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Special: ESG guidelines pave the way

Analysts: Valentin Jansen // Jörg Kuypers // Constantin Lüer

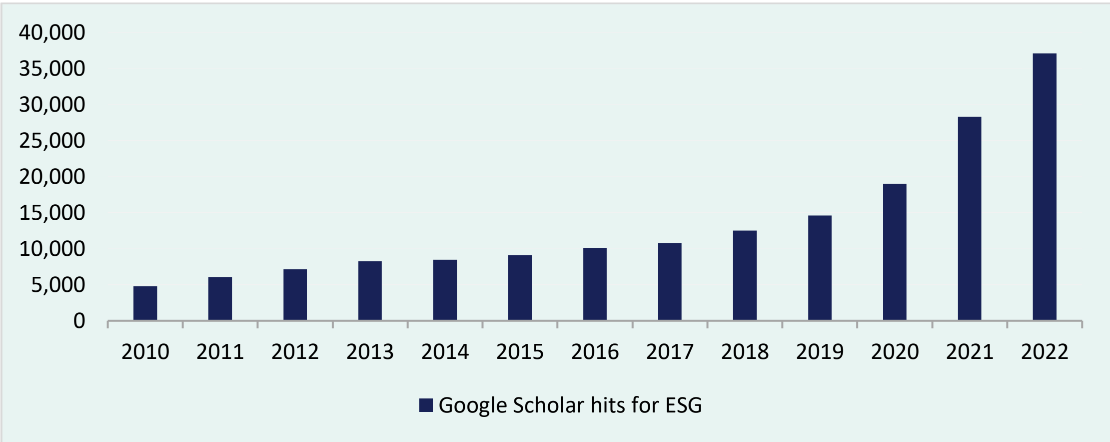
ESG on everyone's lips as buzzword of sustainability

Sustainable management is not a new concept that emerged in the 2010s or 2020s, but a necessity towards ensuring long-term growth which in turn secures an enterprise's own business and livelihood. In economics, the concept of commons (i.e. common-pool good) has become a fundamental component of goods theory. It describes the use of goods from which no one can be excluded offhand, such as the sea as a source of fish and other resources or a vast steppe with virtually infinite wildlife resources. In the pioneering times of modern North America, the newcomers, mostly from Europe, hunted the herds of American bison in the 19th century, doing so with varying motivations and almost driving the species to extinction. This was a classic case of the tragedy of the commons, in which individual and collective rationality diverge. Had it not been for various government and private initiatives to protect and replenish those herds, the American bison would probably have been extinct today.

Illustrative and dramatic as the example of the bison is, the fact is that the challenges of today are far more complex and less obvious because they concern global commons that cannot be effectively protected without international regulations. The release of CO_2 emissions is invisible to the naked eye, and the creeping impacts on our climate are in many cases not immediately apparent and comprehensible. Nowadays, a wide variety of private, state and supranational actors are increasingly involving themselves and playing a role in protecting our livelihoods and working environments and providing a sustainable framework for today's economic world. If one were to initially assume that this applies solely to resource-consuming processes in nature, the resource 'labour' and the general conditions in companies would also be explicitly included. All these endeavours towards positively transforming the economy are summarized under the buzzword 'Environment-Social-Governance'. 'ESG' is thus an acronym standing for a perspective of environmentally conscious and sustainable action. The meaning and purpose behind it is that account should be taken of all aspects of a company's business activities and their impacts on the environment and on the relationship with employees and stakeholders in a company's management. ESG thus subsumes a wide and complex range of topics – from climate-neutral and sustainable production to employee well-being and social standards right through to adherence to compliance guidelines.

The fact that ESG is on everyone's lips is also reflected in the number of articles in trade journals and specialist books in which it is mentioned.

Chart: Mention of ESG in academic/scientific articles



Sources: Google Scholar, NORD/LB Macro Research

The EU taxonomy as crucial element of the green transformation of the EU economy
The European Union has committed to achieving climate neutrality by 2050 through the climate protection goals defined under the Paris Agreement. By as early as 2030, moreover, the aim is to achieve a net reduction of 55 percent in greenhouse gas emissions compared to the levels in 1990. Against this background the European Commission presented the European Green Deal as a major political action package in December 2019, thus laying the regulatory cornerstone for the transformation of the EU economy. The measures and initiatives contained therein are being gradually introduced and implemented. Alongside this, the EU Taxonomy Regulation, which is crucial for the financial sector among others, came into force in mid-2020. This regulation in turn has its roots in the Action Plan on Financing Sustainable Growth published by the EU Commission in March 2018. Commonly referred to as the EU taxonomy, the regulation serves as the principal instrument for mobilizing private capital flows, without which the ambitious climate goals are unlikely to be achieved considering the immense capital requirements involved. For example, the EU Commission estimated as early as 2020 that additional investments of EUR 350 billion per year (!) will be required in the period from 2021 to 2030, making for a total of EUR 3,150 billion. What the EU taxonomy is now intended to do in this context is provide the private sector with a framework that sifts economic activities and sectors that are in line with the principles of sustainability. Overall, the aim is to create a uniform market standard that directs private capital flows along these defined sustainable paths. Previously, there was no clear EU-wide regulation for "green", "sustainable" or "environmentally friendly" economic activities. The core of the classification system therefore lies in six concrete environmental goals against which a contribution to sustainability is measured: I. Climate change mitigation, II. Climate change adaptation, III. Sustainable use and protection of water and marine resources, IV. Transition to a circular economy, V. Pollution prevention and control, and VI. protection and restoration of biodiversity and ecosystems. According to the EU Commission, what is known as the first Delegated Act – which entered into force in June 2021 and underpinned the formulated objectives I and II with technical test criteria – already covered the economic activities of 40 percent of all listed European companies in sectors that are responsible for almost 80% of direct CO_2 emissions in Europe. In the coming year, the scope is to be further expanded by underpinning the other four environmental goals with corresponding criteria.

Financial sector with a key role in the taxonomy universe
It is not without reason that financial market actors are being prioritized in the implementation of the EU taxonomy: banks play a key role in financing the economy, so endeavours are underway to institutionalize sustainable business practices through bank lending and other financial market instruments. After the entry into force of the EU Taxonomy Regulation in November 2020, the new standards were activated with the underpinning of the first two environmental goals with technical test criteria. Financial market participants are then obligated to report how and to what extent their financial products and investments are in line with the EU taxonomy. Financial markets can help support the transition to a more sustainable economy and reduce vulnerability to climate-related risks. While the importance of social and governance factors is recognized by the regulatory and supervisory authorities, the focus is nevertheless currently on climate and environmentally induced imponderables to which banks are exposed. The expectation on financial institutions is therefore that they fully include such imponderables in their risk management in order to identify and actively manage corresponding risks that might arise. The priority given by the supervisory authorities requires banks to focus their attentions on decarbonization as well as physical and transitory risks.

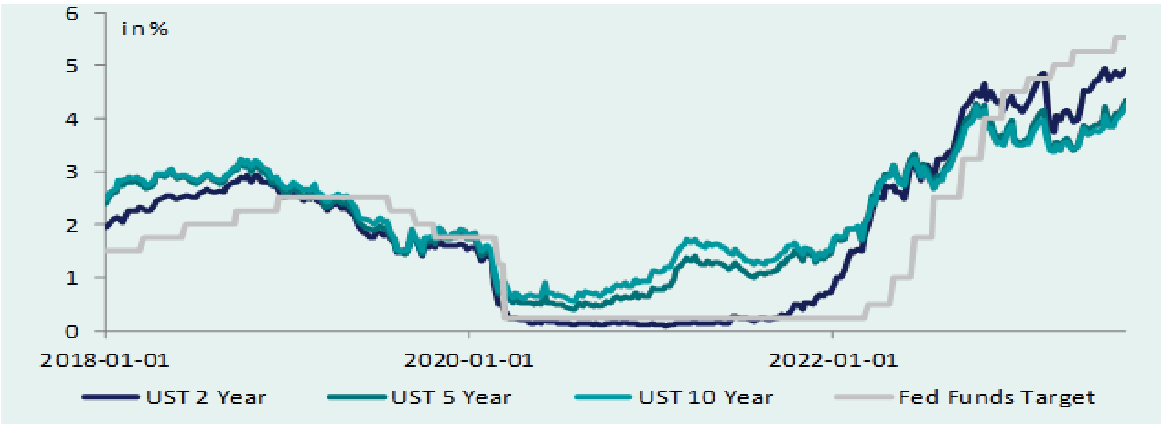
USA: The Fed can now afford to watch and wait

Analysts: Tobias Basse // Bernd Krampen

Encouraging data again on developments in private consumption

The latest data reported on the development of US retail sales cannot be described as anything but a surprise on the upside – with the advance figures for July as month under review revealing impressive month-on-month growth of 0.7 percent. There were no helpful stimuli from the car dealerships, however; indeed, excluding the subgroup Automobiles, US retail sales grew by no less than 1.0 percent mom. The control group of retail sales has likewise registered a current growth figure of 1.0 percent mom. This time series is known to have a particular significance for the development of economic growth in the USA. The pleasing situation on the labour market is evidently continuing to help consumers there as well, with the unemployment rate having fallen to just 3.5 percent in July. Outside of agriculture, a total of 187,000 new jobs were created. Moreover, hourly wages also rose by 0.4 percent mom. Against this background, the employment situation in the land of unlimited opportunity still seems to be clearly helping the North American economy. However, the higher interest rates will gradually make for discernible signs of a slowdown.

Chart: Interest rates in the USA



Sources: Macrobond, NORD/LB Macro Research

A close eye also needs to be kept on the real estate market

Considered a reliable "early warning indicator" for property prices in the United States, the National Association of Home Builders' sentiment index had given an unexpectedly positive showing in recent times. In August, however, it registered a clear downward trend. Despite this distinct deterioration, however, the time series nevertheless still held at exactly 50 points. This means there is at least still no sign of any predominance of negative feedback from the survey participants. Nonetheless, there is cause for concern again. For example, the Prospective Buyers Traffic sub-index fell to just 34 points in August as month under review. This development provides clear indication of a marked weakness on the demand side. The unfortunate combination of high interest rates and rising construction costs is thus undoubtedly weighing on the mood on the US real estate market.

USA: The Fed can now afford to watch and wait

In this environment, the Fed can now afford to watch and wait for the time being. The inflation environment is in the meantime far less problematic. While we are not likely to see any additional signs of easing on the macroeconomic price front in the short term, the Fed will nevertheless most probably not need to undertake any further rate hike. The recent development in the US inflation rate should already allow the central bankers in Washington to take this course of action. Indeed, it should even be possible for the FOMC to dispense with sending out hawkish signals in the medium term. Whether this already applied to the speech by Fed chair Jerome Powell on 25 August at the Kansas City Fed conference in Jackson Hole was not known to us at the time of going to press, but we would in any case not have expected any dovish signals from him yet. The prospectively imminent slowdown in growth can be expected to further dampen the upward movement in prices in the USA towards the end of 2023. Indeed, the Fed's next rate adjustment would then already have to be downwards again – though it goes without saying that a corresponding move by the central bankers in Washington is not to be reckoned with until the course of 2024. However, the occurrence of such a scenario is in the meantime not likely to come as any great surprise to the FX market. In this respect, the end of the rate hikes in Washington would in our opinion not necessarily have to have a lasting negative impact on the US dollar.

Fundamental forecasts, USA

	2022	**2023**	**2024**
GDP	2.1	1.9	1.0
Private consumption	2.7	2.5	1.4
Govt. consumption	-0.2	1.5	0.5
Fixed investment	-0.5	0.5	2.0
Exports	7.1	0.5	3.0
Imports	8.1	2.0	3.0
Inflation	8.0	3.9	2.5
Unemployment rate[1]	3.6	3.9	4.0
Budget balance[2]	-4.2	-3.7	-3.7
Current acct. balance[2]	-3.8	-3.4	-3.4

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/22	**I/23**	**II/23**	**III/23**	**IV/23**
GDP qoq ann.	7.0	2.0	2.4	1.3	-0.4
GDP yoy	0.9	1.8	2.6	2.1	1.3
Inflation yoy	7.1	5.8	4.0	3.2	2.8

Change as percentage

Sources: Feri, NORD/LB Macro Research

Interest and exchange rates, USA

	24.08.	**3M**	**6M**	**12M**
Fed funds target rate	5.50	5.50	5.50	5.25
3M rate	5.39	5.35	5.25	4.90
10Y Treasuries	4.24	3.85	3.70	3.30
Spread 10Y Bund	172	145	130	80
EUR in USD	1.08	1.09	1.09	1.09

Sources: Bloomberg, NORD/LB Macro Research

Euroland: Low sentiment – ECB to pause on rate hikes?

Analysts: Christian Lips, Chief Economist // Christian Reuter

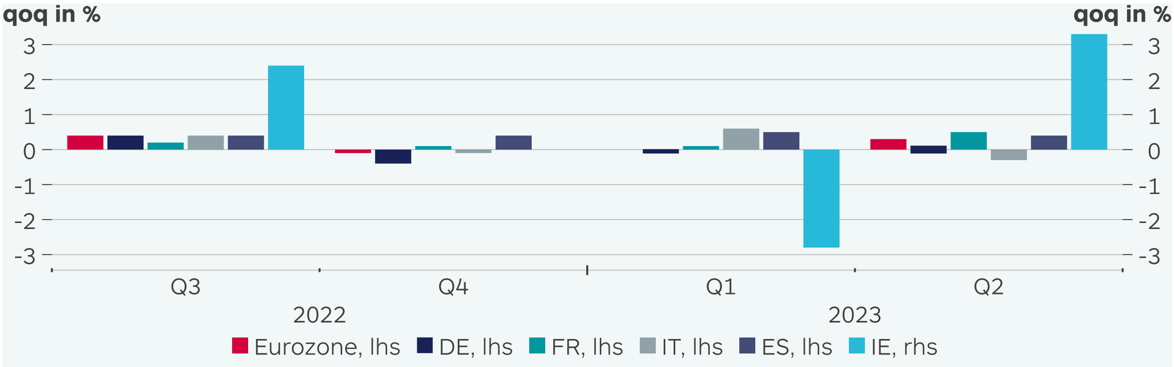
Economic weakness spreads to the service sector

Q2 saw gross domestic product in the eurozone with seasonally adjusted quarter-quarter growth of 0.3 percent. The return to moderate growth was driven primarily by France and Spain, while GDP in Germany stagnated and Italy reported unexpectedly marked quarter-on-quarter contraction of -0.3 percent. In addition, Ireland's notoriously erratic GDP once again made for a distortion, pushing the value for the eurozone up by around 0.1 percentage points.

Moreover, the short-term outlook is not particularly encouraging. Along with most other indicators, sentiment has deteriorated further over the past two months. The weakness already prevailing for some time in the industrial sector has now definitely hit the service sector as well. Growth in the service sector had offset or indeed overcompensated for the contraction in industry and construction in the first half of the year.

However, the recent slump in the service PMI means the eurozone is facing a fresh phase of weakness. While the economy in Germany is particularly weak, things cannot be said to be running well in other eurozone countries either. In France, the PMIs remain well below the expansion threshold. All countries are finding themselves faced with disappointing demand in China and other regions of the world.

Chart: Moderate GDP growth in Q2



Sources: Macrobond, NORD/LB Macro Research

Inflation steadily receding

There were hardly any surprises in terms of inflation developments in the eurozone. The annual HICP rate fell to 5.3 percent yoy in July, and a further decline towards the 5.0 percent mark is expected in August. The core rate, on the other hand, remained at an unpleasantly high level of 5.5 percent yoy. That said, the core rate will likely have been exaggerated in the summer months, owing to significant changes in the weighting scheme, e.g. for package holidays. In addition, the overall index and core rate are impacted from June to August by a base effect arising from the government measures in Germany a year ago, when a fuel rebate and the 9-euro ticket – which entitled holders to travel for 9 euros per month on all forms of local and regional public transport throughout the country) – had temporarily led to substantial price reductions.

A significant decline in the annual rate is therefore to be expected from September onwards. The price levels in the preliminary stages (producer and wholesale prices) have also moved in the right direction of late, some of which have fallen considerably, and gas and electricity have further reduced in price in recent months. Nevertheless, the ECB could find it difficult to declare victory as long as the core rate does not clearly trend downwards.

ECB raises key rates in July but provides no guidance for September

At its meeting in July the European Central Bank raised its key rates again by 25 basis points as expected. The central bankers showed themselves somewhat more satisfied with the inflation situation, though it was at the same time emphasized that the task of pushing the inflation rate back towards the 2-percent mark had not yet been completed. Unlike in the previous meetings, ECB president Lagarde provided no guidance on the interest rate decision to be made in September, but instead once again stressed the dependence of future monetary policy decisions on the corresponding data.

At the same time, the Governing Council refers to the increasingly visible effects of monetary policy, including a slowdown in interest rate-sensitive sectors such as construction, a decline in credit demand from companies and households, as well as the banks' more restrictive stance on lending. ECB Chief Economist Philip Lane made it clear that there was a long way to go before the full effect of the monetary tightening could become visible.

At present, however, macroeconomic activity is cooling down very significantly, which rather suggests that the ECB will leave things as they are, at least at the upcoming meeting in September, and wait for further data. Thus, the minor change in the wording can also be interpreted to the effect that the central bankers are now looking to “set” the key rates at sufficiently restrictive levels, whereas until now they had talked of wanting to "bring” them there. This means that the terminal rate could already be very close at hand in this cycle. However, the possibility of it going a bit higher after all at a later point can by no means be ruled out. It is a "decisive maybe", as Ms. Lagarde explained, that merely rules out a key-rat reduction, and she probably means above all that no one should bet on imminent rate cuts.

Fundamental forecasts, Euroland

	2022	2023	2024
GDP	3.4	0.5	1.0
Private consumption	4.5	-0.2	1.6
Govt. consumption	1.4	-1.1	1.0
Fixed investment	3.0	-0.4	0.8
Net exports[1]	-0.1	0.7	-0.2
Inflation	8.4	5.7	3.0
Unemployment rate[2]	6.7	6.5	6.5
Budget balance[3]	-3.6	-3.4	-2.7
Current account balance[3]	-0.7	1.6	1.5

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/22	I/23	II/23	III/23	IV/23
GDP sa qoq	-0.1	0.0	0.3	-0.1	0.1
GDP sa yoy	1.7	1.1	0.6	0.2	0.3
Inflation yoy	10.0	8.0	6.2	5.0	3.8

Change as percentage

Sources: Feri, NORD/LB Macro Research

Interest rates, Euroland

	24.08.	3M	6M	12M
Repo rate ECB	4.25	4.25	4.25	4.00
3M rate	3.78	3.90	3.80	3.40
10Y Bund	2.51	2.40	2.40	2.50

Sources: Bloomberg, NORD/LB Macro Research

Germany: Economy entrenched in a phase of weakness

Analysts: Christian Lips, Chief Economist // Christian Reuter

GDP stabilizes in spring – exports give a weak showing

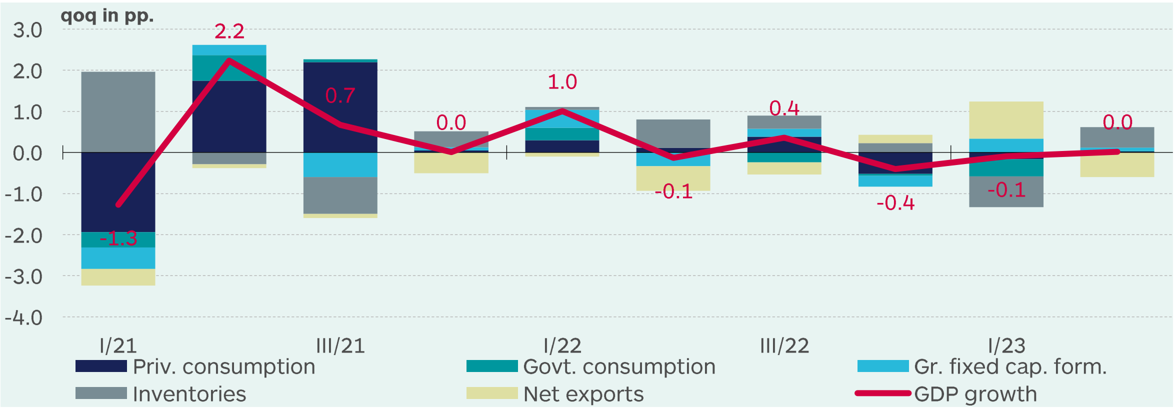
Data from the Federal Statistical Office indicate that real GDP at least succeeded in stabilizing in Q2 after registering declines in the two preceding quarters. Gross domestic product stagnated in quarter-on-quarter comparison, while the annual rate dropped to -0.2 percent yoy. According to the latest data revision, moreover, the recession in the winter half-year was somewhat less deep than previously expected. This certainly cannot be seen as an all-clear, however.

There has been no sign of the hoped-for revival in real consumption so far, nor did Q2 see any upturn in private consumer spending either. The miracle in terms of Q1's trend in public consumption expenditure has largely dissipated. Instead of the originally reported slump of -4.9 percent qoq, the figure now stands at "just" -1.9 percent qoq.

It was solely due to an unexpectedly robust showing on the investments front – with even construction investment registering a further minimal upturn – that the negative impact of the weakness in exports could at least be compensated. Export demand still remains weak, however, and Germany's companies are, accordingly, not particularly optimistic as regards their export expectations in the short term.

In the current quarter, the signs are now again pointing to a renewed contraction in economic performance. The only bright spot among the recently reported hard economic indicators was June's hefty month-on-month increase of 7 percent in industrial orders – a record value in reunified Germany, apart from the two months following the first Covid-induced lockdown. German GDP will likely contract by 0.6 percent in 2023 as a whole and, at 0.7 percent, the growth outlook for 2024 is modest as well.

Chart: German economy now three consecutive quarters without growth



Sources: Feri, Destatis, NORD/LB Macro Research

Continued deterioration in economic sentiment

Sentiment in the German economy remains in downward trend, as reflected in the unexpectedly marked decline of the ifo Business Climate Index to just 85.7 points in August. This is not only the fourth decline in a row but also means the sentiment barometer is now almost back at last year's low. After the decline in July had at least slowed down somewhat, August saw a somewhat more dynamic decline again, with business leaders rating their current business situation as having significantly worsened. At 89.0 points, this sub-index has now fallen to a level last registered in the summer of 2020 under the impact of the Covid pandemic. Business expectations have at the same time continued to deteriorate as well, however. At 82.6 points, the outlook thus remains bleak.

The atmosphere of gloom among Germany's companies is pervasive across all sectors. In industry, the business climate has been in steady decline since April and is now deep in negative territory (-16.6 balance points). After a long period of relative soundness, the mood among the country's service providers has now also turned negative, however. And the mood in the construction and retail sectors has once again deteriorated in spite of the fact that the baseline values were themselves already at an extremely low level.

The persistent state of gloominess on the executive floors of German companies comes as no great surprise, seeing as the surveys conducted in calendar week 34 among purchasing managers had already revealed a further deterioration, especially in the service sector. In the surveys by sentix and the ZEW institute among financial market experts, the expectations component had improved somewhat, but at the same time the current economic situation was assessed as having significantly worsened again. Indeed, there is no way around the fact that Germany is entrenched in a pronounced phase of economic weakness.

Housing construction particularly hit by rising interest rates and high construction costs

In the housing construction sector in particular, the impact of the recently hiked interest rates is already clearly evident, with the persistently high construction costs aggravating the situation even further. May saw the costs for the construction of conventional residential new builds up by a good 8 percent year on year. A good 40 percent of construction companies are now complaining of a lack of orders. In housing construction in particular, there is a veritable wave of cancellations, with almost one in five companies continuing to report cancelled projects. Moreover, one in ten companies is now suffering from financing difficulties.

The number of building permits has plummeted in this environment, by 27.2 percent in the first half of the year compared to the same period in 2022. The weakness in the particularly interest-rate-sensitive housing construction sector is thus still ongoing, while at the same time providing indication of potentially imminent effects of monetary tightening.

Fundamental forecasts, Germany

	2022	2023	2024
GDP	1.8	-0.6	0.7
Private consumption	3.9	-0.6	1.6
Govt. consumption	1.6	-2.3	1.4
Fixed investment	0.1	0.4	-0.1
Exports	3.3	-0.6	2.0
Imports	6.6	-1.0	3.4
Net exports[1]	-1.3	0.2	-0.5
Inflation[2]	8.7	6.3	3.3
Unemployment rate[3]	5.3	5.6	5.6
Budget balance[4]	-2.6	-2.8	-2.3
Current account balance[4]	4.2	5.6	6.0

Change vs previous year as percentage, [1]as contribution to GDP growth; [2]HICP; [3]as 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/22	I/23	II/23	III/23	IV/23
GDP sa qoq	-0.4	-0.1	0.0	-0.2	0.0
GDP nsa yoy	0.2	0.1	-0.6	-1.1	-0.7
Inflation yoy	10.8	8.7	6.9	5.7	4.0

Change as percentage

Sources: Feri, NORD/LB Macro Research

Switzerland: Strong CHF – SNB with one last hike?

Analyst: Christian Lips, Chief Economist

GDP revision: Growth rates for previous years revised significantly upwards
According to Switzerland's Federal Statistical Office, GDP growth in previous years was in some cases considerably higher than previously reported. The real year-on-year growth rate for 2021 was raised particularly significantly, from +4.2 to +5.4 percent. The revised data also indicate that in 2020 the Covid-induced minus was in fact 0.3 percentage points lower, and now stands at -2.1 percent. Last year saw real GDP in Switzerland with robust growth of 2.6 percent. This likewise represents a sharp upward revision compared to SECO's quarterly GDP data available to date.
The economic outlook has deteriorated significantly of late, however, with global demand having cooled significantly and the eurozone heading for a decline now in Q3. This is also reflected in the key economic indicators for Switzerland: at 92.2 points, July's KOF economic barometer lay well short of the long-term average. The PMI for the manufacturing sector literally plummeted in the same month and, at 38.5 points, has hit its lowest level since the global financial crisis in 2009. The sub-indexes industrial output (37.0) and order backlog (31.4) dropped particularly sharply in July. Against this backdrop, it very much looks like Switzerland can brace itself for an economically difficult second half of the year.

Unexpectedly marked decline in inflationary pressure
In its last monetary policy assessment in June, the SNB had presented a rather pessimistic medium-term inflation outlook. In the meantime, the upward trend in consumer prices has slowed significantly, and in July the inflation rate stood at just 1.6 percent yoy. In addition to typical seasonal declines (end-of-season sales), the sound Swiss franc exchange rate made for declining prices in air transport and package holidays abroad. Prices for imported goods have in the meantime fallen slightly in year-on-year comparison. This disinflationary trend was more pronounced than expected. That said, we share the SNB's view that the inflation rate will likely trend slightly higher again at the turn of the year. As regards 2024 as a whole, however, we do not expect to see the central bank's target level being missed again.

SNB monetary policy and the Swiss franc's strength
Not least in light of the low inflation in international comparison, the likelihood of further significant interest rate hikes in Switzerland has decreased. At best, we consider one final rate hike in September possible, followed by a longer break in rate adjustments extending well into the coming year. However, this does not automatically mean an end to monetary tightening, seeing as the SNB will likely continue its endeavours towards reducing its high foreign exchange reserves. Since mid-August, the liquidity assistance granted under the PLB and ELA+ programmes relating to the takeover of Credit Suisse has been repaid in full. There is much to suggest that the franc will remain strong in the medium term.

Fundamental forecasts*, Switzerland

	2022	2023	2024
GDP	2.6	0.8	1.2
Inflation (CPI)	2.8	2.3	1.5
Unemployment rate[1]	2.2	2.0	2.1
Budget balance[2]	1.0	0.4	0.6
Current account bal.[2]	10.0	8.5	8.7

Interest and exchange rates, Switzerland

	24.08.	3M	6M	12M
SNB policy rate	1.75	2.00	2.00	2.00
3M rate	1.77	2.00	2.00	2.00
10Y	0.96	1.10	1.10	1.20
Spread 10Y Bund	-155	-130	-130	-130
EUR in CHF	0.96	0.96	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: Ueda's first major policy move

Analysts: Tobias Basse // Bernd Krampen

The Bank of Japan's recent adjustment to its yield curve control strategy

At its last monetary policy meeting, the Bank of Japan decided, as expected, to hold its key rates unchanged. However, the central bankers in Tokyo announced that they are now looking to show more flexibility in terms of its yield curve control strategy, and will as of now also tolerate yields exceeding 0.5 percent on 10-year government bonds. This means that the previous rigid upper limit will now be regarded as merely a point of reference. This news only comes as a bit of a surprise in terms of timing. The fact that the macroeconomic price environment had recently changed appreciably is also likely to have played a role in this context – increased inflationary risks are slowly beginning to gain relevance in Japan as well. Against this backdrop, the central bankers in Tokyo evidently intended to demonstrate a certain degree of activity.

Ueda's first major policy move

This monetary policy measure can be described as Kazuo Ueda's first major policy move in his new role at the helm of the BoJ. At the press conference following the announcement of the Bank of Japan's fresh decisions, he stressed that although the central bank would now show more flexibility in yield curve control, it would not tolerate yields above the 1-percent mark on 10-year JBGs. Although Ueda still questioned the sustainability of the current trend of rising prices, we nevertheless see the likelihood of higher inflation rates now becoming a significant economic issues in Japan as well. Consequently, further adjustments to the yield curve control strategy and then indeed an end to these measures are to be reckoned with. On the other hand, increases in the key policy rate will not become an agenda item until the BoJ's review of its monetary policy strategy has been completed.

Pleasing GDP figures

At first glance, the pleasing GDP figures recently released could also make for more pressure on the central bank in Tokyo to take action. The devil is in the detail, however. Q2 saw real economic growth in Japan hit an extremely impressive annualized level of 6.0 percent, with particular stimulus coming from exports. The weak yen, among other things, is likely a helping factor as well in this context. Private household consumption, on the other hand, could well have been expected to give a more pleasing showing. No longer as low as previously, inflation is evidently weighing on consumer sentiment. This news probably already has some degree of relevance for the Bank of Japan.

Fundamental forecasts*, Japan

	2022	2023	2024
GDP	1.0	2.2	1.0
Inflation	2.5	3.0	1.9
Unemployment rate[1]	2.6	2.6	2.4
Budget balance[2]	-5.9	-5.5	-4.0
Current account bal.[2]	1.9	2.5	2.7

Interest and exchange rates, Japan

	24.08.	3M	6M	12M
Key rate	-0.10	-0.10	-0.10	-0.10
3M rate	0.07	0.05	0.05	0.10
10Y	0.65	0.70	0.80	1.00
Spread 10Y Bund	-186	-170	-160	-150
EUR in JPY	158	153	147	140
USD in JPY	146	140	135	128

* 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

China: Geostrategist Xi calls off consumption party

Analysts: Tobias Basse // Bernd Krampen

Renewed deceleration is the motto

After the stagnation in Q4/ 2022 and the encouraging upturn of 2.2 percent qoq in Q1/2023, the pace of GDP growth slowed again in the second quarter. The reported increase of 0.8 percent qoq means Beijing's target figure of 5 percent per year will hardly be achievable. And the data for July as month under review were quite disappointing as well. China's industrial output registered unexpectedly low growth of 3.7 percent yoy in July, while retail sales rose by just 2.5 percent yoy. The forecasts had been significantly higher. The data situation in the real estate sector was likewise sobering in terms of investments and sales. The unemployment rate rose merely moderately from 5.2 to 5.3 percent, though the already high youth jobless rate of 21 percent is a known problem – evidently among the officials in Beijing as well. Early in July they stopped releasing these data on unemployment among 16 to 24 year olds – since the "calculation methods need to be reviewed" – until they will have improved again.

Concerns about the health of the Chinese economy – Taiwan in focus, too

The government is now quite clearly very concerned about the situation, for an economic slowdown can quite well make for some degree of discontent among the population, which is something the powers that be in Beijing really do not like. Against this background the People's Bank of China saw itself compelled to announce significant interest rate cuts on several occasions in recent weeks. Although these adjustments were, to the eye, not all that substantial in terms of the key rates and minimum reserves, in historical comparison they can certainly be seen as a signal: China – and thus its neighbours and probably almost the entire world – must now worry about the growth rates of the globally second-largest economy. In particular, the real estate market, which has been in crisis for several years now, is without doubt a risk factor after its overheating, and there have been growing reports of real estate companies in trouble again of late. Undesirable developments in the real estate market can lead to serious financial losses for private individuals, result in them having trouble keeping up with payments, and to a slump in consumption. A large number of regional authorities appear to be facing financial challenges as well. The domestic consumption party is called off – but, at the same time, China's leader Xi Jinping is asserting his role as geostrategist with his threatening stance towards Taiwan.

Fiscal and monetary policymakers are reluctant to call off the party

The government will hopefully refrain from attacking Taiwan. But it will certainly spend and invest whatever it takes to ward off any economic risks, however. So far, officials have spoken out against offering financial gifts to households, but this could soon change. That said, the PBoC also needs to keep a close eye on exchange rate developments as the US dollar has in the meantime risen to over CNY 7.30, since which time the CNY has been given massive support.

Fundamental forecasts*, China

	2022	2023	2024
GDP	3.0	4.8	4.6
Inflation	1.9	0.8	2.0
Unemployment rate[1]	5.6	5.2	5.0
Budget balance[2]	-7.5	-5.5	-4.6
Current account bal.[2]	2.2	1.5	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

	24.08.	3M	6M	12M
Deposit rate	1.50	1.50	1.50	1.50
3M SHIBOR	2.02	2.10	2.10	2.10
10Y	2.55	2.60	2.60	2.50
Spread 10Y Bund	4	20	20	0
EUR in CNY	7.87	7.85	7.74	7.63
USD in CNY	7.28	7.20	7.10	7.00

Britain: BoE's concerns about wage movements in UK

Analysts: Tobias Basse // Bernd Krampen

Clearly ambiguous data!

The economic environment in the UK can certainly not be described as clear-cut: the June data on industrial output and construction spending proved unexpectedly positive, with the result that Q2 registered quarter-on-quarter GDP growth of +0.2 percent, which likewise exceeded the expectations. That said, the spirit of optimism was already dampened in July by the unexpectedly weak retail sales data and, to make things worse, an increase in the unemployment figures. Indeed, the PMIs have been disastrous of late! The price trends are as ambivalent as the dynamics of the economy: On the one hand, July saw the rate of change in consumer prices pleasingly drop significantly by 0.4 percent mom and, in year-on-year comparison, to 6.8 percent. On the other hand, the average wages highlighted by the Bank of England increased significantly in June. Second-round effects in the form of wage-price spirals thus appear to have the potential to become a dangerous reality. That said, the high interest rates are already a problem for the British economy right now. Impacts of the massive rate hikes are making themselves felt in the real estate market, with house prices falling nationwide, on top of which households with frequently variable interest rates on loans are groaning under the pressure. The British are also suffering inflation-induced losses in purchasing power. Brexit likewise remains a problem for the UK economy. What can be done about the situation?

Rising wages not at all to the liking of the Bank of England

Early August saw the BoE raise its Bank Rate for the 14th time in this cycle, by – but "only" – 25bp. In June, they had still considered a more significant rate hike of 50 bp necessary. The current level of 5.25 percent – a 15-year high – does not quite represent the end of the line in terms of rate increases, however. And this is probably mainly due to the sharp upward trend in wage growth of late, which could pave the way for persistently high inflation. And so, again, there is the likelihood of the members of the MPC failing to reach unanimous agreement at the BoE's next rate-setting meeting in September. As in August, it could even come to an unusual situation of three different voting outcomes, whereby we ultimately expect a 25bp rate hike. 50bp seems to us to be rather too much in light of the weak PMIs.

BOE in a dilemma! Pound only holding up thanks to the weakness of the euro and vice versa!

On the one hand, the majority of the central bankers in London want to prevent the emergence of heightened inflation expectations in the British economy. At any rate, the situation on the macroeconomic price front currently constitutes a major challenge for British economic policy. On the other hand, the high interest rates are already a problem for the British economy right now. The pound is currently moving in relation to the euro according to the motto that poor data from the other currency area support one's own currency. This was particularly clear to see after last week's release of the PMIs.

Fundamental forecasts*, Britain

	2022	2023	2024
GDP	4.1	0.2	0.5
Inflation (CPI)	9.1	7.4	3.0
Unemployment rate[1]	3.7	4.1	4.5
Budget balance[2]	-5.2	-5.2	-3.8
Current account bal.[2]	-3.8	-2.6	-2.7

* Change vs previous year as percentage

[1] as percentage of the labour force as per ILO concept ; [2] as percentage of GDP

Interest and exchange rates, Britain

	24.08.	3M	6M	12M
Repo rate	5.25	5.50	5.50	5.50
3M rate	5.57	5.60	5.50	5.40
10Y	4.43	4.50	4.40	4.20
Spread 10Y Bund	191	210	200	170
EUR in GBP	0.86	0.87	0.87	0.86
GBP in USD	1.26	1.25	1.25	1.27

Sources: Feri, Bloomberg, NORD/LB Macro Research

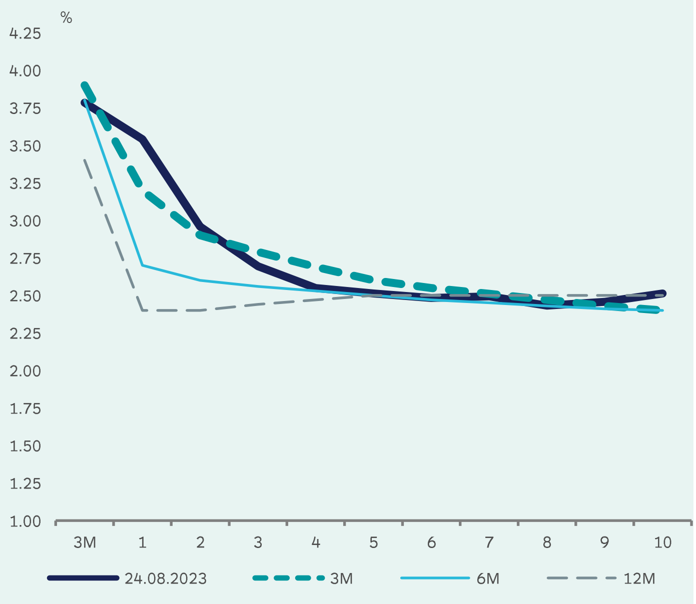
Portfolio strategies
Yield curve, Euroland

Yields and forecasts (Bunds/Swap)

Yields (in %)		NORD/LB forecasts for horizons		
	24.08.2023	**3M**	**6M**	**12M**
3M	3.78	3.90	3.80	3.40
1Y	3.54	3.20	2.70	2.40
2Y	2.96	2.90	2.60	2.40
3Y	2.70	2.79	2.56	2.44
4Y	2.55	2.69	2.53	2.47
5Y	2.51	2.60	2.50	2.50
6Y	2.48	2.55	2.47	2.50
7Y	2.49	2.51	2.45	2.50
8Y	2.43	2.47	2.43	2.50
9Y	2.46	2.43	2.41	2.50
10Y	2.51	2.40	2.40	2.50
2Y (Swap)	3.66	3.50	3.20	2.95
5Y (Swap)	3.21	3.20	3.10	3.05
10Y (Swap)	3.12	3.00	3.00	3.05

Sources: Bloomberg, NORD/LB Macro Research

Yield curve forecasts (Bunds)



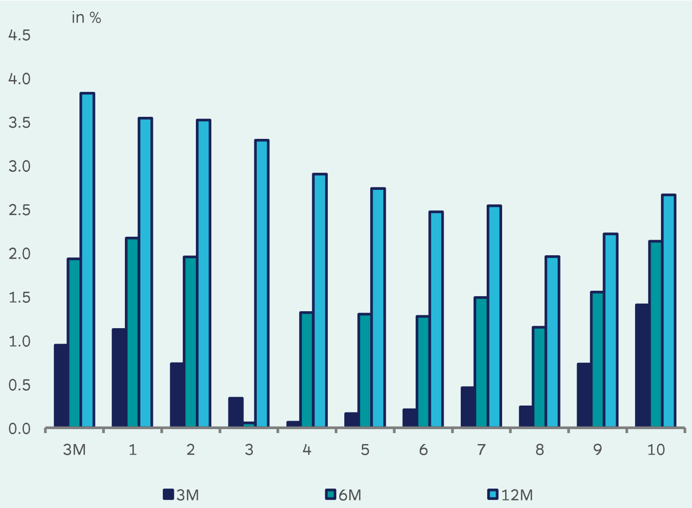
Sources: Bloomberg, NORD/LB Macro Research

Forecasts and total returns

	Total returns (in %) for horizons...		
	3M	**6M**	**12M**
3M	0.95	1.93	3.82
1Y	1.12	2.17	3.54
2Y	0.73	1.95	3.52
3Y	0.34	0.05	3.29
4Y	0.06	1.32	2.90
5Y	0.16	1.30	2.74
6Y	0.20	1.28	2.47
7Y	0.46	1.49	2.54
8Y	0.24	1.15	1.96
9Y	0.73	1.55	2.22
10Y	1.41	2.13	2.66

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	1.1	0.6	-0.3	2.9	-0.1
2Y	0.7	0.8	-0.3	3.1	-0.6
3Y	0.3	0.9	-0.9	3.1	-0.6
4Y	0.1	1.1	-1.3	3.0	-0.6
5Y	0.2	1.7	-1.8	3.0	-1.1
6Y	0.2	0.8	-1.4	3.0	-1.0
7Y	0.5	2.1	-2.4	3.1	-1.0
8Y	0.2	2.3	-2.3	3.1	-1.1
9Y	0.7	2.7	-2.0	3.0	-1.2
10Y	1.4	3.0	-1.2	3.0	-1.2

Sources: Bloomberg, NORD/LB Macro Research

Expected total returns (as percentage) in national currencies				
	USD	GBP	JPY	CHF
1Y	1.5	1.1	-0.1	0.3
2Y	1.6	1.1	0.0	-0.2
3Y	1.7	0.5	0.0	-0.2
4Y	1.9	0.1	-0.1	-0.2
5Y	2.6	-0.4	0.0	-0.7
6Y	1.7	0.0	-0.1	-0.6
7Y	2.9	-1.0	0.1	-0.6
8Y	3.1	-0.9	0.1	-0.7
9Y	3.6	-0.7	0.0	-0.8
10Y	3.8	0.2	-0.1	-0.8

Sources: Bloomberg, NORD/LB Macro Research

12-month horizon

Expected total returns (as percentage) in euro					
	EUR	USD	GBP	JPY	CHF
1Y	3.5	4.5	4.9	12.5	0.0
2Y	3.5	4.7	4.8	12.6	-0.7
3Y	3.3	5.7	4.8	12.8	-0.4
4Y	2.9	6.2	4.8	12.8	-0.6
5Y	2.7	6.9	4.4	12.8	-0.9
6Y	2.5	6.6	5.1	12.6	-1.1
7Y	2.5	8.2	4.2	12.5	-1.4
8Y	2.0	8.8	4.5	12.2	-1.6
9Y	2.2	9.4	4.6	11.7	-2.0
10Y	2.7	10.3	5.5	11.2	-2.0

Sources: Bloomberg, NORD/LB Macro Research

Expected total returns (as percentage) in national currencies				
	USD	GBP	JPY	CHF
1Y	5.4	5.1	-0.1	1.4
2Y	5.6	5.0	0.0	0.7
3Y	6.6	5.1	0.2	1.0
4Y	7.1	5.0	0.1	0.9
5Y	7.8	4.7	0.1	0.5
6Y	7.5	5.4	0.0	0.4
7Y	9.1	4.5	-0.1	0.0
8Y	9.7	4.8	-0.4	-0.1
9Y	10.3	4.8	-0.8	-0.6
10Y	11.2	5.8	-1.3	-0.6

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 horizon

Levels and performance

Index	Level as at	Status		Performance since...	
	24.08.2023	**Prev. month**	**Start of year**	**Prev. month**	**Start of year**
DAX	15,728.41	16,446.83	13,923.59	-4.37%	12.96%
MDAX	27,304.11	28,837.05	25,117.57	-5.32%	8.71%
EuroSTOXX50	4,266.67	4,471.31	3,793.62	-4.58%	12.47%
STOXX50	3,943.76	4,053.53	3,651.83	-2.71%	7.99%
STOXX600	453.45	471.35	424.89	-3.80%	6.72%
Dow Jones	34,099.42	35,559.53	33,147.25	-3.06%	4.00%
S&P 500	4,376.31	4,588.96	3,839.50	-3.33%	15.54%
Nikkei	32,287.21	33,172.22	26,094.50	-2.67%	23.73%

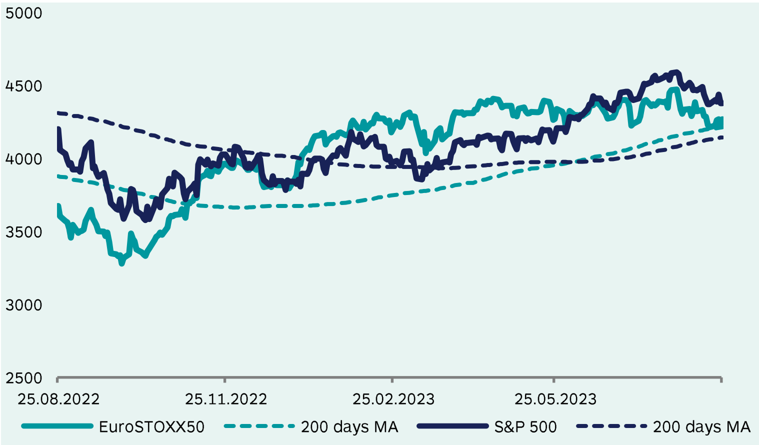
Sources: Bloomberg, NORD/LB Macro Research

Index forecasts

Index	NORD/LB forecast for horizons ...		
	3M	**6M**	**12M**
DAX	15,950	16,500	17,000
MDAX	28,000	28,900	30,000
EuroSTOXX50	4,350	4,500	4,650
STOXX50	4,000	4,150	4,300
STOXX600	460	475	495
Dow Jones	35,000	36,000	37,000
S&P 500	4,450	4,550	4,650
Nikkei	32,500	33,000	34,000

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, 25 August 2023.**
The next English issue of Economic Adviser will be appearing on **2 October 2023**.

Overview of forecasts

Fundamental forecasts

in %	GDP growth			Rate of inflation			Unemployment rate[1]			Budgetary balance[2]		
	2022	2023	2024	2022	2023	2024	2022	2023	2024	2022	2023	2024
USA	2.1	1.9	1.0	8.0	3.9	2.5	3.6	3.9	4.0	-4.2	-3.7	-3.7
Euroland	3.4	0.5	1.0	8.4	5.7	3.0	6.7	6.5	6.5	-3.6	-3.4	-2.7
Germany	1.8	-0.6	0.7	8.7	6.3	3.3	5.3	5.6	5.6	-2.6	-2.8	-2.3
Japan	1.0	2.2	1.0	2.5	3.0	1.9	2.6	2.6	2.4	-5.9	-5.5	-4.0
Britain	4.1	0.2	0.5	9.1	7.4	3.0	3.7	4.1	4.5	-5.2	-5.2	-3.8
Switzerland	2.6	0.8	1.2	2.8	2.3	1.5	2.2	2.0	2.1	1.0	0.4	0.6
China	3.0	4.8	4.6	1.9	0.8	2.0	4.0	5.2	5.0	-7.5	-5.5	-4.6

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 %	24.08.23	3M	6M	12M
USD	5.50	5.50	5.50	5.25
EUR	4.25	4.25	4.25	4.00
JPY	-0.10	-0.10	-0.10	-0.10
GBP	5.25	5.50	5.50	5.50
CHF	1.75	2.00	2.00	2.00
CNY	1.50	1.50	1.50	1.50

Sources: Bloomberg, NORD/LB Macro Research

Exchange rates

EUR in...	24.08.23	3M	6M	12M
USD	1.08	1.09	1.09	1.09
JPY	158	153	147	140
GBP	0.86	0.87	0.87	0.86
CHF	0.96	0.96	0.97	0.97
CNY	7.87	7.85	7.74	7.63

Interest rates (government bonds)

	3M rates				Yields 2Y				Yields 5Y				Yields 10Y			
	24.08.	3M	6M	12M	24.08.	3M	6M	12M	24.08.	3M	6M	12M	24.08.	3M	6M	12M
USD	5.39	5.35	5.25	4.90	5.02	4.60	4.30	3.65	4.41	4.00	3.80	3.40	4.24	3.85	3.70	3.30
EUR	3.78	3.90	3.80	3.40	2.96	2.90	2.60	2.40	2.51	2.60	2.50	2.50	2.51	2.40	2.40	2.50
JPY	0.07	0.05	0.05	0.10	0.01	0.00	0.00	0.00	0.23	0.26	0.30	0.38	0.65	0.70	0.80	1.00
GBP	5.57	5.60	5.50	5.40	4.97	5.00	4.90	4.50	4.47	4.81	4.71	4.39	4.43	4.50	4.40	4.20
CHF	1.77	2.00	2.00	2.00	1.07	1.30	1.30	1.10	0.96	1.20	1.20	1.10	0.96	1.10	1.10	1.20

Sources: Bloomberg, NORD/LB Macro Research

Spreads (bp)

	3M EURIBOR				2Y Bunds				5Y Bunds				10Y Bunds			
	24.08.	3M	6M	12M	24.08.	3M	6M	12M	24.08.	3M	6M	12M	24.08.	3M	6M	12M
USD	160	145	145	150	206	170	170	125	190	140	130	90	172	145	130	80
JPY	-371	-385	-375	-330	-295	-290	-260	-240	-228	-234	-220	-213	-186	-170	-160	-150
GBP	179	170	170	200	202	210	230	210	196	221	221	189	191	210	200	170
CHF	-202	-190	-180	-140	-188	-160	-130	-130	-155	-140	-130	-140	-155	-130	-130	-130

Sources: Bloomberg, NORD/LB Macro Research

Annex

Contacts at NORD/LB

Dr. Martina Noss
Head of Research
+49 172 512 2742
martina.noss@nordlb.de

Christian Lips
Chief Economist
Head of Macro Research
+49 172 735 1531
christian.lips@nordlb.de

Tobias Basse
Macro Research
+49 511 361-2722
tobias.basse@nordlb.de

Bernd Krampen
Macro Research
+49 162 103 1939
bernd.krampen@nordlb.de

Christian Reuter
Macro Research
+49 152 0412 9316
christian.reuter@nordlb.de

Valentin Jansen
Macro Research
+49 157 8516 7232
valentin.jansen@nordlb.de

Constantin Lüer
Macro Research
+49 157 8516 4838
constantin.lueer@nordlb.de

Further contacts

Sales

Institutional Sales
+49 511 9818-9440

Sales Sparkassen &
Regional Banks
+49 511 9818-9400

Sales MM/FX
+49 511 9818-9460

Sales Europe
+352 452211-515

Sales Asia
+65 64 203136

Origination & Syndicate

Origination FI
+49 511 9818-6600

Origination Corporates
+49 511 361-2911

Treasury

Liquidity Management
+49 511 9818-9620
+49 511 9818-9650

Trading

Covereds/SSA
+49 511 9818-8040

Financials
+49 511 9818-9490

Governments
+49 511 9818-9660

Federal States/Regions
+49 511 9818-9550

Frequent Issuers
+49 511 9818-9640

Sales Wholesale Customers

Corporate Customers
+49 511 361-4003

Asset Finance
+49 511 361-8150

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