Deutsche Bank
Research

The house view: snapshot

A cloudy mountain top

#PositiveImpact

Macro views

World

— We expect a fall in global growth from 3.0% in 2023 to 2.7% in 2024.

— Stagnation is expected in G7 as US recession hits in Q1 2024, and euro area soft patch continues. China's rebound disappointed, but a recovery is expected in Q4.

— Inflation seems to have peaked, but risks are to the upside as inflation remains persistent.

— Geopolitical risks remain elevated in Ukraine and the Middle East. US-China competition continues to intensify.

Europe

— The euro area is expected to contract slightly in Q3 2023, with a mild technical recession in H2 2023 possible.

— Overall, we expect recovery to be delayed until mid-2024 when Europe benefits from the US rebound and an ECB easing cycle.

— Inflation remains high but is starting to decline quickly as the base effects from last year's energy increases drop out. Administered prices and lagged increase in wages points to a slow return to the 2% inflation target.

China

— China has now passed the worst as activity and prices showed signs of bottoming in August.

— Supporting this recovery, the policy stance turned sharply in late July, with support from fiscal and monetary easy, as well as a fresh round of property policy loosening.

— The job market has yet to improve, and a meaningful rebound in the property sector remains uncertain. If the property sector enters a prolonged downturn, this could shrink household wealth, and cause negative spillovers to a broad range of sectors.

United States

— Our baseline is a mild recession beginning in Q1 2024. We continue to see the economy as slowing into intensifying headwinds, even if soft landing prospects have improved.

— Inflation has softened materially but further progress could prove more difficult as certain price categories (e.g., health care and autos) show a resurgence.

— Labour market coming into better balance on moderating demand and inflation has shown broad-based deceleration. If it were to stabilise here, a soft landing is likely, but we expect further weakening in the months ahead.

Germany

— After a technical recession in winter 2022/23, the H1 recovery disappointed, as consumers become increasingly cautious. We lower our forecast for GDP growth to -0.5% in 2023.

— Headline inflation is set to fall considerably toward the end of 2023 and into 2024. By contrast, core inflation is likely to remain relatively sticky. Medium-term inflation expectations are still elevated and have ticked up again lately, although selling price expectations have fallen below their long-term average.

Emerging markets

— EM central banks are faced with multiple headwinds - higher term premia in DM market rates, a stronger dollar, higher energy/food prices and worsening geopolitics. They are increasingly split on prioritising growth vs. FX and are dovish relative to DMs.

— Asia – The potential delay in Fed pivoting to rate cuts will likely delay policy easing in the region, as the normalisation to energy/food prices has been interrupted.

— LatAm – Central banks remain focused on inflation risks while looking through financial gyrations and concerns around softening economic activity, but the intra-regional divergence is increasing.

— CEEMA – Part of the region has pivoted to rate cuts, but higher energy prices and worsening geopolitics complicate outlook. More idiosyncrasies than elsewhere.

Key downside risks

M Renewed inflationary pressures – Inflation remains firmly above target in both the US and Europe, and upside risks remain due to strong oil prices and an impending El Niño event.

M Stagnation – Growth is stagnating in G10 economies, with a mild recession forecasted for the US economy in Q1 2024.

M Elevated geopolitical risks – The Ukraine-Russia conflict will continue in Q4 2023. US-China strategic competition to intensify, with risk of further tit for tat restrictions on critical technologies. There remains risk of escalation of conflict in Israel, with the potential for an extended conflict.

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Market views

Market Sentiment

— The US economy has demonstrated undeniable resilience in the last nine months.
— However, as the lagged effects of monetary policy are increasingly felt, we expect the US economy will be pushed into a mild recession starting in Q1 2024.
— Risk assets will struggle in Q1 2024 given this US recession.

Equities

— The current pullback is likely to extend as a variety of catalysts have converged and are unlikely to dissipate soon: worries around the lagged impacts of Fed tightening, impact of oil prices on inflation as well as consumer spending, high profile labour strikes and potential government shutdown.
— Our house view remains that of a quick selloff and rebound, leaving the S&P 500 close to current levels, with year-end target of 4500.

Rates

— We see 10yr Treasury yields at 4.40% by end-2023, and to decline to 4.05% by the end of 2024. We continue to forecast a significantly steeper curve, with 2s10s ending this year close to zero.
— In Europe, we expect 10yr bund yields at 2.85% by year-end and 2.60% by end-2024.

FX

— We have marked down our year-end EUR/USD forecast to 1.07, in line with current levels.
— EUR/USD has seen one of the narrowest ranges on record so far this year, and we don't see a big upcoming driver for this to change.
— We remain negative on the pound. The BoE's hiking cycle appears to be at an end. We have lowered our year-end forecast for GBP/USD from 1.28 to 1.22.

Credit

— Real rates are rising into a late cycle slowdown. This is a unique paradigm for credit investors and argues strongly for wider credit spreads ahead.
— However, growth is slowing at a more modest pace than we anticipated, while credit technicals remain robust in IG credit. Hence, we forecast a slower pace of spread widening into Q1'24.

Oil

— Our base case is that Brent prices average USD 92/bbl in Q4 (up from USD 85/bbl previously).
— However, a median Brent quarterly range of 22% relative to midpoint is wide enough to encompass the possibility of Brent reaching USD 100/bbl.

Monetary Policy

— Fed: No further hikes from here, with terminal at 5.375%.
— ECB: No further hikes from here, reaching a terminal rate of 4.00%.
— BoJ: The BoJ to YCC at its October MPM, and then eliminate negative interest rates at its January MPM.
— BoE: No further hikes from here, with terminal rate at 5.25%.
— PBoC: Further easing, cutting the MLF rate by another 15bps in Q4.

Key macro & markets forecasts

GDP growth (%)	2023F	2024F
Global	3.0	2.7
US	2.3	0.6
Eurozone	0.4	0.5
Germany	-0.5	0.3
Japan	2.2	0.7
UK	0.3	0.4
China	5.1	4.7

Central bank policy rate (%)	Current	Q4-23	Q4-24
US: federal funds rate	5.375	5.375	3.625
Eurozone: deposit facility rate	4.00	4.00	3.50
Japan: policy balance rate	-0.10	-0.10	0.10
UK: bank rate	5.25	5.25	4.50
China: MLF 1Y interest rate	2.50	2.35	2.35

Key market forecasts	Current	Q4-23
US 10Y yield (%)	4.64	4.40
EUR 10Y yield (%)	2.77	2.85
S&P 500	4336	4500
Gold (USD/oz)	1861	1850
Oil WTI (USD/bbl)	86	89
Oil Brent (USD/bbl)	88	92
USD IG	125	145
EUR IG	165	175

2023 Macro events calendar

October 2023

13-15		IMF/WB Annual Meetings
26	EZ	ECB Decision
26-27	EU	European Council Meeting
31	JN	ECB Decision

November 2023

01	US	Federal Reserve Decision
02	UK	BoE Decision
07	US	State Legislative Elections
30	UN	COP28 in UAE (until 12/12)

December 2023

13	US	Federal Reserve Decision
14	EZ	ECB Decision
14	UK	BoE Decision
14-15	EU	European Council Decision
19	JN	BoJ Decision

Recent editions

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— The Clock is Ticking 14 June 2023
— The Taps Still Tightening 9 February 2023

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