

REVIEW OF FX MARKET DEVELOPMENTS AND OUTLOOK

Presentation to the **ECB FXCG**

February 12, 2020

REVIEW OF FX MARKET DEVELOPMENTS & OUTLOOK // DWS

Agenda



Review – Expectations for 2020 in Q4 2019



News since the beginning of the year

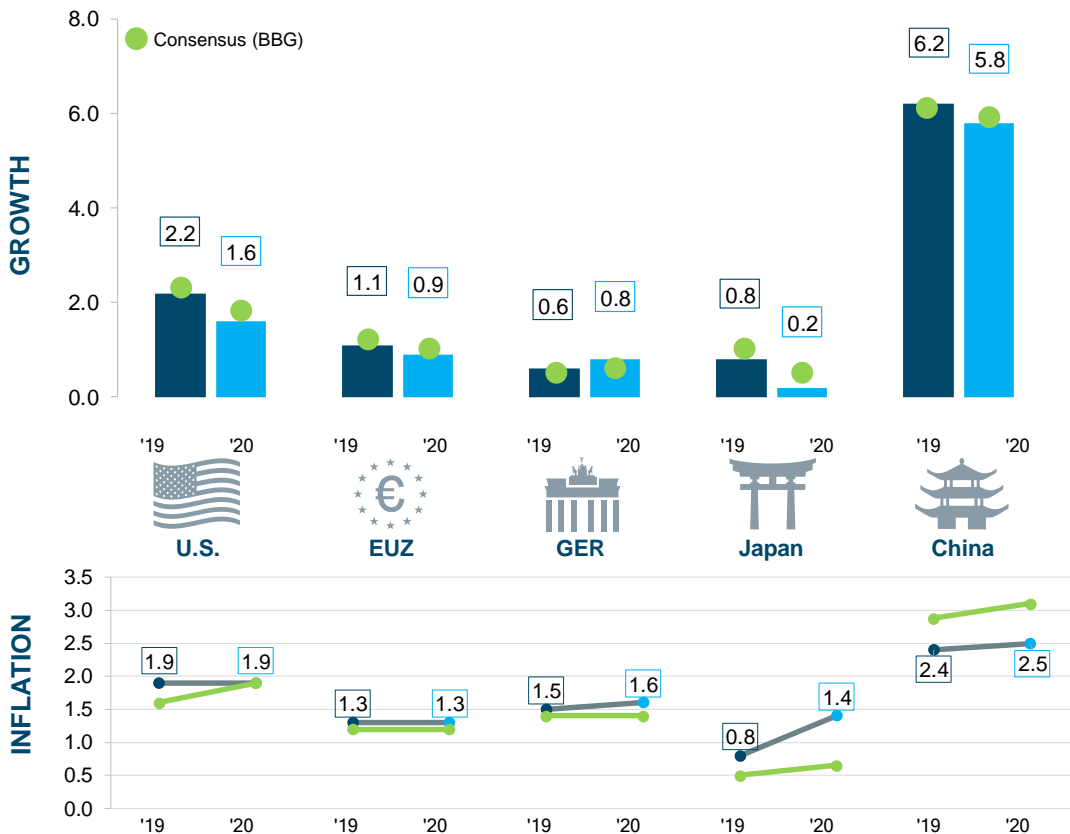


Group discussion – (How) Do we have to adjust prior expectations?
(How) Will this impact FX?

EXPECTATIONS FOR 2020 IN Q4 2019

Global Economy: Growth is moderating but no recession expected

OUR GROWTH AND INFLATION FORECASTS FOR 2019 AND 2020 VS CONSENSUS, IN %



REGIONAL VIEW

- U.S.**
- GDP:** Adjustment to the downside for '20: slower corporate profit growth, ongoing drag from trade war, slowdown in global growth
 - Inflation:** U.S. inflation to converge close to the target of 2%; no overshooting expected unless major implementation of tariffs
 - Risk:** Trade conflict still poses a risk to the outlook; deterioration of service sector in addition to weak manufacturing data
- EUZ**
- GDP:** Weakness driven by surprisingly weak domestic sector. However, high consumer resilience dampens negative impact
 - Inflation:** So far no pass through of higher wages. Inflation expectations are too low, also in comparison to the target
 - Risk:** We expect more balanced EUZ risks now as net exports could surprise to upside in case of subsiding Brexit uncertainties
- EM**
- GDP:** We revise down our GDP forecasts and expect a 4.2% average in '19 but a moderate pick-up in '20
 - Inflation:** Recent spike in China & India inflation largely contributed by single items; we expect inflation to remain under control
 - Risk:** U.S.-China trade conflict, U.S. election noise as well as domestic uncertainties in LatAm could further hurt EM markets

The information herein reflects our current views only, are subject to change, and are not intended to be promissory or relied upon by the reader. There can be no certainty that events will turn out as we have opined herein. Forecasts are not a reliable indicator of future returns. Forecasts are based on assumptions, estimates, views and hypothetical models or analyses, which might prove inaccurate or incorrect. DWS expectations/forecasts (F) as of November 14, 2019. Source: Bloomberg Finance L.P., DWS Investment GmbH as of January 2020

EXPECTATIONS FOR 2020 IN Q4 2019

Central Banks & Politics:

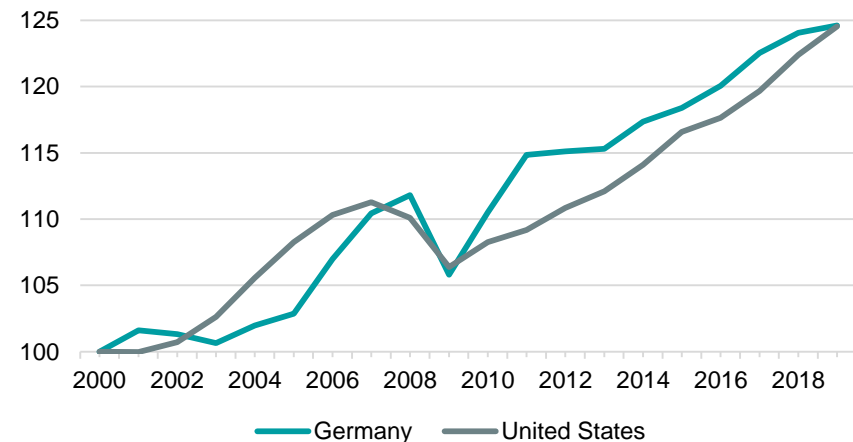
Fed should be done with intra-cycle adjustments; ECB delivered major stimulus

CENTRAL-BANK OUTLOOK

Institution	Current policy rate	Expectation Q4 2020	Comment
Fed	1.50-1.75	1.50-1.75	We anticipate the Fed to be on hold for the year; strong focus on data dependence
ECB	0.0	0.0	ECB delivered a major stimulus package; we expect no further cuts to the deposit rate
BoE	0.75	0.75	In case of an orderly Brexit, we expect the BoE to keep the interest rates unchanged
BoJ	0.0	0.0	BoJ should remain on hold for as long as possible, but ease if risks materialize

GERMAN GDP IS HEALTHIER THAN SOME MAY THINK

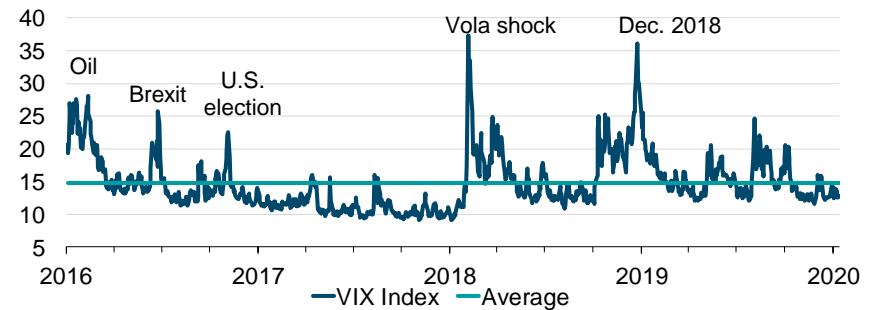
GDP per capita, index: 2000 = 100



The information herein reflects our current views only, are subject to change, and are not intended to be promissory or relied upon by the reader. There can be no certainty that events will turn out as we have opined herein. Forecasts are not a reliable indicator of future returns. Forecasts are based on assumptions, estimates, opinions and hypothetical models of analysis which may prove to be incorrect.

*+: high expected market impact; O: neutral expected market impact; -: low expected market impact // Source: Bloomberg Finance L.P., DWS Investment GmbH as of January 2020

RISK INDICATOR (VIX INDEX)



UPCOMING POLITICAL EVENTS 2020

Region / Date	Event	Potential market impact*
March 2020	Super Tuesday ahead of 2020 presidential election	+
February 2020	Chinese mobile phone makers exports ban extension expires; we expect further waivers	O
Mid 2020	Decision to impose tariffs on U.S. goods in case US aerospace subsidies continue	O
By end of 2020	Boris Johnsons wants to negotiate a trade deals with EU until end of 2020	+

EXPECTATIONS FOR 2020 IN Q4 2019

Strategic Forecasts: Executive Summary



MACRO

Global Growth @3.1% in '20 expected: Stretching the cycle	'19* '20
U.S.: No meaningful fiscal stimulus, but tail risks begin to ease	2.2% 1.6%
EUZ: Industrial sector still weak; consumer remains resilient	1.1% 0.9%
China: Further slowdown in '20 expected; trade war hurts outlook	6.2% 5.8%
EM: Slight downward adjustment; LatAm struggles on turmoil	4.2% 4.4%
Inflation: U.S. to converge to target, EUZ still lagging behind	'19 '20
U.S.: Tariffs should help to push inflation towards 2% Fed target	1.9% 1.9%
EUZ: Inflation still hovers around subdued levels; below target	1.3% 1.3%
Monetary policy: Central banks to stay dovish throughout '20	Q4 '20
Fed: Mid-cycle adjustment done; to be on hold until end of 2020	1.50%-1.75%
ECB: No further deposit rate cuts expected; QE program launched	-0.50%
PBoC: Expected to remain in easing mode to lift economy	4.10%

ASSET CLASSES

Fixed Income: Lower for longer, but probably not lower	Q4 '20
UST: Floor in yields might have been reached; no more Fed cuts	1.85% 10y-UST
Bunds: Accommodative ECB policy to support demand side	-0.35% 10y-Bunds
Credit: Constructive, given no recession & lack of yield alternatives	90bps EUR IG
Currencies: No major turning point yet in EUR/USD	Q4 '20
EUR/USD: Yield differential shrinks but growth spread still high	1.15
Commodities: Gold should be supported by low rates	Q4 '20
Oil: Risks to global demand should keep oil price range bound	\$54
Gold: Low rates & potential risk-off moves could be supportive	\$1,550
Equity markets: Constructive beyond mid-cycle slowdown	Q4 '20
Base case: Prolongation of the economic cycle should be supportive	3,300 S&P 500
Earnings: Modest profit reacceleration in H2 2020 expected	14,000 DAX
Preferences: Balanced style approach; overweight in Technology	1,120 MSCI EM

RISKS	Progress on the U.S.-China trade deal should be essential in 2020: first phase to be signed; geopolitical tensions could reemerge again
	Global trade: Phase 1 deal to be signed in January including higher purchases of U.S. farm goods by China; existing tariffs should remain in place
	EU-politics: Tory majority should add to confidence for near-term Brexit; despite major protests, Macron plans on pursuing his pension reform in France
	Geopolitics: Tensions between the U.S. and Iran keep the Middle East busy; North Korea pledged to intensify its program for new strategic weapons
	Recession Indicators: U.S. yield curve inversion to be temporary & service sectors around the major economies hold up well; no recession expected

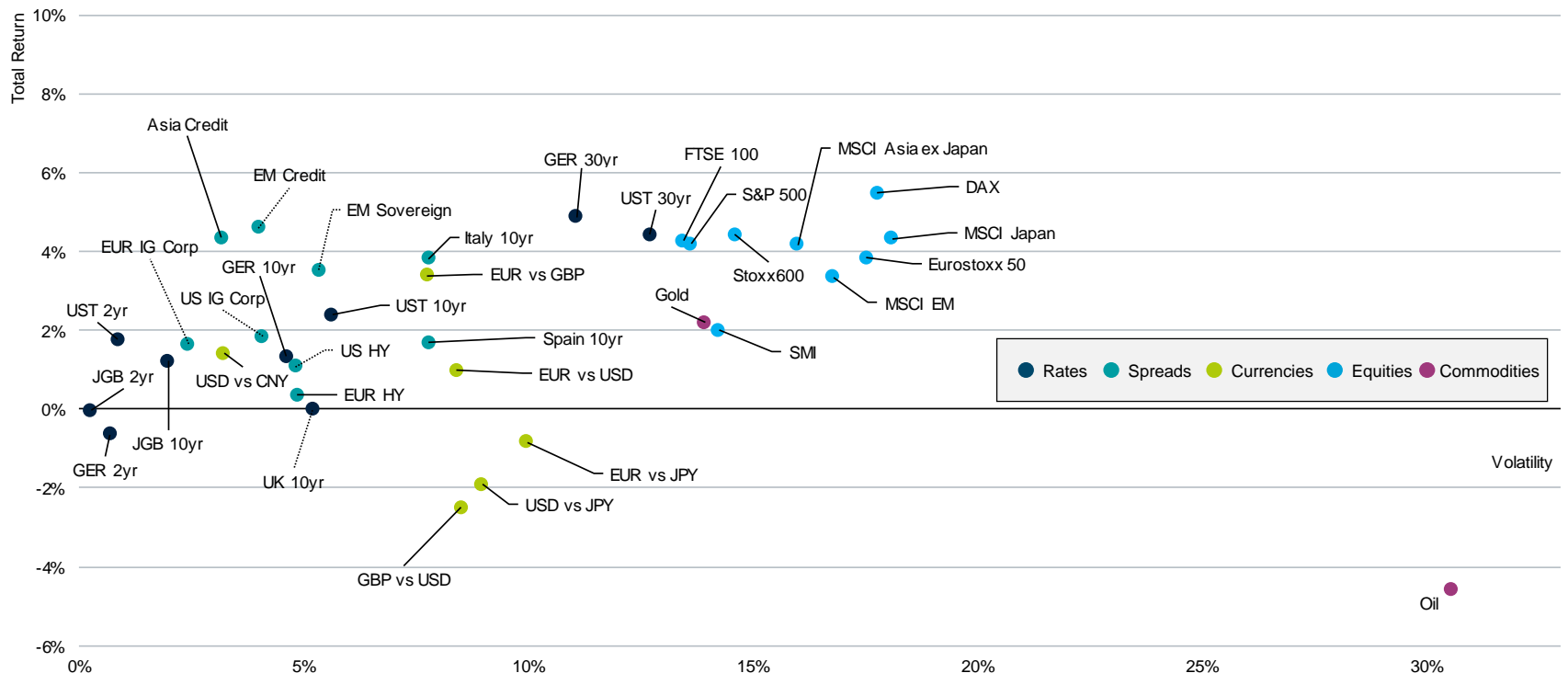
Forecasts are not a reliable indicator of future returns. Forecasts are based on assumptions, estimates, views and hypothetical models or analyses, which might prove inaccurate or incorrect. DWS expectations/forecasts (F) as of November 14, 2019. Source: Bloomberg Finance L.P., DWS Investment GmbH as of January 2020, *actual

EXPECTATIONS FOR 2020 IN Q4 2019



Asset-class forecasts

RISK¹-RETURN SCATTERPLOT



Alternative investment may be speculative and involve significant risks including illiquidity, heightened potential for loss and lack of transparency. Forecasts are not a reliable indicator of future returns. Forecasts are based on assumptions, estimates, opinions and hypothetical models or analysis which may prove to be incorrect. No assurance can be given that any forecast or target will be achieved. DWS expectations/forecasts as of November 14, 2019

¹Expected volatility is determined based on historical 10-year weekly returns data. Exponentially weighted moving average (EWMA) model with a 5-years half-life is used

Source: Bloomberg Finance L.P., DWS Investment GmbH as of January 2020

EXPECTATIONS FOR 2020 IN Q4 2019

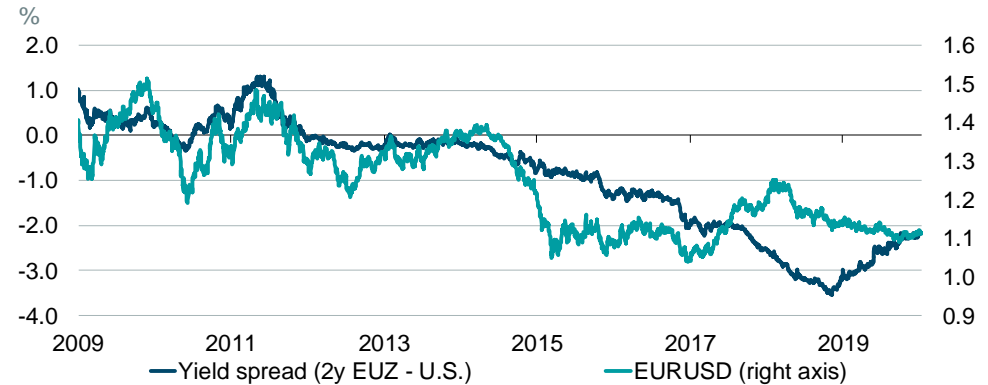


We do not identify a major turning point in EUR/USD yet; strategic target of 1.15 EUR/USD confirmed

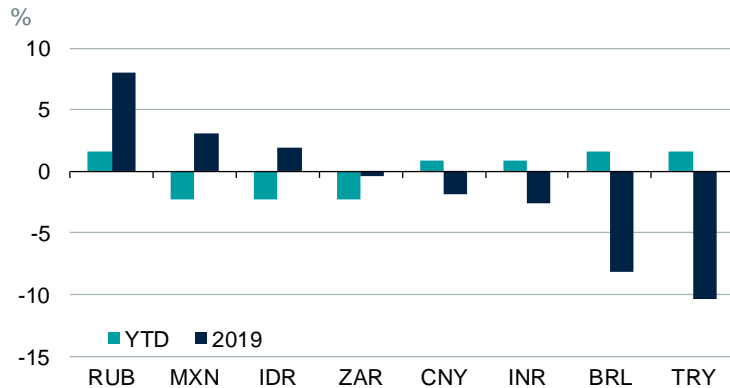
NO TURN IN EUR/USD; JPY AS DIVERSIFIER

- €//\$** – We keep our strategic forecast of 1.15. While U.S. growth may suffer in '20, relatively to the rest of the world growth most likely stays net positive or neutral. A turn in EUR/USD would require faster U.S. slowdown or higher EM/G10 growth
- \$/¥** – We believe in holding a long JPY position vs. USD as diversifier with geopolitical risks in play. Besides the slowly resolving tensions in the U.S.-China trade conflict we expect that the global risk sentiment could remain volatile
- EM** – The Renminbi has stabilized above 7 USD/CNY and we expect the currency pair to hover around these levels. We do not expect the CNY to depreciate significantly vs. the USD going forward even with the trade war remaining

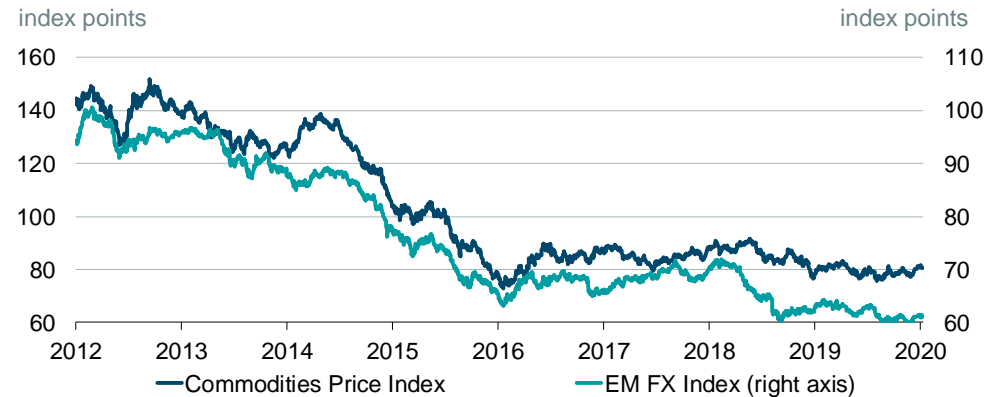
EURUSD VS. YIELD SPREAD



EM CURRENCIES VS. USD



EM CURRENCIES VS. COMMODITIES INDEX



The information herein reflects our current views only, are subject to change, and are not intended to be promissory or relied upon by the reader. There can be no certainty that events will turn out as we have opined herein. Past performance is not indicative of future returns. Forecasts are not a reliable indicator of future returns. Forecasts are based on assumptions, estimates, opinions and hypothetical models or analysis which may prove to be incorrect. No assurance can be given that any forecast or target will be achieved. DWS expectations/forecasts as of November 14, 2019.

Source: FactSet Research Systems Inc., Bloomberg Finance L.P., DWS Investment GmbH as of January 2020

NEWS SINCE THE BEGINNING OF THE YEAR

Coronavirus outbreak

- China issued a travel ban in and out of Wuhan on 23rd Jan
- Public policy and health experts see the next few days as critical, as they will be assessing whether the number of new infections will peak close to the current level 4. 000 new cases per day or could continue to rise significantly until the end of the month

FX related responses so far:

- The People Bank of China (PBOC) injected a record-setting single-day open market operation of CNY1.2trn (USD171bn) on 3rd Feb and another CNY500bn (USD71bn) on 4th February. It also lowered the 7-day and 14-day reverse repurchase (repo) agreement rates by 10bp each to 2.50% and 2.55% respectively. This is the biggest cut in more than three years
 - Singapore's Monetary Authority of Singapore (MAS) states "There is therefore sufficient room in the band for the S\$NEER to ease in line with any weakness in the Singapore economy in the coming months." (5th Feb)
 - Bank of Thailand (BoT) unexpectedly cut its key rate from 1.25% to 1.00%, citing the impact of the coronavirus (5th Feb)
 - Bank of Indonesia (BI) "Policy adjustments not limited to lowering key rate." (5th Feb)
 - Philippine central bank (BSP) cut its policy rate from 4.00% to 3.75% (6th Feb)
- The market will still have to face a lot of uncertainties and need more data to assess the damage on China and the consequent implications on global economic outlook.

NEWS SINCE THE BEGINNING OF THE YEAR

Trade & Tariffs

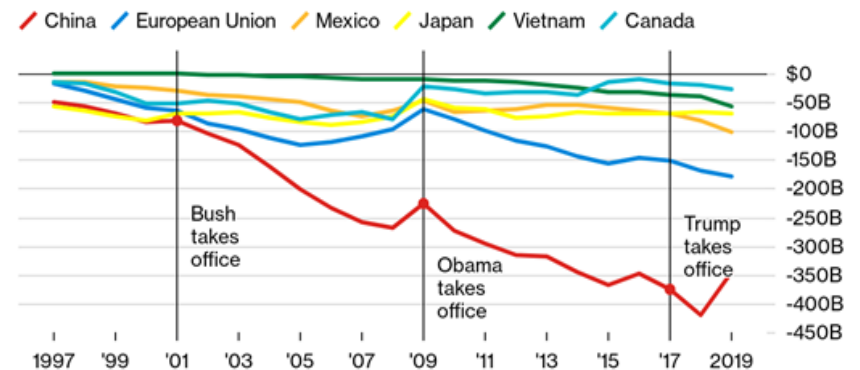
US-China Trade deal

- Phase I deal was completed on 15th Jan
- However, with China already seeking flexibility due to the coronavirus outbreak, the positive effects for the US are likely to be limited
- Phase II deal unlikely to be a priority for China right now

US-Europe Trade deal

- The EU's trade surplus with the US hit a record high in 2019
- The EU started the year facing renewed US tariff threats

US trade deficit with the European Union rose to the highest on record



Source: U.S. Census Bureau

Bloomberg

FX related responses so far:

- US Department of Commerce has announced a new rule that will allow it to impose anti-subsidy tariffs on exports from countries that are benefiting from „undervalued currencies“ (3rd Feb)
- According to different measures of deviation from long-term exchange rate equilibrium, EUR, JPY, GBP, NOK, SEK, MXN, BRL, CLP and TRY could be identified as undervalued

NEWS SINCE THE BEGINNING OF THE YEAR



Politics

Middle East tension:

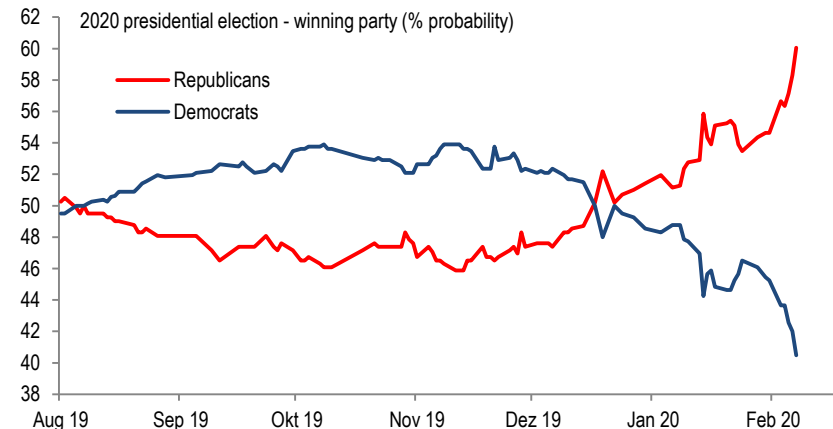
- Confrontation between the US and Iran escalated at the start of 2020

Brexit:

- On 31st January the UK left the EU
- PM Johnson made it clear that he intends for the UK to end alignment with EU rules after trade negotiations are complete, and is willing to shift to WTO terms on trade to do so
- Further comments by the PM give room to believe that the end game for the current government is a US free trade deal which sees the UK make key concessions on sensitive issues such as healthcare and agriculture to allow greater US involvement

US election:

- Delayed results in the Iowa caucus without a winner being declared even with 100% precincts reporting, hurts Democrats
- The probability of Biden being the Democratic nominee has slumped to 15.8% (having been at 30% earlier), leaving Bernie Sanders and Pete Buttigieg ahead by a large margin
- The perception that this makes the Democrats less electable has pushed them further behind in expectations for the election outcome
- Opinion polls imply that Sanders has an advantage in the next two contests in New Hampshire (11th Feb) and Nevada (22nd Feb), while former VP Biden continues to be the favourite in the South Carolina (29th Feb) primary



Forecasts are based on assumptions, estimates, opinions and hypothetical models or analysis which may prove to be incorrect. No assurance can be given that any forecast or target will be achieved.
Source: Betfair, Bloomberg Finance L.P., DWS Investment GmbH as of February 2020

GROUP DISCUSSION



(How) Do we have to adjust prior expectations (How) Will this impact FX?

1. G4 policy response to the global economic impact of a slowdown in China due to the coronavirus outbreak:

- Will the Federal Reserve have to respond with rate cuts?
- What are the expectations of the ECB's policy review?
- Will this change the downward trajectory of EUR/USD?

2. How will the EMFX complex react?

3. What is the likelihood for the FX low volatility environment to prevail in 2020?

IMPORTANT INFORMATION

EMEA



This marketing communication is intended for professional clients only.

DWS is the brand name under which DWS Group GmbH & Co. KGaA and its subsidiaries operate their business activities. Clients will be provided DWS products or services by one or more legal entities that will be identified to clients pursuant to the contracts, agreements, offering materials or other documentation relevant to such products or services.

The information contained in this document does not constitute investment advice.

All statements of opinion reflect the current assessment of DWS Investment GmbH and are subject to change without notice.

Forecasts are not a reliable indicator of future performance. Forecasts are based on assumptions, estimates, opinions and hypothetical performance analysis, therefore actual results may vary, perhaps materially, from the results contained here.

Past performance, [actual or simulated], is not a reliable indication of future performance.

The information contained in this document does not constitute a financial analysis but qualifies as marketing communication. This marketing communication is neither subject to all legal provisions ensuring the impartiality of financial analysis nor to any prohibition on trading prior to the publication of financial analyses.

This document and the information contained herein may only be distributed and published in jurisdictions in which such distribution and publication is permissible in accordance with applicable law in those jurisdictions. Direct or indirect distribution of this document is prohibited in the USA as well as to or for the account of US persons and persons residing in the USA.

DWS Investment GmbH. As of: [02.01.2020]