

# Economic Situation and Strategy

28 July 2023

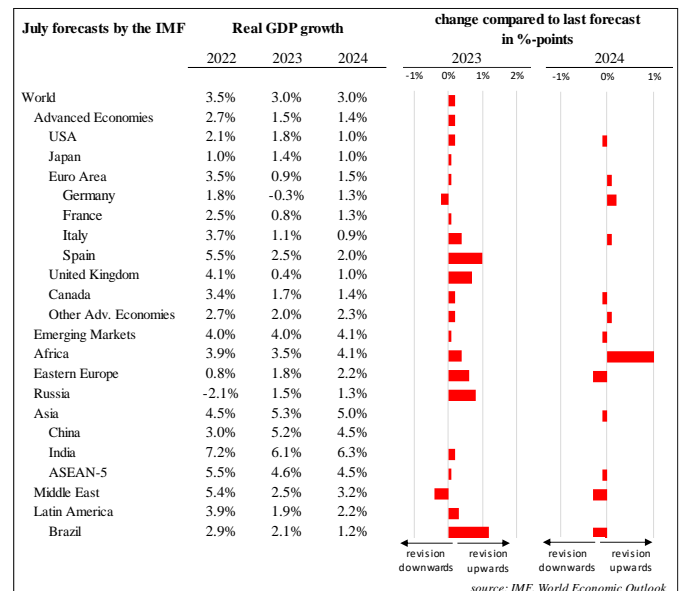
## IMF: Economic update delivers few surprises

The International Monetary Fund (IMF) updated its economic forecasts just in time for the quieter summer months. The most important thing first: There were hardly any surprises. Nevertheless, it is worth taking a look at the update. For example, the likelihood of a “soft landing” for the global economy – i.e. a moderate economic downturn as a result of the restrictive monetary policy – has increased compared to the forecast in April. How did the IMF's less pessimistic assessment come about? On the one hand, the downside risks have receded and, on the other hand, global economic growth in the first quarter of 2023 was more resilient than initially assumed. The latter development is primarily driven by the positive growth dynamics in the service sector, although there are clear signs of slowing down in the manufacturing sector.

### What are the forecasts in detail?

Overall, the IMF translates its more optimistic assessments into a small upward revision of global GDP growth of 0.2 percentage points for this year and expects economic growth of three percent. For the coming year, however, he is not making any revisions and is leaving the growth forecast at three percent. Only minor adjustments were made to the inflation forecast. After the global inflation rate was 8.7 percent in 2022, according to the IMF it will fall to 6.8 percent this year (minus 0.2 percentage points compared to the last forecast) and to 5.2 percent (plus 0.3 percentage points) in 2024. Even if the trend in inflation is pointing downwards, the rate of inflation is likely to remain well above the target of many central banks. However, like the majority of economists,

the IMF is more cautious about the development of the core inflation rate and expects only a slow decline.



Can trends be identified at country level? While GDP revisions are moderate overall, an interesting pattern can nonetheless be discerned. The IMF has revised its growth forecasts upwards for economies that are very heavily dependent on the tourism and service sector. For example, he raised his 2023 forecast for Italy by 0.4 percentage points and for Spain by one percentage point. But the outlook for the UK has also improved (up 0.7 percentage points) thanks to stronger than expected consumer and investment spending. However, the largest economy in the euro zone stands out negatively in the current economic update. The IMF made a downward revision for Germany as the only industrial nation for this year and, due to the weakness in the manufacturing sector, expects a decline in gross value added of 0.3 percent (minus 0.2 percentage points). However, at the same time he increased the German GDP forecast for 2024 from 1.1 to 1.3 percent.

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1.3 percent. Within emerging markets, the upward revisions for Russia and Brazil were the largest. According to the IMF, the former economy should benefit from strong fiscal stimulus and the latter from the strong increase in agricultural production in the first half of 2023.

## What opportunities and risks does the IMF see?

As described above, following the resolution of the US debt dispute and the (temporary) end to the turbulence in the American and Swiss financial sectors, the IMF's assessment of the downside risks is less dramatic. However, the list of potential trouble spots remains long: inflation could rise again due to further shocks. Triggers would be, for example, an intensification of the war in Ukraine or weather-related bottlenecks. A more stubborn inflation rate would force the central banks to adopt a more restrictive monetary policy course and thus further weigh on economic momentum. Further headwinds for the economy could come from China. If the economic recovery were to be slower than hoped due to unresolved problems on the real estate market, this would have direct negative consequences for global trade.

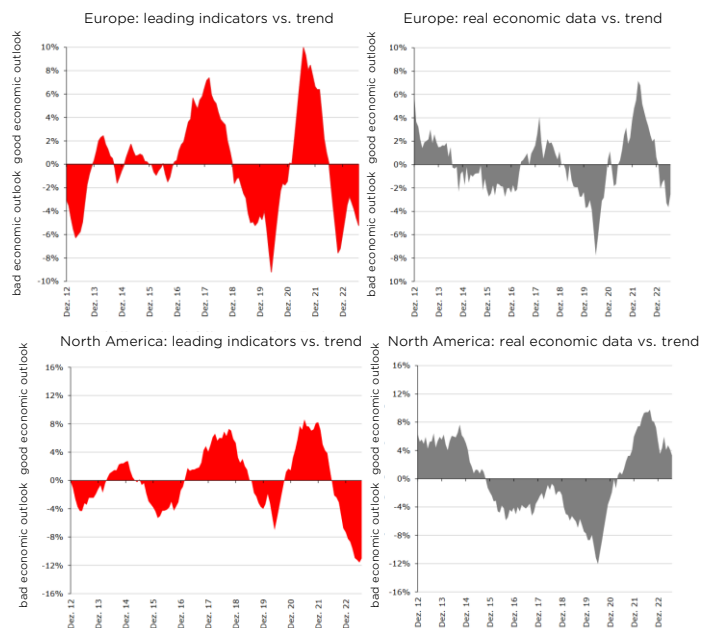
However, the IMF also sees opportunities for better economic development compared to the baseline scenario. Fiscal packages could support Chinese economic recovery and thus the global economy. Furthermore, a fall in the (core) inflation rate would not only enable a looser monetary policy and thus less restrictive financing conditions, but would also improve the income situation of many households and thus the prospects for private consumption.

## How do we assess the situation?

A comparison of the IMF's GDP forecasts with our own expectations is very similar. We also expect a decline in German GDP of 0.3 percent for this year. There are only minor quantitative differences for economic growth in the USA (1.5 percent), the euro zone (0.6 percent) and worldwide (2.9 percent).

Our forecasts are based, among other things, on our economic cycle models, which we have been documenting

daily in real time since 2012. Two interesting observations can be made here: First, leading indicators for both North America and Europe are below trend growth. In North America, the gap has never been greater since we began recording. Second, the real economic data show a two-part development. While data for Europe is below trend growth, data for North America is above trend, largely due to the robust US labor market.



Even if the economic data does not look good for the most part, we still do not expect a long-lasting and deep recession. What makes us comparatively optimistic? With the expected decline in inflation rates, we expect a less restrictive monetary policy, so that financing conditions should improve again. At the same time, real incomes should rise again and support private consumption against the background of the robust labor market. On the other hand, a major negative factor is the weakness of the manufacturing sector – especially in Germany. Although there has been a noticeable decline in incoming orders in recent months, German industry as a whole still has a high order backlog and is therefore likely to get off lightly.

## Market data

	As of	Change versus				
	28.07.2023 08:11	21.07.2023 -1 week	27.06.2023 -1 month	27.04.2023 -3 months	27.07.2022 -1 year	30.12.2022 YTD
<b>Stock markets</b>						
Dow Jones	35283	0,2%	4,0%	4,3%	9,6%	6,4%
S&P 500	4581	1,0%	4,6%	10,8%	13,8%	19,3%
Nasdaq	14050	0,1%	3,6%	15,7%	16,8%	34,2%
DAX	16406	1,4%	3,5%	3,8%	24,6%	17,8%
MDAX	28780	1,9%	7,0%	4,2%	8,6%	14,6%
TecDAX	3317	2,8%	7,1%	2,0%	9,2%	13,6%
EuroStoxx 50	4447	1,3%	3,3%	2,1%	23,3%	17,2%
Stoxx 50	4039	1,0%	2,5%	0,2%	11,8%	10,6%
SMI (Swiss Market Index)	11373	1,5%	2,1%	0,1%	2,9%	6,0%
Nikkei 225	32891	1,8%	1,1%	15,6%	18,7%	26,0%
Brasilien BOVESPA	119990	-0,2%	2,1%	16,6%	18,3%	9,3%
Russland RTS	1039	2,6%	1,1%	1,4%	-10,0%	7,1%
Indien BSE 30	66001	-1,0%	4,1%	8,8%	18,2%	8,5%
China CSI 300	3985	4,3%	3,6%	-0,1%	-5,7%	2,9%
MSCI Welt	3034	0,2%	3,9%	7,8%	13,4%	16,6%
MSCI Emerging Markets	1035	2,0%	4,0%	6,5%	4,6%	8,2%
<b>Bond markets</b>						
Bund-Future	132,99	-34	-117	-113	-2317	6
Bobl-Future	115,67	-13	-26	-155	-1144	-8
Schatz-Future	105,00	6	8	-46	-488	-42
3 Monats Euribor	3,71	31	32	81	348	182
3M Euribor Future, Dec 2023	3,90	-5	-11	18	252	29
3 Monats \$ Libor	5,63	1	10	33	282	86
Fed Funds Future, Dec 2023	5,40	2	6	77	258	75
10 year US Treasuries	4,01	17	25	48	128	18
10 year Bunds	2,51	8	15	6	163	-5
10 year JGB	0,55	9	18	14	42	14
10 year Swiss Government	1,01	7	8	-14	47	-60
US Treas 10Y Performance	585,51	-1,3%	-1,7%	-3,1%	-6,8%	1,0%
Bund 10Y Performance	540,53	0,0%	-0,4%	0,8%	-10,5%	2,9%
REX Performance Index	433,21	0,1%	-0,5%	-0,3%	-7,3%	0,2%
IBOXX AA, €	3,66	1	-3	5	171	6
IBOXX BBB, €	4,50	-1	-10	-5	136	-20
ML US High Yield	8,45	4	-28	-4	39	-53
Convertible Bonds, Exane 25	6620	0,0%	0,0%	0,0%	0,1%	0,0%
<b>Commodities</b>						
MG Base Metal Index	394,95	2,1%	3,4%	-0,9%	3,9%	-5,6%
Crude oil Brent	83,90	3,5%	16,1%	7,0%	-21,3%	-1,2%
Gold	1951,39	-0,5%	1,9%	-1,7%	13,7%	7,5%
Silver	24,22	-1,7%	6,0%	-2,5%	29,8%	2,0%
Aluminium	2161,26	-0,1%	0,2%	-6,4%	-11,0%	-8,0%
Copper	8528,00	1,3%	1,7%	-0,5%	11,8%	2,0%
Iron ore	112,90	0,4%	0,3%	-2,8%	6,3%	1,5%
Freight rates Baltic Dry Index	1097	12,2%	-7,3%	-30,6%	-45,3%	-27,6%
<b>Currencies</b>						
EUR/ USD	1,0977	-1,3%	0,2%	-0,6%	8,1%	2,9%
EUR/ GBP	0,8581	-0,8%	-0,1%	-2,8%	2,0%	-3,3%
EUR/ JPY	152,55	-3,2%	-2,9%	3,7%	9,8%	8,5%
EUR/ CHF	0,9536	-1,0%	-2,6%	-3,3%	-2,4%	-3,2%
USD/ CNY	7,1519	-0,5%	-1,0%	3,2%	5,8%	3,6%
USD/ JPY	139,46	-1,7%	-3,2%	4,1%	2,1%	6,4%
USD/ GBP	0,78	0,4%	-0,3%	-2,5%	-5,9%	-5,9%

Source: Refinitiv Datastream

Carsten Klude  
+49 40 3282-2572  
cklude@mmwarburg.com

Dr. Rebekka Haller  
+49 40 3282-2452  
rhaller@mmwarburg.com

Martin Hasse  
+49 40 3282-2411  
mhasse@mmwarburg.com

Dr. Christian Jasperneite  
+49 40 3282-2439  
cjasperneite@mmwarburg.com

Simon Landt  
+49 40 3282-2401  
mlandt@mmwarburg.com

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