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EUROZONE

A string of upbeat numbers

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With today's GDP figures, eurozone growth of just over 2% this year looks well within reach. The ECB finds itself caught between rising growth forecasts and falling inflation forecasts. In our view the eurozone economy could cope with both a degree of currency appreciation as well as a throttling back of QE.

According to the provisional flash estimate from Eurostat, eurozone gross domestic product recorded sequential growth of 0.6% in the second quarter. The pace of expansion has thus accelerated slightly compared with the first quarter (the corresponding figure was revised down from 0.6% to 0.5%). In the wake of today's figures, full-year 2017 growth looks set to come in at just over 2%.

The latest GDP numbers are part of a series of upbeat numbers for the eurozone economy that, overall, have topped expectations. Sentiment indicators, for instance, are still flagging up humming activity. Industrial capacity utilization in the eurozone rose again in the third quarter (to 83.2%), in the services sector it climbed to an all-time high of 90.2%. According to yesterday's figures, the decline in unemployment is continuing surprisingly swiftly.

While forecasts for eurozone growth are generally tending to be revised upwards of late, inflation forecasts are in the main being trimmed back slightly (in the wake of yesterday's figures, we see inflation this year at 1.5%). Operating in this constellation is not easy for the ECB, especially as the strength of the euro (to be seen in part also as a weakness of the dollar) will weigh additionally on inflation. We nonetheless think that the eurozone economy is in sufficiently good shape to cope smoothly with both a degree of euro appreciation as well as a throttling back of QE. A rise in yields in the

eurozone is in line with economic performance, but it is important that they do not lurch upwards.

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