Economic Adviser

Macro Research

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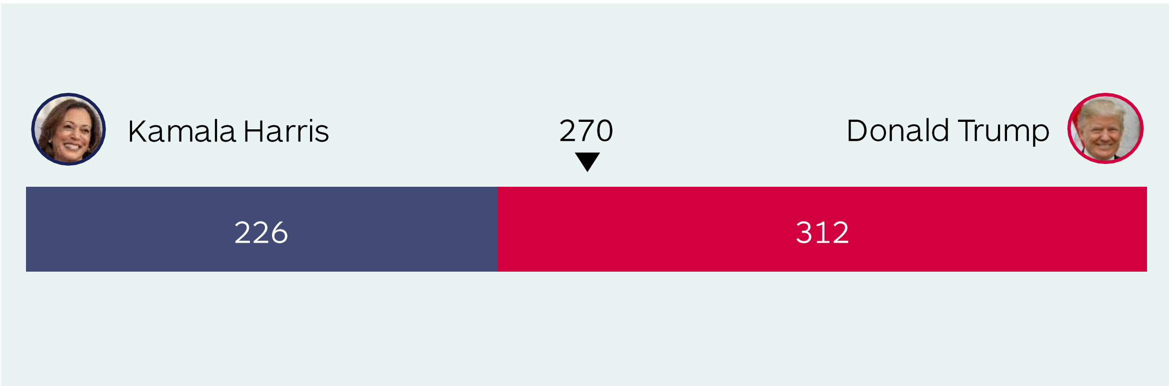
Special: The US election, the federal budget and the Fed

Analyst: Tobias Basse

Donald Trump to become the next US President

Donald Trump emerged victorious in the U.S. presidential election, winning by a considerable margin. The Republican candidate won all seven traditional swing states, thus accumulating a total 312 electors in the Electoral College, compared to just 226 for Kamala Harris. Although some surveys (in particular AtlasIntel and Trafalgar) and the betting markets had pointed in this direction, the extent of Donald Trump's victory can indeed be considered a surprise. The Republicans are now interpreting the clear election outcome as a mandate for major changes in the orientation of policy in Washington. Since economic issues – inflation, for example – played a truly pivotal role in the election campaign, there will almost inevitably be impacts on America's economic policy.

Chart: Result of the US presidential election - Donald Trump won 312 Electoral College votes



Sources: AP, NORD/LB Research

The Republicans of today are not a monolithic bloc

"Team Trump" looks to be far better prepared for moving into the White House after this election success than after their previous win in 2016. Indeed, the names of important future government members are now showing up almost non-stop on the news tickers. A close eye should be kept on these staffing decisions, as they can provide insights into the outcomes of internal power struggles. The Republicans of today are definitely not a monolithic bloc anymore. The uncertainty as to the precise power dynamics in the new US administration also makes it more difficult to make concrete statements on the orientation of future economic policy in the USA. In very basic (and of course somewhat simplified) terms, there are three key groups of players in Team Trump. The "traditional Republicans" see themselves primarily as guardians of Ronald Reagan's ideas. Thus, they advocate free trade as a fundamental principle. This group within the party now probably only plays a role of any great note in the Senate, however. Then there are Trump's "original supporters". These could certainly be labelled "Team MAGA 1.0". This group is generally supportive of trade barriers and, ultimately, rather uncritical of the deficit-ridden federal budget – especially where economic policy measures are perceived as beneficial for helping the reindustrialisation of the USA. "Team MAGA 2.0", as the third key group, is extremely heterogeneous but, in terms of content, is strongly influenced by the ideologies of the libertarians. Robert Kennedy Jr. and those who back him might be classified to belong to this team, too. Though Kennedy also attempted to become the Libertarian Party of the USA's lead candidate in this election campaign, but he is nevertheless still no "classic" libertarian! In principle, libertarians are in favour of significantly more fiscal restraint on the part of the state and, above all, also see themselves as committed to ensuring that the value of money remains stable over time. Some notable libertarians (Rand Paul or Thomas Massie, for example) have long been members of the Republican Party – others (such as Elon Musk) have only been with "Team Trump" for a relatively short time but already gained considerable influence. It is remarkable to note is that there is considerable consensus among the supporters of the new president to promote crypto assets more vigorously and, in particular, not to implement overly strict governmental regulations in this area. Moreover, Donald Trump recently promised his supporters to prevent the creation of a digital central bank currency. The Bitcoin price has benefited quite substantially from this news of late.

A look at fiscal and monetary policy in the USA

The extensive tax cuts planned by the incoming government were originally intended to be funded primarily through higher tariffs. These plans devised by Team Trump have already had to be modified, however, seeing as the volume of goods imported by the USA is simply insufficient to make for any significant reductions in the tax burden. This brings into play the plan to reduce government spending. In particular Elon Musk is to play a key role in this context. The current upward movement in US medium- and long-term interest rates may also be due to concerns among investors that the new government in Washington may be looking to pursue a rather “unsound” fiscal policy. With a yield on 10-year Treasuries in the range of 4.40 percent, the US bond market is already pricing in rather pessimistic scenarios. If names like Thomas Massie or Ron Paul – known for their strong stance against any significant increase in public debt – play an important role in the future Trump administration, there may well even be potential for a certain counter-movement in US interest rates. It is at any rate likely that tariffs will primarily serve as an instrument of the new government's trade policy – with a very probable focus on China. Whether other countries (or groups of countries) will be given the opportunity to avoid higher tariffs through negotiations will likely also depend largely on Donald Trump's current staffing decisions. There appears to be a growing level of disagreement among Donald Trump's supporters when it comes to the future monetary policy in the USA, with "Team Maga 1.0" and "Team Maga 2.0" having fundamentally differing ways of thinking in this context. Likely the sole point of agreement on this issue is the acknowledgement that substantial changes will be necessary. While "Team Maga 1.0" above all wants the lowest possible interest rates, in particular also to fuel reindustrialization, "Team Maga 2.0" would prefer a far more restrictive orientation of US monetary policy. Having all read their Benjamin Klein, the libertarians believe in the importance of a favourable reputation in financial matters. Given these differing perspectives, it is hardly surprising that there are extremely divergent plans regarding the future of the US Federal Reserve. These range from the near-term installation of a shadow Fed chair (to put pressure on Jerome Powell) to the end of the central bank – in conjunction with the introduction of a gold standard. It is not yet clear who will prevail with Donald Trump on this issue. In terms of the inflation expectations among market participants, however, this point is at any rate of crucial importance.

USA: Trump 2.0 in the starting blocks

Analysts: Tobias Basse // Constantin Lüer

Donald Trump in the starting blocks

The initial figures on GDP in Q3/2024 are quite favourable, with an annualized growth rate of 2.8 percent. This news came as no great surprise, however, especially since companies have built up larger inventories of intermediate goods over the past two quarters, evidently out of concern at the prospect of a protracted and disruptive port strike; this will now likely lead to some degree of strain on economic growth in the USA. Somewhat unclear signals have come from the US labour market of late, with the unemployment rate remaining at 4.1 percent though only 12,000 new jobs were created. These figures are distorted by the effects of hurricanes and strike actions, however. Furthermore, the election of Donald Trump means a new US president who intends to implement near-term tax cuts and aims to fund them primarily through cuts in government spending. The economically relevant measures now set to be implemented by Team Trump will all too likely differ considerably from the plans of the current government in some areas. In this respect we can expect some degree of upheaval, especially in the early stages of Donald Trump's second term in the White House. Compared to 2016, however, Team Trump appears to be far better prepared in 2024. Given the upcoming political changes, there should at any rate be a considerably heightened level of uncertainty among economic decision-makers in the USA. In terms of individual sectors, there will be winners and losers, with the likelihood of tougher times ahead for the US pharmaceutical industry, for example. The crypto industry, on the other hand, ought to clearly benefit from the new government in Washington.

Chart: US interest rates

Sources: Macrobond, NORD/LB Research

A close eye needs to be kept on the trend in inflation

Team Trump's electoral success is undoubtedly also due to the high US inflation rates in recent times. In this respect, it may well seem somewhat paradoxical that some measures planned by the new government could quite well lead to an uptick in inflation. Intended to become a key tool of US economic policy, the planned import tariffs will likely make a trade conflict with China virtually inevitable. The EU, as well as Canada and Mexico, can probably still hope for negotiations in this respect. Donald Trump had, for example, stressed at one of his large-scale campaign events that Mexico would have to fear tariffs if the country fails to actively help limit the influx of illegal immigrants into the USA. In this context, many countries and groups of countries can hope for a deal with the new US administration. Within Team Trump there is apparently no across-the-board consensus on the matter of tariffs as yet. The situation as regards illegal immigration is clearer. In the person of Tom Homan, a hardliner is to be responsible for overseeing the securing of the US borders. Since illegal immigrants too are important for the United States labour market, the shortage of available personnel will likely be exacerbated, which, in turn, could then have a rapid impact on inflation via higher wages.

FOMC gradually becoming more cautious
At its meeting on 7 November the FOMC lowered US interest rates by a further 25bp. The current figures on developments on the macroeconomic price front undoubtedly allowed this rather cautious monetary easing. Indeed, in the wake of the latest data on the US employment situation, a number of pessimistic market observers had even raised the possibility of the Fed making a further key-rate cut of 50bp. We had never considered this option to be genuinely realistic, however, seeing as the data on job creation in the US economy were distorted. Inflationary concerns are becoming more pronounced in the wake of the election. There is still hardly any reliable information that could help interested observers arrive at a well-founded opinion. In the context of interest rates in the USA, "credibility of the Fed" and "sovereign debt" are important factors to take into account right now. In the meantime, as discussed in more detail in our Special, investors could already be seeing this issue in an overly pessimistic light!

Fundamental forecasts, USA

	2023	2024	2025
GDP	2.9	2.7	1.7
Private consumption	2.5	2.5	1.9
Govt. consumption	2.9	2.9	1.1
Fixed investment	3.2	4.0	2.7
Exports	2.8	2.5	2.5
Imports	-1.2	4.4	2.4
Inflation	4.1	2.9	2.4
Unemployment rate[1]	3.6	4.1	4.7
Budget balance[2]	-6.5	-6.4	-6.4
Current acct. balance[2]	-3.3	-3.5	-3.3

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/24	II/24	III/24	IV/24	I/25
GDP qoq ann.	7.0	3.0	2.8	1.0	1.4
GDP yoy	2.9	3.0	2.7	2.1	2.1
Inflation yoy	3.2	3.2	2.6	2.5	2.5

Change as percentage in %

Sources: Feri, NORD/LB Macro Research

Interest and exchange rates, USA

	14.11.	3M	6M	12M
Fed funds target rate	4.75	4.25	3.75	3.50
3M rate	4.49	4.10	3.60	3.40
10Y Treasuries	4.44	3.90	3.40	3.30
Spread 10Y Bund	209	150	110	80
EUR in USD	1.05	1.08	1.11	1.11

Sources: Bloomberg, NORD/LB Macro Research

Euroland: Trump's return raises new risks – ECB continues easing of its monetary policy

Analysts Christian Lips, Chief Economist // Christian Reuter

GDP growth surprises on the upside in Q3 – but economic risks are increasing

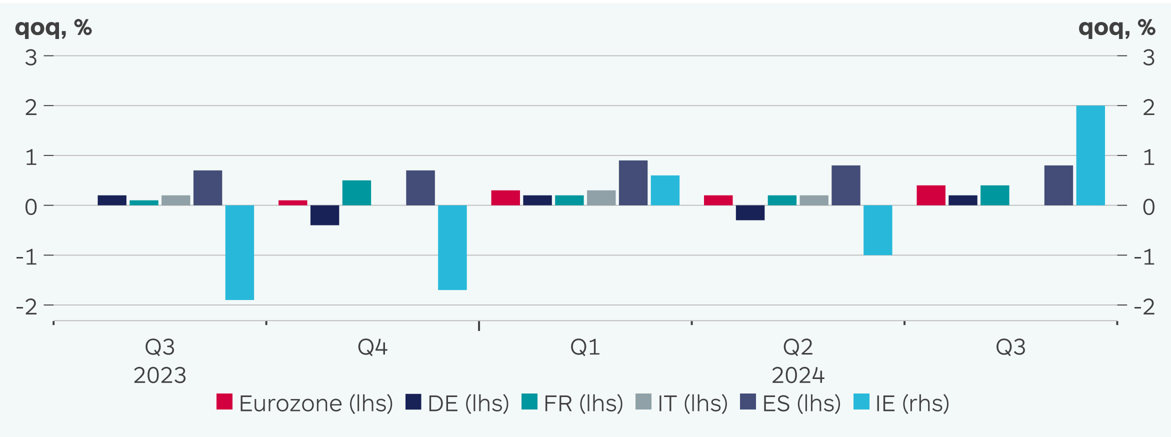
The eurozone's economic rebound not only continued in summer but actually picked up additional momentum as well, with seasonally and price-adjusted GDP rising by 0.4 percent qoq and the annual rate to a level of 0.9 percent yoy.

Almost all major economies were able to register growth in economic output. GDP growth in Spain was unexpectedly strong (+0.8 percent qoq). In France, too, GDP expansion was stronger than expected, at +0.4 percent, though this was due to the one-off effect of the Olympic Games; a rebound is to be expected in the current quarter. By contrast, Italy's economic output stagnated in the period July to September.

Germany surprised with a consumption-driven recovery in the summer months (+0.2 percent qoq), though investment and net exports again failed to gain any great momentum. The country's GDP growth in Q3 is put into perspective by the substantial downward revision of the data for Q2, however. From an economic point of view, Germany, as the eurozone's biggest economy, remains the problem child in the eurozone and will again more or less stagnate in 2024 as a whole as well.

Were it not for Donald Trump's comeback to the White House. His political agenda poses new, not insignificant risks for the eurozone, too, especially in matters of trade and defence policy. It is not yet clear which ideas put forth by Trump during the election campaign will actually be implemented, let alone the timing of their implementation. The EU will endeavour to at least mitigate the most severe pressures by negotiation. This will come at a political cost, however, which may involve trade-offs for the European Union or its member countries. That said, the fiscal burdens (e.g. defence expenditure) will probably have to be upped significantly. In the base case scenario, moreover, we assume that there will be a single round of additional tariffs but no subsequent escalation spiral of tariffs and retaliatory measures.

Chart: Third-quarter GDP growth higher than expected



Sources: Eurostat, Macrobond, NORD/LB Macro Research

Inflation rate rebound to 2.0 percent – expected bumpy course

October saw inflation rebound a bit more robustly than expected, to 2.0 percent yoy. Core inflation remains sticky at 2.7 percent yoy, especially in the services sector (3.9 percent yoy). Moreover, the phasing out of the extremely favourable base effects related to energy is having an upward impact.

The disinflationary process is being slowed down by the high rate of wage increases to date, primarily resulting from the inflation-related pent-up demand and the tight labour market. Indeed, the unemployment rate hit an historic low of 6.3 percent in September. In what is an increasingly challenging economic environment, we do not expect to see any further significant decline for the time being, so the wage pressure – and thus also the core rate – can be expected to decline in 2025. The inflation rate will likely remain somewhat elevated in the months ahead, though primarily due to base effects.

Economic risks a primary concern for the ECB – further rate cuts ahead
The hard economic indicators turned out to be more solid in Q3 than the sentiment indicators had initially suggested. Together with the upward rebound in inflation, this "hawkish" surprise in the macro data doesn't speak for a big interest rate cut by the ECB in December.
However, the election of Donald Trump also poses fresh challenges for the central bankers as well. A new wave of protectionist measures would also have implications for the inflation trend over the medium term. The markets already reacted to the fresh inflation risks and the prospect of a further increase in public debt in the USA with significantly higher long-term government bond yields, in which environment the yield on 10-year German Bunds likewise climbed briefly to 2.50 percent.
European monetary policy will likely focus more on economic risks in the short term, against which background we are reckoning with further interest rate cuts at the upcoming ECB Governing Council meetings and a reduction of the deposit rate to the range of 2.00 percent by mid-2025. This would thus keep the pace of monetary easing steady for now following the acceleration in October. Given the latest political changes, however, we do not consider the possibility of a suspension of rate cuts in December, which was discussed in October according to the minutes of the meeting, to be a realistic option.

Fundamental forecasts, Euroland

	2023	2024	2025
GDP	0.5	0.8	1.0
Private consumption	0.7	0.9	1.6
Govt. consumption	1.6	2.1	1.5
Fixed investment	1.8	-3.4	0.9
Net exports[1]	0.3	1.1	-0.3
Inflation	5.4	2.4	2.1
Unemployment rate[2]	6.6	6.4	6.4
Budget balance[3]	-3.6	-2.9	-3.0
Current account balance[3]	1.7	2.9	2.3

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/24	II/24	III/24	IV/24	I/25
GDP sa qoq	0.3	0.2	0.4	0.2	0.3
GDP sa yoy	0.5	0.6	0.9	1.1	1.0
Inflation yoy	2.6	2.5	2.2	2.2	2.2

Change as percentage

Sources: Feri, NORD/LB Macro Research

Interest rates, Euroland

	14.11.	3M	6M	12M
Repo rate ECB	3.25	2.75	2.25	2.00
3M rate	3.01	2.60	2.10	2.00
10Y Bund	2.34	2.40	2.30	2.50

Sources: Bloomberg, NORD/LB Macro Research

Germany: Waiting for Trump and snap elections

Analysts: Christian Lips, Chief Economist // Valentin Jansen

Summer sees pick-up in consumption – Trump and snap elections make for policy uncertainty
Summer saw the German economy unexpectedly register a modest recovery, primarily driven by consumption, with real gross domestic product (GDP) up by 0.2 percent qoq, seasonally adjusted, in Q3. While this meant a technical recession was thus avoided, the fact is that real GDP contracted by 0.3 percent qoq in Q2, based on revised figures. The annual rate remains in negative territory, at -0.2 percent yoy.
Germany's industry remains to be the economy's biggest issue; indeed, the order situation has deteriorated even further of late. Export demand, too, has likewise remained extremely weak to date, for which reason net exports are likely to have dampened economic growth. Although investments are unlikely to have plummeted anew as in the preceding quarter, the indicators available so far point to a weak dynamic overall. This certainly comes as no great surprise, given the severe underutilization of capacities at present and the high degree of economic policy uncertainty.
Indeed, Donald Trump's unexpectedly resounding election victory and the break-up of Germany's governing "traffic light" coalition on the same day have significantly increased the uncertainty among companies and consumers even further in the short term. Against the backdrop of the current structural and economic crisis, the German economy is extremely ill-prepared for Donald Trump's return to the White House and his protectionist agenda. Additional impetus to overcome economic stagnation would certainly not go amiss, especially since it will take quite some time before the monetary easing leads to measurable results in the real economy. That said, there is no realistic likelihood of any economic stimuli from Berlin until after the snap elections. Against this background, the German economy will remain trapped in stagnation for the time being, in addition to which the spectre of fresh protectionist measures by Trump is weighing on the outlook for 2025.

Chart: ZEW survey in the wake of Trump's triumph and the end of the "traffic light" coalition in Berlin

Sources: ZEW, Macrobond, NORD/LB Macro Research

Economic expectations hinge on political imponderables
The potential implications of the second Trump presidency for Germany have led to a deterioration in economic sentiment. The ZEW economic expectations index fell to 7.4 balance points in November, meaning that the halting stabilisation tendencies of the previous two months have been shattered again. The assessment of the current situation in Germany has likewise deteriorated and, at -91.4 points, stands at its lowest point in over four years. The renewed deterioration in economic sentiment

is not entirely unexpected, given the high degree of economic policy uncertainty – exacerbated by the election result in the USA and the end of the governing coalition in Berlin.
The survey's specific findings primarily reflect concerns as to the use of tariffs as an instrument of future US trade policy. There are evidently differing assessments among financial market experts regarding the impacts of increasing protectionism on the individual economies, as evidenced by the survey details: the expectations for the US economy have significantly improved, whereas the outlook for Germany, the Eurozone, and China is seen as worse than in the previous month.
The ZEW economic test is thus the first prominent sentiment indicator for the German economy that takes account of the new political developments. This means, however, that there is still a significant lack of informative data in this context. In the days ahead, therefore, a very close eye will need to be kept on the companies' responses in the PMIs and on the November ifo business climate data.

Germany's core inflation shows no signs of easing and continues to urge caution
The inflation rate rose unexpectedly sharply in October. The year-on-year rate in the European harmonized consumer price index (HICP) literally leapt from the previous month's 1.8 percent to 2.4 percent yoy. Though an increase was to be expected, not least due to an unfavourable base effect, both the extent and some details thereof come as a surprise on the downside.
Contrary to the trend of the previous months, the core rate (excluding food and energy) has risen again, and now stands at 2.9 percent yoy. Moreover, October saw the prices in the service sector regain momentum with a year-on-year rate of 4.0 percent yoy – the highest level in over a year. Energy prices are still lower than they were in the same month last year, with a year-on-year decline of 5.5 percent; this downward effect is diminishing considerably because of a base effect, however. At the same time, the momentum in food prices has increased significantly (2.3 percent yoy). In particular the trend in the core rate and the prices for services send a reminder to the ECB not to throw caution to the wind – even if the economic risks are now likely to become more central to monetary policy.

Fundamental forecasts, Germany

	2023	2024	2025
GDP	-0.3	-0.1	0.3
Private consumption	-0.4	0.8	1.4
Govt. consumption	-0.1	2.1	0.9
Fixed investment	-1.2	-2.7	-0.2
Exports	-0.3	-0.1	1.3
Imports	-0.6	-0.9	2.6
Net exports[1]	0.1	0.3	-0.4
Inflation[2]	6.0	2.5	2.1
Unemployment rate[3]	5.7	6.0	6.3
Budget balance[4]	-2.6	-1.7	-2.3
Current account balance[4]	5.7	6.8	6.1

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/24	II/24	III/24	IV/24	I/25
GDP sa qoq	0.2	-0.3	0.2	0.1	0.1
GDP nsa yoy	-0.8	0.1	0.2	-0.2	-0.1
Inflation yoy	2.7	2.6	2.2	2.5	2.5

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

Switzerland: Headwinds from foreign trade

Analyst: Christian Reuter

Sentiment shift in the real economy after summer high – GDP disappoints in Q3
GDP likely grew by just 0.2 percent qoq in Q3. There are still no details in this preliminary flash estimate yet, but the disappointingly weak momentum is likely due to the fact that in the previous quarter there had been an unexpectedly strong positive effect from foreign trade in chemical and pharmaceutical products – an effect which has now failed to repeat itself and is related to the coincidental temporary tracking of merchandise flows. Though registering a somewhat more positive trend during the same period, the economy in the European Monetary Union evidently failed to generate any stimuli for Switzerland, especially for industry. Today's news is therefore of a mixed nature.
In the meantime there has already been a marked deterioration in sentiment in October, with the KOF economic barometer having plunged by 5 points and again ending up below the medium-term average of 100. With the exception of the indicators for private consumption and foreign demand, all production-side indicators going into in the barometer showed declines. The PMI, too, remained below the expansion threshold of 50 points in October. The somewhat more optimistic feedback from purchasing managers in the manufacturing sector regarding output and orders is currently counterbalanced by the latest developments in the USA and, among other things, the anticipated slowing of the eurozone economy resulting therefrom. Looking ahead, the headwinds for the Swiss economy are gaining momentum. We are accordingly adjusting our growth expectations slightly downwards.

SNB under pressure – inflation allows leeway
October saw inflation in Switzerland fall unexpectedly sharply, with consumer prices up by just 0.6 percent yoy, significantly less than expected by economists. The stickier core rate – excluding energy and fresh and seasonal items – also fell, to 0.8 percent yoy. At the same time, the franc maintained its strength even after the rapid outcome of the US election, and has now settled in the zone below 0.94 against the euro.
Both factors provide the SNB with a certain degree of leeway, which it will of course need in light of the current economic developments. It had already struck a rather dovish tone with its interest rate cut in September. After the ECB's more aggressive approach in October, it will only be a matter of determining the extent of the rate cut at the next SNB meeting in December. Nonetheless, the pressure to take action will likely persist even after a potential half-percentage point cut in December. At any rate, the central bankers should be careful to keep the inflation rate in positive territory, with further downward pressure from the reduction in administered prices (housing, electricity) next year already foreseeable today. At the same time, the SNB will likely only be able to act very cautiously on the forex market, since the former and new US president had already raised the accusation of (hostile) currency manipulation in his first term in office.

Fundamental forecasts*, Switzerland

	2023	2024	2025
GDP	1.1	1.1	1.5
Inflation (CPI)	2.1	1.1	0.6
Unemployment rate[1]	2.0	2.4	2.7
Budget balance[2]	0.3	0.3	0.2
Current account bal.[2]	6.4	7.0	6.5

Interest and exchange rates, Switzerland

	14.11.	3M	6M	12M
SNB policy rate	1.00	0.75	0.50	0.25
3M rate	0.66	0.60	0.30	0.25
10Y	0.35	0.40	0.50	0.55
Spread 10Y Bund	-199	-200	-180	-195
EUR in CHF	0.94	0.94	0.94	0.95

* 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: After the election

Analyst: Tobias Basse

After the election

Japan's House of Representatives has now confirmed Shigeru Ishiba in his role as prime minister after the parliamentary elections. He thus becomes the head of a minority government – which can of course still become a problem for the country in the turbulent times likely ahead. Ishida is considered to be an expert on defence issues, and he probably intended to renegotiate the crucial security pact with the USA. This particular idea should no longer be a priority in the current environment. Tokyo is likely highly concerned that the new US administration would otherwise be looking to send the Japanese government a heftier "bill for security services". Geopolitical and trade policy issues are of core importance for export-oriented Japan, so Donald Trump's viewpoints are undoubtedly becoming a crucial topic of concern in this context for the government in Tokyo. As regards Japan's economic policy in the future, however, it should be noted that Ishida is unlikely to stand in the way of a further key-rate hike by the central bank.

A look at the consumer prices in Tokyo

The Bank of Japan will be looking to make use of this leeway. October's uptick in the core rate of consumer prices in Tokyo, which was marginally above market participants' expectations, will likely have provided further impetus in this direction. However, even before the publication of the figures, the economic significance of which certainly ought not to be overestimated, we had expected a key-rate hike in December. This decision may now well be somewhat easier for the central bankers in Tokyo to take! Recent movements in the forex market can also be expected to heighten the need for action at the Bank of Japan.

The yen has come under pressure

Indeed, the psychologically important mark of JPY 155 per USD is actually back in focus in again. The anticipated economic strategies of the new US administration are weighing on the Japanese currency through various channels. However, the yen’s depreciation tendencies could themselves become a political issue in Washington. After all, Donald Trump was known for insinuating that other countries were pursuing monetary strategies aimed at devaluing their domestic currency.

Fundamental forecasts*, Japan

	2023	2024	2025
GDP	1.7	0.0	1.3
Inflation	3.3	2.5	2.1
Unemployment rate[1]	2.6	2.5	2.4
Budget balance[2]	-5.2	-4.4	-3.9
Current account bal.[2]	3.8	4.1	3.9

* 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, Japan

	14.11.	3M	6M	12M
Key rate	0.25	0.50	0.50	0.75
3M rate	0.49	0.55	0.55	0.80
10Y	0.66	1.00	1.10	1.40
Spread 10Y Bund	-168	-140	-120	-110
EUR in JPY	165	160	161	153
USD in JPY	156	148	145	138

China: Spectre of protectionism weighs on the outlook

Analyst: Valentin Jansen

Caixin Manufacturing PMI signals uptick in industrial activity in the closing quarter
October's Caixin Manufacturing PMI data suggested that Beijing's economic measures are starting to show positive results in the industrial sector. This was reflected in a sentiment upswing among China's purchasing departments, primarily driven by an increase in domestic demand. Measured against expectations, this was a surprise on the upside, and the index rose back into expansive territory for the first time in six months. Seeing as the state-conducted counterpart, the CFLP Manufacturing PMI, has also returned to the expansive zone, this indicates a likely pick-up in industrial activity in Q4. In terms of hard economic data, industrial output broke its downward trend for the first time since May with a year-on-year increase of 5.4 percent.

Formulation of fiscal plans so far without direct impetus for domestic consumption
Since late September, Beijing has been launching economic stimulus measures so as to work more effectively towards the 5-percent target, especially in light of Q3's slowdown in growth. These range from broad-based monetary easing to support for equity and real estate markets. 8 November saw Beijing's fiscal statements of intent spelled out in more detail, with a debt restructuring programme for local governments amounting to EUR 1.3 trillion aimed at providing them with more leeway again. However, this means that the direct fiscal stimulus for domestic consumption that the markets in particular were expecting is still a long time coming, to which the Chinese benchmark indices reacted with price losses in the wake of the press conference. Finance minister Lan Foan went no further than merely hinting at further stimuli. In light of the likely future imposition of tariffs as an instrument of US foreign trade policy, it is certainly advisable from a fiscal perspective to keep some powder dry.

Tariffs hover like a sword of Damocles over China’s foreign trade
The future US government's plans in terms of economic policy played a prominent role in the election campaign. For China's foreign trade, the election outcome means first and foremost the return to a state of massive uncertainty as already experienced between 2017 and 2021. After all, far-reaching developments can occur and be spread at any time via the "modern channels". Against this background a close eye needs to be kept on the staffing of key positions in Washington, especially in the State Department. The threat of 60-percent tariffs on Chinese imports to the USA hovers like a sword of Damocles over China’s foreign trade, which has been a key pillar of the economy in the current year. The potential counterreaction currently being discussed among analysts and economists ranges from a strategic devaluation of the yuan to the intensification of trade with, among others, Asian partners, and from export restrictions on strategically relevant goods to an expansion of fiscal stimulus programmes. That said, a clearer picture is only likely to emerge bit by bit once the new government takes up its official duties in Washington next year.

Fundamental forecasts*, China

	2023	2024	2025
GDP	5.2	4.8	4.5
Inflation	0.3	0.5	1.3
Unemployment rate[1]	5.2	5.1	5.1
Budget balance[2]	-4.6	-4.9	-5.0
Current account bal.[2]	1.4	1.3	1.2

* Change vs previous year as percentage;

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

Sources: Feri, Bloomberg, NORD/LB Macro Research

Interest and exchange rates, China

	14.11.	3M	6M	12M
Deposit rate	1.50	1.50	1.50	1.50
3M SHIBOR	1.86	1.85	1.80	1.70
10Y	2.08	2.10	2.05	2.00
Spread 10Y Bund	-26	-30	-25	-50
EUR in CNY	7.61	7.72	7.94	7.94
USD in CNY	7.23	7.15	7.15	7.15

Britain: Bracing for potential US tariffs

Analysts: Tobias Basse // Constantin Lüer

After the recent rate cut

The Bank of England's decision to slightly reduce the UK Bank Rate at its meeting on 6 November came as no surprise. After this “small” interest rate cut the rate now stands at 4.75 percent. The decision in favour of further cautious monetary easing was not arrived at unanimously, however, with Catherine Mann voting to leave the key rate unchanged.

What happens next?

The central bankers in London see indications of a reduced labour shortage but, by historical standards, the personnel requirements among companies in the UK still appear to be quite high. The monetary policymakers will be keeping a close eye on this situation. Although the rate of inflation has in the meantime dropped just below the Bank of England's target level as result of disinflationary trends, the price development in the services sector still poses a certain problem. In principle, the government's fiscal plans, which can after all be described as quite aggressive, ought to compel the BoE to be more careful in its approach to realigning monetary policy. While the key interest rate level will likely fall further, the central bank in London will certainly not be in any particular hurry with the downward rate adjustments still to come.

Bracing for potential US tariffs

US trade policy is now a particular point of focus for the central bankers in London. In allusion to remarks made by Donald Trump, BoE Chairman Andrew Bailey stressed that he "doesn't either have a favourite word or a most beautiful word in the dictionary". However, he also put on record that the term "tariff" is at any rate not his favourite word. Bailey made it clear that the trade policy plans of the new US administration headed by Donald Trump will have to be closely monitored in the near future. The press conference following the MPC meeting was clearly centred around questions concerning the USA, and Bailey commented quite extensively on the economic events in North America. He pointed out, for example, that the recent US labour market figures had been distorted by the hurricanes and the strike at Boeing. As regards the trade policy of "Team Trump", the BoE Chairman stressed the high degree of uncertainty in this respect, and said that we will just have to wait for concrete decisions in Washington first. Bailey spoke at great length to sidestep questions as to a definitive evaluation of the new US administration's plans. One should perhaps not "over-interpret" the content of his remarks, but he doesn't yet appear to believe that potential new US tariffs have to inevitably become a major problem in terms of inflation in the United Kingdom.

Fundamental forecasts*, Britain

	2023	2024	2025
GDP	0.3	1.0	1.3
Inflation (CPI)	7.3	2.5	2.2
Unemployment rate[1]	4.0	4.3	4.5
Budget balance[2]	-5.0	-3.6	-3.1
Current account bal.[2]	-2.0	-3.0	-2.9

* 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

	14.11.	3M	6M	12M
Repo rate	4.75	4.75	4.50	4.00
3M rate	4.69	4.45	4.20	3.70
10Y	4.48	3.90	3.70	3.65
Spread 10Y Bund	214	150	140	115
EUR in GBP	0.83	0.84	0.85	0.85
GBP in USD	1.27	1.29	1.31	1.31

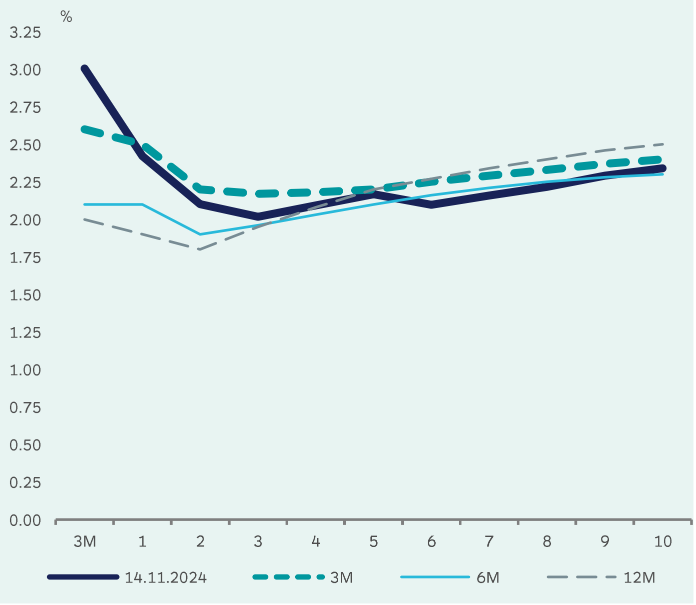
Portfolio strategies
Yield curve, Euroland

Yields and forecasts (Bunds/Swap)

Yields (in %)		NORD/LB forecasts for the horizons		
	14.11.2024	**3M**	**6M**	**12M**
3M	3.01	2.60	2.10	2.00
1Y	2.42	2.50	2.10	1.90
2Y	2.10	2.20	1.90	1.80
3Y	2.02	2.17	1.96	1.95
4Y	2.09	2.18	2.03	2.08
5Y	2.17	2.20	2.10	2.20
6Y	2.10	2.25	2.16	2.27
7Y	2.16	2.29	2.21	2.34
8Y	2.22	2.33	2.25	2.40
9Y	2.29	2.37	2.28	2.46
10Y	2.34	2.40	2.30	2.50
2Y (Swap)	2.20	2.30	2.05	2.00
5Y (Swap)	2.20	2.30	2.25	2.40
10Y (Swap)	2.29	2.45	2.40	2.70

Quelle: Bloomberg, NORD/LB Macro Research

Yield curve forecasts (Bunds)



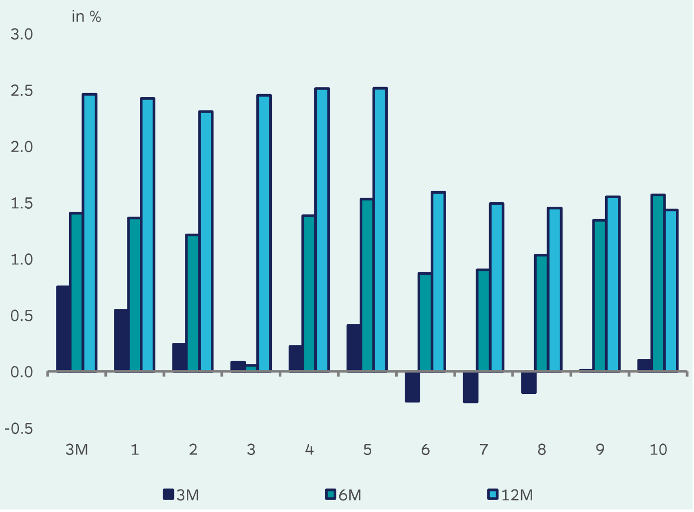
Quelle: Bloomberg, NORD/LB Macro Research

Forecasts and total returns

	Total returns (in %) for horizons...		
	3M	**6M**	**12M**
3M	0.75	1.40	2.46
1Y	0.54	1.36	2.42
2Y	0.24	1.21	2.31
3Y	0.08	0.05	2.45
4Y	0.22	1.38	2.51
5Y	0.41	1.53	2.51
6Y	-0.27	0.87	1.59
7Y	-0.27	0.90	1.49
8Y	-0.19	1.03	1.45
9Y	0.01	1.34	1.55
10Y	0.10	1.57	1.43

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	0.5	-0.8	0.5	2.9	-2.2
2Y	0.2	-0.9	1.1	3.0	-2.3
3Y	0.1	-0.6	1.6	3.0	-2.2
4Y	0.2	-0.5	2.2	3.2	-2.2
5Y	0.4	-0.5	2.9	3.5	-2.4
6Y	-0.3	0.7	2.6	3.4	-2.5
7Y	-0.3	-0.7	3.3	3.5	-2.4
8Y	-0.2	-0.9	3.8	3.5	-2.8
9Y	0.0	-1.1	4.3	3.5	-2.9
10Y	0.1	-1.4	4.6	3.9	-3.5

Sources: Bloomberg, NORD/LB Macro Research

Expected total returns (as percentage) in national currencies				
	USD	GBP	JPY	CHF
1Y	1.7	1.5	0.1	0.1
2Y	1.7	2.1	0.1	0.1
3Y	1.9	2.7	0.1	0.1
4Y	2.1	3.3	0.3	0.1
5Y	2.0	3.9	0.7	-0.1
6Y	3.3	3.7	0.5	-0.1
7Y	1.9	4.4	0.6	-0.1
8Y	1.6	4.9	0.6	-0.5
9Y	1.4	5.3	0.6	-0.5
10Y	1.1	5.7	1.0	-1.2

Sources: Bloomberg, NORD/LB Macro Research

Auf 12-Monatssicht

Expected total returns (as percentage) in euro					
	EUR	USD	GBP	JPY	CHF
1Y	2.4	-0.6	2.3	8.0	-3.0
2Y	2.3	-0.2	2.9	7.9	-3.4
3Y	2.5	0.2	3.4	7.5	-3.6
4Y	2.5	0.6	4.3	7.4	-3.9
5Y	2.5	1.1	5.3	7.5	-4.1
6Y	1.6	3.0	5.7	7.4	-4.2
7Y	1.5	2.2	6.9	7.7	-4.6
8Y	1.4	2.6	7.6	8.1	-4.7
9Y	1.5	3.0	8.2	7.9	-4.9
10Y	1.4	3.2	8.4	6.8	-5.2

Sources: Bloomberg, NORD/LB Macro Research

Expected total returns (as percentage) in national currencies				
	USD	GBP	JPY	CHF
1Y	4.8	4.6	0.4	0.4
2Y	5.2	5.2	0.3	0.0
3Y	5.6	5.7	0.0	-0.3
4Y	6.0	6.6	-0.1	-0.5
5Y	6.6	7.7	0.0	-0.8
6Y	8.6	8.1	-0.1	-0.9
7Y	7.8	9.3	0.2	-1.3
8Y	8.2	10.0	0.5	-1.4
9Y	8.6	10.6	0.4	-1.7
10Y	8.8	10.8	-0.7	-1.9

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	
	14.11.2024	**Prev. month**	**Start of year**	**Prev. month**	**Start of year**
DAX	19,263.70	19,077.54	16,751.64	0.98%	15.00%
MDAX	26,474.41	26,326.84	27,137.30	0.56%	-2.44%
EuroSTOXX50	4,833.53	4,827.63	4,521.44	0.12%	6.90%
STOXX50	4,310.42	4,315.07	4,093.37	-0.11%	5.30%
STOXX600	507.03	505.39	478.99	0.32%	5.85%
Dow Jones	43,750.86	41,763.46	37,689.54	4.76%	16.08%
S&P 500	5,949.17	5,705.45	4,769.83	4.27%	24.72%
Nikkei	38,535.70	39,081.25	33,464.17	-1.40%	15.16%

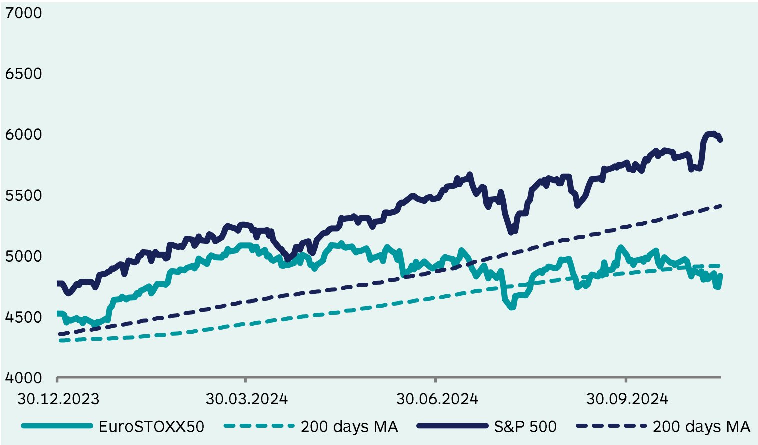
Sources: Bloomberg, NORD/LB Macro Research

Index forecasts

Index	NORD/LB forecast for the horizons ...		
	3M	**6M**	**12M**
DAX	18,500	19,000	19,500
MDAX	25,900	26,500	27,500
EuroSTOXX50	4,700	4,800	4,950
STOXX50	4,150	4,250	4,450
STOXX600	490	510	530
Dow Jones	41,000	43,500	45,000
S&P 500	5,600	5,900	6,150
Nikkei	37,500	38,500	39,500

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

Please note: As of now we are showing the deposit rate as key interest rate for the eurozone.

Overview of forecasts

Fundamental forecasts

in %	GDP growth			Rate of inflation			Unemployment rate[1]			Budgetary balance[2]		
	2023	2024	2025	2023	2024	2025	2023	2024	2025	2023	2024	2025
USA	2.9	2.7	1.7	4.1	2.9	2.4	3.6	4.1	4.7	-6.5	-6.4	-6.4
Euroland	0.5	0.8	1.0	5.4	2.4	2.1	6.6	6.4	6.4	-3.6	-2.9	-3.0
Germany	-0.3	-0.1	0.3	6.0	2.5	2.1	5.7	6.0	6.3	-2.6	-1.7	-2.3
Japan	1.7	0.0	1.3	3.3	2.5	2.1	2.6	2.5	2.4	-5.2	-4.4	-3.9
Britain	0.3	1.0	1.3	7.3	2.5	2.2	4.0	4.3	4.5	-5.0	-3.6	-3.1
Switzerland	1.1	1.1	1.5	2.1	1.1	0.6	2.0	2.4	2.7	0.3	0.3	0.2
China	5.2	4.8	4.5	0.3	0.5	1.3	5.5	5.1	5.1	-4.6	-4.9	-5.0

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 %	14.11.24	3M	6M	12M
USD	4.75	4.25	3.75	3.50
EUR	3.25	2.75	2.25	2.00
JPY	0.25	0.50	0.50	0.75
GBP	4.75	4.75	4.50	4.00
CHF	1.00	0.75	0.50	0.25
CNY	1.50	1.50	1.50	1.50

Sources: Bloomberg, NORD/LB Macro Research

Exchange rates

EUR in...	14.11.24	3M	6M	12M
USD	1.05	1.08	1.11	1.11
JPY	165	160	161	153
GBP	0.83	0.84	0.85	0.85
CHF	0.94	0.94	0.94	0.95
CNY	7.61	7.72	7.94	7.94

Interest rates (government bonds)

	3M rates				Yields 2Y				Yields 5Y				Yields 10Y			
	14.11.	3M	6M	12M	14.11.	3M	6M	12M	14.11.	3M	6M	12M	14.11.	3M	6M	12M
USD	4.49	4.10	3.60	3.40	4.34	3.70	3.20	3.10	4.32	3.60	3.20	3.10	4.44	3.90	3.40	3.30
EUR	3.01	2.60	2.10	2.00	2.10	2.20	1.90	1.80	2.17	2.20	2.10	2.20	2.34	2.40	2.30	2.50
JPY	0.49	0.55	0.55	0.80	0.06	0.55	0.60	0.85	0.26	0.60	0.65	0.90	0.66	1.00	1.10	1.40
GBP	4.69	4.45	4.20	3.70	4.42	3.70	3.52	3.41	4.35	3.68	3.55	3.40	4.48	3.90	3.70	3.65
CHF	0.66	0.60	0.30	0.25	0.23	0.25	0.25	0.25	0.25	0.30	0.30	0.40	0.35	0.40	0.50	0.55

Sources: Bloomberg, NORD/LB Macro Research

Spreads (bp)

	3M EURIBOR				2Y Bund				5Y Bund				10Y Bund			
	14.11.	3M	6M	12M	14.11.	3M	6M	12M	14.11.	3M	6M	12M	14.11.	3M	6M	12M
USD	148	150	150	140	224	150	130	130	216	140	110	90	209	150	110	80
JPY	-252	-205	-155	-120	-205	-165	-130	-95	-191	-160	-145	-130	-168	-140	-120	-110
GBP	168	185	210	170	232	150	162	161	218	148	145	120	214	150	140	115
CHF	-235	-200	-180	-175	-187	-195	-165	-155	-192	-190	-180	-180	-199	-200	-180	-195

Sources: Bloomberg, NORD/LB Macro Research

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