

Press release

For editorial desks
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Commerzbank Research: Low core inflation reinforces ECB policy

- **Economy optimistic despite political risks**
- **Chief economist Krämer: “The Eurozone will not rest”**
- **Trump will address trade conflicts with weaker economies**

Brexit continues to approach for the UK, the much anticipated French election is just around the corner, but sentiment indicators demonstrate that there is an air of optimism among European companies. “Loose ECB monetary policy is gradually reaching the real economy, not just the financial and housing markets,” said Commerzbank’s chief economist, Jörg Krämer, on Thursday in Frankfurt. In addition, there is a stronger global demand, although this faces unresolved problems in emerging countries. Commerzbank economists expect economic growth in the Eurozone to be slightly above consensus at 1.8% for this year.

In the French presidential elections, the Bank’s economists predict that Emmanuel Macron is on course for victory. “But Macron is not the nation’s saviour,” Krämer comments. He believes significant reforms will not be made by Macron. In Germany, Krämer expects a continuation of the consumer-driven upswing. Although other stumbling blocks could arise, for example the rollback of former Schröder reforms, the upswing is expected to continue in the short term. Commerzbank economists forecast that the German economy will grow by 1.6% in 2017, proving slightly more optimistic than the leading economic-research institutes.

As a result of an increase in inflation, pressure on the European Central Bank (ECB) to withdraw from the expansionary monetary policy rose. This will ease when the inflation rate falls over the course of 2017. Commerzbank analysts believe consumer prices will rise by 1.4% on average this year. As in 2016, the core inflation rate will only rise by 0.9%. Against this backdrop, Commerzbank analysts expect ECB will not raise interest rates for the moment. However, in the next year ECB will gradually scale back its bond buying, as it would otherwise exceed set limits. “But an enforced end to the bond buying should not be misinterpreted as the end of the loose monetary policy,” Krämer says.

Meanwhile, the US central bank began to normalise its monetary policy. “The US economy is developing roughly in line with the Fed’s expectations,” Krämer states. Commerzbank analysts expect two further rate hikes this year – one in June and one in December. However, the protectionist policy by the US president could still cause uncertainty. The Bank’s economists expect the US government to primarily address weaker

trade partners like Mexico. “But Donald Trump will not provoke larger trading areas such as China and the EU,” Krämer says. “For example, if the Chinese were to retaliate and impose duties on US agricultural imports, farmers in the Midwest would suffer badly. But many of them voted for Trump.”

Recent production cuts agreed upon by OPEC and some non-OPEC countries have supported the oil price. However, Commerzbank analysts adhere to their forecast of Brent oil falling below \$50 a barrel again by the end of the year. “The agreements of the OPEC countries will go to pieces as soon as they sense to being at risk of losing market share to other producing countries,” Krämer explains. With regard to the DAX Commerzbank experts also stand by their end of the year forecast of 11,700 points, although it is currently above this level. “We believe the market has run too far,” Krämer warns.

Commerzbank Research Prognoses

Growth in gross domestic product in real terms in % compared to previous year

	2017	2018
Eurozone	1.8	1.6
- Germany	1.6	1.5
- France	1.6	1.7
- Italy	1.0	1.1
United Kingdom	1.8	1.7
USA	2.3	2.3
China	6.5	6.3
World	3.3	3.4

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