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Continuation of an economic recovery - Update from the Investment Division

Erste AM Communications



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The majority of economic indicators point to a continuation of an economic recovery. This is indicated by data on industrial production, survey-based indicators and rising producer prices. At the same time, a decline in growth rates can be observed, especially in the USA.

Yesterday, the first of a total of five regional Fed surveys on the manufacturing sector was released. The Empire State Manufacturing Index fell to 3.7 in August from 17.2 in July. This puts the level at around the January level. More information on the extent of the slowdown in growth will be revealed by the preliminary PMI estimates for the U.S., Euro-Zone, Japan, and UK, which will be released next Friday.

Two developments stand out in the market. First, the inflation rate factored into bond yields has not increased since last Wednesday. The so-called break-even inflation rate for the U.S. is holding at just under 1.7% in the 10-year maturity range. The development of this indicator provides information on market expectations for the cyclical recovery.

Second, the US dollar is once again under pressure (DXY) against a basket of established currencies (EUR, JPY, GBP). Against emerging market currencies, the US dollar can be seen to be strengthening. With one important exception. The Chinese currency Renminbi was able to further strengthen to 6.92 vs. USD. One possible fundamental reason for the weakness of the USD is the disagreement between Republicans and Democrats over a further economic stimulus package. If no agreement is reached on additional unemployment benefits after the summer break in September, personal incomes in the US will fall significantly.

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