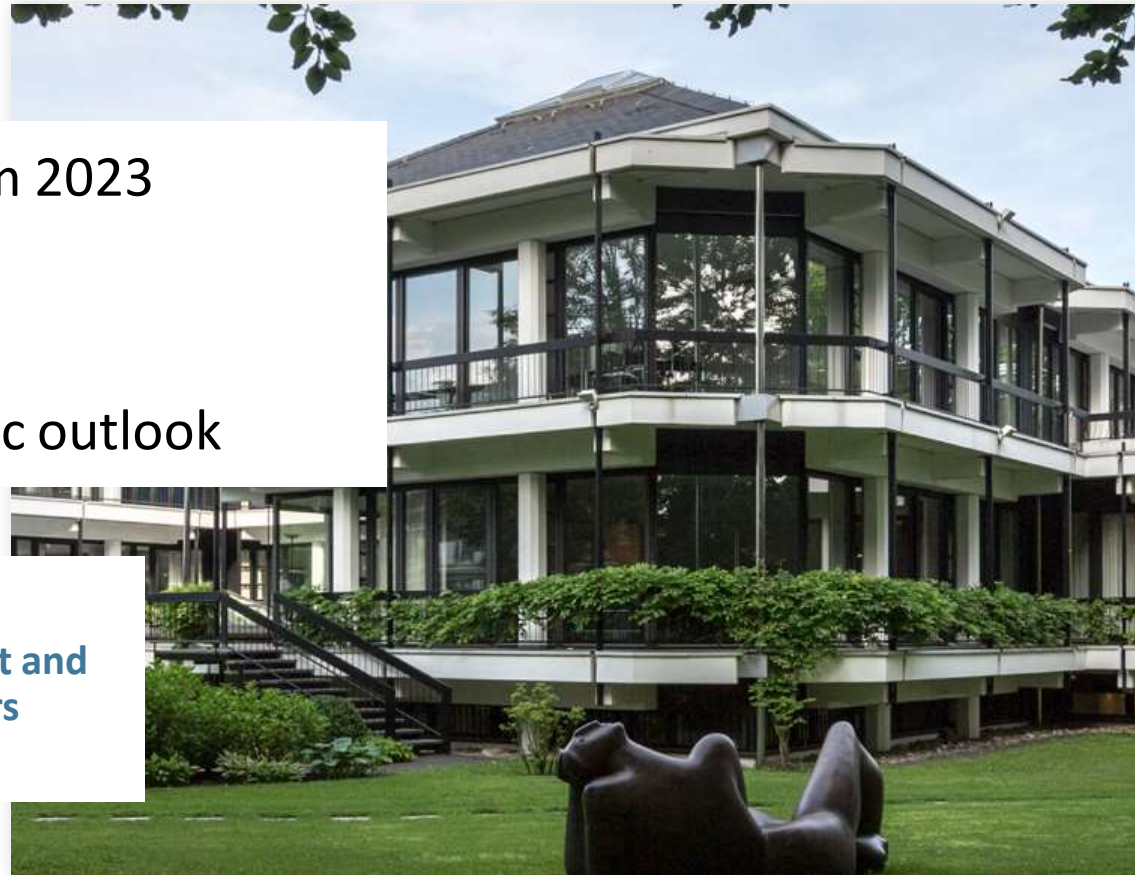


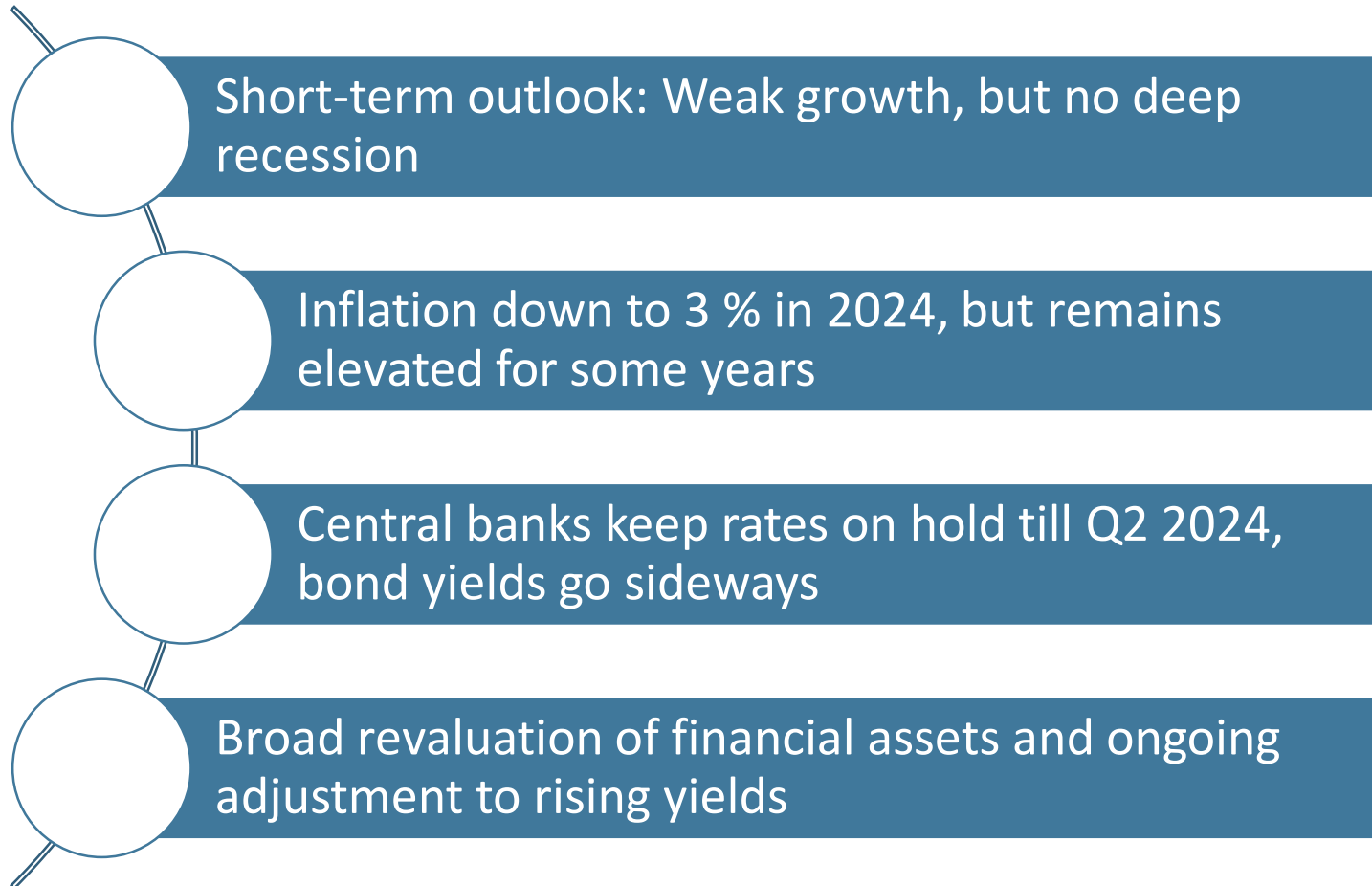
PDI Germany Forum 2023
18th October 2023

Keynote
The macroeconomic outlook

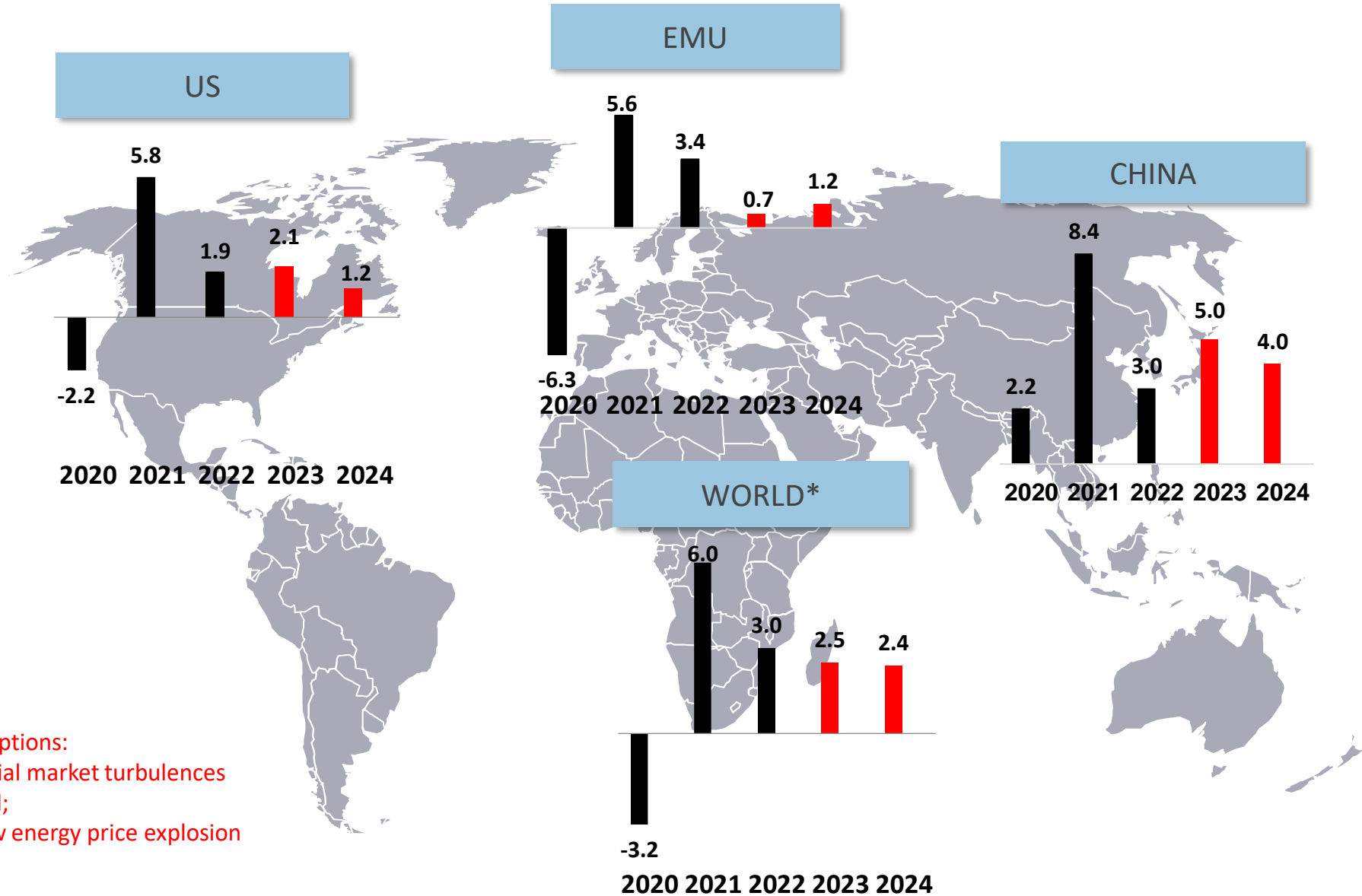
Dr. Michael Heise
Chief economist HQ Trust and
founder of macroadvisors



Topics



US in for soft landing, EMU weak, China moderate rebound



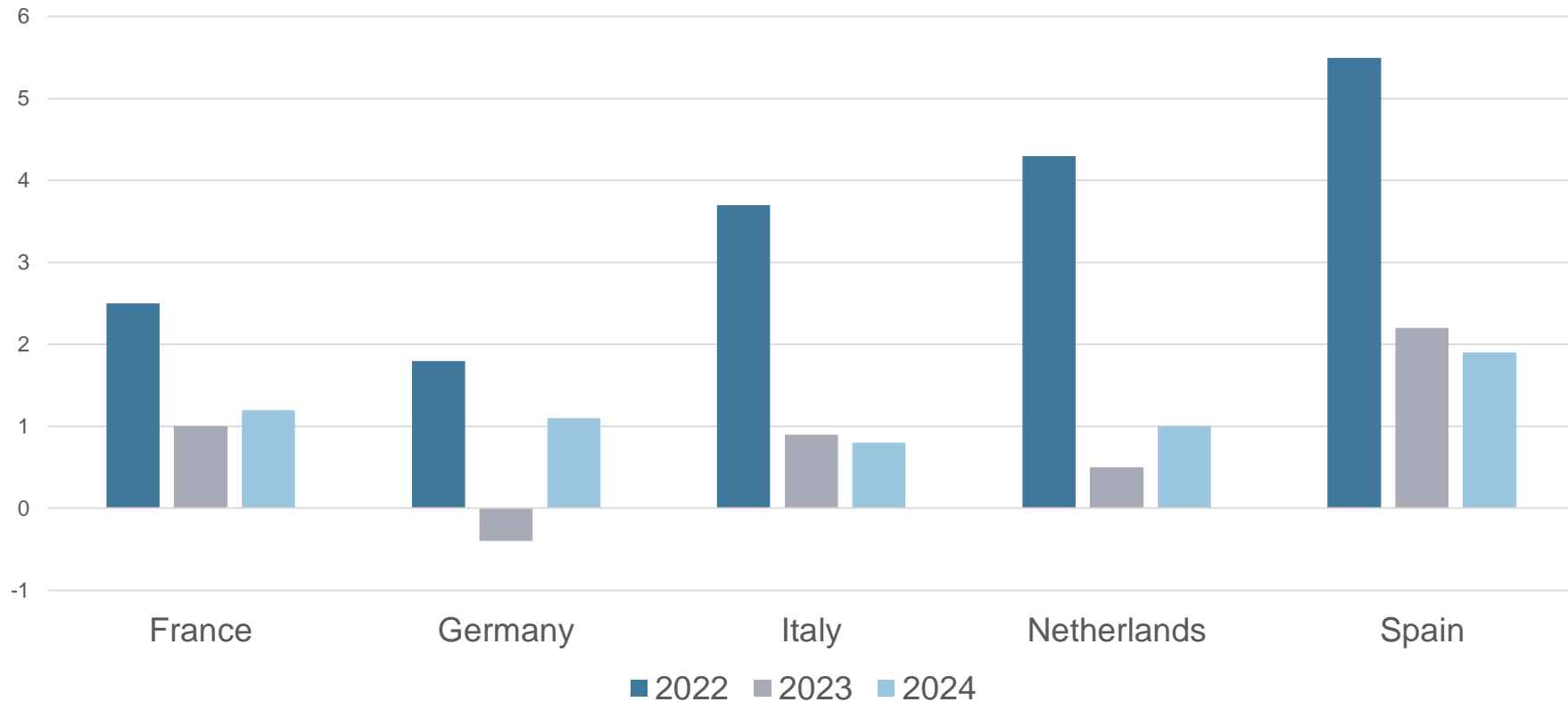
Assumptions:
Financial market turbulences
limited;
no new energy price explosion

*Aggregate „World“ calculated using market exchange rates.

Germany holding the red lantern. Forecasts by the EU commission

Real GDP

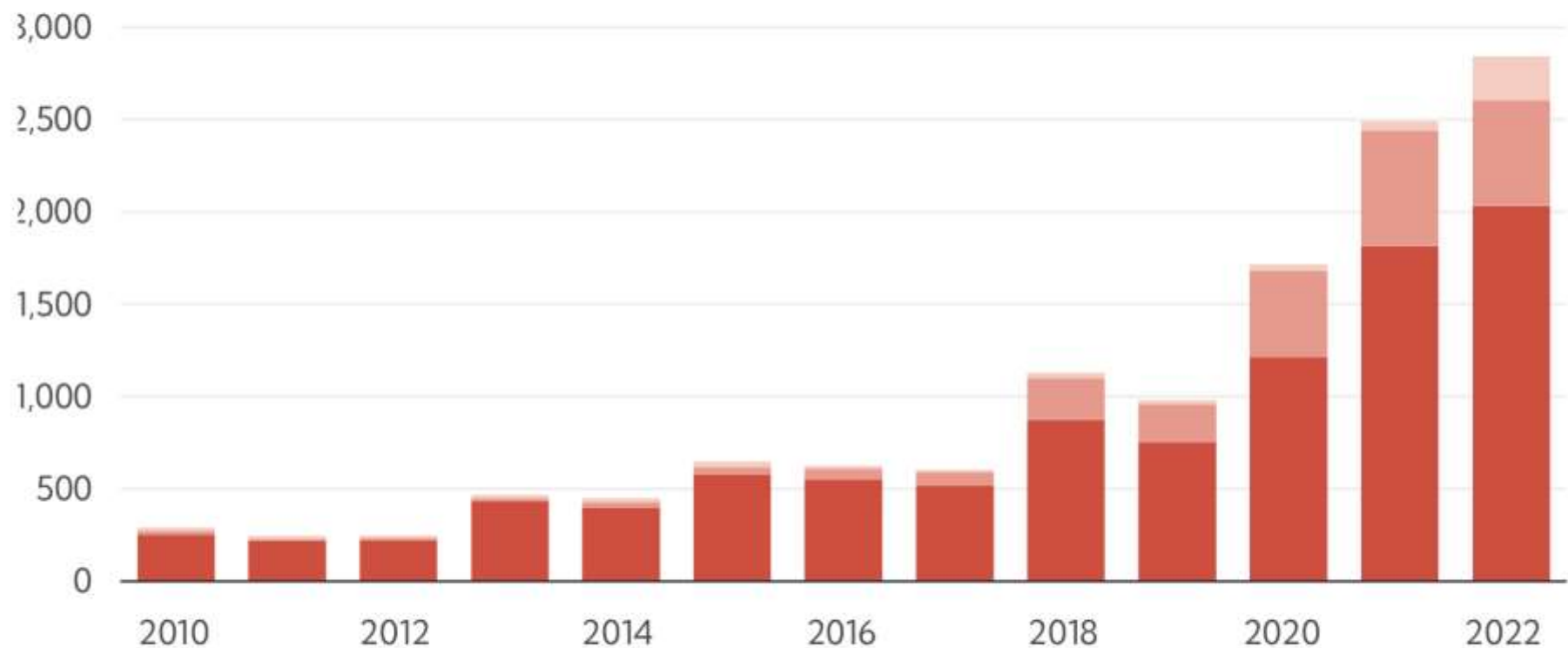
(Annual percentage change)



Protectionism and fragmentation are blooming

Number of trade restrictions imposed annually worldwide

■ Goods ■ Services ■ Investment



Source: Global Trade Alert and IMF staff calculations

IMF

Global scenarios and their likelihood

1

Economic warfare intensifies - and global stagnation follows 10 %

China-US relations further deteriorate, EU in a squeeze

China and Russia strengthen their alliance also militarily

Ukraine war continues with bouts of escalation

2

Fragmentation and block building continue with intermittent rays of sunshine - growth remains weak 70 %

China-US relations remain on a low level

Leaders of the global South remain hesitant to take sides

Nationalist and protectionist policies remain in place, but don't intensify

3

Diplomatic rapprochement-trade barriers lifted and co-operation improved, global growth accelerates 20 %

China showcases constructive role and uses leverage to end the Ukraine war

US-EU-China relations improve, some trade and investment restrictions are lifted

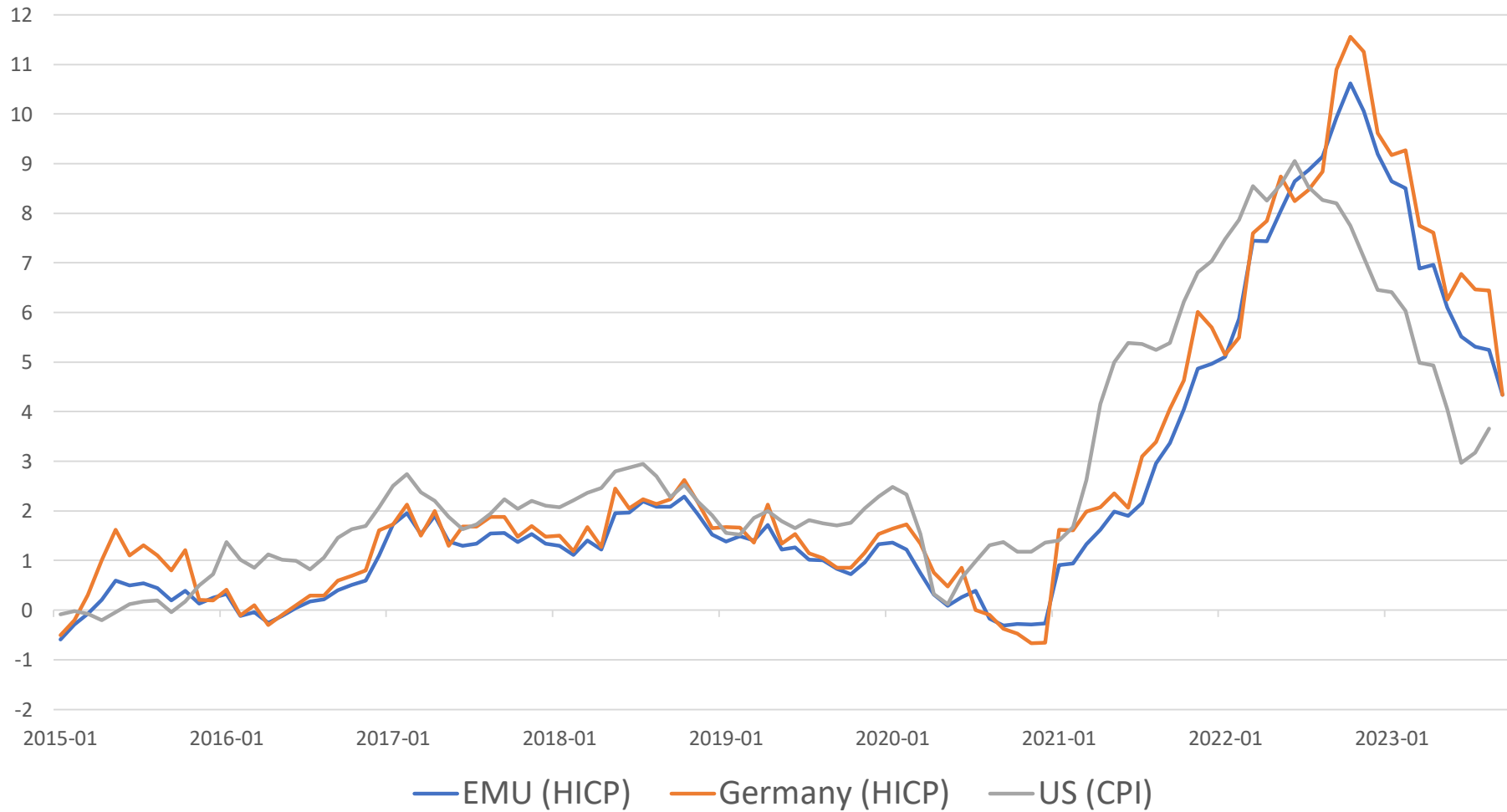
Financial markets boom supporting global growth



Headline inflation has been rapidly declining, but level still too high

Consumer prices*

(Annual percentage change)

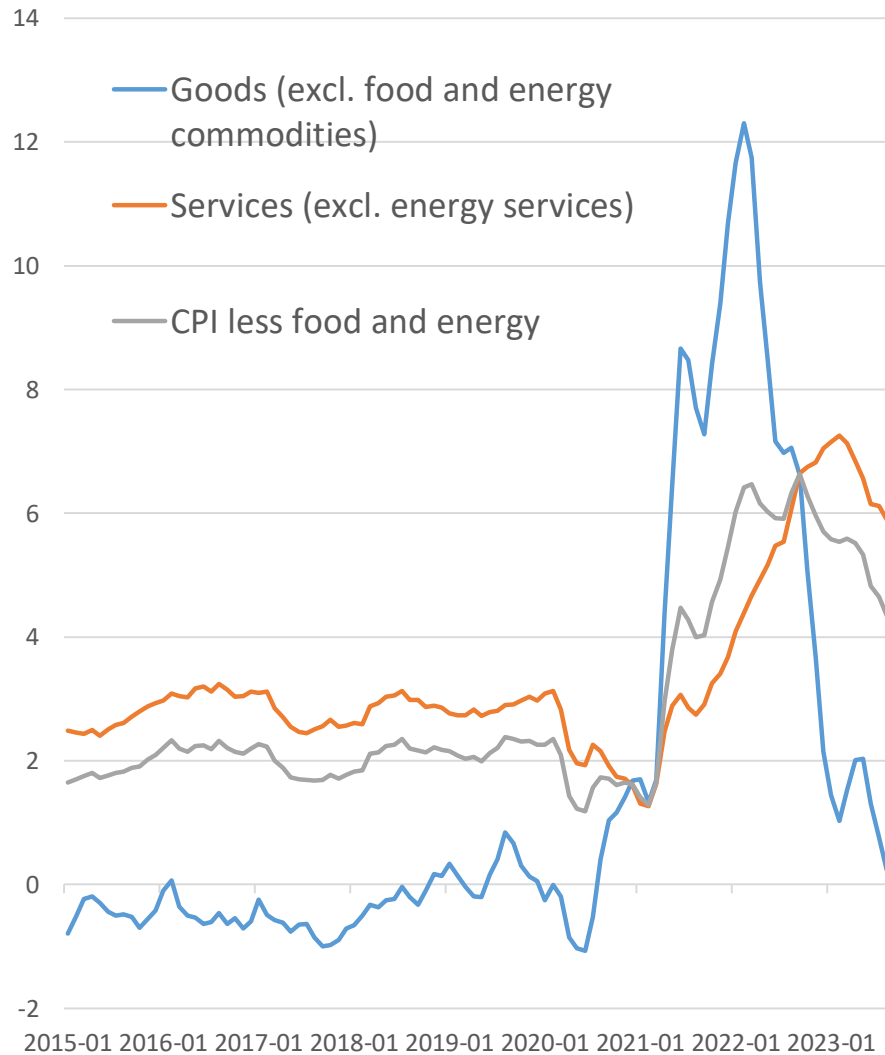


* September data EMU, Germany: Flash estimate

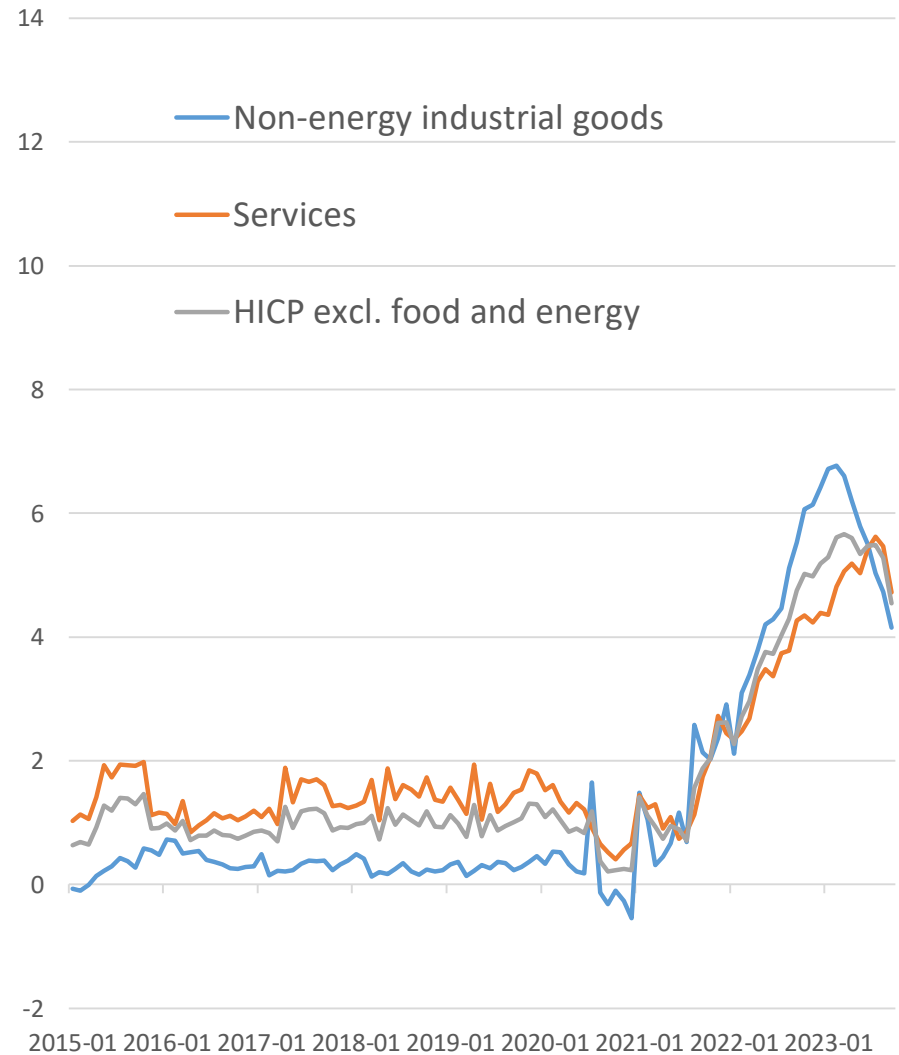
Source: Federal Reserve Economic Data, ECB, Deutsche Bundesbank.

Core inflation and services prices slower to decline

US



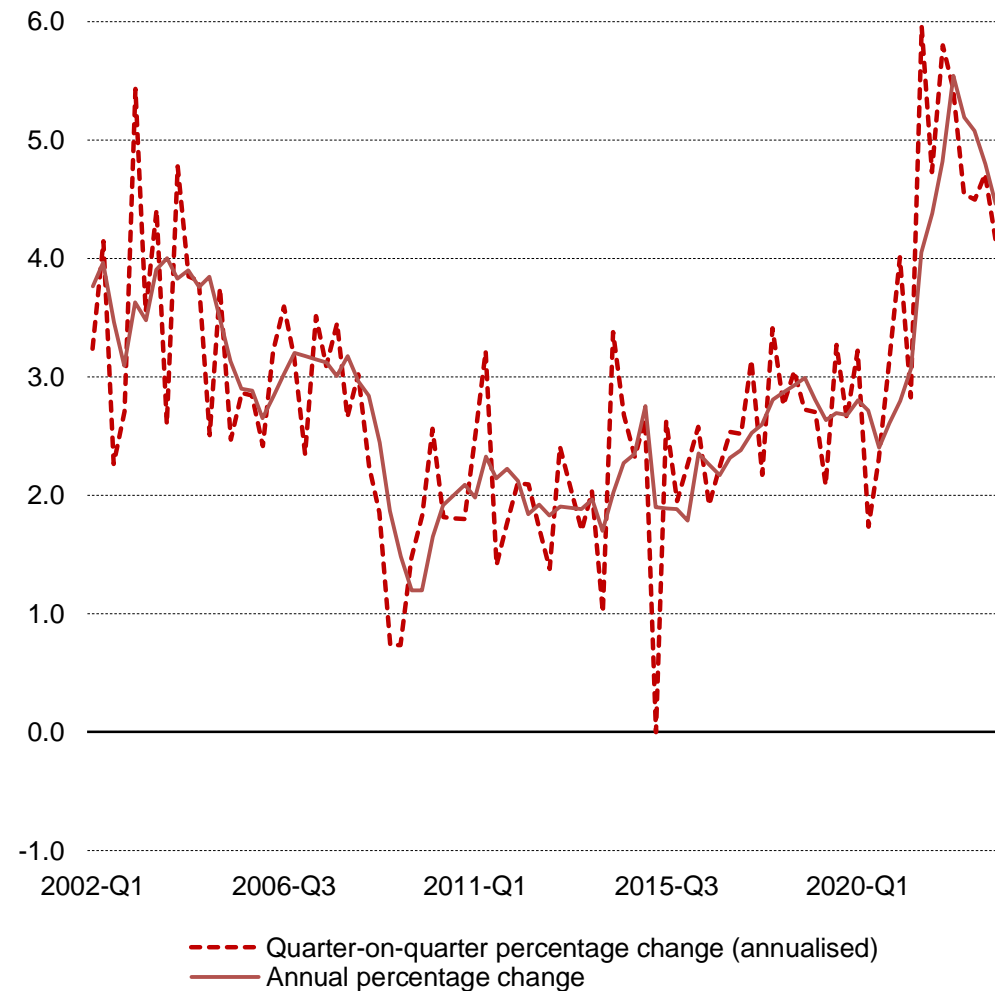
EMU



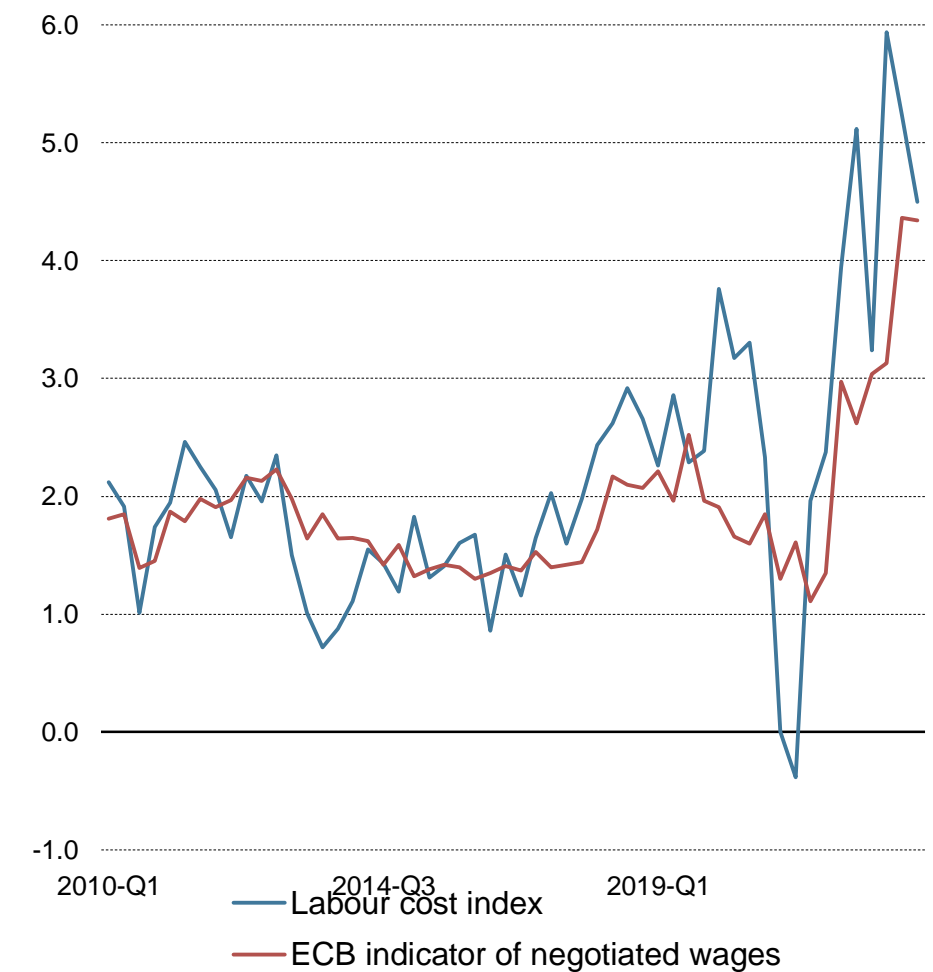
Data through August 2023 (US) and September 2023 (EMU), respectively.

Wage inflation slowing in US

USA: Employment Cost Index (ECI), private industries

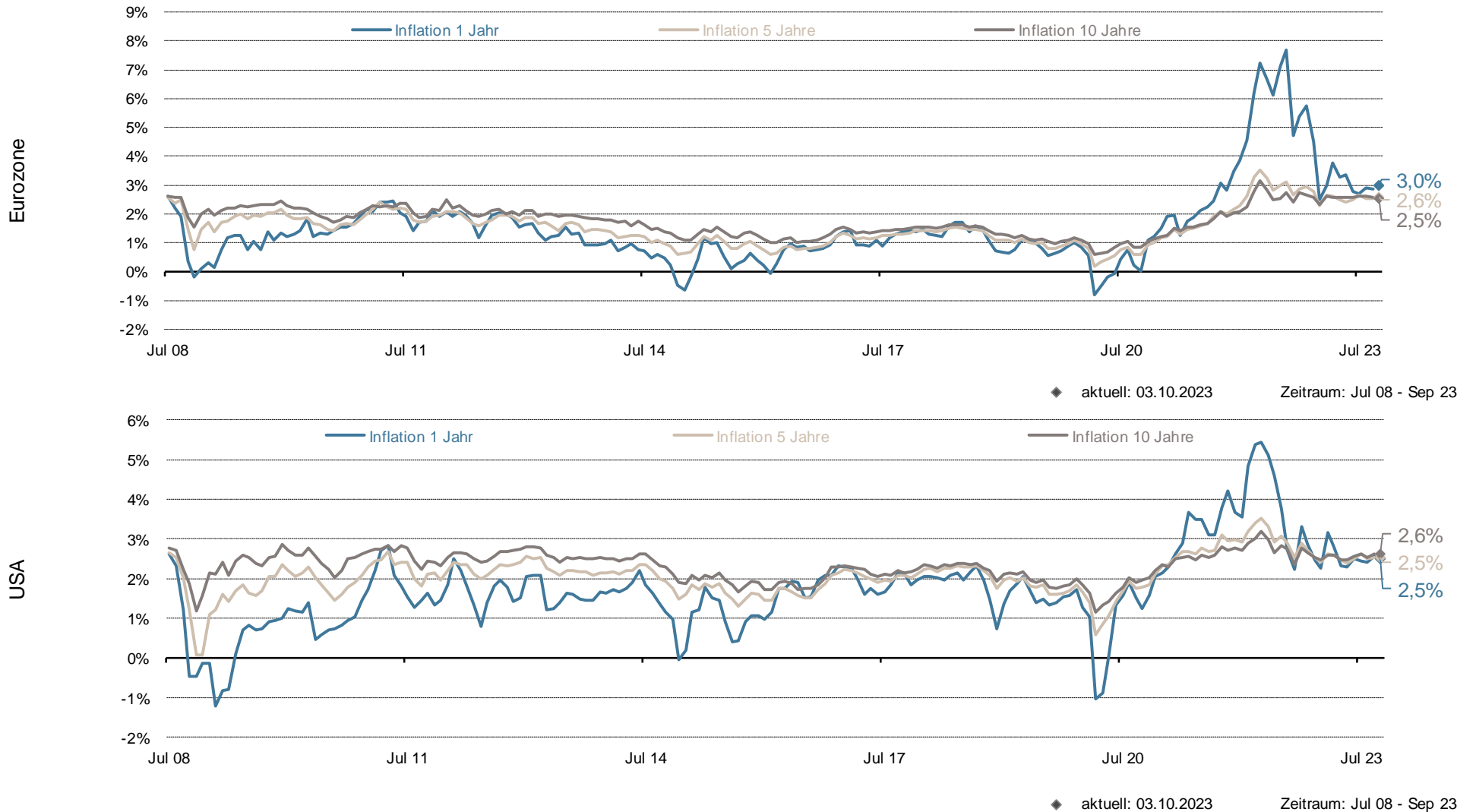


EMU: Labour cost index and ECB indicator of negotiated wages | Annual percentage change



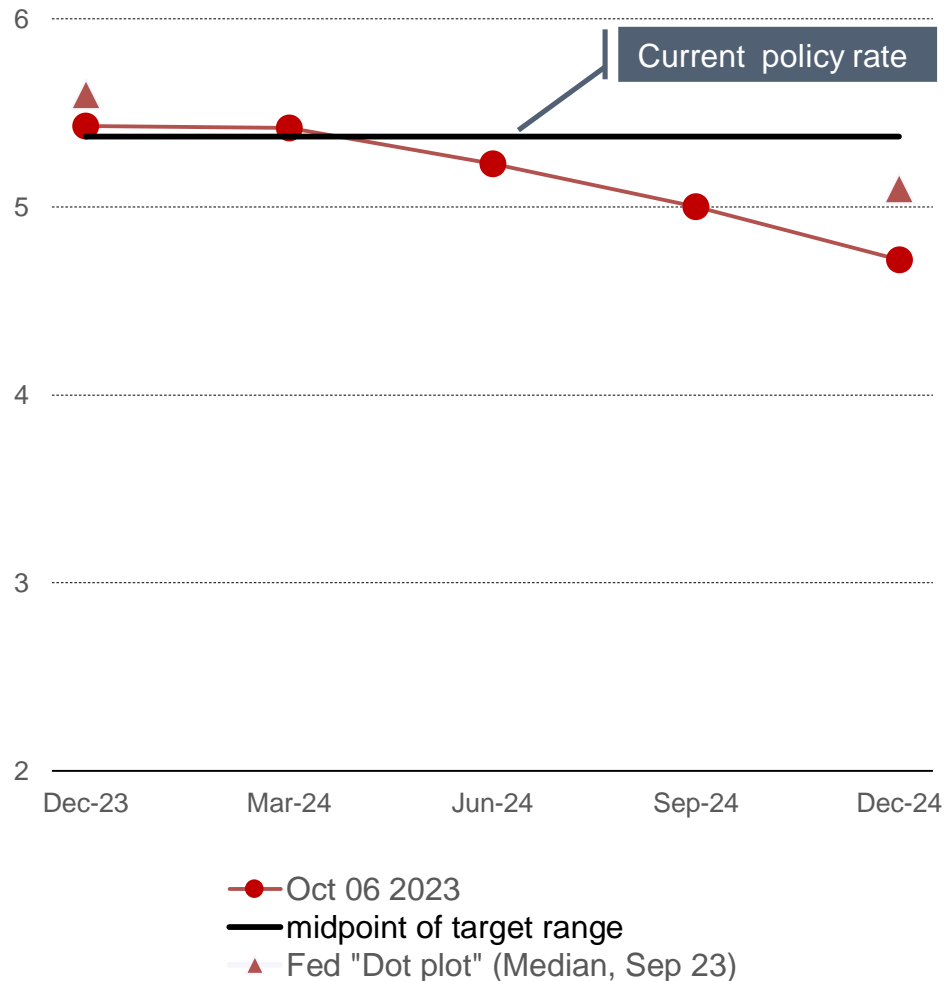
Long-term Inflation expectations on financial markets have stabilized around 2.5 %

Inflation expectations

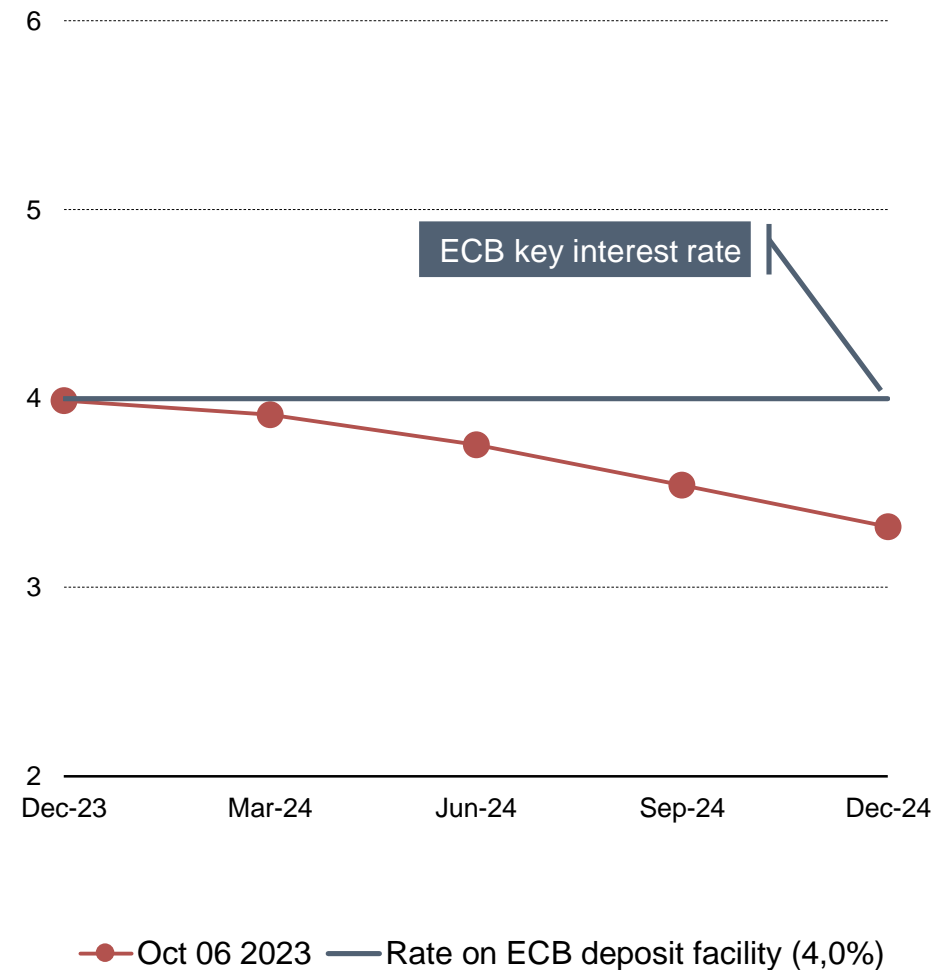


Short term peak of central bank rates seems to have been reached

US | Policy rate and market expectations for the federal funds rate based on federal funds futures (%)

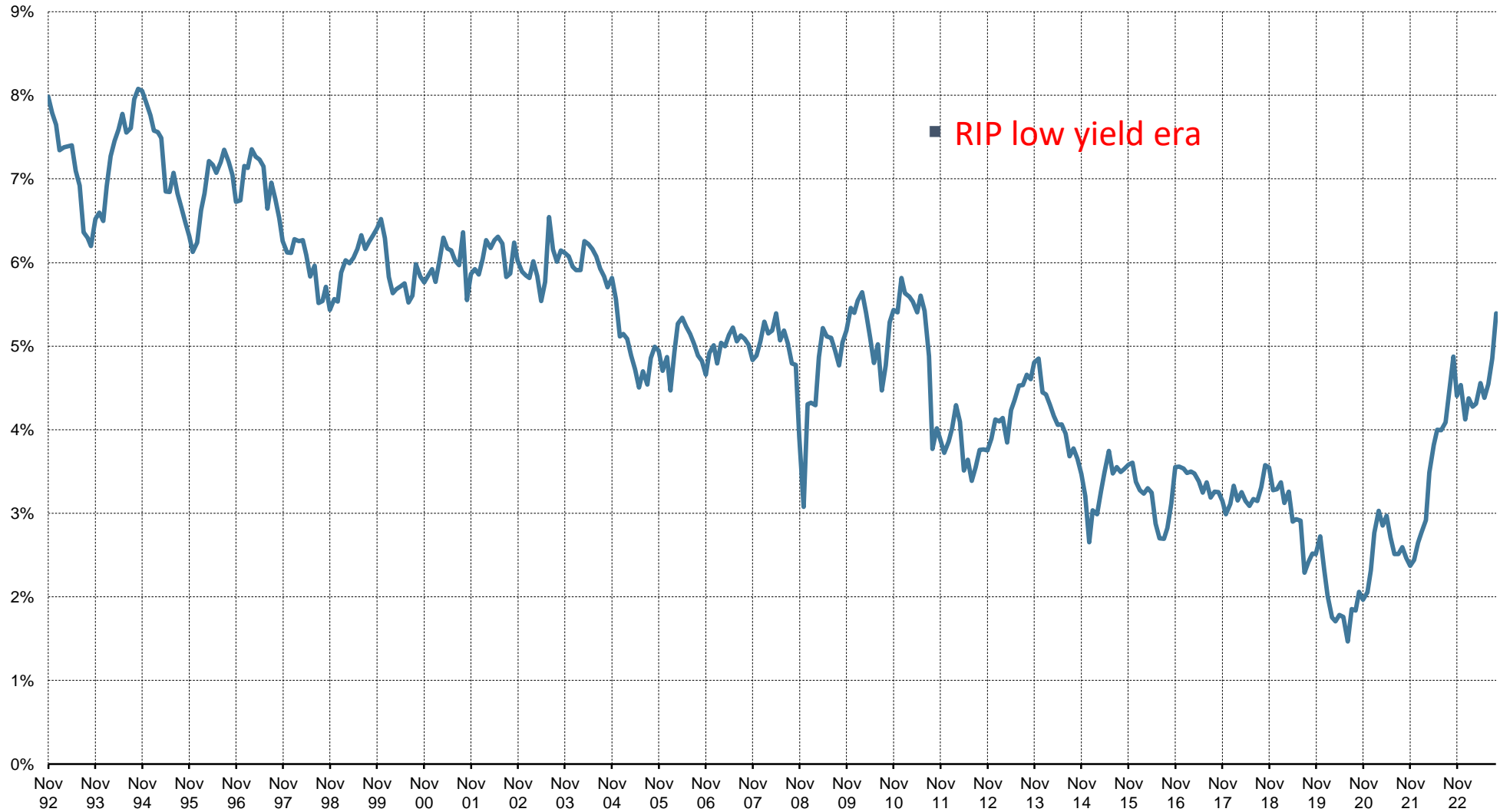


EMU | Key ECB interest rate and derived market expectations for 3-month money based on 3-month EURIBOR-Futures (%)



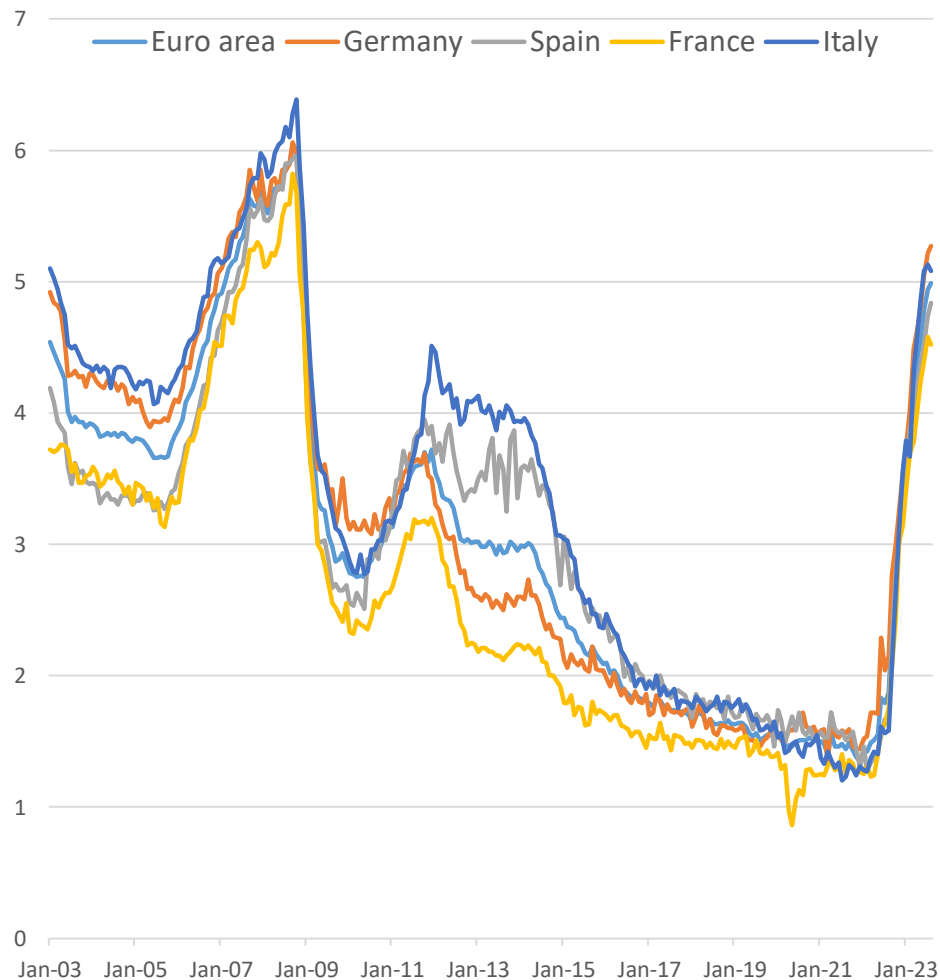
Financial markets are saying goodbye to the low yield era

US Treasury Forward Rate 10Y10Y

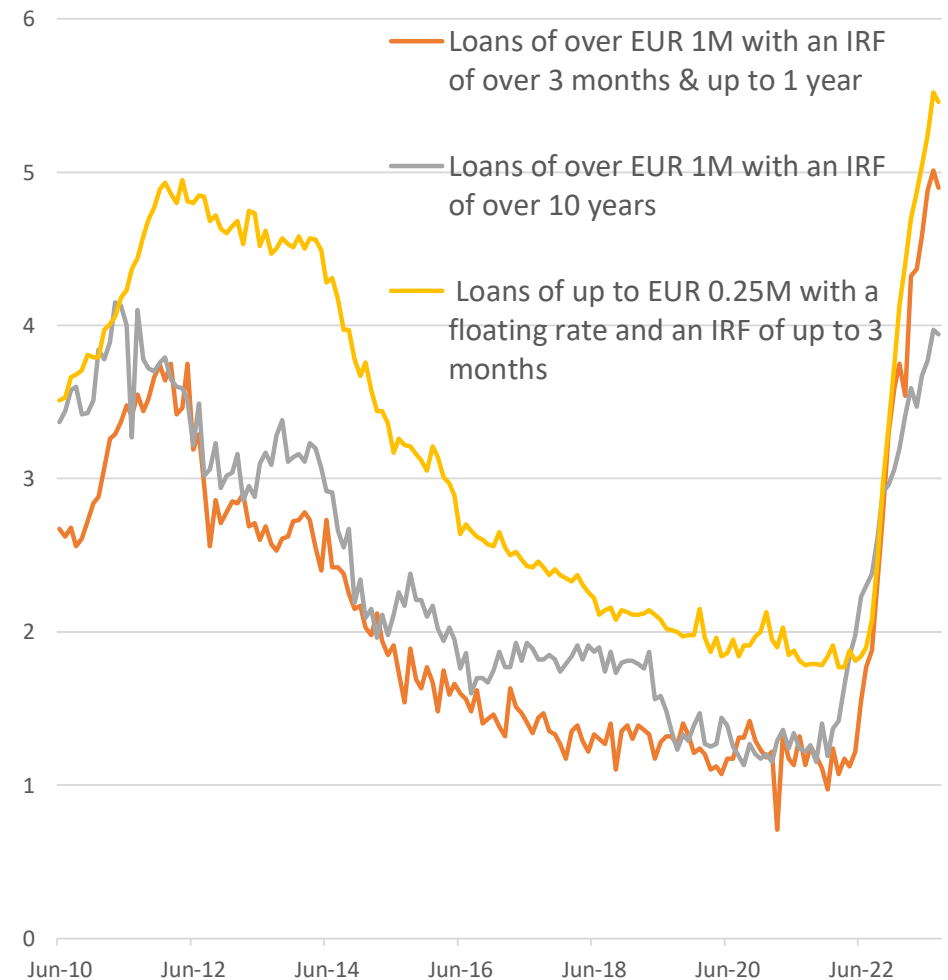


EMU: Bank interest rates for corporations remains high

Composite cost of borrowing indicator for non-financial corporations | (% p.a., new business)



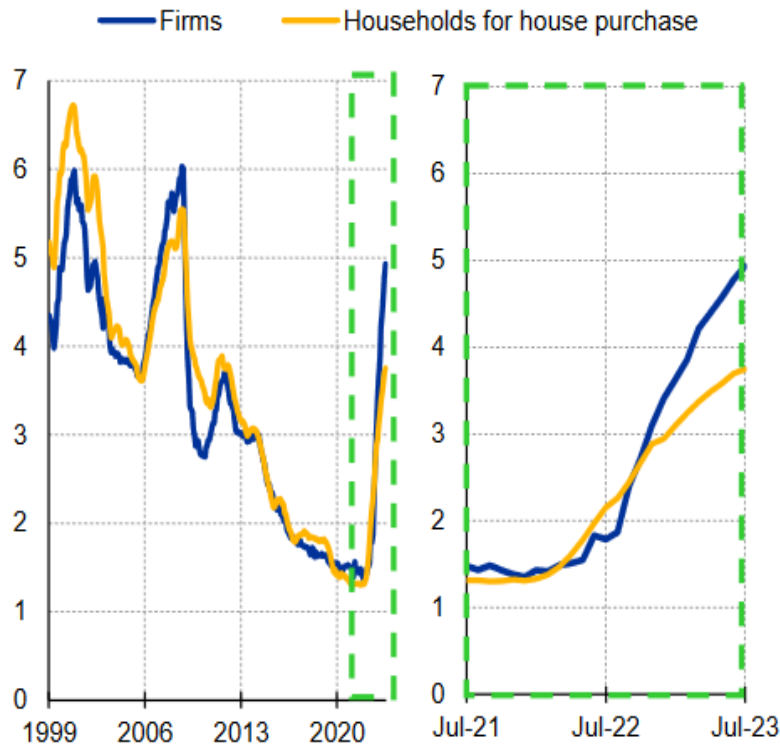
EMU | Composite cost of borrowing – selected categories (% p.a., new business)



Higher funding costs and weak bank lending

Strong transmission to funding costs and bank lending

Composite cost of borrowing
(percentages per annum)

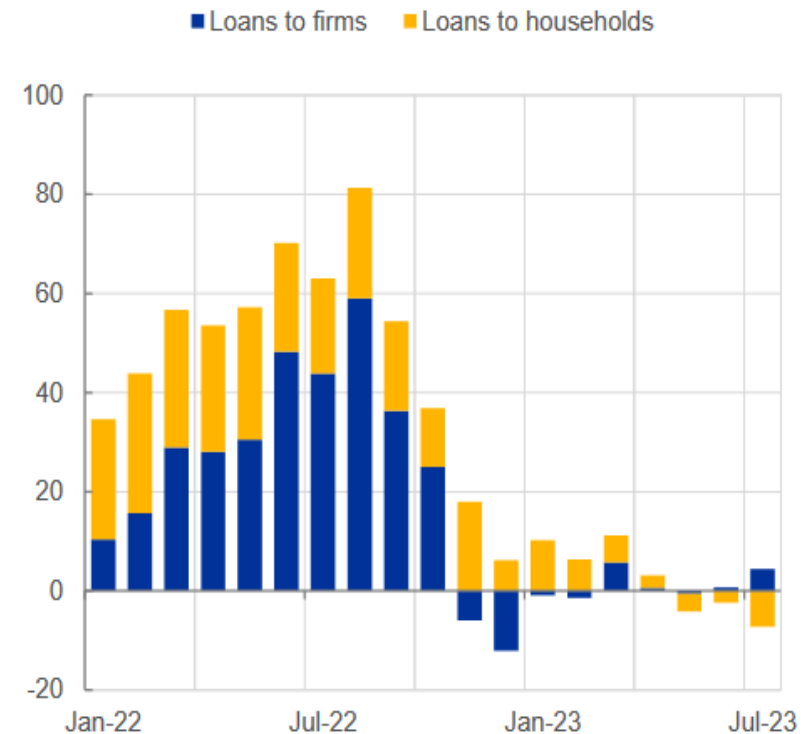


Sources: ECB (MIR) and ECB calculations.

Notes: The indicator for the total cost of bank borrowing for firms is calculated by aggregating short-term and long-term rates using a 24-month moving average of new business volumes.

Latest observation: Jul 2023

Bank loans to firms and households
(monthly flow in EUR bn)



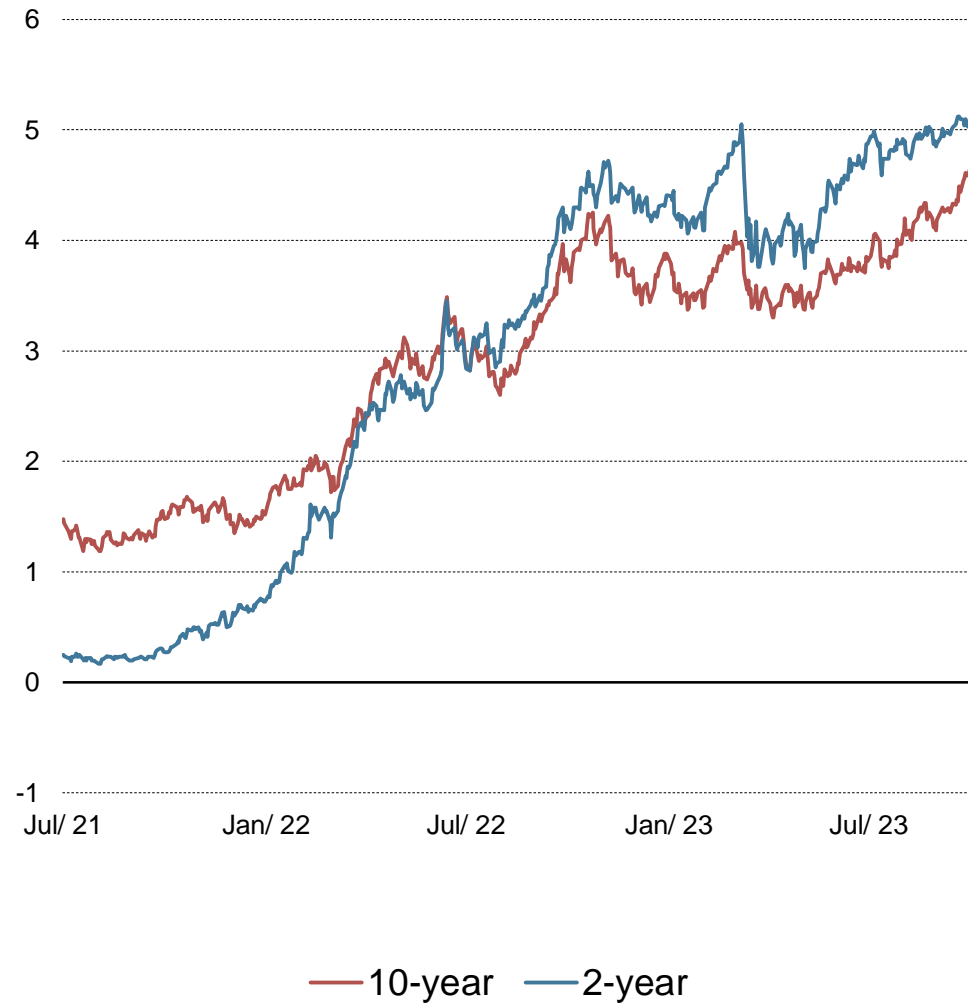
Sources: ECB (BSI).

Notes: Loans to households and firms are adjusted for sales and securitisation. Loans to firms are also adjusted for cash pooling.

Latest observation: Jul 2023.

Yields should stay on a plateau for some time

US government bond yields (%)



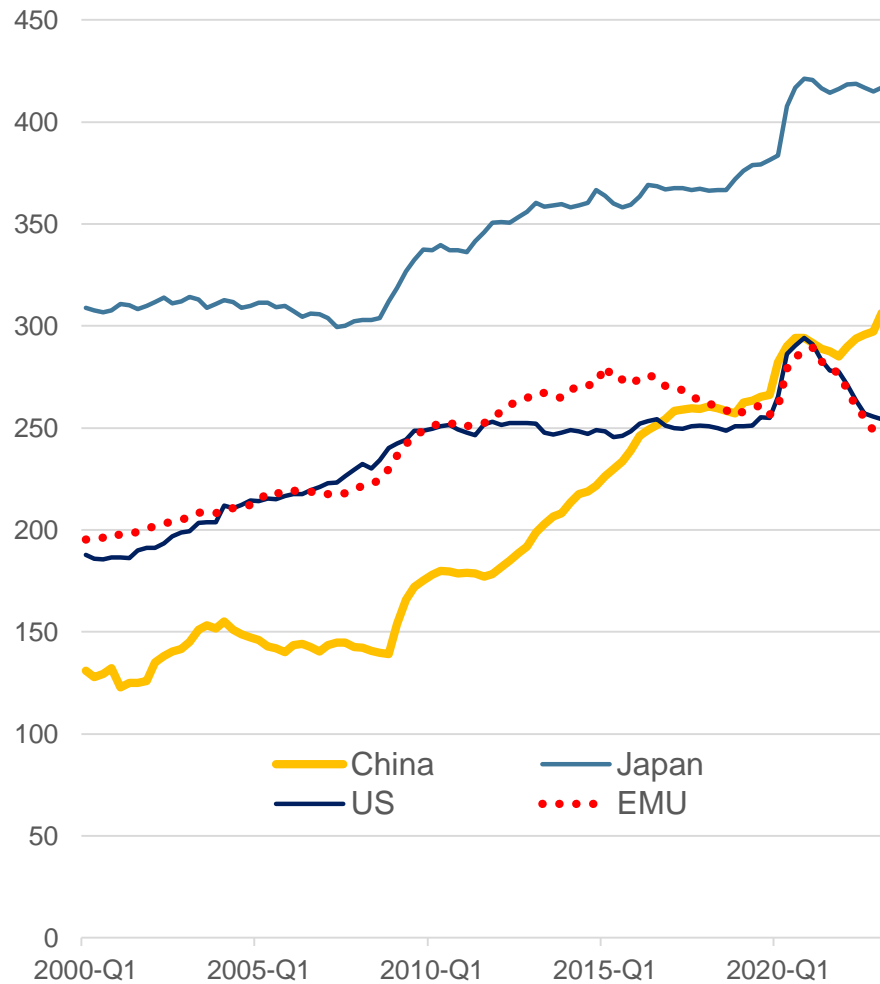
Yields on German government bonds (%)



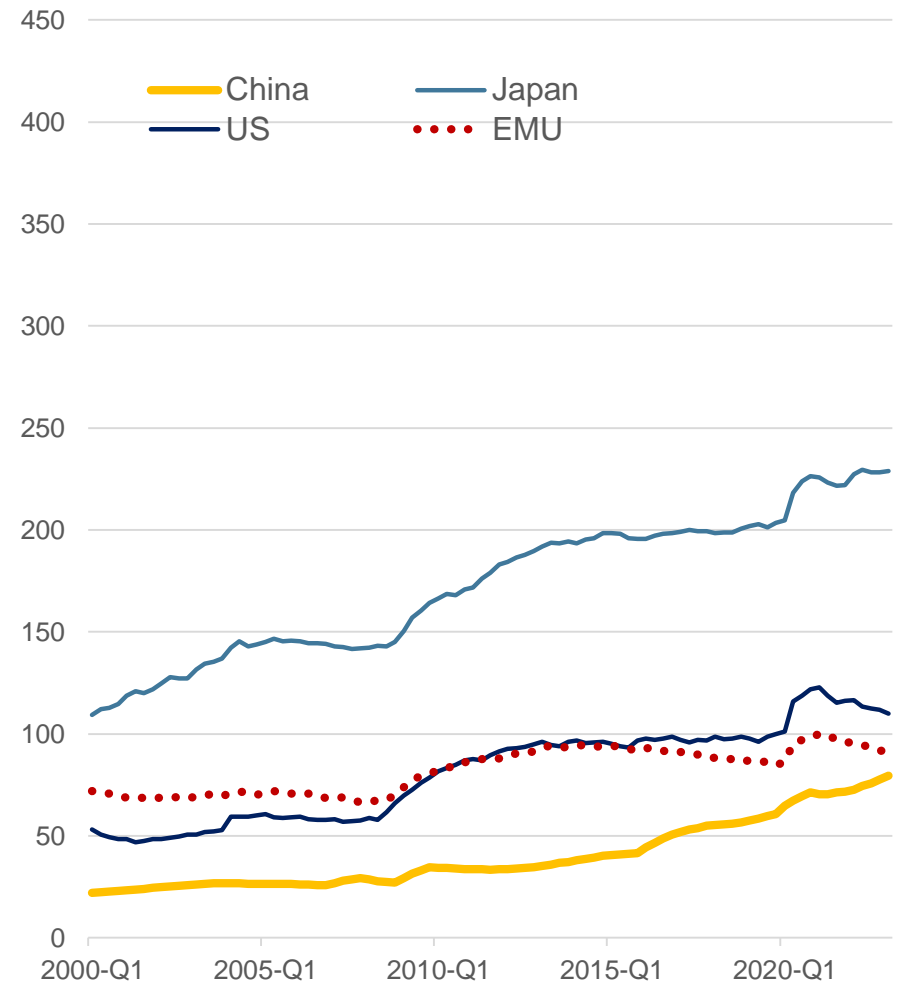
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High level of debt is a risk for financial stability

Total credit to the non-financial sector
(market value, % of GDP)



Total credit to the government sector
(nominal value, % of GDP)



Some implications for private debt

Financial conditions challenging

Financial conditions remain challenging in the face of weak growth, slowly receding inflation and higher interest rates. Bank lending remains tight.

Big investment needs due to structural change

Big investment needs of corporate sector due to climate friendly transformation and energy efficiency, digitalization and AI, overhaul of global supply chains with reshoring and friend-shoring and risk diversification, new defense policies

Insolvencies are rising and risks to financial stability

Low levels of insolvencies in the Covid-years are bound to rise, especially for highly leveraged firms, financial stability risks due to high levels of debt and refinancing needs

Uncertainties can impair fundraising

Fundraising remains challenging in difficult environment, inflation needs to come down to restore a risk-on mood on financial markets. Uncertainties emanate from geopolitical risks, oil price risks, wage pressures.