



Macro views



World

- This summer, attention has shifted away from trade wars and politics, back to monetary policy. After a decade of unprecedented policy actions, the world economy still struggles to break free and return to normalcy
- In the absence of a plan B, the world's major central banks are set to engage in simultaneous policy easing yet again, with rate cuts likely in the US, China, and Europe. Asset purchases could be restarted in the euro area before YE as well. In the UK, Brexit is still the driving force, but rate cuts are highly likely
- The incoming leadership team in Europe complicates matters, but we believe the transition will ultimately prove to be a turning point for Europe. We are highly confident that Christine Lagarde will be a historically successful ECB president at a key juncture. At the European Commission, Von der Leyen is a consummate politician and administrator, having successfully managed multiple ministries in the German government



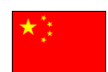
United States

- The US economy continues to grow, powered by the strong consumer, though investment spending remains pressured - Consumption growth has rebounded strongly this year with retail sales growth very high, completely offsetting weakness in Q4 2018. On the other hand, manufacturing remains weak - Industrial production is in contraction and Soft data points to further slow investment
- The positives outweigh the negatives, and we raise our 2019 GDP forecast 0.1pp to 2.0% Q4/Q4
- On the inflation front, we still forecast core PCE inflation at 1.8% by year-end - this will likely gradually rise back to the Fed's target next year
- The notable downside risks includes – (i) escalation of trade war; and (ii) sharp slowdown in China/Euro area growth dragging US growth lower too



Eurozone

- Euro area Q2 hard data got a boost as May industrial production (IP) rose by 0.9% m/m, driven by sharp rise in motor vehicle production (up 5.7%)
- The June composite PMI at 52.2 was also better than previous month and at its highest since Nov-18
- However, other data points were relatively subdued - May retail sales weaker than expected, car registrations in June fell by almost 7% m/m, construction output reversed Q1 upside
- Our Now-Casting model is now signaling Q2 GDP growth of 0.33% (vs. our forecast of 0.25%)
- Overall, a Q2 upward surprise will be welcome, however, we remain cautious as (i) Global demand is still subdued, (ii) pending issues on trade war, (iii) No deal Brexit risk, and (iv) rising economic uncertainty



China

- China's real GDP growth slowed to 6.2% in Q2 from 6.4% in Q1, driven by weaker consumption. Consumption contributed only 3.4pp of Q2 GDP growth, vs. 5pp a year ago and non-auto retail sales continued its downward trend
- Weaker job market outlook and higher household debt seem to have dented consumption
- Meanwhile, industrial production growth rose to 6.3% yoy in June vs. 5.0% in May- likely benefiting from the VAT tax cuts
- Going forward, we expect GDP growth to slow further to 6.1% in H2 (2019 GDP growth to be 6.2%), dragged down by domestic consumption and declining exports (see China's export growth to fall to -6% in H2 2019 from 0% in H1)



Emerging Markets

- Trade and structural deficiencies are the binding constraints to faster EM growth
- Manufacturing activity in EM now exhibits a pattern of persistent weakness similar to the one in DM. This is reflected in our downward revision in EM growth forecasts for 2019
- Asian economies are being particularly weighed down by persistent trade policy shocks
- In LatAm, growth expectations for Brazil and Mexico continue to deteriorate for this year
- CEEMEA macro backdrop has deteriorated less than in the rest of EM and CEEMEA countries are relatively least under stress- notwithstanding contingent liabilities issues in South Africa, ongoing sanctions in Russia and potential for similar measures in Turkey

Monetary Policy

- **Fed:** Three cuts in 2019 (July, September, December)
- **ECB:** 10bps deposit rate cut in September and December, tiering in September, QE a close call
- **BoJ:** On hold, no changes in target yields on YCC, possibly well into 2020
- **BoE:** No hike this year, one hike in Aug 2020
- **PBoC:** To cut OMO rates by 10-50bps; Cut RRR once
- **EM:** Expect cuts in Russia, South Africa, Turkey, India, Indonesia, Philippines, Vietnam, Brazil, and Chile

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- Key downside risks**
- **Crash Brexit (Medium)** – No-deal Brexit risks are rising. With under 100 days to Brexit deadline, new UK PM will be running out of time to garner support for a Brexit deal. Early UK election could also weigh on Brexit outcome
 - **Trade war (Medium)** – Escalation in US-China trade war, and an extension of tariffs to Europe (auto tariff) would disrupt global trade activity and hit global growth hard
 - **Recession (Low)** – Prolonged and accelerated weakness in Chinese & European growth & associated global recession / sharp correction in financial markets
 - **Geopolitical risks**– Rising tensions between US-Iran, UK-Iran can spark volatility and dent market sentiment

- Key themes**
- **Monetary easing:** Major central banks are set to engage in simultaneous policy easing this fall to limit slowing growth momentum. Rate cuts likely in the US, Europe and several EM economies
 - **Trade war:** Some de-escalation recently on US-China trade front, but no signs of a deal as yet. No breakthrough in closing the gap on key differences (role of SOE's in the Chinese economy and enforcement of IP protection) between the US and China. EU auto tariff risk also remains on the table.
 - **Brexit:** Boris Johnson has been elected the leader of the Conservative Party, and as such will become the new UK Prime Minister. Mr. Johnson has made it clear to leave the EU by 31 October, with or without a deal, which increases risk of 'No-deal' Brexit. Our base case remains a general election this year, but there is increasing uncertainty as to whether this will occur before a no deal Brexit or afterwards. We raise our no deal Brexit probability to 45% (single most individual outcome)

Market views

- Market sentiment**
- We believe that central bank easing will arrest the current slowdown in growth, prolonging the current economic expansion
 - Near-term, there are risks given current valuations and positioning

- Equities**
- We expect growth to continue, as central bank easing counteracts political and trade headwinds
 - However, we are cautious in the near term given elevated positioning risks

- Rates**
- We expect treasuries and bunds to trade close to flat this year from their current levels
 - Prefer positioning for relative value trades ahead of rate cuts and the possibility of restarting QE this fall

- FX**
- Fundamentals are mixed, as scope for dollar weakness versus current account-surplus countries is offset by dollar strength versus emerging market currencies
 - We expect the euro and yen to both appreciate over the medium term
 - Both are boosted by positive external account balances and improved flow outlooks

- Credit**
- The likely upcoming accommodative actions from central banks should be supportive for credit. EUR credit to be additionally propped up by expectations of return of CSPP

- EM**
- Extended accommodation provides supportive backdrop, but slow growth and idiosyncratic risks limit 2H performance to carry
 - EM LFI valuation is now unappealing, with residual value concentrated in select high-yielders; In credit, we switch back to marketweight from overweight

- Oil**
- On a fundamental level, there is a bit of scope for prices to rise over the near term
 - We are cautious however, as political developments are having outsized effects on markets in the current climate

Key macro and markets forecasts

	GDP growth (%)			Central Bank policy rate (%)			Key market metrics				
	2018	2019F	2020F		Current	2019F	2020F	Current	Q3-19	Q4-19	
Global	3.8	3.2	3.3	US	1.88	1.63	1.63	US 10Y yield (%)	2.07	2.05	2.15
US	2.9	2.5	1.9	Eurozone	-0.50	-0.60	-0.60	EUR 10Y yield (%)	-0.38	-0.35	-0.30
Eurozone	1.9	1.1	1.0	Japan	-0.10	-0.10	-0.10	EUR/USD	1.11	1.10	1.13
Germany	1.4	0.7	1.2	UK	0.75	0.75	1.00	USD/JPY	108	108	105
Japan	0.8	0.5	-0.1	China	1.50	1.50	1.50	S&P 500	3006	3175	3250
UK	1.4	1.2	1.3	India	5.50	5.25	5.25	Gold (USD/oz)	1423	1400	1420
China	6.6	6.2	5.9					Oil WTI (USD/bbl)	56.8	62.0	60.0
								Oil Brent (USD/bbl)	64.1	70.0	68.0

Current prices as of Jul 24, 2019

- Recent publications**
- [The House View: Global monetary medicine on the way](#) 23 July 2019
 - [The House View – Surveying slower growth](#), 20 June 2019
 - [The House View – Trade war heat is on](#), 16 May 2019
 - [The House View – Balancing out](#), 9 April 2019