

## EURO TO SEE RATE RISE

According to the The European Forecasting Network (EFN), the market should be ready for continued rate rises in Europe.

“We expect GDP to grow by around 1.9% in 2011 and 1.7% in 2012, not enough to bring the unemployment rate back below 10%,” the EFN said. “This forecast assumes that the crisis of confidence in public finance in the euro area can be contained. In this case, the modest recovery will continue, this year mainly driven by strong external demand.”

The EFN sees fixed capital formation, driven by low real interest rates, will become the main engine of growth in the second half of 2011 and in 2012.

Due to the higher external demand, industrial production remained quite strong during 2010 and forecasts have been revised upwards. We expect industrial production to grow at 5.5% during 2011 and at 3.5% in 2012, nearly recovering pre-crisis levels.

While core inflation remains at historically low values, energy and food prices will probably keep inflation in the euro area above the ECB target throughout this year, the EFN said that it forecasts a 2.4% average inflation rate in 2011.

“Given this scenario, increases in the ECB policy rate in 2011 are quite probable, starting in April, but overall the reduction in the expansive stance of monetary policy will be slow,” the EFN said, adding “We expect inflation to drop to 1.4% in 2012, due to the ECB policy and easing of pressures in commodity markets.”

The EFN is a research group of European institutions, founded in 2001 under the auspices of the European Commission, and currently partly financially supported by the Schuman Centre at the European University Institute. The objective of the EFN is to provide a critical analysis of the current economic situation in the euro area, short-term forecasts of the main macroeconomic and financial variables, policy advice, and in-depth study of topics of particular relevance for the working of the European Economic and Monetary Union. The EFN publishes four quarterly.

European Economic Highlights:

Euro-Zone GDP s.a. for Q4 0.3% m/m 2.0% y/y – in line with expectations. Consensus 0.3% m/m 2.0% y/y. Previous 0.3% m/m 2.0% y/y.

Euro-Zone Household Cons for Q4 0.4% – in line with expectations. Consensus 0.4%. Previous 0.4%.

Euro-Zone Gross Fix Cap for Q4 -0.5% q/q – higher than expected. Consensus -0.6% q/q. Previous -0.6% q/q.

Euro-Zone Govt Expend for Q4 0.1% – in line with expectations. Consensus 0.1%. Previous 0.1%.

Germany Factory Orders (nsa) for February 20.1% – higher than expected. Consensus 17.4%. Previous 16.5%.

Switzerland Foreign Currency Reserves for March 206.2B. Previous 208.0B.

Switzerland CPI for March 0.6% m/m 1.0% y/y – higher than expected. Consensus 0.2% m/m 0.5% y/y. Previous 0.4% m/m 0.5% y/y.

Switzerland CPI – EU Harmonised for March 0.7% m/m 1.0% y/y. Previous 0.3% m/m 0.5% y/y.

UK BRC Shop Price Index for March 2.4%. Previous 2.7%.

UK Industrial Production for February -1.2% m/m 2.4% y/y – lower than expected. Consensus 0.4% m/m 4.3% y/y. Previous 0.3% m/m 4.2% y/y.

UK Manufacturing Production for February 0.0% m/m 4.9% y/y – lower than expected. Consensus 0.6% m/m 5.8% y/y. Previous 0.9% m/m 6.6% y/y.