Deutsche Bank

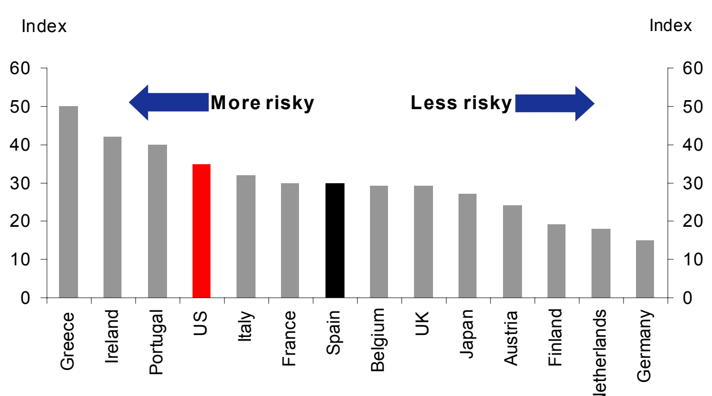
20 April 2011

Global Economic Perspectives

US Fiscal Challenge: A Minsky Moment?

- **S&P's recent shift to a negative watch on Treasuries highlights the fundamentally risky position that US sovereign debt has been in as a result of the ongoing unsustainable stance of US fiscal policy. This week we consider whether in light of this development, the US is at risk of going the way of Euro area periphery countries in experiencing a Minsky moment in the form of a sudden exodus of investors from its government debt.**
- **We review the current and prospective US fiscal position, outline the recent debate in Washington over what to do about it, consider the possible/likely course of events around the fast approaching debt ceiling and the broader fiscal problem, and assess how the riskiness of US sovereign debt stacks up against that of other advanced economies (including those in the Euro area) based on both deficit and debt fundamentals and market-based risk measures.**
- **Our bottom line finding is that the relatively low risk the market attaches to US public debt belies a substantially higher degree of riskiness (indeed one about on a par with the euro periphery) indicated by standard measures of internal and external deficit and debt. While the debt ceiling hurdle will likely be jumped with only moderate disruption to the Treasury market, the challenges to a much needed fundamental reworking and redirecting of US fiscal policy are great. Failure of US political leadership to make substantial progress in this area in the next few years would substantially raise the risk of a bond market crisis.**

Sovereign risk ranking (1): Fundamentals



Source: OECD, Haver Analytics, DB Global Markets Research

Economics

Table of Contents

Research Team

Peter Hooper
(+1) 212 250-7352
peter.hooper@db.com

Thomas Mayer
(+49) 69910-30800
tom.mayer@db.com

Michael Spencer
(+852) 220-38303
michael.spencer@db.com

Torsten Slok
(+1) 212 250-2155
torsten.slok@db.com

Key Economic Forecasts

	Real GDP % growth[b]			Consumer Prices % growth[c]			Current Account % of GDP[d]			Fiscal Balance % of GDP		
	2010F	2011F	2012F	2010F	2011F	2012F	2010F	2011F	2012F	2010F	2011F	2012F
US	2.9	**3.2**	3.9	1.6	**3.0**	2.6	-3.2	-4.0	-4.2	-8.7	-9.7	-6.9
Japan	4.0	-2.1	1.9	-0.7	0.5	-0.5	3.6	1.4	1.7	-8.7	-8.7	-9.2
Euroland	1.8	1.5	1.5	1.6	2.5	1.9	-0.4	-0.9	0.0	-5.9	-4.5	-3.4
Germany	3.5	2.5	1.6	1.2	2.0	1.7	5.6	4.8	4.1	-3.7	-2.8	-2.0
France	1.5	1.4	1.7	1.7	2.1	1.7	-2.1	-2.0	-2.3	-7.3	-6.2	-4.8
Italy	1.2	0.9	1.2	1.5	2.4	2.0	-3.6	-2.6	-2.1	-4.6	-3.8	-2.8
Spain	-0.1	0.8	1.2	1.8	3.2	1.7	-4.5	-4.0	-3.4	-9.2	-6.5	-4.8
UK	1.3	1.8	2.0	3.3	4.2	2.0	-4.6	-4.6	-4.2	-10.0	-7.6	-5.6
Sweden	5.3	4.5	2.8	1.3	2.5	2.0	6.3	6.5	6.0	-0.1	0.5	1.5
Denmark	2.1	2.0	2.0	2.3	2.5	2.0	5.3	4.0	3.5	-5.3	-4.0	-2.5
Norway	0.4	2.5	2.5	2.4	1.9	2.2	13.0	13.5	14.0	6.5	7.5	9.0
Poland	3.8	3.9	3.5	2.6	3.8	3.1	-3.3	-3.6	-4.0	-7.9	-5.8	-4.7
Hungary	1.2	3.0	3.2	5.0	3.8	3.3	1.5	0.5	-0.1	-3.8	-2.9	-3.6
Czech Republic	2.2	2.2	3.6	1.5	1.9	2.1	-3.9	-3.7	-3.9	-4.7	-4.3	-3.6
Australia	2.7	2.9	3.9	2.9	3.0	2.8	-2.6	-1.4	-2.3	-4.5	-3.5	-2.2
Canada	3.1	3.2	3.4	1.8	2.5	2.3	-3.1	-2.7	-2.4	-2.5	-1.0	-0.4
Asia (ex Japan)	9.5	8.0	7.6	4.6	5.6	4.3	4.1	2.8	2.4	-2.8	-2.8	-2.4
India	10.4	8.2	8.6	9.6	8.0	7.0	-3.2	-3.3	-3.3	-8.0	-7.6	-6.8
China	10.3	9.4	8.6	3.3	5.0	3.5	5.2	3.5	3.0	-2.5	-2.0	-1.5
Latin America	6.1	4.2	4.0	8.8	8.9	8.4	-0.8	-1.2	-1.8	-2.5	-2.5	-2.4
Brazil	7.5	3.6	4.4	5.9	6.0	5.0	-2.3	-2.5	-3.2	-2.5	-2.8	-3.0
EMEA	4.7	4.4	5.0	7.6	7.7	7.2	0.3	0.6	0.0	-4.7	-2.2	-1.5
Russia	4.0	5.4	5.5	6.9	9.5	8.1	4.9	6.8	5.2	-3.9	1.3	2.0
G7	2.8	**2.0**	2.9	1.4	**2.5**	1.9						
World	4.9	**4.0**	4.4	3.2	**4.2**	3.4						

(a) Euroland forecasts as at the last forecast round on 25/03/11. Bold figures signal upward revisions, bold, underlined figures signal downward revisions. (b) GDP figures refer to working day adjusted data. (c) HICP figures for euro-zone countries and the UK (d) Current account figures for Euro area countries include intra regional transactions

Forecasts: G7 quarterly GDP growth

% qoq saar/annual: % yoy	Q1 10	Q2 10	Q3 10	Q4 10	*2010*	Q1 11F	Q2 11F	Q3 11F	Q4 11F	*2011F*	*2012F*
US	3.7	1.7	2.6	3.1	***2.9***	**2.8**	**3.7**	4.1	4.3	***3.2***	***3.9***
Japan	6.1	2.1	3.3	-1.3	***4.0***	-5.2	-8.1	2.2	3.8	***-2.1***	***1.9***
Euroland	1.6	4.0	1.4	1.1	***1.8***	2.0	0.9	1.1	1.4	***1.5***	***1.5***
Germany	2.6	9.2	2.8	1.5	***3.5***	2.8	2.2	1.4	1.3	***2.5***	***1.6***
France	1.1	2.4	1.0	1.4	***1.5***	1.9	0.5	1.5	1.7	***1.4***	***1.7***
Italy	2.1	2.1	1.3	0.5	***1.2***	1.3	0.6	0.8	0.0	***0.9***	***1.2***
UK	0.8	4.3	2.9	-1.9	***1.3***	3.3	2.2	2.0	1.7	***1.8***	***2.0***
Canada	5.5	2.2	1.8	3.3	***3.1***	4.0	3.4	3.5	2.6	***3.2***	***3.4***
G7	3.5	2.8	2.5	1.6	***2.8***	**1.5**	**1.1**	2.9	3.1	***2.0***	***2.9***

Sources: National authorities, DB Global Markets Research

For more details of our latest global economic forecast see our interactive maps on www.dbresearch.com

US Fiscal Challenge: A Minsky Moment?

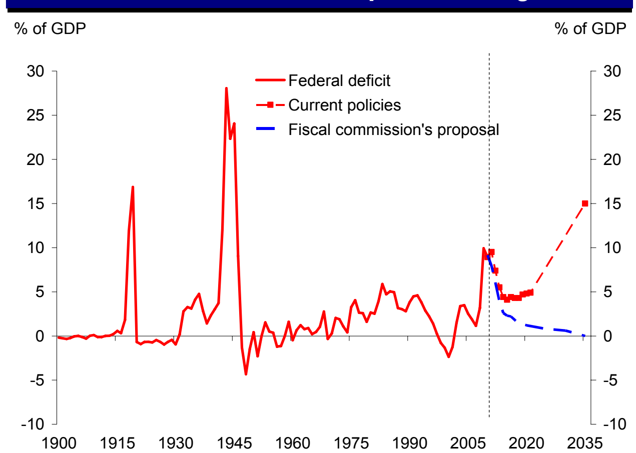
- **S&P's recent shift to a negative watch on Treasuries highlights the fundamentally risky position that US sovereign debt has been in as a result of the ongoing unsustainable stance of US fiscal policy. This week we consider whether in light of this development, the US is at risk of going the way of Euro-area periphery countries in experiencing a Minsky moment in the form of a sudden exodus of investors from its government debt.**
- **We review the current and prospective US fiscal position, outline the recent debate in Washington over what to do about it, consider the possible/likely course of events around the fast approaching debt ceiling and the broader fiscal problem, and assess how the riskiness of US sovereign debt stacks up against that of other advanced economies (including those in the Euro area) based on both deficit and debt fundamentals and market-based risk measures.**
- **Our bottom line finding is that the relatively low risk the market attaches to US public debt belies a substantially higher degree of riskiness (indeed one about on a par with the euro periphery) indicated by standard measures of internal and external deficit and debt. While the debt ceiling hurdle will likely be jumped with only moderate disruption to the Treasury market, the challenges to a much needed fundamental reworking and redirecting of US fiscal policy are great. Failure of US political leadership to make substantial progress in this area in the next few years will substantially raise the risk of a bond market crisis.**

Introduction

About one year ago, Europe experienced its own fiscal "Minsky moment[1]" when Greek government bonds were downgraded to junk status, global financial markets crashed, and the Euro plunged into a crisis that required massive government intervention to stabilize the situation. Standard & Poor's shot across the bow of US Treasury this week raises the question of whether investors might not at some point turn similarly against US government debt. That possibility is the focus of this week's GEP. Shortly before the Euro crisis hit last spring, all three major bond ratings agencies were raising questions about the AAA rating on US Treasury securities, and over the past week not only has S&P followed through with a negative outlook on that rating, but the IMF has singled out the US for having an unsustainable fiscal position and for failing to undertake corrective action. Also over the past week, debate heated up between the President and the Republican House of Representatives on how to begin to put US fiscal policy on a more sustainable path.

In what follows, we take stock of the US fiscal position, including what the federal deficit and debt positions are expected to be going forward under current policy. We also summarize the current debate on how to fix the problem, including proposals outlined by the House Republicans and by the President. The political challenges to reach an agreement are formidable. They pose a near-term risk to the markets when the debt ceiling is reached in late May, and longer-term risks if a budget agreement is not reached. Finally, we outline just how serious those longer-term risks are by comparing the US fiscal stance with those of other industrial countries that have experienced sovereign debt crises in recent years.

Chart 1. US Federal deficit at a peacetime high



Source: USgovernmentspending.com, Fiscal commission, CBO and DB Global Market Research

Current US fiscal position

Federal deficit. The Congressional Budget Office (CBO) recently projected what US federal deficits and debt will look like in the years to come under present law, and what it would look like if expiring tax cuts and spending policies are extended (Chart 1). [2] It shows the deficit declining from

1 The phrase "Minsky moment" was coined by Paul McCulley in 1998 while referring to the Asian Debt Crisis of 1997, in which speculators put increasing pressure on dollar-pegged Asian currencies until they eventually collapsed. The reference is to Hyman Minsky, whose research noted that these types of crises occur because investors tend to take on additional/excessive risk during prosperous times or bull markets. The longer a bull market lasts, the more risk is taken in the market. Eventually, so much risk is taken that instability ensues.

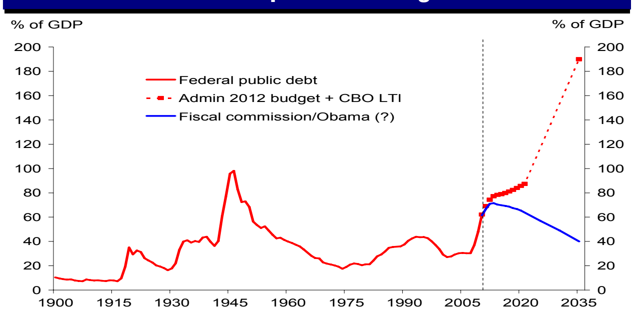
2 The projection shown in the chart is the CBO's projection through 2021 under the Obama Administration's 2012 budget proposal from February,

peacetime record levels in the double digits as a percentage of GDP in 2010 and 2011 to between 4% and 5% from 2014 to 2020 after which it rises over time to new record highs. The rise in the longer term is largely the result of substantial increases in Medicare and Medicaid payments under current policies, although the CBO does assume some significant gains in efficiency in those systems and a significantly smaller health care inflation premium going forward than has been in place over the past three decades.

To confuse matters further, because there was no FY11 budget until a week ago, both sides have publicized large budgetary savings compared to what President Obama proposed in his FY12 Budget, even though most of the President's proposals will not become law.

Federal debt. The implications of this deficit baseline for the national debt held by the public are shown in Chart 2. The debt rises from 62% in 2010 to 80% by 2015, 100% by 2025 and more than 200% by 2040, putting it well above the previous high for the US of 122% in 1946. This is clearly an unsustainable scenario, and one that the ratings agencies and the markets would likely balk at if it were to begin to materialize. The minimum condition for debt stability (stabilizing the debt/GDP ratio) is to limit the growth rate of the debt to be no more than the growth rate of nominal GDP. Assuming the growth of nominal GDP is about equal to the average interest rate on the debt, this means the primary budget deficit (i.e., the deficit excluding interest payments) has to be reduced to zero. So long as the deficit is running greater than the interest on the debt, the debt ratio will continue to rise over time. At present, interest on the debt is running at about 3% of GDP, which means that the deficit has to be reduced to 3% or less to achieve stability.

Chart 2. Public debt at peacetime high too



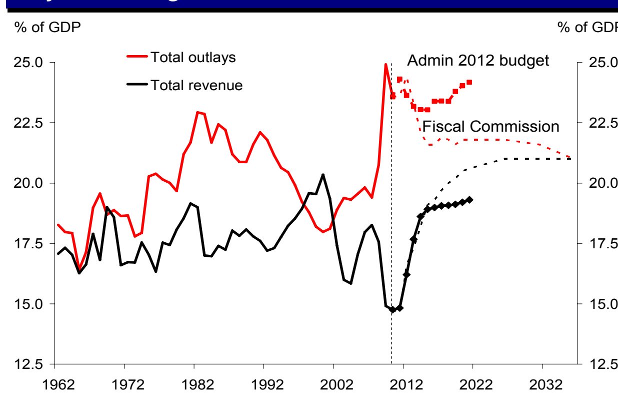
Source: USgovernmentspending.com, Fiscal commission, CBO and DB Global Market Research

Fiscal Commission proposal. Charts 1 and 2 also show the very different paths for the deficits and debt proposed by the President's bipartisan National Commission on Fiscal Responsibility and Reform (the "Fiscal Commission") in December 2010. That proposal would reduce the deficit to less than 3% of GDP by 2014 and thereafter gradually to zero over the next several decades. Under this plan, the debt ratio peaks in 2013 and begins to decline thereafter.

The current debate

Revenue vs Spending. The current debate in Washington is over how to close the current yawning gap between spending and revenue. Over the past several decades, federal outlays have averaged roughly 20 to 21% of GDP, while revenue has averaged just over 18% of GDP (Chart 3). The gap is much wider currently—about 25% for spending and just under 15% for revenue. A significant part of that gap is cyclical—automatic stabilizers that will unwind as GDP returns to cyclically more normal levels thereby raising the revenue share and reducing the spending share of GDP. The unwinding of various special stimulus programs put in place during the recession will also contribute. However, under the Administration's 2012 budget (the generally accepted baseline scenario in Washington at present), spending remains above 23% and widens over the decade ahead back to nearly 25% of GDP, while revenue eventually moves slightly above its historical average but remains below 19% of GDP. The Fiscal Commission proposed eventually to close the spending-revenue gap, raising revenue further and reducing the spending ratio further, with the two eventually meeting at 21% of GDP.

Chart 3. Closing the Revenue-Spending gap will be a major challenge



Source: CBO, DB Global Markets Research

Ryan vs Obama. Two weeks ago Paul Ryan (R-OH), Chairman of the House Budget Committee proposed, and this past weekend the House of Representatives passed, a plan that would reduce the deficit and debt by nearly as much as the Fiscal Commission's proposal over the decade ahead (CBO estimated that the Ryan plan would cut the debt to around 55% of GDP by 2035, compared

which is quite similar to assumptions used by the CBO in its most recent longer-term projections (made in June 2010). The longer-term projection beyond 2021 shown in the chart assumes current law will be adjusted to allow for extension of the tax cuts passed under the Bush Administration and a fix of the alternative minimum tax, both of which reduce revenues and widen the deficit and debt relative to current law.

with 40% under the Fiscal Commission's proposal). The Ryan plan proposes to hold the line on total revenue at 19% of GDP (albeit with significant tax reform) and achieve all of the budget cuts on the spending side. Last week, the President proposed a solution more in line with the Fiscal Commission's, raising the revenue share, while cutting outlays less than Ryan proposes.

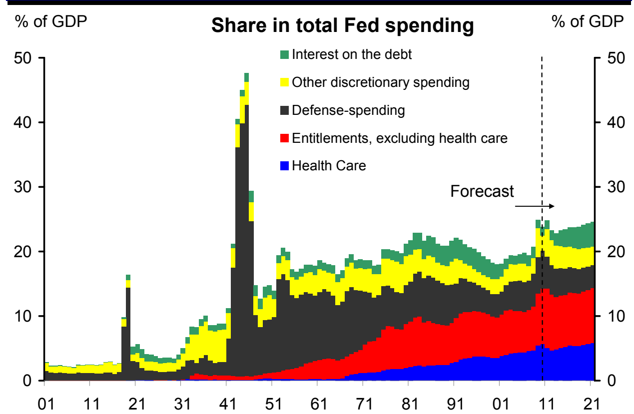
Table 1. Deficit plan comparisons

House Republicans/ Paul Ryan	President Barack Obama
SOCIAL SECURITY	
Requiring Social Security officials to submit a plan for restoring balance to the fund if it isn't sustainable.	Backing any bipartisan negotiations to strengthen Social Security.
MEDICARE	
From 2022, giving Americans turning 65 a credit starting at $ 8,000 a year on average to buy health insurance offered by private carriers through an exchange.	Giving new powers to a commission reviewing ways to reduce unnecessary spending in Medicare and using purchasing power to curb payments for prescription drugs, as proposed by the Fiscal Commission.
MEDICAID	
Giving states a block grant in funding instead of matching their spending and requiring them to adhere to federal program requirements.	Matching all state spending with a single rate, a new proposal. Clamping down on a tax gimmick used by states to increase the federal funds they can get.
CORPORATE TAX	
Cutting the top corporate- tax rate to 25%, eliminating some deductions and credits and scaling back others.	Cutting rates by eliminating or reducing special-interest deductions and credits.
PERSONAL INCOME TAX	
Consolidating tax brackets and lower personal income-tax rates, with a top rate of 25%, and eliminating special deductions "as necessary".	Reforming the tax code to simplify it for individuals, eliminating some itemized deductions claimed by the wealthy.
DEFENCE DISCRETIONARY SPENDING	
Cutting $ 178 billion in line with proposals from Defense Secretary Robert Gates, redirecting $ 100 billion for other defense projects and putting $ 78 billion to deficit reduction.	Cutting $ 78 billion in defense spending in line with Mr. Gate's proposals.

Source: WSJ, DB Global Markets Research

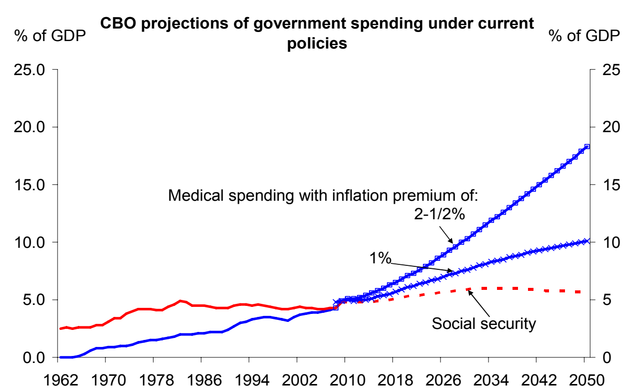
Spending cuts. Until the current debate broke out, squabbling over spending cuts in Washington had focused largely on non-security discretionary spending, currently running at about 14% of total federal spending (Chart 4). The recent debate is encouraging in that it has at last shifted the discussion to focus on areas in spending that have been more fundamental to the unsustainability of the current fiscal position. The Fiscal Commission's deliberations made it clear that meaningful reform would have to put entitlements and defense spending on the chopping block. The fastest growing portion of spending has been and is projected to be health care (Chart 5). Both the Ryan and Obama proposals envision significant gains from cutting or limiting growth in health care spending. Ryan sees major reforms and cutbacks in Medicare and Medicaid; Obama proposes sharply limiting the growth of Medicare expenditures (to an inflation premium of about 0.5%, well below its recent historical average--Chart 5).

Chart 4. Federal spending



Source: usgovernmentspending.com, CBO, OMB, DB Global Markets Research

Chart 5. Health care inflation premium at core of debt problem



Source: CBO, DB Global Markets Research

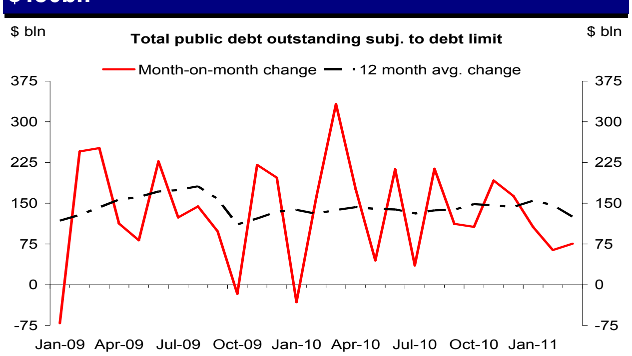
Tax expenditures. Some of the philosophical and quantitative gap between the Democratic and Republican positions on revenues and spending could be narrowed if the role of the trimming of tax expenditures in the raising of revenue were acknowledged more clearly. A reasonable case could actually be made to count tax expenditures (i.e., reductions in tax rates or other changes in the tax code designed to stimulate private spending in specific areas) as outlays, so that what is now being counted as increases in revenues would more accurately be accounted as reductions in expenditures. In many cases, the tax expenditures probably were initiated as a substitute for direct government outlays to avoid the budgetary and political constraints on the latter. Tax expenditures broadly defined currently amount to 7.5% of GDP, which suggests there could be considerable room to narrow the political gap. Unfortunately, political realities and strong resistance to treating tax expenditures as expenditures suggest that this avenue is unlikely to be productive.

Debt ceiling and beyond

Where the debate goes from here is unclear. The President has asked for bipartisan negotiations led by Vice President Joe Biden to come up with deficit reduction and budget process reforms to accompany a debt limit increase in June. Biden's first meeting is tentatively set for May 5th.

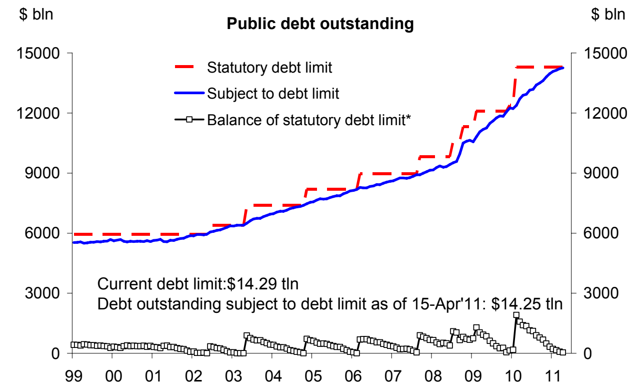
At the same time political tensions have been running high as the Republicans (bolstered and pressured by the Tea Party) have been adamant about holding the line on revenue share, while the President and Democratic Senate will most assuredly not go along with the spending cuts Ryan has proposed. Whether or not a compromise agreement on far-reaching reforms can be reached is very uncertain. The first big test will be in the months just ahead as the $14.3trn debt ceiling is reached. As of the end of March, the debt was about $75bn under the ceiling, and over the past year it has been rising at a monthly rate of $125bn (Charts 6 and 7). The Treasury can take various measures to stall the rise in debt, but such measures are estimated to stretch the deadline to early July at the most. If the ceiling is reached, Treasury Secretary Geithner has made it clear that government would be forced into default. Even if, as some in Congress have suggested, debt service payments were made before all other government obligations, failure to meet those other obligations would put the government in default. The Congressional leadership has indicated that they would not allow the debt ceiling (and therefore a default situation) to be reached. The Republican leadership in the House has also said that agreement on longer-term reforms is a precondition for raising the debt ceiling. That is a tall order. More likely, some form of spending cuts or caps will likely be what gets the debt ceiling legislation passed, though an extended extension will likely come in the 11th hour after a series of short-term extensions as occurred in the case of the 2011 funding resolution. The process is generally expected to cause some disruption in the Treasury market, though this week's sobering warning shot from S&P on the US credit rating could be an impetus to a more speedy resolution at least of the debt ceiling hurdle.

Chart 6. Debt growing at a monthly rate of around $150bn



Source: US Treasury, DB Global Markets Research

Chart 7. Hitting the debt ceiling soon



*Note: The latest balance of statutory debt limit as of 15th Apr'11: $40.82 bln

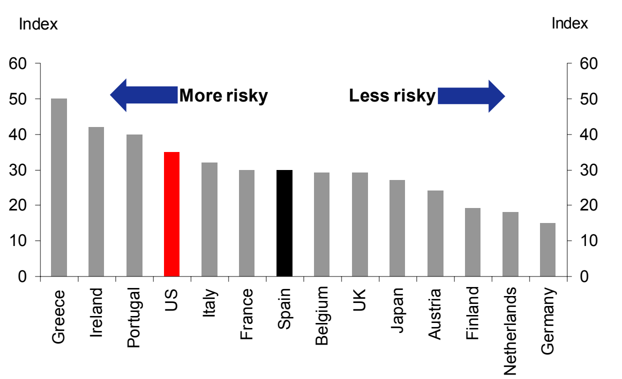
Source: US Treasury, DB Global Markets Research

A 2013 solution? A bigger risk is that after having raised expectations that more fundamental progress can be made in dealing with the unsustainable US fiscal position, the political process breaks down and no meaningful progress is made even with the debt ceiling and default avoided. Certainly it will be difficult for any elected politician to be too specific about major cuts in entitlement benefits or increases in taxes ahead of the next election. The Obama Administration is likely to resist measures that could add significantly more fiscal drag than is already in the pipeline for 2012. Scuttling the still fragile recovery could be political suicide. In any event, it would make sense to have fundamental decisions about the size and redistributive nature of the US government made after a full airing of this debate in the next Presidential election. If the ratings agencies and the market give the US government the benefit of the doubt for a time, given that the debate has begun and recognizing that any longer-term resolution will be difficult in an election season, a better opportunity for resolution may come in 2013. Conventional wisdom holds that if the economic recovery progresses as expected, President Obama will be re-elected. At the same time, assuming the Ryan plan does not backfire, the political winds may favor a Republican takeover of the Senate, given that nearly twice as many Democrats in the Senate are up for reelection as Republicans, and only a three-vote swing is needed. A Democratic President dealing with a Republican Congress and a popular mandate to resolve the fiscal problem would be a repeat of the conditions that led to the last major fiscal reform move with President Clinton in the early-mid 1990s. And Obama would have the added advantage of being a second term president. This mix would necessitate a political compromise in a case where compromise will clearly be needed to achieve a lasting resolution. However, there are no guarantees that such a scenario would materialize, and even if it did, deep-seated political differences on taxes and spending could still prevent a resolution of the problem in 2013. In this case, markets could very well balk, leading to a US Minsky moment, with potentially far greater consequences than the one Europe has experienced.

Gauging US sovereign debt risk

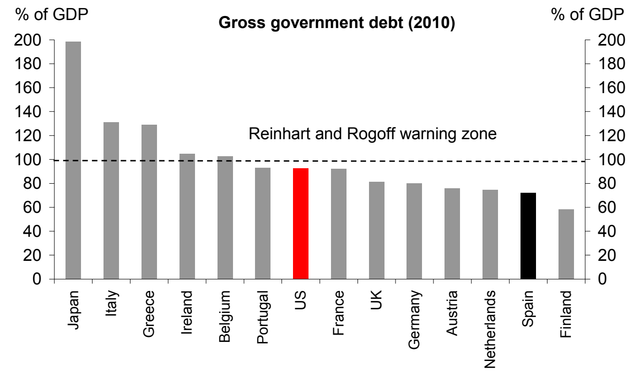
To gauge the potential for such an event, we compared the current US fiscal position with that of other advanced economies in Europe and Japan. We consider both the level of risk based on (1) domestic and foreign deficit and debt fundamentals, and (2) measures of market assessment of sovereign risk. Our risk ranking of 14 countries based on fundamentals is shown in Chart 8. This risk measure is based on the aggregation of ordinal rankings of the countries across the four variables shown in Charts 9-12 (public debt and deficits, share of public debt held abroad, and external deficit).[3] On this basis, the US ranks quite high in terms of sovereign risk, behind Greece, Ireland, and Portugal, but ahead of Italy, Spain, and Belgium. If the US were a Euro member, it could be the next periphery country to go under, well ahead of Spain. It is worth noting that Japan does not appear among the more risky countries on this basis despite its very high level of government debt (Chart 9). That risk factor is offset by the very low share of Japan's government debt held abroad (Chart 11) and its external surplus (Chart 12).

Chart 8. Sovereign risk ranking (1): Fundamentals



Source: OECD, Haver Analytics, DB Global Markets Research

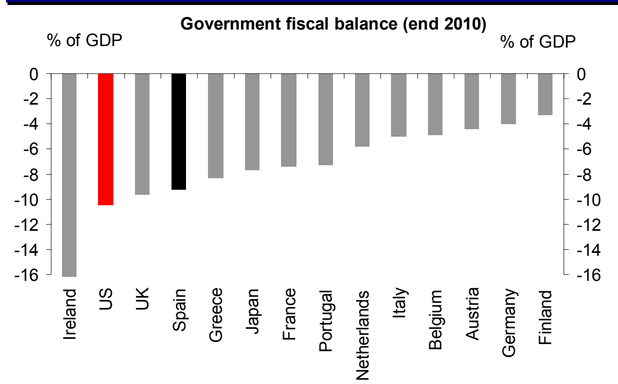
Chart 9. Public debt



1. Belgium: Includes the debt of the Belgium National Railways Company (SNCB) from 2005 onwards
2. Germany: Includes the debt of the inherited Debt Fund from 1995 onwards
3. Japan: Includes the debt of the Japan Railway Settlement Coporation $ National Forest Special Account from 1998

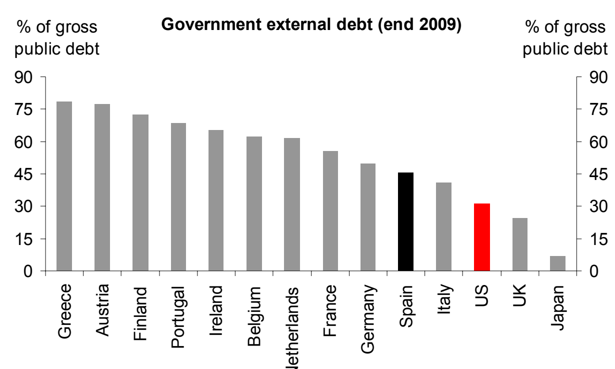
Source: OECD, Haver Analytics, DB Global Markets Research

Chart 10. Public deficits



Source: OECD, Haver Analytics, DB Global Markets Research

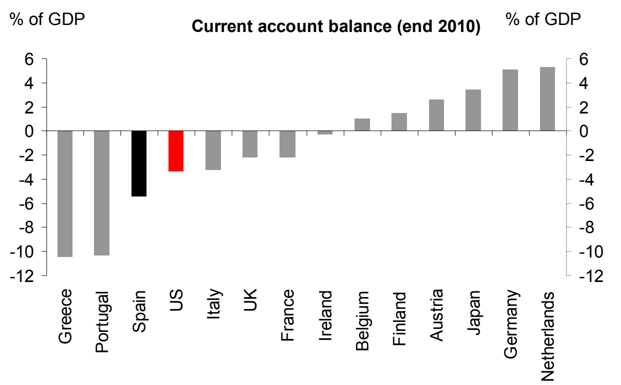
Chart 11. Share of public debt held abroad



Source: OECD, Haver Analytics, DB Global Markets Research

3 We tried giving external holding of government debt half the weight of each of the other measures because the risk attached to this measure may be overstated within the euro area where countries tent to hold significant portions of each other's debt. But this change did not alter the results much relative to the full weighting.

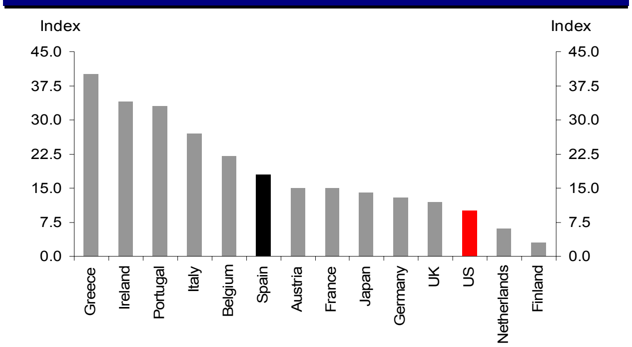
Chart 12. External deficits



Source: OECD, Haver Analytics, DB Global Markets Research

Our rankings of sovereign risk based on market variables are shown in Chart 13. Here we aggregated the rankings across interest payments on the debt, CDS spreads on sovereign debt, and S&P ratings of sovereign bond ratings (Charts 14-16). On this basis, the US lies near the low end of the risk spectrum. This is not surprising given the reserve currency status and sound fiscal reputation the US enjoys. But reputation and reserve currency status can be lost, and failure to move US fiscal policy off its currently unsustainable path would certainly increase the risk. With expectations having been raised by the current debate in Washington, we expect that a failure to make substantial progress by 2013 would substantially raise the possibility of a bond market crisis in the US.

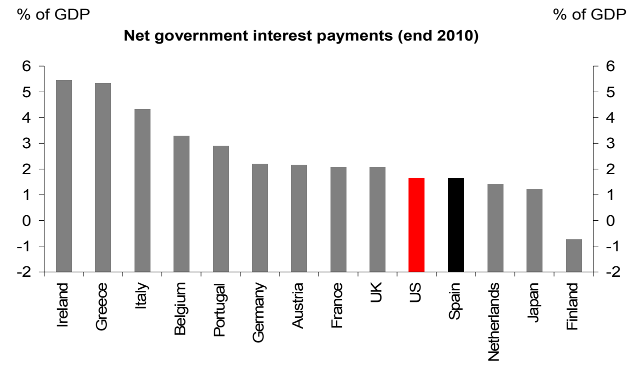
Chart 13. Sovereign risk ranking (2): Market-based



***Smaller the bar height better the country's fiscal situation**

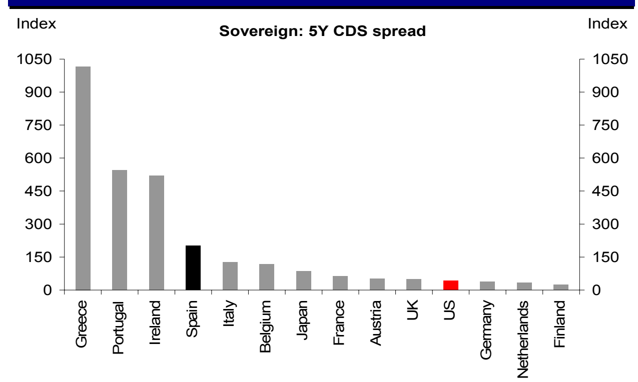
Source: OECD, Haver Analytics, DB Global Markets Research

Chart 14. Interest payments



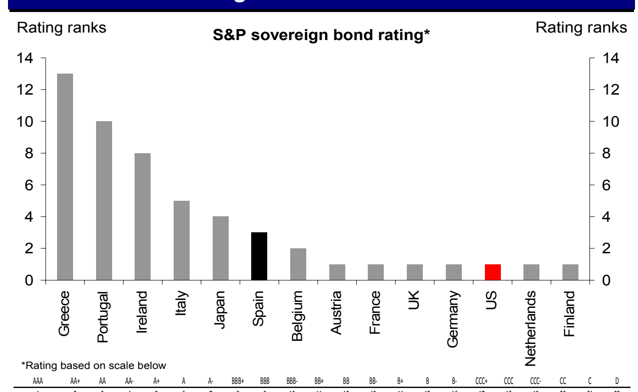
Source: OECD, Haver Analytics, DB Global Markets Research

Chart 15. CDS ratings



Source: OECD, Haver Analytics, DB Global Markets Research

Chart 16. S&P ratings



Source: OECD, Haver Analytics, DB Global Markets Research

Peter Hooper, (1) 212 250 7352
Torsten Slok, (1) 212 250 2155

Central Bank Watch

US

We expect the FOMC to indicate after its April 26-27 meeting that it will complete its QE2 program at mid-year and continue with its MBS reinvestment program until further notice as it monitors developments on the growth, employment, and inflation fronts. With GDP growth, employment, core inflation, and inflation expectations picking up as our US economics team projects, the Committee could signal a change in its present policy course by late summer or early fall via terminating the MBS reinvestment program and modifying "extended period". An initial rate hike could ensue as little as three months thereafter (i.e., by December). However, if growth proves to be more moderate (in line with consensus expectations and core inflation and inflation expectations show only modest increases), this change in the course of policy could be put off until well into 2012. We continue to think that rate increases beginning around the end of this year are the more likely outcome.

	Current	Jun11	Sep 11	Mar12
Fed funds rate	0 - 0.25	0 - 0.25	0 - 0.25	1.00

Japan

The Bank of Japan (BoJ) decided to expand the risk-asset purchase fund by ¥5trn at a monetary policy meeting held on 14 March (¥500bn for long-term JGBs, ¥1trn for treasury discount bills, ¥1.5trn for CP, ¥1.5trn for corporate bonds, ¥450bn for ETFs, and ¥50bn for J-REITs). It also supplied ¥15trn to counter the risk of stalled fund transactions in the short-term money market due to risk-avoidance behavior by financial entities. Another initiative is ¥3trn in JGB gensaki operations. These various measures represent a comprehensive package aimed at avoiding a financial crisis. Separately, the National Federation of Credit Guarantee Corporations decided to provide up to ¥2.8trn in public guarantees for lending to small businesses affected by the Tohoku Pacific Earthquake and the Japan Finance Corporation and Shoko Chukin Bank approved low-interest disaster recovery loans (0.9ppt reduction of the loan interest rate for loans of up to ¥10m). Observers were not expecting the Bank to take additional easing action because it had recently raised the economic outlook based on global recovery trends and there is still uncertainty about the implications of this massive earthquake disaster for the Japanese economy. We think the Bank's decision to proceed with bold easing action, in contrast to expectations, constitutes a quick response at this stage.

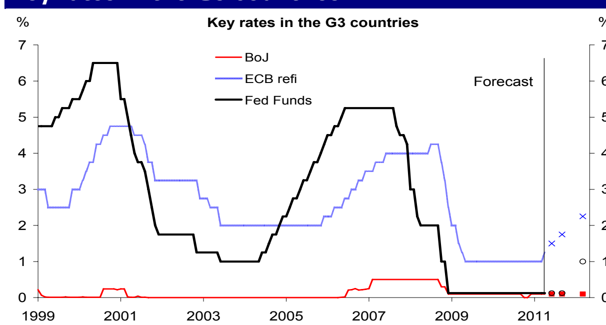
	Current	Jun11	Sep 11	Mar12
ON rate	0.10	0.10	0.10	0.10

Euroland

The ECB hiked the refi rate 25bp to 1.25% on 7 April, as expected. We had expected the tone in the press conference to soften, to give the impression that a midsummer hike was less likely than not. However, the tone was more open, more hawkish without going as far as telegraphing a summer hike. The burden of proof has been reversed. Rather than the incoming data needing to prove the need for a summer hike, it feels like the data now need to disprove the case for a summer hike. Therefore, we have changed our call. We now forecast a 25bp refi rate hike in July (it could come in June if there is a significant deterioration in inflation expectations), with follow up hikes in September and December. We have thus raised our year-end refi rate target to 2.00% from 1.75%.

	Current	Jun11	Sep 11	Mar12
Refi rate	1.25	1.50	1.75	2.25

Key rates in the G3 countries



Source: BoJ, ECB, FRB, Haver Analytics, Bloomberg Finance LP, DB Global Markets Research

UK

The minutes of the last MPC meeting show that three of the nine committee members continue to vote for rate hikes, with Andrew Sentence again voting for 50bp; Adam Posen continues to support additional QE. Among the five members voting for the status quo, there are "some" who worry about inflation developments but want to be sure the Q4 GDP contraction is an aberration before taking action. Q1 GDP will be available by the time of the May MPC meeting. We still see risks of a delay on the first hike until August.

	Current	Jun11	Sep 11	Mar12
Bank rate	0.50	0.50	0.75	1.25

Sweden

The Riksbank raised rates from 1.25% to 1.50% at its February meeting, as the market expected. The next meeting is on 20th April.

	Current	Jun11	Sep 11	Mar12
Repo rate	1.50	1.75	2.25	3.00

Switzerland

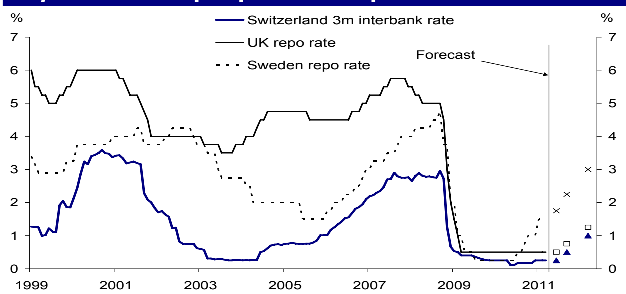
The SNB left policy rates unchanged in March. While the economy has performed better than expected, we see the franc continuing to limit the rise in core inflation. The next

Central Bank Watch (continued)

meeting is on 16 June.

	Current	Jun11	Sep 11	Mar12
3M Libor tgt	0.25	0.25	0.50	1.00

Key rates in the peripheral European countries



Source: Sveriges Riksbank, BoE,SNB, Haver Analytics, DB Research

Canada

A number of recent statements by the Bank of Canada have, in our view, reduced the likelihood that the Bank will adopt a more restrictive policy stance and raise the target for the overnight rate at the end of May. These include, the relatively neutral/"dovish" tone of the April 12 Policy Rate Announcement (PRA) and the fact that the Bank has discounted the very near-term impact of higher fuel prices on the headline inflation rate. Also, the Bank considers that the recent acceleration of inflation expectations reported in the latest Business Outlook Survey are significantly influenced by higher commodity prices rather than by stronger domestic demand. Having said this, the likelihood that the Bank will start to tighten in July appears to be reinforced by the fact that it now expects that the core inflation rate will accelerate from 1.4% in the Q2/2011 to 1.7% in Q3/2011 and that it now expects core inflation to reach the 2% target in Q2/2011, two quarters earlier than it projected in January.

	Current	Jun11	Dec11	Mar12
ON rate	1.00	1.25	2.25	2.75

Australia

Reflecting the Board's earlier decisions and developments in financial markets, interest rates on both housing and business loans were a little above average levels. Given the outlook for the economy, and in particular the high level of the terms of trade and the prospective further large increase in investment, members considered that this stance remained appropriate so as to ensure that the medium-term inflation outlook remained consistent with the target. Members therefore did not see a case to change the cash rate.

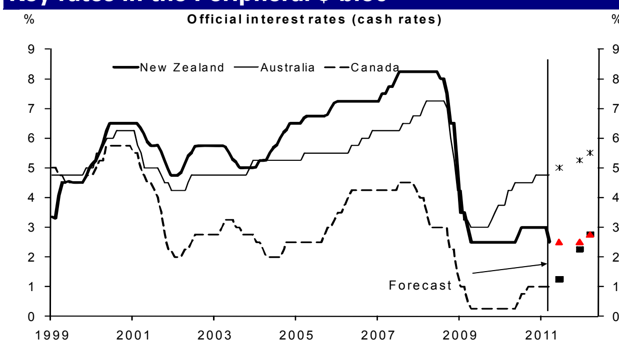
	Current	Jun11	Dec11	Mar12
OC rate	4.75	4.75	5.25	5.50

New Zealand

We think that while a stronger NZD is an appropriate response to strength in the terms of trade it also lessens the need for interest rates to move higher to at least some extent. The headline CPI will likely show a 1.1% qoq increase in Q1, driving the annual rate up to 4.7% yoy. The risks around our estimate are broadly balanced. We still think a rate hike this year is unlikely given the amount of slack in the economy. As such we'll remain in the received 1Y1Y trade even though we've reached our original stop. The key risk to doing so is that the position squaring that has evidently taken place this week continues.

	Current	Jun11	Dec11	Mar12
OC rate	2.50	2.50	2.50	2.75

Key rates in the Peripheral $-bloc



Source: RBNZ, BoC, RBA, Haver Analytics, DB Global Markets Research

China

The PBOC announced the fourth reserve requirement hike in the weekend (to be effective from April 21), bringing the reserve requirement ratio (RRR) to 20.5% for large banks. The timing of this RRR hike -- which appears to be somewhat earlier than market expectations -- has to do with the large amount of maturing bills, inflows from the capital account (including hot money), as well as difficulties in conducting open market operations (as evidenced by the recent PBOC consideration for primary dealers to commit to underwriting a minimum amount of PBOC bills). Nevertheless, we are not worried about over-tightening. Looking forward, we expect one more RRR hike and one more rate hike in the coming three months. For the second half of this year, monetary tightening should become much less aggressive as yoy inflation will most likely decline to below 4% in December from its peak in June at around 5.8%. Note that despite the acceleration of yoy CPI inflation -- a lagging indicator – in March to 5.4%, mom inflation already declined to negative 0.2% in March from its peak of 1.2% in February.

	Current	Jun11	Sep11	Mar12
1-year rate	3.25	3.50	3.50	3.50

India

The inflation outlook has become highly worrisome; March WPI inflation surprised sharply on the upside, touching 9.0%. Core inflation jumped to 7.2%, compared to 5% just two months ago. Inflation risks abound: first, food prices have eased a bit but the supply-demand dynamic remains tight enough that a renewed bout (weather or supply chain or global development related) of firming cannot be ruled out. Second, we believe that fuel subsidy pressures will

Central Bank Watch (continued)

rise considerably in the second quarter of the year, and by then the government will be compelled to pass on some petrol and diesel (in the 5-10% range) price hikes. This could readily add close to 1% to inflation. Third, with wages rising by double digit, capacity utilization heading toward last cycle's peak, manufacturing input prices rising substantially due to a broad range of commodity price increases, and interest rates still negative in real terms, there is no shortage of factors fueling demand and causing upside risk to core inflation.

Looking ahead, there might be some base effect-related respite in April, but after that inflation would remain firmly above 9% and perhaps touch 10% again in the third quarter. Against this backdrop, we would cheer an aggressive, 50bps rate hike on May 3 (when the RBI policy board meets next), or even earlier, but we are not going to make that call. The central bank remains dovish in nature, and we expect it to only to go to the length of raising the possibility of sustained rate hikes for a considerable period. The risk of the RBI continuing beyond our forecast of a terminal repo rate of 7.5% has clearly risen, but we will wait for a few more data points before re-examining that call. For now, we expect 25bps of rate hikes in May, June, and July.

	Current	Jun11	Sep11	Mar12
Repo rate	6.75	7.25	7.50	7.50

Brazil

The Central Bank raised the SELIC overnight rate by 50bp to 11.25% in January and by another 50bp to 11.75% in March, in response to the strength of domestic demand and sharp deterioration in inflation expectations, as market participants expect inflation to surpass the 4.5% target in 2011 and 2012. Nevertheless, Central Bank officials have minimized the deterioration in inflation expectations, arguing that they are excessively backward-looking and could improve once current inflation subsides due to more favorable seasonality in 2Q11. Moreover, the Central Bank stated that "macro-prudential measures" (such as the increase in reserve requirements on bank deposits announced in December) could complement the increase in interest rates, thus reducing the magnitude of the tightening cycle. Therefore, although risks are tilted toward higher interest rates, we expect only one additional 50bp hike (or, alternatively, two 25bp hikes) this year.

	Current	Jun11	Sep11	Mar12
CBR refi rate	11.75	12.25	12.25	12.25

Russia

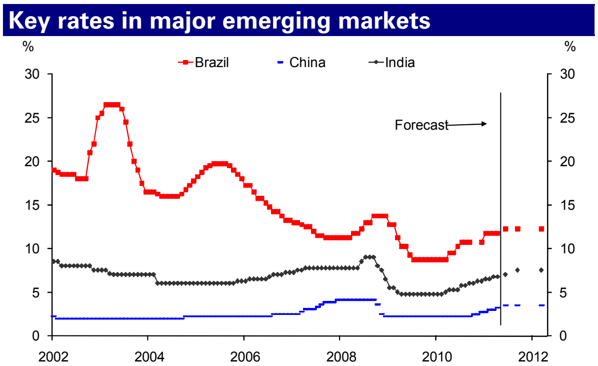
On 25 March, the CBR released the decision of the Board of Directors, which involved the increase in reserve requirements by 100 basis points to 5.5% on liabilities in roubles and hard currency to enterprises and a 50 basis point increase to 4% in reserve requirements on liabilities in roubles and hard currency for individuals. At the same time all rates were kept intact, with the refinancing rate kept at 8%. The decision comes after the CBR raised rates (save for the 1-week depo rate) by 25 basis points and increased reserve requirements by 50-100 basis points in February of this year.

The CBR statement refers to the continuation of high inflationary pressures, with inflation reaching 9.4% as of march 21, which is a moderate reduction compared to the end of February (9.5%). The statement also refers to a relatively broad-based deceleration in inflation in recent periods as well as the slowdown in the growth of the money supply in March. At the same time the statement points to mixed performance in the real sector, with investment declining for two months in a row, while household consumption showing signs of acceleration.

In our view there is a shift in the use of instruments that are meant to counter inflation towards increasing reserve requirements compared to the use of higher interest rates and rouble appreciation. If rouble appreciation was seen at the end of last year and throughout most of Q1 2011 as the preferred tool of dealing with inflation, now with the rouble/dollar rate approaching the 28 mark, there is greater aversion on the part of the monetary authorities to allow further rouble strength. At the same time increases in interest rates are fraught with the risks of significantly higher capital inflows, particularly in a high oil price environment. Accordingly, we view the preference to use reserve requirements as the "lesser of evils" in countering inflation, particularly given the relatively low base effects with respect to Russia's reserve requirements.

	Current	Jun11	Sep11	Mar12
CBR refi rate	8.00	8.25	8.25	8.00

Key rates in major emerging markets



Source: PBoC, RBI, BCB, Haver Analytics, Bloomberg Finance LP, DB Global Markets Research

Global central bank policy rate hikes since September 2008

	Trough	2009				2010										2011				Total bps
	policy rate	Aug	Oct	Nov	Dec	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	hike
Israel	0.50%	0.75%		1.00%	1.25%	1.50%				1.75%		2.00%				2.25%	2.50%	3.00%		250
Australia	3.00%		3.25%	3.50%	3.75%	4.00%	4.25%	4.50%						4.75%						175
Norway	1.25%		1.50%		1.75%			2.00%												75
Vietnam	7.00%				8.00%									9.00%			11.00%	12.00%		500
Malaysia	2.00%					2.25%		2.50%		2.75%										75
India	4.75%					5.00%	5.25%			5.75%		6.00%		6.25%		6.50%		6.75%		200
Brazil	8.75%						9.50%		10.25%	10.75%						11.25%		11.75%		300
Peru	1.25%							1.50%	1.75%	2.00%	2.50%	3.00%				3.25%	3.50%	3.75%	4.00%	275
Canada	0.25%								0.50%	0.75%		1.00%								75
Chile	0.50%								1.00%	1.50%	2.00%	2.50%	2.75%	3.00%	3.25%		3.50%	4.00%	**4.50%**	400
New Zealand	2.50%								2.75%	3.00%										50
Taiwan	1.25%								1.38%			1.50%			1.63%			1.75%		50
Sweden	0.25%									0.50%		0.75%	1.00%		1.25%		1.50%			125
S Korea	2.00%									2.25%				2.50%		2.75%		3.00%		100
Thailand	1.25%									1.50%	1.75%				2.00%	2.25%		2.50%		125
Serbia	8.00%										8.50%	9.00%	9.50%	10.50%	11.50%	12.00%		12.25%	12.50%	450
Uruguay	6.25%											6.50%						7.50%		125
Nigeria	6.00%											6.25%				6.50%				50
China	2.25%												2.50%		2.75%		3.00%		3.25%	100
Hungary	5.25%													5.50%	5.75%	6.00%				75
Poland	3.50%															3.75%			4.00%	50
Indonesia	6.50%																6.75%			25
Colombia	3.00%																3.25%	3.50%		50
Russia	7.75%																8.00%			25
Philippines	4.00%																	4.25%		25
Kazakhstan	7.00%																	7.50%		50
Euroland	1.00%																		1.25%	25
Denmark	1.05%																		1.30%	25

Note: Reserve Bank of India hiked twice in July, each by 25bps

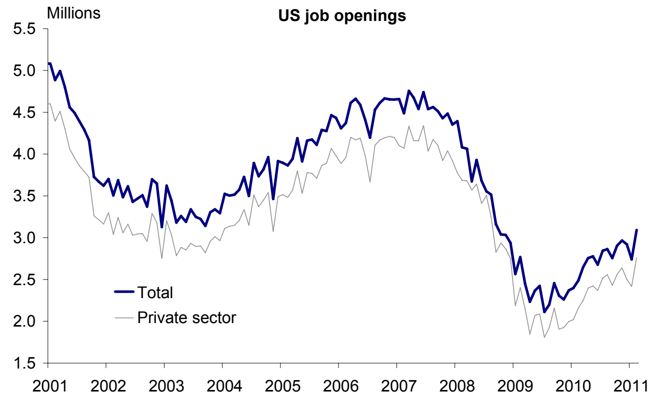
Global data monitor: Recent developments and near-term forecasts

	B'bergcode	Q2-10	Q3-10	Q4-10	Q1-11	Nov-10	Dec-10	Jan-11	Feb-11	Mar-11	Apr-11
OECD leading indicators (6M change, %, ann.)											
OECD		8.2	4.0	1.4	0.6	1.4	1.0	0.7	0.5		
US	OLEDUSA	9.3	4.8	2.2	1.1	2.2	1.7	1.3	0.9		
Euro area	OLEDEU12	7.4	2.7	-0.1	-1.0	-0.2	-0.6	-0.9	-1.1		
Japan	OLEDJAPN	7.5	4.7	2.9	2.8	2.8	2.6	2.7	2.9		
China	OLEDCHIN	16.8	12.5	12.1	12.8	12.1	12.3	12.6	13.0		
India	OLEDINDI	11.1	8.8	7.3	6.5	7.3	6.8	6.5	6.4		
Russia	OLEDRUSS	14.4	10.5	8.8	8.4	8.7	8.6	8.4	8.3		
Brazil	OLEDBRAZ	11.8	4.9	2.3	1.3	2.3	1.9	1.5	1.1		
Purchasing manager indices											
Global (manufacturing)		56.4	54.3	55.4	57.3	55.2	56.2	57.4	57.8	56.6	
US (manufacturing ISM)	NAPMPMI	57.6	55.2	57.9	61.1	58.2	58.5	60.8	61.4	61.2	60.5
Euro area (composite)		56.6	55.7	54.9	57.6	55.5	55.5	57.0	58.2	57.6	
Japan (manufacturing)	SEASPMI	54.2	50.8	47.6	50.2	47.3	48.3	51.4	52.9	46.4	
China (manufacturing)	EC11CHPM	52.8	51.4	54.8	52.7	55.3	54.4	54.5	51.7	51.8	
India (manufacturing)		57.8	56.7	57.4	57.6	58.4	56.7	56.8	57.9	57.9	
Russia (manufacturing)		52.2	52.3	52.2	54.8	51.1	53.5	53.5	55.2	55.6	
Other business surveys											
US dur. goods orders (%pop1)	DGNOCHNG	0.7	1.8	-1.3	1.5	-0.1	-0.6	3.7	-0.6	1.0	
Japanese Tankan (LI)	JNTSMFG	1.0	8.0	5.0	6.0						
Euro area EC sentiment	EUESEMU	99.1	102.3	105.6	107.3	105.6	106.9	106.8	107.9	107.3	
Industrial production (%pop[1])											
US	IP CHNG	7.2	6.7	3.1	6.1	0.3	1.3	0.2	0.0	0.9	
Euro area	EUITEMUM	9.9	4.3	7.6	4.2	1.5	0.2	0.2	0.4		
Japan	JNIPMOM	2.8	-4.1	-0.4	12.8	1.6	2.4	0.0	1.8		
Retail sales (%pop[1])											
US	RSTAMOM	6.0	3.3	13.8	9.6	0.8	0.6	0.8	1.1	0.4	
Euro area	RSSAEMUM	0.4	1.5	-1.0	0.0	-0.1	-0.3	0.3	-0.1		
Japan (household spending)		-6.4	6.0	-6.3	-2.8	0.2	-2.4	1.0	-0.2		
Labour market											
US non-farm payrolls[2]	NFP TCH	181	-46	139	159	93	152	68	194	216	200
Euro area unemployment (%)	UMRTEMU	10.0	10.0	10.0	10.0	10.0	10.0	10.0	9.9		
Japanese unemployment (%)	JNUE	5.1	5.0	5.0	4.8	5.1	4.9	4.9	4.6		
CP inflation (%yoy)											
US	CPICHNG	1.8	1.2	1.3	2.1	1.1	1.5	1.6	2.1	2.7	
Euro area	ECCPEMUY	1.6	1.7	2.0	2.5	1.9	2.2	2.3	2.4	2.7	2.8
Japan	JNCPIYOY	-0.9	-0.8	0.1	-0.1	0.1	0.0	0.0	0.0	-0.1	
China	CNCPIYOY	2.7	3.3	4.7	5.2	5.2	4.8	5.1	5.0	5.6	
India		10.6	9.3	8.9	8.8	8.1	9.3	9.2	8.1	8.9	
Russia	RUCPIYOY	5.9	6.1	8.1	9.5	8.1	8.8	9.6	9.4	9.4	
Brazil		5.1	4.6	5.6	6.1	5.6	5.9	6.0	6.0	6.3	
Current account (USD bn)[3]											
US (trade balance, g+s)	USTBTOT	-44.2	-44.2	-38.9	-46.4	-38.2	-40.3	-47.0	-45.8		
Euro area		-2.9	-6.2	-14.7		-14.3	-16.5	-0.9			
Japan		14.2	17.0	17.4	13.9	15.2	18.3	13.2	14.7		
China (trade in goods)		15.9	19.3	14.2	5.4	13.7	13.9	5.4	-3.6	14.4	
Russia (trade in goods)		12.7	9.5	13.0	16.0	12.7	15.1	13.1	19.0		
Other indicators											
Oil prices (Brent, USD/b)	EUCRBRDT	78.3	77.6	87.2	104.9	85.9	92.1	97.7	103.1	113.9	
FX reserves China (USD bn)	CNGFOREX	2454.3	2648.3	2847.3	3044.7	2767.8	2847.3	2931.7	2991.4	3044.7	

Quarterly data in shaded areas are quarter-to-date. Monthly data in the shaded areas are forecasts.
(1) % pop = % change this period over previous period. Quarter on quarter growth rates is annualised.
(2) pop change in '000, quarterly data are averages of monthly changes.
(3) Quarterly data are averages of monthly balances.
Sources: Bloomberg Finance LP, Reuters, Eurostat, European Commission, OECD, Bank of Japan, National statistical offices.

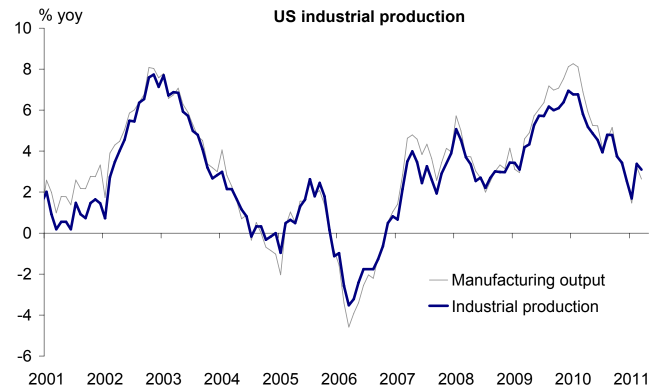
Charts of the Week

Chart 1. In the US, job openings increased indicating improved hiring outlook of companies…



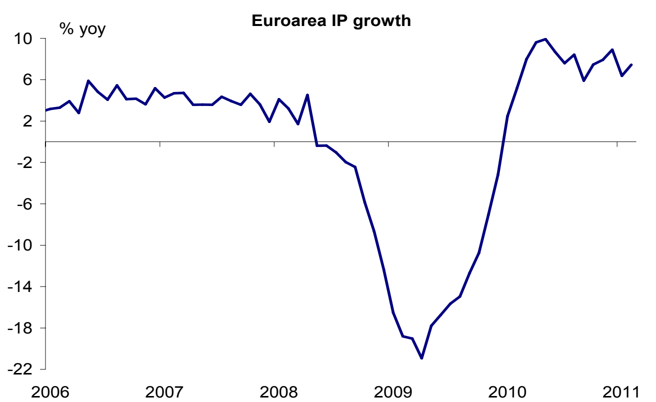
Source: BLS, DB Global Markets Research

Chart 2. …while continued positive growth in IP is a sign that manufacturing sector will keep driving the economy



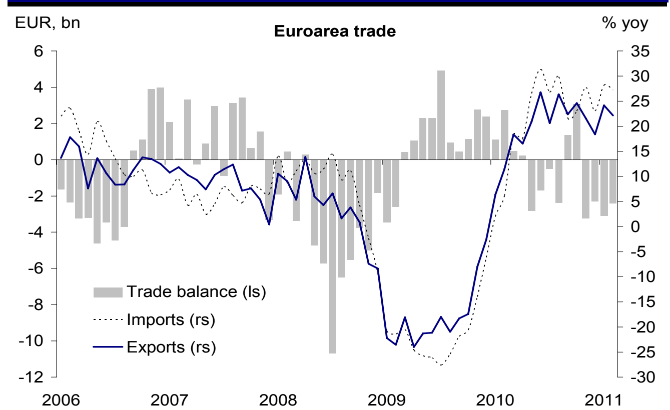
Source: FRB, DB Global Markets Research

Chart 3. In the Euroarea too IP accelerated…



Source: Eurostat, DB Global Markets Research

Chart 4. …while trade deficit shrank



Source: Eurostat, DB Global Markets Research

Chart 5. In the UK, employment is improving…

Source: ONS, DB Global Markets Research

Chart 6. …whereas China grew even as prices jumped

Source: China customs, DB Global Markets Research

Global Week Ahead: Thursday, 21 April – Wednesday, 27 April

- **Dollar Bloc**: In the **US**, markets will follow closely the FOMC rate setting meeting and the speech by Fed Chairman Bernanke this week. Data-wise, we expect consumer confidence to improve in April, while Philly Fed survey should come on the softer side as compared to previous month. Besides, durable goods and new home sales data are also due this week. In **Australia**, we will get Q1 CPI and PPI reports this week. In **Canada**, the February retail sales data will be followed closely by the markets – we believe retail sales to show mild acceleration. In **New Zealand**, the RBNZ will announce its rate decision on Wednesday.
- **Europe**: In the **Eurozone**, focus will be on business sentiment reports – Ifo, INSEE & BNB. The release of area-wide industrial orders will shed light on the activity level, while Italian retail sales and consumer confidence figures will tell us about the consumption pattern. Elsewhere, German HICP and Spanish PPI numbers are due this week. In the **UK**, all eyes will be on Q1 GDP preliminary estimate – we expect a little rebound in GDP. Besides, March retail sales data is also scheduled for release. In **Switzerland**, we will receive the trade balance report for March.
- **Asia incl. Japan**: In **Japan**, the week will see the release of retail sales, unemployment rate, IP and CPI figures.

Country	GMT	Release	DB Expected	Consensus	Previous
		Thursday, 21 April			
AUSTRALIA	01:30	PPI (Q1)	0.6% (2.3%)	1.0% (2.7%)	0.1% (2.7%)
GERMANY	08:00	IFO - business climate (Apr)	110.1	110.5	111.1
GERMANY	08:00	- current assessment (Apr)		115.5	115.8
GERMANY	08:00	- expectations (Apr)		105.5	106.5
UK	08:30	PSNB (Mar)		GBP18.7bn	GBP10.3bn
UK	08:30	PSNCR (Mar)	GBP28.0bn	GBP14.0bn	GBP7.0bn
UK	08:30	Retail sales (Mar)	0.0% (1.2%)	-0.4% (0.8%)	-1.0% (1.2%)
TURKEY	11:00	MPC meeting (Apr)	6.25%	6.25%	6.25%
US	12:30	Initial jobless claims (Apr 16)		390.0k	412.0k
US	12:30	Continuing claims (Apr 9)		3,675.0k	3,680.0k
CANADA	12:30	Retail sales (Feb)	0.6%	0.5%	-0.3%
CANADA	12:30	Retail sales ex auto (Feb)		0.5%	0.0%
BELGIUM	13:00	BNB business confidence (Apr)	7.0	5.6	6.2
US	14:00	House price index (Feb)		-0.3%	-0.3%
US	14:00	Philly Fed (Apr)	36.0	36.4	43.4
Events and Meetings: JAPAN: Bank of Japan's Nishimura to hold speech in Tokyo – 01:30 GMT. **SWITZERLAND**: Swiss National Bank to publish its monthly statistical bulletin – 07:00 GMT. **TURKEY**: Central Bank of Turkey to announce interest rate decision – 11:00 GMT.					
		Friday, 22 April			
FRANCE	06:45	INSEE business confidence (Apr)	110.0	109.0	109.0
FRANCE	06:45	Personal production outlook (Apr)	23.0		25.0
FRANCE	06:45	Production outlook indicator (Apr)	22.0	19.0	21.0
FRANCE	06:45	Recent output trend index (Apr)			20.0
FRANCE	06:45	Quarterly manufacturing survey (Q1)			7.0
HUNGARY	07:00	Retail sales (Feb)		(0.5%)	(0.1%)
ITALY	08:00	Retail sales (Feb)	0.2%	0.2% (0.5%)	-0.3% (-1.2%)
Events and Meetings: SWEDEN: Riksbank's Svensson to hold speech in Boston.					
		Sunday, 24 April			
JAPAN	23:50	Corp services price index (Mar)			(-1.0%)
Events and Meetings: No significant events scheduled.					
		Monday, 25 April			
JAPAN	04:30	All industry activity index (Feb)			2.9%
SPAIN	07:00	PPI (Mar)			0.9% (7.6%)
BRAZIL	11:00	FGV CPI IPC-S (Apr)			0.8%
US	14:00	New home sales (Mar)	(10.0%)	(10.0%)	(-16.9%)
BRAZIL	14:00	Trade balance (FOB)- weekly (Apr)			USD0.3bn
Events and Meetings: No significant events scheduled.					

Country	GMT	Release	DB Expected	Consensus	Previous
		Tuesday, 26 April			
SWITZERLAND	06:00	Trade balance (Mar)			CHF2.4bn
SWEDEN	07:30	Unemployment rate (Mar)			7.9%
UK	10:00	CBI industrial trends survey (Apr)			27.0
MEXICO	13:00	Retail sales (INEGI) (Feb)		3.2%	3.0%
BRAZIL	13:30	Current account - monthly (Mar)		-USD5.2bn	-USD3.4bn
BRAZIL	13:30	Foreign investment (Mar)			USD7.7bn
US	14:00	Consumer confidence (Apr)	64.0	64.5	63.4
US	14:00	Richmond Fed (Apr)			20.0
JAPAN	23:50	Retail trade (Mar)			0.8% (0.1%)

Events and meetings: **EUROLAND**: ECB's Gonzalez Paramo to hold speech in Cordoba – 12:00 GMT. **EUROLAND**: ECB's Liikanen to hold speech in Helsinki – 14:30 GMT

Country	GMT	Release	DB Expected	Consensus	Previous
		Wednesday, 27 April			
GERMANY	-	CPI preliminary (Apr)			0.5% (2.1%)
GERMANY	-	HICP preliminary (Apr)			0.6% (2.3%)
AUSTRALIA	01:30	CPI (Q1)	1.2% (3.0%)	1.2% (3.0%)	0.4% (2.7%)
FRANCE	06:45	Consumer confidence (Apr)			83.0
ITALY	08:00	Consumer confidence (Apr)			105.2
BRAZIL	08:00	FIPE CPI weekly (Apr)			0.6%
POLAND	08:00	Retail sales (Mar)		16.3% (7.5%)	1.8% (12.2%)
POLAND	08:00	Unemployment rate (Mar)		13.1%	13.2%
UK	08:30	GDP flash estimate (Q1)	0.5% (1.8%)		-0.5% (1.5%)
EUROLAND	09:00	Industrial new orders (Feb)			0.1% (20.9%)
US	12:30	Durable goods (Mar)	2.0%	1.5%	-0.9% (6.2%)
US	12:30	Durable goods ex transport (Mar)	1.0%	2.2%	-0.6% (8.5%)
MEXICO	13:00	Global economic indicator (IGAE) (Feb)		4.6%	5.9%
MEXICO	13:00	Trade balance preliminary (Mar)		USD0.4bn	USD0.3bn
BRAZIL	13:30	Private bank lending (Mar)			BRL1,006.0bn
BRAZIL	13:30	Total outstanding loans (Mar)			BRL1,738.0bn
US	16:30	FOMC rate (Apr)		0.25%	0.25%
NEW ZEALAND	21:00	RBNZ official cash rate (Apr)	2.50%	2.50%	2.50%
JAPAN	23:30	National CPI (Mar)			0.2% (0.0%)
JAPAN	23:30	National CPI ex fresh food (Mar)			0.0% (-0.3%)
JAPAN	23:30	Tokyo CPI (Apr)			-0.3% (-0.3%)
JAPAN	23:30	Tokyo CPI ex fresh food (Apr)			0.0% (-0.3%)
JAPAN	23:30	Unemployment rate (Mar)			4.6%
JAPAN	23:30	Jobs-to-applicants ratio (Mar)			0.6
JAPAN	23:30	Real household spending (Mar)			(-0.2%)
JAPAN	23:50	Industrial production (Mar)			0.4%

Events and meetings: EU: EU's Rehn to hold speech in Helsinki. **US**: Federal Reserve to announce interest rate decision – 16:30 GMT. **US**: Fed's Bernanke to hold speech in Washington – 18:15 GMT. **NEW ZEALAND**: Reserve Bank of New Zealand to announce official cash rate – 21:00 GMT.

Source: Australian Bureau of Statistics; Bank of Canada; Bank of Japan; BEA; BLS; Bundesbank; Bureau of Labor Statistics, U.S. Department of Labor; Cabinet Office, Government of Japan; ECB; Eurostat; Indian Central Statistical Organization; INE; INSEE; ISTAT; ISTAT.IT; Ministry of Finance japan; National Association of Realtors; National Bureau of Statistics; National Statistics Office; OECD - Composite Leading Indicator; People's Bank of China; Reserve Bank of Australia; Reserve Bank of New Zealand; Statistics Canada; Statistics Netherlands; Statistics of New Zealand; U.S. Census Bureau; U.S. Department of Labor, Employment & Training Administration; U.S. Department of the Treasury; U.S. Federal Reserve.

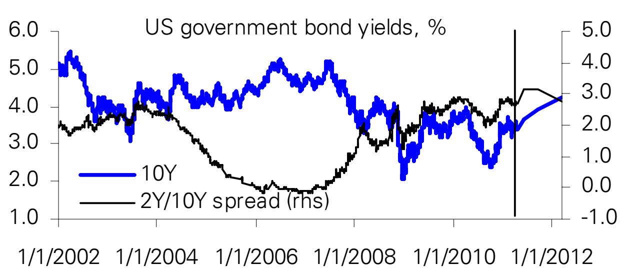
Note: Unless otherwise indicated, numbers without parenthesis are either % month-on-month or % quarter-on-quarter, depending on the frequency of release, while numbers in parenthesis are % year-on-year. * on the release time means indicative release time. * on indicator name means indicative/earliest release date.

Financial Forecasts

		US	Jpn	Euro	UK	Swe*	Swiss*	Can*	Aus*	NZ*
3M Interest	Actual	0.27	0.33	1.29	0.82	1.50	0.25	1.00	4.75	2.50
Rates[1]	Jun11	0.30	0.35	1.50	0.80	1.75	0.25	1.25	4.75	2.50
DB forecasts	*futures*	0.30	0.33	1.54	0.86	---	---	---	---	---
& Futures	Sep11	0.40	0.35	1.75	1.10	2.25	0.50	1.75	5.25	2.50
	futures	0.37	0.33	1.84	1.01	---	---	---	---	---
	Mar12	1.25	0.35	2.25	1.55	3.00	1.00	2.75	5.50	2.75
	futures	0.67	0.34	2.23	1.42	---	---	---	---	---
10Y Gov't[2]	Actual	3.38	1.25	3.25	3.56	3.24	1.82	2.95	5.43	5.26
Bond	Jun11	3.65	1.30	3.50	3.80	3.65	2.10	3.50	5.50	5.50
Yields/	*futures*	3.50	1.30	3.33	3.66	---	---	---	---	---
Spreads[3]	Sep11	3.90	1.30	3.75	3.90	3.95	2.45	3.50	5.00	5.00
DB forecasts	*futures*	3.62	1.35	3.40	3.76	---	---	---	---	---
& Forwards	Mar12	4.25	1.40	4.10	4.20	4.35	2.90	3.50	5.00	5.00
	futures	3.84	1.45	3.50	3.91	---	---	---	---	---
		EUR/ USD	**USD/ JPY**	**EUR/ GBP**	**GBP/ USD**	**EUR/ SEK**	**EUR/ CHF**	**CAD/ USD**	**AUD/ USD**	**NZD/ USD**
Exchange	Actual	1.42	82.4	0.88	1.63	8.98	1.28	0.97	1.05	0.78
Rates	3M	1.40	75.0	0.86	1.63	8.50	1.29	0.95	1.03	0.76
	6M	1.35	78.0	0.84	1.61	8.20	1.35	0.95	0.97	0.72
	12M	1.30	78.0	0.79	1.65	8.00	1.37	1.00	0.92	0.70

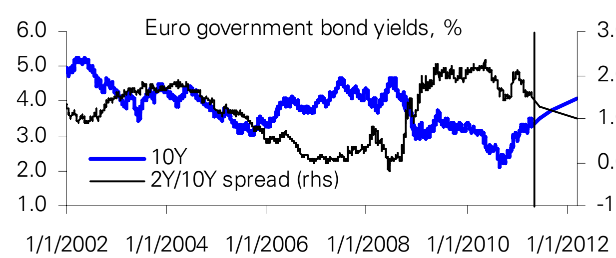
*(1) Future rates calculated from the June, September and March 3M contracts. Forecasts are for the same dates. * indicates policy interest rates.*
(2) Forecasts in this table are produced by the regional fixed income strategists. Forwards estimated from the asset swap curve for 2Y and 10Y yields.
(3)Bond yield spreads are versus Euroland.
Sources: Bloomberg Finance LP, DB Global Markets Research. Revised forecasts in bold type. All current rates taken as at Tuesday 11:00 GMT.

US 10Y rates



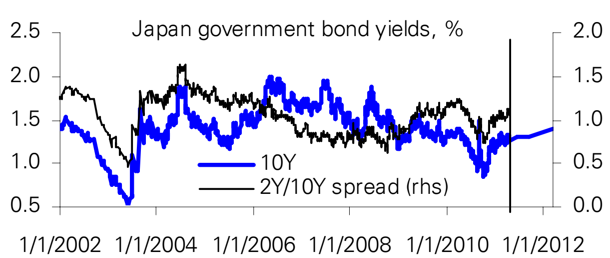
Source: DB Global Markets Research, Bloomberg Finance LP

Euroland 10Y rates



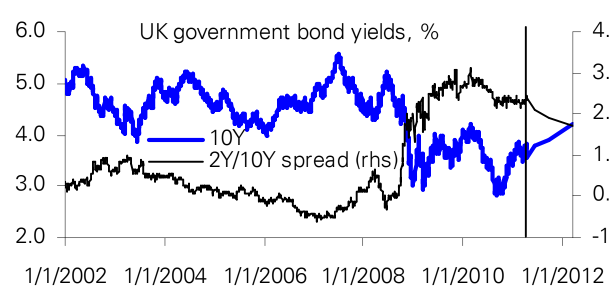
Source: DB Global Markets Research, Bloomberg Finance LP

Japan 10Y rates



Source DB Global Markets Research, Bloomberg Finance LP

UK 10Y rates



Source: DB Global Markets Research, Bloomberg Finance LP

Global

Dbdaily – European Edition (daily)
Dbdaily – Asian Edition (daily)
Dbdaily – Pacific Edition (daily)

Global Economics Perspectives (weekly)

The World Outlook (quarterly)

Global Macro Issues (occasional paper series)

- Credit impulse: Lessons from the Great Depression (13 March 2009)
- The impact of credit on growth (19 November 2008)
- Commodities: Falling off their peak (31 July 2008)
- How far could US Home Prices Fall? (Oct 5, 2007)
- Why Hasn't Homebuilding Employment Dropped? (July 10, 2007)
- Is Emerging Asia Holding Down US Inflation (Feb 26, 2007)
- Evolution in Bretton-Woods II: Controlled Reflation as the Path of Least Resistance (Dec 7, 2006)
- US Trend Employment Growth Has Fallen To 100,000 Per Month (Dec 6, 2006)
- Understanding MEW and How It Is Spent (Nov 17, 2006)
- Financial system modernisation and economic growth in Europe: Financial markets as risk managers for the economy (Oct 27, 2006)
- Housing and the US Consumer: What Foreign Experience Has to Say (Oct 16, 2006)
- The Transatlantic Productivity Divide: Reasons and Consequences (Oct 13, 2006)

US

US Daily Economic Notes (daily)
US Economics and Strategy Weekly (weekly)

Europe

Europe Inflation Report (weekly)
Focus Europe (weekly)

Japan

Japan Economics Weekly (weekly)

Emerging Markets

Emerging Markets Daily – European Edition (daily)
Emerging Markets Daily – Asian Edition (daily)
Emerging Markets Daily – US Edition (daily)
EM Event Radar (weekly)
EM Monetary Policy Rate Calls (monthly)
Emerging Markets Monthly (monthly)
EM Balance of Payment Monitor (quarterly)
Emerging Markets Special Publications (occasional series)

Dollar Bloc

Dollar Bloc Weekly (weekly)
Australian Economics Monthly (monthly)

Asia

Asia Economics Daily (daily)
Asia Economics Monthly (monthly)
Real Exchange Rate Monitor (monthly)

Appendix 1

Important Disclosures

Additional information available upon request

For disclosures pertaining to recommendations or estimates made on a security mentioned in this report, please see the most recently published company report or visit our global disclosure look-up page on our website at http://gm.db.com/ger/disclosure/DisclosureDirectory.eqsr.

Analyst Certification

The views expressed in this report accurately reflect the personal views of the undersigned lead analyst(s). In addition, the undersigned lead analyst(s) has not and will not receive any compensation for providing a specific recommendation or view in this report. Peter Hooper

Deutsche Bank debt rating key

CreditBuy ("C-B"): The total return of the Reference Credit Instrument (bond or CDS) is expected to outperform the credit spread of bonds / CDS of other issuers operating in similar sectors or rating categories over the next six months.
CreditHold ("C-H"): The credit spread of the Reference Credit Instrument (bond or CDS) is expected to perform in line with the credit spread of bonds / CDS of other issuers operating in similar sectors or rating categories over the next six months.
CreditSell ("C-S"): The credit spread of the Reference Credit Instrument (bond or CDS) is expected to underperform the credit spread of bonds / CDS of other issuers operating in similar sectors or rating categories over the next six months.
CreditNoRec ("C-NR"): We have not assigned a recommendation to this issuer. Any references to valuation are based on an issuer's credit rating.

Reference Credit Instrument ("RCI"): The Reference Credit Instrument for each issuer is selected by the analyst as the most appropriate valuation benchmark (whether bonds or Credit Default Swaps) and is detailed in this report. Recommendations on other credit instruments of an issuer may differ from the recommendation on the Reference Credit Instrument based on an assessment of value relative to the Reference Credit Instrument which might take into account other factors such as differing covenant language, coupon steps, liquidity and maturity. The Reference Credit Instrument is subject to change, at the discretion of the analyst.

Regulatory Disclosures

1. Important Additional Conflict Disclosures

Aside from within this report, important conflict disclosures can also be found at https://gm.db.com/equities under the "Disclosures Lookup" and "Legal" tabs. Investors are strongly encouraged to review this information before investing.

2. Short-Term Trade Ideas

Deutsche Bank equity research analysts sometimes have shorter-term trade ideas (known as SOLAR ideas) that are consistent or inconsistent with Deutsche Bank's existing longer term ratings. These trade ideas can be found at the SOLAR link at http://gm.db.com.

3. Country-Specific Disclosures

Australia: This research, and any access to it, is intended only for "wholesale clients" within the meaning of the Australian Corporations Act.

EU countries: Disclosures relating to our obligations under MiFiD can be found at http://globalmarkets.db.com/riskdisclosures.

Japan: Disclosures under the Financial Instruments and Exchange Law: Company name - Deutsche Securities Inc. Registration number - Registered as a financial instruments dealer by the Head of the Kanto Local Finance Bureau (Kinsho) No. 117. Member of associations: JSDA, The Financial Futures Association of Japan. This report is not meant to solicit the purchase of specific financial instruments or related services. We may charge commissions and fees for certain categories of investment advice, products and services. Recommended investment strategies, products and services carry the risk of losses to principal and other losses as a result of changes in market and/or economic trends, and/or fluctuations in market value. Before deciding on the purchase of financial products and/or services, customers should carefully read the relevant disclosures, prospectuses and other documentation. "Moody's", "Standard & Poor's", and "Fitch" mentioned in this report are not registered credit rating agencies in Japan unless "Japan" is specifically designated in the name of the entity.

Malaysia: Deutsche Bank AG and/or its affiliate(s) may maintain positions in the securities referred to herein and may from time to time offer those securities for purchase or may have an interest to purchase such securities. Deutsche Bank may engage in transactions in a manner inconsistent with the views discussed herein.

New Zealand: This research is not intended for, and should not be given to, "members of the public" within the meaning of the New Zealand Securities Market Act 1988.

Russia: This information, interpretation and opinions submitted herein are not in the context of, and do not constitute, any appraisal or evaluation activity requiring a license in the Russian Federation.

Risks to Fixed Income Positions

Macroeconomic fluctuations often account for most of the risks associated with exposures to instruments that promise to pay fixed or variable interest rates. For an investor that is long fixed rate instruments (thus receiving these cash flows), increases in interest rates naturally lift the discount factors applied to the expected cash flows and thus cause a loss. The longer the maturity of a certain cash flow and the higher the move in the discount factor, the higher will be the loss. Upside surprises in inflation, fiscal funding needs, and FX depreciation rates are among the most common adverse macroeconomic shocks to receivers. But counterparty exposure, issuer creditworthiness, client segmentation, regulation (including changes in assets holding limits for different types of investors), changes in tax policies, currency convertibility (which may constrain currency conversion, repatriation of profits and/or the liquidation of positions), and settlement issues related to local clearing houses are also important risk factors to be considered. The sensitivity of fixed income instruments to macroeconomic shocks may be mitigated by indexing the contracted cash flows to inflation, to FX depreciation, or to specified interest rates – these are common in emerging markets. It is important to note that the index fixings may -- by construction -- lag or mis-measure the actual move in the underlying variables they are intended to track. The choice of the proper fixing (or metric) is particularly important in swaps markets, where floating coupon rates (i.e., coupons indexed to a typically short-dated interest rate reference index) are exchanged for fixed coupons. It is also important to acknowledge that funding in a currency that differs from the currency in which the coupons to be received are denominated carries FX risk. Naturally, options on swaps (swaptions) also bear the risks typical to options in addition to the risks related to rates movements.

David Folkerts-Landau
Managing Director
Global Head of Research

Stuart Parkinson Associate Director Company Research	Marcel Cassard Global Head Fixed Income Research

Europe	Asia-Pacific	Germany	Americas
Guy Ashton Regional Head	Fergus Lynch Regional Head	Andreas Neubauer Regional Head	Steve Pollard Regional Head

Principal Locations

Deutsche Bank AG
London
1 Great Winchester Street
London EC2N 2EQ
Tel: (44) 20 7545 8000

Deutsche Bank AG
New York
60 Wall Street
New York, NY 10005
United States of America
Tel: (1) 212 250-2500

Deutsche Bank AG
Hong Kong
Filiale Hongkong
Intl. Commerce Centre
1 Austin Road West Kowloon,
Hong Kong
tel: (852) 2203 8888

Deutsche Securities Inc.
Japan
2-11-1 Nagatacho
Sanno Park Tower
Chiyoda-ku, Tokyo 100-6171
Tel: (81) 3 5156 6770

Deutsche Bank AG
Frankfurt
Große Gallusstraße 10-14
60272 Frankfurt am Main
Germany
Tel: (49) 69 910 00

Deutsche Bank AG
Aurora business park
82 bld.2 Sadovnicheskaya street
Moscow, 115035
Russia
Tel: (7) 495 797-5000

Deutsche Bank AG
Singapore
One Raffles Quay
South Tower
Singapore 048583
Tel: (65) 6423 8001

Deutsche Bank AG
Australia
Deutsche Bank Place, Level 16
Corner of Hunter & Phillip Streets
Sydney NSW 2000
Tel: (61) 2 8258 1234

Deutsche Bank Dubai
Dubai International Financial Centre
The Gate, West Wing, Level 3
P.O. Box 504 902
Dubai City
Tel: (971) 4 3611 700

Subscribers to research via email receive their electronic publication on average 1-2 working days earlier than the printed version.

If you would like to receive this or any other product via email please contact your usual Deutsche Bank representative.

Publication Address:
Deutsche Bank AG London
1 Great Winchester Street
London EC2N 2EQ
United Kingdom
(44) 20 7545 8000

Internet:
http://gmr.db.com
Ask your usual contact for a username and password.

Global Disclaimer