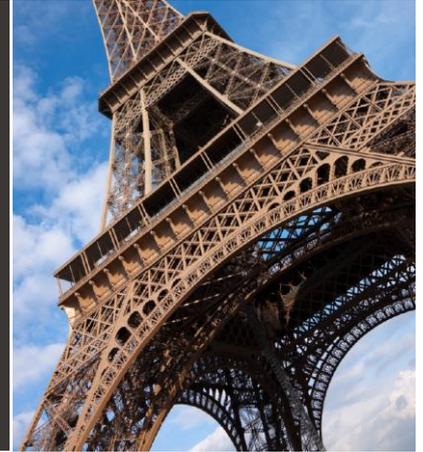


## European monetary policy in the spotlight

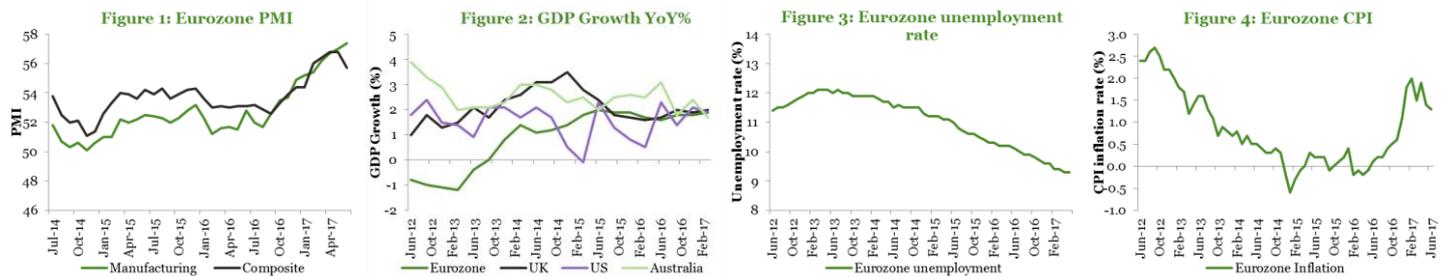
### Trade idea – **ETFS EURO STOXX 50® ETF (ESTX)**

**Key Takeaway:-** Despite Draghi's hawkish statements, Europe's economic indicators still point to a strong continuing recovery with levels over and above Australia, the US and the UK.

In this week's ETF Securities trade idea we look at key economic indicators released in June across the eurozone as well as looking ahead to the potential end of monetary stimulus, as hinted by the European Central Bank last week, and what that means.



- Manufacturing in the Eurozone** - In June manufacturing in the eurozone continued to expand at pace, with Markit's eurozone manufacturing PMI indicator of factory activity moving to its highest level since April 2011, pointing to a significant increase in GDP growth in Q2. Germany led the way, but even Greece showed signs of expansion during the month. Composite PMI, combining manufacturing and services, dipped, but remained strong, as shown in Figure 1.



- Eurozone GDP Growth** for Q1 2017 was at 0.6% for the quarter, well above the levels seen in the UK at 0.2%, the US at 0.45% and Australia at 0.3%. In an annual basis, as shown in Figure 2, the eurozone had gained significant ground in recent years.
- Unemployment** held firm at 9.3% in May. While the headline rate is still historically high, it has decreased by a full percentage point in just 15 months and is down from a peak of 12.1% less than four years ago, as shown in Figure 3.
- Inflation** figures released at the end of last week disappointed and clouded the picture somewhat. Headline CPI fell back to 1.3% in June, having peaked at 2.0% in February, as shown in Figure 4. Core CPI, which exclude the volatile energy segment, rose to 1.1% providing some evidence for those looking to frame a reflationary argument.
- The end of monetary stimulus in the eurozone?** Hawkish comments from ECB president, Mario Draghi, last week hinted at the end of monetary stimulus in the eurozone. Although the implications were later watered-down, the market's reaction to the possibility of near-term tapering was reminiscent of the 2013 US taper tantrum; the euro leapt to a 16 month high, German 10 year Bund yields rose to an 18 month high and the EURO STOXX 50 dropped 2.9% for the week.
- Sustainability** - The episode has raised questions as to whether the region's recovery is sustainable or a result of the extraordinary stimulus measures implemented over the past two years. Cautious statements that followed suggest that stimulus will remain in place for some time, which should be positive for equity markets. Alternatively, as shown in Figure 1, a rising-rate environment has also historically coincided with strong equity market performance over the longer-term.
- What does this mean for investors?** Investors wishing to take a view and add Europe to their portfolio may consider using **ETFS EURO STOXX 50® ETF (ESTX)**, the only ETF in Australia tracking Europe's leading blue-chip index. ESTX offers unhedged exposure to the eurozone with a management fee of 0.35% per annum.



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