



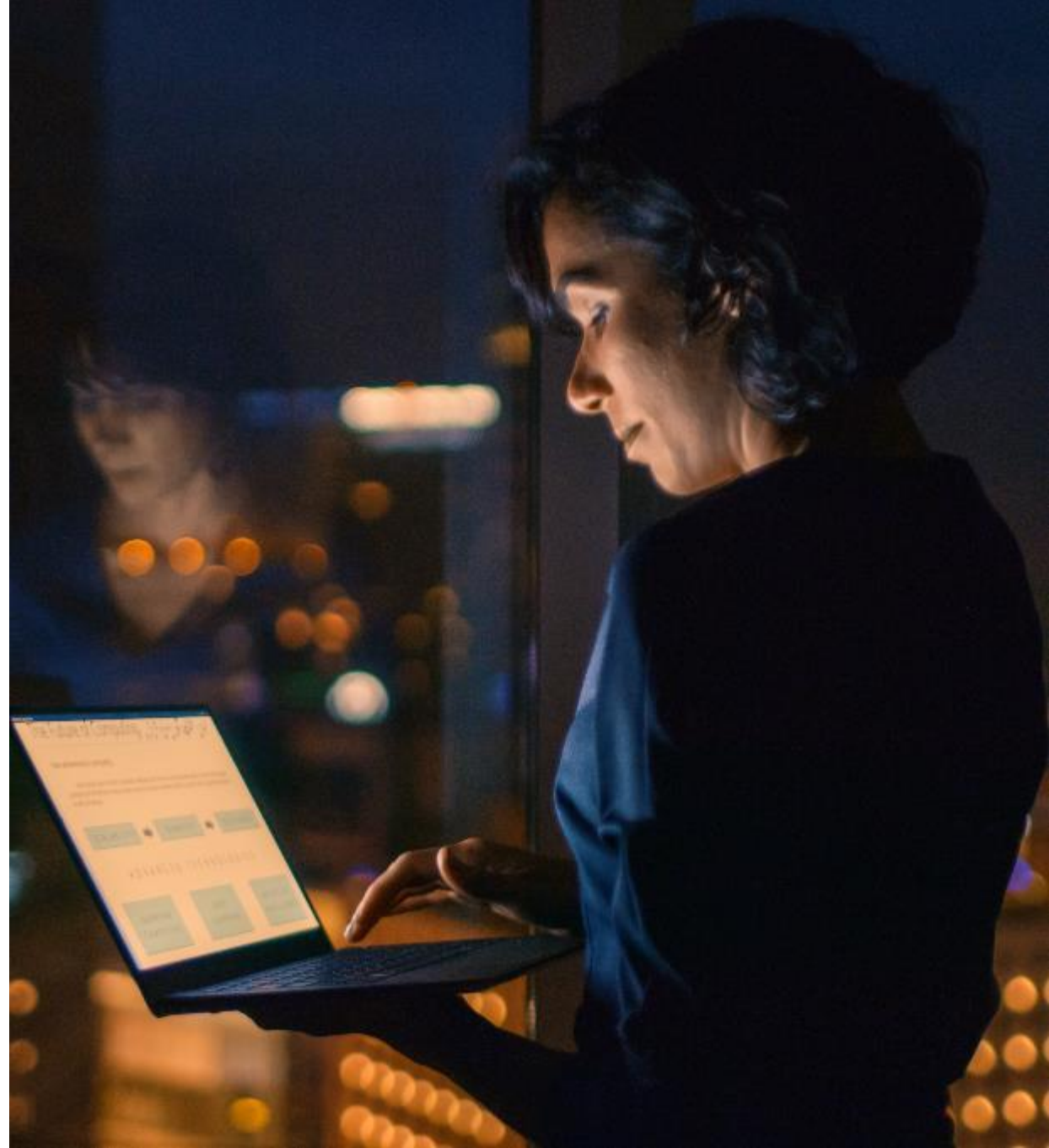
Lights Out!

Energy Crisis, Policy Mistakes and Uncertainty

Allianz Research
Economic Outlook (Fall 2022)

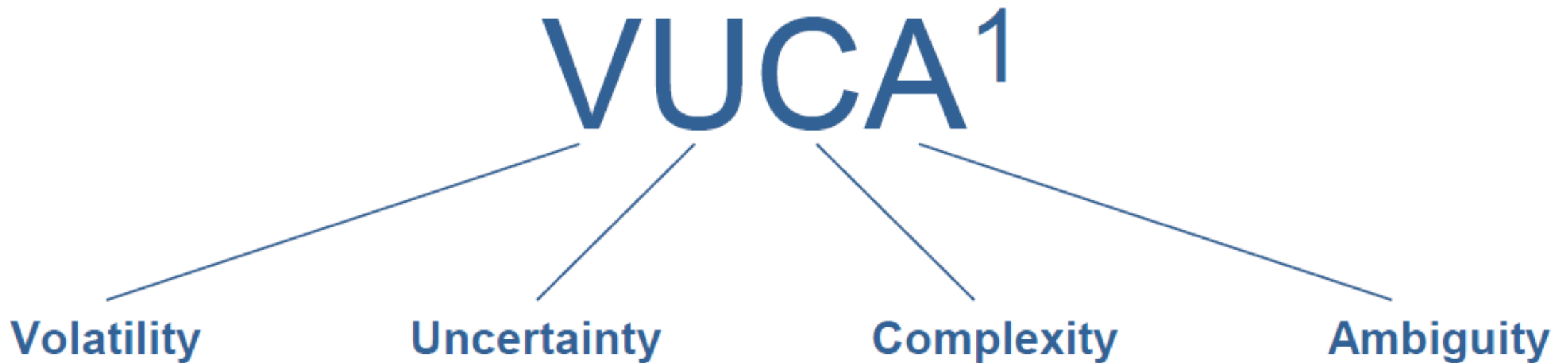
Andreas (Andy) Jobst
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19 September 2022



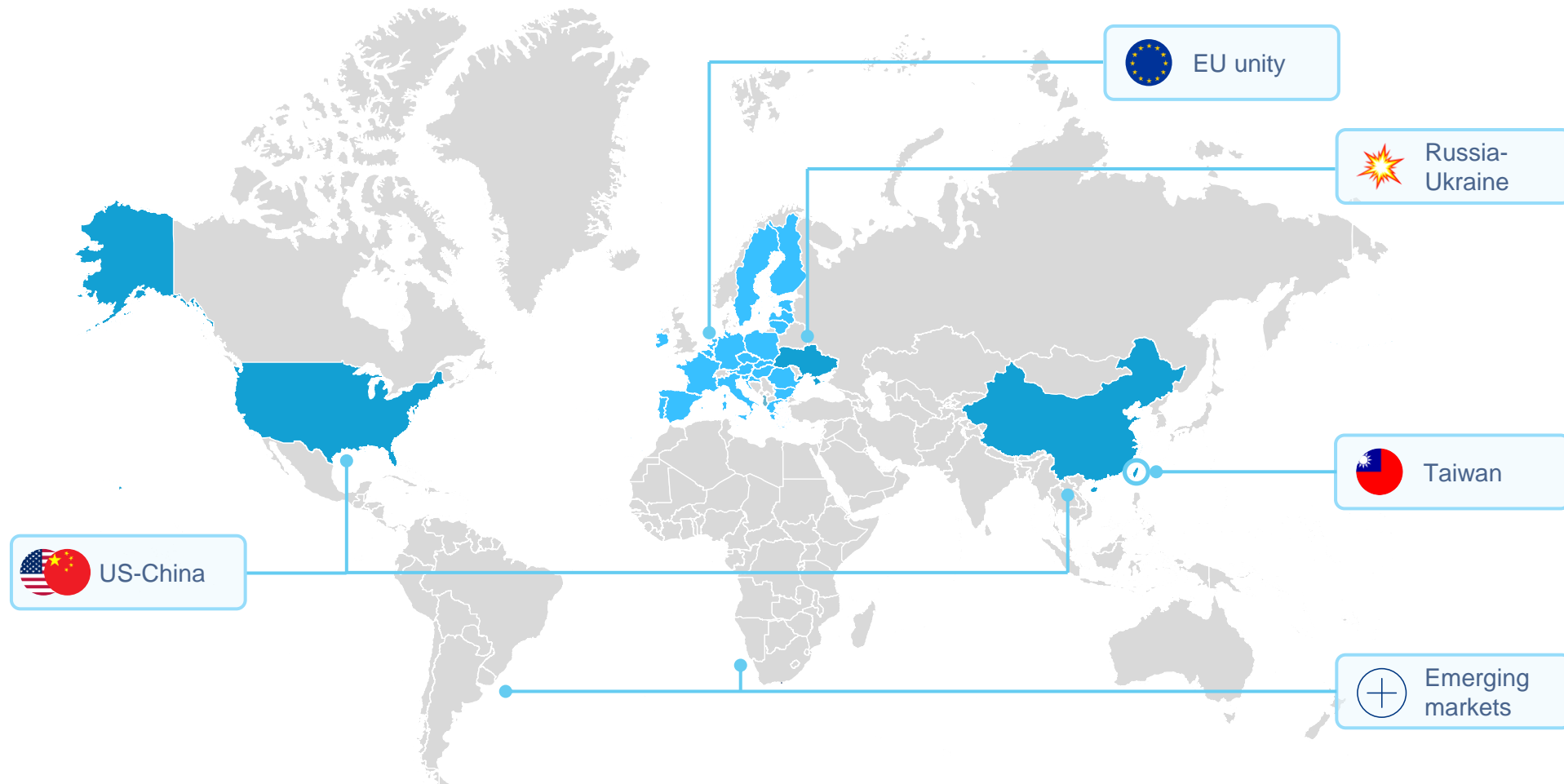
“Hoffentlich wird es nicht so schlimm wie
es jetzt schon ist”

Karl Valentin, 1882-1948



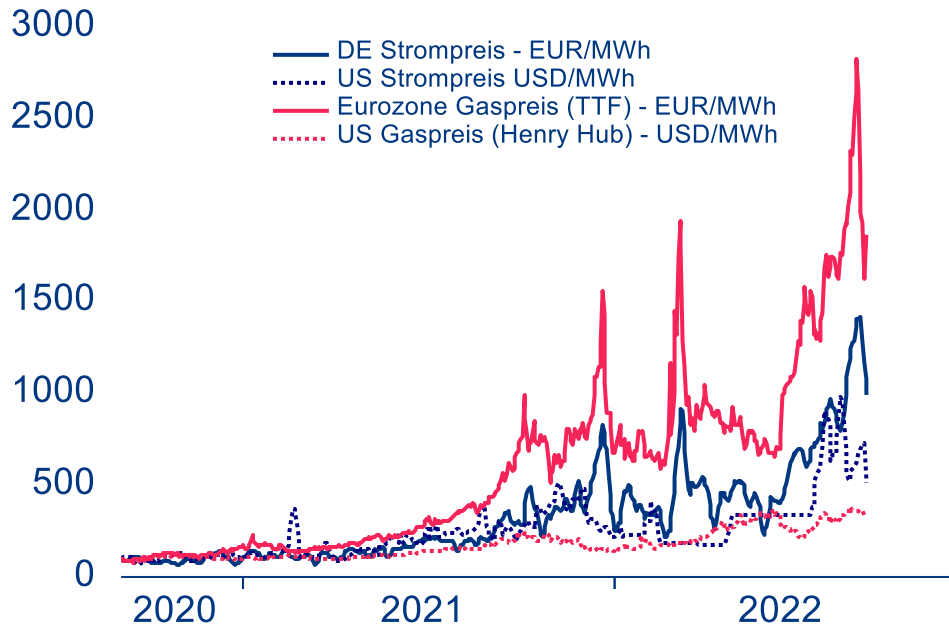
1/ Solutions are: vision, understanding, clarity, and agility.

Rising global pressures (trade, energy), esp. for Germany



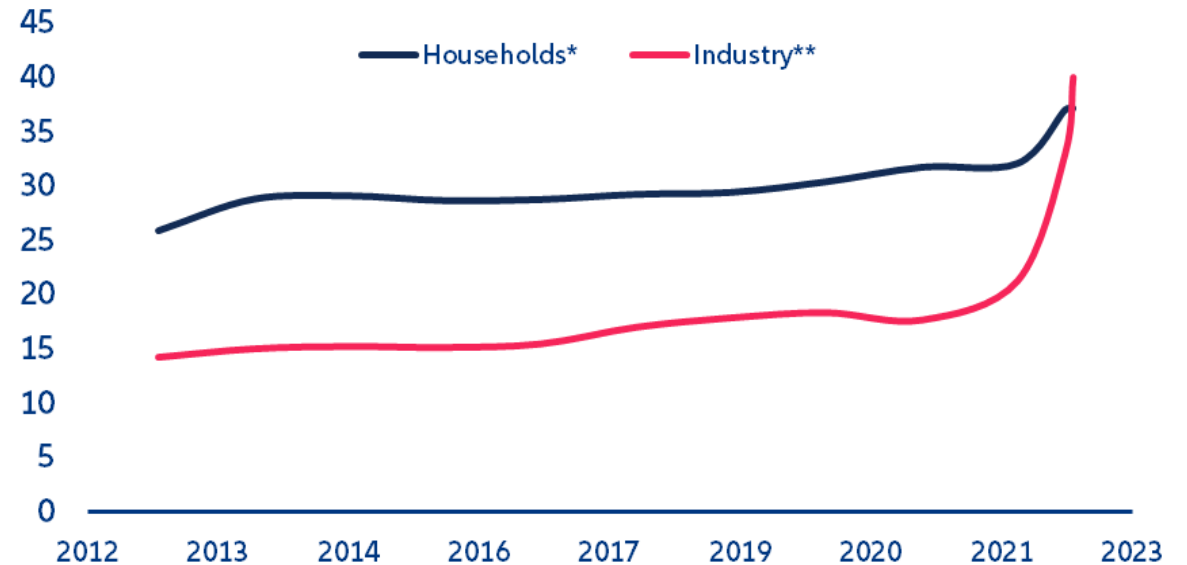
Exploding energy prices

Europe and US: Energy Price Shock
(Electricity and Gas, index – 100=Sept. 2020)



Source: Refinitiv Datastream; Allianz Research

Germany: Electricity prices for Households vs Industry
in EUR per ct/kWh

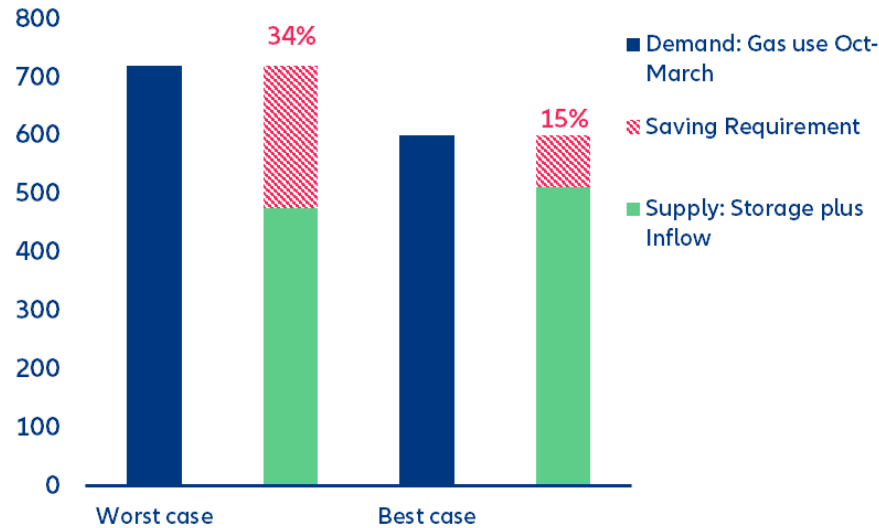


* average for 3500 kWh annual consumption / ** average for new contracts 160k to 20mn kWh

Sources: BDEW, Allianz Research

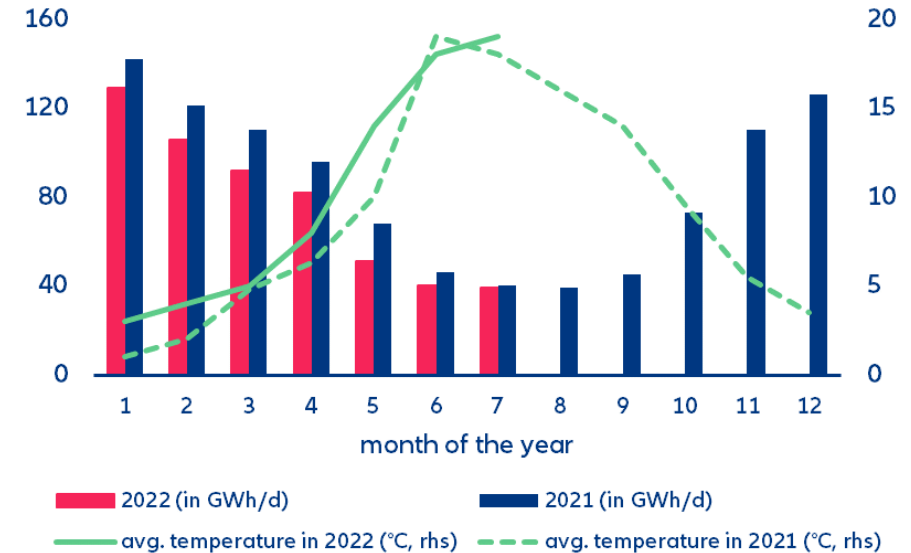
Gas crunch: storing or (self-)rationing?

Germany: Necessary Gas savings (TWh)



Sources: Trading Hub, GIE, Allianz Research

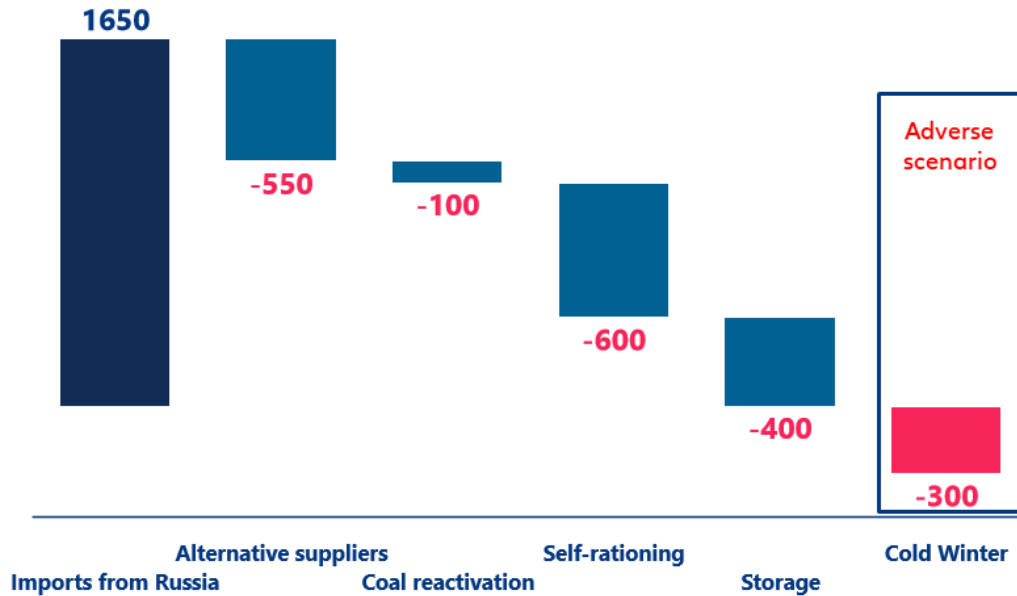
Germany: Total Gas Consumption (GWh/d)



Sources: Bundesnetzagentur, Allianz Research

Our “blackout” scenario now baseline

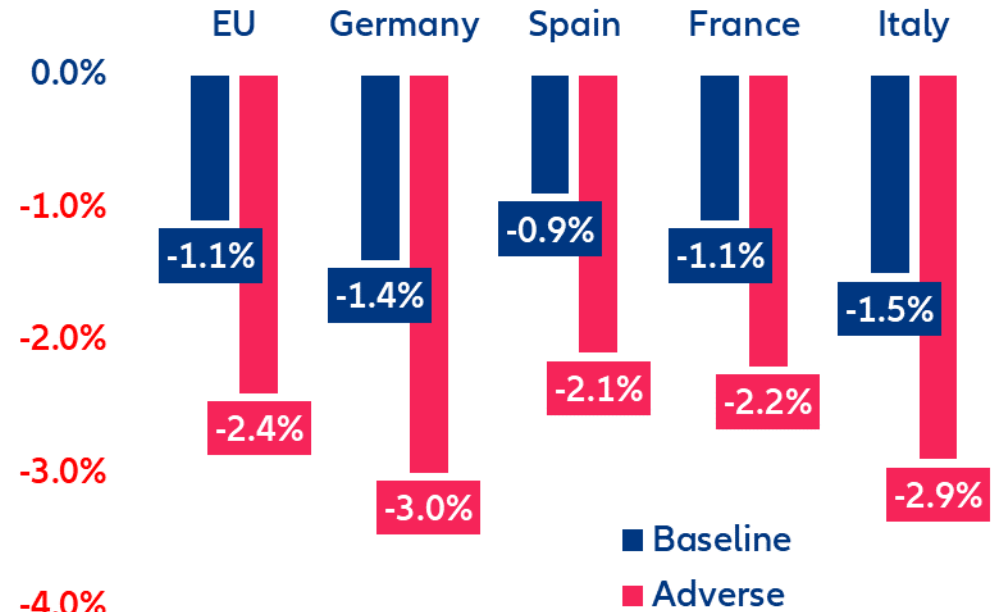
Europe: Replacing Russian Gas (TWh)



Sources: National authorities, Allianz Research

Without a cold winter, we expect a small (and manageable) energy gap based on lower demand (-10%), higher alternative supply (LNG/coal) (+10%), and lower stocks (from 80-90% to 40%).

Europe: GDP Impact of Gas Crunch

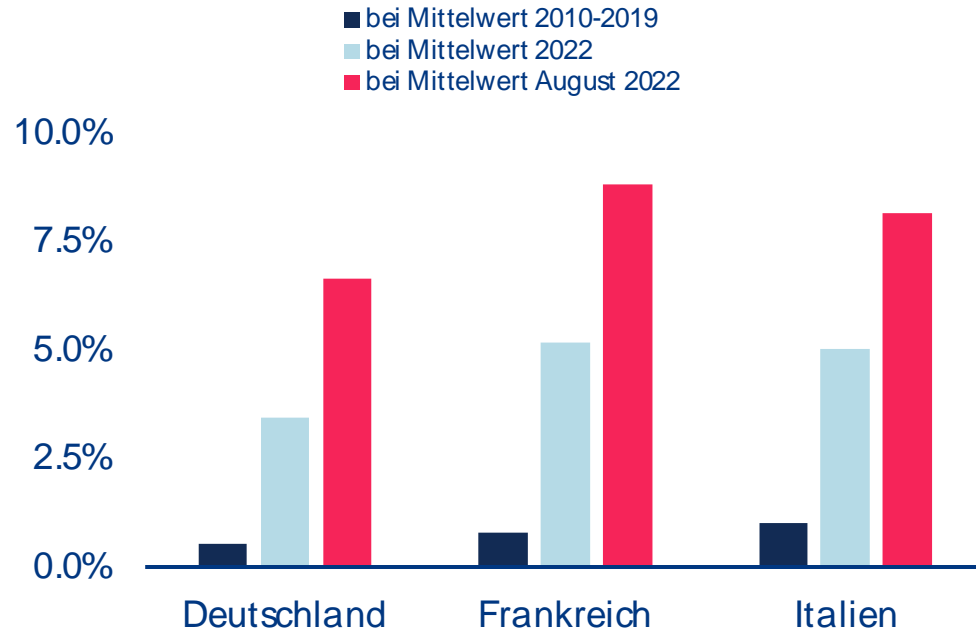


Sources: National authorities, Allianz Research

The recession is expected to remain moderate in 2023, but can double in 2024 in the absence of Russian gas, higher than expected energy consumption and lower alternative supplies

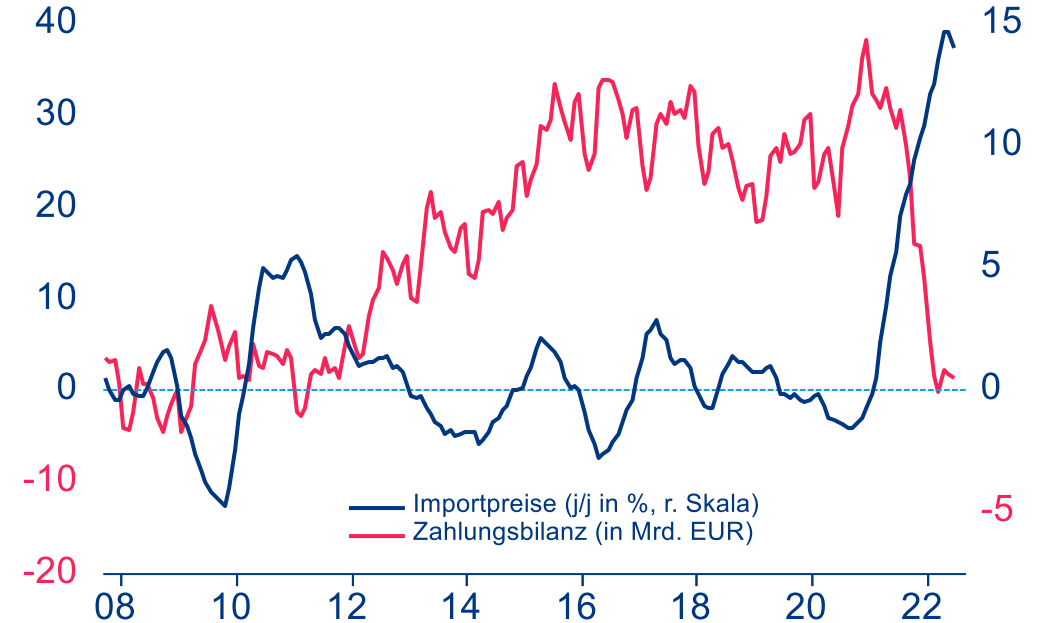
Potential longer-term implications?

Europe: Energy Consumption
(% of GDP)



Quellen: Eurostat, Allianz Research

Europe: Emerging Imbalance?



Source: Refinitiv Datastream; Allianz Research

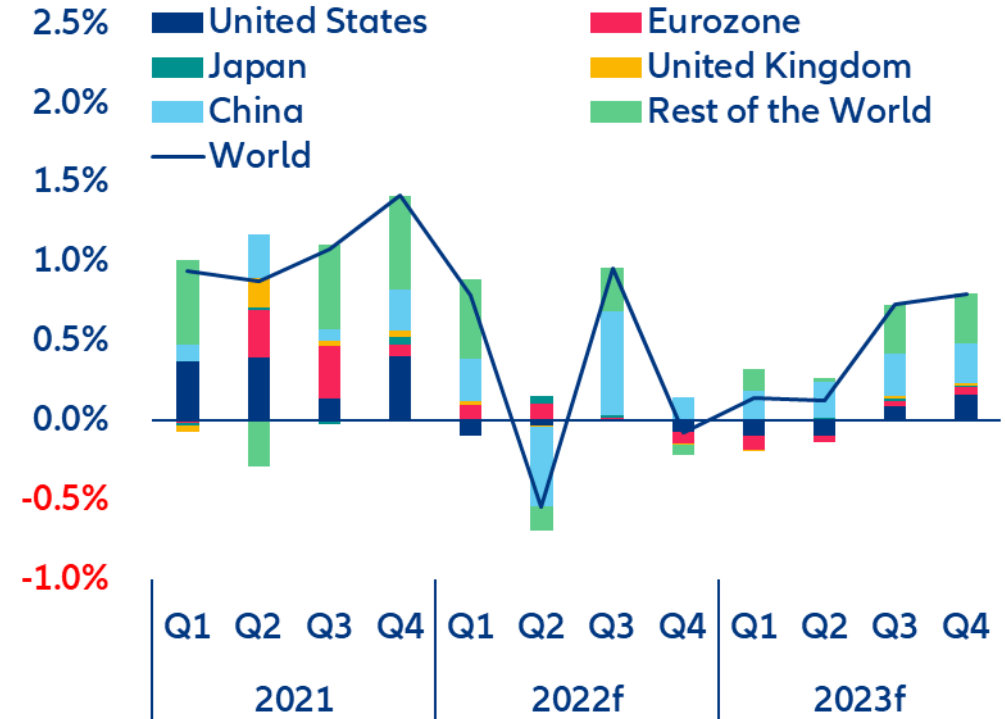
Global growth slowing further

GDP Growth Forecast
(quarterly: q/q% and yearly: y/y%)

Growth	2021	Q1 2022	Q2 2022	Q3 2022	Q4 2022	2022	Q1 2023	Q2 2023	Q3 2023	Q4 2023	2023
Global	5.6	0.8	-0.6	1.0	-0.1	2.7	0.1	0.1	1.0	1.1	1.5
USA	5.7	-0.4	-0.2	0.5	-0.3	1.4	-0.4	-0.4	0.3	0.6	-0.7
Latin America	6.3	1.0	0.7	-0.2	-0.4	3.0	0.1	0.5	0.6	0.6	1.5
Brazil	5.0	1.0	0.5	0.4	0.0	2.8	-0.1	-0.1	0.3	0.6	0.7
UK	7.4	0.8	-0.1	0.1	-0.3	3.4	-0.2	0.0	0.4	0.4	-0.2
Eurozone	5.3	0.5	0.7	0.1	-0.5	3.1	-0.6	-0.3	0.2	0.3	-0.8
Germany	2.6	0.8	-0.0	0.1	-0.6	1.6	-0.8	-0.3	0.1	0.2	-1.3
France	6.8	-0.2	0.5	0.4	-0.3	2.5	-0.6	-0.3	0.4	0.4	-0.6
Italy	6.6	0.1	1.1	1.1	-0.4	3.4	-0.5	-0.2	0.2	0.2	-0.5
Spain	5.1	0.2	1.1	0.3	-0.7	4.3	-0.5	-0.2	0.5	0.7	-0.3
Emerging Europe	6.2	0.9	-1.8	-1.5	-0.8	-0.8	-0.7	1.3	1.1	7.0	-1.0
Russia	4.7	-0.3	-6.0	-4.5	-1.5	-5.4	-1.0	1.5	1.5	0.3	-4.1
Turkey	11.0	0.7	2.1	2.0	-0.5	5.8	-1.0	2.0	1.0	1.0	1.9
Poland	5.9	2.5	-2.1	0.0	-0.3	4.0	-0.5	2.0	1.0	1.0	1.0
Asia-Pacific	6.1	0.7	-0.5	2.0	1.6	3.4	0.9	0.7	0.9	1.1	3.9
China	8.1	1.4	-2.6	3.4	0.8	2.9	0.9	1.2	1.4	1.3	4.5
Japan	1.7	0.1	0.9	0.4	0.1	1.5	0.2	0.3	0.3	0.3	1.1
Middle East	3.8	1.5	0.7	1.0	0.7	6.2	1.2	0.7	0.9	0.8	3.5
Saudi Arabia	2.9	2.6	0.4	0.6	1.0	9.2	0.9	0.9	0.9	0.9	4.2
Africa	3.3	0.3	-0.3	0.7	1.0	3.2	1.1	1.1	1.0	0.9	3.1
South Africa	4.9	1.9	-0.7	0.0	0.4	1.8	0.5	0.5	0.4	0.4	1.5

Sources: Refinitiv Datastream, Allianz Research

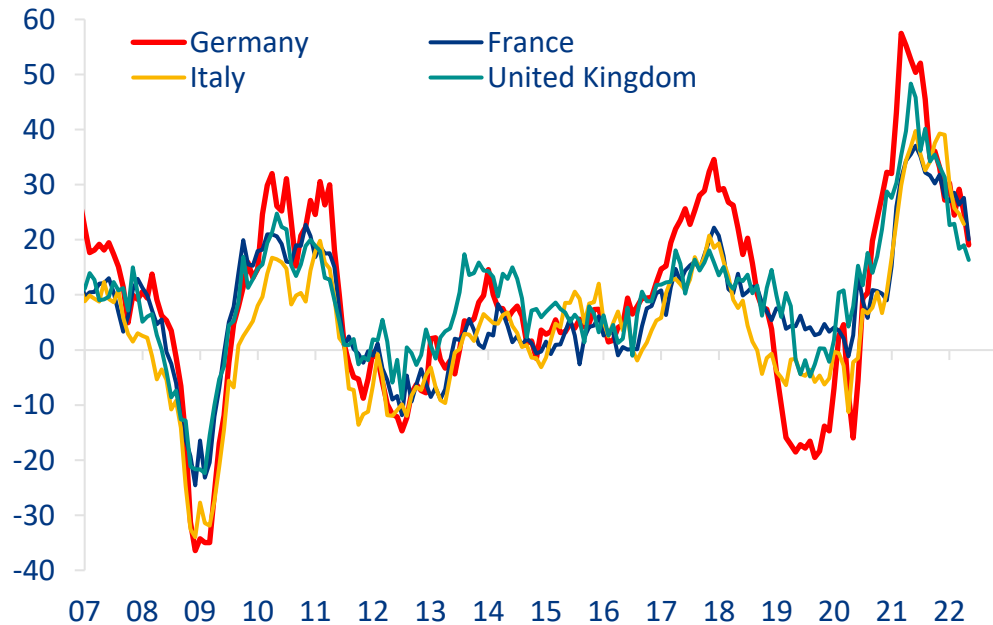
Global GDP Growth,
(% q/q, country contributions)



Sources: Refinitiv Datastream, Allianz Research

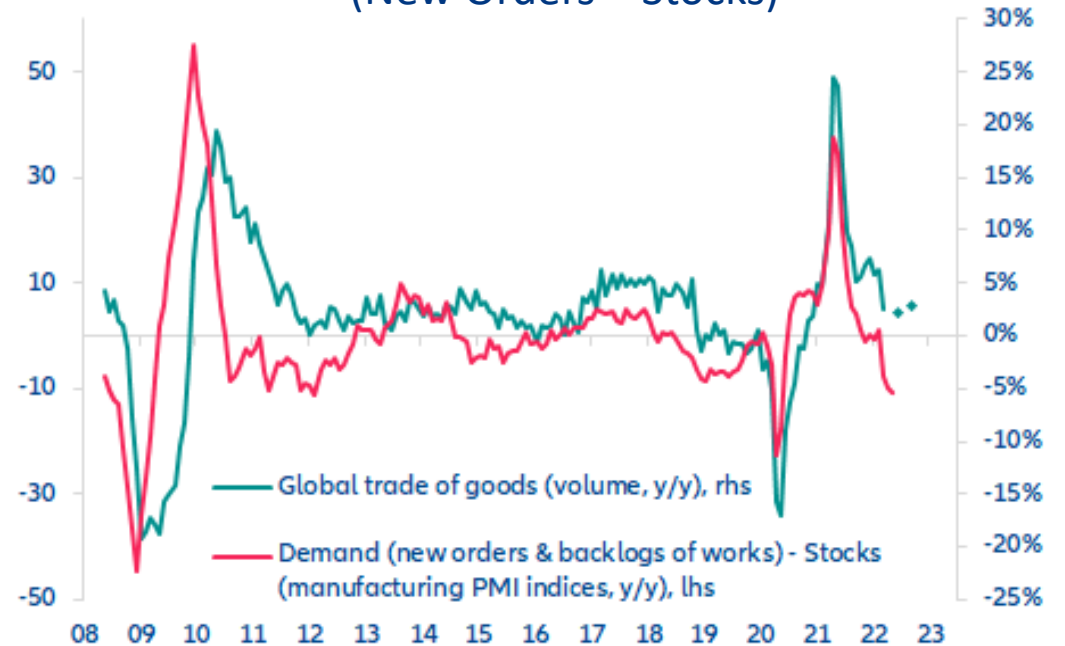
Shift from supply constraints to demand deficiency

Declining Input Shortage
(New Orders – Suppliers' Delivery Times)



Sources: Refinitiv, Allianz Research

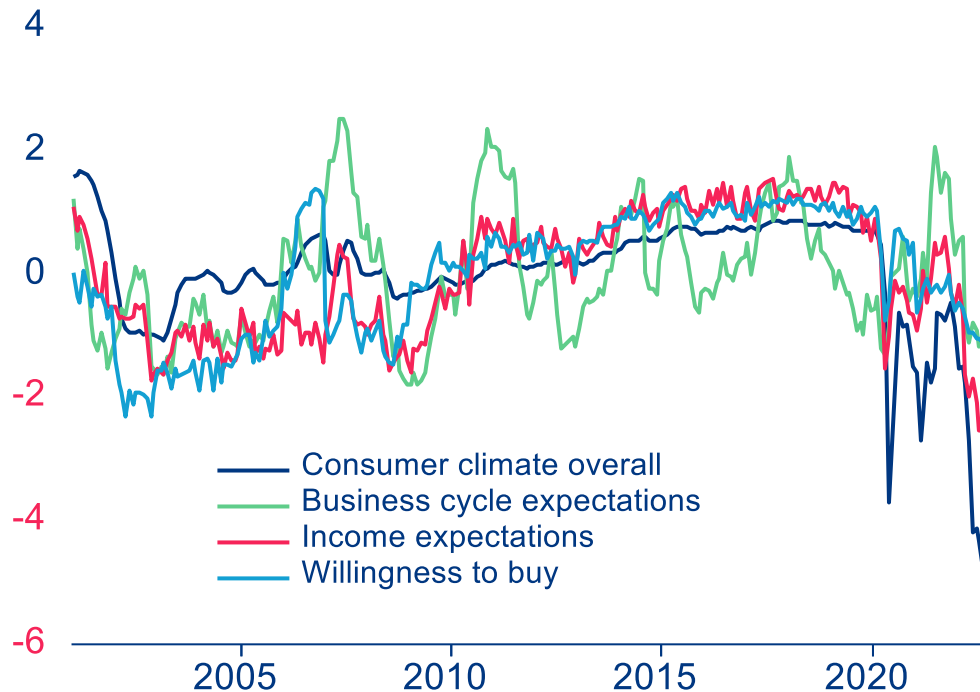
Slowing Demand
(New Orders – Stocks)



Sources: Markit, Allianz Research

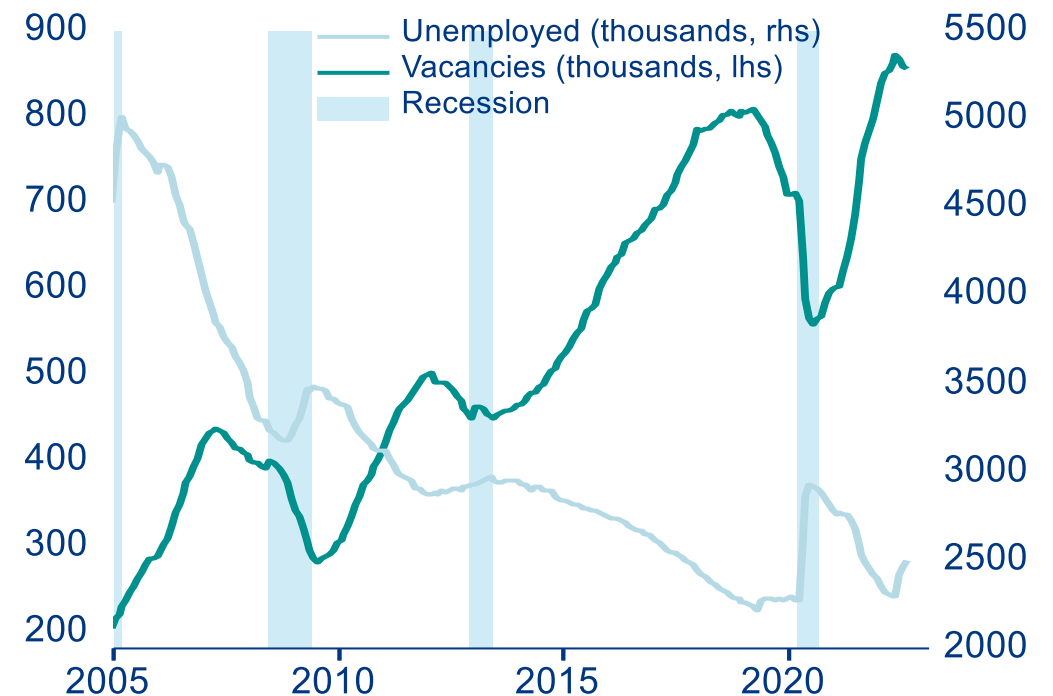
Consumer confidence hit by inflation despite still strong labor market

Germany: Gfk Consumer Confidence
Z-score



Sources: Refinitiv Datastream, Allianz Research

Germany: Unemployment vs. Vacancies
thousands

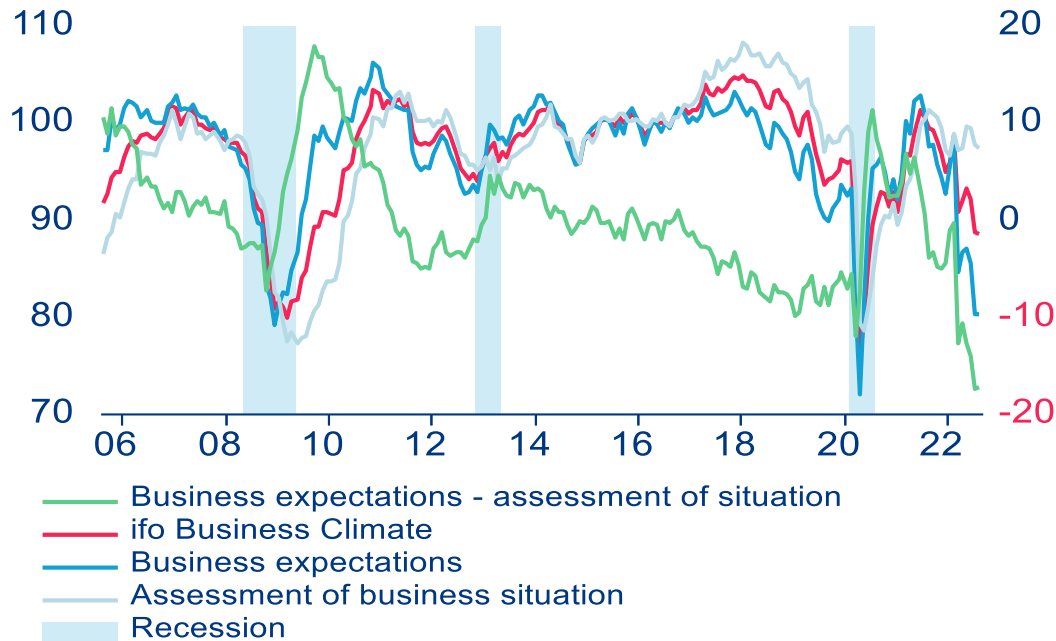


Sources: Refinitiv Datastream, Allianz Research

Rising insolvency risks

Ifo Business Climate Germany

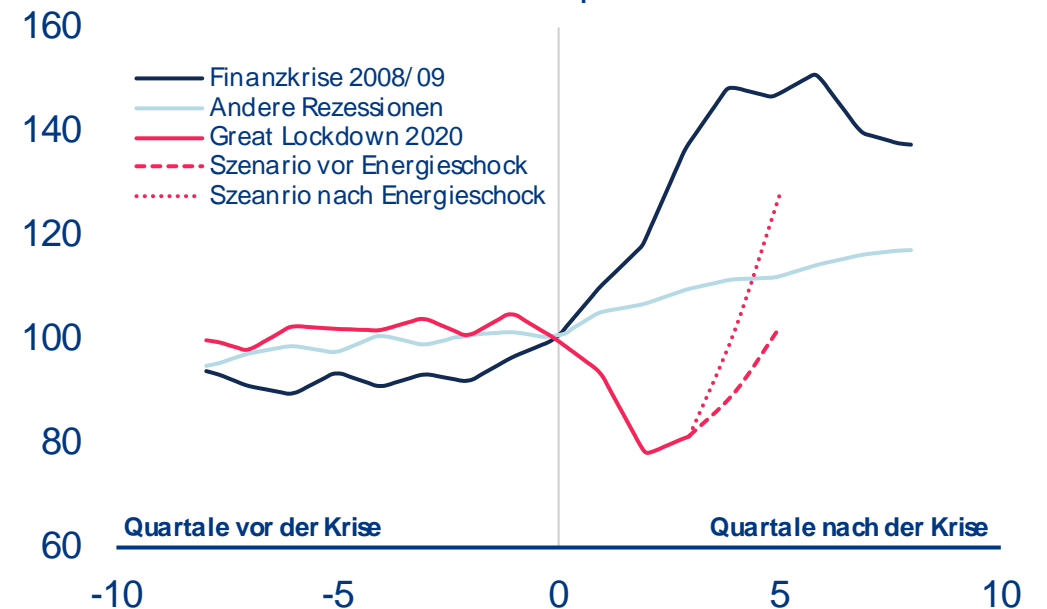
(Index: 2015=100, seasonally adjusted)



Sources: Refinitiv Datastream, Allianz Research

Global Insolvency Rate

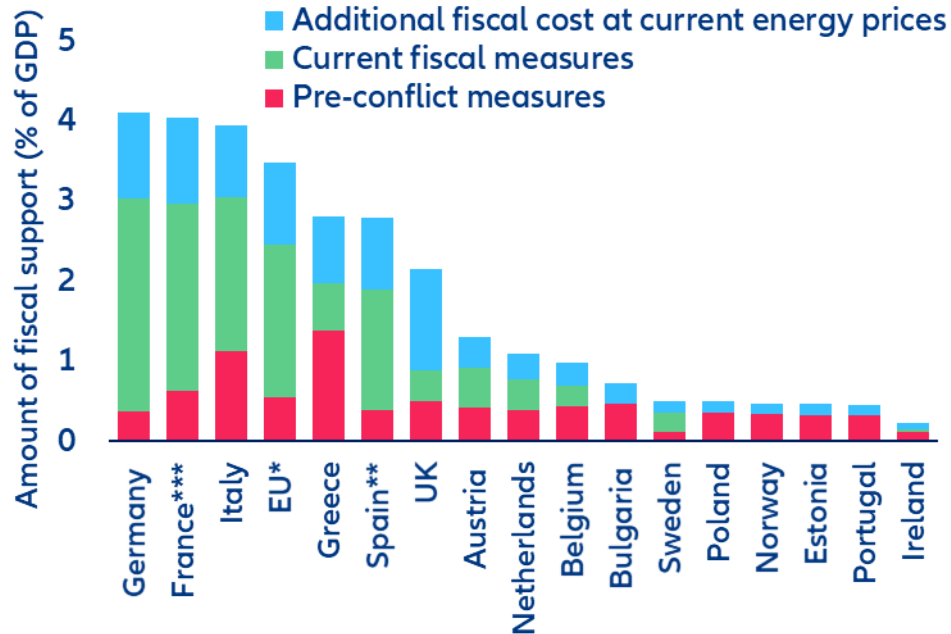
(index, 100=pre-crisis)



Quellen: Refinitiv Datastream, Allianz Research

Scaled-up fiscal support $\approx 2.5\%$ of GDP

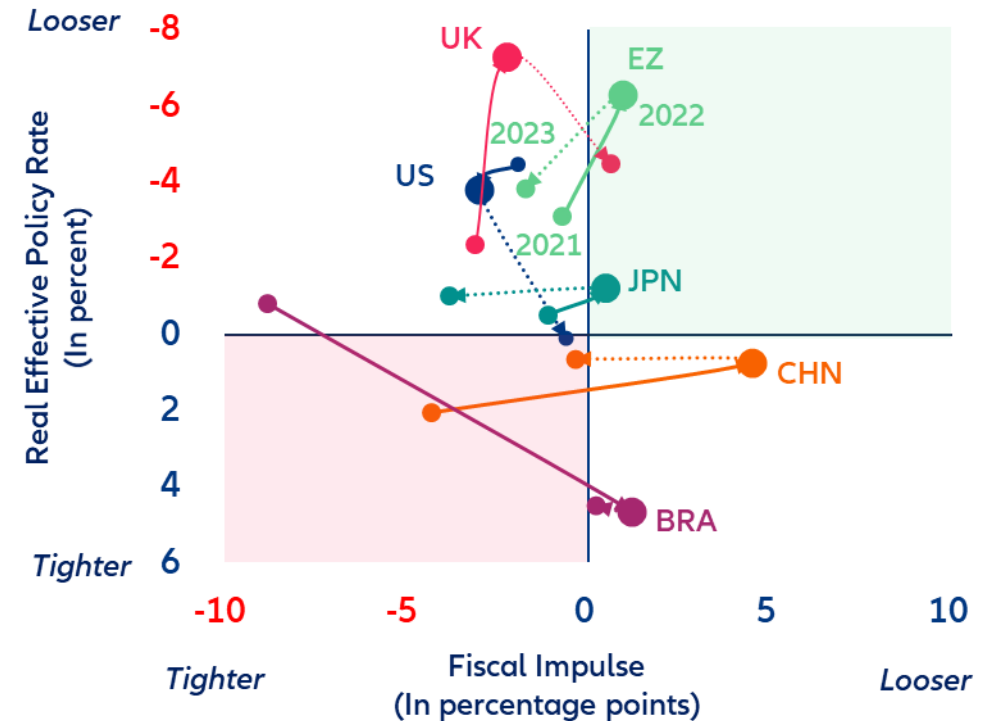
Europe: Fiscal Measures to Address the Impact of the Energy and Cost-of-Living Crisis



Sources: national authorities, Refinitiv Datastream, Allianz Research.

Note: "Additional fiscal cost" relates to planned support measures if electricity prices remain at current levels, with spillover effects into 2023; */ EU is approximated as the GDP-weighted average of the sample countries; ** assumes an energy subsidy of €150 for 11.5mn (lower-income) households; ***/ includes the current €56 bn package but do not consider additional measures being proposed.

Largest Economies: Fiscal and Monetary Stance



Sources: national authorities, Refinitiv Datastream, IMF, Allianz Research

High price pressures until Q1 2023

Inflation Forecast

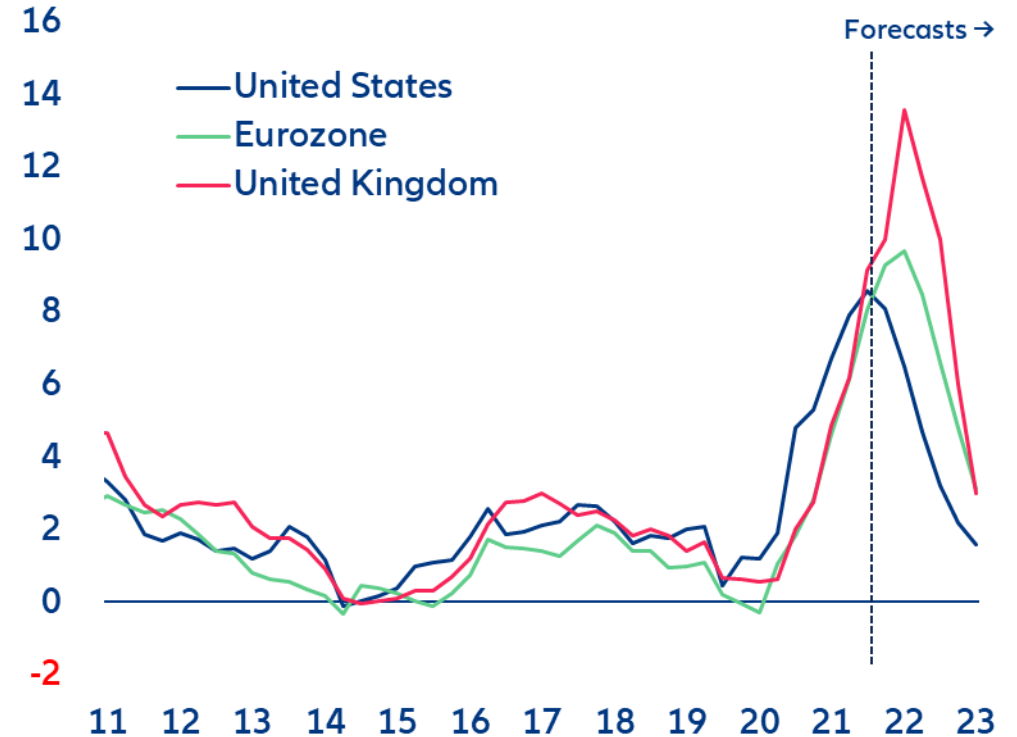
(12-month percentage changes – y/y%)

Inflation	2021	2022f	2023f
Global	4.2	7.9	5.3
USA	4.7	7.8	2.9
Latin America	13.9	17.6	13.4
Brazil	8.3	9.8	5.7
UK	2.6	9.8	7.5
Eurozone	2.6	8.3	5.6
Germany	3.1	8.5	6.2
France	1.6	5.5	4.3
Italy	1.9	7.2	5.2
Spain	3.1	9.0	5.7
Emerging Europe	8.1	23.7	14.0
Russia	6.7	14.5	12.0
Turkey	19.6	71.2	30.8
Poland	5.2	14.0	10.9
Asia-Pacific	1.6	3.5	2.9
China	0.9	2.1	2.2
Japan	-0.2	2.3	1.6
India	5.1	7.0	5.7
Middle East	15.8	20.5	19.0
Saudi Arabia	3.1	2.4	2.5
Africa	12.4	14.7	9.6
South Africa	4.6	6.8	5.0

Sources: Refinitiv Datastream, Allianz Research

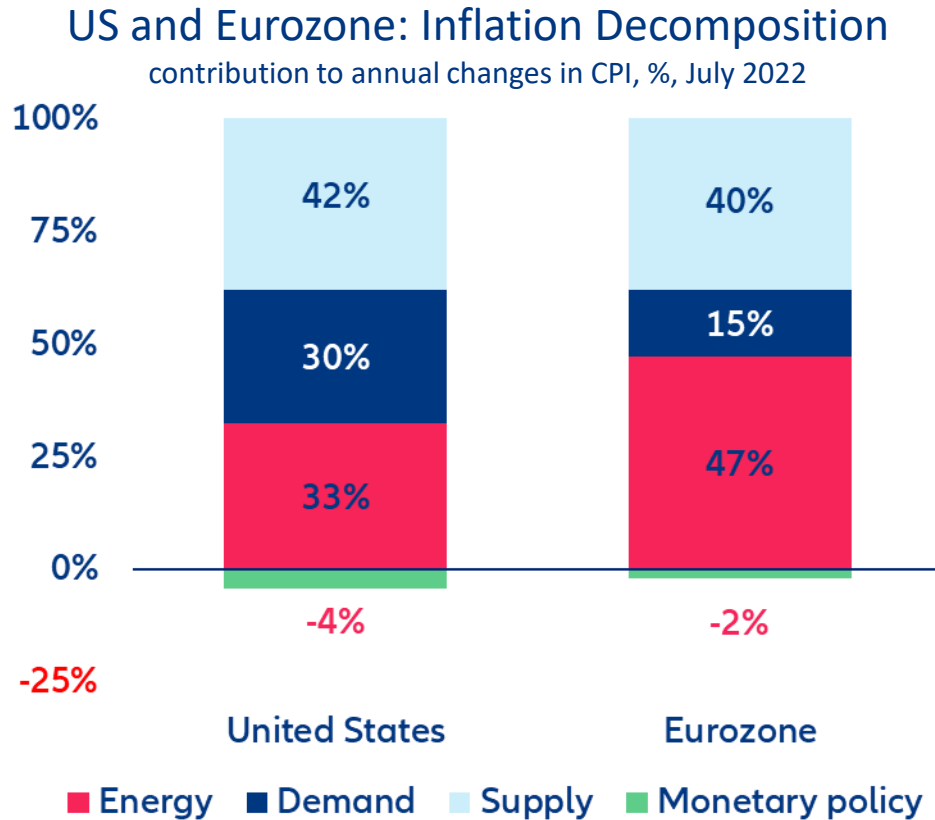
Major Economies: Inflation Forecast

(12-month percentage changes – y/y%)

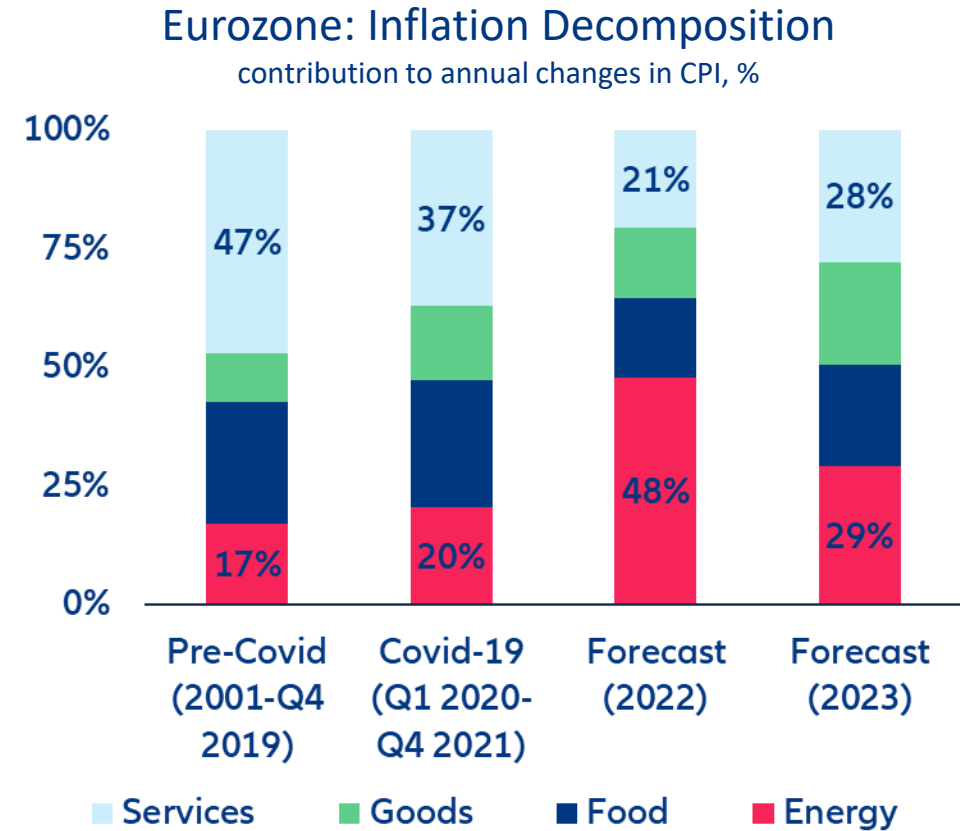


Sources: national authorities, Refinitiv Datastream, Allianz Research

Energy prices driving inflation



Sources: Refinitiv Datastream, Allianz Research



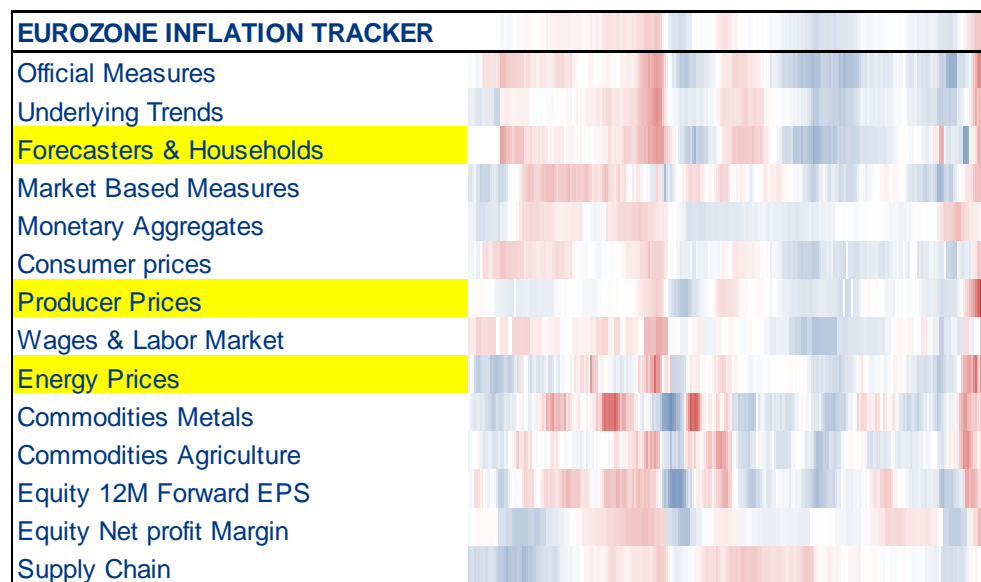
Sources: Refinitiv Datastream, Allianz Research

Inflation is still hot but the peak is near ...

Eurozone: Inflation Heatmap (z-score)

2000

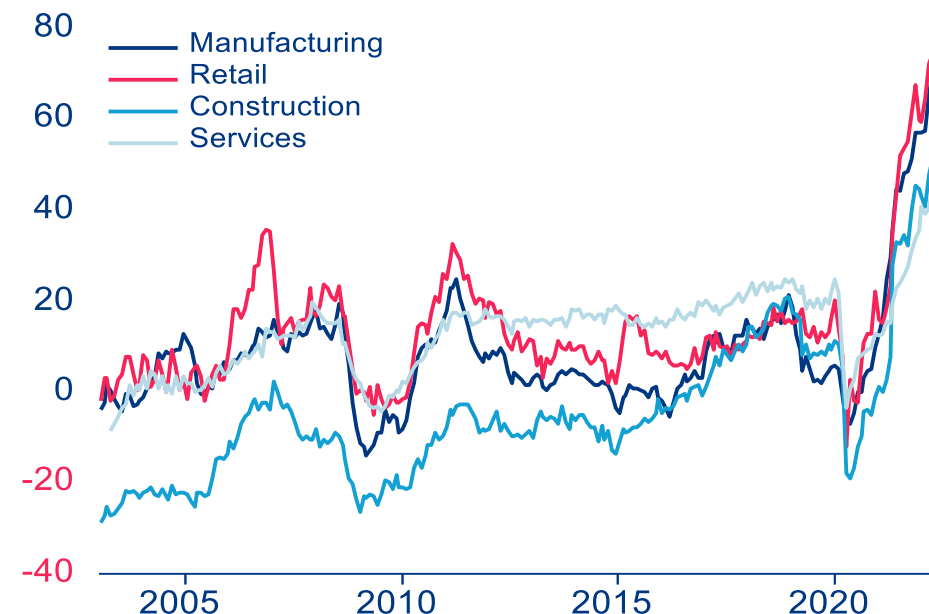
August 2022



Sources: Refinitiv, Allianz Research

Germany: Price Expectations

by sector, balance, SA



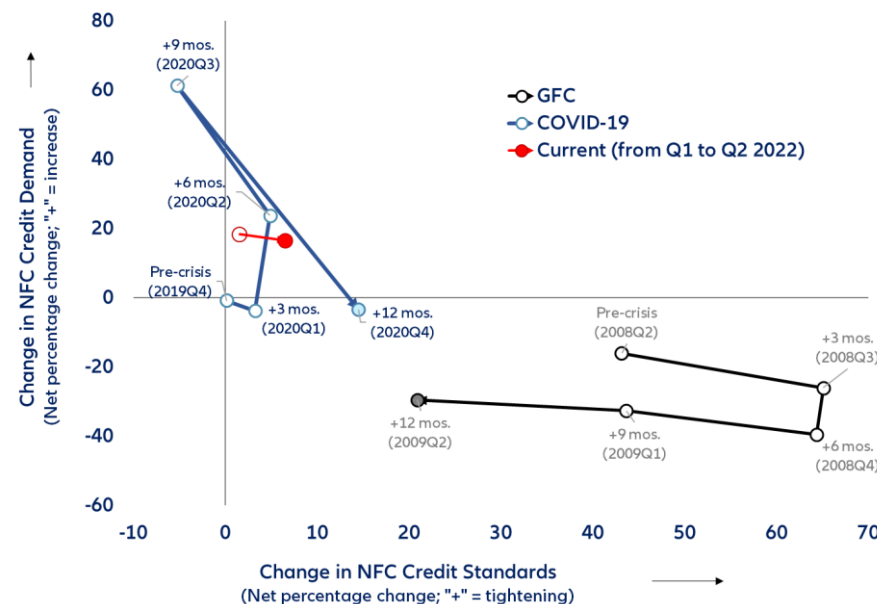
Sources: Refinitiv Datastream, Allianz Research

Tightening financing conditions & weakening credit impulse

Eurozone: Credit and Inflation

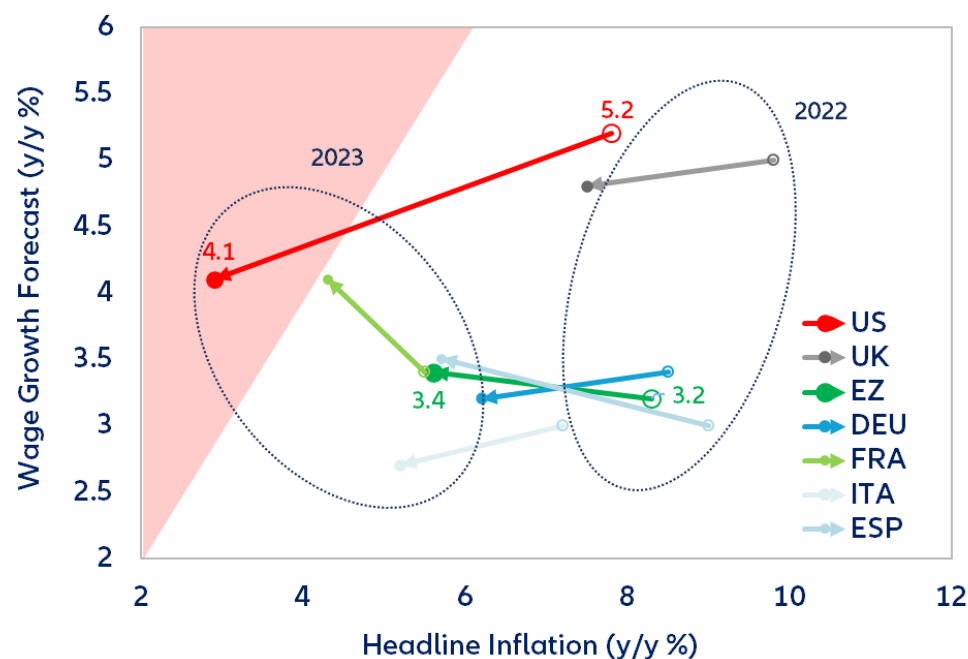


Eurozone: NFC Credit Conditions



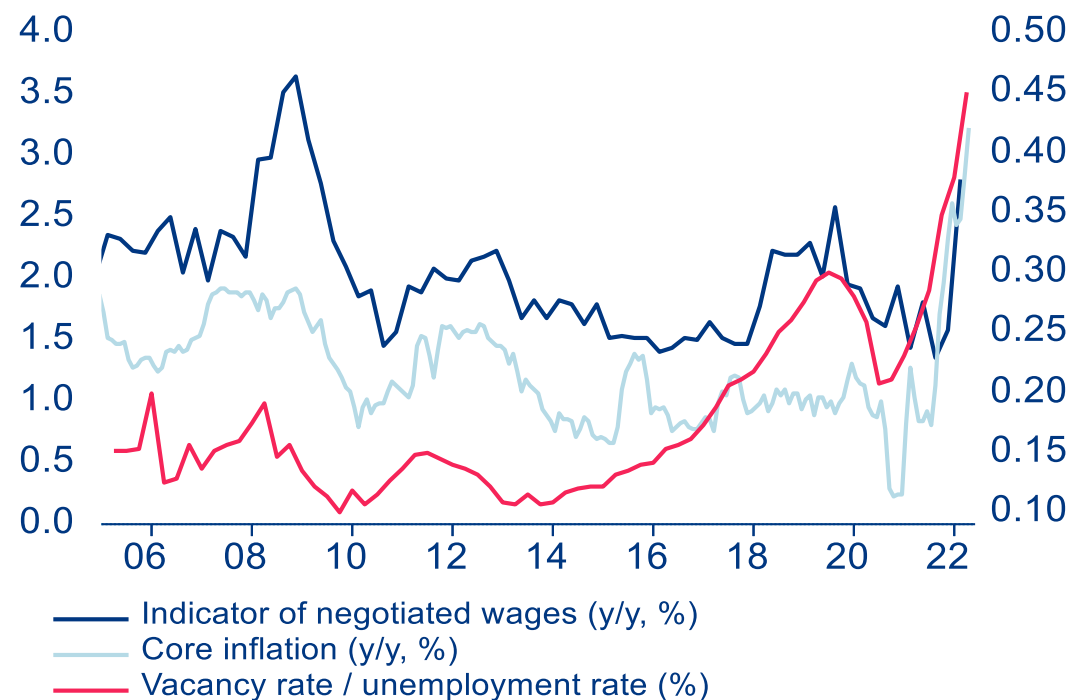
No adverse wage-price loop (yet)

Forecasts for Inflation vs. Wage Growth (%)



Sources: Refinitiv, Allianz Research

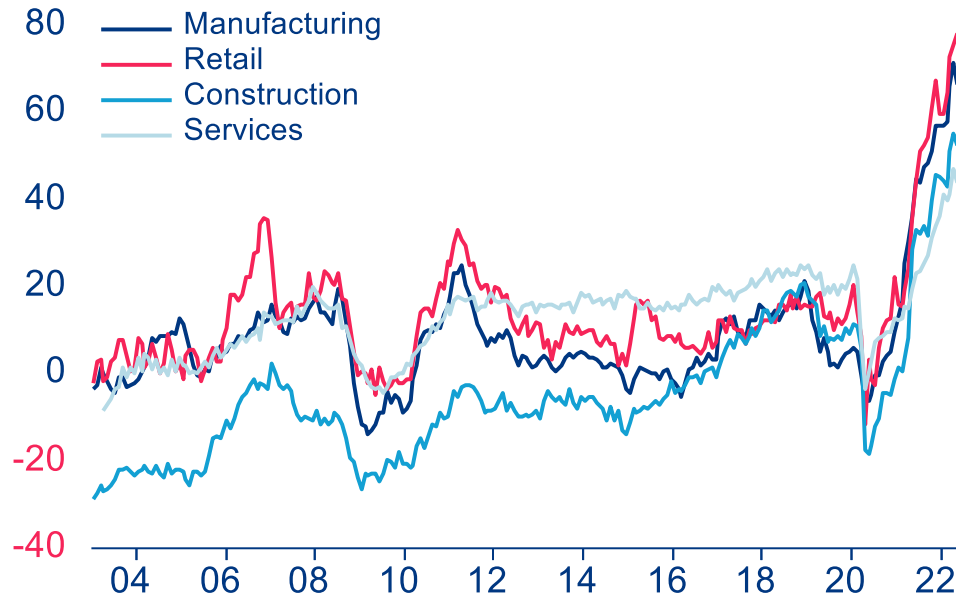
Eurozone: Wages (lhs), Vacancies/Unemployment Rate vs. Core inflation



Source: Refinitiv Datastream

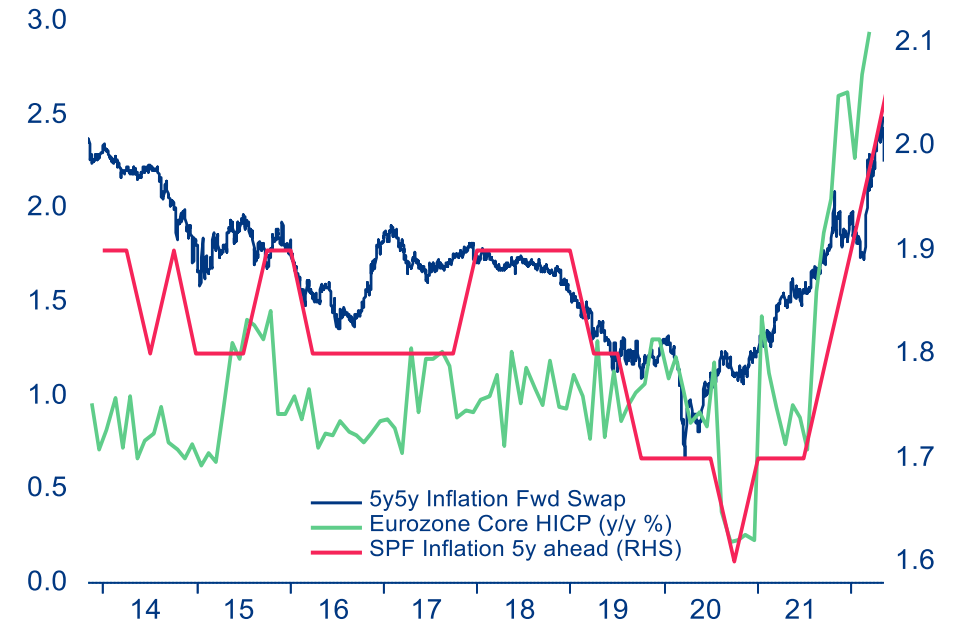
High inflation expectations challenge central bank credibility

Germany - price expectations
by sector, balance, SA



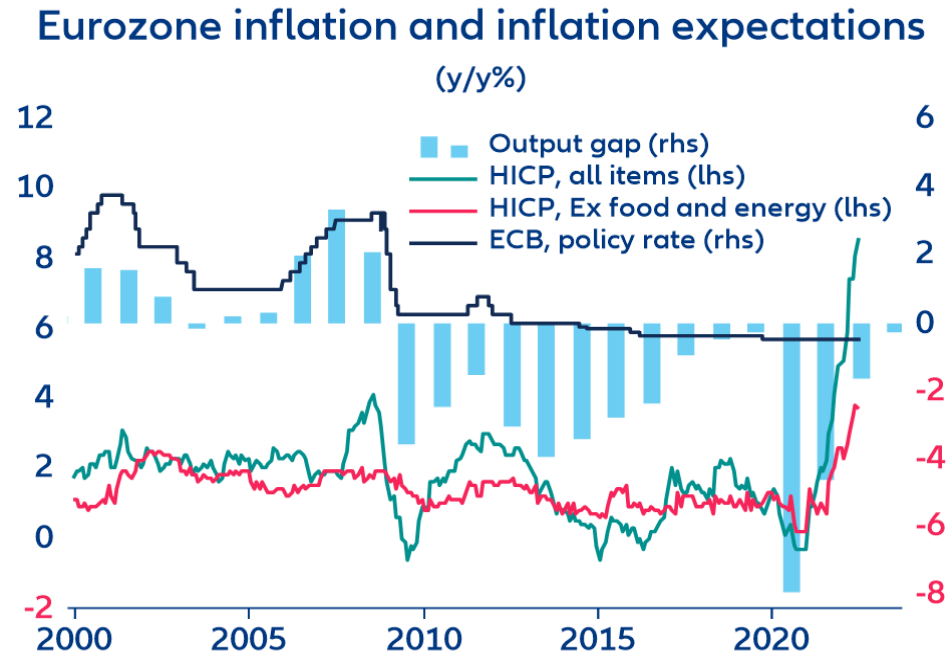
Source: Refinitiv Datastream; Allianz Research

ECB Survey Professional Forecasters (SPF) vs. Market-based
Inflation Expectations & Core Inflation (%)

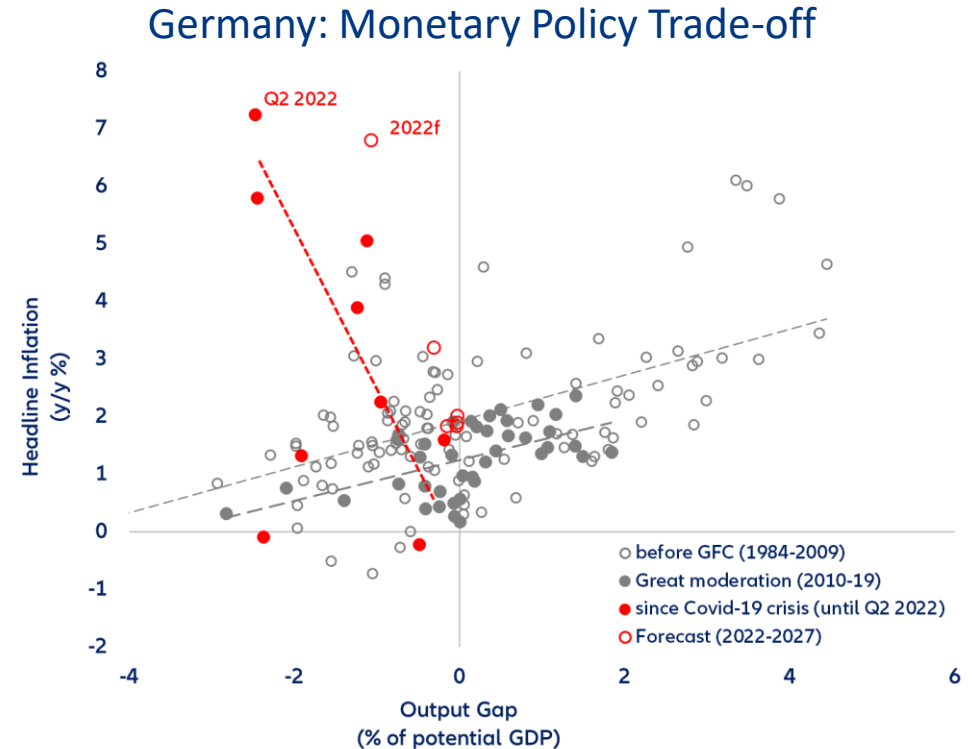


Source: Refinitiv Datastream; Allianz Research

Growth vs. inflation: policy dilemma for central banks?

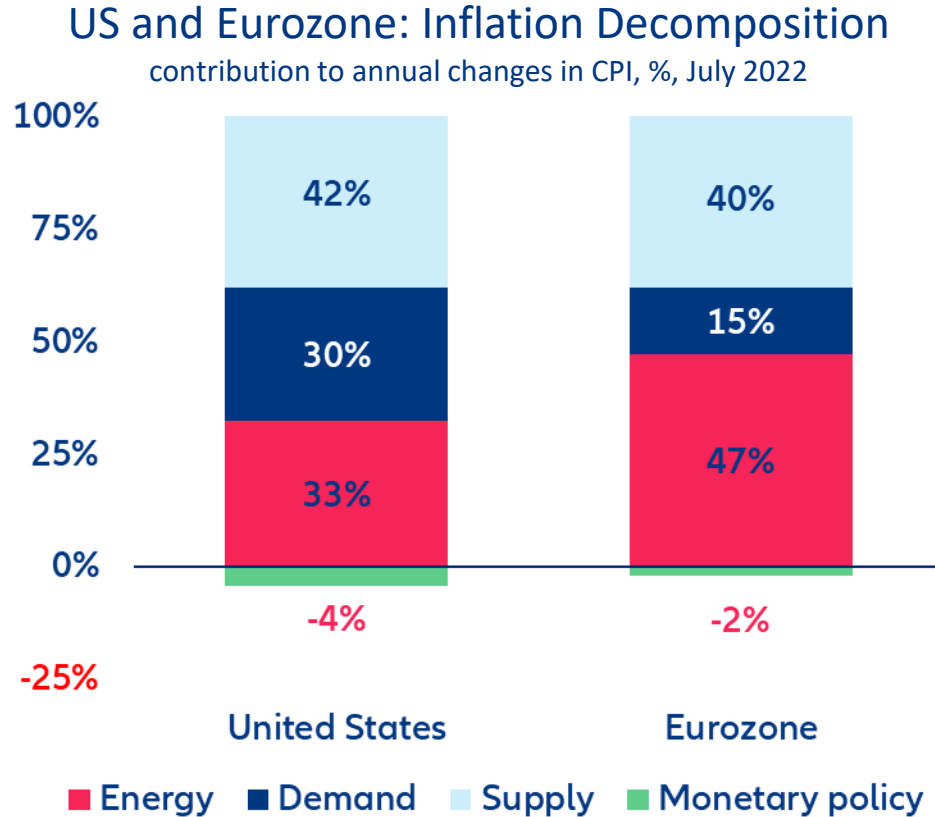


Source: Refinitiv Datastream; Allianz Research

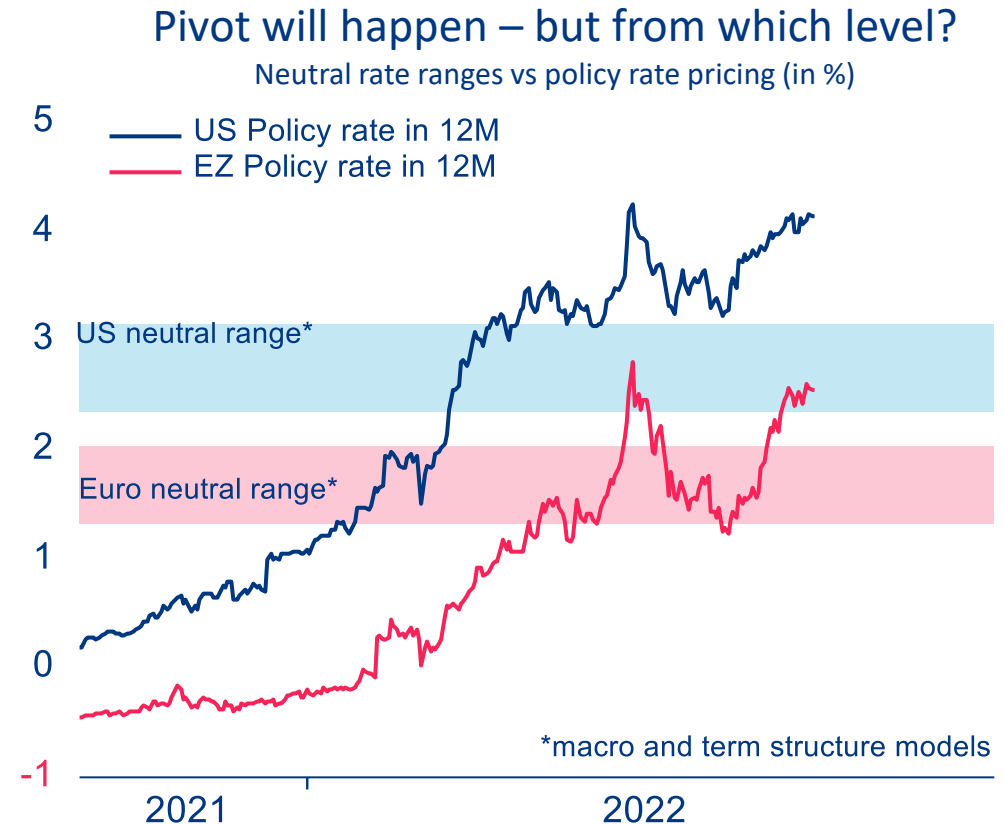


Sources: IMF, Oxford Economics, Refinitiv, Allianz Research

What can the central banks really do?



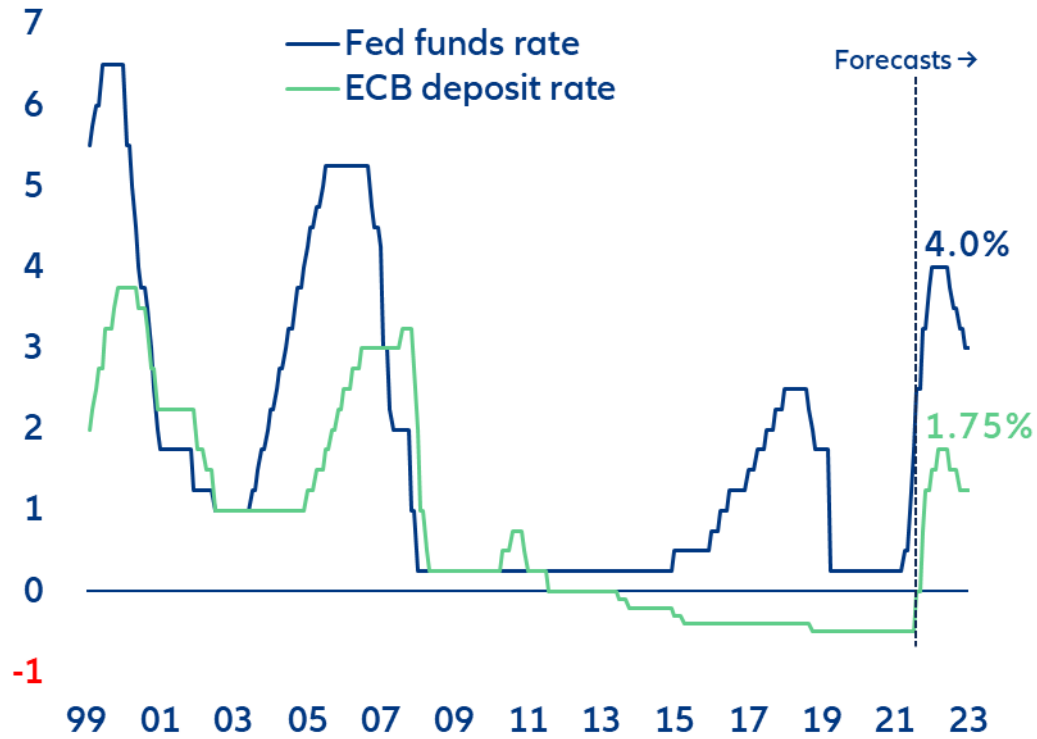
Sources: Refinitiv Datastream, Allianz Research



Sources: Bloomberg, Goldman Sachs, Allianz Research

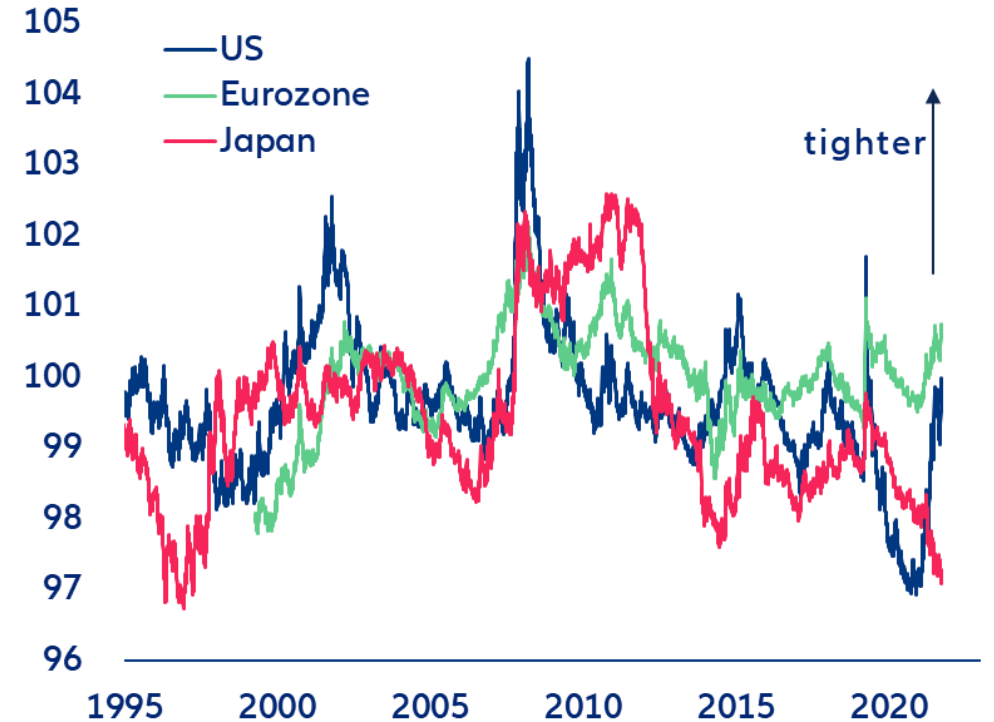
Hiking cycles to turn in early 2023

Eurozone and US: Effective Policy Rates (%)



Sources: Refinitiv Datastream, Allianz Research

Financial Conditions Index

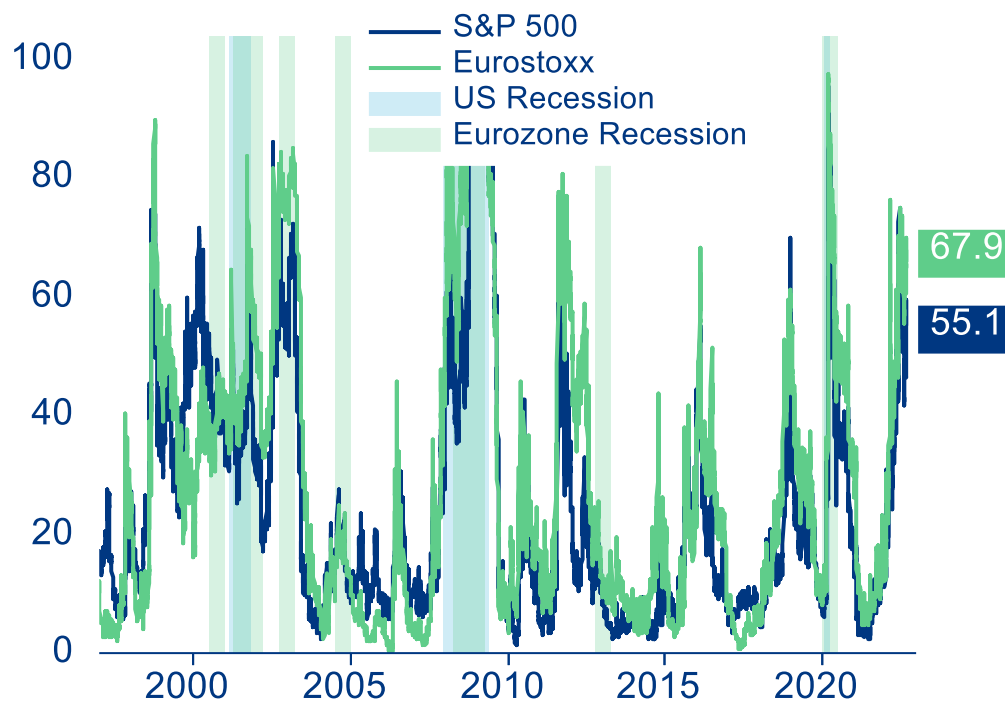


Sources: Bloomberg, Goldman Sachs, Allianz Research

MARKET PERSPECTIVE

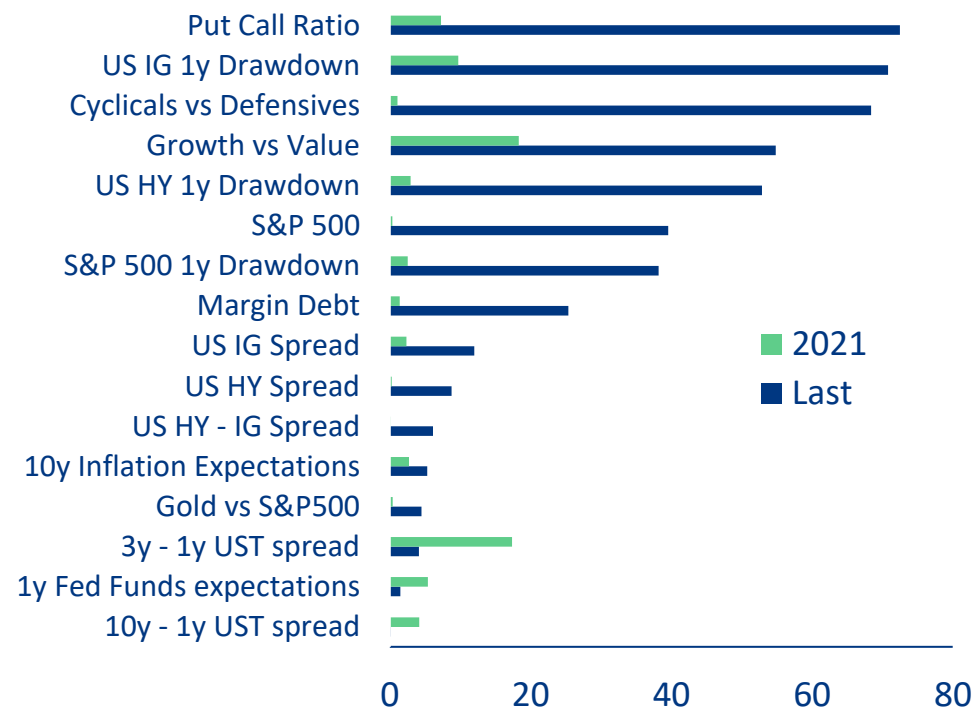
Markets not positioned for deep structural recession

EQ markets getting close to recession territory
percentage of stocks below -20% from 250day maximum



Sources: Refinitiv Datastream, Allianz Research

Markets have partially committed to a recession
US recession probability in %



Sources: Refinitiv Datastream, Allianz Research

Preparing for a different world

1

Globalization: Great Disentangling

Reconfiguration of global supply chains and geostrategic onshoring?
De-dollarization of reserves and financial markets?
West decoupling from China?

2

Inequality: Great Widening

Global divide exacerbated by Covid-19 and Ukraine war? New approaches to development (e.g., renewable energy, south-south cooperation)?

3

Climate Change: Great Transformation

Energy security vs. pace of de-carbonization?
Capital-intensive growth through climate investment and carbon pricing will raise the natural rate (again) and require a new monetary-fiscal policy mix.

4

State Support: Great Intervention

More pressure on fiscal policy to secure external (energy, defense, technology) and internal security (inequality, pension crisis). Diminished market-based resource allocation leading to less innovation and competition?

5

Central Bank: Great Complication

Monetary policy complicated by supply rather than demand shocks pushing up inflation (Covid, Ukraine, climate)

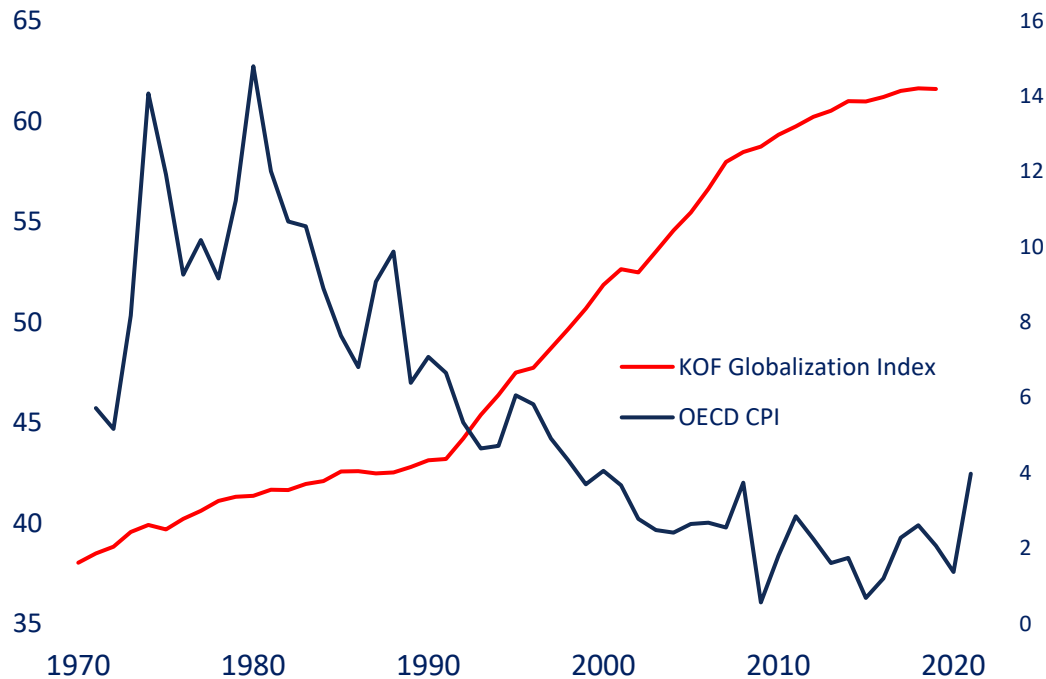
6

European Union: Great Unification

Can shared focus on preserving peace and freedom help overcome entrenched national positions? Disintegration or more pooling of resources (political, fiscal, defense)?

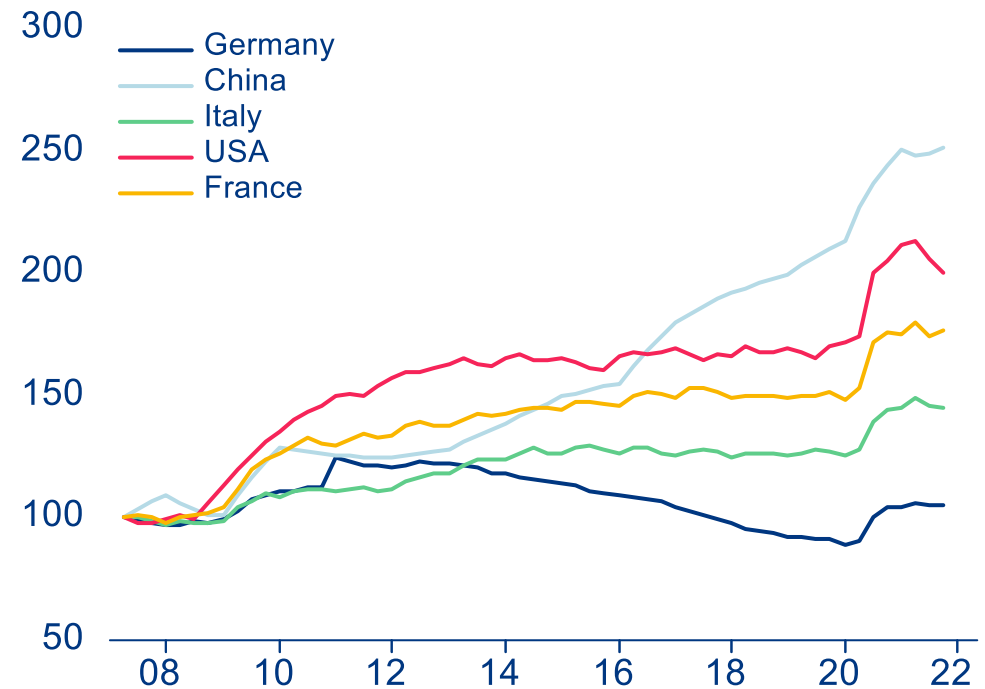
Structurally higher inflation and debt?

De-globalization: OECD inflation vs. KOF Globalization



Sources: Refinitiv, Allianz Research

Sovereign Debt (Index: 100=Q1 2007)



Source: Refinitiv Datastream; Allianz Research (as of Q3 21)

Thank you!

