

MACROECONOMICS

The impact of uncertainty

Uncertainty regarding the Brexit referendum result is likely to burden economic development in the UK – and the Eurozone – and lead investors and consumers to spend less. We expect a deceleration of economic growth in the UK to 0.8% next year, down from an expected 1.3% in 2016. This should lead to declining imports. As the UK's most important trading partner, the Eurozone is likely to be materially affected by this and we have trimmed our Eurozone growth forecast to 1.2% in 2017 down from an expected 1.4% in 2016. Countries with less extensive trading links to the UK should be much less affected. Our U.S. growth forecast of 2% for 2017 remains unchanged from pre-referendum levels, as do our forecasts for Japan and emerging markets.

It's our opinion that central banks have acknowledged the result of the Brexit vote, and may alter policy to cushion any broader economic repercussions. The U.S. Federal Reserve (Fed) is likely to raise official rates only moderately. At most, we would expect two rises of 25 basis points each by mid-2017. Discussions whether the European Central Bank (ECB) will

Key growth forecasts

	2015 GDP	CIO forecast for 2016
China 	6.9%	▼ 6.3%
Eurozone 	1.7%	▼ 1.4%
Japan 	0.5%	◆ 0.5%
US 	2.0%	▼ 1.8%

start tapering QE in spring 2017 have been temporarily muted. The Bank of England (BoE) has once again joined the club of central banks pursuing quantitative easing (QE) policies and has cut its base rate by 0.25%; further policy interventions are possible. The Bank of Japan (BOJ) is likely to extend its asset purchase program and to cut rates further, but the Brexit vote is not to blame. Rather, Japan's central bank

is worried about meager economic growth and near-zero inflation rates.

Emerging markets (EM) might be indirect beneficiaries of current developments, as EM governments and corporations have used the low interest-rate environment and significantly extended their debt since 2007. Rising debt has increased the dependency on the monetary policies of advanced economies, particularly the United States. The postponement of U.S. rate hikes has therefore to some extent alleviated their situation.

In the last few years, China's political leadership has focused on credit-financed investment to stimulate the economy. Several sectors therefore experienced over-capacity and rising non-performing loans. This has increased the pressure on the government in Beijing to launch structural reforms. The example of India shows that economic restructuring and market-economy reforms can be worthwhile. For 2017, we expect Indian growth to rise by 0.3 percentage points to 7.8%. By contrast, Chinese growth is forecast to decelerate from 6.3% in 2016 to 6% in 2017.

Sources: Deutsche Bank Wealth Management. Data as of August 15, 2016.
 Past performance is not indicative of future returns. Readers should refer to the explanatory notes at the end of this document.