

Commerzbank forecasts

TABLE 7: Growth and inflation

	Real GDP (%)			Inflation rate (%)			
	2017	2018	2019	2017	2018	2019	
USA	2.2	2.8	2.3	2.1	2.5	2.5	<ul style="list-style-type: none"> • Tax cuts in the US provide an additional stimulus for the economy in 2018. • Growth in China is decelerating due, among other things, to high corporate indebtedness and industrial overcapacity. • Even with the stronger euro putting a brake on economic growth, the ECB's expansionary monetary policy will keep the upswing going, but it also glosses over and preserves the euro zone's structural weaknesses. The EMU is gradually evolving into an "Italian-style monetary union". • The boom in Germany is set to continue, however, with slightly lower momentum; below this glossy surface Germany's competitiveness is gradually eroding. • High unemployment in most EMU countries is keeping the underlying inflation low for the time being.
Japan	1.7	0.8	1.2	0.5	0.6	0.6	
Euro area	2.6	2.0	1.8	1.5	1.7	1.4	
- Germany	2.2	1.8	1.6	1.8	1.8	1.8	
- France	2.3	1.6	1.8	1.0	1.8	1.2	
- Italy	1.5	1.2	1.2	1.2	1.7	1.2	
- Spain	3.1	2.7	2.5	2.0	1.6	1.0	
- Portugal	2.7	2.0	1.8	1.3	1.9	1.6	
- Ireland	7.2	4.9	3.2	0.3	0.5	1.1	
- Greece	1.3	2.4	2.8	1.1	1.4	1.5	
United Kingdom	1.8	1.3	1.6	2.7	2.3	2.0	
Switzerland	1.1	2.3	1.8	0.5	0.9	0.6	
China	6.9	6.5	6.2	1.6	1.7	2.3	
India	6.2	7.3	6.9	3.3	4.8	4.8	
Brazil	1.0	1.5	1.9	3.5	3.6	4.2	
Russia	1.5	1.5	1.7	3.7	2.5	3.5	
World	3.7	3.7	3.6				

TABLE 8: Interest rates (end-of-quarter)

	16.08.2018	Q3 18	Q4 18	Q1 19	Q2 19	Q3 19		
USA								
Federal funds rate, upper bound	2.00	2.25	2.50	2.50	2.75	2.75	<ul style="list-style-type: none"> • In the US full employment has been reached for all practical purposes. This is likely to further gradually push up US core inflation. To prevent an overheating of the economy, the Fed will in H2 2018 probably hike rates by 25 basis points each quarter. • Due to Fed rate hikes, US government bond yields should rise somewhat. However, the upside potential appears to be limited after the most recent rise in yields. 	
3-months Libor	2.32	2.55	2.75	2.80	3.05	3.05		
2 years*	2.62	2.60	2.75	2.90	3.05	3.20		
5 years*	2.75	2.90	3.05	3.15	3.15	3.20		
10 years*	2.88	3.05	3.15	3.15	3.15	3.20		
Spread 10-2 years	26	45	40	25	10	0		
Swap-Spread 10 years	7	5	0	0	0	0		
Euro area								
Minimum bid rate	-0.40	-0.40	-0.40	-0.40	-0.40	-0.30		<ul style="list-style-type: none"> • As euro zone core inflation should tend to disappoint ECB expectations, we forecast the first ECB rate hike only in September 2019. • In the euro zone, 10y Bund yields should tend to move moderately upward over 2018 H2 and 2019 H1.
3-months Euribor	-0.32	-0.30	-0.30	-0.30	-0.30	-0.30		
2 years*	-0.64	-0.60	-0.50	-0.40	-0.30	-0.20		
5 years*	-0.26	-0.10	0.00	0.10	0.20	0.35		
10 years*	0.32	0.50	0.60	0.70	0.85	0.90		
Spread 10-2 years	96	110	110	110	115	110		
Swap-Spread 10 years	55	50	50	50	45	40		
United Kingdom								
Bank Rate	0.75	0.75	0.75	0.75	1.00	1.00		
3-months Libor	0.80	0.75	0.75	0.85	1.00	1.05		
2 years*	0.70	0.85	0.95	1.10	1.20	1.35		
10 years*	1.24	1.40	1.55	1.70	1.80	1.90		

TABLE 9: Exchange rates (end-of-quarter)

	16.08.2018	Q3 18	Q4 18	Q1 19	Q2 19	Q3 19	
EUR/USD	1.14	1.16	1.16	1.18	1.20	1.23	<ul style="list-style-type: none"> • The Fed interest rate hikes have mostly been priced into the USD exchange rates, which limits further USD upside potential. In the longer term, the euro will benefit from the cautious normalisation of the ECB's monetary policy. • Regarding Brexit negotiations, our working assumption is that ultimately there will be an amicable agreement. However, uncertainty will remain high for a long period so that sterling will not recover for the time being. • We expect CNY to slightly depreciate again over the coming quarters against USD, due to weaker growth prospects for the Chinese economy.
USD/JPY	111	109	106	102	100	99	
EUR/CHF	1.13	1.15	1.15	1.15	1.16	1.17	
EUR/GBP	0.90	0.87	0.88	0.89	0.90	0.91	
EUR/SEK	10.47	10.30	10.30	10.25	10.20	10.10	
EUR/NOK	9.62	9.20	9.15	9.10	9.05	9.00	
EUR/PLN	4.31	4.30	4.35	4.35	4.35	4.40	
EUR/HUF	324	322	325	325	325	325	
EUR/CZK	25.69	25.60	25.50	25.25	25.00	24.60	
AUD/USD	0.73	0.78	0.80	0.82	0.83	0.84	
USD/CAD	1.31	1.29	1.30	1.28	1.26	1.24	
USD/CNY	6.90	6.80	6.80	6.85	6.90	6.93	

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

Chief EconomistDr Jörg Krämer
+49 69 136 23650**Economic Research**Dr Jörg Krämer (Head)
+49 69 136 23650Dr Ralph Solveen (Deputy Head; Germany)
+49 69 136 22322Dr Christoph Balz (USA. Fed)
+49 69 136 24889Peter Dixon (UK. BoE). London
+44 20 7475 4806Dr Michael Schubert (ECB)
+49 69 136 23700Eckart Tuchteld (German economic policy)
+49 69 136 23888Dr Marco Wagner (Germany, Italy)
+49 69 136 84335Bernd Weidensteiner (USA, Fed)
+49 69 136 24527Christoph Weil (Euro area, France,
Switzerland)
+49 69 136 24041**Interest Rate & Credit Research**Christoph Rieger (Head)
+49 69 136 87664Michael Leister (Head Rates)
+49 69 136 21264Rainer Guntermann
+49 69 136 87506Peggy Jäger
+49 69 136 87508Markus Koch
+49 69 136 87685Ted Packmohr
(Head Covered Bonds and
Financials)
+49 69 136 87571Marco Stoeckle
(Head Corporate Credit)
+49 69 136 82114**FX & EM Research**Ulrich Leuchtmann (Head)
+49 69 136 23393Thu-Lan Nguyen (G10)
+49 69 136 82878Antje Praefcke (G10)
+49 69 136 43834Esther Reichelt (G10)
+49 69 136 41505Lutz Karpowitz (EM)
+49 69 136 42152Elisabeth Andreae (EM)
+49 69 136 24052Alexandra Bechtel (EM)
+49 69 136 41250Tatha Ghose (EM)
+44 20 7475 8399Charlie Lay (EM)
+65 63 110111You-Na Park (EM)
+49 69 136 42155Hao Zhou (EM)
+65 6311 0166**Commodity Research**Eugen Weinberg (Head)
+49 69 136 43417Daniel Briesemann
+49 69 136 29158Carsten Fritsch
+49 69 136 21006Dr Michaela Kuhl
+49 69 136 29363Barbara Lambrecht
+49 69 136 22295**Equity Markets Strategy**Christoph Dolleschal
(Deputy Head Research)
+49 69 136 21255Andreas Hürkamp
+49 69 136 45925Markus Wallner
+49 69 136 21747**Technical Analysis**Achim Matzke (Head)
+49 69 136 29138**Cross Asset Strategy**Alexander Krämer
+49 69 136 22982**Other publications** (examples)**Economic Research:** Economic Briefing (up-to-date comment on main indicators and events)
Economic Insight (detailed analysis of selected topics)
Economic and Market Monitor (chart book presenting our monthly global view)**Commodity Research:** Commodity Daily (up-to-date comment on commodities markets)
Commodity Spotlight (weekly analysis of commodities markets and forecasts)**Interest Rate & Credit Research:** Ahead of the Curve (flagship publication with analysis and trading strategy for global bond markets)
European Sunrise (daily comment and trading strategy for euro area bond markets)
Rates Radar (ad-hoc topics and trading ideas for bond markets)
Covered Bonds Weekly (weekly analysis of the covered bonds markets)
Credit Note (trading recommendations for institutional investors)**FX Strategy:** Daily Currency Briefing (daily comment and forecasts for FX markets)
FX Hot Spots (ad hoc analysis of FX market topics)
FX Insight (in-depth analyses of selected FX market topics)**Equity Markets Strategy:** Weekly Equity Monitor (weekly outlook on equity markets and quarterly company reports)
Monthly Equity Monitor (monthly outlook on earnings, valuation, and sentiment on equity markets)
Digging in Deutschland (thematic research focusing on the German equity market)**Emerging Markets:** EM Briefing (up-to-date comment of important indicators and events)
EM Outlook (quarterly flagship publication with EM economic analysis and strategy recommendation)**Cross Asset:** Cross Asset Monitor (weekly market overview, incl. sentiment and risk indicators)
Cross Asset Outlook (monthly analysis of global financial markets and tactical asset allocation)
Cross Asset Feature (special reports on cross-asset themes)

To receive these publications, please ask your Commerzbank contact.

In accordance with ESMA MAR requirements this report was completed 17/08/2018 08:22 CEST and disseminated 17/08/2018 08:23 CEST.

This document has been created and published by the Research department within the Corporate Clients division of Commerzbank AG, Frankfurt/Main or Commerzbank's branch offices mentioned in the document. Commerzbank AG is a provisionally registered swap dealer with the CFTC.

If this report includes an analysis of one or more equity securities, please note that the author(s) certify that (a) the views expressed in this report accurately reflect their personal views; and (b) no part of their compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or views expressed by them contained in this document. The research analyst(s) named on this report are not registered / qualified as research analysts with FINRA. Such research analyst(s) may not be associated persons of Commerz Markets LLC and therefore may not be subject to FINRA Rule 2241 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

It has not been determined in advance whether and in what intervals this document will be updated. Unless otherwise stated current prices refer to the most recent trading day's closing price or spread which may fluctuate.

Conflicts of interest

Disclosures of potential conflicts of interest relating to Commerzbank AG, its affiliates, subsidiaries (together "Commerzbank") and its relevant employees with respect to the issuers, financial instruments and/or securities forming the subject of this document valid as of the end of the month prior to publication of this document*:

Please refer to the following link for disclosures on companies included in compendium reports or disclosures on any company covered by Commerzbank analysts: http://research.commerzbank.com/web/commerzbank-research-portal/public-page/disclosures*

*Updating this information may take up to ten days after month end.

Disclaimer

This document is for information purposes only and does not take into account specific circumstances of any recipient. The information contained herein does not constitute the provision of investment advice. It is not intended to be and should not be construed as a recommendation, offer or solicitation to acquire, or dispose of, any of the financial instruments and/or securities mentioned in this document and will not form the basis or a part of any contract or commitment whatsoever. Investors should seek independent professional advice and draw their own conclusions regarding suitability of any transaction including the economic benefits, risks, legal, regulatory, credit, accounting and tax implications.

The information in this document is based on public data obtained from sources believed by Commerzbank to be reliable and in good faith, but no representations, guarantees or warranties are made by Commerzbank with regard to accuracy, completeness or suitability of the data. Commerzbank has not performed any independent review or due diligence of publicly available information regarding an unaffiliated reference asset or index. The opinions and estimates contained herein reflect the current judgement of the author(s) on the date of this document and are subject to change without notice. The opinions do not necessarily correspond to the opinions of Commerzbank. Commerzbank does not have an obligation to update, modify or amend this document or to otherwise notify a reader thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate.

This communication may contain trading ideas where Commerzbank may trade in such financial instruments with customers or other counterparties. Any prices provided herein (other than those that are identified as being historical) are indicative only, and do not represent firm quotes as to either size or price. The past performance of financial instruments is not indicative of future results. No assurance can be given that any financial instrument or issuer described herein would yield favourable investment results. Any forecasts or price targets shown for companies and/or securities discussed in this document may not be achieved due to multiple risk factors including without limitation market volatility, sector volatility, corporate actions, the unavailability of complete and accurate information and/or the subsequent transpiration that underlying assumptions made by Commerzbank or by other sources relied upon in the document were inapposite.

Commerzbank and/or its affiliates may act as a market maker in the instrument(s) and/or its derivative that has been mentioned in our research reports. Employees of Commerzbank and/or its affiliates may provide written or oral commentary, including trading strategies, to our clients and business units that may be contrary to the opinions conveyed in this research report. Commerzbank may perform or seek to perform investment banking services for issuers mentioned in research reports.

Neither Commerzbank nor any of its respective directors, officers or employees accepts any responsibility or liability whatsoever for any expense, loss or damages arising out of or in any way connected with the use of all or any part of this document.

Commerzbank may provide hyperlinks to websites of entities mentioned in this document, however the inclusion of a link does not imply that Commerzbank endorses, recommends or approves any material on the linked page or accessible from it. Commerzbank does not accept responsibility whatsoever for any such material, nor for any consequences of its use.

This document is for the use of the addressees only and may not be reproduced, redistributed or passed on to any other person or published, in whole or in part, for any purpose, without the prior, written consent of Commerzbank. The manner of distributing this document may be restricted by law or regulation in certain countries, including the United States. Persons into whose possession this document may come are required to inform themselves about and to observe such restrictions. By accepting this document, a recipient hereof agrees to be bound by the foregoing limitations.

Additional notes to readers in the following countries:

Germany: Commerzbank AG is registered in the Commercial Register at Amtsgericht Frankfurt under the number HRB 32000. Commerzbank AG is supervised by both the German regulator, Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin), Graurheindorfer Strasse 108, 53117 Bonn, Marie-Curie-Strasse 24-28, 60439 Frankfurt am Main and the European Central Bank, Sonnemannstrasse 20, 60314 Frankfurt am Main, Germany.

United Kingdom: This document has been issued or approved for issue in the United Kingdom by Commerzbank AG London Branch. Commerzbank AG, London Branch is authorised by Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin), and the European Central Bank and is subject to limited regulation by the Financial Conduct Authority and Prudential Regulation Authority. Details on the extent of our regulation by the Financial Conduct Authority and Prudential Regulation Authority are available from us on request. This document is directed exclusively to eligible counterparties and professional clients. It is not directed to retail clients. No persons other than an eligible counterparty or a professional client should read or rely on any information in this document. Commerzbank AG, London Branch does not deal for or advise or otherwise offer any investment services to retail clients.

United States: This document has been approved for distribution in the US under applicable US law by Commerz Markets LLC ("Commerz Markets"), a wholly owned subsidiary of Commerzbank AG and a US registered broker-dealer. Any securities transaction by US persons must be effected with Commerz Markets, and transaction in swaps with Commerzbank AG. Under applicable US law; information regarding clients of Commerz Markets may be distributed to other companies within the Commerzbank group. This research report is intended for distribution in the United States solely to "institutional investors" and "major U.S. institutional investors," as defined in Rule 15a-6 under the Securities Exchange Act of 1934. Commerz Markets is a member of FINRA and SIPC. Any derivatives transaction with US persons must be effected in accordance with the provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

Canada: The information contained herein is not, and under no circumstances is to be construed as, a prospectus, an advertisement, a public offering, an offer to sell securities described herein, solicitation of an offer to buy securities described herein, in Canada or any province or territory thereof. Any offer or sale of the securities described herein in Canada will be made only under an exemption from the requirements to file a prospectus with the relevant Canadian securities regulators and only by a dealer properly registered under applicable securities laws or, alternatively, pursuant to an exemption from the dealer registration requirement in the relevant province or territory of Canada in which such offer or sale is made. Under no circumstances is the information contained herein to be construed as investment advice in any province or territory of Canada and is not tailored to the needs of the recipient. In Canada, the information contained herein is intended solely for distribution to Permitted Clients (as such term is defined in National Instrument 31-103) with whom Commerz Markets LLC deals pursuant to the international dealer exemption. To the extent that the information contained herein references securities of an issuer incorporated, formed or created under the laws of Canada or a province or territory of Canada, any trades in such securities may not be conducted through Commerz Markets LLC. No securities commission or similar regulatory authority in Canada has reviewed or in any way passed upon these materials, the information contained herein or the merits of the securities described herein and any representation to the contrary is an offence.

European Economic Area: Where this document has been produced by a legal entity outside of the EEA, the document has been re-issued by Commerzbank AG, London Branch for distribution into the EEA.

Singapore: This document is furnished in Singapore by Commerzbank AG, Singapore branch. It may only be received in Singapore by an institutional investor or an accredited investor as respectively defined in section 4A of the Securities and Futures Act, Chapter 289 of Singapore ("SFA") pursuant to section 274 or section 275

(as applicable) of the SFA. Nothing in this document constitutes accounting, legal, regulatory, tax, financial or other advice and/or recommendations to the recipient of this communication. Further, the communication/information provided herein does not constitute a "financial advisory service" within the meaning of the Financial Advisers Act, Chapter 110 of Singapore ("FAA") and therefore, the regulatory requirements and duties that may be owed to a client pursuant to or in connection with the FAA are not applicable to the recipient in connection with this communication. Recipients are advised to seek independent advice from their own professional advisers about the information discussed herein.

Hong Kong: This document is furnished in Hong Kong by Commerzbank AG, Hong Kong Branch, and may only be received in Hong Kong by 'professional investors' within the meaning of the Securities and Futures Ordinance (Cap.571) of Hong Kong and any rules made there under, and persons whose ordinary business is to buy or sell shares or debentures.

Japan: This information and its distribution do not constitute and should not be construed as a "solicitation" under the Financial Instrument Exchange Act (FIEA). This information may be distributed from Commerzbank international branches outside Japan solely to "professional investors" as defined in Section 2(31) of the FIEA and Section 23 of the Cabinet Ordinance Regarding Definition of Section 2 of the FIEA. Please note that Commerzbank AG, Tokyo Branch has not participated in its preparation. Not all financial or other instruments referred to in this information are available within Japan. You should contact the Corporate Clients division of Commerzbank AG for inquiries on availability of such instruments.

Australia: Commerzbank AG does not hold an Australian financial services licence. This document is being distributed in Australia to wholesale customers pursuant to an Australian financial services licence exemption for Commerzbank AG under Class Order 04/1313. Commerzbank AG is regulated by Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) under the laws of Germany which differ from Australian laws.

People's Republic of China (PRC): This document is furnished by Commerzbank AG and is only intended for institutions that are eligible for financial transactions. No-one else may rely on any information contained within this document. Any derivative transactions by PRC persons may only be entered into by PRC financial institutions which are permitted to conduct derivatives business in the PRC and have obtained all necessary regulatory approvals in the PRC.

© Commerzbank AG 2018. All rights reserved. Version 9.27

Commerzbank Corporate Clients

Frankfurt	London	New York	Singapore	Hong Kong
Commerzbank AG	Commerzbank AG	Commerz Markets LLC	Commerzbank AG	Commerzbank AG
DLZ - Gebäude 2, Händlerhaus Mainzer Landstraße 153 60327 Frankfurt	PO BOX 52715 30 Gresham Street London, EC2P 2XY	225 Liberty Street, 32nd floor, New York, NY 10281-1050	71, Robinson Road, #12-01 Singapore 068895	15th Floor, Lee Garden One 33 Hysan Avenue, Causeway Bay Hong Kong
Tel: + 49 69 136 21200	Tel: + 44 207 623 8000	Tel: + 1 212 703 4000	Tel: +65 631 10000	Tel: +852 3988 0988