CIO Insights

Weekly Bulletin
19 August 2016

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The search for growth

Everything, you might say, is relative. But central banks still worry about GDP growth all around the world, whether their starting point is over 6% (as in China) or closer to 1%. Policy responses will remain key.

01

A U.S. rate hike looks possible in December, with economic data likely to be supportive.

02

Eurozone "hard" data proves more mixed than "soft" data, signaling periphery weakness.

03

Asian growth is under the spotlight with questions over China and external demand.

1 **U.S. Fed speakers have provided divergent views on interest rates** in recent weeks with some sounding markedly more dovish than others. Against this background, the markets have continued to grind higher, suggesting a degree of investor complacency. Now attention shifts to Janet Yellen, who may use her speech at next week's Jackson Hole symposium to establish a framework for preparing the markets about the timing and magnitude of future Fed rate hikes. We continue to think that a rate hike is still likely in December, largely because we believe that a range of economic data could continue to indicate that H1 U.S. economic growth weakness is increasingly behind us.

2 **Germany has posted some stronger recent economic data,** for example industrial production and retail sales. The country's export-oriented economy appears to have benefited from EUR weakness in recent months. French economic performance is however lagging behind on both measures. Italy continues to give cause for concern, with industrial production and retail sales contracting on a YoY basis. Spain is better in absolute terms but also shows some signs of weakness. Across the Eurozone as a whole, domestic/services sectors continue to hold up rather better than the industrial sector. Our outlook remains for modest Eurozone GDP growth of 1.4% this year.

3 **Asian economies' growth outlooks are worth keeping under review**. Japanese Q2 growth was disappointing and slow growth in external demand could have an impact on a range of export-oriented economies across the region. Looming above everything, of course, is China. Recent slowdowns (if from high levels) in growth in indicators such as industrial production, fixed-asset investment and retail sales may not appear encouraging, but Chinese exporters are continuing to benefit from a weaker currency. There also may be room for further policy stimulus here and in other regional economies.

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