

**Press release**

For editorial desks  
8 December 2017

**Commerzbank Research: Inflation will be decisive factor in 2018**

- **Strong economic growth in USA and Eurozone**
- **Chief economist Krämer: "Germany is booming"**
- **First ECB rate hike in the distance**

Western economies look back on a year of strong growth. A broad recovery can even be observed in the Eurozone, which has been in crisis mode for a long time. In addition, the USA and Germany are close to full employment. Nevertheless, monetary policy of most central banks is still expansive. "How fast central banks bow out of their loose monetary policy is dependent on how inflation develops in the coming year," explained Commerzbank's chief economist, Jörg Krämer, on Friday in Frankfurt. This in turn influences the stock and bond markets as well as the US dollar.

For the USA, Commerzbank economists expect hardly any economic surprises in 2018. The economy should continue to grow by 2.3% and the core inflation rate should rise towards 2.0% by the end of next year. This is why Krämer forecasts that the Fed will again hike their rates three times next year. Even though the Fed has presented the prospect of three rate hikes for 2018, the markets are only pricing in half of it. "The markets mistrust the Fed – and seem to be making the same mistake as they did this year," warns Krämer. Hence the Commerzbank analysts forecast a slightly stronger Dollar (EUR-USD end 2018: 1.12).

The inflation will play an important role next year in Germany as well – particularly during the upcoming wage negotiations. "The labour unions will demand a higher compensation for inflation in the upcoming bargaining round," expects Krämer. "We are anticipating a three in front of the comma in many of the new agreements." The labour unions will also point out the positive economic situation in Germany. Commerzbank economists raised their GDP forecast for the coming year from 2.0% to 2.5%. "The upswing in Germany has what it takes to keep surprising," says Krämer.

Currently, the Eurozone is growing across the board and Commerzbank economists expect a growth of 2.5% in 2018, being more optimistic than most of their peers. Core inflation should remain around 1% due to the rather high unemployment rate. Despite the reduction of the bond purchases, this will serve the ECB as an argument to stick to its generally loose monetary policy for the foreseeable future. "The ECB has chained itself to the inflation forecasts," Krämer criticises and urges for a policy change. Commerzbank analysts

expect the ECB to continue their bond buying program until the end of the first quarter of 2019. "And so a first rate hike recedes even further into the distance," Krämer says.

This expansive monetary policy in turn fuels the stock markets. In fact, the DAX would not have much room to further rise, Krämer points out. The business climate is on an all-time high, Chinas growth dampens and the price-earnings ratio in Europe is no longer low. "Without the ECB's loose monetary policy I wouldn't predict another good year for the DAX," Krämer says. In the light of the ongoing policy, however, he predicts a year-end rate of 14,000 points. Thereby the low inflation also exerts influence on the stock markets. "Inflation will become the decisive factor in 2018," Krämer summarises.

### **Commerzbank Research Prognoses**

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

	<b>2017</b>	<b>2018</b>	<b>2019</b>
<b>Eurozone</b>	2.3	2.5	2.3
- Germany	2.3	2.5	1.8
- France	1.9	2.3	2.3
- Italy	1.5	1.7	1.6
<b>UK</b>	1.6	1.4	1.4
<b>USA</b>	2.2	2.3	2.3
<b>China</b>	6.8	6.4	6.2
<b>World</b>	3.6	3.8	3.7
<b>US dollar (per euro as at year end)</b>	1.12		

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