Deutsche Bank
Research

The House View

Back to school

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Month in Review

Barnier warns no 'decisive' progress in Brexit talks
FT, August 31, 2017

North Korea threatens Guam after Trump 'fire and fury' vow
FT, August 09, 2017

'Catastrophic' floods in Houston as Harvey crosses Texas
FT, August 28, 2017

Insurer stocks jump as Irma losses seen less severe than feared
Reuters, September 11, 2017

Merkel plays it safe on way to fourth term
FT, August 26, 2017

Yellen, Draghi Didn't Say Much at Jackson Hole Meeting
Newsmax, 28 August, 2017

Euro strikes $1.20 for first since January 2015
FT, August 29, 2017

'Safe-Haven' Euro Could Complicate ECB Plan to Roll Back Stimulus
NYT, September 01, 2017

Stanley Fischer, Fed's No. 2 Official, Is Stepping Down
NYT, September 06, 2017

US stocks finish at new record highs
FT, September 12, 2017

Bulls see room to run after 8-month gain in emerging markets
Economic Times, September 02 2017

U.S. Economy Grew 3% in 2nd Quarter, Fastest Pace in 2 Years
NYT, June 26, 2017

U.S. Inflation Picks Up, Ending Five-Month Streak of Misses
Bloomberg, September 14 2017

Eurozone grows twice as fast as UK after GDP rises by 0.6% - as it happened
The Guardian, August 01, 2017

BOE Shifts Hawkish With Hint at Rate Increase Within Months
Bloomberg, September 14 2017

Trump sides with Democrats on fiscal issues, throwing Republican plans into chaos
The Washington Post, September 06, 2017

Draghi Fails to Talk Down Euro; Says ECB Will Decide on Tapering this Autumn
Nasdaq, September 10, 2017

The House View, 18 September 2017
Back to school

Unlike the last few years, this summer was relatively quiet. As markets look ahead to the rest of the year, the key theme will continue to be the major central banks' tentative progress toward removing monetary accommodation.

Investors have so far not priced in this outlook. Since the prospects for growth across all the major countries is better than it has been for some time it remains a puzzle why there hasn't been a greater sell-off in bond markets.

The failure of inflation to rise to the central bank targets of around 2% is only part of the explanation. Geopolitical and political risk have also played a role. But the latest data in the US have started to ease fears of a persistent low inflation scenario, and this should prompt a further move higher in rates as the tightening path for central banks becomes easier.

A gradual repricing of rates should not prove disruptive for risk assets, as it reflects a strong macro backdrop. But a sharp rise in rates, precipitated by a more meaningful pickup in inflation which reveals that central banks may be behind the curve, could be highly disruptive to asset pricing generally. 2013's taper tantrum provides an example, with US rates rising 140bp in 8 months and wiping billions off risk asset valuations.

David Folkerts-Landau, Group Chief Economist

Table of contents

Steady global growth, macro views shift in favor of Europe. Latest data reinforce central banks' stance toward tighter policy

Economic outlook

- Global growth near potential at 3.7% in 2017-18, up from 3.1% in 2016. We see upside resulting from capex growth, labour shortages, synchronised recovery
- US economy improves from 2.2% to 2.4% growth in 2018. Volatility in labour market data should not alter Fed's view of full employment with solid momentum.
- Eurozone cyclically strong: Our upgraded forecasts are above consensus at 2.2% in 2017, 2.0% in 2018. Exports & pent-up domestic demand driving growth.
- EM: growth rising to 4.7% in 2017, 4.9% in 2018. China unexpectedly slowed in Aug, but risks balanced in H2

Views on key themes

- Central banks on exit path: But signaling remains tentative outside the US; tug of war between CB messaging and market pricing is mediated by inflation
- Low inflation: US inflation data improved; expect labour market tightness to feed into wages and in turn inflation. USD weakness could be a further boost.
- Political risk: Intensification of North Korean crisis since late July but diplomatic resolution remains likely
- Regime shift in FX: Rebalancing of investment flows takes over, relative rate expectations lose importance

Central bank watch

- Fed: Announcement on balance sheet policy in September; next rate hike in December, 3 more in 2018
- ECB: QE extension and tapering to be announced in October, despite euro strength
- BoJ: Not under pressure to act, no change expected in target short rate or yield curve control policy this year
- BoE: We now expect a 25bp hike in November, but not the start of a hiking cycle
- PBoC: No urgency to change policy stance, interest rates to remain at the current relatively high level
- EM: Low inflation buying time for EM CBs, either allowing rate cuts (BR, RU, SA) or delaying rate hikes

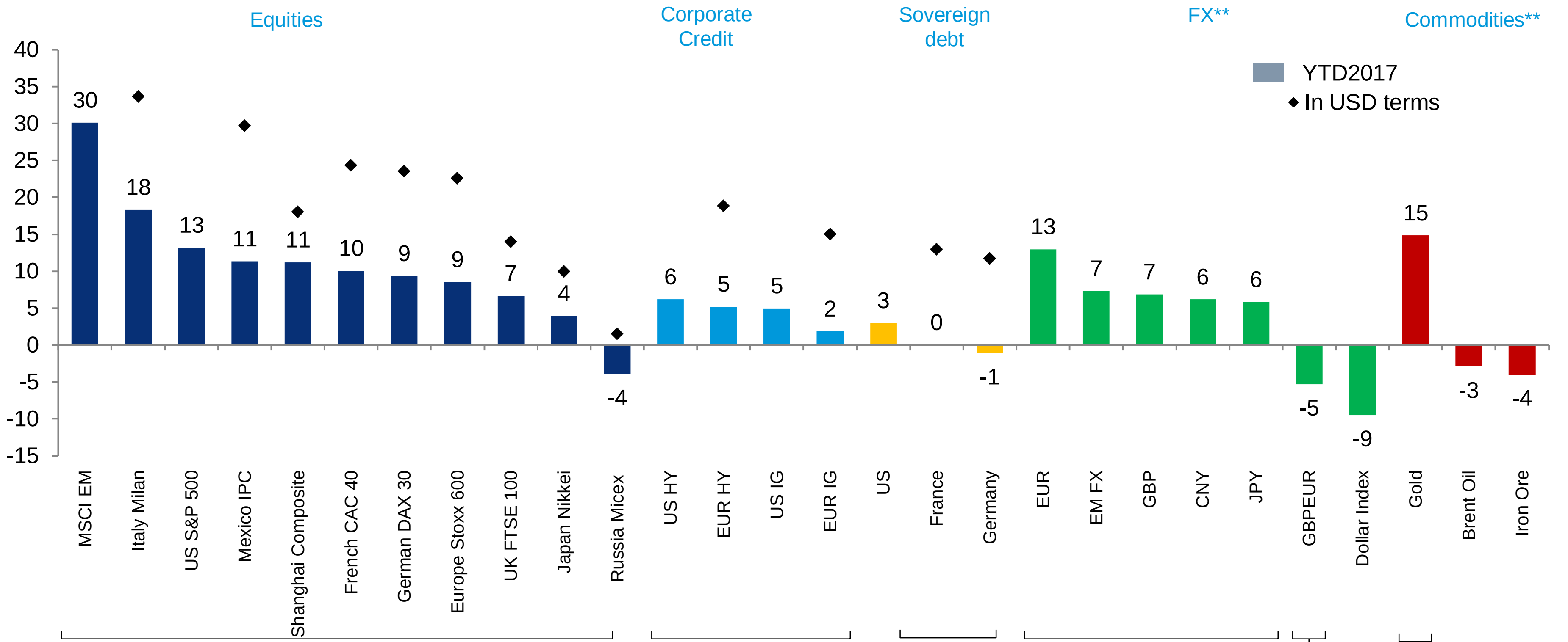
Key downside risks to our view

- M Sharp rise in rates: taper tantrum-type scenario if inflation rises faster, central banks seen behind curve
- M China financial instability: property bubble deflates; rising dollar, DM yields put pressure on outflows, RMB
- L DM growth deceleration: rising policy rates interrupt macro momentum, mild recession
- L De-globalisation: rise of anti-trade policies exacerbates anaemic global trade and sharply slows growth

Notes: H / M / L indicates estimated probability of risk (High, Medium, Low).

Risk assets have performed strongly, and especially so in dollar terms given the greenback's weakening

Returns* per asset class in 2017



+8.4% average ytd return on non-USD equity indices becomes +19.7% once translated back into USD-equivalent terms

Still strong, but spreads widened on demand for safe havens

European rates recover from post-Sintra selloff

Dollar decline gaining momentum

Sterling can narrow underperformance gap as market prices in November hike

Gold prices boosted by lower Treasury yields

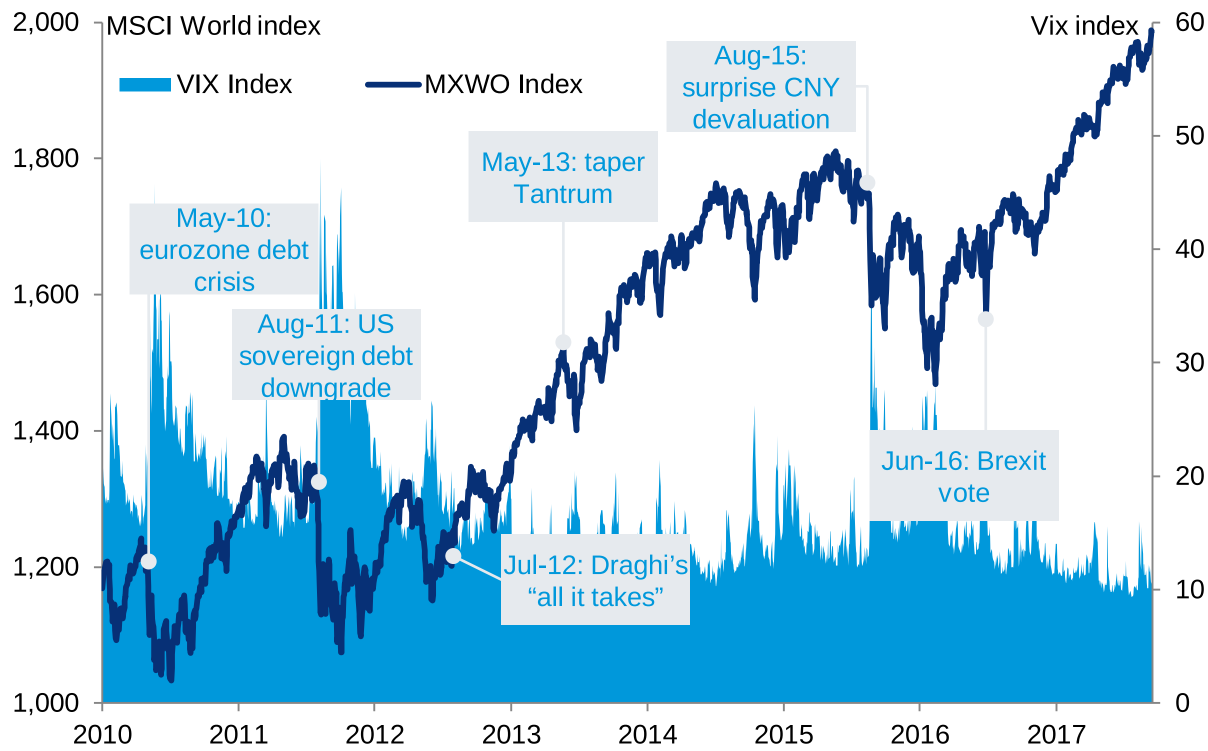
Note: (*) Total return accounts for both income (interest or dividends) and capital appreciation. (**) FX, Commodities are spot returns.
Source: Bloomberg Finance LP, Deutsche Bank Research. As of COB, 26 June 2017

Unlike the last couple of years, the summer period was relatively quiet for markets

- Every summer since 2010 had seen market moving events – 2014 the exception
  - Large swings in markets
  - Considerable volatility spikes

- In this respect this summer was relatively quiet
  - Few if any major events
  - Muted volatility
  - Resilient equity markets

A relatively quiet summer for markets relative to previous years



Source: Bloomberg Finance LP, Deutsche Bank Research

One of the key moves in markets was the reversal of the rate rise that followed central banks' hawkish messages in June

- Major central banks surprised with what came across as a co-ordinated hawkish message at the ECB's annual conference in Sintra in June
  - ECB, Fed, BoE clearly signalled they were on an exit path
  - Backdrop of robust global growth, receding political risk and inflation progress toward target supported the message
- Tone did not go unnoticed, prompting sharp rises in core rates – 20-30bp rise in 5-year yields over a couple of weeks
- Sell-off was short-lived, with a relentless reversal over the last two months…
  - Sharp rally in core rates
  - Current valuations close to or even below pre-Sintra levels
- ...And this despite growth remaining strong, central banks not having changed their message
- In last week, hawkish signals from ECB and BoE, some optimism of US fiscal reform and a better US inflation print have again sparked a rate selloff

Key central banks sent what came across as a co-ordinated hawkish message at Sintra's ECB annual conference in June

Central Bankers Tell the World Borrowing Costs Are Going Up

Bloomberg, 28-Jun-2017

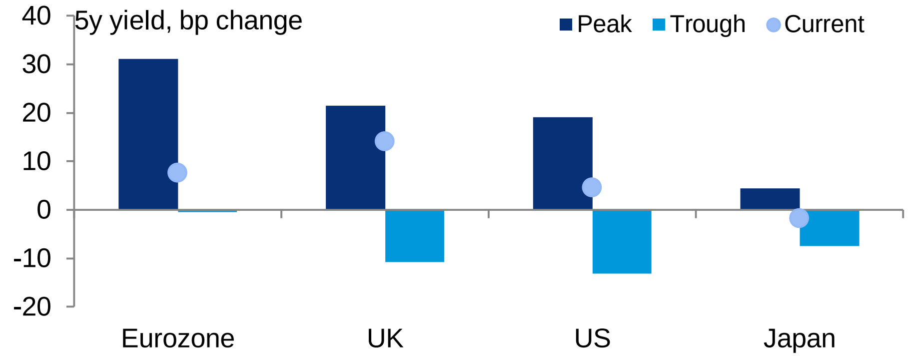
Hawkish Central Bankers Spark a Debate About the End of Easy Money

Bloomberg, July 06, 2017

Bank of England's Carney says BoE will debate rate rise in 'coming months'

Reuters, 28-Jun-2017

Core rates reversed this summer the rise that followed Sintra



Note: yield changes since ECB conference in Sintra on 26-Jun-2017
Source: Bloomberg Finance LP, Deutsche Bank Research

In part, this was due to geopolitical risk, notably the escalation of tension between the US and North Korea

- Escalation of tension between US and North Korea grabbed significant attention over last few months
  - More daring actions by NK, more heated rhetoric
- Military conflict remains unlikely
  - Costly for North Korea and South Korea, but also for Japan and, indirectly, for China via disruption of supply chains
  - Little chance of achieving much
  - UN, Europe to temper US response – e.g., latest sanctions don't include oil embargo, which would have likely triggered military response from NK
- NK sees acquisition of strategic nuclear capability as key to its survival
  - Makes US conventional weapons less effective in case of war
- Timing of escalation coincides with breakthroughs on both missile and nuclear technology by NK
- US adamantly opposed to a nuclear NK
  - Direct threat to US
  - Broader US / Russia / China geopolitical concern
  - Higher likelihood of Japan, South Korea becoming nuclear powers

> "North Korea best not make any more threats to the United States. (…) They will be met with fire, fury and frankly power the likes of which this world has never seen before."
>
> *US President Trump, 9-Aug-2017*

Trump and Abe vow to increase pressure after North Korea fires missile over Japan

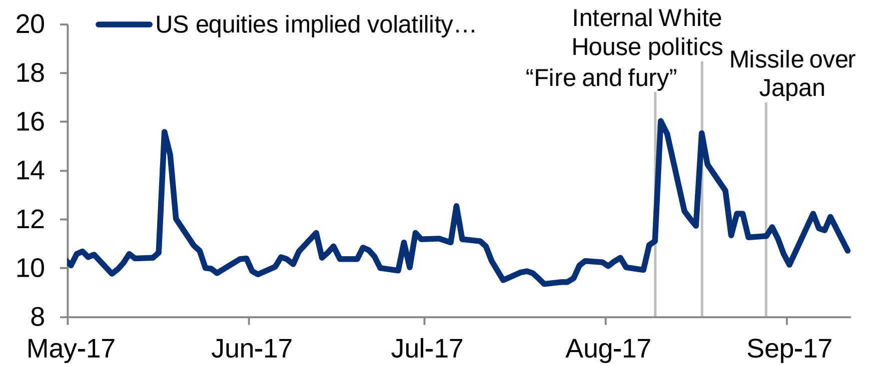
The Guardian, 29-Aug-2017

UN Approves New North Korea Sanctions, Stopping Short of Oil Embargo

Bloomberg, 12-Sep-2017

> "There can only be a peaceful and diplomatic solution [for North Korea]."
>
> *German Chancellor Merkel, 5-Sep-2017*

Volatility spikes this summer driven by US-North Korea tensions – but markets take a sanguine view, with spikes low and falling

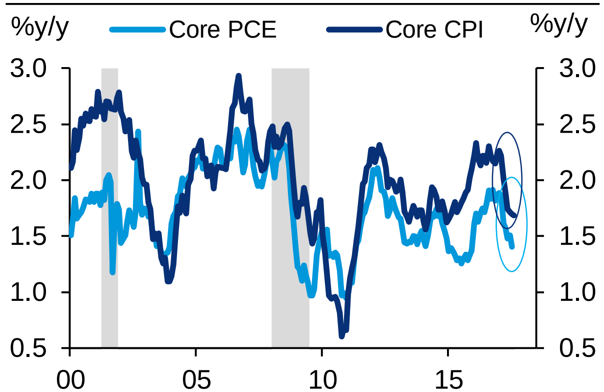


Source: Bloomberg Finance LP, Deutsche Bank Research

The main driver though was the limited inflation pressure, especially in the US. This will be the key focus in the coming months

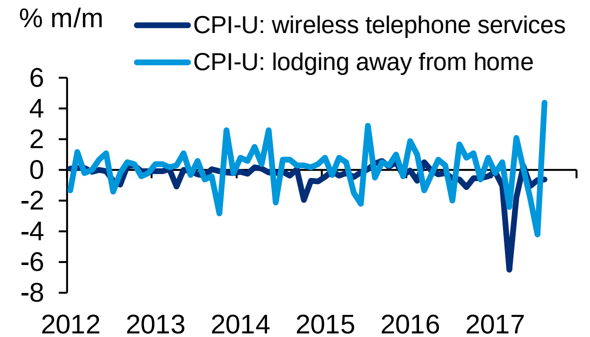
- After nearing the Fed's objective, core inflation in the US fell sharply
  - Core PCE 0.6pp below Fed's target, having fallen from 1.9%
- Decline partly due to negative outliers
  - Wireless services inflation plunged most on record due to Verizon unlimited data plan
- There was also some evidence of broader weakness
- However, the latest inflation data (CPI) rebounded…
- …And we still expect core inflation to move sustainably higher in 2018:
  - Positive base effects from recent weak prints
  - Support from strong growth and recent dollar weakness
  - Tight labour market

Core inflation has fallen sharply in recent months



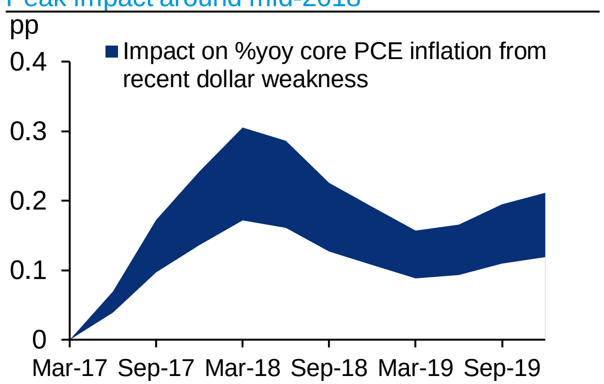
Source: BEA, BLS, Haver Analytics, Deutsche Bank Research

Some of the weakness due to one-offs (e.g., wireless and lodging away)



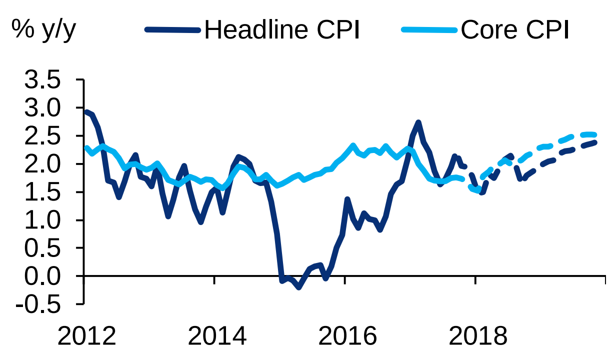
Source: BLS, Haver Analytics, Deutsche Bank Research

Decline in dollar should help boost core inflation: Peak impact around mid-2018



Source: Deutsche Bank Research

Medium-term view in US broadly unchanged: Inflation should rise from recent lows

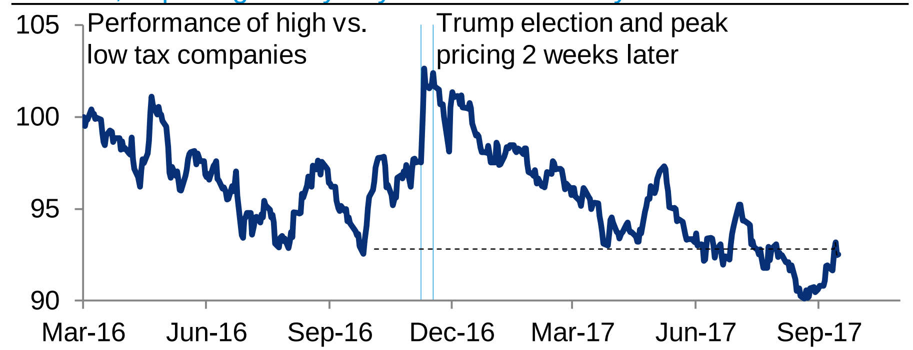


Source: BLS, Haver Analytics, Deutsche Bank Research

The latest data pointing to inflation normalising ahead vindicate our strategic view of higher rates

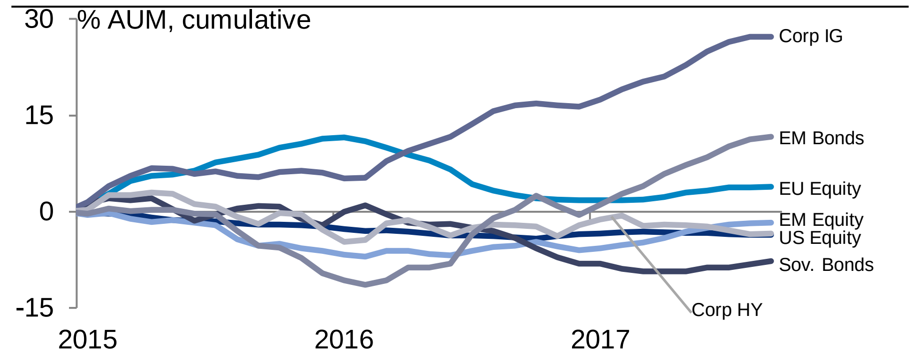
- From a strategic point of view, rates are low
  - Market priced persistently low inflation, at odds with our view of rising inflation in next quarters
  - Little monetary tightening priced, despite clear central banks exit bias
  - Growth outlook robust, financial conditions are supportive – no reason for slowdown without tighter monetary policy
  - Market not pricing easing of fiscal policy or regulation
- Latest developments on the main fronts that had kept rates low suggest rates should now rise
  - Inflation: tentative signs of normalisation in coming quarters
  - Geopolitics: short-lived reaction to latest tit-for-ta suggest greater escalation will be needed to keep rates from rising
- Risk remains of a sharp repricing of rates
  - Inflows into risky assets (e.g., EM debt, corp. credit) as long as central bank tightening delayed
  - 2013 taper tantrum a template – US 10y rising 140bp in 8 months

Markets went from pricing material tax reform just after Trump's election, to pricing hardly any stimulus currently



Note: DB baskets of US high tax (DBUSHTAX) and low tax (DBUSLTAX) companies
Source: Bloomberg Finance LP, Deutsche Bank Research

Material flows into risky assets, especially corporate debt and EM bonds



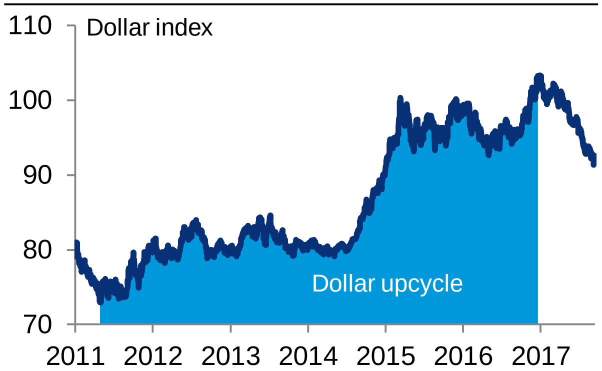
Source: EPFR, Haver Analytics, Deutsche Bank Research

The other salient market move over the summer has been in FX, with dollar weakness and euro strength

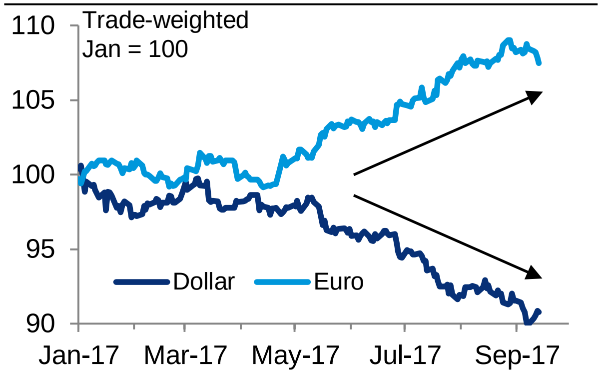
- Dollar started an upcycle in mid-2011
  - Supported by stronger economy, higher rates in US vs. Europe, Japan
  - 40%+ rise in a little over 5 years, with strongest gains as Fed ended QE and started hiking rates
  - Upcycles typically last several years

- But this cycle got interrupted this year – with dollar strength giving way to material weakness
- Weakness accelerated during the summer
  - Euro surge on robust eurozone growth and as ECB confirmed monetary policy tightening bias
  - Decreasing confidence on Fed's ability to continue hiking, as US inflation faltered
- This is not just a euro vs. dollar story – dollar lost value vs. all major currencies

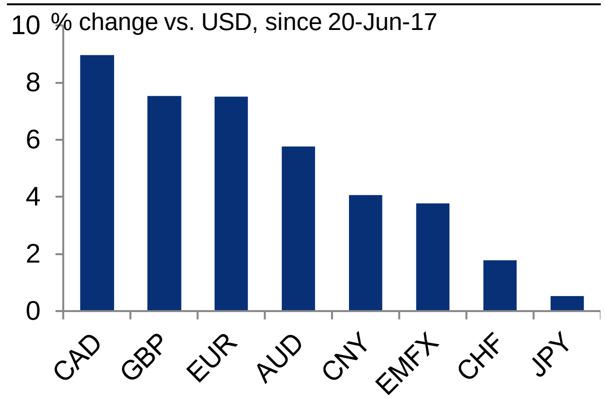
Dollar multi-year upcycle interrupted this year



Dollar weakness this summer as euro gained



But weakness broad based, not just vs. euro

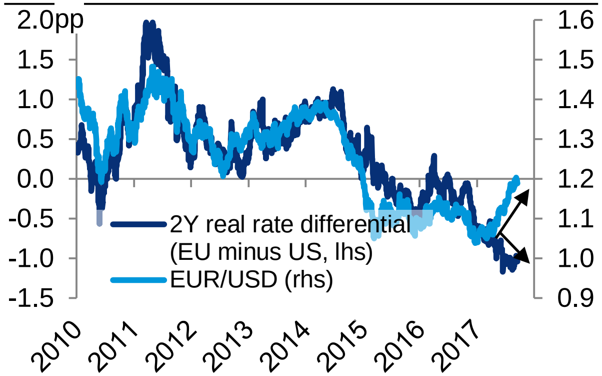


Source: Bloomberg Finance LP, Deutsche Bank Research

Despite the speed of euro appreciation in the last couple of months, we see risks of a drift higher rather than a reversal

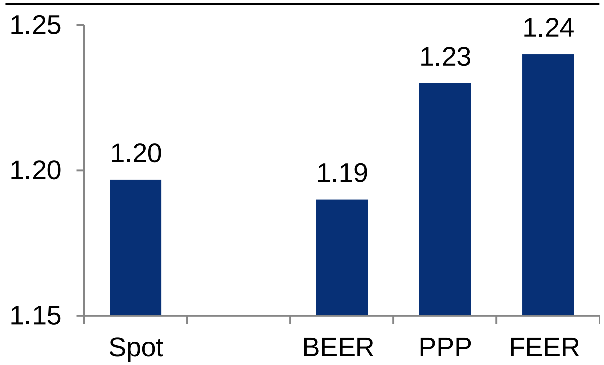
- Sharp rise in euro, vs. dollar but also on a trade weighted basis – up ~10% in 4 months
- Currency at our year-end targets during the summer
- Despite speed of rise, move is not that extreme
  - Sharp move brings year-to-date trading range back in line with historic ranges
- ECB mild pushback not enough to halt appreciation
  - High euro weighs on growth, lowers inflation
  - Strong growth backdrop and ECB desire to start policy exit make verbal intervention less credible
- Euro is more likely to overshoot above 1.20 than to reverse lower
  - Euro only just approaching fair value
  - Speculative positioning not particularly long despite the recent build
  - Post-crisis structural underweight in euro assets is still to be covered, generating demand for the currency

EURUSD exchange rate no longer driven by rates differential



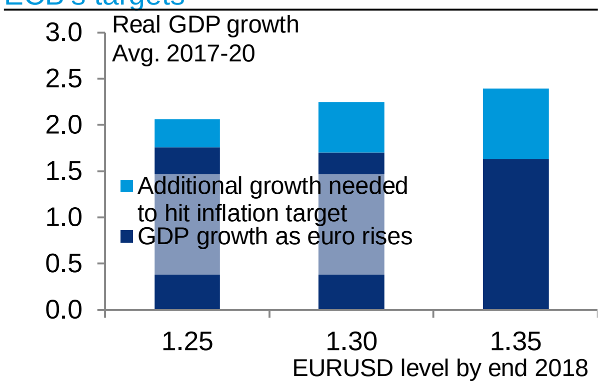
Source: Bloomberg Finance LP, Deutsche Bank Research

Euro is only just approaching fair value



Source: Deutsche Bank Research

Further appreciation would challenge the ECB's targets



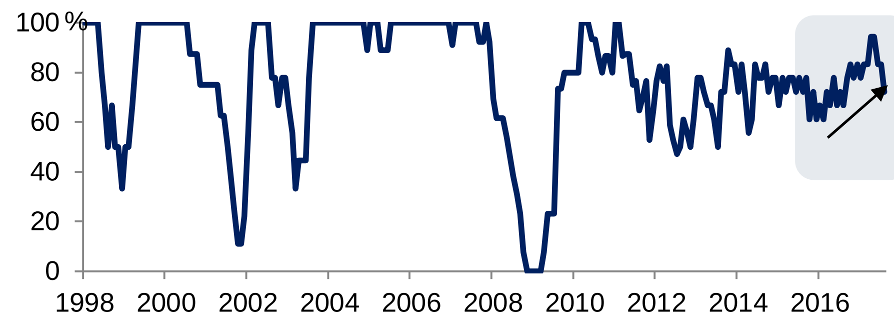
Source: Deutsche Bank Research

These developments are in a context of a supportive macro backdrop

Global economy is in a better place

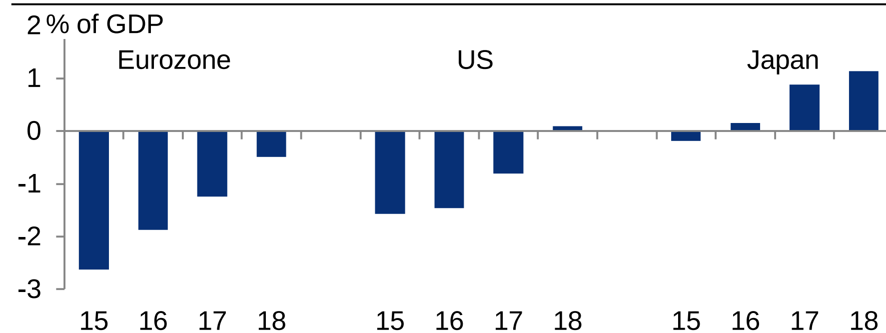
Global growth	▪ World economy escaping 5 year low-to-no growth period ▪ Growth to rebound after bottoming in 2016 to slowest pace post-crisis
Broad-based uptick	▪ Growth broad-based globally, highly synchronised across regions ▪ Momentum remains strong despite recent weakening
Economic slack	▪ Economic slack falling ▪ Employment gap, output gap closing across major DM economies
Political risk	▪ Political event risk materially diminished ▪ Brexit and to a lesser extent Italy the notable exceptions

Global growth remains highly synchronised despite recent easing in momentum



Note: Diffusion index calculated as % of Composite PMIs above 50 (based on 8-18 countries)
Source: Haver Analytics, Markit, Deutsche Bank Research

Major developed economies have closed / are closing output gaps



Note: (*) The output gap is a measure of slack in an economy: it is the difference between output and potential output. A negative gap means the economy produces less than potential.
Source: Haver Analytics, OECD, Deutsche Bank Research

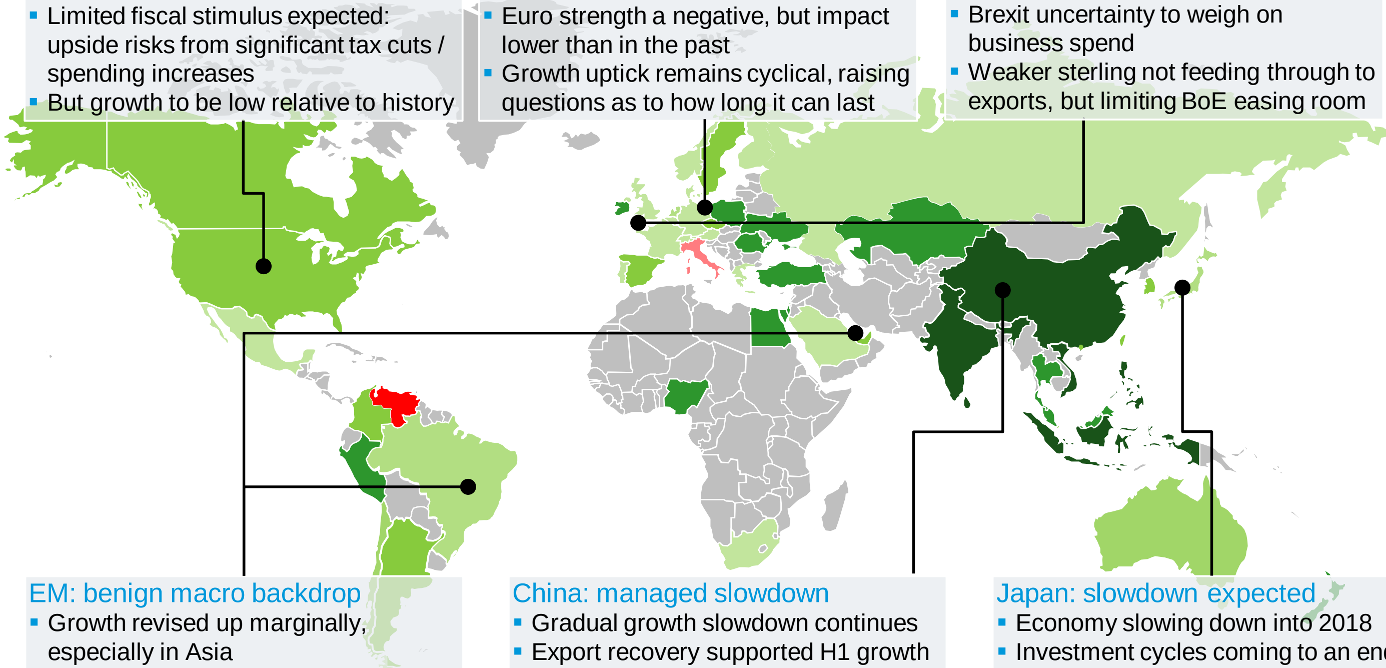
Most major economies are growing healthily, and expected to continue to do so through 2018

Global growth outlook

US: solid growth to continue
- Growth above recent trend on stronger capex and solid consumer spending
- Near-term data volatility due to hurricanes
- Limited fiscal stimulus expected: upside risks from significant tax cuts / spending increases
- But growth to be low relative to history

Eurozone: positive outlook
- Highest growth in years; above-trend pace to continue
- Reduction in political risk supports growth
- Euro strength a negative, but impact lower than in the past
- Growth uptick remains cyclical, raising questions as to how long it can last

UK: growth to slow down
- Consumption to suffer from drop in consumers' real disposable income – high inflation, subdued wage growth, high leverage
- Brexit uncertainty to weigh on business spend
- Weaker sterling not feeding through to exports, but limiting BoE easing room

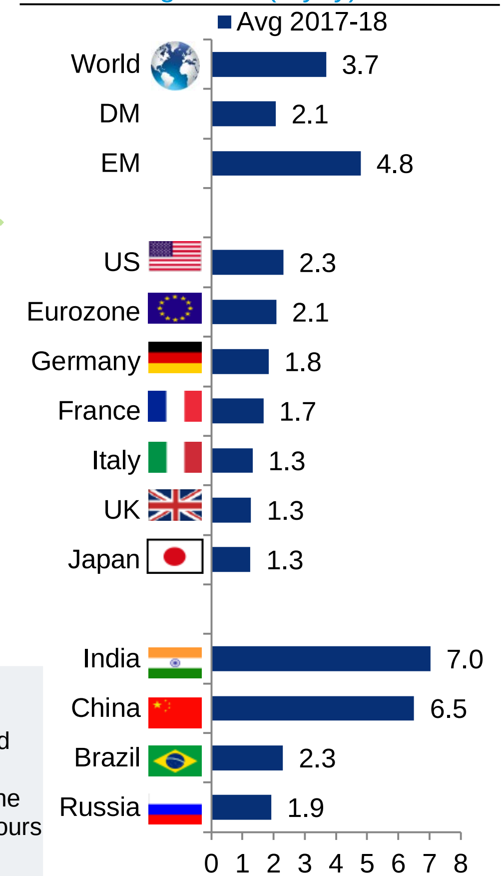


EM: benign macro backdrop
- Growth revised up marginally, especially in Asia
- Momentum eased somewhat but still strong; robust DM growth a positive pull factor
- Vulnerabilities pose localised, not systemic risks

China: managed slowdown
- Gradual growth slowdown continues
- Export recovery supported H1 growth
- But newly introduced supply side reforms have and will continue to weigh on industrial production
- Property and land markets key concern into 2018, as sector boom risks fading

Japan: slowdown expected
- Economy slowing down into 2018
- Investment cycles coming to an end (business, consumer durables)
- Work style reforms introduced by the government impose cuts to work hours

Real GDP growth* (%yoy)

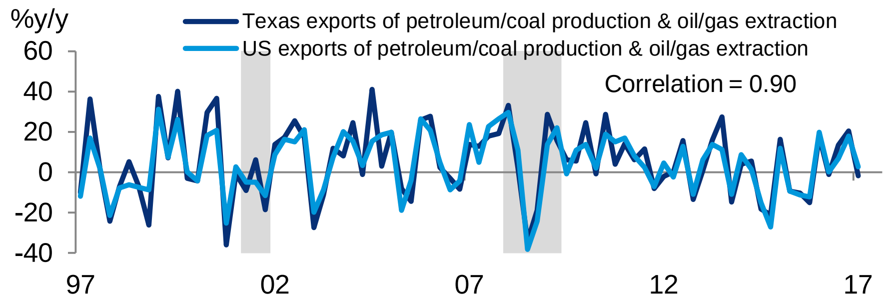


2017 real GDP growth (% yoy)
<0% 0-1% 1-2% 2-3% 3-5% >5% n/a

After two devastating hurricanes in the US, growth will likely be hurt temporarily and data releases will be volatile for some time

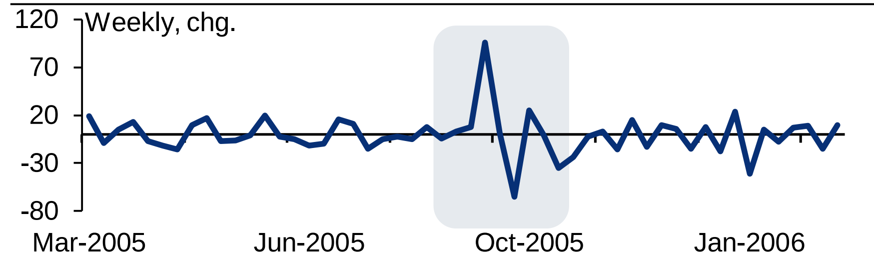
- In recent weeks, the Southern US has been hit by back-to-back severe hurricanes that have devastated the Houston area and Florida
- At this point it is difficult to assess the likely impact on GDP growth, but our early expectations are for:
  - Near-term negative impact on activity (e.g., trade, industrial production) which could subtract at least 0.2pp from H2 growth
  - Beyond near-term, rebuilding effort should help lift GDP, with effects more dispersed over time
- Past hurricanes (e.g., Katrina) suggest that labour market data could also be severely impacted
  - Job gains plunged in Sep-2005 after Katrina: -35k versus ~175k average on the previous 3 months
  - Initial jobless claims have already spiked higher
- For inflation, primary effect is temporary boost to headline inflation from jump in gas prices
  - Potential for some spill-over to core (e.g., lodging away as displaced households seek shelter)
- Muddied data picture will complicate the Fed's job, but we anticipate they will look through volatility

Hurricane Harvey likely to have large temporary drag on energy trade



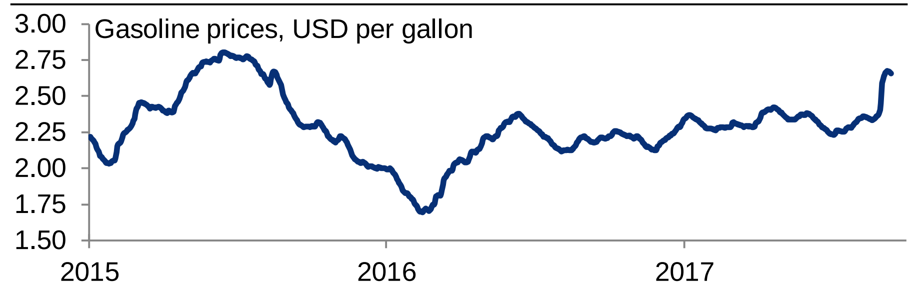
Source: WISER, Census, Haver Analytics, Deutsche Bank Research

Jobless claims likely to be volatile, similar to hurricane Katrina in '05



Source: DOL, Haver Analytics, Deutsche Bank Research

Gas prices have spiked following the hurricanes



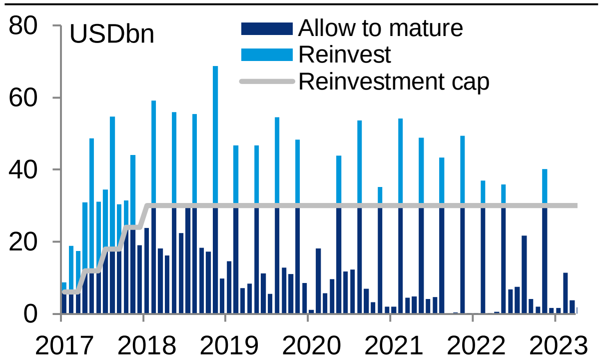
Source: AAA, Bloomberg Finance LP, Deutsche Bank Research

Fed should announce start to phasing out QE reinvestment at its September meeting. Next rate hike in December if inflation firms

- Fed policy decisions are being made in the presence of strong countervailing forces
  - On the hawkish side are solid growth / labour market momentum and loose financial conditions
  - On the dovish side is soft inflation
- We expect Fed to announce start of balance sheet reinvestment phase out at the 20-Sep. meeting
  - Hiking cycle paused to assess impact of announcement
- The bigger question for markets is when the next rate hike will occur

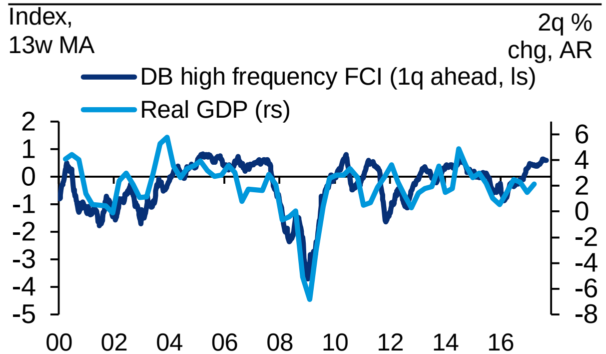
- We expect the Fed to raise rates again in December
  - Inflation developments will be key, and some further evidence of a firming inflation trend likely needed
- Some Fed "dots" are likely to fall at the September meeting but we expect the signal to be that a December hike remains very possible
- In 2018, we see three rate increases – the first coming in June – in line with the Fed and well above the market (<1)

Projection of roll-off of Fed Treasury holdings



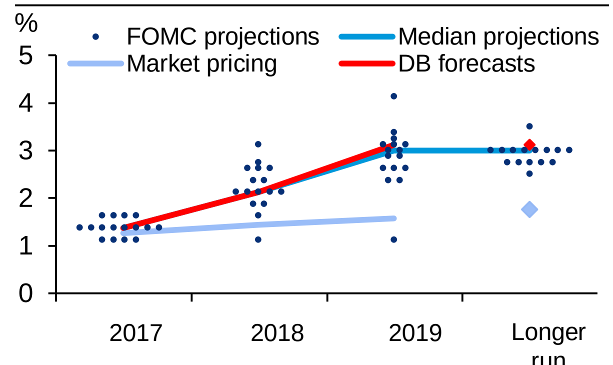
Source: US Treasury, Deutsche Bank Research

Loose financial conditions supporting growth



Source: BEA, Haver Analytics, Deutsche Bank Research

Disconnect persists between Fed, market on rate hikes



Source: FRB, Bloomberg Finance LP, Deutsche Bank Research

To recap, the Fed, ECB and to a lesser extent BoE are now on an exit path

	Federal Reserve	European Central Bank	Bank of England	Bank of Japan
Macro backdrop	▪ Strong macro backdrop, growth above trend ▪ At full employment, output gap nearly closed	▪ Strong macro backdrop, growth above trend ▪ Employment gap, output gap closing steadily	▪ Economy slowing – FX-led real income shock weighs on growth ▪ Close to full employment	▪ Economy slowing down into 2018 ▪ Inflation low and well below target
Key challenge	▪ Soft inflation casts doubt over Fed's rate guidance ▪ Market reluctant to price upcoming normalisation of inflation	▪ Euro strength weighs on growth, lowers inflation ▪ Inflation rise not yet self-sustaining ▪ Weak wage inflation	▪ Conflicting goals: high inflation, weak sterling warrant higher rates, but this threatens growth ▪ Brexit uncertainty	▪ Inflation not rising despite massive BoJ stimulus ▪ Counter-cyclical nature of Yield Curve Control*
Policy stance	▪ Sticking to gradual exit ▪ Would like to see convincing evidence of firmer inflation to continue rate hikes	▪ Slow and gradual exit ▪ Easy policy needed to reach inflation target ▪ Static policy increasingly easy as economy firms	▪ Tightening bias ▪ Growth backdrop sufficient for BoE to focus on inflation and FX concerns	▪ On hold, talk of exit not justified at present ▪ Dovish turn in board as two members terms end
What we expect	▪ Sep-17: announcement of tapering of balance sheet reinvestments ▪ Dec-17: rate hike ▪ 2018: three hikes	▪ Oct-17: 6-month QE extension, at €40bn/mth ▪ Mid-18: deposit rate hike ▪ H2-18: likely QE exten-sion at lower pace ▪ Mid-19: start of hikes	▪ Now expect one-off 25bp hike in Q4-17 – but not a start of a hiking cycle	▪ BoJ not under pressure for urgent action ▪ No change expected in target short rate or YCC in 2017

Note: (*) BoJ introduced YCC in Sep-2016. Rather than maintaining a commitment to a JPY amount of QE purchases, the BoJ started targeting a 10-year yield around zero. The policy has a countercyclical nature: the more inflation normalises and yields rise, the more bonds the BoJ will purchase, thus easing when not needed; the opposite also holds true.

As Brexit talks slowly continue, the key question remains what, if any, transition deal is struck to avoid a negative "crash Brexit"

- Acknowledgment across the board that a transition period has to be agreed to avoid exit without deal
  - Time is too tight to have negotiated future relation by Brexit day in Mar-2019
- Limited progress to date, solely focused on exit issues (e.g., divorce bill, status of UK / EU citizens, etc.)
- Conflicting messages from UK government as to what kind of end-deal is being sought – has to be addressed for transition to be agreed
  - Smooth transition has to resolve tension between globalist Brexiteers and those that wish to stay closer to the EU single market
- Current UK political setup not conducive to the necessary domestic compromises
- UK political and / or economic crisis necessary to drive UK into EEA-style + customs transitional agreement

The big picture

Economic argument

- Remain as close to single market as possible
  - Goods trade
  - Services trade
- Accept EU's playing rules

vs.

Brexit rationale

- Trade deals with rest of world
- Control of immigration
- Supremacy of UK law vis-à-vis European Court of Justice

Key issues

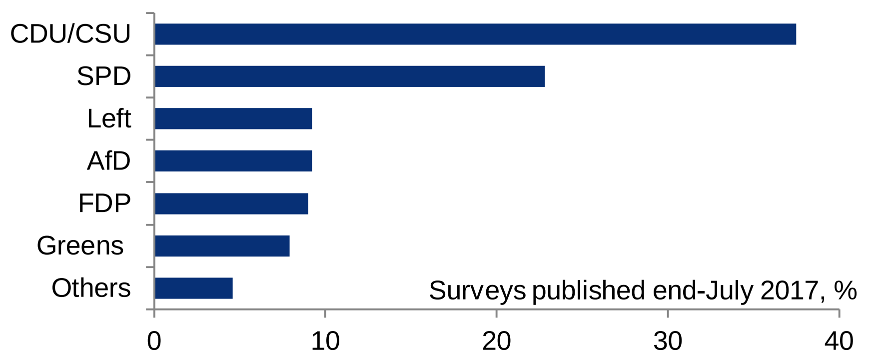
- Minority government starves PM May from much needed flexibility to carry out negotiations
  - Eurosceptic MPs can easily hold government hostage
- No signs of cracks on EU-27 front means UK's negotiating position is weak
  - If anything, across Europe the EU is more in favour than at time of Brexit vote in Jun-2016

The end-September German election is likely to be a non-event for markets, but it will clear the way for EU integration talks

- Chancellor Merkel widely seen as securing a fourth term against centre-left SPD's Martin Schulz
- Uncertainty remains over what the governing coalition will look like
  - Several options, given how different parties poll
  - "Colour" of coalition will drive policy trade-offs
- New government to face important domestic issues
  - Erosion of economic drivers – underlying trend growth expected to weaken over next decade

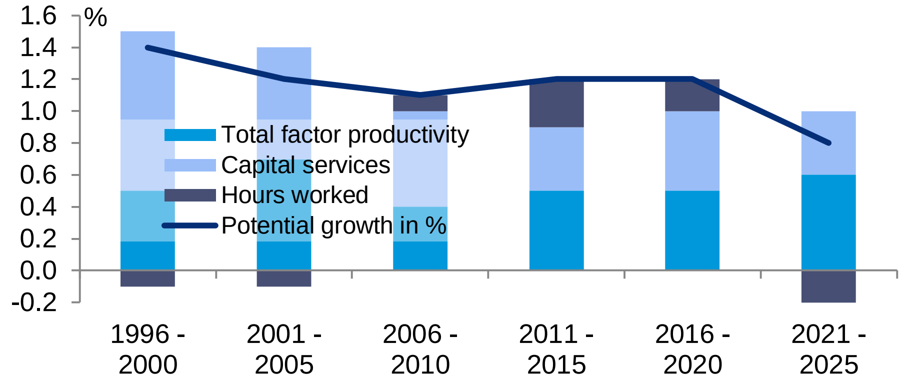
- Multiple issues also on the international front
  - Migration flows
  - Brexit and future EU-UK relations
  - European integration
- This last area is key -- much has changed in the last year and EU leaders are less reticent about calling for more Europe
  - Macron election in France, underperformance of eurosceptic parties across Europe
  - With German election behind, it could be the time for moving into more active integration talks

Pro-European parties garner greatest support



Source: Wahlrecht.de, Deutsche Bank Research
* Average of major surveys (Allensbach, Infratest Dimap, Forsa, Forschungsgrupper Wahlen, TNS Emnid)

Declining trend economic growth on lower hours worked



Source: Deutsche Bundesbank, Deutsche Bank Research

Summary of market views

Asset class	View	Rationale
Equities	▪ US: constructive	▪ S&P500 long overdue a pullback, but positive economic backdrop should dominate any correction. Maintain 2,600 year-end target
	▪ Europe: risk of tactical downside	▪ Easing of macro momentum consistent with a correction to European equities in coming months ▪ European equities are however at bottom of range vs. US
Rates	▪ Strategically bearish	▪ Market still pricing low inflation, little further tightening (“Fed is nearly done”) ▪ Latest developments (e.g., US inflation) comfort our bearish positioning
FX	▪ Dollar risks are asymmetric	▪ Market refuses to price in any additional rate hikes from the Fed. Asymmetric (downside) risk to the dollar as Fed Funds rate approaches neutral.
	▪ Euro upside on investment flows	▪ Relative ECB/Fed monetary policy expectations no longer the prime mover ▪ Euro responding to investment flow imbalances – rebalancing underway of the structural underweight of European assets built post-crisis
Credit	▪ Constructive Europe	▪ IG spreads likely to move sideways in the short term, with moderate widening bias through the end of the year. We hold a bias for European HY credit spreads widening further in the short term, in the face of significant issuance.
EM	▪ Staying positive	▪ Strong YTD performance to give way to reduced and more carry-dependent returns in the remainder of the year. EM macro still stronger than DM
Com-modities	▪ Oil prices stabilising	▪ Temporary dislocations resulting from Hurricane Harvey ▪ Threat of oversupply persists in 2018, requiring OPEC to extend its restraint

DB forecasts

GDP growth (%)	2015	2016	2017F	2018F
Global	3.4	3.1	3.7	3.7
US	2.9	1.5	2.2	2.4
Eurozone	1.9	1.8	2.2	2.0
Germany	1.7	1.9	1.9	1.8
France	1.0	1.1	1.7	1.7
Italy	0.8	0.9	1.5	1.2
Spain	3.2	3.2	3.0	2.5
Japan	1.1	1.0	1.8	0.7
UK	2.2	1.8	1.6	1.0
China	6.9	6.7	6.7	6.3
India	7.5	7.9	6.5	7.5
EM Asia	6.2	6.2	6.0	6.0
EM CEEMEA	1.6	1.4	2.9	2.8
EM LatAm	-0.3	-1.5	1.1	2.3
EM	4.2	4.1	4.7	4.9
DM	2.2	1.6	2.1	2.0

CPI inflation, YoY* (%)	2015	2016	2017F	2018F
US	0.1	1.3	2.2	2.0
Eurozone	0.0	0.2	1.5	1.4
Japan	0.8	-0.1	0.3	0.4
UK	0.1	0.6	2.6	2.7
China	1.4	2.0	1.7	2.7

Central Bank policy rate (%)	Current	Q4-17F	Q4-18F	Q4-19F
US	1.125	1.375	2.125	3.125
Eurozone	0.00	0.00	0.00	0.50
Japan	-0.10	-0.10	-0.10	-0.10
UK	0.25	0.50	0.50	0.50
China	1.50	1.50	1.50	1.50

Key market metrics	Current	Q4-17F	Q4-18F	Q4-19F
US 10Y yield (%)	2.18	2.75	2.96	2.96
EUR 10Y yield (%)	0.41	0.60		
EUR/USD	1.188	1.17	1.20	1.20
USD/JPY	111	116	120	110
S&P 500	2,496	2,600		
Stoxx 600	382	375		
Oil WTI (USD/bbl)	49.9	52.0	52.0	53.0
Oil Brent (USD/bbl)	55.5	55.0	55.0	56.0

Current prices as of 14-Sep-2017

* CPI (%) forecasts are period averages
CEEMEA: Czech Rep., Israel, Egypt, Hungary, Kazakhstan, Nigeria, Poland, Romania, Russia, Saudi Arabia, South Africa, Turkey, UAE and Ukraine
LATAM: Argentina, Brazil, Chile, Colombia, Mexico, Peru, Venezuela
ASIA: China, HK, India, Indonesia, Korea, Malaysia, Philippines, Singapore, Sri Lanka, Taiwan, Thailand, Vietnam
DM: Australia, Canada, Denmark , Eurozone, Japan, New Zealand, Norway, Sweden, Switzerland, UK, US

Source: Deutsche Bank Research

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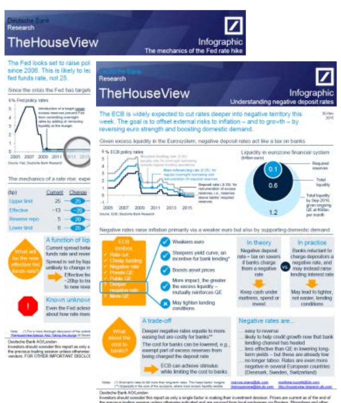

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