

## Press release

For editorial desks  
8 June 2018

### Commerzbank Research: No ECB rate hike before summer of 2019

- **Core inflation does not pick up, Eurozone faces troubled times**
- **Chief economist Krämer: “A classic rate hike cycle is far in the future”**
- **Risk of transatlantic trade conflict escalating**

At its next meeting, the European Central Bank (ECB) is expected to announce that it will halt its bond purchase programme by the end of the year, and it will almost certainly highlight the positive inflation outlook. However, according to Commerzbank chief economist Jörg Krämer, the ECB is obligated to stop its bond purchases. This will prevent them becoming a dominant creditor as it is not permitted to hold more than a third of government bonds. This means interest rates will remain unchanged. “The ECB will not raise its interest rates before summer of 2019,” said Krämer on Friday in Frankfurt. “And the ECB will do everything in its power not to misstate this as the beginning of a classic rate hike cycle.”

This is partly due to core inflation not picking up and also to Italy. It briefly looked like re-elections, but the right-wing Lega and the left-populist 5-Star Movement are now forming a government. “Although the new government is not aiming to exit the euro, it will pursue a hard stance with Brussels,” said Krämer. The costly plans of the new government would end efforts to lower the much too high Italian national debt. A return of the sovereign debt crisis could only be prevented by the ECB.

Meanwhile, US President Donald Trump has acted on his threats and imposed punitive tariffs on steel and aluminum imports from the EU. “The tariffs themselves are not a cause for concern, as the trade volume is comparatively low,” said Krämer. “The real danger is the possible escalation of the trade conflict.” The EU has already announced countermeasures. “If the countermeasures caused Trump to target the automotive sector next, we would have a problem,” Krämer warned. Therefore, Commerzbank economists see a downside risk to their 2018 Germany growth forecast (2018: 2.0 percent).

A possible trade war with the US is like a sword of Damocles hanging over the export-oriented German economy. Despite this, Commerzbank analysts still see the DAX at 13,500 points at the end of the year, but the volatility of the stock market is likely to remain high. In addition, oil prices continue to fluctuate. They rose significantly after the termination of the nuclear agreement with Iran, but have since stabilised due to rumours that the OPEC could expand its production volumes. The Brent oil price should be \$65 a barrel by

the end of 2018. The US dollar should appreciate against the euro by year-end (EUR-USD end of 2018: 1.16).

**Commerzbank Research Forecasts**

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

|  | <b>2018</b> | <b>2019</b> |
|--|-------------|-------------|
| <b>Eurozone</b>                            | 2.1         | 1.8         |
| - <b>Germany</b>                           | 2.0         | 1.6         |
| - <b>France</b>                            | 2.0         | 1.8         |
| - <b>Italy</b>                             | 1.5         | 1.5         |
| <b>UK</b>                                  | 1.4         | 1.6         |
| <b>USA</b>                                 | 2.7         | 2.0         |
| <b>China</b>                               | 6.4         | 6.2         |
| <b>World</b>                               | 3.7         | 3.6         |
| <b>US dollar (per euro as at year end)</b> | 1.16        |             |

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