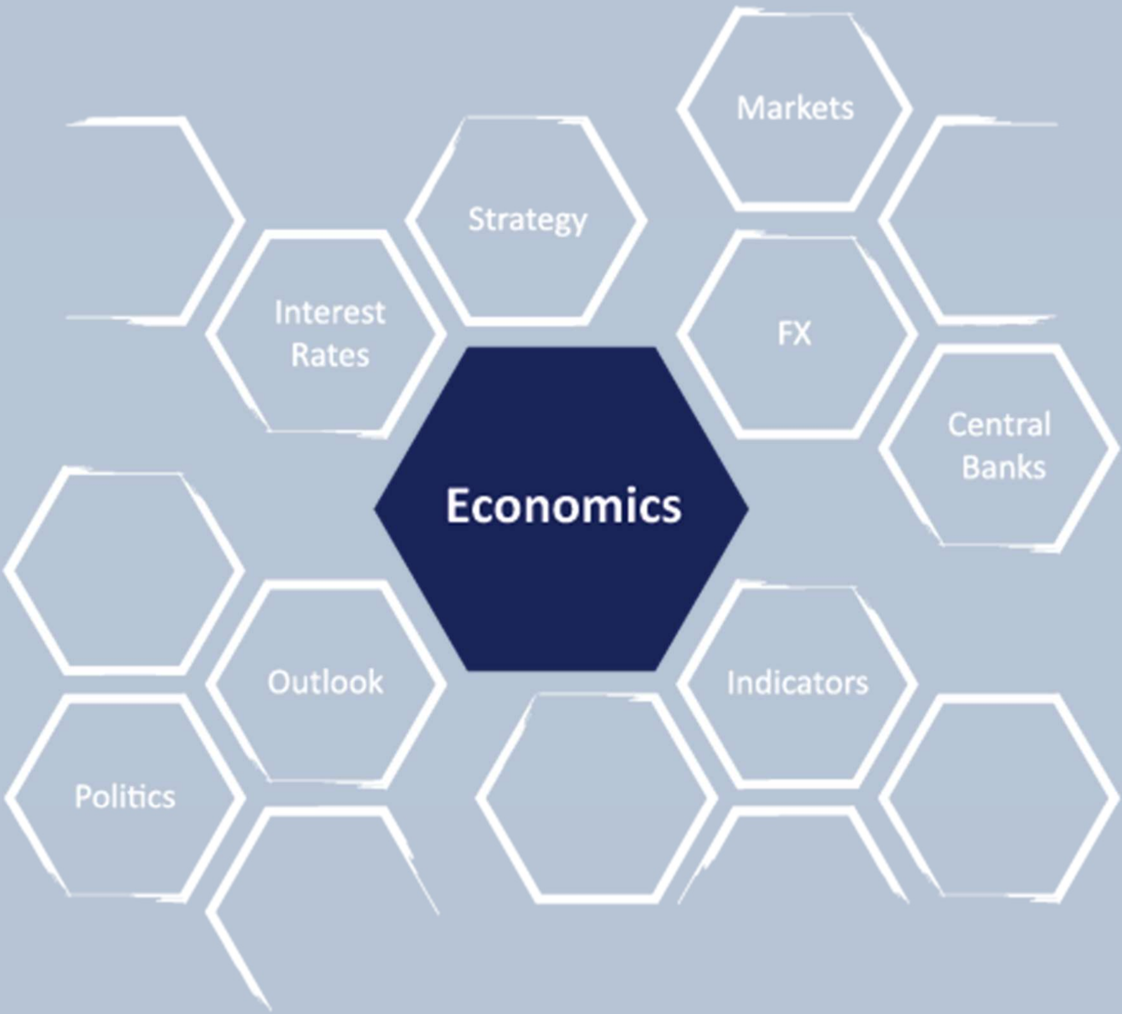

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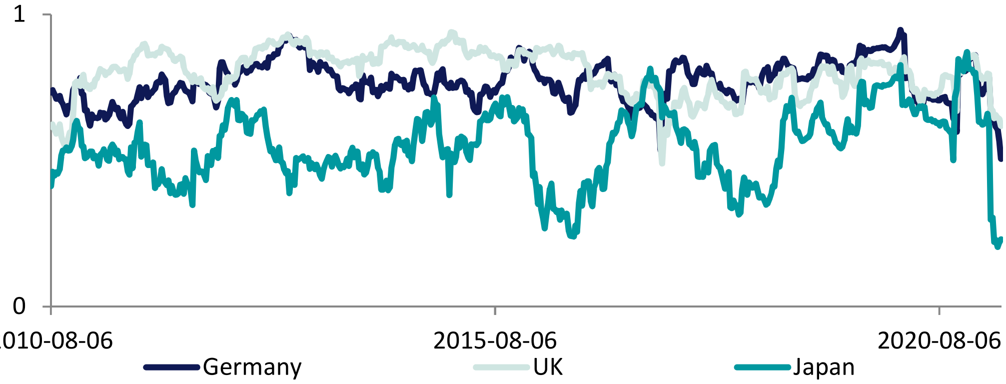
Special
The US bond market and the international interest rate correlation

Analysts: Tobias Basse // Bernd Krampen

Rise in US long-term interest rates stopped for the time being

The data on the US economy released in recent weeks have been highly positive in the main. Besides the regional sentiment indicators – the Philadelphia Index, for example, rose to a pleasing 50.2 points in April – the figures on the development of retail sales are particularly worthy of note. In March as month under review, this time series registered highly impressive month-on-month growth of 9.8 percent. Announced at the same time, the slight upward revision of February's data is of course more of a side note against the background of this positive development, but is certainly still to be seen as positive and indeed puts the March data in an even brighter light. Consumption in the United States thus undoubtedly remains a mainstay of the North American economy's recovery. The US economy is thus on the verge of a veritable boom. The important NAHB index, too, has registered a further increase of late, which can clearly be taken as a positive signal for the US real estate market, at least in the short term. The data likewise recently published on the development of US industrial output could have been a bit more positive, but still revealed a month-on-month growth figure for March of 1.4 percent for this time series. Up-to-date figures on US consumer prices were also published, showing an annualized growth rate of 2.6 percent in March as month under review. The increase thus slightly exceeded the expectations of the market participants. The all in all positive economic data and the rise in inflation have not allowed the US government bond yields to rise any further, however. Indeed, the yield on the 10-year variety actually moved slightly away from the psychologically important 1.70 percent mark after the publication of the data. This development comes as no complete surprise: investors had expected positive news on the state of the economy and an increase in inflation. In the next days financial markets ought to be particularly interested in the outcome of the upcoming FOMC meeting. While wishing to record that the US economy is doing well, they will likely want to try not to send out any signals that could help make for higher bond yields in the USA.

Chart: Correlations among interest rates (in each case 10Y government bond yields to US securities)



Sources: Bloomberg, NORD/LB Macro Research

The international interest rate correlation

In the absence of corresponding impetus from the USA bond market there has been no further upward movement in the bond yields in Euroland either of late. The developments in the North American fixed income sector are beyond any doubt still of considerable relevance for the market events in Euroland. As is well known, the so-called international interest rate correlation assumes a close relationship between the returns in the various economically relevant nations around the world since debtors can obtain new financial resources at home or abroad. The exchange rate and the respective monetary policy in the corresponding currency areas naturally play a role as well in this context. The relationships among interest rates can be analysed empirically using rolling correlation coefficients, for example. We examine government bond yields in the 10-year maturity range and, in addition to the "benchmark" USA, focus on the three important countries Germany, the United Kingdom and Japan. We use weekly data (in each case 30 historical data points) in doing so, and consider first differences (i.e. changes in basis points). The results, as presented in the chart on page 2, show that the correlation between the changes in bond yields in the USA and Germany has recently decreased significantly. While continuing to clearly take a positive value, it now only stands in the range of 0.5 and, moreover, has recently fallen appreciably below the rolling correlation coefficient between British yields and the US rates. This result shows a less marked degree of parallelism between the two time series and is likely to be primarily a consequence of the recent sharp rise in interest rates in the land of unlimited opportunity. The correlation between the changes in yields in Japan and the USA is in the meantime rather to be found just above the zero line – so the two time series are in fact to be seen as not correlated. It should be borne in mind that the rolling correlation coefficient between the changes in capital market rates in both currency areas has always assumed comparatively low values over the entire period under review. This is likely at least a result of the activities of the Bank of Japan, which has been pursuing an extremely expansionary monetary policy for some time now. In any case, the results presented here (especially as regards Japan) suggest that central banks must play an important role in the analysis of the international interest rate correlation. This can then be of very considerable relevance, for example, if the Fed starts to orient its monetary policy more restrictively in the future while the ECB then hesitates even further for the moment.

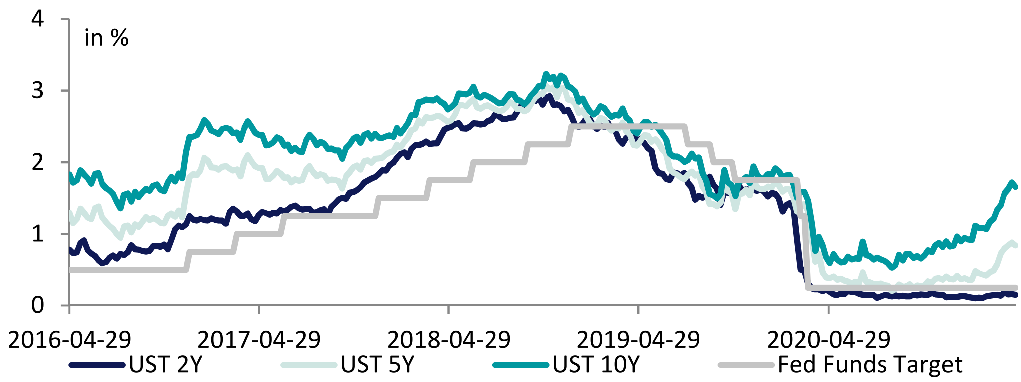
USA
Consumers remain a reliable mainstay of the economy

Analysts: Tobias Basse // Bernd Krampen

Consumers remain a reliable mainstay of the economy

After the weaker figures on retail sales in February, March has seen a veritable consumer frenzy again. The surprise in this context lies not in the direction of the movement but "merely" in its extent, with an impressive month-on-month increase of 9.8 percent reported for March. These figures are still provisional. Revisions are admittedly possible, but will hardly change the fundamental picture of the situation. Moreover, adjustments are possible in both directions – up or down. Indeed, the slight upward revision in the meantime carried out on February's data makes the current upward trend look even more pleasing. And so the US consumer party goes on. Interestingly, what already in January was a marked increase was actually outshone by the developments in March. The retail sales control group – which is of core relevance for the GDP survey – admittedly rose by "just" 6.9 percent mom in March as month under review, which, in view of the movement in the headline time series, can almost be described as a rather unwelcome surprise, but this report certainly ought not to be rated negatively. In any event, the consumer remains an extremely reliable mainstay of the US economy, against which background we can expect pleasing data on real economic growth in the first quarter of 2021.

Chart: Interest rates in the USA



Sources: Bloomberg, NORD/LB Macro Research

Waiting for the FOMC

The markets are not reckoning on the forthcoming FOMC meeting making for any major news flow. The Federal Reserve undoubtedly intends to bolster the North American economy with low key interest rates for as long as possible. However, rising inflation rates and falling unemployment can be expected to trigger increasingly critical discussions among the central bankers as to when and how a slow and careful normalization of US monetary policy can be initiated. The unemployment rate, which is of particularly importance for the Fed, fell to just 6.0 percent in March in the widely watched U3 definition. In this context it should be borne in mind that the lacking availability of qualified personnel has appreciably slowed the creation of new jobs of late. The feedback from the Institute for Supply Management's company surveys, for example, has recently delivered very clear indications in this direction. Attention now needs to be paid to the signals from the Fed, though no really unambiguous indications of any imminent tightening of the central bank's monetary policy is likely for the time being, seeing as the central bankers are probably happy that the upward trend in the US capital market rates has come to an end for the moment. The Fed therefore has no interest in already sending out any signals in the very near term which could then send the bond yields shooting back up again.

US dollar likely to only briefly remain under pressure

The US currency has found itself under pressure again of late, with the mark of USD 1.20/EUR coming into focus in this context. For now, however, the US interest rates, which are still relatively high, are an aspect in favour of the greenback. The increasingly emergent positive development of the US economy should also be able to help the dollar in the coming 3 months.

Fundamental forecasts, USA

	2020	2021	2022
GDP	-3.5	5.6	3.0
Private consumption	-3.9	5.2	2.5
Govt. consumption	0.3	2.2	1.5
Fixed investment	-0.8	9.5	7.0
Exports	-12.9	8.0	5.0
Imports	-9.3	6.0	5.0
Inflation	1.2	2.9	2.5
Unemployment rate [1]	8.1	6.0	5.0
Budget balance [2]	-15.4	-11.2	-7.0
Current acc. balance [2]	-3.1	-2.6	-2.6

Change vs previous year as percentage; [1] as percentage of the labour force; [2] as percentage of GDP

Sources: Feri, NORD/LB Macro Research

Quarterly forecasts, USA

	II/20	III/20	IV/20	I/21	II/21
GDP qoq ann.	-31.4	33.4	4.3	5.7	7.4
GDP yoy	-9.0	-2.8	-2.4	0.2	12.1
Inflation yoy	0.4	1.2	1.2	1.9	3.6

Change as percentage

Sources: Feri, NORD/LB Macro Research

Interest and exchange rates, USA

	22.04.	3M	6M	12M
Fed funds target rate	0.25	0.25	0.25	0.25
3M rate	0.18	0.20	0.25	0.30
10Y Treasuries	1.54	1.55	1.65	1.85
Spread 10Y Bund	179	175	185	195
EUR in USD	1.20	1.17	1.17	1.16

Sources: Bloomberg, NORD/LB Macro Research

Euroland
Economy picks up in Q2 – ECB rejects taper debate (as yet)

Analyst: Christian Lips, Chief Economist

Economy shrinks anew in Q1 – leading indicators signal strong recovery

Q1 will likely have seen the eurozone's economic output shrink anew. Economic activity continued to be subdued by the high infection rates and voluntary and government-imposed restrictions on contact in most of the member states. These factors particularly impacted the hotel and hospitality industry, some service sectors, the stationary retail trade as well as art, cultural and educational institutions. The manufacturing sector continued its robust development, benefiting from the global economic recovery and rising foreign demand. However, the losses in value added in other areas of economic activity could not be fully compensated, especially as the at times unusually severe winter weather dampened construction output. With a forecasted quarter-on-quarter figure of -0.9 percent, real GDP will likely have shrunk as markedly as in Q4 2020. Progress on the vaccination front will allow gradual steps towards reopening the economy. Surveys are suggesting a strong recovery for spring and summer. At 53.7 points, the PMI Composite is well inside the expansion zone in April. The Economic Sentiment Indicator picked up particularly strongly in March (+7.6) and, at 101.0 points, is again above the long-term average.

ECB reaffirms March decisions – attentions already on the June meeting

As expected, the ECB made no adjustments to its monetary policy in April, leaving the key interest rates, the total volume and minimum term of the Pandemic Emergency Purchase Programme (PEPP), the parameters of the APP and the forward guidance unchanged. In its statement, the Governing Council reaffirmed the decisions taken at the March meeting, in particular with regard to the temporary acceleration of the PEPP bond purchases. The Council expects purchases under the PEPP to "continue to be conducted at a significantly higher pace" than during the first months of the year. Given the rather moderate acceleration last month, the formulation may come as a surprise. Temporarily lower net purchases were to be reckoned with over Easter, however. The Council intends to continue to make its purchases flexibly according to market conditions and with a view to preventing a premature tightening of financing conditions. The aim is to prevent developments that would be inconsistent with countering the "downward impact of the pandemic on the projected path of inflation". This affirms once again that the ECB will see through the temporary increase in inflation this year. In April, several Governing Council members had repeatedly stressed that in their view the pandemic is having a fundamentally disinflationary impact. ECB President Christine Lagarde reiterated at the press conference that the Council is closely monitoring the impact of exchange rate developments on the inflation outlook. In recent days, the EUR/USD exchange rate had again overstepped the mark of EUR 1.20. She added that the ECB still stands ready to adjust all its instruments as appropriate. This explicitly includes a further expansion of the PEPP, whereby the symmetry of possible adjustments in the future continues to be emphasized in the ECB statement. Ms Lagarde sees the near-term outlook as clouded by uncertainty, but, in light of the pandemic risks, this assessment comes as no great surprise either. The reactions in the financial markets were very subdued in view of the foreseeable results of the ECB meeting. The focus is already on the June meeting at which the PEPP purchase volume will also be reassessed.

Capital market rates likely to continue their upward trend – but "taper fear" premature
According to Lagarde, the possibility of a tapering of the PEPP was not discussed by the Council in April, and she described any discussion about the phasing out of the crisis instruments as "premature", adding that the ECB will not act in sync with the Fed either. Nevertheless, the question highlights a painful issue. The ECB will have to communicate a possible PEPP pace adjustment very carefully in order not to prematurely send a tapering signal to the markets – in particular against the background that the inflation rate will be significantly above 2 percent at times in the second half of 2021 and that the Fed will likely once again take its foot off the accelerator well ahead of the ECB. Given the short-term economic risks and high underutilization, we believe that a taper fear for the eurozone is unfounded. The ECB will not wish to tolerate a massive rise in interest rates, even if the economy improves significantly over the course of the year. That said, it is in the very nature of communication oriented far into the future that the ECB will very soon have to agree on an astute approach where crisis instruments are concerned. In an environment of significantly higher inflation, at least in the second half of the year, and a US economy that is more advanced in the recovery process, communication is likely to become a balancing act. To make matters worse, the strategic review has not yet been completed, as this makes additional areas of conflict between doves and hawks in the Council inevitable. It cannot be ruled out that the debates and compromises in respect of the strategic realignment will also influence the decision-making as regards the central bank's concrete monetary policy path. Against this background the months ahead promise to be exciting.

Fundamental forecasts, Euroland

	2020	**2021**	**2022**
GDP	-6.7	4.4	4.5
Private consumption	-8.0	3.0	4.9
Govt. consumption	1.2	3.8	1.2
Fixed investment	-8.4	7.3	6.1
Net exports [1]	-0.6	0.7	0.0
Inflation	0.3	1.7	1.3
Unemployment rate [2]	8.0	8.2	7.8
Budget balance [3]	-7.2	-7.5	-4.5
Current acc. balance [3]	2.2	2.4	2.3

Change vs previous year as percentage; [1] as contribution to GDP growth; [2] as percentage of the labour force; [3] as percentage of GDP

Sources: Feri, NORD/LB Macro Research

Quarterly forecasts, Euroland

	II/20	**III/20**	**IV/20**	**I/21**	**II/21**
GDP sa qoq	-11.6	12.5	-0.7	-0.9	1.6
GDP sa yoy	-14.6	-4.2	-4.9	-2.0	12.5
Inflation yoy	0.2	0.0	-0.3	1.1	1.6

Change as percentage

Sources: Feri, NORD/LB Macro Research

Interest rates, Euroland

	22.04.	**3M**	**6M**	**12M**
Repo rate ECB	0.00	0.00	0.00	0.00
3M rate	-0.54	-0.52	-0.51	-0.48
10Y Bund	-0.25	-0.20	-0.20	-0.10

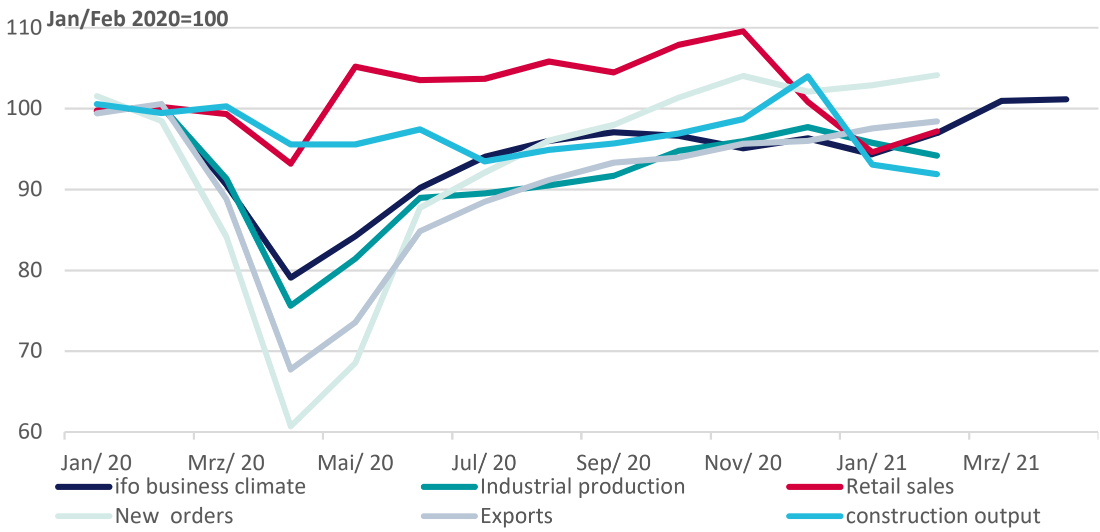
Sources: Bloomberg, NORD/LB Macro Research

Germany
Into recovery mode after GDP drop in Q1 – accelerated vaccination rate

Analyst: Christian Lips, Chief Economist

Economic output in Q1 probably significantly lower than in the previous quarter
In contrast to Q4/2020, Germany's economic output contracted in Q1 this year. In the previous issues of the Economic Adviser we had already pointed out the various special factors that, in addition to the corona-induced measures, have had a temporary negative effect. The extremely weak retail sales figures registered in the first months of 2021 provide indication of the lockdown's impacts, though this setback is likely also attributable to pull-forward effects due to the reduced VAT rates that were in place until the end of the year. Above all the at times unusually adverse weather conditions were a millstone on construction output. The upshot was that construction output and retail sales in the first two months of the year were again well below their pre-crisis levels (see chart). On the other hand, the order situation for industry continued its upward trend, and this likely contributed to the significant upturn in sentiment. After a noticeable minus in Q1 we expect real GDP to register an equally appreciable rebound for the summer half-year. Our GDP forecast for 2021 stands at 3.2 percent, so the pre-crisis level ought to be reached again in early 2022.

Chart: Development of key economic indicators during the corona crisis



Sources: Bloomberg, NORD/LB Macro Research

Vaccination rate picks up significantly in April – sentiment indicators anticipate recovery
Risks in the form of a renewed escalation in infection rates are more of a short-term nature provided that, as planned, the vaccination campaign progresses a lot faster in the months ahead. The involvement of general practitioners appears to be starting to bear fruit, with the vaccination rate increasing significantly in April. Ultimately, however, the question as to when the economic recovery can really pick up pace also depends on the vaccination campaign's progress. We expect Q3 to see the most dynamic development, as the vaccination coverage likely achieved by then will enable steps towards the reopening of economic sectors that are currently on hold. Sentiment indicators and the financial markets are already

anticipating this recovery. April saw the ZEW economic expectations suffer a slight, unexpected setback, dropping somewhat from 76.6 to 70.7 balance points. At the same time, however, the assessment of the current situation across the economy improved significantly, from -61.0 to -48.8 balance points. The ZEW survey result is therefore on balance positive. The improvement in the situation assessment more than compensated for the decline in expectations. The slight drop in expectations ought not to be overinterpreted. Admittedly, uncertainties due to the development of the pandemic and new plans for a further lockdown extension cannot be ruled out at the present time, but whether these were really the reason must at least be questioned. The parallel improvement in the situation assessment would then at least be counterintuitive. It is more likely that the gradual recovery in the situation assessment after the difficult first quarter will now lead to slight technical corrections. At least in the past, this effect was to be seen time and time again in the ZEW survey – and it is not without reason that the ifo Institute additionally determines a climate index from both components in its survey. An analogously calculated "ZEW economic climate" results in a further increase for April as well. The vast majority of both financial market experts as well as companies – especially in industry – are continuing to look to the future with marked optimism. The developments on the stock markets likewise evidence the great optimism, with Germany's DAX index hitting a new all-time high of around 15,500 points in mid-April. The highly positive sentiment is being fuelled by robust industrial and foreign trade figures and ongoing supportive effects from monetary and fiscal policy. A great deal of optimism has already been priced in, however, so disappointments harbour a certain potential for setbacks. The most crucial determinant remains the further course of the pandemic, and in particular the vaccination campaign must be swiftly steered to success. Then, despite the third wave, GDP growth of 3.2 percent as forecast by our team for 2021 will be within reach.

Fundamental forecasts, Germany

	2020	2021	2022
GDP	-4.9	3.2	4.3
Private consumption	-6.1	1.3	6.9
Govt. consumption	3.3	2.1	1.3
Fixed investment	-3.1	2.6	5.7
Exports	-9.4	11.3	5.7
Imports	-8.5	7.8	8.5
Net exports [1]	-0.9	2.0	-0.8
Inflation [2]	0.4	2.6	1.4
Unemployment rate [3]	5.9	5.9	5.4
Budget balance [4]	-4.2	-6.9	-2.5
Current acc. balance [4]	6.8	6.9	6.5

Change vs previous year as percentage; [1] as contribution to GDP growth; [2] HICP; [3] as percentage of the civil labour force (Federal Employment Office definition); [4] as percentage of GDP

Sources: Feri, NORD/LB Macro Research

Quarterly forecasts, Germany

	II/20	III/20	IV/20	I/21	II/21
GDP sa qoq	-9.7	8.5	0.3	-1.8	1.9
GDP nsa yoy	-11.3	-3.9	-2.7	-3.9	9.4
Inflation yoy	0.7	-0.2	-0.6	1.7	2.0

Change as percentage

Sources: Feri, NORD/LB Macro Research

NORD/LB

Switzerland
Economic recovery to pick up pace in summer

Analyst: Christian Lips, Chief Economist

Signs point to recovery – Federal Council resolves easing despite rising infection rates
At present the signs in Switzerland are clearly pointing to recovery. March saw the KOF economic barometer literally leap to 117.8 points – its highest level since May 2010. Overall, the KOF forecasts a return to pre-crisis GDP as early as Q3 of this year. In calendar week 13 the SECO weekly economic activity index stood just 1 percent below the level registered in the fourth quarter of 2019. In the financial markets, too, the further course of economic development is being seen in an increasingly positive light with, for example, Switzerland's SMI blue-chip index just short of the all-time high of 11,270 points registered in February 2020. The reasons behind the Alpine republic's rapid economic recovery lie in the Federal Council's effective crisis management, the Covid resilience of Switzerland's key industries (pharmaceuticals and finance) as well as the undiminished attractiveness of Switzerland as a business location. Although four out of five self-selected criteria were not met, the Federal Council finally bowed to the pressure of the SVP party and business representatives and allowed extensive easing of the corona-induced restrictions as of 19.04.. These reopening measures will undoubtedly make for added momentum for the economy in the short term. However, there is also the risk of a renewed flare-up of the pandemic in this connection. We are maintaining our forecast that 2021 as a whole will see economic growth of 3.1 percent.

US Treasury Department removes Switzerland from list of currency manipulators
In the US Treasury's recent half-yearly report to Congress, it was noted, as already in December, that Switzerland meets all three currency manipulation criteria under a 2015 trade law. Nevertheless, no threat of sanctions was made as there had been under the Trump administration. On the contrary, Switzerland was removed from the list of currency manipulators because there was "insufficient evidence" of the country seeking to gain unfair advantage. Since the beginning of Joe Biden's presidency there has generally been a marked change in the attitude and tone of the US administration on bilateral and multilateral conflict issues. Moreover, the demand for the Swiss franc as a classic safe haven currency has also waned in the wake of globally receding uncertainty and growing optimism about the economy. This also reduces the pressure on the SNB for further massive FX interventions. The exchange rate has in the meantime settled above the mark of 1.10 EUR/CHF. Monetary policy remains expansionary, however, the key rates will remain at -0.75 percent for some time and the SNB will intervene on the FX market if necessary. Contributory factors hereto are the ECB's monetary policy stance and the low medium-term inflation expectations.

Fundamental forecasts*, Switzerland

	2020	2021	202“
GDP	-2.9	3.1	3.4
Inflation (CPI)	-0.7	0.2	0.5
Unemployment rate [1]	3.1	3.5	3.3
Budget balance [2]	-4.4	-2.2	-0.6
Current acc. balance [2]	4.1	7.0	7.5

Interest and exchange rates, Switzerland

	22.04.	3M	6M	12M
SNB key rate	-0.75	-0.75	-0.75	-0.75
3M rate	-0.75	-0.75	-0.75	-0.75
10Y	-0.28	-0.30	-0.20	-0.10
Spread 10Y Bund	-3	-10	0	0
EUR in CHF	1.10	1.11	1.12	1.11

* Change vs previous year as percentage; [1] as percentage of the labour force; [2] as percentage of GDP

Sources: Feri, Bloomberg, NORD/LB Macro Research

Japan
Covid-19 remains in focus

Analysts: Tobias Basse // Bernd Krampen

Waiting for the Bank of Japan

The financial markets are awaiting the outcome of the Bank of Japan's next meeting with great interest, although no adjustments are anticipated, at least as far as interest rate policy is concerned. The central bank in Tokyo will likely hold both the traditional key and the target yield on 10-year government bonds at their current levels. In the wake of their review of the BoJ's monetary policy framework in March, the central bankers can generally be expected to see little need for any greater changes elsewhere either. In view of recent remarks on Japanese economic policy from government circles, however, the central bank could well comment on the measures towards bolstering bank lending to the economy, which should then make for some movement in the financial markets. Moreover – as always – it will be very interesting to see how many dissenting opinions will go on record as regards an ongoing watch-and-wait stance on the part of the Japanese monetary policymakers. Any figure above 1 would certainly come as a considerable surprise for the interested observers at this point. In short, therefore, there is at least no great movement to be reckoned with at the BoJ.

Covid-19 remains in focus

Japan is again struggling with rising Covid-19 infection rates, in response to which new emergency regulations have already been put into force in a number of prefectures. Moreover, the government recently adopted additional fiscal support measures for the economy, among which the technical resources of the authorities are to be upgraded. In addition, high-ranking government representatives recently affirmed their commitment to enabling the Summer Olympics to take place, with the opening ceremony still scheduled to go ahead on 23 July. Overseas spectators will not be allowed into Japan to attend the Games, and no definitive decision has yet been taken as to whether domestic sports fans will be permitted into the events. We have pointed out on several occasions that the measures already adopted in the fight against the coronavirus will clearly curb the positive economic effects of what is probably the world's biggest sporting occasion. Moreover, leading members of the ruling party LDP have recently also emphasized that a cancellation of the Olympics must remain an option as well. In times of Corona, the Games are in any case more than disputed among the population.

Fundamental forecasts*, Japan

	2020	2021	2022
GDP	-4.8	2.9	2.0
Inflation	0.0	0.1	0.6
Unemployment rate [1]	2.8	3.0	2.8
Budget balance [2]	-13.0	-8.0	-5.3
Current acc. balance [2]	3.2	3.5	3.5

* Change vs previous year as percentage

Interest and exchange rates, Japan

	22.04.	3M	6M	12M
Key rate	-0.10	-0.10	-0.10	-0.10
3M rate	-0.07	0.05	0.05	0.10
10Y	0.07	0.10	0.15	0.20
Spread 10Y Bund	32	30	35	30
EUR in JPY	130	128	129	128
USD in JPY	108	109	110	110

[1] as percentage of the labour force; [2] as percentage of GDP

Sources: Feri, Bloomberg, NORD/LB Macro Research

China
Ongoing growth with slight slowdown in momentum

Analysts: Tobias Basse // Bernd Krampen

GDP growth somewhat subdued in Q1/2021 due to New Year and normalization

Following China's GDP collapse in Q1/2020, the last quarters of the year were already marked by significant growth. This was no longer the case for Q1 of this year, however: the uptick of 0.6 percent qoq fell well short of expectations and was the second-lowest quarterly increase since 2011. This setback is only tempered somewhat by the upward revision of the previous month's level. In the meantime, higher infection rates and thus economic restrictions, especially during the Chinese New Year festivities in mid-February when more severe restrictions were placed on mobility, had had a detrimental impact. It is precisely this that is reflected in China's not exactly buoyant economic performance in Q1 as a whole. That said, the annualized rate literally skyrocketed to 18.3 percent - the highest since the 1990s. However, it should be borne in mind that China already experienced the GDP collapse in the first quarter of 2020 – at that time with a figure close on -10 percent qoq. This level now made itself felt in the statistics, and four successive qoq increases followed (with 10.1, 3.1, 3.2 and now 0.6 percent). It is thus evident that the pace of growth is slowly losing momentum and normalizing again. The phase of relatively straightforward upward countermovements is now likely to be superseded by qoq increases at a fairly constant rate of around 1.5 percent (equating to an annualized rate of about 6 percent). This trend by no means comes as a surprise: the corporate surveys polled by CFPL and Caixin had in the course of recent months intermittently registered predominantly slight downward movements but at all times remained above the mark of 50 points considered as expansion threshold. The indicators for March as month under review picked up again more clearly, with the CFLP Manufacturing PMI up from 50.6 to 51.9 points and the CFLP Services PMI from 51.4 to 56.3 points. In this respect the outlook has brightened again.

Fiscal and monetary policymakers not about to act – renminbi appreciates temporarily

Given the recoveries seen in the monthly data, the monetary and fiscal policymakers will remain in watch-and-wait mode. The key interest rates will remain unchanged for the time being, but monetary policy measures could be made somewhat less expansionary. The smouldering credit risks of state-owned enterprises remain an economic hazard. The renminbi came under some pressure due to the vaccination-related brightening of the situation in the USA but has recovered again of late, with the US dollar just above the CNY 6.50 mark. Over the next twelve months we expect a gradual appreciation of the US dollar in the wake of the US economy's dynamic recovery.

Fundamental forecasts*, China

	2020	2021	2022
GDP	2.3	8.5	5.5
Inflation	1.6	1.6	2.3
Unemployment rate [1]	3.8	3.8	3.6
Budget balance [2]	-11.4	-5.8	-4.3
Current acc. balance [2]	1.9	1.5	1.2

* Change vs previous year as percentage

Interest and exchange rates, China

	22.04.	3M	6M	12M
Deposit rate	1.50	1.50	1.50	1.50
3M SHIBOR	2.60	2.80	2.90	2.90
10Y	3.16	3.30	3.30	3.40
Spread 10Y Bund	341	350	350	350
EUR in CNY	7.80	7.72	7.78	7.77
USD in CNY	6.49	6.60	6.65	6.70

[1] as percentage of the labour force; [2] as percentage of GDP

Sources: Feri, Bloomberg, NORD/LB Macro Research

Britain
Successful vaccination campaign spurs economic recovery

Analysts: Tobias Basse // Bernd Krampen

Successful vaccination campaign significantly brightens growth prospects

Britain is making good progress towards gradually vanquishing the third wave of the pandemic. The vaccination campaign was successful, with the infection rates falling massively in Q1 and the number of fatalities per day in the lower double-digit range of late. The government in London has in the meantime ushered in the third of four phases of easing the corona-induced restrictions: the opening of schools in March, the end of the “stay-at-home" order in late March and, most recently, the reopening of non-essential shops, leisure facilities and (outdoor) catering since 12 April. The mobility data accordingly took a significant upward curve. Following a slump in January, retail sales already picked up significantly in February and especially in March. Industrial output likewise got off to a weak start into 2021, but will likely continue recovering as well, against which background GDP could perhaps at best have stagnated in Q1. Britain was hit particularly hard by the pandemic a year ago, and at the end of 2020 registered GDP that was almost 10 percent down in year-on-year comparison. Still, the United Kingdom now appears to have good prospects for economic recovery, provided mistakes like those made in 2020 are not repeated. However, there are now also political risks to be contended with in the form of the parliamentary elections in Scotland on 6 May, which could point the way to a discussed referendum on independence, as well as the unrest in Northern Ireland.

BoE and gilt yields at turning point – pound in sideways movement of late

Just as the vaccination campaign was successful and the infection rates fell, the picture has changed on the British bond market as well: instead of speculation about a further interest rate cut by the BoE, the tide turned to the prospects of a less expansionary monetary policy. The yield on 10-year gilts rose to 0.80 percent within weeks, and it is conceivable that at its next monetary policy meeting in May the Bank of England will address the possibility of a tapering. However, we do not expect that to be done before the coming autumn, and are reckoning with an initial rate hike in 2023. In contrast to the situation in the USA, the BoE has no discussion to conduct on an increase in inflation, the rate of which currently stands at 0.7 percent. After a prolonged phase of appreciation against the euro, the pound lost significantly in value at the beginning of April. The topics of Scotland, Northern Ireland, but also the vaccination catch-up process in Euroland, were contributory factors in this context. We see the prospect of the pound weakening somewhat again.

Fundamental forecasts*, Britain

	2020	2021	2022
GDP	-9.8	5.4	5.5
Inflation (CPI)	0.9	1.5	1.9
Unemployment rate [1]	4.5	6.0	5.4
Budget balance [2]	-17.3	-10.0	-5.0
Current acc. balance [2]	-3.5	-4.0	-4.0

* Change vs previous year as percentage

Interest and exchange rates, Britain

	22.04.	3M	6M	12M
Repo rate	0.10	0.10	0.10	0.10
3M	0.09	0.10	0.10	0.10
10Y	0.74	0.75	0.85	1.10
Spread 10Y Bund	99	95	105	120
EUR in GBP	0.87	0.90	0.90	0.90
GBP in USD	1.38	1.30	1.30	1.29

[1] as percentage of the labour force as per ILO concept; [2] as percentage of GDP

Sources: Feri, Bloomberg, NORD/LB Macro Research

Canada
BoC tapers its QE programme

Analysts: Tobias Basse // Bernd Krampen

Third wave poses challenges for Canada

Canada's GDP grew by 0.7 percent in January despite the corona-induced measures, and the economy, too, has given a relatively robust showing of late. The Ivey PMI and the Markit Manufacturing PMI showed a very clear recovery for March as month under review, and there was unexpectedly strong growth in employment as well, with around 303,000 new jobs. The March data are a reminder that economic activity picks up relatively quickly again once the threat from the virus subsides. Canada is currently struggling with a severe third wave, however, which is accompanied by new, more transmissible variants of the coronavirus and hitting Ontario particularly hard. Canada's most populous province, with a population of 14.5 million is currently struggling with record numbers of coronavirus cases, hospital admissions and intensive care patients threatening to overburden the health system. The virus remains the greatest threat to economic growth, and the developments in Ontario show clearly that it is too early to declare victory over the pandemic. On the positive side, the distribution of vaccines in Canada is speeding up and the government is continuing its support for the country's households and businesses towards mitigating the economic impacts of the containment measures.

BoC tapers its bond purchases

The BoC recently cut the pace of its bond purchases from CAD 4 billion to 3 billion per month. The forward guidance for the QE programme was generally left unchanged. The BoC reiterated that "decisions regarding further adjustments to the pace of net purchases will be guided by the ongoing assessment of the strength and durability of the recovery." With confidence in the economic recovery strong and economic activity more resilient than expected, the Governing Council may consider further QE tapering as early as July. The BoC also predicts that the output gap will close as early as the second half of 2022 rather than in 2023 as previously assumed. This means that initial interest rate hikes could well become a distinct possibility earlier than expected by the markets up to now – possibly already in the second half of next year.

Fundamental forecasts*, Canada

	2020	2021	2022
GDP	-5.4	5.9	4.0
Inflation	0.7	2.1	2.0
Unemployment rate [1]	9.6	7.7	6.2
Budget balance [2]	-16.0	-5.6	-2.7
Current acc. balance [2]	-1.9	-1.8	-1.6

* Change vs previous year as percentage

Interest and exchange rates, Canada

	22.04.	3M	6M	12M
O/N target rate	0.25	0.25	0.25	0.25
3M	0.09	0.15	0.20	0.20
10Y	1.52	1.50	1.60	1.80
Spread 10Y Bund	177	170	180	190
EUR in CAD	1.50	1.51	1.52	1.51
USD in CAD	1.25	1.29	1.30	1.30

[1] as percentage of the labour force; [2] as percentage of GDP

Sources: Feri, Bloomberg, NORD/LB Macro Research

Australia
The growth trend continues

Analysts: Tobias Basse // Bernd Krampen

Ongoingly low infection rates make for an improved outlook

The corporate sentiment surveys are indicating growing optimism among the companies polled, as evidenced by the AiG PMIs for both the manufacturing sector (59.9 points) and the service sector (58.7 points). The renewed decline in the unemployment rate from 5.8 to 5.6 percent is a pleasing development. By contrast, retail sales continued their zigzag movement. In this context the trend in real estate prices is in the meantime undoubtedly also having a detrimental impact on many private households. In any event, increased savings and the fiscal policies are currently bolstering consumption. The infection rates remain low, but the vaccination campaign, which got off to an extremely late start, was accompanied by some problems at the outset. These included, among other things, the floods in the southeast of the country, which can be expected to have additionally weighed somewhat on the economy in Q1. GDP growth in the first quarter is thus likely to have been only slightly positive – with prospects for stronger momentum in Q2.

RBA intends to continue bolstering Australia's economy

Once again, the Reserve Bank of Australia had no intention of taking the international financial markets by surprise. As expected, the monetary policymakers held both the traditional key interest rate and the target yield on 3-year government bonds unchanged. The central bankers in Sydney intend to continue bolstering the Australian economy by way of a loose monetary policy – and have explicitly put precisely this plan on record as well. While the RBA officials see clear (and unexpectedly sustainable) tendencies towards a recovery in Australia's economy, they continue to diagnose free capacities, against which background they expect no great price pressure in the foreseeable future. The central bank accordingly expects no sustainable stabilization of the inflation rate in the range of 2-3 percent again until 2024, which should leave the RBA leeway for maintaining an extremely loose monetary policy stance. Overheating trends in the country's real estate market could become a problem, however, for which reason the RBA intends keeping a close eye on the home-loans situation. Moreover, in the Financial Stability Review it was also emphasized that property prices should also be carefully monitored. Global stock market developments are, of course, also highly relevant for the Australian dollar as high-beta currency, which has tended to move sideways between USD 0.76 and 0.80 since the start of the year. Looking ahead, we expect to see a slight depreciation.

Fundamental forecasts*, Australia

	2020	2021	2022
GDP	-2.4	4.4	3.3
Inflation	0.8	1.8	1.7
Unemployment rate [1]	6.5	6.0	5.3
Budget balance [2]	-8.0	-9.5	-5.0
Current acc. balance [2]	2.5	1.4	0.5

* Change vs previous year as percentage

Interest and exchange rates, Australia

	22.04.	3M	6M	12M
Cash target rate	0.10	0.10	0.10	0.10
3M	0.04	0.05	0.10	0.15
10Y	1.64	1.70	1.80	2.00
Spread 10Y Bund	189	190	200	210
EUR in AUD	1.56	1.56	1.58	1.58
USD in AUD	0.77	0.75	0.74	0.74

[1] as percentage of the labour force; [2] as percentage of GDP

Sources: Feri, Bloomberg, NORD/LB Macro Research

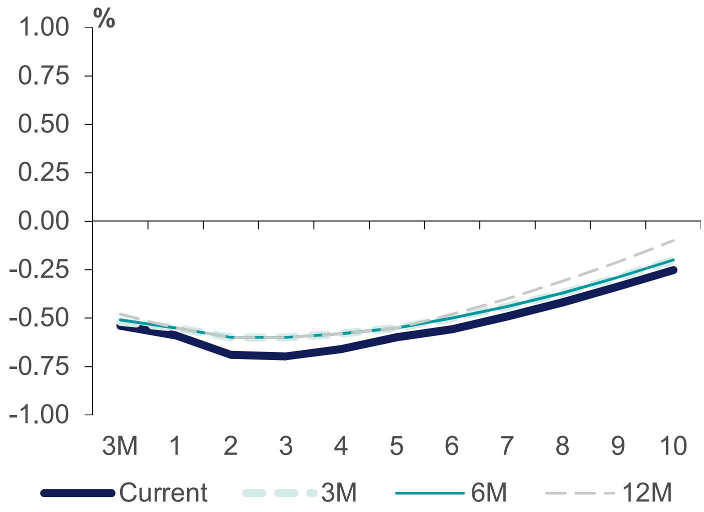
Portfolio strategies
Yield curve, Euroland

Yields and forecasts (Bunds/Swap)

Yields (in %)		NORD/LB forecast for horizons		
	Current	3M	6M	12M
3M	-0.54	-0.52	-0.51	-0.48
1Y	-0.59	-0.55	-0.55	-0.55
2Y	-0.69	-0.60	-0.60	-0.60
3Y	-0.70	-0.60	-0.60	-0.60
4Y	-0.66	-0.58	-0.58	-0.58
5Y	-0.60	-0.55	-0.55	-0.55
6Y	-0.56	-0.50	-0.50	-0.48
7Y	-0.49	-0.44	-0.44	-0.40
8Y	-0.42	-0.37	-0.37	-0.31
9Y	-0.34	-0.29	-0.29	-0.21
10Y	-0.25	-0.20	-0.20	-0.10
2Y (Swap)	-0.49	-0.40	-0.40	-0.40
5Y (Swap)	-0.30	-0.25	-0.25	-0.25
10Y (Swap)	0.06	0.15	0.15	0.25

Sources: Bloomberg, NORD/LB Macro Research

Yield curve forecasts (Bunds)



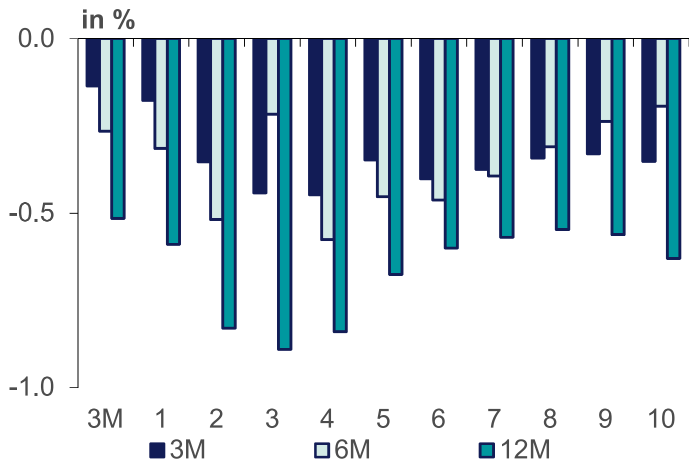
Sources: Bloomberg, NORD/LB Macro Research

Forecasts and total returns

	Total returns (in %) for horizons…		
	3M	6M	12M
3M	-0.13	-0.26	-0.52
1Y	-0.18	-0.31	-0.59
2Y	-0.35	-0.52	-0.83
3Y	-0.44	-0.22	-0.89
4Y	-0.45	-0.58	-0.84
5Y	-0.35	-0.45	-0.67
6Y	-0.40	-0.46	-0.60
7Y	-0.37	-0.39	-0.57
8Y	-0.34	-0.31	-0.55
9Y	-0.33	-0.24	-0.56
10Y	-0.35	-0.19	-0.63

Sources: Bloomberg, NORD/LB Macro Research

Expected total returns



Sources: Bloomberg, NORD/LB Macro Research

A total return is the absolute profit from an investment in the time period under consideration, with account being taken of the pro-rata yields plus the price gains or losses to be anticipated on the basis of the forecast yield curve change.

Portfolio strategies
International yield curve: 3-month & 12-month horizons

3-month horizon

Expected total returns (as %) in euro

	EUR	USD	GBP	JPY	CHF
1Y	-0.2	2.7	-3.6	1.2	-0.9
2Y	-0.4	2.7	-3.6	1.2	-0.9
3Y	-0.4	2.8	-3.5	1.1	-0.9
4Y	-0.4	3.1	-3.6	1.0	-0.8
5Y	-0.3	3.1	-3.5	1.0	-0.7
6Y	-0.4	3.5	-3.2	0.9	-0.7
7Y	-0.4	3.7	-3.1	0.8	-0.8
8Y	-0.3	3.7	-2.5	0.8	-0.5
9Y	-0.3	3.5	-2.3	0.9	-0.5
10Y	-0.4	3.4	-3.2	1.1	-0.4

Sources: Bloomberg, NORD/LB Macro Research

Expected total returns (as %) in national currencies

	USD	GBP	JPY	CHF
1Y	0.0	-0.1	-0.1	-0.2
2Y	0.0	-0.1	-0.2	-0.2
3Y	0.1	0.0	-0.2	-0.2
4Y	0.4	0.0	-0.3	-0.1
5Y	0.4	0.0	-0.4	0.0
6Y	0.8	0.4	-0.5	0.0
7Y	1.0	0.4	-0.5	-0.1
8Y	1.0	1.0	-0.5	0.2
9Y	0.8	1.3	-0.4	0.2
10Y	0.6	0.3	-0.2	0.3

Sources: Bloomberg, NORD/LB Macro Research

12-month horizon

Expected total returns (as %) in euro

	EUR	USD	GBP	JPY	CHF
1Y	-0.6	3.7	-3.5	1.2	-1.5
2Y	-0.8	3.6	-3.7	1.0	-1.5
3Y	-0.9	4.0	-3.7	1.0	-1.4
4Y	-0.8	4.1	-3.9	0.8	-1.3
5Y	-0.7	4.2	-3.9	0.8	-1.2
6Y	-0.6	4.2	-3.8	0.6	-1.3
7Y	-0.6	4.4	-4.0	0.5	-1.6
8Y	-0.5	4.3	-3.7	0.4	-1.5
9Y	-0.6	4.0	-3.7	0.4	-1.7
10Y	-0.6	3.4	-4.6	0.5	-1.8

Sources: Bloomberg, NORD/LB Macro Research

Expected total returns (as %) in national currencies

	USD	GBP	JPY	CHF
1Y	0.1	0.0	-0.1	-0.8
2Y	0.0	-0.1	-0.3	-0.8
3Y	0.4	-0.2	-0.4	-0.7
4Y	0.5	-0.3	-0.5	-0.6
5Y	0.6	-0.4	-0.6	-0.5
6Y	0.6	-0.3	-0.7	-0.6
7Y	0.7	-0.5	-0.8	-0.9
8Y	0.7	-0.1	-0.9	-0.8
9Y	0.4	-0.2	-0.9	-1.0
10Y	-0.1	-1.1	-0.8	-1.1

Sources: Bloomberg, NORD/LB Macro Research

A total return is the absolute profit from an investment in the time period under consideration, with account being taken of the pro-rata yields plus the price gains or losses to be anticipated on the basis of the forecast yield curve and exchange rate change.

Portfolio strategies
Stock market strategy; 3-month, 6-month & 12-month horizons

Levels and performance

Index	Level as at 22.04.2021	Status		Performance since	
		Prev. month	Start of year	Prev. month	Start of year
DAX	15,320.52	15,008.34	13,718.78	2.08%	11.68%
MDAX	32,872.95	31,717.36	30,796.26	3.64%	6.74%
EuroSTOXX50	3,976.41	3,919.21	3,552.64	1.46%	11.93%
STOXX50	3,386.11	3,323.18	3,108.30	1.89%	8.94%
STOXX600	436.64	429.60	399.03	1.64%	9.43%
Dow Jones	34,137.31	32,981.55	30,606.48	3.50%	11.54%
S&P 500	4,173.42	3,972.89	3,756.07	5.05%	11.11%
Nikkei	29,188.17	29,178.80	27,444.17	0.03%	6.35%

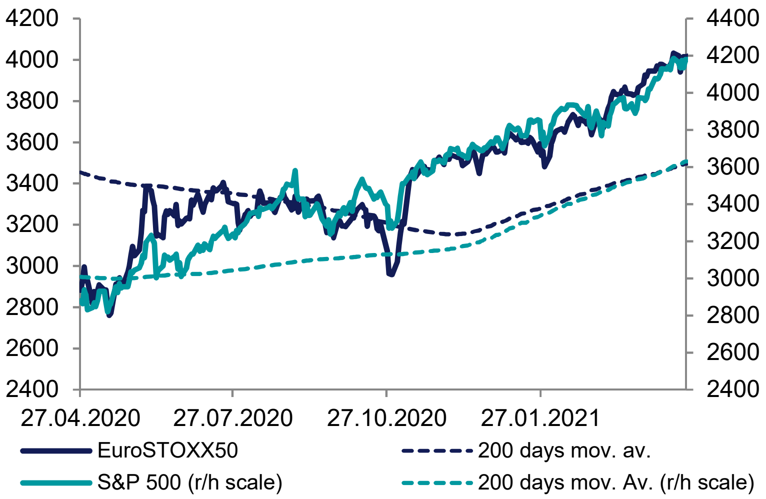
Sources: Bloomberg, NORD/LB Macro Research

Index forecasts

Index	NORD/LB forecast for horizons ...		
	3M	6M	12M
DAX	14,100	15,000	15,500
MDAX	30,500	32,300	33,900
EuroSTOXX50	3,650	3,870	4,000
STOXX50	3,100	3,275	3,400
STOXX600	400	425	440
Dow Jones	32,000	33,500	34,000
S&P 500	3,900	4,075	4,150
Nikkei	28,250	29,500	29,750

Sources: Bloomberg, NORD/LB Macro Research

EuroSTOXX50 and S&P500



Sources: Bloomberg, NORD/LB Macro Research

Date of going to press for data, forecasts and texts was **Friday, 23 April 2021**.

The next English issue of Economic Adviser will be appearing on **24 May 2021**.

Overview of forecasts

Fundamental forecasts

in %	GDP growth			Rate of inflation			Unemployment rate[1]			Budgetary balance [2]		
	2020	2021	2022	2020	2021	2022	2020	2021	2022	2020	2021	2022
USA	-3.5	5.6	3.0	1.2	2.9	2.5	8.1	6.0	5.0	-15.4	-11.2	-7.0
Euroland	-6.7	4.4	4.5	0.3	1.7	1.3	8.0	8.2	7.8	-7.2	-7.5	-4.5
Germany	-4.9	3.2	4.3	0.4	2.6	1.4	5.9	5.9	5.4	-4.2	-6.9	-2.5
Japan	-4.8	2.9	2.0	0.0	0.1	0.6	2.8	3.0	2.8	-13.0	-8.0	-5.3
Britain	-9.8	5.4	5.5	0.9	1.5	1.9	4.5	6.0	5.4	-17.3	-10.0	-5.0
Switzerland	-2.9	3.1	3.4	-0.7	0.2	0.5	3.1	3.5	3.3	-4.4	-2.2	-0.6
China	2.3	8.5	5.5	1.6	1.6	2.3	3.8	3.8	3.6	-11.4	-5.8	-4.3
Canada	-5.4	5.9	4.0	0.7	2.1	2.0	9.6	7.7	6.2	-16.0	-5.6	-2.7
Australia	-2.4	4.4	3.3	0.8	1.8	1.7	6.5	6.0	5.3	-8.0	-9.5	-5.0

Change vs previous year as percentage; [1] as percentage of the labour force (Germany: as per Federal Employment Office definition); [2] as percentage of GDP

Sources: Feri, NORD/LB Macro Research

Key rates

In %	22.04.21	3M	6M	12M
USD	0.25	0.25	0.25	0.25
EUR	0.00	0.00	0.00	0.00
JPY	-0.10	-0.10	-0.10	-0.10
GBP	0.10	0.10	0.10	0.10
CHF	-0.75	-0.75	-0.75	-0.75
CNY	1.50	1.50	1.50	1.50
CAD	0.25	0.25	0.25	0.25
AUD	0.10	0.10	0.10	0.10

Sources: Bloomberg, NORD/LB Macro Research

Exchange rates

EUR in…	22.04.21	3M	6M	12M
USD	1.20	1.17	1.17	1.16
JPY	130	128	129	128
GBP	0.87	0.90	0.90	0.90
CHF	1.10	1.11	1.12	1.11
CNY	7.80	7.72	7.78	7.77
CAD	1.50	1.51	1.52	1.51
AUD	1.56	1.56	1.58	1.58

Sources: Bloomberg, NORD/LB Macro Research

Interest rates (government bonds)

	3M rates				Yields 2Y				Yields 5Y				Yields 10Y			
	22.04.	3M	6M	12M	22.04.	3M	6M	12M	22.04.	3M	6M	12M	22.04.	3M	6M	12M
USD	0.18	0.20	0.25	0.30	0.15	2.60	0.25	0.30	0.79	0.85	0.95	1.15	1.54	1.55	1.65	1.85
EUR	-0.54	-0.52	-0.51	-0.48	-0.69	-0.60	-0.60	-0.60	-0.60	-0.55	-0.55	-0.55	-0.25	-0.20	-0.20	-0.10
JPY	-0.07	0.05	0.05	0.10	-0.14	-0.10	-0.05	-0.05	-0.11	-0.03	0.03	0.04	0.07	0.10	0.15	0.20
GBP	0.09	0.10	0.10	0.10	0.04	0.10	0.15	0.30	0.32	0.34	0.41	0.60	0.74	0.75	0.85	1.10
CHF	-0.75	-0.75	-0.75	-0.75	-0.78	-0.80	-0.75	-0.75	-0.58	-0.60	-0.55	-0.50	-0.28	-0.30	-0.20	-0.10

Sources: Bloomberg, NORD/LB Macro Research

Spreads (bp)

	3M EURIBOR				2Y Bunds				5Y Bunds				10Y Bunds			
	22.04.	3M	6M	12M	22.04.	3M	6M	12M	22.04.	3M	6M	12M	22.04.	3M	6M	12M
USD	71	72	76	78	84	80	85	90	139	140	150	170	179	175	185	195
JPY	47	57	56	58	55	50	55	55	49	53	58	59	32	30	35	30
GBP	63	62	61	58	73	70	75	90	92	89	96	115	99	95	105	120
CHF	-21	-23	-24	-27	-9	-20	-15	-15	2	-5	0	5	-3	-10	0	0

Sources: Bloomberg, NORD/LB Macro Research

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