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EMU

High time for the ECB to change its signals

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Today's sentiment indicators are further evidence that the ECB's easing bias is no longer appropriate. In the light of sustained positive economic indicators and EMU economic growth of over 2 %, a certain degree of euro appreciation should not pose any problems, especially since it is likely to be only short-lived, given further interest hikes by the Fed.

The composite purchasing managers' index (PMI) for the eurozone's manufacturing and service sector climbed to 58.6 points in January – thereby reaching a record high since June 2006. While the PMIs for Germany and France remained almost flat, improvement came from the rest of the countries included in the survey. The extremely positive survey results on job creation speak for the fact that employment growth in the eurozone, which recently stood at 1.7% on a year earlier, is picking up further.

In Germany, the composite index was able to maintain its high level at 58.8 points, and hence lies above the average of 57.6 points reached for the fourth quarter of 2017. The fact that the PMI for the industrial sector sank from 63.3 to 61.2 should not be viewed negatively, given its level. Germany's industrial sector is increasingly marked by capacity bottlenecks which have resulted in, amongst other things, record-length delivery times (second-highest value since the beginning of the survey).

The French purchasing managers' index for the manufacturing and service sector was also able to retain its high level at 59.7 points in January. In particular, the combination of increasing new orders and climbing unfinished work (both indicators posted record highs since the levels reached in April 2011) is very promising for the further development.

For the eurozone, we anticipate a GDP growth rate of at least 0.6% for both the closing quarter of 2017 as well as for the first quarter of this year. For 2018 as a whole, we expect economic growth of 2.2% following last year's 2.5%, whereby we do see more upside than downside risks. Against this backdrop, the ECB's easing bias no longer appears to be keeping with the times – i.e. to further expand the size and/or duration of the bond-purchasing program in the event of a gloomy outlook. We are of the opinion that it would be appropriate to change the "forward guidance" – the earlier, the better. Starting in October, the bond purchases should be scaled back from EUR 30 billion to zero. We do not harbor any concerns about excessively high upside risks to the external value of the euro, especially because the US monetary policy will continue to tighten its stance. Moreover, it is evident that the EMU inflation rates will experience a slight increase following the current base effect, and, the employment prospects described will, in the long run, lead to more upward wage pressure.

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