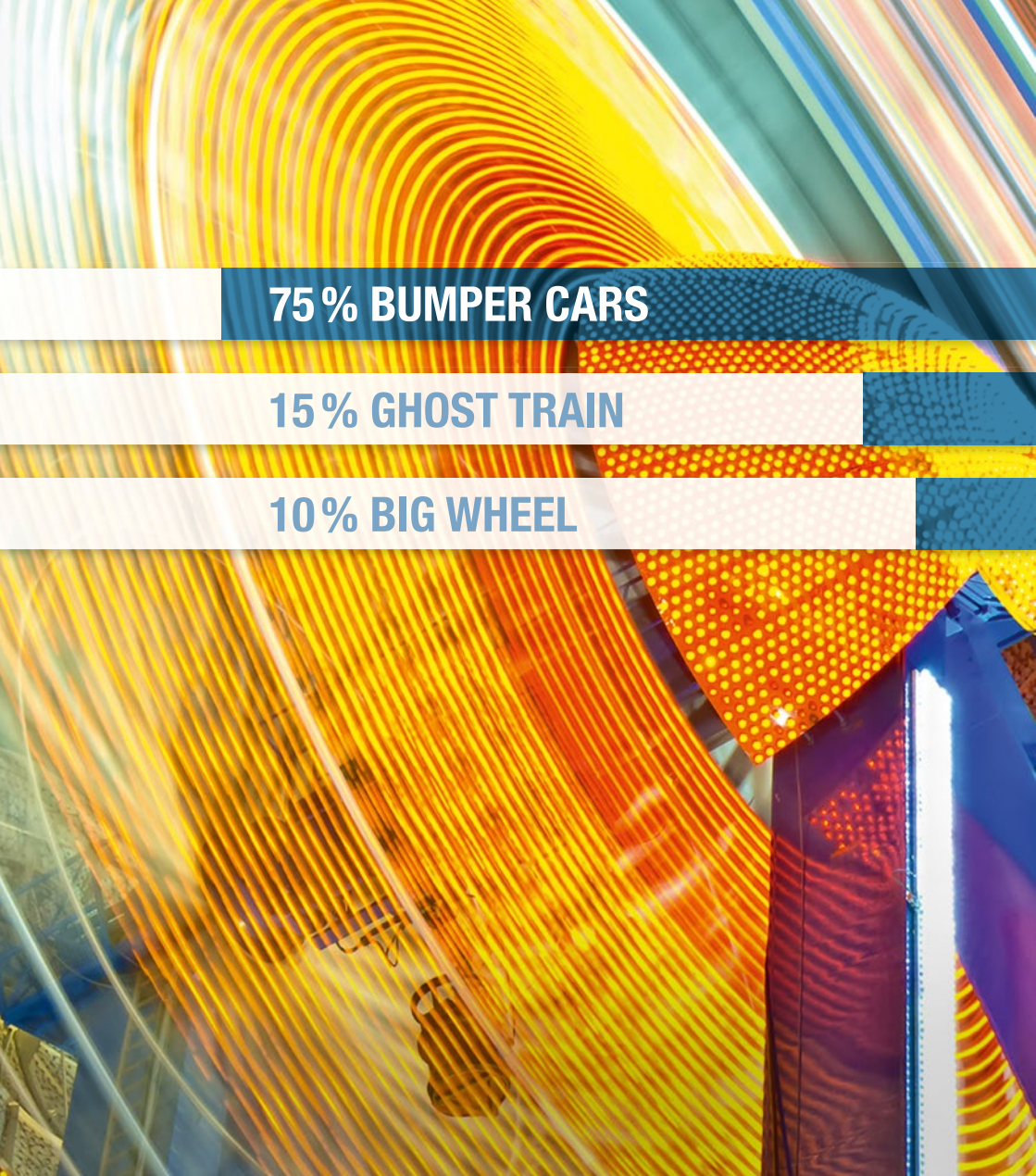
MARKETS AND TRENDS 2017



The World is Driving **Bumper Cars**

Helaba Research
November 2016

Helaba


75% BUMPER CARS
15% GHOST TRAIN
10% BIG WHEEL

EDITORIAL

A regular feature of funfairs are the bumper cars, where nudging, shoving and shouting expletives are part of the experience. Otherwise, they do not normally involve any serious accidents. This is also true for our baseline scenario this year, the slogan of which is “The World is Driving Bumper Cars”.

What was the last thing you experienced at a funfair?



Dr. Gertrud R. Traud
Chief Economist /
Head of Research

Dear readers,

There are funfairs in almost every region and country. These lively events attract the most diverse characters. You can meet old friends, many children and young people and you can get to know complete strangers. You often share a small space in a community of shared destiny with this mixture of people. The funfair, therefore, is a kind of miniature version of the world in which we live.

Bumper cars are a standard fixture of every funfair. It definitely takes some skill to navigate quickly among the confusion. Particularly “determined” individuals are not satisfied with gliding with the crowd in an orderly manner. Nudging, shoving and shouting expletives are the risks that you are exposed to. No serious accidents usually occur when you are driving bumper cars, though.

We see parallels here with our **baseline scenario** this year, whose slogan is **“The World is Driving Bumper Cars”** and to which we attribute a **probability of 75 %**. The world economy will move through 2017 at limited speed. Economic activity in the United States will accelerate, the euro area will continue coasting along and even the commodity-exporting countries will move into forward gear again. Bruising election campaigns in the style of juvenile bullying will cause some pushing and shoving on the circuit; however, this will not throw the world economy off course.

The oil price reached a trough in the spring of 2016 and, over the course of 2017, will lead to higher inflation rates of up to 1 ½ % in the euro area and 2 ½ % in the United States. This may alarm certain market participants. Accordingly, volatility on bond markets will be high. However, core inflation rates, which exclude highly volatile energy and food prices, will remain low, especially in the euro area. In 2017, the ECB will stick to its driving style with steering manoeuvres consisting of bond purchases and negative deposit rates.

As long as growth stays strong, equity markets will receive enough electricity in order to make brisk headway. The US Fed will be moving forward very gradually and will attempt to prevent any crashes from happening. It will only increase key rates to a level that does not have any negative impact on financial markets.

You will find information pertaining to our alternative scenarios **“Ghost Train”** and **“Big Wheel”** at the end of the brochure.

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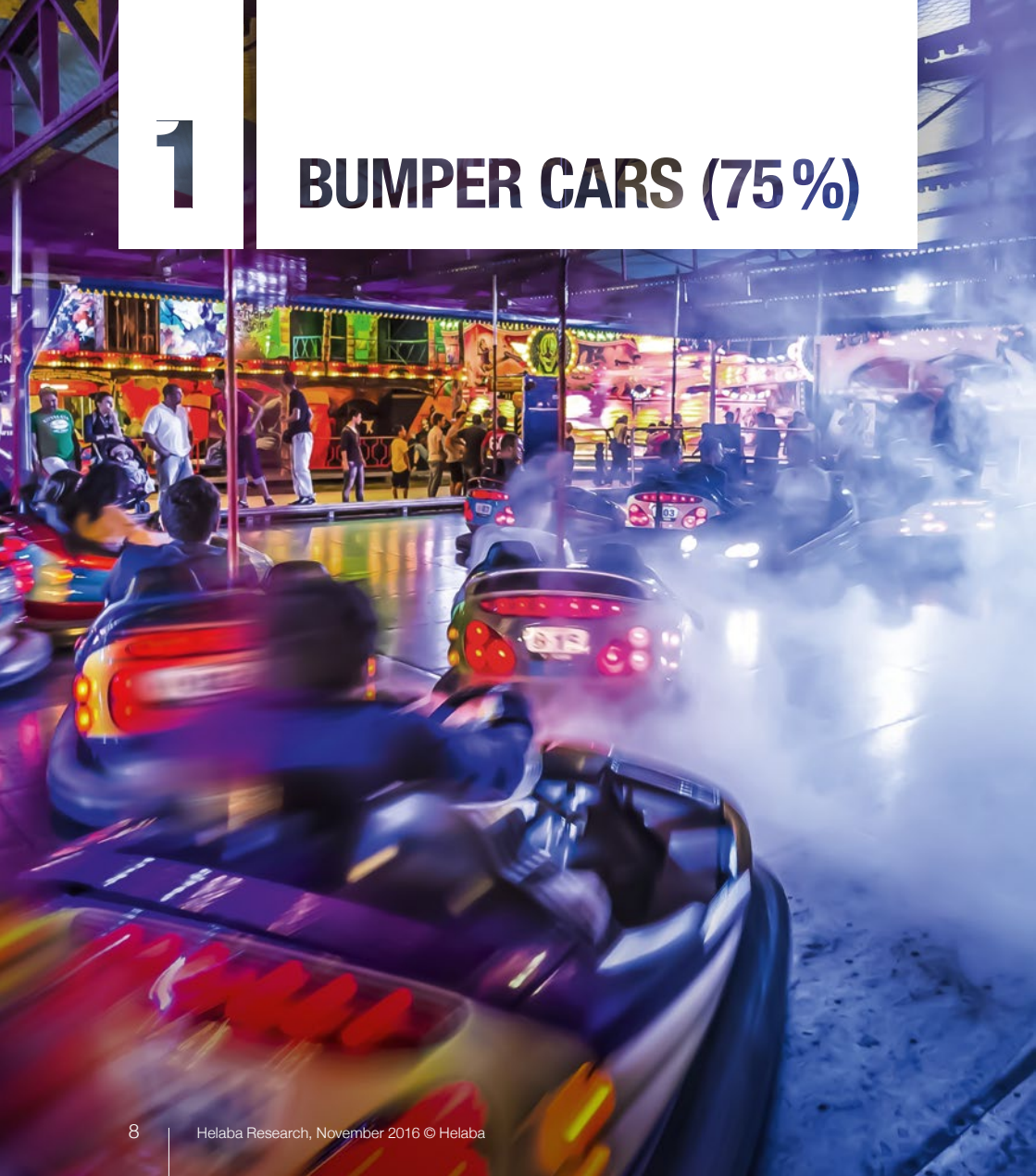
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Editorial date
11 November 2016



1 BUMPER CARS (75%)



Baseline scenario

The World is Driving Bumper Cars (75 %)

In our baseline scenario, to which we attribute a probability of 75 %, the world is driving bumper cars. On a limited track, all countries move forward.

With growth of around 3 %, 2017 will see the **world economy** expanding slightly more strongly than in 2016 (2.7 %). Negative impacts from emerging economies – primarily Brazil and Russia – will taper off. The United States will pick up speed once again. The election of Donald Trump as US President, though, is associated with a degree of uncertainty, which will make the driving floor appear somewhat bumpier. Despite this, growth rates in the **United States**, at 2 ¼ %, as well as in the **euro area**, at about 1 ½ %, will be above their respective potentials. In **China**, the trend towards a slowdown in economic growth will continue.

There are not expected to be any major global cyclical fluctuations. The main reason for this is a change in the composition of growth in the important economic regions: Overall economic expansion will be supported by consumer spending, a factor that is traditionally not very volatile. Capital expenditure, which led to enormous spikes both on the up and downsides in past cycles, will remain rather subdued.

Deflationary zone to be left behind

Globally, inflation has been in retreat for decades. This trend towards disinflation accelerated at the beginning of 2016 due to a fall in commodity prices. In the meantime, however this process has come to a standstill and consumer price inflation is in a phase of bottoming out. Excess capacity that still exists in the industrial sectors of many countries will continue to

Selected Forecasts 2017

Germany	
GDP growth, %	1.5
Inflation, %	1.4
Q1 – Q4:	
3M Euribor, %	-0.30 -0.30 -0.30 -0.30
10-yr Bunds, %	0.25 0.35 0.35 0.50
DAX	11,300 11,600 11,800 12,000

United States	
GDP growth, %	2.2
Inflation, %	2.2
Q1 – Q4:	
Federal funds rate (average), %	0.63 0.63 0.63 0.88
10-yr Treasuries	2.10 2.30 2.30 2.40
S&P 500	2,200 2,230 2,270 2,300

Source: Helaba Research

prevent any sustained jumps in inflation in 2017 as well.

Furthermore, in the euro area, a relatively high unemployment rate will put a brake on wage rises, and even in countries with full employment, such as the United States, only limited pressure on earnings has been discernible so far. Overall, inflation will accelerate in 2017, both in the United States as well as in the euro area.

Euro area	
GDP growth	1.4
Inflation, %	1.2
Q1 – Q4:	
MRO rate, %	
0.00 0.00 0.00 0.00	
US dollar / euro	
1.15 1.15 1.15 1.10	
EURO STOXX 50	
3,200 3,300 3,350 3,400	

Nevertheless, this can principally be attributed to base effects in the energy components. In the **United States**, overall inflation will rise to an average level of just over 2 % over the year and in the **euro area** to over 1 %.

Monetary policy to remain loose

The central banks will stick to their low interest rate policies, albeit to varying degrees. The **US Fed** very rapidly expanded the classic toolkit to combat the crisis by unconventional measures and thus entered into unknown territory. Now it is finding it much more difficult to reverse the expansionary measures. Since the end of the bond purchase programme more than two years ago, it has only brought itself to make one interest rate hike. It will continue with this cautious policy of raising rates. By the end of 2017, we anticipate two further interest rate rises.

In the course of its crisis management, the **ECB** considerably extended the radius of monetary policy action. Currently, it carries out bond purchases in an amount of EUR 80 billion every month. It is likely to continue this programme until the end of 2017 and, if necessary, even increase

the scope of assets eligible for purchase. Ultimately, despite an expected increase, inflation will remain below the ECB's target of 2 %.

Political events to trigger action

Against a backdrop of rather unspectacular yet stable economic activity, is it fair to assume that performance on the capital markets in 2017 will be as smooth as it has been up to now? Probably not! Political events will lead to volatility on capital markets. This was already apparent in the context of the British EU referendum as well as the US presidential election. And there are plenty of similar events on the horizon: Before the turn of the year, Italy will be voting on a change to its constitution; in the spring, the Brexit negotiations are likely to kick off; in the Netherlands there are parliamentary and in France presidential elections; finally, elections to the German Bundestag will take place in the autumn. Although all of these events could lead to temporary disruptions on financial markets, in our baseline scenario, however, anti-European tendencies will not prevail so that the uncertainty will subside relatively quickly.



In our baseline scenario "Bumper Cars", political events do not end in a massive pile-up on the financial markets. In the run-up to the various decisions, however, accidents and collisions may lead to some more minor scrapes.

Between return opportunities and a need for security

In this environment, how should investors position themselves? Traditionally secure asset classes such as government bonds do not offer any appreciable return. Sections of the yield curves in advanced countries have slipped into negative territory as a result of extreme monetary policy measures. In view of high valuations and rising inflation rates, there will be some temporary uncertainty on **bond markets**. Thanks to the stable economic situation and the ECB's bond purchase programme, euro corporate bonds are relatively well secured. However, even here things are getting progressively more difficult.

In contrast, demand for **real estate** in the existing environment of low interest rates will remain high, especially in view of the fact that conservative investor groups' hands are tied by regulation, preventing larger investments in high-risk asset classes.



In our baseline scenario, the risk appetite of investors will increase – also thanks to a growing confidence in the stability of the global economy.

Among classic investments, **equities** are currently the most attractively priced. The risk premium, in other words the expected return above the risk-free rate, is still at a disproportionately high level in contrast to many other investment classes. A return to the historic average will offer attractive potential. Together with real estate, they should be overweighted in a balanced portfolio.


CASH

Bond markets: Between hope and trepidation

The yield on 10-year Bunds has been hovering around the zero-percent mark since the middle of 2016. Despite relatively robust economic growth and higher inflation, no turnaround in interest rates can be expected from the ECB in 2017. On the contrary, it is likely to press ahead with its bond buying programme.

Fixed-income securities: No family pricing

Due to the extreme nature of monetary policy, the **pressure** on institutional investors **to invest** is immense. The proportion of German bonds that carry a negative yield had reached 62 % at the beginning of November, that of German government bonds was 76 %. Even in the euro area, the volume of all "negative" bonds in circulation, at 44 %, is remarkably high. As long as inflation remained near to zero, in real terms the losses incurred by investors were limited. However, if the average over the year should climb in 2017, our estimate for the euro area is 1.2 %, then the situation in terms of valuation will be all the more difficult.

Bunds: Farewell to negative territory!

What investors really want are higher coupons. However, they are afraid that choppy waters will lead to a crash. Naturally, borrowers want to retain their

favourable refinancing conditions. A much wider spread in the yield curve could offer a compromise solution: Initially, in view of stable key rates in the euro area, only little will change in the short maturity segment.

Everyone whose debts are due for prolongation will continue to enjoy very cheap short-term finance. If you want planning security, this will cost more than before, however. By contrast, on the investment side, slightly higher yields on longer maturities will provide some relief. The chances are good that the **yield on 10-year Bunds** will bid farewell to negative territory for good (spread 0 % to 1 %). 10-year US Treasuries are likely to oscillate between 1 ¾ % and 3 %.

Covered bonds: Strong demand

The low interest rate environment continues to leave many issuers with no choice: Issues with positive yields will probably only be possible on longer maturities for the time being. Only a small number of issues in the short to medium-term maturity segment can be expected to offer positive yields, at best.

However, demand will remain strong. After all, these securities are preferred by banks and insurance companies due to their low risk weighting. Banks are even permitted to include them in the liquidity reserve they are required to hold. In addition, covered bonds, especially the Pfandbrief, have proven themselves to be resilient to crises and should therefore always form part of every risk-averse portfolio.

Although low yields, especially if they turn negative, could reduce the waiting time a bit, the **queues at the covered bond primary market** dodgem would still be long: After all, the ECB, which is constantly in the driving seat, is going to claim around 40 % of available places – i. e. euro-denominated benchmark issues eligible for purchase for itself soon.



Equities: Enticing returns

While there is no return without risk, there is a lot of risk without return. Among classic investments, equities are the only ones that still offer an above-average risk premium.

Ammunition already used up on US stocks?

Despite declining corporate profits, US stocks managed to reach all-time highs in 2016. For one thing, they were supported by the Federal Reserve. For another, companies pursued shareholder-friendly policies in the form of massive share buybacks and handsome dividend payouts. However, this advantage will shrink as US Treasuries offer somewhat higher returns. On top of that, the valuation of US blue chips is already rather high.

More winners in the euro equities tombola

In contrast to US equities, the DAX and EURO STOXX 50 had temporarily lost around 30 % of their value by February 2016 compared to their peaks in April 2015. Measured against previous bear markets, however, the correction was somewhat moderate and did not, as is usually the case, lead to an undervaluation of equities. Both the DAX and the EURO STOXX 50 only fell back to their fair values. Thus, the current recovery is also likely to be below average in relation to historic patterns.

We assume that the DAX will remain within a P/E ratio range of between 10.5 and 13. An improvement in the leading economic indicators and the outlook for corporate profits will open up room for a moderate rise in valuation. In addition to this, **supply/demand conditions also favour equities**. This is in no small measure due to the fact that, as a result of the ECB's monetary policy, which remains extremely loose, the demand for investments that generate return is already outstripping supply anyway. The inference, then, for the DAX is a corridor of between 9,500 and 12,500 points in 2017.



Gold remains an attraction

Gold performed strongly in 2016 vis-à-vis almost all major currencies. Clearly, the notion that **gold is the real money** is becoming increasingly popular. Negative interest rates at the same time as ever increasing levels of debt add to the impression of a trend towards a monetary system that may severely impinge on individual freedom. Thus, demand for gold, also as a potential means of exchange and payment, may well grow even further.

Still on the ascendency in 2017

Gold will probably continue to be a sought-after hedging instrument in 2017 as well, especially since pricing on asset markets remains distorted by unconventional monetary policy and the risk of staggered corrections is rising. Thus, physical demand by the large gold funds will grow further after an initial surge in 2016. Because central banks, with an eye to the solvency of many borrowers, are hardly likely to allow interest rates to rise significantly, as long as inflation picks up the low level of real interest rates should also support the gold price. Regardless of the outcome of individual elections, at the end of the day political uncertainty will nevertheless be high across the globe.

The risk/return ratio of the yellow metal remains attractive. The speculative overheating on the futures markets noticeably declined over the course of 2016. Nonetheless, further interim corrections and a certain susceptibility to short-term volatility can be expected. While a gold price of up to 1,200 US dollar per troy ounce appears to be a very safe prospect, it has the potential to rise up to around 1,450 US dollars per troy ounce in 2017. Ultimately, it is important to bear in mind that gold is more suited for **asset preservation** rather than for pursuing tactical goals.

Real estate: The carnival continues

With persistently low interest rates in 2017, demand for “bricks and mortar” will remain high. Since it is becoming increasingly difficult for investors to find attractive properties, the trend towards rising real estate prices will continue.

For 2017, we anticipate slightly better annual performance on average for investable **open-ended real estate funds** of just about 3 %. In the first eight months of 2016, cash inflows were very high but have been declining significantly since June. It appears that measures taken by investment funds to limit cash inflows are gradually making themselves felt.

In 2017, it does not look as if there will be an end to price increases in **German residential properties**. Demand remains strong, particularly in the urban centres. Sustained immigration, albeit no longer on the very high level of 2015, as well as a marked internal migration, militate in favour of this development. In addition, construction activity has been too slow in reacting. Although the number of completed dwellings should break through the 300,000-unit mark in 2017, in view of a requirement of an estimated 350,000 to 400,000 units a year, it is still too low. This should mean that house prices will rise in a similar way to previous years.

Fuelled by fundamental factors and low interest rates, the **German residential housing market will continue to boom**; a strong expansion in lending, an intrinsic element of a real estate bubble, is absent. However, certain submarkets are already notably overvalued.

US dollar and Swiss franc



US growth should gain the upper hand once again in 2017 compared to the euro area. This will also be reflected in monetary policy: While the ECB will push ahead with its bond-buying programme, the Federal Reserve will cautiously raise its key rate. These diverging measures should result in the US yield advantage growing somewhat and thus support the greenback.

However, the US currency is clearly overvalued. In relation to purchasing power the **euro-dollar rate** is only marginally above its lows of 2000/2001. Changes in US politics harbour risks for the greenback. Under a Trump administration, the US budget deficit will presumably expand considerably, which should have a fundamentally negative effect on the US dollar. Furthermore, the ostensibly protectionist attitude of the new US government will tend to militate against their own currency. However, with no interest rate hikes on the horizon, the potential for the euro is limited. Phases of political uncertainty in Europe, in view of pending elections, as well as the planned negotiations over the British exit from the EU, may put pressure on the euro. Nevertheless, the euro-dollar rate should tend more towards the upper end of the band, which will continue to exist, of 1.05 to 1.15 in 2017.

In 2017, the Swiss economy should grow by 1.3 %. Inflation will see a slight rise into positive territory, without giving the central bank any cause for concern. The euro area will probably not provide any impulses that would put any severe pressure on the euro against the Swiss franc. Thus, the central bank should manage to keep its own currency under control. Ultimately, the **euro-franc rate** should therefore remain within a range of 1.08 to 1.10 in 2017, too.

Euro area and Germany

The euro area will see solid growth in 2017 of 1,4 %. The enormous gulf between countries is still a problem. The reasons for anaemic growth in certain countries are of a structural nature, so that there is no way of getting around the bitter pill of further reforms.

Consumption drives growth

At 1.5 % in 2017, Germany will grow close to its potential, with consumption continuing to act as a primary catalyst. Wage rises, pension adjustments and a further increase in employment will ensure that consumer spending remains buoyant. A rise in consumer price inflation to a rate of around 1 ½ % will have a dampening effect. Government consumption expenditure has become an additional support for growth. This component is responsible for almost a fifth of gross domestic product.



Growth in German exports to the rest of the euro area is likely to remain subdued. Brexit will have a negative impact on trade relations with the United Kingdom. Changes to external trade policy in the United States could have a similar effect. The gradual recovery in important emerging market countries, however, will also provide opportunities.

Investment in residential housing has been expanding at an above-average rate for many years already. However, non-residential construction has been stagnating. The recent positive trend in new orders for commercial and public sector construction, though, suggests a gradual improvement through 2017. Equipment investment is rising at a moderate rate. Political uncertainties and a hitherto average level of capacity utilisation, at the same time as pressure on consumer prices continues to grow, will put a brake on capital formation.

USA: Slowdown overcome



As president, Donald Trump will influence the macroeconomic outlook for 2017 in two principal areas: trade and fiscal policy. Although other policy spheres, such as deregulation, social or energy policy, are also relevant from an economic perspective, their effects will be delayed.

Even in the absence of a genuine trade war with China or Mexico, tariffs or other trade restrictions will result in rising prices and US external trade will suffer as a result. These dampening factors will be partially compensated for by a more expansionary **fiscal policy**. The chances of significant tax reductions in 2017/2018 are better with a Republican-controlled Congress than those of a large stimulus programme. The cut in personal income taxes announced by Trump and the abolition of inheritance tax, however, will mainly help top-tier earners and therefore only boost demand to a limited extent. Although it is likely that there will be corporate tax reform, we do not expect this to lead to any significant impulses for investment. Federal budget deficits will increase over the next few years. Economic growth will amount to around 2 ¼ % in 2017 and will thus be stronger than in 2016 (1.6 %).

Inflation should be noticeably higher in 2017, at 2.2 %, than the 1.2 % it reached in 2016. With two interest rate hikes by the end of 2017, the Fed will only very gradually exit from its expansionary monetary policy stance.

United Kingdom: Brexit uncertainty filters through



Investment is the main casualty of political uncertainty after the Brexit-vote. Faced with an unclear situation, many companies do not have any security in planning with respect to European single market access. This will also gradually have a negative impact on the labour market. In addition, real incomes are under pressure because the depreciation of sterling has made imports more expensive and thus lifted inflation. Growth in consumer spending is slowing down. External trade will probably provide a positive contribution, albeit this has more to do with a reduced level of imports than with any increase in exports. Even if the British economy does not descend into an outright recession, there will be a marked slowdown in growth. Growth of gross domestic product should halve in 2017 to around 1 %.

Apart from the depreciation of the pound sterling, energy prices should generate inflationary pressure. Inflation will climb in 2017 to approximately 2.5 %. Despite this, the Bank of England may slightly reduce the bank rate once again due to weaker economic activity. Together with bond purchases, this should support British bonds. After its sharp fall, the pound sterling will probably only come under temporary pressure.

Agreement over the **exit from the EU** is not likely to emerge until the latter half of 2018 at the earliest. However, there is a significant risk that, in the absence of a settlement or of the necessary majorities in the EU, the parties will go their separate ways in “conflict”. It is less likely that the British will manage to negotiate terms that are mainly advantageous to them, in other words to “pick the cherries”.

China: A dragon with lockjaw

With an estimated growth rate of 6.5 % in 2016, China is once again one of the frontrunners among the major economies. The panic attack on the markets around a year ago turned out to be unwarranted.

Currently, according to official statistics a considerable gap is opening up between private investment and that of state-controlled companies – unfortunately in the wrong direction. While growth in private capital investment is constantly declining, the state-owned enterprises are yet again the ones who are moving up a gear. As so often in China, though, these data should be taken with a pinch of salt, however.

One area in which investment activity is booming is residential housing construction. In view of rising real estate prices, especially in the large cities, and an absence of diversified investment alternatives for people's own retirement, buying into **"bricks and mortar"** is almost mandatory for many households. However, relatively low loan-to-value ratios and the important role of (quasi) state banks in lending, suggest that a correction would be less critical than was the case in the United States in 2007/2008.

The government is not going to take any risks before the party congress in the autumn of 2017 and will support growth with expansionary **fiscal policy** and additional lending. However, the exchange rate will most likely play a lesser role. The yuan will probably only see minor depreciation in 2017 as well. Overall, this should be sufficient in ensuring that China achieves an annual growth rate in 2017 of 5.8 %, although its potential in the medium term is probably around 5 %.



2 TABLES OF FORECASTS IN THE BASELINE SCENARIO



Financial market forecasts

	Changes since year end	current*	Forecast horizon at end … Q1/2017	Q2/2017	Q3/2017	Q4/2017
	in basis points	interest rate in %				
ECB deposit facility rate	-10	-0.40	-0.40	-0.40	-0.40	-0.40
MRO rate	-5	0.00	0.00	0.00	0.00	0.00
Overnight rate Eonia	-23	-0.35	-0.35	-0.35	-0.35	-0.35
3M Euribor	-18	-0.31	-0.30	-0.30	-0.30	-0.30
6M Euribor	-17	-0.21	-0.20	-0.20	-0.20	-0.20
12M Euribor	-13	-0.07	-0.05	-0.05	-0.05	0.00
2-yr Bunds	-27	-0.62	-0.65	-0.60	-0.60	-0.45
5-yr Bunds	-32	-0.37	-0.35	-0.25	-0.25	-0.15
10-yr Bunds	-36	0.27	0.25	0.35	0.35	0.50
2-yr swap rate	-11	-0.14	-0.15	-0.10	-0.10	0.05
5-yr swap rate	-21	0.12	0.10	0.20	0.20	0.30
10-yr swap rate	-33	0.67	0.70	0.80	0.80	0.90
30-yr swap rate	-42	1.19	1.20	1.30	1.30	1.40
Federal funds rate**	0	0.38	0.63	0.63	0.63	0.88
3M USD Libor	27	0.89	0.90	0.90	0.90	1.15
10-yr US-Treasuries	-12	2.15	2.10	2.30	2.30	2.40
	in local currency, %	index				
DAX	-1.1	10,630	11,300	11,600	11,800	12,000
EURO STOXX 50	-6.8	3,047	3,200	3,300	3,350	3,400
Dow Jones	7.9	18,808	19,200	19,500	19,800	20,000
S&P 500	6.0	2,167	2,200	2,230	2,270	2,300
Nikkei 225	-8.9	17,344	18,000	18,500	19,000	19,500
	%	price in $				
Brent crude $/bbl	23.0	46	50	52	50	53
Gold $/oz	18.6	1,259	1,400	1,450	1,500	1,450

*10.11.2016 **average Sources: Bloomberg, Helaba Research

Currency forecasts

	Performance year to date	current*	Forecast horizon at end … Q1/2017	Q2/2017	Q3/2017	Q4/2017
vs. Euro	**vs. Euro, %**	**exchange rate**				
US dollar	-0.3	1.09	1.15	1.15	1.15	1.10
Japanese yen	12.3	116	115	115	121	115
British pound	-15.1	0.87	0.90	0.90	0.90	0.85
Swiss franc	1.2	1.07	1.08	1.08	1.10	1.10
Canadian dollar	2.5	1.47	1.55	1.53	1.52	1.49
Australian dollar	4.2	1.43	1.53	1.49	1.47	1.45
Swedish krona	-6.9	9.85	9.30	9.20	9.10	9.00
Norwegian krone	5.5	9.11	8.90	8.90	8.80	8.70
Chinese yuan	-4.4	7.42	7.94	7.94	7.99	7.70
vs. US-Dollar	**vs. USD, %**	**exchange rate**				
Japanese yen	12.5	107	100	100	105	105
Swiss franc	1.6	0.99	0.94	0.94	0.96	1.00
Canadian dollar	2.7	1.35	1.35	1.33	1.32	1.35
Swedish krona	-6.6	9.04	8.09	8.00	7.91	8.18
Norwegian krone	5.7	8.37	7.74	7.74	7.65	7.91
Chinese yuan	-4.6	6.81	6.90	6.90	6.95	7.00
US-Dollar vs. …	**vs. USD, %**	**exchange rate**				
British pound	-14.8	1.26	1.28	1.28	1.28	1.29
Australian dollar	4.5	0.76	0.75	0.77	0.78	0.76

*10.11.2016

Sources: Bloomberg, Helaba Research

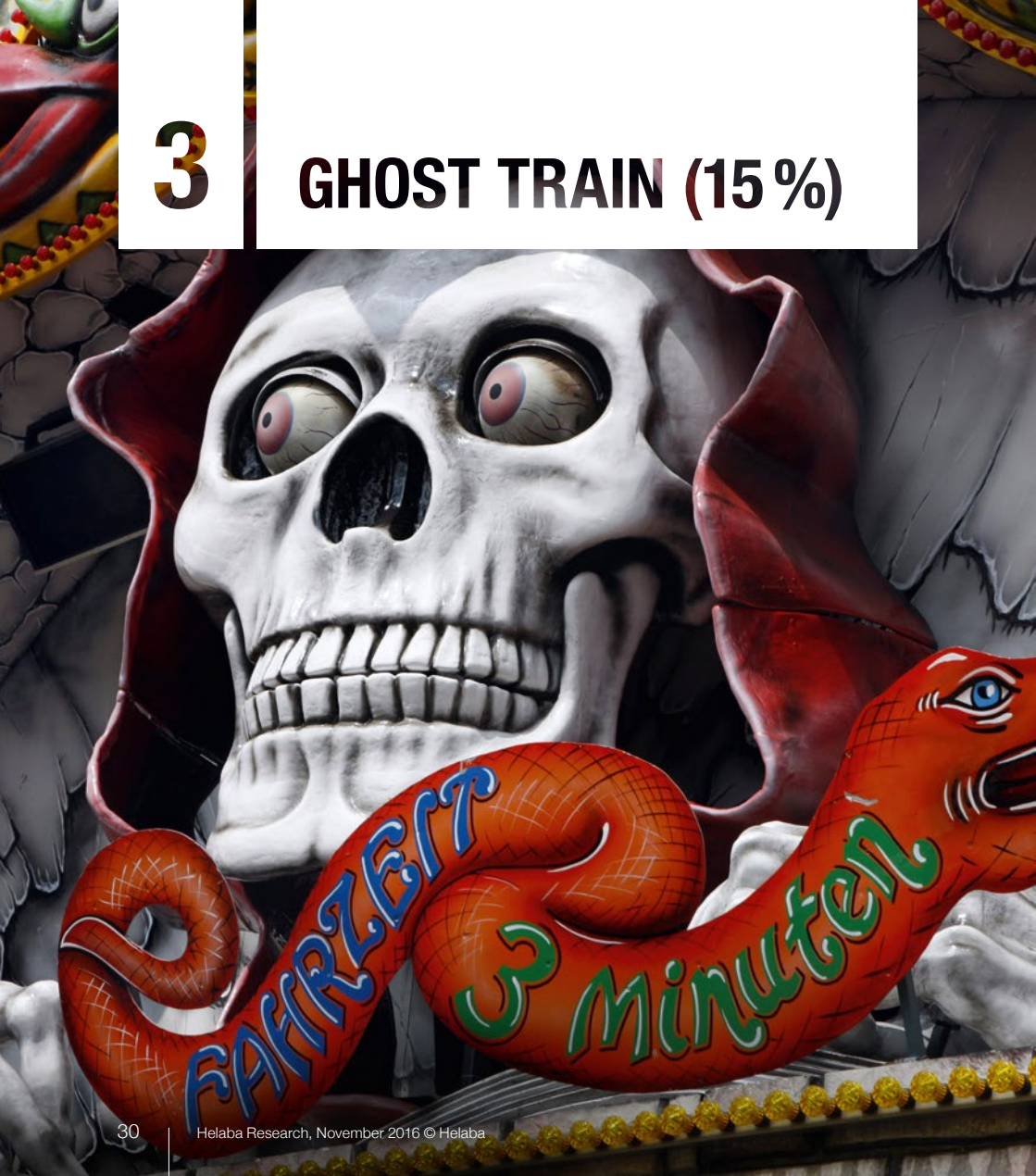
Gross domestic product, inflation, budget deficit

	Gross domestic product real change, % yoy				Consumer prices Change, % yoy				Budget deficit % of GDP			
	2015	2016e	2017f	2018f	2015	2016e	2017f	2018f	2015	2016e	2017f	2018f
Euro area	**1.9**	**1.6**	**1.4**	**1.4**	**0.0**	**0.2**	**1.2**	**1.4**	**-2.1**	**-1.8**	**-1.7**	**-1.5**
Germany	1.5	1.8	1.5	1.4	0.3	0.4	1.4	1.5	0.7	0.5	0.3	0.3
France	1.2	1.2	1.2	1.3	0.1	0.3	1.2	1.4	-3.5	-3.3	-3.0	-2.7
Italy	0.6	0.8	1.1	1.2	0.1	0.0	1.1	1.2	-2.6	-2.4	-2.4	-2.1
Spain	3.2	3.2	2.5	2.1	-0.6	-0.4	1.1	1.3	-5.1	-4.6	-3.8	-3.3
Netherlands	2.0	1.7	1.5	1.7	0.2	0.2	0.9	1.2	-1.9	-1.2	-1.0	-0.8
Austria	1.0	1.5	1.3	1.4	0.9	1.1	1.5	1.7	-1.0	-1.3	-1.4	-1.3
Greece	-0.2	-0.7	1.3	1.7	-1.1	0.0	1.0	1.5	-7.5	-3.0	-2.0	-1.0
Portugal	1.6	0.9	1.1	1.4	0.5	0.7	1.1	1.4	-4.4	-4.2	-2.6	-2.1
Ireland	26.3	4.5	3.0	3.2	0.0	0.0	1.0	1.5	-1.9	-1.2	-1.0	-0.5
United Kingdom	**2.2**	**2.0**	**0.8**	**1.0**	**0.1**	**0.7**	**2.5**	**2.2**	**-4.3**	**-3.5**	**-3.5**	**-3.5**
Switzerland	**0.8**	**1.3**	**1.3**	**1.3**	**-1.1**	**-0.3**	**0.0**	**0.5**	**0.1**	**0.2**	**0.0**	**0.0**
Sweden	**4.1**	**3.1**	**2.4**	**2.4**	**0.0**	**0.9**	**1.4**	**1.4**	**0.0**	**-0.3**	**-0.2**	**0.2**
Norway	**1.6**	**1.0**	**1.5**	**1.7**	**2.1**	**3.5**	**2.1**	**2.2**	**6.4**	**3.0**	**3.4**	**3.6**
Poland	**3.6**	**3.0**	**2.7**	**3.2**	**-0.9**	**-0.6**	**1.7**	**1.8**	**-2.6**	**-3.1**	**-2.8**	**-3.0**
Hungary	**3.1**	**2.0**	**2.5**	**2.5**	**-0.1**	**0.2**	**1.6**	**2.4**	**-2.0**	**-2.3**	**-2.5**	**-2.6**
Czech Republic	**4.5**	**2.5**	**2.4**	**2.3**	**0.3**	**0.6**	**1.6**	**2.0**	**-0.4**	**0.0**	**-0.6**	**-0.7**
Russia	**-3.7**	**-1.0**	**0.8**	**1.3**	**15.5**	**7.1**	**5.5**	**4.7**	**-2.4**	**-3.7**	**-2.5**	**-1.4**
United States	**2.6**	**1.6**	**2.2**	**1.8**	**0.1**	**1.2**	**2.2**	**2.5**	**-3.3**	**-3.5**	**-4.2**	**-4.7**
Japan	**0.6**	**0.5**	**0.4**	**0.3**	**0.8**	**-0.3**	**0.1**	**0.3**	**-5.4**	**-5.0**	**-7.0**	**-7.4**
Asia ex Japan	**5.4**	**5.1**	**4.8**	**4.5**	**2.5**	**2.8**	**2.8**	**2.8**	**-2.8**	**-3.2**	**-3.6**	**-3.7**
China	6.9	6.5	5.8	5.5	1.5	2.1	1.8	2.0	0.6	-3.0	-5.0	-5.0
India	7.5	7.0	6.9	6.9	4.9	5.5	5.1	5.0	-3.9	-3.8	-3.7	-3.6
Latin America	**0.1**	**-0.5**	**1.6**	**2.5**	**12.6**	**17.0**	**14.0**	**12.5**	**-3.8**	**-5.0**	**-4.7**	**-2.7**
Brazil	-3.8	-3.0	0.8	1.5	9.0	8.5	5.5	5.0	-8.4	-6.5	-6.9	-5.5
World	**3.0**	**2.7**	**3.0**	**2.9**	**3.0**	**3.4**	**3.5**	**3.4**	–	–	–	–

GDP growth working day adjusted if available; e=estimate, f=forecast

Sources: EIU, Macrobond, Datastream, Helaba Research

3 GHOST TRAIN (15 %)



Alternative scenario

Ghost Train (15 %)

In the negative alternative scenario "Ghost Train", the global economy is on the precipice of recession. Numerous spectres pop up all over the place. Increasing restrictions on free trade act as the trigger for a substantial downturn. China is not able to get to grips with the restructuring of its economy and suffers a hard landing.

Germany is particularly badly affected by the collapse in global trade. Economic output shrinks in 2017 by around 1 % and unemployment rises significantly. EU sceptic parties win a majority in upcoming elections. More countries hold referenda over exiting the EU.

Investors look for safety, fleeing from risky assets into the "safe havens" of Treasuries and Bunds. In the course of this, yields of 10-year **US Treasuries** fall to below 1 % and the yield on 10-year **German government bonds** sinks even further into negative territory towards the -1 % mark.

Gold and the US dollar live up to their reputation as crisis currencies in times of severe uncertainty. **Gold** once again approaches its previous record highs of over 1,900 US dollars per troy ounce. The **euro-dollar** rate comes under pressure and falls below 0.90. Despite the very low interest rates, **real estate** suffers price corrections. Risk aversion rises enormously and leads to considerable downward valuation adjustments for equities. The **DAX** collapses towards the 6,000-point mark.

4 BIG WHEEL (10%)



Alternative scenario

Big Wheel (10 %)

In our positive alternative scenario "Big Wheel", global growth continues to accelerate. Spearheaded by a strong investment stimulus, the economy booms. This is reinforced by global trade, which once again sees strong increases. Political uncertainty is pushed into the background.

China and Brazil surprise everyone with a strong cyclical recovery in 2017. The United States remains the frontrunner among advanced countries, whose GDP growth rate approaches the 4 %-mark. The euro area is able to increase its growth to at least 2.5 %, with Germany again acting as the economic powerhouse with output growth of around 3 %. Inflation is slightly above the ECB's target.

The **Fed** increases the pace of interest rate hikes slightly. The **ECB** gradually curbs its purchase programmes, but does not initiate a turnaround in interest rates yet. Yields of 10-year US Treasuries rise significantly to over 3 % and 10-year **Bund** yields come close to the 2 %-mark. The tightening in the US yield advantage drives the **euro-dollar** rate towards 1.30.

A reduction in risk aversion leads to a noticeable rise in valuation. The **DAX** breaks through the 14,000-mark. In light of rising interest rates, **real estate** loses its relative attractiveness. However, this effect is compensated for by the considerably better situation on rental markets so that negative price reactions fail to materialise.

Imprint

Published by
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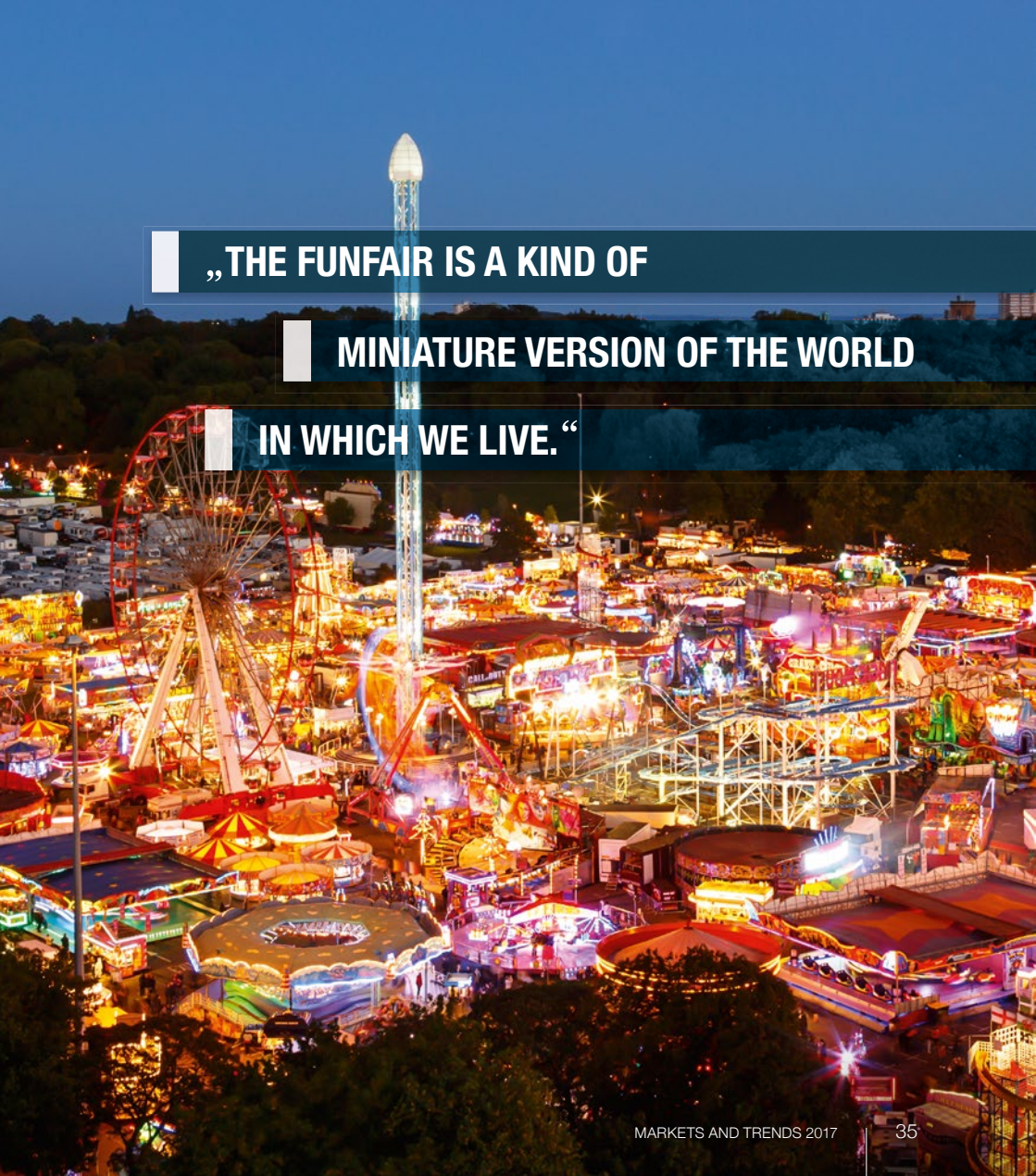
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Concepts and design
La Mina GmbH, Darmstadt, Germany

Printed by
Druckerei Braun & Sohn, Maintal, Germany

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„THE FUNFAIR IS A KIND OF
MINIATURE VERSION OF THE WORLD
IN WHICH WE LIVE.“

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