

## **Economic Adviser**

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# Special: Wind power in Germany

Analysts: Pascal Seidel // Thomas Wybierek

## **Offshore wind power with growth and ambitious expansion targets**

The tenth edition of WindEnergy Hamburg, the premier global trade show for the wind energy sector, took place in late September. The industry is continuing to benefit from tailwinds. The focus is initially on offshore facilities in the coastal regions, where there are already around 1,600 wind turbines in the German territorial waters of the North and Baltic Seas with a total capacity of about 9.1 GW (as of H1/2024). Utilization of wind power is currently centered in the North Sea region. 31 wind farms with an overall capacity of approximately 7.3 GW are under construction or already in operation there, in contrast to the Baltic Sea with six wind farms generating a total capacity of around 1.5 GW. According to the Fraunhofer Institute, the wind farms already connected to the grid delivered an aggregate output of over 13.8 TWh of electrical energy in the first six months of 2024, contributing about 6.5 percent of the total electricity generation in Germany. Calendar year 2024 will likely see offshore wind turbines with a total capacity of over 9 GW in operation; the mark of 10 GW is expected to be reached in 2025. Despite all the foreseeable successes, the advancement of wind energy continues to pose a challenge. The declared objectives of the Offshore Wind Act include an increase in capacity to 30 GW by 2030 already, with the installed capacity to be expanded to a total of at least 40 GW by 2035. When contrasted with the capacity accomplished so far, these figures alone clearly indicate the extremely ambitious nature of those targets. Achieving them would require the total gross volume to be more than tripled in the next five years, for instance. Given the current framework conditions, this hardly seems feasible. A more realistic figure would be around 22 GW by 2030. The longer-term 40-GW target for 2035 could likewise be achieved through concentrated dynamic expansion. In our opinion, this would be a major accomplishment, seeing as it took over ten years to build up the current capacities.

## **Headwinds ought not to be underestimated, however**

It is not just the necessary requirements data that are noteworthy. The same also applies to the number of resistances, problems and hindrances that remain to be addressed and, of course, resolved:

- There are shortcomings in the current spatial planning of the Federal Maritime and Hydrographic Agency (BSH). According to experts, spacing wind turbines too close together can make for so-called "shading effects". This would lead to a decline in attainable output and the associated return on investment for stakeholders.
- The maritime sector is drawing attention to the potential for increased risks to shipping traffic in light of the foreseeable narrowing of sea areas. In particular, there appears to be a lack of consideration given to the repercussions of potential accidents.
- Besides the conflicting objectives with nature conservation (Wadden Sea, etc.), there is a reduction of fishing grounds taking place, leading to adverse effects for the fishing sector. Negative impacts on downstream sectors, such as tourism in coastal regions, are also topics of discussion.
- We are unlikely to see any significant reduction of the often criticized long bureaucratic processing times in the near future.
- Shortcomings in the maritime infrastructure: ports are ill-equipped to accommodate increasingly larger wind turbine parts, and there is a scarcity of the specialized vessels needed to transport them.
- The search is on for the specialized personnel required for offshore deployment. By 2027, the number of specialized personnel required worldwide is estimated at approximately 600,000, of whom around 43 percent will have to be newly recruited and trained.

Even with the notable regulatory adjustments made in the current legislative term, there remain diverse hurdles to be cleared in the expansion and advancement of German's wind energy capability. In this context, however, external factors such as geopolitical developments can hardly be taken into account. The relocation of rotor blade production from Europe to Asia has resulted in ongoing supply chain challenges and interdependencies, as evidenced by the events in the Red Sea in 2024.

#### Development of wind power expansion in Germany (in GW)



Sources: Deutsche WindGuard, BMWK, Federal Environment Agency, Stiftung Offshore-Windenergie, BNEF, NORD/LB Research

#### Onshore wind power with equally ambitious targets

Accounting for a share of almost 28 percent, onshore wind energy was once again Germany's leading energy source in power generation in H1/2024. With an installed capacity of over 62 GW, the more than 29,600 wind turbines on the German mainland generated almost 60 TWh of electricity in the first half of the year. Nevertheless, the current expansion is lagging as regards the expansion path that is necessary towards achieving the aimed-for targets (including a total capacity of 115 GW by 2030). 416 onshore wind turbines with an aggregate capacity of approximately 1.8 GW had been newly commissioned by August 2024. The increase in new approvals can be regarded as a success as a second key performance indicator, however. Likewise up to and including August, onshore wind farms with a total capacity of 7.1 GW were approved. This means that the markedly dynamic trend in approvals, which began in calendar year 2023 with a total of close to 7.6 GW (2022: 4.3 GW), is continuing. This positive development is to be seen in the context of the various regulatory enhancements to the German government's "Easter Package" adopted in 2022. Last year, for example, the amendment to the Renewable Energy Sources Act (EEG 2023) came into force. This amendment provides that the importance of renewable energy sources is so significant for the public good that they are given priority over other considerations in legal and regulatory decisions. With higher expansion targets, tender volumes and remuneration for wind turbines and better land availability thanks to the accompanying Onshore Wind Energy Act, which mandates the allocation of two percent of the country's land area for the use of wind turbines by 2032, the German wind power industry is strengthened as a sector of the future in the medium term. Social acceptance of onshore wind turbines has also increased significantly following the energy crisis in 2022 triggered by Russia's invasion of Ukraine.

#### European wind turbine industry finds bottom

In 2024 the EU-Net Zero Industry Act established the objective of developing a self-sustaining European wind energy industry. Lately, the major European wind turbine manufacturers have been voicing their grievances about facing competitive disadvantages in comparison to state-backed Chinese producers. The US Inflation Reduction Act (IRA) was another thorn in the side. Support measures and specific trade restrictions were called for by the industry in this context. While crisis mode still prevailed in 2023, it seems that the situation has finally bottomed out, however. The order situation is improving and homemade problems appear to be easing. This is also important, because the development of wind energy ought not to follow a similarly disastrous course as that experienced in the photovoltaic (PV) industry.

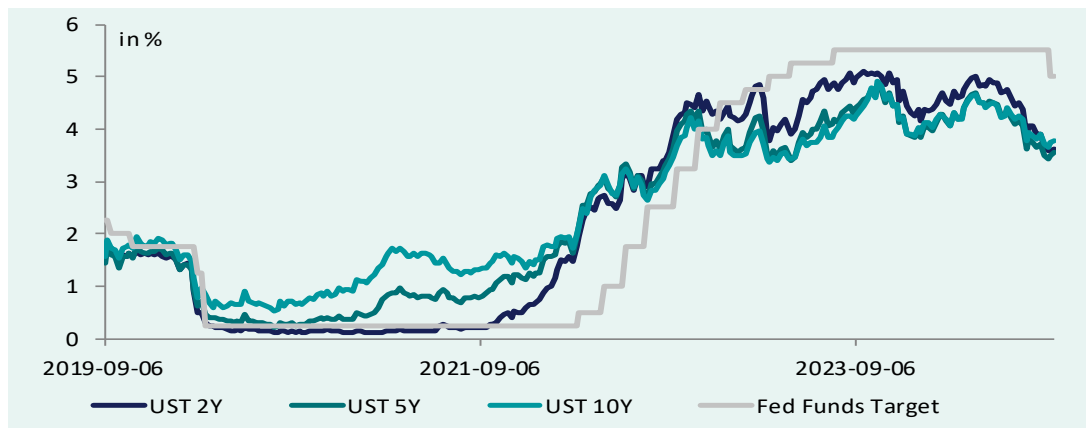
# USA: Looming dockworkers strike

Analysts: Tobias Basse // Constantin Lüer

## Looming dockworkers strike

Final data indicate annualized GDP growth of 3.0 percent in Q2/2024. This news came as no great surprise, seeing as the recent revisions to the data for the period 2018 to 2023 point to somewhat stronger real economic growth in the USA. Indeed, the adjusted data show that America's GDP grew by an impressive 2.9 percent in 2023 as a whole! There are evidently still very good reasons not to see the future prospects of the US economy in an overly pessimistic light, with, for example, the unemployment rate having fallen slightly to 4.2 percent. The important ISM Services PMI also appears to have stabilized quite sustainably above the "magical" mark of 50 points which, by mechanistic interpretation, is considered the growth threshold. There is also the threat of detrimental factors manifesting themselves in the short run, however. A particularly close eye certainly needs to be kept on the strike activities in the logistics sector of the US economy, for example. Indeed, these could very quickly trigger a resurgence of supply chain disruptions in North America. It goes without saying that a scenario of this nature could make for considerable pressure on US economic growth in the closing quarter of 2024. In this environment, the international financial markets will undoubtedly have to very closely monitor the wage negotiations of the dockworkers in the United States.

Chart: Interest rates in the USA



Sources: Macrobond, NORD/LB Macro Research

## Hopes of declining key rates help lift the mood in the US construction industry somewhat

The mood in the US construction industry has suffered markedly in the recent past from the high interest rates in the land of supposedly unlimited opportunities. Most recently, however, the NAHB Housing Market Index registered a slight uptick to 41 points. Though this important sentiment indicator continues to show a preponderance of negative feedback, optimists now appear to be already fervently hoping for a real turnaround. The hopes of declining key rates should indeed be helpful at this point, at least to some extent. However, the important sub-index Prospective Buyers Traffic has given an extremely weak showing in the reporting month of September as well. The time series now stands at 27 points, indicating – despite a slight uptick – a marked weakness in demand. This fact constitutes a problem. The US real estate market will at any rate want to continue analysing the Fed's monetary policy very closely!

### FOMC with a boldly aggressive interest rate turnaround

The subdued sentiment prevailing in the North American construction sector undoubtedly also played a certain role in the Fed's recent monetary policy decision. Out of concern for the US economy, the FOMC opted for an aggressive realignment of monetary policy in the United States and accordingly announced a rate cut of a noteworthy 50bp. The magnitude of this reduction came as somewhat of a surprise, and at first a number of market participants appeared to be looking to highlight the risk of Fed acting hastily. However, Jerome Powell was able to largely dispel those concerns with his strong showing at the press conference following the interest rate decision. US monetary policy has undoubtedly been excessively restrictive in recent times, so there had been a need for action in this respect. The central bankers in Washington quite clearly intend to stay on the ball. With this in mind we have in the meantime adjusted our interest rate forecast, especially where the timing of the cuts is concerned; we now see the Fed funds target rate at a level of 3.00 percent in Q1/2026 already (rather than not until Q3/2026 as we had previously expected).

#### Fundamental forecasts, USA

	2023	2024	2025
GDP	2.9	2.5	1.7
Private consumption	2.5	2.3	1.6
Govt. consumption	2.9	2.9	1.1
Fixed investment	3.2	3.1	2.5
Exports	2.8	2.1	2.5
Imports	-1.2	3.2	2.2
Inflation	4.1	2.9	2.2
Unemployment rate <sup>1</sup>	3.6	4.1	4.4
Budget balance <sup>2</sup>	-6.5	-6.4	-6.2
Current acct. balance <sup>2</sup>	-3.3	-3.3	-3.1

Change vs previous year as percentage; <sup>1</sup> as percentage of the labour force; <sup>2</sup> 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	1.6	3.0	1.4	1.0
GDP yoy	3.2	2.9	3.0	2.3	1.8
Inflation yoy	3.2	3.2	3.2	2.6	2.3

Change as percentage in %

Sources: Feri, NORD/LB Macro Research

#### Interest and exchange rates, USA

	26.09.	3M	6M	12M
Fed funds target rate	5.00	4.50	4.00	3.50
3M rate	4.60	4.30	3.90	3.40
10Y Treasuries	3.80	3.50	3.40	3.20
Spread 10Y Bund	161	140	130	90
EUR in USD	1.12	1.12	1.11	1.11

Sources: Bloomberg, NORD/LB Macro Research

# Euroland: Latest macro data provide grounds for the ECB to accelerate the pace of rate cuts

Analysts: Christian Lips, Chief Economist // Christian Reuter

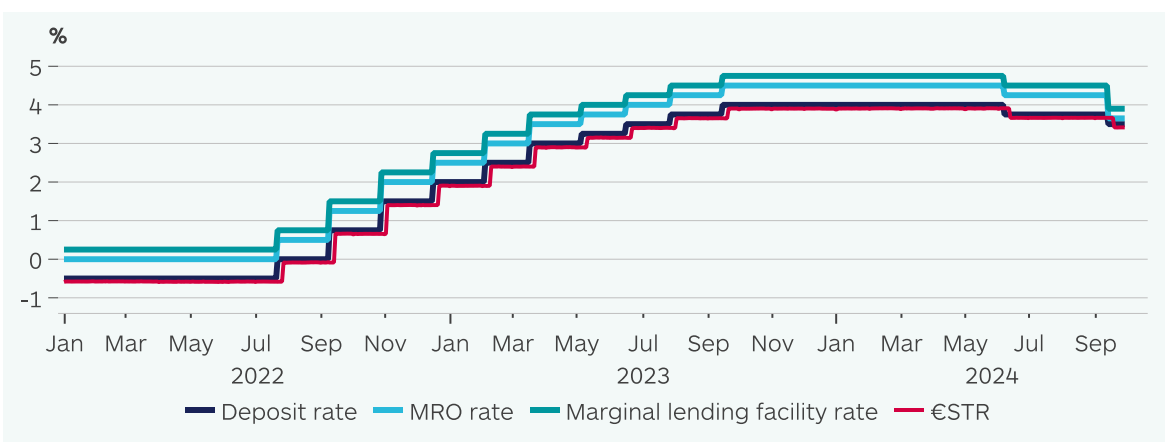
## Slump in economic sentiment on a broad front

September saw economic sentiment in the eurozone plummet. The PMIs confirmed the negative trend already signalled by the Sentix and ZEW indicators, and the Ifo Business Climate index – a key indicator for the German economy – registered a further drop as well, from 86.6 to 85.4 points. The Composite PMI for the eurozone fell below the expansion threshold to 48.9 points in September. The sentiment in the service sector registered the sharpest decline (-2.5 to 50.5 points), but the rate of contraction accelerated on the industrial front, too, with the sentiment there dropping to 44.8 points. The weak order intake indicates that there are no signs of any improvement in the near future. In France there is evidently a hangover effect in the service sector after the temporary boost from the Olympic Games, as reflected in the service PMI's sharp decline of seven points to 48.3. In Germany, the industry PMI slipped further, from 42.4 to just 40.3 points. The number of purchasing managers reporting a drop in employment is on the rise, signalling a marked degree of pessimism. Moreover, the weakness in the manufacturing sector is increasingly spreading to the service sector, with the index falling to just 50.6 points.

## Inflationary pressures likely eased significantly in September

The inflation rate likely fell unexpectedly sharply in September, dropping below the mark of 2 percent yoy for the first time since mid-2021. The preliminary inflation data from France (HICP: 1.5 percent yoy) and Spain (HICP: 1.7 percent yoy) indicate a far more pronounced disinflationary trend of late than previously projected by the ECB. A definitive all-clear cannot yet be given for inflation, as base effects will likely make for a temporary uptick in the inflation rate at year-end. Additionally, domestic price pressure remains high, especially where service prices are concerned. On the other hand, however, the most recent national data publications from France and Spain indicate a more marked slowdown of domestic price pressure than previously expected.

Chart: ECB cuts key rates again in September and narrows corridor as planned



Sources: ECB, Macrobond, NORD/LB Macro Research

## ECB lowers key rates – latest macro data strong call for a rate cut in October

September saw the ECB ease its monetary policy for the second time this year as expected, lowering its deposit rate by 25bp to 3.50 percent and the other two key rates by as much as 60bp. The narrowing of the key-rate corridor dates back to a decision taken on the monetary policy framework in March. This



had no direct effect on the short-term money market rates such as the €STR, however, since these are firmly anchored to the deposit rate due to the still extremely high excess liquidity (see chart). The rate cuts certainly came as no surprise in light of the previously reported macro data, besides which the central bankers also saw downside risks to the economy in mid-September. The most recent economic reports now indicate that the risks are beginning to materialize. In this respect, the slight adjustment of the ECB's economic projections does not yet take adequate account of the muted domestic demand and dampened economic sentiment.

As regards the ECB's further interest rate path, it initially looked as if the Governing Council's members had parted in September with the expectation that they would not be discussing the next rate cut until December on the basis of the fresh projections and data then available. A further explanation for this laid in the limited volume of fresh macro data available before the October meeting. The most recent data reports had several dovish surprises in store, however. The weak economic data and the unexpectedly sharp decline in inflation clearly provide good reason for accelerating the pace of rate cuts. The October meeting will now become a test of how seriously the ECB takes its data-dependent and meeting-to-meeting approach. Like the markets, we expect a rate cut at the next meeting and then at each subsequent meeting until the spring of 2025. A rate cut in October would also save the ECB from falling too far behind the curve and avoid potentially contentious discussions about a 50 or 75bp cut in December. That said, the closer the deposit rate gets to the neutral level in the coming year, the more heated the discussions in the Governing Council on the potential for further rate cuts will likely become.

	2023	2024	2025
GDP	0.5	0.7	1.0
Private consumption	0.8	0.8	1.4
Govt. consumption	1.2	1.8	1.2
Fixed investment	1.1	-3.2	0.6
Net exports <sup>1</sup>	0.1	1.1	-0.1
Inflation	5.4	2.4	1.9
Unemployment rate <sup>2</sup>	6.6	6.5	6.5
Budget balance <sup>3</sup>	-3.6	-2.9	-2.7
Current account balance <sup>3</sup>	1.6	3.0	2.6

Change vs previous year as percentage, <sup>1</sup> as contribution to GDP growth; <sup>2</sup> as percentage of the labour force; <sup>3</sup> 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	0.1	0.3	0.2	0.1	0.2
GDP sa yoy	0.2	0.5	0.6	0.7	0.8
Inflation yoy	2.7	2.6	2.5	2.2	2.2

Change as percentage

Sources: Feri, NORD/LB Macro Research

#### Interest rates, Euroland

	26.09.	3M	6M	12M
Repo rate ECB	3.65	3.15	2.65	2.40
3M rate	3.35	2.80	2.30	2.20
10Y Bund	2.18	2.10	2.10	2.30

Sources: Bloomberg, NORD/LB Macro Research

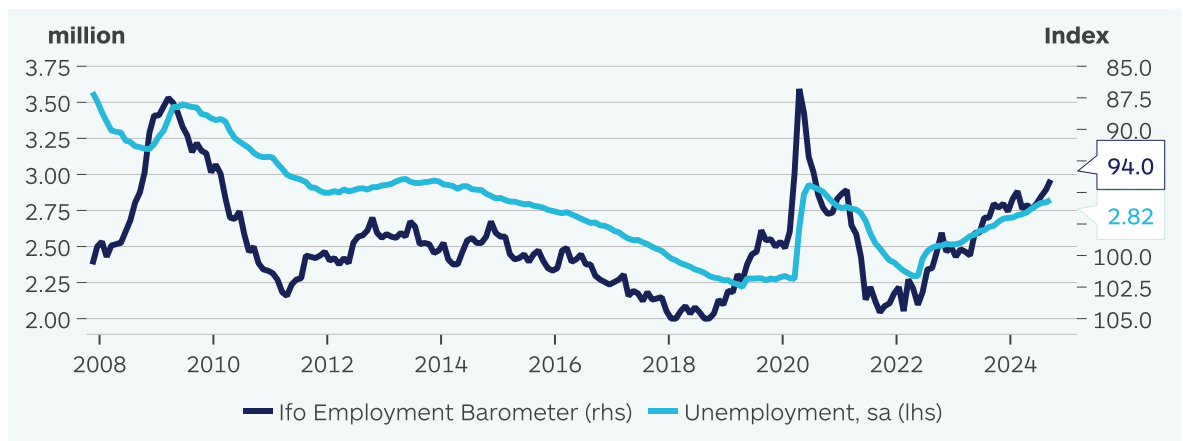
# Germany: On the brink of recession

Analysts: Christian Lips, Chief Economist // Valentin Jansen

## German economy at risk of technical recession – GDP likely shrank in Q3 as well

Germany's economic output likely contracted slightly again in Q3, thus meeting the criteria for of a technical recession. The signs are in this direction in light of the recent trend among the indicators, in particular as seen in the marked downtick in the ifo business situation index. In the most recent ZEW survey, too, the macroeconomic situation was rated as being as its worst since May 2020 – which was when GDP collapsed on a historic scale during the first COVID lockdown. The hard indicators available to date also provide indication of a renewed decline in GDP, with, for example, industrial output registering a decline of 2.4 percent mom in July. While construction output has stabilized, albeit at a low level (+0.3 percent mom), output in the manufacturing sector has taken a nosedive (-3.2 percent mom). The less volatile three-month comparison reveals a sharp downturn of -3.0 percent. The industrial recession is ongoing, and the weak trend in new orders gives little hope of any near-term improvement, as reflected in the fact that, at -38.9 balance points, companies rate their order backlog as at its worst since mid-2020. The order-to-stock ratio also suggests a pronounced cyclical low.

Chart: Economic downturn increasingly dampening companies' willingness to hire



Sources: ifo, Destatis, Federal Employment Agency, Macrobond, NORD/LB Macro Research

## The German economy's problems are of structural and increasingly cyclical nature

The German economy is currently plagued by a whole range of stress factors, which, all in all, are collectively proving to be a true sentiment killer. Germany's growth and prosperity model, heavily reliant on industry and exports as it is, is facing significant challenges from geopolitics, deglobalization, demographic shifts, weak demand and a lack of investment. That said, it is no longer merely structural factors alone that are weighing on the German economy. Germany now also has a full-blown economic problem, as evidenced by the low capacity utilization. An unusual density of negative news from German companies has dominated the headlines of late. Job cuts, site closures, insolvencies – even if this is only anecdotal evidence, the previously rather abstract structural problems of the German economy and the economic weakness are becoming increasingly evident and palpable to a wider audience. The effects are also being increasingly felt in the labour market. The so far merely moderate increase in the number of unemployed was undoubtedly attributable to the structural shortage of skilled workers. However, various indicators for the labour market – such as the recent decline in the ifo Employment Barometer – indicate a more cautious approach among companies to hiring new staff (see chart).

### Sentiment indicators reflect growing economic concerns

The sentiment indicators for September reflect growing economic concerns among financial market experts and corporate leaders, with the surveys conducted by ZEW and Sentix already having indicated a further deterioration in economic sentiment and thus evidencing a persistently weak pace of momentum in economic output. The PMI, too, had indicated a continuation of the downward trend. Against this background, the signs are that the weakness in industry continued in September, particularly in Germany compared to other European countries. September saw the ifo Business Climate index fall by 1.4 points to 85.4 points as against August, indicating that the pace of downturn has now increased again somewhat. While the majority of the surveyed analysts and economists had already reckoned with a further downtick, both the Business Climate index and the assessment of the situation were once again even more disappointing than expected. At 84.4 points, the current business situation is assessed as worse than at any time since July 2020. As the around 9,000 surveyed business leaders see it, the German economy remains stuck in stagnation.

There was at least a small glimmer of hope in the ifo data reported for the construction industry. A less pessimistic expectations component was apparently able to overcompensate for the slight downtick in the situation assessment. It could well be that the ECB's second interest rate cut in September and the prospect of further monetary easing have at least brightened the business outlook somewhat.

Despite Germany's prevailing structural and economic problems, the overall mood currently appears to be even worse than the actual situation. This is further dampening investment and the consumers' willingness to spend, so that the poor sentiment threatens to become a self-fulfilling prophecy in the absence of countermeasures. The German economy urgently needs a boost to prevent this happening. There are no signs at present of this coming from global economic demand, fiscal or monetary policy – even though the ECB will likely step up the pace of interest rate cuts from October onwards.

### Fundamental forecasts, Germany

	2023	2024	2025
GDP	-0.3	-0.1	0.6
Private consumption	-0.4	0.5	1.1
Govt. consumption	-0.1	2.1	1.5
Fixed investment	-1.2	-3.3	0.2
Exports	-0.3	0.1	2.0
Imports	-0.6	-1.0	3.2
Net exports <sup>1</sup>	0.8	0.4	-0.4
Inflation <sup>2</sup>	6.0	2.4	2.0
Unemployment rate <sup>3</sup>	5.7	6.0	6.1
Budget balance <sup>4</sup>	-2.5	-1.9	-1.0
Current account balance <sup>4</sup>	5.9	7.0	6.4

Change vs previous year as percentage, <sup>1</sup>as contribution to GDP growth; <sup>2</sup>HICP; <sup>3</sup>as percentage of the civil labour force (Federal Employment Office definition); <sup>4</sup> 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	-0.1	0.1
GDP nsa yoy	-0.4	-0.8	0.3	0.1	-0.3
Inflation yoy	3.0	2.7	2.6	2.2	2.3

Change as percentage

Sources: Feri, NORD/LB Macro Research

# Switzerland: Deflation is back on the agenda

Analyst: Christian Reuter

## Solid second quarter – but with external economic headwinds

Final figures for Q2 reveal that GDP, adjusted for sports events, grew by 0.5 percent qoq. This corresponds to a year-on-year figure of 1.4 percent, and is likely close to the potential growth rate. The Swiss economy benefited from the strong positioning of the country's pharmaceutical industry, which logged sharp growth on the exports front. On the other hand, exports in most other industrial sectors faced difficulties because of a weak external economic environment and a strong Swiss franc. Domestic demand fell back into stagnation. The manufacturing sector was hindered by negative growth in equipment investment (-1.4 percent qoq). Things didn't go too smoothly in many service sectors either. Despite all this, however, August saw a brightening in sentiment, with the KOF Economic Barometer climbing one point to 101.6 and the SECO leading indicator continued its upward trend. Purchasing managers were unexpectedly optimistic. The industry PMI registered a level only just below the expansion threshold, while the index for services improved to 57.3 points. It is uncertain whether this will also be reflected in greater economic momentum, however. The data available to date on foreign trade suggest a challenging situation ahead, especially considering a probable countermovement in the chemical and pharma. Given the economic developments in Europe and the USA, the export industry is rather unlikely to provide any substantial boost. Against this background it is the domestic economy from which an upswing must come. For example, retail sales grew by 2.7 percent yoy in July. Rising real wages and a solidly developing labour market ought to fuel private consumption. On balance, however, the downside risks to economic growth in 2025 have increased somewhat.

## Deflation back within the realm of possibility: SNB cuts interest rates – focus on the FX

Inflation is no longer a problem in Switzerland, the rate of which fell to 1.1 percent in August. As a result of the franc's strength, import prices fell by 1.9 percent yoy. Domestic price pressure came from services. In the future, however, the likelihood of second-round effects will diminish, not least as administered prices (electricity, rents) are set to be reduced in the upcoming year. With this in mind, the SNB cut its key rate by 25bp to 1.00 percent in September and lowered its conditional inflation forecast and growth expectations. Nevertheless, this third SNB interest rate cut was met with some controversy as certain market participants had expected a more substantial adjustment. Swiss monetary policy is now caught between the conflicting priorities of a weakening economy, falling international interest rates and geopolitical risks, which are boosting the Swiss franc as a safe haven. This combination of circumstances could well put the SNB under further pressure to act. The central bankers will be looking to avoid a slide into deflation. With a key interest rate of just 1.00 percent, the SNB is ready to intervene in the forex market.

### Fundamental forecasts\*, Switzerland

	2023	2024	2025
GDP	1.1	1.2	1.7
Inflation (CPI)	2.1	1.2	0.8
Unemployment rate <sup>1</sup>	2.0	2.3	2.6
Budget balance <sup>2</sup>	0.3	0.3	0.2
Current account bal. <sup>2</sup>	6.4	6.5	7.0

### Interest and exchange rates, Switzerland

	26.09.	3M	6M	12M
SNB policy rate	1.00	0.75	0.50	0.50
3M rate	0.89	0.50	0.50	0.50
10Y	0.40	0.50	0.50	0.60
Spread 10Y Bund	-179	-160	-160	-170
EUR in CHF	0.95	0.96	0.96	0.97

\* Change vs previous year as percentage; <sup>1</sup> as percentage of the labour force, <sup>2</sup> as percentage of GDP

Sources: Feri, Bloomberg, NORD/LB Macro Research

# Japan: US monetary policy is of key relevance

Analyst: Tobias Basse

## US monetary policy is currently of key relevance

At its last meeting the Bank of Japan refrained from a further rate hike against the background of the recent turbulences on the international financial markets, which had been largely triggered by the in the meantime stronger yen; any decision to the contrary would have come as a quite some surprise. So shortly after the sharp rate cut by the FOMC in Washington, it goes without saying that the central bankers in Tokyo had no interest in making for any further appreciation of the yen against the US dollar through a renewed rate hike. In other words, the Bank of Japan is giving the Fed the right of way for the time being. Against this background it probably comes as no surprise to the majority of interested observers that the BOJ's decision to delay taking action was arrived at unanimously. In the future, however, the central bankers in Tokyo will likely maintain a policy of cautious rate hikes. At any rate, the latest inflation data also speak for this assessment.

## A look at consumer prices

August saw a substantial uptick in consumer prices, with a year-on-year change rate of 3.0 percent. The perhaps even more important core rate of this time series rose to 2.8 percent yoy. These figures without doubt point to a rate hike in the near future. If the data situation allows, December could be a good time to make a corresponding adjustment. However, a key-rate hike in October cannot be completely ruled out either, given the latest data on the inflation trend.

## Kazuo Ueda now appears to prefer a wait-and-see approach

At the press conference that followed the MPC meeting, Governor Kazuo Ueda underlined very clearly the relevance of the recent turbulence in the financial markets for Japan's further monetary strategy. In an environment characterized by considerable uncertainty, a rather wait-and-see approach can indeed make sense. In this context, Ueda unambiguously stressed that the BOJ is not looking to exert any direct influence on exchange rates, but also stated that the central bankers will naturally be keeping a close eye on the forex market. In our view, it is particularly interesting that Ueda explicitly stressed the importance of inflation developments in services in October. All in all, his comments appear to indicate the likelihood of the Bank of Japan maintaining a rather hesitant stance. Consequently, we will likely see a renewed adjustment of the key-rate level in December. The newly appointed leader of the ruling party, Shigeru Ishiba, is expected to grant the central bank the necessary political leeway to implement certain rate increases, the likelihood of which is clearly helping the yen at present.

### Fundamental forecasts\*, Japan

	2023	2024	2025
GDP	1.7	0.1	1.6
Inflation	3.3	2.6	1.9
Unemployment rate <sup>1</sup>	2.6	2.5	2.4
Budget balance <sup>2</sup>	-5.2	-4.2	-3.6
Current account bal. <sup>2</sup>	3.6	3.9	3.6

\* Change vs previous year as percentage;

<sup>1</sup> as percentage of the labour force; <sup>2</sup> as percentage of GDP

Sources: Feri, Bloomberg, NORD/LB Macro Research

### Interest and exchange rates, Japan

	26.09.	3M	6M	12M
Key rate	0.25	0.50	0.50	0.75
3M rate	0.43	0.55	0.55	0.80
10Y	0.66	1.00	1.10	1.40
Spread 10Y Bund	-152	-110	-100	-90
EUR in JPY	162	161	159	153
USD in JPY	145	144	143	138

# China: Beijing now pulling out significantly more stops

Analyst: Valentin Jansen

## Sobering economic trend has led to mounting pressure on Beijing

A series of sobering hard economic indicators in September raised growing doubts as to the achievement of Beijing's 5-percent growth target. This is because, with the exception of foreign trade, the other growth drivers lack the necessary momentum. Industrial output grew by 4.5 percent yoy in August, but slowed further for the fourth month in succession. There is likewise a lack of traction on the investment side. The widely followed property investment data fell by a massive 10.2 percent over the first eight months of the year, owing to the fact that the real estate sector is still mired in crisis. Considering the importance for the wealth of private households, this situation is making for a great deal of uncertainty. Retail sales in August (2.1 percent yoy) fit into this picture, indicating a low level of activity by Chinese standards and a sluggish consumer climate. Price momentum remains subdued with an inflation rate of 0.6 percent yoy in August, only just avoiding further episodes of deflation.

## Fiscal policy measures follow suit shortly after a veritable round of monetary easing

The start of the interest rate turnaround in the USA has paved the way for urgently needed monetary policy stimulus in China. After the Fed's meeting in September, the PBOC didn't wait long, and sent a clear signal with unprecedented easing measures, the scale of which many observers had not fully anticipated. The sharp interest rate cuts, together with what was by PBOC standards an unusual forward guidance, extend beyond existing mortgage loans and thus free up resources for private consumption. New incentives for homebuyers are being introduced to tackle the excess supply of housing on the market. In view of the worrying developments in the stock market, moreover, new facilities have been introduced via which investment companies and funds can refinance themselves. Just two days after the PBOC, the highest leadership body also pledged significant fiscal aid to help achieve the growth goal. China's benchmark index CSI 300 and the Hang Seng Index have already been able to make up for the losses they had suffered over the course of the year. There has been a modest strengthening of the yuan against the US dollar, with the PBOC reiterating its focus on stabilizing the currency.

## Foreign trade and international relations remain tense

In addition to the ongoing disputes with a growing number of trading partners – including those outside of industrialized countries – over unequal competitive conditions and import duties, there are other conflicts on which market participants need to keep a close eye. In response to escalating tensions in the South China Sea, the political leadership of the Philippines is reaching out to Washington for support as well as strengthening partnerships with other countries in the region.

### Fundamental forecasts\*, China

	2023	2024	2025
GDP	5.2	4.8	4.5
Inflation	0.3	0.6	1.5
Unemployment rate <sup>1</sup>	5.2	5.1	5.1
Budget balance <sup>2</sup>	-4.6	-4.8	-4.9
Current account bal. <sup>2</sup>	1.4	1.3	1.2

\* Change vs previous year as percentage;

<sup>1</sup> as percentage of the labour force; <sup>2</sup> as percentage of GDP

Sources: Feri, Bloomberg, NORD/LB Macro Research

### Interest and exchange rates, China

	26.09.	3M	6M	12M
Deposit rate	1.50	1.50	1.50	1.50
3M SHIBOR	1.84	1.90	1.90	1.90
10Y	2.08	2.10	2.10	2.15
Spread 10Y Bund	-10	0	0	-15
EUR in CNY	7.84	7.84	7.77	7.77
USD in CNY	7.01	7.00	7.00	7.00

# Britain: Waiting for interest rate cuts

Analysts: Tobias Basse // Constantin Lüer

## Waiting for interest rate cuts

At its last meeting the Bank of England decided to keep its key rate on hold for the time being, accordingly leaving the Bank Rate at 5.00 percent for now. The central bank's hesitant stance comes as no great surprise. This crucial decision was not taken unanimously, however. Swati Dhingra – as an almost notorious monetary policy dove – voted for a further 25bp rate cut, but was alone in taking this view. This, by British standards, means that something akin to unanimity has been achieved in the choice of an appropriate monetary strategy. The decision in favour of a quantitative tightening to the extent anticipated by the market was, after all, arrived at by consensus.

## A look at the pound

Appreciable signs of a slowdown in the labour market evidently remain a major concern for the monetary policymakers in London. This veritable "horror scenario" will likely put pressure on the Bank of England to take action in the near future, though the Monetary Policy Committee doesn't appear to be in any great hurry to make rate cuts. This news is fundamentally positive from the pound's perspective. The psychological mark of 1.33 is in the meantime in the focus of the market participants in relation to the US dollar. The combination of sharply declining interest rates in Washington and hesitant central bankers in London almost inevitably has implications for the forex market.

## No real stimulus from the current CPI figures

The current figures on the trend in consumer prices have failed to bring fresh stimulus of any great note for the monetary policymakers in London. August as month under review saw the headline index rise by 2.2 percent yoy and thus nearly to the Bank of England's target level. In the service sector, however, the upward pressure on prices remains regrettably high. This fact is bound to unsettle a few central bank officials; in the long term, however, interest rates in the UK will probably have to fall further – especially as the central bank in London had expected an even more unfavourable consumer price trend in the service segment of the UK economy in August.

### Fundamental forecasts\*, Britain

	2023	2024	2025
GDP	0.1	1.0	1.5
Inflation (CPI)	7.3	2.6	2.2
Unemployment rate <sup>1</sup>	4.0	4.3	4.5
Budget balance <sup>2</sup>	-5.0	-3.7	-3.1
Current account bal. <sup>2</sup>	-3.3	-2.9	-2.6

\* Change vs previous year as percentage;

<sup>1</sup> as percentage of the labour force as per ILO concept,

<sup>2</sup> as percentage of GDP

Sources: Feri, Bloomberg, NORD/LB Macro Research

### Interest and exchange rates, Britain

	26.09.	3M	6M	12M
Repo rate	5.00	4.75	4.50	4.00
3M rate	4.82	4.45	4.20	3.70
10Y	4.01	3.75	3.70	3.65
Spread 10Y Bund	183	165	160	135
EUR in GBP	0.83	0.85	0.85	0.85
GBP in USD	1.34	1.32	1.31	1.31

# Portfolio strategies

## Yield curve, Euroland

Yields and forecasts (Bunds/Swap)

	Yields (in %)	NORD/LB forecasts for the horizons		
	26.09.2024	3M	6M	12M
3M	3.35	2.80	2.30	2.20
1Y	2.55	2.30	2.20	2.10
2Y	2.13	2.00	1.90	2.00
3Y	1.95	1.97	1.94	2.00
4Y	1.98	1.98	1.97	2.04
5Y	2.01	2.00	2.00	2.10
6Y	1.95	2.03	2.03	2.15
7Y	1.99	2.05	2.05	2.19
8Y	2.03	2.07	2.07	2.23
9Y	2.11	2.09	2.09	2.27
10Y	2.18	2.10	2.10	2.30
2Y (Swap)	2.36	2.30	2.20	2.30
5Y (Swap)	2.29	2.30	2.35	2.45
10Y (Swap)	2.42	2.40	2.45	2.65

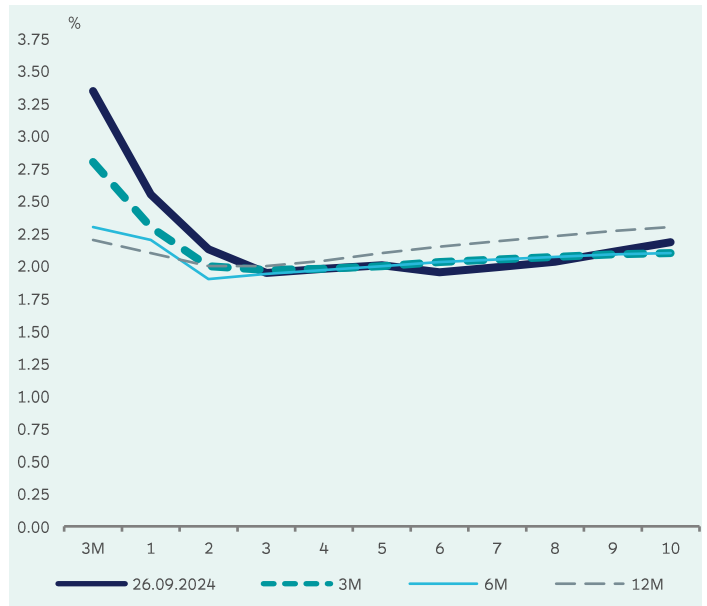
Sources: Bloomberg, NORD/LB Macro Research

Forecasts and total returns

	Total returns (in %) for horizons...		
	3M	6M	12M
3M	0.83	1.54	2.70
1Y	0.82	1.44	2.55
2Y	0.64	1.20	2.17
3Y	0.41	-0.11	1.85
4Y	0.51	1.09	1.93
5Y	0.57	1.12	1.90
6Y	0.09	0.63	1.22
7Y	0.14	0.68	1.05
8Y	0.29	0.84	1.04
9Y	0.69	1.26	1.26
10Y	1.19	1.75	1.46

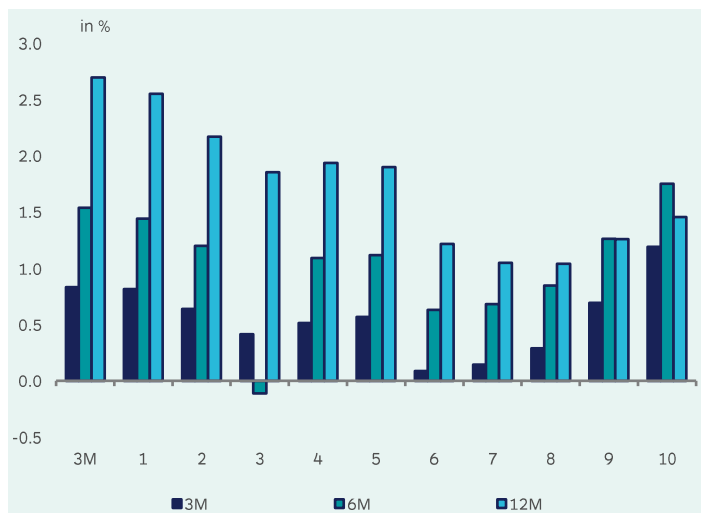
Sources: Bloomberg, NORD/LB Macro Research

Yield curve forecasts (Bunds)



Quelle: 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	0.8	1.7	-0.7	0.4	-1.2
2Y	0.6	1.8	-0.7	0.3	-1.6
3Y	0.4	2.0	-0.9	0.1	-1.8
4Y	0.5	2.2	-1.0	0.0	-1.9
5Y	0.6	2.6	-0.4	0.1	-2.1
6Y	0.1	4.3	-0.7	-0.2	-2.1
7Y	0.1	3.2	-0.1	-0.4	-2.2
8Y	0.3	3.5	0.2	-0.7	-2.4
9Y	0.7	3.7	0.5	-0.6	-2.4
10Y	1.2	3.9	0.7	-0.5	-2.5

Sources: Bloomberg, NORD/LB Macro Research

Expected total returns (as percentage) in national currencies				
	USD	GBP	JPY	CHF
1Y	1.9	1.3	-0.1	0.2
2Y	2.0	1.3	-0.5	-0.3
3Y	2.2	1.1	-0.5	-0.3
4Y	2.5	1.0	-0.5	-0.5
5Y	2.8	1.6	-0.4	-0.6
6Y	4.5	1.3	-0.8	-0.7
7Y	3.4	2.0	-0.9	-0.8
8Y	3.7	2.2	-1.2	-1.0
9Y	3.9	2.5	-1.2	-0.9
10Y	4.1	2.8	-1.0	-1.0

Sources: Bloomberg, NORD/LB Macro Research

### 12-month horizon

Expected total returns (as percentage) in euro					
	EUR	USD	GBP	JPY	CHF
1Y	2.6	5.5	2.2	6.0	-1.9
2Y	2.2	5.8	2.3	5.8	-2.2
3Y	1.9	6.3	2.3	5.1	-2.5
4Y	1.9	6.8	2.6	4.8	-2.7
5Y	1.9	7.3	3.3	4.7	-2.9
6Y	1.2	9.4	3.3	4.3	-3.0
7Y	1.0	8.6	4.0	4.4	-3.1
8Y	1.0	9.1	4.1	4.4	-3.4
9Y	1.3	9.6	4.5	4.3	-3.7
10Y	1.5	10.0	4.4	2.9	-4.0

Sources: Bloomberg, NORD/LB Macro Research

Expected total returns (as percentage) in national currencies				
	USD	GBP	JPY	CHF
1Y	4.8	4.3	0.2	0.6
2Y	5.1	4.3	0.0	0.3
3Y	5.6	4.4	-0.6	0.0
4Y	6.0	4.7	-1.0	-0.2
5Y	6.6	5.4	-1.1	-0.4
6Y	8.6	5.4	-1.4	-0.5
7Y	7.8	6.1	-1.4	-0.7
8Y	8.3	6.2	-1.3	-0.9
9Y	8.8	6.6	-1.4	-1.2
10Y	9.3	6.6	-2.7	-1.6

Quelle: 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	
	26.09.2024	Prev. month	Start of year	Prev. month	Start of year
DAX	19,238.36	18,906.92	16,751.64	1.75%	14.84%
MDAX	26,797.03	25,703.44	27,137.30	4.25%	-1.25%
EuroSTOXX50	5,032.59	4,957.98	4,521.44	1.50%	11.31%
STOXX50	4,487.47	4,551.48	4,093.37	-1.41%	9.63%
STOXX600	525.61	525.05	478.99	0.11%	9.73%
Dow Jones	42,175.11	41,563.08	37,689.54	0.85%	11.21%
S&P 500	5,745.37	5,648.40	4,769.83	1.31%	19.97%
Nikkei	38,925.63	38,647.75	33,464.17	0.72%	16.32%

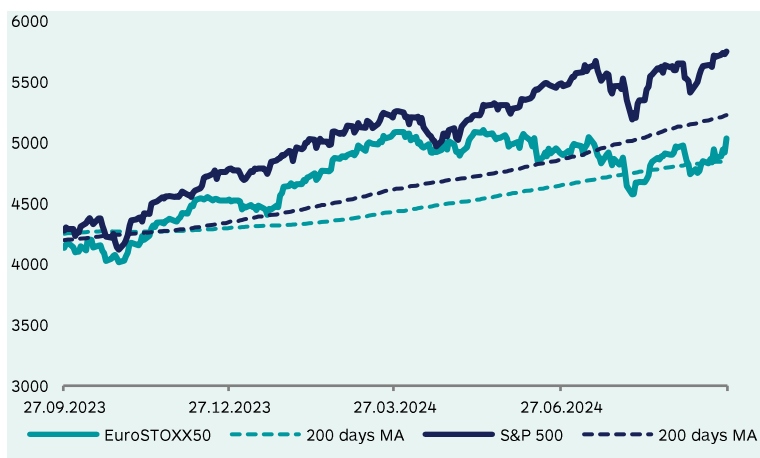
Sources: Bloomberg, NORD/LB Macro Research

### 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	5,500	5,600
Nikkei	37,500	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, 27 September 2024.**

The next English issue of Economic Adviser will be appearing on **18 November 2024.**

# Overview of forecasts

## Fundamental forecasts

in %	GDP growth			Rate of inflation			Unemployment rate <sup>1</sup>			Budgetary balance <sup>2</sup>		
	2023	2024	2025	2023	2024	2025	2023	2024	2025	2023	2024	2025
USA	2.9	2.5	1.7	4.1	2.9	2.2	3.6	4.1	4.4	-6.5	-6.4	-6.2
Euroland	0.5	0.7	1.0	5.4	2.4	1.9	6.6	6.5	6.5	-3.6	-2.9	-2.7
Germany	-0.3	-0.1	0.6	6.0	2.4	2.0	5.7	6.0	6.1	-2.5	-1.9	-1.0
Japan	1.7	0.1	1.6	3.3	2.6	1.9	2.6	2.5	2.4	-5.2	-4.2	-3.6
Britain	0.1	1.0	1.5	7.3	2.6	2.2	4.0	4.3	4.5	-5.0	-3.7	-3.1
Switzerland	1.1	1.2	1.7	2.1	1.2	0.8	2.0	2.3	2.6	0.3	0.3	0.2
China	5.2	4.8	4.5	0.3	0.6	1.5	5.5	5.1	5.1	-4.6	-4.8	-4.9

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

Sources: Feri, NORD/LB Macro Research

## Key interest rates

In %	26.09.24	3M	6M	12M
USD	5.00	4.50	4.00	3.50
EUR	3.65	3.15	2.65	2.40
JPY	0.25	0.50	0.50	0.75
GBP	5.00	4.75	4.50	4.00
CHF	1.00	0.75	0.50	0.50
CNY	1.50	1.50	1.50	1.50

Sources: Bloomberg, NORD/LB Macro Research

## Exchange rates

EUR in...	26.09.24	3M	6M	12M
USD	1.12	1.12	1.11	1.11
JPY	162	161	159	153
GBP	0.83	0.85	0.85	0.85
CHF	0.95	0.96	0.96	0.97
CNY	7.84	7.84	7.77	7.77

## Interest rates (government bonds)

	3M rates				Yields 2Y				Yields 5Y				Yields 10Y			
	26.09.	3M	6M	12M	26.09.	3M	6M	12M	26.09.	3M	6M	12M	26.09.	3M	6M	12M
USD	4.60	4.30	3.90	3.40	3.63	3.50	3.40	3.10	3.57	3.40	3.30	3.10	3.80	3.50	3.40	3.20
EUR	3.35	2.80	2.30	2.20	2.13	2.00	1.90	2.00	2.01	2.00	2.00	2.10	2.18	2.10	2.10	2.30
JPY	0.43	0.55	0.55	0.80	0.06	0.55	0.60	0.85	0.26	0.60	0.65	0.90	0.66	1.00	1.10	1.40
GBP	4.82	4.45	4.20	3.70	3.96	3.65	3.52	3.41	3.85	3.68	3.55	3.40	4.01	3.75	3.70	3.65
CHF	0.89	0.50	0.50	0.50	0.41	0.50	0.50	0.55	0.37	0.50	0.50	0.55	0.40	0.50	0.50	0.60

Sources: Bloomberg, NORD/LB Macro Research

## Spreads (bp)

	3M EURIBOR				2Y Bund				5Y Bund				10Y Bund			
	26.09.	3M	6M	12M	26.09.	3M	6M	12M	26.09.	3M	6M	12M	26.09.	3M	6M	12M
USD	126	150	160	120	150	150	150	110	156	140	130	100	161	140	130	90
JPY	-292	-225	-175	-140	-207	-145	-130	-115	-175	-140	-135	-120	-152	-110	-100	-90
GBP	148	165	190	150	183	165	162	141	184	168	155	130	183	165	160	135
CHF	-246	-230	-180	-170	-172	-150	-140	-145	-164	-150	-150	-155	-179	-160	-160	-170

Sources: Bloomberg, NORD/LB Macro Research

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