Deutsche Bank
Research

Europe | Economics

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Focus Europe

Tensions building

Resolution of the Greek crisis did not take a definitive step forward with the finance ministers meeting in Riga. The controversial move to secure cash reserves from local governments buys Greece several weeks, but the ECB appears increasingly uncomfortable with its rising ELA exposure to Greece. At the same time, Alexis Tsipras' popularity is starting to wane. The clock is ticking. Our baseline remains unchanged but the risks are high and rising.

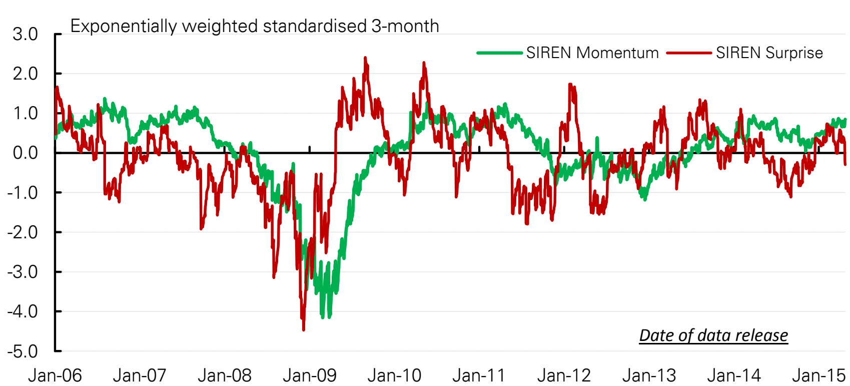
Keep an eye on Italy over the next two weeks – the country faces a relatively low risk of a high impact event. The final vote on the new electoral law in the Lower House is a key fork in the road for PM Renzi's institutional reform process and probably for the future of his government. We think that the balance of probability is largely in favour of PM Renzi and that the electoral law should pass. The risks are not negligible, however.

Finland's Centre Party will lead the formation of the new government. A coalition of three parties is probably required to facilitate a coherent reform agenda, which could include the EU-skeptical Finns party. We would downplay the risks to Greece as the Finns party has toned down its rhetoric and is keen to join the government. At worst, Finland could be a source of delay.

The April Flash PMIs disappointed with the euro area composite falling 0.5 points to 53.5 (market expectation: 54.4). Both France and Germany missed expectations by a non-negligible margin. However, the euro composite remained above Q1 levels and is consistent with GDP growth slowing only marginally from 0.5% qoq in Q1 to 0.4% in Q2, in line with our expectations. Other euro area data surprised to the downside too and *SIREN-Surprise* fell into negative territory for the first time in four months. Nevertheless, *SIREN-Momentum* appears to confirm upside risk relative to our (1.4% yoy) and Bloomberg consensus projections (1.4% yoy) for 2015.

Next week sees the first April CPI prints in the euro area. The risks are to the downside of consensus. We see scope for inflation to rise in H2. There is evidence of the weaker currency in imported inflation, but we don't expect the impact on producer and consumer prices to be evident until H2.

SIREN: Growth momentum still good but macro surprises turned negative



Source: Deutsche Bank, Haver Analytics, National Statistical Offices, Bloomberg Finance LP, Markit, Various Statistical Sources

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Economic Forecasts

	Real GDP % growth[b]			CPI % growth[c]			Current a/c % GDP[d]			Fiscal balance % GDP [(1)]		
	2014	2015F	2016F	2014	2015F	2016F	2014F	2015F	2016F	2014F	2015F	2016F
Euroland (top-down)	0.9	1.4	1.6	0.4	0.0	1.4	2.4	3.3	2.6	-2.4	-2.1	-1.7
Germany[b]	1.6	2.0	1.7	0.8	0.2	1.7	7.6	8.3	8.2	0.7	0.6	0.7
France	0.4	1.1	1.6	0.6	0.1	1.1	-1.0	-0.5	-0.8	-4.0	-4.0	-3.4
Italy	-0.4	0.6	1.3	0.2	0.1	1.1	1.8	2.5	2.7	-3.0	-2.7	-2.2
Spain	1.4	2.5	2.3	-0.2	-0.6	1.5	0.1	0.7	0.5	-5.8	-4.5	-3.7
Netherlands	0.9	1.7	1.1	0.3	0.0	1.3	10.9	11.4	11.5	-2.3	-2.0	-1.9
Belgium	1.0	1.3	1.6	0.5	0.2	1.6	1.0	1.5	1.2	-3.2	-2.7	-2.2
Austria	0.3	1.2	1.8	1.5	0.7	1.7	0.7	1.2	1.5	-2.4	-1.6	-1.2
Finland	-0.1	0.8	1.4	1.2	0.1	1.3	-1.9	-1.5	-1.3	-3.2	-3.3	-2.8
Greece	0.7	0.8	3.2	-1.4	-1.6	1.0	1.0	1.5	1.2	-3.5	-0.7	-0.7
Portugal	0.9	1.6	1.6	-0.2	0.1	1.3	0.5	1.0	0.7	-4.5	-3.1	-2.5
Ireland	4.8	3.7	3.5	0.3	0.1	1.8	4.5	5.0	4.5	-4.1	-2.8	-2.5
UK	2.8	2.4	2.3	1.5	0.4	1.9	-5.3	-4.1	-2.9	-5.0	-4.0	-2.0
Sweden	2.3	2.8	2.8	-0.2	0.5	1.5	6.3	5.5	5.0	-1.9	-1.2	-0.6
Denmark	1.1	1.7	1.8	0.6	1.0	1.5	6.2	6.0	6.0	-1.0	-2.5	-2.5
Norway	2.3	2.0	2.2	2.0	2.0	2.0	8.5	8.0	7.5	9.1	9.0	8.5
Switzerland	2.0	1.0	1.0	0.0	-0.8	-0.4	8.0	8.5	8.5	0.2	0.5	0.5
Poland	3.3	3.4	3.5	0.0	-0.6	1.4	-1.4	-1.6	-1.7	-3.4	-2.9	-2.7
Hungary	3.6	2.7	2.4	-0.2	-0.1	2.6	3.9	3.0	3.1	-2.6	-2.7	-2.4
Czech Republic	2.0	2.6	2.5	0.4	0.3	1.9	-1.0	-0.8	-0.6	-1.3	-2.1	-2.2
US	2.4	3.1	3.1	1.6	0.2	2.5	-2.6	-2.8	-3.5	-2.9	-2.6	-2.9
China	7.4	7.0	6.7	2.0	1.8	2.7	3.1	3.4	3.3	-2.1	-3.0	-3.0
Japan	-0.1	0.9	1.8	2.7	0.7	0.9	0.6	3.5	3.4	-5.9	-5.3	-4.4
World[e]	3.4	3.4	3.7	3.6	3.3	3.8						

Sources: National statistics, national central banks, DB forecasts

Forecasts: Euroland GDP growth by components and central bank rates

Euroland, % qoq	14-Q1	14-Q2	14-Q3	14-Q4	15-Q1F	15-Q2F	15-Q3F	15-Q4F	2014	2015F	2016F
GDP	0.3	0.1	0.2	0.3	0.5	0.4	0.4	0.3	*0.9*	*1.4*	*1.6*
Private Consumption	0.2	0.2	0.5	0.4	0.5	0.4	0.4	0.4	*1.0*	*1.8*	*1.4*
Gov. Consumption	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	*0.7*	*0.5*	*0.3*
Investment	0.4	-0.5	0.0	0.4	1.3	-0.4	0.9	0.6	*1.0*	*1.8*	*3.9*
Stocks (contribution)	0.1	0.0	-0.1	-0.2	0.2	0.1	0.0	0.0	*-0.1*	*0.0*	*0.2*
Exports	0.4	1.3	1.5	0.8	0.6	1.2	1.2	1.2	*3.7*	*4.1*	*5.2*
Imports	0.5	1.3	1.7	0.4	1.2	1.1	1.4	1.4	*3.8*	*4.6*	*5.9*
Net Trade (contribution)	0.0	0.0	0.0	0.2	-0.2	0.1	0.0	0.0	*0.1*	*0.0*	*0.0*
HICP inflation, % yoy	0.6	0.6	0.3	0.2	-0.3	-0.1	0.1	0.5	*0.4*	*0.0*	*1.4*
Core inflation, % yoy	0.8	0.8	0.8	0.7	0.6	0.7	0.8	0.9	*0.8*	*0.8*	*1.2*
EMU4 GDP, % qoq											
Germany	0.8	-0.1	0.1	0.7	0.8	0.2	0.4	0.3	*1.6*	*2.0*	*1.7*
France	-0.1	-0.1	0.3	0.1	0.3	0.4	0.4	0.4	*0.4*	*1.1*	*1.6*
Italy	-0.1	-0.2	-0.1	0.0	0.2	0.3	0.3	0.3	*-0.4*	*0.6*	*1.3*
Spain	0.3	0.5	0.5	0.7	0.7	0.7	0.6	0.5	*1.4*	*2.5*	*2.3*
Central Bank Rates (eop)											
ECB refi rate	0.25	0.15	0.05	0.05	0.05	0.05	0.05	0.05			
BoE bank rate	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50			
US Fed funds target rate	0.060	0.090	0.070	0.060	0.060	0.125	0.375	0.625			
PBOC 1Y deposit rate	3.00	3.00	3.00	2.75	2.50	2.25	2.25	2.25			
BoJ O/N call rate	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10			

(Source: National statistics, national central banks, Haver Analytics LP, DB forecasts. **(1) Fiscal balance numbers highlighted in blue reflect this week's Eurostat revisions. Forecasts for 2015 and 2016 are as of 27/03/15** (a) Euro Area and the Big 4 forecasts are frozen as of 27/03/15. All smaller euro area country forecasts are as of 27/03/15. Bold figures signal upward revisions. Bold, underlined figures signal downward revisions. (b) Annual German GDP is not adjusted for working days. (c) HICP figures for euro-area countries/UK (d) Current account figures for euro area countries include intra regional transactions. (e) The world aggregate has been calculated based on the IMF weights released in October 2014;

Eurozone | Economics

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Greece: Tensions building

- The plan after the Syriza government accepted on 20 February to extend the existing loan programme was for the terms for 'bridge financing' to be finalized with the international creditors in April ahead of a likely new programme in June. Progress has been painfully slow and a deal in April has not been reached.
- The controversial move to secure cash reserves from local governments buys Greece several weeks. The messages from the ECB imply growing discomfort with its rising ELA exposure to Greece. At the same time, Alexis Tsipras' popularity is starting to wane. That he asked Mrs. Merkel to accelerate a deal indicates the growing pressure Tspiras is under.
- The clock is ticking. Our baseline remains unchanged — that both sides reach a compromise built around a lower primary surplus target and OSI (maturity extension and margin compression) in exchange for a set of fiscal adjustments and structural reforms that have an equivalent impact on growth as the original programme — but the risks are high and rising.

Not progressing

Greece's new government may have agreed on 20 February to extend the existing loan programme, but it has given the impression in the two months since of allowing the negotiations on the terms and conditions for a disbursement under this programme to drift.

The implied strategy is to let the international creditors make the concessions to bring both sides to an agreement. Eurogroup officials are now suggesting that the creditors are no longer willing to set deadlines for negotiations since all this seems to do is create a timeline for brinkmanship[1]. Ideological differences are not being blamed. Eurogroup officials are saying that policy discussions are not advanced enough to have encountered ideological differences between the two sides.

Controversial moves to secure cash reserves

One of the great unknowns over the last couple of months has been the government's cash position. Had some of the press stories been believed, Greece would have run out of cash weeks ago[2]. Yet liabilities have been met when they have come due. Still, concerns are rising that free cash flow is now dangerously light.

The government has been searching throughout the public sector for cash and accumulating arrears to order to continue to make the most essential payments. The tightness of the cash position was emphasized this week by the

[1] See Reuters, "Wary of brinkmanship, euro zone steers away from new deadlines for Greece", 21 April 2015.
[2] For example, FT, "Greek government presses social security funds to hand over cash", 10 March 2015.

decree to transfer all local government cash reserves to the government[3]. This could be worth a couple of billion euros. Greece might have bought itself room for manoeuvre for another month.

Such a move measure is controversial; it is being contested in the Constitutional Court. If the move is upheld, there are other cash reserves that might be accessed in a similar fashion, such as state pension fund cash reserves, also worth a few billion euros.

If these too are absorbed by the government, the baseline resolution of the Greek crisis is moving a 2-stage process of a "bridge finance" deal in April following by a more medium-term funding solution (including the OSI) by the end of June to potentially a 1-stage process involving the medium-term solution, again by end-June[4]. Indeed, Euro area and Greek officials are guiding that there are sufficient cash resources to last until June[5].

ECB discomfort

The ECB's willingness to let ELA funding rise steadily should not be mistaken for wholehearted comfort with the rising exposure to Greece. As long as the ECB Council is convinced that a political deal on funding will emerge — and hence that future economic and financial stability in Greece can be guaranteed — it can justify providing funding to solvent banks against eligible collateral. Having just completed the AQR assessment of banks, the ECB can hardly make a rapid reappraisal of the banks without undermining its own credibility.

The ECB can make ex ante judgments about the solvency risks in the event that negotiations with the international creditors comprehensively breakdown. With the waiver on Greek collateral eligibility for normal ECB refinancing operations having been withdrawn in February, collateral is now financed under ELA, the rules for which are less clear and from the Council's perspective more flexible[6].

The ECB's growing frustration with Greece was signaled at the 6-weekly press conference last week when Draghi said the Council had "mentioned" haircuts on Greek collateral. This was a shot across the bows of the Greek government. Press stories have circulated this week giving more credence to the risk that collateral rules might be tightened[7]. Increasing the haircuts does not mean that ELA funding would be reduced – Greece is not borrowing the full amount against the collateral, which explains why ELA funding has been able to rise without new collateral. But increasing the haircuts would a way of setting a post-dated cap on ELA funding. There are reports that the ECB Council will discuss Greek haircuts on 6 May[8].

[3] See Bloomberg, "Tsipras to seize public-sector funds to keep Greece afloat", 20 April 2015.

[4] This is not to say that Greece can forego concluding the final review of the current (second) programme. The Eurogroup has made a new (third) programme conditional on the successful completion of the current (second) programme. Moreover, the economic assumptions and the terms and conditions for a third programme would be the same as those required to finish the second programme.

[5] See Reuters, "Greek cash lasting into June, no EU deal imminent", 22 April 2015.

[6] This is important context against which to interpret the comments from ECB VP Constancio this week who said that a Greek default and withdrawal of Eurosystem funding are two separate issues, implying default need not threaten Greece's euro membership. In terms of the ECB rules, whether the ECB can continue to lend to banks depends on their solvency and collateral. Still, the ECB's decisions will be led by a consideration of risks. We doubt a default would have no impact on ECB funding for Greek banks.

[7] See Bloomberg, "ECB is studying curbs on Greek bank support", 21 April 2015.

[8] See MNI, "ECB 'Will Discuss' Haircuts on Greek Govt Bonds on May 6", 24 April 2015.

Increasing the haircut on Greek collateral could be destabilising for deposits if depositors fear that the window of opportunity to exit Greek bank deposits is closing. Accelerated deposit flight would take us into a capital controls scenario more rapidly.

We believe there is a material risk of capital controls in Greece[9]. We believe the Eurogroup and ECB are willing to view capital controls are a viable "short term" strategy to help stabilize exposure to Greece. With Cyprus having unwound the last of its capital controls this month, Europe is likely to see the rehabilitative aspect of capital controls, rejecting the notion that somehow capital controls meant that Cyprus had already made a *de facto* exit from the euro area. Moreover, capital controls were not as detrimental to Cypriot growth has the Troika feared.

Contagion response

The global policy consensus urges Greece to engage more meaningfully with the international creditors to find a resolution to the crisis. This was clear at the recent IMF meetings in Washington where even the US appeared to stand more with the Eurogroup than earlier. It is fair to say there is a certain amount of fear of the unknown — globally — in the event that Greece were to default/exit the euro area.

Mario Draghi was in Washington too. By and large, his comments on Greece were formulaic — that membership of the euro area was irrevocable and that it is pointless anyone betting otherwise. But rather than leaving it there, which is what he normally does, he commented how OMT and QE could help Europe deal with an eruption of contagion, even if that was not the primary motivation of the policies.

OMT was devised to address irrational risk premia, so would seem like the natural policy contender to deal with contagion (as long as the ECB felt it was unjustified). The trouble with – but also the benefit of – OMT is that it is conditional on the affected member state applying for a bailout. This makes it more difficult to apply in a fast-moving emergency, although the conditionality makes it a more powerful tool to address an 'irrational' market.

This implies that QE is probably the primary defense against contagion. Last Wednesday Draghi was keen to stress the QE programme's inherent flexibilities in the event of bond scarcity. The same flexibilities could apply in the context of an episode of Greek contagion. For example, a risk-off environment would likely see bund yields fall, further constraining the pool of eligible bonds given the ECB's constraint of not buying bonds with yields less than the -20bp deposit rate. This would force the ECB into raising the number of agency bonds as substitutes, dropping the capital key weightings to allow more purchases of the higher yielding/higher debt economies like Italy and/or including other private debt securities.

[9] Our FX strategists believe the imposition of capital controls could cause the EUR/USD exchange rate to fall 5%. See Alan Ruskin, DB FX Blog, "Alpha Alert – Grexit and interim steps: FX implications", 21 April 2015.

Confidence in the government is falling

Allowing the negotiations to drift has not achieved anything for Greece and the post-election honeymoon period for PM Tsipras seems to be coming to an end. Tsipras' popularity has dropped significantly.

Having been a little less than 30% before the election, Tsipras' approval rating jumped to almost 70% in March but is already down to 55.5% in April[10]. Between March and April, confidence in the government's negotiating strategy fell from 55.5% to 45.5%. In April, as much as 39.5% of respondents no longer felt the government was following the right strategy. Already by the end of March 45.5% of respondents "feared" Grexit.

The government is under unified international political pressure to progress the funding talks. Growth expectations are falling[11]. The transfer of local government cash reserves is controversial. The ECB is sending signals of increasing discomfort with its rising exposure. If Greek depositors become more concerned about the ramification of deadlock, the deposit flight could tip Greece into a hard cap on ELA and capital controls. That PM Tsipras asked Mrs. Merkel for an acceleration of a deal by end-April indicates the growing pressure he is under. A credible acceleration of talks following this weekend's meeting of European finance ministers in Riga would be a positive surprise.

The clock is ticking and the stasis is hurting Greece in terms of a spiral of weak activity, weaker fiscal dynamics and a growing adjustment to bring the economy and finances back on track. Our baseline remains unchanged — that both sides reach a compromise built around a lower primary surplus target[12] and OSI (maturity extension and margin compression) in exchange for a set of fiscal adjustments and structural reforms that have an equivalent impact on growth as the original programme — but the risks are high and rising.

[10] University of Macedonia poll for SKAI.

[11] The Greek Foundation for Economic and Industrial Research (IOBE) cuts its 2015 GDP growth forecast from 3.0% to 1.0% on 21 April 2015. Our forecast is 0.8%. The Troika forecast of 2.5% is looking extremely optimistic.

[12] According to Kathimerini, Tsipras and Merkel agreed on a surplus between 1.2-1.5% of GDP in 2015 and 2016 at their meeting on the sidelines of the emergency EU immigration summit in Brussels this week.

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Italy: keep an eye on political risk

- The final vote on the new electoral law in the Lower House over the next two weeks is a key fork in the road for PM Renzi's institutional reform process and probably for the future of his government.
- The Italian parliament needs to decide whether to take the "good" path that could take the country away from chronic government instability by mid-2016 via the complementary new electoral law and the Senate Constitutional reform or the path towards further political fragmentation and instability.
- We think that the balance of probability is largely in favour of PM Renzi and that the electoral law should pass. The risks are not negligible but we would indicatively put them below 25%. That said, the impact of a negative outcome would be significant as it could lead to a new election under a nearly pure proportional system. The result would be a highly unstable government with little hope of significant economic or institutional reforms.
- Hence, keep an eye on Italy over the next two weeks – the country faces a relatively low risk of a high impact event.

Divergent paths

Political risk tends to increase at annual frequency in Italy and this year appears to be no exception. However, there is not only downside risk. The final vote on the new electoral law in the Lower House over the next two weeks is a key fork in the road for PM Renzi's institutional reform process and probably for the future of his government. The Italian parliament needs to decide whether to take the path that could take the country away from chronic government instability by mid-2016 or the path towards further political fragmentation and instability.

Italy's "good" path

The approval of the electoral law without any modification would represent a necessary although not sufficient step along the path towards lower political instability relative to European peers. Indeed, in 2015 the UK and Spain after their respective general elections may face unprecedentedly fragmented parliaments, while Italy could significantly reduce future government instability via the new electoral law and Senate Constitutional reform.

Italy's "bad" path

A modification of the electoral law or worse an outright rejection by the Lower House would probably bring the country to a new early election. Indeed, PM Renzi stated that he sees the vote on the new electoral law as fundamental for the survival of his government. A new election would very likely lead to an even more fragmented parliament. At the end of 2013 the Constitutional Court ruled the majority premium of the 2005 electoral law unconstitutional. Hence elections would take place with a proportional system without a new electoral law. Given the increase political fragmentation since the last election – above all among centre-right parties – the most likely result would be a fragile government with little chances of progress on structural reforms

When will the Lower House vote on the new electoral law take place?
The parliamentary discussion and voting should start next Monday (27 April) and be probably completed around the middle of the following week (6 May).

Why Italy needs institutional reforms

Italy's key issue is a persistent lack of growth. Cyclical factors – QE and the oil price fall – will boost growth in the short term. But structural reforms remain fundamental to lifting the too-low potential growth in the medium term. Reform implementation requires government stability. Since 2011 Italy has had four prime ministers.

The institutional reforms promoted by PM Renzi encompass two fundamental and complementary steps:

1. *A new electoral law:* The new law is not ideal but represents a necessary, material improvement with respect to the *status quo* thanks to the large majority premium assigned to a single party. This should promote – but not guarantee – government cohesiveness, a positive in terms of stability and possibly efficiency.

2. *The Senate reform is essential for future government stability*: However, the new electoral laws will apply (from mid 2016) only to the Lower House. Hence, the constitutional reform curbing the powers of the Senate is essential. The role of the Senate would be significantly downgraded – for example as in Germany it will not be able to bring down the Government. The reform requires three more rounds of voting and probably a referendum. The government aims to conclude the process by end-2015 or in H1 2016.

On 27 January, the Italian Senate approved Italy's new electoral law promoted by Renzi. One more vote from the Lower House is necessary for the final approval. Back in January we expected it not to be a major challenge given the ample majority of the government in the Lower House. However, opposition to the new law has steadily increased outside and inside the ruling Democratic Party (PD).

Increasing opposition to institutional reforms

The increasing opposition to institutional reforms over the past three months came in two steps.

The first step was the U-turn of ex-PM Berlusconi's Forza Italia away from supporting the institutional reform process. Back in January, the electoral reform would have not passed the vote in the Senate without the support of ex-PM Berlusconi's Forza Italia party given the slim majority of the current Government in the Senate and the opposition of about one fourth of the Senators belonging to PM Renzi's PD. However, after the election of Sergio Mattarella as the new President of the Republic on 31 January, Berlusconi decided to stop supporting Renzi's institutional reforms and he is now campaigning against the new electoral law.

This is important in the case the Lower House implements any modification to the electoral law (or worse rejects it). Recall that Italy's perfect bicameralism – i.e. equal power of the Lower and Upper Houses – establishes that a law is promulgated if and only if both Houses of the Parliament approve exactly the same text. It follows that any modification of the electoral law in the Lower House would require another passage at the Senate. That would be a perilous passage. The risk of new impasse for the electoral law after years of sterile debates would be high in our view.

The second step is the increasing opposition to the new electoral law from the left-wing of the PD. This makes the risk of a modification of the electoral law non-negligible.

The proposed electoral law is far from perfect. The most fundamental, at least in our view, critique from the minority of the PD is that the new law would give even too much power to one party while weakening the opposition. This is because while there a large premium for the winning party there is a low threshold to enter the parliament (3% - see Appendix). This could lead to a very fragmented and hence weak opposition. Consequently, the system of checks and balances essential to every democracy could be weakened.

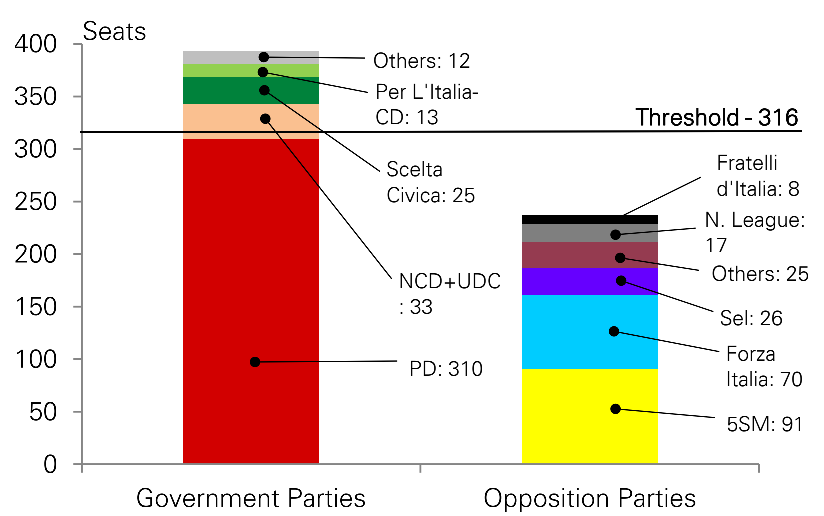
We think the above are serious but acceptable shortcomings for four reasons. First, Italy's priority is with no doubt implementing structural growth which requires a stable government, which in turn requires the approval of institutional reforms. Second, the political spectrum in Italy has become even more fragmented over the past three years – hence a large majority premium is necessary to promote government stability. Third, the current electoral law is a proportional one. This would lead to even more fragile and ineffectual governments in our opinion. Last but not least, the Italian Parliament has been discussing a new electoral law for years, enough time has been squandered.

Putting together the pieces of the puzzle

In theory the government coalition has a large majority in the Lower House. The minimum threshold to pass a law if all members of the Lower House are present is 316 votes. The government has 393 members of the Lower House – so a theoretically a margin of 77 votes. There are, however, significant question marks:

- Last-week, in a party meeting 120 of the 310 PD members of the Lower House did not support the electoral law bill. However, the internal opposition within the PD is divided into several groups.
- Probably the majority of the small parties within the government coalition – see Figure 1 – would not be too displeased to modify the electoral law given that the majority premium is assigned to the largest party rather than a coalition. However, their survival instinct will dominate in our view given their poor electoral prospects.

Figure 1: Breakdown of the Italian Lower House



Source: Deutsche Bank, Corriere della Sera

The opposition seems united in voting against the electoral law – with one exception. There could be about 17 Forza Italia Members in the Lower House who could be willing to vote in favour of the electoral law and against the party line.

We think that the key element to monitor over the next few days is the modality of the vote – indeed it could provide an early signal of the likely outcome:

- *Secret ballots increase risks of negative outcome:* A secret ballot on every amendment – of which there are between 50-80 – would increase dramatically the possibility that at least one modification to the electoral law is approved. The consequence would be a new Senate passage and the above described impasse risk. It only requires 30 members of the Lower House to request a secret ballot for it to be applied.
- *Confidence vote would nearly eliminate the risk of an accident:* with a confidence vote we think that only a small minority of the 120 "rebels" within the PD would vote against. We would expect all small parties within the government to vote in favour of the new electoral law.

Based on the Italian press the first vote on whether the electoral law is in line with the Constitution and the final overall vote are likely to take place via secret ballot. In between, the government will likely ask for three confidence votes on the three main articles of the law to be approved by the Lower House, sweeping away all the amendments.

While in a long series of secret ballots an accident could happen, on a couple of votes Renzi should be able to master enough support. First, Renzi stated that in the case of a negative vote he would resign and ask for new elections. This implies that the small government coalition parties will very likely vote in favour. Second, the above mentioned 17 members of Forza Italia could also vote in favour. It follows that more than 90 PD members would have to vote against the electoral law. We see this as improbable unless the secret ballot is repeated for all amendments.

Hence, we expect the electoral law to be approved. That said, asking for the confidence vote is not costless for two reasons. First, a confidence vote on an electoral law has been used only once (1953) since WWII for a highly controversial law, which was abolished after just one year. Second, it will further increase tensions within the PD. Renzi needs to gain the support from at least part of the left-wing part of the PD to implement his economic reform programme.

Conclusion: On balance, the electoral law should pass, but risks are material

We think that the balance of probability is largely in favour of PM Renzi and that the electoral law should pass. The risks are not negligible but we would indicatively put them below 25%. That said, the impact of a negative outcome would be significant as it could lead to the fall of the government and a new election under a nearly pure proportional system. The result would be a highly unstable government with little hope of significant economic or institutional reforms.

Hence, keep an eye on Italy over the next two weeks – the country faces a relatively low risk of a high impact event.

Finland | Economics

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Finland: More coherent government could include Finns party

- As suggested by pre-election polls the Centre Party won the election with 21.1% of the vote and is most likely to lead the next government in Finland replacing the National Coalition party (18.2%), which led the outgoing government. Based on the vote share the populist, EU-skeptical Finns party (formerly the True Finns; 17.6%) is placed 3rd and the Social democrats are 4th with 16.5%. Based on seat count the Finns party is 2nd.

- Based on the results a new government could be formed by three of these four large parties or by two of these and two smaller parties. We have pointed out before that politicians are likely to try to form a more coherent, politically more aligned government suggesting a three party coalition. Given Finland's tendency for compromise forming a coalition might take time but should not face any fundamental hurdles.

- Ideologically the Centre party's leader, Juha Sipilä, is probably more likely to choose the National Coalition Party. Given the Finns Party's and its leader's stated willingness to be part of the next government and the Social Democrats stated discomfort to be in a coalition with the National Coalition again, the EU-skeptical Finns party might well end up in government with Sipilä saying he has trust in the Finns' party leader.

- The Centre party's leader has started to talk to the leaders of the other parties. He emphasizes the importance of trust for a durable coalition. After exploring what compromises other party leaders were generally willing to make and what red lines could be formal government talks will start. Sipilä was quoted as expecting all of this to be wrapped up in about a month with a government possibly ready by mid-May.

- With a Eurogroup decision on financial support for Greece likely to be needed over the coming months a new Finnish government that includes the Finns party might prove a hurdle. We would downplay the risk. Whether the Finns are in the government or not probably does not matter much for Greece, in our view. While the Finns have toned down their anti-bailout rhetoric lately, the other major parties have voiced skepticism towards another bailout too. Finland has not prevented bailouts so far – opposition led to a deal on collateral in 2011 – and we think it probably unlikely Finland would prevent a bailout now, even with the Finns and a clear air of skepticism. At worst, Finland could be a source of delay.

- From a domestic policy perspective any new Finnish government will focus on economic and fiscal policy. The country has three recession years behind it. The growth outlook is weak and the budget deficit rose above 3% of GDP in 2014 with public debt level likely surpassing 60% in 2015. On fiscal policy most parties agreed on the need for further consolidation with disagreement over the amount and the timeframe. On structural reforms immigration was a major election topic with disagreement on the number of additional immigrants needed and the urgency of any legal changes. Were the Centre Party, the National Coalition and the Finns Party to form a coalition another building block could be less regulation, a more liberal labour market and a streamlined government.

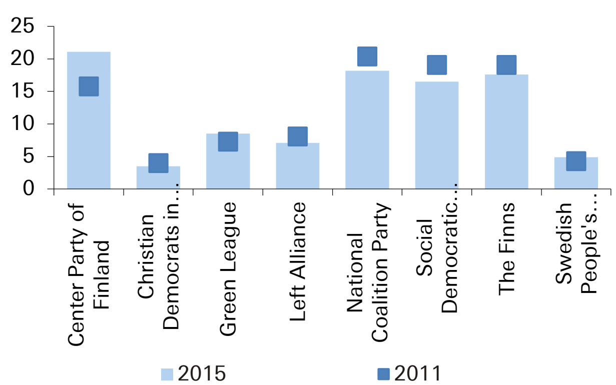
Opposition Centre party won election and is likely to lead government

The Finnish parliamentary election had been dominated by domestic issues especially economic and fiscal policy as the country is faced with the consequences of several years of weak growth and a weak growth outlook (Focus Europe, 13 Feb 2015). This had a substantially negative impact on the fiscal position making consolidation measures and structural reforms necessary (Focus Europe 20 Feb 2015). As the winner of the election, Juha Sipilä from the Centre Party put it: "There are no magic tricks. [...] It's a 10 year project to fix the economy, get the economy competitive again. Balancing the public finances is a second priority." (Bloomberg, "Millionaire-led Party wins Finnish Vote Vowing to end recession", Apr 20).

As suggested by pre-election polls the Centre Party won the election with 21.1% of the vote and is most likely to lead the next government in Finland. This party has historically often been a coalition-leader and is in the centre of the political landscape in Finland. It would replace the National Coalition Party (NCP; 18.2%), which led the outgoing government and which is a centre-right party. Based on the vote share the populist, EU-skeptical Finns Party (formerly the True Finns; 17.6%) is placed 3rd and the Social democrats (SDP) are 4th with 16.5%. This is largely in line with what surveys had predicted before the election. The turnout for the Centre Party was somewhat weaker than expected, while that of the other three larger parties was somewhat better.

Figure 1: Centre party won election; NCP placed 2nd...

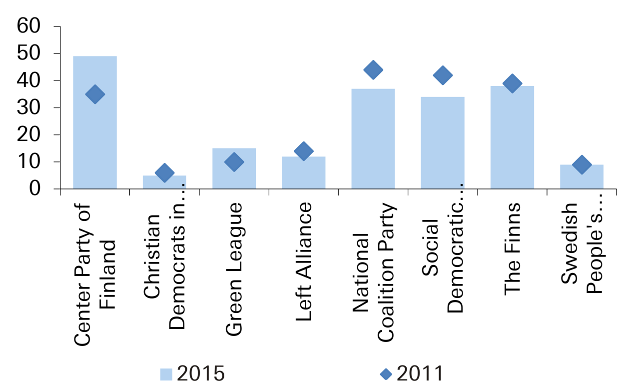
Vote share, parliamentary election 2015, %



Source: Ministry of Justice

Figure 2: ...but The Finns placed 2nd by number of seats

Number of seats, parliamentary election 2015,



Source: Ministry of Justice

Looking at the allocated parliamentary seats this makes the Centre Party the clear winner at 49 seats (+14 vs. 2011 election) out of 200 with the Finns Party (38; -1) placed second on this metric. The NCP is just one seat behind (37; -7), but its performance was clearly weaker than in the last election in 2011 as it likely took a large part of the blame for Finland's recent economic performance. The SDP (34; -8) lost the most seats of any party and will form the smallest parliamentary faction of the four large ones in the next term. The largest of the smaller parties is the Green League (15; +5) followed by the Left Alliance (12; -2).

Smaller, more coherent coalition likely

The current government is blamed by some for not being coherent enough in office due to the far too wide ranging views of its four members (at the beginning of the term there were even six members) from both sides of the political spectrum. The outgoing prime minister himself strongly supported this notion in an interview saying that the next coalition would strongly benefit from "ideological glue".[13] That the chair of the Centre Party said he would prefer a clear vision and targets for the next government could also be interpreted that way. The chair of the Finns Party, Timo Soini, also agrees saying that he would prefer to see a coalition of three out of the four big parties (Centre, NCP, SDP, Finns). The election outcome would provide a basis for a coalition of three large parties or two large and two of the smaller parties. A three party coalition of the Centre, NCP and Green League (101 of 200 seats) would also be possible, but given the small size of the majority and ideological differences for instance on energy policy this looks like an unlikely outcome.

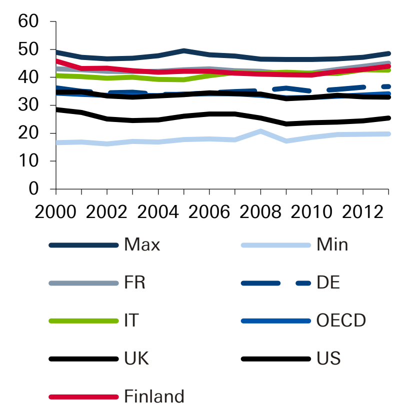
Make-up of coalition uncertain for now

With the Centre party achieving the largest number of seats the task of forming a government falls to its leader Juha Sipilä. He has been cautious to name a preferred partner during the campaign saying that he knows and trusts all the other party heads. Generally, the other party leaders, too, have not provided clear guidance or red lines. This keeps in line with Finland's history of broad-coalitions and their ability to find political compromises.

Next we will give some flavor of the large parties' stances on economic policy as they are likely to decide the make-up of a three-party-coalition. If a coalition would have to be based on two large and two smaller parties, the Centre party should be able to find support on either side of the political spectrum.

Figure 3: Finland's high tax burden

Tax revenues, % GDP



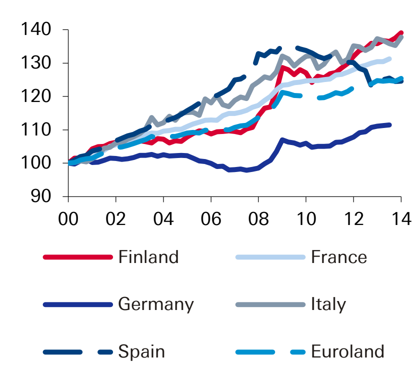
Source: OECD

Centre party: Against tax increases; pro-immigration; no focus on austerity

The Centre Party's chair, Juha Sipilä, comes across as a pragmatist saying he wants a realistic plan to solve Finland's problems. He says he wants to focus on a few issues and he wants to apply the managerial style from his years as a company leader to the government. In the above mentioned interview he clearly said that given Finland's high tax level in international comparisons there was no room for further hikes. Instead, tax decreases should be attempted for labour and corporates taxes alike to increase work and investment incentives. He put limited emphasis on further spending cuts. He wants to generate 200,000 jobs and return growth to 2%.

Figure 4: Finland's ULCs "took off" in 2008

Nominal unit labour costs, sa, Q1 2000=100



Source: Eurostat

Immigration was another major election topic. Given Finland's weak demographic outlook immigration would have to increase substantially to compensate the decline of the working age population. The Centre Party is very open to more work-based immigration. The (bureaucratic) hurdles especially for specialists from outside the EU needed in start-up companies in Finland's growing IT-start-up scene should be lowered in their view. Keep in mind that Sipilä used to head an IT company and only became the party chair in 2012. On EU policy – while in general pro-European – he coined the slogan "bigger in big things, smaller in small things" meaning that the EU should focus on big areas like free markets and competitiveness, but produce less bureaucracy.

National Coalition Party wants Finland to regain competitiveness

The NCP chair and current Prime Minister, Alexander Stubb, has probably the most ambitious fiscal plan proposing the largest spending cut among the parties. While he would like the next coalition to share an "ideological glue" he is not even ruling out the Social Democratic Party, with which the NCP did not always see eye-to-eye during the current government term. He highlights the loss of competitiveness as the global crisis, structural changes in Finland's

[13] YLE did English speaking interviews with most party chairs before the election. They can be watched here: http://yle.fi/uutiset/watch_finlands_political_leaders_interviewed_in_english/7912311?origin=rss

economy and Nokia's decline proofed a boon. He supports a more liberal labour market regulation, more immigration and incentives for higher participation rates across the age groups. He pointed out that Finland overcame its economic problems in the 1990s by opening up to the global economy and deregulating, not by closing off from the world. Judging by these factors, there should not be any big hurdles for the NCP and the Centre party joining up, though, the NCP is probably positioned a bit further to the right compared to the Finns Party and the Social democrats.

The Finns party and the Greek issue

The Finns Party (formerly the True Finns) did not join the coalition after the 2011-election despite its large vote-share primarily because they disagreed with the E(M)U bailout policy.

Its party head, Timo Soini, stated that he is willing to join the next government and that his stance on European bailout policy would not matter that much as these issues play less of a role now. Given the current state of affairs in negotiations between Greece and the institutions and the potentially needed parliamentary support for some parts of an agreement this conclusion is not necessarily obvious.

Also: "Last time Matti Vanhanen's Centre-led government began this bailout policy, but during the current government's term all of the Centre MPs in (Parliament's) EU Affairs Committee have joined the Finns Party in voting against bailout packages. If the Centre Party maintains its position then together the Centre and the Finns parties will form a majority on this matter," Soini said.[14] On the other hand, even the other parties and the current Prime Minister have followed a rather strict line on this issue.

Given Finland's small size this should in any case not derail any political compromise, but it could of course produce volatile news flow and some time delays. In 2011, when the Greek bailout was negotiated Finland received collateral from Greece to facilitate an agreement. During an English speaking press conference post-election the Centre Party chair suggested that the four large parties on the stage broadly agreed on the Greek issue.[15]

On Europe more generally, while he is still opposed to the EU he said that there was no realistic scenario for finding a majority in Finland to leave the Union. Hence, he would not pursue the issue. Also, Soini seems to agree with the Centre party on the criticism of EU bureaucracy referencing the position from the conservative party from the UK.

On immigration he said that there were "not too many immigrants"[16] although his party (or parts thereof) was often seen as anti-immigration. He did emphasis, though, that it was also very important to enable the Finnish unemployed to take up the jobs that are offered. With the more moderate stances on some previous hurdles to joining a coalition, chances have risen that the Finns party will be part of the next government.

SDP against more liberal labour market and aggressive spending cuts

True to the Social Democratic tradition the SDP chair, Antti Rinne, opposes a liberalization of the labour market and for instance supports the abolishment of zero-hour contracts, which puts him at odds with the NCP head. He

[14] http://yle.fi/uutiset/finns_partys_soini_vows_to_oppose_further_greek_bailouts_-_if_in_government/7896694?origin=rss

[15] http://yle.fi/uutiset/were_here_to_stay_trumpets_populist_soini/7939470?origin=rss

[16] http://yle.fi/uutiset/watch_finlands_political_leaders_interviewed_in_english/7912311?origin=rss

acknowledges that it would be difficult to join a coalition with the NCP again given some trust issues between his party and parts of the NCP. However, even he could imagine that unemployed not taking up offered jobs should be faced with e.g. benefit cuts. In general, though, he is least supportive of more spending cuts and even if they should be decided he supports a spreading over two terms.[17] Like the Finns party he puts more emphasis on bringing Finnish unemployed into jobs rather than easing immigration hurdles.

Three-party coalition looks possible

All told, it looks like a three-party coalition can be agreed between the Centre party and two of the other three large parties. There seems to be a preference for a more coherent government for the next term. In addition, based on the aforementioned political preferences there do not seem to be insurmountable (domestic) policy hurdles between these parties and Finland has a history if broad-coalitions. The SDP and the NCP are likely furthest away from each other in political terms. If the Centre party chooses to take the NCP on-board the Finns party looks like the more logical partner at least from a domestic policy perspective.[18]

While the above analysis based on economic policy supports the notion that the Finns party could join a coalition, some remaining skepticism of other parties over the Finns' stance on e.g. immigration, the Swedish minorities and EU (rescue) policy could well prevent or delay an agreement. However, the Centre Party chair, Sipilä, also said that trust and confidence would be the key factors in deciding on a collation and reportedly he and the Finns chair, Soini, had "heartfelt praise for each other".[19]

The Swedish people's party (9 seats) is reportedly also likely to head into government. They have been there for more than three decades to represent the Swedish minority.[20] It is also liberal in economic terms, so would not present a hurdle to a coalition like the one mentioned above.

New government possible by mid-May?

The Centre party's leader has started to talk to the leaders of the other parties. He emphasizes the importance of trust for a durable coalition. After exploring what compromises other party leaders were generally willing to make and what red lines could be formal government talks will start. Sipilä was quoted as expecting all of this to be wrapped up in about a month with a government possibly ready by mid-May.[21]

One discussion that has immediately surfaced was about the future finance minister. Typically this is awarded to the party with the second most seats, which is the EU-skeptical Finns party. With a Eurogroup decision on financial support for Greece likely to be needed over the coming months Soini as finance minister could increase tensions and perceived risks to the decision. However, given his good performance in the foreign-affairs committee he might be a more natural candidate for foreign minister according to speculation. So far, he has not voiced a preference in either direction.

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[17] http://www.helsinkitimes.fi/finland/finland-news/politics/13312-rinne-cuts-must-be-spread-out-over-two-electoral-terms.html

[18] http://www.helsinkitimes.fi/finland/finland-news/politics/13328-coalition-talks-begin-behind-the-scenes.html

[19] http://yle.fi/uutiset/mondays_papers_election_surprises_and_predictions_russian_and_provincial_reactions/7940245?origin=rss

[20] http://yle.fi/uutiset/opinion_pm-elect_sipila_cant_remain_a_man_of_mystery/7938219?origin=rss

[21] http://www.economist.com/news/europe/21649497-new-finnish-government-will-impose-austerity-home-and-abroad-finns-moment

Economic situation makes reforms necessary

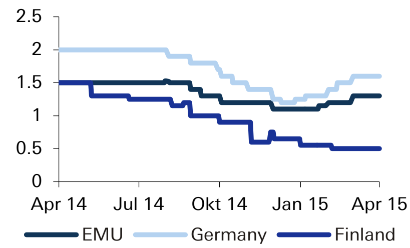
In previous notes we highlighted that Finland's fiscal and growth outlook have deteriorated substantially in recent years, which makes structural reforms and further fiscal adjustments necessary (*Focus Europe* 20 June 2014 & 20 February 2015). The most recent economic news out of Finland has also not been encouraging (*Focus Europe*, 20 March 2015) further strengthening the case for a clear reform strategy post-election.

One particularly discouraging development is that Finland looks not to have benefited from the brightening outlook for EMU or rather other domestic developments have outweighed it. For instance, while the Bloomberg Consensus GDP forecasts for EMU and Germany have risen since the turn of the year, the one for Finland has even fallen slightly. At 0.5% the Consensus forecast is below our own forecast (0.8%), but equals the recently downward revised government forecast. This growth rate would likely leave Finland as one of the worst performers among EMU countries.

The government's forecasts also suggest that the fiscal deficit could stay above 3% of GDP until 2017 with only a gradual improvement thereafter.[22] This implies like our own forecasts that public debt will increase above 60% of GDP in 2015 and will approach 70% towards the end of the decade. As we wrote before, some factors (low debt level in a European comparison and high asset level in pension system) should limit the scrutiny from the EU Commission, but from a longer-term perspective reforms are very much needed and will play a big role in the upcoming coalition talks.

Figure 5: Consensus: Finland not benefitting from EMU up-turn yet

Real GDP, 2015F, % yoy



Source: Bloomberg Finance LP

[22] http://vm.fi/documents/10623/1106796/Economic+Survey+Spring+2015/6b553771-5806-4c09-be67-1325fc604653?version=1.0

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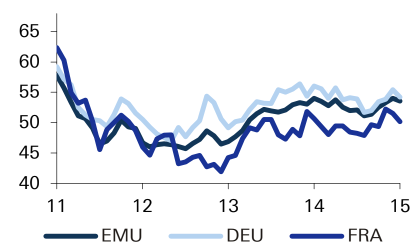
Euro area Flash PMIs: Disappointing April does not derail recovery story

- The April Flash PMIs were a disappointment with the euro area composite PMI 0.5 points down to 53.5 (exp 54.4). Both France and Germany missed expectations by a non-negligible margin. However, the EMU PMI levels generally remained above their Q1 averages, and are about in line with our GDP forecasts for Q1 (+0.5% qoq) and Q2 (+0.4%). As of now we are not concerned and expect that the recovery has continued in Q2.
- The German PMIs – despite declining – and the ifo support our forecast that underlying German growth is strong at around 0.5% qoq, but that some seasonal patterns could temporarily weigh on Q2 GDP growth after strength in Q1. The further improvement in the employment outlook in the manufacturing sector was encouraging. In France the PMI details were not as bad as the disappointing headline suggested. While the PMI level would point to weak growth (+0.1%), hard data has been more encouraging and on the margin even represents a small upside to our +0.3% qoq GDP forecast for Q1.
- The relative resilience of the EMU PMIs compared to Germany and France also suggests that economies outside of the "big two" performed well on average in April with rises in both manufacturing and services PMIs.

Figure 1: France weighed on April Flash PMIs

Composite index, 50 = no change, sa



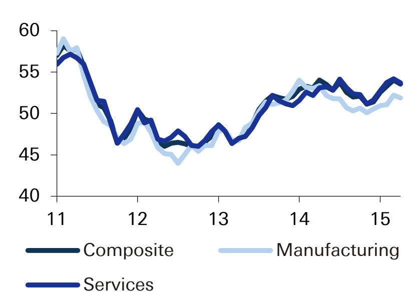
Source: Markit

Euro area April Flash PMIs do not derail recovery story

The April Flash PMIs were a disappointment. The expectations of further increases were missed by a non-negligible margin. The composite index fell (53.5 vs. 54.1 prev.), while a further improvement was expected (Reuters: 54.4). The disappointment was evident in the manufacturing (51.9 unch.; Reuters: 52.6) as well as in the services sector (53.7 vs. 54.3 prev.; Reuters: 54.5). Given the timing with increasing tensions between the European partners and Greece, rising fears of a political accident resulting in a Grexit as well as a decline of the Chinese PMI, the PMI report will likely make quite a few people question the sustainability of EMU recovery story.

However, there are a few reasons why we are not concerned. Despite the decline, the composite PMI actually remained above its Q1 average, which is also true of the manufacturing and services indices as well as the respective details of theses indices. As such, further declines would be necessary for the PMIs to become inconsistent with our Q2 GDP forecast of continued solid growth. We do not expect this given the factors supporting the cyclical recovery e.g. the supportive monetary policy stance gradually feeding through to the real economy, DB's expectations that US growth will pick-up again after a probable weak Q1 as well as DB's expectations that Chinese stimulus measures should help keep GDP growth on target. Secondly, data is often impacted by seasonal adjustment issues during spring due to varying placement of Easter vacations, which are usually difficult to accurately account for, when monthly data is forecast. Also, the new orders and new export orders indices from the EMU manufacturing index both declined by the same amount and were on roughly the same level suggesting that there was no sudden divergence of domestic and foreign demand. All told, there is really no reason for us to question our forecasts as of now.

Figure 2: EMU: Serv. and manuf. PMI disappointed

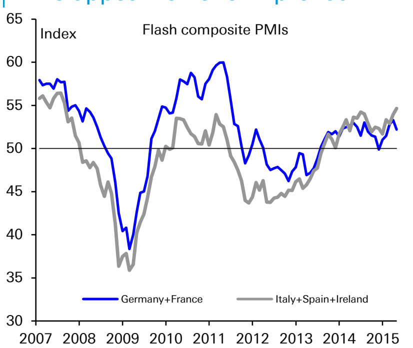


Source: Markit

Flash reading suggests strong performance outside the 'big two'

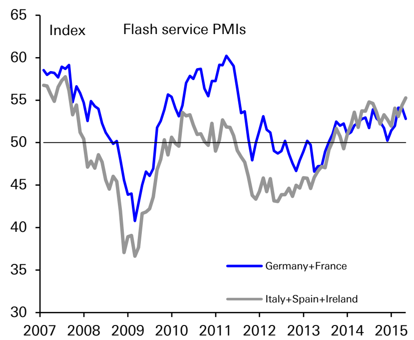
With the euro-area composite PMI declining by less for the euro-area in aggregate than for in Germany or France, Thursday's reading implied a 0.8 rise in the index for Italy, Spain and Ireland on average (Figure 3). This improvement outside of the big two appears to have happened in both the services and manufacturing sectors (Figures 4 and 5).

Figure 3: Outside the big two the PMIs appear to have improved…



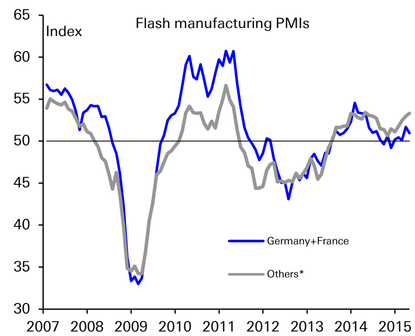
Source: Markit, Eurostat, Haver Analytics, Deutsche Bank
Note: The latest number is based on the flash number and the historical series comprise of the final numbers

Figure 4: … in both the services…



Source: Markit, Eurostat, Haver Analytics, Deutsche Bank
Note: The latest number is based on the flash number and the historical series comprise of the final numbers

Figure 5: …and manufacturing



Source: Markit, Eurostat, Haver Analytics, Deutsche Bank
*Others includes Italy,Spain, Ireland, Netherlands ,Austria and Greece
The latest number is based on the flash number and the historical series comprise of the final numbers

Q1 & Q2 GDP growth outlook

Despite the decline in the April flash reading the euro area composite PMI continues to point to GDP growth of around +0.4% qoq, in line with our and consensus forecasts for Q2 (Figure 7). This is also in line with what the PMIs suggested for Q1, although here we expect a slightly more positive outcome given the solid hard data released so far (Figure 6).

Figure 6: Q1 2015 GDP outlook

	Q1				
Country	Composite PMI	National Surveys	PMI + IP^	DB	Consensus*
Euro area	0.4	0.4	0.5	0.5	0.4
Germany	0.5	0.5	0.3	0.8	0.5
France	0.1	0.1	0.4	0.3	0.3
Italy	0.0	0.2/0.3	0.1	0.2	0.2
Spain	0.6	0.8	0.4	0.7	0.7

Source: Markit, Haver Analytics LP, Bloomberg Finance LP, Eurostat, National statistical agencies, Deutsche Bank
^Assuming IP is unchanged at February level
* qoq consensus forecasts are calculated using yoy consensus data from Bloomberg Finance LP

Figure 7: Q2 2015 GDP outlook

	Q2			
Country	Composite PMI^	National Surveys^^	DB	Consensus*
Euro area	0.4	0.5	0.4	0.4
Germany	0.5	0.6	0.2	0.4
France	0.1	0.2	0.4	0.3

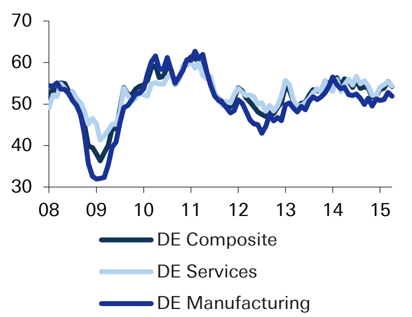
^ Assuming PMIs remain unchanged at April flash level
^^ Assuming national surveys for France and euro area/Germany remain unchanged at April level
* qoq consensus forecasts are calculated using yoy consensus from Bloomberg Finance LP

Germany: PMIs support our expectation of slower Q2 GDP

The German Flash PMI for April was weaker than the market had expected. The composite index stood at 54.2 (vs. the 10-month high of 55.4 in March). The decline was driven more by the services sector (54.4 vs. 55.3 prev.), while a small increase was expected (Reuters: 55.5). The fall of the manufacturing PMI was less pronounced (51.9 vs. 52.4 prev.), but the disappointment was of the same magnitude (Reuters: 53.0).

There are several reasons not to overstate this, though. First, excluding the very positive reading in March 2015 this is still the highest readings of the composite index since July 2014 and equals the high Q1 average. Second, activity indices are often faced with seasonal adjustment issues during Spring given the varying placement of Easter vacations. This year, German spring vacations were mostly in the first two weeks of April covering a large part of the survey period. Also, the ifo index actually increased in April and is less prone to such effects as it is more of a sentiment and less of an activity indicator compared to the PMI. Third, our forecast already includes a growth slowdown in Q2 from 0.8% qoq GDP growth (Q1) to 0.2%. That would imply average quarterly growth of 0.5% in H1 perfectly in line with the composite PMI readings. The ifo expectations component actually even points to 0.6% qoq growth in Q2. This would be a repetition of last year's pattern where a mild winter allowed construction activity to be pulled forward resulting in payback in Q2. At the time, this was also not fully reflected in survey measures. A moderate weakening of the German surveys in Q2 would thus not concern us much and we see the underlying cyclical picture in Germany as healthy thanks to solid domestic demand growth.

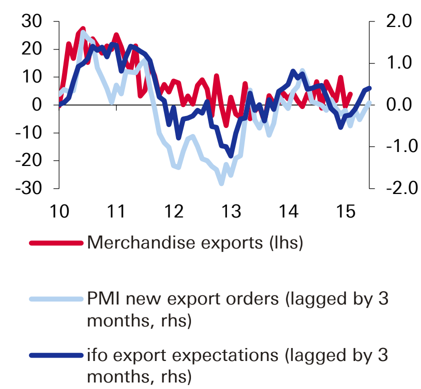
Figure 8: Broad based decline in April



Source: Markit

Figure 9: Surveys suggest limited external traction

% yoy (lhs), Standardized values (rhs)



Sources: Deutsche Bundesbank, ifo, Markit

Figure 10: German industry: Little near term momentum?

% yoy (lhs); normalized index levels (rhs)

Sources: Markit, ifo, Destatis

The details of the German services PMI were mixed. A 1-point decline of the headline index still left it well within expansionary territory (54.4), though. The new business index declined moderately (53.7 vs. 54.2), but that is still well above the Q1 average (52.6). The business expectations index showed a strong decline, but that just looks like a continuation of the volatile pattern of recent months and in any case the correlation with real economic data is limited. Possibly of more concern is the fact that the employment index fell for the second month (52.2 vs. 52.7 prev.). We are tempted to put this largely down to the above mentioned seasonal/weather pattern. Keep in mind that this sub-index was above 53 in Q1 and employment growth as well as the unemployment declines were unusually strong.

The declines in the manufacturing sector were also fairly broad-based. The drop of the output index (53.9 vs. 55.5) still left it well in expansionary territory. The 2.1-point decline of the new order index to 51.2 was large, but this comes after four consecutive strong increases. On the positive side, the employment index rose for the third consecutive month (51.6 vs. 50.9) suggesting that domestic and external traction is slowly adding to the still moderate capacity utilization of German industry.

Contrary to the April PMI data the ifo business climate actually increased in April driven by a much more positive assessment of the current business situation, which suggests that the weak April PMI might have been a temporary blip. The headline index rose to 108.6 (107.9 prev.), which was slightly ahead of expectations (Reuters: 108.4). This marks the sixth consecutive increase – one of the longest streaks on record – and brings the index back to the level from June 2014. The moderate increase was solely driven by a much improved assessment of the current business situation (113.9 vs. 112.0 prev.), which increased by the largest margin since May 2013. In contrast, business expectations weakened slightly (103.5 vs. 103.9).

With the expectations component declining this could question the outlook for Q2 and beyond. However, the decline was modest and we in any case expect slower growth. Also, it happened in an environment of politically charged discussion between Greece and its European partners possible leaving its mark. More concerning is that the decline was driven by a drop in manufacturing expectations (100.3. vs. 101.5). The weaker manufacturing expectations could be due to monthly volatility, but they coincide with on-going weakness of global trade and in China. Still, even at its current level manufacturing expectations support a further strengthening of industrial production growth in the next months and our 2% GDP forecast for 2015 is based on domestic strength in-line with the higher levels of the more domestic oriented wholesale, retail and construction relative to the manufacturing index.

France: disappointing but not as bad in the details

France disappointed in Thursday's flash PMI reading. The composite index was 1.4 points down to 50.2 due to a 1.6 points fall in the services PMI to 50.8, while manufacturing also weakened, by a more marginal 0.4 points to 48.4.

The details were on the whole a little less disappointing than the headline index. The fall in composite new orders (down 0.8 points to 51.5) was more marginal than in the output index – February and March figures aside new orders remain at the strongest level since H1 2011. The composite employment index inched up to 50.3, the highest since October 2013, suggesting tentative improvement in the disappointing labour market situation.

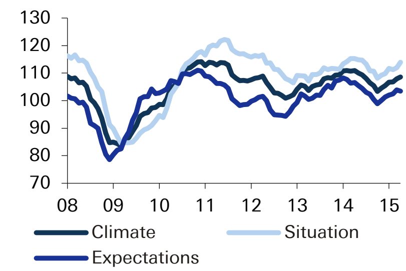
Although the decline in the headline PMI in France was led by the services index, the details were arguably weaker in the manufacturing survey – manufacturing new orders and new exports orders declined on the month and the manufacturing PMIs have failed to stage a meaningful recovery in recent months as has been the case in the services sector.

At the April flash level the French composite PMI points to GDP growth of around 0.1% qoq, with a similar pace of growth suggested by the INSEE survey. With strong hard data for Q1 so far we expect that risks are, on the margin, to the upside of our +0.3% qoq forecast for Q1, but the weaker survey data for April suggests a downside risk for Q2 (DB: +0.4% qoq).

We do not view Thursday's data as enough to undermine the domestic consumption-driven recovery in France – recall that PMI data for France has been too negative at times in the recent past. However, a continuation of softer figures would raise the downside risks to our expectations. At current levels of PMIs this would be most notable in the manufacturing sector where we expect improved export demand to contribute to our solid GDP growth projections for 2015 (+1.1%) and 2016 (+1.6%).

Figure 11: April ifo: Modest decline of expectations

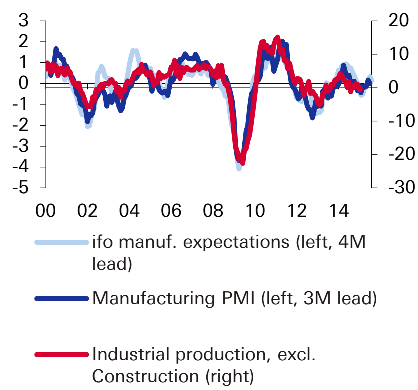
Index, 2005=100



Sources: ifo

Figure 12: PMI & ifo suggest gradual strengthening of German industry

% yoy, 3MMA, nsa (left); standardized values (right)



Sources: Federal Statistical Office, ifo

SIREN: Interpreting this week's euro area data

It was not just the PMI and ifo expectations that were weaker than expected this week. So too was consumer confidence. Following this week's numbers, *SIREN-Surprise*, the surprise component of our new tool for real-time tracking of the euro area economy, dipped into negative territory for the first time in 2015. On the positive side, *SIREN-Momentum* says these early indicators for the second quarter point to GDP growth of a still robust 0.4% qoq. This is slightly slower than the 0.5% qoq we expect (and SIREN supports) for Q1, but is in line with our expectations for a modest slowing in Q2 — remember, part of the reason that GDP growth was so fast in Q1 was because of a temporary weather boost to construction. See page 26 for more on *SIREN*.

Fig.13: *SIREN-Momentum* – Is the euro-area economy accelerating or decelerating? *

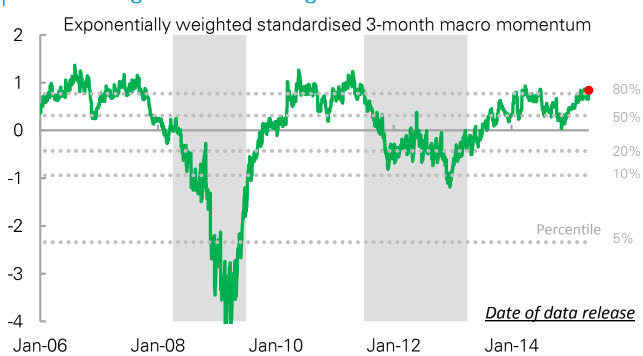
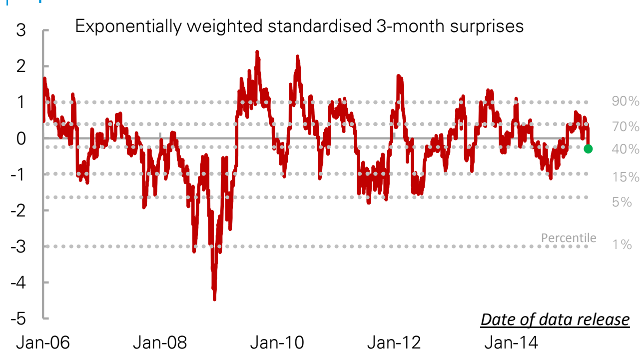


Fig. 14: *SIREN-Surprise*– Is growth faster or slower than expected? *



** At any date on the horizontal axis no ex-post data were employed, we only used information that had already been published. Grey shaded areas in Fig. 1 represent declining qoq GDP*
***Indicators for individual countries are included when released at least one day before the euro-area aggregated indicator (the former are subtracted from the latter to minimize double counting)*
Source: Deutsche Bank, Haver Analytics, National Statistical Offices, Bloomberg Finance LP, Markit, Various Statistical Sources

Eurozone

Economics
Rates
Inflation

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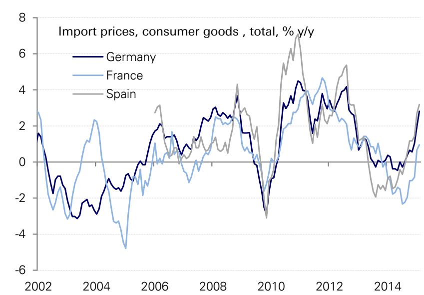
Euroland Inflation

Next week will bring the first April CPI prints. We expect little change in inflation and would see the risks around consensus forecasts (of 0.0% y/y for euro area HICP) skewed towards the downside. Oil-related consumer energy prices may have risen slightly again, but y/y HICP energy is expected to be broadly stable. Food inflation has started to normalize and another marginal increase looks possible in April, but we expect more visible progress in May and June. The main uncertainty relates to price trends in core components however, where volatility in sales and holiday-related prices since the start of the year has made it difficult to distinguish noise from trend. The changing timing of Easter holidays is a potential source of noise in April. We see the risks for core inflation skewed to the downside.

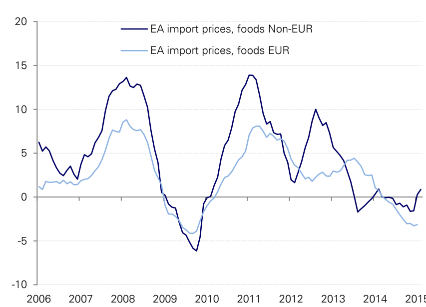
While the near-term inflation trend is expected to be sideways, we would see scope for some pick-up in the second half of the year, on the back of effects from better demand and a weaker currency. Evidence of the latter is increasingly visible in measures of imported inflation. Imported capital goods prices for example in February were growing at an annual rate around 2%, which is close to the highs seen since the early 2000s; both non-euro area and euro area import inflation has recently been rising (chart 3). Similarly, imported inflation of (core) consumer goods has been picking up noticeably (chart 4), although overall consumer goods (import) inflation has been held back by subdued food inflation (chart 2) which continues to be depressed by supply trends. The pick-up in imported (consumer goods) inflation is a common trend across euro area countries, although more pronounced in Germany and Spain than in France (chart 1; Eurostat data not available for Italy, but domestic data show similar trends). For now, there seem to be little tangible signs of the weaker currency affecting domestic output or consumer prices, but we would expect these to become more evident from the second half of this year.

1. Imported inflation across countries



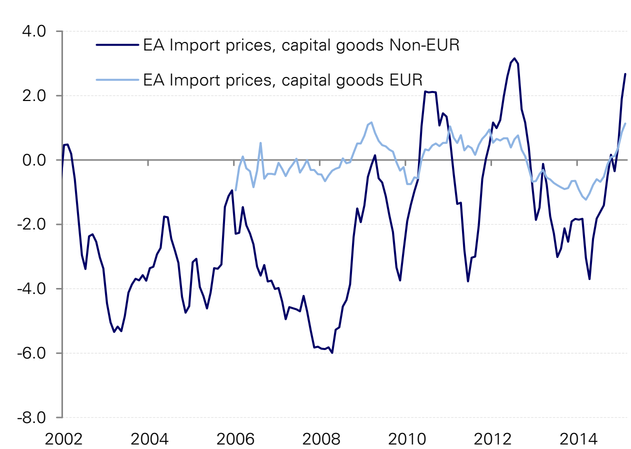
Source: Haver, Deutsche Bank

2. Imported food inflation



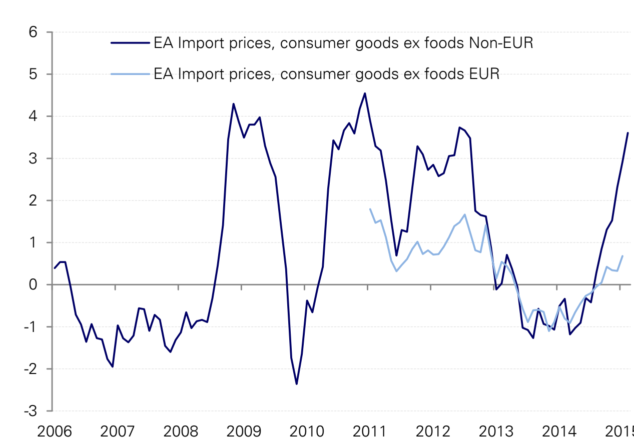
Source: Haver, Deutsche Bank

3. Imported inflation rising for capital as well as…



Source: Haver, Deutsche Bank

4. …consumer goods



Source: Haver, Deutsche Bank

DB Inflation Forecasts

	Euro area									France			UK		
	Headline HICP			HICP excl. tobacco			HICP xefat*			CPI excl. tobacco			RPI		
	Index	% m/m	% y/y	Index	% m/m	% y/y	Index	% m/m	% y/y	Index	% m/m	% y/y	Index	% m/m	% y/y
Jun-14	118.2	0.1	0.50	117.57	0.1	0.43	113.5	0.1	0.8	126.22	0.0	0.3	256.3	0.2	2.6
Jul-14	117.4	-0.7	0.38	116.78	-0.7	0.34	112.6	-0.8	0.8	125.81	-0.3	0.4	256.0	-0.1	2.5
Aug-14	117.6	0.1	0.37	116.91	0.1	0.33	112.9	0.3	0.9	126.38	0.5	0.4	257.0	0.4	2.4
Sep-14	118.1	0.4	0.31	117.43	0.4	0.27	113.5	0.5	0.8	125.88	-0.4	0.2	257.6	0.2	2.3
Oct-14	118.0	-0.1	0.38	117.35	-0.1	0.33	113.6	0.0	0.7	125.92	0.0	0.4	257.7	0.0	2.3
Nov-14	117.8	-0.2	0.28	117.12	-0.2	0.22	113.5	-0.1	0.7	125.70	-0.2	0.3	257.1	-0.2	2.0
Dec-14	117.7	-0.1	-0.16	117.01	-0.1	-0.23	113.9	0.4	0.7	125.81	0.1	0.0	257.5	0.2	1.6
Jan-15	115.9	-1.6	-0.62	115.13	-1.6	-0.69	111.7	-1.9	0.6	124.53	-1.0	-0.4	255.4	-0.8	1.1
Feb-15	116.6	0.6	-0.28	115.87	0.6	-0.35	112.4	0.6	0.7	125.37	0.7	-0.3	256.7	0.5	1.0
Mar-15	117.9	1.1	-0.09	117.20	1.1	-0.16	113.9	1.4	0.6	126.20	0.7	-0.1	257.1	0.2	0.9
Apr-15	118.1	0.1	-0.12	117.35	0.1	-0.19	114.1	0.2	0.6	126.18	0.0	0.0	258.2	0.4	1.0
May-15	118.2	0.1	0.13	117.50	0.1	0.05	114.1	0.0	0.7	126.27	0.1	0.0	258.6	0.2	1.1
Jun-15	118.3	0.1	0.09	117.58	0.1	0.01	114.2	0.1	0.7	126.39	0.1	0.1	258.8	0.1	1.0
Jul-15	117.6	-0.6	0.12	116.82	-0.6	0.03	113.4	-0.8	0.7	125.95	-0.3	0.1	258.7	0.0	1.1
Aug-15	117.7	0.1	0.14	116.99	0.1	0.07	113.7	0.2	0.7	126.43	0.4	0.0	259.7	0.4	1.1
Sep-15	118.3	0.5	0.18	117.54	0.5	0.09	114.3	0.6	0.7	126.11	-0.3	0.2	260.5	0.3	1.1
Oct-15	118.4	0.1	0.35	117.67	0.1	0.27	114.5	0.1	0.8	126.21	0.1	0.2	260.7	0.1	1.2
Q1 15	116.8	-0.9	-0.3	116.1	-0.9	-0.4	112.7	-0.8	0.6	125.4	-0.4	-0.2	256.4	-0.4	1.0
Q2 15	118.2	1.2	0.0	117.5	1.2	0.0	114.2	1.3	0.6	126.3	0.7	0.0	258.5	0.8	1.0
Q3 15	117.9	-0.3	0.1	117.1	-0.3	0.1	113.8	-0.3	0.7	126.2	-0.1	0.1	259.6	0.4	1.1
Q4 15	118.5	0.6	0.6	117.8	0.6	0.5	114.5	0.6	0.8	126.4	0.2	0.4	261.1	0.6	1.4
Q1 16	118.3	-0.2	1.3	117.5	-0.2	1.2	113.7	-0.7	0.9	126.4	0.0	0.8	261.8	0.3	2.1
Q2 16	119.6	1.1	1.2	118.8	1.1	1.1	115.3	1.4	1.0	127.4	0.8	0.9	264.8	1.1	2.4
2013	117.2		1.4	116.6		1.3	112.1		1.1	125.4		0.7	250.1		3.0
2014	117.7		0.4	117.1		0.4	113.0		0.8	125.9		0.4	256.0		2.4
2015	117.8		0.1	117.1		0.0	113.8		0.7	126.0		0.1	258.9		1.1
2016	119.4		1.4	118.7		1.3	115.1		1.1	127.2		1.0	265.3		2.5
Next release				Apr (flash): 30-Apr						Apr: 13-May			Apr: 19-May		

**HICP excluding energy, food, alcohol and tobacco*
Source: Deutsche Bank

Eurozone | Economics

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Euro sovereign events

The following is a list of key events to watch in the coming weeks and months – events that could have bearing on how the euro crisis evolves.

2015

May

- 1 May: Greece due to make payment to IMF (EUR200m)
- 7 May: United Kingdom general election
- 8 May: Greek T-bill maturing (EUR1.4bn)
- 8 May: Portugal credit rating action by Moody's
- 10 May: German state election in Bremen
- 11-12 May: Eurogroup/ECOFIN finance ministers' meeting
- 12 May: Greece due to make payment to IMF (EUR766m)
- 15 May: Greek T-bill maturing (EUR1.4bn)
- 15 May: Ireland credit rating action by Moody's
- 22 May: France credit rating action by Moody's
- 25 May: Regional elections in Spain. Regional elections in 13 of 17 regions. Catalonia will note vote until September, see below.

June

- 3 June: ECB Governing Council meeting and press conference
- 5 June: Finland credit rating action by Moody's
- 7-8 June: G7/8 leaders' summit in Bavaria, Germany
- 12 June: Italy credit rating action by Moody's
- 18-19 June: Eurogroup/ECOFIN finance ministers' meeting
- 19 June: Spain credit rating action by Moody's
- 25 – 26 June: European Council
- 26 June: Austria credit rating action by Moody's
- 26 June: Belgium credit rating action by Moody's
- 26 June: Germany credit rating action by Moody's

July

- 10 July: Netherlands credit rating action by Moody's
- 14 July: ECB Bank Lending Survey
- 16 July: ECB Governing Council meeting and press conference
- 31 July: Greece credit rating action by Moody's

September

- 3 September: ECB Governing Council meeting and press conference
- 4 September: Portugal credit rating action by Moody's
- 11 September: Ireland credit rating action by Moody's
- 14 September: (tentative) Danish general election
- 18 September: France credit rating action by Moody's
- 20 September–11 October: Portuguese legislative election
- 27 September: Catalan regional election – Catalan President Mas called for earlier elections for the region, although the pro-independence parties will present the election as a plebiscite on independence we do not think the election will provide enough clarity. Still, early elections combined with national elections due at the end of 2015 and the rise of Podemos creates potential for market volatility after the summer.

October

- 2 October: Finland credit rating action by Moody's
- 9 October: Italy credit rating action by Moody's
- 9–11 October: IMF/World Bank annual meetings in Lima, Peru
- 16 October: Spain credit rating action by Moody's
- 20 October: ECB Bank Lending Survey
- 22 October: ECB Governing Council meeting and press conference
- 23 October: Austria credit rating action by Moody's
- 23 October: Germany credit rating action by Moody's
- 30 October: Netherlands credit rating action by Moody's

November

- 6 November: Belgium credit rating action by Moody's
- 15–16 November: G20 leaders' summit in Turkey
- 20 November: Greece credit rating action by Moody's

December

- 3 December: ECB Governing Council meeting and press conference

Mid December: (tentative) Spanish general election. Election could be held as early as 22 November or as late as January

Eurozone | Economics

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SIREN: tracking euro-area macro news

SIREN is a high frequency Summary Index of Relevant Economic News. It monitors in real time both how quickly the euro-area economy is growing (*Momentum*) and how outcomes compare with expectations (*Surprises*). *SIREN* tracks GDP efficiently as its constituents are weighted by their ability to forecast GDP out-of-sample. Both *SIREN*'s components correlate closely but tend to lead similar indices. *SIREN* is reported based on release dates (Fig. 1 & 2) as well as on reference dates (Fig. 5 & 6). *SIREN-Momentum* and *Surprise* are combined in a single metric: *DB-Point* (Fig. 7 & 8) - Link to full guide.

- *SIREN-Momentum (Fig. 1):* captures the underlying momentum of the euro-area economy. Although the recent upward trend appears to be leveling off, the index remains above 80% of the outcomes over the past nine years, close to the 2010-2011 levels when annual GDP increased on average by 1.8% yoy. This appears to confirm upside risk relative to our (1.4% yoy) and Bloomberg consensus projections (1.4% yoy) for 2015.

- *SIREN-Surprises (Fig. 2):* captures macro surprises. After the trough in September 2014, surprises improved gradually and turned positive in mid-December. But after four months largely in positive territory, they fell back into negative territory this week.

Fig.1: *SIREN-Momentum* – Is the euro-area economy accelerating or decelerating? *

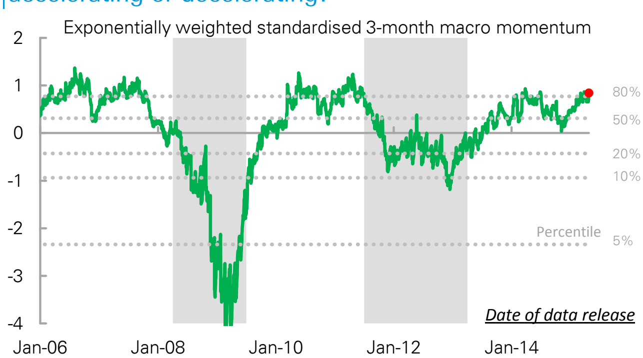


Fig. 2: *SIREN-Surprise*– Is growth faster or slower than expected? *

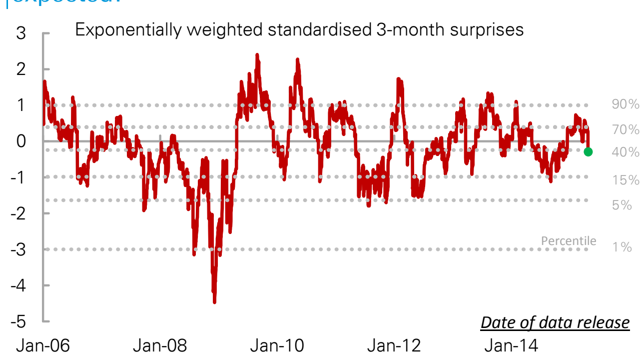


Fig.3: Contributions to *SIREN-Momentum***

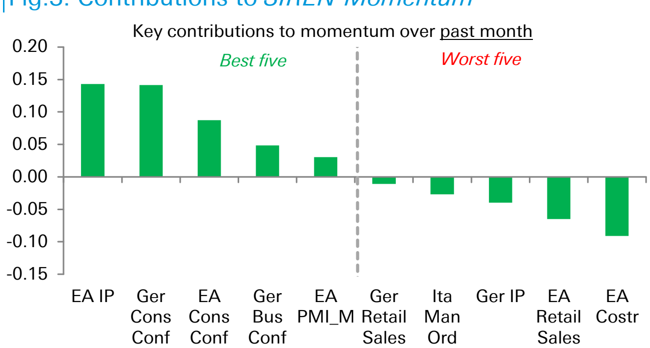
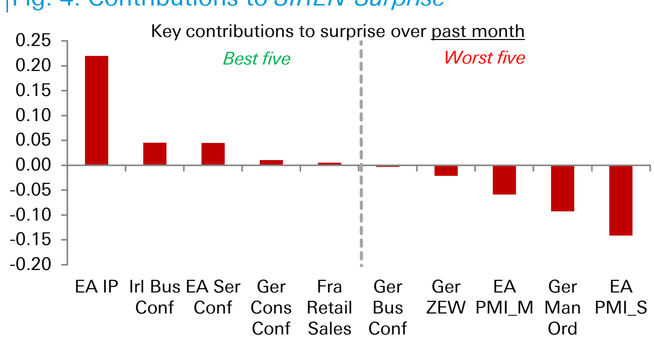


Fig. 4: Contributions to *SIREN-Surprise***



** At any date on the horizontal axis no ex-post data were employed, we only used information that had already been published. Grey shaded areas in Fig. 1 represent declining qoq GDP*
***Indicators for individual countries are included when released at least one day before the euro-area aggregated indicator (the former are subtracted from the latter to minimize double counting)*
Source: Deutsche Bank, Haver Analytics, National Statistical Offices, Bloomberg Finance LP, Markit, Various Statistical Sources

SIREN based on reference quarters

Indicators published around the same date may refer to different quarters.[23] Separating outcomes based on reference rather than release dates helps to (i) spot turning points and (ii) more generally better capture current dynamics.

- *SIREN-Momentum and Surprise by reference quarter:* capture the macro momentum (Fig. 5) and surprises (Fig. 6) in the current and previous quarters by summing weighted outcomes based on reference dates. The shaded areas summarise quarterly developments over the past nine years. *SIREN* in Fig 5 is consistent with a 0.5% qoq GDP growth in Q1 2015.

Fig. 5: *SIREN-Momentum* by reference quarter

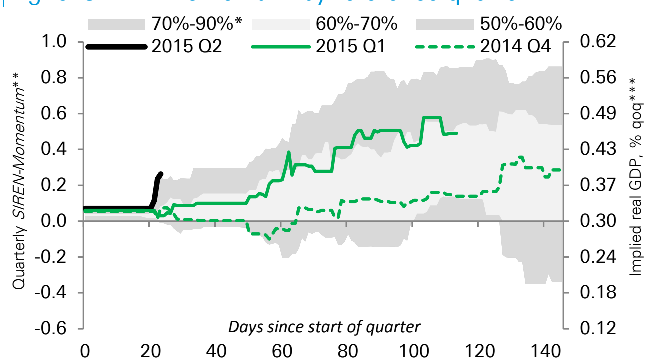
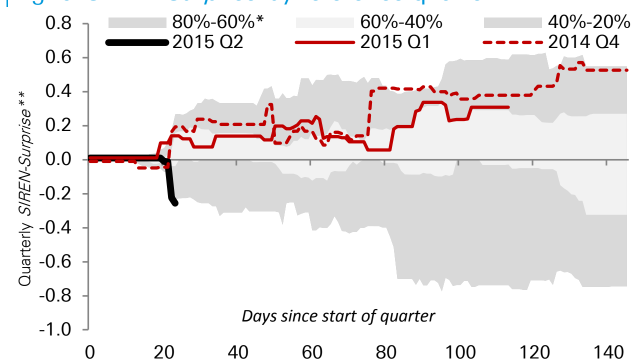


Fig. 6: *SIREN-Surprise* by reference quarter

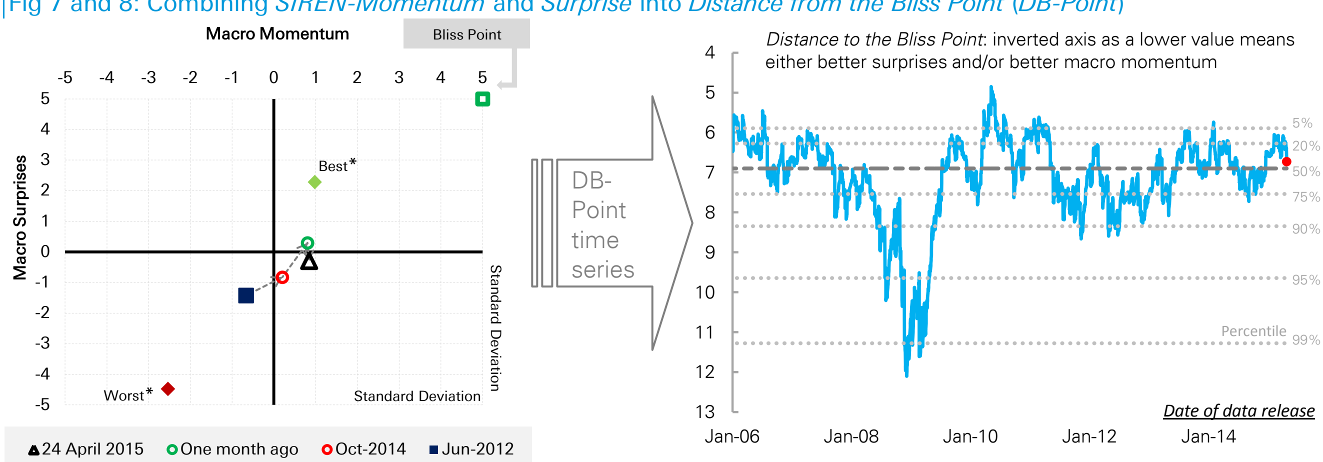


** Shaded areas capture percentiles across quarters since Q4-2005*
***News weighted by the indicator's ability to forecast GDP out of sample (one quarter ahead)*
**** The right hand axis in Fig 5 links the end of quarter level of SIREN-Momentum to a corresponding quarterly euro-area GDP growth*
Source: Deutsche Bank, Haver Analytics, National Statistical Offices, Bloomberg Finance LP, Markit, Various Statistical Sources

Combining *SIREN-Momentum* and *Surprise* into one metric

- *DB-Point (Fig. 7 & 8)* the joint message from both *SIREN*'s components has became less positive this week due to the first dip into clear negative territory of *SIREN-Surprise* since mid December 2015.

Fig 7 and 8: Combining *SIREN-Momentum* and *Surprise* into *Distance from the Bliss Point* (*DB-Point*)



** Best = minimum distance from bliss point (7 May 2010); Worst = max distance from bliss point (5 Dec 2008). Note that dates do not coincide with min and max for the individual momentum and surprise indices*
Source: Deutsche Bank, Haver Analytics, National Statistical Offices, Bloomberg Finance LP, Markit, Various Statistical Sources

The authors wish to acknowledge the contribution made by Baqar Zaidi

[23] E.g. in mid January, industrial production for November of the previous year is released followed the week after by the Flash PMIs for January of that year. Both indicators can affect asset prices on the release date but they refer to different quarters, i.e. the PMIs provide a more up-to-date picture.

Central Banks & Financial Forecasts

Euro Area

The risk of an early reconsideration of the EUR60bn per month for 18 months QE programme is low. Unless Greek-related contagion erupts, we think it will be the end of the year at the earliest before the ECB will be able to judge the appropriateness, one way or the other, of the current QE plan.

UK

Our view remains for lift-off in Bank of England policy rates from May next year. This would be consistent with our call on the Fed (Sep 2015); typically the BoE moves rates around 9 months after the US.

Switzerland

The SNB shocked the markets by abandoning the CHF peg, causing a sizable jump in CHF vs. the EUR. We expect EUR/CHF to rise to 1.10 by year-end.

Sweden

The Riksbank loosened policy in March, cutting rates further below zero and increasing its modest QE. Recent news suggests against more easing for now.

Norway

Norges Bank surprised expectations by not lowering rates at its March meeting. However, Norges Bank expects to lower rates in the next 6 months.

Denmark

While we expect the DKK ERMII peg to hold, the Nationalbank has been forced to cut its deposit rate four times so far this year to -0.75%.

Poland

The NBP cut by 50bps at the March meeting and signaled the easing cycle had now ended. We see rates on hold for the coming quarters with the longer-term outlook complicated by the appointment of a new MPC in early 2016.

Hungary

The NBH cut rates by 15bps in March and signaled more is to come. With inflation set to move higher and growth dynamics robust we expect a shallow, and front loaded, easing cycle taking the policy rate to 1.5%.

Czech Republic

The CNB has said that a LT increase in deflation pressures could prompt a move weaker in the EURCZK floor. This is unlikely in the near term, in our view.

Financial Forecasts

Euro Area	Latest	Jun 15	Dec 15	Mar 16
Refi rate	0.05	0.05	0.05	0.05
3m Euribor	0.00	0.00	0.00	-0.10
10Y govt bond	0.17	0.30	0.40	0.40
EUR/USD	1.08	1.04	1.00	0.98
UK				
Bank Rate	0.50	0.50	0.50	0.50
3m Libor	0.57	0.58	0.59	0.60
10Y govt bond	1.70	1.50	1.80	2.00
GBP/USD	1.50	1.44	1.36	1.33
EUR/GBP	0.72	0.72	0.74	0.74
Switzerland				
3m Libor Tgt	-0.75	-0.75	-0.75	-0.75
EUR/CHF	1.04	1.07	1.10	1.10
Sweden				
Repo rate	-0.25	-0.25	-0.25	-0.25
EUR/SEK	9.42	9.20	8.90	8.86
Norway				
Deposit rate	1.25	1.00	1.00	1.00
EUR/NOK	8.52	8.90	9.00	8.95
Denmark				
Lending rate	0.05	0.05	0.05	0.05
EUR/DKK	7.46	7.46	7.46	7.46
Poland				
2w repo rate	1.50	1.50	1.50	1.50
EUR/PLN	4.03	3.97	4.08	4.06
Hungary				
Base rate	1.80	1.50	1.50	1.60
EUR/HUF	301.6	293.0	285.0	300.0
Czech Rep.				
Repo rate	0.05	0.05	0.05	0.05
EUR/CZK	27.4	27.5	27.5	27.5
Memo				
Japan				
O/N Call Rate	0.10	0.10	0.10	0.10
3m Tibor	0.15	0.15	0.15	0.15
10Y govt bond	0.44	0.50	0.60	0.65
USD/JPY	120.0	121.0	125.0	126.3
US				
Fed Funds Eft	0.130	0.125	0.625	0.875
3m Libor	0.26	0.26	0.75	1.18
10Y govt bond	1.93	2.50	2.65	3.35

Sources: DB, Bloomberg Finance LP, National Central Banks

Euroland Data Monitor

	B'berg code	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Nov 2014	Dec 2014	Jan 2014	Feb 2014	Mar 2014	Apr 2014
Business surveys and output											
Industry											
EC industrial conf.	EUICEMU	-3.3	-4.6	-4.5	-4.0	-3.9	-5.0	-4.5	-4.6	-2.9	
Headline IP (% pop)	EUITEMUM	0.1	-0.9	1.7	2.8	0.2	0.6	-0.3	1.1		
Capacity Utilisation	EUUCEMU	79.8	80.0	80.3	81.0						
Construction											
EC construction conf.	EUCOEMU	-29.9	-27.3	-24.3	-24.9	-25.0	-24.2	-25.3	-25.1	-24.2	
Services											
EC services conf.	EUSCEMU	5.1	4.5	5.3	5.5	4.5	6.4	5.3	5.3	6.0	
National Sentiment											
Ifo	GRIFPBUS	110.0	106.7	104.6	107.2	104.7	105.5	106.8	106.8	107.9	108.6
INSEE	INSESYNT	99.0	96.3	98.7	99.7	99.0	99.0	100.0	100.0	99.0	101.0
Consumer demand											
EC consumer survey	EUCCEMU	-7.7	-9.9	-11.2	-6.3	-11.6	-10.9	-8.5	-6.7	-3.7	-4.6f
Retail sales (% pop)	RSSAEMUM	2.0	0.7	2.9	5.5	0.5	0.6	0.9	-0.2		
New car reg. (sa, % yoy)		3.9	4.4	1.9	9.1	0.7	0.6	11.6	7.8	8.1	
Foreign sector											
Foreign orders	EUI3EMU	-13.9	-13.5	-12.9	-12.5	-12.6	-12.7	-12.9	-13.1	-11.4	
Exports (sa val. % pop)		1.0	3.7	9.6	-0.7	0.5	-0.9	-1.1	2.8		
Imports (sa val. % pop)		0.6	0.8	-4.9	-2.0	-0.2	-2.2	-0.2	2.6		
Net trade (sa EUR bn)	XTSBEZ	43.2	46.7	63.5	43.2	21.0	22.7	21.2	22.0		
Labour market											
Unemployment rate (%)	UMRTEMU	11.6	11.5	11.5	11.4	11.5	11.4	11.4	11.3		
Change in unemployment		-254.3	-62.7	-82.7	-239.0	8.0	-187.0	-92.0	-50.0		
Employment (% yoy)		0.6	0.7	0.9							
Prices, wages and costs											
Prices (% yoy)											
Harmonised CPI	ECCPEMUY	0.6	0.4	0.2	-0.3	0.3	-0.2	-0.6	-0.3	-0.1	
Core HICP (Eurostat)	CPEXEMUY	0.8	0.8	0.7	0.6	0.7	0.7	0.6	0.7	0.6	
Harmonised PPI	PPTXEMU	-1.1	-1.2	-1.5	-2.4	-1.3	-2.3	-2.9	-2.1		
Oil Price (USD)	EUCRBRDT	109.7	101.8	76.4	53.9	79.4	62.3	47.8	58.1	55.9	
EUR/USD	EUR	1.4	1.3	1.2	1.1	1.2	1.2	1.2	1.1	1.1	
Inflation expectations											
EC household survey	EUA8EMU	8.6	6.5	4.7	-2.2	5.8	2.8	-3.6	-2.3	-0.8	
EC industrial survey	EUI5EMU	-0.9	-0.7	-2.1	-5.4	-1.6	-5.1	-6.0	-5.8	-4.4	
Unit labour cost (% yoy)											
Unit labour cost		1.0	1.2	1.3							
Labour productivity		0.2	0.1	0.0							
Compensation.		1.2	1.2	1.3							
Hourly labour costs (sa)		1.4	1.3	1.0							
Money (% yoy)											
	ECMAM3YY	1.2	2.1	3.1	3.9	3.1	3.6	3.7	4.0		
M3 trend (3m cma)	ECMA3MTH					3.1	3.5	3.8			
Credit - private	ECMSCDXE	-1.9	-1.4	-0.8	-0.2	-0.9	-0.5	-0.2	-0.1		
Credit - public	ECMSCDGY	-1.6	-1.2	0.9	2.1	0.8	2.0	2.3	1.8		

Quarterly data in shaded areas are quarter-to-date. Monthly data in the shaded areas are forecasts.(1) % pop = % change this period over previous period.
Quarter on quarter growth rates are annualized
'f' stands for flash estimate
Source: Deutsche Bank forecasts, Eurostat, Ifo, INSEE, Reuters, European Commission, National statistical offices., Haver Analytics LP

The Week Ahead: Euro Zone

- In the Eurozone, focus will primarily be inflation and economic sentiment data. Inflation flash estimate (Apr) data will be released for Germany, Italy, Spain and Belgium as well. In addition, unemployment data will be released for Eurozone (Mar), Italy (Mar) and Germany (Apr).
- In other data releases, we have Q1 GDP flash estimate (DB forecast: 0.7% qoq), retail sales and current account balance in Spain. In France, consumer spending and consumer confidence data are scheduled for release.

Key Data & Events

Day	Time (GMT)	Release	DB Forecast	Consensus	Previous
Mon	16:00	French total jobseekers (Mar)			3494.4k
	16:00	French jobseekers net change (Mar)			12.8
Tue	06.45	French consumer confidence (Apr)			93.0
Wed	07.00	Spanish retail sales (Mar)			(2.7%)
	08.00	Euroland M3 3mmca (Mar)		(4.1%)	(3.8%)
	08.00	Euroland M3 (Mar)		(4.2%)	(4.0%)
	08.00	Italian consumer confidence (Apr)			110.9
	08.00	Italian ISAE business confidence (Apr)			103.7
	09.00	Euroland consumer confidence (Apr)		-4.6	-3.7
	09.00	Euroland economic confidence (Apr)		104.2	103.9
	09.00	Euroland industrial confidence (Apr)		-2.5	-2.9
	09.00	Euroland services confidence (Apr)		6.2	6.0
	09:30*	Belgian CPI (Apr)			0.1% (-0.4%)
	12.00	German CPI preliminary (Apr)		-0.1% (0.4%)	0.5% (0.3%)
	12.00	German HICP preliminary (Apr)		-0.1% (0.2%)	0.5% (0.1%)
Thu	06.45	French consumer spending (Mar)			0.1% (3.0%)
	06.45	French PPI (Mar)			0.7% (-2.6%)
	07.00	Spanish GDP flash estimate (Q1)			0.7% (2.0%)
	07.00	Spanish HICP flash estimate (Apr)			2.0% (-0.8%)
	07.55	German unemployment change (Apr)		-15k	-14.0k
	07.55	German unemployment (Apr)		6.4%	6.4%
	08.00	Italian unemployment rate preliminary (Mar)			12.7%
	08.00	Spanish current account balance (Feb)			-EUR0.4bn
	09.00	Euroland unemployment (Mar)		11.2%	11.3%
	09.00	Italian CPI preliminary (Apr)			0.1% (-0.1%)
	09.00	Euroland HICP flash estimate (Apr)		(0.0%)	(-0.1%)
	09.00	Euroland HICP core flash estimate (Apr)		(0.6%)	(0.6%)
	09.00	Italian HICP preliminary (Apr)			2.1% (0.0%)
	10.00	Italian PPI (Mar)			0.5% (-3.3%)

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Mon 27
ECB's Coeure, Constancio, Nouy speak in Brussels – 09:30 GMT
ECB's Constancio speaks at conference in Brussels – 13:00 GMT

Thu 30
ECB Publishes Economic Bulletin– 09:00 GMT

Source: Various National Statistical Offices, Bloomberg Finance LP, Reuters, S&P MMS, DB Global Markets Research. Growth rates in parentheses are year-on-year, while those without parentheses are this period over last period.

The Week Ahead: Rest of Europe & the USA

- In the US, the focus will be on Q1 advanced print of GDP. The growth forecast has been revised down to 1.7% qoq, saar. Among others we have PCE data, ISM and also FOMC rate decision.
- In the UK, we have Q1 GDP flash estimate (DB forecast: 0.7% qoq) and also the PMI rerelease. Also in Sweden, Riksbank will announce its rate decision and in Poland, we have GDP prelim report for Q1.

Key Data & Events

Day	Time (GMT)	Release	DB Forecast	Consensus	Previous
Mon	10.00	UK CBI industrial trends survey (Apr), % balance			22.0
Tue	08.30	UK GDP flash estimate (Q1)	0.7%	0.6% (2.7%)	0.6% (3.0%)
	14.00	US consumer confidence (Apr)	100.0	102.5	101.3
	14.00	US Richmond fed (Apr)		-2.0	-8.0
Wed	10.00	UK CBI distributive trades survey (Apr)			18.0
	12.30	US GDP deflator adv (Q1)	0.5%	0.5%	0.1% (1.3%)
	12.00	Polish GDP (prelim) (Q1)			0.7% (3.1%)
	12.30	US GDP advance (Q1)	1.7%	1.0%	2.2% (2.4%)
	14.00	US pending home sales (Mar)	1.0%	1.0%	3.1%
Thu	12.30	US initial jobless claims (Apr)			295.0k
	12.30	US core PCE deflator (Mar)	0.1%	0.2%	0.1% (1.4%)
	12.30	US PCE deflator (Mar)		0.2% (0.4%)	0.2% (0.3%)
	12.30	US PCE (Mar)	0.4%	0.5%	0.1% (3.3%)
	12.30	US personal income (Mar)	0.2%	0.2%	0.4% (4.5%)
	13.45	US Chicago PMI (Apr)	50.0	50.0	46.3
Fri	08.30	UK M4 growth (Mar)			-0.2% (-3.2%)
	08.30	UK net consumer credit (Mar)		GBP0.8bn	GBP0.7bn
	08.30	UK mortgage approvals (Mar)		61.2k	61.8k
	08.30	UK net mortgage lending (Mar)			GBP1.7bn
	08.30	UK PMI manufacturing (Apr)		54.7	54.4
	14.00	US construction spending (Mar)		0.5%	-0.1% (2.1%)
	14.00	US consumer sentiment (Apr)		96.0	93.0
	14.00	US ISM (Apr)	52.0	52.0	51.5

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Wed 29
Riksbank to announce interest rate decision – 08:30 GMT.
Federal Reserve to announce interest rate decision - 19:00 GMT.

Thu 30
Fed's Tarullo to hold speech in Washington– 13:30 GMT.

Source: National Statistical Offices, Bloomberg Finance LP, Reuters, S&P MMS, DB Global Markets Research

Fri 01
Fed's Mester to hold speech in Philadelphia– 13:30 GMT.
Fed's William to hold speech in Chapman University – 20:45 GMT.

The list of data and events for the US is not comprehensive. Please see the web-based week ahead for a more complete list

Appendix 1

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