



Macro views



World

- Robust, broad-based global expansion continues, albeit at a decelerated pace. Synchronised growth across regions and economies, in many cases at above-trend levels. We expect global growth to rise to +3.9% this year, marginally above 2017, as fundamentals remain supportive.
- Europe has already begun to slow, and we expect US growth to peak this year as well. 2018 should mark the apex of the current cyclical expansion; global growth should slow down broadly from 2019.
- Trade tensions have been resolved positively, at least for now. Other slow-burning issues remain, such as the anti-establishment government in Italy, Brexit negotiations, higher inflation, less accommodative central bank policies, geopolitical tensions in Iran and North Korea, and incipient stress in emerging market assets.



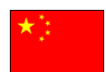
United States

- Growth to accelerate in 2018 to an annual pace of +2.9%, the fastest since 2005, boosted around 0.7pp by the combination of tax cuts and increased government spending.
- Economic momentum remains very strong and supports our above-consensus expectations for growth this year. Financial conditions remain accommodative despite recent volatility and dollar strength, which will continue to act as a tailwind to economic activity.
- Recent wage and price data supports our expectation for inflation to surprise to the upside this year. Labour markets have tightened and little slack remains, so growth will become increasingly inflationary this year.



Eurozone

- We have revised down our Eurozone growth forecasts to reflect the recent softening in growth momentum. We now expect full-year 2018 growth of +2.1%, down 0.3 percentage points from our prior forecast but still comfortably above our estimate of potential growth (which is around +1.0%).
- The current pace of growth is unsustainable. Cyclical momentum will naturally decline as output gaps close; financial conditions will tighten as the ECB withdraws accommodation; the boost from net exports will fade as Asia decelerates; and the stronger euro will drag on growth.
- We expect the market response to the new Italian government to remain contained. Italy is in a much better position compared to 2011-12. Spreads are unlikely to widen enough to result in an “unwarranted tightening of financial conditions” and should therefore support the ECB’s existing policy trajectory.



China

- We expect China’s economic growth to slow down +6.6% this year, up from our forecast earlier this year. Fiscal policy has remained robust, boosted by healthy land sale volumes which have offset planned tightening. Still, we expect policy to become less supportive through the rest of this year.
- There is a strong link between the real estate market and fiscal policy in China. Recent land sales have been very strong and will support fiscal expansion this year, supporting our above-consensus forecasts.
- The risks are to the upside, as higher housing prices are likely to support household wealth and could spark a positive cycle in consumption.
- We expect CNY to stay broadly stable through 2018; tighter than expected capital controls have limited outflows.



Emerging Markets

- EM growth is accelerating and inflation is rising, though there are still elevated risks from the strong dollar, higher US rates, potential trade conflict, and idiosyncratic headwinds in specific EM countries.
- While many EM currencies have been pressured over the last few weeks, we do not expect much monetary tightening; central banks are likely to focus on low inflation and remain supportive of growth.
- Political stories remain key drivers in Turkey, Argentina, and Russia, while upcoming elections will continue to be relevant in Colombia, Mexico, and Brazil.

Monetary Policy

- **Fed:** expect 3 more rate hikes this year, more than FOMC guidance and than market pricing
- **ECB:** slow exit to continue. No new measures until mid-year; QE to end in 2018, first hike in mid-2019
- **BoJ:** not under pressure to act; no change expected in target short rate or yield curve control policy
- **BoE:** August hike is possible, but it will depend on a rebound in macro data
- **PBoC:** policy tightening to curb financial risks, followed by some easing in H2-2018 if necessary
- **EM:** rate hikes especially in Asia, while LatAm central banks have space to ease policy

Key downside risks

- **Escalation of trade restrictions:** more intense and broad trade restrictions depress growth, raise prices
- **Higher than expected inflation** leads central banks to raise interest rates faster, disrupting markets
- **Geopolitical conflict:** between Italy and the European Commission leads to tighter financial conditions and weighs on growth
- **Global growth disruption:** global equity correction weighs on sentiment / wealth, triggers a recession

marcos.arana@db.com
raj.hindochoa@db.com

quinn.brody@db.com
thehouseview@list.db.com

himanshu.porwal@db.com
<http://houseview.research.db.com>

22-May-2018

Deutsche Bank AG/London

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Key themes

- **Cyclical recovery reaches its peak:** global growth will accelerate in 2018, but for many countries growth will plateau or decelerate this year. As such, 2018 should mark the peak of the current cyclical expansion, and global momentum should decelerate from 2019
- **Geopolitics:** in Italy, the least market-friendly scenario is materializing with anti-establishment parties forming a government; Brexit negotiations continue ahead of the March 2019 deadline; potential conflict in the Middle East or Korean peninsula lingers as a risk
- **Trade wars:** recent developments have been positive, though we believe tensions may resurface later this year; our base case expectations are for conflict to diffuse without materially impacting the macroeconomy
- **Slow-burning issues:** focus will continue to remain on a range of slow-burning issues: trade protectionism, populism and politics, the peak of global growth, rising inflation, and tech company regulation
- **Exit of ultra-loose monetary policy:** major central banks clearly on exit path, Fed to continue hiking; ECB to end QE and move toward rate hikes; and BoE to hike rates in August, pending economic data
- **Episodic volatility:** average volatility should remain low, but volatility spikes to become more frequent as markets adapt to withdrawal of monetary stimulus
- **Steady inflationary pressures:** with tight labour markets and closing output gaps, price pressures will continue to build. Core inflation to grind higher toward targets in US, Eurozone. In EM, energy and food prices may rise, partially attributable to positive base effects, pressuring headline inflation

Market views

Market sentiment

- Markets remain supported by strong macro fundamentals
- We maintain our overarching strategic views, though we acknowledge they may take longer than expected to materialize

Equities

- Bullish US equities. Underlying growth is robust, profit margins are still rising, and buybacks are set to reach record highs this year
- In Europe, our view is more nuanced. We think the energy and utilities sectors have overshot, and prefer to rotate into banks and insurance
- Higher real rates are not a problem for equities as long as inflation remains under control

Rates

- Strategically bearish. US supply is rising, inflation to finally rise in medium-term, central banks will tighten more than currently priced, and oil will support inflation expectations
- More cautious near-term given extreme short positioning, pension demand

FX

- Recent dollar strength has challenged our bearish dollar stance and near-term risks are balanced, but our strategic view is still for further dollar weakness this year
- Flipside of bearish dollar view; current account surplus to outweigh rate differential
- Scope for yen strength as external financial position improves, currency remains undervalued

Credit

- Strong economy still supports credit fundamentals but negative technicals (ECB taper, Fed hikes, higher vol.) to put negative pressure on credit spreads

EM

- Constructive on EM, as selloff looks overdone and positions have begun squaring
- Macro fundamentals remain strong, though there are risks associated with trade conflict, higher US rates, and a stronger US dollar

Oil

- We still target end-2018 Brent prices at \$65/barrel, as risks of a pullback have risen
- Longer-term, still a bias for prices to stay high as the global market remains in deficit

Key macro and markets forecasts

GDP growth (%)					Central Bank policy rate (%)					Key market metrics				
	2016	2017F	2018F	2019F		Current	2017	2018F	2019F		Current	Q1-18	Q2-18	Q4-18
Global	3.2	3.8	3.9	3.9	US	1.25-1.50	1.25-1.50	2.25-2.50	3.00-3.25	US 10Y yield (%)	3.07	2.73	3.00	3.25
US	1.5	2.3	2.9	2.8	Eurozone	0.00	0.00	0.00	0.50	EUR 10Y yield (%)	0.56	0.49	0.70	1.25
Eurozone	1.8	2.5	2.1	1.7	Japan	-0.10	-0.10	-0.10	-0.10	EUR/USD	1.18	1.23	1.24	1.28
Germany	1.9	2.2	2.0	1.8	UK	0.50	0.50	0.75	0.75	USD/JPY	111	106	102	105
Japan	1.0	1.7	1.1	0.5	China	1.50	1.50	1.50	1.50	S&P 500	2,735	N/A	N/A	3,000
UK	1.9	1.8	1.3	1.6	India	6.00	6.00	6.50	6.75	Stoxx 600	397	N/A	N/A	395
China	6.7	6.9	6.6	6.3						Gold (USD/oz)	1,293	1,330	1,300	1,260
										Oil WTI (USD/bbl)	72	63	62	60
										Oil Brent (USD/bbl)	79	67	67	65

Current prices as of 22 May, 2018

Recent publications

- [The House View: Supported global growth](#), 22-May-2018
- [The House View: Trade wars and more](#), 16-Apr-2018
- [The House View: Slow-burning issues](#), 13-Mar-2018