Deutsche Bank
Research

The House View:
Vaccinating the Global Economy

MACRO VIEWS

WORLD
- The short-term growth outlook remains strong thanks to (i) successful vaccine rollouts, and (ii) huge quantities of stimulus. We expect the world economy to expand by more than 6% this year.
- The main risks to this forecast are twofold. Firstly, from a new Covid variant or issues with the vaccine rollout. Alternatively, if inflation were higher-than-expected and central banks had to tighten earlier than anticipated.

UNITED STATES
- Thanks to massive fiscal stimulus that’s projected to move GDP well above its pre-virus path, we expect annual growth of +7.0% in 2021, the strongest since 1984.
- Beyond this year, we see a significant moderation in growth as fiscal stimulus wears off.
- We anticipate an official announcement on tapering from the Fed at the December FOMC meeting.

EUROPE
- We expect Euro Area GDP to expand by 4.6% in 2021, thanks to (i) the vaccine rollout; (ii) pent-up demand; (iii) NGEU disbursements; and (iv) US export demand.
- We think the ECB will be cautious and exit its pandemic policies slowly. At the very least we expect them to implement transitional arrangements to a smooth exit from PEPP in 2022 and maintain an easy policy stance.

GERMANY
- For Germany, we have lifted our GDP forecast for 2021 to +4.0%, with the catalysts for a strong expansion falling into place.
- Opinion polls hang firmly in the balance ahead of September’s federal election, and the nominations of Annalena Baerbock and Armin Laschet as chancellor candidates have helped the Greens gain ground.

CHINA
- We expect the Chinese economy to grow by 9.5% this year, with output expected to gradually converge to its pre-Covid path in the next few quarters.
- We expect the PBoC will hold its policy rates unchanged in 2021, with the first MLF rate hike likely in 2022.

EMERGING MARKETS
- EM continues to grow at varying speeds, and at a rate still insufficient to attract strong flows.
- In Asia, differentiation and resiliency prevail amid a broadly supportive cycle.
- In LatAm, growth is still subdued but surprising positively. The dovish stance of central banks faces limits.
- In CEEMEA, H1 growth seems poised to surprise positively while central banks are largely on hold.

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. This would hit global financial markets and a number of emerging market economies hard, very possibly moving the global economy into recession.
MARKET VIEWS

MARKET SENTIMENT
- More positive on European assets relative to the US.
- We see a return of broader weakness for the US dollar, UST 10Y at 2.25% by year-end, and a 6-10% correction in the S&P 500 as the rate of growth peaks.

EQUITIES
- With signs that indicators of macro cyclical growth are peaking, we look for a significant consolidation/pullback in equity markets (S&P 500 -6% to -10%).

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, UST10Y should be around 3%.

FX
- We see the return of broader USD weakness, with European currencies the prime beneficiaries.
- We are past the peak of repricing US exceptionalism, global growth should broaden and the vaccine and growth laggards should bounce back.

CREDIT
- It’s difficult to be too bearish in 2021 given a strong economy and central banks leaning against tighter conditions. Nevertheless, the market may get increasingly nervous about tapering and given rich valuations, we maintain a widening bias.
- 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
- Anxiety in relation to extended lockdowns may persist until Q3, keeping oil prices restrained until the most quickly vaccinated countries see sustainably increased mobility.
- Healthy demand should absorb planned OPEC increases, with Brent revisiting USD 70/bbl in H2.

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: Keep policy rates unchanged in 2021, with the first MLF rate hike likely in 2022

KEY MACRO & MARKETS FORECASTS

<table>
<thead>
<tr>
<th>GDP growth (%)</th>
<th>2021F</th>
<th>2022F</th>
<th>Central Bank policy rate (%)</th>
<th>Current</th>
<th>Q2-21</th>
<th>Q4-21</th>
<th>Key market forecasts</th>
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</thead>
<tbody>
<tr>
<td>Global</td>
<td>6.3</td>
<td>7.0</td>
<td>4.7</td>
<td>US: Federal Funds Rate</td>
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<td>US</td>
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<td>Eurozone: Deposit Facility Rate</td>
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<td>Eurozone</td>
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<td>Japan: Policy Balance Rate</td>
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<td>Germany</td>
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<td>2.6</td>
<td>UK: Bank Rate</td>
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<tr>
<td>Japan</td>
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<td>5.5</td>
<td>China: MLF 1Y Interest Rate</td>
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<td>UK</td>
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<td>GDP (USD/oz)</td>
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<tr>
<td>China</td>
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<td>Oil WTI (USD/bbl)</td>
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2021 MACRO EVENTS CALENDAR

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<tr>
<th>June</th>
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<th>August</th>
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<tbody>
<tr>
<td>06 GE</td>
<td>16 JN</td>
<td>05 UK</td>
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<tr>
<td>10 EZ</td>
<td>22 EZ</td>
<td>BoE Decision</td>
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<tr>
<td>11-13 G7</td>
<td>28 US</td>
<td>ECB Decision</td>
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<tr>
<td>16 US</td>
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<td>Federal Reserve Decision</td>
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<tr>
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<td>24-25 EU</td>
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RECENT EDITIONS
- Vaccinating the global economy 24 May 2021
- A new chapter for the global economy 24 March 2021
- Hope on the Horizon 25 November 2020
- Navigating the New Normal 23 September 2020