

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

	2017	2018	2019
Eurozone	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
UK	1.6	1.4	1.4
USA	2.2	2.3	2.3
China	6.8	6.4	6.2
World	3.6	3.8	3.7
US dollar (per euro as at year end)	1.12		

Press contact

Stefan Gringel +49 69 136-51435 stefan.gringel@commerzbank.com

About Commerzbank

Commerzbank is a leading international commercial bank with branches and offices in almost 50 countries. In the two business segments Private and Small Business Customers, as well as Corporate Clients, the Bank offers a comprehensive portfolio of financial services which is precisely aligned to the clients' needs. Commerzbank finances 30% of Germany's foreign trade and is leading in financing for corporate clients in Germany. Due to its in-depth sector know-how in the German economy, the Bank is a leading provider of capital market products. Its subsidiaries Comdirect in Germany and mBank in Poland are two of the world's most innovative online banks. With approximately 1,000 branches, Commerzbank has one of the densest branch networks among German private banks. In total, Commerzbank serves more than 18 million private and small business customers, as well as more than 60,000 corporate clients, multinationals, financial service providers, and institutional clients. The Bank, which was founded in 1870, is represented at all the world's major stock exchanges. In 2016, it generated gross revenues of €9.4 billion with approximately 49,900 employees.

Disclaimer

This release contains forward-looking statements. Forward-looking statements are statements that are not historical facts. In this release, these statements concern inter alia the expected future business of Commerzbank, efficiency gains and expected synergies, expected growth prospects and other opportunities for an increase in value of Commerzbank as well as expected future financial results, restructuring costs and other financial developments and information. These forward-looking statements are based on the management's current plans, expectations, estimates and projections. They are subject to a number of assumptions and involve known and unknown risks, uncertainties and other factors that may cause actual results and developments to differ materially from any future results and developments expressed or implied by such forward-looking statements. Such factors include the conditions in the financial markets in Germany, in Europe, in the USA and other regions from which Commerzbank derives a substantial portion of its revenues and in which Commerzbank holds a substantial portion of its assets, the development of asset prices and market volatility, especially due to the ongoing European debt crisis, potential defaults of borrowers or trading counterparties, the implementation of its strategic initiatives to improve its business model, the reliability of its risk management policies, procedures and methods, risks arising as a result of regulatory change and other risks. Forward-looking statements therefore speak only as of the date they are made. Commerzbank has no obligation to update or release any revisions to the forward-looking statements contained in this release to reflect events or circumstances after the date of this release.