Deutsche Bank
Research

November Economic Chart Book (Snapshot)

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November Economic Chart Book (Snapshot)

Enclosed are select charts from Torsten’s November Economic Chart Book discussing:

- The latest US economic data
- The Federal Reserve and other central bank policy options
- Trade War update
- Investment implications

Link to Torsten Slok’s full November Economic Chart Book can be found here.

Risks to the outlook

1. Trade war
2. Weak growth in Europe, China, and Japan
3. Positive effects of corporate tax cuts fading
4. US consumer getting tired
5. Treasury issuance growing
6. Inequality, populism, and markets
7. German fiscal expansion
8. Negative interest rates
9. Policy options when the next recession comes

Investment implications for rates, FX, credit, and equities

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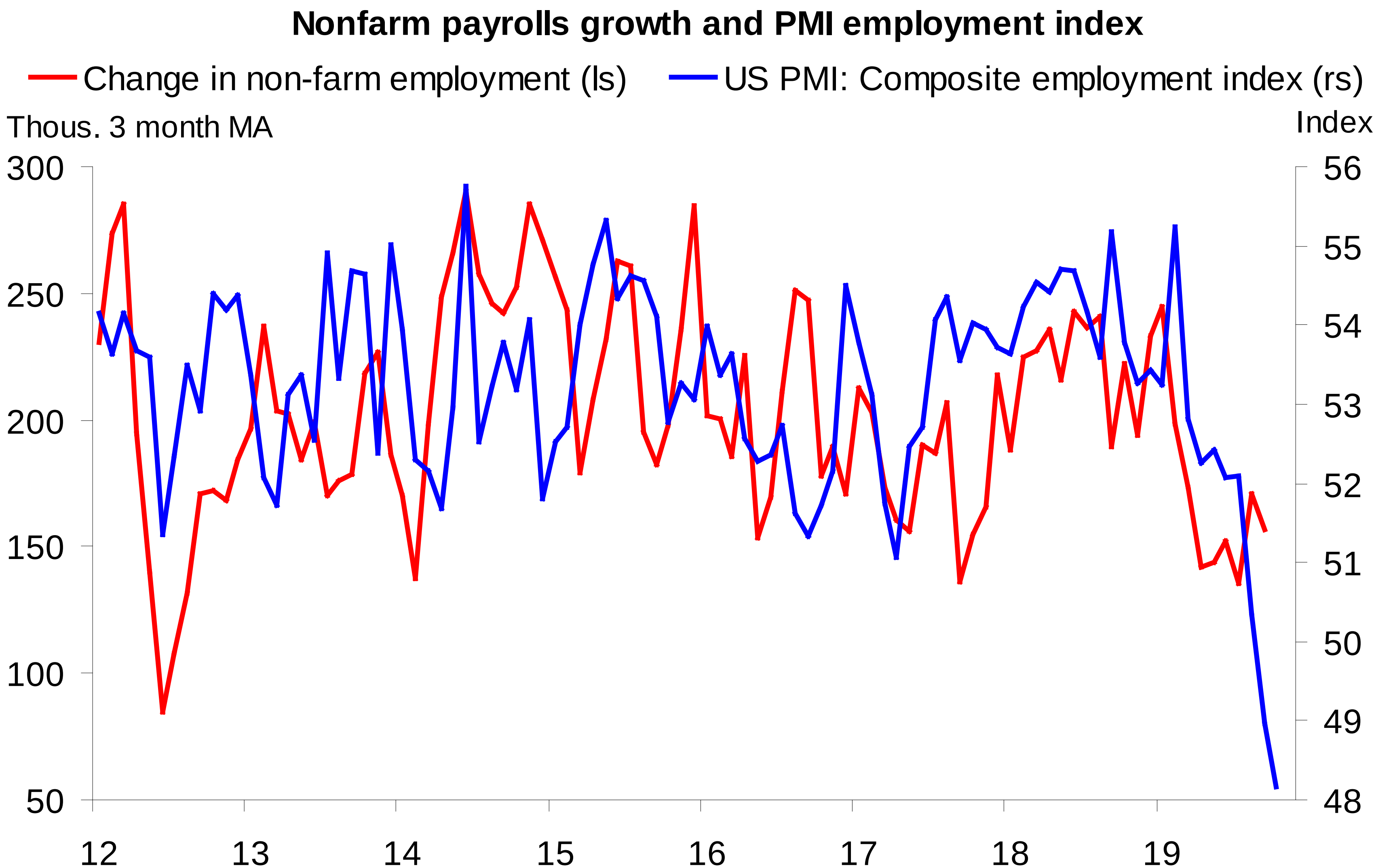
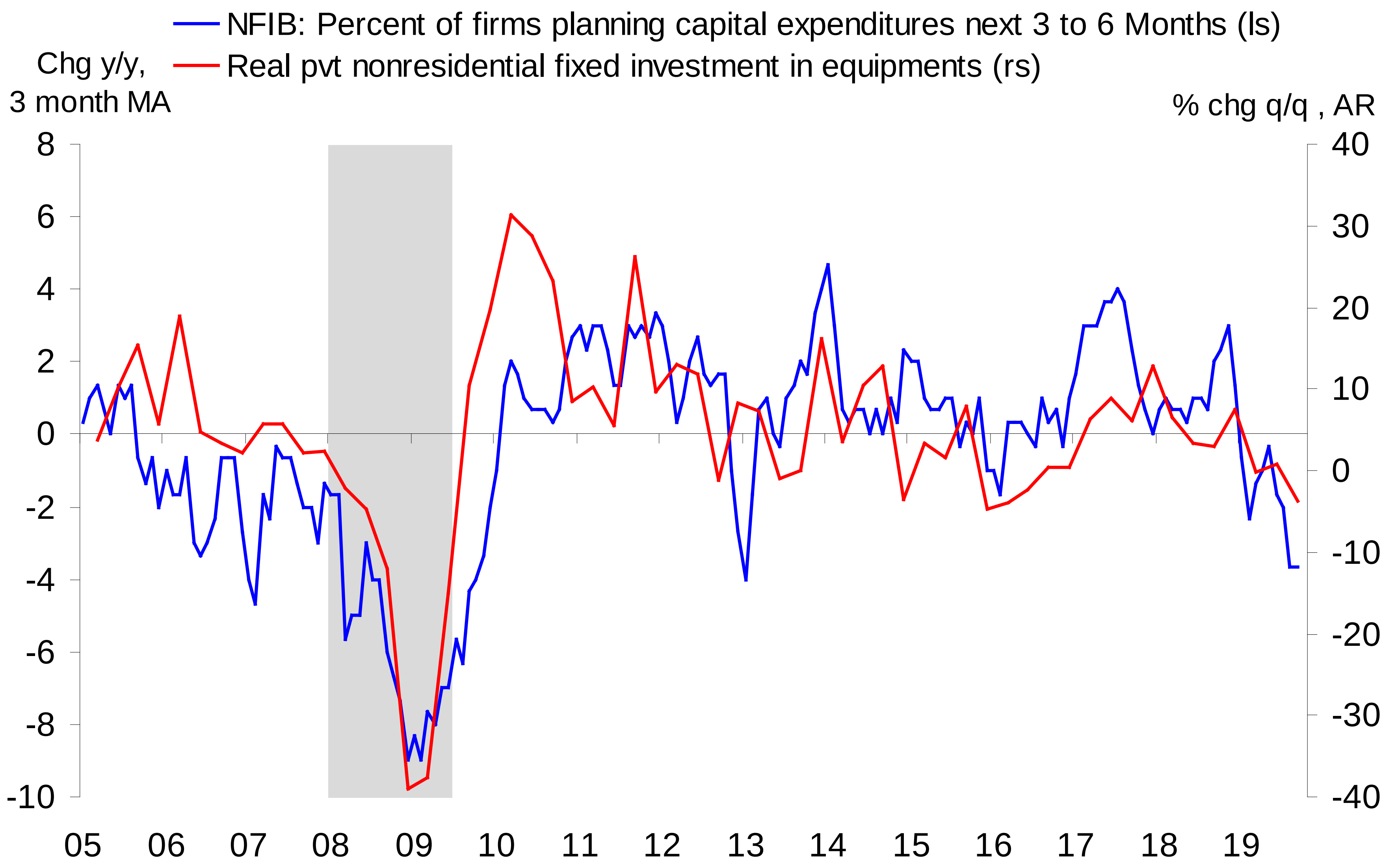
Downside risks to employment



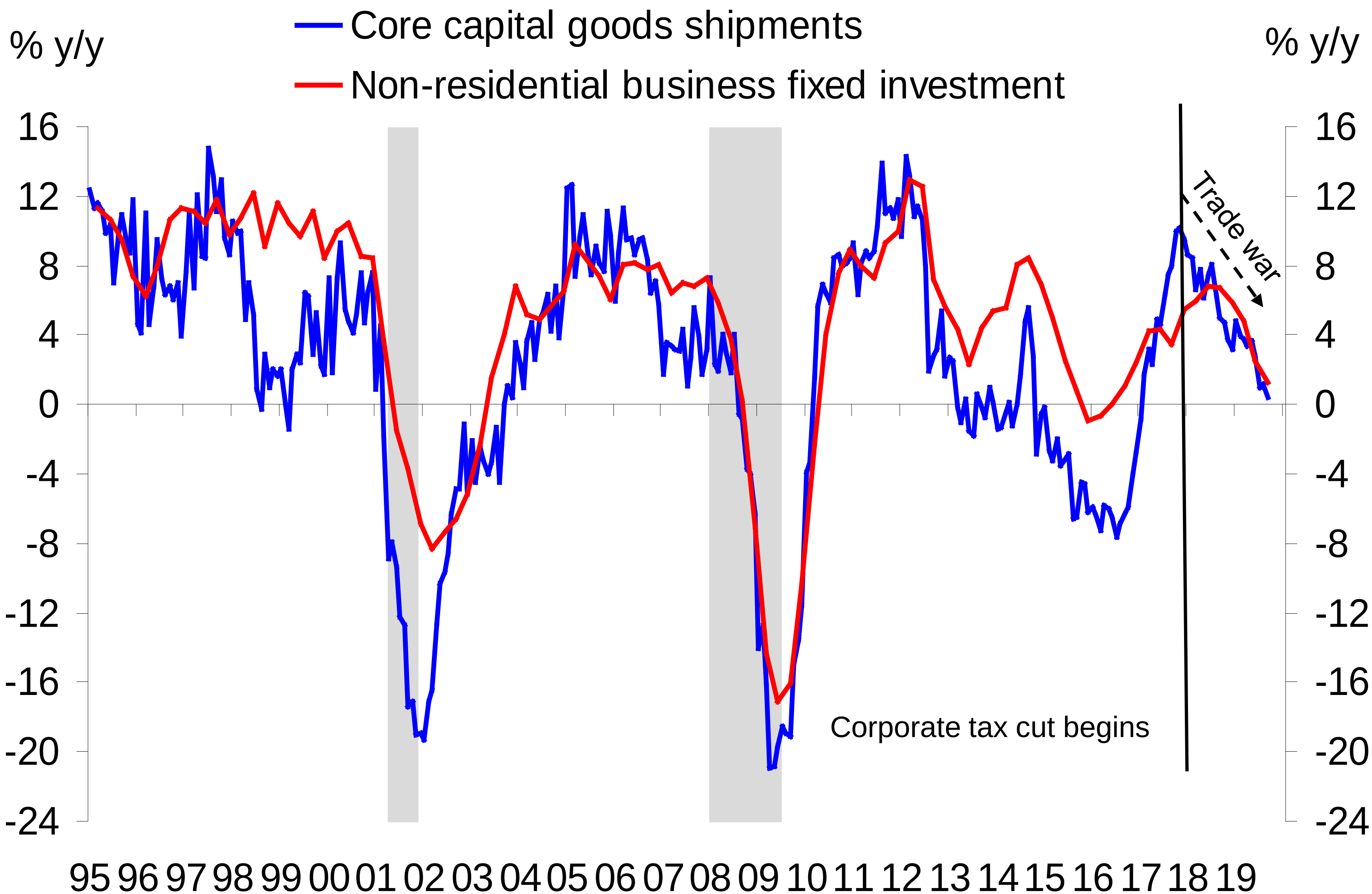
Source: BLS, IHSM, Haver Analytics, DB Global Research

Downside risks to capex



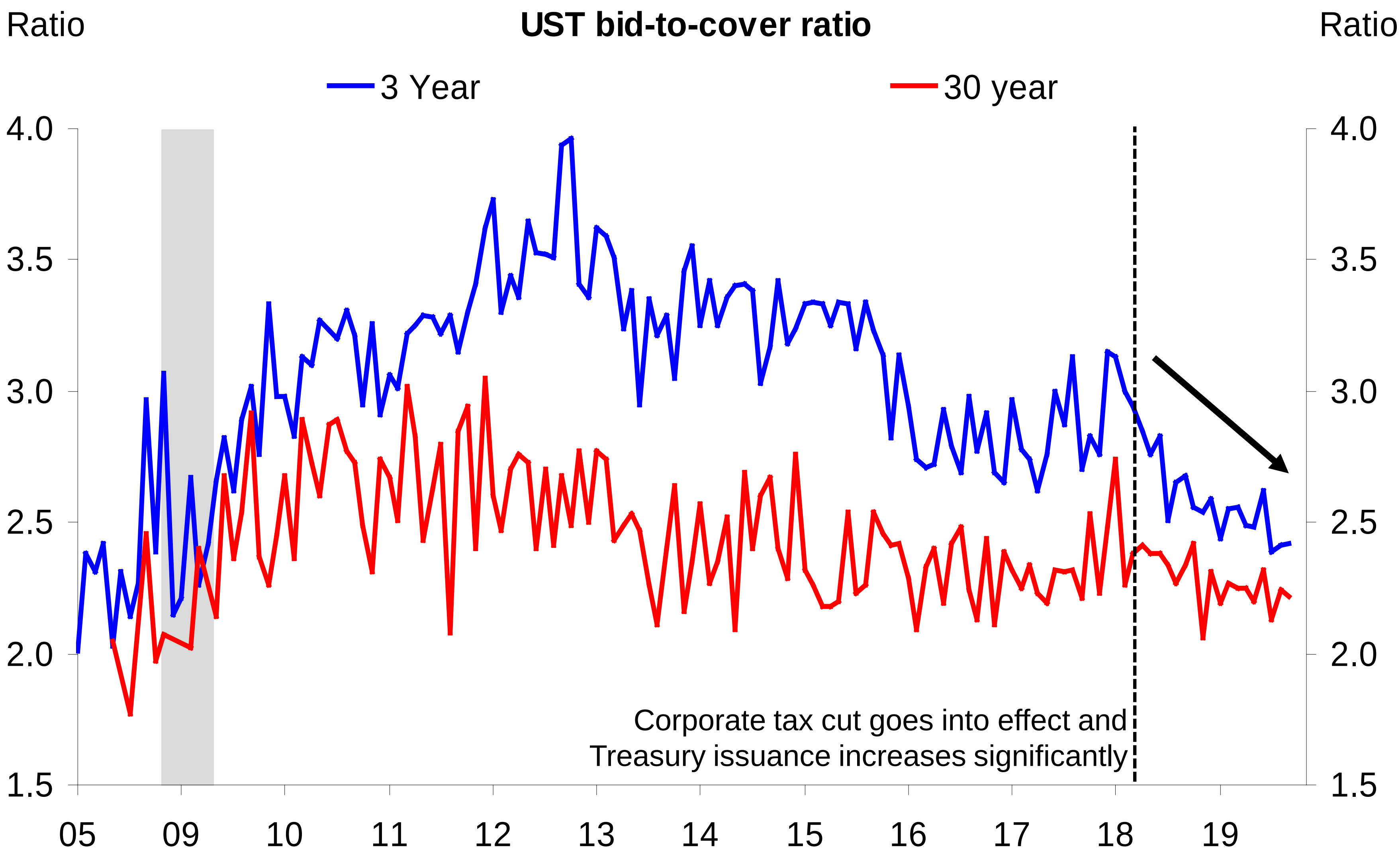
Source: NFIB, BEA, Haver Analytics, DB Global Research

Slowing capex will have negative impact on hiring



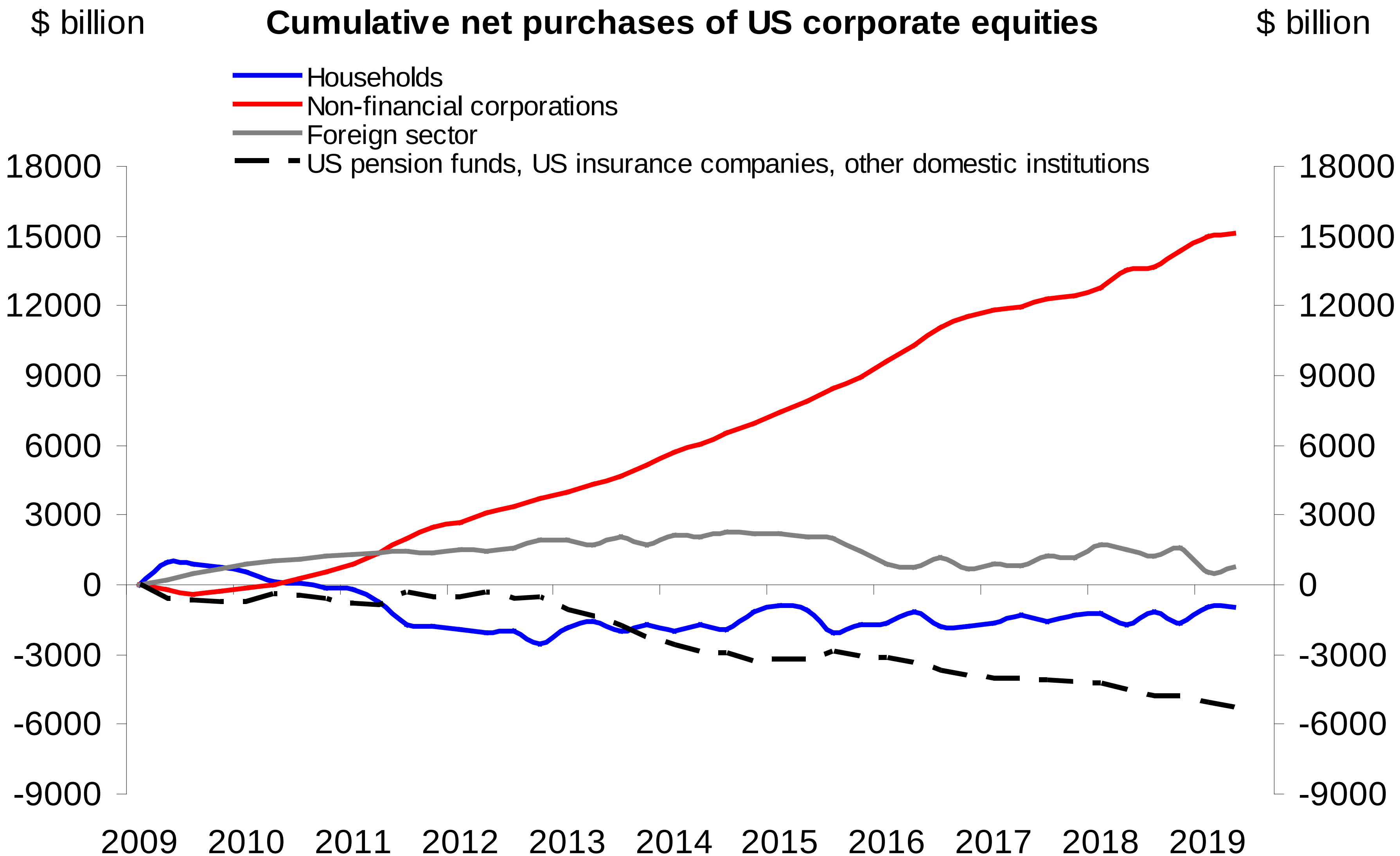
Source: Census, BEA, Haver Analytics, DB Global Research

Since the fiscal expansion began in 2018 the bid-to-cover ratio has been trending lower across the Treasury curve



Source: Bloomberg Finance LP, DB Global Research

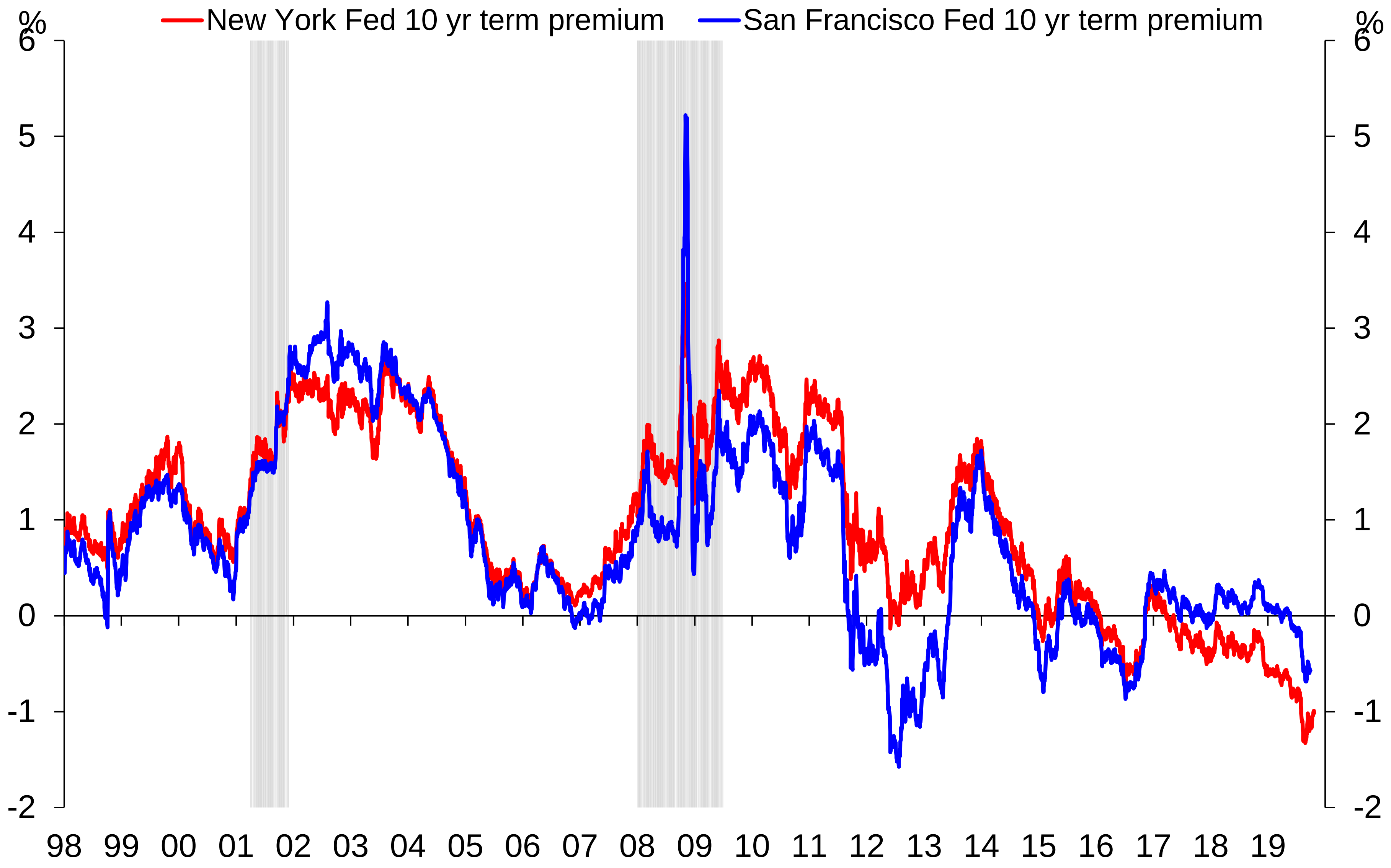
What's the source of the rally in the stock market since 2009? Buybacks



Note: Other domestic institutions includes Property-Casualty Insurance Companies, Life Insurance Companies, Private Pension Funds, Federal government retirement funds and state/local government employment defined benefit retirement funds

Source: FRB, Haver Analytics, DB Global Research

Term premium for 10-year rates very low at the moment



Source: FRBNY, FRB San Francisco, Haver Analytics, DB Global Research

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Overview: Policy options for US, Europe, and Japan when the next recession hits

United States:

Monetary policy: Rate cuts, forward guidance, average inflation targeting, QE, yield curve control, and CCyB. Negative interest rates unlikely, changing inflation target unlikely.

Fiscal policy: Automatic stabilizers, active countercyclical policies, infrastructure spending

Europe:

Monetary policy: Forward guidance, TLTRO, credit easing, depo tiering, QE, increase the 33% issuer-limit, add more asset classes to the eligible QE list.

Fiscal policy: Automatic stabilizers, German fiscal stimulus package, Italian structural reforms, complete banking union and capital markets union, more fiscal risk sharing.

Japan:

Monetary policy: Rate cuts, forward guidance, lower 10y yield target, increase ETF purchase volume, increase JGB purchase volume, purchase other assets such as mortgages or munis. Impact of these initiatives would likely be minimal. TLTRO expected to harm bank earnings.

Fiscal policy: Postpone October's consumption tax hike, increase infrastructure spending

Investment implications summarized

Fed outlook **– Fed on hold but downside risks still dominate**	US growth is slowing. Trade war, fading positive effects of tax cuts, slowing global growth, and late-cycle headwinds weighing on the US economic outlook.
Bond markets **- Downside risks to long rates**	Trade war, slowing growth, and late-cycle headwinds weighing on long rates. Fundamental forces driving long rates are 1) US inflation, 2) Treasury supply, and 3) global QE, 4) Hedging costs, and 5) Europe and China outlook.
Credit **- Credit spreads wider as slowdown continues**	Dovish central banks and negative interest rates without a US recession is bull case for US credit. Global QE and lower hedging costs means more demand for US credit from abroad. But more Treasury supply pulls dollars out of risky assets, especially IG. Sharper economic slowdown because of trade war is a risk to corporate default rates.
Stock markets **- Trade war weighing on equities**	Trade war, slowing global growth, and emerging election uncertainty are downside risks to equities
FX **- Dollar down as slowdown continues**	EURUSD 1.13 and USDJPY 105 by end-2019.
Commodities - **Moving lower**	Slowing growth and peak global growth are downside risks to commodities, in particular energy.
Emerging markets **- Imbalances in some EM countries**	Speed of US growth slowdown is risk to EM. But dovish Fed and ECB helpful for EM. Source: DB Global Research

Torsten Slok, Ph.D.

- **Chief Economist, Managing Director**
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- Torsten Slok joined Deutsche Bank Securities in the fall of 2005.
- Mr. Slok's Economics team has been top-ranked by Institutional Investor in fixed income and equities since 2010. Slok currently serves as a member of the Economic Club of New York
- Prior to joining the firm, Mr. Slok worked at the OECD in Paris in the Money and Finance Division and the Structural Policy Analysis Division. Before joining the OECD he worked for four years at the IMF in the Division responsible for writing the World Economic Outlook and the Division responsible for China, Hong Kong, and Mongolia.
- Mr. Slok studied at University of Copenhagen and Princeton University. He has published numerous journal articles and reviews on economics and policy analysis, including in Journal of International Economics, Journal of International Money and Finance, and The Econometric Journal.

Appendix 1
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