Jun	8.8%	8.6%
	15-Jul	14:30	Retail Sales mom	Jun	1.0%	-0.3%
China						
	9-Jul	3:30	Inflation y/y	Jun	2.4%	2.1%

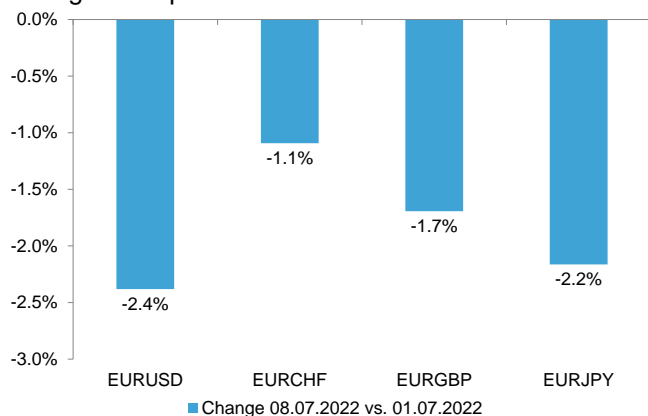
Central bank events

	Date	Time	Representative	Forum	Location
ECB	11-Jul		Christine Lagarde	Eurogroup Meeting	Brussels
	12-Jul		Luis de Guindos	Ecofin Meeting	Brussels
	15-Jul		Christine Lagarde	G20 Meeting	Bali
Fed	14-Jul	17:00	Christopher Waller	speech	Rocky Mountain Economic Summit

Source: Market Data Provider, ECB, Federal Reserve, Erste Group Research

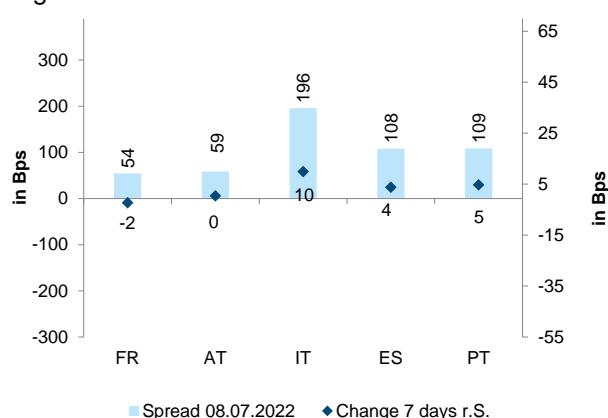
Forex and government bond markets

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



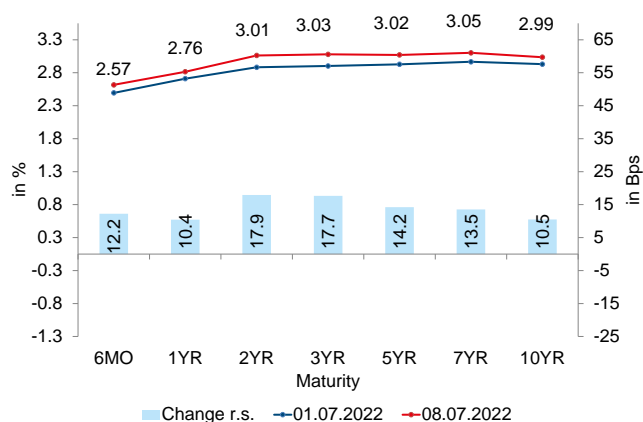
Source: Market Data Provider, Erste Group Research

Eurozone spreads vs. Germany 10Y government bonds



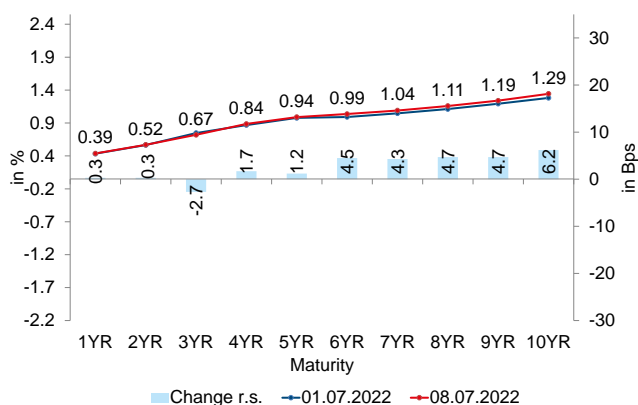
Source: Market Data Provider, Erste Group Research

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	2020	2021	2022	2023
Eurozone	-6.5	5.3	2.7	2.4
US	-3.5	5.7	2.1	1.7

Inflation	2020	2021	2022	2023
Eurozone	0.3	2.6	6.9	3.0
US	1.2	4.7	7.7	2.9

Interest rates	current	Sep.22	Dec.22	Mar.23	Jun.23
ECB MRR	0.00	0.50	0.75	0.75	1.00
ECB Deposit Rate	-0.50	0.25	0.50	0.50	0.75
3M Euribor	-0.14	0.48	0.48	0.56	0.73
Germany Govt. 10Y	1.29	1.30	1.20	1.20	1.30
Swap 10Y	2.10	2.00	1.80	1.70	1.80

Interest rates	current	Sep.22	Dec.22	Mar.23	Jun.23
Fed Funds Target Rate*	1.58	2.63	3.13	3.13	3.13
3M Libor	2.39	2.79	3.21	3.21	3.21
US Govt. 10Y	2.99	3.00	2.70	2.60	2.50
EURUSD	1.02	1.08	1.10	1.13	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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