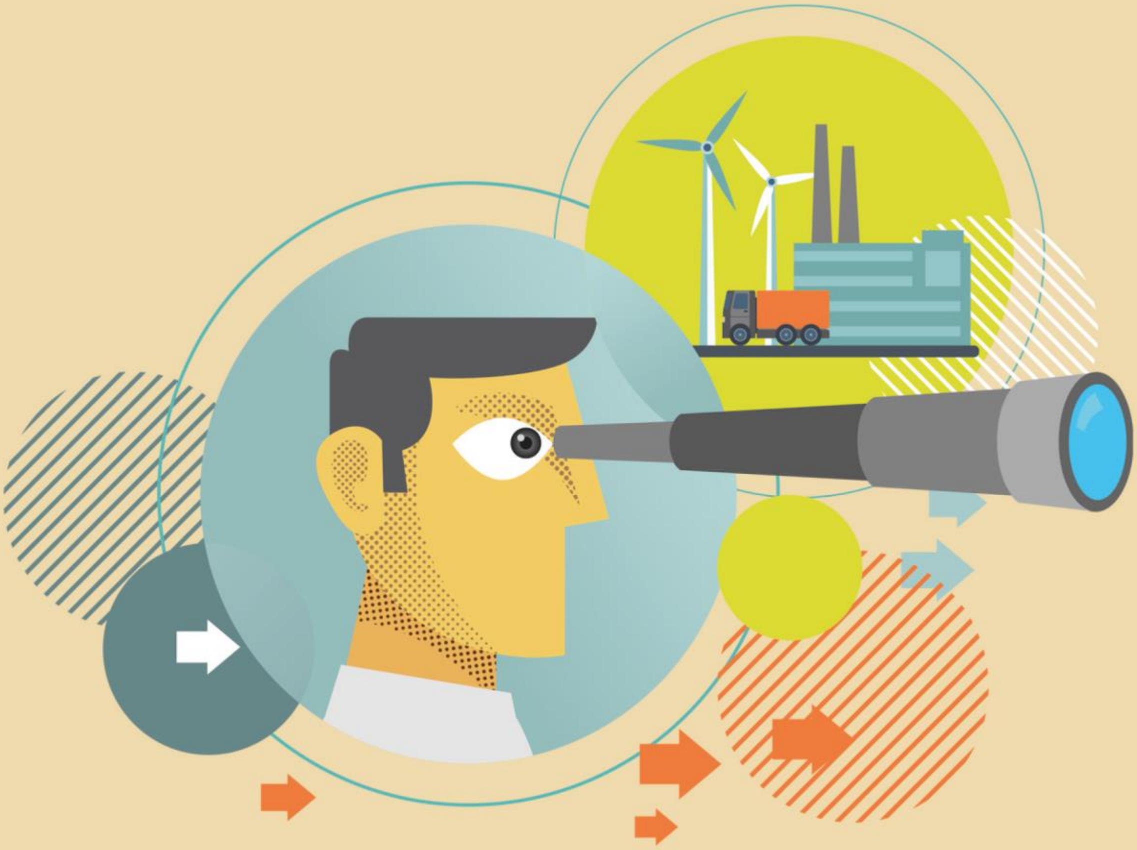

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Contents

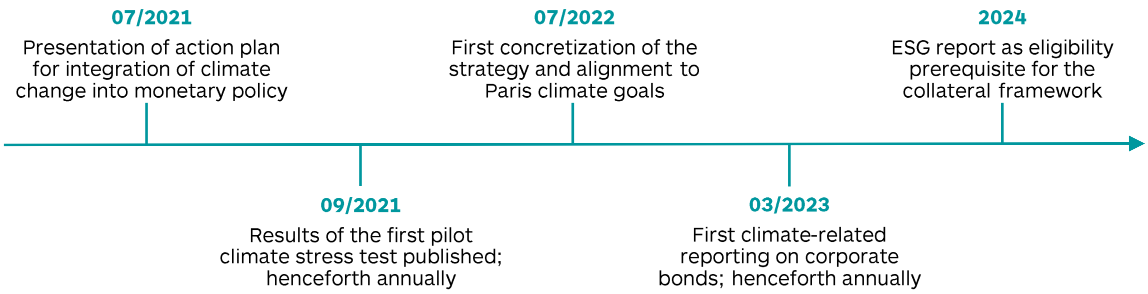
Special: Climate change influences monetary policy

Analysts: Valentin Jansen, Christian Reuter

Climate change considerations long since an element of the monetary policy framework

The omnipresent discourse on the topic of sustainability is frequently centred around the public and private sectors, alongside supranational institutions. That said, the central bankers in Frankfurt have long been active in this context as well. As ECB President Lagarde said as early as 2021 at the press conference on conclusion of the central bank's last regular strategic review: "We have acknowledged that climate change is an existential challenge for the world, and it is of strategic importance for the ECB's mandate." Although the ECB is primarily committed to price stability in the euro area, it recognizes the need to include climate change considerations in its monetary policy framework as an integral part of its mandate. The Governing Council therefore resolved to incorporate the impacts of climate change into future monetary policy strategy. A corresponding package of measures was presented that, besides initially internal resource building, explicitly specifies the incorporation of climate change considerations in monetary policy areas such as the collateral framework and purchase programs as well as risk management. As regards the latter, the results of the EU-wide pilot climate stress test were presented by ECB Vice-President de Guindos just a few months later, in September. A key milestone was thus reached in 2021 in terms of incorporating climate change considerations into the ECB's monetary policy operations – thanks to which the topic of climate change has long since become an integral part of the monetary policy framework.

Key milestones in the incorporation of climate change into the ECB's monetary policy operations



Sources: ECB, NORD/LB Macro Research

Concretization and commitment to the Paris climate goals

In July 2022, one year after the conclusion of the strategy review and "a pilot climate stress test later", an important press release from the ECB provided details concretizing the climate change considerations envisaged for incorporation into its monetary policy operations. It specified the orientation of the carbon footprint of the corporate bond purchase program (namely "CSPP", which at the time accounted for around 10 percent of the overall portfolio) to the climate change mitigation goals of the Paris Agreement. Side note: This corresponds to the climate goals of the EU Commission, which have thus also received support from the central bankers since then. Specifically, the press release included adjustments to the collateral framework: "The Eurosystem aims to gradually decarbonize its corporate bond holdings, on a path aligned with the goals of the Paris Agreement. To that end, the Eurosystem will tilt these holdings towards issuers with better climate performance through reinvestments" – it was said for the first time. It was also specified that the expansion of risk management – for example through annual climate stress tests – should be continued, with account being taken of the ongoing EU initiatives on climate-related reporting. Last but not least, it was stated that reducing financial risk related to climate change on the Eurosystem's balance sheet would also play a key role in this context.

Climate change is a problem factor for monetary policy decisions
Climate change, extreme weather events and the energy transition will in the future make it increasingly difficult for the ECB to take monetary policy decisions based on the assessment of the economic health of the eurozone. In an analysis published by the ECB staff in June 2023 as part of the monthly ECB Economic Bulletin, all three challenges were examined as influencing factors on potential output in the euro area. According to this, these variables already form an important part of the quarterly projections, which serve the central bankers as basis for interest rate decisions and other options for action. According to the author and ECB economist Miles Parker, unchecked climate change causes far more damage to the EU's potential output in the long term than the effects of a transition to a carbon-free economy. The "substantial localized impact" of climate change on certain regions and sectors – which was also investigated and addressed in the previous ECB climate stress test – and the uncertainty as to the reactions of companies and people made it even more difficult to assess the consequences, wrote Parker. This is particularly true also given the fact that monetary policy decisions are determined on a uniform basis for all 20 countries of the eurozone.

ECB Executive Board widely divided: for some the measures taken to date don't go far enough…
Unsurprisingly, there are quite differing views to be heard from the ECB Executive Board itself on the integration of climate change considerations into the monetary policy framework as largely driven forward under President Lagarde. For some Executive Board members the measures taken to date don't go far enough, while others would rather that the ECB focusses back on its primary mandate. At the International Symposium on Central Bank Independence on 10 January 2023, Executive Board member Isabel Schnabel gave a groundbreaking speech in the context of green monetary policy, warning that the interest rate environment and high inflation are jeopardizing the green transformation, for which reason the ECB must further intensify its efforts. She stressed that the ECB would be unable to achieve its climate targets in the greening of its corporate bond holdings if the central bankers concentrate solely on reinvestments. They must therefore actively intervene in the holdings and, where necessary, exchange bonds even before maturity in favour of a better carbon footprint. Until this speech, the ECB had never talked about possible reallocations *within* the bond holdings, only *of* a "tilting" of reinvestments. Ms Schabel hit a further pain point with her reference to the huge public sector bond holdings, which are known to account for the lion's share of the Eurosystem's balance sheet. Improving the carbon footprint of these holdings is far more challenging, however, she said, seeing as the orientation to the capital keys of the member states constrains an approach based on CO_2 intensity, for example. Moreover, a further constraint is imminent: With an already scaled-back portfolio under the Asset Purchase Programme (APP) and, according to current communication, the termination of reinvestment under the Pandemic Emergency Purchase programme (PEPP) at year-end 2024, the climatic effects of any reallocations are likely to become significantly less effective.

…and for others they are already going too far: price stability as the best ECB aid
Bundesbank President Joachim Nagel recently stressed in May that the ECB can combat climate change and best support the transition to renewable energy sources by keeping inflation in check. Speaking at a conference in Eltville am Rhein, Nagel underlined that the central bank should unequivocally confirm its willingness to fulfil its mandate. Nagel explained: 'I see the safeguarding of price stability as the starting and reference point for any consideration of climate-related issues in monetary policy. He added that "the green transformation requires large-scale investments in technological innovations and renewable energies, and that decisions in this context "are easier to decide upon in an environment characterized by price stability." The ECB Executive Board is likely to agree on at least this sentence.

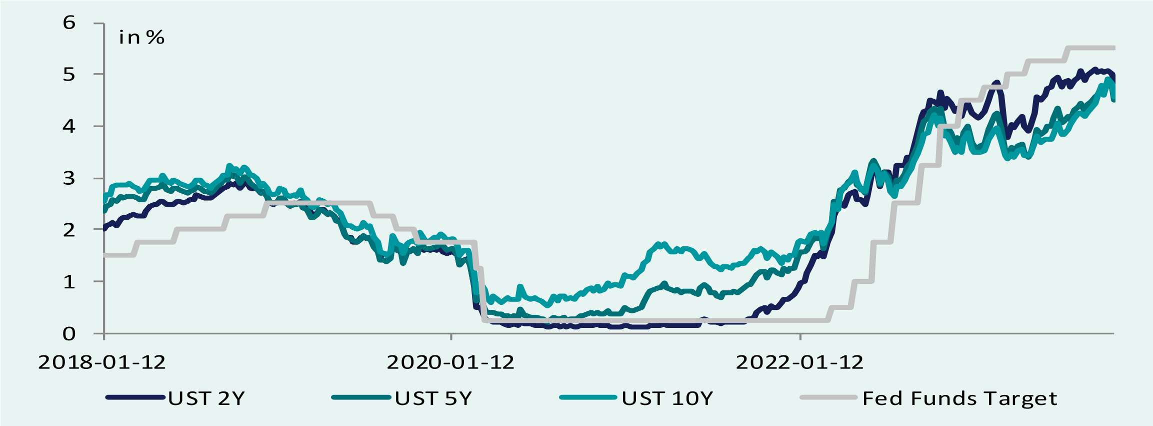
USA: What comes after the strong GDP figures?

Analysts: Tobias Basse // Bernd Krampen

What comes after the strong GDP figures?

The recently reported data on US GDP came as an upside surprise to virtually all observers, with an impressive growth figure of 4.9% (ann.). These are admittedly preliminary figures that are still highly susceptible to revision – but it can safely be said that private consumers appear to have made a lasting contribution to growth in the USA. Even possible data revisions are hardly likely to change this picture either. That said, the high interest rates and other burdening factors are now increasingly becoming a problem; The ISM Manufacturing PMI, for example, has fallen significantly and in October stood at just 46.7 points. A closer look at the verbal feedback from the surveyed purchasing managers made for gripping reading. First of all, it is interesting to note that there are no clearer indications of the burdensome factor of higher bond yields. Moreover, we find it remarkable that there are hardly any comments on the UAW strike. Interpreting this observation, it actually means that the strike by employees in the US automotive industry was not regarded as having had any major negative impact. It goes without saying that this news speaks against the interpretation that the strike has weighed to a significant degree on the mood among the survey respondents. The ISM Services PMI likewise registered a downward trend most recently, but was nevertheless able to remain above the "magical" 50-points growth threshold mark. It is interesting to note at this point that somewhat more reference to the UAW strike was to be found in the verbal feedback from purchasing managers in the US service sector, though the picture it provides is not really clear; some respondents evidently see negative effects –others rather not. Taken together, the two ISM PMIs show tendencies towards a significant slowdown in growth in the US economy.

Chart US Interest rates



Sources: Macrobond, NORD/LB Macro Research

NAHB index with an even weaker showing

The National Association of Home Builders (NAHB) sentiment index likewise points very clearly in this direction. This key sentiment indicator for the American construction industry has now fallen to just 40 points, signalling a clear predominance of negative over positive feedback – especially since the Prospective Buyers Traffic sub-index now stands at just 26 points. This gives clear indication of a perceptible weakness on the demand side of the US real estate market. This is without doubt largely attributable to the currently prevailing high interest rate levels. In this context, the National Association of Home Builders stresses that this burdening factor appears to be hitting younger potential buyers particularly hard – and in this regard there are no clear signs of any improvement in the short term either.

The FOMC remains in watch-and-wait mode

As expected, the FOMC held the Fed funds target rate unchanged at its recent meeting. While the monetary policymakers in Washington are to some extent maintaining the threat scenario of a rate hike for the moment, they would probably only really wish to take action in the face of major surprises in the US inflation trend; the "active" discussion about the possibility of a somewhat higher Fed funds target rate after all is currently helping deter the markets from clearly undesirable speculation over near-term rate cuts by the FOMC. In the absence of really unfavourable inflation data, the "key rate peak" has likely been reached in the USA. However, the initial cut of the Fed funds target rate can now be expected to come a bit later. In this environment, we consider the current US yield on 10-year US Treasuries to be quite reasonable from a tactical perspective. Indeed, after the recent setback we see no necessity for any larger movements in this time series in the short term. In the medium and long term, however, rather lower capital market rates are then to be reckoned with in the USA.

Fundamental forecasts, USA

	2022	**2023**	**2024**
GDP	1.9	2.3	1.4
Private consumption	2.5	2.5	1.4
Govt. consumption	-0.9	1.5	0.5
Fixed investment	0.9	0.5	2.0
Exports	7.0	0.5	3.0
Imports	8.6	2.0	3.0
Inflation	8.0	4.2	2.9
Unemployment rate[1]	3.6	3.8	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

	I/23	**II/23**	**III/23**	**IV/23**	**I/24**
GDP qoq ann.	7.0	2.1	4.9	-0.4	0.0
GDP yoy	1.7	2.4	2.9	2.2	1.6
Inflation yoy	5.8	4.0	3.5	3.4	3.1

Change as percentage

Sources: Feri, NORD/LB Macro Research

Interest and exchange rates, USA

	09.11.	**3M**	**6M**	**12M**
Fed funds target rate	5.50	5.50	5.50	5.25
3M rate	5.37	5.35	5.30	5.00
10Y Treasuries	4.62	4.30	4.10	3.70
Spread 10Y Bund	198	160	150	120
EUR in USD	1.07	1.08	1.08	1.09

Sources: Bloomberg, NORD/LB Macro Research

Euroland: Further ECB rate hike no longer necessary

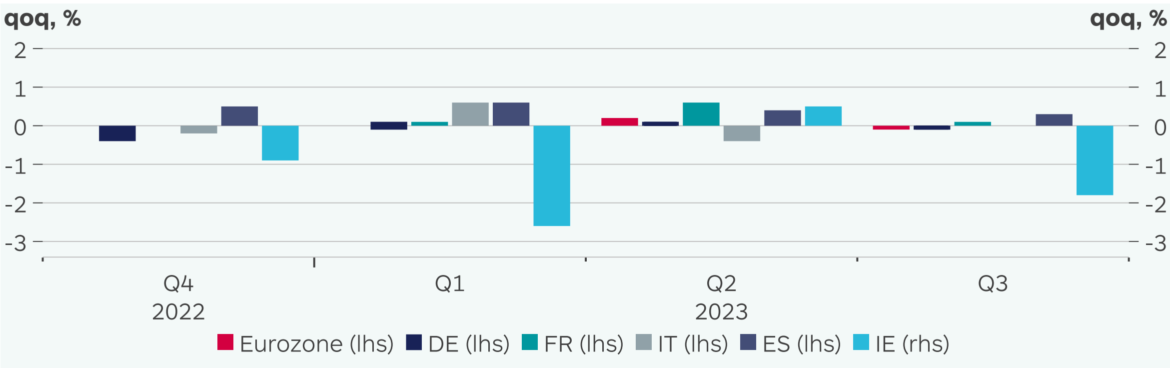
Analysts: Christian Lips, Chief Economist // Christian Reuter

Economic downturn: Summer with slight contraction in GDP

The leading indicators had already indicated it, now the confirmation by Eurostat's initial flash estimate in late October: economic output in the eurozone area has contracted compared to the previous quarter, albeit only slightly, by -0.1 percent qoq. Among the major economies, real GDP in Spain has grown slightly and in France minimally, while stagnating in Italy and declining minimally in Germany. The flash estimate for Ireland's GDP indicates a sharp decline, though it should be noted that this time series has proved highly prone to revision in recent times.

The weakness will likely continue in the short term. On the one hand, key presence indicators are starting into Q4 with a statistical carry-over effect and, on the other, the PMIs for industry and the services sector also remain below the expansion threshold. Accordingly, the ECB will likely also make "dovish" adjustments to its projections in December. While the last economic forecast was still overly optimistic – we actually expect growth figures of just 0.5 and 0.9 percent for 2023/24 – the recent decline in inflation was unexpectedly sharp. It will thus then become increasingly difficult to justifiably maintain a "tightening bias".

Chart: GDP contraction in the summer



Sources: Macrobond, Eurostat, NORD/LB Macro Research

Economic and inflation developments provide good reasons for an ECB rate hike pause

Things are currently going according to plan for the ECB. A little over a year after the central bank set its tightening policy in motion, inflation in the eurozone has in the meantime fallen from over 10 percent to a level of 2.9 percent yoy in October. The widely watched inflation rate ex energy and food, namely the core rate, has likewise dropped of late, and now stands at 4.2 percent yoy. August and September saw a year-on-year double-digit drop in producer prices. At its last meeting, the ECB expressed satisfaction with the current price developments and the impact of its monetary policy. The ten key-rate hikes since July 2022 are having the intended effect in the real economy. The economy in the eurozone has cooled perceptibly, according to the ECB's Governing Council to a somewhat greater extent than initially assumed. Indeed, the ECB admitted that the risks in this context are of a downside rather than upside nature. The decision taken by the central bankers at their meeting in late October to hold the key rates unchanged thus came as anything but a surprise.

Given the more positive inflation trend of late and, at the same time, increased downside risks for the economy, the key interest rates have therefore likely peaked in this rate hike cycle. The further monetary policy debate will revolve around the question as to how long the key rates will be held at the current levels. At the present time we see no signs of any imminent easing, and the opportunity for moderate rate cuts is not likely to arise until mid-2024.

ECB remains vigilant – market expectations for key-rate cuts in 2024 overly optimistic
The ECB's decision was also likely to have been unanimous in October because, with the outbreak of the war between Israel and Hamas, the risks to economic growth in the eurozone and beyond have additionally shifted downwards. However, ECB President Lagarde made it quite clear that, should the geopolitical risks give rise to fresh threats to the inflation target, the central bank won't hesitate to respond with rate hikes. A causative event in this context would, for example, be an upsurge in energy prices, which, also in light of the experiences from the current inflation episode, the ECB would certainly not brush aside as a transitory phenomenon.
The capital market rates had risen sharply in the run-up to the council's meeting. At the ensuing press conference, ECB President Lagarde emphasized that the central bank would be ready to use the programmes against unjustified spread widening again if necessary.
After various other central banks, including the Fed, likewise held their key rates unchanged, the markets have calmed down again, however. From today's perspective, the yield level is likely to have left its cyclical peak behind it. All the same, sharply falling interest rates ought not to be reckoned with in the near future. The markets are already pricing in an initial rate cut for the coming spring and a total in excess of 100 basis points over 2024 as a whole. This could turn out to be a bit too optimistic. The ECB stresses that it continues to view the current inflation process as sticky for the time being, for which reason the central bankers will only then lower interest rates when there are clear indications that inflation is back on a sustainable basis at the targeted level of 2 percent.

Fundamental forecasts, Euroland

	2022	2023	2024
GDP	3.4	0.5	0.9
Private consumption	4.2	0.3	1.2
Govt. consumption	1.6	0.2	0.9
Fixed investment	2.8	1.0	1.3
Net exports[1]	0.0	0.3	-0.3
Inflation	8.4	5.5	2.4
Unemployment rate[2]	6.7	6.5	6.7
Budget balance[3]	-3.6	-3.4	-2.7
Current account balance[3]	-0.6	1.5	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

	I/23	II/23	III/23	IV/23	I/24
GDP sa qoq	0.0	0.2	-0.1	0.1	0.3
GDP sa yoy	1.2	0.5	0.1	0.2	0.4
Inflation yoy	8.0	6.2	5.0	3.0	2.7

Change as percentage

Sources: Feri, NORD/LB Macro Research

Interest rates, Euroland

	09.11.	3M	6M	12M
Repo rate ECB	4.50	4.50	4.50	3.75
3M rate	3.99	4.00	3.90	3.30
10Y Bund	2.65	2.70	2.60	2.50

Sources: Bloomberg, NORD/LB Macro Research

Germany: Growing risk of technical recession

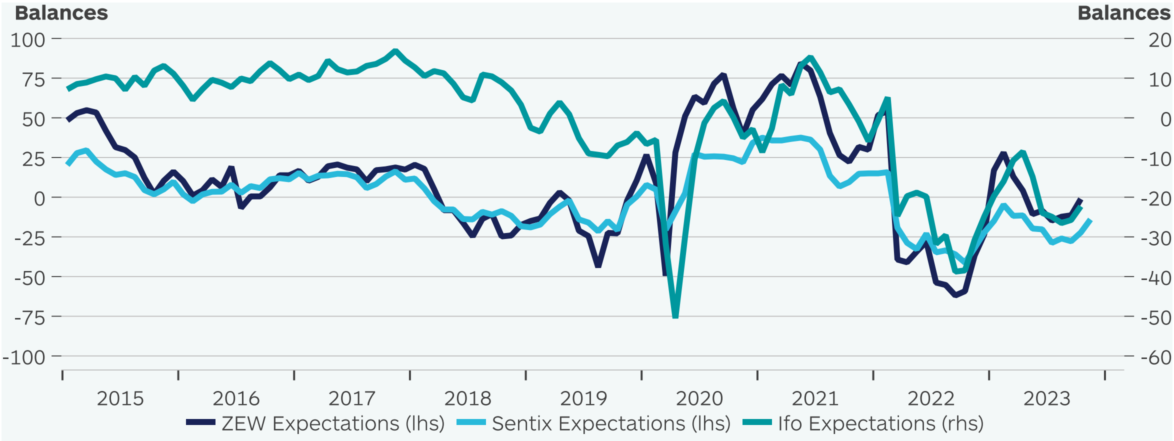
Analysts: Christian Lips, Chief Economist // Valentin Jansen

GDP down in Q3 – possibility of technical recession in winter

As expected, Germany's economic output contracted in summer. That said, the initial estimate from Destatis suggests that real gross domestic product declined by "just" -0.1 percent qoq, with the figures for the preceding quarters revised slightly upwards. The conclusion thus to be drawn is that the current year has more or less been characterized by stagnation which – considering the negative carry-over effect in the wake of the weak Q4/2022, together with the negative effect of fewer working days this year – indicates a moderate decline in economic output of an estimated -0.4 percent. The slightly increased forecast value is solely attributable to the recent upward revision of the historical data in the official statistics. We have left the forecast for the immediate future, and in particular the nowcast for the current quarter, unchanged, however.

Germany's economic momentum will remain muted for the time being, and a minor technical recession this winter is a distinct possibility. The hard economic indicators reported for September as month under review were disappointing. Industrial output contracted by -1.4 percent mom, marking the fourth consecutive month of decline. In fact, all main groups registered declining output, though this was particularly marked where consumer goods were concerned (-4,9 percent mom). Output in construction, on the other hand, stagnated in September, which can almost be considered positive in light of the strains caused by the changed interest rate environment. Overall, output is therefore starting into Q4 with a negative carry-over effect of 0.9 percent. Retail sales have given a similarly weak showing to date. Nevertheless, the marked decline in inflation of late raises hopes for a boost in real private consumption in 2024, brought about then by further increasing real wages.

Chart: Bottoming out of business expectations



Sources: Macrobond, Destatis, NORD/LB Macro Research

Economic sentiment: October sees ifo Business Climate rise again for the first time since April

After five consecutive months of decline, the ifo Business Climate index registered an unexpectedly sharp surge to 86.9 points in October as month under review. It should however be noted that the indicators stand at historically low levels, so that so far we can only speak of a bottoming out. In our view, a slight upturn in economic momentum can first be reckoned with in the course of 2024.

In October, corporate leaders rated their current business situation slightly better than in September, though at 89.2 points, this sub-index is still at its lowest level in around three years. On the bright side, there has at the same time been a slight upturn in business expectations; at 84.7 points, however, the outlook for the months ahead remains extremely bleak.

All the same, the ifo Business Climate did at least reaffirm the recently improved economic expectations among financial market experts (ZEW, sentix).
At the sectoral level, September saw slight improvements in the manufacturing sector (to -15.9 balance points) and in the services sector (-1.5), albeit starting from extremely low baseline values. Sentiment in the retail sector (-27.2), on the other hand, deteriorated again after a slight improvement in September. At -31.1 points, sentiment in the construction industry is moving virtually sideways in the wake of the ECB's tenth rate hike, thus remaining at its lowest level since early 2009 during the global financial crisis.
Despite the slight brightening of late, Germany's underlying economic sentiment remains at a low ebb, however. According to the survey of purchasing managers, German industry is still well inside the contraction zone in October as month under review, despite minimal improvements. Indeed, the services sector registered an unexpectedly marked deterioration.

Inflation continued downward trend in October, but core rate likely to remain sticky
October saw inflation drop to a level of 3.8 percent – its lowest since August 2021. Indeed, the annual rate of the euro-area harmonized consumer price index (HICP) fell to 3.0 percent yoy. Moreover, the core rate (ex energy and food), on which the ECB keeps a particularly close eye, fell once again, to 4.2 percent yoy. Domestic price pressure thus remains relatively persistent, but is now likewise gradually receding. Germany's inflation figures are in line with the general trend in the euro area, for which Eurostat is now actually indicating a rate of inflation with a 'two' before the decimal point again (2.9 percent yoy).
Due to the acutely tense situation in the Middle East, the oil and energy prices overall are now increasingly coming back into focus. Contrary to the widespread fears that the price of a barrel of Brent crude oil would not return to the levels seen in early October, it actually did. However, the situation remains volatile due to potential escalation of the Israel-Hamas conflict in the Middle East that could affect oil supplies. Accordingly, the ECB too emphasized in October the upside risks for inflation.

Fundamental forecasts, Germany

	2022	2023	2024
GDP	1.8	-0.4	0.8
Private consumption	3.9	-0.9	1.3
Govt. consumption	1.6	-2.2	1.4
Fixed investment	0.1	1.2	0.7
Exports	3.3	-0.6	2.0
Imports	6.6	-1.1	3.4
Net exports[1]	-1.3	0.2	-0.5
Inflation[2]	8.7	6.1	2.6
Unemployment rate[3]	5.3	5.7	5.7
Budget balance[4]	-2.5	-2.8	-2.3
Current account balance[4]	4.2	5.8	6.2

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

	I/23	II/23	III/23	IV/23	I/24
GDP sa qoq	0.0	0.1	-0.1	0.0	0.2
GDP nsa yoy	0.2	-0.4	-0.8	-0.4	-0.4
Inflation yoy	8.7	6.9	5.7	3.2	3.3

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

Japan: Yield control and a brittle rubber band

Analysts: Tobias Basse // Bernd Krampen

Yield control and a brittle rubber band

The adjustments to the Bank of Japan's YCC policy had already turned the former anchor chain into a fairly stretchable rubber band some time ago. Now, the central bankers have announced a further flexibilization of their yield curve control program. Indeed, one could in the meantime speak of a frail or brittle rubber band. The changes to the BoJ's monetary policy strategy do not come as a complete surprise. The economic environment in Japan had triggered a rather pronounced need for action on economic policy by the central bank. Consequently, the Bank of Japan found itself now having to announce that it would also allow the yields on 10-year government bonds to rise above a level of 1.0 percent. However, BoJ governor Kazuo Ueda, stressed that when looking at this time series, he would not expect to see levels significantly above this important mark in the near future.

When will the "traditional" policy rate be raised?

There are still no signs of any great inflation problem in Japan as yet. That said, the deflationary concerns within the BoJ are now increasingly receding into the background. The most recently published data on the trend in consumer prices in Tokyo surprised with an increase in the annual rate to 3.3 percent in October as month under review. Higher costs for imported goods, which are likely a direct consequence of the yen's weakness, among other things, are undoubtedly a significant factor in explaining this development. The central bank needs to be increasingly vigilant in this environment. In the absence of any really pronounced surprises in the macroeconomic price data, however, the central bankers are well advised to try and wait for the review of its monetary policy strategy to be completed before raising the traditional policy rate. Against this background, a measure of this nature can first be expected in the course of 2024. The risk of nearer-term adjustments has increased of late, however.

How chronic is the yen's weakness?

The yen's weakness could, in fact, well disrupt the central bankers' strategy of playing for time. In this context, a very close eye certainly needs to be kept on the "magical" mark of 150.00 JPY per USD. A number of high-ranking decision-makers in the Ministry of Finance appear to be thinking along the lines that an overly weak yen could weigh on domestic consumption in Japan. In this respect, there are likely to be quite some discussions between the economic policymakers in Tokyo with regard to the FX market. Of late, however, weaker US labour market data have at least somewhat helped the yen.

Fundamental forecasts*, Japan

	2022	2023	2024
GDP	1.0	2.2	1.0
Inflation	2.5	3.1	1.9
Unemployment rate[1]	2.6	2.6	2.5
Budget balance[2]	-5.9	-5.5	-4.0
Current account bal.[2]	1.8	3.1	3.1

* 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, Japan

	09.11.	3M	6M	12M
Policy rate	-0.10	-0.10	-0.10	-0.10
3M rate	0.07	0.05	0.05	0.10
10Y	0.84	0.80	0.80	1.00
Spread 10Y Bund	-181	-190	-180	-150
EUR in JPY	161	151	146	140
USD in JPY	151	140	135	128

China: Ups and downs – but increasingly negative sentiment

Analysts: Tobias Basse // Bernd Krampen

More growth – but sentiment surveys give little hope

The merely moderate growth in Q2 was followed in the third quarter by something of a recovery, with GDP up by 1.3 percent quarter on quarter. The annualized growth rate thus stands at 4.9 percent and, in consequence, very close to the target level of 5 percent per year. That said, the further data already available for October as month under review quite certainly indicate the onset of a persistent phase of economic weakness. The Caixin sentiment indicator, which is not only an important barometer for Asia alone, has fallen to just 49.5 points, and thus narrowly short of the "magical" 50-points mark generally considered an expansion threshold. Moreover, the CFLP Manufacturing PMI has likewise fallen to 49.5 points. This would indicate growing concerns in China's industrial sector about the current economic developments. The surveyed companies also registered a slowdown in the growth of their order intake, besides which this environment is making for a downturn in the employment situation. In addition, the companies participating in the survey are being hit by rising purchase prices. All told, China's industrial sector quite clearly has a weakening in demand to contend with.

Bitter cocktail

It should in any case be noted that the weakness of global industry in October has now also hit China. And it goes without saying that the tense relationship between Washington and Beijing is likewise of no help whatsoever to China's export-oriented economy. A further negatively impacting factor is that, after the experiences of the COVID crisis, risk managers have taken the helm in many North American and European companies; a growing number of businesses now appear to be searching out further business partners outside of China in the interests of avoiding any major problems with supply chains in the future. This trend is, of course, not a positive one for China's economy. The government is now quite clearly very concerned about the situation, seeing as an economic slowdown can quite well make for some degree of discontent among the populace – which is something the powers that be in Beijing really do not like. Furthermore, the ongoing problems on the real estate market in the Middle Kingdom are unlikely to have been of any help to China's industry. Consequently, there is once again no monocausal explanation for the unfavourable October figures from the CFLP index and Caxin Manufacturing PMI. It therefore looks like Beijing has a cocktail of rather "bitter" influencing factors on its hands!

Fiscal and monetary policymakers take action

Government policy is currently also characterized by the dismissal of some officials. There is a palpable air of unrest, and the globally difficult geopolitical environment is heightening the uncertainty. Meanwhile, the fiscal and monetary policymakers are taking money in their hands to ward off any potential economic threats.

Fundamental forecasts*, China

	2022	2023	2024
GDP	3.0	4.5	4.5
Inflation	1.9	1.8	2.0
Unemployment rate[1]	5.2	5.0	4.9
Budget balance[2]	-7.5	-4.2	-3.7
Current account bal.[2]	2.2	1.2	0.9

* 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

	09.11.	3M	6M	12M
Deposit rate	1.50	1.50	1.50	1.50
3M SHIBOR	2.45	2.30	2.30	2.30
10Y	2.65	2.60	2.60	2.50
Spread 10Y Bund	0	-10	0	0
EUR in CNY	7.79	7.78	7.67	7.63
USD in CNY	7.28	7.20	7.10	7.00

Britain: Interest rates – no descent from the peak as yet

Analysts: Constantin Lüer // Tobias Basse

Bank of England bides time – once again

At its meeting ending on 1 November, the Bank of England's Monetary Policy Committee voted to leave the Bank Rate unchanged at its current peak of 5.25 percent. In doing so for the second time in a row, the central bankers indicated that a descent from the peak is not on their immediate agenda. This comes as no surprise to many observers, and some are also hoping that it signals an end to the rate hikes – at least for the time being.

Challenging overall situation calls for caution

These hopes could well stem from the markedly decelerating upward movement in consumer prices in recent months. Apart from minor setbacks, the CPI shows a relatively clear downward trend. This trend has slowed somewhat of late, however, and inflation remains at an uncomfortably high level. The risk of further rising inflation remains high, mainly – but not solely – due to the various conflict hotspots around the world.

The slowly but surely rising rate of unemployment is also likely to increasingly become cause for concern, having risen well above the 4-percent mark of late. The UK economy is thus coming under perceptibly growing pressure. Given the current overall economic and political situation, therefore, neither an upward nor a downward interest rate adjustment looks likely. With its interest rate decisions, the Bank of England has, figuratively speaking, in recent times manoeuvred through highly challenging terrain peppered with icy spots and deep crevasses. A "higher for longer" scenario could be in the offing against this background.

A less hawkish decision to keep key rates steady

Despite differences of opinion, the members of the MPC reached their decision in a democratic manner, though the 6-3 majority was relatively clear. As was to be expected, Catherine Mann pushed for a further hike of 25 basis points. Indeed, she could almost be given credit for not having demanded a hike of 50 bps. This can also be interpreted as recognition of the overall positive economic development. Megan Greene and Jonathan Haskel likewise voted – once again – for a rate hike in the same range. Jonathan Cunliffe switched camps and voted to hold the base rate at 5.25 percent. No one had advocated a rate cut, however. The mood is probably not going to fundamentally change either in the remainder of 2023. 2024 could make for completely new impulses, however.

Fundamental forecasts*, Britain

	2022	2023	2024
GDP	4.3	0.4	0.4
Inflation (CPI)	9.1	7.4	3.1
Unemployment rate[1]	3.7	4.2	4.7
Budget balance[2]	-5.2	-5.1	-3.5
Current account bal.[2]	-3.2	-3.5	-3.2

* Change vs previous year as percentage

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

[2] as percentage of GDP

Sources: Feri, Bloomberg, NORD/LB Macro Research

Interest and exchange rates, Britain

	09.11.	3M	6M	12M
Repo rate	5.25	5.25	5.25	5.25
3M rate	#NV	5.40	5.40	5.40
10Y	4.27	4.30	4.30	4.20
Spread 10Y Bund	163	160	170	170
EUR in GBP	0.87	0.87	0.87	0.86
GBP in USD	1.22	1.24	1.24	1.27

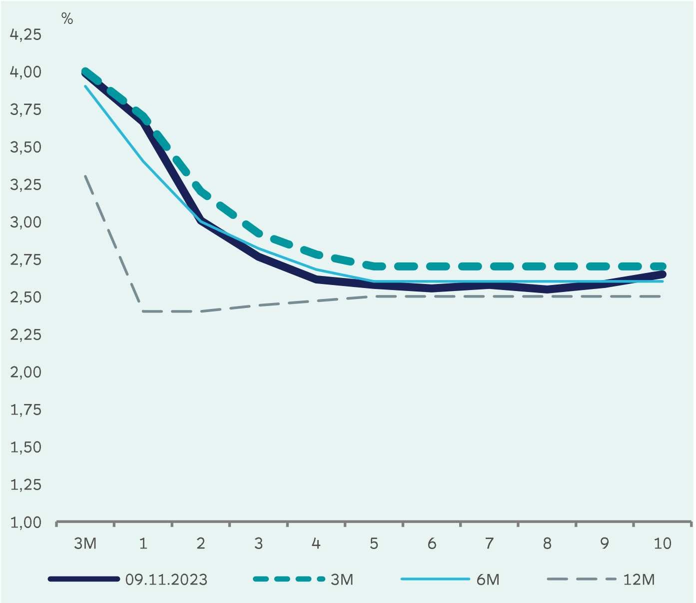
Portfolio strategies
Yield curve, Euroland

Yields and forecasts (Bunds/Swap)

Yields (in %)		NORD/LB forecasts for horizons		
	09.11.2023	**3M**	**6M**	**12M**
3M	3.99	4.00	3.90	3.30
1Y	3.66	3.70	3.40	2.40
2Y	3.01	3.20	3.00	2.40
3Y	2.77	2.92	2.82	2.44
4Y	2.61	2.78	2.68	2.47
5Y	2.58	2.70	2.60	2.50
6Y	2.55	2.70	2.60	2.50
7Y	2.58	2.70	2.60	2.50
8Y	2.55	2.70	2.60	2.50
9Y	2.58	2.70	2.60	2.50
10Y	2.65	2.70	2.60	2.50
2Y (Swap)	3.52	3.80	3.60	2.95
5Y (Swap)	3.12	3.30	3.20	3.05
10Y (Swap)	3.14	3.30	3.20	3.05

Sources: Bloomberg, NORD/LB Macro Research

Yield curve forecasts (Bunds)



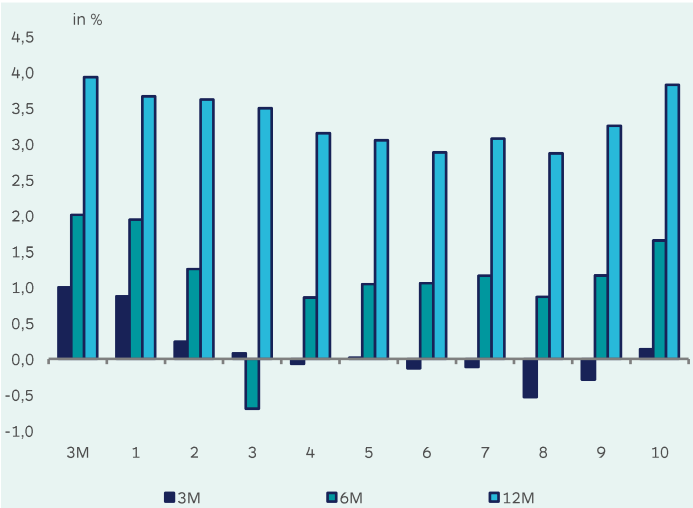
Sources: Bloomberg, NORD/LB Macro Research

Forecasts and total returns

	Total returns (in %) for horizons...		
	3M	**6M**	**12M**
3M	1.00	2.01	3.93
1Y	0.87	1.94	3.66
2Y	0.24	1.25	3.62
3Y	0.08	-0.69	3.50
4Y	-0.07	0.86	3.15
5Y	0.02	1.04	3.05
6Y	-0.13	1.06	2.88
7Y	-0.11	1.16	3.07
8Y	-0.53	0.87	2.87
9Y	-0.29	1.16	3.25
10Y	0.14	1.65	3.82

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	0.9	0.1	1.4	6.8	0.8
2Y	0.2	-0.1	0.8	7.1	0.8
3Y	0.1	-0.2	0.1	7.2	0.7
4Y	-0.1	0.1	-0.9	7.4	0.9
5Y	0.0	0.4	-0.6	7.7	1.0
6Y	-0.1	-1.4	-1.1	7.7	1.1
7Y	-0.1	0.8	-1.3	8.1	1.1
8Y	-0.5	0.9	-0.4	8.2	1.4
9Y	-0.3	1.2	-0.2	8.2	1.6
10Y	0.1	1.4	1.0	7.9	1.7

Sources: Bloomberg, NORD/LB Macro Research

Expected total returns (as percentage) in national currencies				
	USD	**GBP**	**JPY**	**CHF**
1Y	1.3	1.1	-0.1	0.4
2Y	1.1	0.4	0.3	0.4
3Y	1.0	-0.2	0.3	0.4
4Y	1.3	-1.2	0.4	0.5
5Y	1.7	-0.9	0.8	0.7
6Y	-0.2	-1.4	0.7	0.7
7Y	2.0	-1.6	1.1	0.8
8Y	2.1	-0.7	1.2	1.1
9Y	2.5	-0.5	1.2	1.2
10Y	2.7	0.7	0.9	1.3

Sources: Bloomberg, NORD/LB Macro Research

12-month horizon

Expected total returns (as percentage) in euro					
	EUR	**USD**	**GBP**	**JPY**	**CHF**
1Y	3.7	3.1	6.5	15.3	0.9
2Y	3.6	3.1	5.8	15.5	0.8
3Y	3.5	3.9	5.8	15.9	0.8
4Y	3.1	4.8	4.9	16.2	0.8
5Y	3.0	5.8	5.4	16.5	0.6
6Y	2.9	4.3	5.0	16.5	0.3
7Y	3.1	7.1	4.6	16.8	0.1
8Y	2.9	7.4	5.4	16.8	0.2
9Y	3.3	8.1	5.4	16.6	0.0
10Y	3.8	8.4	6.4	16.0	0.0

Sources: Bloomberg, NORD/LB Macro Research

Expected total returns (as percentage) in national currencies				
	USD	**GBP**	**JPY**	**CHF**
1Y	5.3	5.0	-0.1	1.6
2Y	5.3	4.3	0.2	1.5
3Y	6.2	4.2	0.5	1.5
4Y	7.1	3.4	0.7	1.5
5Y	8.1	3.8	1.1	1.3
6Y	6.6	3.4	1.0	1.0
7Y	9.4	3.1	1.3	0.8
8Y	9.8	3.9	1.3	0.9
9Y	10.5	3.8	1.1	0.7
10Y	10.8	4.8	0.6	0.7

Sources: Bloomberg, NORD/LB Macro Research

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

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

Levels and performance

Index	Level as at	Status		Performance since	
	09.11.2023	Prev. month	Start of year	Prev. month	Start of year
DAX	15,352.54	14,810.34	13,923.59	3.66%	10.26%
MDAX	25,819.66	24,040.19	25,117.57	7.40%	2.80%
EuroSTOXX50	4,229.20	4,061.12	3,793.62	4.14%	11.48%
STOXX50	3,907.03	3,811.86	3,651.83	2.50%	6.99%
STOXX600	447.80	433.66	424.89	3.26%	5.39%
Dow Jones	33,891.94	33,052.87	33,147.25	3.21%	2.91%
S&P 500	4,347.35	4,193.80	3,839.50	4.51%	14.15%
Nikkei	32,646.46	30,858.85	26,094.50	5.79%	25.11%

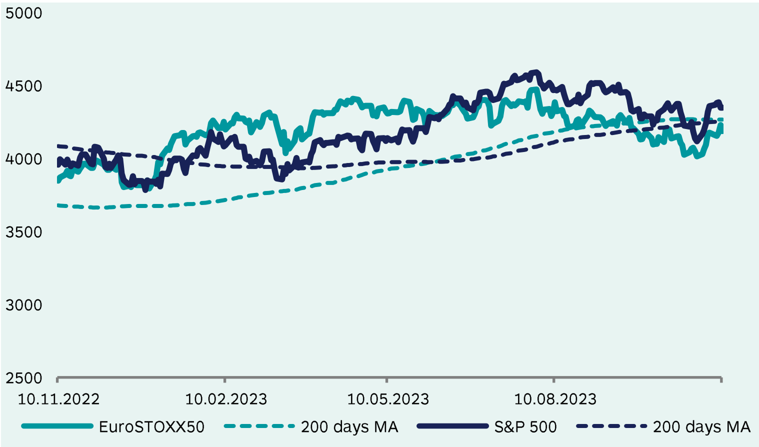
Sources: Bloomberg, NORD/LB Macro Research

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	3,900	4,000	4,300
STOXX600	450	470	480
Dow Jones	34,000	35,000	37,000
S&P 500	4,350	4,440	4,600
Nikkei	33,000	33,500	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, 10 November 2023.**
The next English issue of Economic Adviser will be appearing on **18 December 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	1.9	2.3	1.4	8.0	4.2	2.9	3.6	3.8	4.0	-4.2	-3.7	-3.7
Euroland	3.4	0.5	0.9	8.4	5.5	2.4	6.7	6.5	6.7	-3.6	-3.4	-2.7
Germany	1.8	-0.4	0.8	8.7	6.1	2.6	5.3	5.7	5.7	-2.5	-2.8	-2.3
Japan	1.0	2.2	1.0	2.5	3.1	1.9	2.6	2.6	2.5	-5.9	-5.5	-4.0
Britain	4.3	0.4	0.4	9.1	7.4	3.1	3.7	4.2	4.7	-5.2	-5.1	-3.5
Switzerland	2.4	1.2	1.0	2.8	2.2	1.8	2.2	2.0	2.2	1.0	0.4	0.6
China	3.0	4.5	4.5	1.9	1.8	2.0	4.0	5.0	4.9	-7.5	-4.2	-3.7

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 %	09.11.23	3M	6M	12M
USD	5.50	5.50	5.50	5.25
EUR	4.50	4.50	4.50	3.75
JPY	-0.10	-0.10	-0.10	-0.10
GBP	5.25	5.25	5.25	5.25
CHF	1.75	1.75	1.75	1.75
CNY	1.50	1.50	1.50	1.50

Sources: Bloomberg, NORD/LB Macro Research

Exchange rates

EUR in...	09.11.23	3M	6M	12M
USD	1.07	1.08	1.08	1.09
JPY	161	151	146	140
GBP	0.87	0.87	0.87	0.86
CHF	0.96	0.96	0.97	0.97
CNY	7.79	7.78	7.67	7.63

Interest rates (government bonds)

	3M rates				Yields 2Y				Yields 5Y				Yields 10Y			
	09.11.	3M	6M	12M	09.11.	3M	6M	12M	09.11.	3M	6M	12M	09.11.	3M	6M	12M
USD	5.37	5.35	5.30	5.00	5.02	4.90	4.60	3.90	4.64	4.40	4.10	3.60	4.62	4.30	4.10	3.70
EUR	3.99	4.00	3.90	3.30	3.01	3.20	3.00	2.40	2.58	2.70	2.60	2.50	2.65	2.70	2.60	2.50
JPY	0.07	0.05	0.05	0.10	0.08	0.00	0.00	0.00	0.40	0.30	0.30	0.38	0.84	0.80	0.80	1.00
GBP	#NV	5.40	5.40	5.40	4.62	5.00	4.90	4.50	4.25	4.74	4.68	4.39	4.27	4.30	4.30	4.20
CHF	1.70	1.75	1.75	1.70	1.30	1.20	1.20	1.00	1.07	1.00	1.00	1.10	1.07	1.00	1.00	1.20

Sources: Bloomberg, NORD/LB Macro Research

Spreads (bp)

	3M EURIBOR				2Y Bunds				5Y Bunds				10Y Bunds			
	09.11.	3M	6M	12M	09.11.	3M	6M	12M	09.11.	3M	6M	12M	09.11.	3M	6M	12M
USD	138	135	140	170	201	170	160	150	206	170	150	110	198	160	150	120
JPY	-392	-395	-385	-320	-292	-320	-300	-240	-218	-240	-230	-213	-181	-190	-180	-150
GBP	#NV	140	150	210	161	180	190	210	168	204	208	189	163	160	170	170
CHF	-228	-225	-215	-160	-171	-200	-180	-140	-151	-170	-160	-140	-158	-170	-160	-130

Sources: Bloomberg, NORD/LB Macro Research

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