Deutsche Bank
Research

The House View: Snapshot
The Clock is Ticking

#PositiveImpact

Macro views

World

— We expect a fall in global growth from 3% in 2023 to 2.6% in 2024, with growth elsewhere sufficient to partially offset a G7 where no country will exceed annual growth of 0.8% in 2024.

— Inflation seems to have peaked, but risks are to the upside as inflation remains persistent. Stagnation is expected in G7 as US recession hits in Q4 2023, and euro area soft patch continues. China's rebound has disappointed, but we anticipate recovery in H2.

— Geopolitical risks remain elevated in Ukraine, and US-China strategic competition continues to intensify.

Europe

— The euro area has likely avoided a recession this winter, but growth will be stagnant. In H2, Europe will narrowly avoid stagnating further.

— Inflation is expected to fall below 2% in 2024 due to retreat in energy and core goods prices. However, underlying inflation remains elevated, and a tight labour market adds to medium-term core inflation persistence.

China

— China's rebound has stagnated. Confidence needs a booster shot as growth missed expectations in Q2, pulled down by manufacturing and property sectors.

— We expect recovery back on track in H2 as labour market conditions improve and the government increases policy. We expect 6% growth in 2023 and 6.1% in 2024.

United States

— We expect a moderate recession in the beginning in Q4 2023 with real GDP falling 1.25 percentage points over three quarters.

— Inflation is now off its peak, but core inflation continues to remain firm on broad based price gains. There is further slowing expected in the coming months but inflation seems to be sticky.

— The labour market is still tight with momentum, but some mixed signals are now emerging as layoffs rise, the workweek declines and quits pre-Covid levels.

Germany

— After a technical recession in winter, we expect little economic momentum in the coming quarters. We lowered our GDP forecast for 2023 to -0.3%, and cut our 2024 forecast from 1.0% to 0.5%.

— We still expect some catching up in private consumption as headline inflation comes down and wage increases feed through.

Emerging markets

— EM seems to be nearing a peak in rates cycles, although central banks remain cautious of pivoting too early. Inflation momentum is slowing but remains sticky.

— Asia – Growth/inflation mix is broadly moving in the right direction, though the lack of follow through on China re-opening is a challenge to demand elsewhere in the region.

— LatAm – Central banks are focused on inflation risks while looking through financial gyrations and concerns around softening economic activity.

— CEEMA – More idiosyncratic stories in the region, with CEE focused on growth slowdown, while currency under more pressure following Türkiye elections.

Key downside risks

H — Default rates to rise in US and Europe – In 2024, we expect the combination of declining growth and above target inflation to be reflected in higher defaults.

M — Stagflation – Inflation remains above target with high probability of recession in major economies increasing stagflation risks.

M — Elevated geopolitical risks – The Ukraine-Russia conflict will continue in H2 2023 but will likely stabilise around winter. US-China strategic competition to intensify, with further risk of Chinese retaliation against new US controls.

Key Theme: AI

AI has arrived, and may be a new source of growth amid a poor cyclical outlook, low productivity and declining demographics. This is unlikely to help us this cycle, but will likely materialise from 2023/24 onwards. Explore our dedicated microsite here.

marion.laboure@db.com
thehouseview@list.db.com
cassidy.ainsworth-grace@db.com
http://houseview.research.db.com
jim.reid@db.com

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Market views

Market Sentiment	— Risk assets will struggle in Q4 2023 given a US recession.
Equities	— The squeeze on systematic strategy positioning has now played out and we look back at the fundamentals of earnings. — We see the S&P increasing to 4500 at year-end, and STOXX 600 at 480.
Rates	— The higher for longer stagflationary world means we struggle to forecast much lower yields even as recession arrives. — 10yr UST at 3.35% by year-end 2023, and 10yr bund at 2.60%.
FX	— We remain neutral on the dollar, with medium-term weakness dependent on a dovish Fed pivot and its drivers. At this point, weakness will return and ultimately EUR/USD will trade at 1.25 by year-end 2024. — We see EUR/USD to rise to 1.15 by year-end in 2023.
Credit	— Spreads should widen materially by year-end as recession takes hold in Q4 2023. — For year-end, we see $IG to widen to 235bps, $HY 860bps, €IG to 245bps and €HY to 860bps. — We maintain our overweight on €IG vs $IG due to cheaper relative valuations and continued preference for European banks.
Oil	— Persistence in OECD cuts during H2 of more than 2 mmb/d to see WTI at USD 80/bbl by year-end. — In Brent crude, we see Brent at USD 85/bbl as balances improve in H2.
Monetary Policy	— Fed: 25bp hike in July. Terminal rate at 5.4%. — ECB: 25bp in June and July, reaching a terminal rate of 3.75%. — BoJ: no change in rates. — BoE: We see peak bank rate at 5.25%, with three quarter point hikes over the coming meetings. — PBoC: No change in rates.

Key macro & markets forecasts

GDP growth (%)	2023F	2024F
Global	3.0	2.6
US	1.4	-0.4
Eurozone	0.5	0.5
Germany	-0.3	0.5
Japan	1.1	0.8
UK	0.3	0.4
China	6.0	6.1

Central bank policy rate (%)	Current	Q3-23	Q4-23
US: federal funds rate	5.125	5.375	5.375
Eurozone: deposit facility rate	3.25	3.75	3.75
Japan: policy balance rate	-0.10	-0.10	-0.10
UK: bank rate	4.50	5.25	5.25
China: MLF 1Y interest rate	2.75	2.75	2.75

Key market forecasts	Current	Q4-23
US 10Y yield (%)	3.37	3.35
EUR 10Y yield (%)	2.38	2.60
S&P 500	4339	4500
Gold (USD/oz)	1958	2150
Oil WTI (USD/bbl)	67	80
Oil Brent (USD/bbl)	72	85

2023 Macro events calendar

July 2023		
01	EU	Spain assumes European Council Presidency
11-12		NATO Leaders Summit
26	US	Federal Reserve Decision
27	EZ	ECB Decision
28	JN	BoJ Decision

August 2023		
03	UK	BoE Decision

September 2023		
09-10	G20	G20 Summit in India
14	EZ	ECB Decision
20	US	Federal Reserve Decision
21	UK	BoE Decision
22	JN	BoJ Decision

Recent editions

- The Clock is Ticking 14 June 2023
- The Taps Still Tightening 9 February 2023
- The Looming Recession 6 December 2022
- Shipwrecked 28 September 2022

Analyst Certification

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