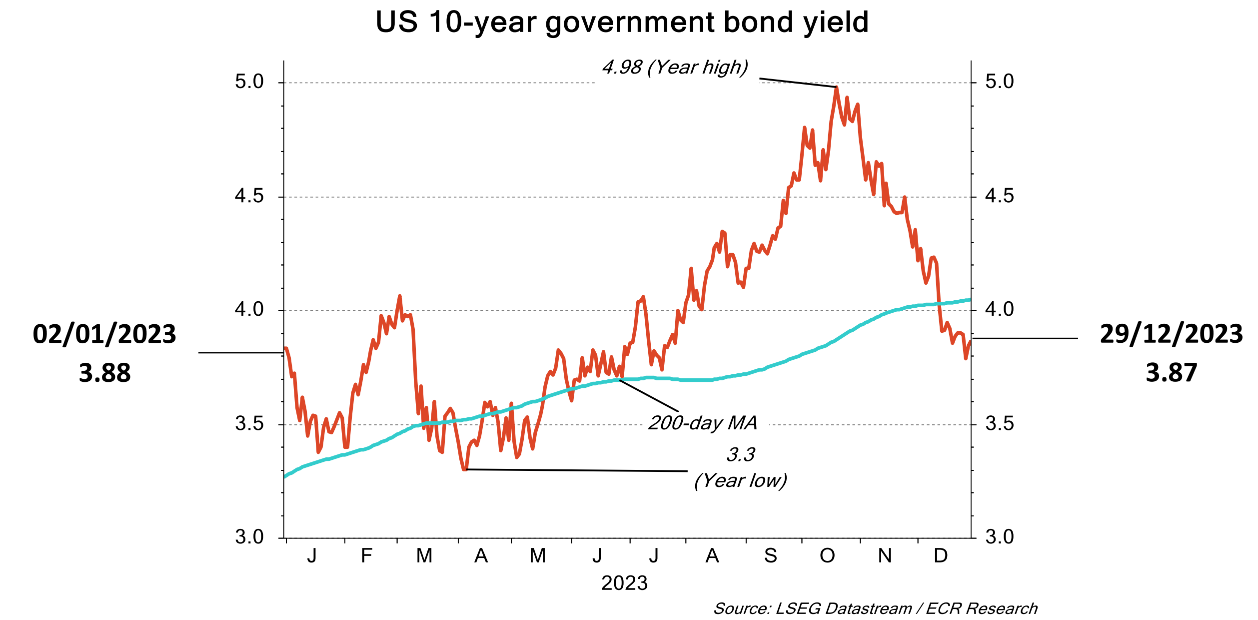
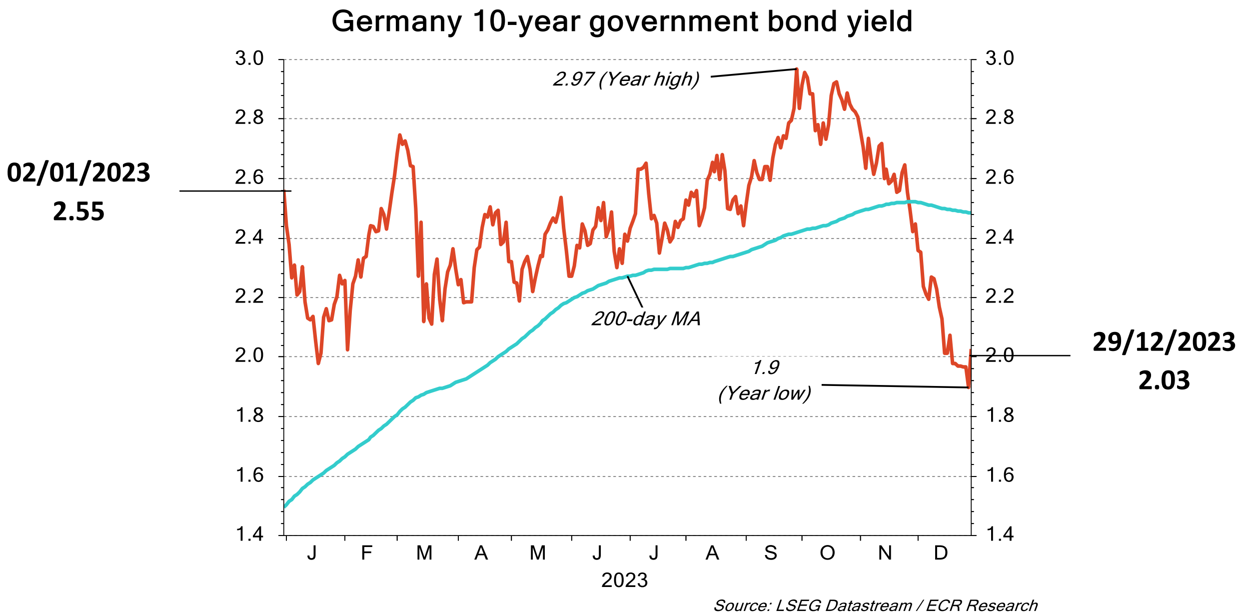
US and German 10-year Government bonds

Readers frequently inquire about the accuracy of our predictions and whether we track them. Naturally, we don't possess a crystal ball, and the primary objective of our analyses is to present our readers with the most probable scenarios in the medium term. However, we do provide specific exchange rate predictions and in general they have been quite accurate. Below are our forecasts for US and German 10-year government bonds for the period from January to December 2023.





EMU & US INTEREST RATES

Executive summary

- According to recent data, US prices and wages are rising less rapidly than expected. Inflation in Europe is also under more downward pressure due to declining energy prices. This increases the likelihood of a soft landing. In this scenario, central banks keep growth below 'potential growth' for some time, causing inflation to decline further to 2%, while monetary policy remains loose, to the extent where a (profound) recession is avoided.

- Despite weakening growth, labour markets in the US and Europe are still ultra-tight due to demographic developments and increased sickness absence rates. This means that wage increases and therefore inflation will probably only decline gradually, even with a growth rate below potential.

- This means that, compared to current market expectations, central banks will have to pursue a relatively tight monetary policy for a longer period of time. In addition, we assume that rising energy prices will reduce the downward pressure on inflation later this year.

- Over the next few months, the Fed is likely to raise its short-term interest rates further to roughly 5% in a number of steps, after which it will adopt a wait-and-see stance for a while. This means that the recent decline in two-year interest rates is unlikely to continue for long, with two-year interest rates gradually climbing back towards 5% or slightly higher. Interest rates on 10-year US government bonds are unlikely to decline far below 3.4%, and they will subsequently far exceed 4%.

- We believe that the ECB will lift its short-term interest rates to 3% fairly quickly, after which the central bank will pause, before raising its rates even further to 3.5%. Two-year German interest rates are unlikely to decline far below 2.4% and, on balance, they will rise to 3%-3.25% in the months or quarters ahead. 10-year German interest rates are likely to decline to 1.5%-2%, after which they will rise to around 3%.

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If you have any questions or if you would like to discuss this topic with one of our experts, please do not hesitate to contact us on +31.302328000 or by email ecr@ecrresearch.com