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Q&A with Gael de-Bray

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'Q&A with' speaks with Gael de-Bray, European Head of Capital Goods Research on what's next for his sector.

Q: Gael, how is the war in Ukraine likely to impact the European capital goods sector?

A: Most companies have already suspended their operations in the region (c.2% of sector sales). The direct impact is manageable but further stress on supply chains and surging energy prices, resulting in higher-than-expected inflation and a tightening of financial conditions in the European economy are the main risks. Greater uncertainty could also delay investments and energy shortages might disrupt some manufacturing activity.

Q: Is your message simply to avoid the sector?

A: While the Ukraine shock could trigger a recession in Europe, it could also lead to a new electrification capex upcycle. The world was energy short last year and the war in Ukraine has made matters worse. Surging gas and electricity prices will likely act as a wake-up call for the EU to reduce dependence on Russian oil & gas flows and make the energy transition a reality. Investments in green energy sources and electrification will likely accelerate, combined with reshoring efforts to de-risk and secure supply chains.

Q: So, who could benefit from clean energy?

A: Electrical equipment providers. One key driver of capital goods demand is the push for net-zero emissions to cap the rise in the planet's temperature at below 1.5C, while keeping energy prices under control. This is based on three pillars: 1/ Electrify, 2/ Replace fossil fuels; 3/ Reduce energy consumption. Electricity will outgrow overall energy consumption by 2-3 times due to new devices such as heat pumps, electric vehicles or rooftop solar panels. Demand for efficiency solutions will also rise significantly - following price hikes in Europe, payback times have fallen from 3 years to less than 1.5 years. The cheapest, cleanest and most secure energy is the energy that is not consumed at all.



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Deutsche Bank Research clients can access the full report here:

- [Energy transition: An electrification and energy efficiency super-cycle?](#)



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