

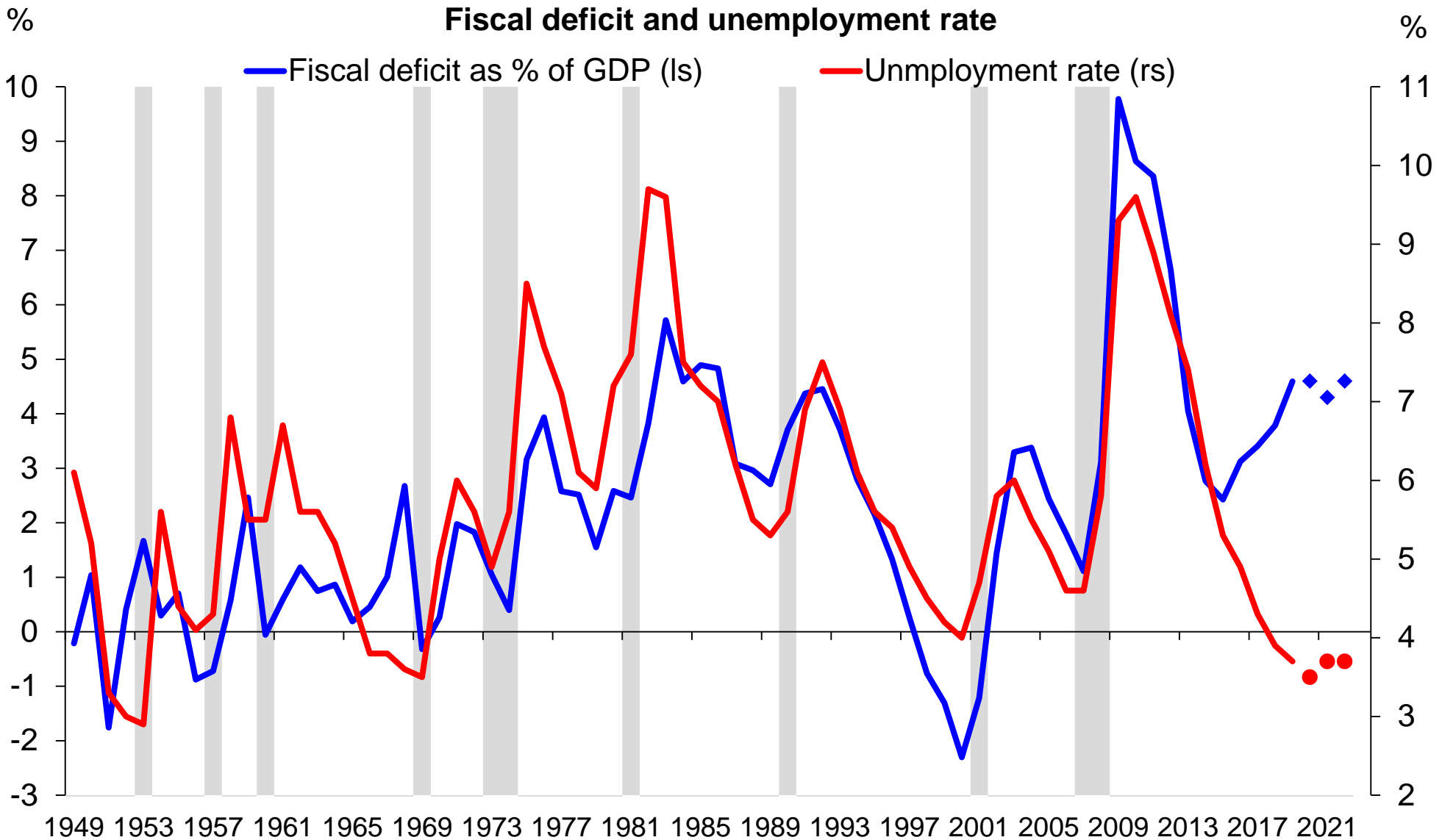


# Macroeconomic implications of trade policies

February 2020

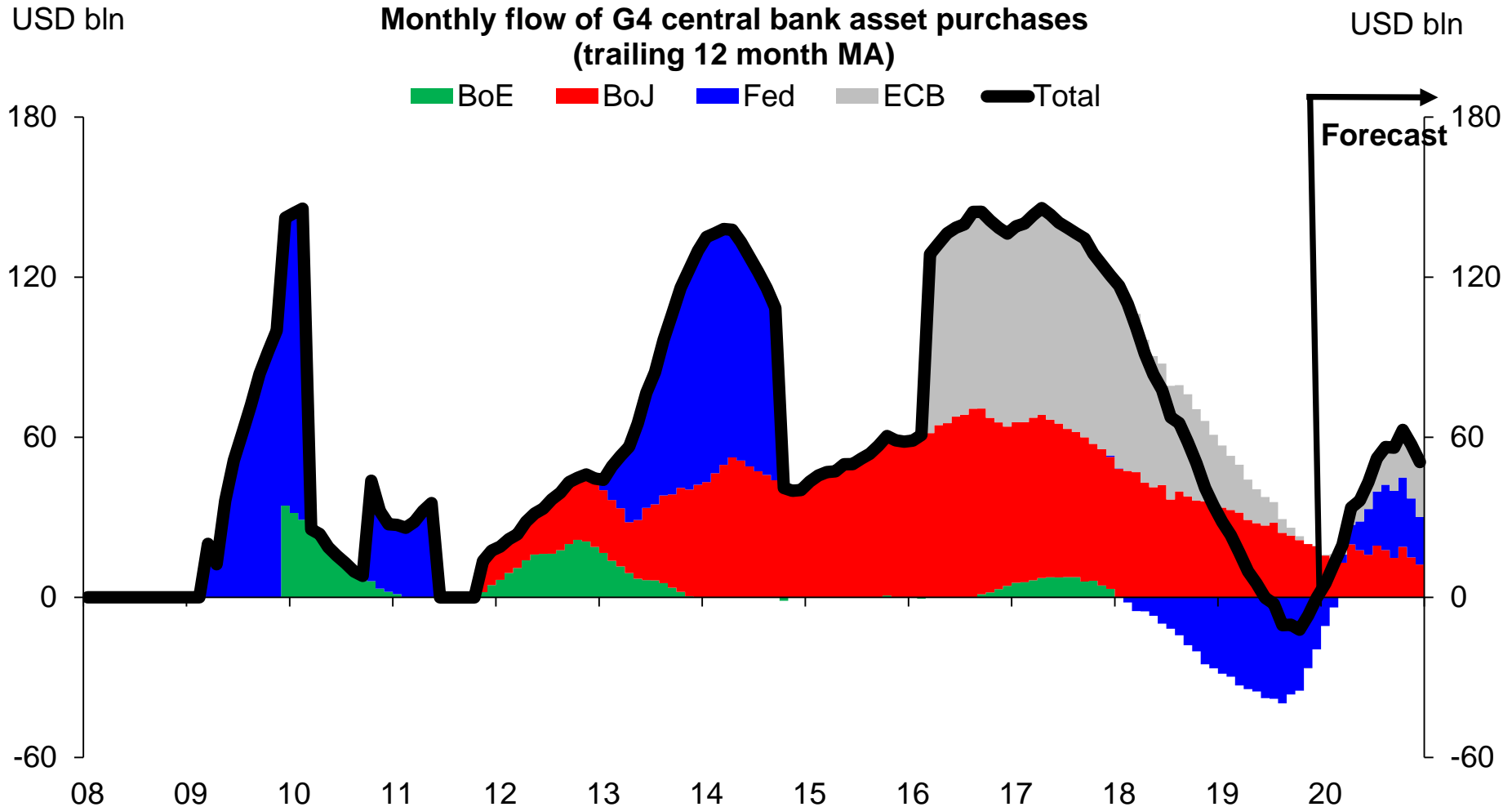
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# Significant support from fiscal policy at the moment



Source: OMB, DB Global Research

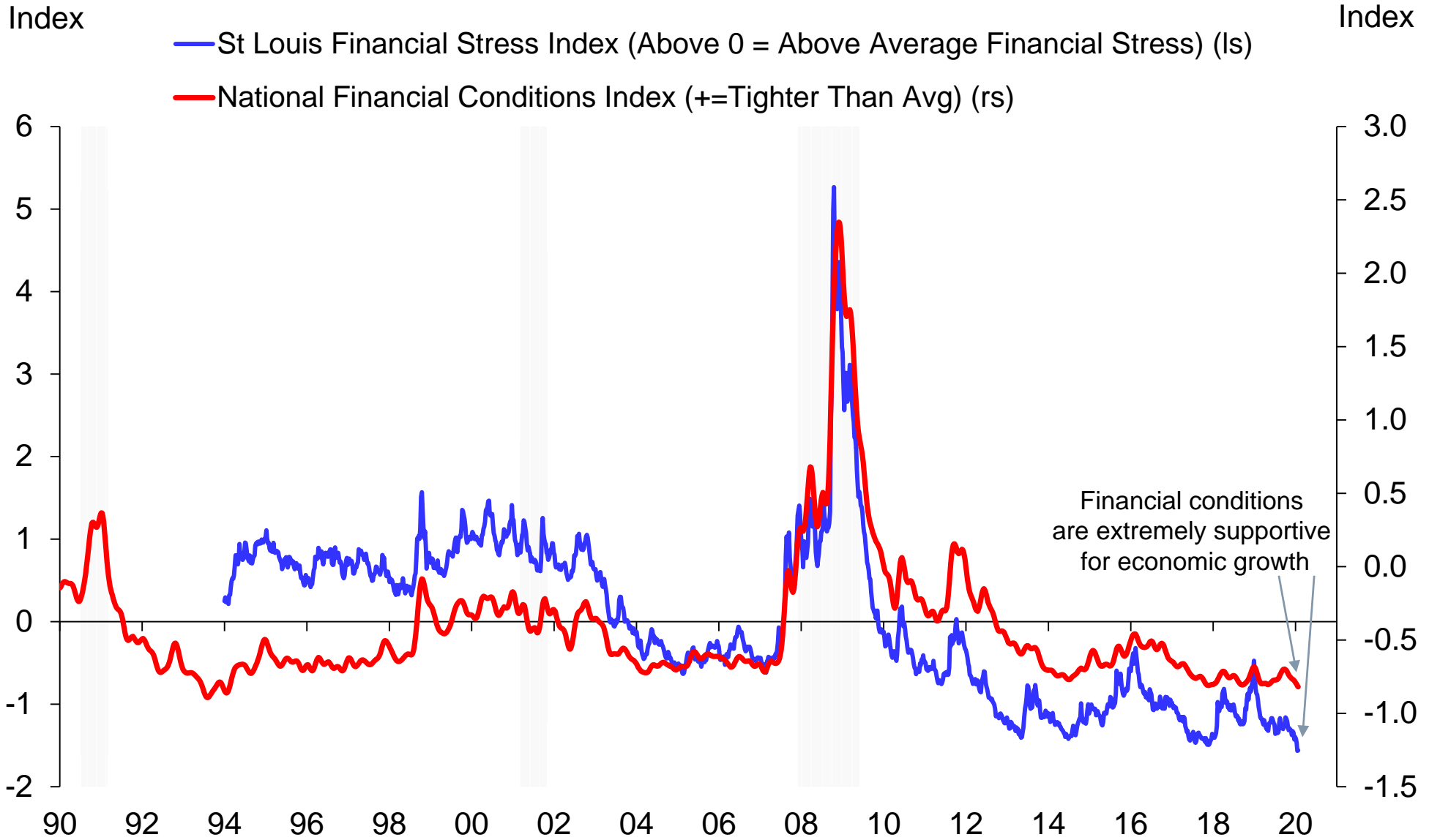
# Significant support from monetary policy at the moment



**Assumptions:** Fed to purchase monthly \$ 60 bn assets in December 2019; \$ 30 bn between January & March 2020 and \$ 10 bn between April and June 2020 and then hold till December 2020; ECB to purchase EUR 20 bn assets monthly till December 2020; BoE to maintain assets as is through December 2020; BoJ to stealth taper asset purchases such that monthly purchases to become zero by December 2020. All FX forecasts assumed to be the same as November 2019.

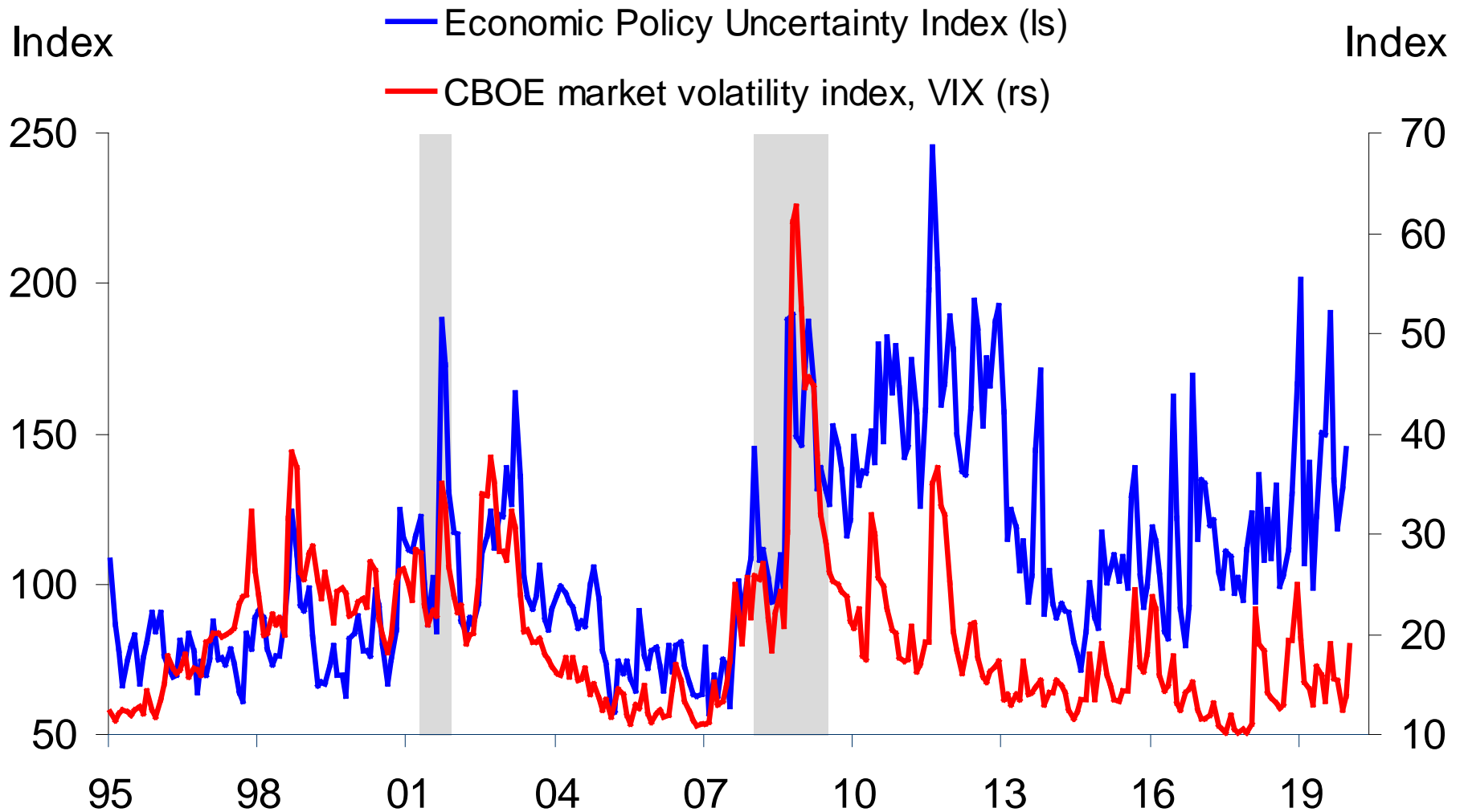
Source: Fed, ECB, BoJ, BoE, Haver Analytics, DB Global Research

# Chicago Fed and St. Louis Fed measures of financial conditions are at all-time lows



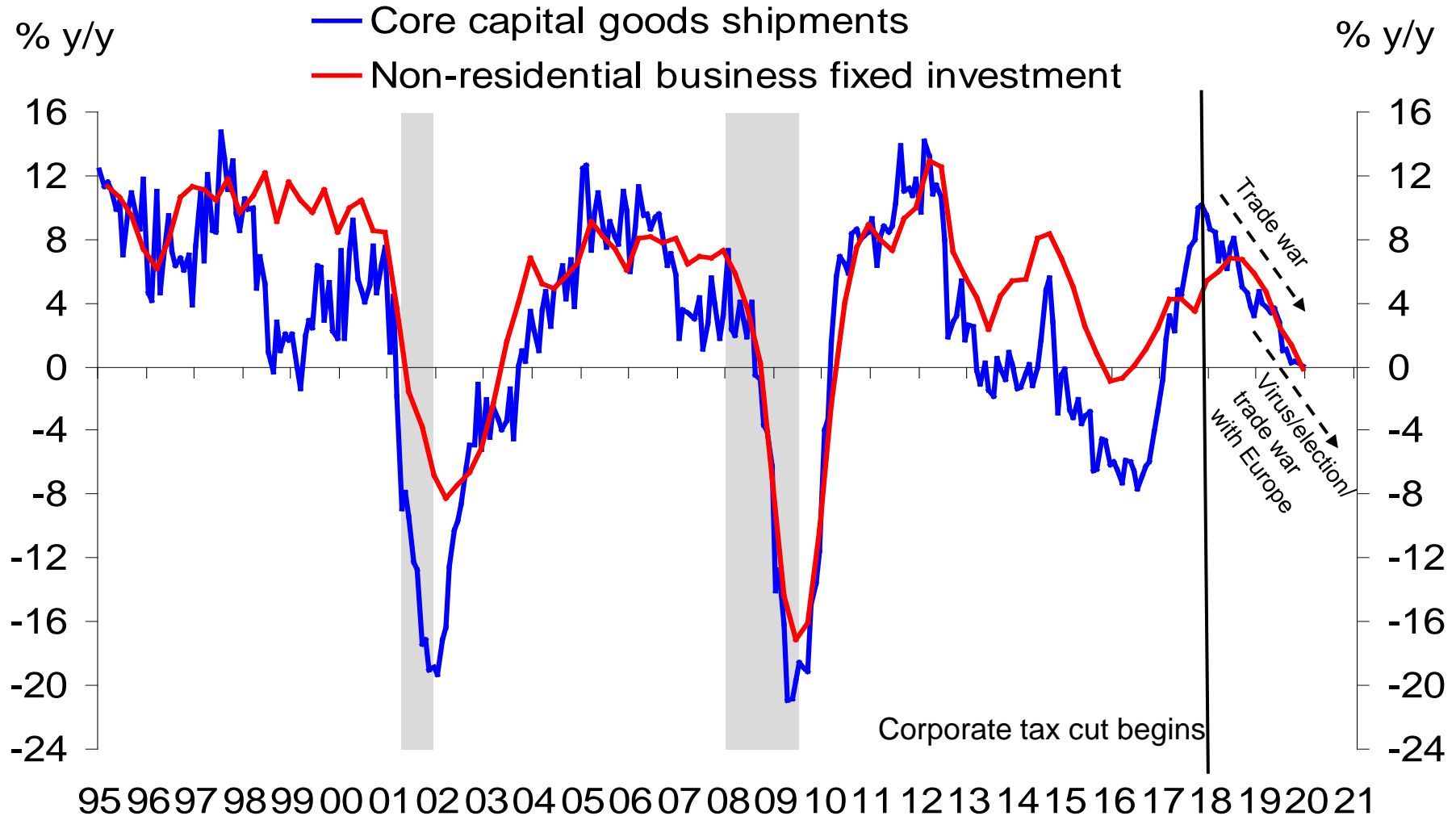
Source: FRBSTL, FRBCHI, Haver Analytics, DB Global Research

# Economic policy uncertainty disconnected from markets since 2009



Source: PolicyUncertainty.com, Wall Street Journal, Haver Analytics, DB Global Research

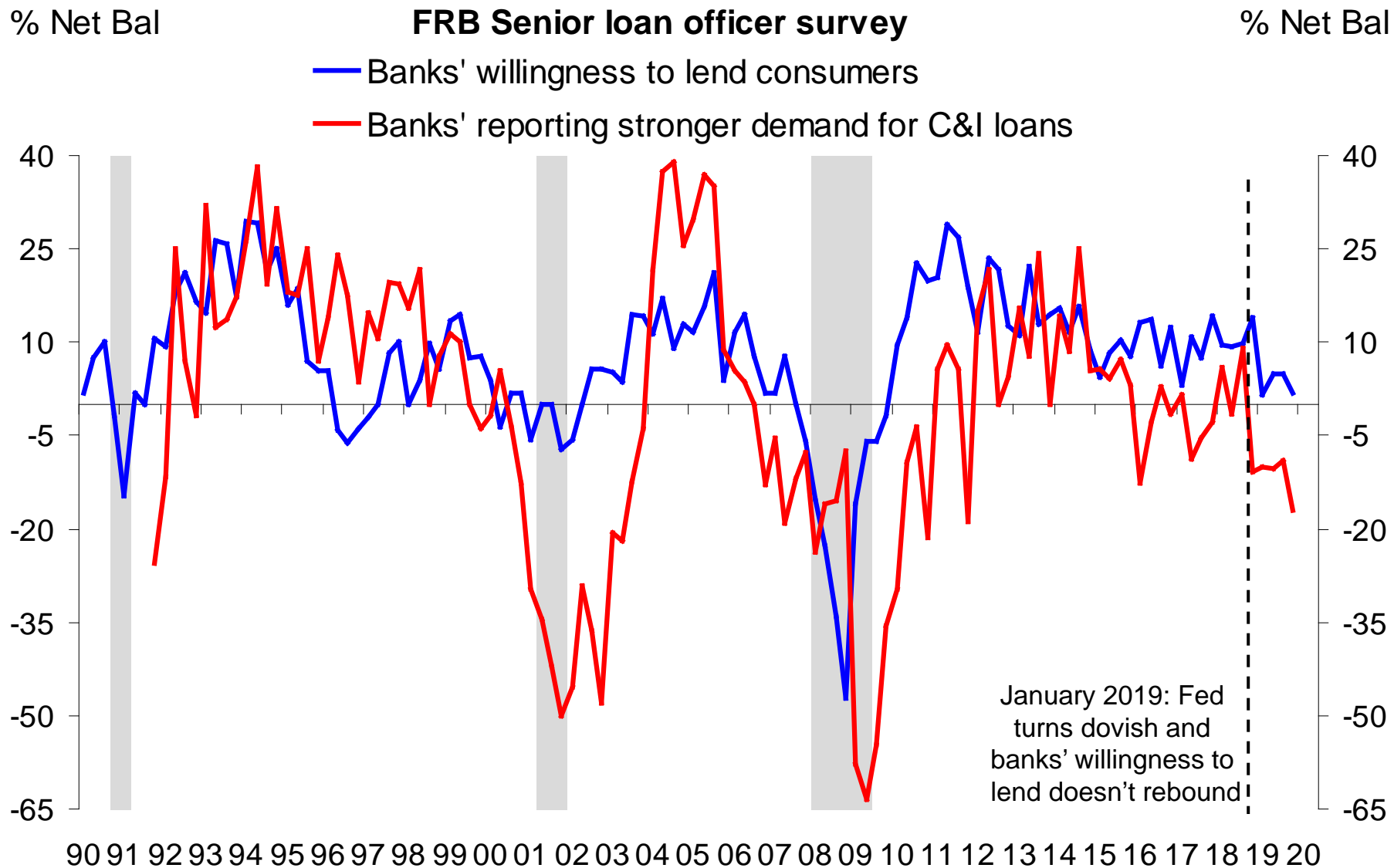
# Trade war uncertainty has been holding back corporate capex spending



Source: Census, BEA, Haver Analytics, DB Global Research



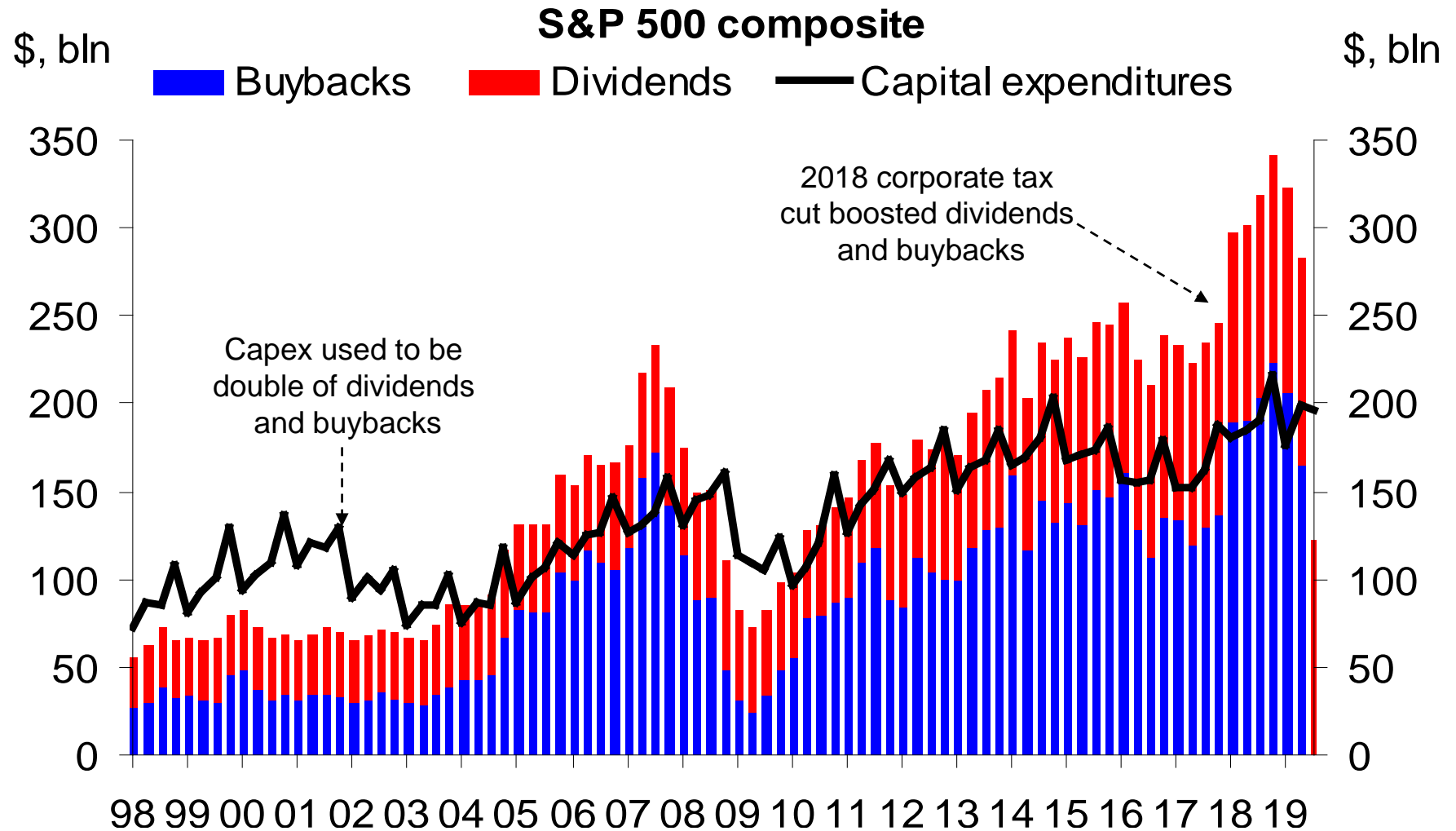
# Banks' willingness to lend and corporate demand for loans declining despite the Fed turning dovish and cutting rates



Source: FRB, Haver Analytics, DB Global Research



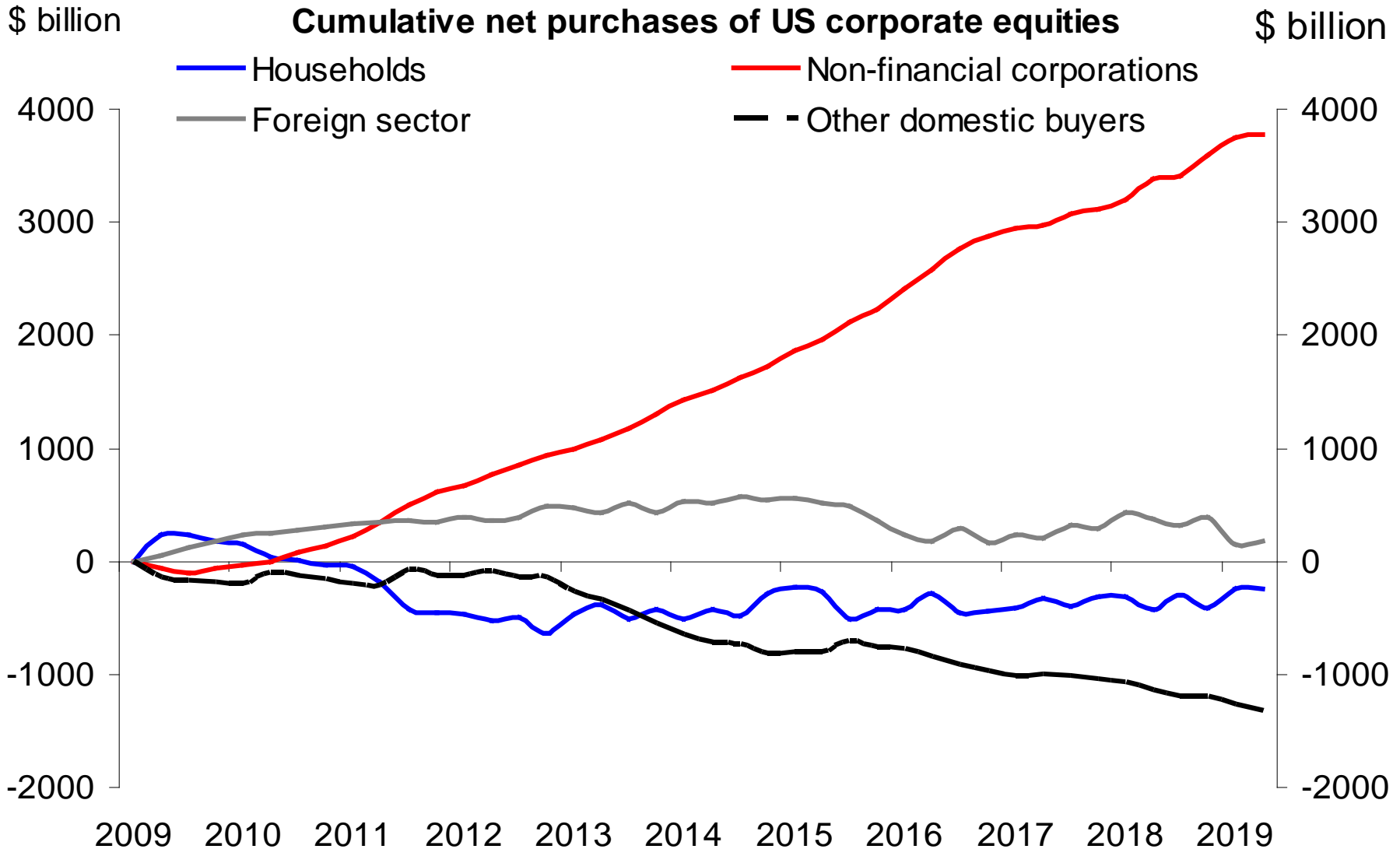
# 2018 corporate tax cut boosted buybacks



Source: S&P, Bloomberg Finance LP, Haver Analytics, DB Global Research



# What's the source of the rally in the stock market since 2009? Buybacks



Note: Other domestic institutions includes Property-Casualty Insurance Companies, Life Insurance Companies, Private Pension Funds, Federal government retirement funds and state/local government employment defined benefit retirement funds

Source: FRB, Haver Analytics, DB Global Research

# US: Consensus expects 2% growth and 2% inflation over the coming 18 months



96) Chart		97) Set as Default View		Disclaimer		Economic Forecasts				
Country/Region/World		Contributor		Contributor Composite		● Yearly ● Quarterly				
United States		Browse		● Private ● Official		Actual / Forecasts				
						Probability of Recession 30.0%				
Indicator	Q1 19	Q2 19	Q3 19	Q4 19	Q1 20	Q2 20	Q3 20	Q4 20	Q1 21	Q2 21
Real GDP (YoY%)	2.7	2.3	2.1	2.3	1.9	1.9	1.9	1.8	1.9	1.9
Real GDP (QoQ% SAAR)	3.1	2.0	2.1	2.1	1.6	1.9	1.9	1.9	1.9	1.9
Consumer Spending ...	1.1	4.6	3.1	1.8	2.0	2.2	2.1	2.0	2.0	2.0
Government Spendin...	2.9	4.8	1.7	2.7	1.7	1.5	1.4	1.2	1.2	1.2
Private Investment (...)	6.2	-6.3	-1.0	-6.1	1.2	1.8	2.3	2.5	2.7	2.8
Exports (QoQ% SAAR)	4.1	-5.7	1.0	1.4	1.5	1.9	2.0	2.2	2.2	2.3
Imports (QoQ% SAAR)	-1.5	0.0	1.8	-8.7	2.2	2.5	2.4	2.5	2.6	2.8
Industrial Production (Yo...)	2.9	1.2	0.2	-0.9	0.0	0.9	0.9	1.2	1.6	1.6
Price Indices										
CPI (YoY%)	1.7	1.8	1.7	2.1	2.3	2.1	2.1	2.1	2.1	2.1
PCE Price Index (YoY%)	1.4	1.4	1.4	1.5	1.9	1.8	1.9	1.9	1.9	1.9
Core PCE (yoy%)	1.6	1.6	1.7	1.6	1.9	1.9	1.9	1.9	1.9	1.9
Interest Rates										
Central Bank Rate (%)	2.50	2.50	2.00	1.75	1.70	1.65	1.65	1.60	1.60	1.60
3-Month Rate (%)	2.60	2.32	2.09	1.91	1.84	1.78	1.77	1.72	1.74	1.76
2-Year Note (%)	2.26	1.76	1.62	1.57	1.61	1.61	1.61	1.59	1.62	1.65
10-Year Note (%)	2.41	2.01	1.67	1.92	1.87	1.90	1.92	1.94	1.96	2.03
Exchange Rates										
EURUSD	1.12	1.14	1.09	1.12	1.12	1.14	1.14	1.15		

Source: Bloomberg Finance LP, DB Global Research



## **Conclusion: Macro implications of trade policies**

Backdrop for trade war:

- Strong fiscal expansion
- Easy monetary policy, including in Europe and Japan
- Extremely easy financial conditions

Despite these tailwinds, capex has continued to slow down.

Maybe Fed forward guidance has made policy uncertainty disconnected from financial assets.

But policy uncertainty is still strongly connected with capex

Source: DB Global Research



## Torsten Slok, Ph.D.

- **Chief Economist, Managing Director**
- **Deutsche Bank Securities, Inc.**
- **Torsten Slok joined Deutsche Bank Securities in the fall of 2005.**
- **Mr. Slok's Economics team has been top-ranked by Institutional Investor in fixed income and equities since 2010, including #1 in 2019.** Slok currently serves as a member of the Economic Club of New York
- Prior to joining the firm, Mr. Slok worked at the OECD in Paris in the Money and Finance Division and the Structural Policy Analysis Division. Before joining the OECD he worked for four years at the IMF in the Division responsible for writing the World Economic Outlook and the Division responsible for China, Hong Kong, and Mongolia.
- Mr. Slok studied at University of Copenhagen and Princeton University. He has published numerous journal articles and reviews on economics and policy analysis, including in Journal of International Economics, Journal of International Money and Finance, and The Econometric Journal.



# Appendix 1

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