

Press Release

For editors
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Commerzbank Research: German growth in 2016 at Eurozone average

- **1.3 percent GDP growth rate expected for Germany and the Eurozone**
- **Chief economist Kraemer: "Consumption and loose monetary policy push pseudo upswing"**

Commerzbank Research presented its economic outlook for 2016 on Monday, predicting a German growth rate of only 1.3 per cent (2015: 1.7 percent); the same level as for the Eurozone in total. As a major exporting nation, Germany will suffer most from the economic slowdown in emerging markets, where the forthcoming rate hike by the US Federal Reserve (Fed) "will end a decade of cheap money," according to the bank's report.

"Germany is experiencing a consumer-driven pseudo upswing. But beneath the glossy surface more and more undesirable developments shine through," Commerzbank chief economist Joerg Kraemer said on Monday. German growth will be artificially boosted by the negative interest rate policy of the European Central Bank (ECB). "The loose monetary policy will go on driving up the shares and property prices. Therefore, the ECB risks bursting a bigger financial bubble in the long term as the risks are growing every year," said Kraemer.

The ECB should take the US Federal Reserve as a role model, and gradually start indicating an exit from the zero interest rate policy. "With the recent interest rate cuts and extension of the QE programme, the ECB is sending the wrong signals," said Commerzbank's chief economist.

"The USA has successfully managed to get out of the financial crisis and achieve virtually full employment. The growth rate of 2.5 percent is fair and stable," said Kraemer. This allows the Fed to be the first major central bank to end the ultra-loose monetary policy and to return to a normal level of interest rates within the coming years. This will also create favourable conditions for the US dollar that could almost reach parity with the euro by the end of 2016. In fixed income markets, the advantage of 10-year US Treasuries will grow. The interest strategists at Commerzbank expect a yield of about 3 percent for the 10-year US Treasuries by the end of 2016 compared to 10-year Bunds that might return less than 1 percent.

Kraemer sees the global economy to be continuously supported by solid US growth. In contrast, China may only achieve a lower growth rate of 6.3 percent in 2016, preventing a slump in the economy, but at the price of a high level of debt and the "zombification" of numerous unprofitable state-owned

enterprises. Additionally, other emerging markets may become more problematic as they have to get adapted to the rising interest rates.

According to Kraemer, the new direction taken by the US in regards to their interest rate policy will be the biggest game changer for the global economy compared to 2015. Other potential changes may come from the commodities markets. As price levels have dramatically lowered, the production of oil and base metals could no longer be profitable at many sites. Commerzbank's commodity experts therefore expect less supply and an increase in prices, for example Brent oil prices are predicted to rise to 63 dollars by the end of 2016. "There's an argument to expect higher inflation too," stated Kraemer.

For the German stock market, Commerzbank experts forecast rising prices. "The ECB has extended its bond purchasing programme again and thus promises ample liquidity and low interest rates for the coming years," Kraemer commented on the positive environment for equities. But the divergence between the monetary policies of the Fed and the ECB is likely to generate market volatility at one time or another. However, Commerzbank equity strategists are confident that the major German equity index Dax may rise to 12,600 points by the end of 2016, after digesting temporary setbacks down to 10,400 points that will offer an opportunity for investors to enter the market at lower prices. Fundamentally, they regard the DAX as attractive due to an average dividend yield of 2.8 percent, with 24 of the 30 DAX companies currently holding out for higher dividends.

Commerzbank Economic Research Forecasts

Growth of the real Gross Domestic Product (GDP) in percent compared to the previous year

	2015	2016	2017
Germany	1.7	1.3	1.3
Eurozone	1.5	1.3	1.5
- France	1.1	1.0	1.4
- Italy	0.7	1.0	1.0
- Spain	3.2	3.0	2.7
USA	2.5	2.5	2.5
China	6.8	6.3	6.0
US-Dollar (for the euro, by the end of the year)	1.09	1.03	1.04

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