



Economic and Financial Outlook

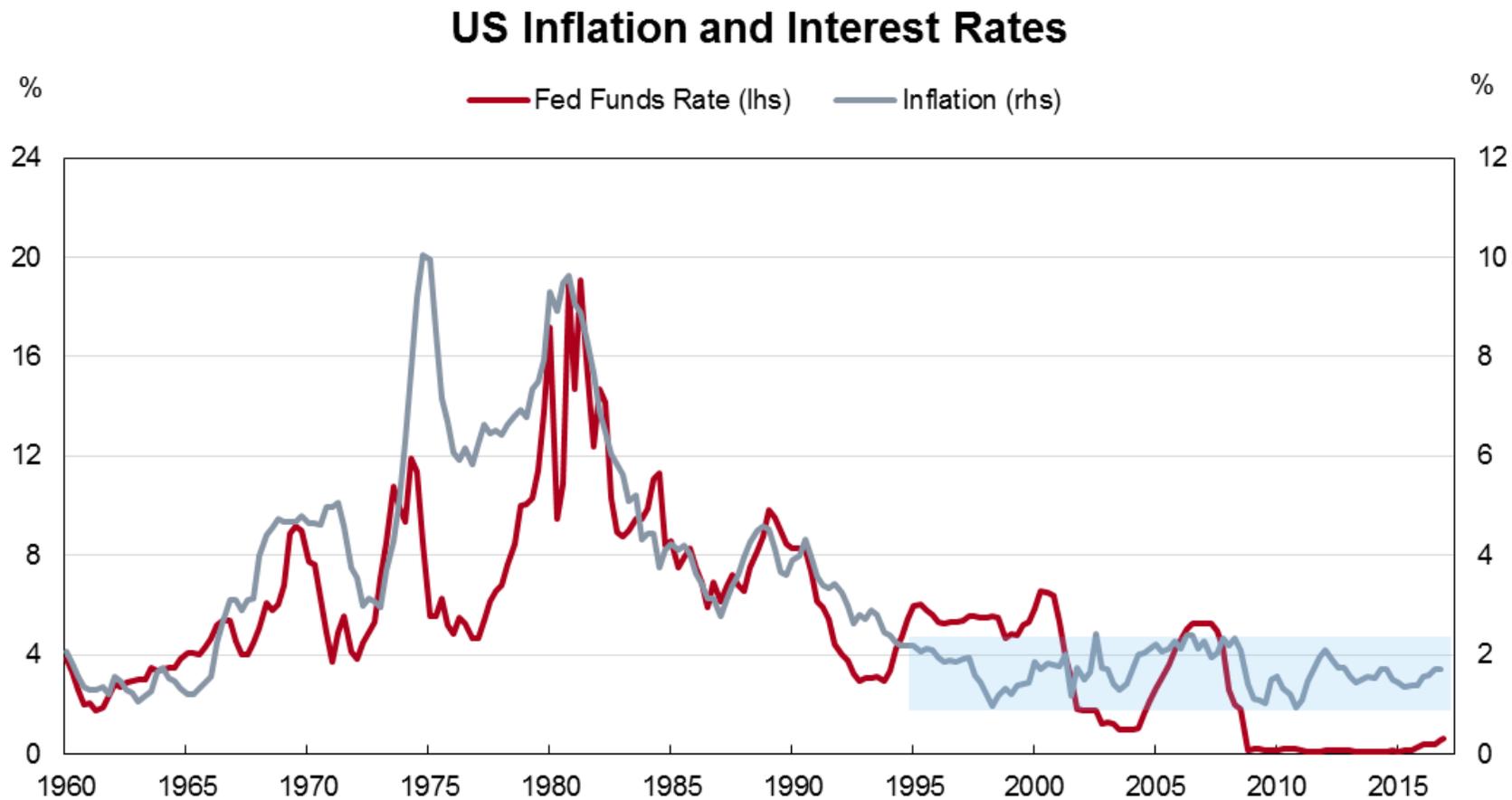
Risks and Opportunities in 2017

Brian Redican

March 2017

Is the 35-year secular decline in rates over?

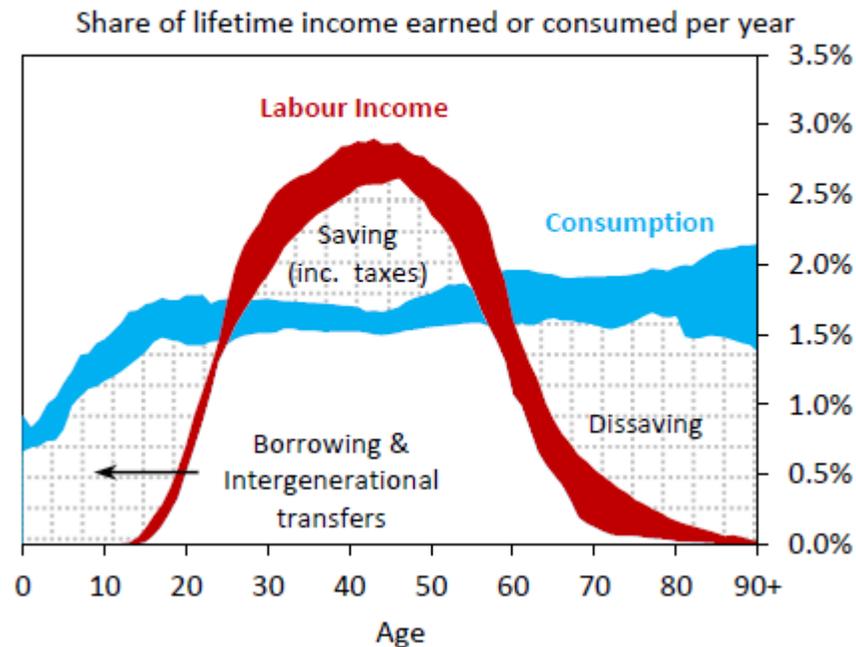
Higher US interest rates would exert upward pressure on global rates



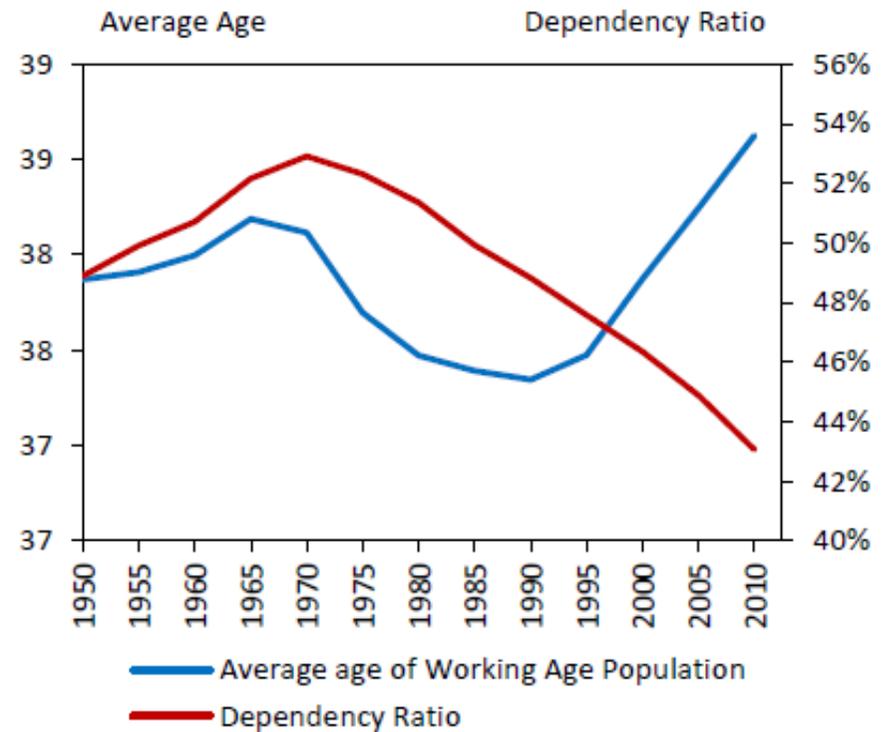
Demographics and saving behaviour

Fewer young people vs more old people

Consumption & income over the life cycle



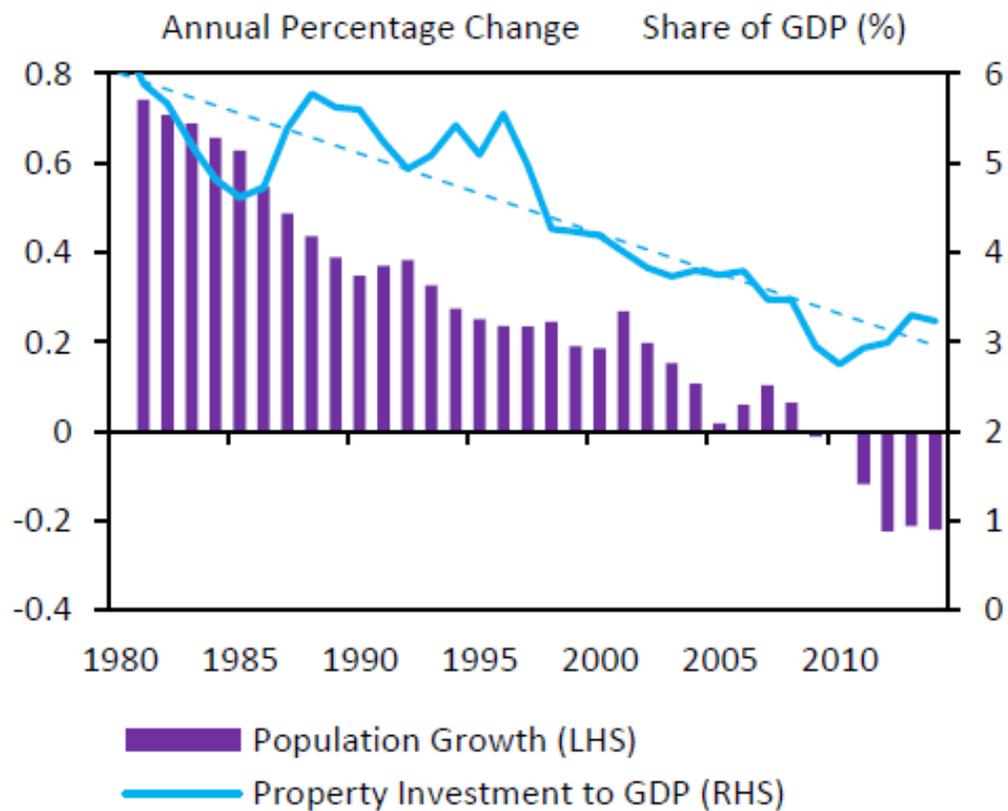
Projections for global ageing & dependency



Source: UN population projections

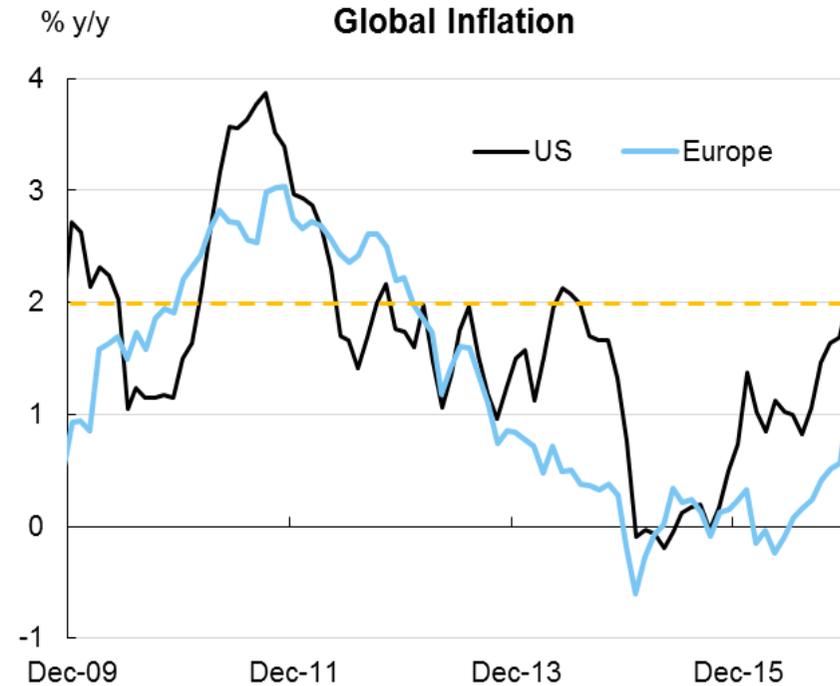
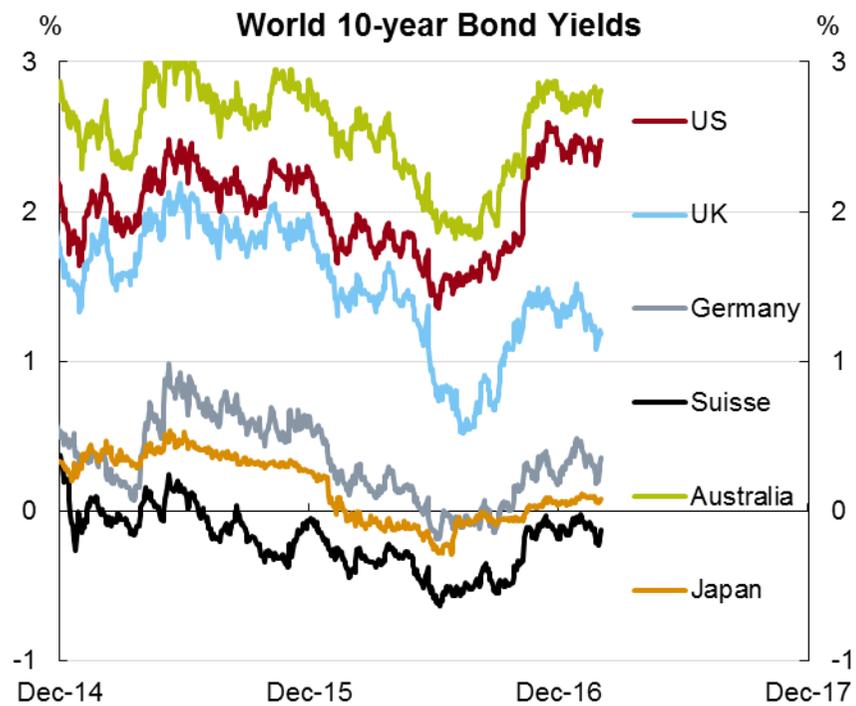
Slower population growth and demand

Slowing Japanese population growth and declining property investment as a share of GDP

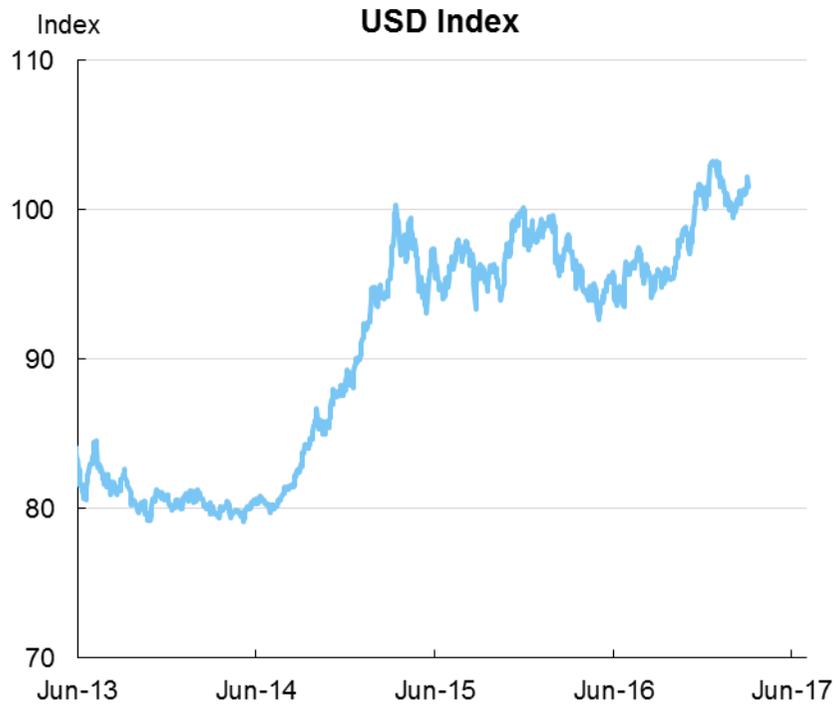


Sources: DataStream and IMF WEO

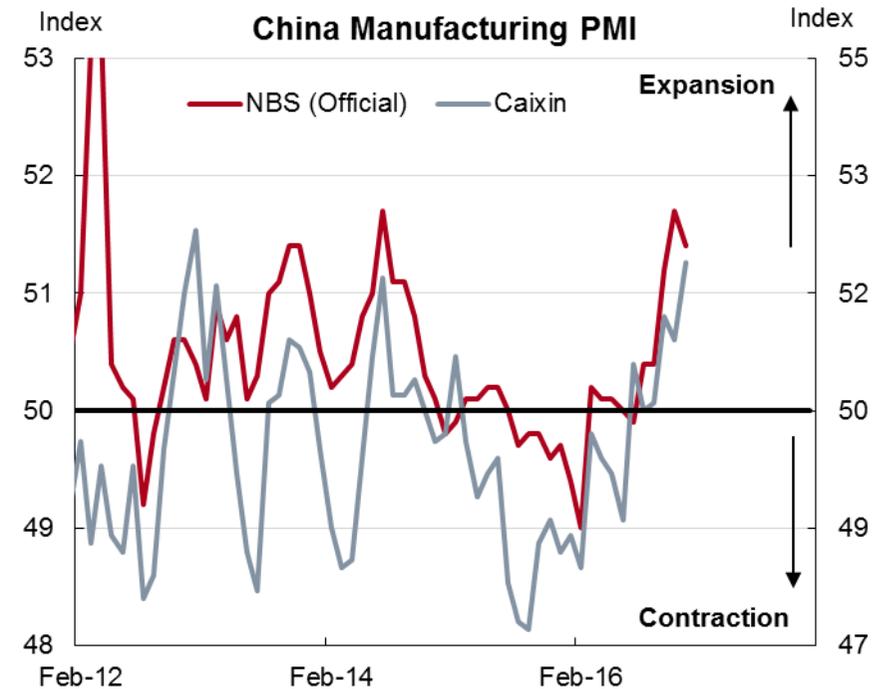
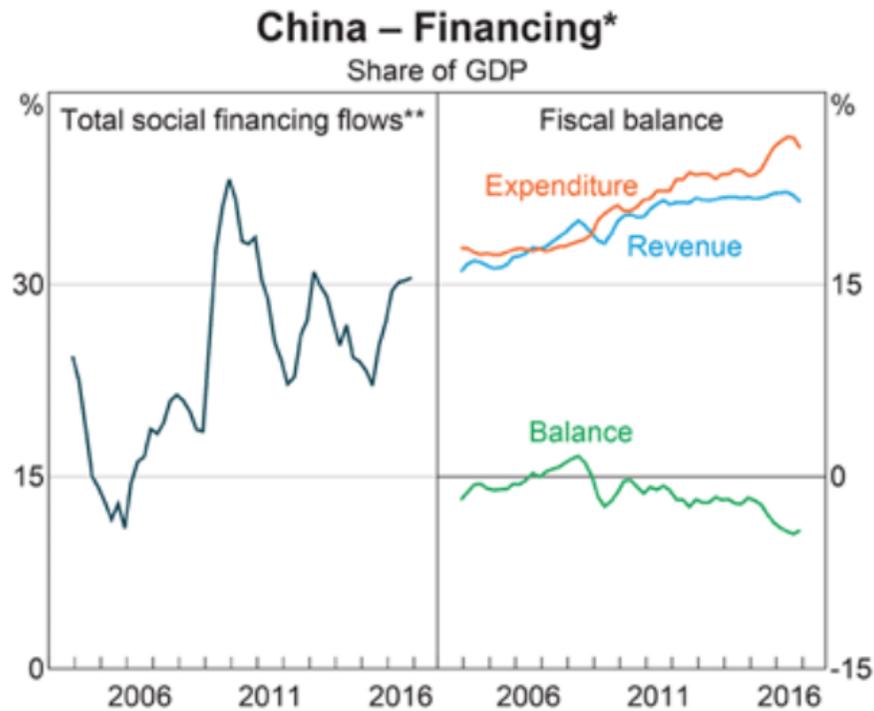
Global bond yields have risen as has inflation...



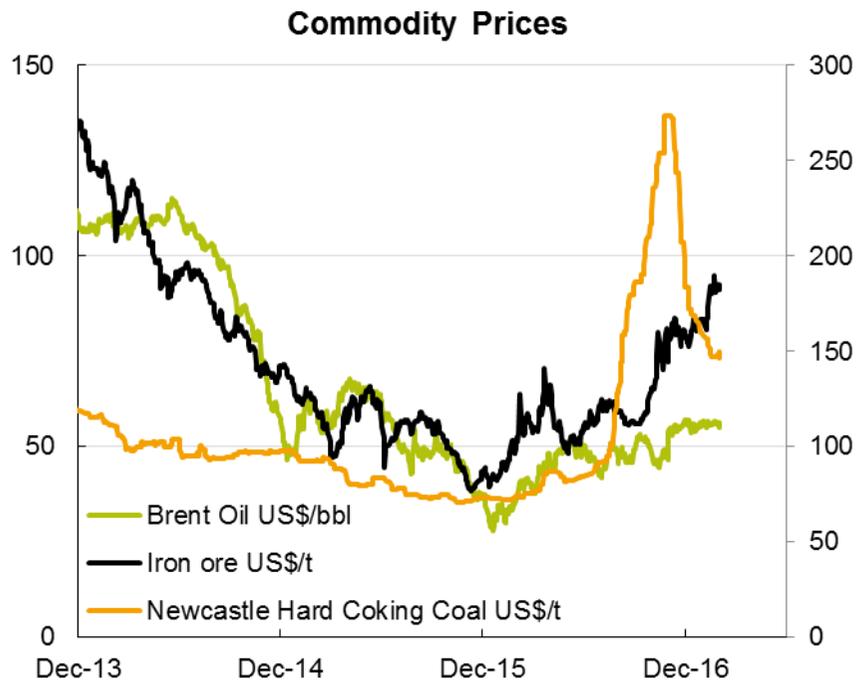
When rates are flat, currencies are crucial



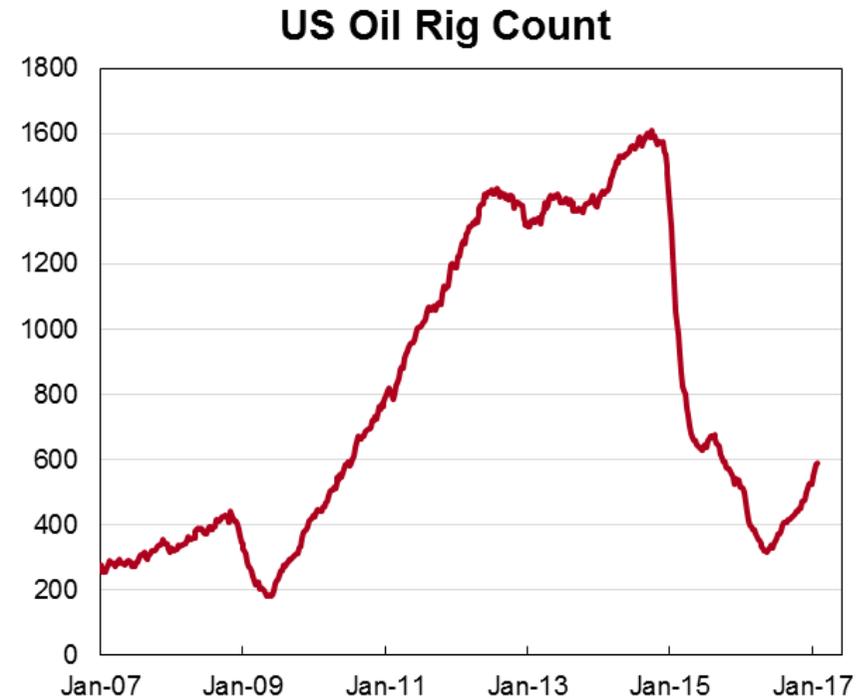
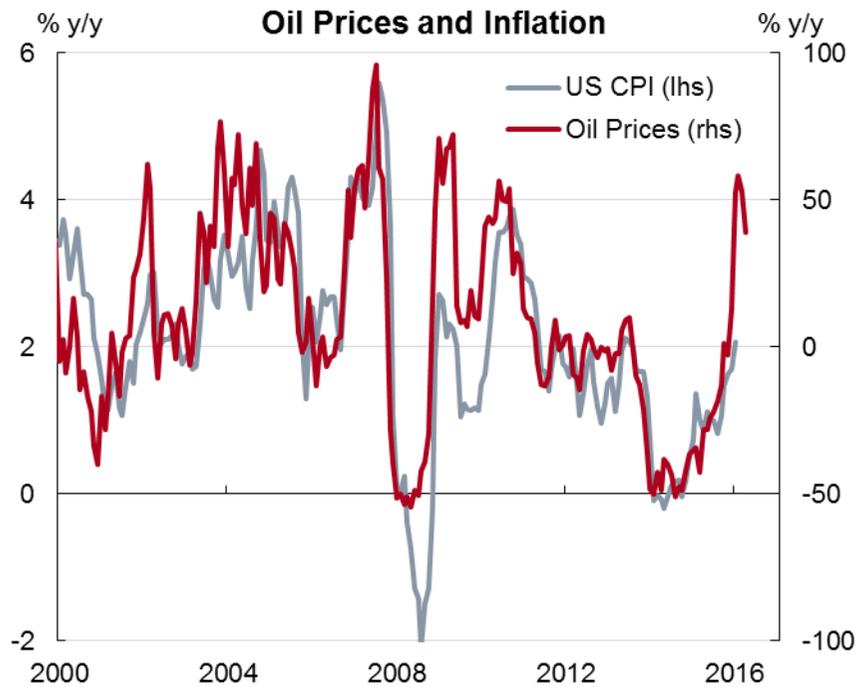
Looser Chinese policy boosted activity...



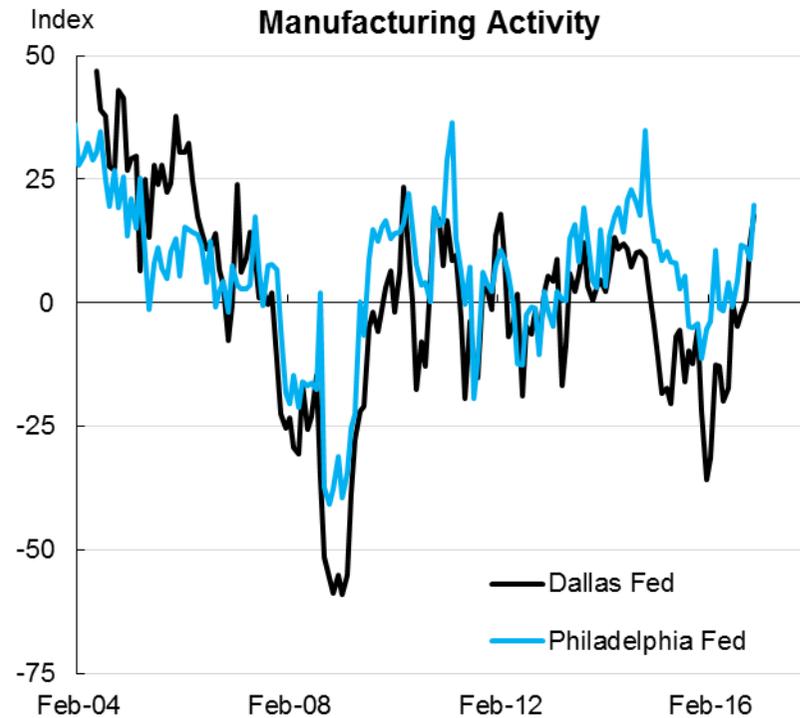
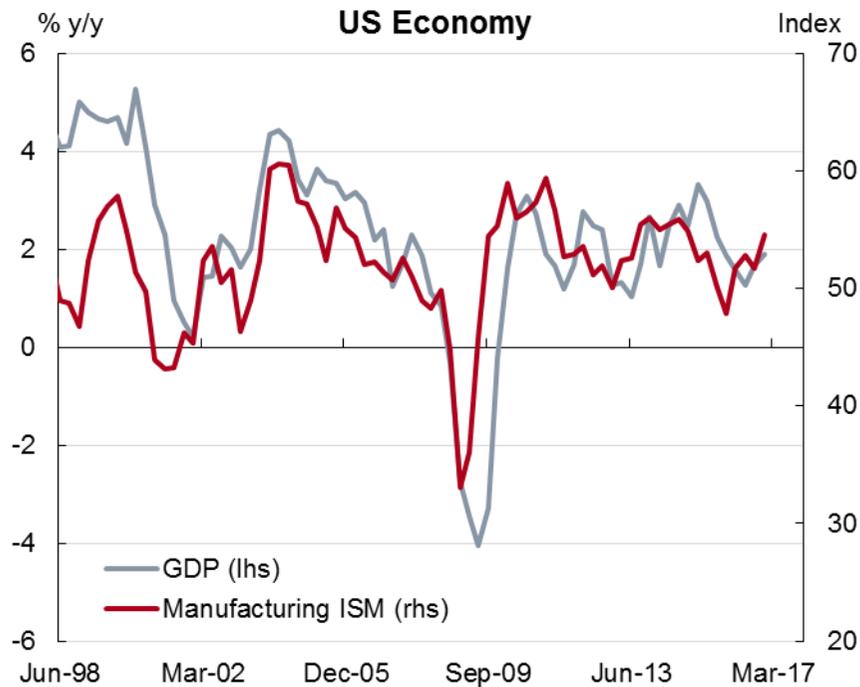
...boosting commodity prices and inflation



Higher oil prices have driven up inflation...



Global manufacturing growth has improved...

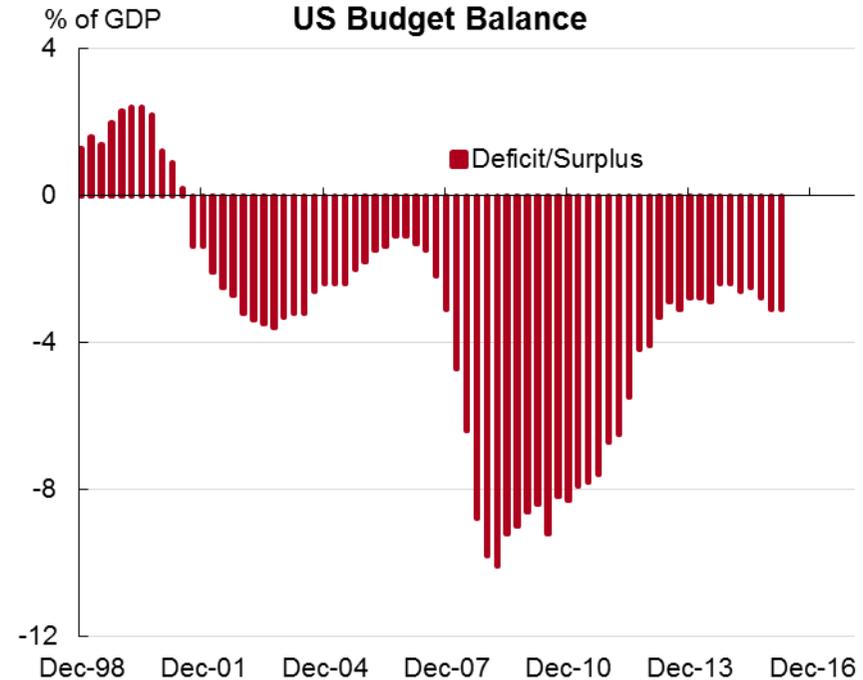


Firms rebuild inventories and fiscal drag ends

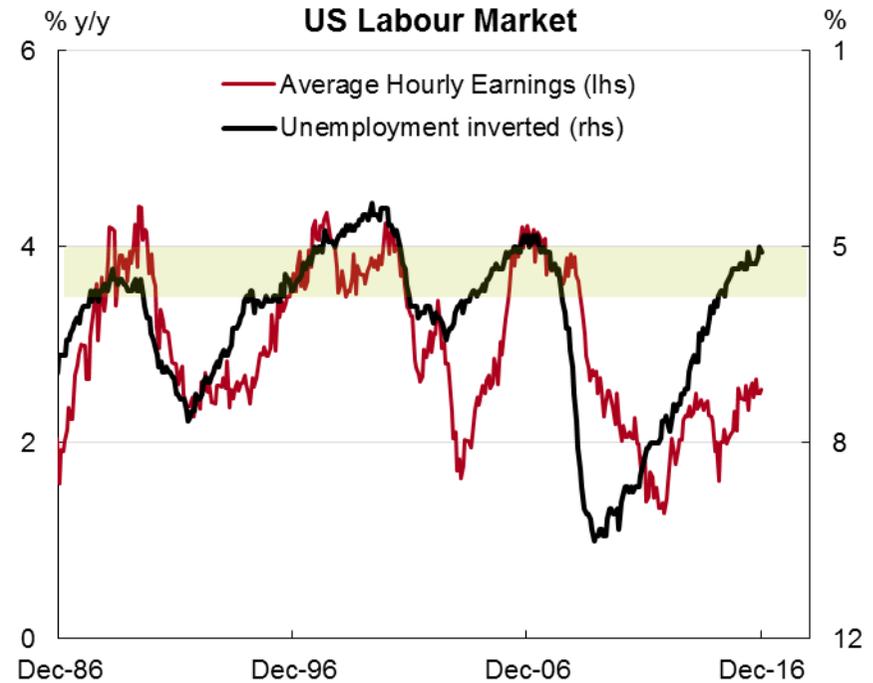
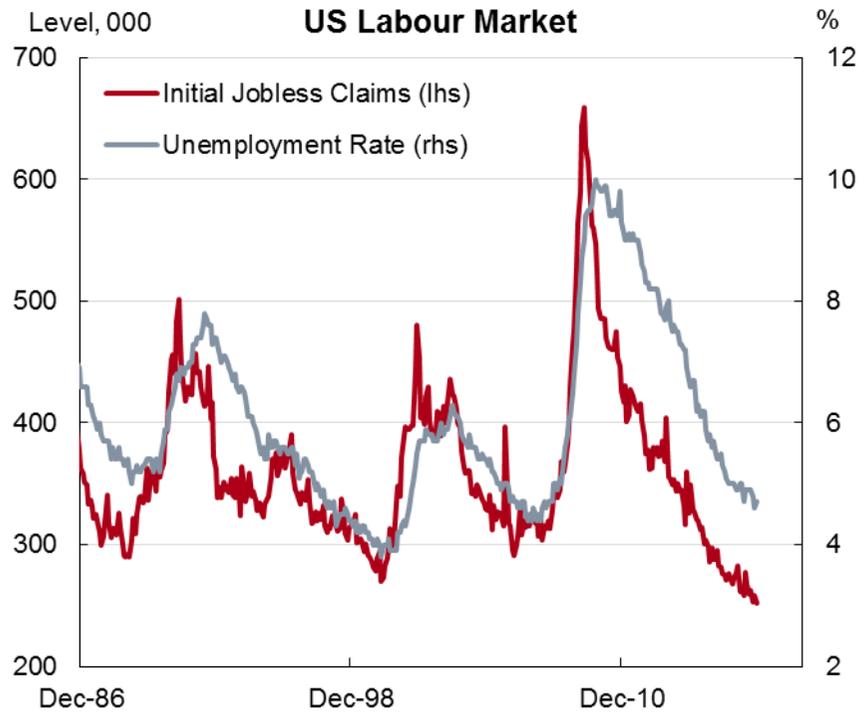
US Inventory Sales Ratio



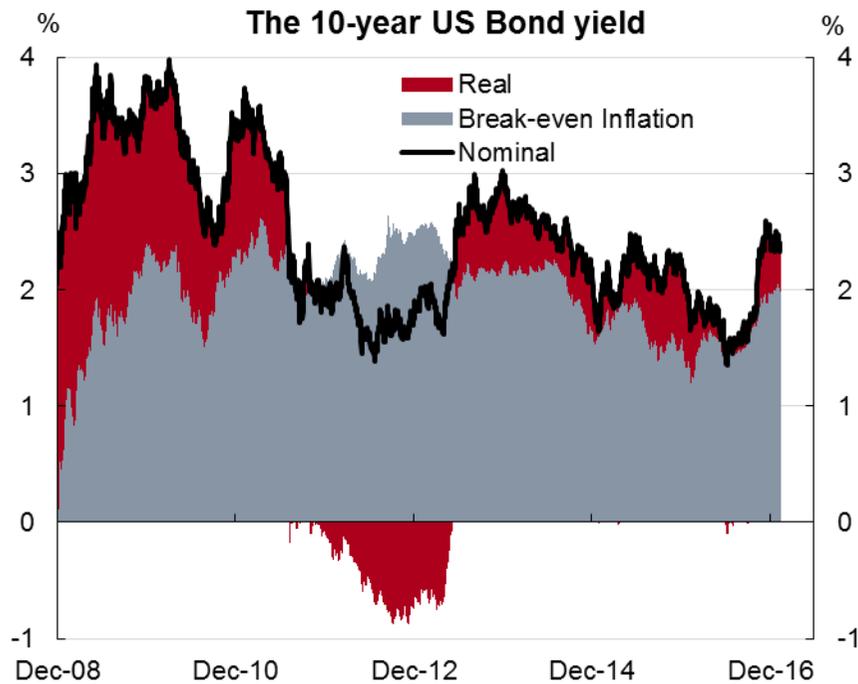
US Budget Balance



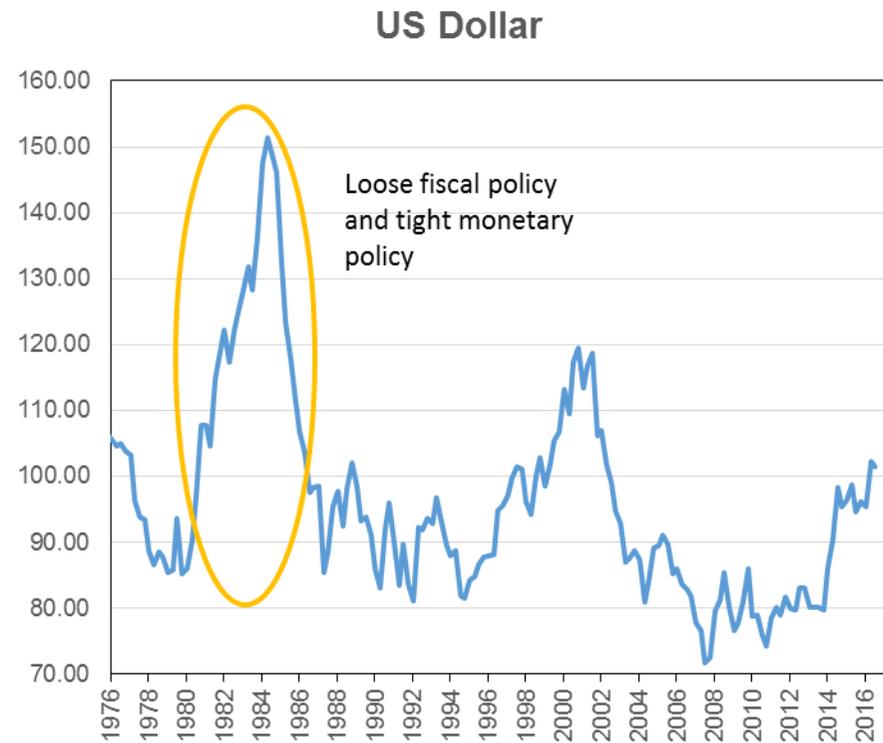
Tight US labour market but wages still weak



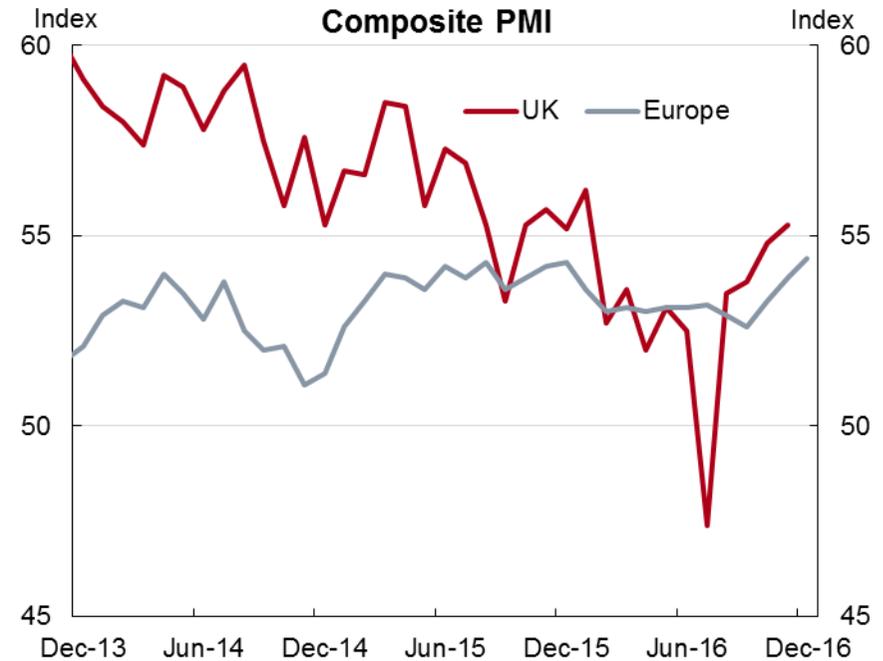
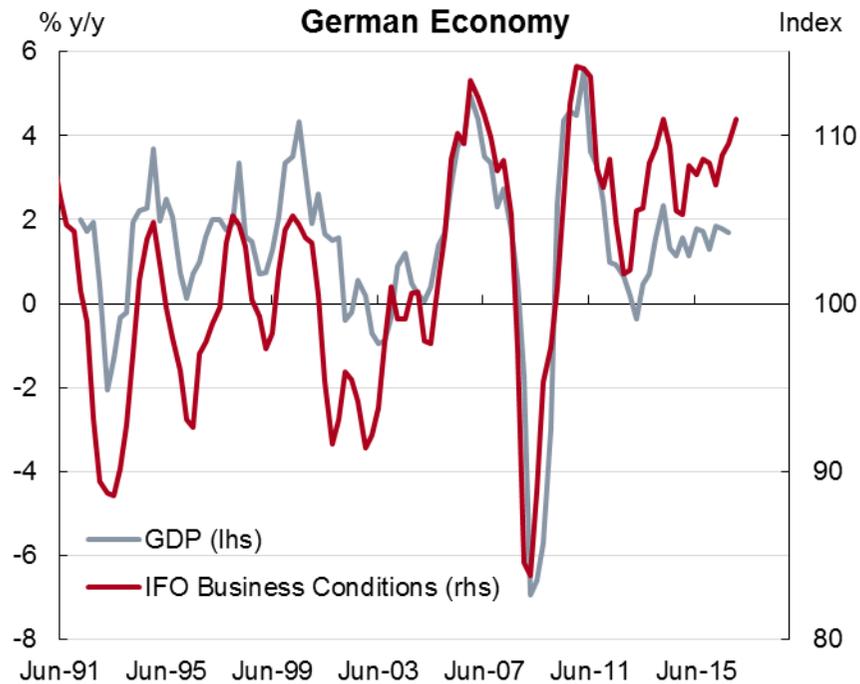
Markets are prepared for modest inflation



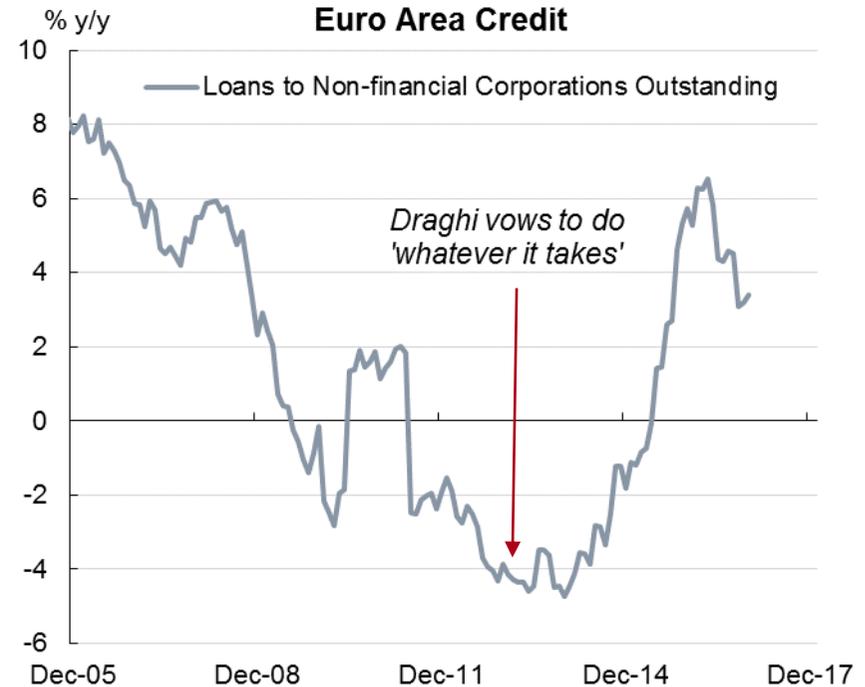
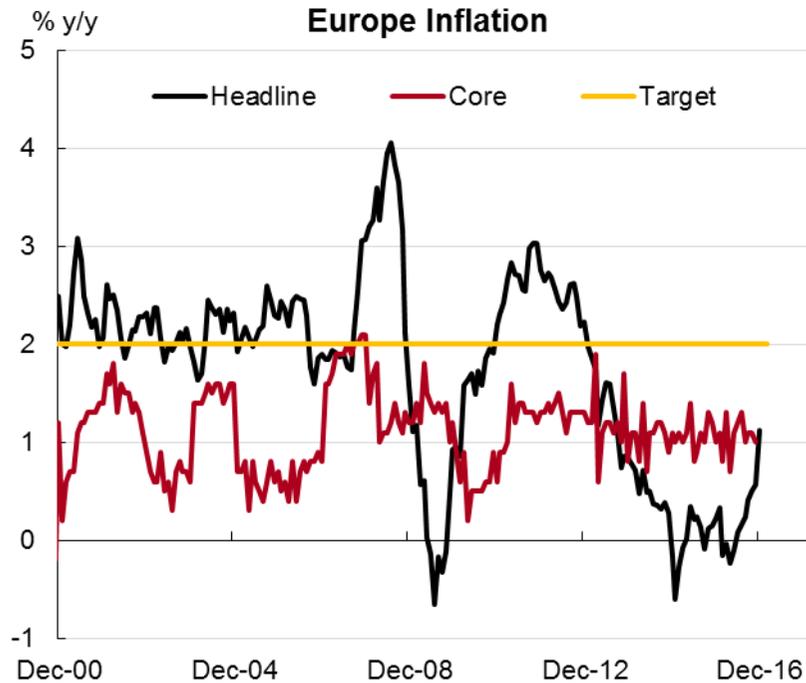
Two risks for the US economy...



Global manufacturing has improved...



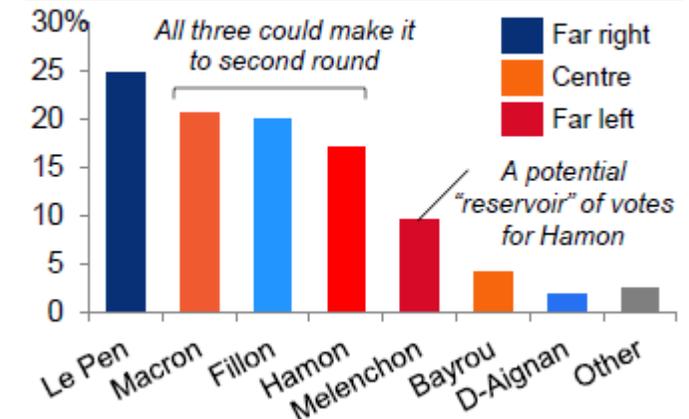
Europe is yet to see inflation rise sustainably...



Political events loom large in Europe in 2017

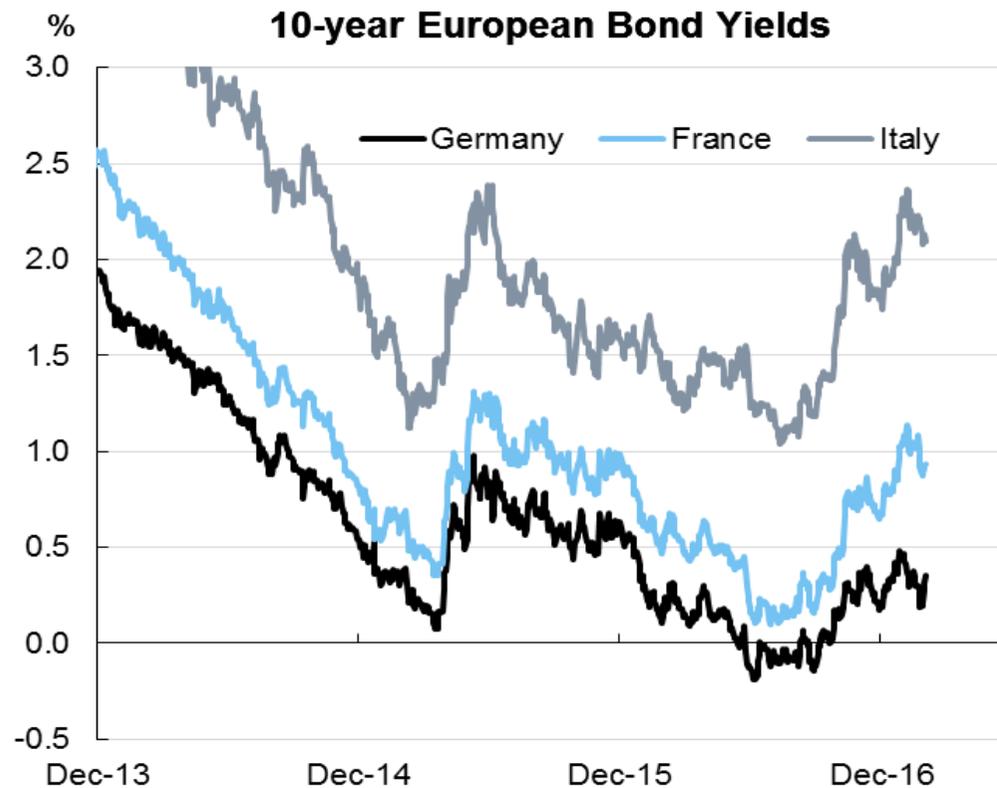
15 March	Netherlands General Election
March	UK Article 50 Trigger
23 April	French Presidential Election
7 May	
2Q17/1Q18	Risk of Italian Election
24 September	German Federal Election

French presidential election first round polls: Le Pen / far left run-off most worrying tail risk

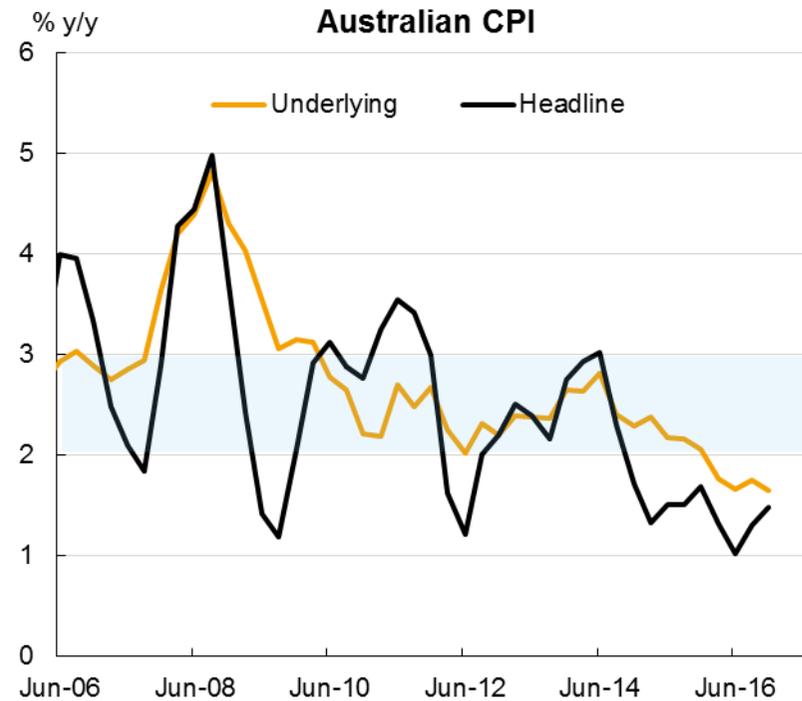
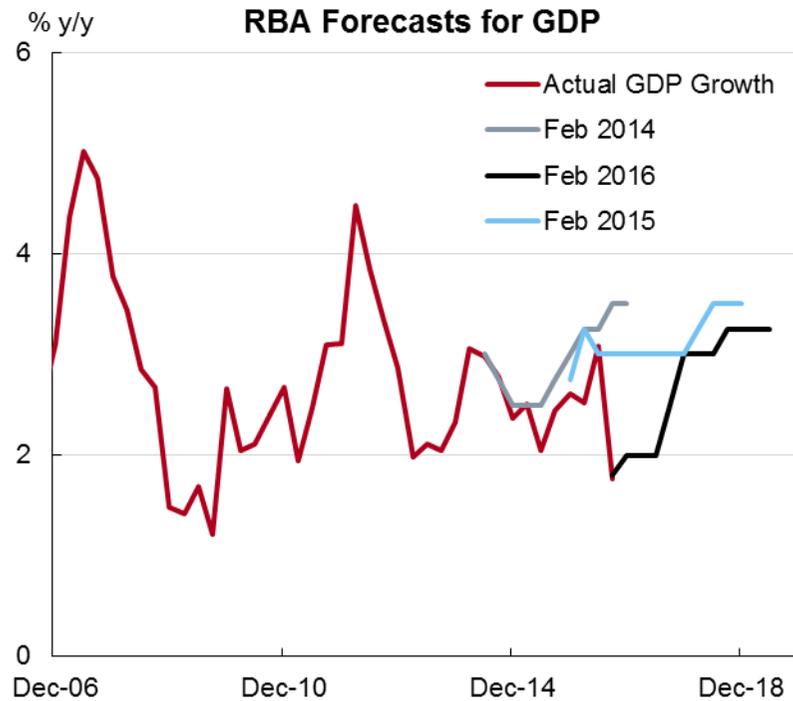


Source: Opinion polls, Deutsche Bank Research

5% chance that the Eurozone disintegrates?

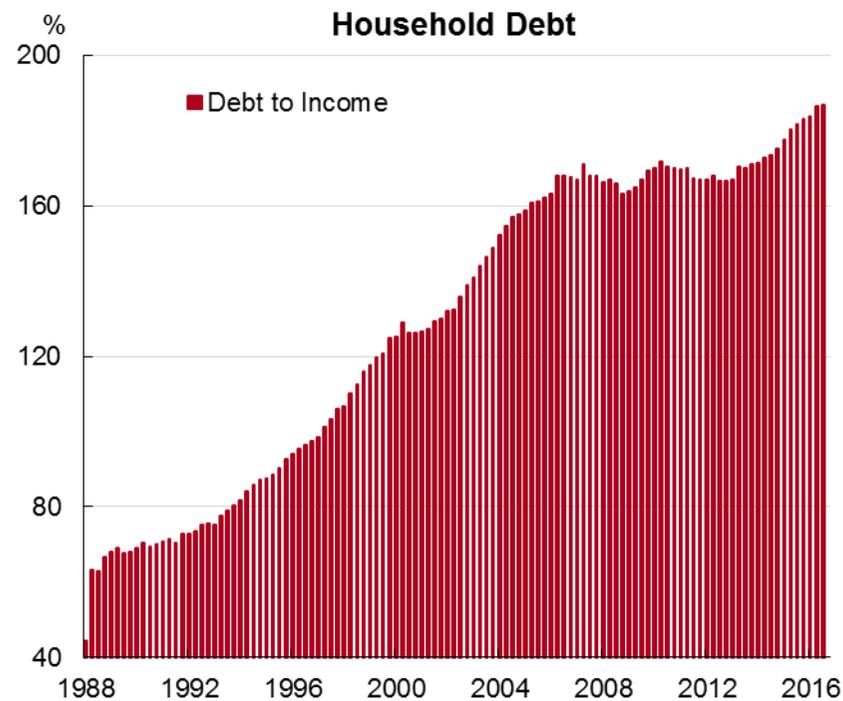


Australian growth and inflation remain sombre



Aussie households face high debt & weak wages

Little scope for further debt-fuelled economic growth



Weak wages growth ensures 'real' debt burden will remain high

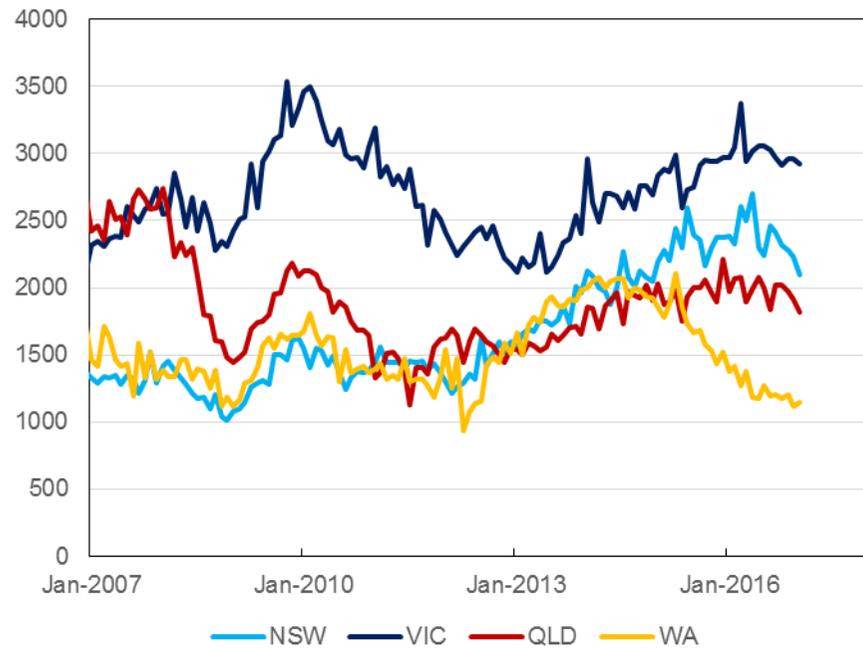


Housing construction is still boosting growth

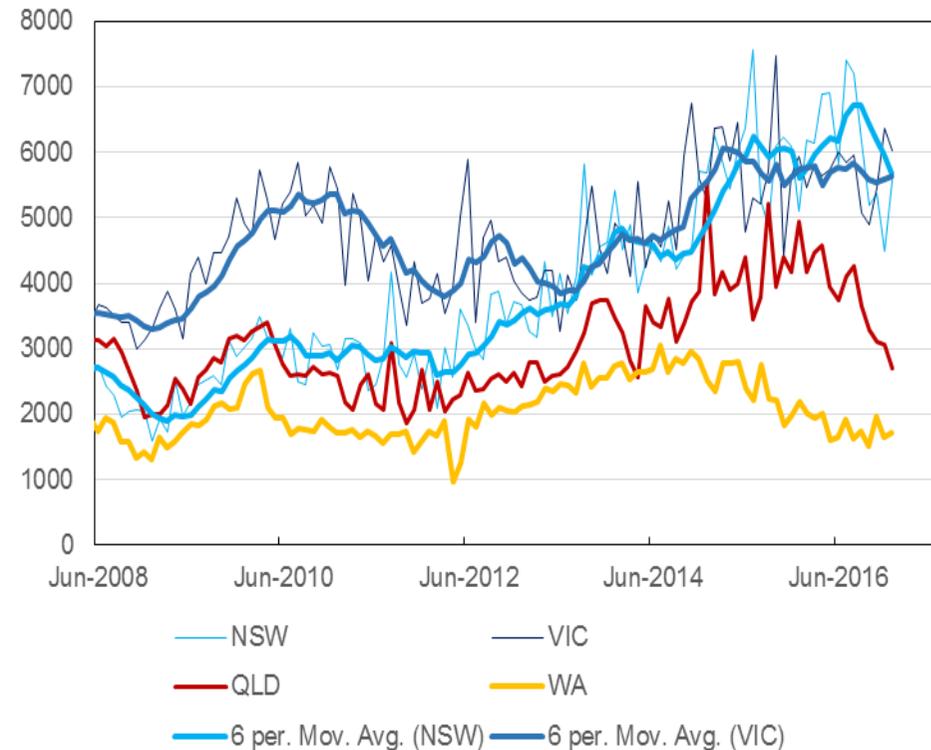
Detached house activity diverges

Still lots of work in NSW and Victoria

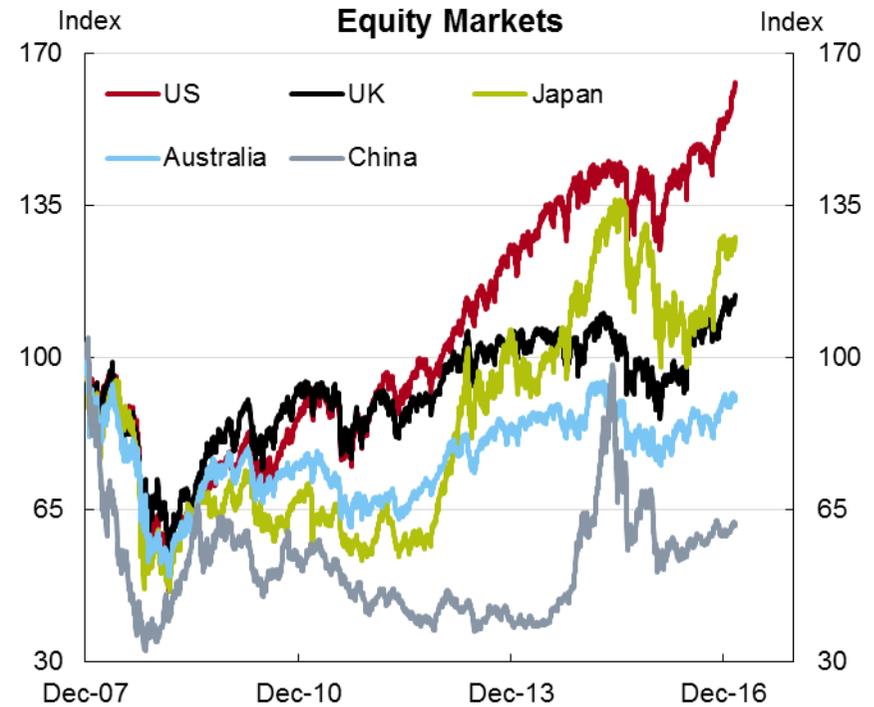
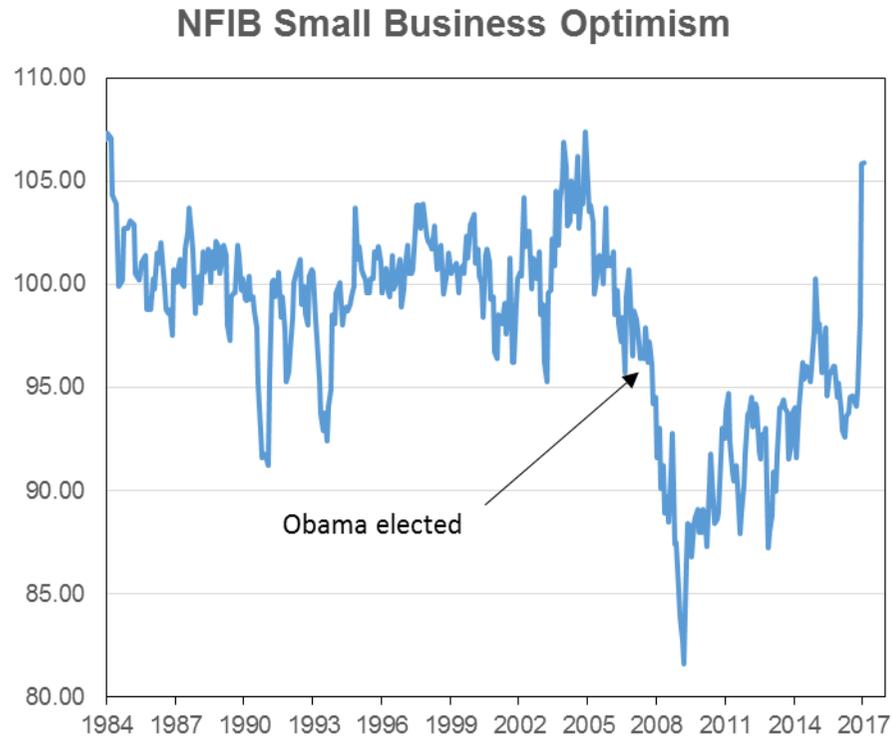
House Building Approvals



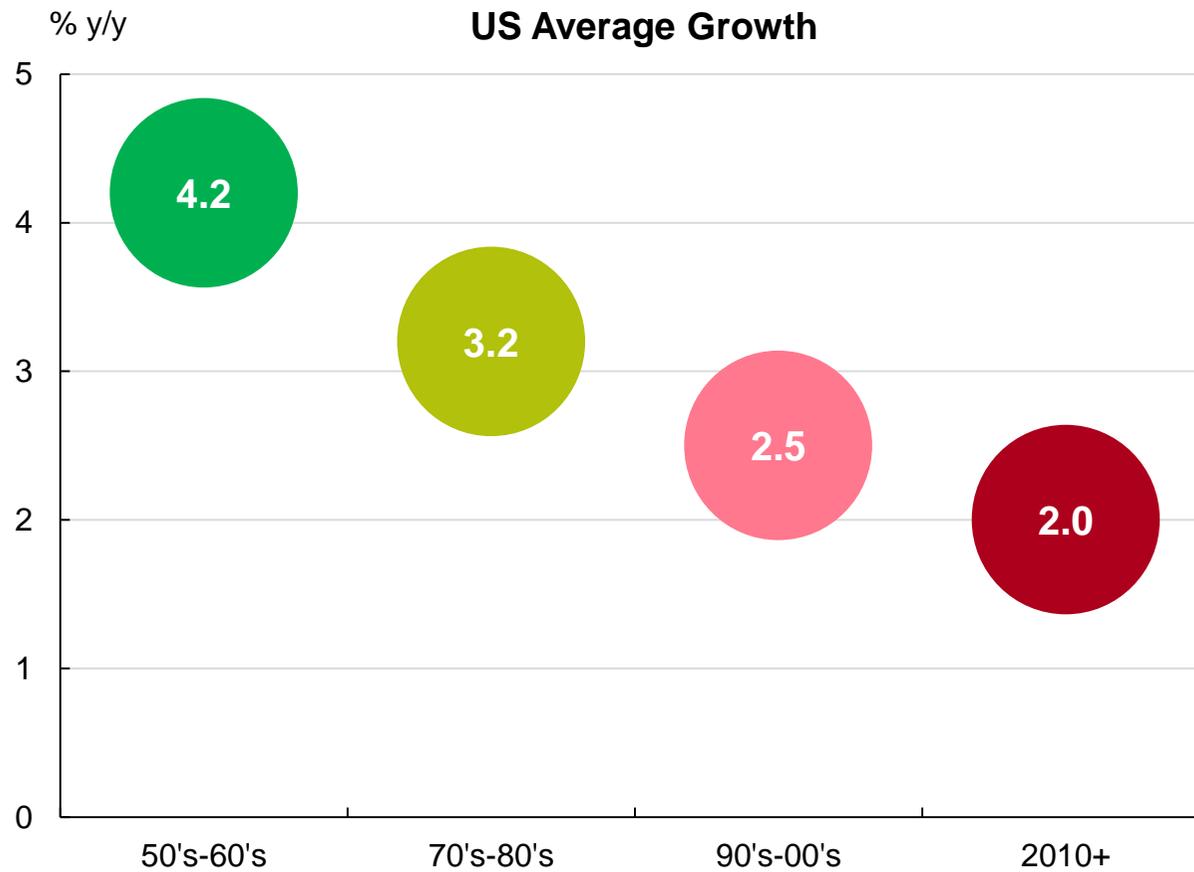
Apartment Building Approvals



But are we about to see much stronger growth?

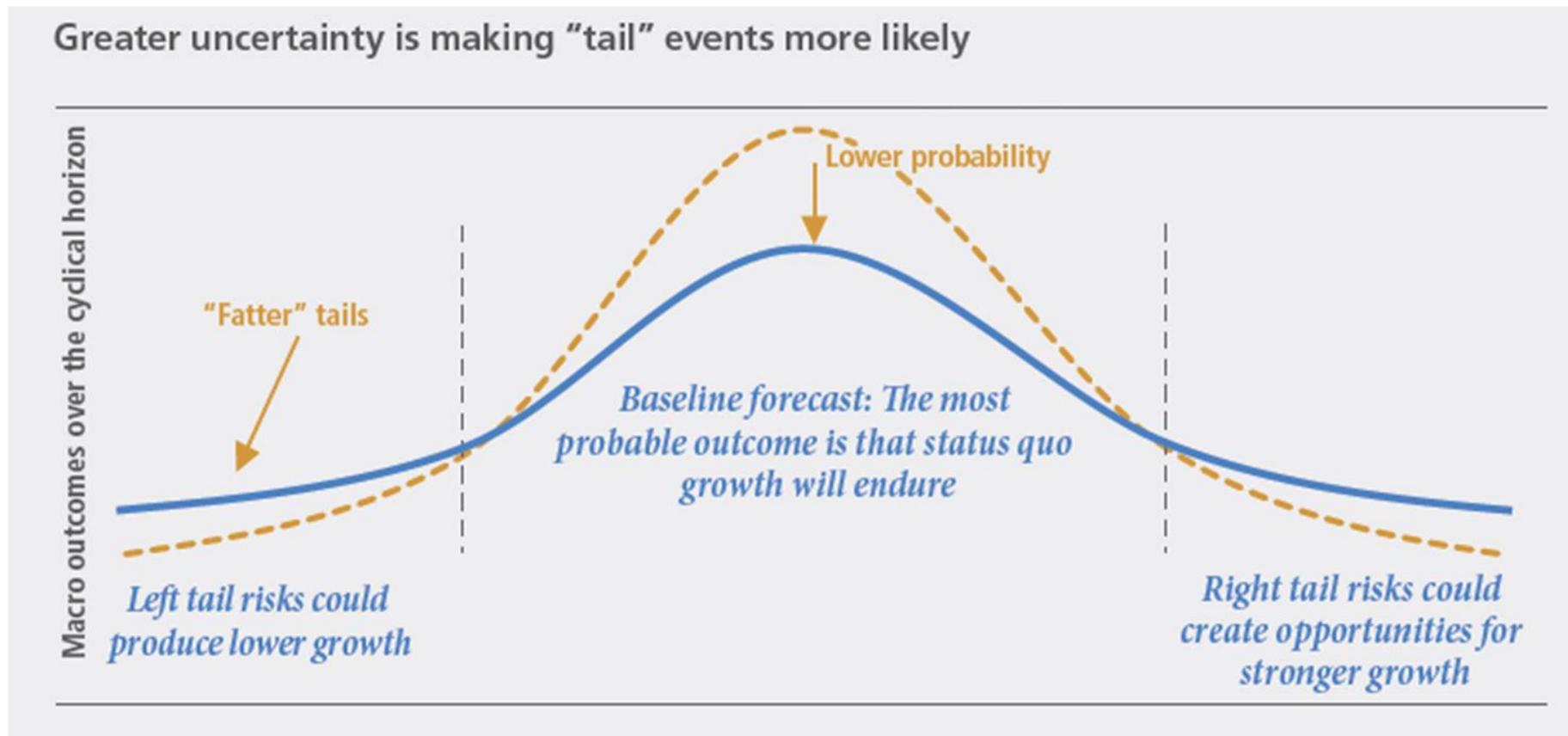


US economic growth has been slowing



The Trump Effect

Reviving 'animal spirits' or destroying global trade?



Source: PIMCO