

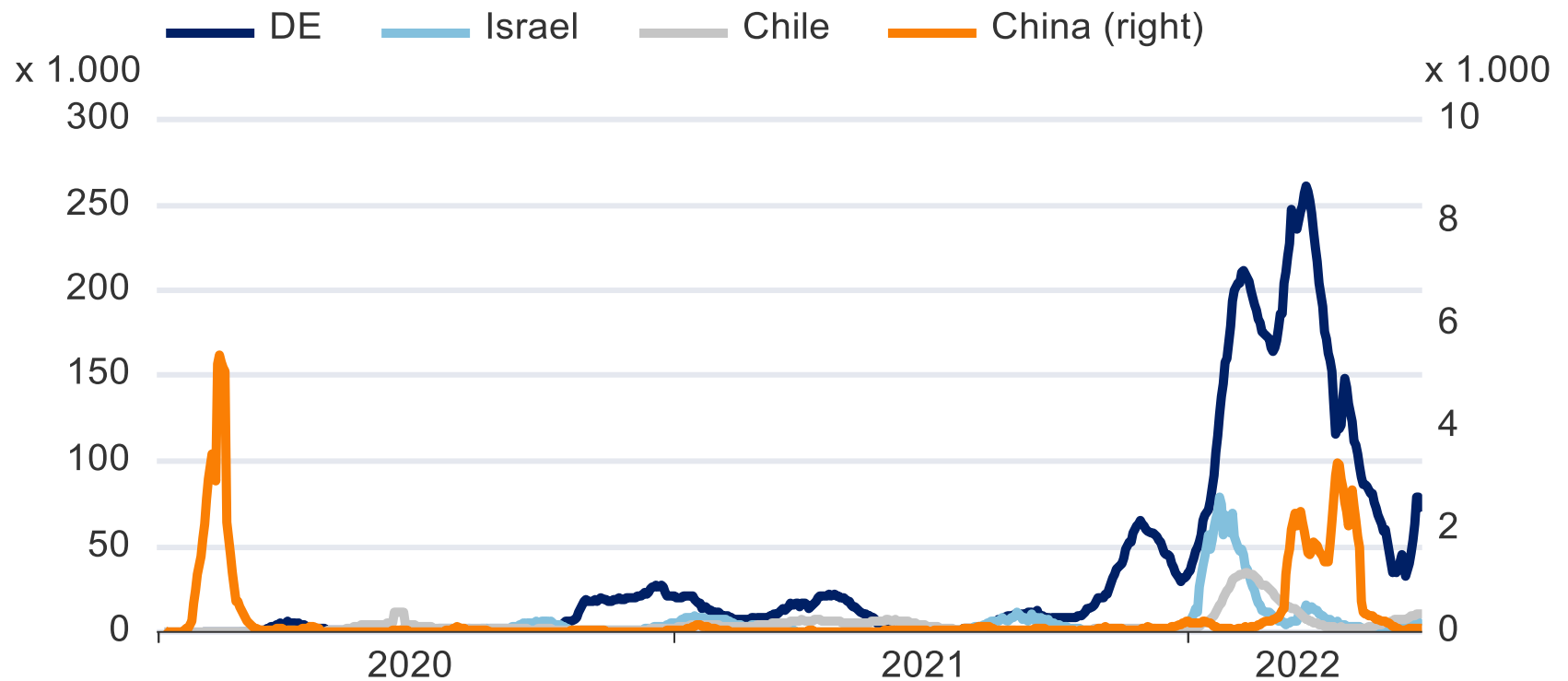
Economic Consequences of the War in Ukraine

Hubert Siply, Head of Country Risk and Sector Analysis

Munich, 22nd June 2022

Covid on the Downturn, but China still at risk?

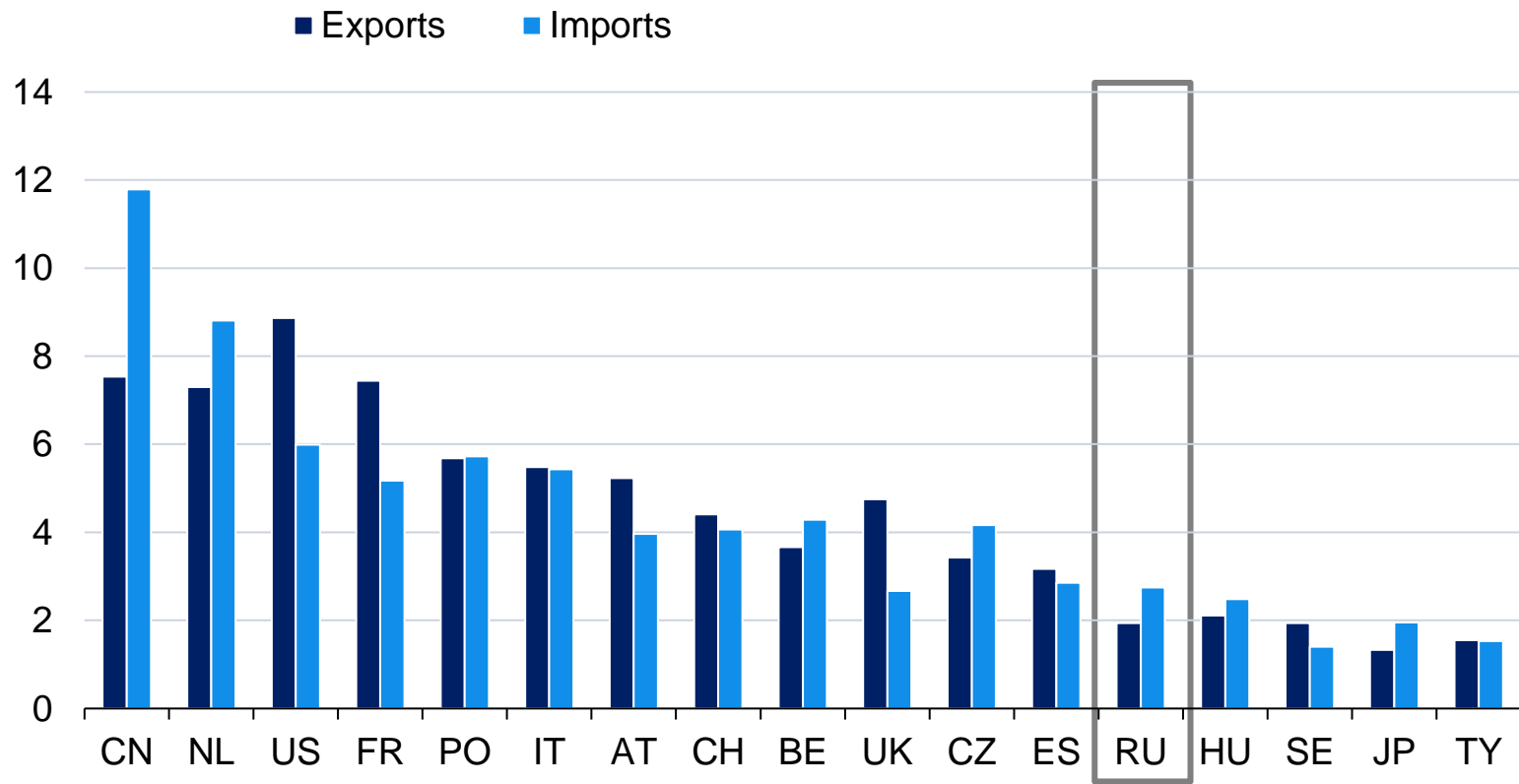
Covid-new cases; 7-day average



Quelle: Refinitiv, BayernLB Research

Germany: Trade with Russia declining in recent years

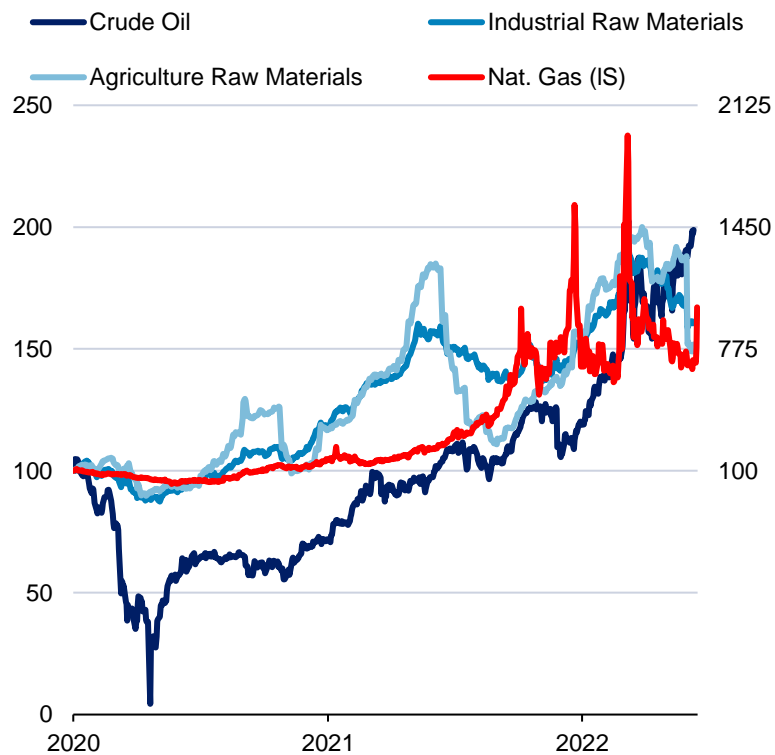
German Merchandise Trade Volume with Russia
2021, in % of total



Quellen: Refinitiv, BayernLB Research

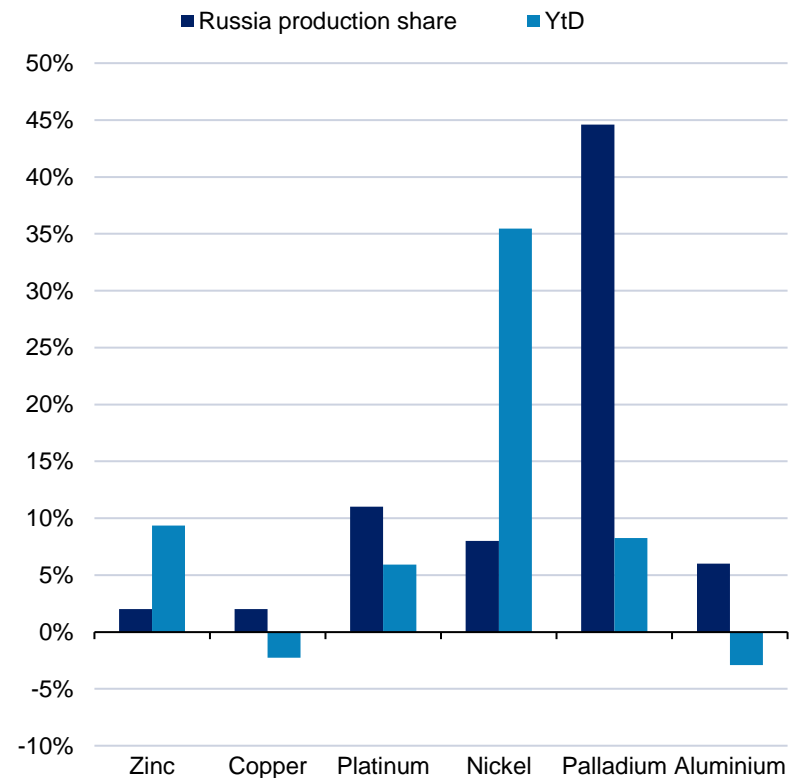
But Russia is a key player in global commodity markets

Commodity Indices, Hamburg Institute of International Economics (HWWI) exc. Nat Gas (TTF), Jan 2020 = 100



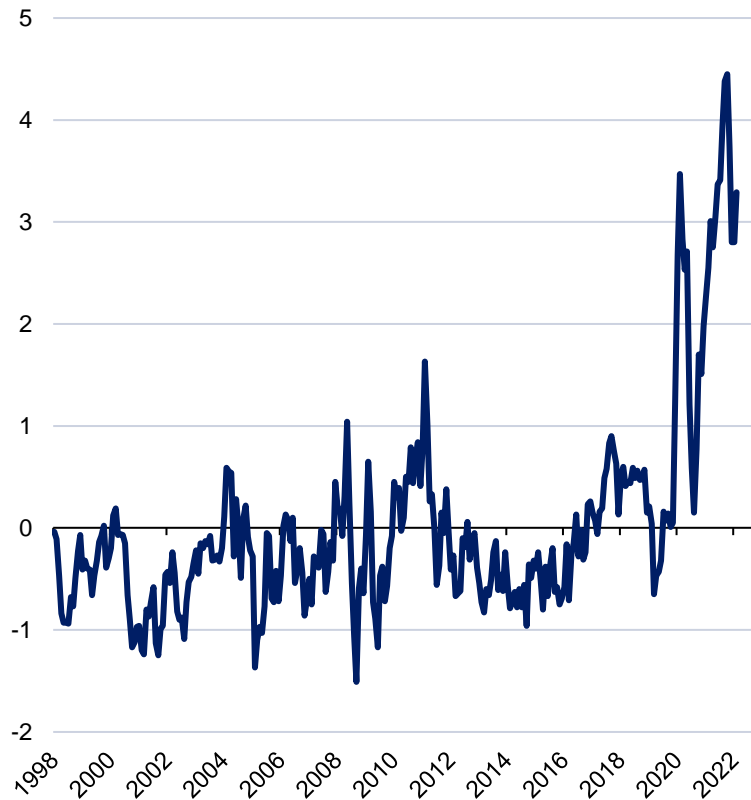
Sources: Bloomberg, Refinitiv, BayernLB Research

Selected industrial metals, Russian share of world production in % and price changes year to date in %



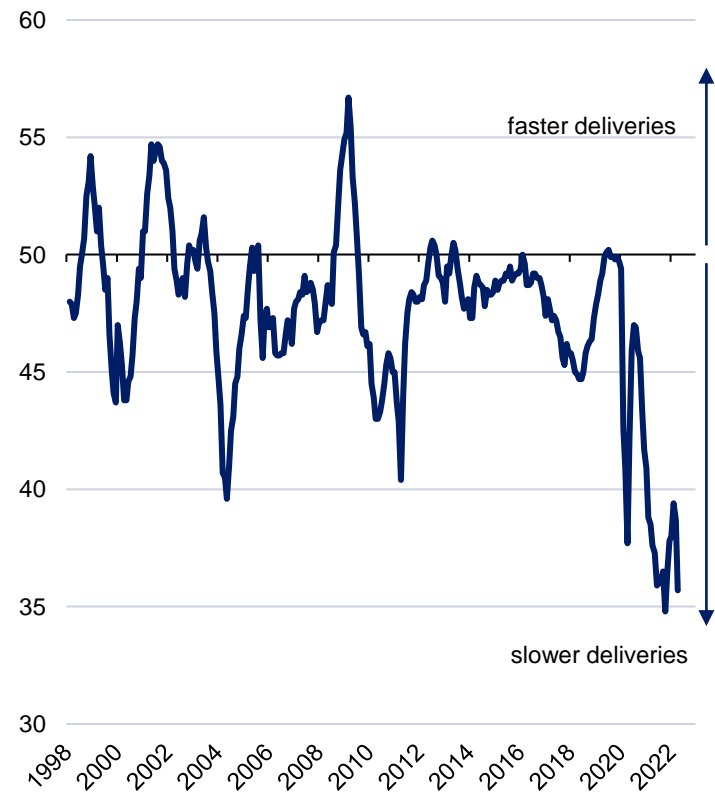
War in Ukraine exacerbates supply chain turmoil

New York Fed Global Supply Chain Pressure Index



Sources: NY Fed, Bloomberg, BayernLB Research

Global Manufacturing PMI Suppliers' Delivery Times Index

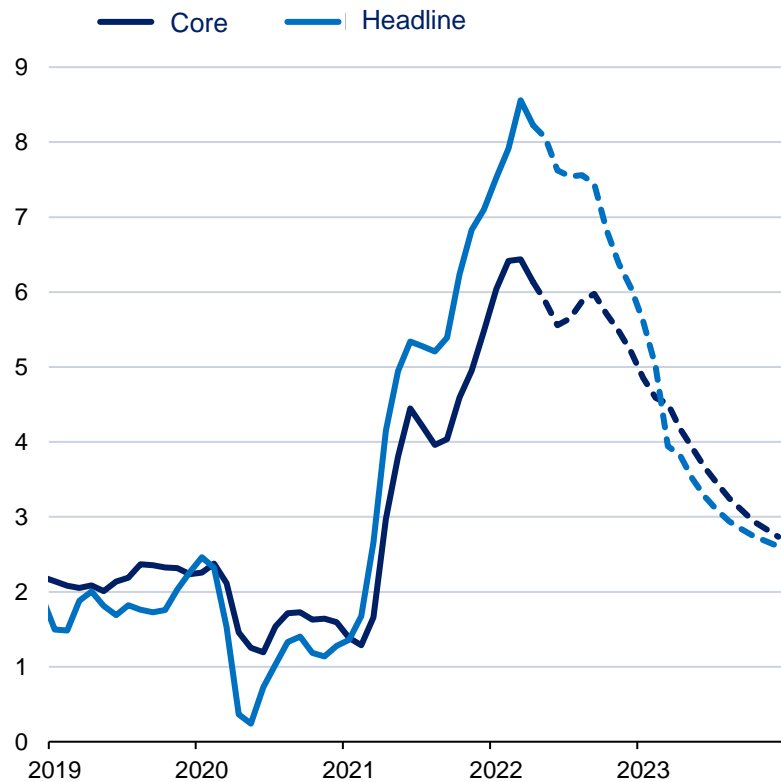


Sources: IHS Markit, JP Morgan, Bloomberg, BayernLB Research

Inflation: Close to peaking

USA: Energy prices remain driving factor

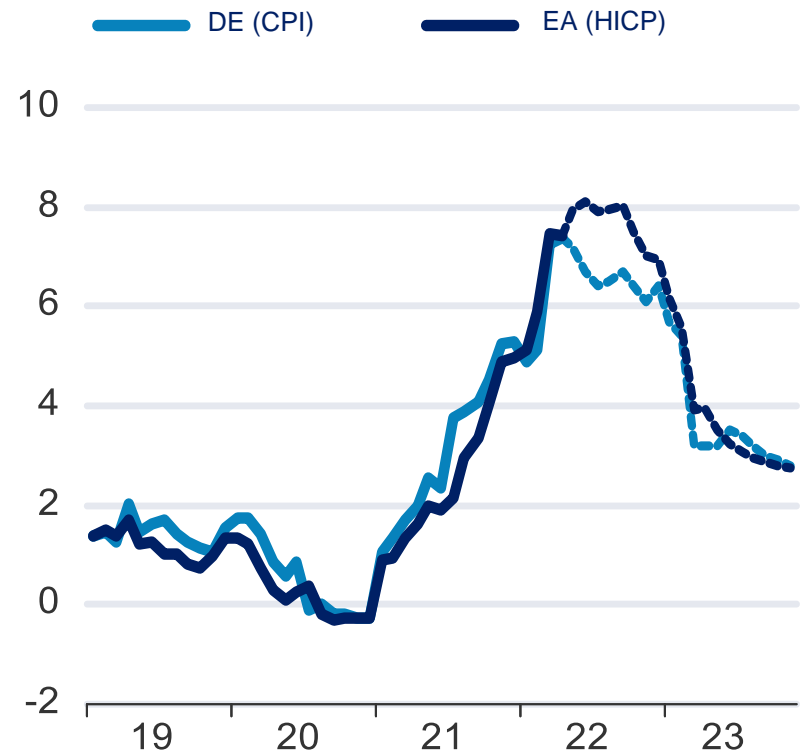
CPI, y/y in percent, forecast from May 22



Sources: Refinitiv, BayernLB Research

European governments strive to dampen price increases

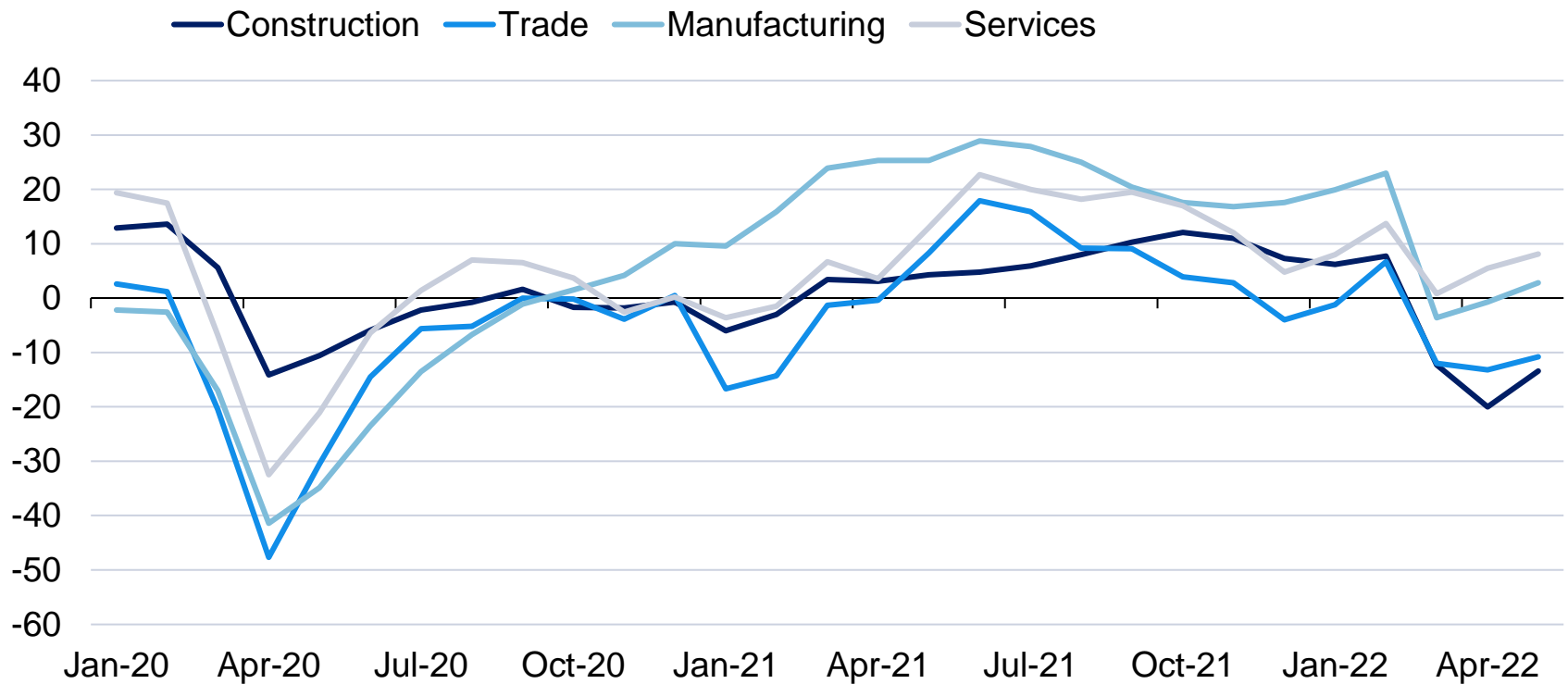
CPI and HICP, y/y in percent, forecast from May 22



Sources: Refinitiv, BayernLB Research

Germany: Headwinds for manufacturing, retail trade and construction

ifo Business climate index, survey balances, seasonally adjusted

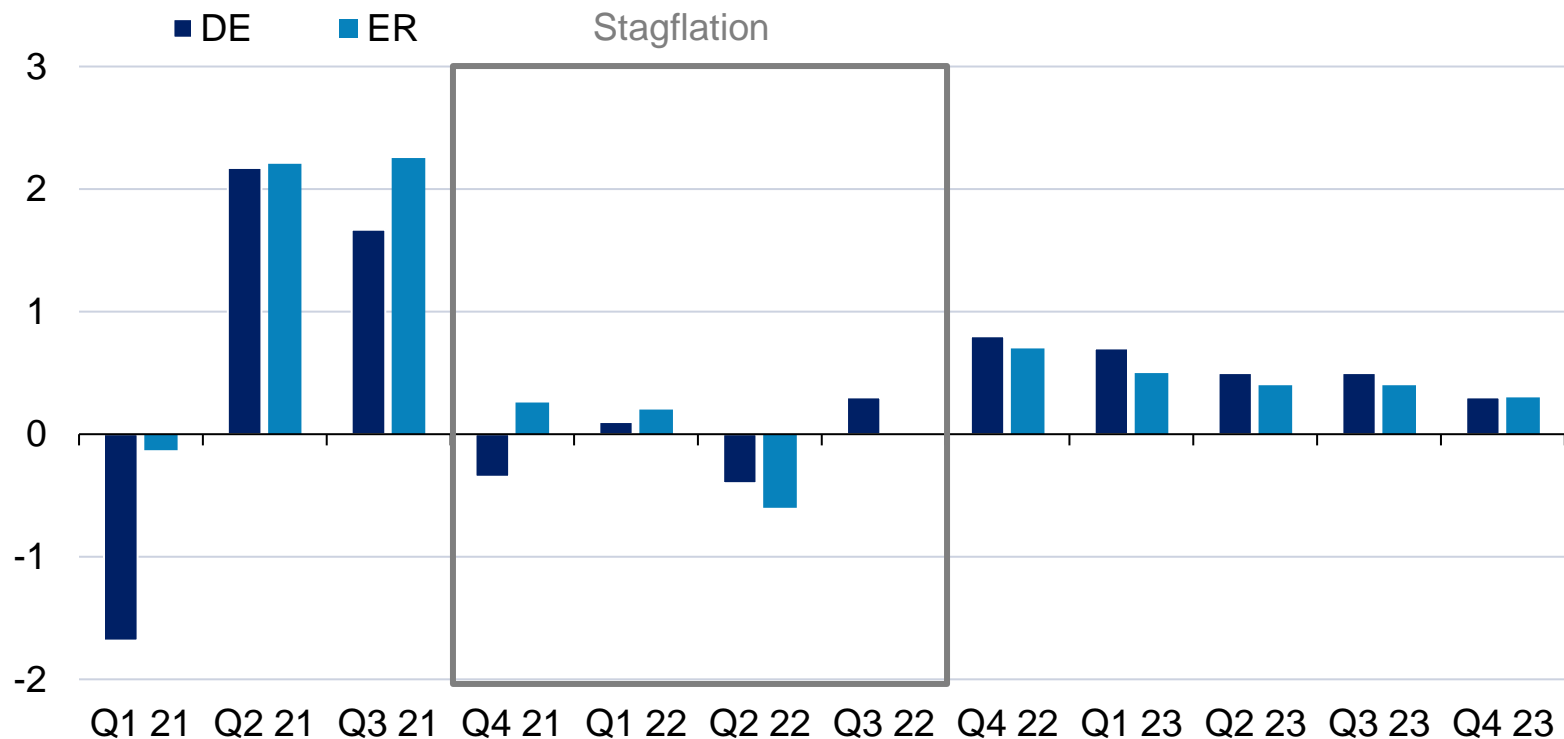


Sources: Refinitiv, BayernLB Research

Germany and the Euro Area: Stagflation

Real GDP stagnates between Q4 2021 and Q3 2022

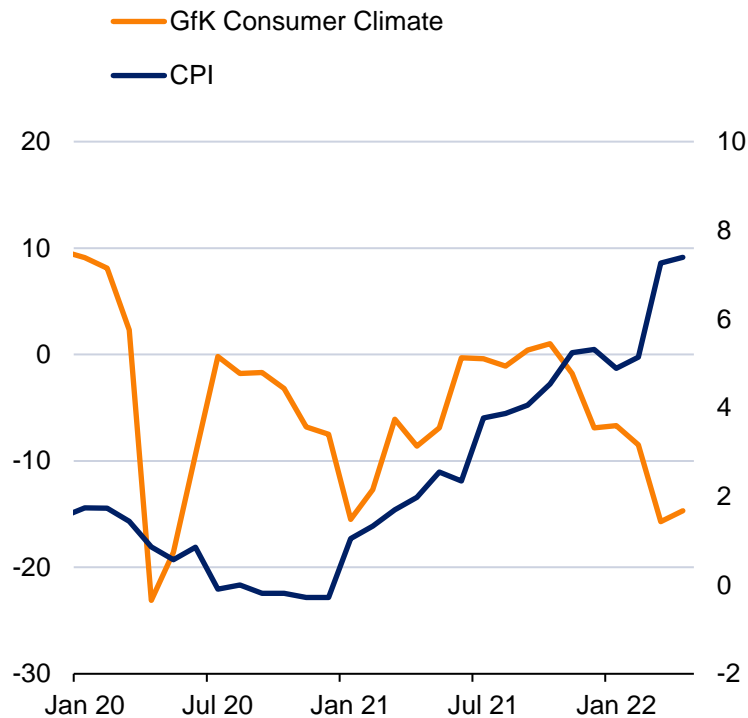
Quarterly figures, seasonally adjusted, change vs. previous quarter in %, from Q1 2022: forecast



Sources: Refinitiv, Destatis, BayernLB Research

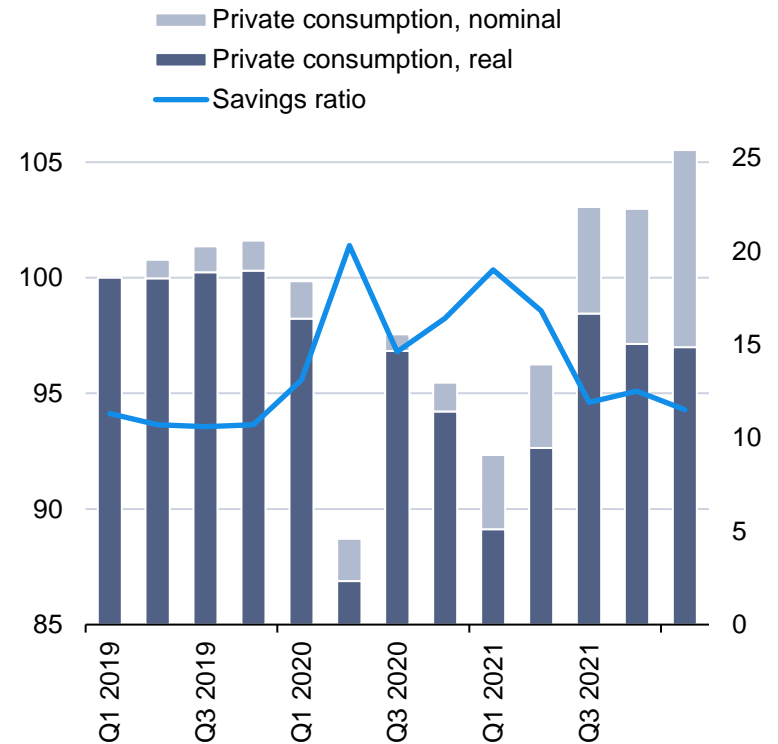
Germany: Consumption under pressure

Inflation and war weigh on consumer climate
CPI in % yoy; GfK Consumer Climate (-1M), in points



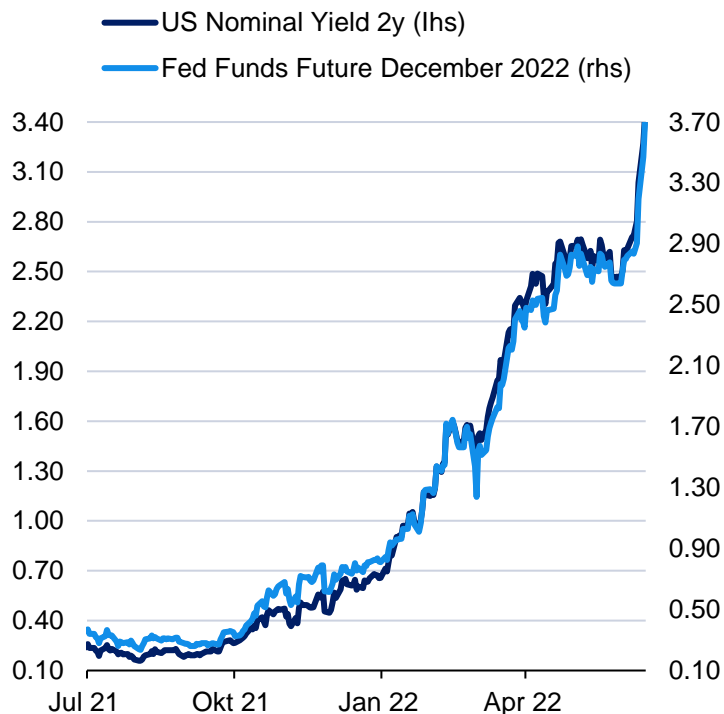
Sources: Refinitiv, BayernLB Research

Higher prices eat up additional savings
Quarterly figures, adj.; Q1 2019 = 100; savings rate in %.



Fed: Rapid tightening priced in

Yield on 2-year Treasuries and U.S. key interest rate expectations as measured by fed funds futures, in % p.a.



- › Interest rate expectations have gradually increased in recent months.
- › Rate hike of 75 bps to 150-175% in June.
- › Inflation rate May: 8.6%
- › The Fed is currently expected to raise interest rates by a further 175-200 bps by the end of 2022.
- › For the next meeting in July, interest rate step of 50 bp each fully priced in (a bit more). We expect 75 bps.

Sources: Refinitiv, BayernLB Research

ECB: Faster turnaround

Yield on 2-year Bunds and Euribor 3-month future, in % p.a.

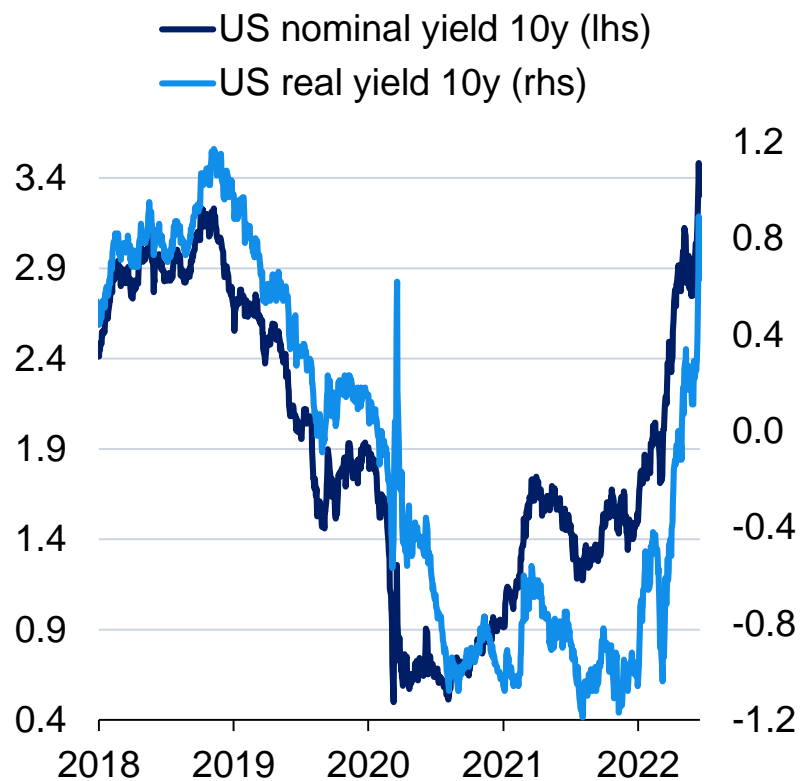


- › Since Russia's invasion of Ukraine, interest rate expectations have risen noticeably
- › End of APP by July
- › Rate hike of 25 bps in July for all rates, probably 50 bps in September
- › End of 2022: deposit rate 0.75% (instead of 0.25%), repo rate 1.25%

Sources: Refinitiv, BayernLB Research

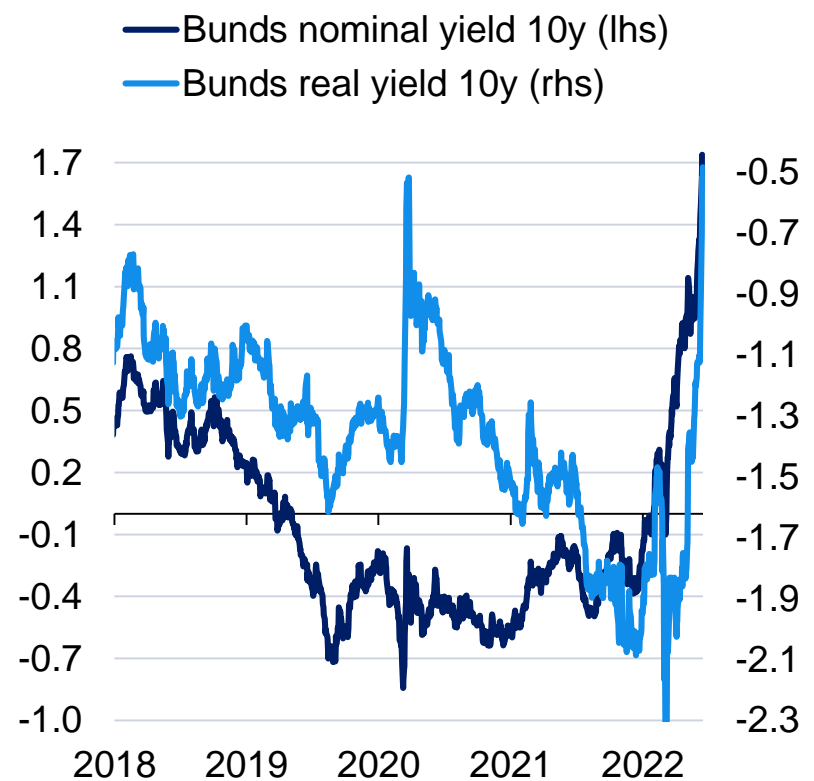
Government Bonds: Impact on real yields

Yield on 10Y Treasuries (nominal yield) and real yield calculated from inflation-protected bonds, in % p.a.



Sources: Refinitiv, BayernLB Research

Yield 10y. Bunds (nominal yield) and real yield calculated from inflation-linked bonds, in % p.a.



Sources: Refinitiv, BayernLB Research

Forecast Overview: Macro View

In percent

	GDP Growth ¹⁾ on previous year			Inflation on previous year		
	2021	2022	2023	2021	2022	2023
US	5.7	2.4	1.1	4.7	7.5	3.4
Euro area	5.3	1.8	1.1	2.6	7.1	3.6
Germany	2.8	1.3	1.5	3.1	6.4	3.5
France	7.0	2.2	1.0	2.1	6.2	3.9
Italy	6.6	1.6	0.8	1.9	6.3	2.9
Spain	5.1	3.4	1.4	3.0	7.8	4.3
Japan	1.6	2.2	1.7	-0.2	2.2	1.7
UK	7.4	3.2	0.0	2.6	8.5	4.5
Advanced markets	5.2	2.3	1.2	3.2	6.6	3.3
China	8.1	3.5	5.2	1.0	2.1	2.5
Russia	4.7	-10.0	-2.0	6.7	18.0	10.0
Emerging markets	6.7	2.8	4.1	4.7	7.6	5.6
World	5.8	2.5	2.4	3.8	7.0	4.3

1) In constant prices

Forecast Overview: Financial Markets

	act 24 May 2022	in 3M Aug 2022	in 6M Nov 2022	in 12M May 2023
Euro area (deposit rate)	-0.50	-0.25	0.00	0.50
UK (base rate)	1.00	1.50	2.00	2.25
US (Fed funds target)	0.75 - 1.00	1.75 - 2.00	2.25 - 2.50	2.50 - 2.75
Japan (overnight call rate)	-0.10	-0.10	-0.10	-0.10
10y treasuries, in percent	2.77	3.00	2.85	2.60
10y bunds, in percent	0.95	1.05	0.90	0.80
iBoxx € Non-Financials	94	90	100	115
iBoxx € Covered	6	15	19	22
Dollar per Euro	1.07	1.08	1.10	1.13
Yen per Euro	136	138	140	141
Pound per Euro	0.86	0.84	0.85	0.87
DAX	13,920	14,600	14,400	15,500
EURO STOXX 50	3,648	3,850	3,800	4,100
S&P 500	3,941	4,250	4,150	4,700
Brent (\$ per barrel)	113.8	105.0	95.0	85.0
Gold (\$ per troy ounce)	1866	1850	1800	1750

Turning point in history: The longer run effects

- › **War in Ukraine will last for longer.**
- › **Enduring weakness of Russia** (for decades?) through sanctions and international isolation.
- › **A new „Iron Curtain“ in Europe** and global **bloc formation** between the West (Northern America, Europe) and the East (Russia, China?) is on the way.
- › The war triggers a **geopolitical turning point** which impacts not only foreign and security policy, but also the international trade environment (supply chains, energy security, export markets).
- › **Massive investment by Europe** (especially Germany) in security and defence, multiplier effects of additional government spending unclear, but higher debt burdens, mutualization in Europe more likely.
- › **The transformation of economy and society will speed up: De-Globalization, Decarbonization, Digitization.**

Summary

Short Term Consequences

- › The Ukraine war and Chinese lockdowns are weighing on growth and price stability.
- › Uncertainty remains high, Europe in stagflation scenario.
- › The Fed is poised to tighten the monetary reins sharply; ECB is approaching the “interest-rate liftoff”.

In the longer run: Bloc building and De-globalization?

- › The war triggers a geopolitical turning point which impacts the international trade relations: supply chains, energy security, export markets.
- › Global bloc formation endangers European/German export-oriented business model.
- › The transformation of society and economy speeds up.

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