UniCredit

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Macro Research
Strategy Research

"Caution about growth outlook warranted"

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Editorial deadline: 27 September 2023, 11:00 (CET).

Caution about growth outlook warranted

- **Global:** GDP growth is likely to slow to 2.9% this year (broadly in line with our previous estimate of 2.8%) and 2.5% next year (from 2.7%). The deceleration largely reflects the lagged effects of tighter monetary policy amid depleted household savings buffers and reduced support from fiscal policy. Headline inflation has declined considerably from its peak, mainly due to energy prices, but core inflation is falling too thanks to lower input-price pressure. The recent rise in oil prices is unlikely to prevent further disinflation as aggregate demand softens. Policy rates in most advanced economies have likely reached their peak, but rate cuts will probably have to wait until data-dependent central banks see clear evidence that core inflation is moving sustainably down towards their targets.

- **US:** We are raising our GDP forecast for this year to 2% (from 1.3%) while still expecting a mild recession at the turn of the year and flat annual growth for 2024. The recent strength of personal consumption is unlikely to last amid much tighter credit conditions, a softening labor market, a reduced household savings buffer and the resumption of student-loan repayments. We expect headline inflation to ease to around 2% by the end of next year, with core inflation slightly above 2%. We think the Fed's hiking cycle has reached a peak and have penciled in 150bp of rate cuts for next year, starting in March.

- **Eurozone:** GDP is likely to stagnate, at best, in 2H23, down from our previous forecast of moderate expansion. While our growth projection for this year remains at 0.5%, the carryover lowers the forecast for 2024 to 0.6%, from 1.0%. Compression of corporate profit margins amid weakening demand seems to have started and will probably continue. This is likely to challenge the resilience of the labor market. We expect inflation to average 3.5% in 4Q23 and to fall back to the ECB's 2% target by the end of 2024. The ECB's tightening cycle has likely come to an end. We continue to expect the first rate cut in mid-2024.

- **CEE:** We forecast EU-CEE economies[1] to grow by 0.8% in 2023 amid destocking and weak private consumption, re-accelerating to 2.7% in 2024 if domestic demand rebounds due to real wage growth and the beginning of postponed capex projects. The Turkish economy might grow by 4.3% in 2023 and 3.4% in 2024 as the fiscal impulse wanes and financial conditions tighten. Russia's better-than-expected performance in 2023 could be followed by a year of no growth. Except for the NBH, we do not expect EU-CEE central banks to cut rates until 2024, while the CBRT and the CBR could deliver further hikes this year.

- **UK:** GDP will probably rise by 0.3% this year (from 0.1%), while we continue to expect a minor contraction of 0.1% in 2024. Activity will likely shrink by a cumulative 0.5% in the three quarters covering 3Q23 to 1Q24, followed by a weak recovery, as the full effects of rate hikes have yet to materialize. We forecast headline inflation to fall rapidly to the 2% target by the end of 2024. The BoE is likely done with hiking rates, and we expect rate cuts to start in 3Q24 or sooner.

- **China:** We are lowering our GDP growth forecast for 2023 to 5% from 5.4%, and for next year to 4% from 4.3%. After a sharp rebound in 1Q23 following the reopening of the economy, activity has disappointed on many fronts. Private consumption remains subdued, while the real estate sector is still a source of vulnerability. Consumer inflation is almost nonexistent amid weak aggregate demand. So far, the government has refrained from adopting a bold, all-in policy stimulus, instead opting for a piecemeal approach. Going forward, most of the policy support is likely to come from monetary policy through rate cuts and the activation of targeted lending facilities.

[1] EU-CEE refers to CEE countries that are members of the EU: Bulgaria, Croatia, Czechia, Hungary, Poland, Romania, Slovakia and Slovenia.

Table 1: Annual macroeconomics forecasts

	GDP (%)			CPI inflation (%)*			Central Bank Rate (EoP)			Government budget balance (% GDP)			General government debt (% GDP)			Current account balance (% GDP)		
	2022	2023	2024	2022	2023	2024	2022	2023	2024	2022	2023	2024	2022	2023	2024	2022	2023	2024
World	**3.4**	**2.9**	**2.5**	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
US	**2.1**	**2.0**	**0.1**	**8.0**	**4.1**	**2.3**	**4.50**	**5.50**	**4.00**	**-5.5**	**-5.9**	**-5.6**	**121.1**	**124.0**	**127.0**	**-3.8**	**-3.2**	**-2.7**
Eurozone	**3.4**	**0.5**	**0.6**	**8.4**	**5.6**	**2.6**	**2.00**	**4.00**	**3.25**	**-3.6**	**-3.0**	**-2.5**	**93.2**	**90.5**	**89.9**	**0.6**	**1.9**	**2.0**
Germany	1.8*	-0.6*	0.4*	6.9	6.2	3.1	-	-	-	-2.6	-2.5	-2.0	66.3	65.1	64.9	4.2	5.7	5.0
France	2.5	0.9	1.0	5.2	5.0	2.8	-	-	-	-4.7	-4.9	-4.4	111.8	109.4	109.7	-4.0	-2.3	-1.6
Italy	3.8	0.8	0.8	8.1	5.9	2.3	-	-	-	-8.0	-5.7	-4.3	141.6	140.4	140.6	-1.2	0.5	0.8
Spain	5.8	2.6	1.4	8.3	3.8	3.1	-	-	-	-4.7	-4.2	-3.9	111.6	108.6	108.1	0.6	1.2	1.4
Austria	4.8	0.1	0.9	8.6	7.8	3.6	-	-	-	-3.2	-2.8	-1.8	78.5	75.7	74.1	0.7	1.9	1.8
Greece	5.9	2.4	1.4	9.6	4.0	2.9	-	-	-	-2.3	-1.9	-1.6	171.3	165.0	164.7	-11.8	-8.0	-6.0
Portugal	6.7	2.3	0.9	7.8	5.0	3.0	-	-	-	-0.4	-0.4	-0.5	112.4	104.9	103.1	-1.5	-0.8	-0.5
CEE																		
Poland	5.2	0.6	2.7	16.6	7.7	6.1	6.75	6.00	5.00	-3.7	-5.2	-4.3	51.3	47.9	52.0	-3.0	0.2	-0.2
Czechia	2.4	0.1	2.1	15.8	8.7	3.5	7.00	7.00	5.25	-3.6	-4.8	-3.6	44.1	45.2	46.0	-6.1	-1.7	-0.2
Hungary	4.6	-0.7	3.3	24.5	7.3	6.7	13.00	11.50	6.00	-6.2	-5.8	-4.8	71.0	70.9	72.2	-8.1	-0.2	0.3
Russia	-2.1	1.9	0.0	11.9	7.0	4.0	7.50	13.50	9.00	-2.2	-2.6	-1.5	14.9	16.6	18.8	10.7	2.0	2.7
Turkey	5.5	4.3	3.4	64.3	71.0	43.0	9.00	35.00	40.00	-2.2	-7.1	-6.8	31.7	34.6	38.3	-5.4	-4.6	-3.0
Other Europe																		
UK	4.1	0.3	-0.1	9.1	7.2	2.6	3.50	5.25	4.50	-5.6	-5.5	-5.0	101.9	107.0	110.0	-3.8	-2.5	-2.5
Sweden	2.9	-0.3	1.0	7.7	6.0	2.5	2.00	4.25	3.50	0.7	0.0	0.5	33.0	31.0	28.0	4.8	4.5	4.9
Norway	3.7**	1.3**	1.6**	5.8	5.5	3.0	2.75	4.75	4.00	16.2	21.0	20.0	35.3	33.0	32.5	25.4	24.4	20.0
Switzerland	2.7	0.7	0.9	2.8	2.2	1.5	1.00	1.75	1.75	1.0	-0.4	0.0	41.3	41.3	41.2	9.7	8.8	8.5
Others																		
China	3.0	5.0	4.0	1.1	0.9	1.7	4.35	4.35	4.15	-8.9****	-7.2****	-7.5****	76.9	84.2	89.5	2.2	1.4	1.2
Japan	1.1	1.8	0.8	2.5	3.1	1.9	-0.10	-0.10	0.00	-6.4	-6.2	-4.5	261	255	254	2.1	2.7	2.5

Source: UniCredit Research

*Annual averages, except for CEE countries, for which end-of-period numbers are used. **Non-wda figures. Adjusted for working days: 1.9% (2022), -0.4% (2023) and 0.4% (2024). ***Mainland economy figures. Overall GDP: 3.3% (2022), 1.4% (2023) and 1.5% (2024). ****Official budgetary balances are adjusted according to IMF methodology to include government-managed funds, state-administered SOE funds, adjustment to the stabilization fund, and social security fund.

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Table 2: Quarterly GDP and CPI forecasts

REAL GDP (% QOQ, SA)

	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24
US (non-annualized)	**0.8**	**0.6**	**0.5**	**0.5**	**0.7**	**-0.3**	**-0.2**	**-0.1**	**0.2**	**0.3**
Eurozone	**0.3**	**-0.1**	**0.1**	**0.1**	**0.0**	**0.0**	**0.2**	**0.3**	**0.3**	**0.3**
Germany	0.4	-0.4	-0.1	0.0	-0.2	-0.2	0.2	0.3	0.3	0.3
France	0.2	0.1	0.1	0.5	0.1	0.2	0.2	0.3	0.3	0.4
Italy	0.3	-0.2	0.6	-0.4	0.2	0.1	0.2	0.3	0.3	0.3
Spain	0.5	0.5	0.6	0.5	0.3	0.2	0.3	0.4	0.5	0.5
Austria	-0.4	-0.2	0.4	-0.7	0.1	0.1	0.3	0.3	0.4	0.4
CEE										
Poland (% yoy)	4.9	0.8	-0.1	-1.4	1.1	2.3	0.3	5.1	2.4	3.1
Czechia	-0.2	-0.4	0.0	0.1	0.4	0.5	0.6	0.6	0.6	0.6
Hungary (% yoy)	4.0	0.4	-0.9	-2.4	-0.2	0.8	2.0	3.4	3.8	4.0
Russia (% yoy)*	-2.7	-3.2	-2.6	3.1	3.9	3.3	2.0	0.3	-1.2	-0.9
Turkey (% yoy)	4.1	3.3	3.9	3.8	5.4	4.0	5.4	2.3	2.7	3.3
Other Europe										
UK	-0.1	0.1	0.1	0.2	-0.1	-0.2	-0.2	0.1	0.2	0.3
Sweden	0.4	-0.8	0.4	-0.8	0.0	0.2	0.3	0.5	0.5	0.5
Norway (mainland)	0.5	0.5	0.2	0.0	0.3	0.4	0.4	0.5	0.5	0.5
Switzerland	0.3	0.0	0.3	0.0	0.0	0.1	0.2	0.3	0.4	0.4

CPI INFLATION (% YOY)

	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24
US	**8.3**	**7.1**	**5.8**	**4.0**	**3.5**	**3.4**	**2.9**	**2.5**	**2.1**	**1.7**
Eurozone	**9.3**	**10.0**	**8.0**	**6.2**	**5.0**	**3.5**	**3.2**	**2.9**	**2.5**	**2.0**
Germany	7.4	8.6	8.3	6.6	5.7	4.4	3.6	3.1	3.0	2.5
France	5.8	6.1	6.0	5.2	4.7	4.2	3.3	3.0	2.8	2.3
Italy	8.4	11.7	8.9	7.4	5.5	2.2	2.5	2.5	2.6	1.8
Spain (HICP)	10.0	6.5	4.9	2.8	2.7	4.7	4.2	3.7	2.7	2.0
Austria	9.7	10.6	10.4	8.9	6.8	5.1	4.3	3.6	3.3	3.1
CEE**										
Poland	17.2	16.6	16.1	11.5	8.6	7.7	7.0	7.3	7.2	6.1
Czechia	18.0	15.8	15.0	9.7	8.0	8.7	3.9	4.3	3.2	3.5
Hungary	20.1	24.5	25.2	20.1	11.8	7.3	6.5	7.5	6.9	6.7
Russia	13.7	11.9	3.5	3.2	5.9	7	6.7	6.2	4.6	4.0
Turkey	83.5	64.3	50.5	38.2	61.2	71.0	69.7	76.1	50.5	43.0
Other Europe										
UK	10.0	10.8	10.2	8.4	6.6	4.0	3.6	2.4	2.4	2.1
Sweden	8.9	9.7	8.9	6.9	5.0	3.0	2.8	2.5	2.5	2.2
Norway	6.7	6.6	6.6	6.5	5.0	4.5	4.2	3.1	2.5	2.0
Switzerland	3.4	2.9	3.2	2.1	1.7	1.9	1.5	1.3	1.4	1.5

*Seasonally adjusted data. **CEE CPI figures are end-of-period.

Source: UniCredit Research

Table 3: Oil forecasts

	Current	4Q23	1Q24	2Q24	3Q24	4Q24
Brent (USD/bbl, average)	95	98	93	90	88	85

Source: Bloomberg, UniCredit Research

Table 4: Comparison of annual GDP and CPI forecasts

GDP (%)

	UniCredit			IMF*** (Apr/Jul-23)			European Commission (May/Sep-23)****			OECD (Jun/Sep-23)*****		
	2022	2023	2024	2022	2023	2024	2022	2023	2024	2022	2023	2024
World	**3.4**	**2.9**	**2.5**	**3.5**	**3.0**	**3.0**	**3.2**	**3.1**	**3.3**	**3.3**	**3.0**	**2.7**
US	**2.1**	**2.0**	**0.1**	**2.1**	**1.8**	**1.0**	**2.1**	**1.4**	**1.0**	**2.1**	**2.2**	**1.3**
Eurozone	**3.4**	**0.5**	**0.6**	**3.5**	**0.9**	**1.5**	**3.3**	**0.8**	**1.3**	**3.4**	**0.6**	**1.1**
Germany	1.8*	-0.6*	0.4*	1.8	-0.3	1.3	1.8	-0.4	1.1	1.9	-0.2	0.9
France	2.5	0.9	1.0	2.5	0.8	1.3	2.5	1.0	1.2	2.5	1.0	1.2
Italy	3.8	0.8	0.8	3.7	1.1	0.9	3.7	0.9	0.8	3.8	0.8	0.8
Spain	5.8	2.6	1.4	5.5	2.5	2.0	5.5	2.2	1.9	5.5	2.3	1.9
Austria	4.8	0.1	0.9	5.0	0.4	1.1	5.0	0.4	1.6	4.9	0.2	1.6
Greece	5.9	2.4	1.4	5.9	2.6	1.5	5.9	2.4	1.9	6.1	2.2	1.9
Portugal	6.7	2.3	0.9	6.7	1.0	1.7	6.7	2.4	1.8	6.7	2.5	1.5
CEE												
Poland	5.2	0.6	2.7	4.9	0.3	2.4	5.1	0.5	2.7	5.4	0.9	2.1
Czechia	2.4	0.1	2.1	2.4	-0.5	2.0	2.5	0.2	2.6	2.5	0.3	2.4
Hungary	4.6	-0.7	3.3	4.9	0.5	3.2	4.6	0.5	2.8	4.6	0.0	2.5
Russia	-2.1	1.9	0.0	-2.1	1.5	1.3	-2.1	-0.9	1.3	-2.0	0.8	0.9
Turkey	5.5	4.3	3.4	5.6	2.7	3.6	5.6	3.5	4.0	5.5	4.3	2.6
Other Europe												
UK	4.1	0.3	-0.1	4.1	0.4	1.0	4.1	-0.2	1.0	4.1	0.3	0.8
Sweden	2.9	-0.3	1.0	2.6	-0.5	1.0	2.6	-0.5	1.1	2.9	-0.3	1.4
Norway	3.7**	1.3**	1.6**	3.3	2.1	2.5	3.3	1.7	1.9	3.3	1.5	1.5
Switzerland	2.7	0.7	0.9	2.1	0.8	1.8	2.1	0.8	1.5	2.1	0.6	1.2
Others												
China	3.0	5.0	4.0	3.0	5.2	4.5	3.0	5.5	4.7	3.0	5.1	4.6
Japan	1.1	1.8	0.8	1.0	1.4	1.0	1.0	1.1	1.0	1.0	1.8	1.0

CPI INFLATION (%)****

	UniCredit			IMF (Apr-23)			European Commission (May/Sep-23)			OECD (Jun/Sep-23)		
	2022	2023	2024	2022	2023	2024	2022	2023	2024	2022	2023	2024
US	**8.0**	**4.1**	**2.3**	**8.0**	**4.5**	**2.3**	**8.7**	**4.3**	**2.6**	**6.3**	**3.8**	**2.6**
Eurozone	**8.4**	**5.6**	**2.6**	**8.4**	**5.3**	**2.9**	**8.4**	**5.6**	**2.9**	**8.4**	**5.5**	**3.0**
Germany	6.9	6.2	3.1	8.7	6.2	3.1	8.7	6.4	2.8	8.7	6.1	3.0
France	5.2	5.0	2.8	5.9	5.0	2.5	5.9	5.6	2.7	5.9	5.8	2.9
Italy	8.1	5.9	2.3	8.7	4.5	2.6	8.7	5.9	2.9	8.7	6.1	2.5
Spain	8.3	3.8	3.1	8.3	4.3	3.2	8.3	3.6	2.9	8.3	3.5	3.4
Austria	8.6	7.8	3.6	8.6	8.2	3.0	8.6	7.1	3.8	8.6	8.0	3.9
Greece	9.6	4.0	2.9	9.3	4.0	2.9	9.3	4.2	2.4	9.3	3.9	3.2
Portugal	7.8	5.0	3.0	8.1	5.7	3.1	8.1	5.1	2.7	8.1	5.7	3.3
CEE												
Poland	16.6	7.7	6.1	14.4	11.9	6.1	13.2	11.4	6.1	14.4	12.4	4.8
Czechia	15.8	8.7	3.5	15.1	11.8	5.8	14.8	11.9	3.4	15.1	12.2	3.4
Hungary	24.5	7.3	6.7	14.5	17.7	5.4	15.3	16.4	4.0	14.6	19.2	5.4
Russia	11.9	7.0	4.0	13.8	7.0	4.6	13.7	6.4	4.6	13.7	5.2	5.2
Turkey	64.3	71.0	43.0	72.3	50.6	35.2	72.3	45.0	30.3	72.3	52.1	39.2
Other Europe												
UK	9.1	7.2	2.6	9.1	6.8	3.0	7.9	6.7	2.4	9.1	7.2	2.9
Sweden	7.7	6.0	2.5	8.1	6.8	2.3	8.1	6.0	1.9	8.4	7.9	2.4
Norway	5.8	5.5	3.0	5.8	4.9	2.8	5.8	4.8	3.0	5.8	5.4	3.5
Switzerland	2.8	2.2	1.5	2.8	2.4	1.6	2.8	2.2	1.3	2.8	2.4	1.2
Others												
China	1.1	0.9	1.7	1.9	2.0	2.2	-	-	-	1.9	0.5	1.3
Japan	2.5	3.1	1.9	2.5	2.7	2.2	2.5	3.2	1.8	2.5	3.1	2.1

*Non-wda figures. Adjusted for working days: 1.9% (2022), -0.4% (2023) and 0.4% (2024); **Mainland economy figures. Overall GDP: 3.3% (2022), 1.4% (2023) and 1.5% (2024); ****World Economic Outlook* (April 2023) and *World Economic Outlook Update* (July 2023); *****Spring 2023 Economic Forecast* (May 2023) and *Summer 2023 Economic Forecast* (September 2023); ******Economic Outlook* (June 2023) and *Interim Economic Outlook* (September 2023). ******Annual averages, except for CEE countries, for which end-of-period numbers are used.

Source: IMF, European Commission, OECD, UniCredit Research

Table 5: FI forecasts

INTEREST RATE AND YIELD FORECASTS (%)

	Current	4Q23	1Q24	2Q24	3Q24	4Q24
EMU						
Refi rate	4.50	4.50	4.50	4.25	4.00	3.75
Depo rate	4.00	4.00	4.00	3.75	3.50	3.25
3M Euribor	3.94	**4.00**	3.95	3.70	3.45	**3.20**
Euribor future		*4.00*	*3.95*	*3.80*	*3.59*	*3.38*
2Y Schatz	3.23	**2.80**	2.60	2.40	2.20	**2.00**
fwd		*3.03*	*2.85*	*2.71*	*2.57*	*2.53*
5Y Obl	2.77	2.55	2.40	2.30	2.20	2.10
10Y Bund	2.80	**2.45**	2.35	2.30	2.25	**2.25**
fwd		*2.78*	*2.76*	*2.76*	*2.75*	*2.76*
30Y Bund	3.00	2.60	2.50	2.50	2.50	2.55
2/10	-43	-35	-25	-10	5	25
2/5/10	-48	-15	-15	-10	-5	-5
10/30	20	15	15	20	25	30
2Y EUR swap	3.82	3.35	3.10	2.90	2.70	2.50
5Y EUR swap	3.39	3.10	2.90	2.80	2.70	2.60
10Y EUR swap	3.35	2.95	2.80	2.75	2.70	2.70
10Y BTP	4.75	4.45	4.35	4.20	4.05	4.00
US						
Fed fund	5.50	5.50	5.25	5.00	4.50	4.00
3M OIS SOFR	5.39	**5.24**	5.00	4.68	4.14	**3.79**
fwd		*5.53*	*5.51*	*5.37*	*4.91*	*4.55*
2Y UST	5.06	**4.65**	4.00	3.65	3.30	**3.10**
fwd		*4.91*	*4.74*	*4.62*	*4.50*	*4.44*
5Y UST	4.59	4.25	3.75	3.50	3.30	3.15
10Y UST	4.52	**4.20**	3.70	3.55	3.40	**3.25**
fwd		*4.53*	*4.51*	*4.50*	*4.50*	*4.51*
30Y UST	4.66	4.35	3.95	3.90	3.80	3.70
2/10	-53	-45	-30	-10	10	15
2/5/10	-39	-35	-20	-20	-10	-5
10/30	13	15	25	35	40	45
2Y USD swap	5.00	4.60	3.95	3.60	3.25	3.05
10Y USD swap	4.23	3.95	3.50	3.35	3.20	3.05
UK						
Key rate	5.25	**5.25**	5.25	5.25	5.00	**4.50**

Spreads	Current	4Q23	1Q24	2Q24	3Q24	4Q24
10Y UST-Bund	172	175	135	125	115	100
10Y BTP-Bund	195	200	200	190	180	175
10Y EUR swap-Bund	55	50	45	45	45	45
10Y USD swap-UST	-30	-25	-20	-20	-20	-20

Forecasts are end of period

Source: Bloomberg, UniCredit Research

Table 6: FX forecasts

EUR	Current	4Q23	1Q24	2Q24	3Q24	4Q24	3M	6M	12M
G10									
EUR-USD	1.06	**1.09**	1.12	1.13	1.14	**1.15**	1.09	1.12	1.14
EUR-CHF	0.97	**0.97**	0.98	0.99	1.00	**1.01**	0.97	0.98	1.00
EUR-GBP	0.87	**0.89**	0.90	0.90	0.90	**0.90**	0.89	0.90	0.90
EUR-JPY	157	**158**	157	156	154	**153**	158	157	154
EUR-NOK	11.38	**11.50**	11.45	11.40	11.35	**11.3**	11.50	11.45	11.35
EUR-SEK	11.59	**11.90**	11.85	11.80	11.75	**11.7**	11.90	11.85	11.75
EUR-AUD	1.66	**1.68**	1.70	1.69	1.68	**1.67**	1.68	1.70	1.68
EUR-NZD	1.78	**1.82**	1.84	1.82	1.81	**1.80**	1.82	1.84	1.81
EUR-CAD	1.43	**1.47**	1.50	1.50	1.50	**1.50**	1.47	1.50	1.50
EUR TWI	97.2	**99.9**	101.3	101.7	102.4	**103.1**	99.9	101.3	102.4
CEEMEA & CHINA									
EUR-PLN	4.60	**4.65**	4.62	4.65	4.62	**4.70**	4.65	4.62	4.62
EUR-HUF	388	**392**	396	400	404	**404**	392	396	404
EUR-CZK	24.41	**24.30**	24.30	24.40	24.50	**24.60**	24.30	24.30	24.50
EUR-TRY	28.88	**32.70**	36.40	40.68	41.61	**44.85**	32.70	36.40	41.61
EUR-RUB	102.01	**109**	113	119	125	**132**	109	113	125
EUR-CNY	7.73	**7.90**	8.01	7.91	7.92	**7.94**	7.90	8.01	7.92

USD	Current	4Q23	1Q24	2Q24	3Q24	4Q24	3M	6M	12M
G10									
EUR-USD	1.06	**1.09**	1.12	1.13	1.14	**1.15**	1.09	1.12	1.14
USD-CHF	0.92	**0.89**	0.88	0.88	0.88	**0.88**	0.89	0.88	0.88
GBP-USD	1.22	**1.23**	1.25	1.26	1.27	**1.28**	1.23	1.25	1.27
USD-JPY	149	**145**	140	138	135	**133**	145	140	135
USD-NOK	10.77	**10.55**	10.22	10.09	9.96	**9.83**	10.55	10.22	9.96
USD-SEK	10.97	**10.92**	10.58	10.44	10.31	**10.17**	10.92	10.58	10.31
AUD-USD	0.64	**0.65**	0.66	0.67	0.68	**0.69**	0.65	0.66	0.68
NZD-USD	0.59	**0.60**	0.61	0.62	0.63	**0.64**	0.60	0.61	0.63
USD-CAD	1.35	**1.35**	1.34	1.33	1.32	**1.30**	1.35	1.34	1.32
USTW$	90.8	**97.4**	95.4	94.5	93.5	**92.5**	97.4	95.4	93.5
DXY	106.2	**103.8**	101.2	100.3	99.2	**98.2**	103.8	101.2	99.2
CEEMEA & CHINA									
USD-PLN	4.36	**4.27**	4.13	4.12	4.05	**4.09**	4.27	4.13	4.05
USD-HUF	367	**360**	354	354	354	**351**	360	354	354
USD-CZK	23.10	**22.30**	21.70	21.60	21.50	**21.40**	22.30	21.70	21.50
USD-TRY	27.30	**30.00**	32.50	36.00	36.50	**39.00**	30.00	32.50	36.50
USD-RUB	96.69	**100**	101	105	110	**115**	100	101	110
USD-CNY	7.31	**7.25**	7.15	7.00	6.95	**6.90**	7.25	7.15	6.95

Forecasts are end of period

Source: Bloomberg, UniCredit Research

Global

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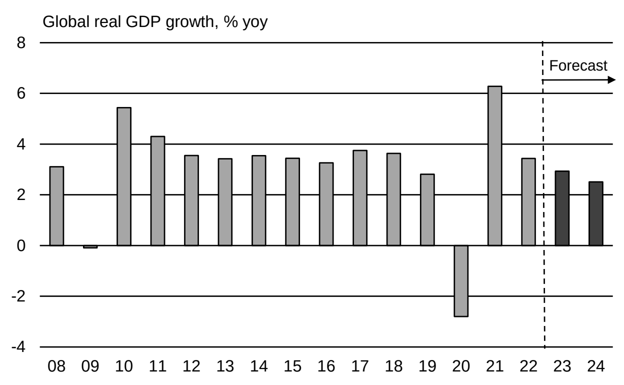
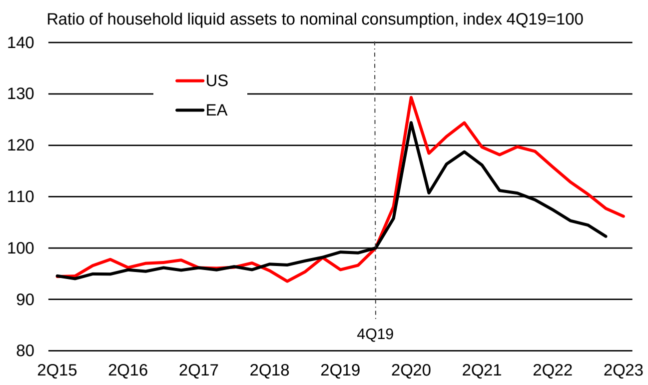
- We expect global GDP growth to slow from 3.4% last year to 2.9% this year (previously 2.8%) and to 2.5% next year (previously 2.7%) as the effects of monetary tightening work their way through the economy. In the US, the recent strength of personal consumption is unlikely to last amid much-tighter credit conditions, labor-market softening and a reduced household-savings buffer. Here, we continue to expect a mild recession around the turn of the year. In the eurozone, where manufacturing and services PMIs are already in contractionary territory, monetary tightening is being felt more forcefully, as savings buffers have been exhausted and fiscal policy is becoming less supportive. We expect eurozone growth to stagnate in 2H23, followed by subdued growth next year as declining inflation provides some relief to real incomes. Within the eurozone, Germany has been underperforming due to its large manufacturing sector and significant exposure to China. In China, the reopening boost faded faster than we expected, and problems in the property sector persist.
- Headline inflation is well down from its peak of last year, mainly due to energy prices. Core inflation is now visibly falling too due to base effects and lower input-price pressure, mostly for core goods, as demand and supply have moved into better balance. Service-price inflation remains sticky but will likely fall as labor markets soften and short-term inflation expectations follow headline inflation lower. Longer-term measures of inflation expectations remain well-anchored. We expect headline inflation to ease to the 2% target in the US and euro area by the end of next year, with core inflation set to move down more gradually than headline inflation. The recent rise in energy prices is unlikely to derail this, and we expect oil prices to fall steadily next year.
- Policy rates in most advanced economies have likely reached a peak, but rate cuts will probably have to wait until data-dependent central banks see clear evidence that core inflation is moving sustainably down to 2%. We expect the Fed to cut rates by 150bp next year, starting in 1Q24, and the ECB to cut by 75bp, starting in 2Q24.
- Risks to global growth are skewed to the downside. The effects of past monetary tightening could be larger, particularly now that buffers from savings and tight labor markets have waned. China's growth transition and structural issues could prove more challenging than we expect. Global trade and business confidence could be further hampered by geopolitical developments. In contrast, we regard risks to inflation as broadly balanced.

WEAK GROWTH AHEAD



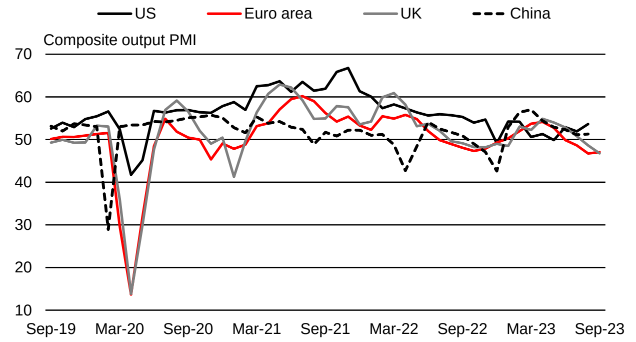
HOUSEHOLD SAVINGS BUFFER IS RECEDING



Source: BEA, ECB, Eurostat, Fed, IMF, UniCredit Research

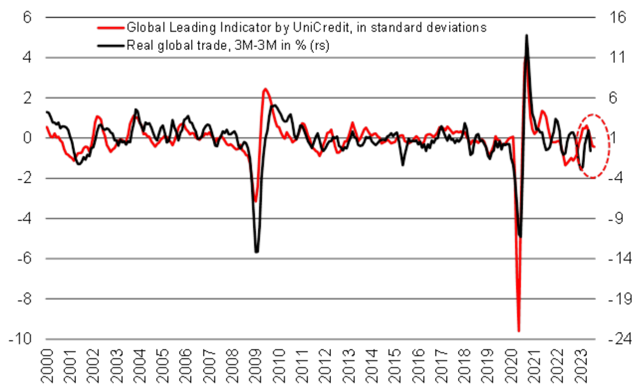
Global

PMIS



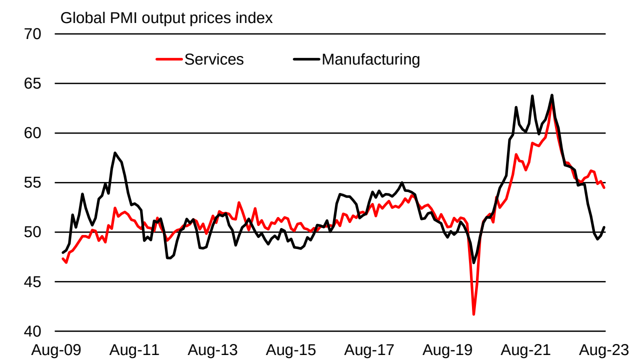
Note: The chart plots the ISM composite output index for the US, the S&P Global composite output index for the euro area and UK, and the official composite PMI for China.

GLOBAL LEADING INDICATOR

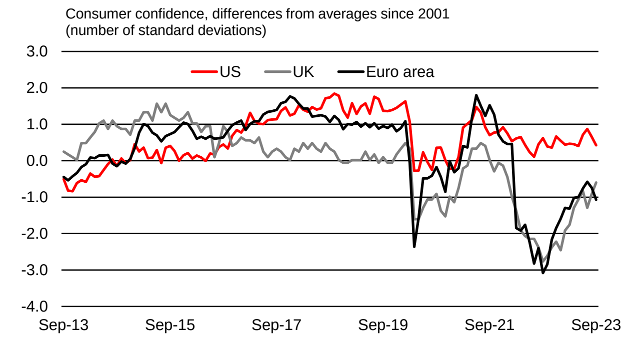


- The composite PMIs have eased markedly in Europe and China, while the US has shown greater resilience, mainly in services.
- The Global Leading Indicator by UniCredit fell to -0.4 standard deviations in August, its lowest level since November 2022.

GLOBAL PMI OUTPUT PRICES



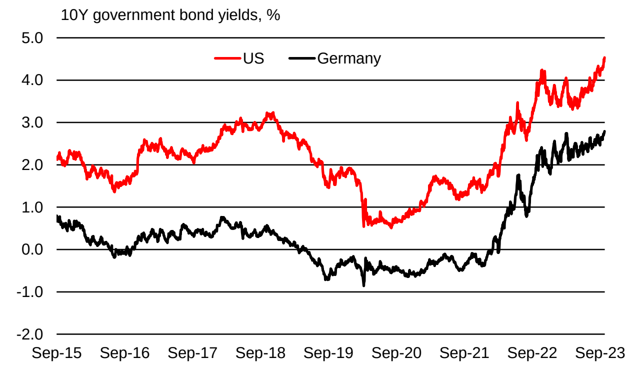
CONSUMER CONFIDENCE



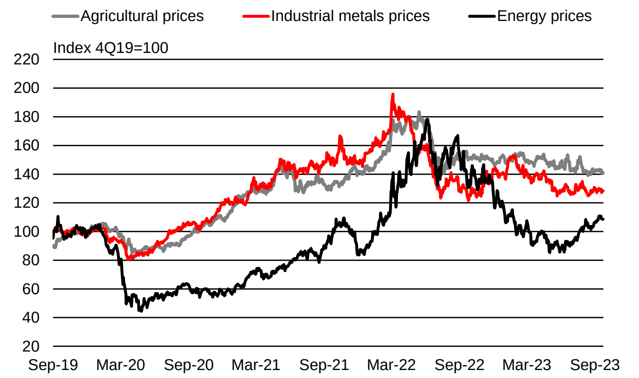
Note: US consumer confidence is that produced by the Conference Board.

- Global manufacturing PMI output prices have eased a lot. Services PMI output prices have eased too but remain historically high.
- Consumer confidence has been more resilient in the US than in Europe.

GOVERNMENT BOND YIELDS



COMMODITY PRICES



- US 10Y government bond yields have risen by around 100bp in the last five months, to 4.5%. Eurozone 10Y government bond yields have moved higher too but not as much as in the US.
- Energy commodity prices have moved higher, largely reflecting higher crude-oil prices, while food prices and prices for industrial metals have stabilized.

Source: Bloomberg, Conference Board, CPB Netherlands, EC, GfK, S&P Global, UniCredit Research

US

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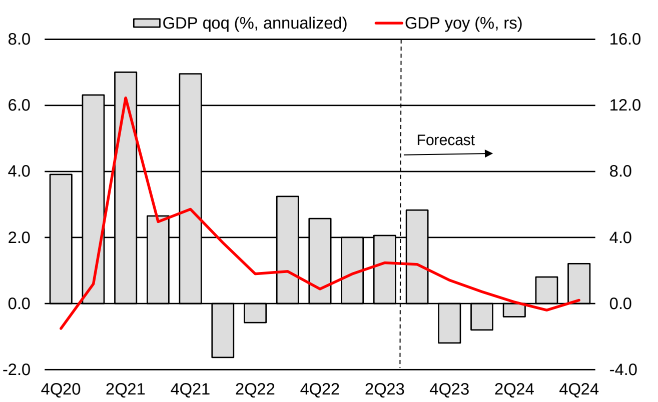
- We are raising our US GDP forecast for this year to 2% (previously 1.3%), while still expecting roughly flat growth next year. GDP expanded at an annualized rate of 2.1% qoq in 2Q23, after it grew by 2.0% in 1Q23. The main driver was personal consumption, which also posted strong gains in July. As a result of this, we have revised upward our growth forecast for 3Q23 substantially, to an annualized 2.8% qoq. However, we do not expect this strength to last. The resumption of federal student loan repayments in October (equivalent to 0.5-1% of total personal consumption), a strike by members of the United Auto Workers union, a possible government shutdown, higher gasoline prices and higher long-term interest rates could weigh on 4Q23 growth. Moreover, the fundamental drivers of consumer spending (real household savings, consumer credit and real disposable income growth) have slowed. We still expect a mild recession at the turn of the year and a weaker recovery in 2H24 than we previously anticipated, as the effects of past monetary tightening work their way through the economy.

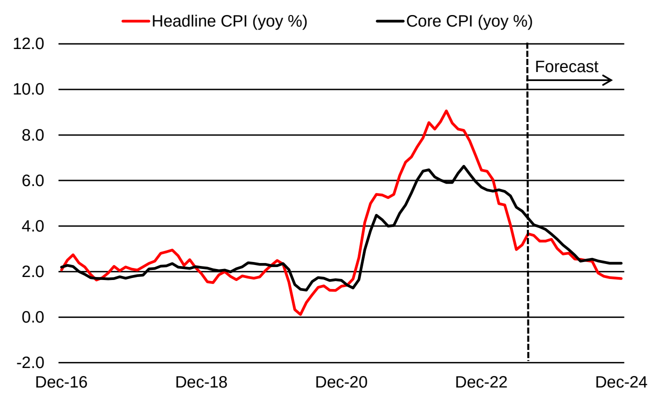
- Headline and core PCE inflation (the Fed's preferred measure of inflation) rose by 0.2% mom in July for a second consecutive month. CPI inflation for August jumped to 0.6% mom as a result of higher energy prices, while core CPI inflation ticked up to 0.3% mom. We expect CPI headline yoy inflation to ease to around 2% by the end of next year, with core inflation slightly above 2%, amid a slowdown in aggregate demand, a rise in unemployment and lower short-term inflation expectations. The economy added a solid 187k jobs in August, but the three-month average change slowed to 150k, down from 312k in March. The quits ratio is back to pre-pandemic levels, and wage growth is easing.

- The FOMC left the target range for the federal funds rate unchanged at 5.25-5.50% at its 19-20 September meeting, but the "dot plot" continued to signal one more hike this year. The median dots for 2024 and 2025 increased by 50bp, to 5.1% and 3.9% respectively. Since we expect growth and inflation to be weaker than most Fed officials project, we think the central bank has likely reached a peak in terms of interest-rate increases. We have penciled in 150bp of rate cuts for next year, starting in March. Risks are skewed towards there being another rate hike in the near term and a slightly later start to rate cuts. We expect quantitative tightening to continue at its current pace at least through year-end and probably beyond the start of rate cuts (reflecting still-ample reserves and that rates would initially be cut from restrictive levels to less-restrictive levels).

A MILD RECESSION AHEAD, WEAK RECOVERY



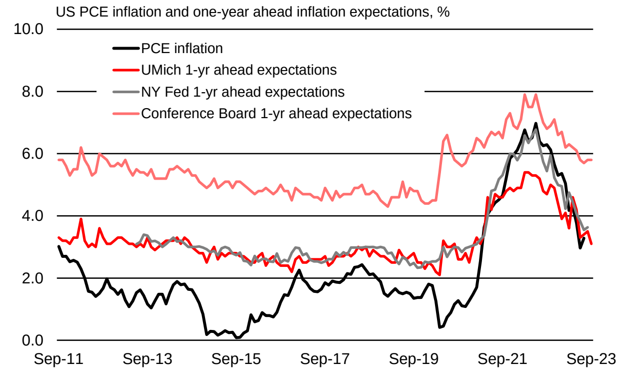
WE EXPECT INFLATION TO BE BACK TO 2% IN A YEAR



Source: BEA, BLS, UniCredit Research

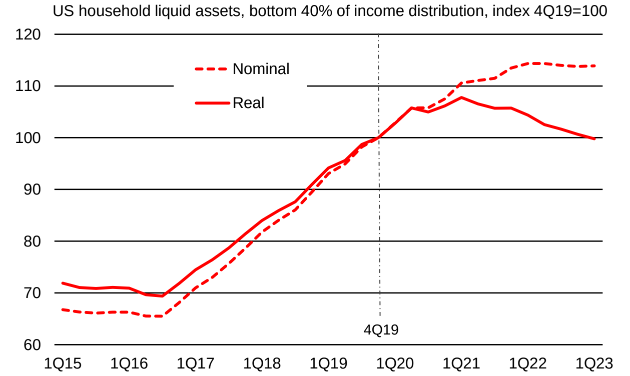
US

INFLATION EXPECTATIONS



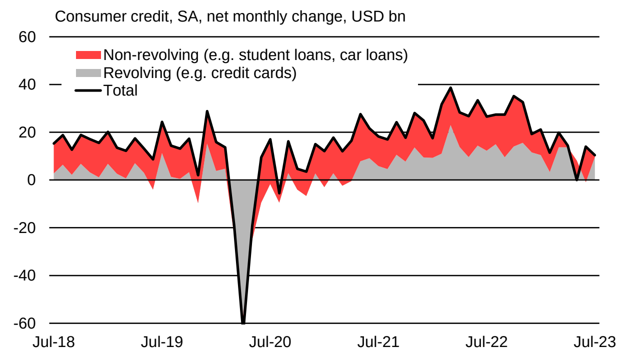
- Consumer inflation expectations have eased, largely reflecting the fall in headline inflation.

SAVINGS



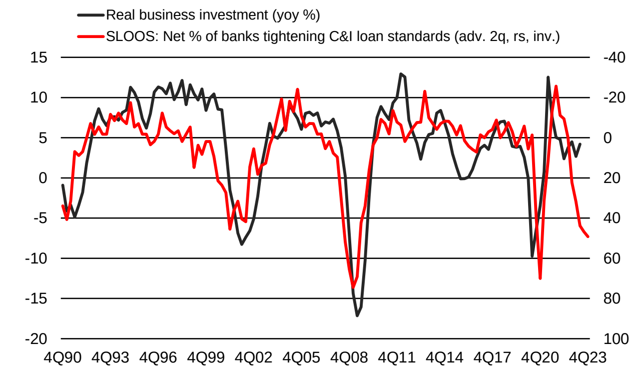
- The bottom 40% of households by income have exhausted their savings buffer, and these households have a greater marginal propensity to consume than higher-income households.

CONSUMER CREDIT



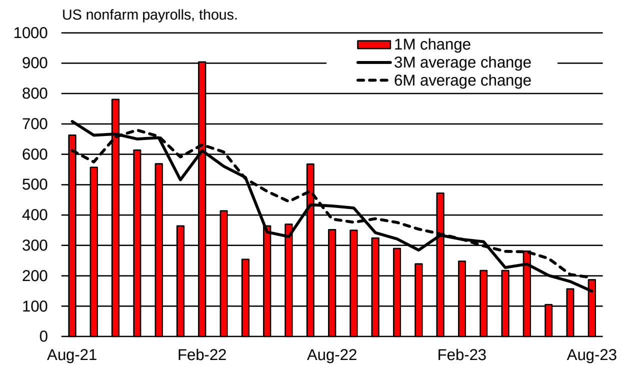
- Net consumer credit, on a 3M average basis, was USD 8.1bn in July 2023, down from USD 31.7bn in November 2022.

FIRMS' CREDIT CONDITIONS



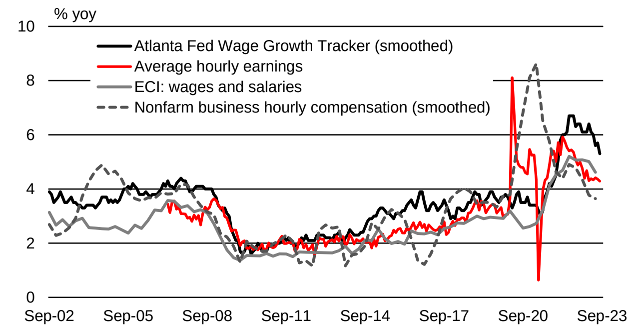
- The Senior Loan Officer Opinion Survey (SLOOS) reported a net 49.2% of banks tightened standards on loans to firms in 2Q23.

PAYROLLS



- Nonfarm payrolls rose by 187k in August. The three-month average change slowed to 150k, and the six-month average change eased to 194k.

WAGES



Note: The latest data point is August 2023 for average hourly earnings, July 2023 for the Atlanta Fed Wage Tracker, and 2Q23 for the ECI and hourly compensation.

- Wage-growth measures have eased but remain elevated compared to pre-pandemic averages.

Source: BEA, BLS, Conference Board, Fed, University of Michigan, UniCredit Research

Eurozone

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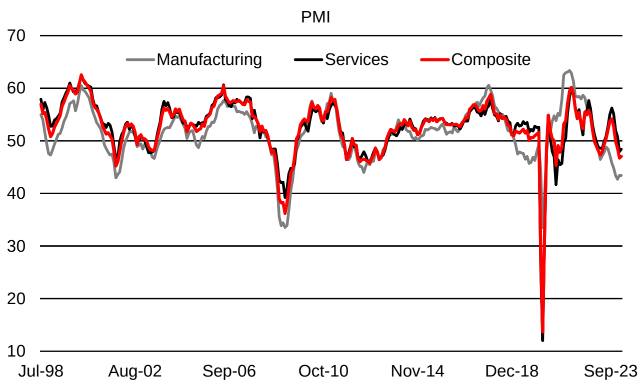
- The growth outlook is deteriorating, as the most aggressive rate-hike cycle in decades and weak global trade take their toll on eurozone economic activity. We now expect GDP to stagnate, at best, in 2H23, from our previous forecast of moderate expansion. While our growth projection for this year remains at 0.5%, the carryover lowers the forecast for 2024 to 0.6%, from 1.0%. Business surveys signal that the manufacturing sector remains in a downturn, as new orders contract while the cushion of backlog orders shrinks. The services sector has been holding up better, although there is increasing evidence that such resilience might be fading. We estimate that households' savings buffer has largely been exhausted. Compression of firms' profit margins amid weakening demand seems to have started and will probably continue, challenging the strength of the labor market.

- Weakness in the credit cycle is intensifying, and we do not expect a turning point to be reached anytime soon. Lending aggregates continues to evolve heterogeneously across the euro area, with Italy and Spain witnessing weaker dynamics than Germany and France. The deposit base of eurozone banks remains very resilient. Outflows in household deposits are not generalized, and when they materialize, they remain moderate.

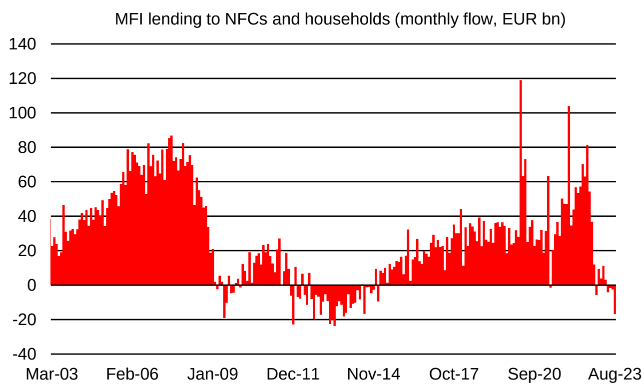
- Inflation has declined significantly from its peak, mainly reflecting the impulse of falling energy prices. The main drivers of disinflation have changed in recent months. Pipeline price pressure is easing in all sectors, with industry leading the way down. Prices of core goods and food items are providing the strongest impulse to the slowdown in inflation, and this trend is set to continue. Service prices will be stickier due to the larger impact of wage increases on the cost bases of firms in this sector. The recent jump in oil prices will slow disinflation but is unlikely to derail it. We expect headline inflation to average 3.5% in 4Q23 and to fall back to the ECB's 2% target by the end of 2024. Core inflation will adjust downwards more slowly, ending this year around 4% and closing 2024 in the 2.5% area.

- At its September meeting, the ECB raised its policy rates by 25bp (lifting the deposit rate to 4%) and signaled that the tightening cycle has likely come to an end. The Governing Council judged that rates "have reached levels that, maintained for a sufficiently long duration, will make a substantial contribution to the timely return of inflation to the target". We continue to expect the first rate cut in mid-2024 and a cumulative reduction of 75bp for next year. ECB President Lagarde dismissed speculation about a possible change in PEPP guidance soon, confirming a commitment to retaining the first line of defense of the transmission mechanism of monetary policy.

PMIS IN CONTRACTION TERRITORY



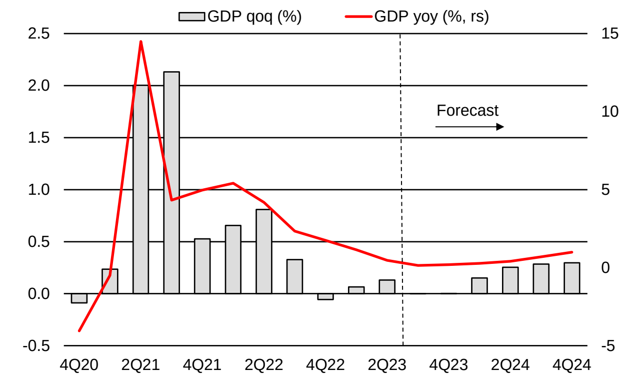
CREDIT CYCLE UNDER PRESSURE



Source: ECB, S&P Global, UniCredit Research

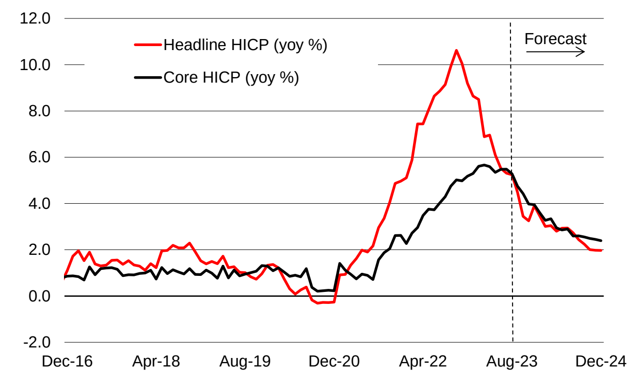
Eurozone

GROWTH



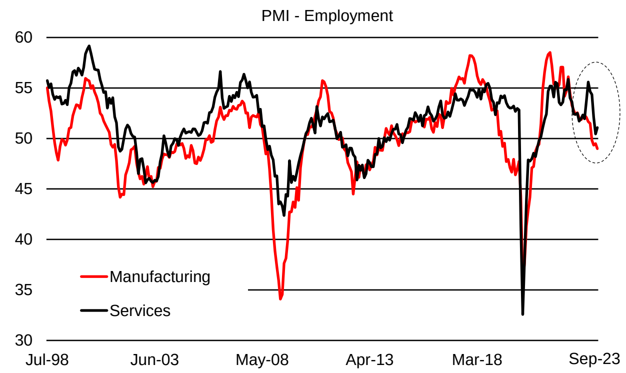
■ GDP is expected to stagnate, at best, in 2H23.

INFLATION



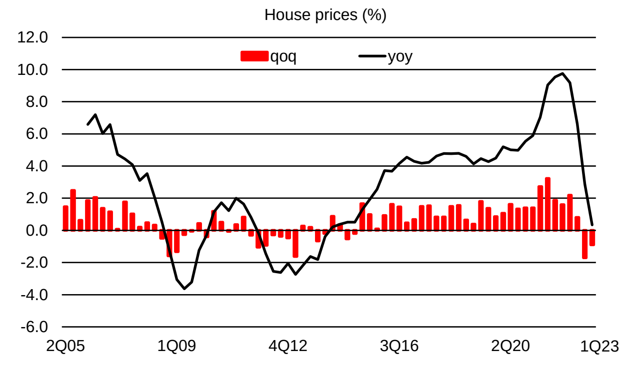
■ The downward trend is intact.

LABOR MARKET



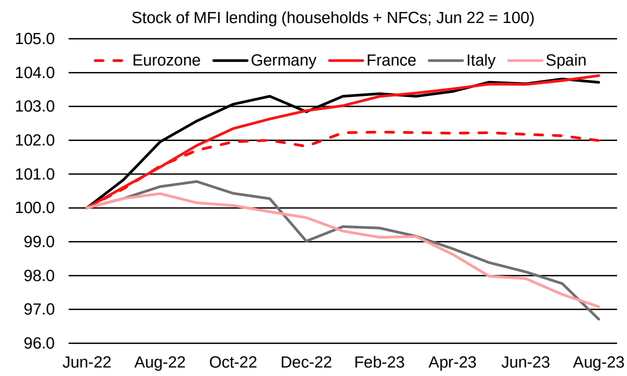
■ The employment outlook has started to weaken.

HOUSE PRICES



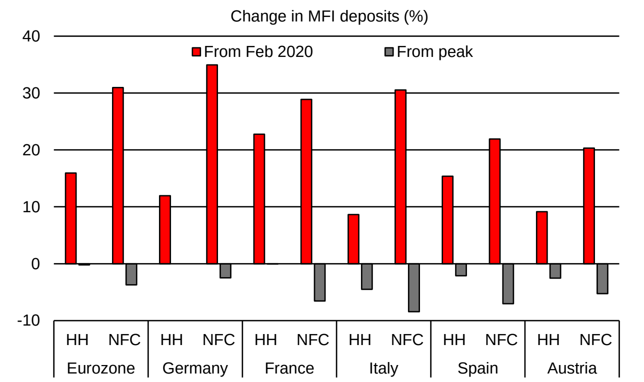
■ A correction in house prices is underway.

LENDING



■ Lending dynamics vary from country to country.

BANK DEPOSITS



■ Banks' deposit base remains resilient.

Source: ECB, Eurostat, S&P Global, UniCredit Research

Germany

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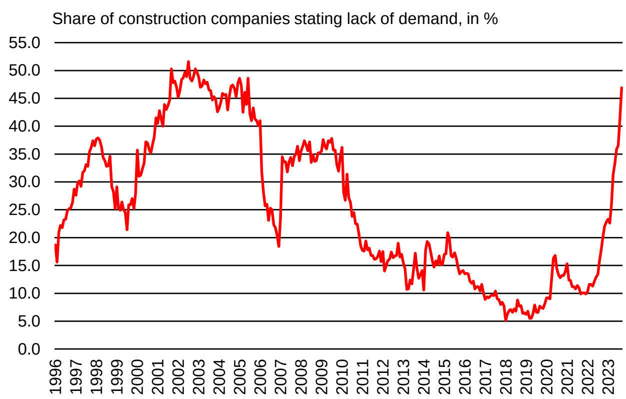
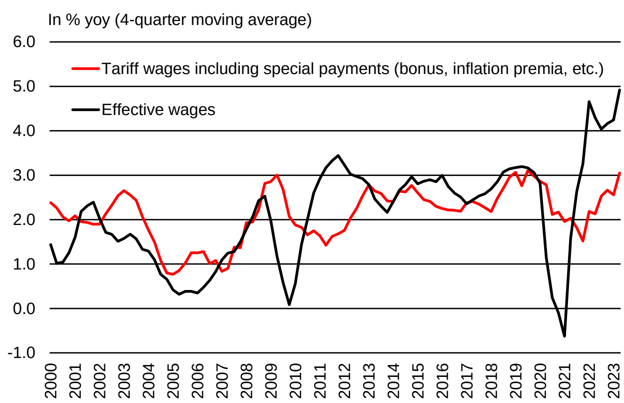
- We are lowering our GDP forecasts for Germany to -0.6% for 2023 (compared to -0.3%) and to +0.4% for 2024 (compared to +1.3%). In 3Q23 and 4Q23, economic activity is likely to shrink again (-0.2% qoq in each quarter) after the stagnation in 2Q23 and the technical recession at the turn of the year (1Q23: -0.1%; 4Q22: -0.4%). Note that the more pronounced downward revision for 2024 largely stems from a negative carryover effect due to shrinking economic activity in 2H23. In 2024, we expect the economy to grow again moderately on a quarterly basis (1Q24: +0.2% qoq; 2Q-4Q24: +0.3% in each quarter).
- There are three major triggers for our downward revision. First, the weaker outlook for global trade has been putting the export-dependent manufacturing sector under pressure, as the flow of new orders has been drying up. While backlog orders are still softening the blow, they have been declining markedly in many sectors. Second, activity in the construction industry is likely to be substantially weaker due to surging interest rates, higher input costs and uncertainty surrounding the energy transition. More than 45% of companies in the construction industry have recently been complaining about the lack of demand compared to 10-15% one year ago. Third, we expect private consumer spending to remain rather weak. While further declining inflation rates, but also comparatively strong wage hikes (see also below), are likely to stabilize the purchasing power of households, still historically low levels of consumer confidence do not signal any strong acceleration in spending.
- The recent rise in oil prices is likely to dampen disinflation but not prevent further declines in inflation rates. We expect consumer prices to rise by 4.4% yoy in 4Q23 and 3.6% in 1Q24 after 5.7% yoy in 3Q23 and 6.6% in 2Q23. As signaled by import prices, producer prices and wholesale prices, strong disinflationary forces at an earlier stage of the price-setting process have been intact, which is likely to further feed through to consumer prices.
- Wage hikes have recently been accelerating, especially effective wages, which rose by about 5% yoy in 2Q23, their strongest increase in more than 20 years (on a 4-quarter moving basis). The key driver here was the strong hike in the statutory minimum wage to EUR 12 in October 2022 from EUR 10.45 in July and EUR 9.82 in January 2022. Rises in tariff wages including special payments also accelerated but still rose a more moderate 3% yoy in 2Q23. Still pending are collective bargaining agreements in the retail and wholesale & export sectors where unions demand hikes in the double-digit range. Furthermore, wage negotiations in the public sector for employees at the federal states level will start in October.

DETERIORATION IN THE CONSTRUCTION SECTOR



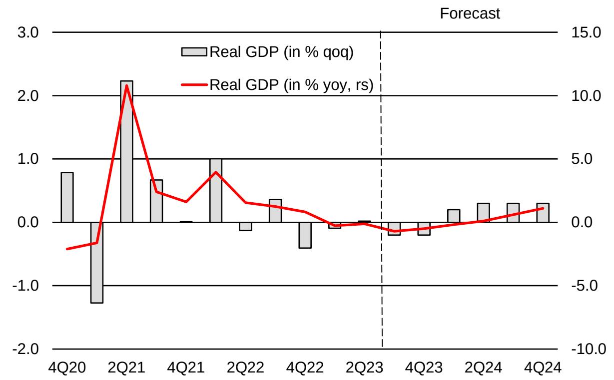
WAGE HIKES ACCELERATING



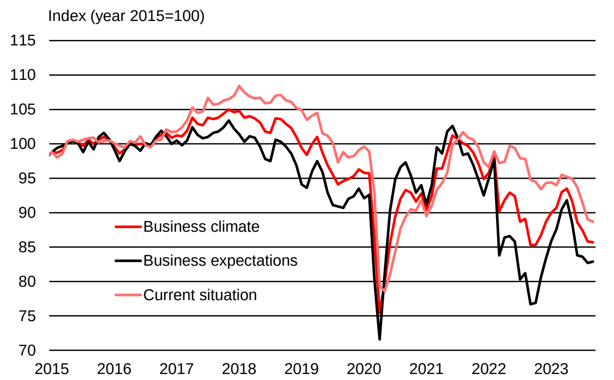
Source: Ifo, Deutsche Bundesbank, UniCredit Research

Germany

GROWTH



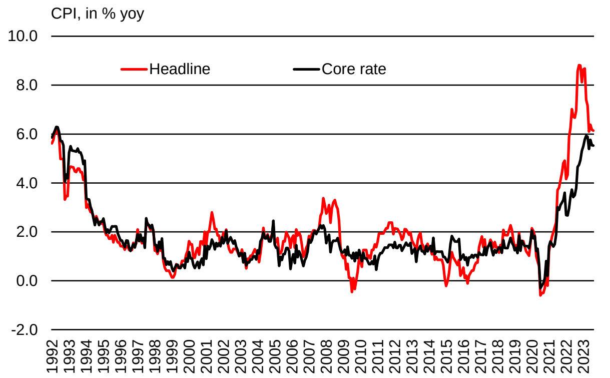
BUSINESS SURVEY



- Real GDP is expected to shrink slightly on a qoq basis in 2H23 before growing again moderately in 2024.
- In September, the Ifo index declined only marginally, showing the first signs of stabilization in business expectations.

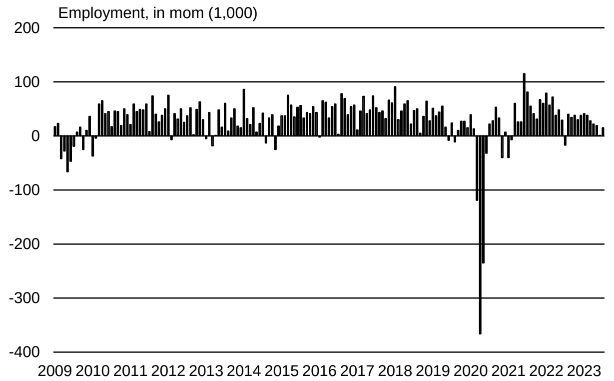
INVENTORIES

INFLATION

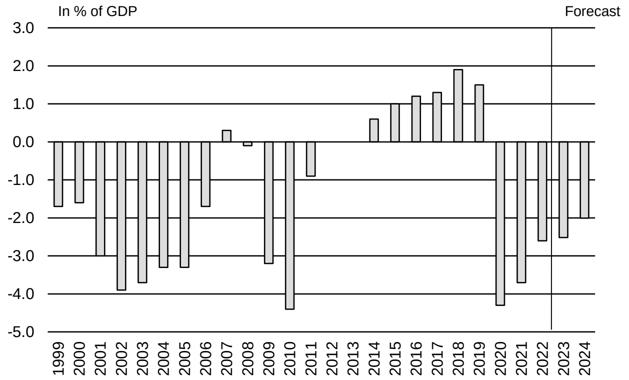


- Given declining demand, inventories of finished goods have been regarded as too high by manufacturers.
- Consumer prices increased 6.1% yoy in August (core rate: 5.5%).

LABOR MARKET



PUBLIC BUDGET BALANCE



- Job creation has slowed down to about 15,000 per month since the start of 2Q23 compared to roughly 35,000 in 4Q22 and 1Q23.
- We expect a budget deficit of 2.5% of GDP in 2023 and of 2.0% of GDP in 2024.

Source: Destatis, Ifo, Federal Labor Agency, UniCredit Research

France

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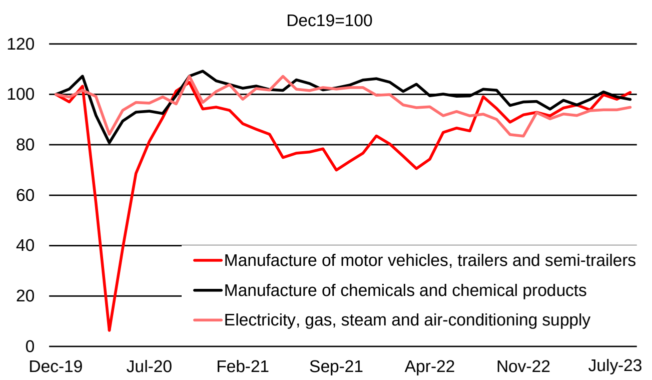
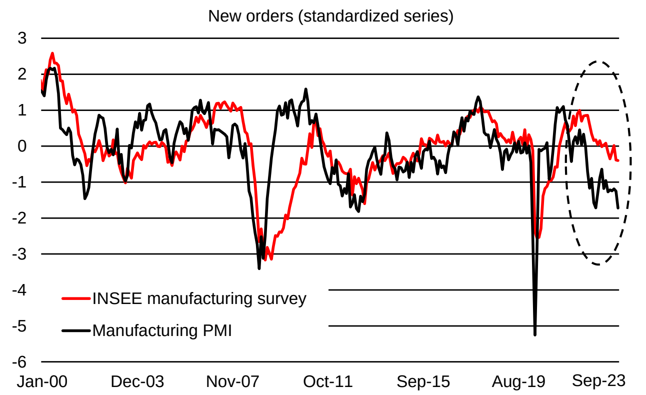
- We are raising our GDP growth forecast for this year by 0.3pp, to 0.9%, as the impact of a stronger-than-expected 2Q23 more than offsets the downward revisions we have penciled in for the second half of this year. We now expect subdued growth for the next few quarters, with GDP set to expand at 0.1-0.2% per quarter into next year due to an acceleration of the transmission of monetary policy to the real economy, partly offsetting tailwinds from a slowdown in inflation and improving terms of trade. A weaker carry-over and a softer entry also mechanically reduce our 2024 estimate to 1.0% from 1.1% previously.
- The September PMIs point to a clear loss of momentum in economic activity through the summer as manufacturing weakness spilled over to services, where the boost from the remaining pent-up demand has faded and upward pressure on costs remains intense. The preliminary services PMI fell to a 34-month low (43.9), far exceeding the pace of sector contraction recorded in Germany and in the euro area as a whole. However, the widening gap between PMI levels and those of national surveys (more comprehensive in terms of the number of companies covered) suggests that for now it may be more appropriate to focus on the direction of PMIs rather than their levels.
- Consumer inflation reached 5.0% in August, due to a sharp increase in fuel and regulated electricity prices (the latter in reaction to the government's further reduction of the electricity tax shield). We expect inflation to slow down again, albeit more gradually, from October to close the year at around 4%. Base effects in energy and, to a lesser extent, food and manufactured goods inflation will support the deceleration. Services inflation is likely to prove stickier due to second-round effects, triggered by successive increases in the minimum wage and negotiated wages.
- As we go to press, the French government has just presented its draft budget law for 2024. In line with leaks filtered in the press, the draft budget foresees a reduction in the deficit/GDP ratio to 4.4% in 2024 from 4.9% expected for this year. Most of the announced reduction in public expenditure (EUR 16bn) stems from the reduction in energy-related support measures (worth EUR 10bn) that were put in place in 2022 to mitigate the impact of surging gas and electricity prices on households and, to a lesser extent, firms. The remaining cuts will largely fall on fiscal loopholes with a detrimental impact on the green transition ("brown" fiscal loopholes). Social discontent and difficult political relations with opposition parties – which have already declared they will vote against the law – explains why the government has not been more ambitious in reducing the public deficit. However, this simply postpones tougher decisions to next year, when a (most likely) revised EU fiscal framework will force the government to confront the challenging situation facing its public finances.

NORMALIZATION IS UNDERWAY IN SOME SECTORS SEVERELY HIT BY SHOCKS



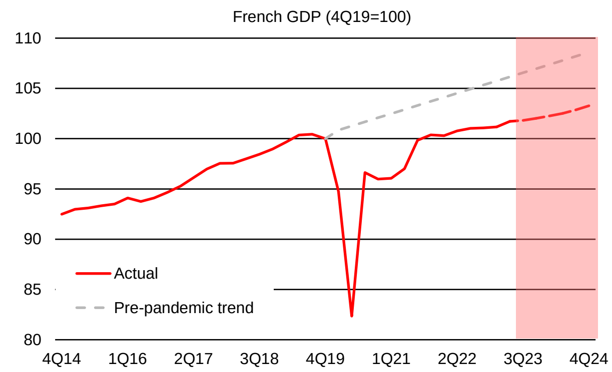
SAME TREND, DIFFERENT LEVELS



Source: INSEE, S&P Global, UniCredit Research

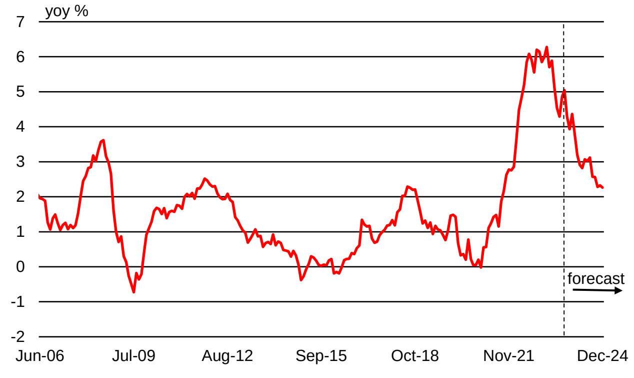
France

GROWTH



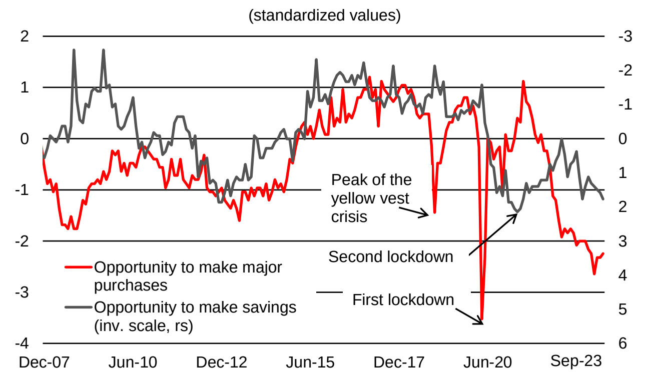
- We expect GDP will fail to recover to pre-pandemic trend levels for the foreseeable future.

INFLATION



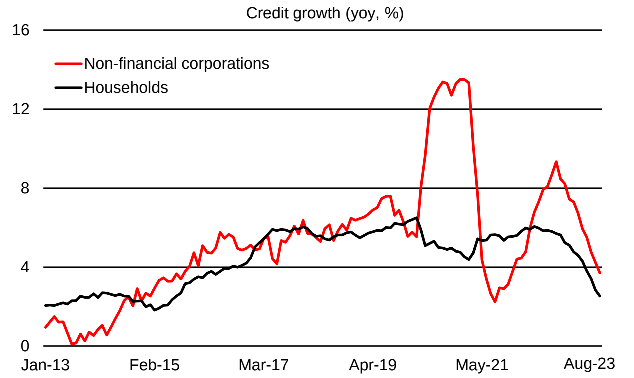
- Inflation is on a clear downward trend.

CONSUMER CONFIDENCE



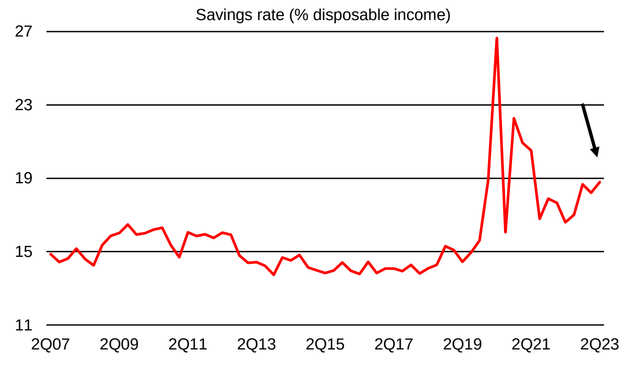
- Consumers' propensity to make major purchases remains at unprecedentedly low levels.

CREDIT



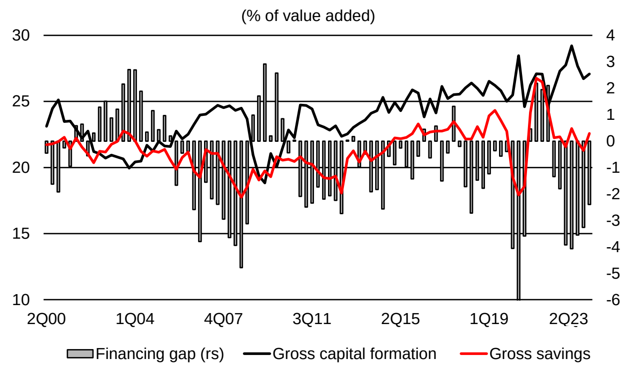
- Non-financial corporations and households continued to reduce demand for credit amid increasingly tighter financing conditions.

SAVINGS RATE



- The savings rate remains well above its 2019 average.

NFC NET LENDING/BORROWING



- The financial position of NFCs improved slightly in 2Q23, as the increase in savings more than offset that in investment.

Source: INSEE, UniCredit Research

Italy

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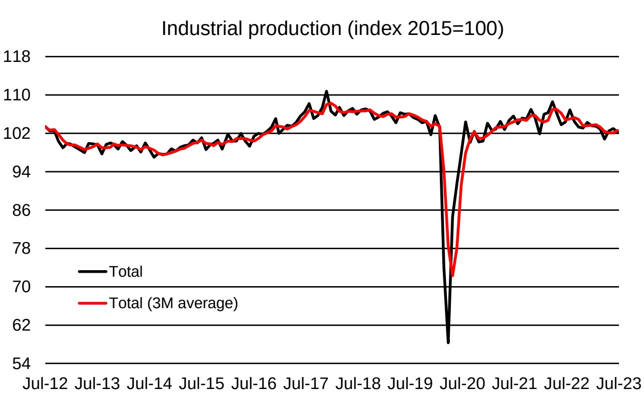
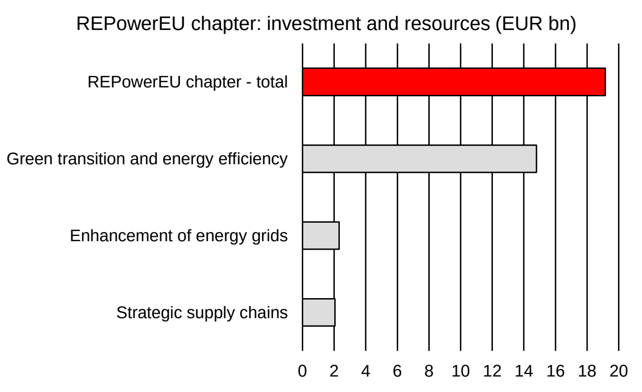
- We now expect GDP to expand by 0.8% in 2023 and 2024 (from 1% and 0.9% previously). Our revision mainly reflects a fine-tuning of the projected 2023 quarterly growth path, while our projections for next year are broadly unchanged. GDP suffered a setback in 2Q23 amid a severe correction in construction investment and public spending. We expect a return to modest growth in 3Q23, while business surveys point to weakness at the end of the year.
- Our GDP forecast for 3Q23 is surrounded by uncertainty, with risks on both sides. Following a temporary rebound, industrial production was down again in July (-0.7% mom) due to a more-pronounced decline in the production of consumer (mainly durable) and investment goods. Tight financing conditions are likely to have played an important role here. Still, barring severe contractions in August-September, the latest data remain consistent with a broad stabilization of industrial output on a quarterly basis after four consecutive quarters of contraction. Construction output fell deeply in 2Q23 (-3.3% qoq), but this can probably be explained by one-off factors, including legislative changes to fiscal incentives associated with building renovation. Thus, there are chances for recovery in 3Q23 despite a weak start to the quarter (-1.6% mom). Lastly, we are projecting a return to modest growth in service activity after it fell short of expectations in 2Q23 (-0.1% qoq), with household demand dragged down by still-high inflation. Tourism activity in 2Q23 was lower than initially expected, but an improvement in business is likely to materialize in 3Q23.
- Credit dynamics have weakened further. Annual growth of loans to non-financial corporations has moved deeper into negative territory. The slowdown has occurred across economic sectors, with the largest negative contribution coming from manufacturing.
- Italy has made progress implementing the Recovery and Resilience Plan (RRP). It is on the verge of receiving a third payment, worth EUR 18.5bn, bringing the disbursement from the EU to 45% of the total planned. The government has just submitted to the European Commission a fourth payment request and hopes to receive related resources (EUR 16.5bn) by the end of the year. However, this might require a relatively smooth assessment by the EU. Italy also submitted a more general revision of the RRP and its REPowerEU chapter. The latter mainly envisages investment related to the enhancement of energy grids, the country's green transition and support for strategic supply chains. The total amount of EU resources allocated to Italy will not change substantially. For the REPowerEU chapter, EUR 3bn of grants will be added, while the rest (a total of EUR 19bn) will be financed by replacing projects in the RRP (mainly under the responsibility of local entities) that have been deemed too difficult to be delivered by the end of the Next Generation EU program.

SLOWDOWN IN INDUSTRIAL ACTIVITY



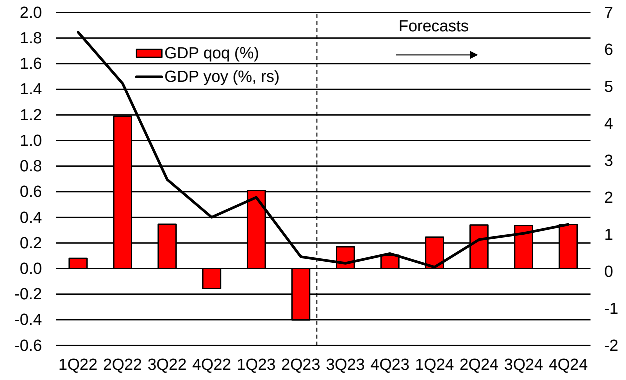
THE FOCUS OF THE REPOWER EU CHAPTER



Source: Istat, Italian government, UniCredit Research

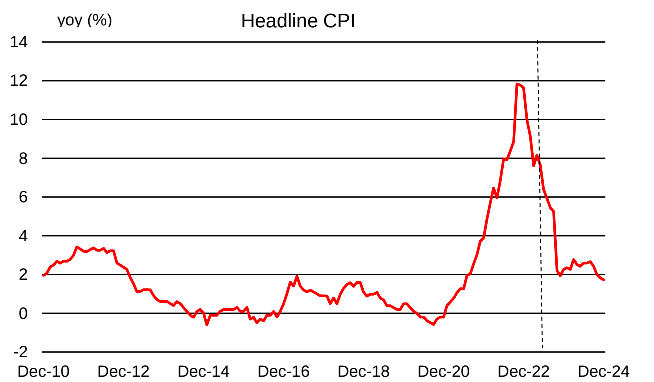
Italy

GROWTH



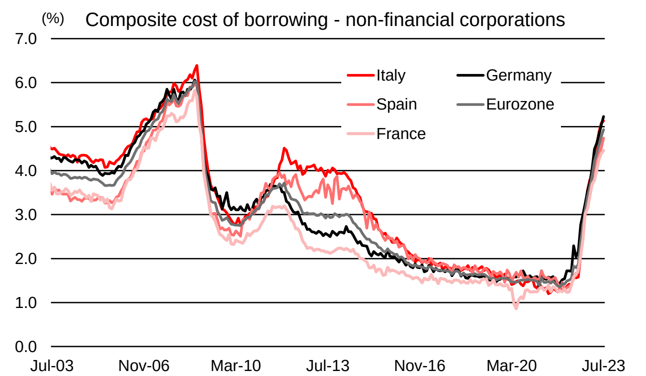
- After GDP contracted in the second quarter (-0.4% qoq), we forecast a return to 0.2% qoq growth in 3Q23 and a new slowdown towards the end of the year.

INFLATION



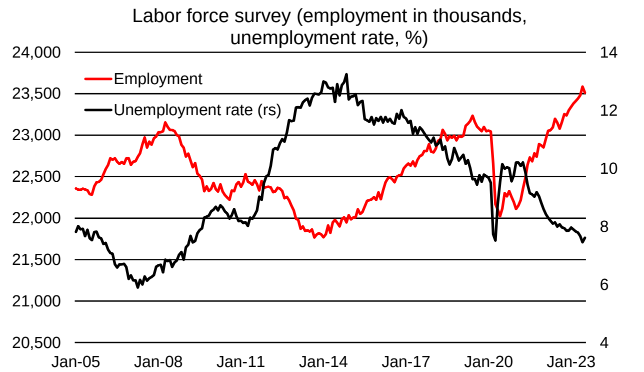
- We expect disinflation to speed up in 4Q23 due to a large base effect in energy prices. Inflation is likely to hover around 2.2%, but uncertainty remains regarding future adjustments in energy prices.

LENDING RATES



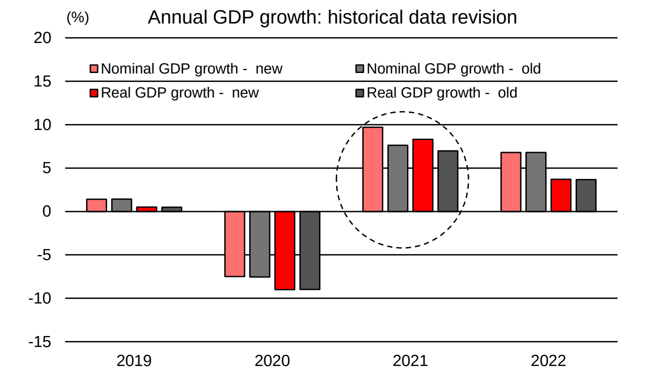
- Over the last year, lending rates to non-financial corporations were up by 350bp. We expect the negative impact of this tightening to be mainly felt in 2024.

LABOR MARKET



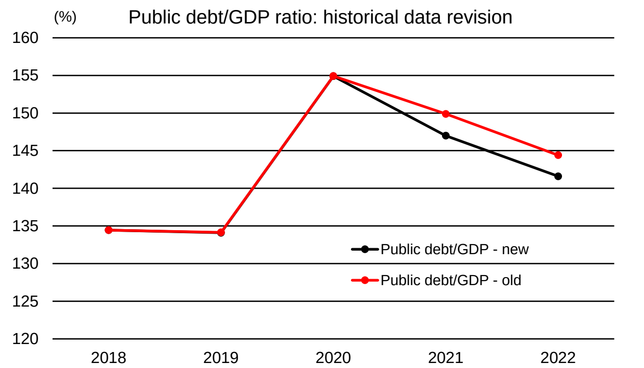
- Employment was down and the unemployment rate up in July. This is probably a first sign of a reversal of the improving trend observed over the last six to seven months.

GDP REVISION



- Given a revision of historical data, real GDP was up by 8.3% in 2021, almost recovering in full from its 2020 fall. In 2022, real GDP was 2.3% higher than it was in 2019.

PUBLIC DEBT/GDP REVISION



- Following the GDP changes, Italy's public-debt-to-GDP ratio was revised downward by 2.9pp. This accelerates its return towards pre-pandemic 2019 levels.

Source: ECB, Istat, UniCredit Research

Spain

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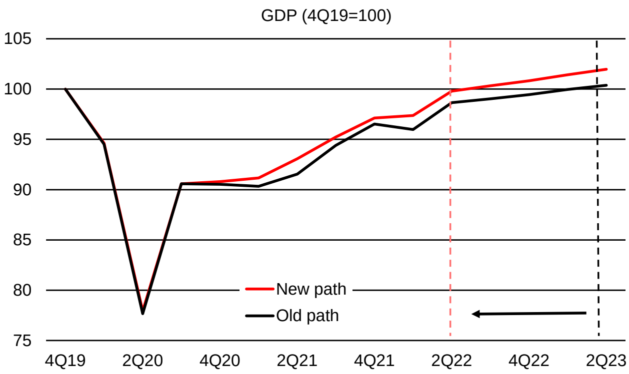
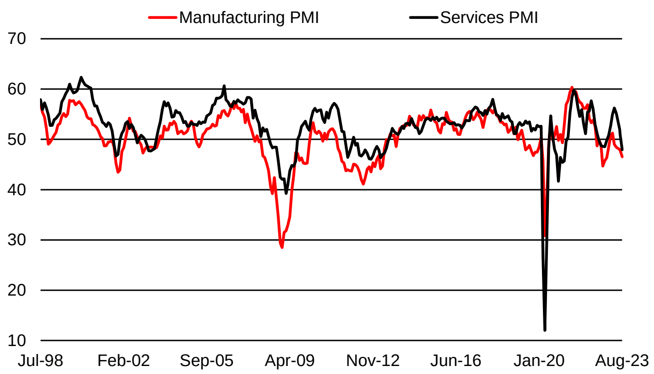
- We are increasing our growth forecast for this year to 2.6% (from 2.3% previously), largely due to the INE's revision of the GDP series, which results in a strong carry-over effect into 2023. The small downward revisions we have penciled in for GDP growth over the coming quarters will mainly affect the annual average for 2024 – we expect to see GDP expanding by 1.4% next year (vs. our previous forecast of 1.6%).
- The latest business surveys point to a deterioration in Spain's economic outlook as remaining pent-up demand for contact-intensive services fades, growth prospects among Spain's main trading partners weaken and the transmission of monetary policy to the economy is increasingly felt. In August, the composite PMI declined below the 50 threshold for the first time since January 2022. Accordingly, we expect domestic demand to slow in the coming quarters as the pandemic-related rise in household savings will provide no further support to private consumption due high inflation eroding the real value of households' liquid assets (i.e. the "spendable" part of households' net worth). This exposes households, and in particular vulnerable ones, who generally have a higher propensity to spend, to more restrictive financing conditions. Consumption will be affected as will residential investment, owing to lower housing affordability and rising mortgage rates.
- HICP inflation rose by 0.3pp, to 2.4%, in August, largely due to higher fuel prices. We expect it to close the year at about 5% as unfavorable base effects on energy amplify the impact of fuel-price increases on the headline. On a mitigating note, the recent renewal, until year-end, of a lower VAT on food should accelerate the slowdown in overall food inflation. We expect to see inflation easing to 3.1% in 2024, after reaching 3.8% in 2023.
- As this publication goes to press, Spain's parliament is holding a second debate on the investiture of the Partido Popular's (PP) leader, Alberto Núñez Feijóo. As Mr. Feijóo is unlikely to garner the necessary support to govern, the initiative to form a government will be passed to the caretaker prime minister and leader of the Socialist Party (PSOE), Pedro Sánchez. In principle, the coalition between the PSOE and the new left-wing platform Sumar remains best positioned to form a government. However, the bloc's negotiations with the Together for Catalonia (Junts per Catalunya) and its leader, Carles Puigdemont, to obtain the seven votes needed to form a government remain fraught. The separatist party has made fresh calls for amnesty to be granted to all pro-independence leaders involved in a failed bid to secede from Spain in 2017 in return for lending its support to Mr. Sanchez. The PSOE is thus left with the choice of whether to deepen its ties with pro-independence groups and risk alienating its more moderate left-wing voters to form a government that will have much more difficulty maintaining support in parliament than the PSOE-Podemos coalition did. Therefore, the likelihood of deadlock and a new round of elections being held in January remains high.

GDP REVISIONS BRING FORWARD RETURN TO 4Q19 LEVEL



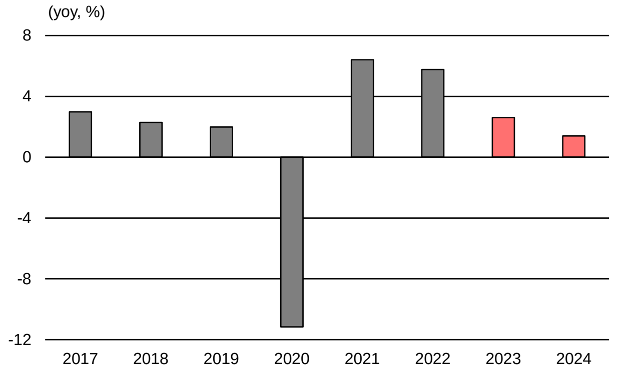
ECONOMIC OUTLOOK IS WEAKENING



Source: INE, S&P Global, UniCredit Research

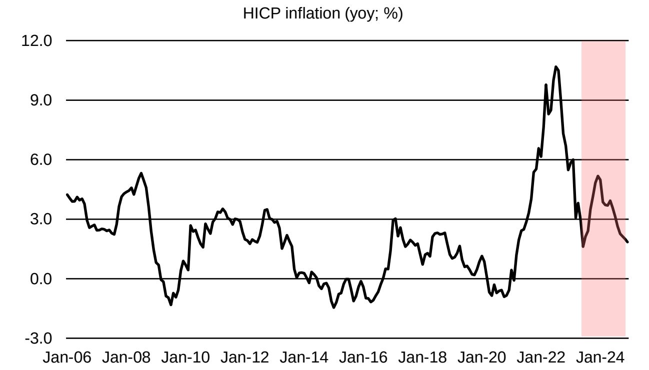
Spain

GROWTH



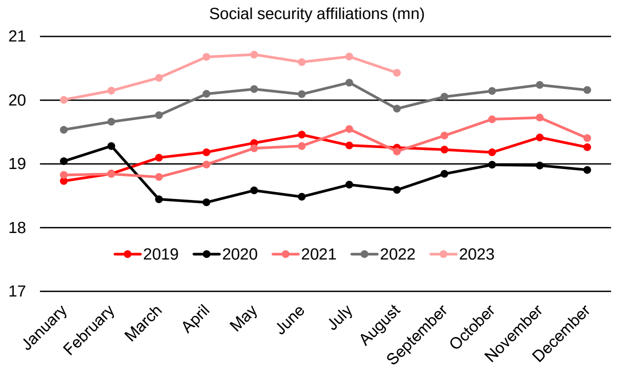
- We expect GDP to increase by 2.6% in 2023 and by 1.4% in 2024.

INFLATION



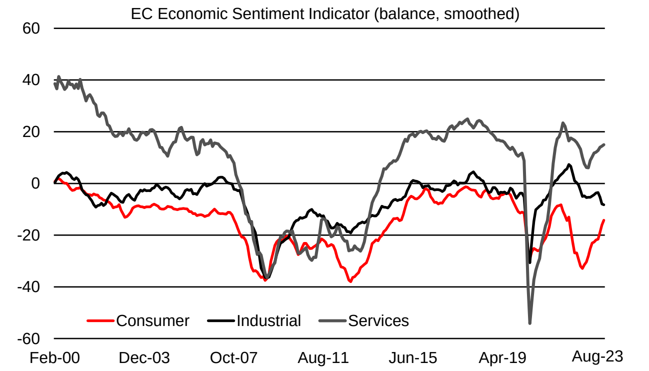
- The path for CPI inflation will be somewhat choppy this year as a result of base effects linked to the decline in energy prices at the end of 2022.

LABOR MARKET



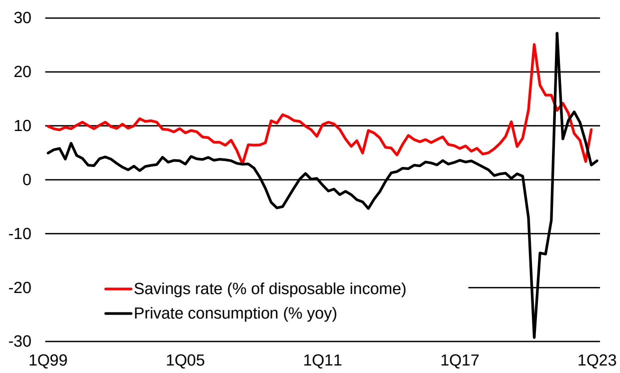
- Social security affiliations continued to point to a resilient labor market up to August.

CONSUMER CONFIDENCE



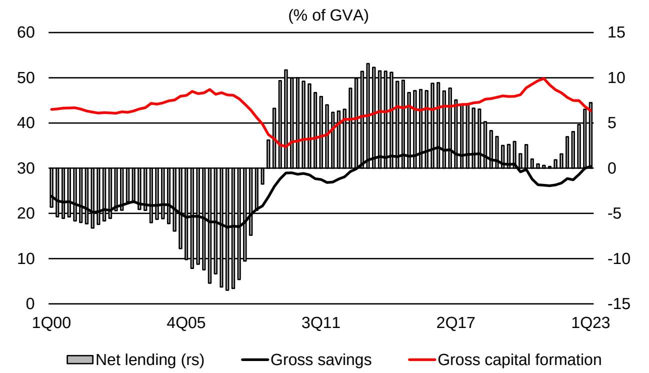
- Consumer confidence is almost back to its long-term average amid easing inflation and a resilient labor market.

SAVINGS RATE



- In 1Q23, the household savings rate slightly increased as private consumption slowed down.

NFC NET LENDING



- The financial position of non-financial corporates has been steadily improving since early 2021.

Source: Eurostat, INE, UniCredit Research

Austria

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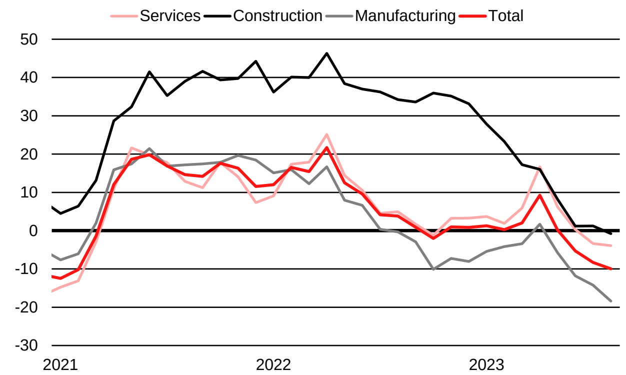
- We are lowering our growth forecast for 2023 from 0.7% to only 0.1% due to the recent revisions to the GDP series, with a much sharper decline in GDP in 2Q23 of 0.7% qoq. Based on the current economic data and sentiment indicators, we are also more cautious in our assessment of the economic development in the coming months and expect a largely sideways development. However, the prospects for a revival of the economy around the turn of the year remain good. The continuing decline in inflation will have a positive impact on the development of real incomes. In combination with the relatively stable situation on the labor market, a strengthening of private consumption is in the cards in 2024. We have therefore left our growth path for 2024 unchanged. However, the revisions in the current year result in economic growth of only 0.9% instead of 1.2% for 2024.

- The weak economy has started to impact the labor market. The unemployment rate in August, at a seasonally adjusted 6.6%, was clearly above the 6.2% recorded at the beginning of the year. Due to lower numbers at the beginning of the year, we expect the unemployment rate to average 6.4% in 2023, only slightly above the prior-year level. With a moderate recovery of the economy expected in the course of 2024, the situation on the labor market should begin to ease again. We expect the annual average unemployment rate to stabilize at 6.4%.

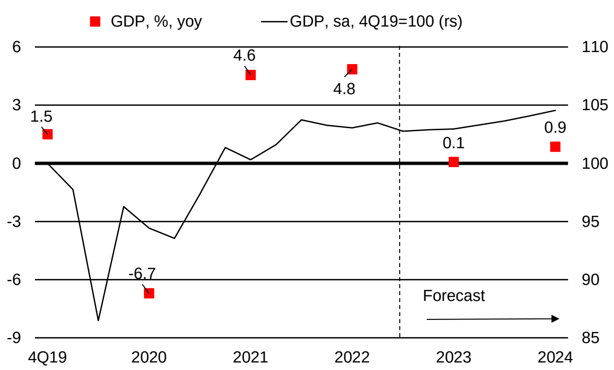
- The decline in inflation from more than 11% at the beginning of the year to 7.4% in August should continue in the coming months. The passing-on of lower wholesale prices for gas and electricity to consumers will strongly support the decline in inflation. In addition, the decline in food and industrial goods prices should also have a dampening effect on inflation. On the other hand, the strong increase in prices for services, such as tourism and leisure services in particular, will recede only slowly. Demand is not expected to collapse as a result of the imminent real wage increases. We are raising our inflation forecast for 2023 slightly to 7.8% and also expect inflation to be higher than in the euro area at 3.6% in 2024.

- As a result of the relatively favorable development in 1H23, we expect a slight decline in the budget deficit to 2.8% of GDP for 2023 as a whole, despite the significant slowdown in revenue dynamics as well as continued high spending on inflation compensation. For 2024, we expect a noticeable reduction in new debt to around 1.8% of GDP as the measures to cushion inflation expire.

BUSINESS EXPECTATIONS ARE MUTED



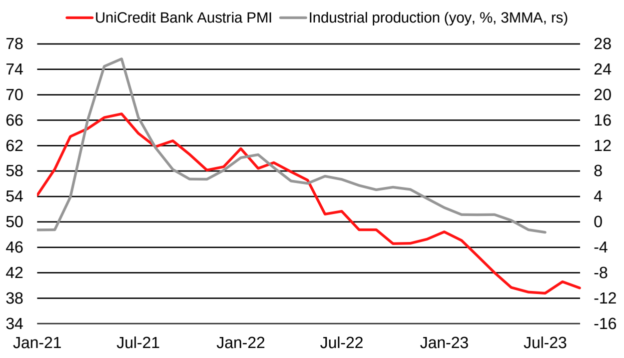
ECONOMIC WEAKNESS TO CONTINUE



Source: European Commission, Statistik Austria, UniCredit Research

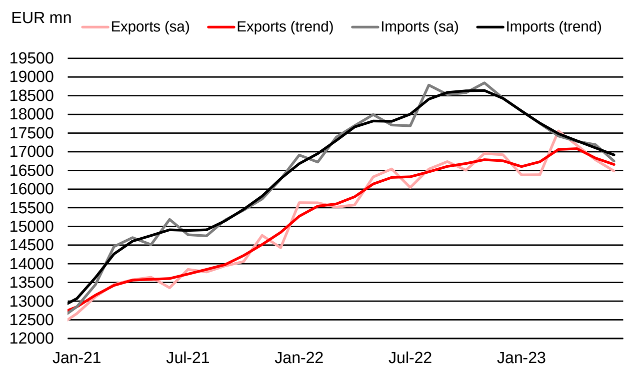
Austria

PMIs AND INDUSTRIAL PRODUCTION



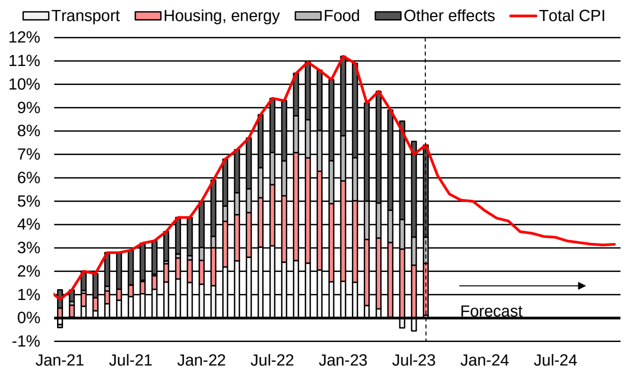
■ Manufacturing has been affected by a particularly sharp decline in new orders and has already slipped into recession.

EXPORTS



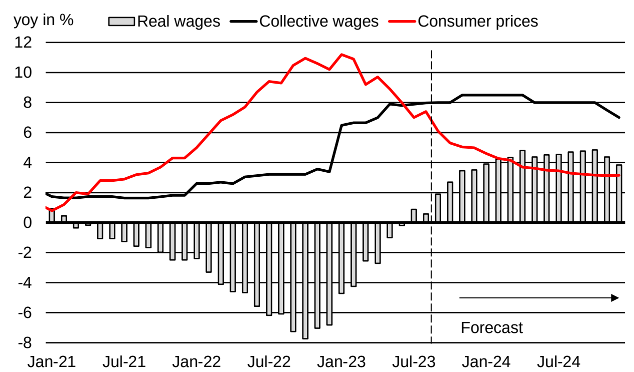
■ Fewer orders from abroad for industry are reflected in a slowdown in exports. Imports are declining due to falling energy prices.

INFLATION



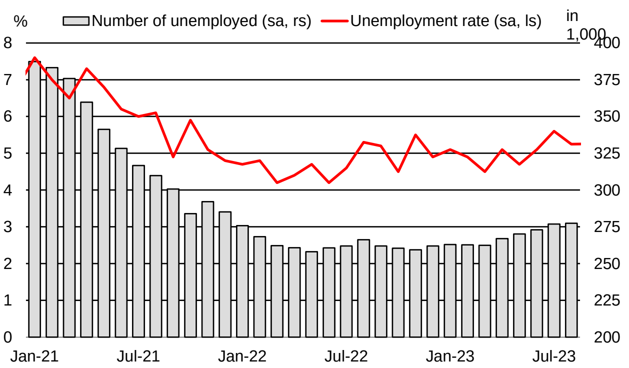
■ Disinflation should continue at an accelerated pace in autumn thanks to the dampening effects from household energy prices.

WAGES



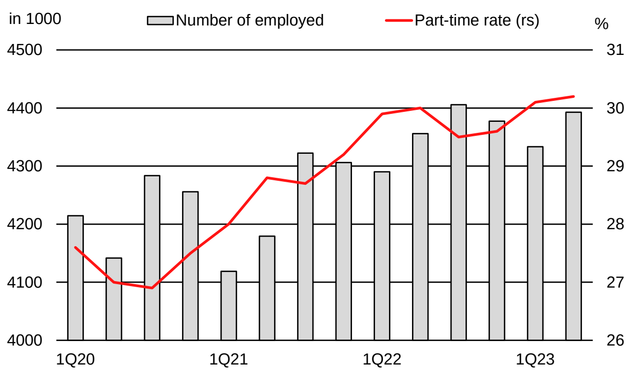
■ In July, for the first time since early 2021, the nominal increase in collective wages was higher than that of consumer prices.

LABOR MARKET (I)



■ Despite the economic downturn, there has only been a moderate increase in unemployment so far.

LABOR MARKET (II)



■ A factor limiting the impact of the economic slowdown on the labor market is the boom in part-time work.

Source: Eurostat, Statistik Austria, S&P Global, UniCredit Research

Greece

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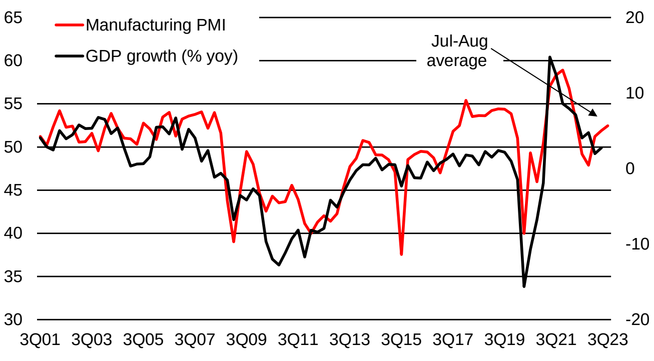
- Following a much-stronger-than-expected GDP reading in the second quarter (+1.3% qoq), we are revising up by 0.6pp our GDP growth forecast for 2023 to 2.4%. The acceleration over the first half of the year will more than offset downward revisions to GDP we have penciled in for 2H23. For next year, we are revising our GDP growth forecast to 1.4% (vs. 1.5% previously) due to a weaker carry-over effect.

- We expect GDP to still expand at a fairly robust rate in the third quarter before it begins to slow in the fall as the tailwind from the tourism season subsides, the transmission of monetary policy to the real economy accelerates and slowing global growth dents industrial order books. This reflects indications from the latest economic surveys, which point to solid economic growth until August, driven by strong momentum in services and resilient manufacturing activity. The European Commission's services survey has remained at levels close to its 2008 highs, while the manufacturing PMI over the July-August period rose a full point above that of the second quarter. Consumer confidence also remains supportive of the growth outlook.

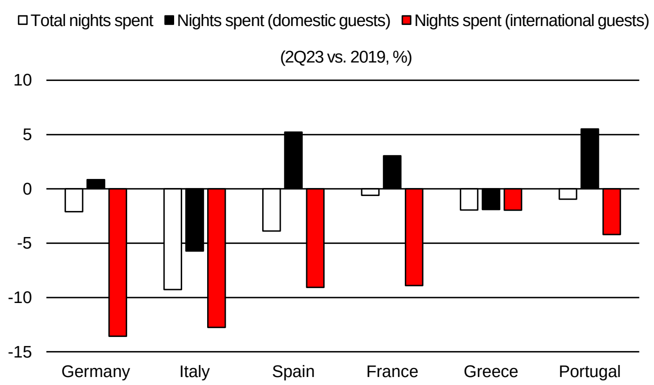
- An acceleration in the deployment of RRF funds should continue to support gross fixed investment, notably in non-residential construction and, to a lesser extent, in equipment. This impulse will partly cushion the impact of tighter financing conditions and likely deterioration in firms' profitability. Net exports should continue to be supported by an unfolding recovery in international tourism, which approached 2019 levels by June. A new EUR 2.5bn package of income support measures, together with the extension of subsidies for electricity tariffs, should also mitigate the impact of a slowdown in labor income and higher interest rates on household disposable income.

- On 8 September, DBRS lifted its assessment of Greece's sovereign rating to IG for the first time since Athens requested financial assistance from its EU peers and the IMF. While the market reaction to DBRS's move was largely muted (GGBs were already trading at IG levels), the upgrade is good news for the country for several reasons. First, the upgrade can result in easier access to wholesale funding for Greek banks because of a broadening of the collateral base. Second, the upgrade brings Greek bonds one step closer to being included in IG indices, which typically requires a rating from at least one of the three leading rating agencies, i.e. S&P, Moody's or Fitch. We think this is likely to happen before year-end, as Fitch and S&P are scheduled to have a rating update on Greece on 20 October and 1 December respectively.

MANUFACTURING PMI POINTS TO RESILIENCE IN GDP GROWTH



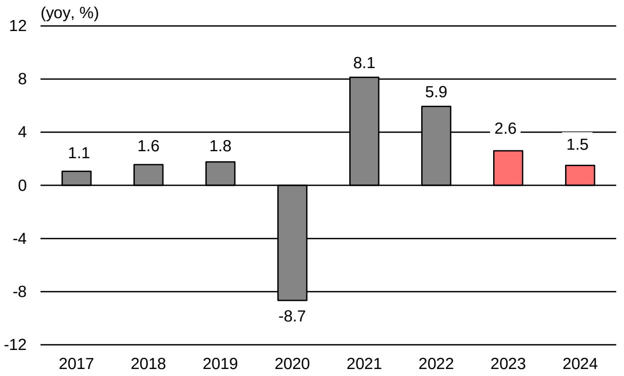
TOURISM PERFORMED QUITE STRONGLY UP TO 2Q23



Source: Eurostat, S&P Global, UniCredit Research

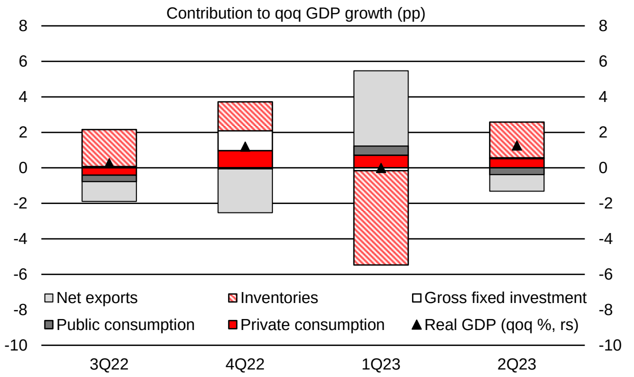
Greece

GROWTH (I)



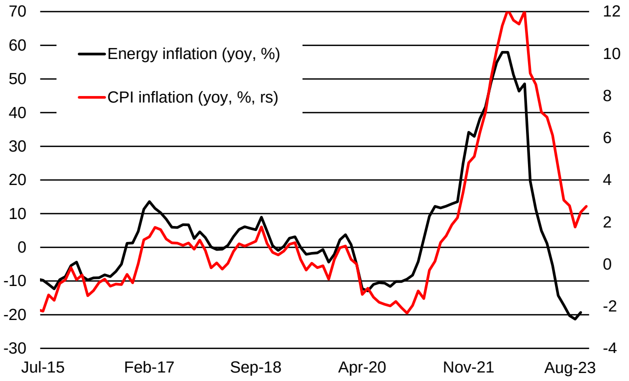
- We expect GDP growth of 2.4% in 2023 and 1.4% in 2024.

GROWTH (II)



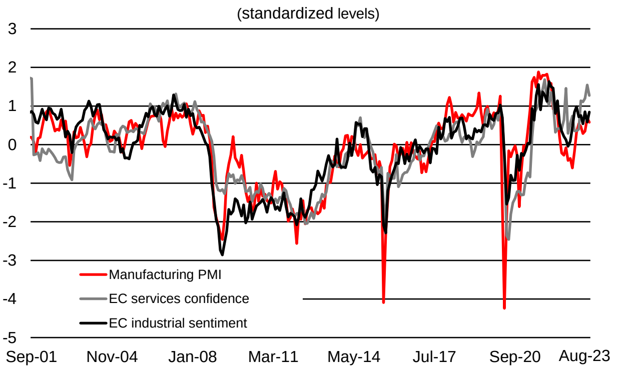
- Inventories added two points to 2Q23 GDP growth, almost half as much as they subtracted in the previous quarter.

INFLATION



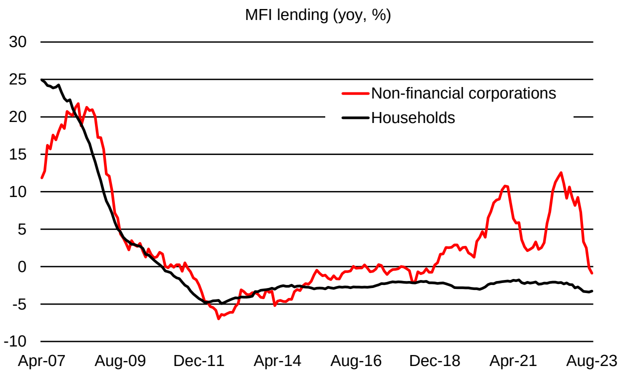
- Inflation rose by 0.2pp to 2.7% in August, driven by a sizeable increase in transport prices.

BUSINESS SURVEYS



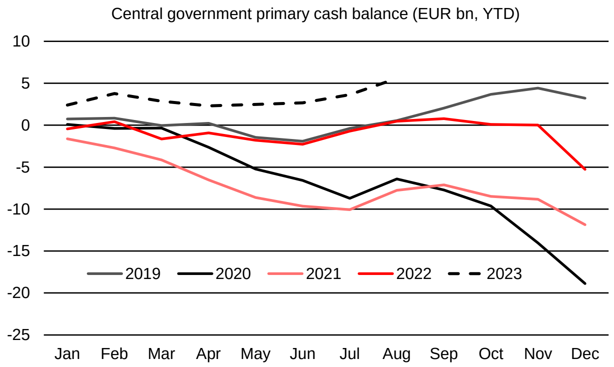
- Sentiment remains close to 2008's highs, both in manufacturing and services.

LENDING



- Lending to non-financial corporates mildly contracted in August for the first time in five years.

CENTRAL GOVERNMENT DEFICIT



- Budget execution is progressing well, supported by strong growth in tax revenues.

Source: Bank of Greece, Elstat, Eurostat, S&P Global, UniCredit Research

Portugal

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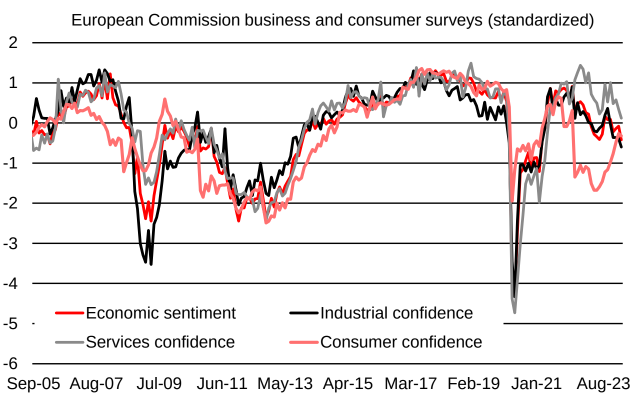
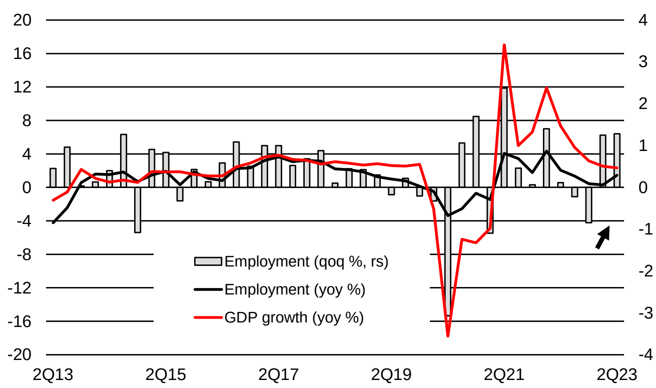
- We are increasing our GDP forecast for 2023 by 0.3pp, to 2.3%, due to a better-than-expected outcome in the second quarter, which more than offsets the moderate downward revision we have penciled in for 2H23. We see GDP expanding by 0.9% (vs. our previous forecast of 1.0%) in 2024.
- The slowdown in business surveys accelerated during the summer, pointing to a clear loss of momentum in GDP growth by the end of the third quarter. The weakening is particularly apparent in the manufacturing sector, due to subdued foreign demand prospects. The recent announcement of a temporary stoppage of production at Autoeuropa's car plant from September due to supply shortages is likely to have contributed to pessimism. Sentiment in the services sector remains at relatively healthier levels but expectations about future levels of activity have declined significantly over the last few months. On an encouraging note, consumer confidence has almost fully returned to its long-term average, with consumers being more optimistic about their future financial situation, likely due to the improved outlook for consumer inflation and recent labor-market resilience.
- We expect private consumption to slow down in 2H23, as higher interest rates and uncertainty increase households' incentive to save. Gross fixed investment is likely to continue to contract moderately as a result of increasingly tighter financing conditions. Higher borrowing costs are expected to largely offset the tailwinds from easing energy and intermediate input prices on firms' costs. The slowdown in overall investment is likely to be driven by residential construction as rising mortgage rates – the bulk of new mortgage loans are still variable rate – increasingly weigh on housing affordability. Net exports are likely to add to GDP growth as exports are expected to rise faster than imports, owing to weaker domestic demand and lower energy imports.
- The government recently announced measures to ease the burden of higher mortgage bills for homeowners, which – for around 70,000 households – would otherwise have risked exceeding half of their net income by end-2023, according to the Bank of Portugal. Homeowners with variable-rate mortgages can ask their banks to reduce the benchmark six-month Euribor rate used to fix their mortgages by as much as 30% over a two-year period.
- Consumer inflation accelerated by 0.6pp to 3.7% yoy in August, reflecting a sharp increase in fuel prices. We expect inflation to slow from 7.8% in 2022 to 5.0% in 2023 and to 3.0% in 2024. Inflation-reducing base effects on energy and food inflation are expected to intensify in the coming months and accelerate the slowdown in headline inflation, while rising upward pressure from wage costs is likely to keep core inflation stickier.

BUSINESS SURVEYS POINT TO LOSS OF GDP MOMENTUM



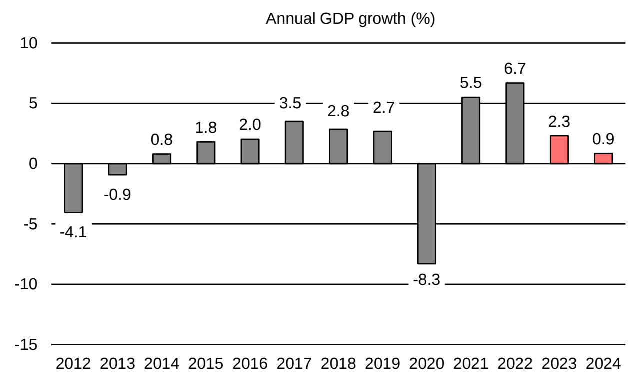
ROBUST JOB CREATION IN 1H23



Source: EC, Bank of Portugal, UniCredit Research

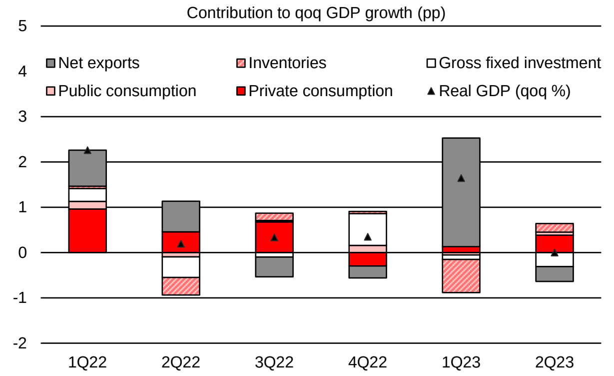
Portugal

GROWTH (I)



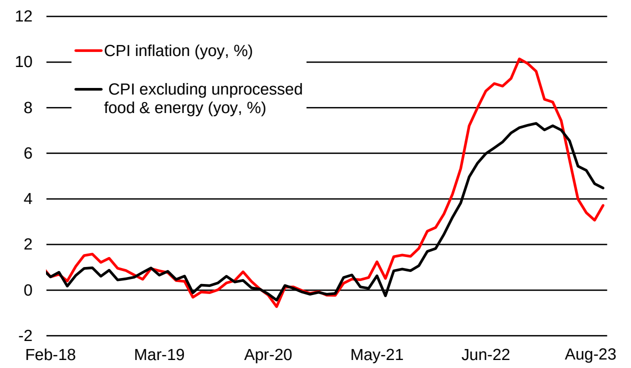
- We expect GDP to increase by 2.3% in 2023 and by 0.9% in 2024.

GROWTH (II)



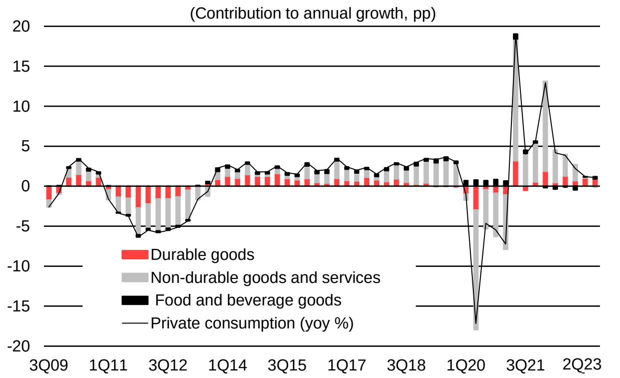
- Private consumption was the main growth engine in 2Q23.

INFLATION



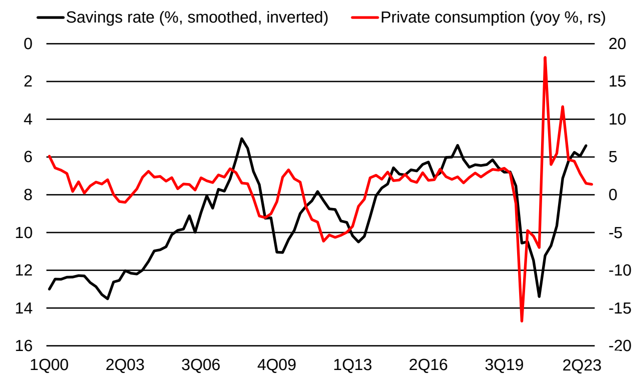
- Inflation has been slowing since November, mainly reflecting a decline in food and energy prices, amplified by base effects.

PRIVATE CONSUMPTION



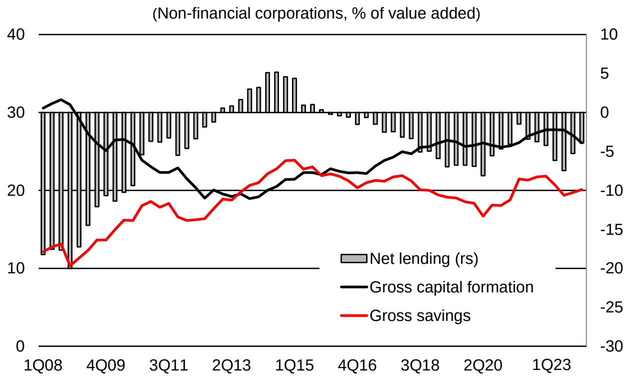
- Household consumption patterns are falling closer in line with pre-pandemic behavior.

SAVINGS RATE



- Households have used their pandemic-related savings to finance consumption.

NFC NET LENDING/BORROWING



- In 1Q23, non-financial corporates increased their savings further and reduced investment.

Source: Eurostat, EC, UniCredit Research

Poland

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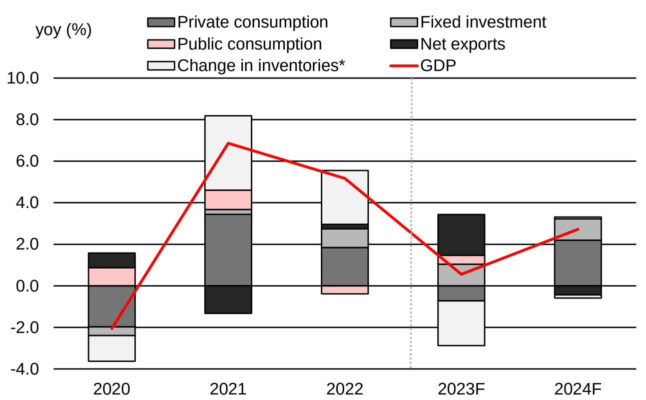
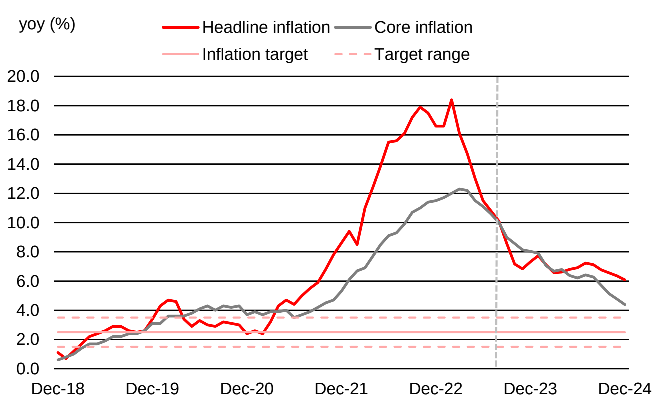
- Based on the opinion polls available three weeks before parliamentary elections (scheduled for 15 October), we see little chance of a stable government and increasing risks of early elections in 2024. In our view, the three likeliest scenarios are: **1.** A minority government formed by the ruling United Right (UR) with support from the Eurosceptic Confederation. This alliance might be short-lived due to diverging economic programs, triggering early elections in 2024. **2.** A small UR majority in the Sejm if the representation threshold is not exceeded by the Third Way (8%) or by the Left (5%). **3.** A government formed by the Civic Coalition, the Third Way and the Left, which would require their election results to exceed polling numbers by around 5pp. Such a government might be short-lived due to different policy goals, with early elections likely in 2024-25.
- We forecast GDP growth to accelerate from 0.6% in 2023 to 2.7% in 2024%. Weak private consumption and inventory depletion were a drag on economic activity in 1H23. In 2H23, we expect domestic demand to recover gradually, while external demand could weaken. Private consumption could rebound more visibly in 2024 due to higher real wage growth and social transfers to households. We expect investment to remain well supported by FDI inflows and the government's strategy to reinforce its military, although deficit-funded public investment could slow if Recovery and Resilience Facility funds are delayed further.
- Election promises imply larger budget deficits, which will likely put Poland in the excessive deficit procedure next year. The 13th and 14th pension bonuses will make up around 0.9% of GDP per year. The public sector wage hikes and the rise in child support (to PLN 800 per month from PLN 500) could add 1% of GDP to the budget deficit in 2024, along with another 0.5% of GDP from other subsidies (excluding energy) and promises including a lower retirement age and the planned minimum wage hike (by more than 20% compared to the 2023 average). Thus, the budget deficit might widen to 5.2% of GDP in 2023 and ease to only 4.3% of GDP in 2024.
- We forecast disinflation will continue in 2023-24, slowed down by the loose fiscal stance and, in early 2024, by the possible reversal of VAT cuts for food items and higher energy prices. We expect annual inflation at 7.7% at the end of 2023 and at around 6% at the end of 2024. Following the deeper-than-expected rate cut in September, we expect the NBP to remain on hold during the remainder of this year before lowering its policy rate to 5% in 2024 (see our *Macro Flash "National Bank of Poland: sharp cuts will test market confidence*", 6 September 2023). While lower interest rates will help ease lending conditions, we think the lingering uncertainty about the treatment of CHF-denominated loans could continue to weigh on banks' appetite to lend, unless the government comes up with a market-wide solution. This is unlikely before the formation of a stable government.

GDP GROWTH COULD ACCELERATE TO 2.7% IN 2024…



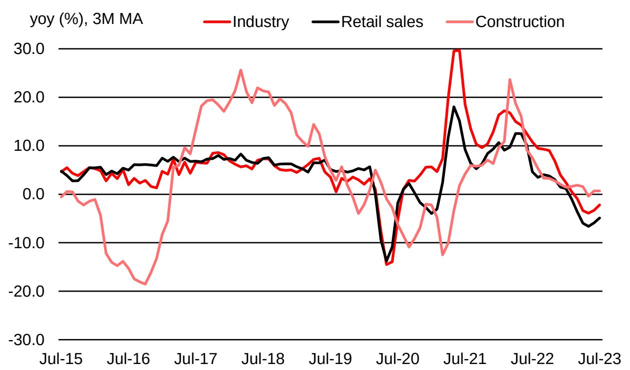
…WHILE INFLATION COULD EASE TO AROUND 6%



Source: Statistics Poland, NBP, UniCredit Research

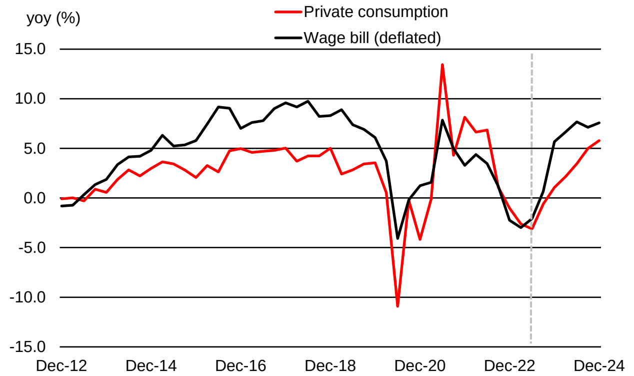
Poland

ECONOMIC ACTIVITY



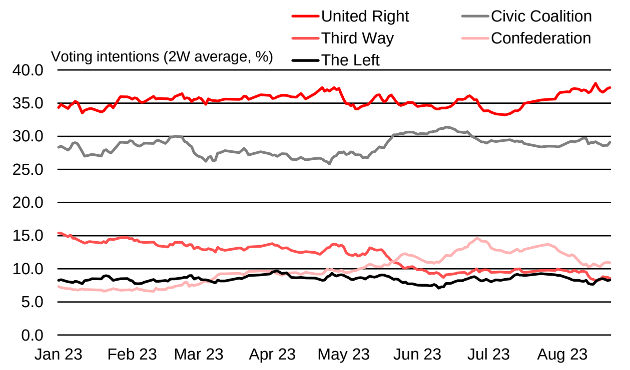
- Economic activity seems to have bottomed out during the summer.

PRIVATE CONSUMPTION AND WAGE GROWTH



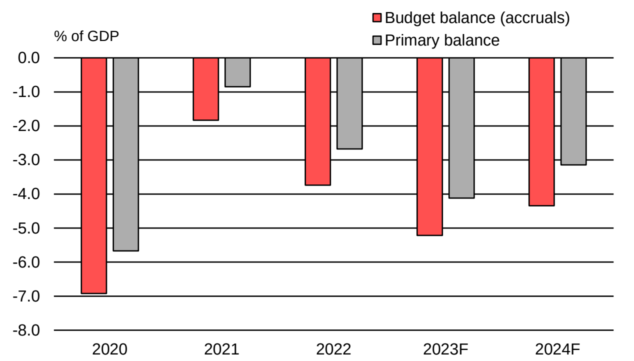
- Positive real wage growth will boost disposable income and households' consumption.

OPINION POLLS



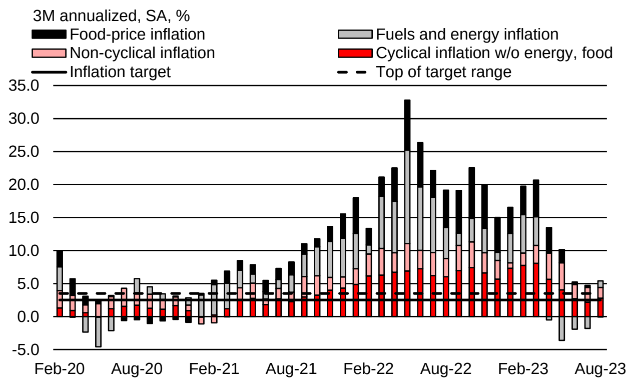
- Polls suggest that the ruling United Right will get the most votes but might fail to gain a majority.

BUDGET BALANCE



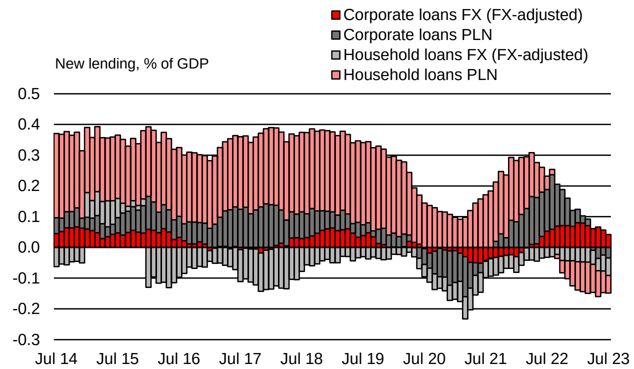
- Election promises will lead to higher budget deficits.

INFLATION MOMENTUM



- Higher real wages and a loose fiscal stance could reignite inflation momentum.

NEW LENDING BY BANKS



- The CHF-denominated loans problem could continue to pose a drag on banks' appetite to lend.

Source: Statistics Poland, NBP, Eurostat, Bloomberg, Haver, Polling agencies, UniCredit Research

Czechia

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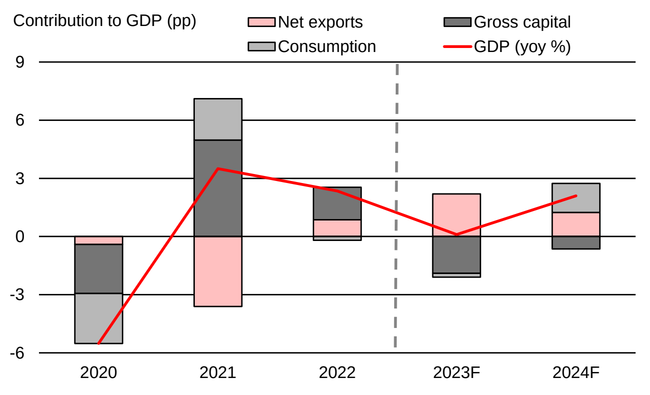
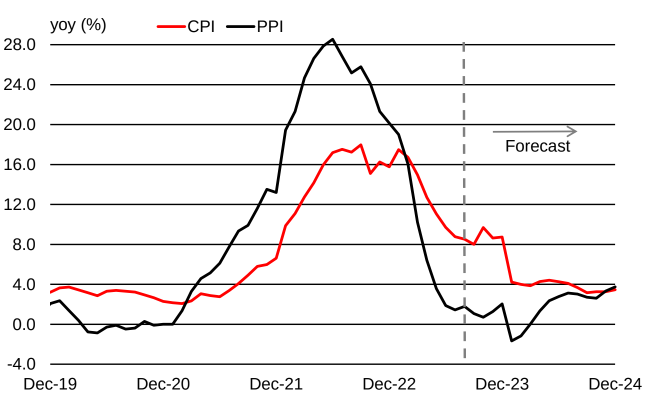
- In 2Q23, real GDP ticked up in qoq terms (0.1%), leaving the pace of yoy contraction unchanged (-0.4%). Private consumption increased by 0.2% qoq (-4.5% yoy), while fixed capital formation posted its first sequential rise in four quarters (3.4% qoq, 2.5% yoy). All types of investment except for construction investment ticked upward, with investment in transport equipment rising by 16.2% yoy. The inventory change stayed deeply negative (-2.5pp of GDP yoy). Exports and imports declined qoq, by -0.5% and -1.2% respectively. From the production side, yoy growth was maintained in 4 out of 11 sectors, notably manufacturing, information technology and business services.
- Czechia started 3Q23 on poor economic footing, with July industrial output at -2.8% (working-day adjusted, yoy), construction output at -2.1%, retail sales (excluding automobiles) at -1.8% and sales of services at -4.3%. Transport intensity (proxied by highway-toll transactions) was also weak in August. On the other hand, car sales and repairs increased by 4.9% yoy in July, while new-car registrations increased by 12.9% yoy in August. The manufacturing PMI for August also moved further away from its June bottom, helped by future output and export-order components. In August, retail sales probably picked up substantially, as our payment-card-transaction indicator suggests. Car manufacturing is facing new supply-chain disruptions, but we believe that these will be resolved much faster than during the previous chip crisis, although we believe they will still drag on 3Q23 GDP.
- The external environment will not be very supportive of the Czech economy in the short term, with GDP forecasts in Europe decreasing, demand in China still depressed and the recent oil-price spike threatening to slow the global economy. We expect Czech exports to just stagnate in 2H23, reverting to meaningful growth only later in 2024. The inventory rundown will be ongoing, as the inventory stock remains excessive by historical standards. However, domestic demand, led by private consumption, is expected to play a much bigger role as a GDP driver in 2024 than it did in 1H23. In 2H23, real wages are expected to stay broadly flat after their continuous decline for seven quarters. From the start of 2024, household real income should receive an additional boost via the decline of inflation to an estimated 3-4% range. Fixed-capital formation is projected to grow only marginally, with bank-lending interest rates being seen as prohibitive by some corporates. In total, GDP is projected to rise by 0.6% yoy in 2H23 and to accelerate to 2.1% in 2024.
- The CNB repo rate is expected to be kept at 7% in September, and the chance for a cut in November is very slim. We see policy easing to start next year, when the CNB will be able to evaluate turn-of-the-year consumer-price adjustments. With CPI hovering above the 1% to 3% tolerance range of the CNB for most of 2024 in our forecast, rate cutting should stay cautious even thereafter, and the repo rate may not drop below 5.25% by the end of 2024.

GDP TO STAGNATE IN 2023, TO BE REVIVED IN 2024



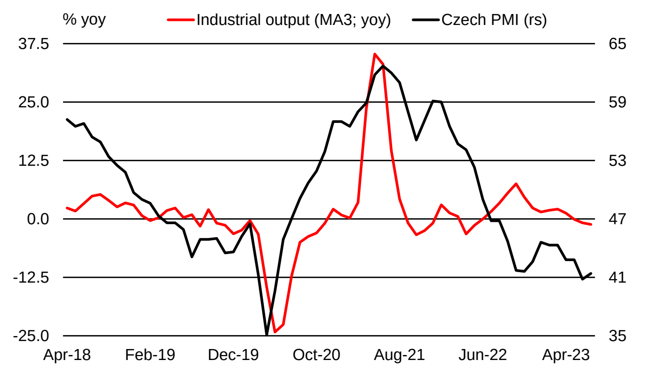
CPI IS SET TO DECELERATE BELOW 4% IN EARLY 2024



Source: Czech Statistical Office, UniCredit Research

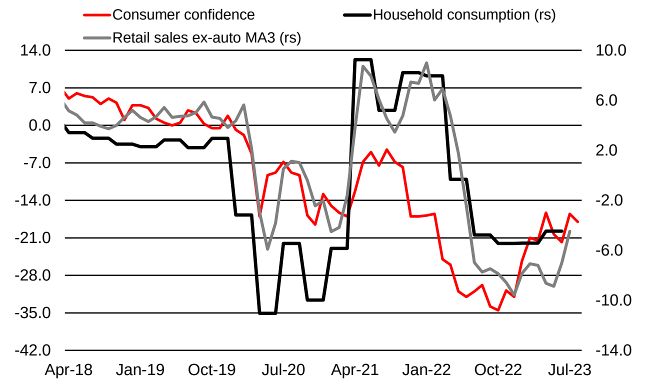
Czechia

MANUFACTURING PMI AND INDUSTRIAL PRODUCTION



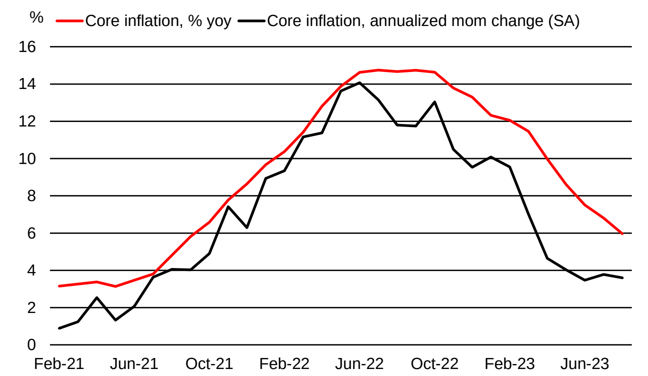
- Czechia's PMI has been signaling a contraction in industrial output since June 2022. Czech industry was kept afloat by the auto segment for a long time, beginning a yoy decline only in July 2023.

CONSUMER CONFIDENCE AND HOUSEHOLD CONSUMPTION



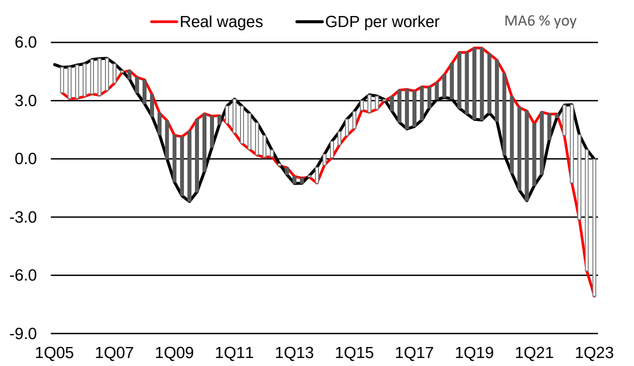
- Private consumption is set to perform better in 2H23, being a driver of GDP in 2024, thanks to an expected rise in real household income.

ANNUALIZED CORE INFLATION



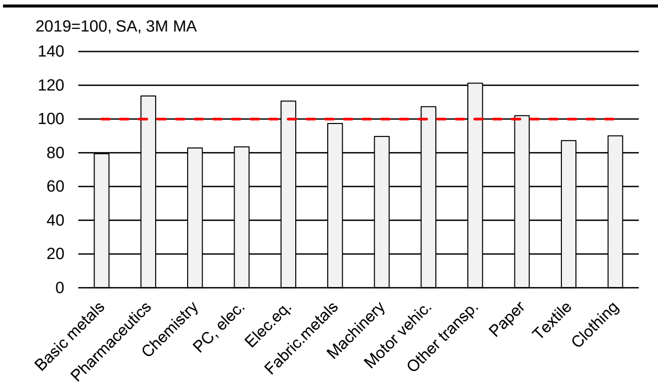
- The annualized measure may capture new trends better compared to traditional yoy figures. It shows that core inflation has lately been moving just below 4% without a tendency to decline further.

GDP PER WORKER AND REAL WAGES



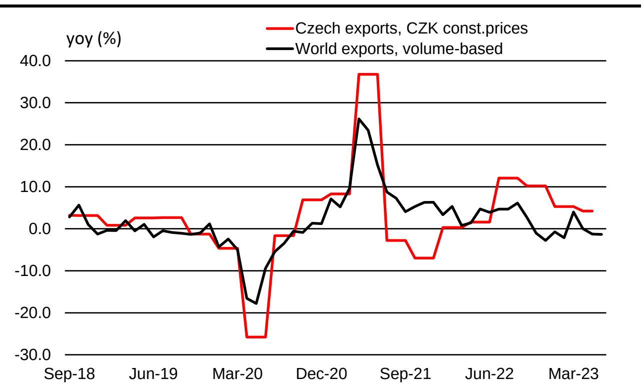
- Real-wage contraction in 2022-23 is unprecedented. One reason behind this may be a legacy from the 2017-20 period when real wages were growing much faster than labor productivity.

REAL NEW ORDERS IN MANUFACTURING



- New orders adjusted for price changes are far below 2019 levels for many branches. The all-important auto segment still seems to be maintaining its strength, but that may change relatively quickly.

GLOBAL AND CZECH EXPORTS



- Czech exports have been outperforming global trade, driven especially by the auto segment. In the coming months, export performance will probably deteriorate.

Source: Czech Statistical Office, Czech Ministry of Labor and Social Affairs, Macrobond, UniCredit Research

Hungary

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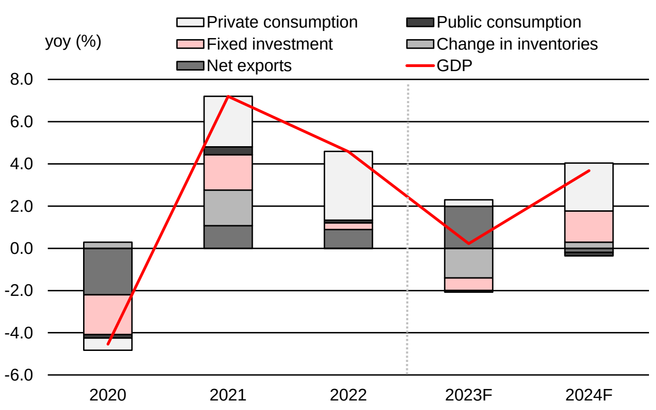
- The Hungarian GDP figure for the second quarter marked the country's longest period of recession since 1995. While this recession is not severe, the postponement of many investment projects probably led to a reduction in potential GDP. As a result, we have revised our forecast for this year. We now anticipate a contraction of 0.7% on the back of weaker private consumption. The expected rebound next year will be moderate, with an increase of only 3.3%. This recovery should be driven primarily by household consumption and investment, despite their negative impact on Hungary's trade balance. Soft indicators suggest that household consumption will remain high, resulting in only a moderate increase in savings and investment in the private sector.

- During the summer, high prices eroded incomes, and austerity measures, accompanied by falling commodity prices, led to weak inflation momentum. The NBH took advantage of this favorable situation to gradually reduce the overnight deposit rate. Future easing appears more challenging, and we expect the NBH to reduce its policy rates to 11.50% by the end of the year and to 6% in 2024. Inflation expectations indicate possible reflation, driven by strong wage growth and government measures affecting energy and administrative prices, potentially adding 0.8-1.0pp to next year's inflation rate. With real wages expected to grow from 3Q23 onwards, service providers anticipate that there will be price increases in the coming months. Additionally, loose fiscal policy could further slow disinflation. We forecast inflation to end 2023 at 7.3% and 2024 at 6.7%.

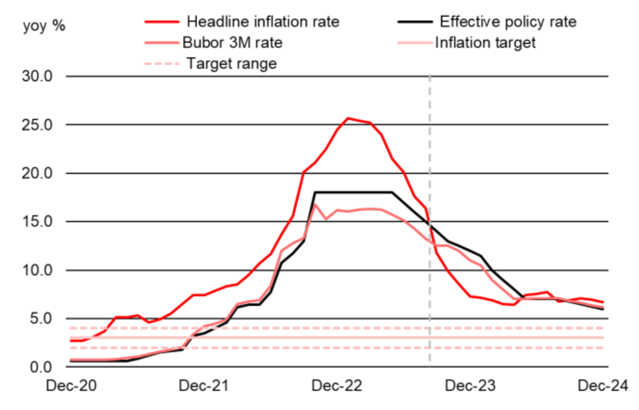
- As current inflation pressures align with those of the rest of the region, attention will gradually shift toward budget developments. We expect this year's target deficit of 3.9% to be significantly exceeded, with the shortfall reaching 5.8% of GDP. Despite this deviation, Hungary's deficit figure does not make it an outlier in the region. However, there is no room for substantial fiscal stimulus for the economy, as debt-servicing costs are expected to significantly increase in both the wholesale and retail segments. This is enhanced by Hungary's overreliance on short-term retail bonds, among which backward-looking inflation-linked retail securities exceed 10% of total marketable debt, potentially rising to 15% in 2024.

- While we do not anticipate a rapid inflow of fresh EU funds, a robust FDI pipeline is expected to ensure a positive extended basic balance in 2023 and 2024. Despite relatively favorable macrofinancing conditions for the HUF, we foresee a depreciating trend ahead due to decreasing carry and real HUF appreciation.

RECESSION COMFIRMED FOR 2023



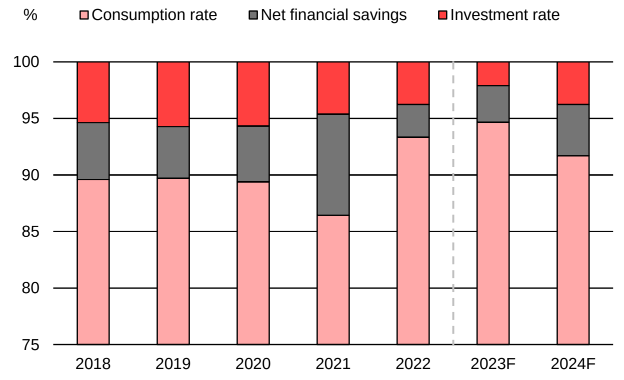
REAL INTEREST RATES EXPECTED UNTIL SPRING 2024



Source: Hungarian Central Statistical Office (HCSO), NBH, UniCredit Research

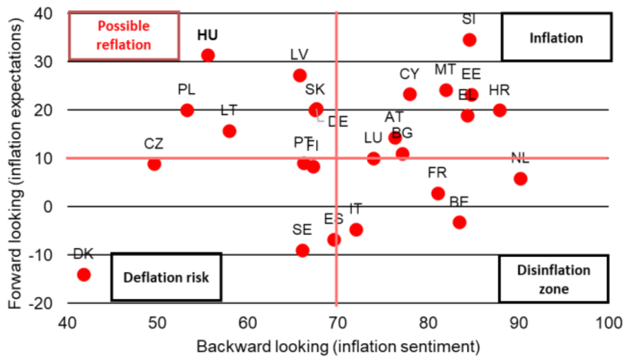
Hungary

HOUSEHOLD SPENDING



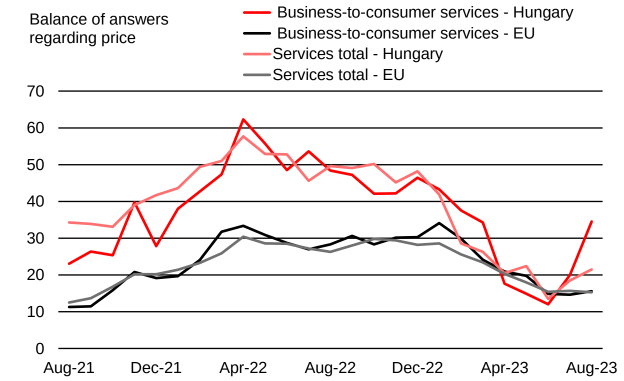
■ Consumption rates are set to remain high, reducing scope for savings and investment.

INFLATION



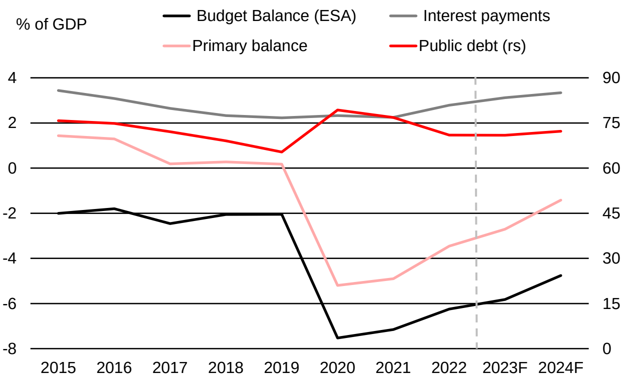
■ Reflation risks look higher in Hungary than elsewhere in the EU.

SERVICES PRICE EXPECTATIONS



■ Reflation could be driven by labor-intensive and consumer-demand-sensitive services.

BUDGET BALANCE



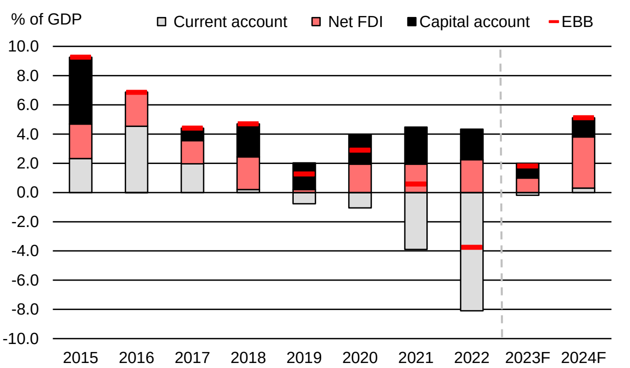
■ The servicing of debt narrows room for lowering the debt stock.

RETAIL GOVERNMENT SECURITIES

	2023	2024
	(% of total household securities)	
Hungarian CPI linked securities	56	73
Euro area CPI linked securities	4	4
Other (securities)	40	22
TOTAL	100	100
Previous year's HU CPI	14.5	17.3
Household holdings of total government debt (%, 2022)		
Hungary	21.2	
Region	2.4	
EU 27 avg.	3.5	

■ Yields paid on household securities are significantly higher than HGB yields, and this gap is set to increase.

EXTENDED BASIC BALANCE



■ Extended Basic Balance is expected to rebound on the back of FDI.

Source: HCSO, EC, Hungarian Debt Management Agency (AKK), UniCredit Research

Russia

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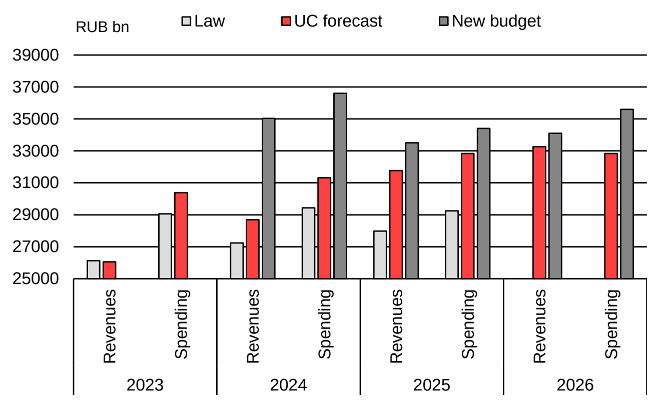
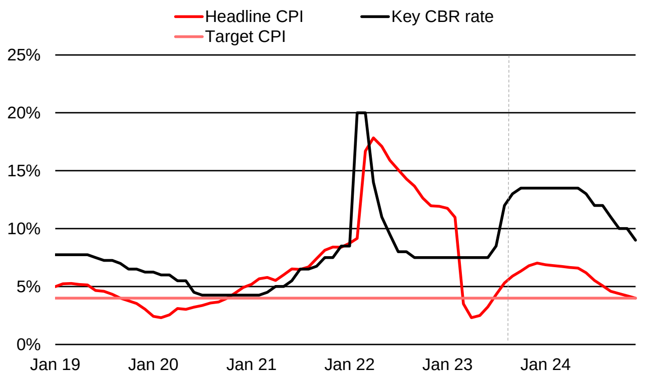
- Russia's economic recovery has been more front-loaded than expected (e.g. 2Q23 GDP growth amounted to 3.1% yoy according to the seasonally adjusted series). Rapid credit growth in 2Q23-3Q23 together with a budget spending impulse and a limited impact from sanctions on Russian exports and production, led us to revise our GDP-growth forecast from +1.0% to +1.9% this year. Both consumption and fixed investment are expected to grow driven mostly by one-offs, and this prompted us to forecast no growth in 2024. This downgrade also reflects tight labor-market conditions, Russia having record high in labor utilization and unprecedentedly low unemployment at 3%.
- Fiscal spending has generally returned to monthly averages registered before 2022, so the budget deficit this year is expected to amount to about 2.6% of GDP. The improvement over the previous forecast (by around 0.6% of GDP) is related to higher-than-expected revenues. However, recently, the government reported plans to increase spending in 2024-26, which will result in a deficit for the whole projected period. At the same time, the Russian Ministry of Finance plans to re-implement a redesigned budget rule. Starting in 2024, Russia's National Wealth Fund will receive oil proceeds that exceeded the base price set at USD 60/bbl (compared to USD 40/bbl in 2017 prices before 2022).
- Inflation reaccelerated to 5.15% yoy in August and could rise to 7% before the end of 2023, driven by tight labor-market conditions, effects from rapid RUB depreciation and elevated inflation expectations. The CBR has hiked its key rate by 5.5pp since mid-July (it is currently at 13%) to stimy inflation, although, recently, it indicated that the peak in the hiking cycle is close. The CBR is likely to hike by another 50bp before year-end and to keep the key rate there at least until 2Q24. In absence of new shocks, inflation would decrease afterwards towards the targeted 4%, so the CBR would be ready to cut in 2024 to 9-10%. Large government spending suggests there is a risk that the CBR will keep rates higher for longer.
- Despite Russia's higher-than-expected volume of oil exports, import recovery has exceeded expectations. Therefore, Russia's current-account surplus has fallen substantially in 2023 vs. 2022, causing RUB depreciation. We had to revise our forecast for USD-RUB to 100 (from 87.5 previously), partly reflecting effects of habituation to new levels. This might be a new equilibrium for 2023, yet future dynamics are less clear. For example, the government is discussing measures that would allow it to have tighter control over capital movements, yet the principal scheme has not been approved. Russian Government expects USD-RUB to stabilize at 90-95 in the next few years.

BUDGET PROJECTIONS CHANGES IN 2023 VS. EARLIER PLAN



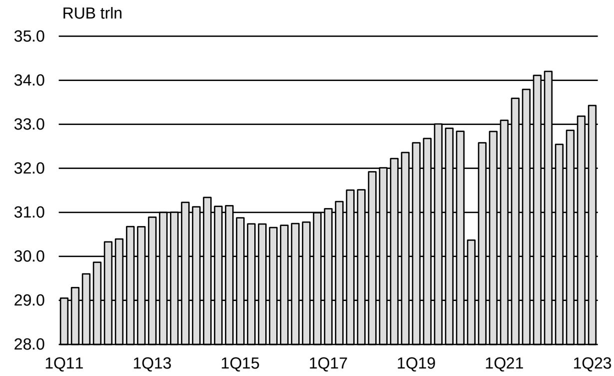
INFLATION COULD RISE TO 7% THIS YEAR



Source: , MinFin, Bank of Russia, Rosstat, UniCredit Research

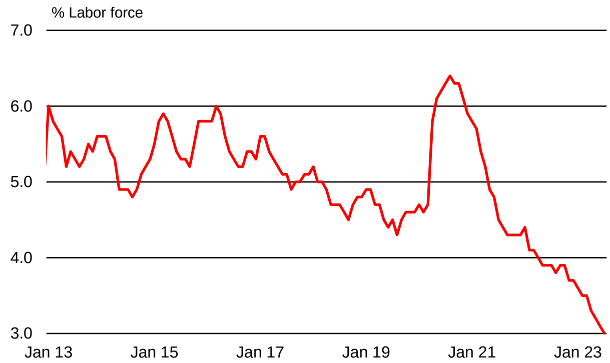
Russia

GROWTH



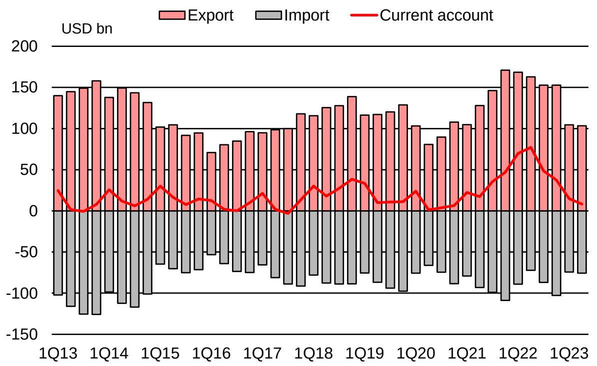
- GDP stands below 1Q22 level.

LABOR MARKET



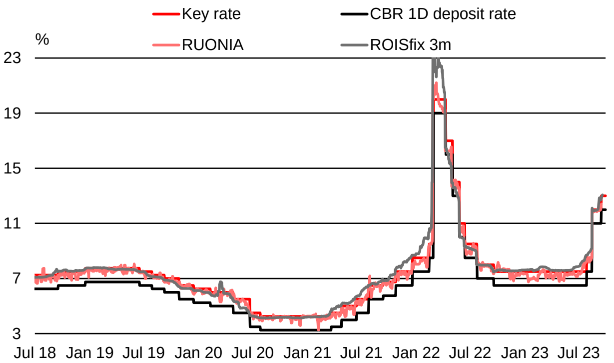
- Unemployment rate has eased to 3%.

CURRENT ACCOUNT BALANCE



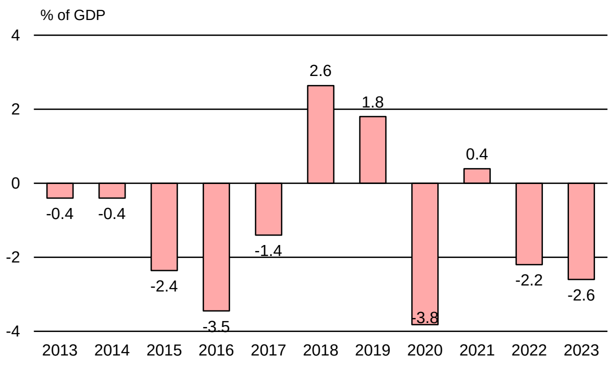
- Current account surplus has fallen with higher imports.

MONEY MARKET RATES



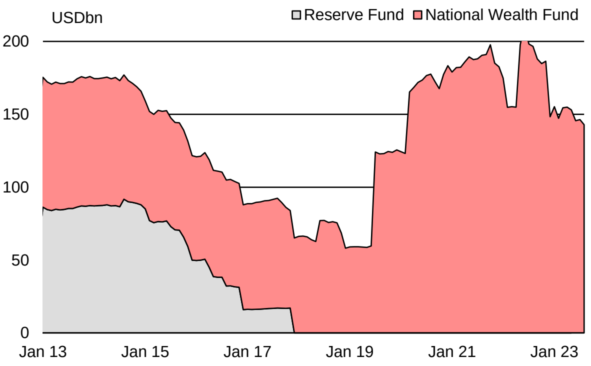
- The CBR has hikes its key rate by 5.5pp since mid-July.

FEDERAL BUDGET BALANCE



- Budget deficit is expected to reach 2.6% of GDP this year.

NATIONAL WELTH FUND



- Starting in 2024, Russia's National Wealth Fund will receive oil proceeds that exceeded the base price set at USD 60/bbl.

Source: , MinFin, Bank of Russia, Rosstat, UniCredit Research

Turkey

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- Turkey has been recalibrating its economic policy mix after the election. President Recep Tayyip Erdogan's explicit endorsement of tight monetary policy to bring down inflation has improved the prospects for the central bank to deliver additional rate hikes. We expect the CBRT to increase its policy rate to 35% this year and to 40% next year. However, monetary tightening could be suspended temporarily in the run-up to the local elections, to be held at the end of 1Q24 (details in our *EEMEA Country Note - Turkey: policy steps in the right direction*, 22 September 2023).

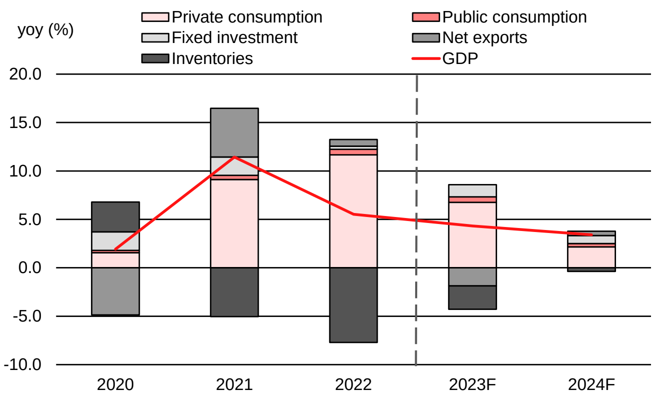
- The CBRT will also continue to use selective credit requirements to tighten monetary conditions. Meanwhile, measures to ease firms' (especially SMEs and exporters) access to financing could remain part of the policy mix. If policymakers continue with the recent policy shift, a recovery in capital inflows could partly counterbalance the negative impact of monetary tightening on financial conditions and economic activity.

- We expect a gradual deceleration in GDP growth from 4.3% this year to 3.4% in 2024. Despite tighter lending conditions, momentum in domestic demand is yet to slow from its high in 2Q23 as rising inflation expectations and mid-year pay hikes support consumption. Investment could prove resilient due to rebuilding activity in the cities hit by the earthquake. Net exports will reduce growth this year, but external demand might pick up in 2024 if economic activity in Europe recovers, also helping to narrow the current account deficit to around 3% of GDP at the end of next year from 4.6% in 2023.

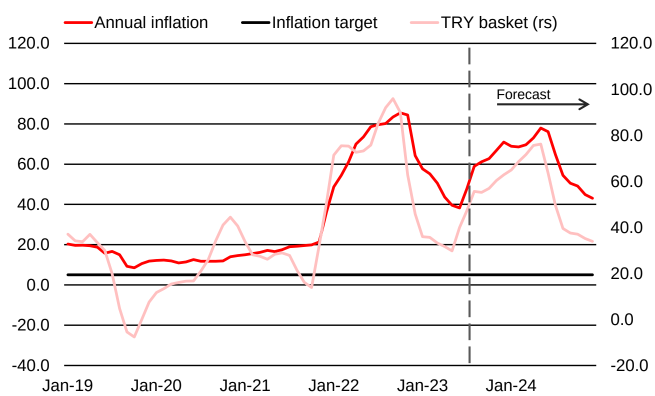
- Despite the tax hikes announced over the summer, the budget deficit could exceed 7% of GDP this year, due to the populist promises ahead of the elections and earthquake-related spending. We do not expect a significant improvement in the budget deficit in 2024, given the lingering impact of these factors and the ongoing election cycle.

- Annual inflation will follow an upward trend until 2Q24, due to the reversal of the impact of free natural gas allocation to households, starting in November. Another round of expansionary policies, including wage increases, ahead of the local elections, could also fuel core inflation. We forecast annual inflation to end this year at 71% before peaking at around 77% in May. Visible disinflation, mostly due to base effects, could be on the cards in 2H24, and bring annual inflation to 43% at the end of next year. Our forecasts assume a gradual depreciation of the TRY against the USD, to 30 in 2023 and 39 in 2024.

GDP GROWTH COULD EASE TO 3.4% IN 2024



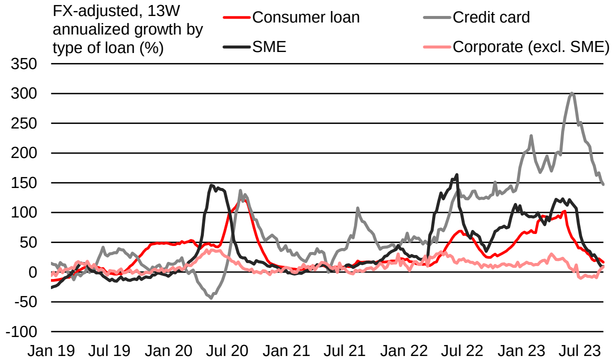
INFLATION COULD PEAK IN 2Q24



Source: TurkStat, CBRT, UniCredit Research

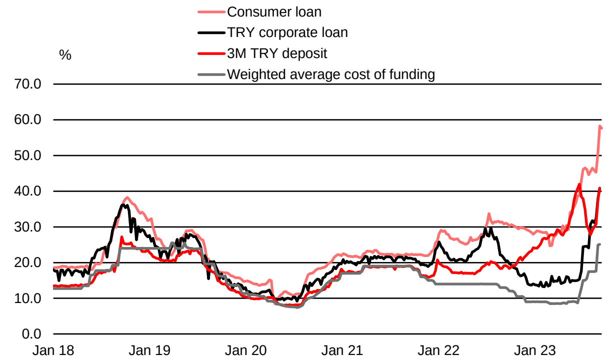
Turkey

LOAN GROWTH



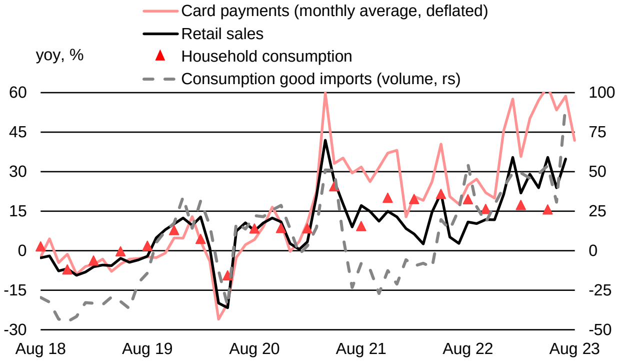
■ Loan growth has slowed down…

LOAN AND DEPOSIT RATES



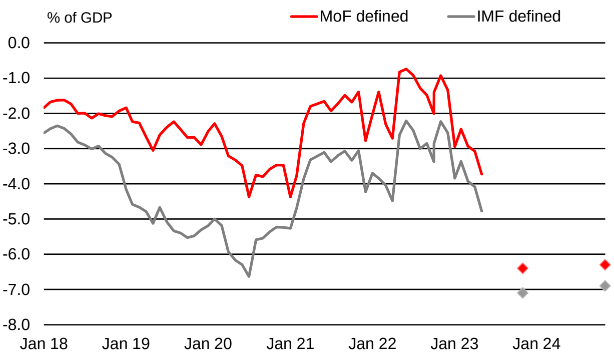
■ …as monetary tightening transmits into lending and deposit rates.

PRIVATE CONSUMPTION



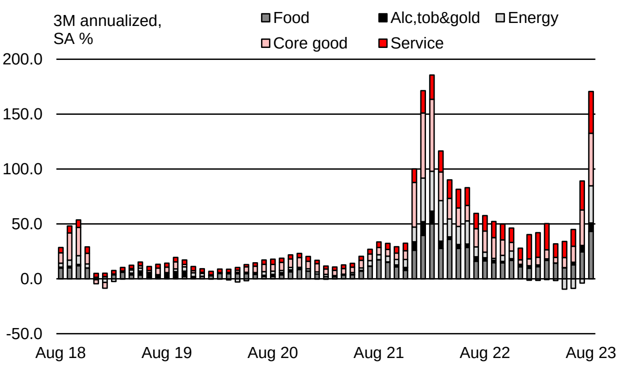
■ Household consumption is yet to slow from substantially elevated levels.

BUDGET DEFICIT



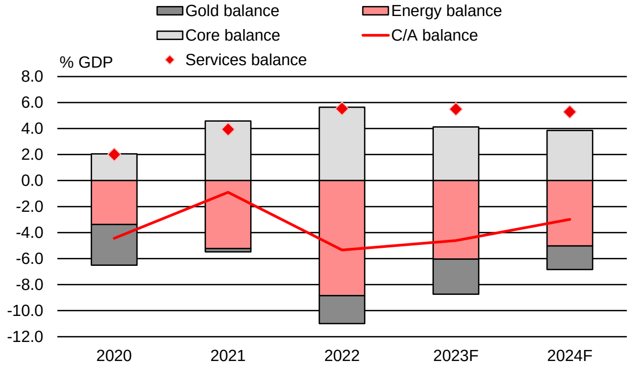
■ Earthquake-related spending and delivering election promises will lead to a wider budget deficit.

INFLATION MOMENTUM



■ Inflation momentum has re-accelerated due to the TRY depreciation, tax hikes, higher energy prices and strong demand.

CURRENT ACCOUNT BALANCE



■ The current account deficit could narrow gradually as domestic demand cools down and gold imports ease.

Source: BRSA, CBRT, TurkStat, Turkey's Ministry of Finance, Bloomberg, Haver, UniCredit Research

UK

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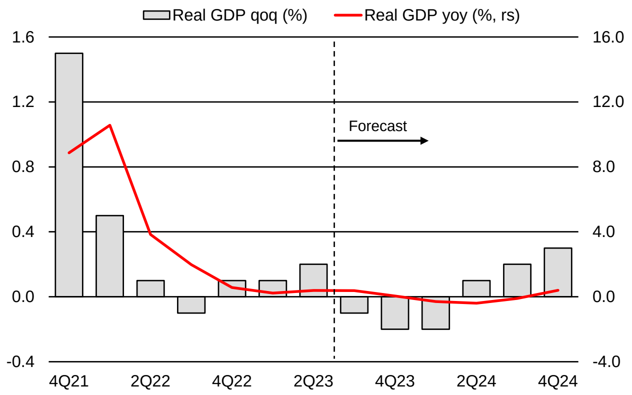
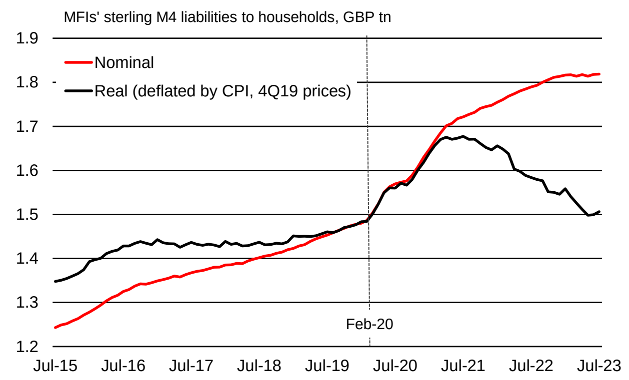
- We are revising our GDP growth forecast slightly for this year to 0.3% (previously 0.1%), while continuing to expect a minor contraction of 0.1% next year. GDP growth was stronger than expected, at 0.2% qoq in 2Q23, but monthly GDP contracted by a large 0.5% mom in July following a rise of 0.5% in June. The fall in July was partly due to an intensification of public-sector strikes (in health and education) and bad weather, but underlying services activity appears to have slowed. Business surveys are pointing to a slowdown. The UK flash composite PMI fell to 46.8 in September, the lowest level since January 2021, with both manufacturing and services PMIs below 50. The BoE Agents' survey also reported growing concerns about the economic outlook. Household savings buffers, as measured by real liquid assets compared to pre-pandemic levels, have been entirely exhausted. We expect GDP to contract by a cumulative 0.5% in the three quarters covering 3Q23 to 1Q24, followed by a weak recovery, as the 515bp of cumulative rate hikes since the end of 2021 works its way through the economy.
- CPI inflation eased to 6.7% yoy in August from 6.8% in July, with core CPI inflation (excluding energy, food, alcohol and tobacco) falling a larger-than-expected 0.7pp to 6.2%. Core goods inflation should continue to ease as lower input-price pressure is passed through. Both producer input and output prices for UK manufacturers are in deflation. Services inflation, excluding travel-related items, has remained high, but this tends to be lagging and is likely to ease as the labor market is now loosening and short-term inflation expectations of households and firms have come down. Employment fell by 0.6% in the three months to July and the unemployment rate rose to 4.3%, 0.8pp higher than a year ago. The number of job vacancies continues to fall. Private-sector regular pay growth eased marginally to a still very high 8.1% 3M yoy in July from 8.2% in June. However, the KPMG/REC survey of pay growth for new hires shows a clear easing of wage pressure.
- The BoE's MPC voted 5-4 to leave the bank rate unchanged at 5.25% on 21 September, with four MPC members preferring a 25bp hike. It is noteworthy that key MPC members Governor Bailey, Deputy Governors Broadbent and Ramsden, and Chief Economist Pill swung in favor of no change to the bank rate. While the MPC repeated that further tightening would be required if there were evidence of more persistent inflationary pressure, we think the BoE is likely done with hiking rates, barring a big surprise. We expect rate cuts to start in 3Q24 or sooner. The MPC has increased annual gilt stock reduction to GBP 100bn over the 12 months starting in October, up from GBP 80bn over the preceding 12 months.

A MILD RECESSION AHEAD



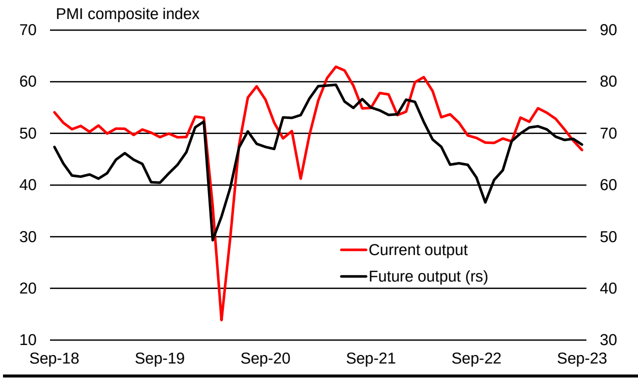
BOOST FROM SAVINGS NOW EXHAUSTED



Source: BoE, ONS, UniCredit Research

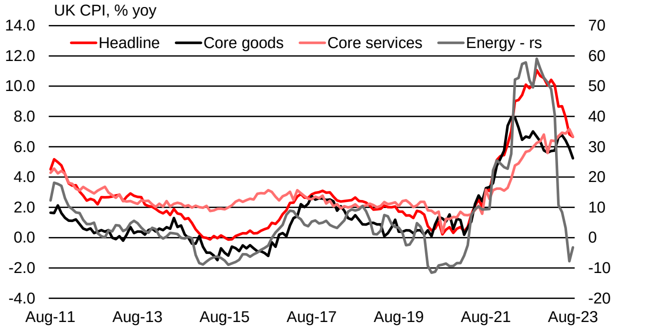
UK

PMI OUTPUT



- The UK flash composite PMI fell to 46.8 in September, the lowest level since January 2021.

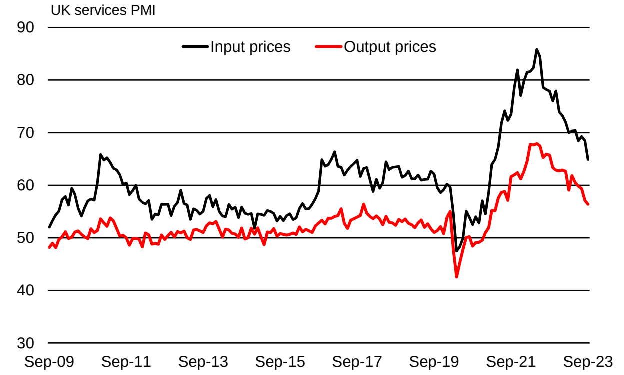
INFLATION



Note: Core goods CPI excludes energy, food, non-alcoholic beverages, alcoholic beverages and tobacco. Core services CPI excludes airfares, package holidays and education.

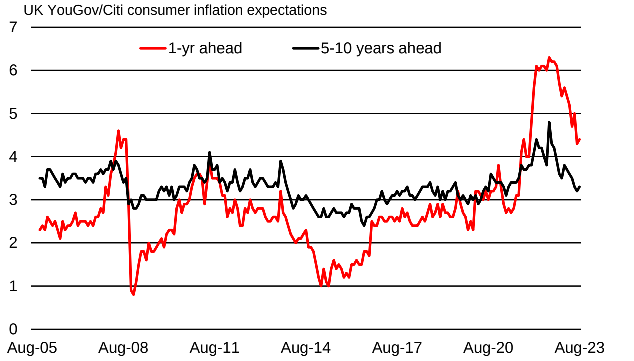
- CPI inflation eased to 6.7% yoy in August form 6.8% in July, with core CPI inflation easing 0.7pp to 6.2%.

SERVICES PMI PRICES



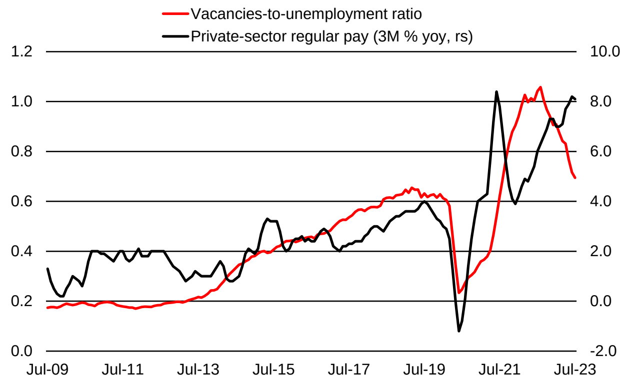
- The services PMI points to easing output-price inflation, as lower input costs are passed through with a lag.

INFLATION EXPECTATIONS



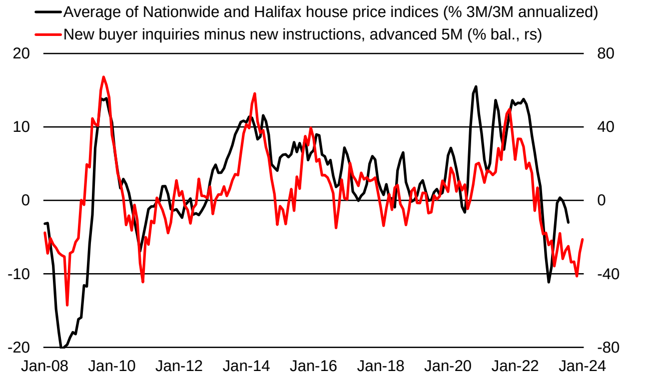
- Household inflation expectations 1Y ahead have eased but remain elevated. Long-run inflation expectations are in line with historical averages.

LABOR MARKET



- Labor-market quantities have softened, with the ratio of job vacancies to the number of unemployed continuing to ease.

HOUSING MARKET



- House prices are falling due to higher mortgage rates.

Source: Halifax, Nationwide, ONS, RICS, S&P Global, YouGov/Citi, UniCredit Research

Sweden

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- Lower domestic and global demand and a sharper slowdown in export growth have led us to lower our quarterly GDP forecast for 2H23. This revision results in our 2023 GDP forecast falling by 0.1pp to -0.3%. We expect GDP to recover to 1.0% in 2024 (compared to 1.2% previously) but contracting investment and subdued global demand add further uncertainty to the outlook.

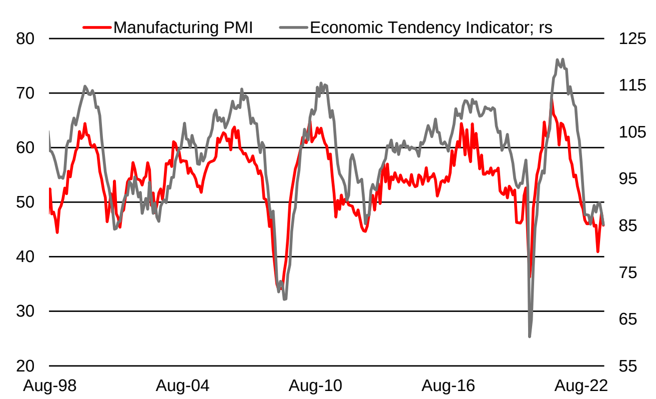
- Surveys (NIER and PMIs) are suggesting that the manufacturing downturn is spreading to other business sectors. This weighs on the economy, together with households cutting consumption and housing investment falling in the wake of high construction costs and low demand for new and existing houses. The NIER economic tendency indicator is falling due to a continued decline in expectations of future production. Looking at the individual components of the indicator, the weakness appears to come mainly from the service sector, which is becoming the most pessimistic part of the business sector.

- Exports represent another sore point. Given that Germany is Sweden's main export market, the expected contraction in German GDP in 2H23 is likely to negatively affect demand for Swedish exports.

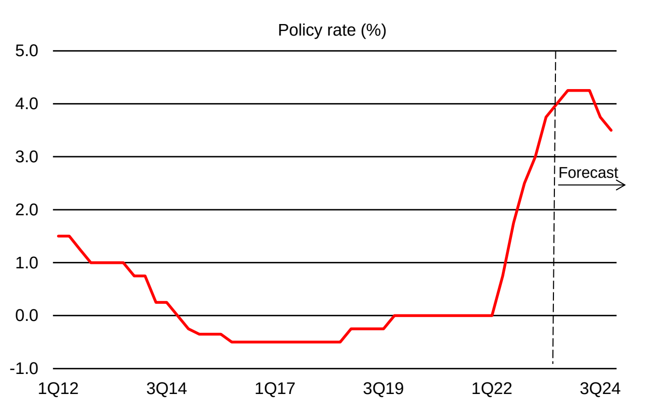
- Inflation is falling steadily after the headline rate peaked at 10.2% (December 2022), and the core rate at 9.3% (February 2023). In August, headline CPI decelerated to 4.7% yoy, while core CPI showed a shallower downward trajectory, slowing to 7.6%. However, the continuing SEK weakness, which is pushing up import prices, as well as the recent rise in oil prices and soaring services prices might threaten the downward trajectory of inflation, making the path towards the 2% target longer and more difficult.

- The policy rate is close to its peak. We expect the Riksbank to deliver a final rate increase of 25bp in November, lifting the policy rate to 4.25%. The Riksbank will then likely wait at least until 2H24 before easing monetary policy, as it does not want to run the risk of inflation starting to accelerate again. As it often reiterates, when it decides monetary policy, the Riksbank must take into account the ECB's future moves and their implications for the SEK. Indeed, the currency remains the most important risk factor when the Swedish central bank assesses the inflation outlook.

ONGOING DETERIORATION IN MANUFACTURING SENTIMENT



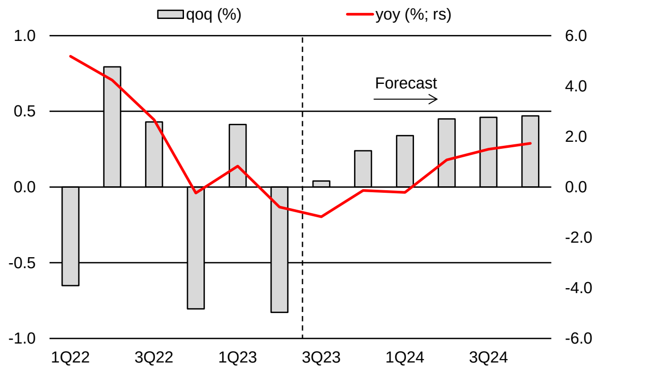
POLICY RATE IS CLOSE TO PEAKING



Source: Swedbank, Riksbank, UniCredit Research

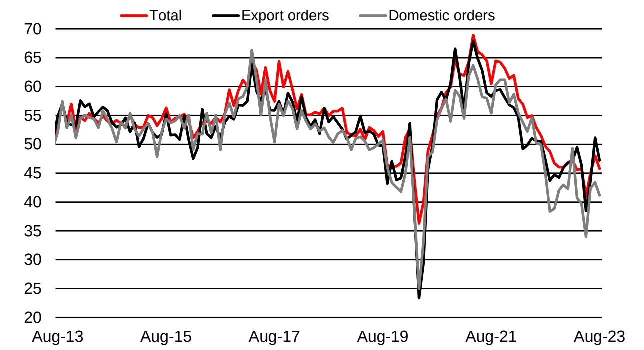
Sweden

GROWTH



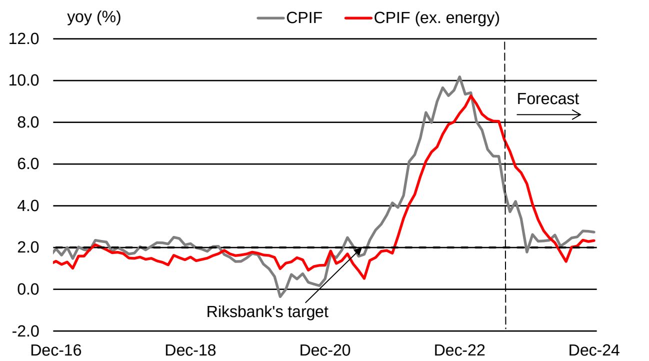
■ After contracting by 0.3% in 2023, GDP is likely to rise 1.0% in 2024.

PMIS



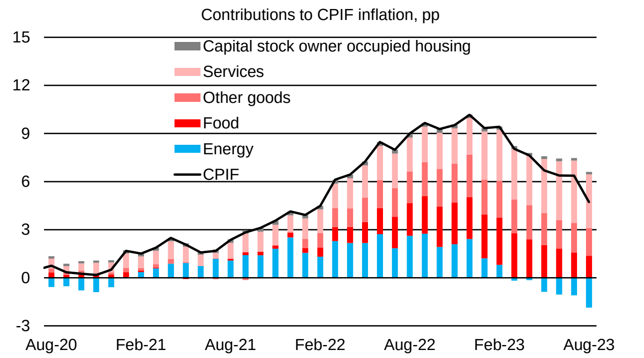
■ Demand for Swedish exports is expected to be weak.

INFLATION



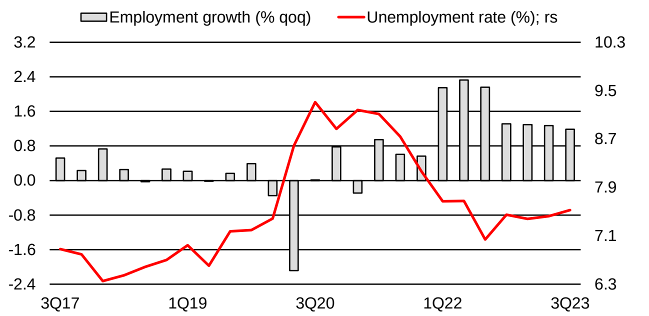
■ Inflation is decelerating, but price pressure is still too high.

INFLATION CONTRIBUTIONS



■ Service prices are rising the most and account for about 50% of the CPIF basket.

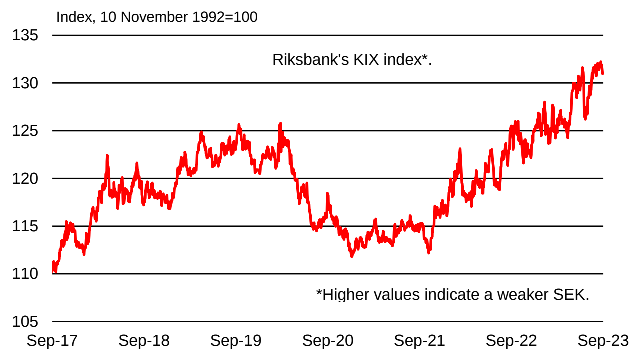
LABOR MARKET



Note: 3Q23 is the average of available data for months of July and August 2023.

■ The labor market remains strong.

TWI



■ The SEK has depreciated significantly.

Source: Bloomberg, LFS, Riksbank, Statistics Sweden, UniCredit Research

Norway

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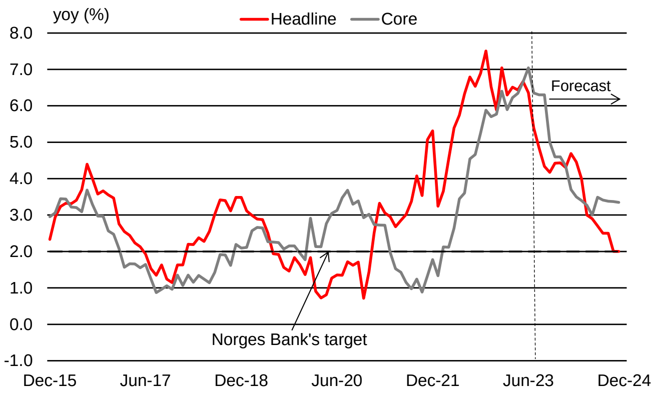
- The Norwegian economy is stalling, hampered by slowing household consumption, housing investment and exports, which have been greatly affected by the cycle of interest-rate hikes. This comes as its oil and services sectors continue to expand. Despite tightening financial conditions, lingering inflation and an economic slowdown affecting its main trading partners, Norway's GDP has shown signs of resilience this year. Higher-than-expected outcomes in 1H23 have increased our 2023 annual forecast for mainland GDP to 1.3% (from 1.0% previously), while our projection for 2024 remains unchanged at 1.6%. Total GDP is expected to outperform mainland numbers in 2023, rising by an upwardly revised 1.4% (from 1.0%). In 2024 we continue to expect that overall GDP will grow by 1.5%.

- Although economic activity among Norway's main trading partners is likely to remain weak in autumn and winter, our GDP outlook for Norway is still on track. Both Statistics Norway's quarterly oil investment survey and Norges Bank's third quarter regional network survey showed that the cyclical recovery in oil and gas GFCF is underway. Higher oil and gas prices are boosting activity on the Norwegian shelf, which is lively thanks to the acceleration and promotion of some projects favored by the tax subsidy program the government started during the pandemic. Oil and gas enterprises reported strong order books and high production expectations as well as good employment growth.

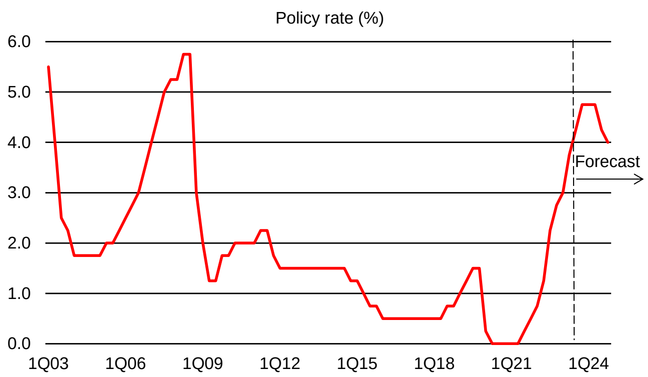
- Inflation declined through the summer. In August, CPI inflation was down to 4.8% (from 5.4% previously), while core inflation eased only marginally, to 6.3% (from 6.4%). Although the peak in core inflation is behind us, underlying price pressure remains strong, driven by rising inflation expectations, past NOK weakness and accelerating wage growth. Hence, inflation could take longer to decline than envisaged.

- NOK weakness and stickiness in core inflation are delaying the end of Norges Bank's rate-hiking cycle. At its September meeting, Norges Bank stated that it expects one more rate hike, most probably in December. We forecast a final rate hike of 50bp in December, which would allow the Norges Bank to overcome any further NOK weakness. We will likely have to wait for 2H24 before the monetary easing starts.

CORE INFLATION IS STILL MARKEDLY ABOVE TARGET



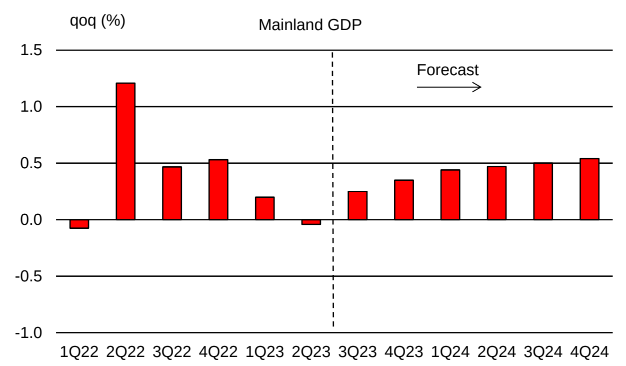
ONE MORE HIKE BEFORE THE TIGHTENING CYCLE ENDS



Source: Statistics Norway, Norges Bank, UniCredit Research

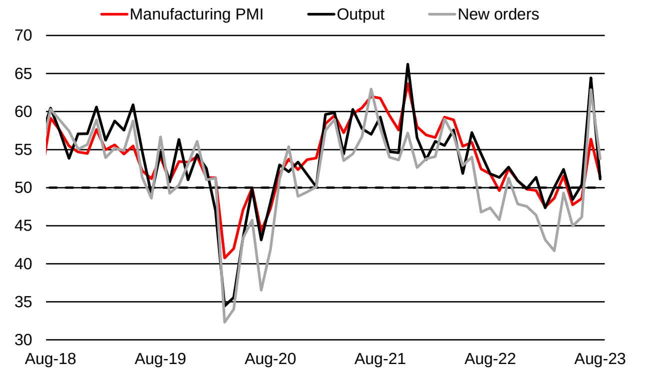
Norway

GROWTH



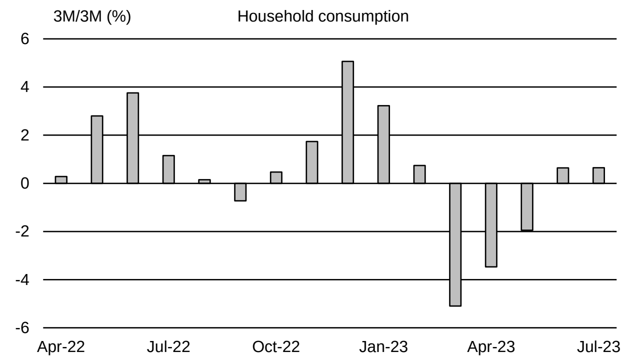
- Growth is expected to gradually recover after stagnating in 2Q23.

PMIS



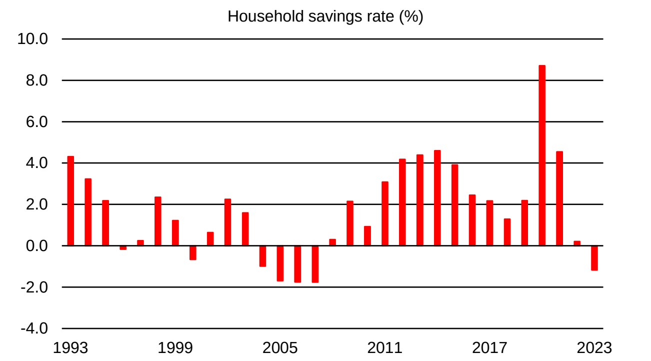
- Economic-activity indicators have fallen.

HOUSEHOLD CONSUMPTION



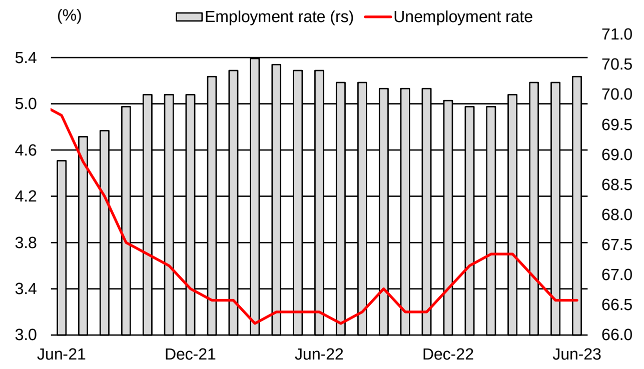
- After declining strongly in 2Q23, household consumption has recovered somewhat.

SAVINGS RATE



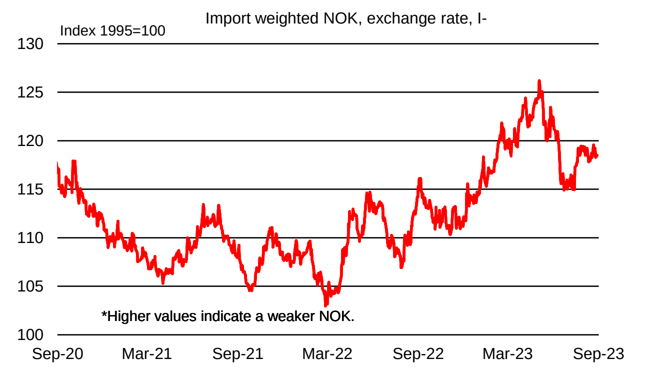
- Household savings rate has declined strongly.

LABOR MARKET



- The unemployment rate is stabilizing.

TWI



- The NOK has strengthened a bit in the wake of rising oil prices and higher interest rates in Norway.

Source: Bloomberg, DNB/NIMA, Statistics Norway, UniCredit Research

Switzerland

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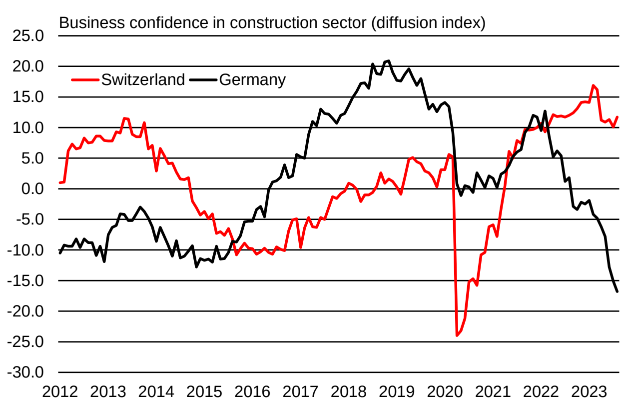
- We are lowering our GDP growth forecasts for 2023 and 2024. We expect the Swiss economy to grow by 0.7% in 2023 (compared to +0.8% previously) and by 0.9% in 2024 (+1.3% previously). One key reason for this is the expected weak performance of global trade and the downward revisions for the eurozone, especially for Germany, which will negatively impact the export-dependent Swiss manufacturing industry. Furthermore, with the usual time lags, the strong rate hikes by the SNB (a total of +250bp since June 2022) are likely to dampen activity in interest-sensitive sectors such as the construction sector.

- Nevertheless, a deep contraction in the construction industry is not in sight. In contrast to their German peers, Swiss construction companies have still remained comparatively constructive. The major drivers here are high backlog orders but also a moderate slowdown in mortgage lending so far. The latter rose by 2.8% yoy in July 2023 (latest available figure) compared to 3½% at the turn of the year.

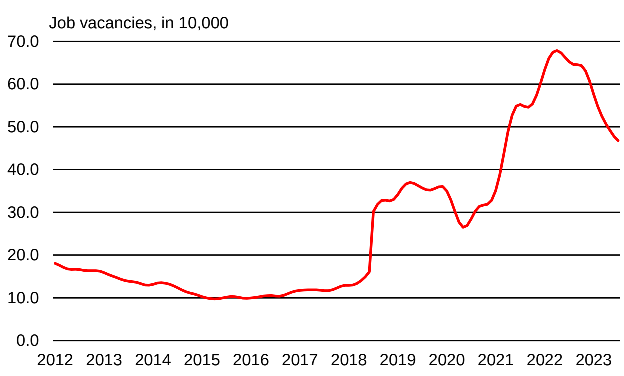
- The Swiss economy is also likely to be supported by a rather solid increase in private consumer spending. While there are signs of a slowdown on the labor market, job creation will probably continue, albeit at a slower pace. Furthermore, wage growth is likely to accelerate. Labor unions across sectors have recently demanded a pay hike of 5% for 2024 compared to a likely wage increase of nearly 2% in 2023. Finally, already strong disinflation is also likely to benefit consumer spending. Especially the core rate continued to decline to 1.5% yoy in August after 1.8% in June and readings above the 2%-mark in the previous few months. Further easing in inflationary pressure is in the pipeline, as signaled by both surveys and hard data, such as import and wholesale prices. However, the road to disinflation will likely become bumpy at the start of 2024 due to hikes in administered prices, such as for electricity. Furthermore, the VAT rate will be slightly increased in January 2024, to 8.1% from 7.7%. As a result, we expect headline inflation rates to temporarily increase to about 2% before decreasing again to 1¼-1½% during the remainder of 1H24.

- We expect no further rate hikes by the SNB in the current cycle after it left the key rate unchanged at 1.75% at its quarterly meeting in September. The weaker performance of the Swiss economy and the decline in inflation rates have obviously reduced policymakers' concerns about second-round effects due to the upcoming hikes in administered prices and possibly strong wage hikes next year. However, we also do not expect any rate cuts in 2024 given the still hawkish bias of the SNB and a comparatively low interest rate level.

SWISS CONSTRUCTION SECTOR HOLDING UP



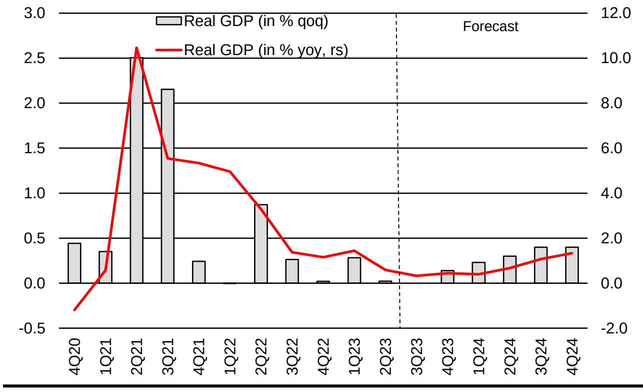
SLOWDOWN IN JOB CREATION AHEAD



Source: OECD, UniCredit Research

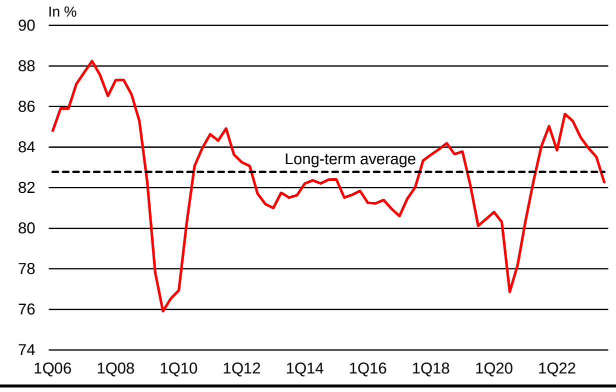
Switzerland

GROWTH



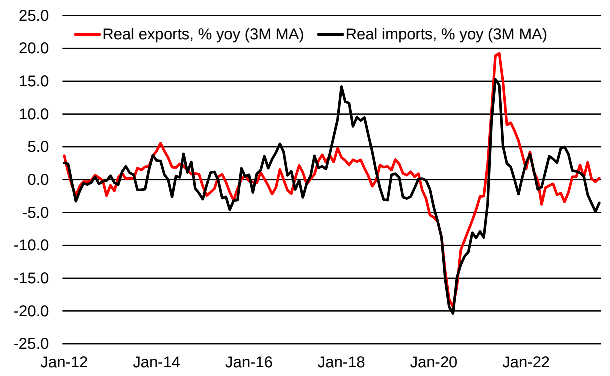
- We expect real GDP to remain largely subdued in 2H23 before resuming stronger momentum again in 2024.

CAPACITY UTILIZATION



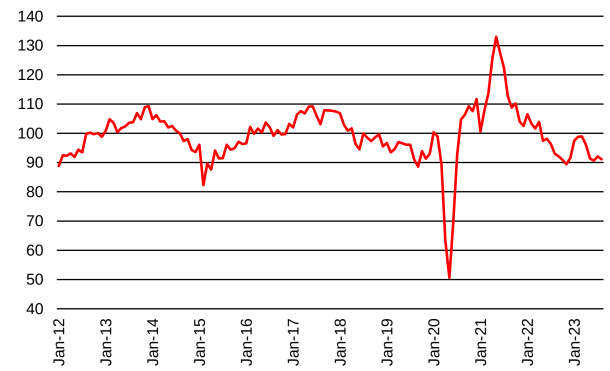
- Capacity utilization in the manufacturing sector in 3Q23 has eased somewhat below its long-term average.

INTERNATIONAL TRADE



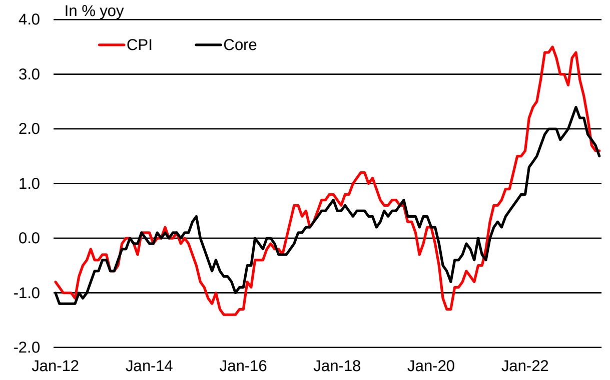
- Exports have largely stagnated in recent months, while imports have declined.

LEADING INDICATOR



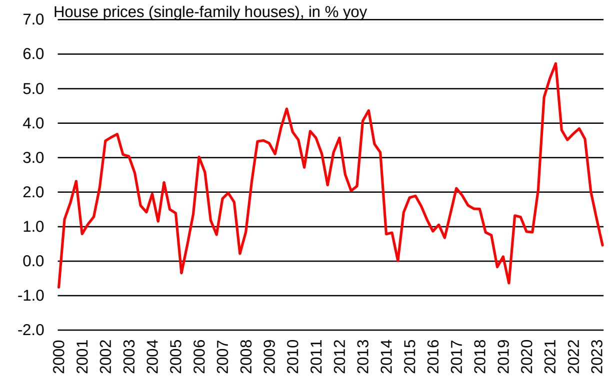
- After declining markedly in spring, the KOF leading indicator has stabilized despite some monthly volatility.

INFLATION



- Inflation rates have continued to decline, with the headline rate at 1.6% yoy and the core rate at 1.5% yoy in August.

RESIDENTIAL PROPERTY MARKET



- After peaking at nearly 6% yoy in 2021, house prices increased by only 0.5% in 2Q23, their lowest pace since 2019.

Source: Bloomberg, SECO, Feri, UniCredit Research

China

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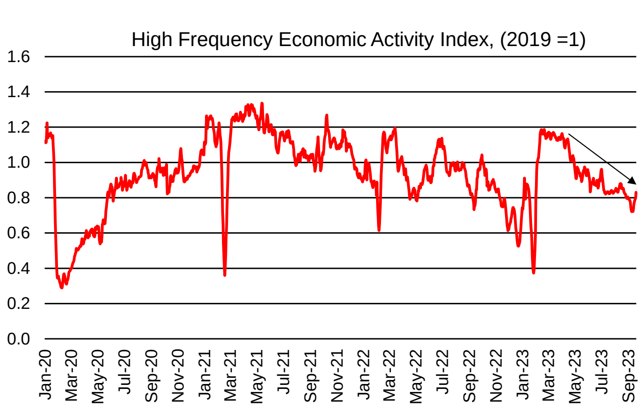
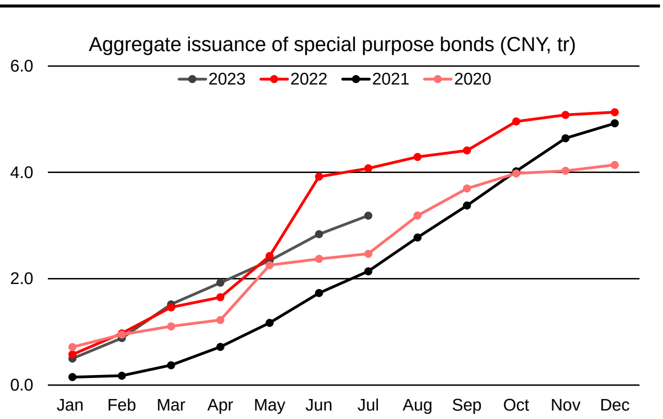
- We are lowering our forecast for China's GDP growth for 2023 to 5% from 5.4% and to 4% from 4.3% for next year. After a sharp rebound in 1Q23 following the reopening of the economy, economic activity in China has disappointed on many fronts. Consumer spending has been subdued. Youth unemployment remains at historically high levels. The services sector has not really rebounded, despite months of activity restrictions and lockdowns in some of the main Chinese cities in 2022. The real estate sector continues to represent a major source of uncertainty for the economy, being dragged down by excessive leverage and indebtedness at a time when the urbanization process looks mature and demographic trends look unfavorable.
- On the positive side, the most recent official PMIs pointed to a stabilization in manufacturing, towards the 50 mark, after months below it. Construction also picked up notably, as better weather allowed for public spending on big investment projects. In general, public investment remains a key driver of growth, while private investment continues to swing between contraction and stagnation.
- As a result of weak demand, PPI deflation has persisted since late 2022, while CPI inflation turned negative in July (-0.3% yoy) and rose only mildly (0.1% yoy) in August. The slight increase was due to higher transportation and lodging costs during the summer travel season and a smaller decline in gas prices.
- So far, the government has refused to adopt a bold, all-in policy stimulus, instead opting for a piecemeal approach. In its attempt to upgrade the growth model towards private consumption and away from investment, the central government still looks reluctant to rescue the real estate sector. Most of the measures adopted so far to support constructors involved some loosening of credit standards for homebuyers. On the fiscal front, special-purpose bonds, which are issued at the local level to build new infrastructure, remain the favorite policy tool. However, their issuance has been more contained overall than in 2022.
- On the monetary-policy front, the PBoC has cut the reserve requirements for both large and medium-sized banks four times this year. It also cut the one-year medium-term lending facility rate to 2.5% from 2.75% in May and it will likely continue to activate targeted lending facilities. We expect more measures of this kind going forward. The weak macroeconomic outlook offers no reason for Beijing to aim for a strong yuan. A USD-CNY return below 7.00 has become even more of a story for 2024.

SLOWING ACTIVITY



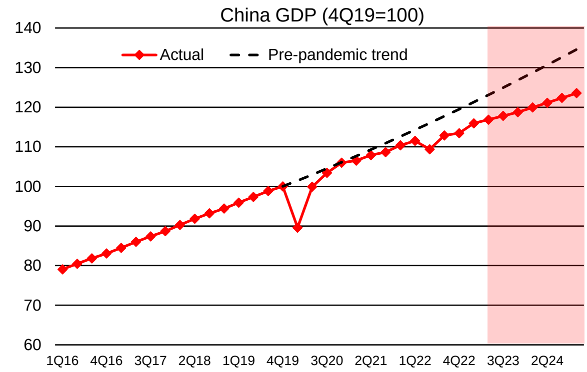
WEAKER BOOST FROM INFRASTRUCTURE PROJECTS



Source: Bloomberg, UniCredit Research

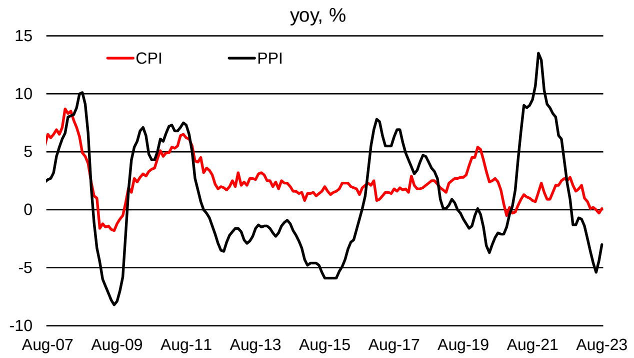
China

GROWTH



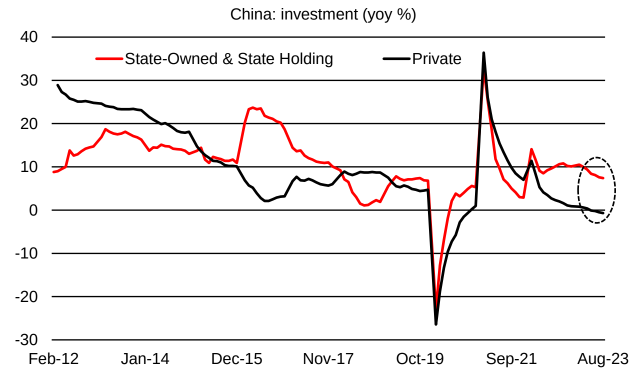
- GDP growth is expected to ease in 2H23.

INFLATION



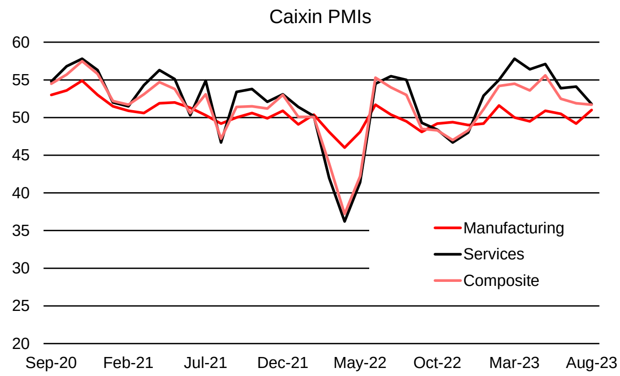
- Deflationary risks represent the key challenge for Chinese policymakers.

INVESTMENT



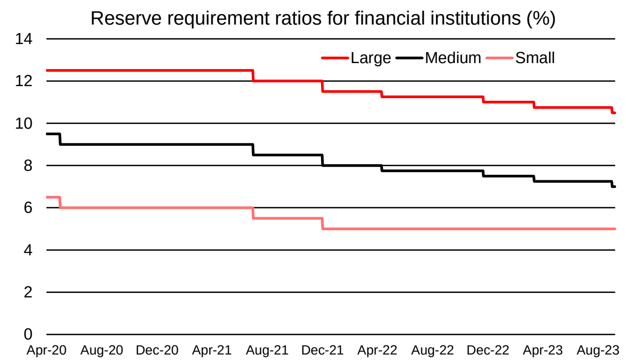
- Private investment is contracting, while public investment remains a key driver of growth.

PMIS



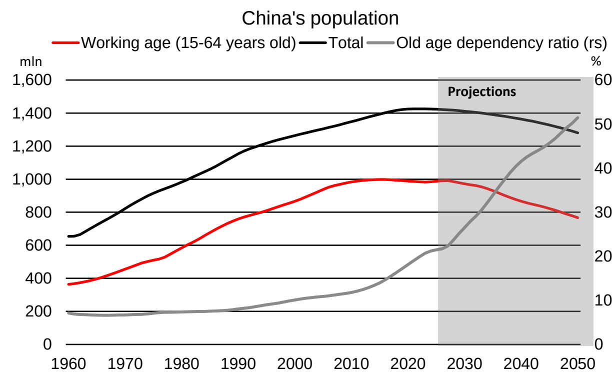
- After rebounding at the beginning of 2023, services activity has lost momentum.

RESERVE REQUIREMENT RATIO



- The PBoC has reduced the reserve requirement ratio for large and medium-sized banks.

DEMOGRAPHY



- Both the population and workforce have peaked, posing non-negligible challenges to escape the middle-income trap.

Source: NBS, Bloomberg, Caixin, UniCredit Research

Oil

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- After hovering around USD 75/bbl for most of 1H23, Brent prices have eventually moved towards USD 95/bbl, up around 10% YTD. The extension of Saudi Arabia's voluntary output cuts of 1mn b/d through the end of 2023, along with solid global oil demand, are supporting prices. As we anticipated in the past, the oil market is now entering a situation of under supply that is likely to persist until the end of the year, with Brent prices stabilizing just below USD 100/bbl in 4Q23, before moving down towards USD 90/bbl in 1H24 when OPEC+ is expected to release more output.

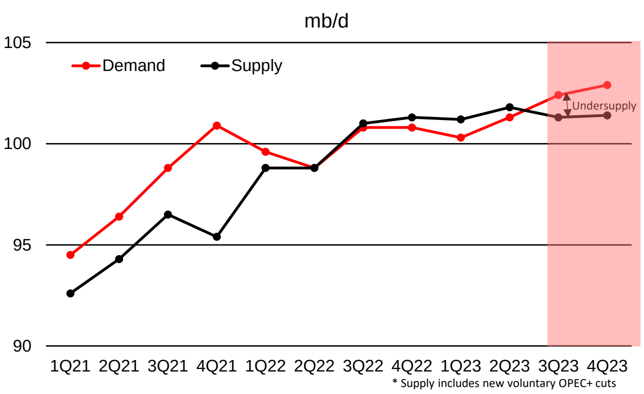
- Since the beginning of 2023, OPEC+ has removed around 2.5mb/d of supply from the market that are likely to gradually come back in 1H24. Overall, the group has spare capacity of immediately activable production of around 6mb/d, meaning that the cartel should be able to deal with any major demand increase in the near future. At the moment, however, the gap between demand and supply amounts to around 1.5mn b/d, and it is expected to remain at that level until the end of the year. This supply shortage would be larger if the US and Brazil had not surprised the market by pumping more than expected. Given the current situation of undersupply, OECD inventories are expected to decline in the coming months, thus contributing to increasing prices. We expect Saudi Arabia to release in 1H24 around 1mb/d from its output curbs.

- Russian oil exports have remained broadly stable, at around 7.5mn b/d, thus guaranteeing stable global flows, but Moscow's monthly oil revenues have remained roughly flat, at around USD 15bn, compared to their 2021 average. Therefore, in our view, the G-7 price cap on Russian oil has not been able to decrease oil revenues for Moscow due to its complexity and a lack of transparency concerning its implementation.

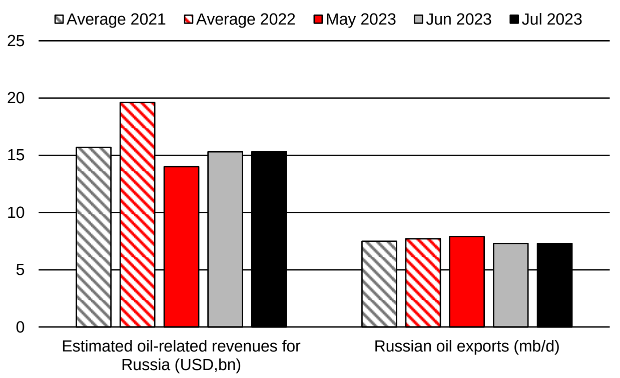
- Global oil demand is on track to hit 102mn b/d in 2023 – almost 2% higher than before the pandemic. Despite the current headwinds faced by the Chinese economy, oil demand in China looks unaffected; it reached a historic monthly high of 16.7 mn b/d in July. This resilience has much to do with the expansion of the country's petrochemical activity, where China is crowding out international suppliers of feedstocks and polymers.

- Refiners are struggling to meet increased demand, especially for diesel, as a result of losses of global capacity of near 5% over the last few years as the global energy transition has accelerated. In addition, Saudi Arabia's curbs and sanctions on Russian oil are removing from the market barrels of oil that is some of the most suitable for turning into diesel. Surging product cracks and refinery margins are near all-time highs.

UNDERSUPPLY IS BITING



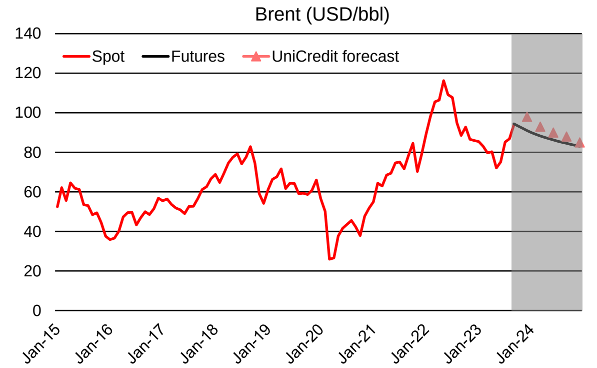
RUSSIAN EXPORTS REMAIN RESILIENT



Source: International Energy Agency (IEA), UniCredit Research

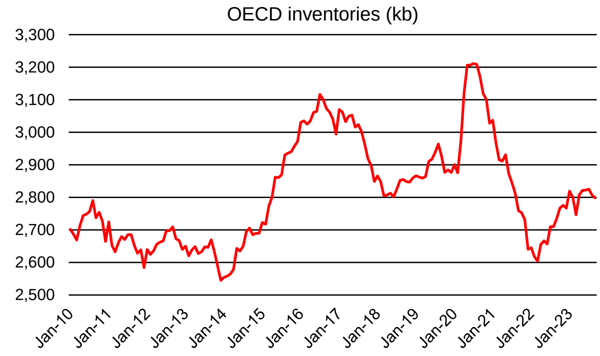
Oil

PRICES



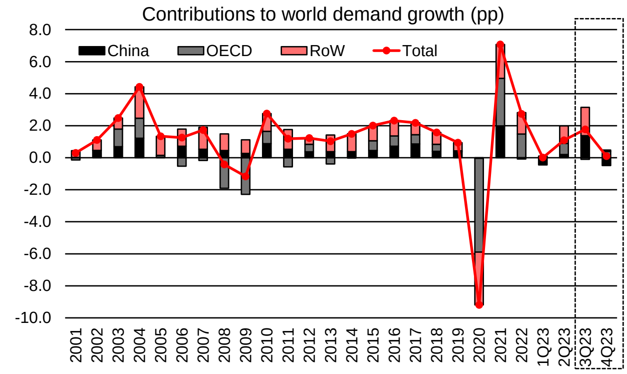
- Oil prices rose sharply during the summer amid supply shortages.

INVENTORIES



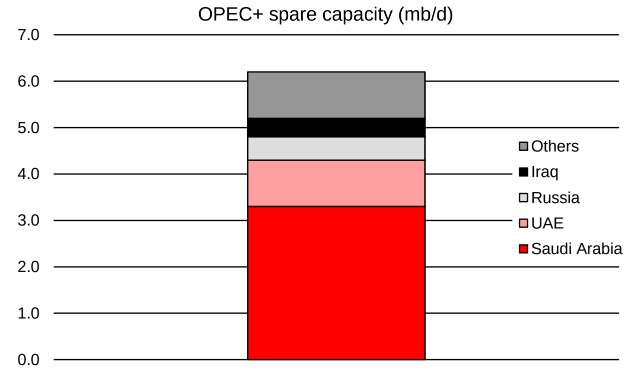
- OECD inventories have stabilized and are likely to decline to offset OPEC+ output curbs.

DEMAND



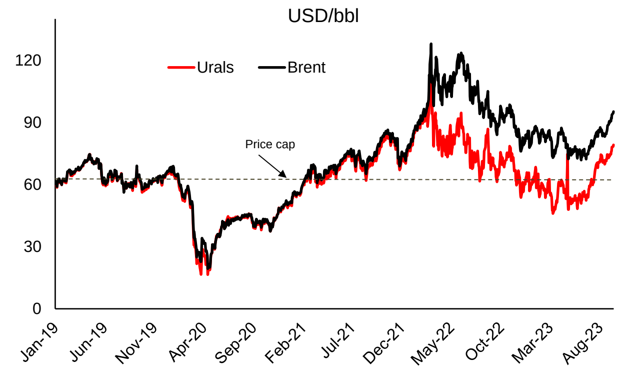
- Demand is set to decelerate in 4Q23 as a result of the global GDP slowdown.

OPEC+



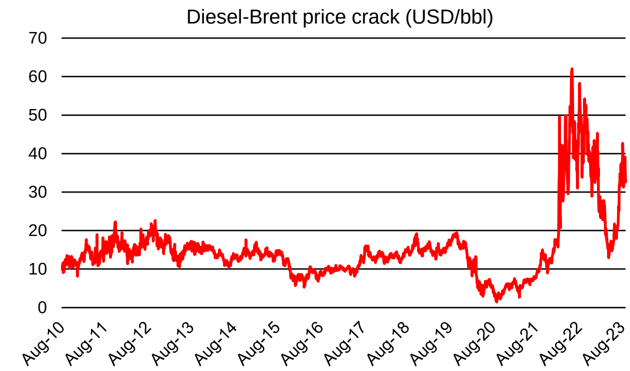
- OPEC+ is withdrawing around 6mn b/d of supply from the market, with Saudi Arabia accounting for 50% of the curbs.

RUSSIA



- Demand for Russian oil remains strong, especially in emerging markets, and the price of Urals is now trading above the USD 60/bbl cap.

GASOLINE



- Cracks for diesel are going up due to the inability of refiners to keep up with demand.

Source: Bloomberg, IEA, Energy Aspects, UniCredit Research

Natural Gas

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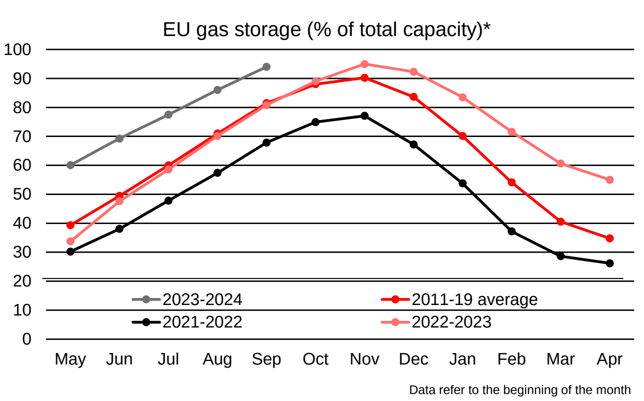
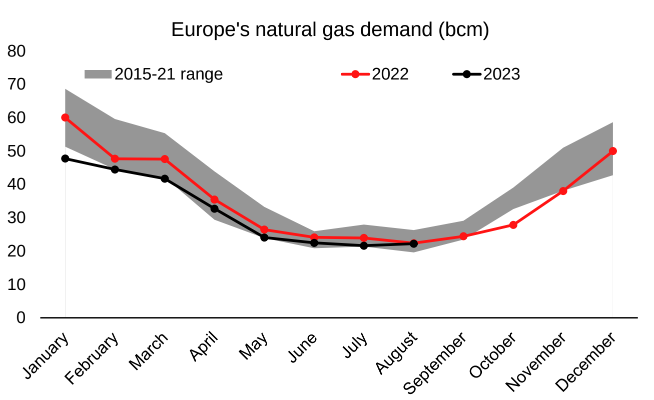
- After reaching historic highs at the peak of the energy crisis in 2022, TTF prices have averaged roughly EUR 35/MWh since last spring. Extraordinary maintenance operations at gas plants in Norway and strikes at LNG terminals in Australia have triggered short-lived price volatility. Going forward, we expect TTF prices to fluctuate within a EUR 35-45/MWh trading range in 4Q23 and 1Q24, down from our previous forecast of EUR 50-60/MWh. The overall outlook for Europe's natural gas market is turning out to be more benign than we expected at the beginning of the year.
- Low TTF prices are primarily a demand story. Despite a sizable drop in TTF prices, which remain about 3-4 times higher than before the start of the war in Ukraine, gas consumption in Europe has not rebounded in the first eight months of the year. In countries such as France, Germany and Italy, demand in this period was 15-20% lower than in the same period in 2021. Besides subdued economic performance across the eurozone and enduring energy-efficiency gains, unseasonal weather patterns have reduced consumption for heating and cooling, while companies operating in energy-intensive sectors struggled to regain the ground lost in 2022, pointing to more sizable and lasting scarring than previously thought. Such a sizable contraction in demand has allowed gas storage in the EU to cross the 90% threshold by the end of August– more than two months earlier than in the years before the Russia-Ukraine war. Interestingly, Europe has managed to comfortably build such a buffer despite overall supply (both imports and domestic production) being almost 20% lower than in the first eight months of 2022.
- Since medium-term weather forecasts indicate that next winter will also likely be milder than usual, we now expect overall consumption in 2023 to be 410bcm compared to around 420bcm in 2022 and almost 500bcm in 2021. On the supply front, Europe's strategy to diversify supply away from Russia is proceeding well, but it has not yet succeeded in fully replacing the lost Russian gas. Some 10% of European gas consumption is still covered by gas flows from Moscow. Price spikes triggered by temporary declines in LNG production in both Australia and Norway are a reminder of how tight supply in Europe remains.
- Global competition for LNG next winter is likely to be less intense than last year for a number of reasons. First, elevated storage levels in Europe will reduce the need to secure more LNG on international markets. Second, according to BloombergNEF, demand in Asian countries such as Japan and South Korea, is expected to be subdued. Third, an expansion in supply will be supported by the return of Freeport LNG in the US, which was shut by outages last winter, and five new liquefaction projects starting operations.

HITTING 90%



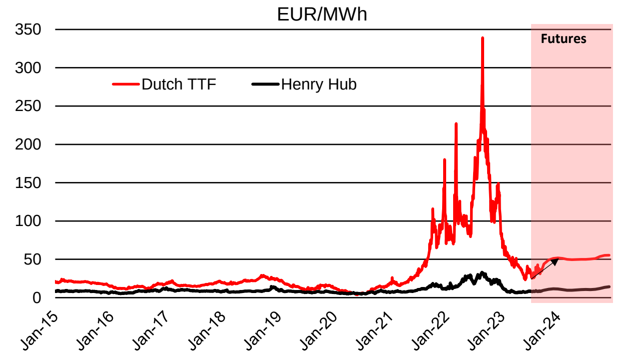
SUBDUED DEMAND



Source: Energy Aspects, UniCredit Research

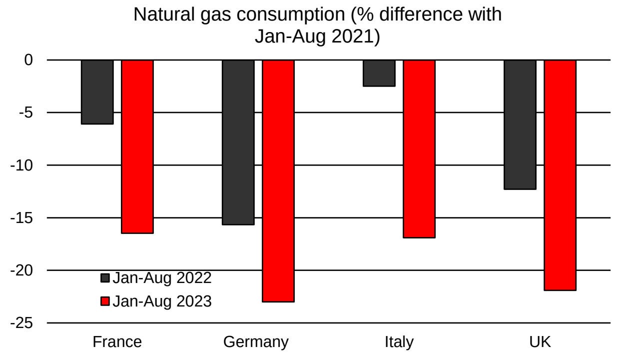
Natural Gas

PRICES



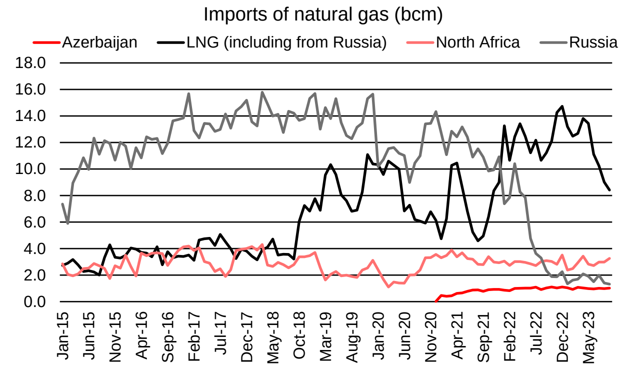
- TTF prices are likely to trade within a EUR 35-45/MWh trading range.

DEMAND



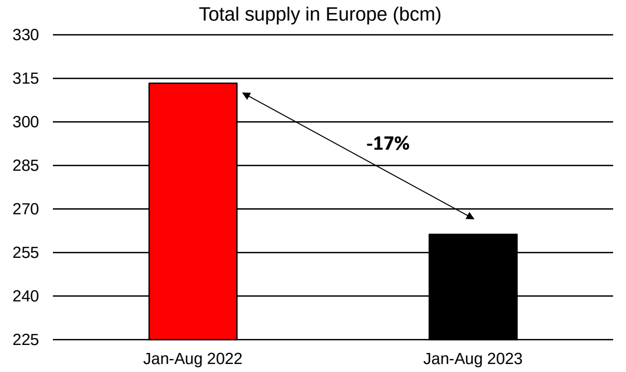
- Demand has contracted further in 2023 compared to 2022.

IMPORTS



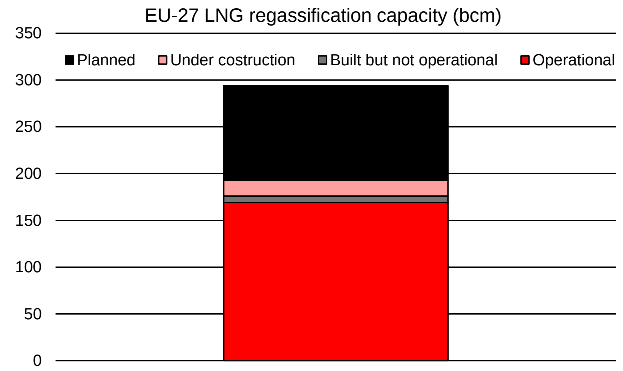
- Russian imports have stabilized at low levels, while LNG imports have been affected by temporary production drops.

SUPPLY



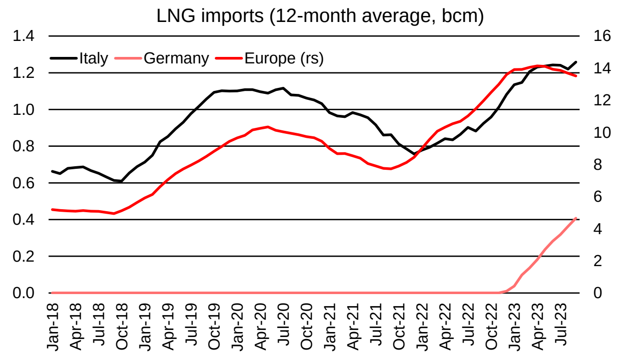
- Supply in the first eight months of 2023 has been substantially lower than for the same period in 2022.

LNG (I)



- Regassification capacity in Europe is now close to 180bcm (almost 40% of total demand).

LNG (II)



- Countries such as Italy and Germany, which were more exposed to Russian gas, continue to increase their demand for LNG.

Source: Energy Aspects, BNEF, UniCredit Research

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Glossary

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