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Zum wahren Nutzen.

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Contents

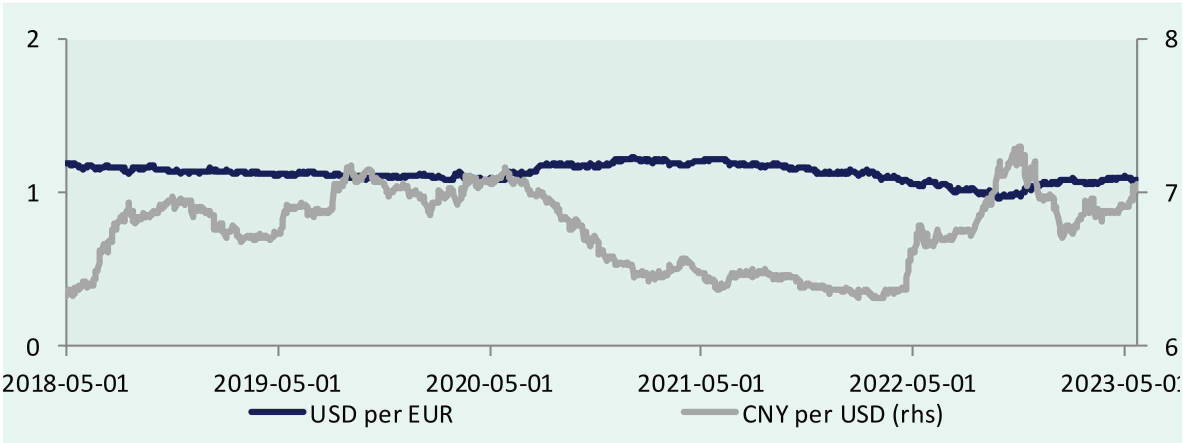
Special: US dollar to remain special for the foreseeable future

Analysts: Tobias Basse // Bernd Krampen

US currency not quite so strong at the moment

After the recent, almost remarkable phase of pronounced strength of the U.S currency – relative to the euro, for example, it indeed temporarily undercut parity with the common currency – the U.S. dollar has in the meantime come under rather slight pressure. A key reason behind this is likely simply the fact that the FOMC is in the meantime looking to act more cautiously and, in the opinion of a growing number of market participants, might no longer be inclined to make further key-rate hikes. The yet again controversial discussions in Washington on raising the debt ceiling have certainly been of no help to the greenback either. Moreover, a number of interested observers are concerned that the US dollar could lose its really very special status as the global reserve currency in the future. While this issue is probably not (yet?) of any great tactical significance for the FX segment at the moment, many market participants nevertheless appear to at least have growing concerns in the back of their minds.

Chart: The US Dollar relative to the currencies of China and Euroland



Sources: Macrobond, NORD/LB Macro Research

A look at the press – and politics – in the USA

Indeed, this issue is increasingly the subject of reports in the US press. It goes without saying that there are widely differing opinions in this context. Nobel Prize-winning economist Paul Krugman, for example, recently commented on this topic in his column in the New York Times, expressing an extremely relaxed view as to the future of the US currency. However, his article has not been left uncriticized by other interested observers either. Against this background it should first be noted that some commentators have corresponding concerns. Moreover, the issue is also gaining importance among America's politicians. For example, Robert F. Kennedy Jr., now a candidate for the 2024 Democratic presidential nomination, emphasized in one of his appearances that the US economy could sustain appreciable negative effects should the dollar lose its special status as the global reserve currency. Indeed, he doesn’t appear to any account consider the risk of this scenario materializing to be negligible. Certainly, it must be assumed that the additional demand for the US currency can help "finance" the United States' trade deficit. The interest rate advantage that investment opportunities in US dollars must offer foreign investors in order to attract capital to the land of – at least in principle – unlimited opportunity can undoubtedly be lower if, owing to the special role of the dollar in international trade, there is in any case a strong demand for this currency. On the other hand, some interested observers could of course quite well argue that the status of the US dollar as the global reserve currency makes it, ceteris paribus, stronger. This may then adversely affect the price competitiveness of companies in the United States, which would ultimately even contribute to the US trade deficit. Needless to say, this argument ought not to be dismissed out of hand, but the "real" economic significance of this line of thought should certainly not be overestimated either.

A look at China and India

China's trade policy also plays a major role in the considerations as to whether the US dollar can maintain its special status. For some time now, Beijing has been endeavouring to rally as many international partners as possible within the framework of its trade policy. In this context, monetary policy is almost inevitably also of quite some relevance. China evidently wants a situation that the powers that be in Beijing would like to describe with the term "multipolar" financial world. The talks between Saudi Arabia and China, for example, which according to Beijing's wishes should ultimately lead to a more frequent use of the yuan in the settlement of oil transactions between the Gulf states and the countries of Asia, are to be placed in this context. Negotiations along these lines are also in progress between the United Arab Emirates and India, in which New Delhi's goal lies in gradually increasing the use of the rupee as transaction currency. All told, the BRICS countries thus clearly appear to be interested in additional options in the choice of currency for the settlement of transactions in international trade – with the objective that it should also be possible to transact and settle the exchange of goods and services between various different countries without using the US dollar. China certainly sees greater opportunities for the yuan at this point. However, a new global reserve currency doesn't come into being overnight! The trust of investors is called for, for example. There are also technical questions to be considered. China's monetary policy is still very much focused on stabilizing the yuan exchange rate. An arrangement of this nature is unlikely to be optimal for a new global reserve currency. Furthermore, the Hong Kong dollar is still tied to the US dollar via a currency board system. One may well wonder how China really intends to establish the yuan as the global reserve currency if it nevertheless still relies on the US dollar as anchor of stability for the currency of Hong Kong in its own environment. This question has without doubt already been considered in Beijing; however, corresponding adjustments to the monetary and currency order in Hong Kong would likely lead to a significant irritation of the international financial markets, which is of course likewise a clear indication of the continued special role of the US dollar.

Conclusion

Overall, the economic significance of the current discussion on the special status of the US currency should probably not be overestimated. Of course, this is especially true for market participants with a tactical perspective. Some observers are evidently becoming increasingly concerned about the US dollar, with fears that the greenback could now really lose its special status as the global reserve currency. These concerns seem clearly exaggerated in our view, especially from a short-term perspective. After all, this question is primarily about the long-term trust of users, which a rival of the dollar would first have to build up laboriously from scratch. In the medium and long term, too, there is probably no need to be too concerned about the US currency; the market still appears to lack really convincing alternatives to the dollar as the world's global reserve currency.

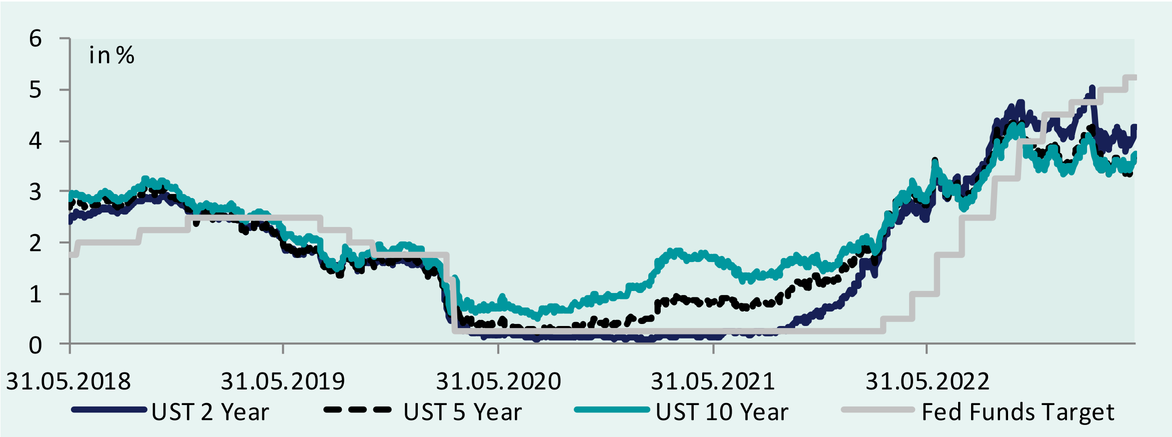
USA: Anxious eyes on the debt ceiling

Analysts: Tobias Basse // Bernd Krampen

Private consumption with apparent supportive effect at the start of Q2

Still somewhat susceptible to revision, the preliminary figures for April as month under review on the development of retail sales in the land of unlimited opportunity convinced with a month-on-month increase of no less than 0.4 percent. After the veritable surge in consumption at the start of 2023, this time series had, as well known, given a less positive showing in February and March. The current upward trend in retail sales is therefore primarily to be interpreted as a countermovement after a phase of weaker figures. That said, the control group – which is of core relevance for the GDP survey – now registered impressive month-on-month growth of 0.7 percent. This is encouraging news, raising hopes that Q2 will not after all be characterized by excessively weak real economic growth. Things are certainly not all that rosy, however, with the economic situation in the USA clearly beginning to deteriorate appreciably. Be that as it may, the high staffing needs among the business enterprises mean that the employment situation is unlikely to be hit too hard by the more difficult economic environment that we are now seeing. The first revision of the GDP figures for Q1/2023 has delivered a slightly positive surprise, with the "new" data now indicating real economic growth of no less than 1.3 percent (ann.). However, these figures certainly don't make for a fundamentally changed picture of the North American economy's situation. Rather, the latest revisions are more to be interpreted as a white noise. The international financial markets are in any case already focussing their attentions on Q2, though in the near future there could still be a "threat" of a further (but probably likewise not substantial) need for adjustment of the data for Q1.

Chart: Interest rates in the USA



Sources: Macrobond, NORD/LB Macro Research

Anxious eyes on the debt ceiling

It goes without saying that the highly controversial discussions currently in progress in Washington on raising the debt ceiling are of no help in this rather difficult economic environment. In the financial markets, for example, they have made for some degree of uncertainty among a number of players. In the meantime, it almost seems to be a PR ploy on the part of the two main political parties in the United States to literally celebrate the "struggles" over the adjustment of the debt ceiling. They are evidently looking to signal particular dynamism by way of a tough struggle with each other with the aim of at least securing a diligence card from the voter. In this environment, an agreement is again to be expected at the very last moment – or perhaps even in stoppage time. This is a dangerous game – indeed, there is a residual risk that there could still be avoidable distortions in the process of the talks.

What will the FOMC do?

As already thematized in this issue's Special, the Federal Reserve's monetary policy is no longer helping the US currency. After the FOMC's further "small" rate hike of 25bp, a lot of market participants are reckoning with an initially wait-and-see stance on the part of the central bankers in Washington. Only "unfriendly" data on inflation rates could probably prompt more activity among the US central bankers at the moment. A number of market participants are now once again expecting reductions of the Fed funds target rate in the foreseeable future. This scenario would require a major economic crisis in the short term. Given the ongoingly positive situation on the US labour market, we do not foresee any such adjustment of US monetary policy in 2023, however. In our view, the current inflation data too speak against the implementation of such measures by the relevant decision-makers in Washington, against which background they will look to act with a steady hand as far as possible in the months ahead. A cautious rate cut in the course of 2024 is a distinct possibility, however. Moreover, a close eye needs to be kept on the regional US banks. Any greater problems at precisely these financial institutions could well put pressure on the Fed to take action. That said, this is by no means our baseline scenario!

Fundamental forecasts, USA

	2022	**2023**	**2024**
GDP	2.1	1.2	1.2
Private consumption	2.7	1.5	1.5
Govt. consumption	-0.2	0.5	1.0
Fixed investment	-0.5	2.0	2.5
Exports	7.1	2.0	3.0
Imports	8.1	4.0	3.0
Inflation	8.0	4.0	2.5
Unemployment rate[1]	3.6	3.8	4.0
Budget balance[2]	-4.1	-3.7	-3.7
Current acct. balance[2]	-3.7	-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

	III/22	**IV/22**	**I/23**	**II/23**	**III/23**
GDP qoq ann.	7.0	2.6	1.3	-0.1	0.0
GDP yoy	1.9	0.9	1.6	1.7	0.9
Inflation yoy	8.3	7.1	5.8	4.1	2.2

Change as percentage

Sources: Feri, NORD/LB Macro Research

Interest and exchange rates, USA

	25.05.	**3M**	**6M**	**12M**
Fed funds target rate	5.25	5.25	5.25	5.00
3M rate	5.46	5.10	5.10	4.70
10Y Treasuries	3.82	3.45	3.35	3.20
Spread 10Y Bund	130	85	85	60
EUR in USD	1.07	1.08	1.08	1.09

Sources: Bloomberg, NORD/LB Macro Research

Euroland: Persistent core inflation – ECB stays hawkish

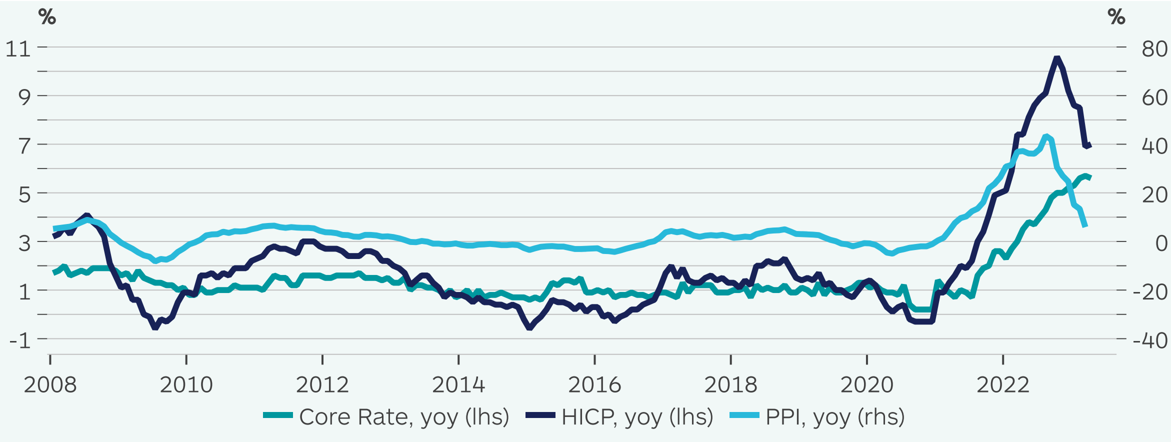
Analysts: Christian Lips, Chief Economist // Christian Reuter

Economy: Winter half-year marked by stagnation

The past winter half-year saw very weak economic momentum in the eurozone, with overall economic performance stagnating. In light of the significant correction of German GDP growth in the first quarter to -0.3 percent qoq, there is now a growing likelihood of the eurozone's GDP growth figure having to be revised slightly downwards as well.

Though the economic outlook had gradually brightened in the first few months, this trend now appears to be levelling off or indeed going into reverse. Consumer confidence remained virtually unchanged in May, while the economic sentiment among financial market experts has deteriorated again of late. We expect 2023 to close with GDP growth of just 0.8 percent.

Chart: Core inflation remains persistent



Sources: Macrobond, NORD/LB Macro Research

Inflation: temporary uptick in April, marked drop expected for May

There was a slight temporary uptick in inflation in April after the sharp drop in March which had been due primarily to falling energy prices. The Harmonized Index of Consumer Prices (HICP) rose by 0.7 percent mom in April as month under review, bringing the annual rate of 6.9 percent yoy in March to a current level of 7.0 percent yoy. The annual rate in terms of energy prices is back in the positive zone, at 2.5 percent yoy. This has been counteracted by lower food price dynamic due to a positive base effect, but inflation remains high in the food, alcohol and tobacco category, at 13.6 percent (down from 15.5 percent).

Spain and France registered upward inflation movement of 3.8 percent yoy and 6.9 percent respectively. The year-on-year rate rose particularly sharply in Italy, from 8.1 to 8.8 percent yoy, due to soaring fuel prices. In Germany, on the other hand, price pressure decreased slightly in April again to 7.6 percent. With the ECB's further monetary policy stance in mind, it should be emphasized that the core rate has dropped back slightly for the first time since mid-2022. Ex energy, food, alcohol and tobacco, the annual rate fell by one decimal from the previous month's record high to 5.6 percent yoy. The core rate ex energy fell somewhat more sharply, from 7.9 to 7.5 percent yoy. Whether this already represents the hoped-for turnaround in underlying inflation remains to be seen in the coming months, however.

Moreover, the trend in the sphere of core inflation remains dichotomous. While the downward movement in prices of non-energy industrial goods (6.2 percent yoy) continued, service prices climbed to a new record high of 5.2 percent yoy. In this context the central bankers need to remain vigilant as to

whether the growing wage dynamics are contributing to a possible perpetuation of inflationary pressure.
April's slight uptick in the annual rate will likely remain a temporary phenomenon, and we expect the downward trend in inflation to already continue as early as May. Inflation has peaked, but will remain persistent for some time to come, especially in the area of the core rate.

ECB eases the pace of rate hikes – but outlook very hawkish
The European Central Bank raised its key interest rates by 25 basis points in May, thus sticking to its tightening strategy for the time being though – prompted by the eurozone's moderate economic momentum and diminishing inflationary pressure – easing the pace of rate hikes as anticipated. The fact that APP reinvestments are to be completely discontinued from July onwards comes somewhat unexpected, at least in terms of timing, but in principle corresponds to the ECB's monetary policy stance. This might have been part of a compromise, for which the hawks will accept a slightly reduced number of further rate hikes and thus a somewhat lower terminal rate. However, ECB President Lagarde stressed that this decision is not part of an "interest rate deal".
The results of the latest Bank Lending Survey indicate that the previous rate hikes are increasingly arriving in the real economy via the credit channel. The market turbulence in March also speaks for a carefully considered approach. That said, inflation continues to be referred to as "too high for too long", and the extremely persistent core inflation calls for particular caution. The central bank's communication remains unexpectedly hawkish, and further rate hikes have been more or less clearly announced by Lagarde. In contrast to the Fed, the ECB has therefore probably not yet reached the end of the rate hike cycle, but is at any rate gradually going into the home straight.

Fundamental forecasts, Euroland

	2022	**2023**	**2024**
GDP	3.5	0.8	1.3
Private consumption	4.3	-0.4	1.3
Govt. consumption	1.4	-0.3	1.0
Fixed investment	3.8	0.4	1.5
Net exports[1]	-0.1	0.5	0.0
Inflation	8.4	5.7	2.9
Unemployment rate[2]	6.7	6.6	6.7
Budget balance[3]	-3.6	-3.4	-2.7
Current account balance[3]	-1.0	1.4	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

	III/22	**IV/22**	**I/23**	**II/23**	**III/23**
GDP sa qoq	0.4	0.0	0.1	0.2	0.2
GDP sa yoy	2.5	1.8	1.3	0.5	0.3
Inflation yoy	9.3	10.0	8.0	6.3	4.9

Change as percentage

Sources: Feri, NORD/LB Macro Research

Interest rates, Euroland

	25.05.	**3M**	**6M**	**12M**
Repo rate ECB	3.75	4.25	4.25	4.25
3M rate	3.46	3.90	3.90	3.70
10Y Bund	2.52	2.60	2.50	2.60

Sources: Bloomberg, NORD/LB Macro Research

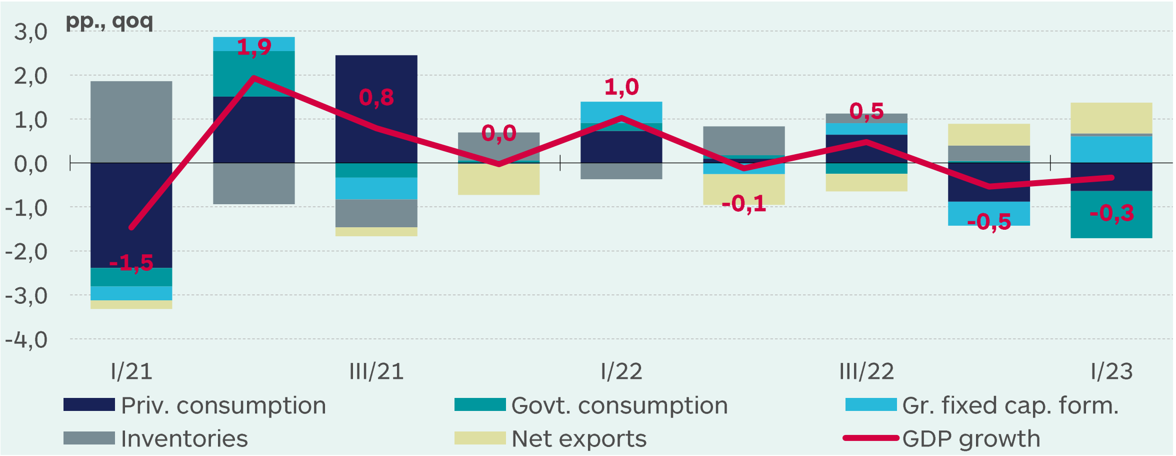
Germany: Technical recession now official

Analysts: Christian Lips, Chief Economist // Christian Reuter

GDP contraction in Q1 – Germany slips into technical recession

So now it's happened after all: the German economy has slipped into a technical recession in the winter half-year. After a figure of -0.5 percent qoq in the closing quarter of 2022, real GDP kicked off 2023 with further contraction of -0.3 percent qoq (see chart). It is worth noting that, once again, an initially reported stagnation had to be revised significantly downwards. Unexpectedly poor economic data in March also contributed to this, with, for example, industrial production output down by 3.4 percent mom. Construction output, seasonally adjusted, was subject to particularly sharp downward revision (-4.6 percent mom) after having strongly benefited from the unusually mild weather in the previous two months. Real retail sales (-2.2 percent mom), exports (-5.8 percent mom) and imports (-5.3 percent mom) also fell sharply. Private consumption slowed again in Q1 for inflation-related reasons, while investments and net exports made positive contributions to growth. Down by almost 5 percent (!) on the previous quarter, government consumption expenditure also made for massive negative effects.

Chart: German economy in technical recession



Sources: Feri, NORD/LB Macro Research

Inflation weakens slightly in April, but the core rate rises anew

In April, the inflation rate in Germany fell slightly for the second time in a row, this time to 7.2 percent yoy. The trend in food prices had an easing impact, with a favourable base effect helping depress the annual rate from 22.3 to "just" 17.2 percent yoy. This nevertheless still high price momentum will likely ebb in the course of the year in view of significantly receding price pressure at the level of the producer prices of agricultural products.

The annual rate for energy, on the other hand, has risen to 6.8 percent yoy again, though remaining below the headline inflation rate due to a base effect. At 21.1 percent, year on year, the upward movement in household energy (heating and electricity) prices is proving particularly persistent, however, seeing as utilities were, respectively are, only able to pass on their cost increases to end consumers with considerable delay. On the other hand, the government's price brakes are having a curbing effect. Inflation excluding the volatile components energy and food remained at the previous month's level of 5.8 percent yoy.

We are maintaining our view that inflation has peaked. Initial glimmers of hope are already manifesting themselves, for instance in the wholesale prices; these fell in March, year on year, for the first time since December 2020, albeit by just half a percentage point. A further positive factor lay in the decelerated upward movement in producer prices of just 4.1 percent yoy in April.

Business sentiment deteriorates significantly again in May

May saw an unexpectedly marked deterioration in the mood across the German economy. The ifo Business Climate Index fell to 91.7 points - the lowest level in three months. In particular the future prospects (88.6 pts) were rated considerably worse in May than in the previous month. The surveys among financial market experts (ZEW, sentix) also showed a marked deterioration in business sentiment in May. Most economists had therefore expected a decline in the ifo Business Climate – but not in this dimension.

Despite falling energy prices and an appreciable decrease in supply chain disruption, economic concerns are growing, notably in industry. Business has deteriorated significantly of late, especially in important export markets. That said, the decline in demand likely also reflects a trend to normalization. Diminished supply chain disruption makes for increased availability of goods and commodities again, which in turn has an influence on ordering behaviour. Pre-ordering is at least no longer necessary. Moreover, companies could reduce their stockpiles, which had increased during the crisis, provided they can rely on a sustainable ending of supply bottlenecks.

Business sentiment is in downward trend in the construction sector as well in month-on-month comparison, with the rapid rise in interest rates, tightened financing conditions and ongoingly high material costs continuing to have an adverse impact. May saw an even more pronounced decline in the trade sector, which registered the worst balance value since December. The only bright spot in May were the service providers, among whom the mood remained almost as positive as in the previous month. In this respect, the ifo data fit relatively well with the quintessence of the HCOB PMIs: thumbs up for the service providers, thumbs down for industry.

The German economy will likely get back on a modest growth path in the course of the year thanks to lower inflation and, at the same time, stronger wage growth. Overall, however, we expect no more than stagnation in growth this year. It will hardly be possible to compensate for the negative carry-over effect and the negative working day effect (-0.2 percentage points in each case) as well as the weak start to the year. We have accordingly reduced our forecast for real GDP to -0.4 percent.

Fundamental forecasts, Germany

	2022	2023	2024
GDP	1.8	-0.4	1.2
Private consumption	4.9	-1.7	1.4
Govt. consumption	1.2	-4.3	2.0
Fixed investment	0.4	0.6	1.8
Exports	3.4	0.7	3.3
Imports	6.9	-0.6	3.9
Net exports[1]	-1.2	0.6	-0.1
Inflation[2]	8.7	6.0	3.0
Unemployment rate[3]	5.3	5.6	5.5
Budget balance[4]	-2.6	-2.8	-2.3
Current account balance[4]	4.3	5.6	6.0

Change vs prev. year as percentage, [1]as contribution to GDP growth; [2]HICP; [3]as perc. of the civil labour force; [4] as percentage of GDP
Sources: Feri, NORD/LB Macro Research

Quarterly forecasts, Germany

	III/22	IV/22	I/23	II/23	III/23
GDP sa qoq	0.5	-0.5	-0.3	0.2	0.2
GDP nsa yoy	1.3	0.2	-0.2	-0.6	-0.9
Inflation yoy	9.4	10.8	8.7	7.0	5.2

Change as percentage
Sources: Feri, NORD/LB Macro Research

Japan: No hike of the BoJ's key policy rate before 2024

Analysts: Tobias Basse // Bernd Krampen

After the change at the helm of the central bank and before Japan's "new" monetary policy
Having taken over at the helm of Japan's central bank as successor to Haruhiko Kuroda, its long-standing governor, Kazuo Ueda has come through his baptism of fire unscathed. As known, he had no intention of taking April's BoJ Policy Board meeting as an opportunity for making any changes to monetary policy in the Land of the Rising Sun. This news comes as no real surprise. Ueda is, after all, considered a fairly cautious person. The BOJ's key policy rate and the target yield on 10-year government bonds accordingly remain unchanged at their "proven" levels. The adjustments to the Bank of Japan's verbal communication with the financial markets cannot be described as a really big step towards a reorientation of monetary policy in Tokyo either. Moreover, a review of the central bank's current strategy was announced. As we have often pointed out, this too was basically to be expected. The central bankers in Japan are allowing themselves a remarkably long period of time for this – certainly not unimportant – step towards a "new" monetary policy, however. Indeed, the planning as it currently stands provides for a time frame of up to a year and a half for this process. Kazuo Ueda is thus proving perhaps even a touch more cautious than was commonly assumed.

No hike of the BOJ's key policy rate likely before 2024
Given this marked caution on the part of the new central bank governor, it is in our view highly unlikely that the BOJ will undertake any hike of its key policy rate before the review of its monetary policy strategy is completed. That said, Kazuo Ueda's comments at the press conference following the Policy Board's meeting in April indicated the possibility of certain adjustments to Japan's monetary policy soon being made. We therefore maintain our expectation of changes to the yield curve control process in the course of 2023, though these will likely initially consist of merely cautious modifications. We still expect no complete termination of this policy before the close of 2023, given Kazuo Ueda's remarks to the effect that the YCC policy could only then be dispensed with when there are clear indications of the inflation rates really and sustainably stabilizing in the range of 2 percent.

Pleasing growth figures at the start of 2023
The encouraging figures recently reported on the GDP trend in Japan could at first glance make for an argument in favour of speedier monetary policy adjustments in Tokyo. After all, real economic output registered marked annualized growth of +1.6 percent in Q1. However, special effects (such as Japan's reopening to international tourism) have played a significant role of late in this context.

Fundamental forecasts*, Japan

	2022	2023	2024
GDP	1.0	1.0	1.1
Inflation	2.5	2.5	1.4
Unemployment rate[1]	2.6	2.5	2.4
Budget balance[2]	-6.8	-5.5	-4.0
Current acc. balance[2]	1.9	1.8	2.3

* Change vs previous year as percentage;

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

Sources: Feri, Bloomberg, NORD/LB Macro Research

Interest and exchange rates, Japan

	25.05.	3M	6M	12M
Key rate	-0.10	-0.10	-0.10	-0.10
3M rate	0.07	0.05	0.05	0.10
10Y	0.43	0.45	0.50	0.70
Spread 10Y Bund	-209	-215	-200	-190
EUR in JPY	150	140	138	136
USD in JPY	140	130	128	125

China: Growing problems with optimism

Analysts: Tobias Basse // Bernd Krampen

Solid first quarter followed in April by a rather less positive start into Q2

Although the economic momentum in China had picked up again at the beginning of the year, with the disappointing stagnation in Q4/2022 followed in Q1/2023 by quarter-on-quarter growth of 2.2 percent, the latest fundamental data on April as month under review were quite disappointing. While industrial output registered what was admittedly a visually solid growth figure of 5.6 percent yoy, the fact is that a significantly higher rate had been expected. The investment volumes in the real estate sector were also disappointingly weak, with an annual rate of -6.2 percent. Retail sales grew by 18.4 percent, year on year, but more was expected here as well. It very much looks as if the positive effects of the ending of the COVID-related constraints and the ensuing growth in demand have already fizzled out. Moreover, the gradually less restrictive approach on the credit market appears to be merely helping the real estate market and construction investments in part and to a very moderate extent.

Sentiment surveys already pointing to a slowdown in momentum

These rather sobering trends had been indicated earlier on by the leading business surveys, which already documented a loss of optimism in early May, with the CFLP and Caixin indices for the manufacturing industry registering renewed slight declines to 49.2 and 49.5 points respectively. Having picked up momentum in Q1, the Chinese economy is evidently running out of steam somewhat already. Although the surveyed companies from the service sector were far more optimistic, the corresponding surveys conducted by CFLP and Caixin revealed (albeit slight) setbacks to 56.4 points in each case – after having registered levels below the expansion threshold of 50 points in winter. It is thus clear that the revival is ongoing but already less dynamic again.

Fiscal and monetary policymakers get the go-ahead for supportive interventions thanks to low inflation

The inflation data for April were unexpectedly low as well, with the annual CPI and PPI rates at 0.1 percent yoy and -3.6 percent yoy respectively. The fiscal policymakers will in any case likely be inclined to take supportive measures. But for the monetary policymakers too, the way has been paved for a more expansive orientation in light of such price trends. The long-term braking factors for China remain – including the gradual population shrinkage, the economy's dependence on raw materials and technology, and the international concerns as to the country's military intentions. In this respect Beijing will have to drop its mask, because otherwise private investments in the Middle Kingdom will certainly be more critically questioned. Depending on the severity of the feared weakening of its main customer regions North America and Europe, China too will feel the effects of this in the second half of 2023. The prospects of US interest rate cuts now being postponed even further into the future boosted the US dollar above the mark of CNY 7.00.

Fundamental forecasts*, China

	2022	2023	2024
GDP	3.0	5.7	5.0
Inflation	1.9	2.0	2.3
Unemployment rate[1]	4.4	4.1	4.1
Budget balance[2]	-7.5	-5.0	-4.6
Current acc. balance[2]	2.2	1.4	1.1

* 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

	25.05.	3M	6M	12M
Deposit rate	1.50	1.50	1.50	1.50
3M SHIBOR	2.24	2.40	2.30	2.20
10Y	2.71	2.80	2.70	2.50
Spread 10Y Bund	19	20	20	-10
EUR in CNY	7.59	7.34	7.13	7.09
USD in CNY	7.08	6.80	6.60	6.50

Britain: Central bank had to take action

Analysts: Tobias Basse // Bernd Krampen

Bank of England had to take action

After the publication of the adverse inflation data for March as month under review – with consumer prices having merely dropped from 10.4 to 10.1 percent compared to the previous year – the central bank in London had to take action again. Indeed, a look at the important CPI core rate revealed no indication whatsoever of March having seen any improvement in the situation. The Bank of England naturally saw itself compelled to react to this news on the macroeconomic price environment with a further key-rate hike, raising the Bank Rate by 25bp. This monetary policy decision in London came as no great surprise, given the inflation data reported before the BoE's last MPC meeting.

Differing viewpoints among the central bankers

This monetary policy decision was not taken unanimously, however. Indeed, Swati Dhingra and Silvana Tenreyro were firmly in favour of leaving the Bank Rate unchanged at its existing level. This came as no real surprise, however, seeing as Silvana Tenreyro for example recently pointed out that interest rate rises customarily appear to take quite some time to have an impact on the economy. With this in mind she called for more patience on the part of her colleagues. The majority of the Bank of England's decision-makers found themselves unable to share this viewpoint in light of the March inflation data. Indeed, it looks as if this group of the British central bankers fears that the current highly pronounced upward price trend could lead to rising inflation expectations among the private economic entities. In order not to jeopardize the emerging tendencies towards an easing on the price front, the Bank of England is already reckoning with CPI rates of change in the range of its inflation target of 2.0 percent yoy in late 2024, meaning that the central bankers have sensed the need for further action. In the absence of further adverse news of a really sustained nature regarding the inflation trend, the Bank of England will likely see no necessity for further rate hikes anymore. In April, the CPI rate of change fell to 8.7 percent yoy – and thus well below the 10 percent mark – but financial markets had expected even clearer easing tendencies. Suspense is thus guaranteed!

A look at the latest labour market data

The tendencies seen in the recent past towards an overheating of the country's labour market now appear to be receding more sharply into the background again, with the number of people in gainful employment having dropped by 136,000 in April. Wages increased by an average of 6.7 yoy in the past three months, which ought not to constitute any great problem for the central bank. The current situation on the labour market namely suggests the likelihood of wages rising more slowly in the future.

Fundamental forecasts*, Britain

	2022	2023	2024
GDP	4.1	0.0	0.9
Inflation (CPI)	9.1	6.8	2.5
Unemployment rate[1]	3.7	4.2	4.5
Budget balance[2]	-6.4	-5.4	-3.6
Current acc. balance[2]	-3.8	-3.6	-3.6

* Change vs previous year as percentage

Interest and exchange rates, Britain

	25.05.	3M	6M	12M
Repo rate	4.50	4.50	4.50	4.50
3M rate	4.87	4.60	4.50	4.40
10Y	4.37	3.65	3.45	3.35
Spread 10Y Bund	185	105	95	75
EUR in GBP	0.87	0.88	0.87	0.86
GBP in USD	1.23	1.23	1.24	1.27

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

Sources: Feri, Bloomberg, NORD/LB Macro Research

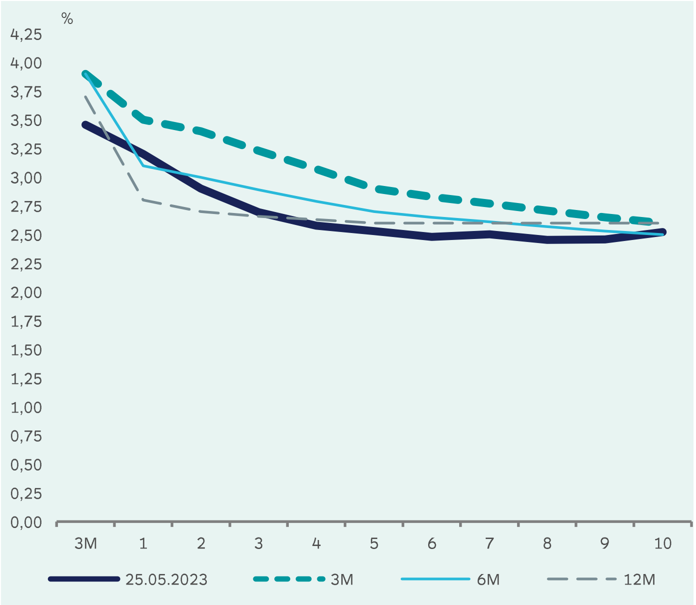
Portfolio strategies
Yield curve, Euroland

Yields and forecasts (Bunds/Swap)

Yields (in %)		NORD/LB forecasts for horizons		
	25.05.2023	**3M**	**6M**	**12M**
3M	3.46	3.90	3.90	3.70
1Y	3.20	3.50	3.10	2.80
2Y	2.90	3.40	3.00	2.70
3Y	2.70	3.23	2.89	2.66
4Y	2.58	3.07	2.79	2.63
5Y	2.53	2.90	2.70	2.60
6Y	2.48	2.83	2.65	2.60
7Y	2.50	2.77	2.61	2.60
8Y	2.45	2.71	2.57	2.60
9Y	2.46	2.65	2.53	2.60
10Y	2.52	2.60	2.50	2.60
2Y (Swap)	3.69	4.05	3.60	3.25
5Y (Swap)	3.25	3.55	3.30	3.15
10Y (Swap)	3.17	3.25	3.10	3.15

Sources: Bloomberg, NORD/LB Macro Research

Yield curve forecasts (Bunds)



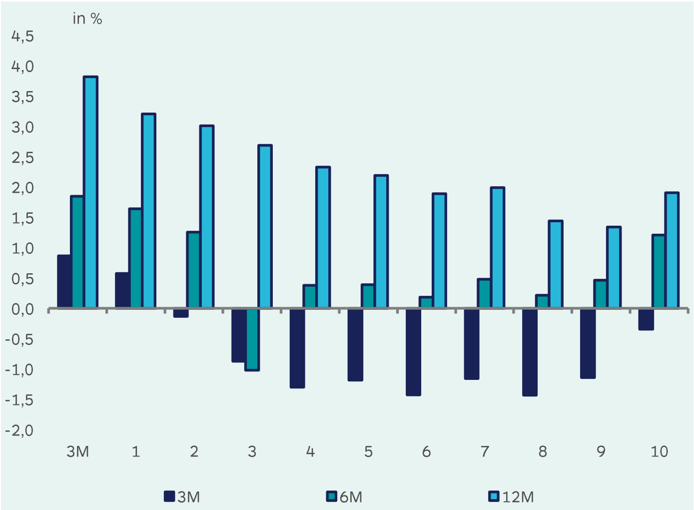
Sources: Bloomberg, NORD/LB Macro Research

Forecasts and total returns

	Total returns (in %) for horizons...		
	3M	**6M**	**12M**
3M	0.86	1.85	3.82
1Y	0.57	1.64	3.20
2Y	-0.13	1.25	3.01
3Y	-0.87	-1.02	2.69
4Y	-1.30	0.38	2.33
5Y	-1.18	0.39	2.19
6Y	-1.43	0.19	1.89
7Y	-1.16	0.48	1.99
8Y	-1.43	0.22	1.44
9Y	-1.14	0.46	1.34
10Y	-0.34	1.21	1.90

Sources: Bloomberg, NORD/LB Macro Research

Expected total returns



Sources: Bloomberg, NORD/LB Macro Research

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

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

3-month horizon

Expected total returns (as percentage) in euro					
	EUR	**USD**	**GBP**	**JPY**	**CHF**
1Y	0.6	0.8	0.6	7.1	-0.8
2Y	-0.1	0.6	1.2	7.1	-1.2
3Y	-0.9	0.6	2.0	7.0	-1.7
4Y	-1.3	0.8	2.5	6.9	-2.1
5Y	-1.2	1.5	2.7	7.1	-2.5
6Y	-1.4	3.2	4.0	6.9	-3.1
7Y	-1.2	1.9	3.7	7.0	-3.4
8Y	-1.4	1.9	4.6	7.1	-3.4
9Y	-1.1	2.3	4.4	7.1	-3.7
10Y	-0.3	2.7	5.9	7.2	-3.5

Sources: Bloomberg, NORD/LB Macro Research

Expected total returns (as percentage) in national currencies				
	USD	**GBP**	**JPY**	**CHF**
1Y	1.5	1.8	-0.2	0.1
2Y	1.3	2.3	-0.3	-0.9
3Y	1.3	3.2	-0.3	-0.9
4Y	1.5	3.6	-0.4	-1.3
5Y	2.2	3.8	-0.2	-1.7
6Y	4.0	5.1	-0.4	-2.2
7Y	2.6	4.8	-0.2	-2.5
8Y	2.6	5.8	-0.2	-2.5
9Y	3.0	5.6	-0.2	-2.8
10Y	3.4	7.0	-0.1	-2.7

Sources: Bloomberg, NORD/LB Macro Research

12-month horizon

Expected total returns (as percentage) in euro					
	EUR	**USD**	**GBP**	**JPY**	**CHF**
1Y	3.2	3.4	6.2	10.3	-1.8
2Y	3.0	2.8	6.5	10.2	-1.9
3Y	2.7	3.3	8.1	10.3	-2.3
4Y	2.3	3.4	8.9	10.1	-2.6
5Y	2.2	3.8	9.5	10.3	-3.0
6Y	1.9	5.9	11.2	9.9	-3.6
7Y	2.0	4.7	11.2	9.9	-3.9
8Y	1.4	5.1	12.4	9.7	-4.0
9Y	1.3	5.5	12.1	9.3	-4.4
10Y	1.9	6.3	13.8	9.0	-4.3

Sources: Bloomberg, NORD/LB Macro Research

Expected total returns (as percentage) in national currencies				
	USD	**GBP**	**JPY**	**CHF**
1Y	5.1	4.9	-0.1	1.1
2Y	4.5	5.2	-0.2	0.9
3Y	4.9	6.8	-0.2	0.5
4Y	5.1	7.6	-0.3	0.2
5Y	5.5	8.2	-0.2	-0.2
6Y	7.7	9.9	-0.5	-0.7
7Y	6.4	9.8	-0.5	-1.1
8Y	6.8	11.1	-0.7	-1.2
9Y	7.3	10.7	-1.0	-1.6
10Y	8.1	12.5	-1.3	-1.5

Sources: Bloomberg, NORD/LB Macro Research

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

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

Levels and performance

Index	Level as at	Status		Performance since	
	25.05.2023	**Prev. month**	**Start of year**	**Prev. month**	**Start of year**
DAX	15,793.80	15,922.38	13,923.59	-0.81%	13.43%
MDAX	26,786.37	27,855.08	25,117.57	-3.84%	6.64%
EuroSTOXX50	4,269.64	4,359.31	3,793.62	-2.06%	12.55%
STOXX50	3,972.94	4,048.50	3,651.83	-1.87%	8.79%
STOXX600	456.18	466.64	424.89	-2.24%	7.36%
Dow Jones	32,764.65	34,098.16	33,147.25	-3.91%	-1.15%
S&P 500	4,151.28	4,169.48	3,839.50	-0.44%	8.12%
Nikkei	30,801.13	28,856.44	26,094.50	6.74%	18.04%

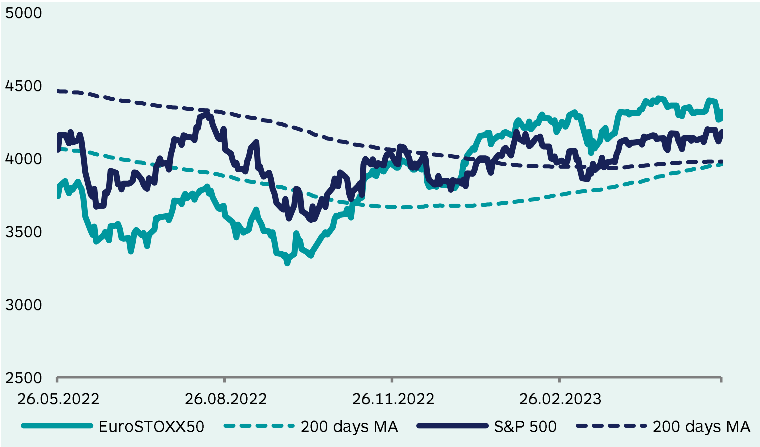
Sources: Bloomberg, NORD/LB Macro Research

Index forecasts

Index	NORD/LB forecast for horizons ...		
	3M	**6M**	**12M**
DAX	16,000	16,500	17,000
MDAX	27,200	28,000	28,800
EuroSTOXX50	4,400	4,550	4,700
STOXX50	4,075	4,225	4,350
STOXX600	469	485	500
Dow Jones	33,250	34,000	35,000
S&P 500	4,175	4,275	4,400
Nikkei	30,500	31,500	32,500

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, 26 May 2023**

The next English issue of Economic Adviser will be appearing on **3 July 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	1.2	1.2	8.0	4.0	2.5	3.6	3.8	4.0	-4.1	-3.7	-3.7
Euroland	3.5	0.8	1.3	8.4	5.7	2.9	6.7	6.6	6.7	-3.6	-3.4	-2.7
Deutschland	1.8	-0.4	1.2	8.7	6.0	3.0	5.3	5.6	5.5	-2.6	-2.8	-2.3
Germany	1.0	1.0	1.1	2.5	2.5	1.4	2.6	2.5	2.4	-6.8	-5.5	-4.0
Japan	4.1	0.0	0.9	9.1	6.8	2.5	3.7	4.2	4.5	-6.4	-5.4	-3.6
Britain	2.1	0.8	1.3	2.8	2.4	1.2	2.2	2.0	2.0	-0.2	0.4	0.6
Switzerland	3.0	5.7	5.0	1.9	2.0	2.3	4.0	4.1	4.1	-7.5	-5.0	-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 rates

In %	25.05.23	3M	6M	12M
USD	5.25	5.25	5.25	5.00
EUR	3.75	4.25	4.25	4.25
JPY	-0.10	-0.10	-0.10	-0.10
GBP	4.50	4.50	4.50	4.50
CHF	1.50	1.75	2.00	2.00
CNY	1.50	1.50	1.50	1.50

Sources: Bloomberg, NORD/LB Macro Research

Exchange rates

EUR in...	25.05.23	3M	6M	12M
USD	1.07	1.08	1.08	1.09
JPY	150	140	138	136
GBP	0.87	0.88	0.87	0.86
CHF	0.97	0.98	0.99	1.00
CNY	7.59	7.34	7.13	7.09

Interest rates (government bonds)

	3M rates				Yields 2Y				Yields 5Y				Yields 10Y			
	25.05.	3M	6M	12M	25.05.	3M	6M	12M	25.05.	3M	6M	12M	25.05.	3M	6M	12M
USD	5.46	5.10	5.10	4.70	4.53	4.10	3.95	3.60	3.91	3.50	3.40	3.30	3.82	3.45	3.35	3.20
EUR	3.46	3.90	3.90	3.70	2.90	3.40	3.00	2.70	2.53	2.90	2.70	2.60	2.52	2.60	2.50	2.60
JPY	0.07	0.05	0.05	0.10	-0.07	0.00	0.00	0.00	0.11	0.17	0.19	0.26	0.43	0.45	0.50	**0.70**
GBP	4.87	4.60	4.50	4.40	4.56	3.75	3.65	3.35	4.33	3.71	3.58	3.35	4.37	3.65	3.45	3.35
CHF	1.65	1.90	2.00	1.90	1.07	1.40	1.40	1.20	0.94	1.40	1.40	1.30	1.04	1.40	1.50	1.40

Sources: Bloomberg, NORD/LB Macro Research

Spreads (bp)

	3M EURIBOR				2Y Bunds				5Y Bunds				10Y Bunds			
	25.05.	3M	6M	12M	25.05.	3M	6M	12M	25.05.	3M	6M	12M	25.05.	3M	6M	12M
USD	201	120	120	100	163	70	95	90	138	60	70	70	130	85	85	60
JPY	-338	-385	-385	-360	-297	-340	-300	-270	-242	-273	-251	-234	-209	-215	-200	-190
GBP	141	70	60	70	165	35	65	65	180	81	88	75	185	105	95	75
CHF	-180	-200	-190	-180	-184	-200	-160	-150	-159	-150	-130	-130	-149	-120	-100	-120

Sources: Bloomberg, NORD/LB Macro Research

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