Deutsche Bank
Research

The House View: Snapshot
Navigating perilous waters

MACRO VIEWS

WORLD

- There is still a path to a soft landing but many risks remain for the global economy, including above-target inflation, the Covid-19 pandemic and supply-chain issues.
- If inflation proves even higher than anticipated, that could lead to a more aggressive tightening stance from central banks.

UNITED STATES

- US growth is set to slow as stimulus wears off. We see growth at +3.6% in 2022 (Q4/Q4).
- Inflation has broadened and will take longer to dissipate, with our inflation profile showing above-target inflation over the next couple of years.
- We expect the Fed will start hiking in March, with a total of 4 hikes in 2022.

EUROPE

- We expect Euro Area GDP to expand by 3.8% in 2022. The Omicron variant and supply shortages are creating temporary headwinds, but growth is still being supported by high vaccination rates, NGEU disbursements and a resilient labour market.

GERMANY

- The synchronous acceleration of the domestic and more externally driven parts of the economy should result in annual GDP growth of 4% in 2022.
- We expect headline inflation to only slow modestly, coming in slightly below 3% in 2022.

CHINA

- We forecast 5.1% GDP growth in 2022. The policy stance shift towards supporting growth is critical for this year's outlook. Fiscal policy will exit from its very contractionary stance, while monetary policy will boost green lending and restore housing credit. Structural reforms will become more growth-friendly.

EMERGING MARKETS

- EM growth has been hampered by stop-go restrictions and the pace of vaccination.
- In Asia, external demand has moderated but is still reasonable, whilst central banks will mostly lag other regions in normalising policy.
- In LatAm, the region is well on its way to normalising monetary policy settings.
- In CEEMEA, the focus is on inflationary pressures, though with markedly divergent policy reactions between CEE, Russia and places like Turkey and South Africa.

KEY DOWNSIDE RISKS

- M Higher-than-expected inflation – The failure of inflation to recede as anticipated would lead central banks into a more aggressive tightening stance, causing a sharply negative reaction in markets and most likely a significant recession.
- M New Covid variants – A more severe variant would be a significant setback to the outlook, particularly if vaccines were less effective or ineffective.
- L Supply-chain disruption – Although these are set to gradually unwind, they are already having significant effects on output and inflation.

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MARKET VIEWS

MARKET SENTIMENT

- Considerable growth momentum will continue to drive markets, but numerous risks remain.
- Equities will continue to advance this year, and longer-term market interest rates should rise as central banks lift off. Credit spreads will widen some and the dollar should strengthen whilst more OPEC output will depress oil prices.

EQUITIES

- Our year-end 2022 targets see the S&P 500 at 5250, and the STOXX 600 at 550.

RATES

- Conservative estimates of neutral and a mild repricing of the term premium would be consistent with UST10y in a 220-240bp range in Q2.
- The sell-off may partially reverse in H2 if markets start to worry about the fiscal implications of the midterm elections

FX

- EUR/USD to end the year at 1.08, which can be seen as the outcome of the market now pricing the Fed delivering a reversal of the Covid cutting cycle to broadly end up where we were in end-2019: Fed funds near 2% and the ECB still stuck.

CREDIT

- The low volatility environment that characterised credit markets for much of 2021 is unlikely to last, and spreads will sell-off at some point in H1 when markets reappraise how far behind the curve the Fed is.

OIL

- We forecast WTI falling and potentially breaking $60/bbl in 2022 on the back of a material rise in oil surpluses

MONETARY POLICY

- Fed: First rate hike expected in March, with a total of 4 hikes in 2022 and 3 hikes in 2023.
- ECB: Rates lift-off to start end-2023.
- BoJ: Rates on hold.
- BoE: Further hikes in Feb-22, Nov-22 and May-23.
- PBoC: Rates on hold.

KEY MACRO & MARKETS FORECASTS

GDP growth (%)	2022F	2023F
Global	4.3	3.7
US	4.4	2.6
Eurozone	3.8	2.8
Germany	4.0	3.0
Japan	2.8	1.4
UK	3.5	1.7
China	5.1	5.5

Central Bank policy rate (%)	Current	Q2-22	Q4-22
US: Federal Funds Rate	0.125	0.375	0.875
Eurozone: Deposit Facility Rate	-0.50	-0.50	-0.50
Japan: Policy Balance Rate	-0.10	-0.10	-0.10
UK: Bank Rate	0.25	0.50	0.75
China: MLF 1Y Interest Rate	2.95	2.95	2.95

Key market forecasts	Current	Q4-22
US 10Y yield (%)	1.75	2.20
EUR 10Y yield (%)	-0.04	0.25
EUR/USD	1.13	1.08
USD/JPY	115	118
Gold (USD/oz)	1808	1650
Oil WTI (USD/bbl)	79.4	60.0
Oil Brent (USD/bbl)	82.1	64.0

2022 MACRO EVENTS CALENDAR

Janurary 2022		
18	JN	BoJ Decision
24	IT	Presidential election commences
26	US	Federal Reserve Decision

February 2022		
03	EZ	ECB Decision
03	UK	BoE Decision
13	GE	Presidential Election

March 2022		
10	EZ	ECB Decision
16	US	Federal Reserve Decision
17	UK	BoE Decision
18	JN	BoJ Decision
24-25	EU	European Council meeting

RECENT EDITIONS

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- Barrelling back to stagflation? 10 November 2021
- The New World: Moving Beyond Covid 8 September 2021
- Reopening the Global Economy 6 July 2021