Deutsche Bank
Research

The House View

Snapshot

Macro views

World

- Global growth has slowed markedly this year but remains positive. We forecast 2019 growth at 3.1% followed by a slight improvement in 2020 to 3.2%.
- Coordinated central bank policy easing will help to limit the slowdown, but will not be able to avert it.
- While Brexit and the US-China trade talks have both evolved in a positive way, presenting some upside risks, the overall risks are still tilted to the downside. Either issue could become less favourable again and there are risks of a deeper slowdown in Europe and China.

United States

- Economic growth is slowing toward potential. We keep our full-year forecast at 2.2% this year, followed by further deceleration to 1.5% in 2020, around the trend rate.
- Trade tensions have been weighing on capital spending, and sentiment remains depressed with forward-looking indicators pointing toward more slowdown to come. More worryingly, there are beginning to be signs that this is spilling over to the services sector.
- Consumer fundamentals remain reasonably solid, apart from trade, but the labor market is softening. Payrolls growth, hours worked, and overtime hours all point to some deterioration.
- Inflation is sticky below the Fed's target, and expectations are down, including the Michigan expectations survey which is down to an all-time low.
- The principle risks to our view, on both the upside and downside, come from the trade war. A resolution could unlock new capital spending while further escalation could tip the economy into recession.

Eurozone

- We are becoming more negative on the euro area. We have downgraded our 2020 growth forecast to 0.8%, as the region stagnates this winter.
- There are early signs that the manufacturing decline is spreading to services, with surveys of sentiment falling and job growth slowing. Nevertheless, the labour market remains a strength for now.
- Recession risks are masked by labour market resilience and easy financial conditions. However, bank-based financial conditions have remained a drag despite the improvement in market-based conditions, presenting a conundrum for the ECB.
- Risks are elevated, as Brexit uncertainty lingers despite a possible deal and the trade war remains unresolved. There is still the threat that the US could apply tariffs to EU auto exports.

China

- Growth in China is decelerating, though there is still scope for moderate policy support. We forecast 2019 growth at 6.2%, falling to 5.9% in 2020.
- There are early signs of growth stabilization from the PMI surveys and from actual infrastructure investment, as prior easing filters through into activity.
- Inflation is elevated and set to rise, almost entirely due to pork prices. We forecast inflation at 3.5% at the end of this year, before it moderates into 2020.
- Positive progress has been made on the trade war, but there is still the risk that talks break down and the confrontation extends beyond trade into financial, technology, security, or other arenas.

Emerging Markets

- We expect emerging economies to grow 4.1% this year, down significantly from 2018, but we also anticipate a rebound in 2020 to 4.5%. Stagnating output is being kept afloat by stimulus measures.
- In LatAm and CEEMA, growth in 2019 is likely to be almost 1pp lower this year than in 2018. In both regions, however, we anticipate policy responses to result in a rebound next year.
- In Asia, slower Chinese growth and the ongoing trade war is dragging on the region, which is set to grow only 5.4% this year. We anticipate a much more modest rebound next year relative to the other regions, forecasting 2020 growth at 5.5%.
- The risks are still skewed to the downside, as US-China trade talks could still resolve negatively and there are idiosyncratic and geopolitical uncertainties in many countries and regions.

Monetary Policy

- Fed: Three more cuts (Oct, Dec, and Jan)
- ECB: delivered an easing package last month as expected, though another rate cut in Dec is possible
- BoJ: On hold, no changes in target yields on YCC, possibly well into 2020
- BoE: No hike this year, and the policy path is heavily dependent on Brexit
- PBoC: Stay conservative, with no easing in near-term
- EM: Expect cuts across a series of EM central banks

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Key downside risks	▪ Trade war – 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 – Prolonged and accelerated weakness in Chinese & European growth & associated global recession / sharp correction in financial markets ▪ Geopolitical risks– Rising tensions between US-Turkey, Iran-Saudi Arabia, or others can spark uncertainty ▪ Crash Brexit – The risks of a no-deal Brexit have receded. Both major parties now support some sort of deal, alleviating the risks possible with an early election
Key themes	▪ Monetary easing: Major central banks have begun to ease policy and we expect them to continue to do so over the next few months, supporting growth. ▪ Trade war: There has been a clear moderation in the US-China trade war, though the threat of December tariff hikes lingers and a firm deal has not been concluded. ▪ Brexit: Our base case remains a general election this year, but we have become more optimistic after the latest breakthroughs between the US and EU; there is now a roadmap toward a deal.
Market views	
Market sentiment	▪ Progress has been made on Brexit and trade, alleviating the most acute and immediate downside risks ▪ Near term, there are risks given current valuations and positioning
Equities	▪ We expect the rally to continue, as growth troughs soon and rebounds next year ▪ However, we are cautious in the near term given elevated positioning risks
Rates	▪ We expect the front-end to rally as the Fed continues to cut interest rates, while the long end should be supported by technical factors and rebounding fundamentals ▪ We prefer positioning for relative value trades within the European sovereign complex
FX	▪ We think the dollar has reached its peak and the euro has bottomed out ▪ The Fed has more room to cut rates and Europe’s external accounts are stronger ▪ We also favour the Australian dollar and Russian ruble, and are bearish on EM Asia
Credit	▪ The removal of key downside risks should be supportive for credit, but high valuations and an uncertain outlook make us cautious ▪ We expect substantive widening in 2020
EM	▪ Extended accommodation provides supportive backdrop, but slow growth and idiosyncratic risks limit scope for high performance to carry ▪ We turn less bearish on EM currencies, but are still selective within the asset class
Oil	▪ Although US supply is set to decline next year, we don’t see scope for upside to prices from here ▪ OPEC has already significantly reduced production, making it hard to envision further coordinated cuts

Key macro and markets forecasts

GDP growth (%)

	2018	2019F	2020F
Global	3.8	3.1	3.2
US	2.9	2.2	1.5
Eurozone	1.9	1.1	1.0
Germany	1.5	0.3	0.7
Japan	0.8	0.9	-0.1
UK	1.4	1.2	1.3
China	6.6	6.2	5.9

Central Bank policy rate (%)

	Current	2019F	2020F
US	1.88	1.38	1.13
Eurozone	-0.50	-0.60	-0.60
Japan	-0.10	-0.10	-0.10
UK	0.75	0.75	1.00
China	3.30	3.00	
India	5.40	4.90	4.75

Key market metrics

	Current	Q3-19	Q4-19
US 10Y yield (%)	1.73	2.05	2.15
EUR 10Y yield (%)	-0.56	-0.35	-0.30
EUR/USD	1.10	1.10	1.13
USD/JPY	108	108	105
S&P 500	2989	3175	3250
Gold (USD/oz)	1494	1488	1488
Oil WTI (USD/bbl)	56.1	62.0	60.0
Oil Brent (USD/bbl)	61.1	70.0	68.0

Current prices as of Sep 11, 2019

Recent publications

- The House View: Shelter from the storm 12 October 2019
- The House View: Cushioning downside risks 10 September 2019
- The House View: Global monetary medicine on the way 23 July 2019
- The House View: Surveying slower growth, 20 June 2019