

Press release

For editorial desks
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Commerzbank Research: No ECB rate hike in 2019

- **Chief economist Krämer: “Turnaround of monetary policy still not in sight”**
- **Compromise in the Italian budget dispute after Elections to the European Parliament**
- **DAX should recover over the coming year**

The global decline in economic indicators is not a harbinger of a dangerous economic downturn, said Commerzbank chief economist Jörg Krämer on Friday in Frankfurt. “What we see here is just a slowdown of growth,” said Krämer.

The US economy, for instance, has been boosted this year by the reduction in taxes and an increase in government expenses, which will not repeat itself next year. In addition, the US Federal Reserve's monetary policy is depressing economic growth. The Fed has already raised interest rates eight times since the end of 2015 and will – after another step in December – raise it two further times next year, according to Commerzbank analysts. The rate would then be at 3.00%. The Bank's economists expect the US growth to fall to 2.5% in 2019.

In the Eurozone, the manufacturing sector, which is dependent on foreign trade, shows signs of weakness. According to Krämer, this is primarily due to exports to China, which are seeing less growth currently. “The development of economic growth in the Eurozone predominantly depends on China,” said Krämer. He believes, however, that the Chinese government will successfully stimulate domestic demand and thereby stabilise the Chinese economy. In this case the upswing in the Eurozone should continue to grow at a rate of 1.4% in 2019, according to Commerzbank economists.

The budget crisis in Italy represents a downside risk to this forecast. However, Krämer does not believe that the conflict will escalate. “Italy will continue this dispute until the elections to the European Parliament next May,” said Krämer. “After the elections, Italy will strike more modestly and in doing so open the door to a compromise.” Brexit also continues to be a factor of uncertainty. “Unfortunately, the EU has clearly left its mark on the Brexit agreement so an approval by the British Parliament is questionable,” said Krämer.

These factors combined with core inflation not picking up will have an impact on the European Central Bank. According to Commerzbank experts, the ECB will not raise interest rates in 2019, but in March 2020 instead

– without initiating a rate hike cycle. “A true turnaround of monetary policy in the Eurozone is still not in sight,” said Krämer. It is expected that the DAX will recover as soon as economic indicators pick up next spring, and after the elections to the European Parliament, when the Italian government shows it is willing to compromise (DAX year-end forecast: 12,500).

Commerzbank Research Forecasts

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

	2018	2019	2020
Eurozone	1.9	1.4	1.6
- Germany	1.5	1.2	2.0
- France	1.6	1.3	1.5
- Italy	1.0	0.9	1.2
UK	1.3	1.6	1.8
USA	2.9	2.5	1.8
China	6.5	6.3	6.0
World	3.8	3.5	3.4
US dollar (per euro as at year end)		1.22	

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