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Will the global economy weather the storm of protectionism?

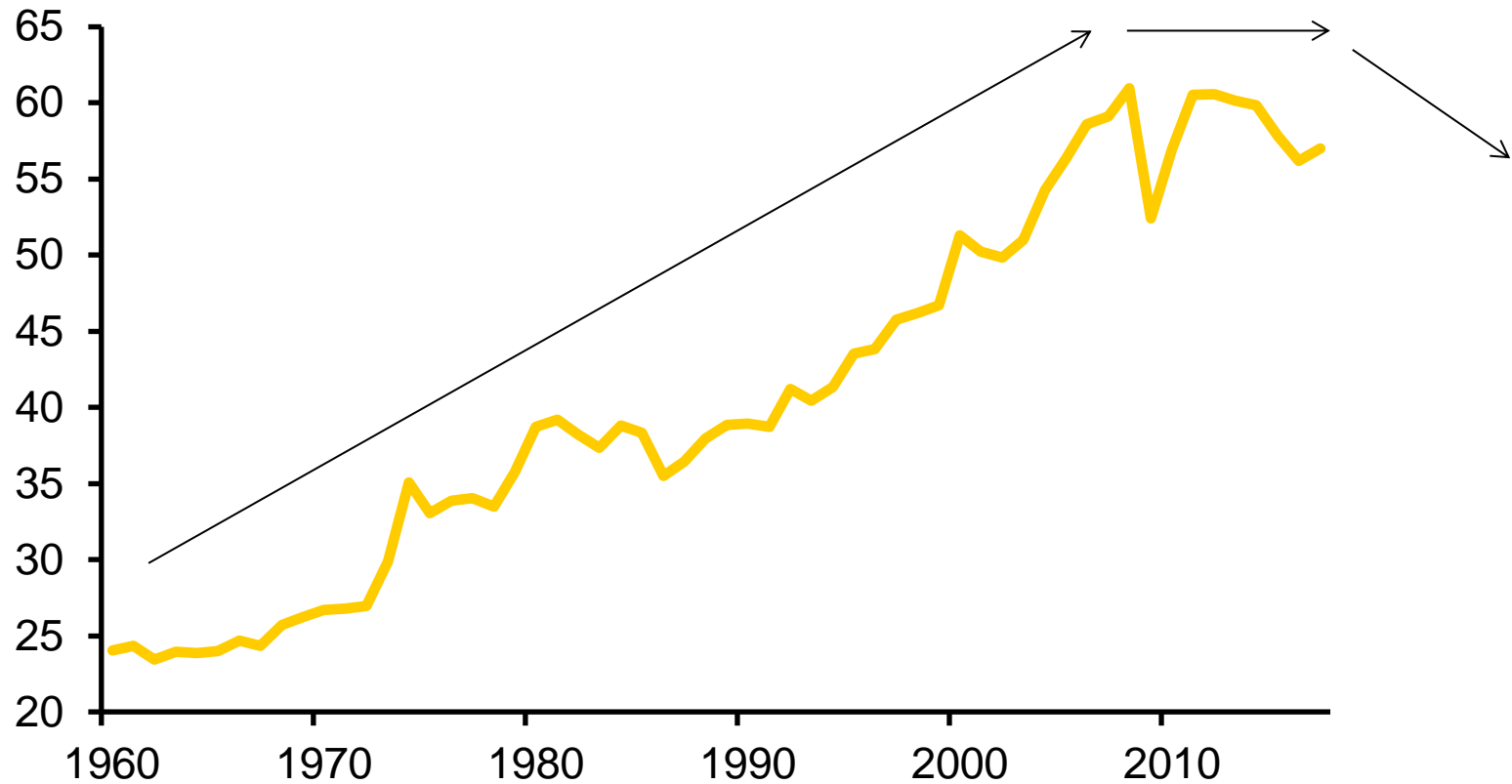
Dr Jörg Krämer | Chief Economist | January 2019

Main views

- Protectionism: More than Trump's trade war against China
- USA: No recession
- China: Stimulus package to counter trade war
- Eurozone: Suffering indirectly from the trade war
- ECB: No rate hike in 2019
- Market outlook: Asset price inflation not yet over

Protectionism: Towards a decade of globalisation

World trade (sum of exports and imports of goods and services) as a percentage of GDP, 2017 estimated



Source: World bank

Protectionism: It's not only Trump

- Great financial crisis perceived as market failure
- There are also losers of globalisation
- Anti-establishment movements are against free trade

Protectionism: Where do we stand?

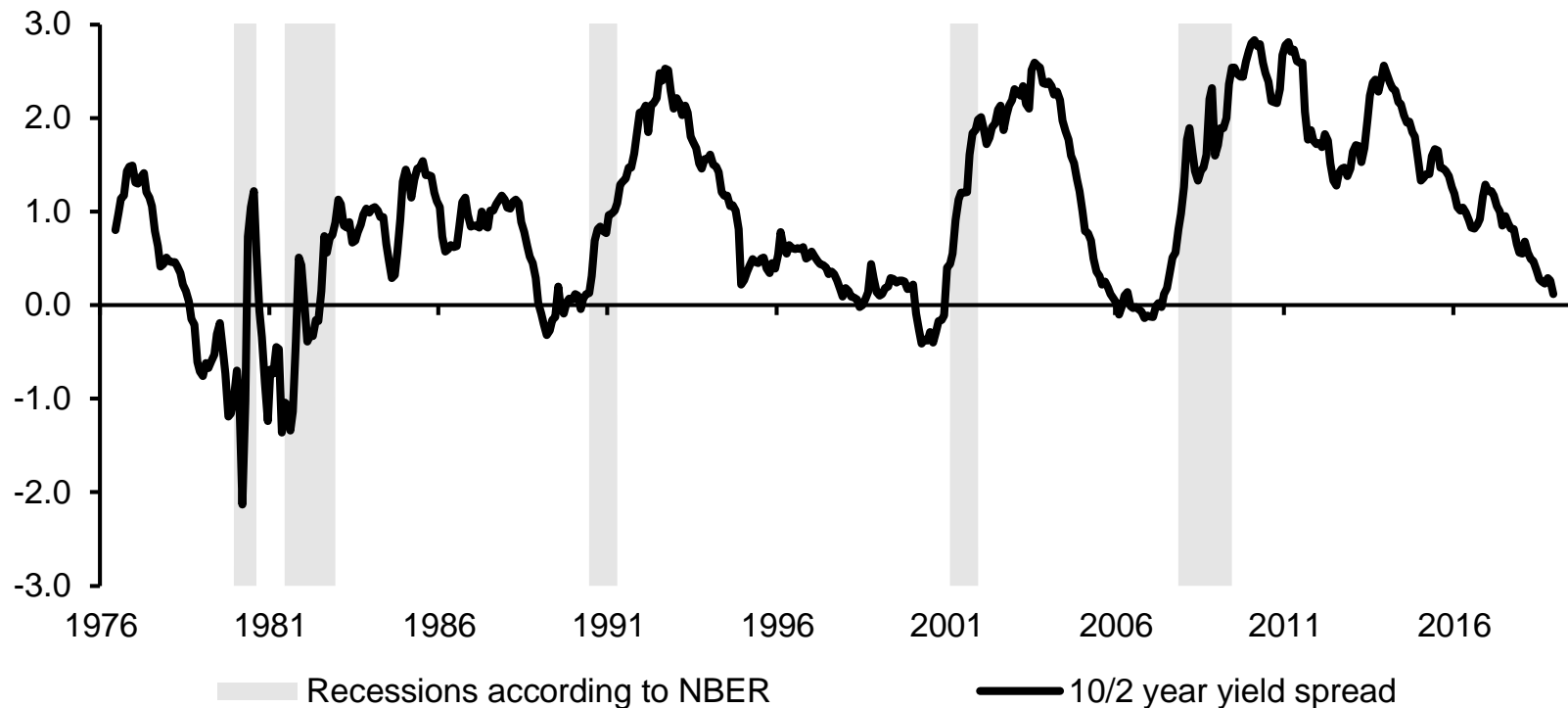
- NAFTA: Survived
- US-EU trade relationship: Ceasefire
- US-China trade relationship: Little room for compromises
- Brexit: 2nd referendum or hard Brexit

USA: No recession

- Protectionism also harms US
- Less growth
 - Fiscal stimulus to abate in 2019
 - Higher Fed rates
- But no recession
 - No inflation problem
 - No real-estate bubble
 - No debt bubble

USA: Inverted yield curves often do not cause recessions

Yield spread between ten and two year US Treasuries, in percentage points; recessions according to National Bureau of Economic Research (NBER)

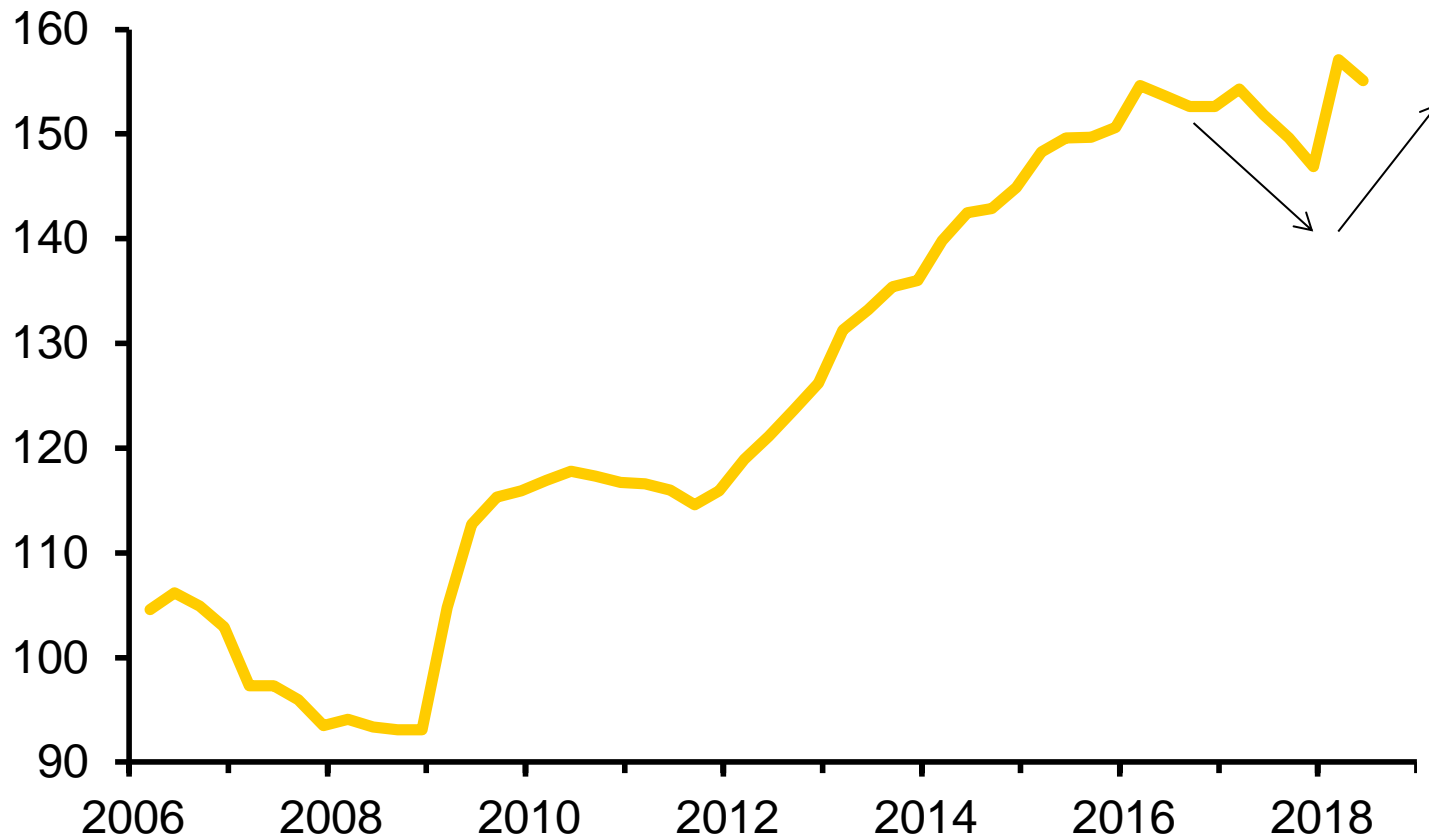


China to counter trade war impact

- Tax cuts
- Minimum reserve requirements for banks cut
- House prices to rise faster
- Corporates allowed to borrow more

China: Firms allowed to borrow more again

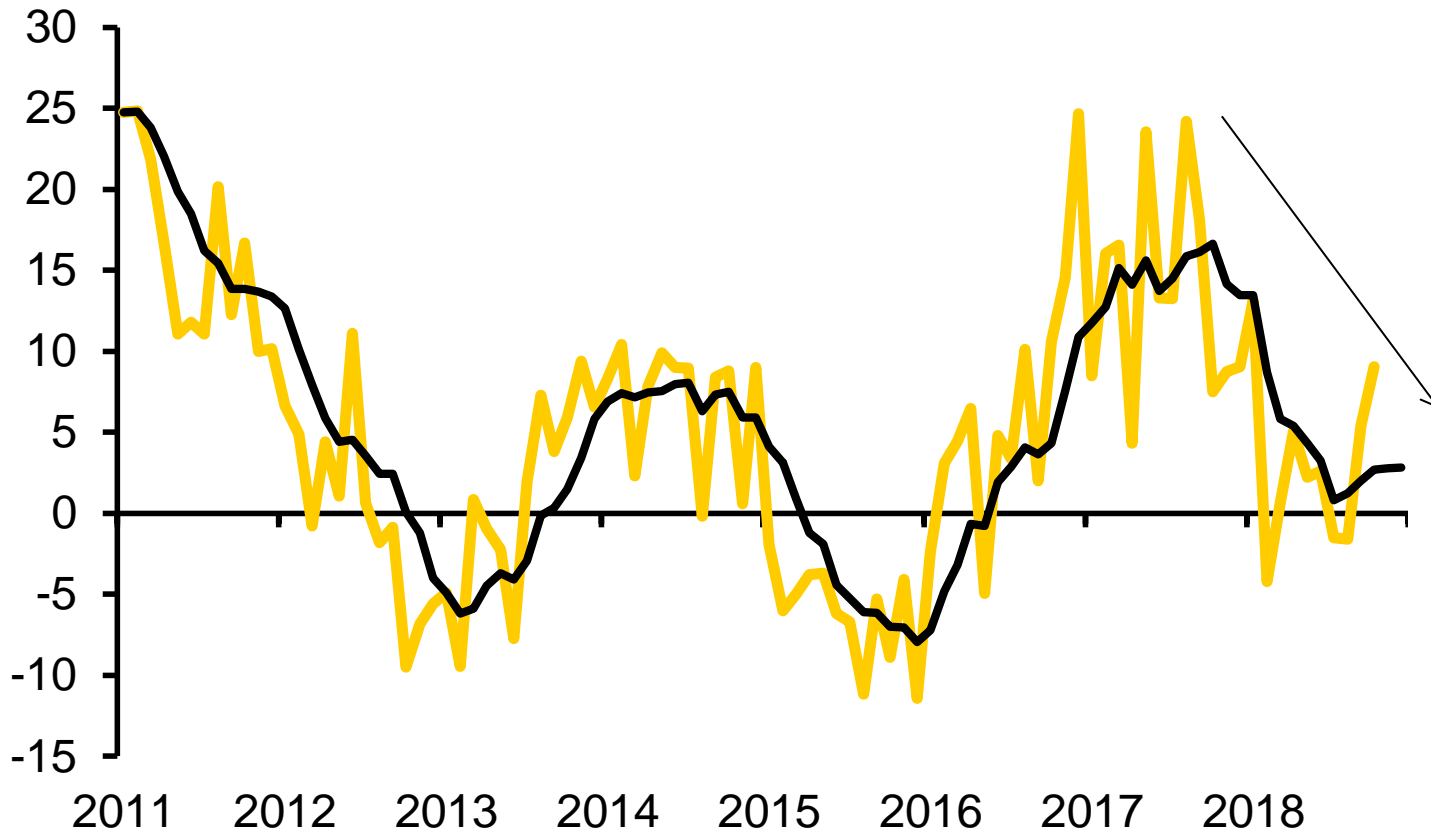
Debt of non-financial corporations, in % of GDP



Source: BIS

Eurozone: Exports to China with less momentum

Eurozone exports to China, real, in % year-on-year



Source: Eurostat

ECB: No real exit

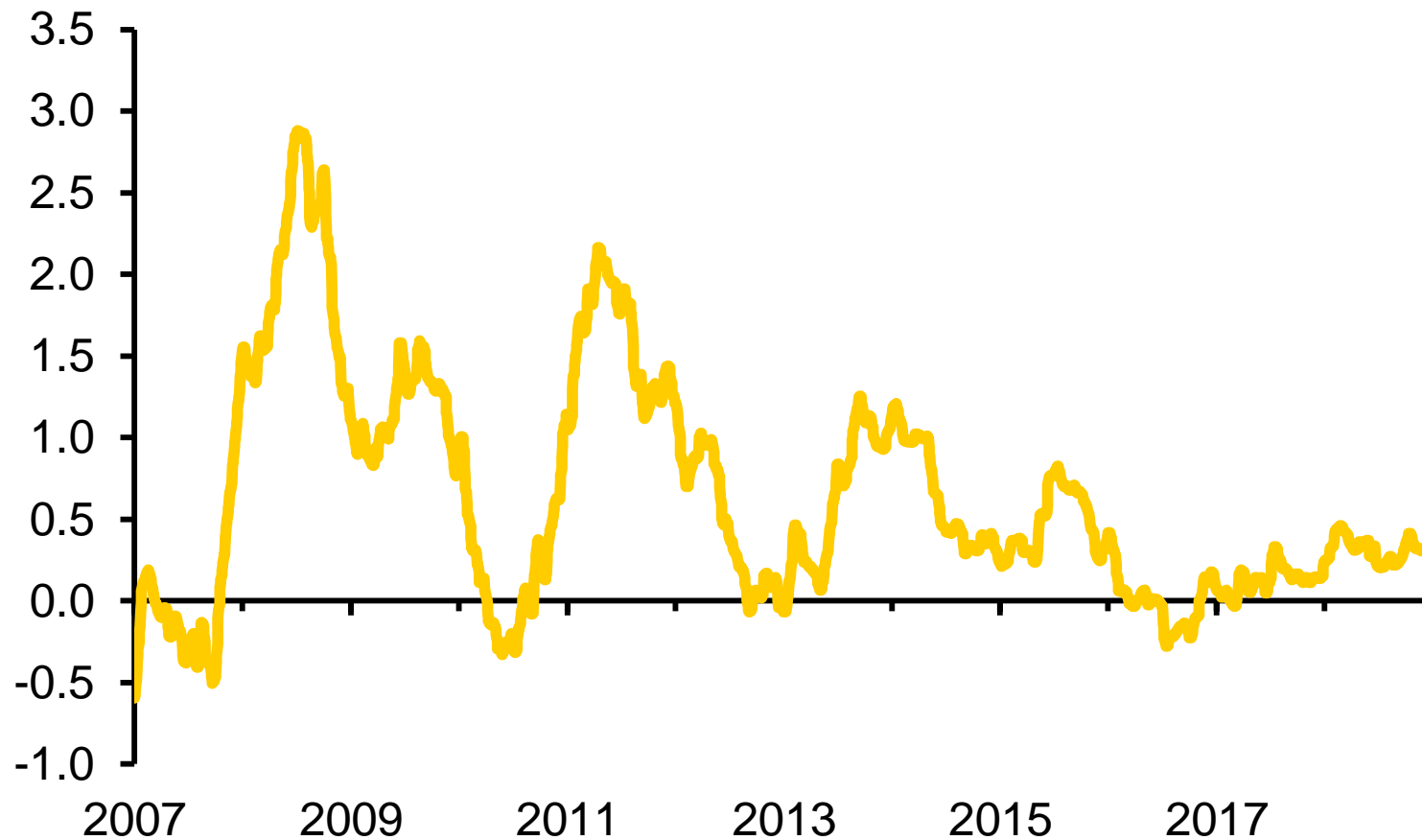
- Bonds that mature will be reinvested for a long time to come
- Discussion about a permanent big ECB balance sheet
- ECJ diluted 33% issuer limit
- New TLTROs
- No rate hike in 2019

Market implications

- Bund yields: side-ways trend
- Euro corporate bonds: Spread widening not yet over
- EUR-USD: Upwards in the medium term
- EUR-GBP: Hostage of Brexit
- DAX: Recovery in the medium-term

ECB has massively lowered the term premium

10-year term premium, in percentage points



Source: Bloomberg, Commerzbank -Research

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