



The house view: snapshot

Shipwrecked

#PositiveImpact

Macro views

World

- The global outlook is moving in a stagflationary direction.
- Inflation momentum has continued to build, leading to central bank tightening that will slow growth across the key economies.
- Russia's invasion of Ukraine has disrupted key commodity markets and supply chains.

Europe

- We expect a deep winter recession in Europe, following the indefinite closure of the Nord Stream 1 pipeline, escalation of the Ukrainian conflict and pass-through effects of tighter monetary policy.
- We downgraded our euro area GDP forecast for 2023 from -0.3% to -2.2%. Headline HICP forecasts for 2023 remain high at 6.2% and core inflation forecasts at 4%. The ECB's hiking cycle will continue, with an expected 75bp hike in October, 50bp in December, before reaching 2.5% terminal rate in March 2023.

China

- We forecast 3% GDP growth in 2022. Consumption growth will remain subdued due to more restrictive Covid-19 containment measures.
- Covid-19 remains the biggest downside risk to the near-term growth outlook. Despite rising commodity prices, subdued wage growth and domestic demand cushioned pass-through of price inflation.
- Additional policy support will be needed in H2 2022.

United States

- The fallout from Fed tightening will likely tip the economy into recession in H2 2023, with risks skewed towards an earlier and deeper recession. That will also lead to a higher unemployment rate, which peaks above 5.5% in Q4 2023.
- Upside surprises on inflation means we expect CPI to end the year at +7.2% (Q4/Q4), and core CPI at 6.2%. We then anticipate headline CPI to fall back to 3.9% and core back to 3.8% by end-2023.
- We expect the Fed to continue its aggressive hiking cycle, with a 75bp hike in November, followed by 50bp in December, hitting its peak at just under 5% in Q1 2023.

Germany

- With Germany most exposed to the gas supply constraint, we have cut our 2023 GDP forecast from -1% to a drop of 3-4%.
- German inflation in 2023 is likely to come in at the lower end of our original 8% to 12% range, with possible price caps on wholesale energy markets and temporary VAT reduction on gas purchases dampening inflation pressures.

Emerging markets

- Emerging markets face many headwinds, including aggressive tightening by DM central banks, and downside risks to China growth. However, drivers of inflation are becoming more domestic/idiosyncratic.
- China's struggle with its zero Covid strategy continues to be a significant drag on Asia's performance relative to other EMs.
- LatAm is furthest ahead in normalising policy settings, with focus shifting to the political cycle. Political risks remain key downside.
- CEEMEA is highly differentiated as a region. CE3 is most at risk from Ukraine developments; South Africa a balance between better terms of trade and a gradualist central bank; Turkey still subject to large policy unpredictability.

Key downside risks

- H** **Higher-than-expected inflation** – If expectations become unanchored and inflation does not recede as expected, this would likely necessitate even more aggressive central bank tightening and a deeper economic slowdown/recession.
- M** **Earlier than expected US recession** – We expect a US recession in H2 2023, but the risk is that comes earlier.
- M** **Escalation in Ukraine** – Downside scenarios centre on stronger aggression by Russia following Ukrainian military success, and the intensification of Russia's energy war with Europe following the close of the Nord Stream 1 pipeline.

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Market views

 Market Sentiment	<ul style="list-style-type: none"> — Difficulties ahead as US enters recession in 2023. — Equities should recover towards year-end. But the US recession in 2023 should lead to further market disruption, including wider credit spreads.
 Equities	<ul style="list-style-type: none"> — Expecting a recovery over the rest of 2022. — Our year-end 2022 target sees the S&P 500 at 4750. — At the sector level, we see the rebound led by financials, megacap growth, and technology.
 Rates	<ul style="list-style-type: none"> — Expecting 10yr UST at 3.85% by year-end. — This reflects a view that market pricing is plausibly high enough for the Fed for the first time in a while.
 Credit	<ul style="list-style-type: none"> — Spreads should widen materially in Q2 23 and hit wides as a US recession takes hold. — Our YE 2022 forecast for credit spreads sees a moderate amount of tightening from here across both IG and HY markets. — But then we see a widening in spreads as we reach 2023 and the US recession hits.
 Oil	<ul style="list-style-type: none"> — Brent prices to end 2022 at \$100/bbl. — After that, we see prices falling back to \$95/bbl in Q2 2023, and \$90/bbl in Q3/Q4 2023, before falling further to \$85/bbl in 2024. — A higher interruption to Russian supply as foreseen by the IEA would likely result in Brent prices revisiting \$120/bbl.
 Monetary Policy	<ul style="list-style-type: none"> — Fed: 75bps hike in November, followed by 50bps (Dec), and then 25bps from December, taking the terminal Fed funds up to near 5% in Q1 2023. — ECB: 75bps hike in October, and then 50 bps in December, reaching a terminal deposit rate of 2.5% in March 2023. — BoJ: No change in rates. — BoE: 75bp move in November, a 50bp move in Dec, 25bps in Feb and March, with terminal rate at 4%. — PBoC: No change in rates.

Key macro & markets forecasts

GDP growth (%)			Central bank policy rate (%)			Key market forecasts			
	2022F	2023F		Current	Q2-22	Q4-22		Current	Q4-22
Global	3.1	2.2	US: federal funds rate	3.125	4.375	4.875	US 10Y yield (%)	3.92	3.85
US	1.9	0.6	Eurozone: deposit facility rate	0.75	2.00	2.50	EUR 10Y yield (%)	2.12	2.05
Eurozone	2.9	-2.2	Japan: policy balance rate	-0.10	-0.10	-0.10	S&P 500	3655	4750
Germany	1.0	-3.5	UK: bank rate	2.25	3.25	3.75	Gold (USD/oz)	1629	1750
Japan	1.4	0.9	China: MLF 1Y interest rate	2.75	2.75	2.75	Oil WTI (USD/bbl)	76.7	96.0
UK	3.5	0.0					Oil Brent (USD/bbl)	84.1	100.0
China	3.0	5.0							

2022 Macro events calendar

October 2022			November 2022			December 2022		
20-21	EU	European Council Meeting	02	US	Federal Reserve Decision	14	US	Federal Reserve Decision
27	EZ	ECB Decision	03	UK	BoE Decision	15	UK	BoE Decision
28	JN	BoJ Decision	20-21	EU	European Council Meeting	15	EZ	ECB Decision

 Recent editions	<ul style="list-style-type: none"> — Shipwrecked 28 September 2022 — The gathering storm 22 June 2022 — Prepare for hard landing 20 April 2022 — Navigating perilous waters 11 January 2022 	
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