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Special: The Japanese yen as key aspect of monetary adjustments

Analysts: Constantin Lürer // Tobias Basse

Movement in the FX markets

The pronounced weakness of the Japanese currency in evidence until a few weeks ago was clearly a consequence of the monetary policy orientation in Tokyo. It is interesting to note that the extremely cautious measures taken by the Bank of Japan towards a very gradual normalization of its monetary policy strategy failed to effectively help the Yen as might have been expected. It was only the emergence of quite ambitious expectations among market participants with regard to the rate reduction plans in the USA that made for a sudden improvement in the value of the yen. This has temporarily put an appreciable strain on the Japanese stock market and also led to certain turbulences in the international financial markets, with the yen at times standing at around 142.5 relative to the USD. This moderate market crash can be expected to prompt the Japanese central bank to exercise even more caution in the upcoming decisions on monetary policy than it already does. While BoJ governor Kazuo Ueda will not allow his room for manoeuvre to be taken out of his hands by market expectations or even by monetary policy strategies of other central banks, he will nevertheless likely be looking to try to ensure stability for the yen without provoking a fresh crash at the same time.

Chart: FX spot rate (JPY per USD)



Sources: Macrobond, NORD/LB Macro Research

Cleansing thunderstorm for short positions

All the same, there is always the risk of renewed market distortions, which, it goes without saying, are not exclusively caused by currency-driven speculation. A residual probability that the unpredictable movements surrounding the carry trades might enter a second round certainly still exists. At the same time, this risk to financial stability has likely gained renewed focus among the central bankers. If currency-indexed distortions were to flare up again, market participants and supervisors would therefore probably no longer be caught quite as off guard as before. Consequences for the monetary policy orientations of the Bank of Japan in particular, but also that of the Fed, are not really to be expected at the moment, however.

Kazuo Ueda tightens the reins

On the contrary, the BoJ will likely be looking to continue its tightening strategy for the time being. At his recent parliamentary meeting, Ueda pointed out that so far there has been no change in the fundamental stance towards adjustments to the central bank's loose monetary policy. Shinichi Uchida, one of Ueda's two vice governors, recently stressed, among other things, to representatives of the business

community that nothing could be done either if the markets were to be too unstable or excessively volatile. This was a reference to the turbulences of August 5. However, the other deputy governor, Ryozo Himino, reaffirmed that there is consensus among the members of the BoJ's Monetary Policy Committee as to the further strategy and that economic and financial market data need to be monitored very closely. We can therefore assume that the Bank of Japan will likely follow its words with actions and continue raising the key interest rates in 2024, albeit just very cautiously.

Forward guidance from Jackson Hole

On the other side of the Pacific, in the USA, the key-rate development is likely to go in exactly the other direction. At the annual central banking conference in Jackson Hole, which brings together the who's who of the monetary policy world, Jerome Powell was once again unusually specific in a speech. With the words "The time has come for policy to adjust", Powell may have anticipated the FOMC meeting in September and thus given some forward guidance with regard to the Fed funds target rate. But as always, only if the underlying conditions allow, whereby he implicitly excludes nothing. The long-standing topics that, for example, the labour market is showing signs of weakness and inflation is developing in the right direction formed the basis of his derivation. It is noteworthy that the former has gained further significance. The Fed is neither seeking nor would welcome further cooling in labour market conditions, said Powell, slightly upping his rhetoric. This shows once again that this perspective is becoming increasingly important tactically for the Fed's further orientation. Fed-Chair Powell is confident that "an appropriate dialling back of policy restraint" will not lead to any conflict of objectives, and that the goals of reducing the inflation rate to 2.0 percent yoy and maintaining a stable labour market can be achieved simultaneously. With a continued restrictive real interest rate level, therefore, there would certainly be leeway for adjustment. That said, the market is divided as to how big this adjustment would have to be in the eyes of the Fed in order to achieve these goals. Data on inflation and the labour market will also have been published before the FOMC meeting in September, which should certainly bring some movement to this issue.

Economic areas are closely intertwined

The principles of the Fed's dual mandate have undisputed priority in the central bank's strategy. Nevertheless, it is important in Washington, too, to keep a close eye on the stability of the financial markets. For the Fed's central bankers, foreign currency areas also represent a piece in the mosaic of this complex and sometimes fragile structure, recently demonstrating once again how closely the economic areas are linked to each other via the financial markets. It could be that Powell's intention was not only to give the domestic economy a cautious but sufficiently concrete outlook on the key interest rate trend, but also to show speculators that the time for certain strategic positioning could soon be coming to an end. It is foreseeable that the temporarily lucrative interest rate differential will narrow against a background of falling key rates in the USA and rising key rates in Japan.

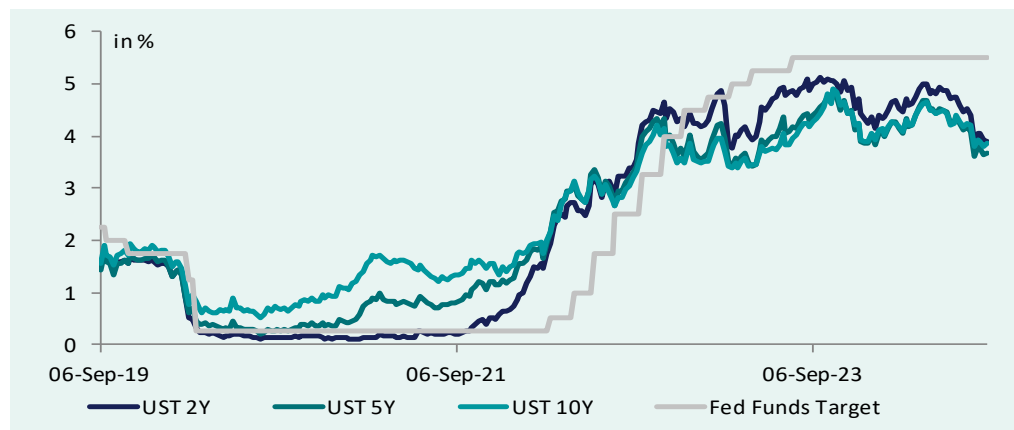
USA: Consumers remain a key factor

Analysts: Tobias Basse // Constantin Lüer

Consumers remain a key factor

With the initially reported figures having been revised upwards, GDP registered growth of 3.0 percent (ann.) for Q2/2024. This comes as rather a slight surprise on the upside. Private household consumption was a key driver behind this pleasing development. US retail sales had already risen by an impressive 1.0% mom in July as month under review. This goes to show that consumer behaviour in the USA is currently exhibiting no sign of any sustained weakness – indeed, quite the opposite. The sales figures from car dealerships clearly contributed to the pleasing development, with revenues in this segment up by a really noteworthy 3.6 percent mom in July. This news comes as no big surprise, however; indications from industry circles had in fact already pointed in this direction at an early stage. Moreover, there was also a rebound effect after the previous month's weak showing. Consequently, US retail sales excluding the subgroup autos grew by 0.4 percent mom. The control group of retail sales, which is of central importance for the GDP survey, registered a current month-on-month growth figure of 0.3 percent. After the very pronounced expansion in this important subcomponent in June as month under review, the rather slight increase is certainly no disappointment. It remains to be seen what effect a gradual deterioration in the employment situation will have on consumer behaviour in the USA. In our view, there are good reasons not to be overly pessimistic about the future prospects at this point; at 4.3 percent, the unemployment rate is at a level that can indeed still be described as low.

Chart: Interest rates in the USA



Sources: Macrobond, NORD/LB Macro Research

Sentiment in the US construction industry remains downbeat

The high interest rate levels appear to be still weighing on sentiment in the North American construction industry. The NAHB Housing Market Index deteriorated further to just 39 points in August as month under review. Indeed, the extremely important "Prospective Buyers Traffic" subcomponent registered a decline to just 25 points. This time series thus indicates a truly persistent weakness in demand. In any event, it seems that US monetary policy is currently quite restrictively oriented – and this simple fact is clearly impacting the local real estate industry. That said, the discussion processes now taking place in Washington as to imminent key-rate cuts by the FOMC could very quickly help to dispel the negative sentiment in the US construction industry.

FOMC looking to act soon

Interest rate cuts are now without any doubt an item on the US central bank's agenda. The inflation trend is likely to allow such monetary policy measures in the meantime, with, for example, the annual rate for the consumer price index dropping to 2.9 percent in July as month under review. While high

rental prices continue to be a certain problem, there is a clear trend towards disinflation. Household inflation expectations don't appear to be any great problem in the meantime either. The recent comments by Fed Chair Jerome Powell show that the central bankers in Washington now seem to be more concerned about developments in the US labour market. Against this backdrop we are maintaining our view that the US central bank will be looking to make two rate cuts in the course of the second half of 2024. The current figures from the labour market need to be kept a close eye on in this context. In the absence of any notable rise in the unemployment rate, the FOMC will likely be more inclined towards a fairly cautious shift in interest rates. As we see it, justified grounds for this hypothesis lie not only in the development of the yen/USD exchange rate already discussed in this issue's Special but also in the upcoming presidential election campaign in the United States. While Donald Trump would like to see a lower key rate level in the USA, this fact is unlikely to prevent him from criticising swift reductions in the Fed funds target rate as an attempt to influence the election campaign there.

Fundamental forecasts, USA

	2023	2024	2025
GDP	2.5	2.5	1.7
Private consumption	2.2	2.3	1.6
Govt. consumption	2.7	2.9	1.0
Fixed investment	2.0	2.9	2.6
Exports	2.6	2.1	2.5
Imports	-1.7	2.9	2.2
Inflation	4.1	3.0	2.3
Unemployment rate ¹	3.6	4.1	4.4
Budget balance ²	-6.5	-6.1	-6.2
Current acct. balance ²	-3.3	-3.2	-3.1

Change vs previous year as percentage; ¹ as percentage of the labour force; ² as percentage of GDP

Sources: Feri, NORD/LB Macro Research

Quarterly forecasts, USA

	IV/23	I/24	II/24	III/24	IV/24
GDP qoq ann.	7.0	1.4	3.0	1.6	1.0
GDP yoy	3.1	2.9	3.1	2.3	1.7
Inflation yoy	3.2	3.2	3.2	2.8	2.6

Change as percentage in %

Sources: Feri, NORD/LB Macro Research

Interest and exchange rates, USA

	29.08.	3M	6M	12M
Fed funds target rate	5.50	5.25	5.00	4.25
3M rate	5.02	5.00	4.70	4.10
10Y Treasuries	3.86	3.90	3.70	3.50
Spread 10Y Bund	159	170	150	110
EUR in USD	1.11	1.10	1.09	1.10

Sources: Bloomberg, NORD/LB Macro Research

Euroland: Inflation decline gives ECB the green light

Analysts: Christian Lips, Chief Economist // Christian Reuter

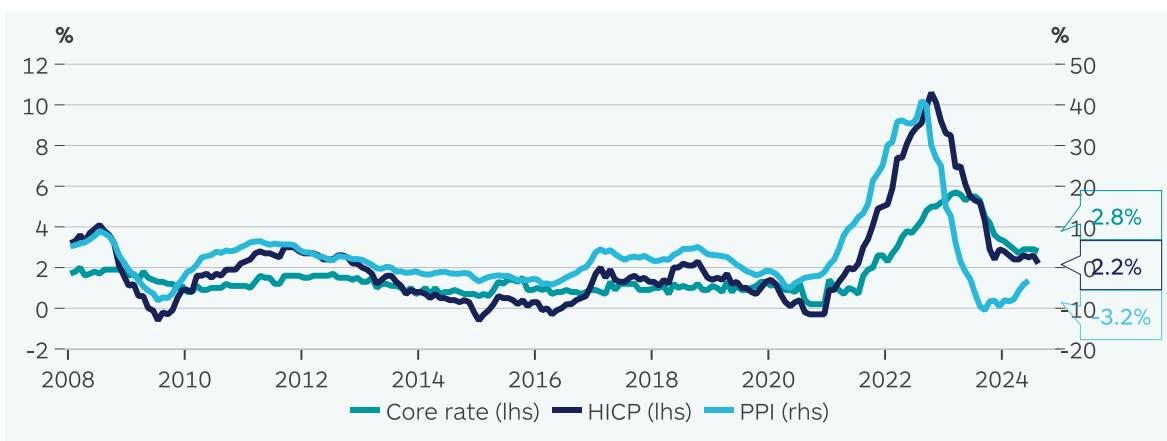
Eurozone surprises with solid growth in the first half-year

The economic recovery in the eurozone continued in the spring. As at the start of the year, price and seasonally adjusted GDP rose anew by 0.3 percent qoq in Q2, and thus slightly stronger than expected. The annual rate climbed to 0.6 percent yoy. Preliminary data indicate that Ireland achieved the highest growth among the member states, with a figure of +1.2 percent qoq. But economic performance also grew in most of the eurozone's major economies, in some cases quite significantly. GDP expanded unexpectedly strongly in the Netherlands (+1.0 percent) and again in Spain (+0.8 percent), while France and Italy registered at least moderate economic growth of 0.2 percent qoq each.

In contrast, Germany's real economic output shrank slightly by 0.1 percent, primarily attributable to significantly lower levels of investment in machinery and equipment and in construction. The eurozone's biggest economy remains trapped in stagnation in the face of weak investment, and lags well behind the other major economies in terms of economic development.

The economic outlook, too, is currently quite heterogeneous; overall, the leading indicators point to merely subdued economic momentum. The Economic Sentiment Indicator rose somewhat again, at least in August, but at 96.6 points remains below the long-term average. Industrial confidence at least improved. The PMI indices registered a slight upward trend for the eurozone, though primarily due to a special effect. The PMI Services in France, for example, literally surged from 50.1 to 55.0 points, though likely due to the one-off effect of the Olympic Games in Paris. Against this background we are remaining more cautious in our growth forecast than the ECB in its June projections.

Chart: Inflation decline clears the way for further rate cuts



Sources: Eurostat, Macrobond, NORD/LB Macro Research

Inflation down significantly in August – but core rate and service prices remain too high

Inflation dropped again in August, from 2.6 to just 2.2 percent yoy, as did the core rate, though only slightly to 2.8 percent yoy (see chart). The disinflation process is spreading throughout the eurozone, with the upward movement in consumer prices having slowed markedly in all the major economies – due primarily to lower energy prices. The current development is predominantly attributable to base effects and lower oil price of late, however. That said, there is little chance of the oil price providing any great respite in the foreseeable future. Moreover, the overall picture is also being clouded by the upward development of prices in the services sector (4.2 percent yoy). This is a further increase on the previous month and the overall level remains far too high.

ECB: Green light for a rate cut in September – risks speak for a cautious approach

As expected, the ECB paused in July after its initial rate cut in June. In this respect, the latest inflation and wage data are of considerable importance in terms of the interest rate decision in September. In the short term, these will strengthen the doves' position in the Governing Council, with August having seen the inflation rate at least edging closer to the ECB's stability target. Moreover, Q2 saw the growth in nominal wages unexpectedly lose momentum, so any remaining doubts as to a continuation of monetary policy easing are now likely to have been dispelled. We are firmly maintaining our expectation of the ECB cutting interest rates on 12 September – in addition to the planned narrowing of key-rate spreads following the central bank's review of its monetary policy framework.

However, inflation trend over the near-term is likely to remain bumpy. Service prices will be in focus, with the momentum having slowed somewhat though the price pressure is still too high. The central bankers will therefore likely delay want to see that further progress has been made. Against this background we do not expect any predetermination as regards the further interest rate path.

Moreover, upside risks to inflation remain in the fragile geopolitical environment. The most recent example is the disruption in Libya's oil production, in addition to concerns about an escalation of the conflict between Israel and Iran. Given to the high degree of uncertainty, the ECB's hawks will likely argue in favour of a cautious rate-hike strategy. In an initial reaction to the latest inflation data, ECB executive board member Isabel Schnabel and Bundesbank governor Joachim Nagel warned against an overly rapid rate cut path. Schnabel sees the market expectations as too optimistic. Thus, the inflation data give the green light for a rate cut in September. However, there are good reasons for a cautious rate adjustment strategy, which will continue to be reassessed from meeting to meeting.

Fundamental forecasts, Euroland

	2023	2024	2025
GDP	0.5	0.7	1.2
Private consumption	0.7	1.1	1.6
Govt. consumption	1.0	1.3	0.8
Fixed investment	1.2	-1.6	1.5
Net exports ¹	0.3	0.8	-0.2
Inflation	5.4	2.5	2.2
Unemployment rate ²	6.6	6.5	6.3
Budget balance ³	-3.6	-2.9	-2.7
Current account balance ³	1.6	3.0	2.6

Change vs previous year as percentage, ¹ as contribution to GDP growth; ² as percentage of the labour force; ³ as percentage of GDP

Sources: Feri, NORD/LB Macro Research

Quarterly forecasts, Euroland

	IV/23	I/24	II/24	III/24	IV/24
GDP sa qoq	0.0	0.3	0.3	0.1	0.2
GDP sa yoy	0.2	0.5	0.6	0.7	1.0
Inflation yoy	2.7	2.6	2.5	2.3	2.6

Change as percentage

Sources: Feri, NORD/LB Macro Research

Interest rates, Euroland

	29.08.	3M	6M	12M
Repo rate ECB	4.25	3.65	3.40	2.90
3M rate	3.51	3.30	3.10	2.60
10Y Bund	2.27	2.20	2.20	2.40

Sources: Bloomberg, NORD/LB Macro Research

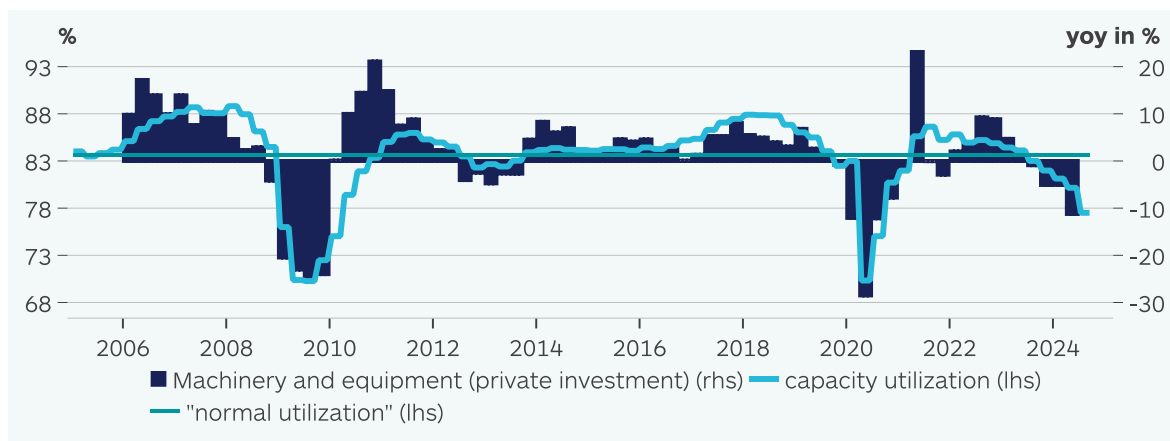
Germany: Trapped in stagnation

Analysts: Christian Lips, Chief Economist// Christian Reuter

German economy shrinks in Q2 – lack of consumer confidence, weak investment activity

The German economy is trapped in stagnation, trailing at the very bottom of the league table in terms of growth among the major economies in the eurozone. Having started positively into the year, real GDP already contracted slightly again in the spring, with negative growth of -0.1 percent qoq. This contraction was particularly evident in investment in machinery and equipment (-4.1 percent qoq) and construction (-2.0 percent qoq). Admittedly, a substantial correction in terms of construction investment was to be expected after the weather-induced early onset of the spring economic revival. But moreover, Germany is experiencing a general and pronounced phase of weakness in investment activity. This is undoubtedly due in part to the high interest rate levels, but the persistently high degree of economic policy uncertainty is also dampening the willingness of businesses to invest. Growth contribution of net exports was slightly negative in Q2, and the upturn in real private consumption is yet to materialize. The strong uptick in real wages was recently offset by a renewed setback in consumer confidence. The only positive stimuli in Q2 came from public consumption and inventories – both not exactly building stable pillars for sustainable growth.

Chart: Companies feeling the effects of weak demand – capacities severely underutilized at present



Sources: ifo, Destatis, Macrobond, NORD/LB Macro Research

Economic sentiment bleak – ifo Business Climate down for the fourth consecutive month

August saw the sentiment among German companies deteriorate for the fourth month in a row in August, with the ifo Business Climate index dropping to 86.6 points. The companies surveyed by the ifo Institute were evidently less moved by the financial market turbulence in early August than the financial market experts polled by ZEW and sentix. That said, the renewed deterioration in data on corporate sentiment makes for little hope of a recovery in the near term. At 86.5 points, the current business situation in August was assessed as worse than at any time since July 2020.

There is currently a lack of impetus from abroad, and the industrial sector is being particularly hit by weak demand. There is a persistent lack of improvement in the order situation and industrial output, and capacities are in the meantime significantly under-utilized (see chart). Accordingly, the business climate in the manufacturing industry once again came under the most pressure in August, but sentiment in the service sector also deteriorated further compared to the previous month. The slightly higher sentiment level in the trade sector and the stabilization in the construction industry ought not to be overestimated in view of the very low baseline levels.

The high economic policy uncertainty, persistently high interest rates and the bureaucracy, which is widely perceived as excessive, are dampening domestic willingness to invest. Moreover, consumer confidence is still not keeping pace with the sharp rise in real wages in this environment. The various stress factors have spread and settled over the country, much like mildew would spread over a surface. The German economy is evidently in urgent need of a stimulus to curb the increasingly widespread sense of crisis. The ECB is thus being given sound arguments from the economic side to lower interest rates further in September. Whether this stimulus will be sufficient to make for a sustainable shift in sentiment in Germany is questionable, however. This would in any case be too late for 2024, and the German economy looks increasingly set for a further year of stagnation.

August sees inflation drop below 2 percent yoy for the first time in three and a half years

Inflation in Germany fell more sharply than expected in August, dropping back below the year-on-year mark of 2.0 percent for the first time in three and a half years, and to exactly 2.0 percent yoy in terms of the harmonized index of consumer prices (HICP). The core rate excluding food and energy fell just slightly, to 2.8 percent yoy. Above all in the services sector, price momentum remains at an unchanged high level, standing at 3.9 percent yoy.

In contrast, energy prices were considerably lower than last year (-5.1 percent yoy), due on the one hand to a favourable base effect in August and, on the other hand, to the fact that the crude oil prices had in the meantime declined quite significantly over the month –attributable in part to renewed recession fears. However, the countermovement just set in motion again by the disruption in Libya shows that upside risks to inflation persist in the fragile geopolitical environment, and concerns as to an escalation of the conflict between Israel and Iran also persist.

For now, the inflation trend will continue to fluctuate, with the likelihood of a slight increase in the inflation rate again by year-end due to base effects. Given the weak demand, however, there are again fewer companies considering raising prices. Viewed in isolation, a far looser monetary policy would now be appropriate for Germany.

Fundamental forecasts, Germany

	2023	2024	2025
GDP	-0.3	-0.1	0.9
Private consumption	-0.4	0.6	1.4
Govt. consumption	-0.1	2.1	1.5
Fixed investment	-1.2	-3.1	0.8
Exports	-0.3	0.4	2.3
Imports	-0.6	-0.6	3.7
Net exports ¹	0.1	0.4	-0.4
Inflation ²	6.0	2.5	2.1
Unemployment rate ³	5.7	6.0	6.0
Budget balance ⁴	-2.5	-1.7	-1.0
Current account balance ⁴	6.0	7.5	6.7

Change vs previous year as percentage, ¹as contribution to GDP growth; ²HICP; ³as percentage of the civil labour force (Federal Employment Office definition); ⁴ as percentage of GDP

Sources: Feri, NORD/LB Macro Research

Quarterly forecasts, Germany

	IV/23	I/24	II/24	III/24	IV/24
GDP sa qoq	-0.4	0.2	-0.1	0.0	0.2
GDP nsa yoy	-0.4	-0.8	0.4	0.2	0.0
Inflation yoy	3.0	2.7	2.6	2.2	2.5

Change as percentage

Sources: Feri, NORD/LB Macro Research

Switzerland: Unexpectedly robust growth

Analyst: Christian Reuter

Swiss economy surprises with strong economic growth

Q2/2024 saw the Swiss economy surprise with robust growth, with preliminary data from the State Secretariat for Economic Affairs (SECO) indicating growth rates 0.5 percent qoq and 1.4 percent yoy in seasonally adjusted GDP in the quarter under review. The services sector was a growth driver. There were no further details as yet. It is not certain whether the Swiss economy can maintain this pace, however. Although the KOF economic barometer published at the end of the month rose again and has now been above the 100-point mark since January, the purchasing managers previously polled for July as month under review once again expressed their dissatisfaction. At 43.5 points, the PMI for industry barely budged, the index for services slumped from 52.0 to 44.7 points and continued its erratic but negative trend that began in December 2023. The services sector accounts for more than two-thirds of Switzerland's overall output. The economic activity in this area is increasingly dependent on stimuli from industry, but the external economic environment is clearly too weak for this at present. Consumer sentiment alone picked up for the third time in a row in July, but consumers are still holding onto their money. This at any rate applies to retail sales, which fell by a seasonally adjusted 0.1 percent mom in June and, adjusted for working days, are now 2.2 percent below the previous year's level. This means that greater momentum is likely to be a long time coming. We expect a marginal slowdown in growth in the quarters ahead.

Third rate cut in September – strength of the currency with benefits and drawbacks

The inflation rate stood at 1.3 percent yoy in June and July. This was slightly higher than expected, but absolutely within the SNB's target range. The core rate remained at 1.1 percent yoy (-0.3 percent mom), and the prices of imported goods even at 1.0 percent mom. The latest episode of inflation is therefore history. Help came from the Swiss franc, which is still in demand as a safe haven. This was seen again at the beginning of August, when the turbulence on the financial markets drove the exchange rate to the euro almost to CHF 0.92. The SNB is now likely to view any excessive appreciation with concern, insofar as it slows the domestic economy too much. To counteract the appreciation pressure, the central bank will therefore follow the example of its big sister, the ECB, in September and likewise make a key-rate cut of 25bp. Yields on the capital market have already fallen significantly over the last twelve weeks, with the yield on 10-year government bonds having almost halved to 0.45 percent since early June. Side note: Switzerland is set for a vote on the raising of VAT. This is intended to fund an increase in state pension levels in 2026. The standard VAT rate currently stands at just 8.1 percent. Any effects on the inflation trend would probably be limited, but nevertheless need to be kept a close eye on.

Fundamental forecasts*, Switzerland

	2023	2024	2025
GDP	1.2	1.2	1.7
Inflation (CPI)	2.1	1.3	1.1
Unemployment rate ¹	2.0	2.3	2.3
Budget balance ²	0.3	0.3	0.2
Current account bal. ²	7.0	7.5	7.5

Interest and exchange rates, Switzerland

	29.08.	3M	6M	12M
SNB policy rate	1.25	1.00	1.00	1.00
3M rate	0.96	0.90	0.90	0.95
10Y	0.43	0.65	0.70	0.80
Spread 10Y Bund	-185	-155	-150	-160
EUR in CHF	0.94	0.97	0.97	0.97

* Change vs previous year as percentage; ¹ as percentage of the labour force, ² as percentage of GDP

Sources: Feri, Bloomberg, NORD/LB Macro Research

Japan: Bank of Japan maintains a close watch on the Fed's actions

Analyst: Tobias Basse

Bank of Japan maintains a close watch on the Fed's actions

The Japanese currency was unable to really benefit from the Bank of Japan's cautious rate hike at first. The key interest rate level in the Land of the Rising Sun now stands at 0.25 percent – and not all interested observers had reckoned with this move, at least from a tactical perspective. It was only the growing expectations on the international financial markets that the US Federal Reserve could now very soon come under considerable pressure to lower interest rates that then gave the yen supportive momentum, with even the psychologically important exchange rate mark of JPY 145.00 per USD now coming into focus. This pronounced movement in the FX segment has in the meantime led to even greater turbulence on the international financial markets, and short positions in the yen apparently had to be reduced very quickly by investors. In this environment, there was also marked pressure on the Japanese stock market at times, which even had certain short-term implications for equities in other countries.

The end of the yen's marked weakness

In principle, the end of the yen's marked weakness is probably even in the interests of Japan's economic policymakers, but the Bank of Japan is now likely to view the recent financial market turbulences with some concern. After all, Japan was definitely at the centre of this storm. The central bankers will be looking to act even more cautiously in this environment. Accordingly, the further rate hike probably still planned is unlikely to materialize for the time being. The Bank of Japan will first want to wait for strong signals pointing more clearly in the direction of calming tendencies with regard to the turbulences on the international financial markets. Accordingly, the central bankers probably won't be able to take action again until December, when a key-rate hike of a further 25bp is to be expected.

Waiting for the new prime minister

In light of the weak approval ratings for his government, the current prime minister Fumio Kishida has succumbed to intra-party criticism and announced that he will not stand for re-election. The ruling Liberal Democratic Party (LDP) is now looking for a new leader, who will then also become prime minister. Various politicians are said to be very interested in both offices. Former defence minister Shigeru Ishiba has already thrown his hat into the ring. However, we are unlikely to see any great political turbulence in Tokyo.

Fundamental forecasts*, Japan

	2023	2024	2025
GDP	1.7	0.3	1.7
Inflation	3.3	2.4	1.8
Unemployment rate ¹	2.6	2.5	2.4
Budget balance ²	-5.2	-4.2	-3.6
Current account bal. ²	3.6	3.9	3.6

* Change vs previous year as percentage;

¹ as percentage of the labour force; ² as percentage of GDP

Sources: Feri, Bloomberg, NORD/LB Macro Research

Interest and exchange rates, Japan

	29.08.	3M	6M	12M
Key rate	0.25	0.25	0.50	0.50
3M rate	0.45	0.45	0.55	0.60
10Y	0.66	0.95	1.10	1.20
Spread 10Y Bund	-162	-125	-110	-120
EUR in JPY	161	162	158	158
USD in JPY	145	147	145	144

China: No really positive economic sentiment at present

Analysts: Tobias Basse // Valentin Jansen

No really positive sentiment in the Chinese economy

China's economy still appears to be generally struggling with problems. For example, industrial output mildly surprised on the downside with a year-on-year change rate of 5.1 percent in June. The sentiment among companies in the manufacturing sector remains clouded. The CLFP Manufacturing PMI and the corresponding purchasing managers' index polled by the Caixin news agency both stood just below the magical threshold of 50 points in July as month under review. This means that the Chinese economy evidently failed to start particularly well into Q3. The companies appear to be struggling with a rather pronounced degree of weakness in domestic demand in the Middle Kingdom. Exports could now help but, unfortunately, this news is not entirely unproblematic either. After all, the actual objective pursued by the government in Beijing seems to be to make the country significantly more independent of demand trends abroad. This plan can only be described as barely feasible at the moment. Moreover, some observers appear to believe that pull-forward effects may have played a role at this point. In anticipation of higher future tariffs, companies in North America and Europe might have targetedly built up inventories of products from China.

Economic policy comes into focus

In terms of real economic growth, it should hardly be possible for China's economy to surpass the psychologically important threshold of 5.00 percent more sustainably in this environment. This will likely necessitate further economic policy measures towards stabilizing domestic demand. Above all, the real estate market, which is struggling with major problems, may now come even more into the focus of the decision-makers in Beijing.

Trade disputes and more

In addition to the trade disputes – Canada, for example, recently announced high new tariffs on electric cars from China, which then prompted Beijing to threaten with countermeasures – further conflicts also need to be kept a close eye on by market participants. The ongoing tensions in the South China Sea have led the political leadership of the Philippines to seek closer cooperation with other countries in the region in the dispute with China. This geopolitical environment must be monitored very closely by the financial markets.

Fundamental forecasts*, China

	2023	2024	2025
GDP	5.2	4.8	4.5
Inflation	0.3	0.6	1.5
Unemployment rate ¹	5.2	5.2	5.1
Budget balance ²	-4.6	-4.8	-4.8
Current account bal. ²	1.4	1.3	1.2

* Change vs previous year as percentage;

¹ as percentage of the labour force; ² as percentage of GDP

Sources: Feri, Bloomberg, NORD/LB Macro Research

Interest and exchange rates, China

	29.08.	3M	6M	12M
Deposit rate	1.50	1.50	1.50	1.50
3M SHIBOR	1.85	2.00	2.00	2.00
10Y	2.17	2.30	2.30	2.30
Spread 10Y Bund	-10	10	10	-10
EUR in CNY	7.86	7.98	7.85	7.90
USD in CNY	7.10	7.25	7.20	7.18

Britain: Economy back on track?

Analyst: Constantin Lüer

A very sudden change of direction

For a long time, the Bank of England's Monetary Policy Committee had a strong focus on pursuing a restrictive monetary policy, aimed at putting a lasting stop to inflation in the United Kingdom. In recent months, however, there has been a change of mindset, albeit at a gradual pace – until on August 1, when all of a sudden a majority of the MPC's members voted in favour of a rate cut. Andrew Bailey himself felt that the time was now appropriate for an easing. However, the MPC's new member, Clare Lombardelli, who in turn replaced Ben Broadbent, may well have tipped the scales, seeing as Mr Broadbent had taken a rather restrictive position. In the UK, too, a very close eye is being kept on the latest data published in the economic indicators, which are currently giving reason for hopes of further rate cuts this year. The focus of attention is first and foremost on inflation – which is trending very positively at present!

It's the monthly values that count

Admittedly, the annual rate of inflation is on the up again, currently standing at 2.2 percent yoy. However, it is also true that this is due in particular to a base effect and not so much to the most recent price data. To a certain extent the elevated values from last year are continuing to influence the current situation, and could well make for an increase to just above 2.5 yoy again by year-end 2024. However, the average shopping basket, which serves as basis for gauging prices, seems to be getting less expensive overall again. A July figure of -0.2 percent mom suggests that households could be given somewhat greater financial leeway and the nevertheless relatively high price levels will be somewhat levelled off again after a period of moderate but consistent inflation at times. These values show that the real interest rate level – roughly speaking, the key rate minus inflation – can still be considered very restrictive at present. The Bank of England will likely have an answer to this "problem" this year.

New phase of prosperity

The price data are undoubtedly good news for the British economy, but the labour market, too, is also giving a far better showing than in the preceding months. While the trend in unemployment tended to be of a growing nature, at 4.4 percent in May, just 4.2 percent of the labour force were still looking for work in June. The fact that the economy appears to be entering a new phase of prosperity is also signalled by various other indicators, such as the PMIs. Both the service sector and industry are seeing the future in a positive light, with the sentiment barometers now above the expansion threshold for the third month in a row.

Fundamental forecasts*, Britain

	2023	2024	2025
GDP	0.1	0.9	1.6
Inflation (CPI)	7.3	2.6	2.2
Unemployment rate ¹	4.0	4.4	4.5
Budget balance ²	-5.0	-3.7	-3.1
Current account bal. ²	-3.3	-2.5	-2.6

* Change vs previous year as percentage

¹ as percentage of the labour force as per ILO concept,

² as percentage of GDP

Sources: Feri, Bloomberg, NORD/LB Macro Research

Interest and exchange rates, Britain

	29.08.	3M	6M	12M
Repo rate	5.00	4.75	4.50	4.00
3M rate	4.88	4.45	4.20	3.70
10Y	4.02	3.75	3.70	3.65
Spread 10Y Bund	175	155	150	125
EUR in GBP	0.84	0.85	0.85	0.85
GBP in USD	1.32	1.29	1.28	1.29

Portfolio strategies

Yield curve, Euroland

Yields and forecasts (Bunds/Swap)

	Yields (in %)	NORD/LB forecasts for the horizons		
	29.08.2024	3M	6M	12M
3M	3.51	3.30	3.10	2.60
1Y	2.79	2.80	2.30	2.10
2Y	2.36	2.40	2.10	2.10
3Y	2.15	2.20	2.07	2.14
4Y	2.17	2.13	2.08	2.17
5Y	2.16	2.10	2.10	2.20
6Y	2.10	2.12	2.13	2.26
7Y	2.12	2.14	2.15	2.31
8Y	2.16	2.17	2.17	2.35
9Y	2.21	2.19	2.19	2.38
10Y	2.27	2.20	2.20	2.40
2Y (Swap)	2.65	2.75	2.45	2.50
5Y (Swap)	2.46	2.45	2.45	2.60
10Y (Swap)	2.52	2.55	2.55	2.80

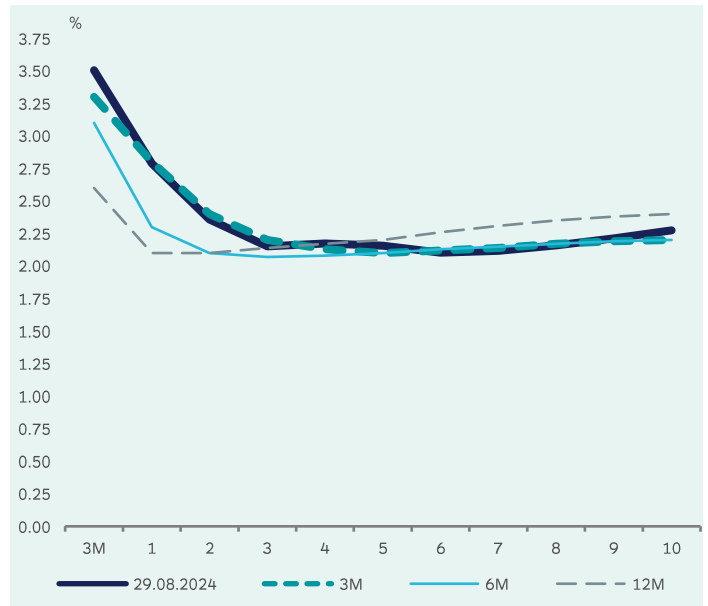
Sources: Bloomberg, NORD/LB Macro Research

Forecasts and total returns

	Total returns (in %) for horizons...		
	3M	6M	12M
3M	0.87	1.70	3.22
1Y	0.68	1.63	2.79
2Y	0.36	1.43	2.62
3Y	0.28	0.01	2.27
4Y	0.64	1.44	2.30
5Y	0.75	1.39	2.14
6Y	0.45	0.98	1.62
7Y	0.41	0.91	1.27
8Y	0.52	1.11	1.23
9Y	0.76	1.38	1.30
10Y	1.16	1.77	1.45

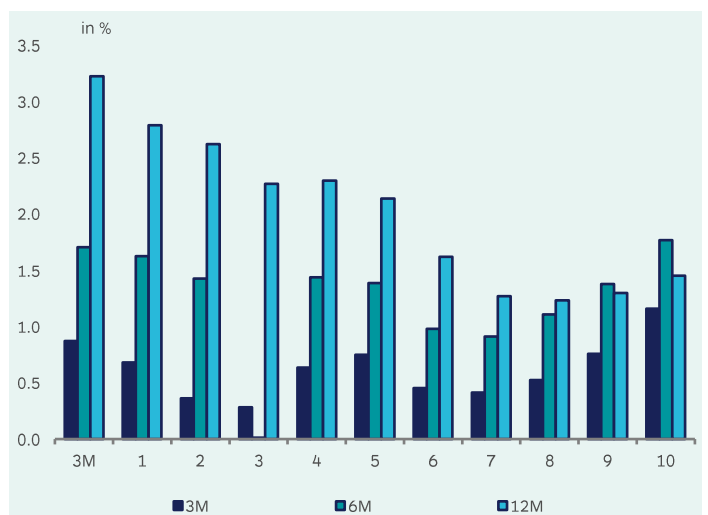
Sources: Bloomberg, NORD/LB Macro Research

Yield curve forecasts (Bunds)



Sources: Bloomberg, NORD/LB Macro Research

Expected total returns



Sources: Bloomberg, NORD/LB Macro Research

A total return is the absolute profit from an investment in the time period under consideration, with account being taken of the pro-rata yields plus the price gains or losses to be anticipated on the basis of the forecast yield curve change.

Portfolio strategies

International yield curve: 3-month & 12-month horizons

3-month horizon

Expected total returns (as percentage) in euro					
	EUR	USD	GBP	JPY	CHF
1Y	0.7	2.0	0.4	-0.8	-3.1
2Y	0.4	1.6	0.6	-0.7	-3.4
3Y	0.3	1.9	0.4	-0.8	-3.6
4Y	0.6	1.9	0.2	-0.8	-3.6
5Y	0.7	1.7	0.8	-0.9	-3.6
6Y	0.5	2.8	0.5	-1.1	-3.6
7Y	0.4	1.5	1.0	-1.1	-3.8
8Y	0.5	1.5	1.2	-1.3	-4.2
9Y	0.8	1.5	1.6	-1.4	-4.4
10Y	1.2	1.5	1.8	-1.1	-5.0

Sources: Bloomberg, NORD/LB Macro Research

Expected total returns (as percentage) in national currencies				
	USD	GBP	JPY	CHF
1Y	1.3	1.4	0.1	0.1
2Y	0.9	1.6	0.1	-0.4
3Y	1.2	1.4	0.1	-0.4
4Y	1.2	1.2	0.0	-0.4
5Y	0.9	1.9	0.0	-0.3
6Y	2.1	1.6	-0.3	-0.4
7Y	0.8	2.1	-0.2	-0.6
8Y	0.8	2.3	-0.5	-1.0
9Y	0.8	2.7	-0.6	-1.2
10Y	0.8	2.9	-0.2	-1.8

Sources: Bloomberg, NORD/LB Macro Research

12-month horizon

Expected total returns (as percentage) in euro					
	EUR	USD	GBP	JPY	CHF
1Y	2.8	5.5	3.4	1.9	-2.6
2Y	2.6	5.0	3.5	1.9	-3.1
3Y	2.3	5.0	3.6	1.7	-3.5
4Y	2.3	5.1	3.9	1.6	-3.8
5Y	2.1	5.3	4.6	1.9	-4.1
6Y	1.6	7.0	4.5	1.4	-4.3
7Y	1.3	6.0	5.1	1.3	-4.6
8Y	1.2	6.3	5.2	1.0	-5.1
9Y	1.3	6.8	5.7	0.8	-5.2
10Y	1.5	7.2	5.6	0.8	-5.8

Sources: Bloomberg, NORD/LB Macro Research

Expected total returns (as percentage) in national currencies				
	USD	GBP	JPY	CHF
1Y	4.8	4.4	0.2	0.7
2Y	4.3	4.6	0.2	0.2
3Y	4.2	4.7	0.0	-0.2
4Y	4.4	4.9	0.0	-0.6
5Y	4.6	5.7	0.2	-0.9
6Y	6.3	5.6	-0.2	-1.1
7Y	5.2	6.2	-0.3	-1.4
8Y	5.6	6.3	-0.7	-1.9
9Y	6.0	6.8	-0.8	-2.0
10Y	6.4	6.7	-0.9	-2.7

Sources: Bloomberg, NORD/LB Macro Research

A total return is the absolute profit from an investment in the time period under consideration, with account being taken of the pro-rata yields plus the price gains or losses to be anticipated on the basis of the forecast yield curve and exchange rate change.

Portfolio strategies

Stock market strategy; 3-month, 6-month & 12-month horizons

Levels and performance

Index	Level as at	Status		Performance since	
	29.08.2024	Prev. month	Start of year	Prev. month	Start of year
DAX	18,912.57	18,508.65	16,751.64	2.18%	12.90%
MDAX	25,508.74	25,373.12	27,137.30	0.53%	-6.00%
EuroSTOXX50	4,966.27	4,872.94	4,521.44	1.92%	9.84%
STOXX50	4,553.20	4,490.84	4,093.37	1.39%	11.23%
STOXX600	524.57	518.18	478.99	1.23%	9.52%
Dow Jones	41,335.05	40,842.79	37,689.54	0.61%	9.03%
S&P 500	5,591.96	5,522.30	4,769.83	1.27%	17.24%
Nikkei	38,362.53	39,101.82	33,464.17	-1.89%	14.64%

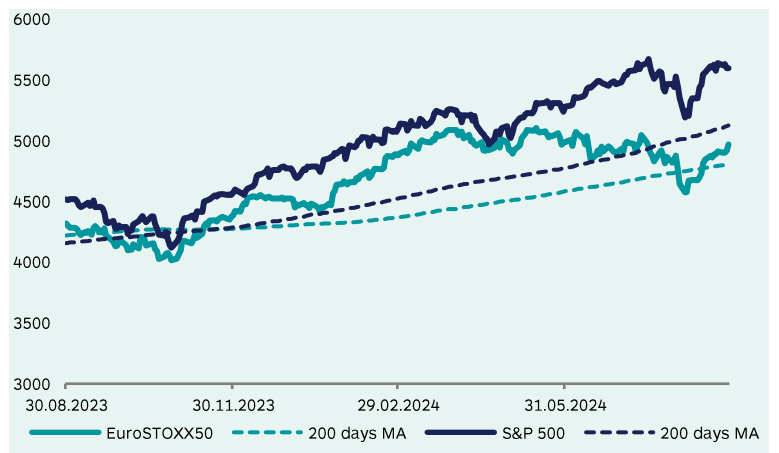
Sources: Bloomberg, NORD/LB Macro Research

Index forecasts

Index	NORD/LB forecast for the horizons ...		
	3M	6M	12M
DAX	18,000	19,000	19,500
MDAX	24,000	25,500	27,000
EuroSTOXX50	4,700	4,950	5,100
STOXX50	4,400	4,450	4,050
STOXX600	510	520	550
Dow Jones	39,500	39,500	40,000
S&P 500	5,300	5,350	5,500
Nikkei	38,000	38,500	38,500

Sources: Bloomberg, NORD/LB Macro Research

EuroSTOXX50 and S&P500



Sources: Bloomberg, NORD/LB Macro Research

Date of going to press for data, forecasts and texts was Friday, 30 August 2024.

The next English issue of Economic Adviser will be appearing on **30 September 2024.**

Overview of forecasts

Fundamental forecasts

in %	GDP growth			Rate of inflation			Unemployment rate ¹			Budgetary balance ²		
	2023	2024	2025	2023	2024	2025	2023	2024	2025	2023	2024	2025
USA	2.5	2.5	1.7	4.1	3.0	2.3	3.6	4.1	4.4	-6.5	-6.1	-6.2
Euroland	0.5	0.7	1.2	5.4	2.5	2.2	6.6	6.5	6.3	-3.6	-2.9	-2.7
Germany	-0.3	-0.1	0.9	6.0	2.5	2.1	5.7	6.0	6.0	-2.5	-1.7	-1.0
Japan	1.7	0.3	1.7	3.3	2.4	1.8	2.6	2.5	2.4	-5.2	-4.2	-3.6
Britain	0.1	0.9	1.6	7.3	2.6	2.2	4.0	4.4	4.5	-5.0	-3.7	-3.1
Switzerland	1.2	1.2	1.7	2.1	1.3	1.1	2.0	2.3	2.3	0.3	0.3	0.2
China	5.2	4.8	4.5	0.3	0.6	1.5	5.5	5.2	5.1	-4.6	-4.8	-4.8

Change vs previous year as percentage; ¹ as percentage of the labour force (Germany: as per Federal Employment Office definition); ² as percentage of GDP

Sources: Feri, NORD/LB Macro Research

Key interest rates

In %	29.08.24	3M	6M	12M
USD	5.50	5.25	5.00	4.25
EUR	4.25	3.65	3.40	2.90
JPY	0.25	0.25	0.50	0.50
GBP	5.00	4.75	4.50	4.00
CHF	1.25	1.00	1.00	1.00
CNY	1.50	1.50	1.50	1.50

Sources: Bloomberg, NORD/LB Macro Research

Exchange rates

EUR in...	29.08.24	3M	6M	12M
USD	1.11	1.10	1.09	1.10
JPY	161	162	158	158
GBP	0.84	0.85	0.85	0.85
CHF	0.94	0.97	0.97	0.97
CNY	7.86	7.98	7.85	7.90

Interest rates (government bonds)

	3M rates				Yields 2Y				Yields 5Y				Yields 10Y			
	29.08.	3M	6M	12M	29.08.	3M	6M	12M	29.08.	3M	6M	12M	29.08.	3M	6M	12M
USD	5.02	5.00	4.70	4.10	3.89	4.10	4.00	3.80	3.67	3.85	3.75	3.60	3.86	3.90	3.70	3.50
EUR	3.51	3.30	3.10	2.60	2.36	2.40	2.10	2.10	2.16	2.10	2.10	2.20	2.27	2.20	2.20	2.40
JPY	0.45	0.45	0.55	0.60	0.06	0.35	0.45	0.55	0.26	0.55	0.65	0.67	0.66	0.95	1.10	1.20
GBP	4.88	4.45	4.20	3.70	4.11	3.65	3.52	3.41	3.92	3.68	3.55	3.40	4.02	3.75	3.70	3.65
CHF	0.96	0.90	0.90	0.95	0.51	0.70	0.75	0.85	0.46	0.55	0.70	0.80	0.43	0.65	0.70	0.80

Sources: Bloomberg, NORD/LB Macro Research

Spreads (bp)

	3M EURIBOR				2Y Bund				5Y Bund				10Y Bund			
	29.08.	3M	6M	12M	29.08.	3M	6M	12M	29.08.	3M	6M	12M	29.08.	3M	6M	12M
USD	151	170	160	150	154	170	190	170	151	175	165	140	159	170	150	110
JPY	-306	-285	-255	-200	-230	-205	-165	-155	-190	-155	-145	-153	-162	-125	-110	-120
GBP	138	115	110	110	176	125	142	131	176	158	145	120	175	155	150	125
CHF	-255	-240	-220	-165	-185	-170	-135	-125	-170	-155	-140	-140	-185	-155	-150	-160

Sources: Bloomberg, NORD/LB Macro Research

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