



## MACRO VIEWS



World

- The global economy is in a severe recession. We now see global GDP remaining below its pre-virus levels through most of next year.
- Although the shock will fall well short of the Great Depression, it will still result in immense rises in unemployment, putting pressure on national treasuries for some time to come.
- Significant risks around this forecast remain both to the downside (a second wave would put further downward pressure on activity) and upside (a vaccine is developed and social distancing subsidies).



US

- The US will experience a record contraction in Q2, and rebound only slowly beyond that. We forecast GDP will shrink by 7.1% this year, followed by growth of just 2.6% in 2021.
- However, broad-based rising case growth in recent weeks raises the risk that the current re-openings could be rolled back, as has happened in Texas.
- We expect the Fed to transition to a more outcome-based version of forward guidance and reinforce this language with the adoption of front-end yield curve control.



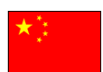
Europe

- Eurozone GDP will fall by 12.0% in 2020, before growing by 5.0% in 2021.
- The shock is asymmetric: Germany (-9.0%) shows the smallest deterioration while France (-14.0%) and Italy (-14.0%) perform worse.
- Risks remain that partial unemployment turns permanent, increasing the amount of long-term scarring for the economy.
- We think the ECB could look at an adjustment of tiering as well as future TLTROs by year-end.



Germany

- For Germany, we see a -9.0% contraction in 2020, followed by growth of 4.0% in 2021. However, upside risks to our forecast for this year have somewhat increased.
- We have increased our 2020 fiscal deficit projection moderately to 9.5% of GDP.
- On July 1, Germany will take over the rotating EU presidency.



China

- We have upgraded our 2020 growth forecast for China to 1.1%, and see 8.4% growth in 2021.
- Given the robust economic recovery and stronger-than-expected exports, we have lowered our expectations for further stimulus. Unless the economic outlook changes, we do not expect the PBoC to cut policy rates further.



Emerging Markets

- The major emerging markets will contract this year, including Russia (-5.7%) India (-5.8%) and Brazil (-6.6%).
- LatAm has been the heaviest hit region and the most vulnerable, especially Brazil and Mexico.
- In CEEMEA, South Africa's budget, GCC gaps and Turkey's reserves are most concerning.
- However, Asia has been ahead of the curve in terms of an economic rebound.
- In emerging markets, Covid-19 risks are not easing as in developed markets. In fact, the epidemic is becoming EM-centred.

Key  
downside  
risks

- H A second wave of Covid-19 – If a second wave were to materialise, that would have further negative implications for growth, preventing a meaningful recovery for some time as countries are forced to re-impose lockdown measures and fearful consumers are reluctant to go out.
- M Increased protectionism – There remains the risk of a further trade dispute between the US and China, particularly as we approach the US presidential election in November. Global trade

[marion.laboure@db.com](mailto:marion.laboure@db.com)

[henry-f.allen@db.com](mailto:henry-f.allen@db.com)

[jim.reid@db.com](mailto:jim.reid@db.com)

30-June-2020

[thehouseview@list.db.com](mailto:thehouseview@list.db.com)

<http://houseview.research.db.com>

Deutsche Bank AG/London

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## MARKET VIEWS

<b>Market sentiment</b>	<ul style="list-style-type: none"> <li>Future performance will depend on the path of the pandemic, with downside risks prevalent if a second wave led to further economic turmoil.</li> </ul>
<b>Equities</b>	<ul style="list-style-type: none"> <li>The equity rally so far has seen mega-cap growth stocks trend to new highs, but the rest of the stocks have been largely stuck in a range for the last 2 months and are not pricing in a cyclical rebound yet.</li> <li>In the second half, attention will focus on the US election, which has historically meant a range bound market till the uncertainty is resolved, followed by a strong rally into year-end regardless of who won.</li> </ul>
<b>Rates</b>	<ul style="list-style-type: none"> <li>We see yields on 10-year USTs at 0.7% by year-end, with those on 10-year bunds rising to -0.2%.</li> </ul>
<b>FX</b>	<ul style="list-style-type: none"> <li>We see EUR/USD rising to 1.15 by year-end and 1.20 by end-2021. The first stage is the removal of the dollar risk premium, which has been the most important driver of the dollar so far.</li> <li>The second stage of the dollar sell-off should see a rotation away from the dollar correlation to risk appetite and a greater focus on economic differentiation. On this front our view is that the US will struggle.</li> </ul>
<b>Credit</b>	<ul style="list-style-type: none"> <li>In the near term we are constructive, seeing credit spreads as likely to tighten over the summer.</li> <li>We remain cautious in the medium term and expect credit to be under pressure by year-end as poor fundamentals eventually assert themselves.</li> </ul>
<b>Oil</b>	<ul style="list-style-type: none"> <li>Persistently high floating storage inventory suggests OPEC+ may need to extend its deepest cuts beyond July.</li> <li>Our year-end target for Brent is USD 40/bbl, and our 2021 year-average forecast is USD 45/bbl.</li> </ul>
<b>Monetary Policy</b>	<ul style="list-style-type: none"> <li>Fed: We expect that the Fed will transition to a more outcome-based version of forward guidance and reinforce this language with the adoption of front-end yield curve control.</li> <li>ECB: We think the ECB could look at an adjustment of tiering as well as future TLTROs by year-end.</li> <li>BoJ: We think the BoJ will adjust the volume of their special fund-supplying operation and JGB purchasing pace in accordance with fiscal policy.</li> <li>BoE: We expect no change in the policy rate for the next 2 years, but the risks to further QE are high in late Q4.</li> <li>PBoC: We do not expect a further policy rate cut.</li> </ul>

## Key macro & markets forecasts

GDP growth (%)			Central Bank policy rate (%)			Key market				
	2020F	2021F	Current	Q3-20	Q4-20	Current	Q3-20	Q4-20		
Global	-5.9	5.3	US: Federal Funds Rate	0.125	0.125	0.125	US 10Y yield (%)	0.62	0.60	0.70
US	-7.1	2.6	Eurozone: Deposit Facility Rate	-0.50	-0.50	-0.50	EUR 10Y yield (%)	-0.49	-0.28	-0.20
Eurozone	-12.0	5.0	Japan: Policy Balance Rate	-0.10	-0.10	-0.10	EUR/USD	1.12	1.12	1.15
Germany	-9.0	4.0	UK: Bank Rate	0.10	0.10	0.10	USD/JPY	108	100	100
Japan	-6.5	1.7	China: MLF 1Y Interest Rate	2.95	2.95	2.95	S&P 500	3053		3250
UK	-11.5	3.0					Gold (USD/oz)	1769	1740	1800
China	1.1	9.5					Oil WTI (USD/bbl)	39.0	32.0	37.0
							Oil Brent (USD/bbl)	41.0	35.0	40.0
							Current prices as of Jun 30, 2020			

## 2020 Macro Events Calendar

July			August			September		
01	GE	Germany assumes Presidency of the Council of the EU	06	UK	Bank of England decision	10	EZ	ECB Decision
15	JN	Bank of Japan decision	17-20	US	Democratic National Convention	16	US	Federal Reserve decision
16	EZ	ECB Decision	24-27	US	Republican National Convention	17	UK	Bank of England decision
17-18	EU	European Council Meeting				17	JN	Bank of Japan decision
29	US	Federal Reserve decision				29	US	First Presidential Debate

<b>Recent editions</b>	<ul style="list-style-type: none"> <li><a href="#">The long road to recovery</a> 30 June 2020</li> <li><a href="#">The House View: 2020 Macro events calendar (includes a calendar outlook update)</a> 13 May 2020</li> <li><a href="#">Covid-19: Health check on the global economy</a> 12 May 2020</li> <li><a href="#">The House View: Gaining Speed</a> 16 January 2020</li> </ul>
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