Deutsche Bank
Research

**The House View:**
A new chapter for the global economy

### MACRO VIEWS

#### WORLD
- The global economic outlook has improved significantly in recent months, and we see strong growth ahead with contained inflation pressures.
- The outlook has been boosted by the continued vaccination rollout, meaning that herd immunity is expected to arrive in the months ahead, along with major fiscal support.

#### UNITED STATES
- The US economy will expand by +6.6% in 2021, which would mark its strongest annual growth since 1984.
- The passage of fresh stimulus by the new Biden administration means we see the economy returning to its pre-Covid level in Q2, and the unemployment rate falling beneath 4.5% by year-end.
- The Fed will keep rates on hold until mid-2024.

#### EUROPE
- We see Euro Area GDP expanding by 4.6% this year, with the economy set to exceed its pre-virus level by Q4.
- A strong recovery should be imminent, helped by vaccines, pent-up demand, EU recovery fund resources and US stimulus.
- The ECB will keep rates on hold for the foreseeable future.

#### GERMANY
- For Germany, we expect GDP to expand by 3.7% this year, as substantial pent-up consumer demand will be unleashed once the lockdown ends, especially in services industries.
- Germany’s structural deficit is projected to widen to 4.9% of GDP in 2021. We assume that debt brake will remain suspended until 2022.

#### CHINA
- The Chinese economy has already returned to its pre-Covid trajectory, and is likely to overshoot it this year with GDP growth of 10%.
- We expect the Chinese authorities to gradually withdraw fiscal and monetary stimulus, with the PBoC raising its policy rate (the 1yr MLF rate) by 20bps in the second half of the year.

#### EMERGING MARKETS
- There is increasing divergence both within and across EM regions.
- In LatAm, the improvement in the growth profile will be concentrated in the second half of the year.
- In CEEMEA, Q1 will be marked as a growth lull before Q2 base effects kick in.
- Asia has seen a slow but persistent narrowing in output gaps, though the North vs South gap remains.

### KEY DOWNSIDE RISKS
- Issues with Covid mutations or the vaccination rollout – Though vaccination programmes are progressing, a new mutation in the virus or issues with the rollout could set back the point at which herd immunity is reached.
- Higher-than-expected inflation – A persistent overshoot of inflation into the 3-4% range would elicit a strong response from the Fed that would hit global financial markets and a number of emerging market economies hard, very possibly moving the global economy into recession.

25 March, 2021
MARKET VIEWS

MARKET SENTIMENT
- We see equities moving higher, as the prospects for robust earnings growth are excellent. Rates are also expected to move higher, while we see the dollar losing ground.

EQUITIES
- We now see the S&P 500 at 4100 by end-2021, and the STOXX 600 at 465.
- We are overweight the more cyclical EM, Europe and Japan vs the US on a baseline of a global cyclical rebound.

RATES
- We expect UST 10Y to end the year around 2.25% and bund yields to end the year around 0%.
- If inflation were to surprise enough to lead the market to completely price a shift back to the 1998-2014 inflation regime, UST 10Y should be around 3%.

FX
- The US external deficit will widen thanks to robust domestic demand, while the Fed will likely hold the line on rate increases.
- We see EUR/USD moving to 1.25 by mid-2021, and 1.30 by end-2021.

CREDIT
- While Western economies remain sedates, as they likely will for most of H1, it’s unlikely that there’ll be a firm winner in any debate about whether inflation will materialise, and when the first taper and the Fed hike of the cycle will arise.
- However as economies reopen more aggressively from the summer there is a chance we’ll see more belief in the overheating/inflation trade. As such, that might be when real yields and risk have a wobble.

OIL
- For crude oil, we remain constructive and expect prices to firm further, to above Brent USD70/bbl by the end of the year.
- This view assumes that OPEC+ supply discipline remains intact in the face of still depressed demand in the US (down 6% year-on-year) and Europe (down 20%).

MONETARY POLICY
- Fed: Keep rates near zero until mid-2024.
- ECB: Keep rates on hold for the foreseeable future.
- BoJ: Keep rates on hold.
- BoE: MPC to remain on the sidelines for the next two years.
- PBoC: Raise its policy rate by 20bps in the second half of the year.

KEY MACRO & MARKETS FORECASTS

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<thead>
<tr>
<th>GDP growth (%)</th>
<th>Central Bank policy rate (%)</th>
<th>Key market</th>
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<tbody>
<tr>
<td>2021F 2022F</td>
<td>Current Q2-21 Q4-21</td>
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</tr>
<tr>
<td>US 6.6 4.7</td>
<td>US: Federal Funds Rate 0.125 0.125 0.125</td>
<td>US 10Y yield (%) 1.64 1.80 2.25</td>
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<tr>
<td>Eurozone 4.6 4.8</td>
<td>Eurozone: Deposit Facility Rate -0.50 -0.50 -0.50</td>
<td>EUR 10Y yield (%) -0.34 -0.15 0.00</td>
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<tr>
<td>Germany 3.7 4.2</td>
<td>Japan: Policy Balance Rate -0.10 -0.10 -0.10</td>
<td>EUR/USD 1.19 1.25 1.30</td>
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<tr>
<td>Japan 2.7 2.3</td>
<td>UK: Bank Rate 0.10 0.10 0.10</td>
<td>USD/JPY 109 108 105</td>
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<tr>
<td>UK 5.7 4.8</td>
<td>China: MLF 1Y Interest Rate 2.95 2.95 3.15</td>
<td>S&amp;P 500 3929 4000 4100</td>
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<tr>
<td>China 10.0 5.6</td>
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<td>Gold (USD/oz) 1727 1850 1750</td>
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<td></td>
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<td>Oil WTI (USD/bbl) 57.6 57.0 62.0</td>
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<td>Oil Brent (USD/bbl) 60.6 60.0 70.0</td>
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MACRO EVENTS CALENDAR

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<tr>
<th>March</th>
<th>April</th>
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<tr>
<td>25-26 EU</td>
<td>European Council Meeting</td>
<td>04 UK Bank of England Decision</td>
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<tr>
<td>09-11</td>
<td>IMF/World Bank Spring Meetings</td>
<td>06 UK Bank of England decision</td>
</tr>
<tr>
<td>22 EZ</td>
<td>ECB Decision</td>
<td>06 UK Devolved and local elections, including to the Scottish Parliament</td>
</tr>
<tr>
<td>27 JN</td>
<td>Bank of Japan Decision</td>
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<td>28 US</td>
<td>Federal Reserve Decision</td>
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