



Macro views



World

- In the context of ongoing trade tensions, the global growth outlook has deteriorated over the last month with softening in macro data across the US, Europe, China and the rest of EM. Albeit, central banks have been quick to react to ensure that the inevitable growth slowdown is kept in check.
- The Fed is likely to lead the way in terms of central bank easing, and we now expect three rate cuts this year, starting at the July meeting. The ECB will then probably cut rates deeper into negative territory, and there is also scope for resuming asset purchases and extending forward guidance. Such accommodation will likely pressure other major central banks to respond with policy easing as well.
- Against this backdrop of slower, but still positive, growth and coordinated central bank policy easing, investors will be forced to add risk. Nevertheless, risks remain ever-present. The growth slowdown could prove too much for central banks to deal with, Brexit issues will come back to the surface after a new Prime Minister is chosen next month, and trade tensions could resurface on very short notice.



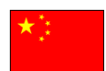
United States

- The US outlook has softened and inflationary pressures have moderated, but growth should continue at a near-trend pace. Overall, the growth outlook is softer but a recession is not imminent.
- Last month's jobs report was weaker than expected, but the labour market is strong overall. CPI has moderated pointing to weakness in PCE inflation, lower export orders points to further ISM downside.
- We have revised down our full year 2019 growth forecast by -0.2pp to 2.4%, equivalent to a -0.4pp cut to 1.9% on a Q4/Q4 basis. We now expect core PCE inflation to end this year and next at 1.8% and 1.9%, respectively - that's below the Fed's target and should prompt easing.
- The notable downside risks includes – (i) escalation of trade war; (ii) sharp tightening in financial conditions and (iii) slowing China/Euro area growth dragging US growth lower too.



Eurozone

- Euro area Q2 hard data so far has been disappointing, signaling downside risk to our +0.2% qoq GDP view - Retail sales declined in April (-0.4% vs 0% prev.); IP dropped 0.5% mom in April, with German IP ex construction down 2.3% mom in April.
- May composite PMI inched 0.3pt higher to 51.8, driven by services (52.9 vs 52.5 consensus) while manufacturing PMI dragged lower to 47.7 (47.9 in April), with Germany at 44.3.
- Our *SIREN Momentum* series for Q2 is also now visibly weaker than at this time in Q1 and Q4.
- We revise our euro area 2020 GDP growth forecast to 1% (1.2% prev.); 2019 forecast unchanged at 1.1% - reflecting domestic weakness and spill over from downward revisions in our US growth forecast.



China

- China activity weakened in May with most indicators falling below expectations - Manufacturing PMI fell to 49.4 in May (50.1 in April) with new export orders taking a hard hit; Industrial production fell unexpectedly to 5% yoy from 5.6% in April while auto activity weakened further.
- Investment slowed with headline FAI dropping to 5.6% yoy compared to 6.1% a month ago, property sales slipped slightly but land auctions were strong and will boost govt. revenues, retail sales rebounded, but trend remains negative.
- Overall, we think growth will continue to slow with downward pressure in H2 from escalated trade war (high chance of no deal this year). Thus, we revise down China's GDP forecasts to 6.2% in 2019 (from 6.3%), and 5.8% in 2020 (from 6.0%).



Emerging Markets

- EM growth remains very much a by-product of the growth cycles of developed market economies, with very limited intrinsic pull forces.
- EM is ill-placed to absorb trade shocks - As the global economy faces the risk of trade tensions, it is likely that EM growth prospects will continue to deteriorate.
- In Asia, rekindled trade tensions clouds the outlook risking breakdown of global supply chains.
- In EM Europe & Africa, recent growth data exhibits intra-regional differences; upward revisions in Czech Republic and Poland; expect mild recession in Turkey, downside surprises in Russia and South Africa.
- In LatAm, activity data continues to disappoint- lower our growth expectations for Brazil.

Monetary Policy

- **Fed:** Three cuts in 2019 (July, September, December)
- **ECB:** 10bps deposit rate cut in September; deposit tiering and return of QE are both possible
- **BoJ:** On hold, no changes in target yields on YCC, possibly well into 2020
- **BoE:** No hike this year, one hike in Aug 2020
- **PBoC:** Two cuts in lending rate (25bps each) in Q3 and Q4 and two RRR cuts this year (150bps total)

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21-June-2019

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- Key downside risks**
- **Recession (Medium)** – Prolonged weakness in Chinese and European growth & associated global recession / sharp correction in financial markets
 - **Trade war (Medium)** – Trade war turning into full blown economic crisis, further escalation of US-China trade war beyond tariffs, and an extension of tariffs to Europe (auto tariff) would hit global growth hard
 - **Crash Brexit (Low)** – Although not our base case, a no-deal Brexit is still possible. Delay/failure in ratifying WA, or a general election this year would also heighten economic uncertainty and weigh on UK, EU growth

- Key themes**
- **Global growth slowdown:** Global outlook has deteriorated over the last month with softening in the US, weak Q2 data in Europe, China, and the rest of EM. Expect central banks to respond quickly to sustain growth and limit slowdown
 - **Trade war:** Over the last month, the trade wars have de-escalated on multiple fronts -Presidents Trump and Xi are set to meet later this month at G-20, Planned tariffs on Mexico called off; Escalation still possible as talks could derail. We see a high chance of no US-China trade deal this year
 - **Brexit:** Focus has shifted to finalising the UK's next Prime Minister (likely by 22ndJuly); The candidate with the most hardline view on Brexit will likely prevail; Boris Johnson is widely perceived to be the front runner; It may not be until after the 2- October that any material negotiations with EU27 begin; early election remains our base case with 50% indicative probability; 'no-deal' Brexit still possible (25%)

Market views

- Market sentiment**
- The macro outlook has softened, with growth slowing in the US, Europe, and China
 - However, Central banks are set to ease policy in response, which should prove supportive for risk assets

- Equities**
- Near-term risks but still bullish US equities. With growth said to continue at a healthy pace, equities should continue to perform well
 - Some near-term risks amid long positioning and the buyback blackout period

- Rates**
- We favour relative value trades. In the US, we expect the front-end curve to steepen as the Fed eases rates
 - In Europe, we favour peripheral bonds, which we expect to outperform versus bunds

- FX**
- We are neutral on dollar; weakness v. CA surplus countries offset by strength v. Ems
 - ECB easing is unlikely to spark deeper euro weakness
 - Flow backdrop is supportive of the euro, as European investors slow or stop their purchases of foreign assets
 - The balance of risks for the yen are skewed toward strength versus the dollar, as rates have further space to fall in the US than in Japan

- Credit**
- We turn more constructive on credit and expect EUR credit to be additionally propped up by expectations of a return of CSPP

- EM**
- Lower core rates remove EM FI overvaluation; EM FX remains hostage to growth
 - Market weight EM credit following renewed engagement in trade talks and accommodative CBs

- Oil**
- We expect Brent to end the year near current levels
 - US demand set to rebound, but risks of geopolitical conflict present uncertainty

Key macro and markets forecasts

	GDP growth (%)			Central Bank policy rate (%)			Key market metrics				
	2018	2019F	2020F		Current	Q2-19F	Q4-19F		Current	Q2-19F	Q4-19F
Global	3.8	3.2	3.3	US	2.375	2.375	1.625	US 10Y yield (%)	2.04	2.00	2.15
US	2.9	2.4	1.8	Eurozone	0.00	0.00	0.00	EUR 10Y yield (%)	-0.29	-0.12	0.00
Eurozone	1.9	1.1	1.0	Japan	-0.10	-0.10	-0.10	EUR/USD	1.13	1.16	1.13
Germany	1.4	0.7	1.2	UK	0.75	0.75	0.75	USD/JPY	108	110	105
Japan	0.8	0.5	-0.1	China	1.50	1.50	1.50	S&P 500	2954	3075	3250
UK	1.4	1.5	1.3					Gold (USD/oz)	1398	1300	1350
China	6.6	6.2	5.8					Oil WTI (USD/bbl)	57.2	58.0	60.0
								Oil Brent (USD/bbl)	64.9	66.0	68.0

Current prices as of Jun 21, 2019

- Recent publications**
- [The House View – Surveying slower growth](#), 20 June 2019
 - [The House View – Trade war heat is on](#), 16 May 2019
 - [The House View – Balancing out](#), 9 April 2019
 - [The House View – Spring in sight?](#), 12 March 2019