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IW Financial Expert Survey

First Quarter 2018
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Contents

JEL Classification:

G12 – Asset pricing

G17 – Financial forecasting

Abstract

The IW Financial Expert Survey for the first quarter of 2018 revealed that the surveyed experts predict, on average, higher interest rates and stock market indices, a depreciation of the Euro vis-à-vis the US Dollar, and lower oil prices by the end of the first half of 2018. However, despite the expectation of higher interest rates, the short-term interest rate is predicted to remain in negative territory. Moreover, the experts expect the long-term interest rate to increase more compared to the short-term interest rate, which indicates a steeper yield curve. The 3-month Euribor is, on average, expected to reach -0.30 percent at the end of the second quarter of 2018, while the yield on German government bonds with 10-year maturity is expected to reach 0.60 percent by then. However, the experts do not expect the European Central Bank (ECB) to end net purchases of government bonds in the first half of 2018. The majority of the experts believe that the ECB will end net purchases at the end of 2018. No experts expect the ECB to increase its policy interest rates in 2018 or the first half of 2019. Instead, the majority of experts predict the first interest rate hike for the end of the second quarter of 2019. Some experts even predict a later date. Stock markets are, on average, expected to increase by 5.2 percent (Stoxx 50) and 4.8 percent (DAX 30) during the first half of 2018. During that same period, the experts predict the Euro will depreciate by 2.7 percent vis-à-vis the US Dollar, while oil prices are expected to fall 10.5 percent.

The expectation of an increase in the long rate and a slight increase in the short rate, together with the expected delayed monetary tightening of the ECB, hint at a financial market outlook characterised by a cautious approach to monetary normalisation. In this cautious approach, the ECB lets the market determine the first increases in long-term interest rates before it stops intervening at the long end of the yield curve, while keeping the short end of the yield curve lower. This approach will prevent an inverted yield curve that would endanger financial stability. The experts' prediction that the ECB will first stop net purchases of government bonds and then lift its key policy interest rates would be consistent with the outlook of a cautious approach to monetary normalisation by the ECB.

The evaluation of the forecasting performance of the latest forecasts indicates that Commerzbank and Postbank performed best in predicting trends, while the experts from DZ Bank produced the most precise point forecasts. In the long-term evaluation of the period running from Dec 29 2014 to Dec 29 2017, the DZ Bank experts performed best in predicting trends, while the National Bank experts produced the most precise point forecasts.

1   The IW Financial Expert Survey

Since the second quarter of 2017, the IW has been undertaking the former forecasting test of the Center for European Economic Research (ZEW). The ZEW has been conducting the survey of financial market experts since the beginning of 2001. The former ZEW forecasting test is now called the IW Financial Expert Survey, which is and will be conducted and published on a quarterly basis.

The participating forecasters from financial companies submit their forecast to the IW on a quarterly basis. The IW in turn calculates mean predictions and forecasting intervals and evaluates the participants' performance in making trend forecasts and point forecasts. The indicators used for the IW Financial Expert Survey are the 3-month Euribor (called "short rate"), the yield of German government bonds with 10-year maturity (called "long rate"), the Stoxx 50 Europe Index, the DAX 30 Index, the EUR-USD exchange rate, and oil prices. Moreover, the IW surveys alternating questions on the current stance of monetary policy or on macroeconomic trends that are relevant for financial markets.

2   Trend predictions

Using the surveyed experts' point forecasts, we calculated 3-month ahead and 6-month ahead trend forecasts from Dec 29 2017 onwards (figure 2-1). From the figure, it can be inferred that the majority of experts expect an increase in short-term and long-term interest rates, higher stock market indices, a depreciation of the Euro vis-à-vis the US Dollar, as well as declining oil prices by the end of the first quarter of 2018.

Figure 2-1:   3-months ahead trend forecasts

Trend predictions from Dec 29 2017 to March 30 2018, number of respondents
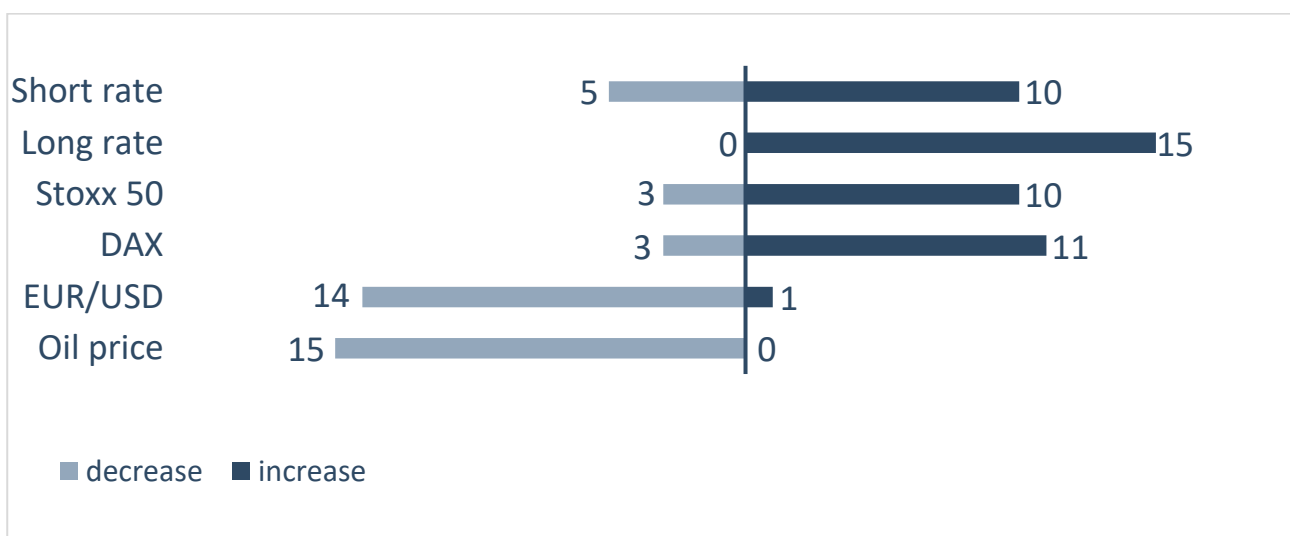
Source: Bloomberg, IW Financial Expert Survey

The 6-month trend forecasts reveal a similar picture (figure 2-2). The majority of experts expect interest rates and stock market indices to increase, the Euro to depreciate, and oil prices to fall. Figures 2-1 and 2-2 indicate less variability in the assessments of the 3 month and 6 month trend forecasts. From the 15 surveyed forecasters, 11 experts expect a higher short rate by the end of the first half of 2018, while only 4 experts expect a lower short rate. For the long rate, 14 experts predict an increase, while only one expert predicts a decrease. A comparable majority can be found for the performance of the two stock market indices. From the 15 surveyed experts, 11 forecasters predict the Stoxx 50 and the DAX 30 will increase by the end of the second half of 2018. There is also a consensus on the 3 month and 6-month trend of the EUR-USD exchange rate and oil prices. From the 15 surveyed forecasters, 13 expect the Euro to depreciate vis-à-vis the US Dollar by the first half of 2018, while all experts believe oil prices will fall by the end of the first half of 2018.

Figure 2-2:   6-month ahead trend forecasts

Trend predictions from Dec 29 2017 to June 30 2018, number of respondents
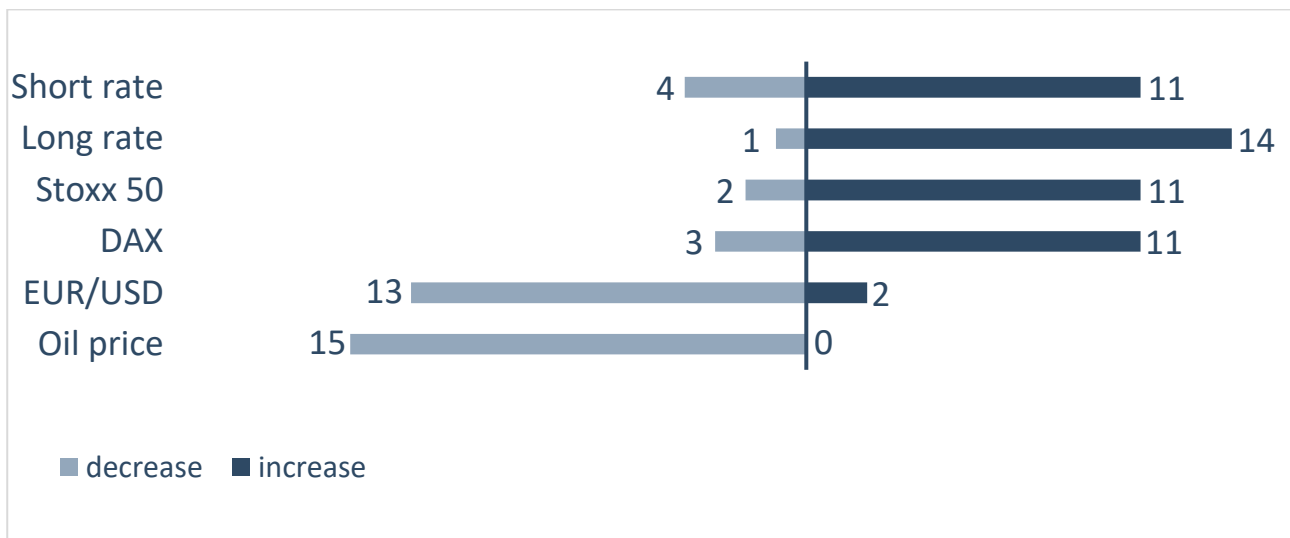
Source: Bloomberg, IW Financial Expert Survey

In the following subsections, we analyse the overall predictions in more detail.

2.1   Interest Rate Normalisation

The surveyed experts predict a continuation of the interest rate normalisation process. The short rate is expected to increase, but to remain negative. On average, the forecasters predict the short rate to increase from -0.33 percent on Dec 29 2017 to -0.31 percent at the end of the first quarter of 2018, and a further increase to -0.30 at the end of the second quarter of 2018 (table 2-1). Their individual forecasts range between -0.20 percent and -0.35 percent, indicating that no expert expects the short rate to become positive within the 3-month and 6-month forecast horizon. As can be inferred from figure 2-3, the evolution of the short rate seems to be best described by a constant value plus random fluctuations. Therefore, it seems rational that the

experts predict only small increases in the short rate within the 3 month and 6-month forecast horizon.
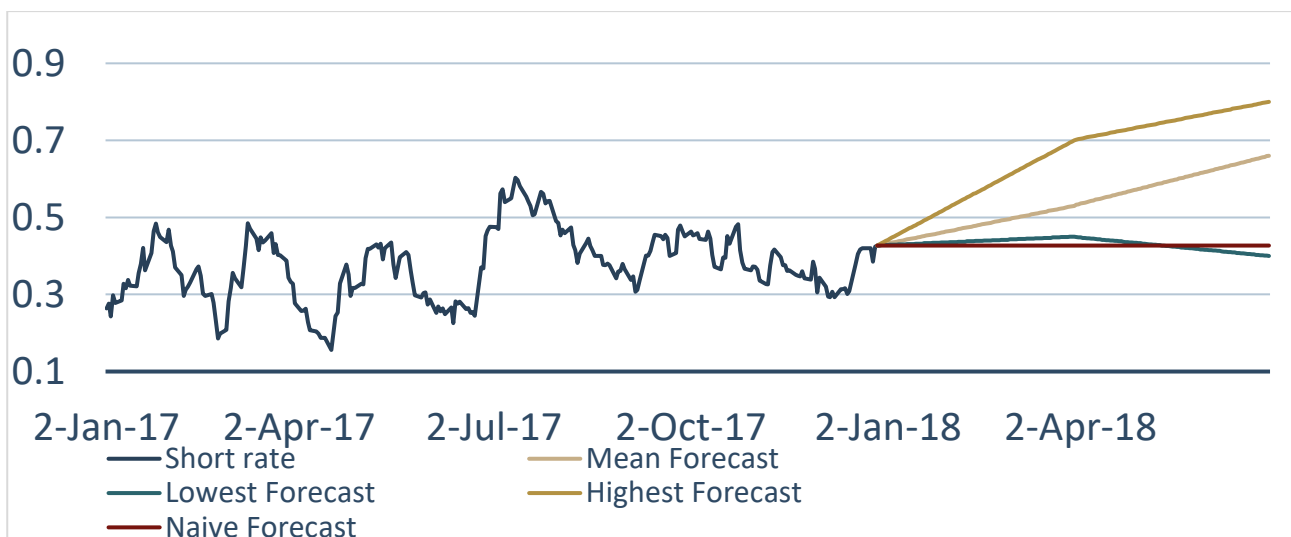
Figure 2-3: Short-term interest rate

3-Month Euribor, in percent
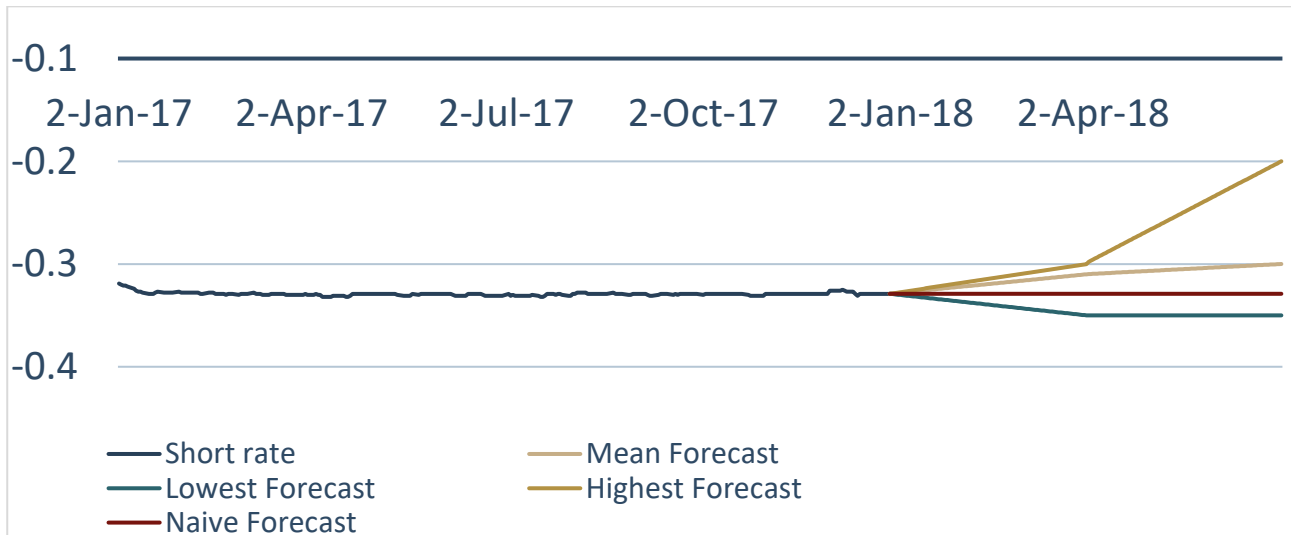
Source: Bloomberg, IW Financial Expert Survey

Figure 2-4: Long-term interest rate

Yield on German government bonds with a maturity of 10 years, in percent

Source: Bloomberg, IW Financial Expert Survey

The surveyed experts expect the long rate to increase in larger amounts compared to the short rate. Their prediction is that the long rate will increase from 0.43 percent at the end of the last quarter of 2017 to 0.53 percent at the end of the first quarter of 2018, and to 0.66 percent at the end of the second quarter of 2018 (table 2-1). Their forecasts range between 0.4 percent

and 0.8 percent. The broader range between the individual forecasts for the long rate compared to the short rate is rational, since the long rate experiences cycles during the last year (figure 2-4).

Table 2-1: Point forecasts: interest rates

End of survey: Dec 29 2017, 15 respondents for the short rate and the long rate

|	3-month-ahead forecast		6-month-ahead forecast	
	Short rate	Long rate	Short rate	Long rate
Dec 29 2017 value	-0.33	0.43	-0.33	0.43
Mean Forecast	-0.31	0.53	-0.30	0.66
Change in perc. points	0.01	0.10	0.03	0.23
Standard deviation	0.02	0.07	0.04	0.11
Lowest forecast	-0.35	0.45	-0.35	0.40
Highest forecast	-0.30	0.70	-0.20	0.80

Source: Bloomberg, IW Financial Expert Survey

2.2 Stock Market Performance

The surveyed experts expect stock market indices to perform well for the 3-month and 6-month forecast horizon. For the Stoxx 50 Europe, the forecasters predict on average an increase from 3178 points at the end of the last quarter of 2017 to 3295 points at the end of the first quarter of 2018, and to 3344 points at the end of the second quarter of 2018 (table 2-2). This would indicate an expected increase of the index by 5.2 percent during the first half of 2018. Their individual forecasts range from 3100 points to 3670 points, which means that the naïve random walk forecast is included in this range, but that more room is expected for upward movements than for downward movements of the Stoxx 50 (figure 2-5).

For the DAX 30, the surveyed experts predict, on average, an increase from 12918 points at the end of the last quarter of 2017 to 13343 points at the end of the first quarter of 2018, and to 13543 points at the end of the second quarter of 2018 (table 2-2). Thus, indicating an increase in the DAX 30 of 4.8 percent by the end of the first half of 2018. Their individual forecasts are scattered between 12500 points and 15000 points. Similar to the Stoxx 50, the range of forecasts include the naïve random walk forecast, but the experts predict little room for downward movements of the DAX and more room for upward movements of the index.
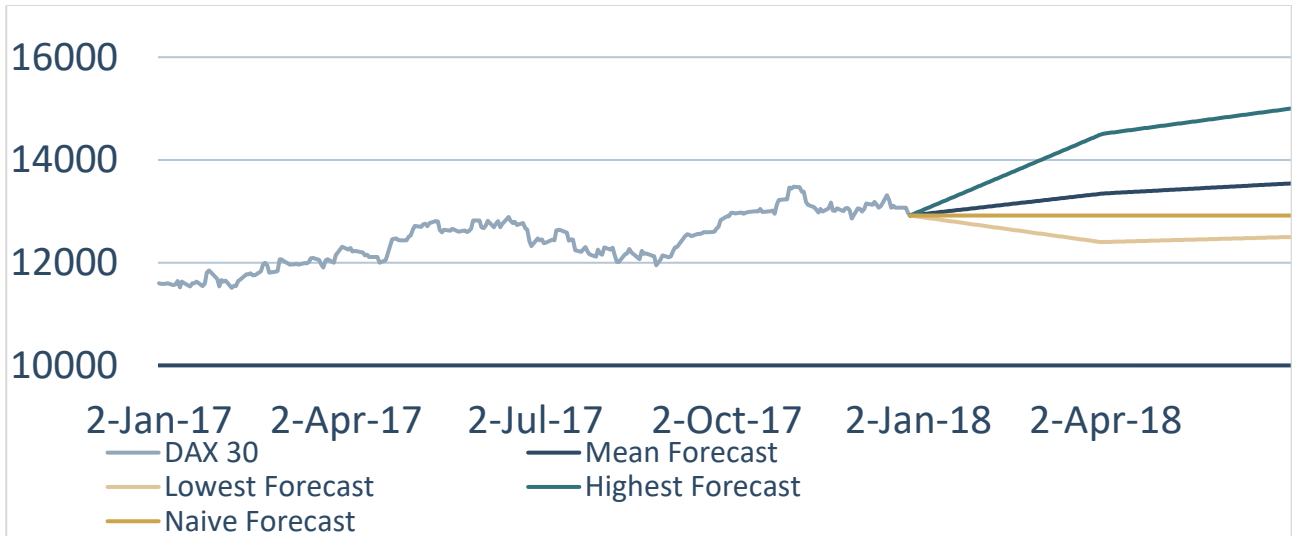
Figure 2-5:   Stoxx 50 Europe

Index
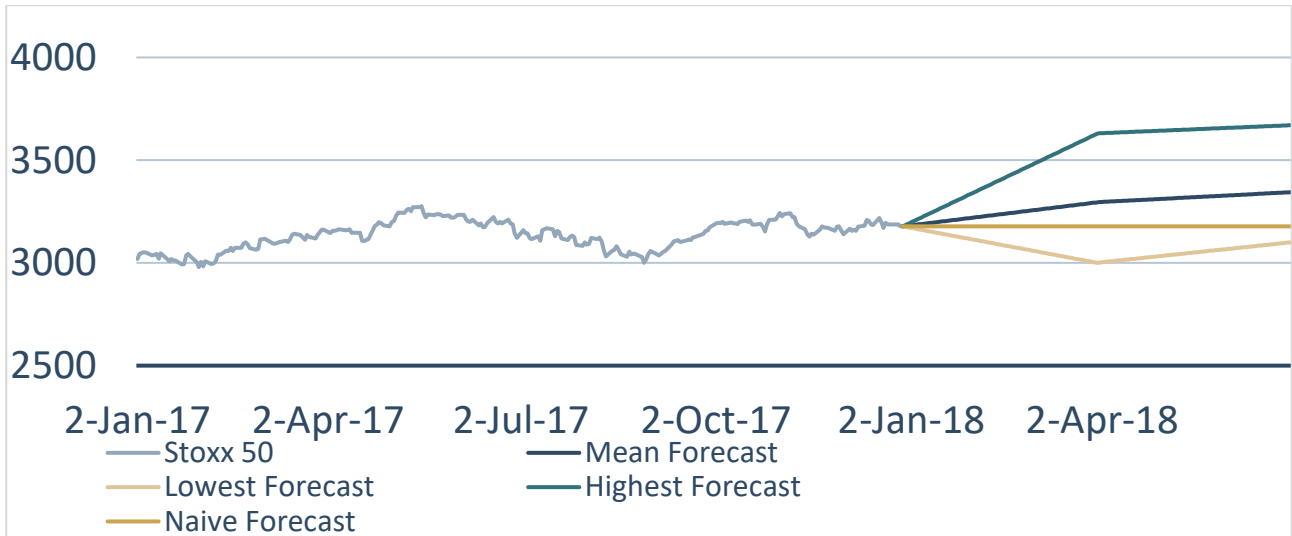
Source: Bloomberg, IW Financial Expert Survey

Figure 2-6:   DAX 30 Index

Index

Source: Bloomberg, IW Financial Expert Survey

Table 2-2: Point forecasts: interest rates

End of survey: Dec 29 2017, 13 respondents for the Stoxx 50 and 14 respondents for the DAX 30

	3-month-ahead forecast		6-month-ahead forecast	
	Stoxx 50	DAX 30	Stoxx 50	DAX 30
Dec 29 2017 value	3,178	12,918	3,178	12,918
Mean Forecast	3,295	13,343	3,344	13,543
Change in percent	3.7	3.3	5.2	4.8
Standard deviation	164	523	167	652
Lowest forecast	3,000	12,400	3,100	12,500
Highest forecast	3,630	14,500	3,670	15,000

Source: Bloomberg, IW Financial Expert Survey

2.3   Foreign Exchange

The surveyed experts predict the Euro to depreciate on average vis-à-vis the US Dollar from 1.201 US Dollars at the end of the last quarter of 2017 to 1.167 at the end of the first quarter of 2018, and to 1.169 US Dollars at the end of the second quarter of 2018. Thus, the experts expect the Euro to depreciate, on average, by 2.7 percent during the first half of 2018. Their individual forecasts range from 1.120 US Dollars to 1.240 US Dollars (table 2-4).

Figure 2-7:   EUR-USD Exchange Rate

US Dollars per 1 Euro
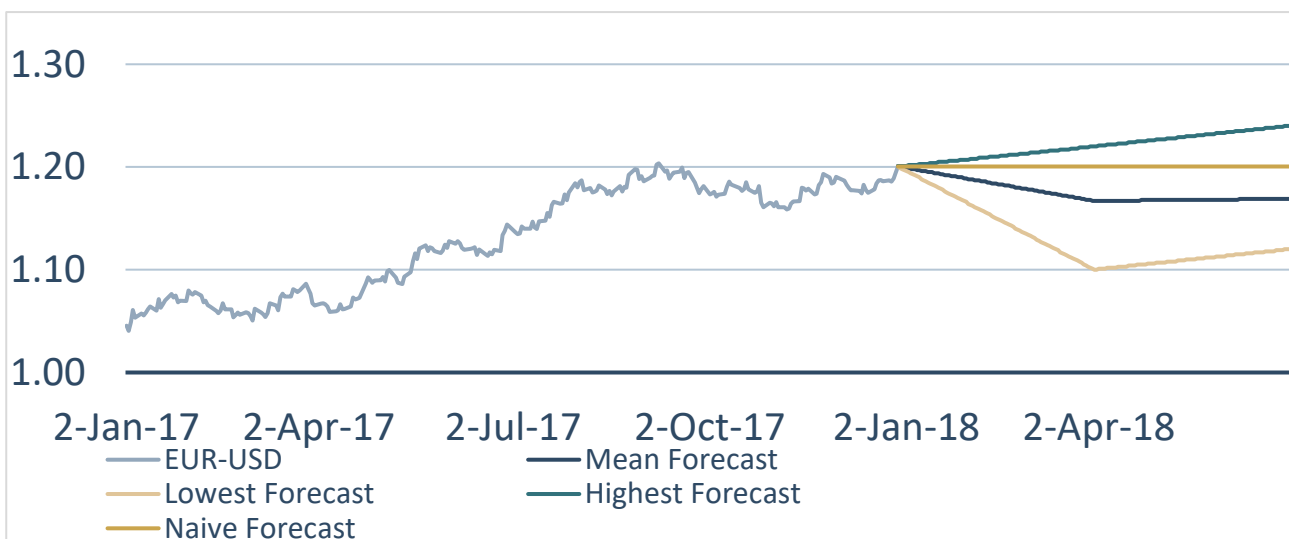
Source: Bloomberg, IW Financial Expert Survey

The range of their individual forecasts contains the naïve random walk forecast, but it indicates that the experts expect little room for an appreciation of the Euro and more room for a depreciation of the Euro by the end of the second half of 2018 (figure 2-5).

Table 2-3: Point forecasts: foreign exchange

End of survey: Dec 29 2017, 15 respondents, in US Dollars per 1 Euro

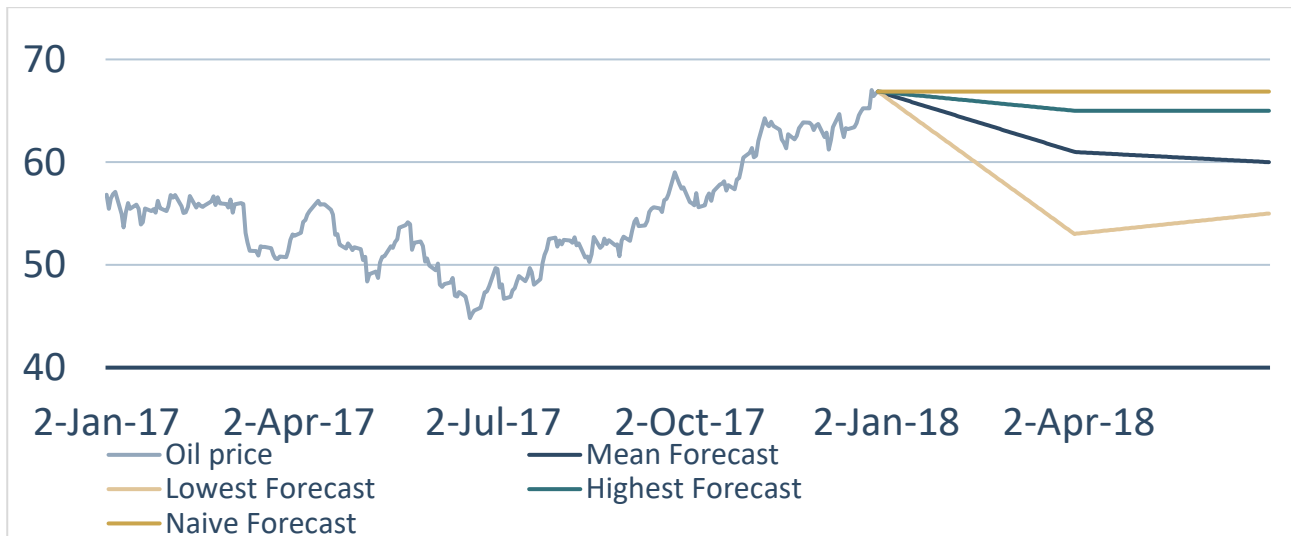|	3-month-ahead forecast	6-month-ahead forecast
	EUR-USD	EUR-USD
Dec 29 2017 value	1.201	1.201
Mean Forecast	1.167	1.169
Change in percent	-2.763	-2.652
Standard deviation	0.028	0.033
Lowest forecast	1.100	1.120
Highest forecast	1.220	1.240

Source: Bloomberg, IW Financial Expert Survey

2.4 Oil Prices

The surveyed experts expect the price of oil to decline on average from 66.9 US Dollars per barrel at the end of the last quarter of 2017 to 60.5 US Dollars per barrel at the end of the first quarter of 2018, and to 59.5 US Dollars per barrel at the end of the second quarter of 2018. Thus, on average they predict an oil price decrease of 10.5 percent by the end of the first half of 2018. Their individual forecasts range between 55 US Dollars and 65 US Dollars (table 2-4). The range of their individual forecasts lies below the naïve random walk forecast, indicating that the experts expect no room for upward movement of oil prices by the end of the second half of 2018. Instead, there seems to be a consensus between the experts that oil prices will decline in the near future. Oil prices were characterised by an upward trend during the second half of 2017. Thus, the experts do not believe this trend is sustainable and instead expect a trend reversal (figure 2-6).

Figure 2-8: Oil prices

Brent, London, US Dollars per barrel

Source: Bloomberg, IW Financial Expert Survey

Table 2-4: Point forecasts: oil prices

End of survey: Dec 29 2017, 15 respondents

	3-month-ahead forecast	6-month-ahead forecast
	Oil prices	Oil prices
Dec 29 2017 value	66.9	66.9
Mean Forecast	60.5	59.5
Change in percent	-9.5	-10.5
Standard deviation	3.8	3.7
Lowest forecast	53.0	55.0
Highest forecast	65.0	65.0

Source: Bloomberg, IW Financial Expert Survey

3 Forecasts for the ECB's Monetary Policy

During this survey, the experts were also questioned about their expectations regarding the future stance of the European Central Bank's (ECB's) monetary policy. Two questions were put to the experts. Firstly, they were asked on their view on the timing of the ECB stopping net purchases of sovereign bonds within its Public Sector Purchase Program (PSPP). Secondly, the experts were asked on their view on the timing of the ECB's first key interest rate increase.

The survey indicates that no expert expects the ECB to stop net asset purchases during the first half of 2018. Instead, the majority of experts predict the end of net purchases in December 2018. Moreover, no expert predicts the ECB to raise interest rates before it has stopped net purchases of government bonds. The majority of experts expect the first key interest rate hike at the end of the second quarter of 2019 and some even expect the first interest rate hike at the end of the third quarter of 2019 (figure 3-1).

The expectation of an increase in the long rate and a slight increase in short rate, together with the expected delayed monetary tightening of the ECB, hint at a financial market outlook characterised by a cautious approach to monetary normalisation. In this cautious approach, the ECB lets the market determine the first increases in long-term interest rates before it stops intervening at the long end of the yield curve, while keeping the short end of the yield curve lower. This approach will prevent an inverted yield curve that would endanger financial stability. The experts' prediction that the ECB will first stop net purchases of government bonds and then lift its key policy interest rates would be consistent with the outlook of a cautious approach to monetary normalisation by the ECB.

Figure 3-1:   Forecasts for the ECB's Monetary Policy

Number of respondents
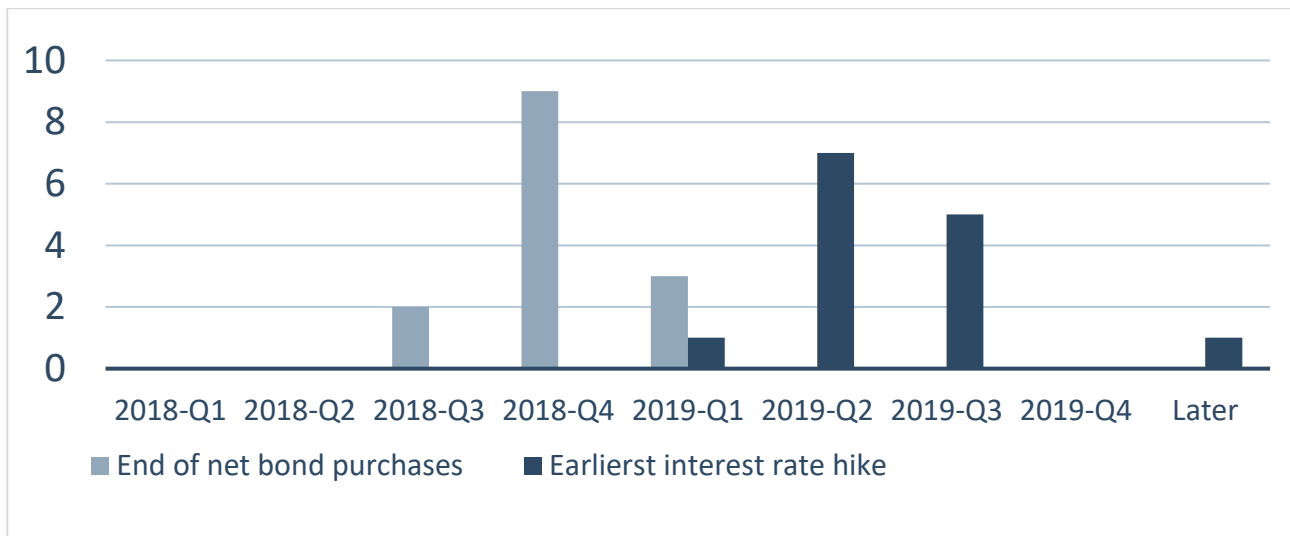
Source: Bloomberg, IW Financial Expert Survey

4   Ranking of the Best Forecaster

The forecasting performance of the participating experts was evaluated in the form of a short-term ranking and a long-term ranking. While the short-term ranking is based on the forecasts of the two latest surveys (fourth quarter of 2017 for the 3-month forecasts and third quarter of 2017 for the 6-month forecasts), the long-term ranking is based on the period running from Dec

29 2014 to Dec 29 2017. For the forecast evaluation, the forecasts for the six indicators and the two forecast horizons were combined.

4.1 Trend Forecasts

The forecast evaluation of the trend forecasts is based on the number of precisely predicted trends.

The experts from Commerzbank and Postbank performed best in the latest forecasts with 75.0 percent of trends correctly identified. In second place we find Bayerische Landesbank, DZ Bank, Hamburger Sparkasse and Santander Bank, each with 66.7 percent of trends correctly identified. Third place goes to DekaBank, with 58.3 percent of trends correctly identified (table 4-1).

In the long-term ranking, DZ Bank took first place, as in the last ranking of 2017. The experts correctly predicted 66.7 percent of all trends in the period running from Dec 29 2014 to Dec 29 2017. Second place went to Commerzbank, with 62.5 percent of trends correctly identified, while Hamburger Sparkasse took third place, with 61.1 percent of trends correctly identified (table 4-1).

Table 4-1: The best performing trend forecasters

Forecast evaluation based on the number of precisely predicted trends, in percent

	Short-term ranking Evaluation of latest forecasts	Long-term ranking Evaluation of the period Dec 29 2014 to Dec 29 2017
1	Commerzbank and Postbank	DZ Bank
	75.0 percent	66.7 percent
2	Bayerische Landesbank, DZ Bank, Hamburger Sparkasse, Santander Bank	Commerzbank
	66.7 percent	62.5 percent
3	DekaBank	Hamburger Sparkasse
	58.3 percent	61.1 percent

Source: Bloomberg, IW Financial Expert Survey

4.2 Point Forecasts

The experts' forecasting performance for their point forecasts was also evaluated and mapped in a short-term ranking and a long-term ranking.

DZ Bank performed best in the short-term ranking of the latest forecasts, followed by Postbank in second place and National-Bank in third. The experts from all three financial institutions produced better forecasts compared to a random walk (table 4-1).

In the long-term ranking, National-Bank performed best, followed by Commerzbank in second place and Bayerische Landesbank in third. However, it proved very difficult for the experts to beat the random walk forecast (table 4-1).

Table 4-2: The best performing point forecasters

Forecast evaluation based on Theil's U defined as the root mean squared forecast error of the forecaster divided by the root mean squared error of a random walk forecast

	Short-term ranking Evaluation of latest forecasts	Long-term ranking Evaluation of the period Dec 29 2014 to Dec 29 2017
1	DZ Bank	National-Bank
	0.606	1.015
2	Postbank	Commerzbank
	0.880	1.051
3	National-Bank	Bayerische Landesbank
	0.953	1.085

Source: Bloomberg, IW Financial Expert Survey

5 Conclusion

The IW Financial Expert Survey for the first quarter of 2018 revealed that the surveyed experts predict, on average, higher interest rates and stock market indices, a depreciation of the Euro vis-à-vis the US Dollar and lower oil prices by the end of the first half of 2018. The short-term interest rate is therefore expected to remain in negative territory. Moreover, the experts expect the long-term interest rate to increase more compared to the short-term interest rate, which indicates a steeper yield curve. The 3-month Euribor is, on average, expected to reach -0.30 percent at the end of the second quarter of 2018, while the yield on German government bonds with 10-year maturity is expected to reach 0.60 percent by then. However, the experts do not expect the European Central Bank to end net purchases of government bonds in the first half of the year 2018. The majority of the experts believe that the European Central Bank will end net purchases at the end of 2018. No expert expects the European Central Bank to increase its policy interest rates in 2018 or the first half of 2019. The majority of experts expect the first interest rate hike at the end of the second quarter of 2019. Some experts even predict a later date. Stock markets are, on average, expected to increase by 5.2 percent (Stoxx 50) and 4.8 percent (DAX 30) during the first half of 2018. During that same period, the experts expect the Euro to depreciate by 2.7 percent vis-à-vis the US Dollar, while oil prices are expected to fall by 10.5 percent.

The expectation of an increase in long rate and a slight increase in short rate, together with the expected delayed monetary tightening of the ECB, hint at a financial market outlook characterised by a cautious approach to monetary normalisation. In this cautious approach, the ECB lets the market determine the first increases in long-term interest rates before it stops intervening at the long end of the yield curve, while keeping the short end of the yield curve lower. This approach will prevent an inverted yield curve that would endanger financial stability. The experts' prediction that the ECB will first stop net purchases of government bonds and then lift its key policy interest rates would be consistent with the outlook of a cautious approach to monetary normalisation by the ECB.

The evaluation of the forecasting performance for the latest forecasts indicates that Commerzbank and Postbank performed best in predicting trends, while the experts from DZ Bank produced the most precise point forecasts. In the long-term evaluation of the period running from Dec 29 2014 to Dec 29 2017, the DZ Bank experts performed best in predicting trends, while the National-Bank experts produced the most precise point forecasts.

6 Appendix: Individual Forecasts

Table 6-1: Individual forecasts: short-term interest rate

In percent

Forecaster	March 30 2018	June 30 2018
Allianz	-0.30	-0.30
Bayerische Landesbank	-0.33	-0.33
Commerzbank	-0.30	-0.30
DekaBank	-0.33	-0.33
Deutsche Bank	-0.30	-0.30
DZ Bank	-0.35	-0.35
Hamburger Sparkasse	-0.31	-0.30
Helaba	-0.30	-0.30
LBBW	-0.30	-0.30
National-Bank	-0.33	-0.33
Nord/LB	-0.32	-0.32
Postbank	-0.30	-0.30
Santander Bank	-0.30	-0.25
UniCredit	-0.35	-0.35
Weberbank	-0.30	-0.20

Source: IW Financial Expert Survey

Table 6-2: Individual forecasts: long-term interest rate

In percent

Forecaster	March 30 2018	June 30 2018
Allianz	0.50	0.70
Bayerische Landesbank	0.60	0.70
Commerzbank	0.50	0.40
DekaBank	0.45	0.65
Deutsche Bank	0.50	0.60
DZ Bank	0.50	0.60
Hamburger Sparkasse	0.45	0.60
Helaba	0.70	0.80
LBBW	0.60	0.80
National-Bank	0.50	0.55
Nord/LB	0.50	0.70
Postbank	0.50	0.60
Santander Bank	0.50	0.60
UniCredit	0.55	0.80
Weberbank	0.60	0.80

Source: IW Financial Expert Survey

Table 6-3: Individual forecasts: Stoxx 50 Index

In index points

Forecaster	March 30 2018	June 30 2018
Allianz	3,300	3,350
Bayerische Landesbank	3,280	3,250
Commerzbank	3,300	3,400
DekaBank	3,000	3,100
Deutsche Bank		
DZ Bank	3,500	3,550
Hamburger Sparkasse	3,200	3,200
Helaba	3,125	3,100
LBBW		
National-Bank	3,630	3,670
Nord/LB	3,125	3,200
Postbank	3,225	3,300
Santander Bank	3,300	3,400
UniCredit	3,400	3,500
Weberbank	3,450	3,450

Source: IW Financial Expert Survey

Table 6-4: Individual forecasts: DAX 30 Index

In index points

Forecaster	March 30 2018	June 30 2018
Allianz	13,500	13,800
Bayerische Landesbank	13,500	13,500
Commerzbank	13,600	13,800
DekaBank	12,600	12,600
Deutsche Bank		
DZ Bank	13,600	13,800
Hamburger Sparkasse	13,000	13,000
Helaba	12,800	12,500
LBBW	13,250	13,750
National-Bank	13,400	13,600
Nord/LB	12,400	12,600
Postbank	13,250	13,750
Santander Bank	13,400	13,800
UniCredit	14,500	15,000
Weberbank	14,000	14,100

Source: IW Financial Expert Survey

Table 6-5: Individual forecasts: EUR-USD exchange rate

In US Dollars per 1 Euro

Forecaster	March 30 2018	June 30 2018
Allianz	1.15	1.15
Bayerische Landesbank	1.17	1.15
Commerzbank	1.16	1.14
DekaBank	1.17	1.15
Deutsche Bank	1.22	1.24
DZ Bank	1.18	1.20
Hamburger Sparkasse	1.16	1.15
Helaba	1.10	1.15
LBBW	1.13	1.12
National-Bank	1.17	1.15
Nord/LB	1.15	1.14
Postbank	1.17	1.17
Santander Bank	1.20	1.20
UniCredit	1.20	1.22
Weberbank	1.18	1.20

Source: IW Financial Expert Survey

Table 6-6: Individual forecasts: oil prices

Brent, in US Dollars per barrel

Forecaster	March 30 2018	June 30 2018
Allianz	63	64
Bayerische Landesbank	64	60
Commerzbank	53	55
DekaBank	59	59
Deutsche Bank	55	55
DZ Bank	58	56
Hamburger Sparkasse	60	55
Helaba	60	62
LBBW	65	65
National-Bank	53	60
Nord/LB	53	62
Postbank	55	55
Santander Bank	65	63
UniCredit	64	62
Weberbank	60	65

Source: IW Financial Expert Survey

Tables

Figures