



German Election: The most important non-event election in decades

Saxo Bank, Zürich
September 2017

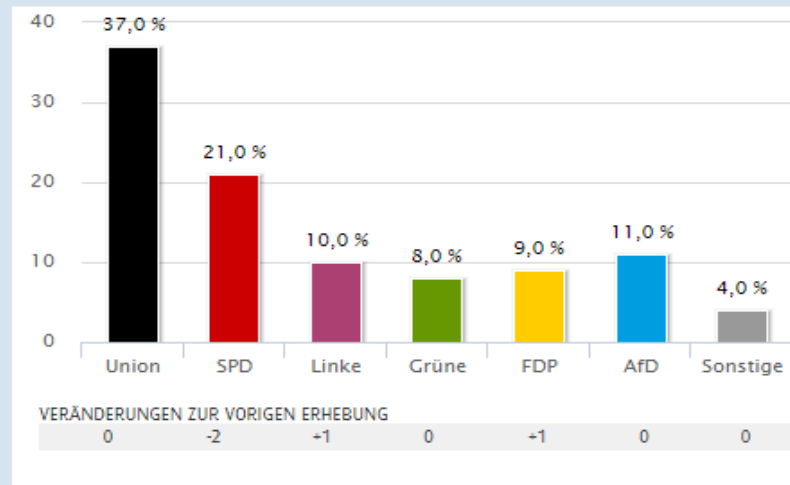
German Election – the call

Last Updated: September 07, 2017



Approximately 62.5% of seats in parliament

Sonntagsfrage (bundesweit) vom 07.09.2017



German Election – the call

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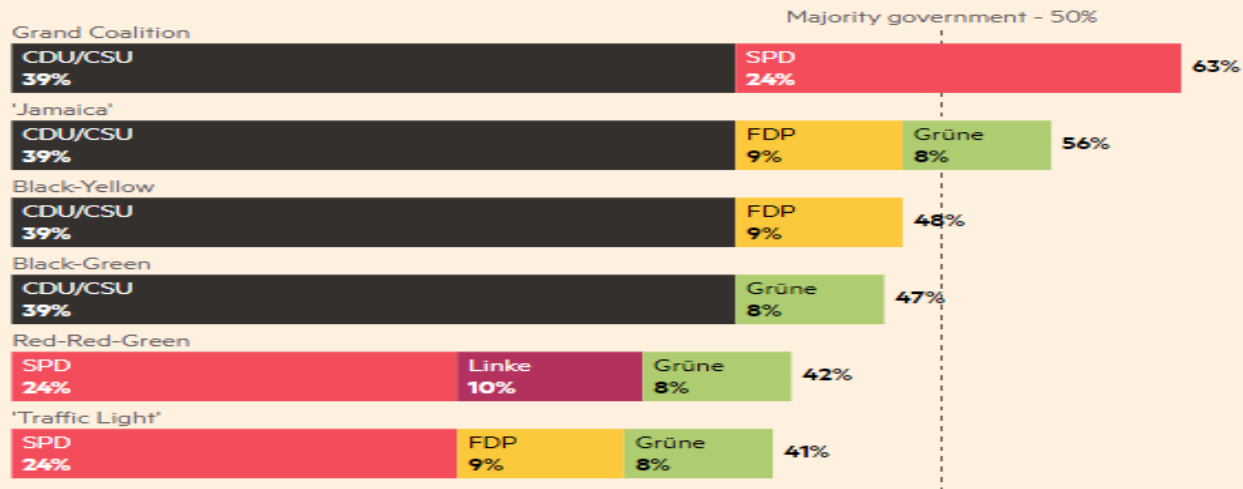


Approximately 62.5% of seats in parliament

Possible coalitions

Potential coalition combinations

Estimated % share of 2017 Bundestag seats based on latest polls

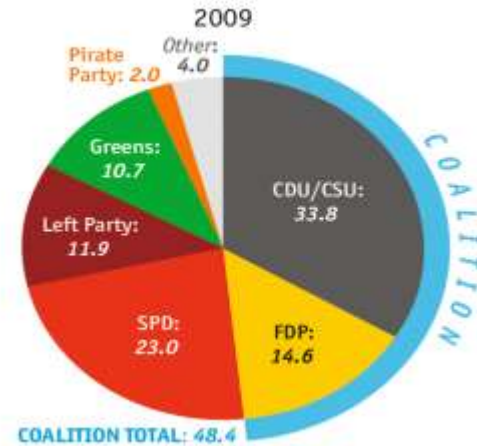
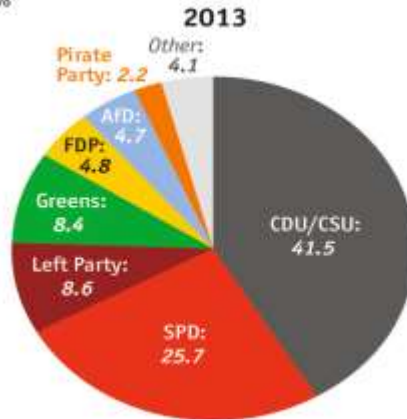


Source: Wahlrecht.de, updated September 11 2017
 Graphic: Anna Leach
 © FT

German 2013 Election

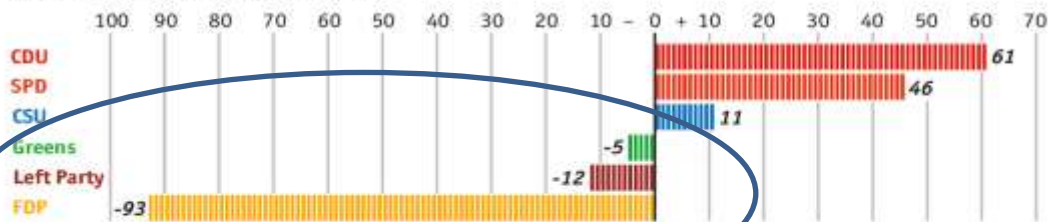
Election results

%



Gains and losses

Change in number of seats, 2013 election



Political party leanings

SPD: Social Democratic Party of Germany	<i>Centre-left</i>	CDU: Christian Democratic Union	<i>Centre-right</i>	SISTER PARTIES
Left Party	<i>Left</i>	CSU: Christian Social Union in Bavaria	<i>Right</i>	
Greens	<i>Left</i>	FDP: Free Democratic Party	<i>Centre-right</i>	
Pirate Party	<i>Left</i>	AFD: Alternative für Deutschland*	<i>Right</i>	

Source: Der Bundeswahlleiter

*Alternative für Deutschland

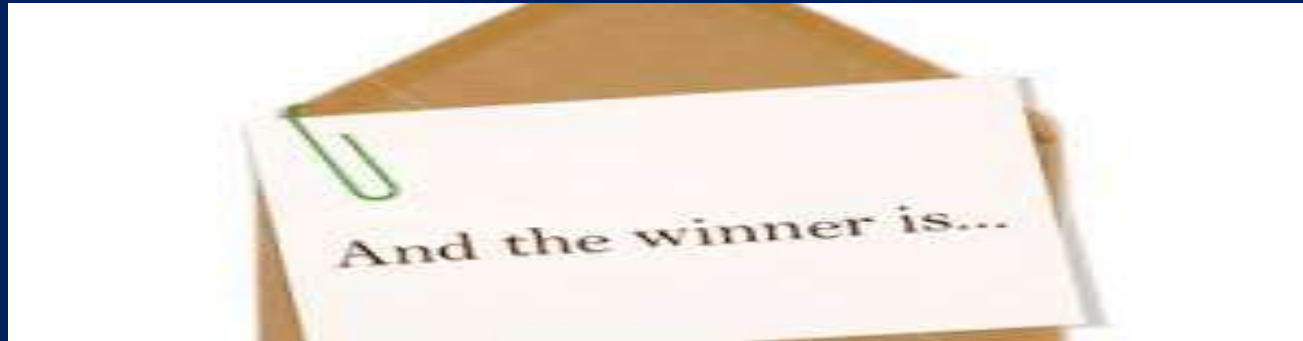
German Election – the call

Election Loser: SPD and “Uncle Martin”

Not it's not time for Schulz but probably for justice

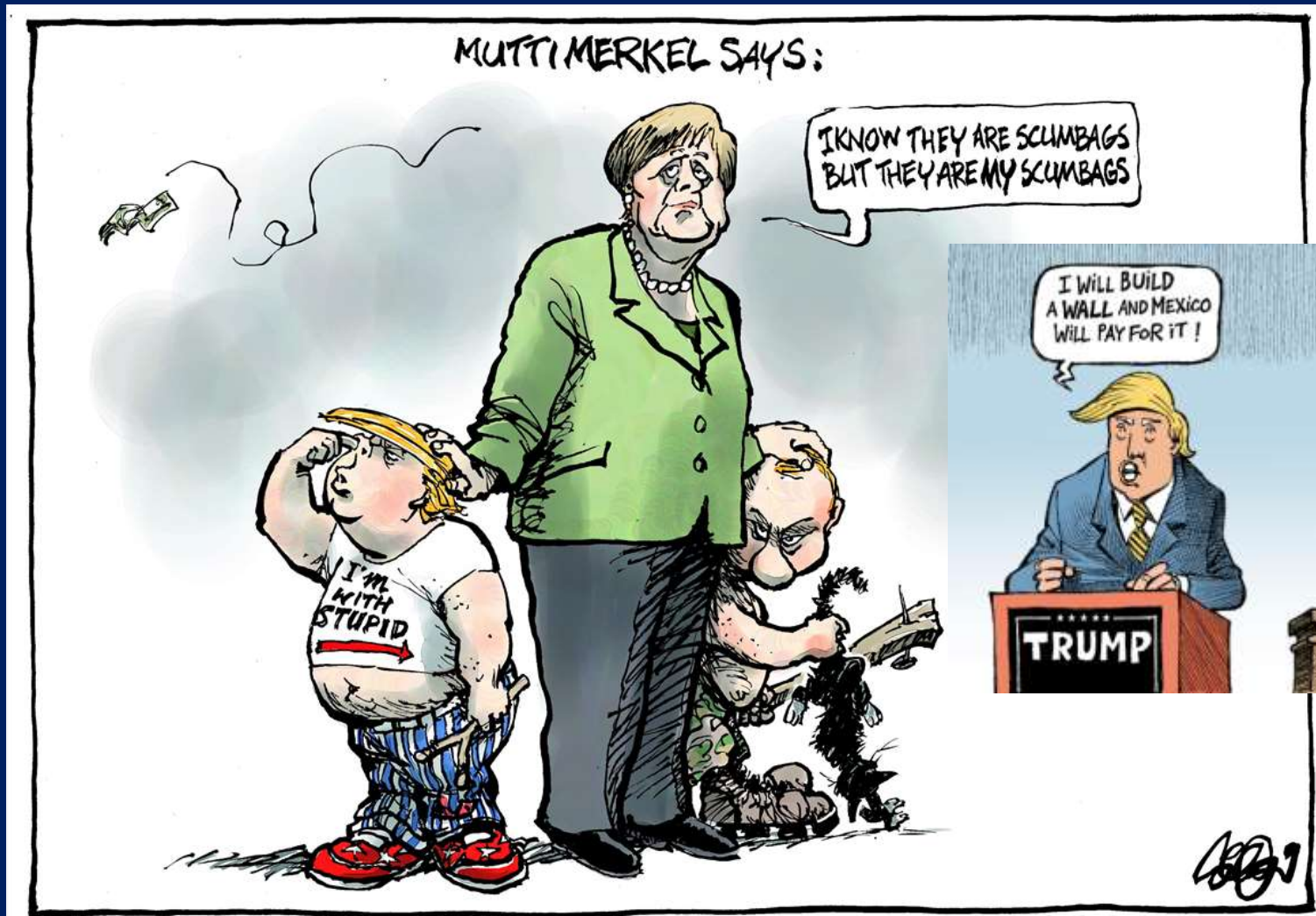


German Election – the call



- **Election Winner: FDP and Christian Lindner (Mini-Macron)**
- Consensus is for new +CDU/CSU + SPD coalition
- Saxo Bank call is CDU/CSU + FDP

Ms. Merkel's 'best' friends Trump, Putin & Erdodan



German Election 2017

#1 topic not discussed – Refugee crisis

Germans on the Eve of the Election

'I've Never Seen So Much Hate'

Psychologist Stephan Grünewald has spent much of his career studying Germans. In a new study, he looked at current political attitudes and discovered raw emotions ahead of the upcoming election.



Interview Conducted by Nils Minkmar ✓



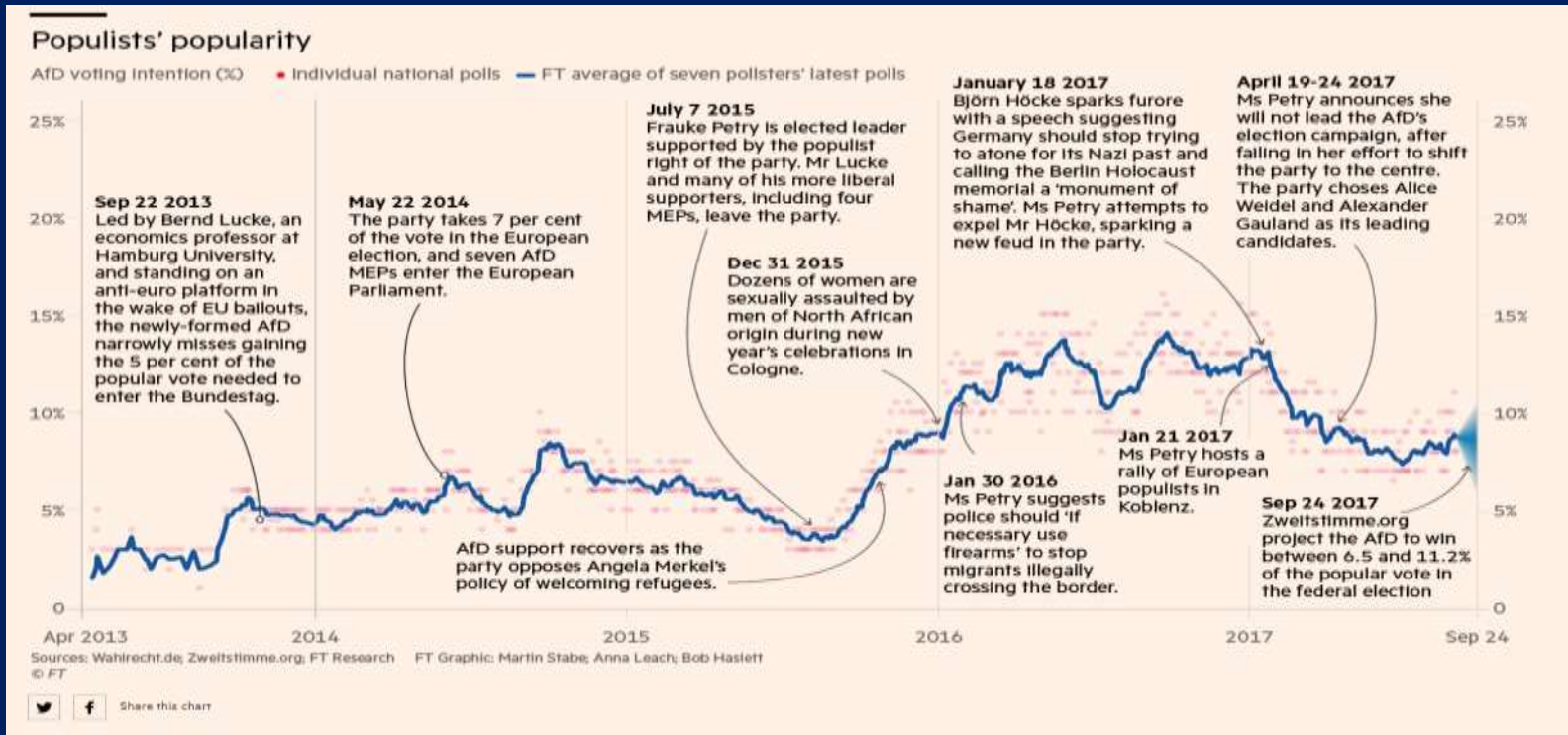
#1 issue among voters: Refugee crisis – open vs. closed doors

Lesson: Voters are looking for *'compromise'* from politicians

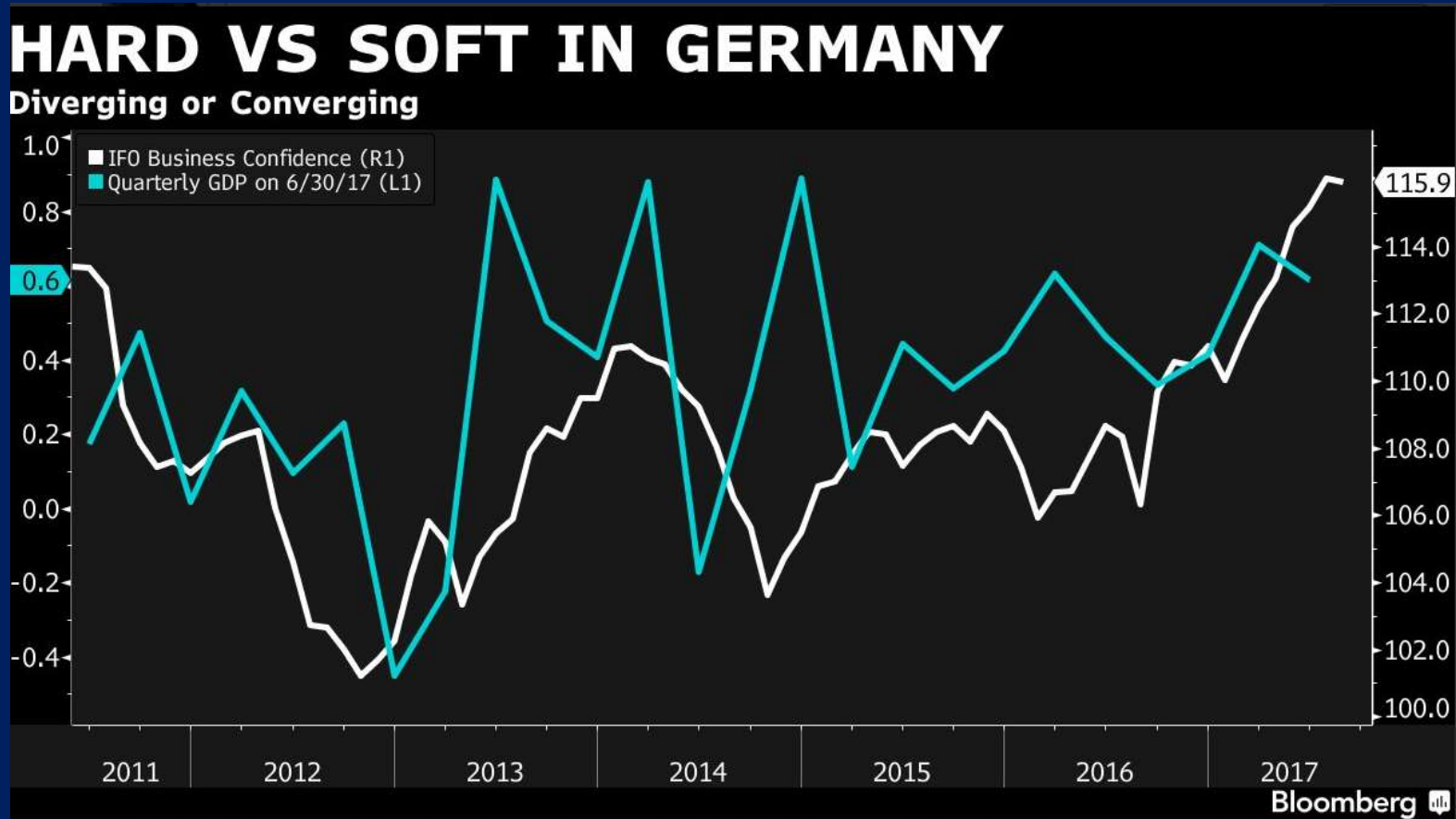
2 Because of Putin, Erdodan and Trump voters backs Mütti Merkel

Lesson: Politics is driven by fear rather than vision/action

German Populisme – AfD



Germany- Soft vs. Hard data – “Hope”



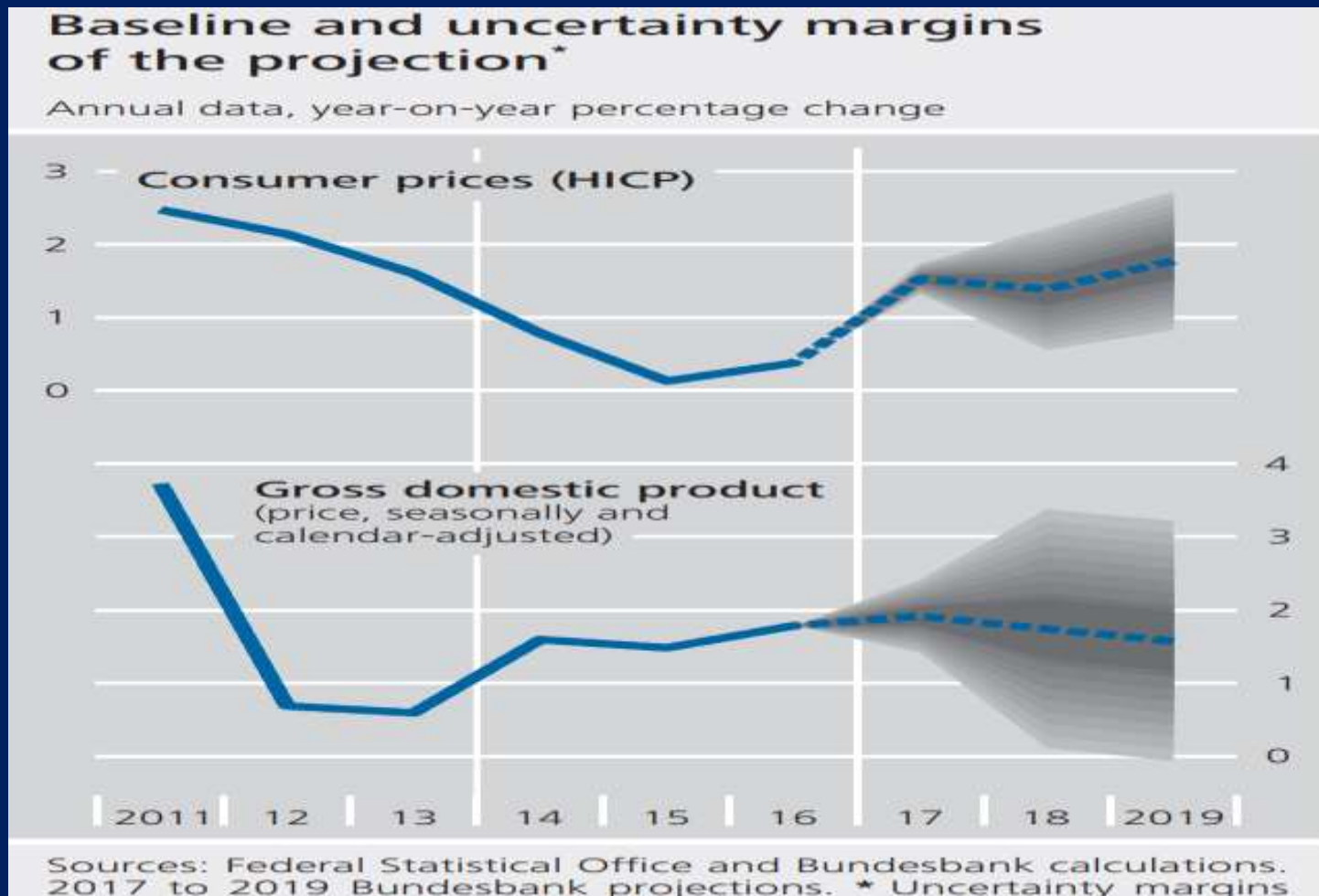
Germany gained the most from EUR Now Club Med is gaining from "interal devaluations"

Unit Labor cost different Spain-GER

EUR intro gained Germany, crisis Spain



Germany (BUBA) – inflation will be back – really?



Bundesbank also believe in ghost of Phillips curve

Negotiated pay rates, actual earnings and compensation of employees

Year-on-year percentage change, monthly basis



Sources: Federal Statistical Office. 2017 to 2018 Bundesbank projections. **1** According to the Bundesbank's negotiated wage index.

Deutsche Bundesbank

Next 30 years biggest call: Low-flation...Everything is deflationary

1. Electrification – Volvo announcement
2. Demographics
3. Peak demand oil ?
4. Health care cost mean-reversion (maximum % of GDP)
5. Regulation – Basel III + IV – credit limitation
6. Higher policy rates (tax on credit)
7. Automation + Robotics
8. Block-chain – cheaper, faster and "less everything..."
9. Monopolistic break-up of IT-giants: FB, Google, Amazon, Apple, MFST



Fed's dogmatic chase of inflation ghost

Mission Accomplished?

Fed's preferred inflation measure tops 2%, but market has doubts



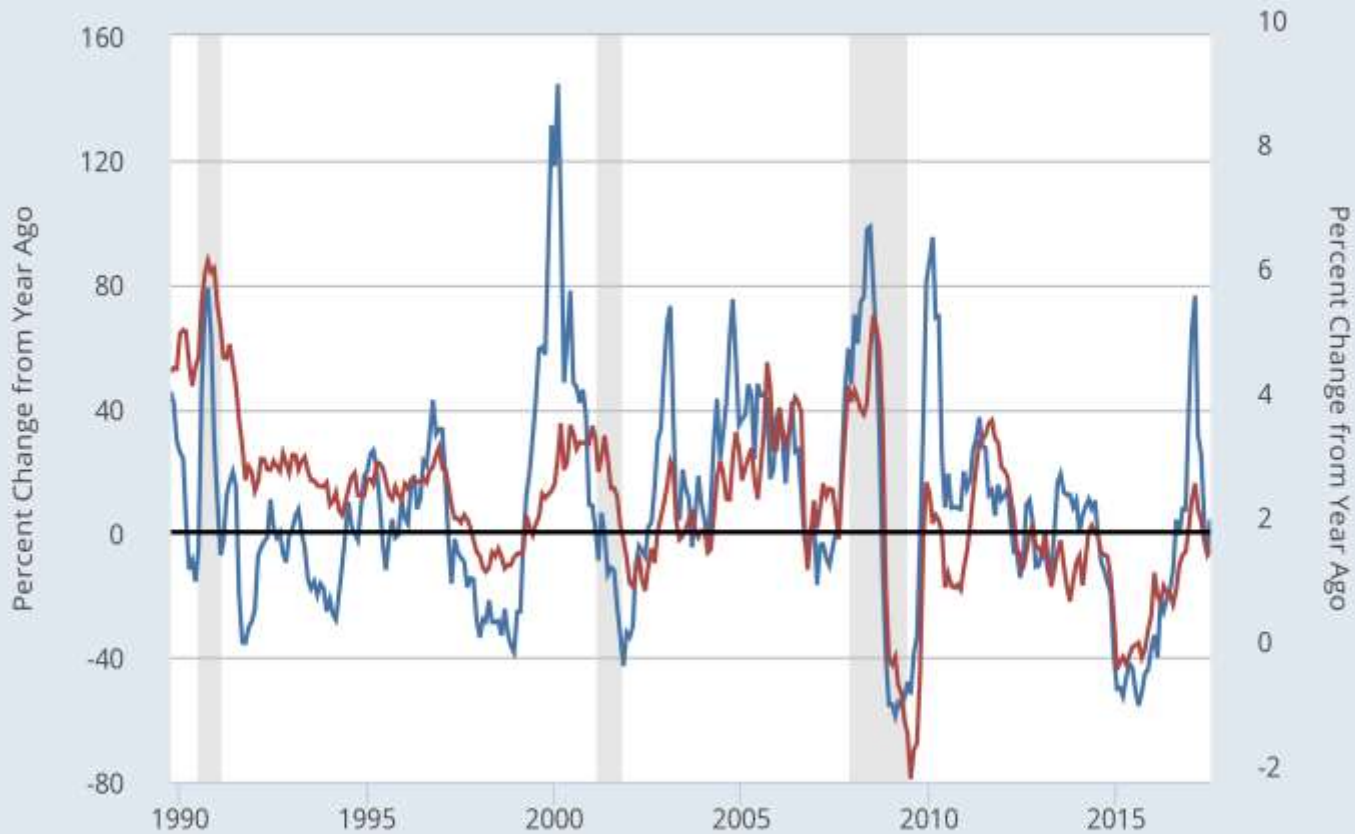
Source: Bloomberg, Bureau of Economic Analysis

Bloomberg

YoY change in WTI = CPI change

FRED 

— Spot Crude Oil Price: West Texas Intermediate (WTI) (left)
— Consumer Price Index for All Urban Consumers: All Items (right)



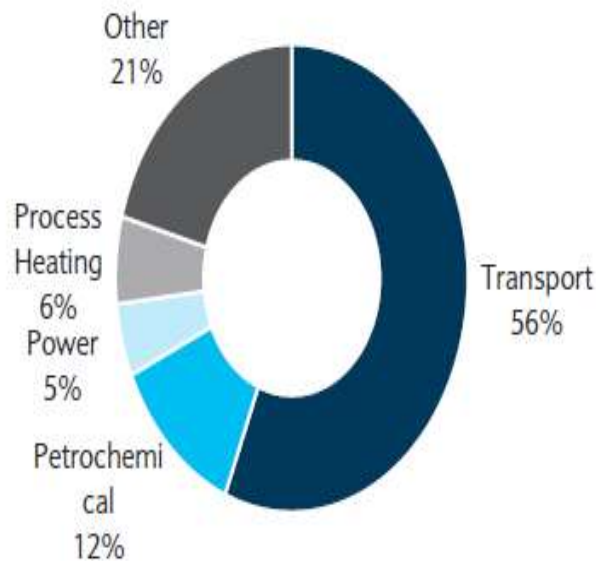
Sources: BLS, St. Louis Fed

fred.stlouisfed.org

myf.red/g/f100

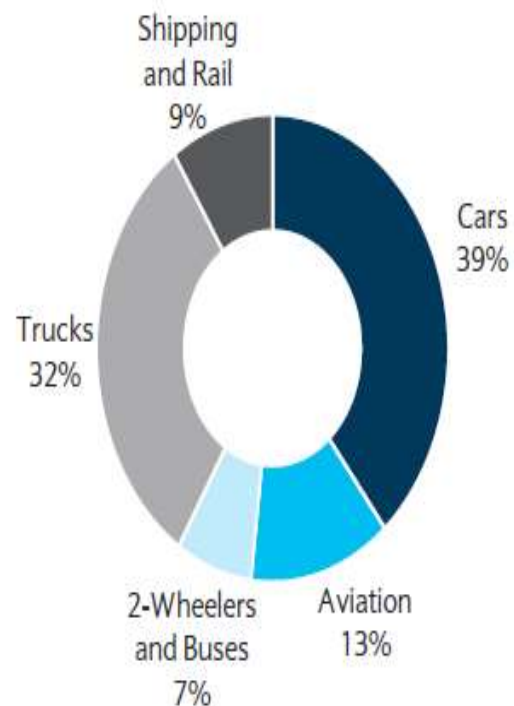
Why "electrification" of cars so key..

Oil demand breakdown by sector



Source: IEA, BP, Barclays Research

Transport oil demand by mode



Source: IEA, BP, Barclays Research

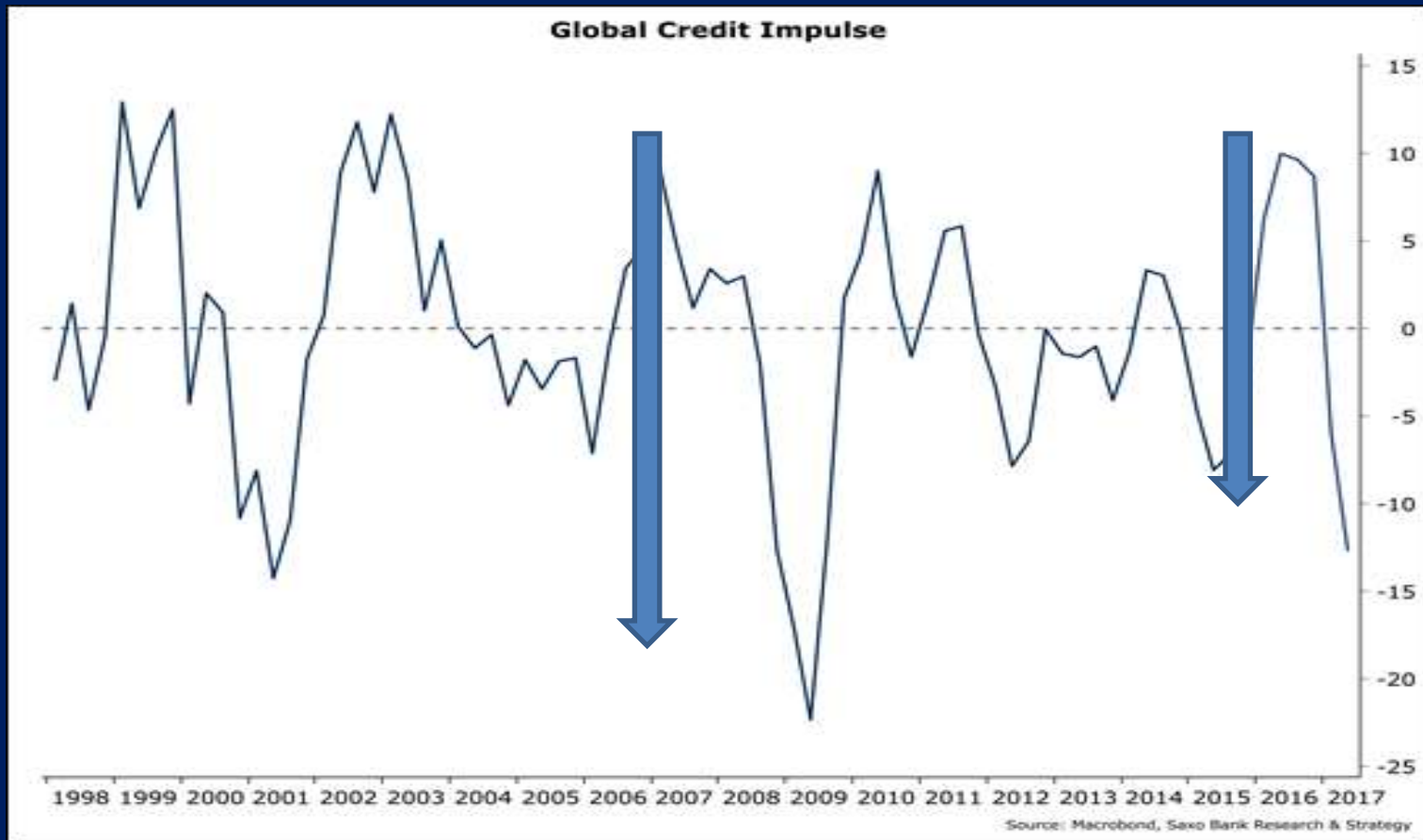
https://live.barcap.com/PRC/publication/FC_Ib_1493106930600_2323042

Conclusion: Macro themes

- The US dollar has peaked and started a multi-year cycle lower as both US and world growth can't work without a weaker dollar (a stronger dollar kills growth through debt service, emerging markets, and commodities).
- Everything is deflationary: demographics, technology, energy, and the debt mountain.
- The credit impulse peaked in late 2016/early 2017 leaving global growth vulnerable in the fourth quarter of 2016 and into Q1'17.
- US interest rates are headed to 0% in 10-year government yields by the end of 2018, early 2019.
- **New call:** energy prices to fall *by 50% over the next 10 years.*

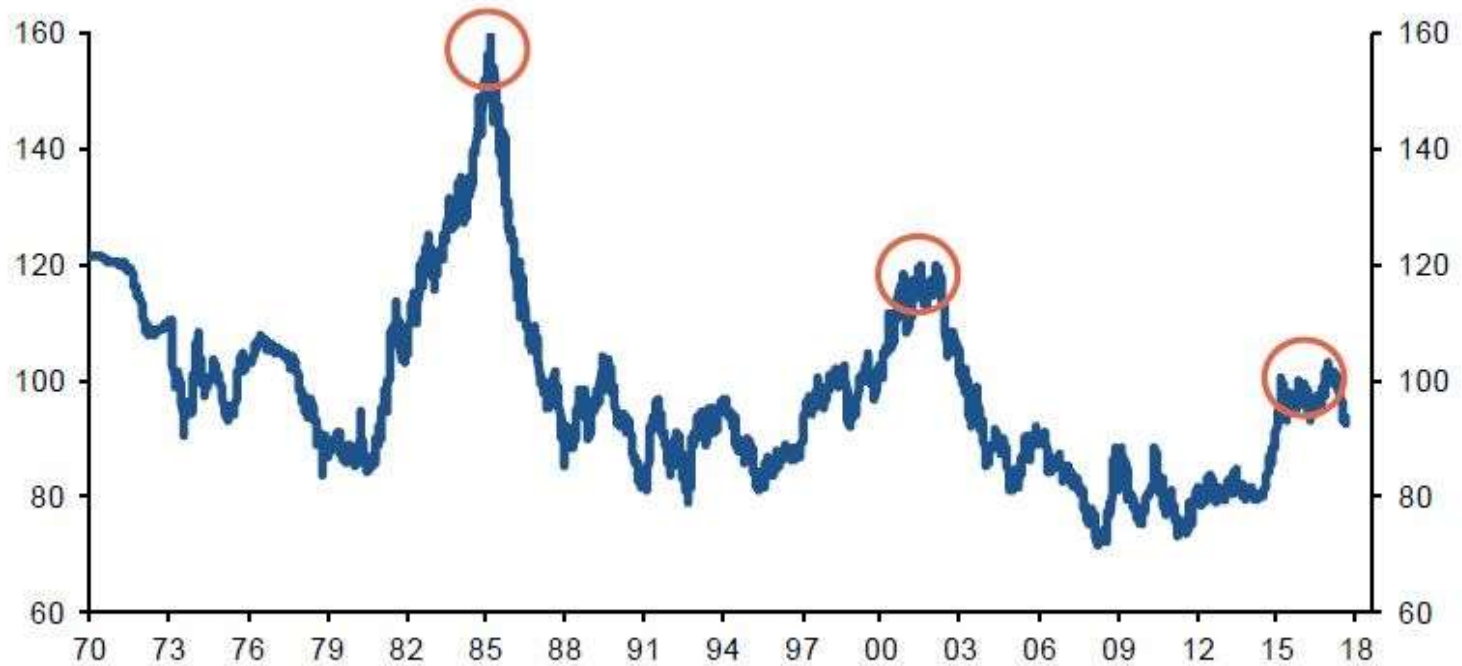
Global Credit Impulse

Saxo Bank Sep-2017 update



Farewell to King \$

Dollar index since 1970s – third peak: check!

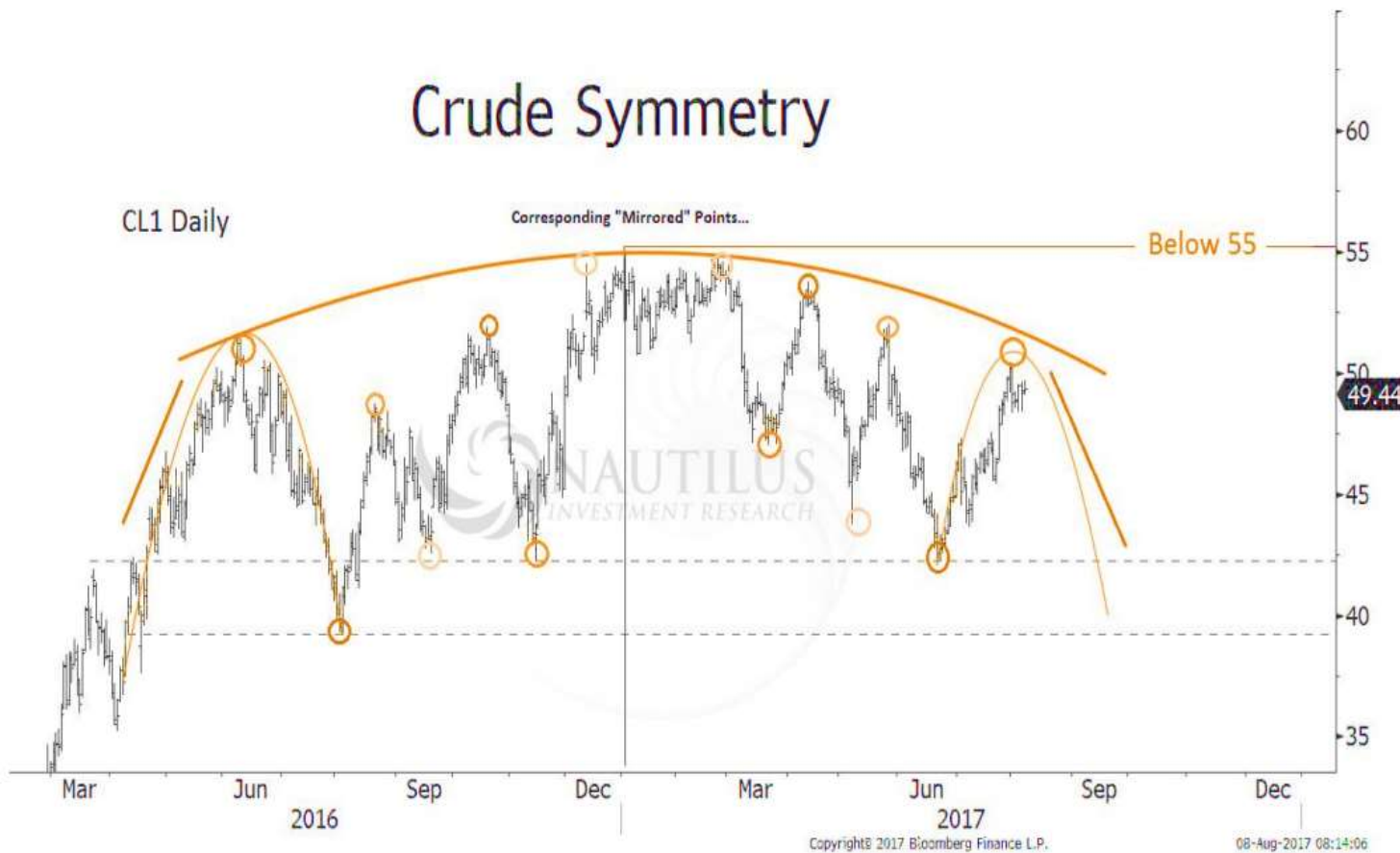


Source: Bloomberg, SG Cross Asset Research/Global Asset Allocation

Farewell to Crude (Post Aramco IPO)

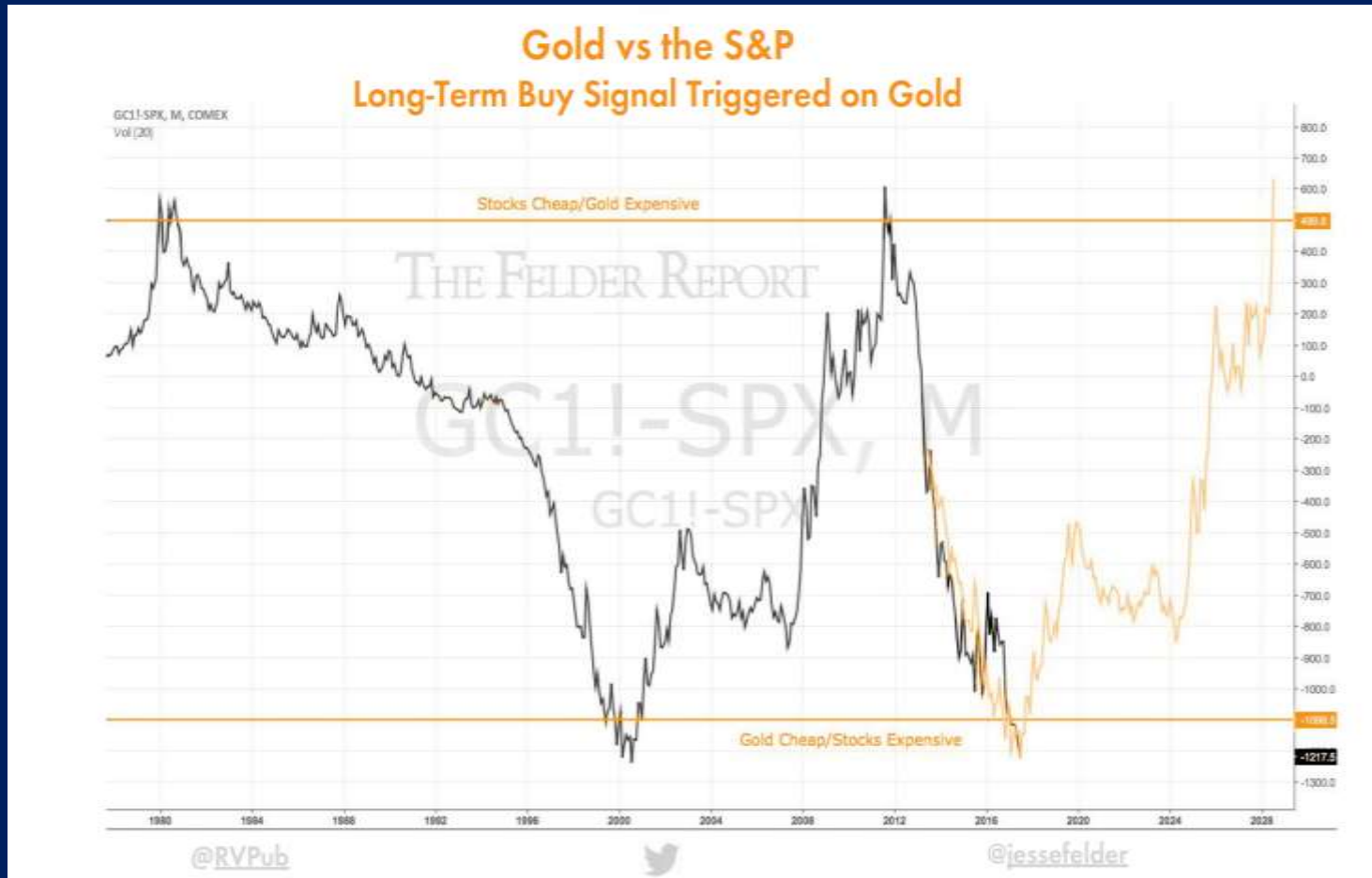
Or... Oil: Time to Sell?

Crude Symmetry



Gold(metals & commodities) dirt cheap

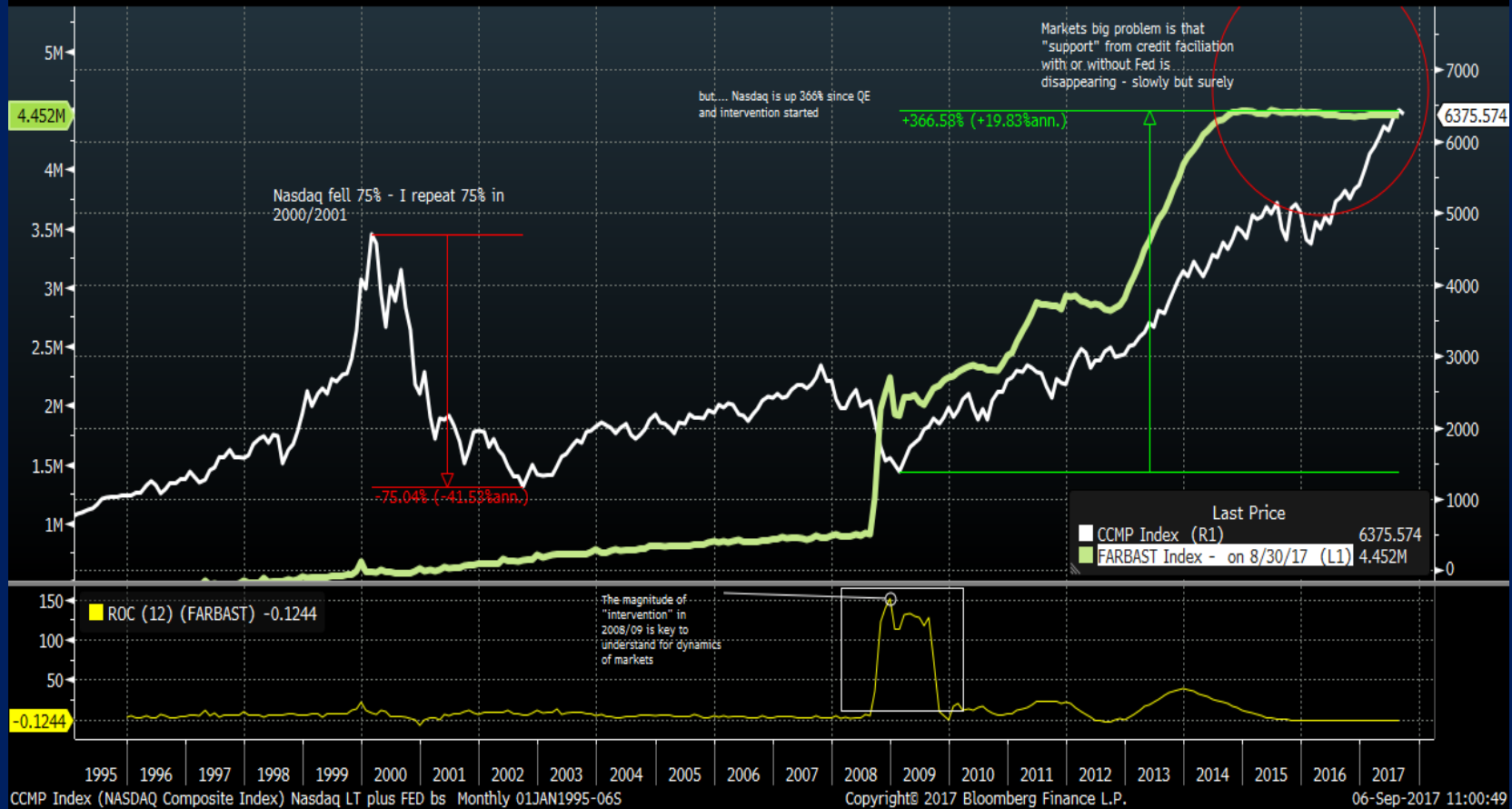
Tangible vs. intangible



Lesson to all the "young traders"

Market does goes down

Nasdaq & Fed balance sheet Less and less support?



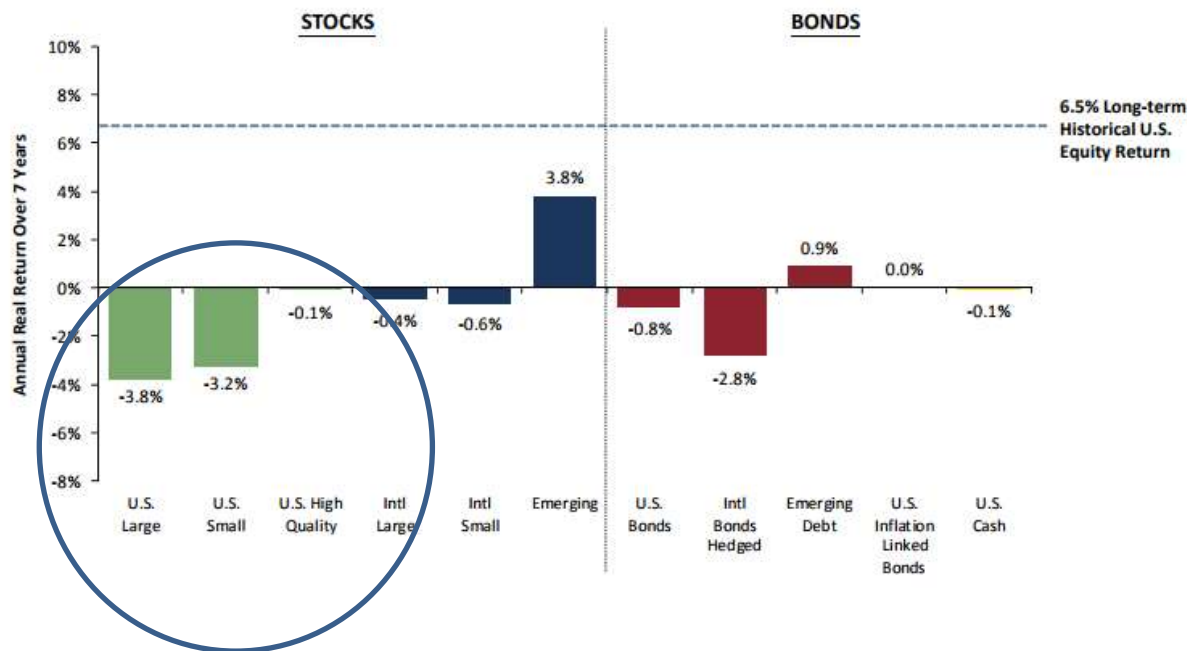
GMO – 7 Year return

The negative view

GMO
North America | Europe | Asia Pacific

7-Year Asset Class Real Return Forecasts*

As of March 31, 2017



Source: GMO

*The chart represents local, real return forecasts for several asset classes and not for any GMO fund or strategy. These forecasts are forward-looking statements based upon the reasonable beliefs of GMO and are not a guarantee of future performance. Forward-looking statements speak only as of the date they are made, and GMO assumes no duty to and does not undertake to update forward-looking statements. Forward-looking statements are subject to numerous assumptions, risks, and uncertainties, which change over time. Actual results may differ materially from those anticipated in forward-looking statements. U.S. inflation is assumed to mean revert to long-term inflation of 2.2% over 15 years.

Expected return forward: John Bogle

CFA Conference May, 2017

