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“Downside risks to growth building”

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Downside risks to growth building

- **Global:** GDP growth will probably slow to 3.0% this year (previously 3.3%) and 2.8% next year (from 3.4%). Headwinds from the Russia-Ukraine conflict have combined with COVID-19 lockdowns in China to push inflation up further and slow the pace of economic activity. Central banks have become even more hawkish. Tighter financial conditions, a squeeze in real incomes and a sharp downturn in consumer confidence will increasingly weigh on activity. Trade is weakening, also reflecting a switching of expenditure away from goods. Global inflation will probably peak soon, but the speed and extent of the subsequent decline remains highly uncertain. We think that central banks and markets are underestimating the downside risks to growth. If Russian energy imports suddenly stop, much of Europe will likely see negative GDP growth for 2023.
- **US:** We forecast GDP growth of 2.4% this year and below-potential growth of 1.3% next year. Economic momentum is slowing, particularly for interest-rate-sensitive sectors such as housing and durable goods. CPI inflation will likely peak at about 9% yoy in 3Q22, with monthly inflation prints likely easing to levels consistent with target by around the turn of the year. Longer-run measures of inflation expectations are still well anchored and average hourly earnings growth is moderating. We expect the Fed to raise the target range for the federal funds rate into restrictive territory by the end of the year, to 3.25-3.50%, which we see as the peak. Rate cuts could start in late 2023.
- **Eurozone:** GDP is likely to expand by 2.8% this year and by 1.3% in 2023. Survey indicators signal a weakening of growth momentum in the spring and downside risks for economic activity in 2H22. Headline and core inflation have further to rise, although we see initial signs that pipeline price pressure might start easing soon from extremely high levels. Weak growth and slowing inflation will probably force the ECB to stop hiking in 1Q23 once the depo rate reaches 1.25%, i.e. the lower end of the 1-2% range the central bank regards as “neutral”. We expect the announcement of a credible anti-fragmentation facility featuring potentially unlimited purchases and light conditionality.
- **CEE:** The EU-CEE[1] economies will likely grow on average by 3.6% in 2022 and 2.6% in 2023, with the Western Balkans lagging. Turkey could grow by 4.4% in 2022 and 3.3% in 2023. In Russia, the economy could shrink by around 10% this year and stall next year. Hungary and Slovakia would experience the biggest direct impact from a lack of Russian energy imports, followed by Bulgaria, Czechia and Serbia. Inflation is likely to peak this year in most CEE countries, except for Hungary and Poland, where the peak could be postponed to 2023. Inflation is expected to remain well above targets in 2023. We think that central banks will end rate hikes in the autumn, but the scope for rate cuts in 2023 is very limited. The CBR could cut the policy rate to 8% in 2022 and to 7% in 2023. The CBRT might hike in 2023 if there is a change in government.
- **UK:** We forecast GDP growth of 3.4% this year and 0.6% next year. The economy will be skating on the edge of recession for the next few quarters amid a big squeeze in real disposable income. Inflation is set to stay higher for longer in the UK compared to peers, peaking at above 9% yoy in 4Q22, but should fall quickly to below 2% by end-2023. The BoE will probably stop raising the bank rate after a final 25bp hike to 1.50% in August.
- **China:** GDP will likely grow by 4.0% in 2022 and by 4.2% in 2023. While most COVID-19-related restrictions were lifted at the beginning of June, the supply side of the economy is recovering faster than the demand side as Chinese consumers continue their cautious behavior to avoid quarantines. The central government is stepping up efforts to support the economy and reduce the negative impact of future waves of contagion on the domestic economy through a combination of monetary and fiscal policy measures. The PBoC might tolerate further weakening of the CNY towards 7.00 against the USD to support exports.

[1] EU-CEE refers to CEE countries that are members of the EU: Bulgaria, Croatia, Czechia, Hungary, Poland, Romania, Slovakia and Slovenia.

Table 1: Annual macroeconomics forecasts

	GDP (%)			CPI inflation (%)*			Central Bank Rate (EoP)			Government budget balance (% GDP)			General government debt (% GDP)			Current account balance (% GDP)		
	2021	2022	2023	2021	2022	2023	2021	2022	2023	2021	2022	2023	2021	2022	2023	2021	2022	2023
World	**6.1**	**3.0**	**2.8**	-	-	-	-	-		-	-		-	-		-	-	-
US	**5.7**	**2.4**	**1.3**	**4.7**	**8.3**	**3.4**	**0.25**	**3.50**	**3.25**	**-12.4**	**-5.5**	**-4.0**	**127.2**	**126.0**	**125.0**	**-3.7**	**-3.5**	**-2.5**
Eurozone	**5.3**	**2.8**	**1.3**	**2.6**	**7.5**	**2.7**	**-0.50**	**0.75**	**1.25**	**-5.1**	**-4.2**	**-2.8**	**95.6**	**93.7**	**92.8**	**2.4**	**1.8**	**2.2**
Germany	2.9**	1.6**	1.8**	3.1	7.3	3.5	-	-	-	-3.7	-3.5	-2.0	69.3	67.1	65.5	7.6	5.0	6.0
France	6.8	2.4	1.4	1.6	5.2	3.3	-	-	-	-6.4	-5.0	-3.8	112.5	111.6	110.0	-2.3	-2.6	-2.0
Italy	6.6	2.9	1.1	1.9	6.4	2.3	-	-	-	-7.2	-5.8	-4.8	150.8	148.1	148.0	2.4	-0.7	0.5
Spain	5.0	4.1	2.6	3.0	8.5	2.7	-	-	-	-6.9	-5.0	-4.1	118.7	116.0	115.0	1.0	1.6	1.9
Austria	4.8	4.4	1.5	2.8	6.8	2.7	-	-	-	-5.9	-2.9	-2.5	83.0	77.3	76.6	-0.5	-0.7	0.4
Greece	8.0	3.8	1.4	1.2	9.4	1.9	-	-	-	-7.4	-4.6	-2.0	193.3	185.0	180.9	-8.3	-8.2	-6.5
Portugal	4.9	5.3	1.3	1.3	6.1	2.0	-	-	-	-2.8	-1.9	-1.6	127.4	119.8	117.1	-1.1	-1.5	-0.7
CEE																		
Poland	6.0	4.2	2.8	8.6	15.1	11.1	1.75	7.00	6.00	-1.9	-4.0	-4.0	53.8	50.3	49.1	-0.6	-2.1	-2.5
Czechia	3.3	1.5	0.9	6.6	16.2	7.4	3.75	7.00	5.50	-5.9	-5.0	-4.0	41.9	43.3	44.1	-0.8	-4.0	-3.3
Hungary	7.1	4.6	2.8	7.4	13.2	10.8	2.40	9.50	6.50	-6.8	-5.2	-4.1	76.8	74.6	74.0	-2.9	-5.9	-5.0
Russia	4.7	-9.9	0.7	8.4	21.0	7.0	8.50	8.00	7.00	0.4	-2.0	-2.1	16.6	14.8	17.1	6.9	7.1	7.4
Turkey	11.0	4.4	3.3	36.1	84.0	43.0	14.00	14.00	45.00	-3.9	-5.2	-4.2	42.0	41.7	36.9	-1.7	-5.6	-3.5
Other Europe																		
UK	7.4	3.4	0.6	2.6	8.4	3.9	0.25	1.50	1.50	-6.0	-4.0	-3.0	95.9	95.5	95.0	-2.6	-2.0	-2.0
Sweden	4.9	2.7	2.2	2.4	6.0	2.5	0.00	1.50	1.50	-0.3	0.4	0.5	36.3	34.0	30.0	5.4	5.0	5.0
Norway	4.2***	3.5***	1.9***	3.5	5.5	2.0	0.50	2.25	2.25	9.1	7.0	6.5	48.1	47.5	47.0	15.3	27.0	25.0
Switzerland	3.7	2.4	1.7	0.6	2.8	1.2	-0.75	0.50	1.00	-0.8	-0.3	0.2	47.1	45.3	44.1	7.9	6.5	6.9
Others																		
China	8.1	4.0	4.2	0.8	2.1	1.9	4.35	4.35	4.35	-6.0****	-7.7****	-7.0****	68.9	73.1	77.0	1.8	1.1	0.9
Japan	1.8	1.8	1.5	-0.3	1.9	1.0	-0.10	-0.10	-0.10	-6.4	-6.3	-4.5	259	262.0	262.0	2.8	2.0	2.0

*Annual averages, except for CEE countries, for which end-of-period numbers are used.
**Non-wda figures. Adjusted for working days: 2.9% (2021), 1.7% (2022) and 2.0% (2023).
***Mainland economy figures. Overall GDP: 4.0% (2021), 2.9% (2022) and 1.7% (2023).
****Official budgetary balances are adjusted according to IMF methodology to include government-managed funds, state-administered SOE funds, adjustment to the stabilization fund, and social security fund.

Source: UniCredit Research

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Table 2: Quarterly GDP and CPI forecasts

REAL GDP (% QOQ, SA)

	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23
US (non-annualized)	**0.6**	**1.7**	**-0.4**	**0.7**	**0.5**	**0.3**	**0.3**	**0.2**	**0.2**	**0.3**
Eurozone	**2.3**	**0.2**	**0.6**	**0.2**	**0.3**	**0.2**	**0.3**	**0.4**	**0.4**	**0.3**
Germany	1.7	-0.3	0.2	0.1	0.4	0.3	0.6	0.7	0.5	0.3
France	3.2	0.4	-0.2	0.2	0.4	0.3	0.3	0.4	0.4	0.3
Italy	2.6	0.7	0.1	0.2	0.3	0.2	0.2	0.3	0.3	0.3
Spain	2.6	2.0	0.2	0.2	0.9	0.6	1.0	0.8	0.5	0.5
Austria	3.4	-0.8	1.5	0.3	0.4	0.3	0.4	0.4	0.3	0.3
CEE										
Poland (% yoy)	6.2	8.0	9.4	4.5	2.1	1.5	1.3	2.0	3.6	4.3
Czechia	1.5	0.9	0.9	-1.3	-0.7	0.5	0.3	0.4	0.7	1.0
Hungary (% yoy)	6.2	7.1	8.2	5.0	3.6	2.2	1.6	2.4	3.1	3.7
Russia (% yoy)	5.3	4.9	3.5	-11.4	-15.6	-15.7	-14.4	0.6	8.9	10.5
Turkey (% yoy)	7.5	9.1	7.3	6.2	3.5	1.6	2.1	2.1	3.4	5.0
Other Europe										
UK	0.9	1.3	0.8	-0.2	0.2	-0.2	0.2	0.4	0.3	0.3
Sweden	1.9	1.1	-0.8	1.0	0.9	0.6	0.3	0.4	0.4	0.3
Norway (mainland)	2.8	1.4	-0.6	0.7	1.2	0.8	0.4	0.4	0.3	0.2
Switzerland	1.9	0.2	0.5	0.1	0.4	0.3	0.5	0.6	0.4	0.3

CPI INFLATION (% YOY)

	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23
US	**5.3**	**6.7**	**8.0**	**8.5**	**8.9**	**7.8**	**5.9**	**3.8**	**2.2**	**1.9**
Eurozone	**2.8**	**4.6**	**6.1**	**8.0**	**8.5**	**7.5**	**5.2**	**3.0**	**1.6**	**1.3**
Germany	3.9	5.0	5.8	7.6	7.9	7.9	6.5	3.7	2.5	1.4
France	1.7	2.7	3.7	5.2	6.0	5.7	4.7	3.5	2.7	2.1
Italy	2.2	3.5	5.7	6.8	7.3	5.9	3.7	2.6	1.7	1.7
Spain (HICP)	3.4	5.8	7.9	8.9	9.8	8.0	5.0	3.1	1.6	1.6
Austria	3.1	4.1	5.9	7.6	7.6	5.9	4.5	2.9	1.6	1.6
CEE*										
Poland	5.9	8.6	11.0	15.5	15.9	15.1	13.8	9.5	8.2	11.1
Czechia	4.9	6.6	12.7	16.4	16.2	16.2	11.4	8.5	8.0	7.4
Hungary	5.5	7.4	8.5	11.3	12.8	13.2	16.9	14.7	12.1	10.8
Russia	7.4	8.4	16.7	16.6	18.8	21.0	12.0	11.6	9.9	7.0
Turkey	19.6	36.1	61.1	80.5	95.2	84.0	73.8	63.2	51.4	43.0
Other Europe										
UK	2.8	4.9	6.2	9.1	9.1	9.0	7.7	3.8	3.1	1.4
Sweden	2.3	3.6	4.8	7.0	6.5	5.5	4.1	2.6	1.8	1.7
Norway	3.5	4.6	3.8	6.0	6.6	5.6	3.2	2.0	1.5	1.5
Switzerland	0.8	1.4	2.1	2.9	3.2	3.2	2.5	1.2	0.7	0.4

*CEE CPI figures are end-of-period.

Source: UniCredit Research

Table 3: Oil forecasts

	Current	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23
Brent (USD/bbl, average)	117	125	118	115	110	105	100

Source: Bloomberg, UniCredit Research

Table 4: Comparison of annual GDP and CPI forecasts

GDP (%)

	UniCredit			IMF (Apr-22)			European Commission (May-22)			OECD (May-22)		
	2021	2022	2023	2021	2022	2023	2021	2022	2023	2021	2022	2023
World	**6.1**	**3.0**	**2.8**	**6.1**	**3.6**	**3.6**	**5.8**	**3.2**	**3.5**	**5.8**	**3.0**	**2.8**
US	**5.7**	**2.4**	**1.3**	**5.7**	**3.7**	**2.3**	**5.7**	**2.9**	**2.3**	**5.7**	**2.5**	**1.2**
Eurozone	**5.3**	**2.8**	**1.3**	**5.3**	**2.8**	**2.3**	**5.4**	**2.7**	**2.3**	**5.3**	**2.6**	**1.6**
Germany	2.9*	1.6*	1.8*	2.8	2.1	2.7	2.9	1.6	2.4	2.9	1.9	1.7
France	6.8	2.4	1.4	7.0	2.9	1.4	7.0	3.1	1.8	6.8	2.4	1.4
Italy	6.6	2.9	1.1	6.6	2.3	1.7	6.6	2.4	1.9	6.6	2.5	1.2
Spain	5.0	4.1	2.6	5.1	4.8	3.3	5.1	4.0	3.4	5.1	4.1	2.2
Austria	4.8	4.4	1.5	4.5	2.6	3.0	4.5	3.9	1.9	4.6	3.6	1.4
Greece	8.0	3.8	1.4	8.3	3.5	2.6	8.3	3.5	3.1	8.3	2.8	2.5
Portugal	4.9	5.3	1.3	4.9	4.0	2.1	4.9	5.8	2.7	4.9	5.4	1.7
CEE												
Poland	6.0	4.2	2.8	5.7	3.7	2.9	5.9	3.7	3.0	5.9	4.4	1.8
Czechia	3.3	1.5	0.9	3.3	2.3	4.2	3.3	1.9	2.7	3.3	1.8	2.0
Hungary	7.1	4.6	2.8	7.1	3.7	3.6	7.1	3.6	2.6	7.1	4.0	2.5
Russia	4.7	-9.9	0.7	4.7	-8.5	-2.3	4.7	-10.4	1.5	4.7	-10.0	-4.1
Turkey	11.0	4.4	3.3	11.0	2.7	3.0	11.0	2.0	3.0	11.0	3.7	3.0
Other Europe												
UK	7.4	3.4	0.6	7.4	3.7	1.2	7.4	3.4	1.6	7.4	3.6	0.0
Sweden	4.9	2.7	2.2	4.8	2.9	2.7	4.8	2.3	1.4	4.9	2.2	1.0
Norway	4.2**	3.5**	1.9**	3.9	4.0	2.6	3.9	3.4	2.6	4.1	3.5	1.7
Switzerland	3.7	2.4	1.7	3.7	2.2	1.4	3.7	2.2	2.0	3.7	2.5	1.3
Others												
China	8.1	4.0	4.2	8.1	4.4	5.1	8.1	4.6	5.0	8.1	4.4	4.9
Japan	1.8	1.8	1.5	1.6	2.4	2.3	1.7	1.9	1.8	1.7	1.7	1.8

CPI INFLATION (%)

	UniCredit			IMF (Apr-22)			European Commission (May-22)			OECD (May-22)		
	2021	2022	2023	2021	2022	2023	2021	2022	2023	2021	2022	2023
US	**4.7**	**8.3**	**3.4**	**4.7**	**7.7**	**2.9**	**4.7**	**7.3**	**3.1**	**3.9**	**5.9**	**3.5**
Eurozone	**2.6**	**7.5**	**2.7**	**2.6**	**5.3**	**2.3**	**2.6**	**6.1**	**2.7**	**2.6**	**7.0**	**4.6**
Germany	3.1	7.5	3.7	3.2	5.5	2.9	3.2	6.5	3.1	3.2	7.2	4.7
France	1.6	5.2	3.3	2.1	4.1	1.8	2.1	4.9	3.1	2.1	5.2	4.5
Italy	1.9	6.4	2.3	1.9	5.3	2.5	1.9	5.9	2.3	1.9	6.3	3.8
Spain	3.0	8.5	2.7	3.1	5.3	1.3	3.0	6.3	1.8	3.0	8.1	4.8
Austria	2.8	6.8	2.7	2.8	5.6	2.2	2.8	6.0	3.0	2.8	6.7	4.7
Greece	1.2	9.4	1.9	0.6	4.5	1.3	0.6	6.3	1.9	0.6	8.8	3.4
Portugal	1.3	6.1	2.0	0.9	4.0	1.5	0.9	4.4	1.9	0.9	6.3	4.0
CEE												
Poland	8.6	15.1	11.1	5.1	8.9	10.3	5.2	11.6	7.3	5.1	11.1	6.5
Czechia	6.6	16.2	7.4	3.8	9.0	2.3	3.3	11.7	4.5	3.8	13.0	5.6
Hungary	7.4	13.2	10.8	5.1	10.3	6.4	5.2	9.0	4.1	5.1	10.3	7.0
Russia	8.4	21.0	7.0	6.7	21.3	14.3	6.7	20.5	10.0	6.7	16.2	13.3
Turkey	36.1	84.0	43.0	19.6	60.5	37.2	19.4	63.1	54.1	19.6	72.0	38.9
Other Europe												
UK	2.6	8.4	3.9	2.6	7.4	5.3	2.5	7.0	3.6	2.6	8.8	7.4
Sweden	2.4	6.0	2.5	2.7	4.8	2.2	2.7	5.3	3.0	2.2	6.5	5.4
Norway	3.5	5.5	2.0	3.5	3.5	1.8	3.5	3.2	2.0	3.5	4.6	3.3
Switzerland	0.6	2.8	1.2	0.6	2.5	1.6	0.6	2.3	1.2	0.6	2.5	1.8
Others												
China	0.8	2.1	1.9	0.9	2.1	1.8	-	-	-	0.8	2.0	3.0
Japan	-0.3	1.9	1.0	-0.3	1.0	0.8	-0.2	1.6	1.5	-0.2	1.9	1.9

*Non-wda figures. Adjusted for working days: 2.9% (2021), 1.7% (2022) and 2.0% (2023). **Mainland economy figures. Overall GDP: 4.0% (2021), 2.9% (2022) and 1.7% (2023).

Source: IMF, European Commission, OECD, UniCredit Research

Table 5: FI forecasts

INTEREST RATE AND YIELD FORECASTS (%)

	Current	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23
EMU							
Refi rate	0.00	0.75	1.25	1.75	1.75	1.75	1.75
Depo	-0.50	0.25	0.75	1.25	1.25	1.25	1.25
3M EUR	-0.21	0.58	1.06	1.35	1.35	1.35	1.35
2Y Schatz	0.88	1.50	1.40	1.35	1.30	1.25	1.25
fwd		1.19	1.32	1.40	1.48	1.51	1.54
5Y Obl	1.36	1.85	1.65	1.55	1.45	1.35	1.30
10Y Bund	1.58	2.00	1.75	1.65	1.55	1.45	1.35
fwd		1.70	1.75	1.78	1.82	1.84	1.86
30Y Bund	1.78	2.15	1.90	1.80	1.75	1.65	1.55
2/10	70	50	35	30	25	20	10
2/5/10	26	20	15	10	5	0	0
10/30	21	15	15	15	20	20	20
2Y EUR swap	1.55	2.20	2.05	1.95	1.85	1.75	1.70
5Y EUR swap	2.02	2.60	2.35	2.20	2.05	1.90	1.75
10Y EUR swap	2.36	2.80	2.50	2.35	2.20	2.05	1.85
US							
FedFunds	1.75	2.75	3.50	3.50	3.50	3.50	3.25
3M Libor	2.23	3.25	3.60	3.60	3.60	3.45	3.25
2Y UST	3.08	3.70	3.50	3.40	3.30	3.20	3.10
fwd		3.25	3.26	3.28	3.30	3.29	3.29
5Y UST	3.20	3.75	3.50	3.40	3.30	3.15	3.00
10Y UST	3.14	3.75	3.50	3.40	3.30	3.15	3.00
fwd		3.20	3.21	3.23	3.25	3.27	3.28
30Y UST	3.26	3.75	3.50	3.40	3.30	3.20	3.10
2/10	6	5	0	0	0	-5	-10
2/5/10	17	5	0	0	0	-5	-10
10/30	12	0	0	0	0	5	10
2Y USD swap	3.13	3.65	3.45	3.35	3.25	3.15	3.05
10Y USD swap	2.94	3.55	3.30	3.20	3.10	2.95	2.80
UK							
Key rate	1.25	1.50	1.50	1.50	1.50	1.50	1.50

Spreads	Current	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23
10Y UST-Bund	157	175	175	175	175	170	165
10Y BTP-Bund	190	200	200	200	175	175	175
10Y EUR swap-Bund	79	80	75	70	65	60	50
10Y USD swap-UST	-21	-20	-20	-20	-20	-20	-20

Forecasts are end-of-period

Source: Bloomberg, UniCredit Research

Table 6: FX forecasts

EUR	Current	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	3M	6M	12M
G10										
EUR-USD	1.05	1.03	**1.06**	1.08	1.10	1.10	**1.12**	1.03	1.06	1.10
EUR-CHF	1.01	1.01	**1.03**	1.04	1.05	1.05	**1.05**	1.01	1.03	1.05
EUR-GBP	0.86	0.86	**0.90**	0.92	0.95	0.96	**0.97**	0.86	0.90	0.95
EUR-JPY	143	137	**140**	140	142	142	**143**	137	140	142
EUR-NOK	10.32	10.40	**10.30**	10.20	10.10	10.00	**9.90**	10.40	10.30	10.10
EUR-SEK	10.69	10.60	**10.50**	10.40	10.30	10.20	**10.00**	10.60	10.50	10.30
EUR-AUD	1.53	1.45	**1.47**	1.48	1.49	1.47	**1.47**	1.45	1.47	1.49
EUR-NZD	1.68	1.58	**1.61**	1.61	1.62	1.59	**1.60**	1.58	1.61	1.62
EUR-CAD	1.35	1.31	**1.33**	1.34	1.35	1.34	**1.34**	1.31	1.33	1.35
EUR TWI	96.1	95.0	**97.1**	98.0	98.4	98.5	**98.7**	95.0	97.1	98.4
CEEMEA & CHINA										
EUR-PLN	4.69	4.65	**4.75**	4.72	4.68	4.75	**4.80**	4.65	4.75	4.68
EUR-HUF	396	385	**395**	398	393	398	**400**	385	395	393
EUR-CZK	24.71	24.80	**24.90**	25.10	25.20	25.20	**25.00**	24.80	24.90	25.20
EUR-TRY	17.54	19.88	**23.32**	25.81	25.74	20.90	**20.72**	19.88	23.32	25.74
EUR-RUB	54.49	72.10	**84.80**	91.80	99.00	104.50	**112.00**	72.10	84.80	99.00
EUR-CNY	7.04	6.85	**6.94**	7.02	7.10	7.04	**7.11**	6.85	6.94	7.10

USD	Current	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	3M	6M	12M
G10										
EUR-USD	1.05	1.03	**1.06**	1.08	1.10	1.10	**1.12**	1.03	1.06	1.10
USD-CHF	0.96	0.98	**0.97**	0.96	0.95	0.95	**0.94**	0.98	0.97	0.95
GBP-USD	1.22	1.20	**1.18**	1.17	1.16	1.15	**1.15**	1.20	1.18	1.16
USD-JPY	136	133	**132**	130	129	129	**128**	133	132	129
USD-NOK	9.83	10.10	**9.72**	9.44	9.18	9.09	**8.84**	10.10	9.72	9.18
USD-SEK	10.17	10.29	**9.91**	9.63	9.36	9.27	**8.93**	10.29	9.91	9.36
AUD-USD	0.69	0.71	**0.72**	0.73	0.74	0.75	**0.76**	0.71	0.72	0.74
NZD-USD	0.62	0.65	**0.66**	0.67	0.68	0.69	**0.70**	0.65	0.66	0.68
USD-CAD	1.29	1.27	**1.25**	1.24	1.23	1.22	**1.20**	1.27	1.25	1.23
USTW$	90.8	97.1	**95.5**	94.4	93.4	93.2	**92.0**	97.1	95.5	93.4
DXY	104.7	105.6	**103.7**	102.2	100.9	100.9	**99.4**	105.6	103.7	100.9
CEEMEA & CHINA										
USD-PLN	4.46	4.51	**4.48**	4.37	4.25	4.32	**4.29**	4.51	4.48	4.25
USD-HUF	377	374	**373**	369	357	362	**357**	374	373	357
USD-CZK	23.50	24.10	**23.50**	23.20	22.90	22.90	**22.30**	24.10	23.50	22.90
USD-TRY	16.69	19.30	**22.00**	23.90	23.40	19.00	**18.50**	19.30	22.00	23.40
USD-RUB	51.68	70.00	**80.00**	85.00	90.00	95.00	**100.00**	70.00	80.00	90.00
USD-CNY	6.70	6.65	**6.55**	6.50	6.45	6.40	**6.35**	6.65	6.55	6.45

Forecasts are end-of-period

Source: Bloomberg, UniCredit Research

Global

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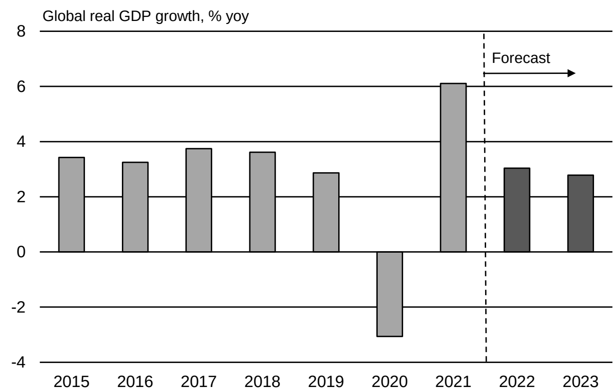
- We forecast that global GDP growth will slow to 3.0% this year (previously 3.3%) and 2.8% next year (previously 3.4%), down from 6.1% in 2021. Headwinds from the Russia-Ukraine conflict have combined with COVID-19 lockdowns in China to further push up inflation and weaken economic activity. Energy prices have continued to move higher, and supply-chain disruption continues. High inflation is squeezing real incomes, financial conditions have tightened and consumer confidence has fallen to – or near to – record-low levels both in Europe and the US. Business confidence has been more resilient but has started to weaken too. The more interest-rate-sensitive parts of the economy, including housing and business investment, are slowing. Our proprietary global leading indicator declined further and signals global trade to shrink by about 8% at an annualized rate at the start of 3Q22. Among the downside risks to growth, if Russian energy imports were to suddenly stop, much of Europe will likely see negative GDP growth for 2023.

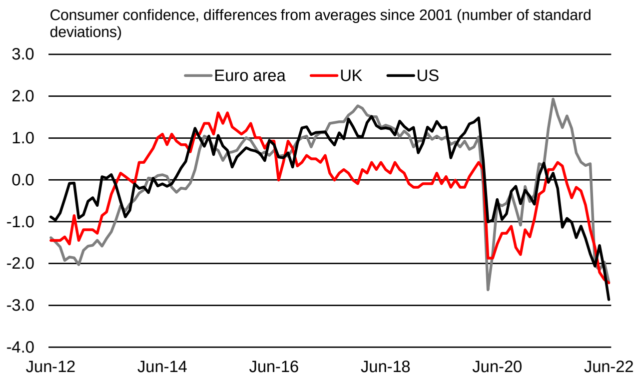
- Inflation has continued to rise to multi-decade highs in many countries. This largely reflects rising prices for energy and food (food prices are a major contributor to inflation in emerging markets), but inflationary pressure is broadening and has affected prices for core services. The latter likely reflects the indirect effects of higher energy and food prices, tight labor markets, expenditure-switching towards services and a high pass-through from producer prices to consumer prices. We expect inflation to peak in the US and the eurozone by 3Q22, at 8.5-9%. Inflation will likely decline to around target levels by 2H23, driven by negative base effects, some easing of supply bottlenecks, expenditure-switching away from goods, slower GDP growth and our forecast for lower oil prices next year. Longer-run measures of inflation expectations remain well-anchored, and there is little or no sign of a wage-price spiral, even in the US, where inflation is more domestically driven.

- Central banks have stepped up actual or planned monetary policy tightening in response to sharply higher inflation and the risk that it could become entrenched via expectations. The Fed and the BoE have started shrinking their balance sheets, with the ECB set to end net asset purchases on 1 July. We expect the Fed to raise rates into restrictive territory to a peak of 3.5% by year-end, while we expect the ECB to raise its depo rate to 1.25% by next March. In both cases, this is less than financial markets expect. We think markets and central banks are underestimating downside risks to growth, which will likely cause central banks to pause or change course. The Fed could cut rates in late 2023.

A SLOWDOWN AHEAD



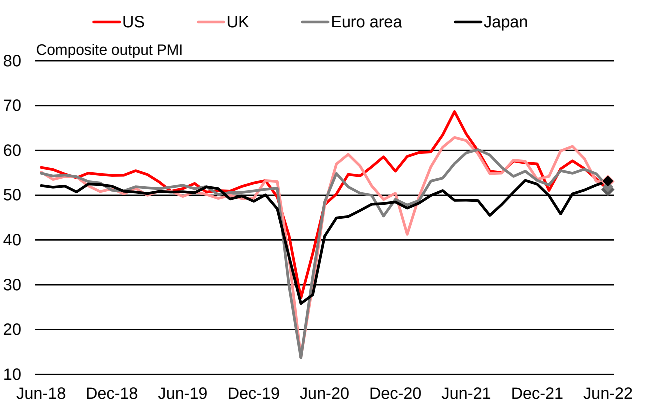
CONSUMER CONFIDENCE HAS FALLEN SHARPLY



Source: European Commission, GfK, IMF, University of Michigan, UniCredit Research

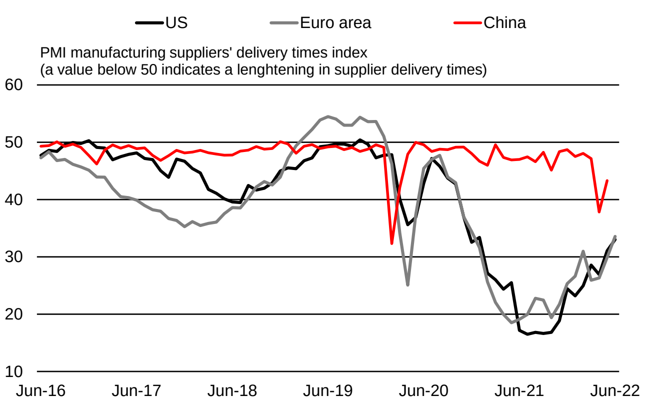
Global indicators

PMIs



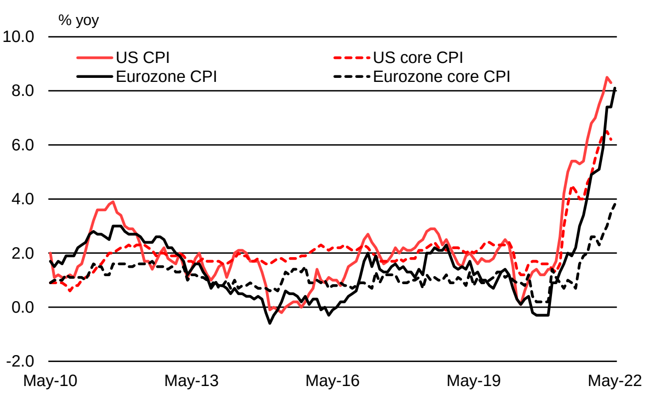
■ Composite output PMIs have been easing in the eurozone, US and UK.

SUPPLIER DELIVERY TIMES



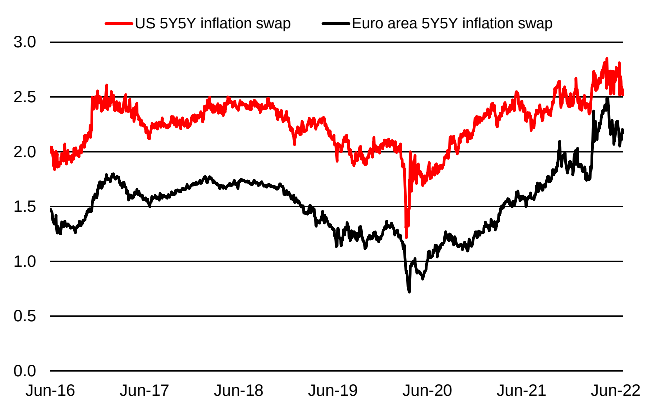
■ PMI supplier delivery times have been improving but remain below the 50 level. The recent easing of restrictions in China has helped.

INFLATION



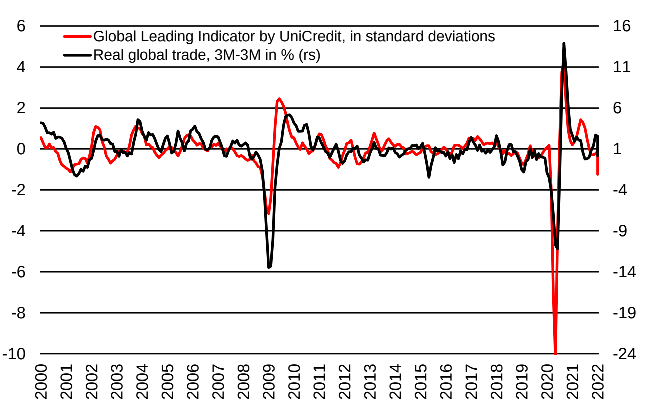
■ Inflation has moved higher and broadened to core items.

INFLATION EXPECTATIONS



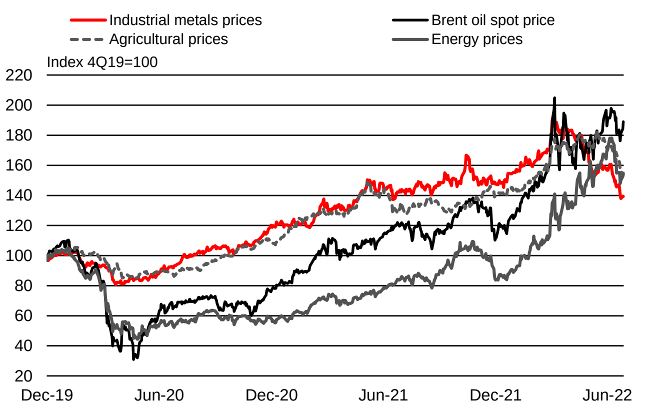
■ Market-based inflation expectations, as measured here by 5Y5Y inflation swaps, are towards the upper end of historical ranges.

GLOBAL LEADING INDICATOR BY UNICREDIT



■ Our global leading indicator declined further and signals global trade to shrink by about 8% at an annualized rate in early 3Q22.

COMMODITY PRICES



■ Energy prices have moved higher, while metal prices have fallen back some. Agricultural prices have stabilized at high levels.

Source: Bloomberg, CPB Netherlands, OECD, S&P Global, UniCredit Research

US

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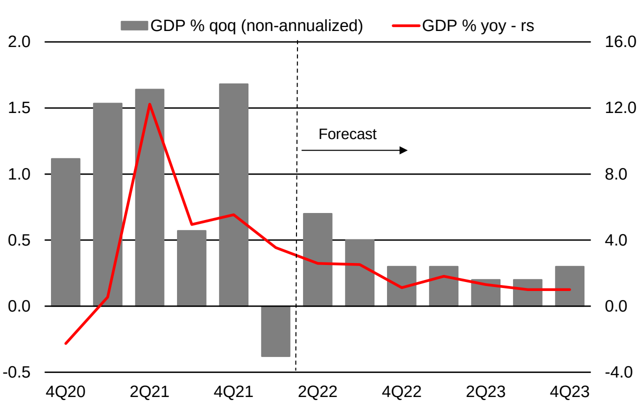
- We forecast GDP growth of 2.4% this year and below-potential growth of 1.3% next year. There is a non-negligible risk of a technical recession. The economy contracted 0.4% qoq (non-annualized) in 1Q22, but the decline was driven by volatile net exports and inventories, while personal consumption and investment expanded robustly. We expect GDP to grow by 0.7% qoq in 2Q22 before easing steadily to 0.2% qoq in 2Q23 and 3Q23. The more interest-rate-sensitive parts of the economy are softening amid a tightening of financial conditions. Mortgage approvals are down 25% and existing home sales are down 17% compared to January levels. Business investment is softening, likely partly reflecting heightened uncertainty. Personal consumption has held up so far despite the squeeze in real income, as households draw down on their excess savings. However, this resilience in spending seems unlikely to last, amid low consumer confidence and tightening financial conditions. Disappointing retail sales in May already point to some weakness setting in.

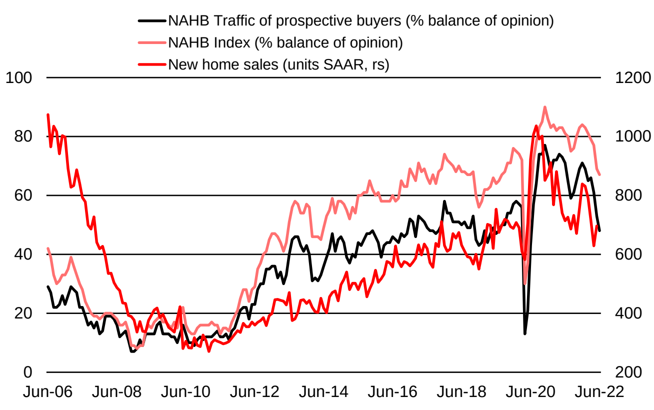
- CPI inflation rose to a stronger-than-expected 8.6% yoy in May, while core CPI inflation eased to 6.0% yoy. On a monthly basis, core CPI inflation rose a strong 0.6% mom and was broad-based, with core goods inflation rebounding. We expect CPI inflation to peak at around 9% yoy in 3Q22 and to remain well above 2% through mid-2023, but monthly inflation prints will likely ease to around 0.2% mom in 4Q22 as commodity prices stabilize, core goods inflation declines (driven by expenditure-switching to services and some improvement in supply constraints) and domestically-driven inflationary pressure begins to ease as the economy cools. Longer-run measures of inflation expectations are still well anchored and average hourly earnings growth is already moderating.

- In June, the Fed raised the target range for the federal funds rate by a supersized 75bp to 1.5-1.75%, while the “dot plot” signaled another 175bp before year-end and a further 50bp by end-2023. Fed Chair Jerome Powell said a hike by either 75bp or 50bp at the FOMC’s next meeting on 26-27 July is likely. We expect 50bp hikes in July, September and November, as the Fed wants to see a series of declining monthly inflation readings before declaring victory. A final hike of 25bp in December seems likely, taking the target range to 3.25-3.50%, less than financial markets expect. We do not see the Fed continuing to hike rates next year, given our forecasts for subdued growth and a decline in monthly inflation readings to around 0.2% mom. The full impact on the economy of rate hikes will not materialize for 18-24 months, given the lags. Once the Fed stops hiking, the next Fed policy rate move is likely to be downwards, probably starting in late 2023.

BELOW-TREND GDP GROWTH AHEAD



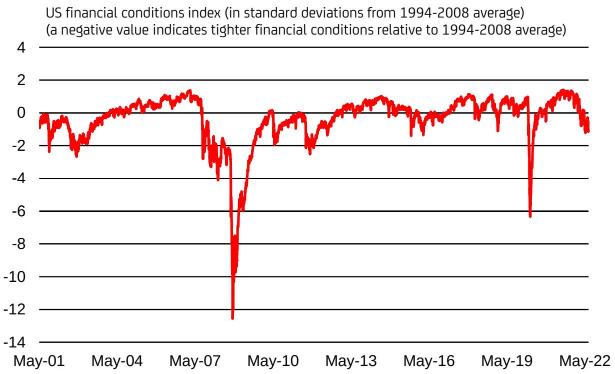
THE HOUSING MARKET IS SLOWING



Source: BEA, NAHB, NAR, UniCredit Research

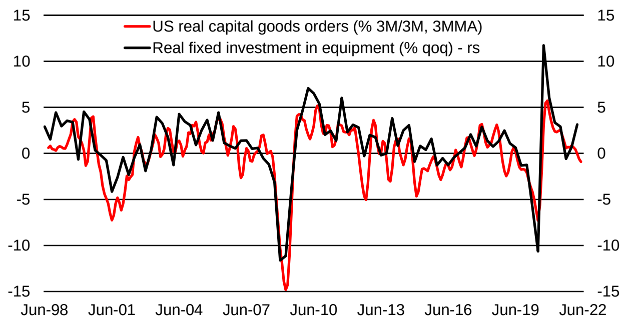
US

FINANCIAL CONDITIONS



■ Broad financial conditions have tightened, in part due to monetary policy expectations.

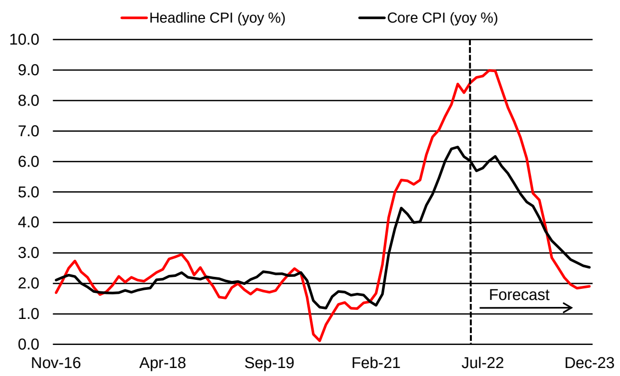
BUSINESS INVESTMENT



Note: Capital goods orders are non-defence excluding aircraft and are deflated by the PPI for private capital equipment.

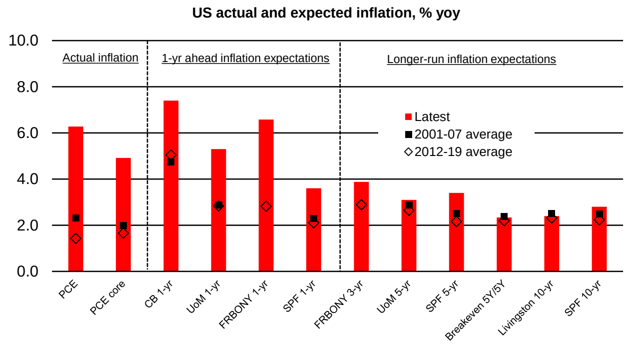
■ Business investment is softening amid high uncertainty and tighter financial conditions.

INFLATION



■ Headline CPI inflation rose 0.3pp to 8.6% yoy in May, while core CPI inflation eased 0.2pp to 6.0% yoy.

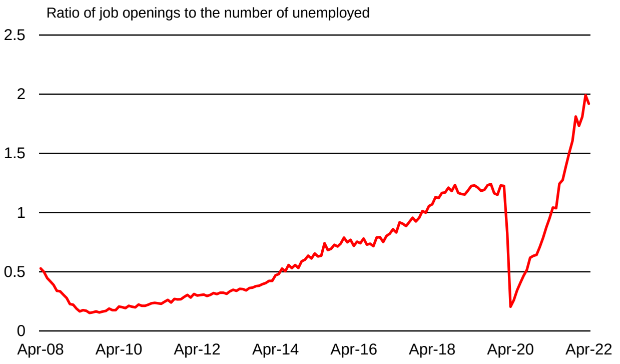
INFLATION EXPECTATIONS



Note: CB=Conference Board, UoM=University of Michigan, FRBONY=New York Fed, SPF=Survey of Professional Forecasters (Phili Fed)

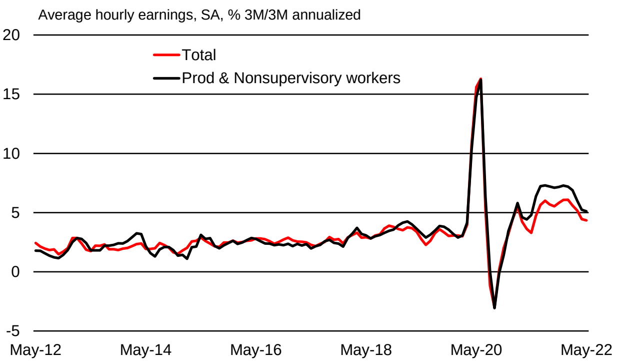
■ Longer-term measures of inflation expectations have moved up, but by much less than short-term measures and are roughly in line with their historical averages.

LABOR DEMAND VS. SUPPLY



■ There were 1.9 job openings for every unemployed person in April.

WAGE GROWTH



■ Average hourly earnings growth on a 3M/3M annualized basis eased to 4.3% yoy in May, down from 6.1% yoy in January.

Source: Bloomberg, BEA, BLS, Conference Board, Fed, University of Michigan, UniCredit Research

Eurozone

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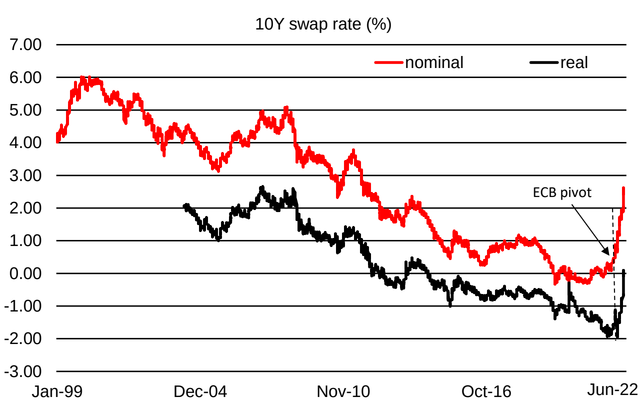
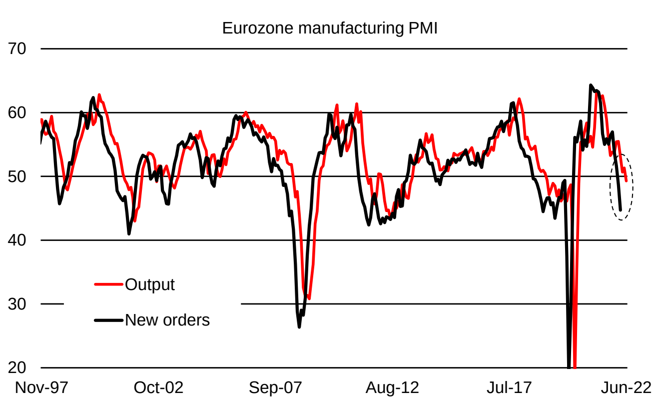
- GDP is likely to expand by 2.8% this year and by 1.3% in 2023. At 0.6% qoq, growth was surprisingly strong in 1Q22, but more than half of the increase reflected a big jump in Irish GDP (+10.8% qoq), which is likely to be at least partly reversed going forward. Instead, performance in the largest countries of the eurozone was weak as GDP expanded only moderately in Germany, Italy and Spain, while it contracted slightly in France. Survey indicators have pointed to a weaking of growth momentum in the spring. Tighter financial conditions are weighing on activity, compounding the erosion of real incomes amid high inflation and the effect of uncertainty surrounding energy supply and the evolution of the conflict in Ukraine. The flash PMIs for June suggest that growth might be weakening sooner and more quickly than expected.
- Manufacturing activity seems to be under increased pressure as global trade is deteriorating. The services sector is still benefitting from the reopening of the economy, although the boost might be starting to fade as high prices accelerate the exhaustion of pent-up demand. Surging inflation has pushed consumer confidence to extremely low levels, only marginally above the record-low hit during the first pandemic wave.
- Headline and core inflation have further to rise. The former might peak soon at just above 8.5% yoy, assuming that retail prices of electricity and natural gas start declining moderately during the summer. If this expectation does not materialize, the peak might be in September at around 9%. After averaging 7.5% this year, headline inflation will probably slow meaningfully next year to 2.7%, with a decline below 2% in 2H23. Survey indicators suggest that underlying price pressure might have finally started to ease from extremely high levels, more so in manufacturing than in services. We expect core inflation to peak at around 4.3% in the fall and then slow to about 2% by end-2023. This forecast assumes that the growth rate of negotiated wages will accelerate to about 3%.
- The ECB is likely to raise rates by a cumulative 175bp in this cycle, starting with a 25bp hike in July followed by a 50bp move in September and increases of 25bp per meeting until next March. Weak growth and slowing inflation will probably force the central bank to stop hiking when the depo rate reaches 1.25%, i.e. the lower end of the 1-2% range the ECB regards as “neutral”, and well below market expectations. We expect the ECB to announce a credible anti-fragmentation facility featuring potentially unlimited purchases and light conditionality. This would allow the central bank to prevent measurable tensions in the sovereign space without having to activate the tool, although spreads are unlikely to narrow to levels that prevailed before the ECB’s hawkish pivot in February.

ABRUPT TIGHTENING OF FINANCIAL CONDITIONS



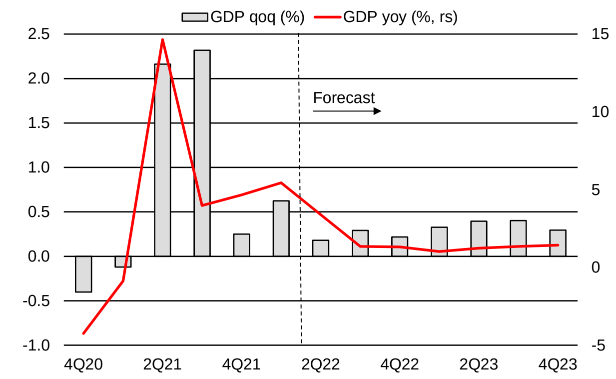
MANUFACTURING ACTIVITY UNDER PRESSURE



Source: Bloomberg, IHS Markit, UniCredit Research

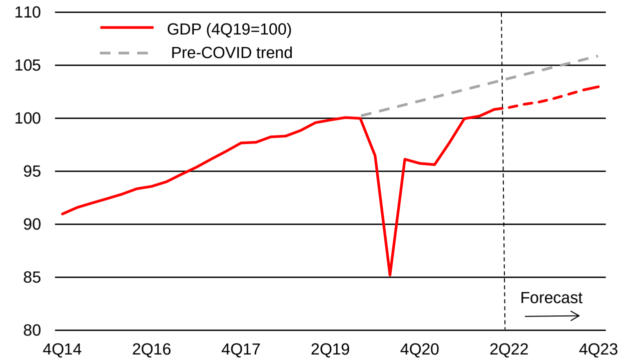
Eurozone

GDP (I)



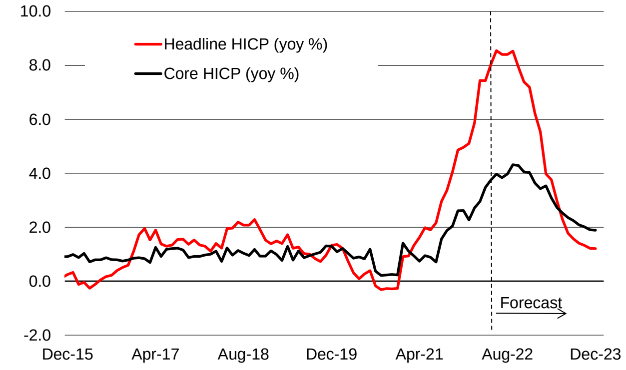
■ We forecast 2.8% GDP growth this year, 1.3% in 2023.

GDP (II)



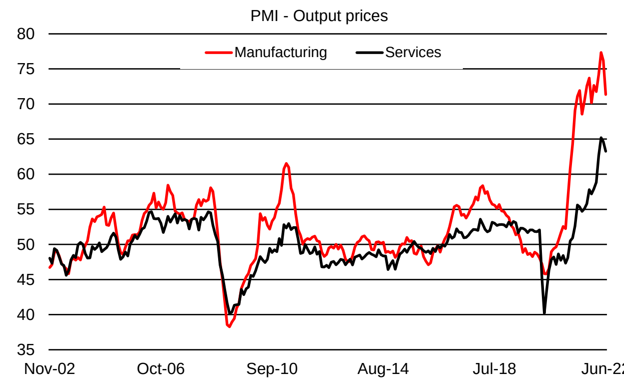
■ Weak recovery to leave GDP well below its pre-crisis trend.

INFLATION (I)



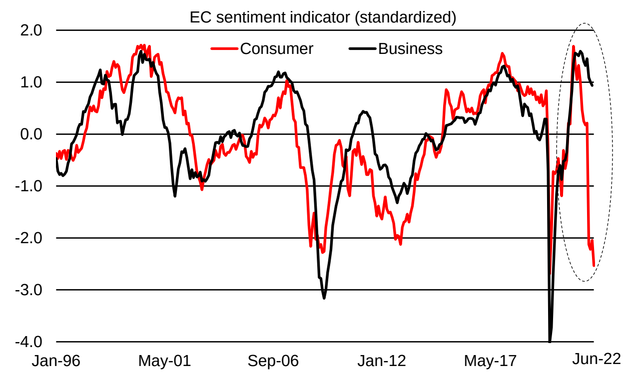
■ Inflation has not peaked yet, steep deceleration seen in 2023.

INFLATION (II)



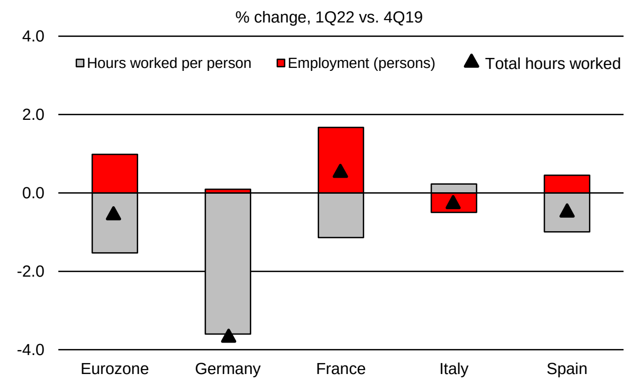
■ Tentative signs of moderation in pipeline price pressure.

HOUSEHOLDS



■ High inflation is squeezing households.

LABOR MARKET



■ Hidden slack, despite a record-low unemployment rate?

Source: EC, Eurostat, IHS Markit, UniCredit Research

Germany

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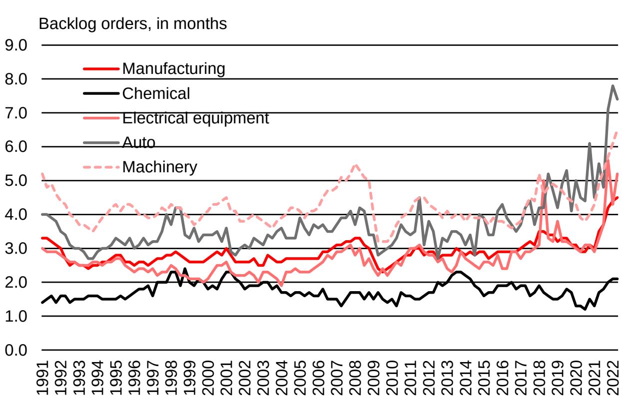
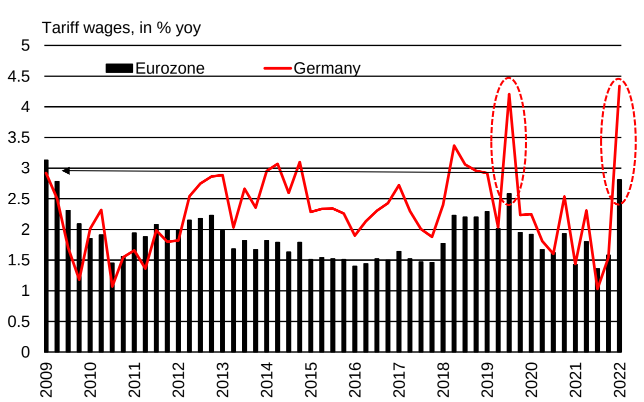
- We expect real GDP to rise 1.6% yoy in 2022 and 1.8% in 2023, each on a non-working-day adjusted basis. In the second half of 2022, economic activity is still likely to remain below its pre-COVID-19 level before finally exceeding it in 1Q23. One major critical uncertainty, especially for the 2023 outlook, is the (potential) lack of natural gas from Russia and its impact on GDP. Especially the chemical sector as key input provider for other industries could be negatively affected, which then may ripple through the economy.
- For the time being, the major headwinds to stronger growth continue to be higher energy prices, weaker global trade and persistent supply shortages. Especially the latter factor has remained a substantial drag on economic activity, as the German manufacturing sector has accumulated a record-high level of backlog orders but cannot work them off due to missing input goods. In 2Q22, manufacturers said that already collected orders equal 4.5 months of production activity. In the auto industry, it even stood at 7½ months. Furthermore, the supply shortages have prevented a normalization of the still very low inventory levels, which would have additionally lifted production.
- We forecast consumer prices will increase 7.5% yoy in 2022 and 3.7% in 2023. Inflationary pressure may peak in September but is likely to remain elevated until year-end 2022 before gradually receding. In September, the relief package of the government in the form of lower gasoline and diesel prices will expire, which might then lead to a spike in consumer price inflation to nearly 8½% yoy. Currently, there are discussions in the traffic-light coalition regarding further fiscal relief and how to fund it, as a return to the debt brake in 2023 is officially anticipated.
- The strong rise in tariff wages to 4.3% yoy in 1Q22 from 1.5% in the previous quarter was largely caused by one-off effects in the form of special payments and COVID-19-related bonuses. By contrast, basic compensation adjusted for such effects increased by only 1.6% yoy. However, going forward, the risk of second-round effects in inflation through higher wages remains non-negligible. Recently, the labor union IG Metall demanded a wage hike of 7-8% on a 12-month basis. The collective bargaining round, which covers about 3.8mn employees in key industries such as auto and machinery, is likely to start in mid-September. Further negotiations are expected in the chemical industry in October (0.6mn employees) and in the public (2.7mn) and temporary-work (0.8mn) sectors, each probably in 1Q23. Further upward pressure on wages might stem from the increase in the statutory minimum wage to EUR 12 per hour in October, which was recently passed by the Bundestag.

BACKLOG ORDERS AT HISTORICALLY HIGH LEVELS



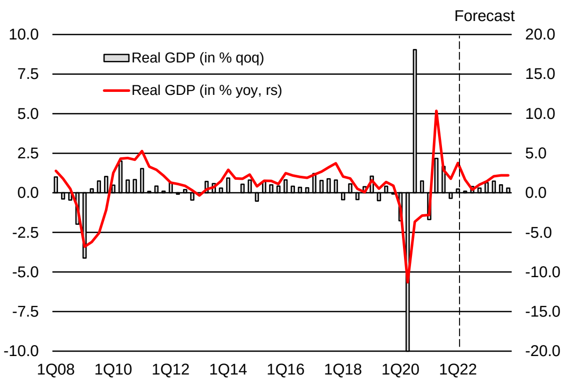
WAGE GROWTH IN 1Q22 LIFTED BY BONUS PAYMENTS



Source: ifo, Deutsche Bundesbank, UniCredit Research

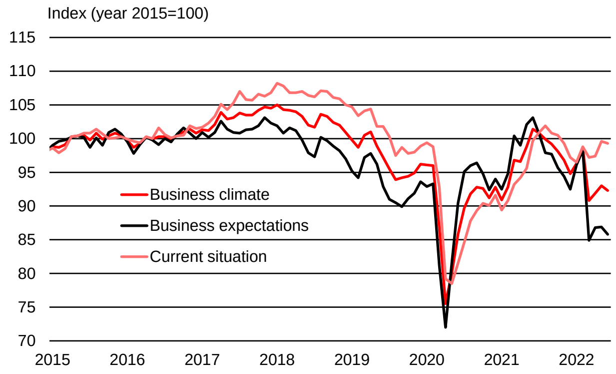
Germany

GDP



■ Real GDP is expected to increase only slightly, by 0.1% qoq in 2Q22, after +0.2% at the start of the year.

BUSINESS SURVEY

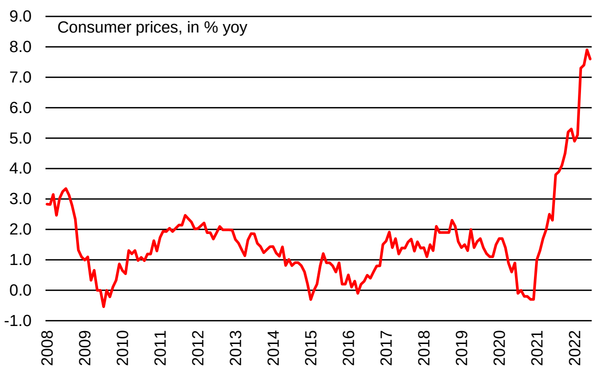


■ After the plunge in March, the Ifo business sentiment index has been treading water at a comparatively low level.

INVENTORIES

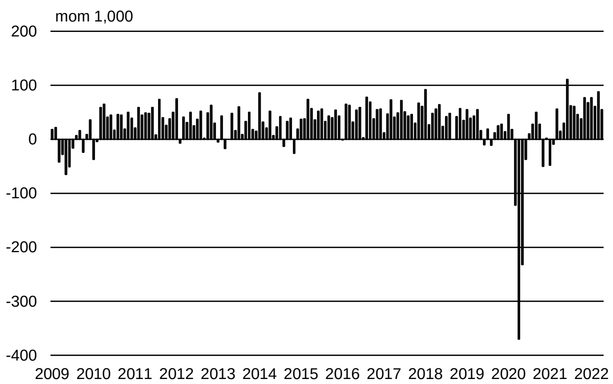
■ Inventories of finished goods in the manufacturing sector remain close to record-low levels.

INFLATION



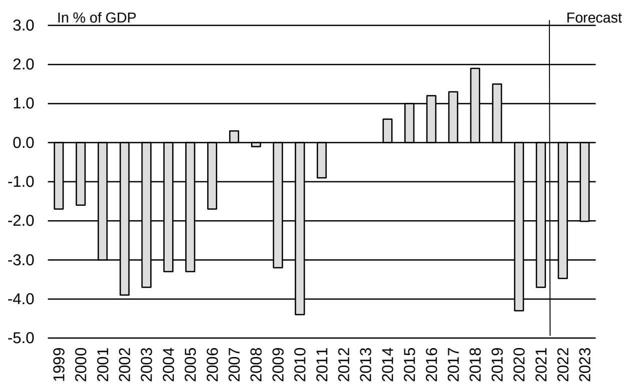
■ Consumer price inflation increased 7.6% yoy in June.

LABOR MARKET



■ Having increased strongly since the spring of 2021, employment recently exceeded its pre-COVID-19 level.

PUBLIC BUDGET BALANCE



■ We expect a budget deficit of 3.5% of GDP in 2022.

Source: Destatis, Ifo, Federal Labor Agency, UniCredit Research

France

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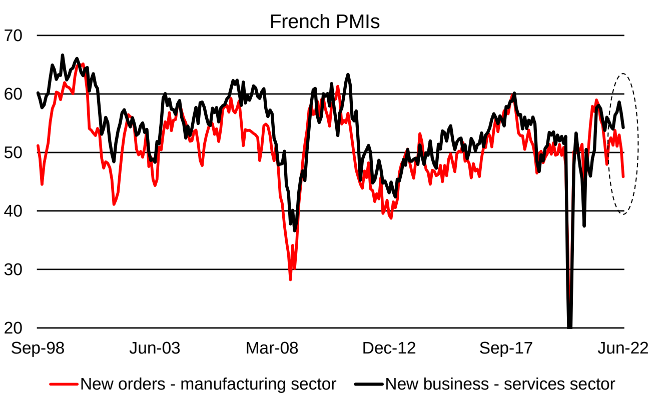
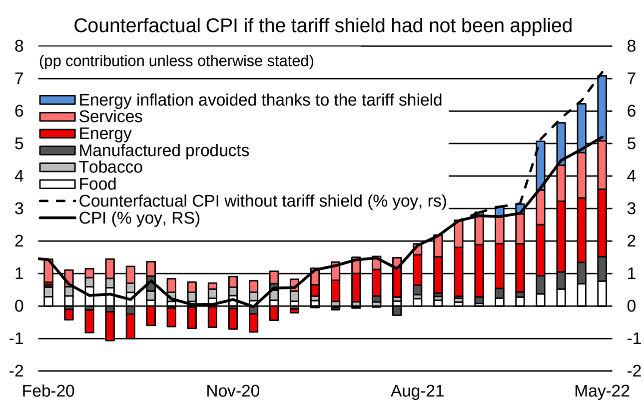
- GDP is likely to rise by 2.4% in 2022 and by 1.4% in 2023. Following a moderate contraction in 1Q22, GDP growth is likely to re-accelerate from 2Q22 but remain below trend on average. Private and public consumption are likely to remain the main contributors to GDP growth, mitigating deceleration in investment following strong performance recorded last year. Risks to our forecasts are tilted to the downside, as the latest survey data suggest that growth prospects are weakening faster than expected. PMI data for June point to a significant loss of momentum in the manufacturing sector, with production falling into contraction territory for the first time since October 2021, amid easing demand and persistent supply-side disruptions. Meanwhile, services activity has expanded further, but its rate of growth has slowed significantly as soaring prices negatively affect demand.
- We expect inflation to average 5.2% in 2022 and 3.3% in 2023. Inflation is likely to peak around 6.5% in September, driven by prices for non-energy goods (including food) and services, reflecting the surge in producer prices and the consecutive revaluations of the gross hourly minimum wage (SMIC). Our forecast assumes that the government rebate on fuel prices will be terminated in August and be replaced by more targeted measures, as announced by the government.
- After the electoral setback in the legislative election in mid-June, in which presidential coalition Ensemble obtained only 245 seats (out of 577), President Emmanuel Macron faces a serious political impasse that threatens to jeopardize his reform program. Mr. Macron retains control of the government, but he will have to seek the support of other parties to pass legislation through parliament. Mr. Macron has identified deputies from The Republicans party (LR) on the center-right to deputies from the Communist party on the left, as those who could potentially support the government in implementing his agenda. He explicitly ruled out any possible agreement with the far-right National Rally (RN) or the far-left France Unbowed (LFI). In fact, LR is the most obvious ally, as it shares many similar positions to Ensemble. However, LR is deeply divided, and many members think that the party' chances of rebuilding its strength ahead of the 2027 presidential election would be undermined if it were too closely associated with Mr. Macron. Recent statements by the new parliamentary head of LR suggest that the most likely scenario is that the party will support the government on some issues but only on a case-by-case basis, which could lengthen negotiations to pass legislation and ultimately make decision-making rather problematic. Should the political system end up in a deadlock, Mr. Macron could call for a new election. However, this could prove risky unless he demonstrates that he has strongly fought to reach a consensus in the national interest.

DEMAND IS WEAKENING FASTER THAN EXPECTED



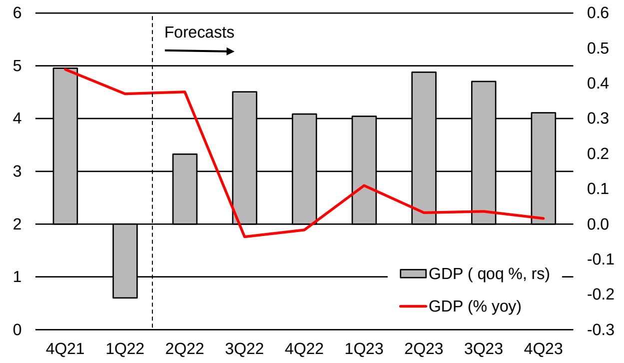
TARIFF SHIELD HAS PROVED QUITE EFFECTIVE



Source: IHS Markit, INSEE, UniCredit Research

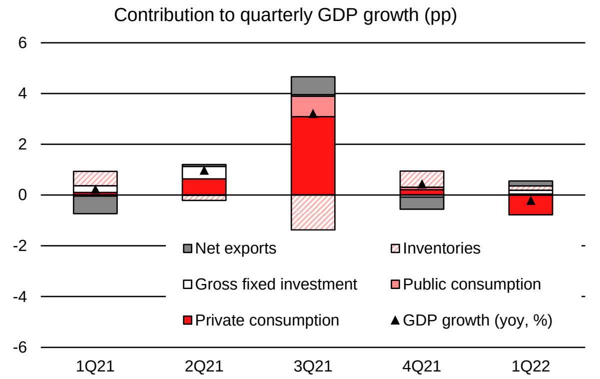
France

GDP



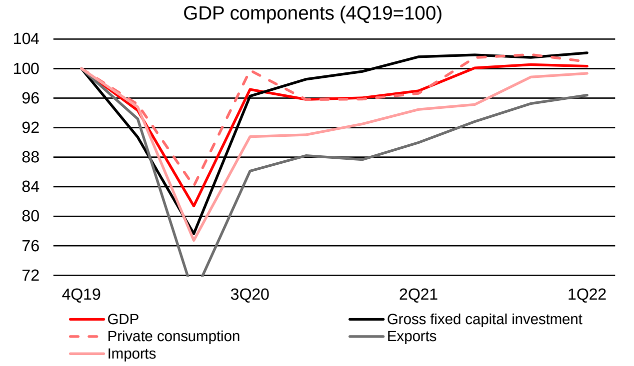
- We expect GDP to rise by 2.4% in 2022 and by 1.4% in 2023.

GDP DRIVERS



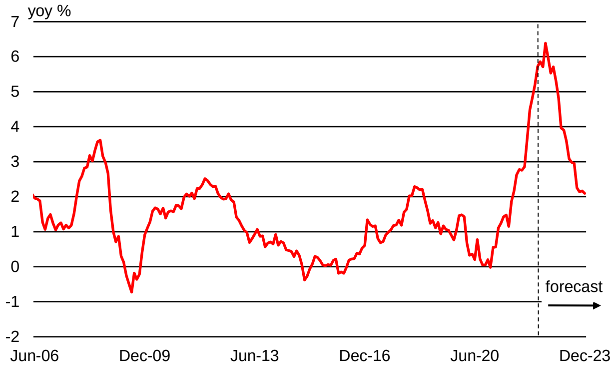
- Private consumption shrank in 1Q22 due to the worsening of France's health situation and a surge in inflation.

GDP COMPONENTS



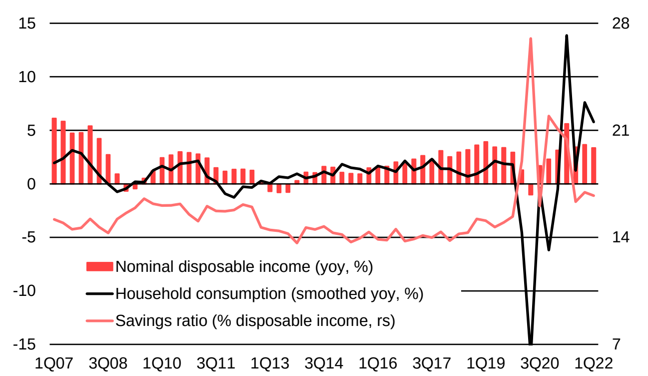
- Investment has recovered ground lost due to the outbreak of the pandemic more quickly than the other components.

INFLATION



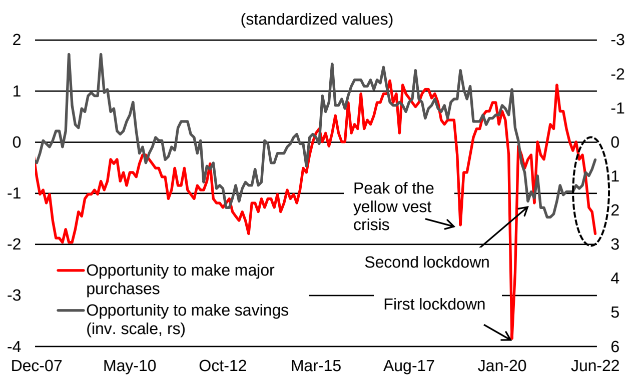
- We expect inflation to average 5.2% in 2022 and 3.3% in 2023.

SAVINGS RATE



- While it has fallen off the peaks reached in 2020, the savings rate remains well above its pre-pandemic level.

CONSUMER CONFIDENCE



- Consumer confidence deteriorated significantly in June amid soaring prices.

Source: INSEE, IHS Markit, UniCredit Research

Italy

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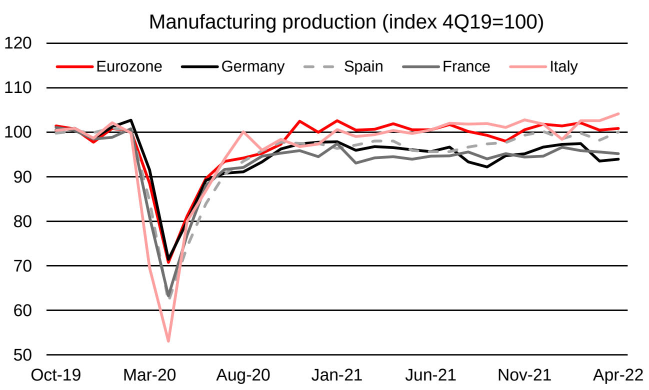
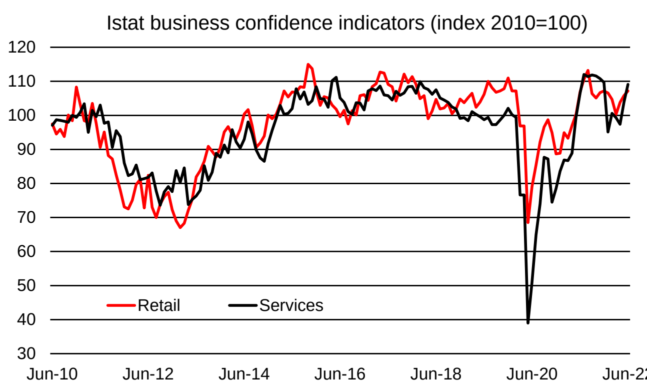
- We expect real GDP to increase by 2.9% in 2022 and by 1.1% in 2023. In the first quarter, GDP expanded by 0.1% qoq, and was back to its pre-pandemic level (4Q19).
- Industrial production surprised to the upside, expanding by 1.6% mom in April. Manufacturing output is now more than 4% above its pre-pandemic level, as firms benefited from a rebound in demand and were less affected by supply-side bottlenecks. Still, starting from May, we expect to see a deterioration as energy costs remain high, global demand is slowing and financing conditions are tightening. In the short term, such weakness is expected to be partly offset by a recovery in services activity, especially in the hospitality sector, which is likely to catch up to its pre-pandemic level in the spring/summer. This is suggested by the rapid recovery in high-frequency mobility trackers and the improvement in sentiment in the services and retail sectors, while the services PMI hints at an easing in the pace of expansion. We project that real GDP will then continue to expand at a modest pace, as the uncertainty related to the Russia-Ukraine conflict will weigh on private-sector confidence (also due to the risk of persistently high energy and food prices), and that the negative impulse from worsening financing conditions will become more entrenched, especially from next year.
- Total employment has recovered so far broadly in line with economic activity (it is close to its 4Q19 level). Therefore, its growth is also expected to moderate in the coming months. We also expect to see recourse to short-time work schemes increasing again, following the significant reduction observed in the last few months. This will slow the recovery of both total hours worked and full-time-equivalent employment to pre-pandemic levels. Still-large labor market slack is likely to mitigate wage pressure.
- The government received strong support from parliament in a vote ahead of the European Council on 23-24 June. The votes in favor amounted to about 70% of the total seats in the Senate and 65% in the lower house. This very large majority is an indication of the stability of Mario Draghi's government and its ability to deliver, despite a likely increase in political uncertainty ahead of the general election. Indeed, on the same day, there was a formal split within the Five Star Movement (M5S), with the foreign minister, Luigi Di Maio, creating a new group in parliament. While this new group will firmly support Mr. Draghi's government, a more critical view towards it is rising within the M5S, especially with regard to weapons being sent in support of Ukraine. M5S leader, Giuseppe Conte, has confirmed his party's commitment to supporting the government, but the evolution of the conflict will probably test this. As the economic fallout from the conflict intensifies, it will become more costly for all political parties in the ruling coalition to withdraw their support, in our view.

STRONG RECOVERY IN INDUSTRIAL OUTPUT; RISKS AHEAD



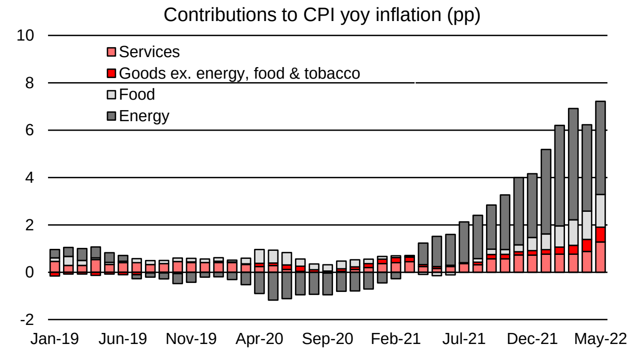
SENTIMENT IN SERVICES LOOKS TO BE RESILIENT SO FAR



Source: Eurostat, Istat, UniCredit Research

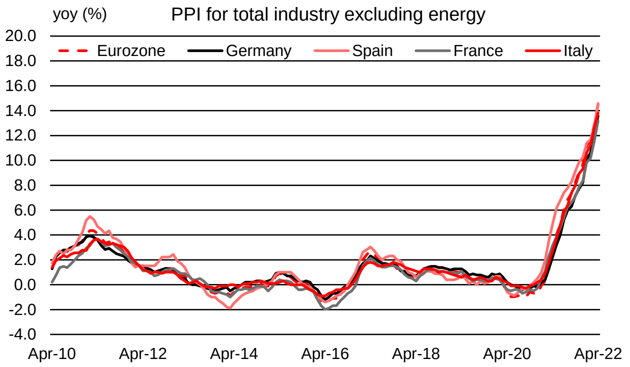
Italy

INFLATION



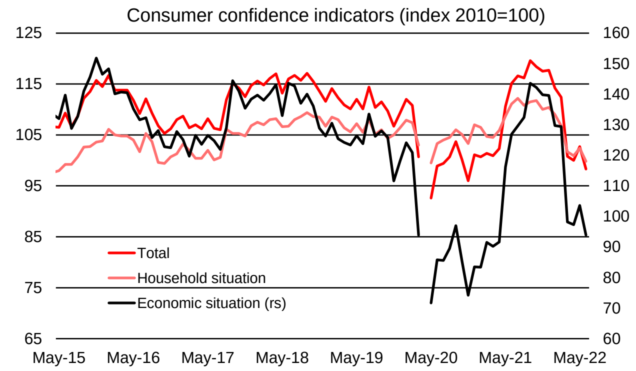
- We expect CPI inflation to remain above 6% for the rest of 2022, with energy and food prices remaining the largest contributors.

PPI



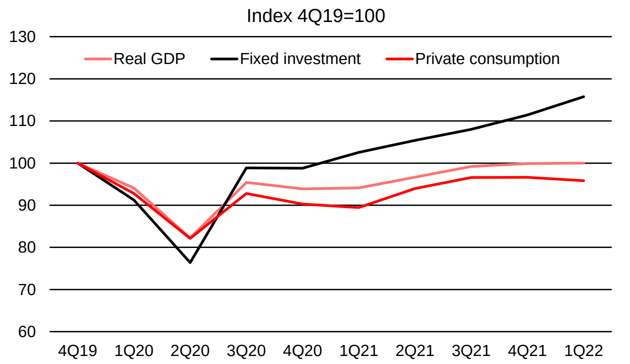
- In line with its eurozone peers, core PPI growth followed a steep upward trend. We project that a peak will be reached in 3Q22.

CONSUMER CONFIDENCE



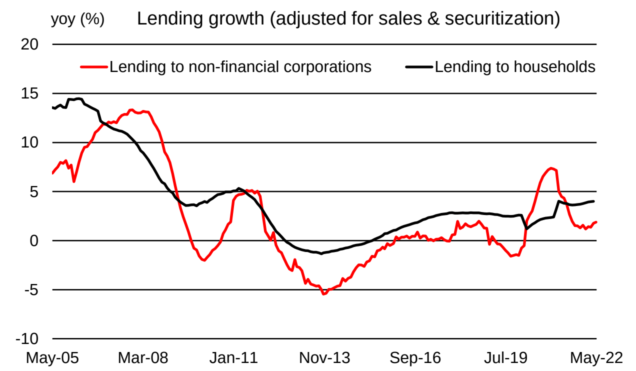
- The Russia-Ukraine conflict and its effect on inflation is weighing significantly on consumer sentiment. The impact on service spending is partly mitigated by the availability of savings.

DOMESTIC DEMAND



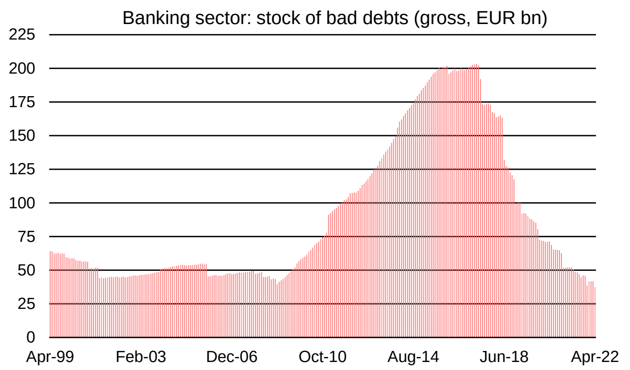
- The private-consumption dynamic is the main concern going forward, as consumption is still 4% below its pre-pandemic level, in contrast to the buoyant recovery seen in fixed investment.

LENDING



- Lending to the private sector has been growing at a good pace so far, ahead of the normalization of monetary policy by the ECB.

BAD LOANS



- The stock of bad loans (sofferenze) has reached a new all-time low. This bodes well for the resilience of the banking system.

Source: Bank of Italy, ECB, Istat, UniCredit Research

Spain

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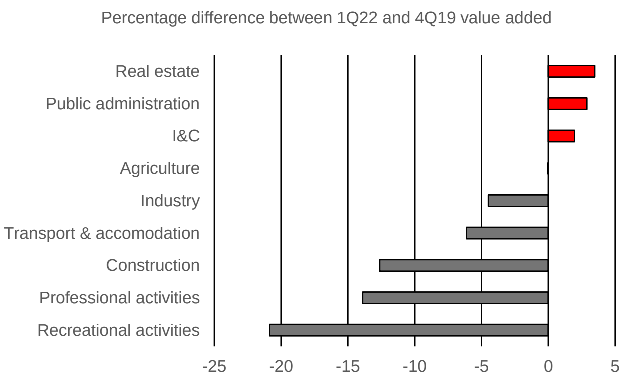
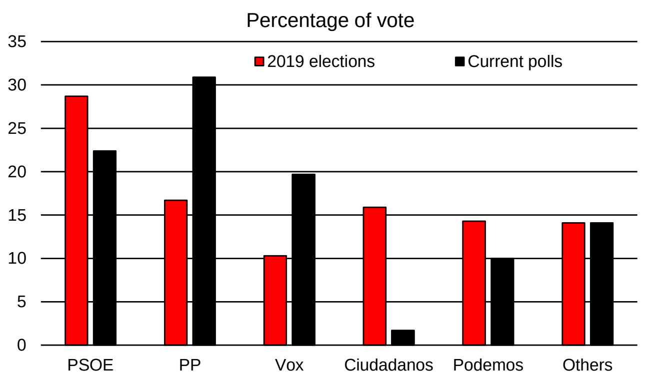
- GDP is likely to grow by 4.1% in 2022 and by 2.6% in 2023. Economic activity was significantly impacted by the spread of the Omicron variant from the end of last year through the beginning of 1Q22, with tourist and recreational activities hit especially hard. The lifting of most restrictions in mid-February allowed the services sector to recover lost ground but the shortfall from pre-pandemic levels for some industries, particularly those more exposed to customer interaction, is likely to have remained substantial in 2Q22. Although Spain is less directly exposed to the Russia-Ukraine conflict, the war, along with rising inflationary pressures, took its toll on economic activity by eroding household purchasing power and consumer confidence. However, a strong labor market and the savings buffer built up during the pandemic are likely to partly shelter private consumption through the rest of the year. Further stimulus to economic growth is expected from the implementation of the RRP.
- Consumer inflation is likely to have passed the peak at around 10%. Energy prices in Spain have increased faster than in most eurozone economies. Going forward, government interventions in the form of fuel discounts, cuts to the value-added tax on power bills, and the cap on wholesale gas prices should help to bring down inflation in 2H22. The cap on the gas price is expected to reduce consumer inflation by 0.4 to 0.7pp for this year. Overall, assuming the lower bound of the range will apply, we expect HICP inflation to come in at 8.5% in 2022 and 2.7% in 2023. At the time of writing, the Sanchez government is working on a package to tax power firms' windfall profits.
- The labor market remains in good shape. The ERTE short-term work schemes contained the job losses during the pandemic and the reopening of the economy allowed the unemployment rate to decline fast, reaching 13.6% in early 2022 (the lowest level since 2008), with the youth especially supported. Part of the improvement in the labor market is due to the recent reform that, as part of commitments to receive EU recovery funds, limits the legal use of temporary contracts and promotes employment protection schemes such as furloughs to avoid permanent layoffs.
- The political landscape in Spain is changing fast. At the last regional elections in Andalusia, the PP won an absolute majority (58 seats out of the 55 needed), defeating the center-left coalitions. The renewed popularity of the PP is also evident at the national level, with polls pointing to preferences close to 30%. This is partly due to the implosion of Ciudadanos. The far-right Vox is also gaining momentum with preferences close to 20%. Both Podemos and the PSOE, meanwhile, are losing their grip on the electorate.

RECREATIONAL ACTIVITIES LIKELY TO COME BACK



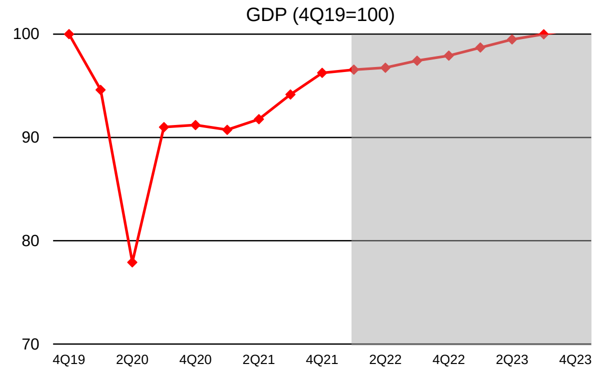
CHANGING POLITICAL LANDSCAPE



Source: INE, Wikipedia, UniCredit Research

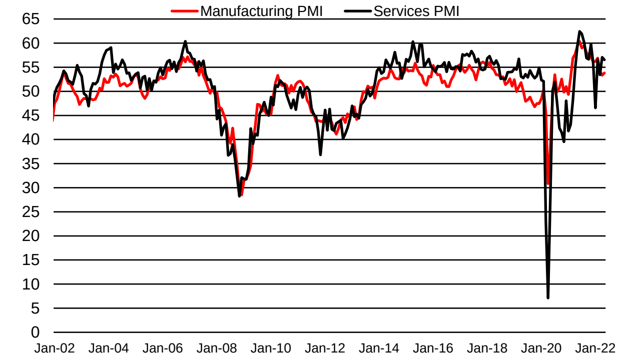
Spain

GDP



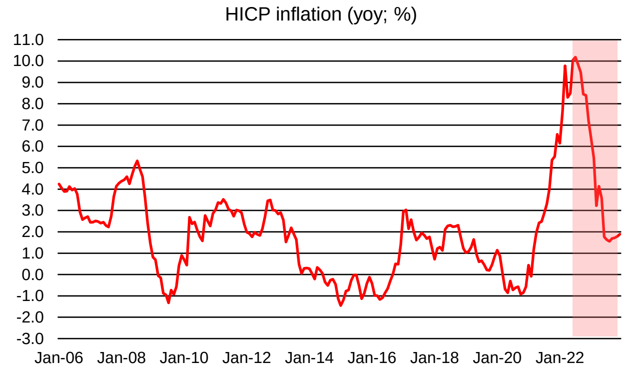
- GDP is expected to return to its pre-pandemic levels only at the end of 2023.

PMIS



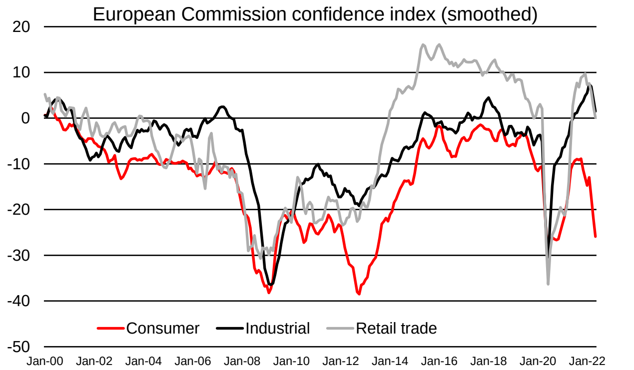
- The PMIs point to a resilient services sector, but the tailwinds from the reopening of the economy are likely to fade soon.

INFLATION



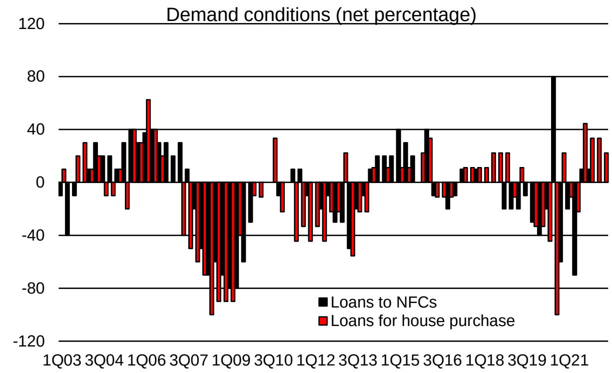
- HICP inflation has likely peaked at around 10% and is expected to drop significantly in the coming quarters.

CONFIDENCE



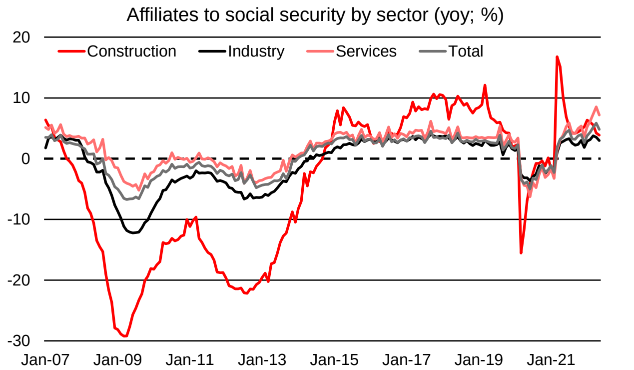
- As in the rest of the eurozone, consumer confidence dropped significantly.

LENDING



- Demand for loans for house purchases remains buoyant.

LABOR MARKET



- After a strong recovery, the labor market is gradually cooling down.

Source: INE; Eurostat, Bloomberg, UniCredit Research

Austria

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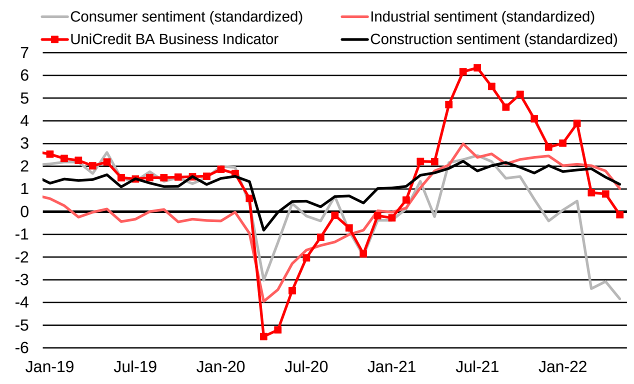
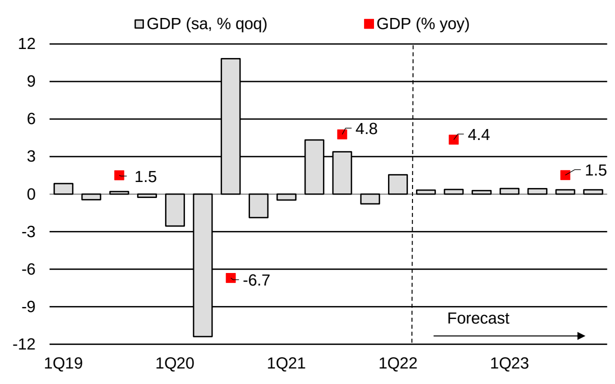
- GDP rose significantly, by 1.5% qoq in the first quarter of 2022, supported by the easing of restrictions in the services sector and a strong performance from construction and industry. However, since the start of the war in Ukraine, sentiment in the economy has deteriorated significantly and we expect a noticeable dampener on economic activity. After the very strong start to the year, we forecast economic growth of 4.4% for 2022 as a whole. For 2023, we expect GDP growth to slow to 1.5%.
- The UniCredit Bank Austria Business Indicator fell to minus 0.1 points in May, dropping into negative territory for the first time in 15 months. Economic sentiment cooled in all sectors of the economy. In construction, and especially industry, falling new orders already point to a significant slowdown in business development. In the services sector, where trade and the hospitality industry are benefiting from the easing of pandemic measures, the mood has worsened only slightly so far. However, consumer confidence, which is now declining sharply, also points to a slower pace of growth in services, burdened by high inflation.
- The slowdown in the economy is leaving its first traces on the Austrian labor market. The seasonally adjusted unemployment rate, which had been declining in large steps over the last few months, remained unchanged in May compared to April, at 6.2%. Due to the very favorable development so far, we expect the unemployment rate to fall to an annual average of 6.3% in 2022. For 2023, we expect only a slight decline to 6.1%.
- Due to persistently high energy prices, inflation in Austria will not decline to around 6% year-on-year until the end of the year. Inflation should therefore average at 6.8% for this year, about one percentage point above our previous expectations. We have raised our inflation forecast for 2023 to an average of 2.7%.
- In June, the Austrian government launched a third package to cushion the impact of high inflation. The one-off payments to households cost about EUR 5bn. Direct subsidies and electricity price compensation payments for energy-intensive companies of EUR 1bn are planned for 2022. In addition, long-term measures such as the reduction of non-wage labor costs, the annual valorization of social benefits and, above all, the abolition of the so-called “cold progression” through adjustments in the income tax system are planned for 2023. While we do not expect this to have a significant impact on the level of inflation, we have raised our forecast for the 2023 budget deficit by about one percentage point to 2.5%. However, due to the good revenue performance so far, our budget forecast for 2022 remains unchanged.

ECONOMIC SENTIMENT HAS CLEARLY DETERIORATED



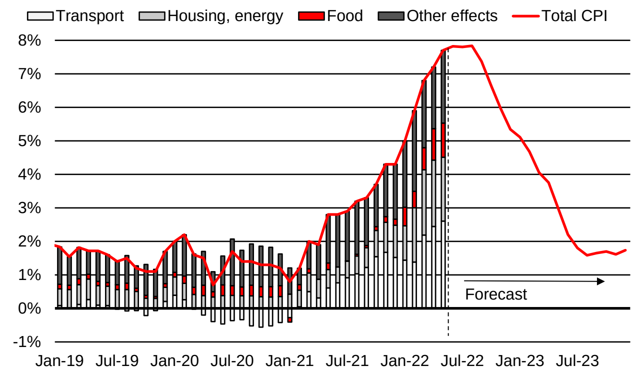
RECOVERY WILL LOSE PACE



Source: Statistik Austria, UniCredit Research

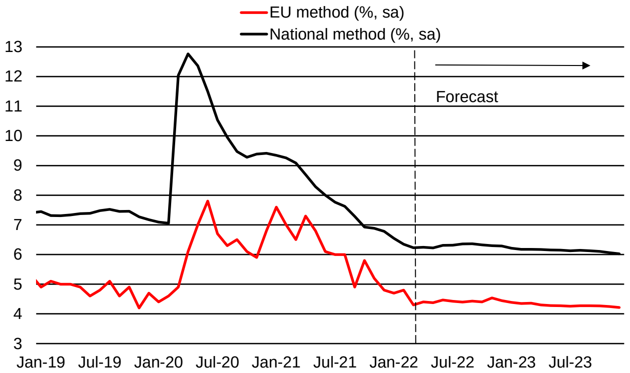
Austria

INFLATION



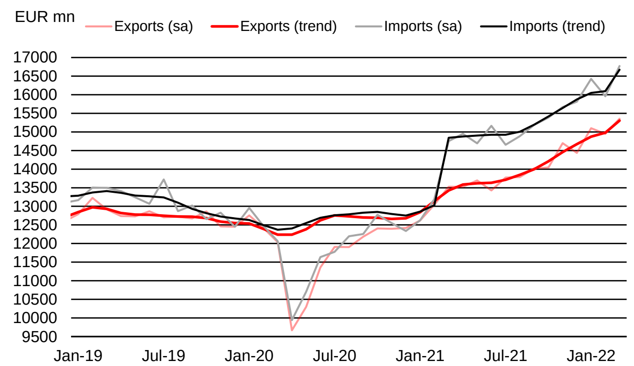
- Inflation will be between 7% and 8% yoy in the coming months as a result of the war in Ukraine. From the second half of the year, inflation can be expected to slow down via energy prices.

UNEMPLOYMENT RATE



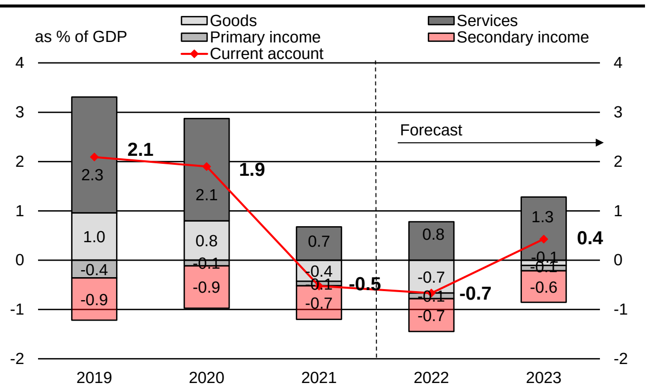
- The situation on the labor market should continue to improve, although at a slower pace as a result of the Ukraine crisis.

EXPORT AND IMPORT VOLUMES



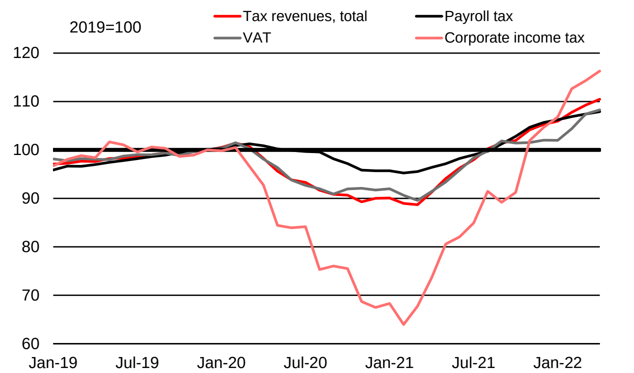
- Due to the increase in energy prices, a large gap has emerged between imports and exports.

CURRENT ACCOUNT BALANCE



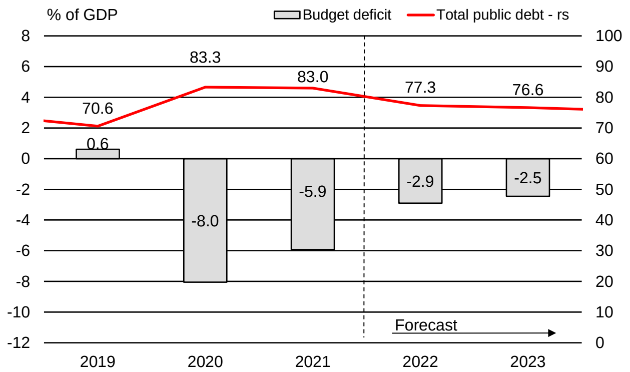
- Price-related high energy imports will again cause a current account deficit in 2022 despite an improvement in service exports.

TAX REVENUES



- In the first four months of 2022, tax revenues increased by 17.9% year-on-year. Corporate income tax, personal income tax and VAT saw above-average revenue increases.

PUBLIC FINANCES



- Due to the good tax-revenue performance, the budget deficit will decrease significantly in 2022 and will allow for a stronger reduction of total public debt as a percentage of GDP.

Source: European Commission, Statistik Austria, UniCredit Research

Greece

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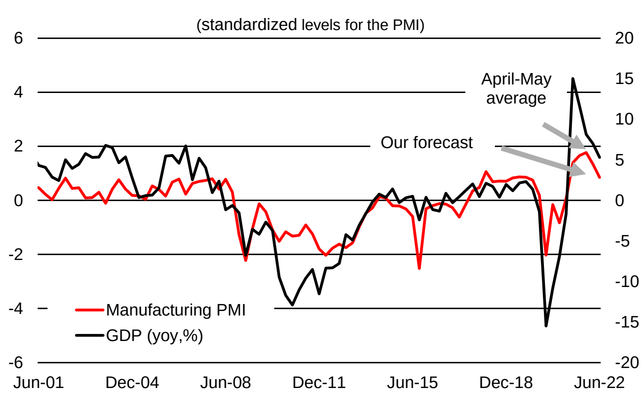
- We expect GDP growth of 3.8% in 2022 and 1.4% in 2023. Following an unexpectedly large surge in 1Q22 (by 2.4% qoq), GDP growth is likely to show a technical correction in 2Q22, before accelerating again in the summer driven by a solid recovery in tourism. Early indications for tourism show that Greece is heading for a strong season.

- In the period January-April, non-resident arrivals and associated receipts increased significantly, reaching 73% and 87% of the respective levels in the same period in 2019. Export growth is also likely to remain solid due to strong transport services, especially shipping, which has become more important in transferring Russian oil since the outbreak of the Russia-Ukraine conflict. Shipping prospects remain well-supported by the fact that the Greek government succeeded in removing the ban on EU-owned tankers carrying Russian oil to non-EU destinations from the (EC) European Commission's proposals for the sixth package of sanctions. Final domestic demand is expected to continue to contribute to GDP. A large amount of savings accumulated during the pandemic, government support measures and favorable labor dynamics supporting labor income are likely to cushion the negative effects on private consumption of soaring prices and rising uncertainty. The deployment of RRF funding should continue to support investment, although supply bottlenecks and rising prices may delay the start of new projects.

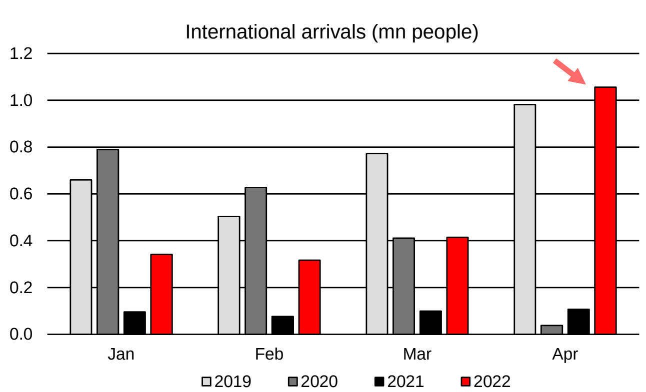
- Inflation hit double digits in May, reflecting strong upward pressure on food and transport prices. In response to the recent spike, the government extended and increased a monthly subsidy that was introduced earlier this year to cushion the impact of soaring fuel prices. The new subsidy should allow the price of gasoline to be reduced to below EUR 2 per liter for everyone who has qualified for state support, easing pressure on transport prices. Accordingly, we expect inflation to peak in 3Q22, although it is then likely to moderate only gradually, before slowing more significantly in 2023.

- On 17 June, the Eurogroup officially accepted an EC recommendation to end Greece's enhanced economic surveillance, acknowledging that the country has fulfilled the bulk of its policy commitments. The exit from enhanced surveillance, combined with the full repayment of IMF loans and the earlier abolition of capital controls bring an end to the very difficult period for Greece that began in 2010. All these factors will be considered as credit-positive events by rating agencies, as the Greek government promptly pointed out. However, we think that only a sustainable improvement in the country's growth prospects is likely to lead agencies to upgrade the sovereign credit rating back to investment grade.

GDP GROWTH LIKELY TO SLOW IN 2Q22



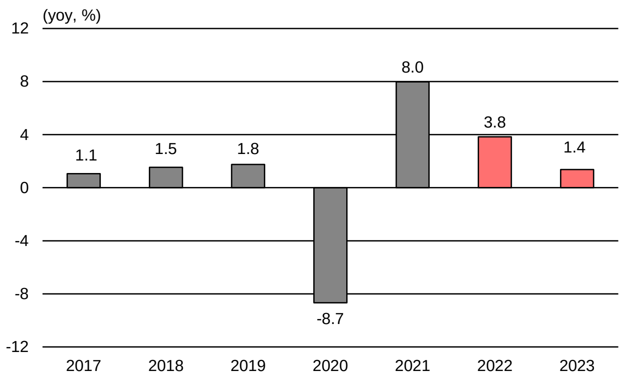
GREECE IS HEADING FOR A STRONG SUMMER SEASON



Source: Elstat, UniCredit Research

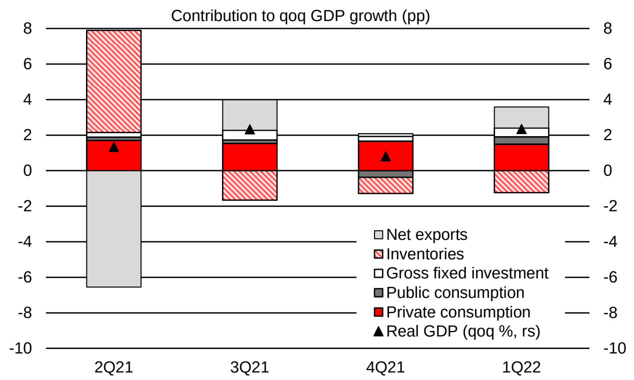
Greece

GDP



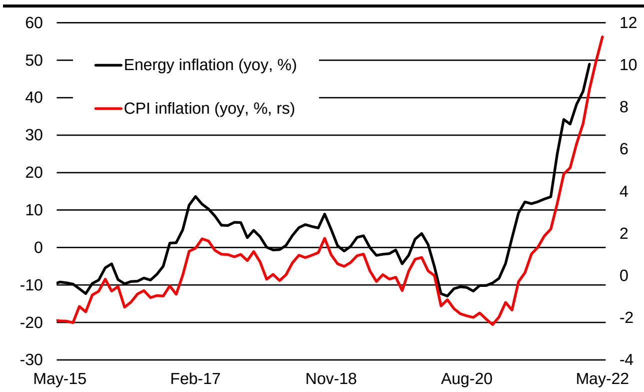
- We expect GDP growth of 3.8% in 2022 and 1.4% in 2023.

GDP DRIVERS



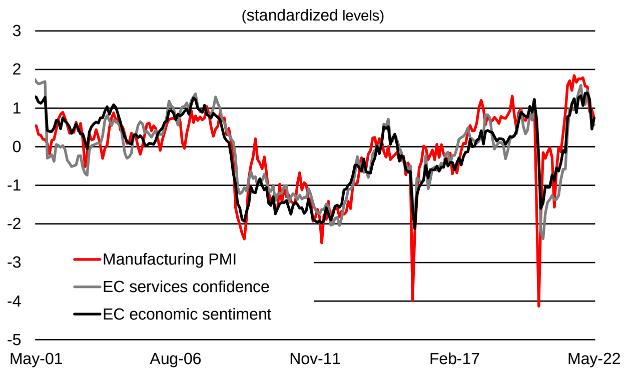
- Private consumption has been remarkably resilient over the past few quarters.

INFLATION



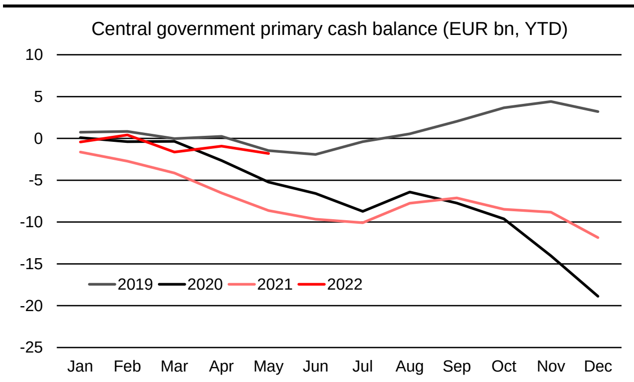
- Inflation has surged to record highs due to soaring energy prices.

BUSINESS SURVEYS



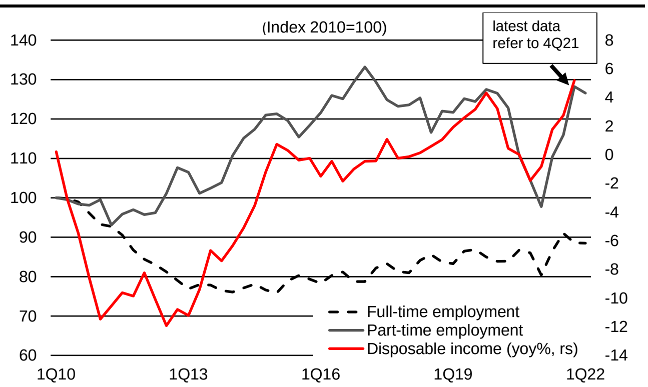
- Growth momentum has moderated across sectors since the outbreak of the Russia-Ukraine conflict.

FISCAL DATA



- Fiscal developments to date are quite encouraging.

EMPLOYMENT



- The improvement in the labor market has led to a firm increase in disposable income.

Source: Elstat, UniCredit Research

Portugal

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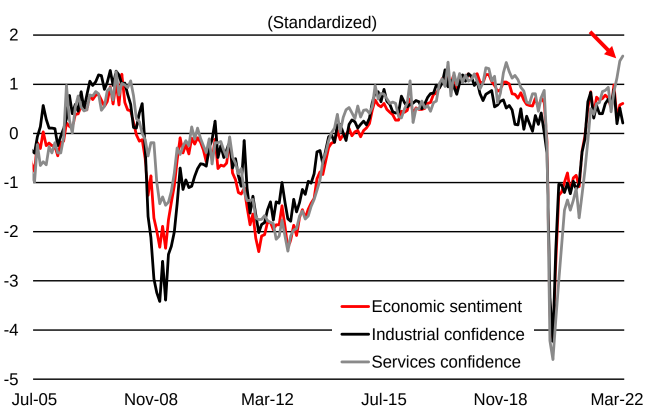
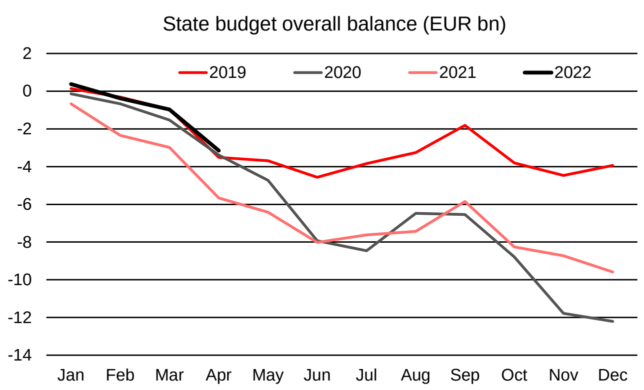
- We expect GDP to increase by 5.3% in 2022 and by 1.3% in 2023. After a strong acceleration (2.6% qoq) in 1Q22, growth is likely to slow down in 2Q22 due, among other factors, to a technical correction in private consumption. However, growth momentum seems to have remained more resilient than originally expected, as the reopening of the economy continues to boost services growth and to partly offset weakening manufacturing activity. The European Commission services confidence survey hit an all-time high in May, most likely reflecting the ongoing strong recovery in tourism from a low base in the previous year. A strong tourism season is likely to support a moderate re-acceleration of GDP growth in 3Q22 before a new slowdown sets in towards year-end. Risks to our forecasts are to the downside amid tighter financing conditions and the incomplete recovery of activity and profitability across many sectors of the economy.
- On 14 June, the exceptional regime for setting prices in the Iberian electricity market came into force. In practice, the mechanism establishes an artificial ceiling on the cost of the gas used by fossil-fuel-based power plants to generate electricity. The reference price is set at EUR40/MWh until December 2022 and will then be increased by EUR 5/MWh each month for the following five months until it reaches EUR 65/MWh in May 2023. The affected power plants (which operate at higher costs) will be reimbursed the difference between the price of natural gas on the Iberian gas market and the reference price. While no official estimate is yet available, the impact of the gas price cap on Portuguese inflation should be smaller than in Spain, where it is estimated at between -0.4 and -0.7pp for this year. Gas prices faced by the Spanish consumer have been more aligned with the prices observed in the wholesale market than in Portugal (and this also explains why they have increased more).
- On 27 May, the Portuguese parliament approved the 2022 budget law in a final vote with the support of the absolute majority held by the ruling Socialist party (PS). The adoption of the budget law was delayed for more than six months after negotiations on the text broke down in October and led to snap general elections in late January, in which the PS won an absolute majority. The updated budget law contains no significant changes from the original draft. Notably, the government refused to support the call for further salary increases for civil servants. The only prominent additions were the new discretionary measures to mitigate the impact of energy inflation, which include a combination of tax breaks and new subsidies to firms and households. The impact of these measures will be to lower tax revenues by 0.3% of GDP and to increase expenditure by 0.5%. Overall, with the government having made only minor revisions to the original budget draft and the state budget having performed well to date, we feel confident in our expectation that the 2022 deficit target of 1.9% is within reach.

SERVICES CONFIDENCE HIT A RECORD HIGH



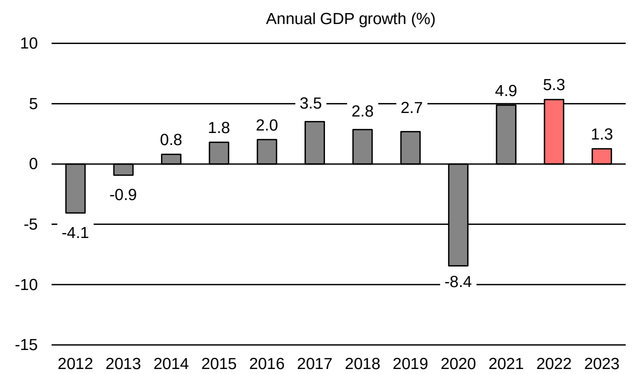
SOUND FISCAL PERFORMANCE TO DATE



Source: EC, Portuguese Budget General Directorate, UniCredit Research

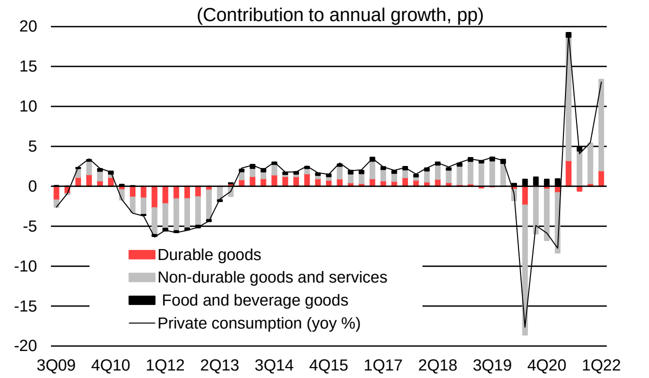
Portugal

GDP



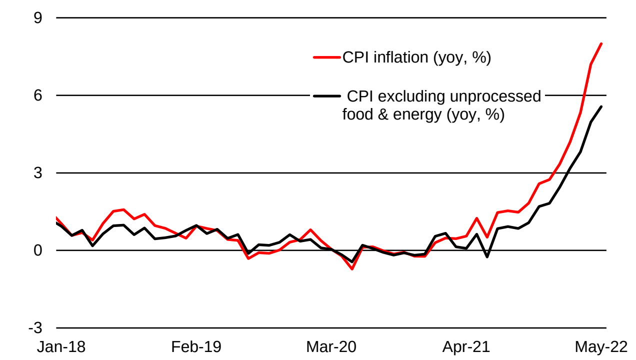
■ We expect GDP to increase by 5.3% in 2022 and 1.3% in 2023.

PRIVATE CONSUMPTION



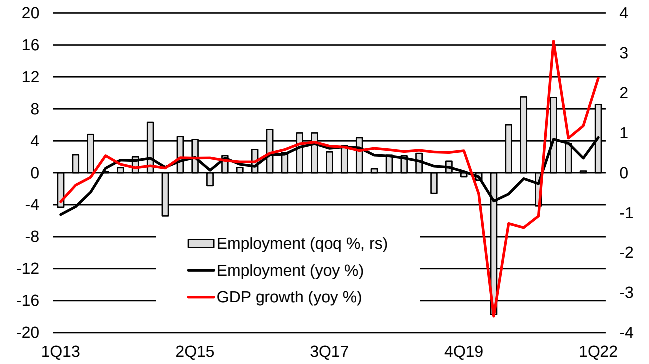
■ The strong acceleration in private consumption in 1Q22 was driven by spending on non-durable goods and services.

INFLATION



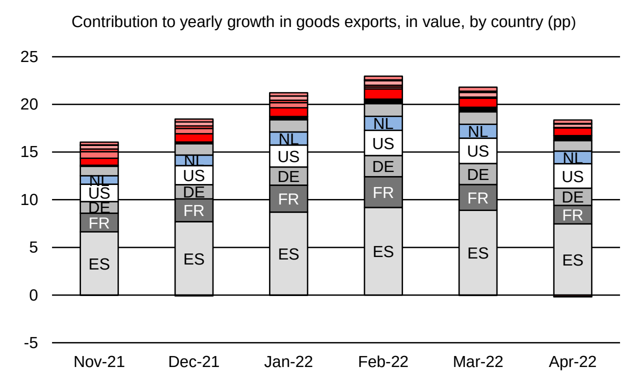
■ Consumer inflation rose from 7.2% to 8.0% yoy in May, amid soaring prices for food and housing, notably utilities

EMPLOYMENT



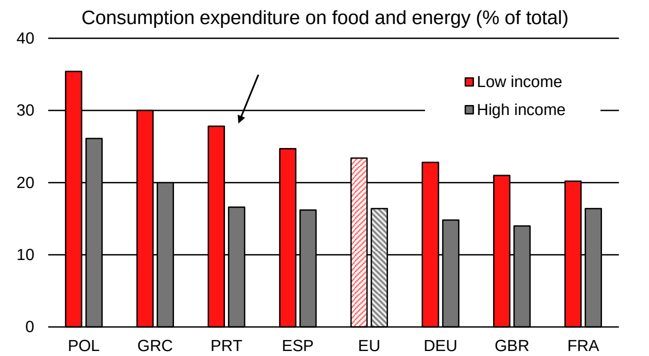
■ Employment firmly accelerated in 1Q22 following the surge in GDP growth.

GOODS EXPORTS



■ Goods exports have remained resilient in the aftermath of the Russia-Ukraine conflict as Russia is not among Portugal's major trading partners.

HOUSEHOLD VULNERABILITY TO SOARING PRICES



■ Low-income households are relatively more vulnerable to price increases in Portugal than in many peer countries.

Source: INE, OECD, UniCredit Research

Poland

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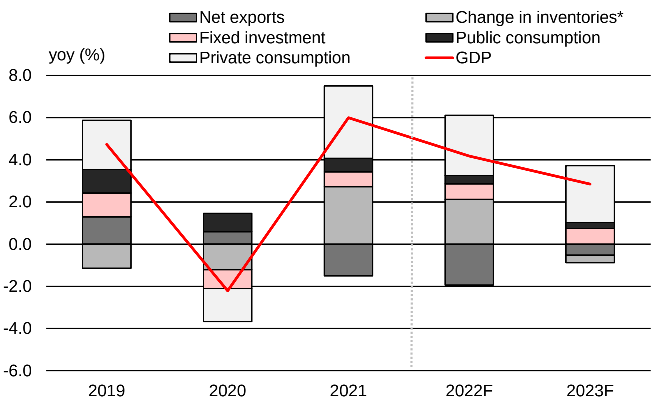
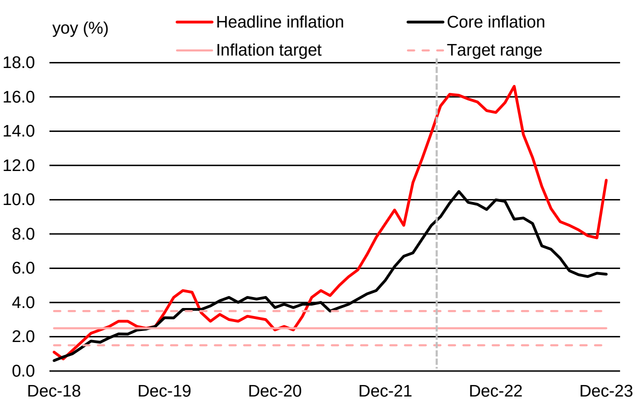
- Parliamentary elections are 16 months away, but they loom large over politics and policies in Poland. While the ruling United Right is still leading in opinion polls, high inflation threatens the government's popularity. In January, the government launched the Anti-Inflation Shield (AIS), a program including subsidies and tax cuts on rapidly rising prices, such as those for food, electricity, natural gas and fuel. The government estimated that the AIS has lowered inflation by 1.5-2pp. We expect the AIS to be kept in place until after parliamentary elections, despite lacking any disinflationary effect. Additional tax cuts for low earners, tax deductions for unmarried parents, children and SMEs, more subsidies and a fourteenth pension could push the budget deficit to around 4% of GDP in 2022-23, from 1.9% of GDP in 2021. Public debt below 50% of GDP by next year.
- We expect headline inflation to peak at over 15% in July and to decline to around 13% by the end of the year. If gas prices are increased by around 20% next year, inflation could fall to single digits between May and November, only to return above 11% (the highest in EU-CEE) if the AIS tax cuts are removed in December 2023. The NBP will have to continue hiking interest rates. We expect the policy rate to be taken to 7% or higher by October if fiscal policy continues to boost domestic demand.
- Higher spending will receive a boost from more transfers and loans from the EU and from IFIs. Poland is set to receive EUR 23.9bn in grants and EUR 11.5bn in loans from the RRF. Prepayments of up to EUR 4.5bn could arrive later this year or in early 2023. The government expects more than EUR 6bn next year, but it may struggle to achieve all the necessary reforms to unlock the funds in an election year. Poland can access the lion's share of the EUR 3.5bn the EU made available to support Ukrainian refugees and stands to receive EUR 2bn in loans from the EIB for the same reason. Of the approximately 4.2mn Ukrainian refugees arriving in Poland, 1.2-1.5mn remain in the country. Of the 1.1mn eligible to work, around 240,000 have found jobs, mostly part time. At the time of writing, there were more Ukrainians returning home than arriving in Poland.
- Economic growth could decline to 4.2% this year and to 2.8% in 2023. Consumption is likely to remain the biggest driver of growth. Real wage growth might dip below inflation this year, but tax cuts and handouts will supplement household income. Construction will benefit from larger public investment and demand for real estate being boosted by poor performance of alternative financial investments. Labor shortages raise the risk of a wage-inflation spiral. We expect the C/A deficit to widen further to 2.1% of GDP this year and 2.5% of GDP in 2023, fully covered by FDI and EU transfers.

GDP GROWT EXPECTED TO SLOW



INFLATION COULD END 2022 AND 2023 IN DOUBLE DIGITS

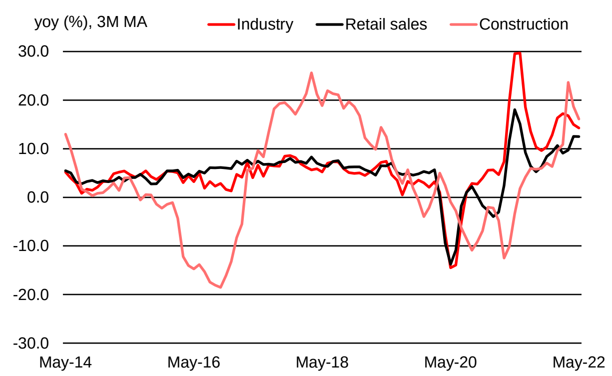


*adjusted for statistical error

Source: CSOP, NBP, UniCredit Research

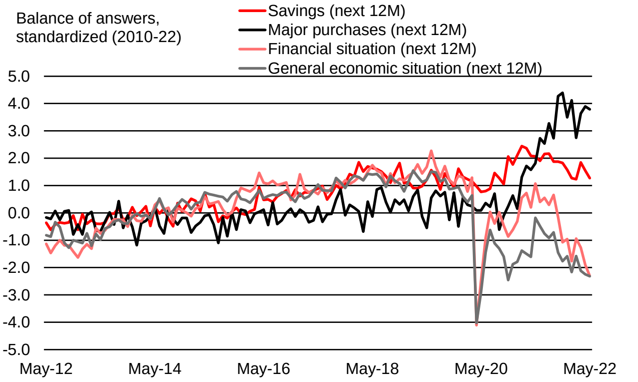
Poland

ECONOMIC ACTIVITY



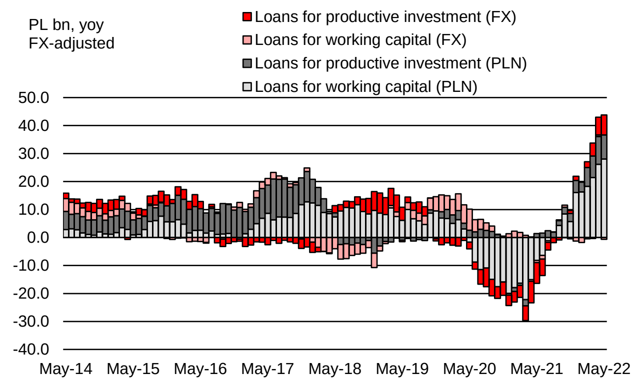
- Robust growth shows incipient signs of a slowdown.

CONSUMER CONFIDENCE



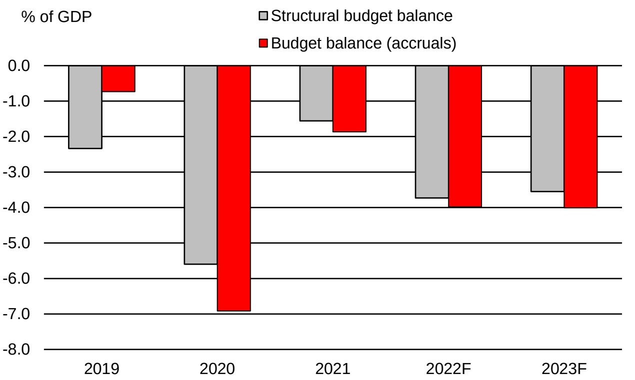
- Pessimistic consumers still intend to invest a lot.

CORPORATE LOANS



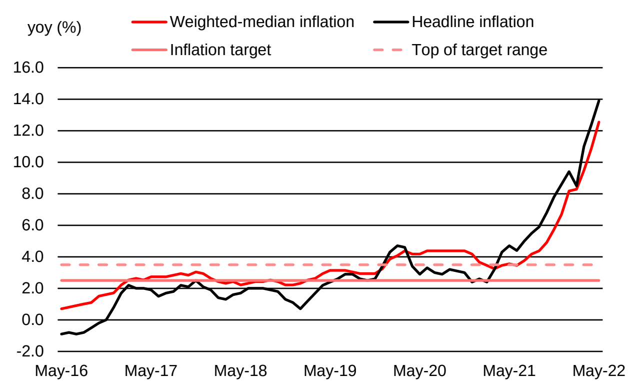
- Corporate lending is accelerating despite hikes.

FISCAL POLICY



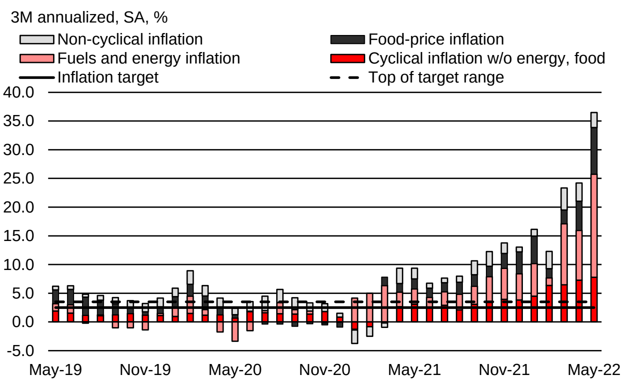
- Fiscal policy is expected to ease ahead of elections.

INFLATION (I)



- Weighted median inflation is close to headline, implying that inflationary pressure is broad-based.

INFLATION (II)



- Momentum is accelerating in food, energy and cyclical core prices.

Source: Statistics Poland, NBP, KNF, Eurostat, Bloomberg, Haver, International Energy Agency, UniCredit Research

Czechia

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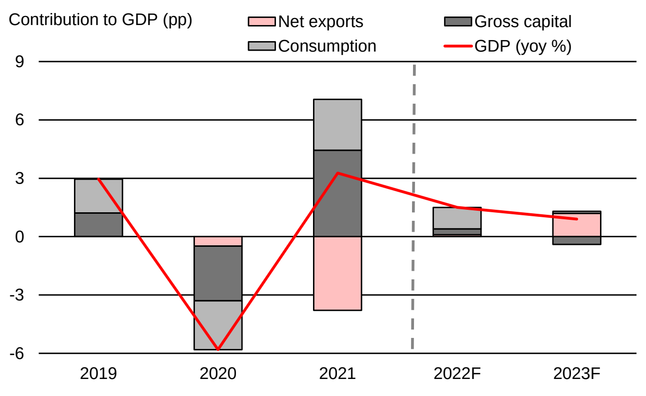
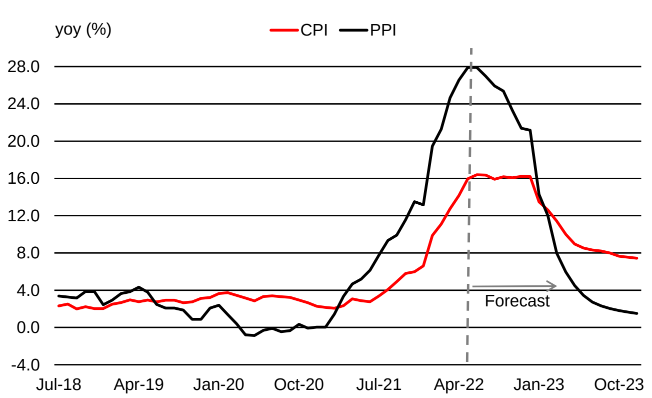
- The waning momentum in the post-pandemic recovery and a sharp adjustment in household spending due to an inflation spike characterize the current environment. In April, industrial output fell by 3.8% yoy, deepening its contraction from the -0.4% seen in 1Q22. The automotive sector was largely to blame for this. Leading indicators for industry have been showing mixed signals recently. Foreign trade swung to a CZK 28bn deficit from a CZK 19bn surplus in April 2021 due to lower car exports, and the import of several times more expensive oil and gas. Construction output was up 2.6% yoy in April despite infrastructure building dropping. Retail sales increased by 5.0% yoy in April, but the base was impacted by the pandemic. In June, consumer confidence fell to the lowest reading on record.
- GDP growth could weaken further in 2H22. Households are facing a considerable loss of real income as inflation rises and is likely to be stickier than previously expected. Business investment is set to slow, as companies are hesitant to start new projects in an environment of weaker economic activity (except perhaps in residential building and energy saving). Exports will be impeded from the supply side by the ongoing value-chain disruption in the automotive industry and from the demand side due to deteriorating business confidence in Europe. Czech exports to Russia are expected to remain depressed. Furthermore, GDP will no longer be supported by inventory accumulation. A drawdown in inventories seems inevitable as borrowing costs rise, although its pace remains uncertain.
- Inflation is viewed as the most important drag on economic growth. In the production sector, price pressure is dominated by energy, however double-digit growth is observed across the board. We expect CPI to tick up further in June, peaking at between 16% and 17% yoy. While in 2H22, the base effect will start working against a further rise, its power may be just enough to stabilize annual inflation rather than bringing it down. We now believe that inflation will remain well above the target in 2023, as second-round effects of past price changes could combine with fresh shocks. However, as a substantial change, 2023 inflation will no longer be driven by demand. Wage growth will react to higher inflation with a delay due to corporate policies and government efforts to slow down wages in the public sector.
- An expected deterioration in 2023 GDP would likely prevent the CZK from appreciating and the koruna will also have to factor in a wider C/A deficit and a narrowing CZK-EUR interest rate spread when the ECB starts tightening. Our revised view of the CZK value is at odds with the ČNB's policy assumptions, questioning the timing of a reversal in monetary policy. Currently, we expect a first rate cut in 3Q23. It is also uncertain whether the June 2022 repo rate level of 7% represents the peak. The ČNB is expected to continue employing FX interventions in times of market stress but not as a regular tool to tame inflation.

ECONOMIC RECOVERY HIT BY AN INFLATION SPIKE



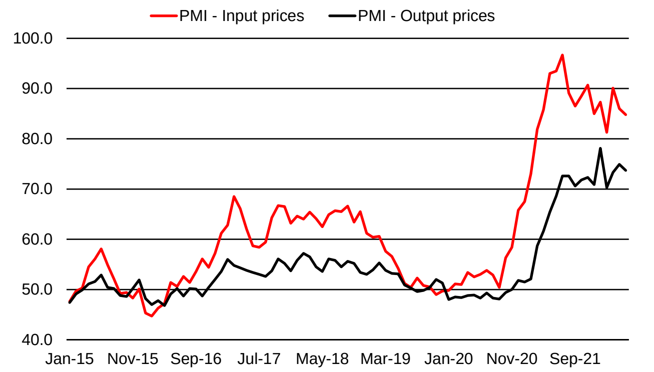
CPI IS SET TO REMAIN CLOSE TO A PEAK UNTIL EARLY 2023



Source: Czech Statistical Office, UniCredit Research

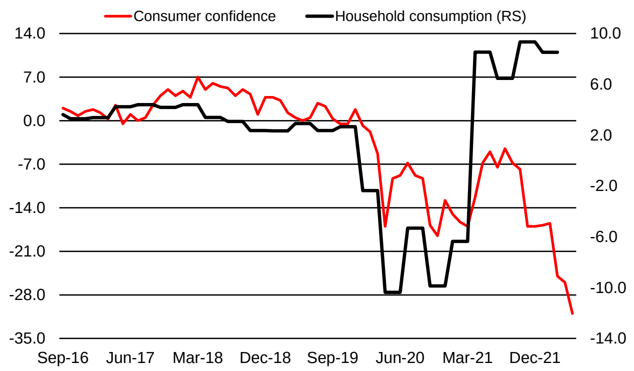
Czechia

MANUFACTURING PMI – INPUT AND OUTPUT PRICES



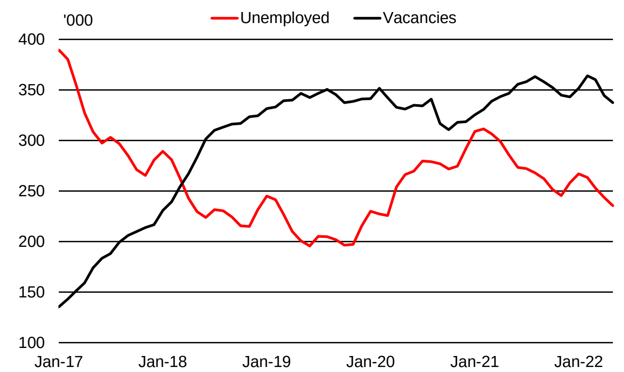
■ A rise in input prices was registered by 95% of businesses covered by PMI in 2021, while the latest share is still around 85%. Most businesses manage to pass on the extra cost to their output prices.

CONSUMER CONFIDENCE AND HOUSEHOLD CONSUMPTION



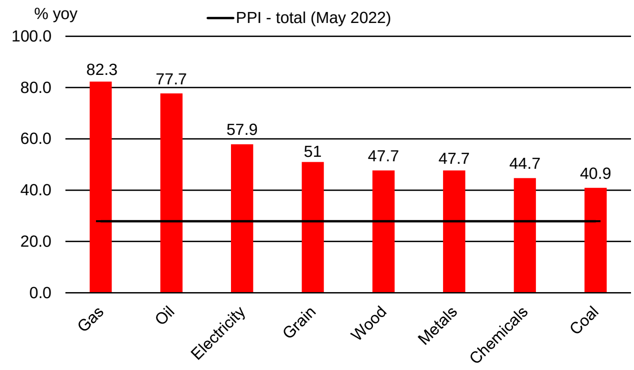
■ The high yoy dynamic of private spending stemmed from the base effect of the COVID-19 era. The end to that driver, alongside the inflation spike, points to a sharp downward adjustment in private spending.

NUMBER OF VACANCIES STILL HIGHER THAN UNEMPLOYED



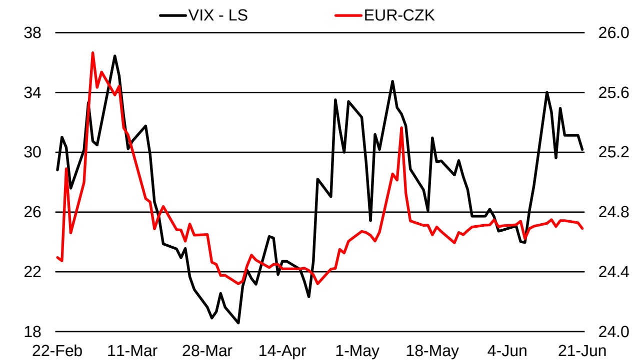
■ The number of vacancies still exceeds the number of unemployed in official statistics. The refugee wave from Ukraine is bringing down the former without the latter rising.

PPI GROUPS WITH THE HIGHEST GROWTH IN MAY 2022



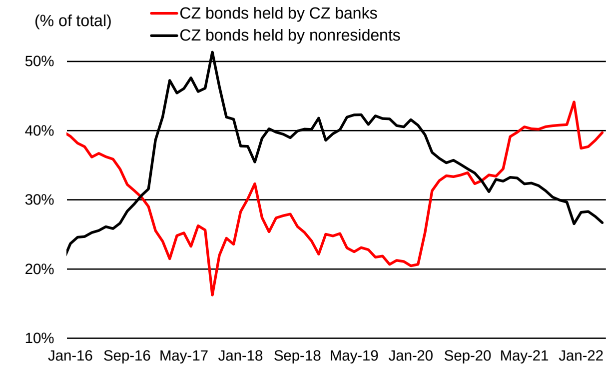
■ Energy continues to be the key driver for producer prices. Apart from this, wood and chemicals belong to the list of products with the highest price hikes, as well as grain.

KORUNA LED BY THE VOLATILITY INDEX VIX UNTIL JUNE



■ EUR-CZK was tracking the stock market volatility index, VIX, in the first month of Russia's invasion of Ukraine. Since June, however, the ČNB's FX interventions have been maintaining a floor to EUR-CZK.

NON-RESIDENT HOLDINGS OF CZ GOVERNMENT BONDS



■ Since 2020, demand for Czech government bonds has been driven especially by domestic investors, mostly local banks.

Source: Czech Statistical Office, Czech Ministry of Labor and Social Affairs, Macrobond, UniCredit Research

Hungary

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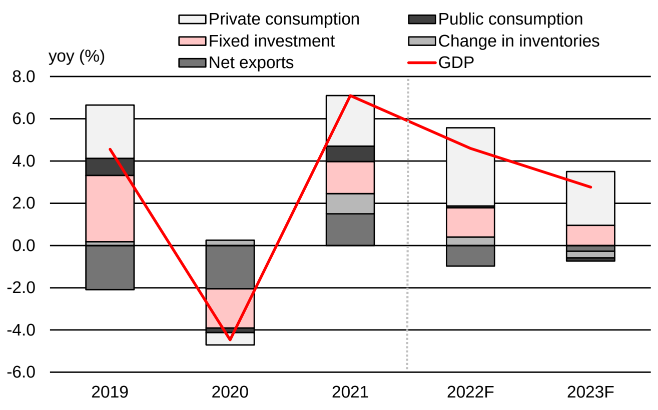
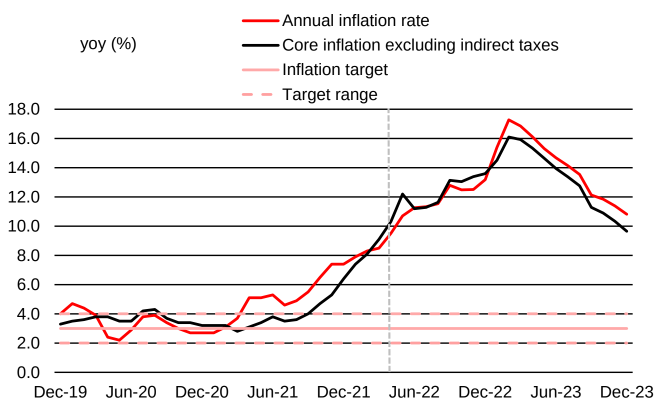
- After winning a fourth consecutive election, the government needs to tighten public spending or face further inflationary and financial pressure. The budget deficit rose to 4.2% of GDP in May, while the 12-month rolling budget deficit was 11.1% of GDP, just 0.4% of GDP from the pandemic high. The government announced a fiscal consolidation package equivalent to around 3% of GDP. 40% (HUF 815bn) is to come from sectoral taxes and the rest from lower government spending: the equivalent of 1% of GDP from line ministries and 0.5% of GDP from public investment. Spending cuts might be difficult to achieve due to large subsidies for utilities and energy (equivalent to ca. 2% of GDP) and due to the rising number of ministries that can spend independently. Thus, budget deficits could be larger than the government expects in both 2022 (5.2% of GDP vs. 4.9% of GDP) and 2023 (4.1% of GDP vs. 3.5% of GDP). We expect public debt to fall to 74% of GDP next year.
- Economic growth is likely to amount to around 4.7% in 2022 due to the strong carryover from 2021 (4.4pp), frontloading in private consumption and strong building activity. Hungarian households still had the equivalent of around 4% of GDP in precautionary savings at the end of April, and this could prop up the residential housing market, which is already the most overheated in CEE, and delay a potential spending slowdown brought about by higher inflation. In addition, real wage growth might remain positive this year due to tight labor-market conditions and government measures to cap inflation. Hungary is one of the few EU-CEE countries where labor shortages could cause an inflation-wage spiral.
- The government has imposed price caps on fuels and some foodstuffs, temporarily cut some indirect taxes and has not raised regulated prices for energy and heating. As a result, authorities estimate that inflation is 4-5pp lower than it would be in a free-price environment. If the government removes price caps and raises gas and electricity prices next year, inflation could end 2022 close to 13% and fall subsequently to around 10% by the end of 2023. If neither measure is implemented, inflation could end 2023 around 7%, at the cost of a larger budget deficit equivalent to around 5% of GDP.
- The NBH pledged to raise rates further in 2H22. We expect the policy rate to peak around 9.5%. More rate hikes and tighter financial conditions are in the pipeline if the government fails to adjust the budget deficit in line with plans. The NBH might cut the policy rate to around 6.5% in 2H23. FX interventions are likely if EUR-HUF threatens to exceed 400 again. We expect RRF funds to be unlocked before year-end, but disbursements could be interrupted if additional reforms are not implemented.

ECONOMIC SLOWDOWN DUE TO THE RUSSIA-UKRAINE CONFLICT



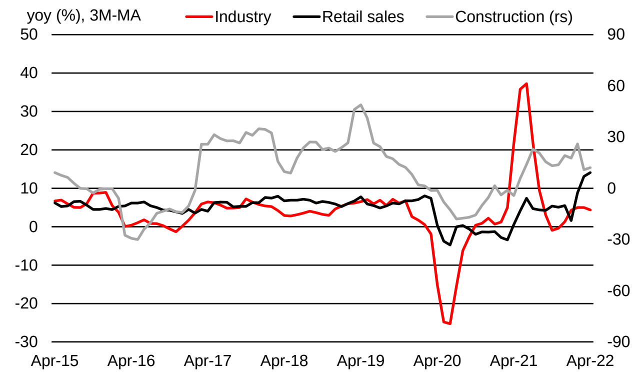
DOUBLE-DIGIT INFLATION IS LIKELY IN 2022-23



Source: KSH, NBH, UniCredit Research

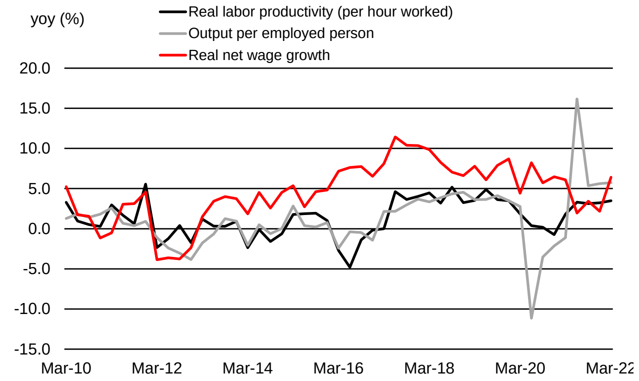
Hungary

ECONOMIC ACTIVITY



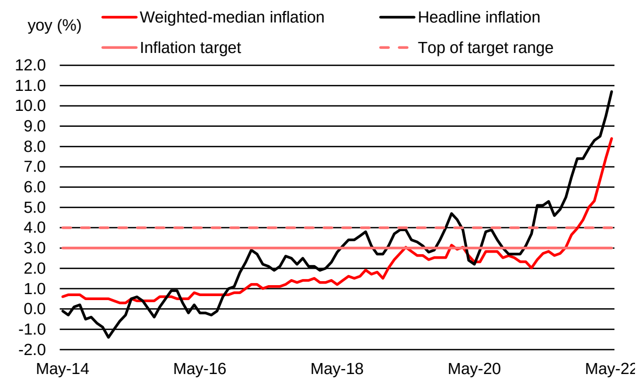
■ Economic activity was resilient in 2Q22.

REAL WAGE GROWTH



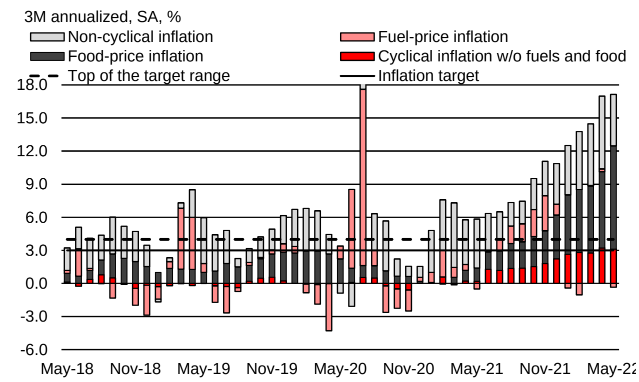
■ Real wage growth has accelerated despite inflation.

WEIGHTED MEDIAN INFLATION



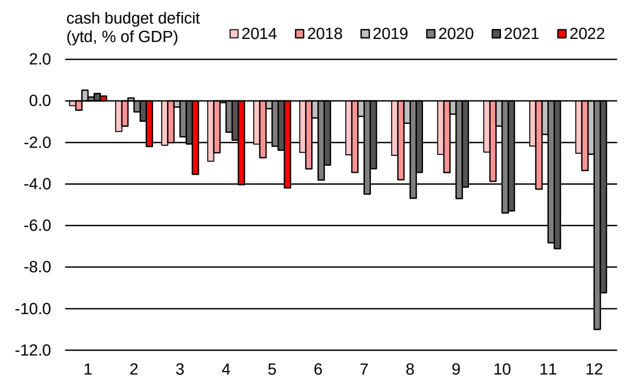
■ Inflationary pressure remains high and broad-based.

INFLATION MOMENTUM



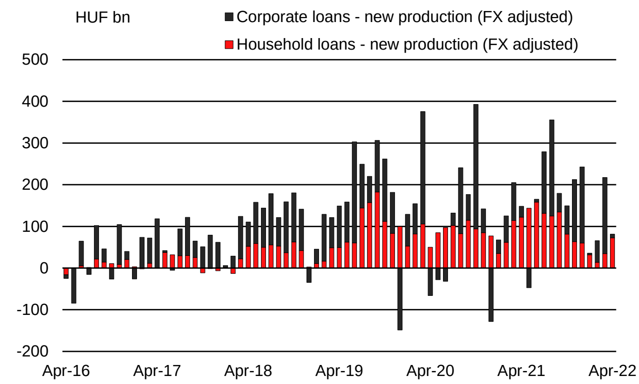
■ Food and core prices dominate inflation momentum.

CASH BUDGET DEFICIT



■ 2022: the loosest budget execution in the Fidesz era

NEW LENDING



■ New household lending has picked up despite rate hikes.

Source: KSH, NBH, AKK, Haver, Bloomberg, UniCredit Research

Russia

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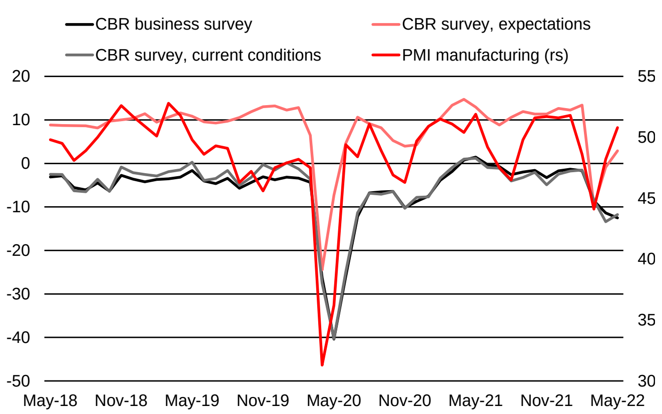
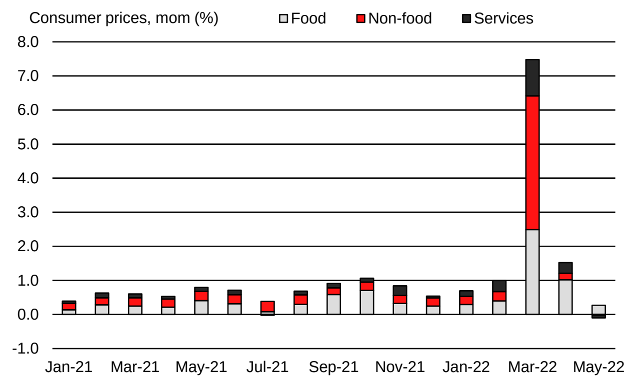
- Western sanctions have dealt an expectedly large blow to the Russian economy and financial system, but so far, both seem to be coping better than expected. Economic activity is stabilizing (albeit at a subdued level) after a sharp initial downturn, and financial markets have calmed. The RUB has appreciated to its strongest level since 2017 thanks to efficient capital controls and to a widening trade surplus. However, such currency strength looks unsustainable, and the longer-term implications of a sharp shift in relations with the West are only just starting to kick in and are not likely to be fully felt until next year and beyond.
- A freefall in imports has been driven by logistical bottlenecks and sanctions-related payment difficulties. Output in sectors where import substitution is difficult or where assembly and maintenance are outsourced to foreign companies would decrease. Some formerly foreign-owned companies are likely to re-open, e.g. in services, such as restaurants and catering, which do not require significant foreign inputs. Local regulation does not allow activity to stop without meaningful economic reasons (as it would hurt local employees). Thus, the role of Asian investors in the Russian economy is likely to increase. The severing of existing supply chains would force Russia to substitute imports from NATO countries with local production or other imports.
- The decline in Russia's oil and fuel output could reach 3mn b/d by the end of the year if the EU implements a partial embargo on Russian crude oil and petroleum products. Until then, exports are likely to remain high, contributing to RUB strength. Rerouting some Russian oil exports from Europe to Asia is likely, but the same is not likely to apply to gas due to a lack of infrastructure. Hence, USD-RUB could climb to around 80 by year-end as imports recover, capital controls are loosened and the productivity shock affects relative prices.
- Russia's monetary authorities have been highly active since March. As inflation moderated, the CBR cut its policy rate by 10.5pp to the pre-crisis level of 9.5%, with another 150bp in cuts expected before the end of the year. The CBR seems to have a strong mandate to bring inflation to 4% in 2024, implying a more prudent approach from here on. Financial conditions remain tight, as banks have imposed additional requirements on potential borrowers. According to the CBR, this will be considered when the level of interest rates is decided, with the key rate likely to be cut to 7% in 2023.
- Going forward, economic growth will depend on the success of substituting imports from the West. Some supply chains might be rebuilt at the cost of presumably lower potential growth. GDP will probably decline by about 10% in 2022, with domestic demand expected to fall by 13%. In 2023, GDP could stagnate if supply bottlenecks offset a rebound in domestic demand driven by looser financial conditions and a return to real wage growth.

BUSINESS EXPECTATIONS ARE SURPRISINGLY RESILIENT



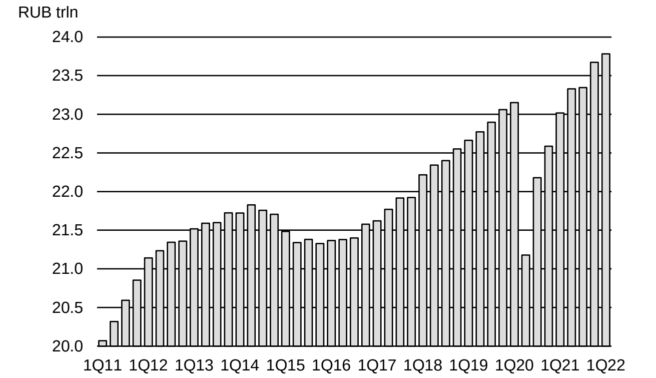
NON-FOODS CONTRIBUTED TO DISINFLATION



Source: CBR, REB, Rosstat, Bloomberg, UniCredit Research.

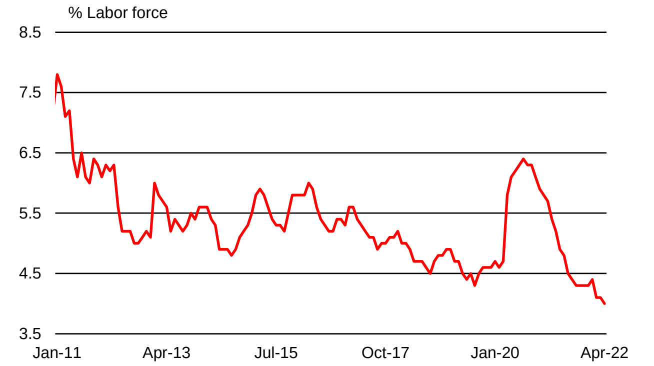
Russia

GDP



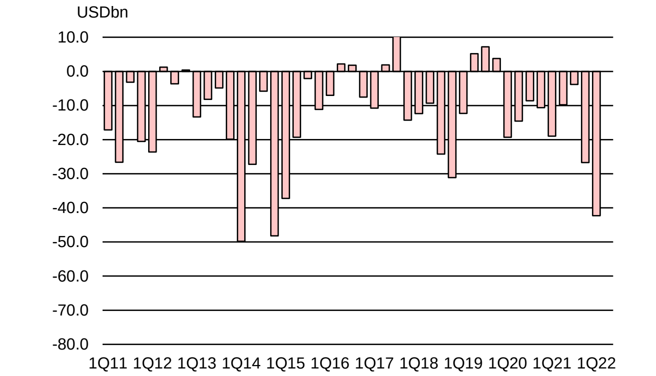
- Seasonally adjusted GDP showed a rapid recovery after the pandemic.

LABOR MARKET



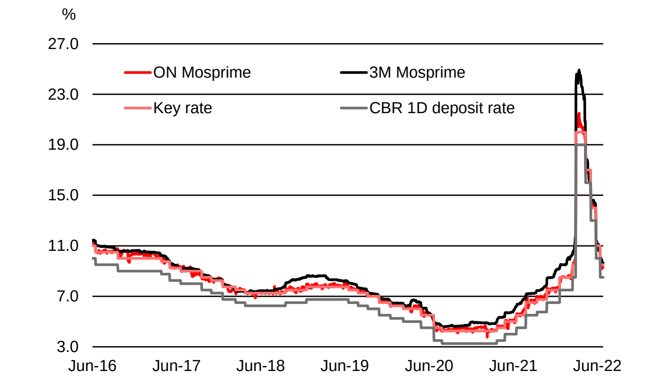
- The labor market still does not reflect worsening of the economic conditions, yet some deterioration is inevitable.

CAPITAL OUTFLOW



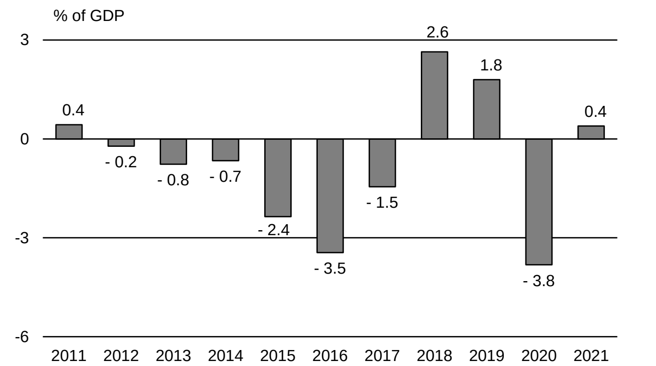
- Capital outflows increased rapidly in 2H21.

MONEY-MARKET RATES



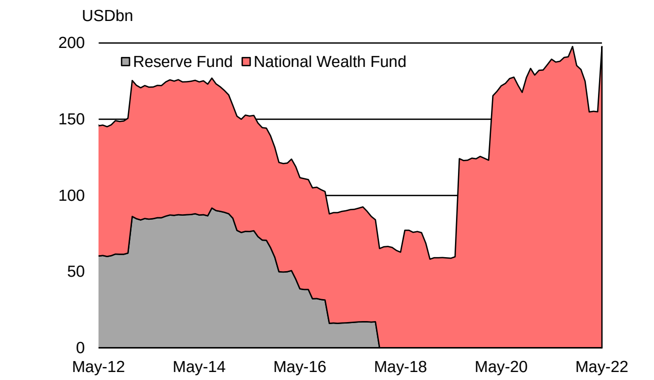
- The CBR hiked its key rate to 20% to ensure financial stability, yet now the situation has stabilized, and so the key rate was put back, with some more easing to come.

BUDGET BALANCE



- The federal budget recovered to a positive zone amid withdrawal of support for the economy higher oil prices.

STATE FUNDS ACCUMULATION



- The National Wealth Fund fell in February to reflect a change in the illiquid part of investments (e.g. in shares of Sberbank), yet its liquid part is large at ca USD 112bn and is ready for spending.

Source: Ministry of Finance, Bloomberg, CBR, Rosstat, UniCredit Research

Turkey

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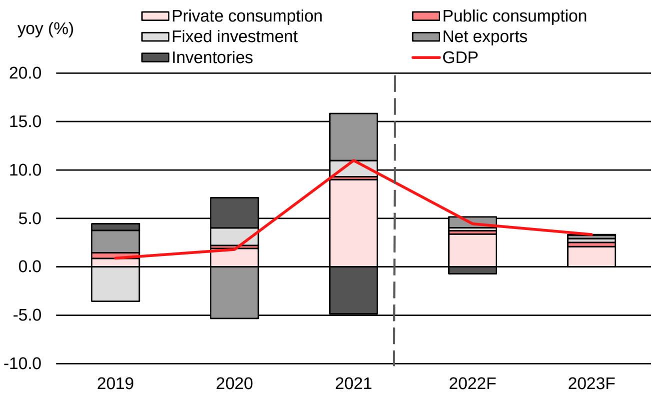
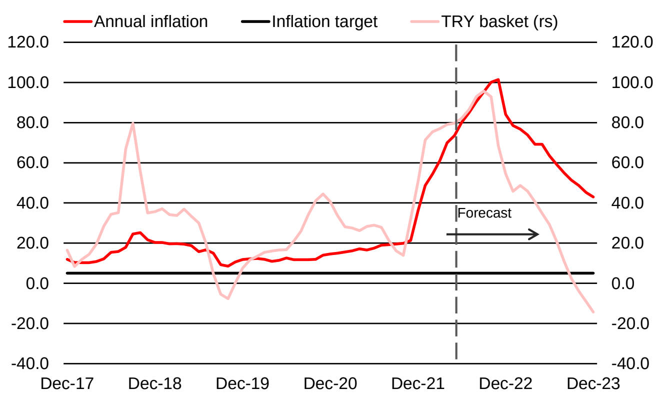
- We have revised our growth forecast for this year from 4% to 4.4%, mainly due to the large carry-over implied by 1Q22 GDP for the rest of the year (4.1pp). A possible minimum-wage hike and a strong rebound in tourism will likely support economic activity over the summer. However, a limited GDP contraction is in the cards in 4Q22 due to slower global growth and energy costs weighing more on household disposable income in the winter.
- Despite support from fiscal policies and potentially another sizable minimum-wage hike, we expect GDP growth to ease to 3.3% next year, reflecting slower growth in external demand. Domestic lending conditions will likely tighten in 2H23, if orthodox policies resume to fight inflation and curb macroeconomic imbalances.
- Inflation is on its way toward reaching triple digits in 4Q22, with energy and food prices continuing to drive the rise. The latter is unlikely to display the usual seasonality over the summer due to high demand from a recovery in tourism and pass-through effects from global food prices. Another sizable minimum-wage hike at the beginning of 2023, along with other populist policies ahead of elections will likely limit what would otherwise be a significant disinflationary base effect from December onward. We expect inflation to ease from 84% at the end of this year to 43% at the end of 2023.
- Rate hikes continue to remain off the table. Recently, authorities have opted for selective tightening of lending via macroprudential measures, thereby increasing the TRY-denominated fixed-rate bond requirement as collateral for banks to help mitigate the treasury's borrowing costs. Moreover, policymakers continued to implement measures aimed at getting companies convert FX holdings to TRY. The CBRT has changed the utilization conditions for export rediscount loans. The maturity of these loans has been increased, but exporters taking out these loans are required to sell 30% of their FX-denominated export receipts to a commercial bank on top of the 40% they are obliged to sell to the CBRT. More recently, the banking regulator has restricted TRY-denominated lending to companies whose FX holdings exceed a certain threshold.
- The private sector's net FX position has improved since 2018, while the FX risk has shifted to the public sector's balance sheet. The aforementioned measures taken by the authorities might stall improvement in the former.

THE TURKISH ECONOMY COULD GROW BY 4.4% IN 2022



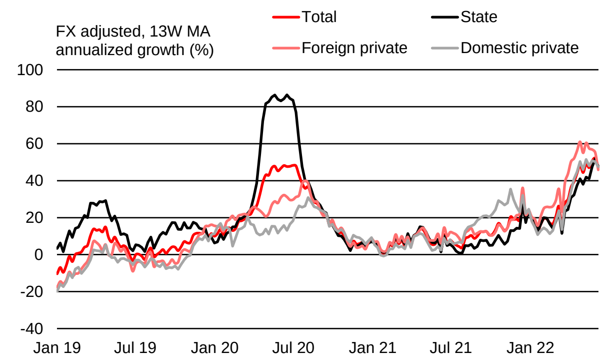
INFLATION COULD PEAK AT TRIPLE-DIGIT LEVELS IN 4Q22



Source: TurkStat, CBRT, Haver, UniCredit Research

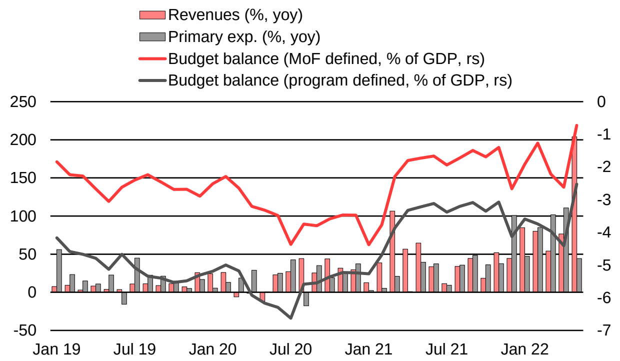
Turkey

LOAN GROWTH



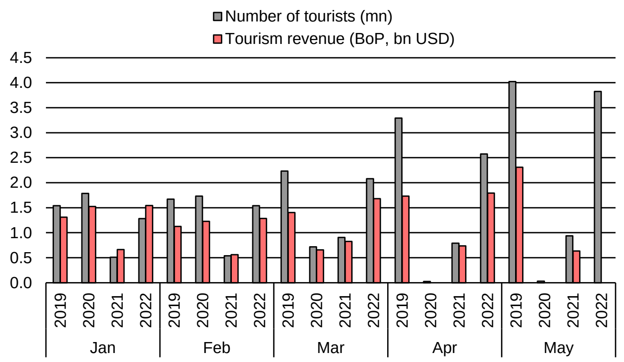
- Lending accelerated in 2Q22, although new measures aim to curb loan growth selectively.

BUDGET BALANCE



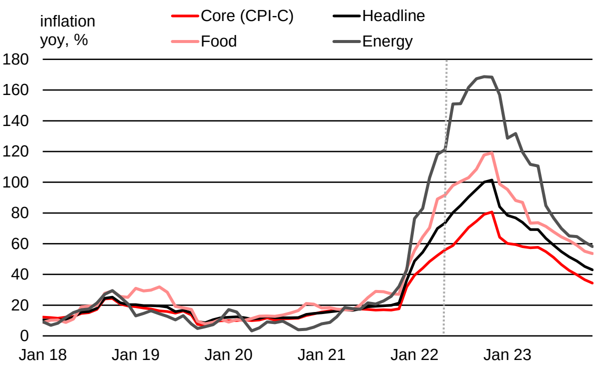
- Strong corporate profits and a weak TRY supported tax revenue growth in May.

TOURISM REVENUE



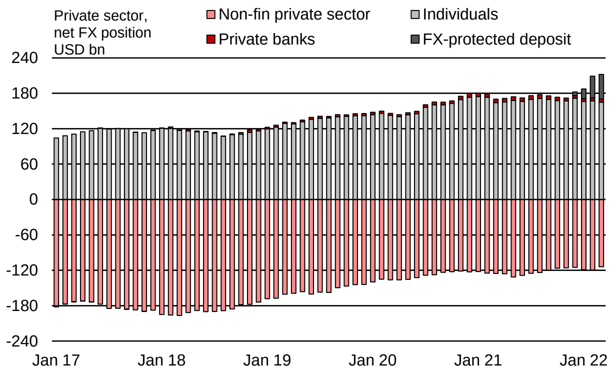
- Tourism revenue will likely exceed its 2019 level this year.

HEADLINE INFLATION AND MAJOR SUB-INDICES



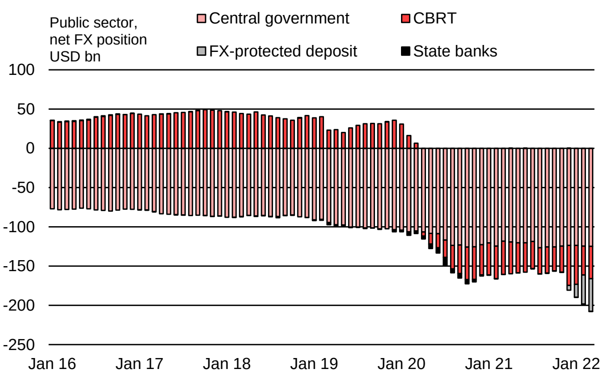
- Inflation could end this year at 84%, despite significant disinflationary base effect in December.

PRIVATE-SECTOR NET FX POSITION



- The net FX position of the private sector has improved since 2018, as companies have deleveraged and both retail and corporate FX deposits have increased.

PUBLIC-SECTOR NET FX POSITION



- The public sector's net FX position has deteriorated due to the treasury's rising share of FX-denominated debt and the CBRT's FX intervention.

Source: Turkey's Banking Regulation and Supervision Agency, Turkey's ministry of finance, CBRT, TurkStat, Haver, UniCredit Research

UK

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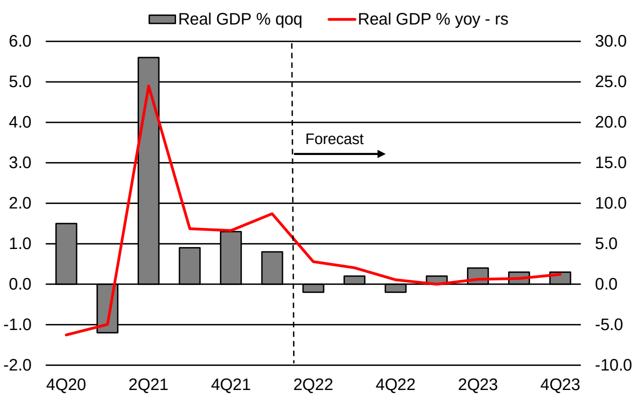
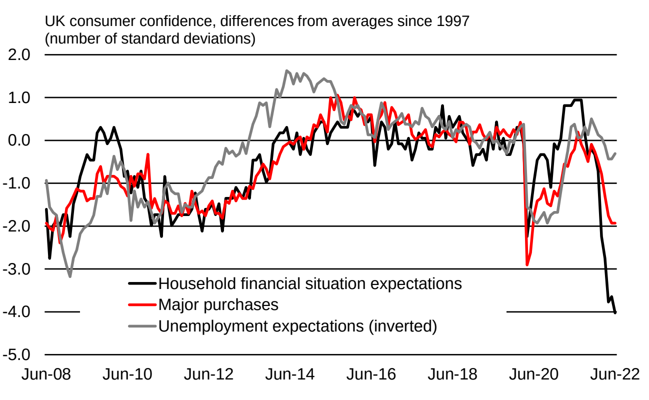
- We forecast GDP growth of 3.4% this year and 0.6% next year. The statistical carryover effect accounts for 2.8pp of GDP growth this year. Monthly GDP fell by 0.3% mom in April after a decline of 0.1% mom in March and zero growth in February. We forecast output to fall by 0.2% qoq in 2Q22, driven by the substantial squeeze in real disposable income, a one-off effect from the fall in health output (due to the ending of free COVID-19 testing in England from April), and the temporary effect from the extra bank holiday in June to celebrate the Queen's Jubilee. The risks are skewed to the downside. With inflation set to remain above 9% through the rest of this year, the squeeze in real incomes is set to be long-lasting. Consumer confidence hit a new record low in June. Business surveys have held up better, with the flash composite PMI unchanged at 53.1 in June, but indices of future output have declined sharply. We expect quarterly growth to be flat on average between 2Q22 and 1Q23, with a high risk of a technical recession.
- Headline CPI inflation ticked up by 0.1pp to 9.1% yoy in May, while core inflation eased by 0.3pp to 5.9% yoy. Inflation is set to stay higher for longer in the UK compared to peers, largely reflecting the six-month lag with which energy regulator Ofgem updates its price cap in response to changes in wholesale prices. The next update is in October, and prices could rise by 40% depending on how the national statistics office decides to treat government energy grants. We see inflation declining rapidly in 2023, to 1.4% yoy in 4Q23, reflecting negative base effects, weak growth, rising unemployment and our (downward-sloping) forecast for oil prices and futures curves for other commodities. We have assumed some gradual improvement in supply bottlenecks but mostly not until later next year.
- The BoE's MPC raised the bank rate by 25bp, to 1.25%, on 16 June. Three of nine MPC members dissented, preferring a 50bp hike. The MPC adopted looser guidance on future rate hikes, simply stating, "The MPC will take the actions necessary to return inflation to the 2% target sustainably in the medium term." This compares to guidance from May, when it said most members judged "some degree" of further tightening "might still" be appropriate in the coming months. In May, the MPC projected that inflation would fall well below the 2% target at the three-year horizon, conditioned on a market-implied path for the bank rate that rose to about 2.5% in a year's time, around 80bp lower than current market expectations. The constant-rate projection had inflation falling to a little above 2% in three years' time. This was a signal that some further tightening was probably warranted but not much more. We expect the MPC to hike just once more, at its next meeting on 4 August. It seems the MPC wants to see that a margin of spare capacity in the labor market opens before it stops rate hikes, and we expect this to happen after the summer.

GDP IS SET TO FLATLINE AHEAD



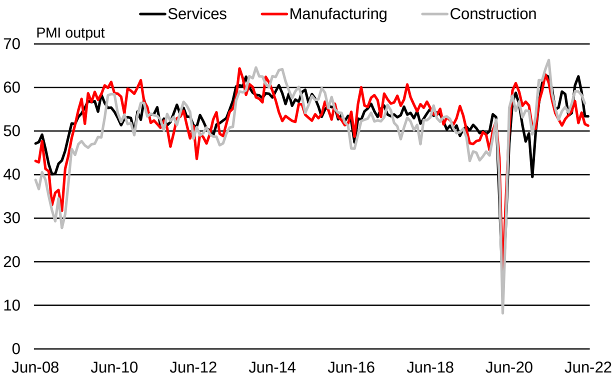
CONSUMER CONFIDENCE IS AT A RECORD LOW



Source: ONS, GfK, UniCredit Research

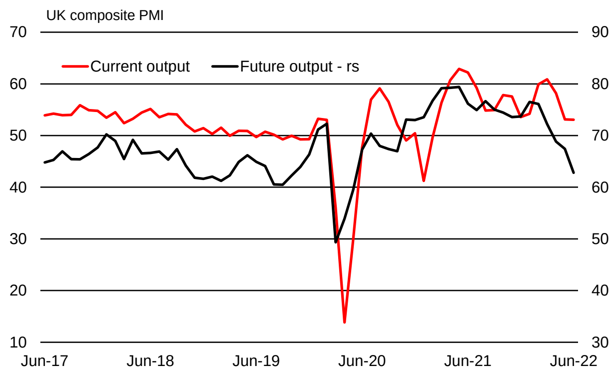
UK

PMIS



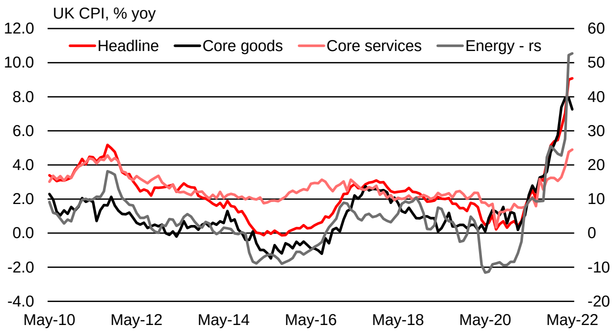
- The flash manufacturing output PMI eased to 51.2 in June from 51.6 in May. The flash services PMI was unchanged at 53.4.

PMI EXPECTATIONS



- PMI expectations of future output for the next 12 months have deteriorated significantly.

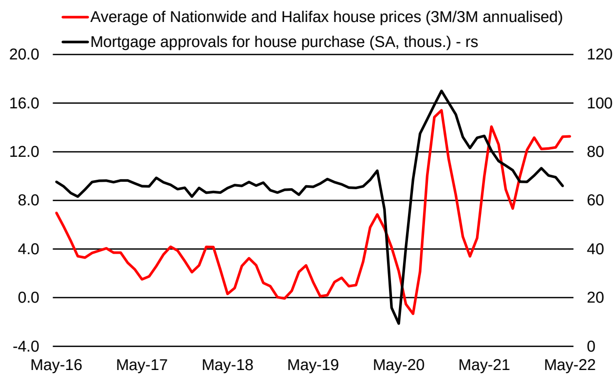
INFLATION



Note: Core goods CPI excludes energy, food, non-alcoholic beverages, alcoholic beverages and tobacco. Core services CPI excludes airfares, package holidays and education.

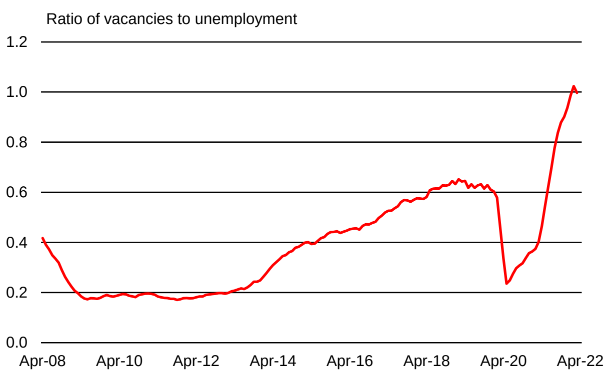
- Headline CPI inflation rose to 9.1% yoy in May, with core services inflation rising to 4.9% yoy.

HOUSING MARKET



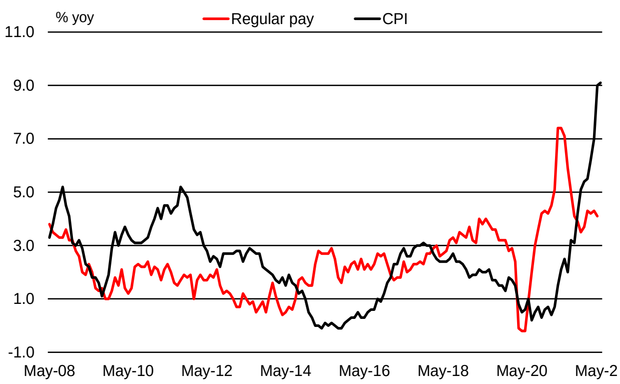
- Mortgage approvals have fallen to pre-pandemic levels, while house-price growth remains very high amid a shortage of supply.

LABOR MARKET



- The labor market is tight, with the ratio of the number of job vacancies to the number of unemployed at a high of 1.0.

WAGE GROWTH



- Average weekly earnings growth excluding bonus payments (i.e. regular pay growth) was 4% yoy in April, well below CPI inflation of 9% yoy.

Source: Halifax, Nationwide, ONS, S&P Global, UniCredit Research

Sweden

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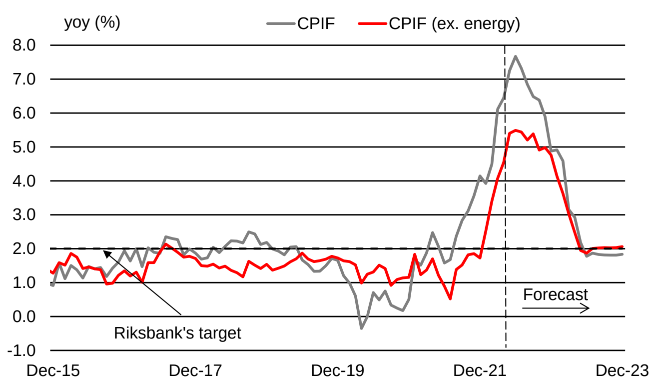
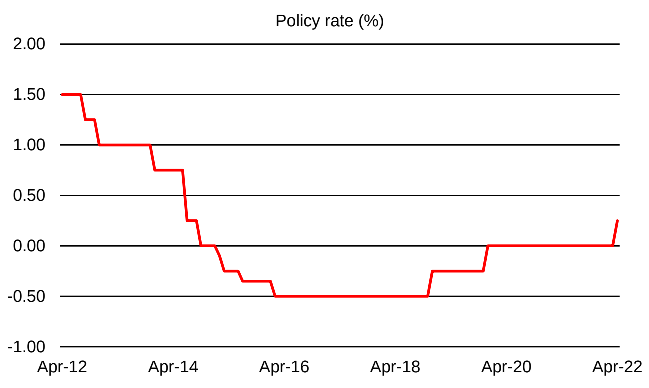
- We have lowered to 2.7% (from 3.0%) our GDP growth forecast for this year but confirm our projection for 2023 (2.2%). The downward revision to the near-term GDP path largely reflects disruptions in global value chains, a worsening of delivery problems and tighter financial conditions led by expectations of a more aggressive Riksbank (RB) tightening cycle. While for Sweden the risk of a recession is not particularly high, increased uncertainty related to the availability of and the access to oil and gas surrounds GDP growth after the summer.
- Economic activity is starting to soften amid substantial tightening of financial conditions, particularly in the housing market, which peaked in March. Notwithstanding lower purchasing power due to inflation and higher interest rates, household consumption is likely to continue to expand thanks to savings accumulated during the pandemic and to a strongly supportive labor market. Also, investment growth is set to continue, albeit weakened by supply constraints and tightening credit conditions. Exports are on track for a recovery thanks to healthy profitability and competitiveness of Swedish exporting firms.
- Recent inflation surprises, higher inflation expectations, a further rise in gasoline prices and our oil-price assumptions led us to revise upwards our inflation forecasts for both 2022 and 2023. We now expect inflation to peak at 7.1% yoy in 3Q22. Headline inflation is set to stay well above 2% through the middle of next year, to then fall to around 2% in 3Q23. Core inflation will probably hover around 5% until 4Q22, before starting to decline significantly over the course of next year. Second-round effects will likely be small. There is little evidence of wage pressure for now. However, on the back of a high-inflation scenario, the risk of price increases as a result of higher wages is rising.
- The RB started its tightening cycle in April, raising its policy rate to 0.25%, after it said in February that it would not need to raise rates until 2024. Although a U-turn in monetary policy was ultimately expected, the April hike came quite as a surprise, as it was not flagged by the Riksbank at the previous meeting in February. Following the upward revision of our inflation projections, and in the wake of further hawkish announcements from the Fed and the ECB recently, we expect the Riksbank to deliver a 50bp hike in both June and September and to deliver a final hike of 25bp in November, as the bank will probably want to see a clear decline in CPIF inflation readings before adopting a wait-and-see stance. We expect the policy rate to peak at 1.50% this year. The last time the policy rate was at such a level was in September 2012.

THE RAPID INCREASE IN INFLATION…



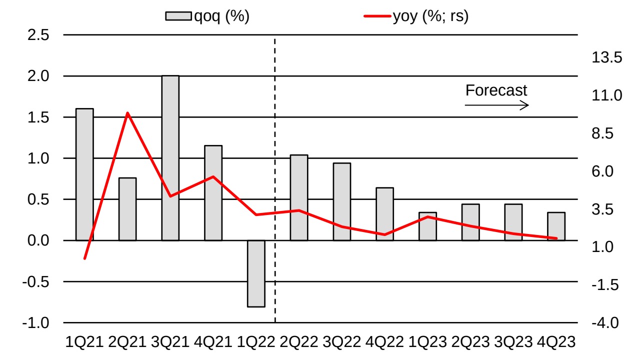
…LED THE RB TO BRING FORWARD ITS HIKING CYCLE



Source: Statistics Sweden, Riksbank, UniCredit Research

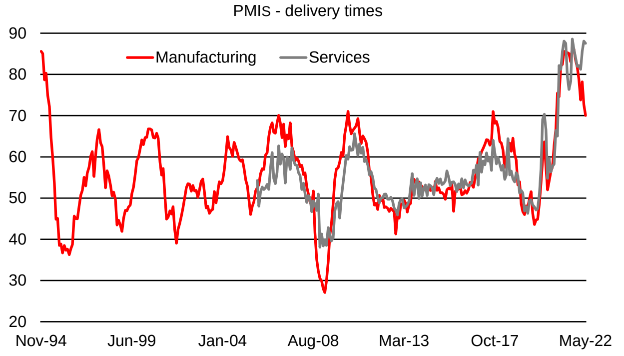
Sweden

GDP



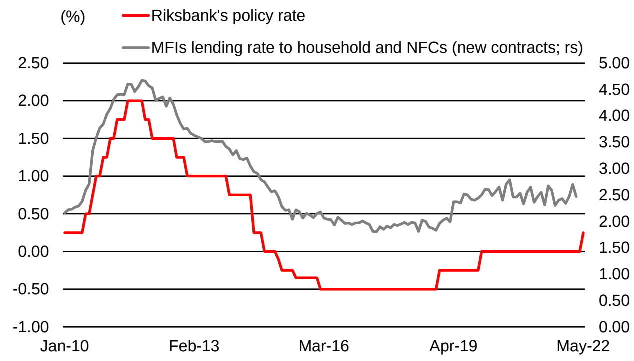
- We have lowered the quarterly profile of our GDP forecasts for 2022.

PMIs



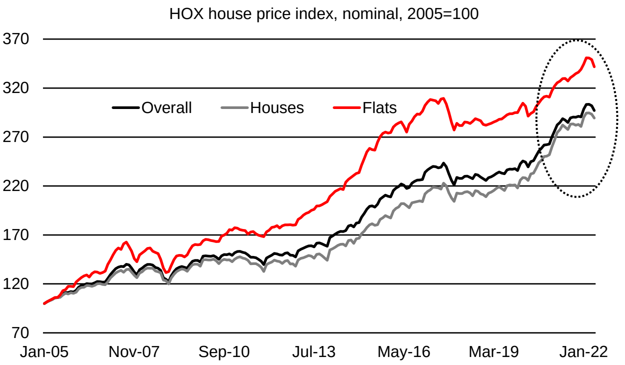
- PMI surveys signal a continued worsening of delivery problems, especially in the services sector.

MFIs



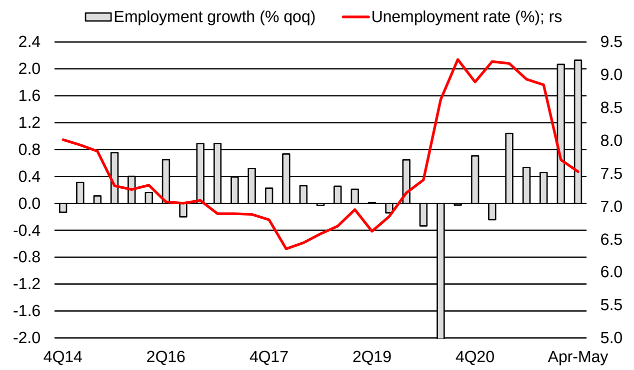
- Financial conditions have started to tighten due to higher interest rates and expectations of a more aggressive RB.

HOUSING PRICES



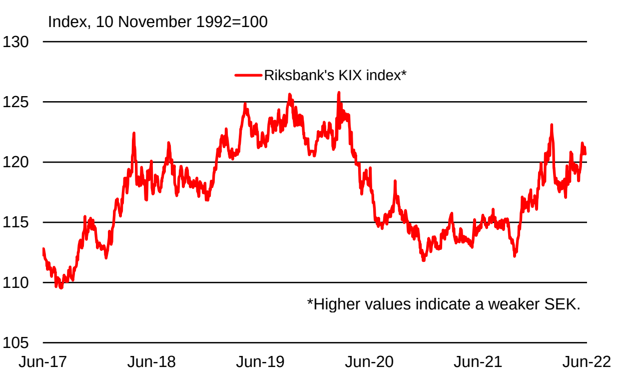
- Housing prices fell by 1.6% mom in May after falling by 0.5% in April. The peak in the housing market seems now behind us.

LABOR MARKET



- The labor market continues to show high resilience, with employment continuing to rise and unemployment to fall.

FX



- The SEK TWI is currently 4% above its pandemic low and has weakened since the last Riksbank meeting in April, due to high volatility in the FX markets and higher-than-expected inflation prints in Sweden.

Source: Bloomberg, Riksbank, Statistics Sweden, Swedbank/Silf, Valueguard Sweden AB, UniCredit Research

Norway

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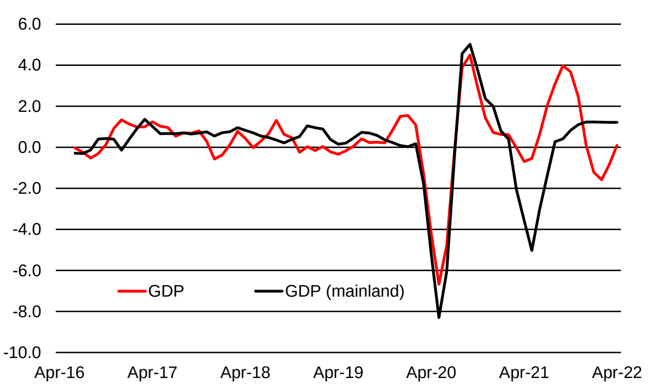
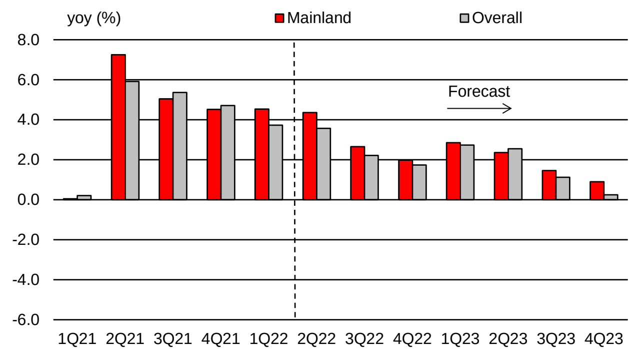
- We confirm our mainland GDP forecast for this year at 3.5%, while our projection for 2023 has been lowered to 1.9% (from 2.2%). Overall GDP growth is expected to follow the same pattern: our forecast for 2022 has been confirmed at 2.9%, and that for 2023 has declined to 1.7% (from 2.0%). The downward revision to next year's numbers is largely due to tighter financial conditions as we now expect a higher peak for the policy rate.
- The Norwegian economy recovered rapidly from the Omicron wave of COVID-19. As signaled by the Regional Network survey, activity rose through spring, but GDP growth is expected to slow in 2H22. Higher inflation and rising interest rates are likely to reduce growth in household consumption. At the same time, solid growth in petroleum investment and business investment is expected to support economic activity.
- Rising energy and food prices, higher oil forecasts and longer-than-expected supply constraints have led us to revise upwards our forecast for consumer-price inflation for this year and next. We now expect inflation to peak higher and later, at 6.6% yoy in 3Q22. While headline inflation is set to stay well above 2% through the middle of next year, inflation will likely fall below the 2% target at the end of 2Q23, with core inflation prints following suit. As longer-run measures of inflation expectations have risen and are now above 2%, we assume that there are some risks of second-round effects from wages. A tight labor market is likely to favor faster wage growth, and wage expectations are high, as signaled by the Regional Network survey.
- In June, the Norges Bank (NB) continued with its rate-hike plan, raising its policy rate by 50bp to 1.25%. The bank also stated that it expects to increase further its policy rate, to 1.50% in August, and it lifted its new rate-path projections, with the policy rate expected to rise to 3% by the summer of 2023. This is significantly above the neutral policy rate, which the NB estimates to be around 1.70%. Beyond the 25bp rise in August, we expect the NB to deliver another two hikes this year: one by 50bp in September and another by 25bp in November, lifting the interest rate to 2.25% at the end of 2022. After November, a wait-and-see stance is likely to follow.

MONTHLY ACTIVITY RECOVERED THROUGH SPRING



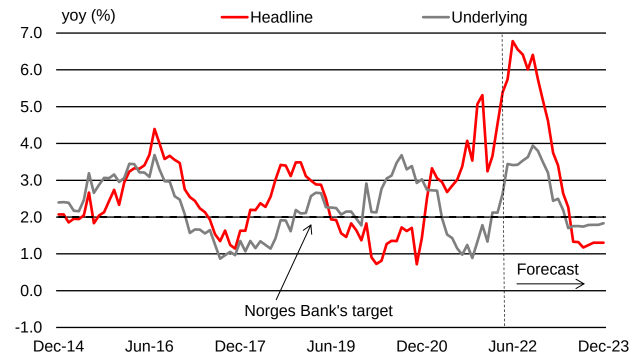
GDP GROWTH IS EXPECTED TO EASE IN 2H22



Source: Statistics Norway, UniCredit Research

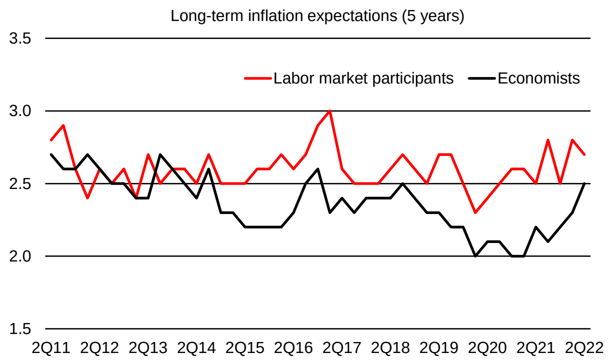
Norway

INFLATION



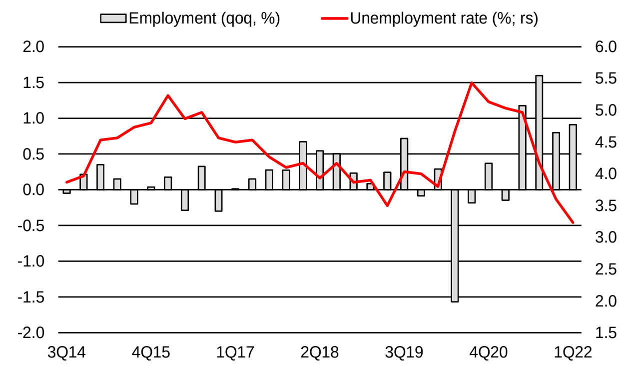
- Inflation is set to remain well above 2% through the middle of next year and to fall below the 2% target in 3Q23.

INFLATION EXPECTATIONS



- Longer-run measures of inflation expectations are well above 2%.

LABOR MARKET

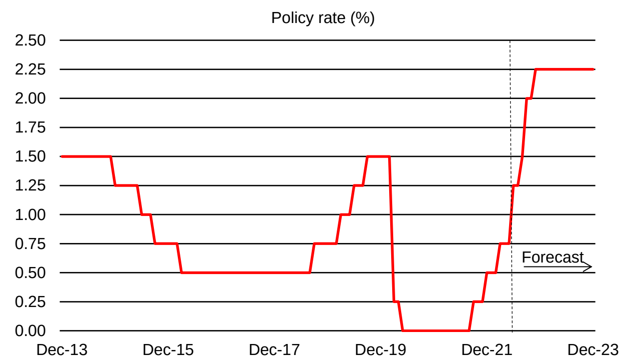


- A tight labor market…

WAGES GROWTH

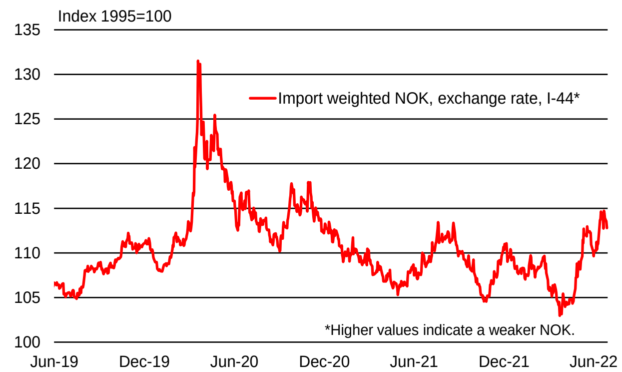
- …favors wage growth expectations, which, for the next year, are trending higher.

MONETARY POLICY



- We now expect the policy rate to reach 2.25% at the end of 2022.

FX



- The NOK TWI fell to its weakest level since March 2020 as risk in global finance markets is increasing.

Source: Bloomberg, Statistics Norway, Norges Bank, UniCredit Research

Switzerland

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Chief German Economist
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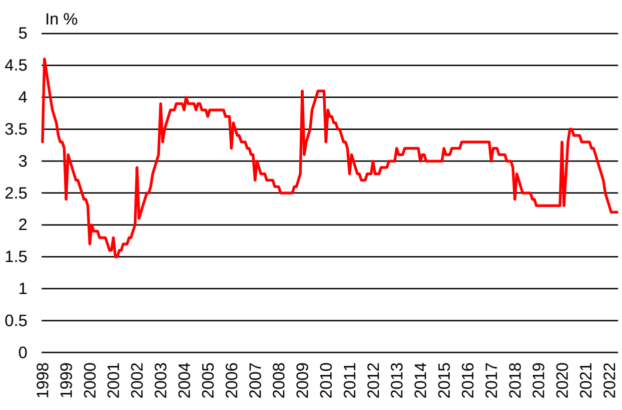
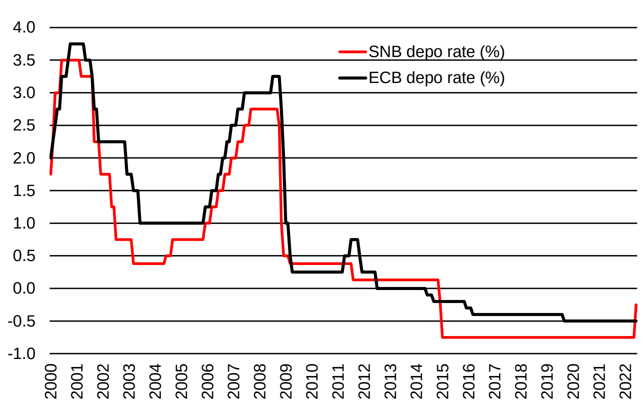
- We forecast real GDP to rise by 2.4% in 2022 and 1.7% in 2023. Although Switzerland is far less dependent on Russian natural gas than many other European countries, uncertainties for the outlook remain high, especially for 2023. Only about 5% of Switzerland's primary energy consumption is covered by Russian natural gas. However, the chemical and pharmaceutical industries, which account for about a quarter of Swiss exports, are also dependent on a steady supply of input goods from the German chemical sector. The smooth functioning of such supply chains could be at risk in the event of a Russian gas embargo (see also German country page).
- Higher energy prices, shrinking global trade and persistent supply shortages are likely to weigh further on economic activity in the second half of this year. At the same time, growth impulses might come from services and, in particular, from the tourism sector over the summer months, as a higher number of guests from other European countries are expected.
- Consumer price inflation is likely to peak in early summer at about 3¼% but inflationary pressure might remain high in the remainder of 2022. While a price-wage spiral still seems unlikely, signs of a further tightening of the labor market and higher wages in Switzerland are unmistakable. Recently, the unemployment rate declined to 2.2%, its lowest level in nearly 20 years. The number of job vacancies even hit roughly 100,000, a record high, in the first quarter of 2022.
- At its quarterly meeting in June, the SNB surprisingly hiked its depo rate by 50bp to -0.25%. Furthermore, and this was also unexpected, policymakers signaled their willingness to purchase Swiss francs on FX markets in order to dampen inflationary pressure through less pronounced rises in import prices. In the press conference, SNB Chairman Thomas Jordan pointed to the recent broadening of price increases across various goods and services. Given the latest hawkish rhetoric, we have changed our SNB call and now expect another 50bp hike at the next meeting in September, followed by 25bp increases in 4Q22, 1Q23 and 2Q23. This would lead to the depo rate peaking at 1.00%.
- The EU Commission wants to have a better understanding of Switzerland's position on bilateral relationship issues and therefore officially sent over a list of ten questions in May, which included the role of the European Court of Justice and agreements on market access. The Federal Council answered these questions and signaled its general willingness to make compromises and to proceed further.

UNEMPLOYMENT RATE HITS LOWEST LEVEL IN 20 YEARS



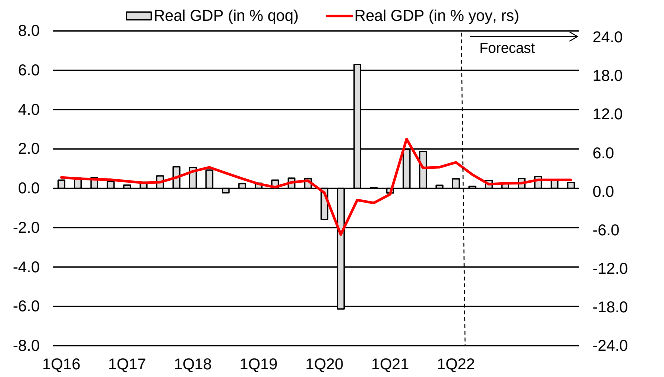
SURPRISE 50BP HIKE BY SNB IN JUNE



Source: Bloomberg, UniCredit Research

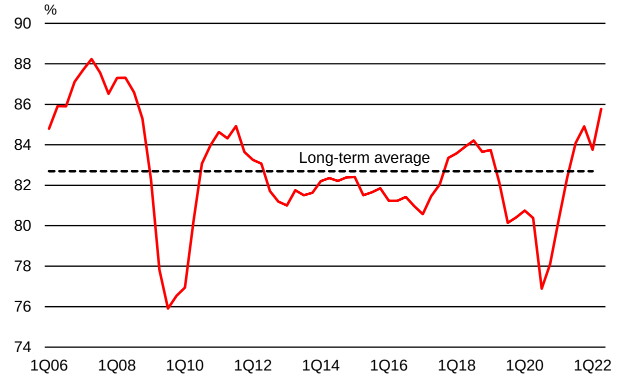
Switzerland

GDP



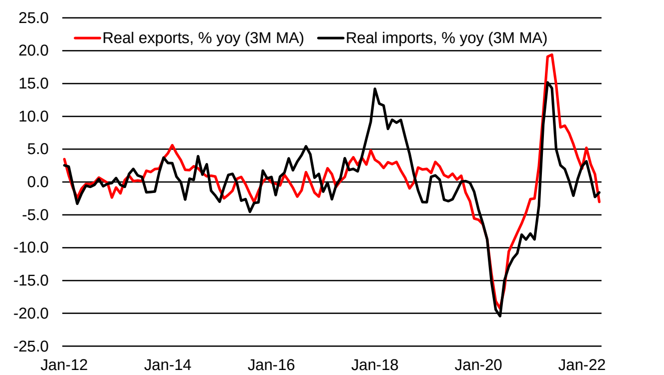
- We expect GDP to increase marginally in 2Q22 before resuming some momentum.

CAPACITY UTILIZATION



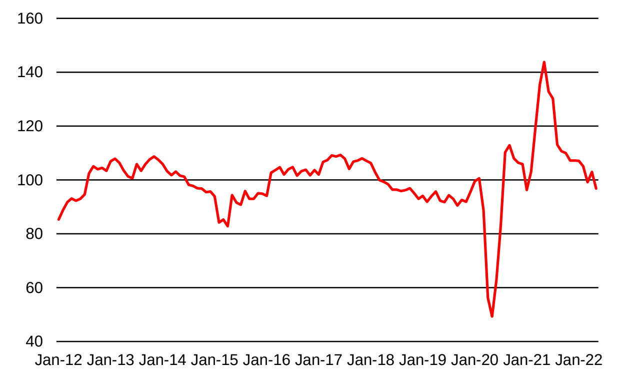
- Capacity utilization in the manufacturing sector has increased to its highest level since 2008.

INTERNATIONAL TRADE



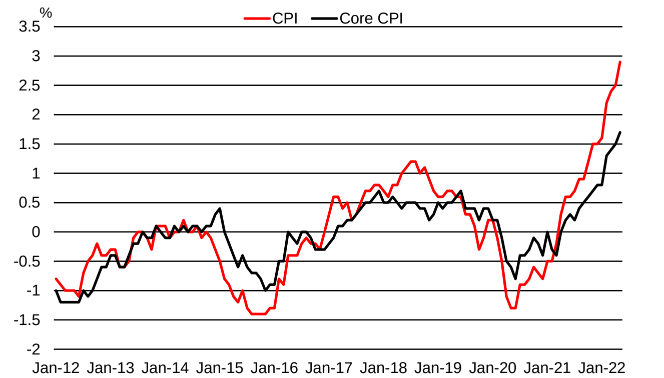
- Exports and imports have started to shrink again on a yoy basis.

LEADING INDICATOR



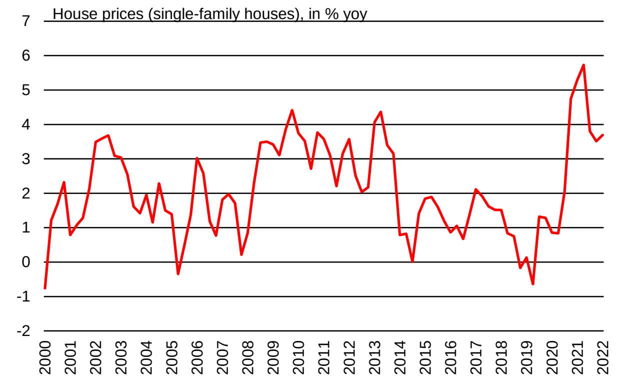
- The KOF leading indicator has lost further momentum in the last few months.

INFLATION



- In May, headline and core inflation rates (yoy) increased further to 2.9% and 1.7%, respectively.

RESIDENTIAL PROPERTY MARKET



- House price inflation peaked at nearly 6% yoy in 2Q21 and stood at about 3¾% in 1Q22.

Source: Bloomberg, SECO, Feri, UniCredit Research

China

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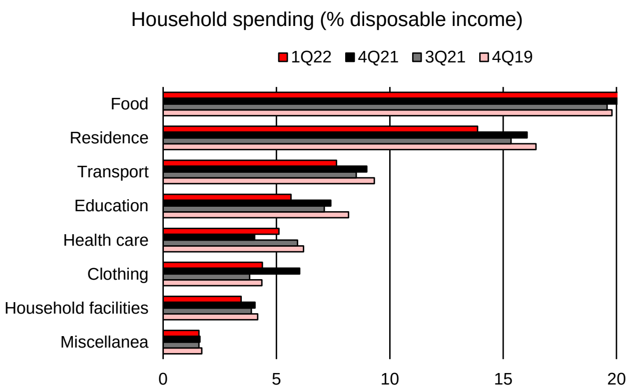
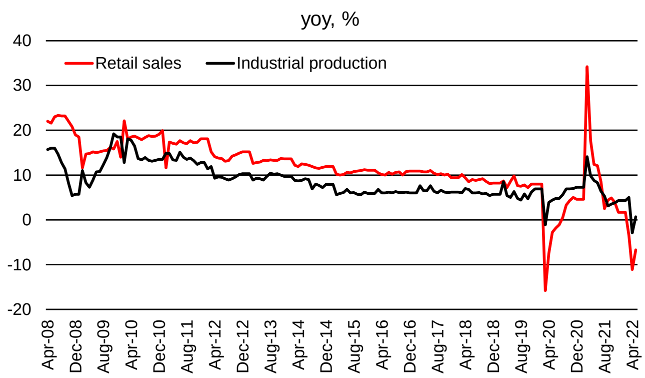
- We are revising our 2022 GDP growth forecast down to 4.0% from 4.7% previously and our 2023 forecast to 4.2% from 4.7%. Lockdowns and restrictions of different kinds, including border controls and mass quarantine, in key cities like Shanghai and Shenzhen, have taken their toll on economic activity. Both retail sales and industrial production contracted sharply in April, with little signs of improvement in May. Even if most restrictions were lifted at the beginning of June, the supply side of the economy is recovering faster than the demand side as Chinese consumers continue their cautious behavior to avoid quarantines. We think economic activity in 2Q22 likely stagnated, while we left our quarterly path roughly unchanged for the rest of the forecasting horizon.
- Going forward, the course of the virus will also determine the course of the Chinese economy. According to current anti-pandemic rules, it is enough for a city to detect a handful of infections for it to enter a strict lockdown. Borders are sealed, mass testing begins, people are forced to stay at home, and schools and non-essential activities are shut down until local authorities announce that there are no more cases in the community.
- In the meantime, the central government is stepping up efforts to support the economy and reduce the negative impact of new waves of contagion on the domestic economy. Premier Li Keqiang recently warned of a “complicated and grave” employment situation in the country, with the unemployment rate moving above 6%, as in February 2020, when the pandemic started, and has asked local authorities to prioritize measures aimed at helping companies retain staff. Given the weakness in the recovery of private consumption, services activity is likely to remain subdued, prolonging the pressure on the job market.
- The State Council has also announced several measures to stimulate the economy, including tax cuts for the purchase of new vehicles, tax rebates for an increasing number of industries, relief measures for jobless people, and, in addition, infrastructure projects. Should the public health situation deteriorate in the coming months, the central government will likely take advantage of the fiscal space that it enjoys to shore up the economy either by tapping funds left over from last year or by issuing special purpose bonds.
- Thanks to the lack of CPI inflationary pressures and to a substantial drop in PPI inflation, the PBoC is also stimulating the economy, in particular supporting SMEs that have been hit more strongly by the lockdowns, through several lending facilities. In order to back a troubled real estate sector, it cut the five-year prime loan rate (a key reference for mortgage rates) to 4.45% from 4.6% and additional cuts are likely. The PBoC might briefly tolerate further weakening of the CNY towards 7.00 against the USD to support exports.

REVERSAL IN CONSUMPTION NORMALIZATION



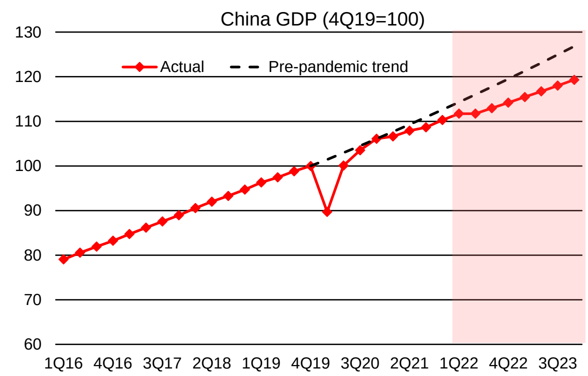
DEMAND SUFFERING MORE THAN SUPPLY



Source: NBS, UniCredit Research

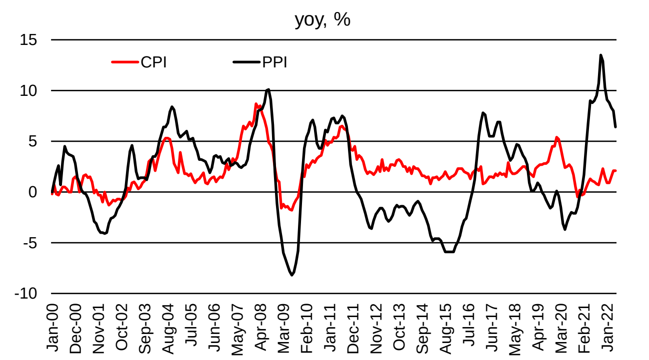
China

GDP



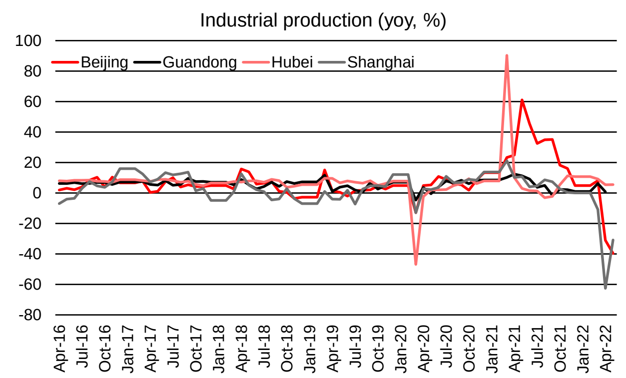
■ The zero-COVID policy and regulatory tightening have moved Chinese GDP away from its pre-pandemic trend.

INFLATION



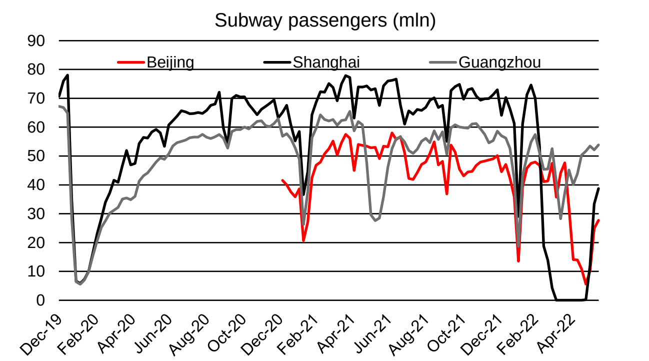
■ Due to constrained margins and weak demand, CPI inflation remains subdued despite elevated PPI inflation.

INDUSTRIAL PRODUCTION



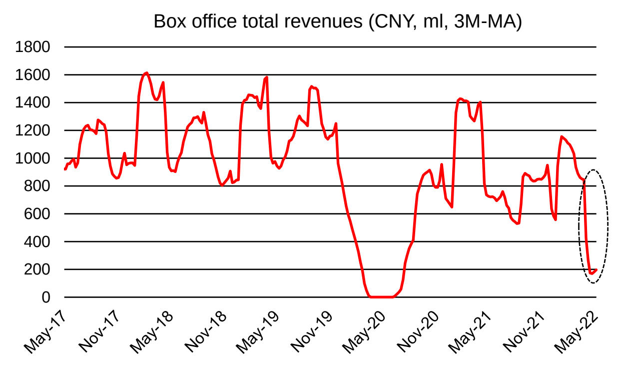
■ The zero-COVID policy has affected industrial production in a geographically uneven way.

MOBILITY



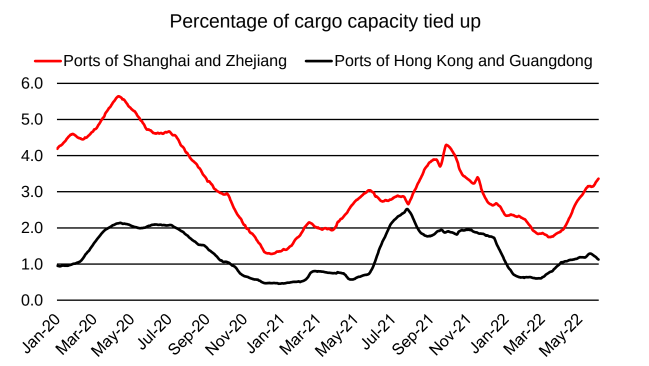
■ Life in Shanghai and Beijing is still far from normal.

CONSUMPTION



■ Despite the partial reopening of the economy, Chinese consumers are reluctant to return to their old leisure habits.

SUPPLY BOTTLENECKS



■ The percentage of cargo capacity tied up is rising, though below the levels of 2020 and 2021.

Source: NBS, Bloomberg, UniCredit Research

Oil

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- We confirm our Brent forecast for 2022 of USD 114/bbl and for 2023 of USD 107/bbl. Given the elevated tightness of the oil market, which was exacerbated by the easing of lockdowns in China and the EU's partial embargo of Russian oil, we see Brent prices averaging USD 125/bbl throughout 3Q22, with possible peaks at USD 130/bbl. Negative spillovers from lacking natural gas in Europe might support oil prices in the near term.

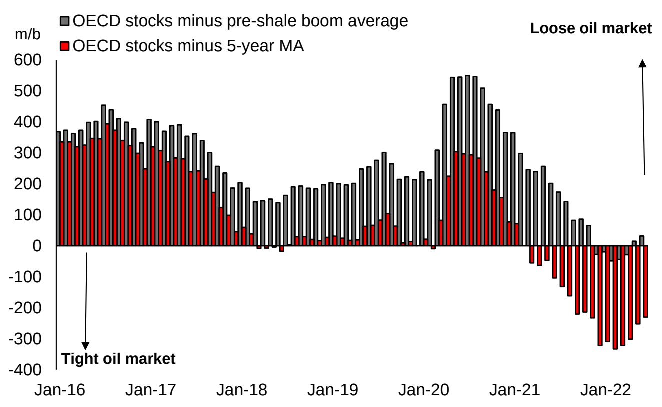
- The main reason for the lack of adequate supply is OPEC+, which is struggling to deliver on its formal production commitment. Many members of the cartel are already close to full capacity and Russian output is expected to keep declining at a fast pace – even if in the short-term Asian buyers such as India and China might take advantage of European sanctions, which will be phased in only gradually over the next six months. On top of this, there is no nuclear deal with Iran in sight that might free up some of the Iranian sanctioned oil, primarily because Teheran insists that the US must remove the Islamic Revolutionary Guard Corps from the US Foreign Terrorist Organization list.

- US producers are ramping up production, primarily through the activation of existing wells. US output rose by an estimated 520 kb/d mom in May, but it still remains more than 1mb/d below its pre-pandemic levels. Thanks to new investments, which are still less buoyant than one would expect given the elevated oil prices as a result of the shift towards renewable energy sources, production will return and surpass the 2019 output only in 2023, providing relief to the oil market.

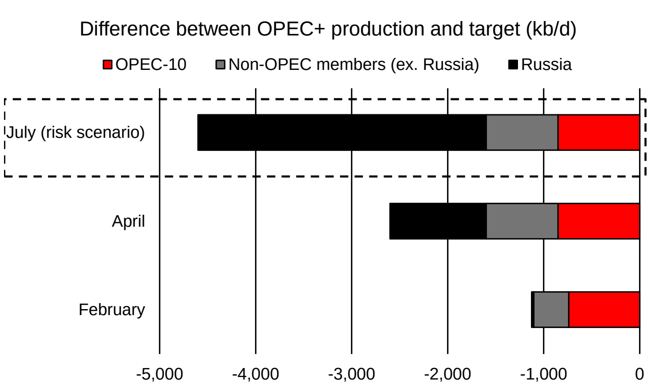
- On the demand front, the outlook remains highly uncertain given the current economic slowdown that is underway. The International Energy Agency expects global oil consumption to reach 101.6 mb/d in 2023, surpassing pre-pandemic levels. The main driver of growth will be China but new COVID-19 outbreaks might induce Beijing to adopt new tough restrictions that might weigh on consumption. In addition, a strong USD might erode the purchasing power of several emerging economies, affecting demand.

- We expect Brent prices to gradually decline in 2023 on the assumption that once the tapering of output cuts is completed by the end of the summer, OPEC+ will relax its quota system, allowing countries with more spare capacity such as Saudi Arabia and the UAE to pump more. In addition, Iranian oil might also reach the market simply through exemptions from Washington, even without a nuclear deal.

A TIGHT OIL MARKET



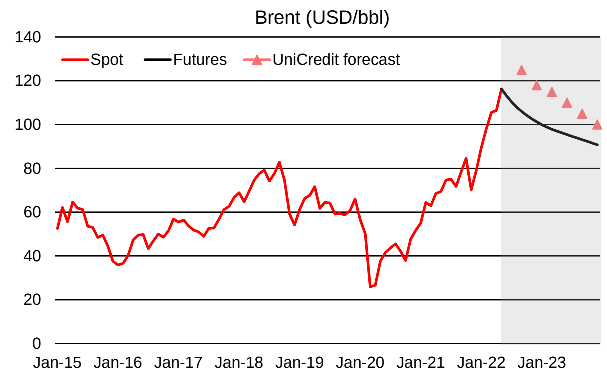
MISSING THE TARGET



Source: IEA, UniCredit Research

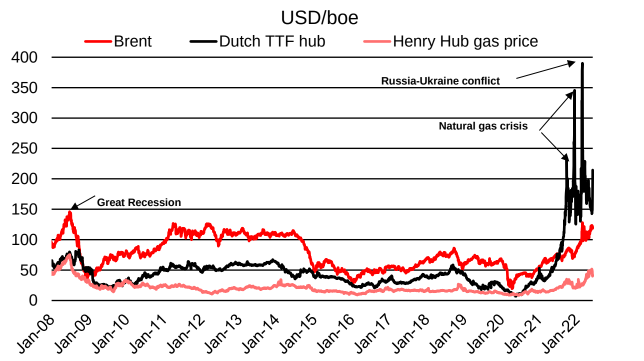
Oil

PRICES (I)



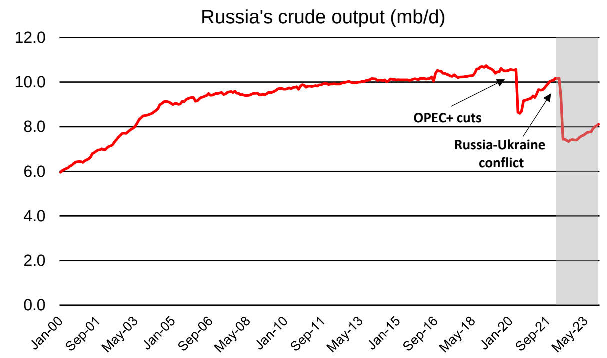
- Brent prices likely to stay at elevated levels in 3Q22 before declining.

PRICES (II)



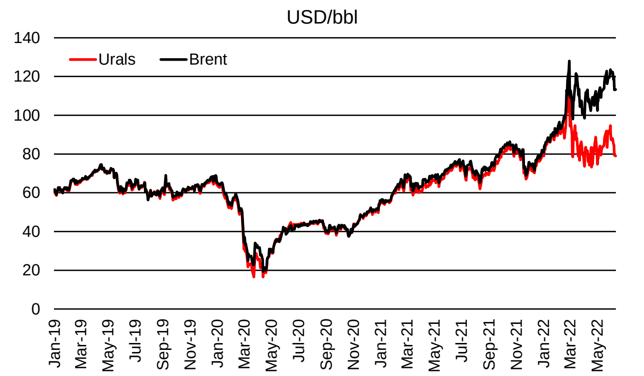
- Oil prices might be negatively impacted by shortages of natural gas in Europe.

RUSSIA (I)



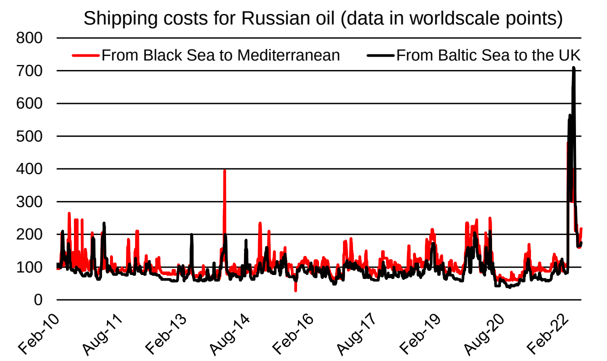
- Russian production is likely to drop by 3mb/d in July compared to pre-war levels as a result of formal and informal sanctions.

RUSSIA (II)



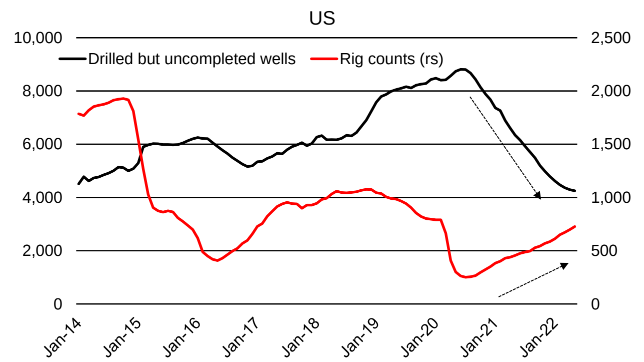
- Russian oil keeps being sold at a hefty discount to Brent but remains at elevated prices.

SHIPPING COSTS



- Shipping costs for Russian oil have dropped substantially but might rise again as a result of European sanctions.

US PRODUCERS



- US producers are increasing output but are using existing wells.

Source: IEA, EIA, Macrobond, UniCredit Research

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