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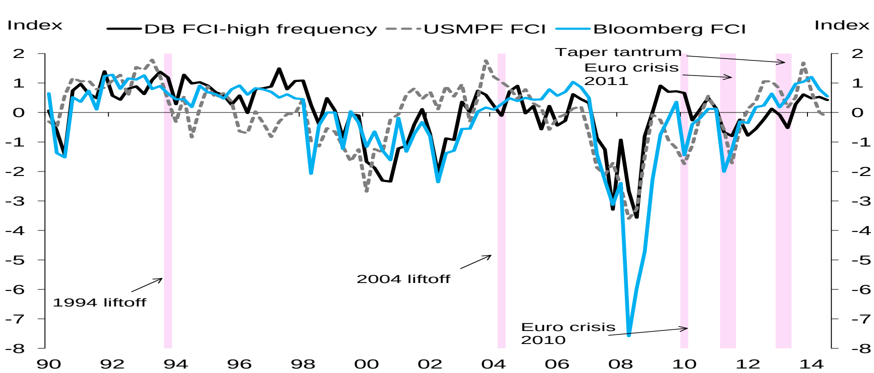
Global Economic Perspectives

Will exit or Grexit vol give the Fed pause?

- Financial conditions should once again feature prominently in discussions about the global outlook this year, with event risks likely supplanting broad trends as the major focus. Two events that could drive financial conditions in 2015 are (1) Fed liftoff with high probability and (2) less probable developments in Greece that could foment expectations of another euro crisis. This week's GEP uses our DB financial conditions index to explore the implications of these events for financial conditions and growth in the US.
- Our analysis suggests that similar shifts in Fed policy and spikes in euro risk have in the past led to tighter financial conditions that subtracted about 50bps from growth for several quarters. With our view that underlying growth in the US economy is 3%+, growth should remain well above potential even with this drag, allowing labor market slack to decline further.
- There are additional reasons to believe these risks are manageable. First, so far, the Fed has been doing a good job of telegraphing its intentions, and we find that well-telegraphed policies allow financial conditions to rebound more quickly following the initial shock, moderating the adverse impact on growth. Second, the global economy is now better insulated from contagion from euro risk compared to the episodes in 2010 and 2011.
- However, history is an imperfect guide for how the market will react to an unprecedented move from the more than six year stay at the zero lower bound. The potential for greater market volatility than in the past could very well amplify the effects on the real economy this time around. But this alone should not dissuade the Fed from liftoff, as delaying further because of these concerns would likely result in more significant turbulence down the road.
- Our historical analysis produces several interesting takeaways. First, sharp moves in financial conditions are often transitory. Second, reassessments of expectations about Fed policy (e.g. taper tantrum) can be more important for financial conditions than actual shifts in policy. Third, while managing expectations is important around rate hikes, it does not fully insulate the economy from a significant tightening of financial conditions, as the initial tightening was similar around the 1994 and 2004 liftoffs. Finally, risk originating from Europe can be important for financial conditions and the US economy, given the strong financial linkages between the economies.

FCIs around previous shifts in Fed policy and euro risk



Source: USMPF (2010), Bloomberg Finance LP, Deutsche Bank Research

Key Economic Forecasts

	Real GDP % growth[b]			CPI % growth[c]			Current a/c % GDP[d]			Fiscal balance % GDP		
	2014F	2015F	2016F	2014F	2015F	2016F	2014F	2015F	2016F	2014F	2015F	2016F
US	2.4	3.3	3.1	1.6	0.7	2.7	-2.6	-2.9	-3.2	-2.9	-2.6	-2.9
Japan	0.0	0.7	1.8	2.7	0.9	0.9	0.6	3.4	3.3	-5.9	-5.2	-4.3
Euroland	0.9	1.4	1.6	0.4	-0.3	1.2	2.4	2.2	2.0	-2.6	-2.5	-2.3
Germany	1.6	2.0	1.7	0.8	0.1	1.6	7.4	8.4	8.2	0.6	0.6	0.7
France	0.4	1.1	1.6	0.6	-0.1	1.1	-1.8	-1.8	-1.5	-4.4	-4.2	-3.9
Italy	-0.4	0.5	1.3	0.2	-0.2	1.0	1.8	2.4	2.2	-3.0	-2.7	-2.7
Spain	1.4	2.4	2.3	-0.2	-1.0	1.5	0.4	1.8	1.8	-5.4	-4.3	-3.4
UK	2.6	2.5	2.3	1.5	0.9	1.7	-5.0	-4.0	-3.5	-4.9	-3.9	-2.0
Sweden	1.9	2.3	2.8	-0.2	0.5	1.5	5.9	5.3	4.8	-2.0	-1.5	-1.0
Denmark	0.9	1.7	1.8	0.6	1.0	1.5	6.8	6.5	6.0	-1.0	-2.5	-2.0
Norway	2.2	2.4	2.5	2.0	2.0	2.0	10.5	10.0	9.5	10.0	9.5	9.0
Poland	3.3	3.3	3.5	0.0	0.3	1.5	-2.6	-2.9	-3.1	-3.4	-2.9	-2.7
Hungary	3.4	2.4	2.3	-0.2	-0.5	2.8	3.8	3.8	3.7	-2.9	-2.7	-2.4
Czech Republic	2.4	2.5	2.7	0.4	0.3	1.9	-1.0	-0.8	-0.6	-1.3	-2.1	-2.2
Australia	2.7	2.8	3.5	2.5	1.1	2.2	-2.9	-2.8	-2.4	-2.9	-2.5	-1.9
Canada	2.5	2.6	2.7	2.0	1.3	2.0	-2.0	-1.7	-1.4	-0.8	0.0	0.3
Asia (ex Japan)	6.5	6.4	6.3	3.5	2.9	3.5	2.4	2.7	2.3	-2.4	-2.8	-2.7
India	7.2	7.5	7.5	7.2	5.3	5.8	-1.5	-1.4	-1.7	-4.5	-4.0	-3.8
China	7.4	7.0	6.7	2.0	1.8	2.7	3.1	3.4	3.3	-2.1	-3.0	-3.0
Latin America	0.8	0.7	2.6	12.5	12.4	11.4	-3.0	-3.1	-3.3	-5.7	-5.8	-3.9
Brazil	0.0	-0.7	1.5	6.3	7.3	5.8	-4.2	-4.0	-4.1	-6.7	-5.6	-4.3
EMEA	2.2	0.6	1.6	6.0	7.5	5.7	2.2	-0.6	0.3	-2.1	-5.0	-3.9
Russia	0.6	-5.2	-3.4	7.9	13.3	7.0	3.1	3.6	4.3	-0.5	-2.1	-1.7
G7	1.7	2.4	2.5	1.5	0.6	2.0						
World[e]	3.4	3.4	3.8	3.7	3.2	3.8						

Forecasts: G7 quarterly GDP growth

% qoq saar/annual: %yoy	Q1 14	Q2 14	Q3 14	Q4 14	Q1 15F	Q2 15F	Q3 15F	Q4 15F	2014F	2015F	2016F
US	-2.1	4.6	5.0	2.2	3.1	3.3	3.2	3.1	***2.4***	***3.3***	***3.1***
Japan	5.5	-6.7	-2.3	2.2	1.6	1.6	1.9	1.8	***0.0***	***0.7***	***1.8***
Euroland	1.3	0.3	0.6	1.4	1.5	1.7	1.7	1.7	***0.9***	***1.4***	***1.6***
Germany	3.2	-0.4	0.4	2.8	2.2	1.6	1.8	1.0	***1.6***	***2.0***	***1.7***
France	-0.1	-0.5	1.1	0.3	1.2	1.6	1.6	1.6	***0.4***	***1.1***	***1.6***
Italy	-0.1	-0.9	-0.3	-0.1	0.6	1.2	1.7	1.5	***-0.4***	***0.5***	***1.3***
UK	2.7	3.0	2.6	2.2	2.3	2.3	2.1	2.1	***2.6***	***2.5***	***2.3***
Canada	1.0	3.8	3.2	2.4	1.9	3.1	3.0	3.3	***2.5***	***2.6***	***2.7***
G7	0.3	1.6	2.6	2.0	2.4	2.5	2.6	2.4	***1.7***	***2.4***	***2.5***

a) Euroland forecasts as at the last forecast round on 30/01/15. Bold figures signal upward revisions, bold, underlined figures signal downward revisions. (b)GDP figures refer to working day adjusted data, except Germany. (c) HICP figures for euro-zone countries and the UK (d) Current account figures for Euro area countries include intra regional transactions. e) **The world aggregate has been calculated based on the IMF weights in October 2014; also Nigeria has been included (as part of EMEA) in the aggregation from the week starting December 5, 2014.**
Sources: National authorities, Deutsche Bank Research

Will exit or Grexit vol give the Fed pause?

Introduction

Over the past year, attention to shifts in financial conditions in the US -- and the implications for the outlook for the economy and financial markets -- has focused primarily on several broad trends. These trends have included the steady decline in yields, the sharp drop in oil prices, and the strengthening US dollar. Financial conditions should once again feature prominently in discussions about the global outlook in 2015. But event risks are likely to supplant broad trends as the major focus. Two events that could drive financial conditions this year include (1) Fed liftoff with high probability, and (2) less probable developments in Greece that could foment expectations of another euro crisis.

What are the potential implications of these events for financial conditions and, in turn, the outlook for the US and global economies and financial markets? Should the Fed be seriously concerned that market volatility could adversely affect the real economy enough to force a substantial pause or even reversal of policy after liftoff, as was discussed in the minutes to the January 2015 FOMC meeting? Could negative events in Europe, though less likely, have a similar effect on Fed policy?

In this week's GEP we use our DB financial conditions index (FCI) to explore these questions. We consider the response of our FCI to similar episodes in the past, and we then present our expectations for how these event risks could unfold this year. Given this narrative and the lessons from these historical episodes, we conclude with an empirical assessment of the likely impact of these events, should they be realized, on US growth over the year ahead.

To briefly summarize our main points, we find that the historical record teaches us the following lessons about shifts in financial conditions around similar events:

- Sharp moves in financial conditions are often reversed relatively quickly, suggesting that the Fed should not react to every transitory move if it can identify it as such.
- Reassessments of expectations about Fed policy (e.g. taper tantrum) can sometimes be more important for financial conditions than actual shifts in this policy (e.g. tapering or interest rate hikes).
- While managing expectations is important around rate hikes, it does not fully insulate the economy from a significant tightening of financial conditions: Financial conditions tightened around both the well-telegraphed rate hikes in 2004 and the more unexpected but swift increase in rates in 1994. However, financial conditions normalized more quickly in 2004.
- International events can be important for financial conditions and the US economy. This is especially so for risk originating from Europe given the strong financial linkages between the economies.

We conclude the piece with an assessment of the impact of tighter financial conditions from these events on US growth and discuss risks to this analysis on both sides.

Recent developments in financial conditions

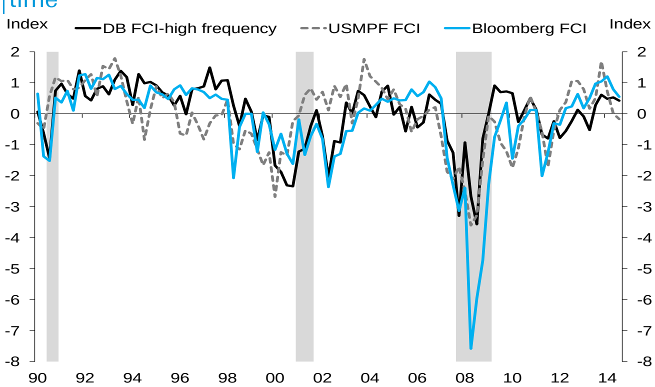
A brief review of our DB FCI

Last October we unveiled a new FCI, which was intended to simplify the methodology of the USMPF FCI that we have updated on an ongoing basis since its inception in 2010, while also maintaining its predictive capacity for future developments in GDP growth.[1] In its construction we considered nearly 40 financial variables -- including various interest rates, spreads, price measures, and survey data -- and included in our index those variables that had the highest correlations with future GDP growth. We then transformed these variables so that they no longer exhibited trends (e.g. by taking growth rates) and normalized each variable by subtracting its mean and dividing by its standard deviation to make all variables comparable. The index is then constructed by weighting each variable, where the weight is determined by the relative strength of its historical correlation with GDP growth. Higher values of the index represent easier financial conditions that are more supportive of growth, while lower values represent tighter, less supportive conditions.[2]

What does our FCI show recently?

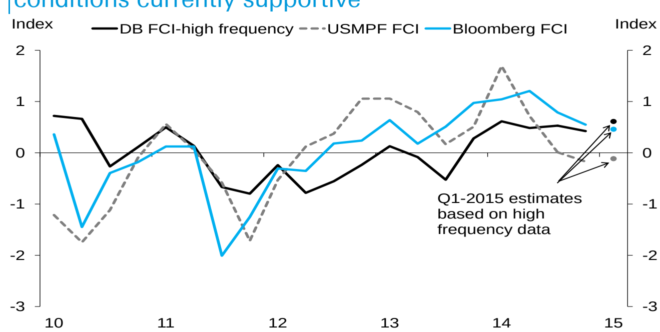
After tightening substantially in response to the taper tantrum around mid-2013, financial conditions have remained broadly supportive of growth over the past year according to our FCI (Charts 1 and 2). The Bloomberg FCI shows similar trends, including the fact that financial conditions remain supportive of growth currently. Conversely, the USMPF FCI suggests that financial conditions tightened over the course of 2014 and are currently a modest drag on growth. As we have noted previously, a key reason for the divergence between the USMPF FCI and alternative FCIs historically is that the former first adjusts each data series for its normal sensitivity to the business cycle prior to constructing the FCI. Consequently, movements in financial variables in a loosening direction will only be recorded as such if they loosen more than would be expected by the stage of the business cycle (e.g. relative to GDP growth). Importantly, we showed in previous work that our high frequency FCI performed as well as the USMPF FCI, on average, in forecasting future developments in GDP growth.[3]

Chart 1. DB FCI and alternative FCIs move together over time



Source: USMPF (2010), Bloomberg Finance LP, Deutsche Bank Research

Chart 2. DB and Bloomberg FCIs show financial conditions currently supportive



Note: Data for the USMPF FCI for Q4-2014 is an estimate based on available data.

Source: USMPF (2010), Bloomberg Finance LP, Deutsche Bank Research

Which variables account for the moves in our FCI? Over the past year, the decline in oil prices and compression of the term premium in the 10-year Treasury yield have supported financial conditions (Chart 3). Developments in

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[1] For more detail on the USMPF FCI and the construction of our FCIs, see *DB Global Economic Perspectives* (16 October 2014), "Drop in financial conditions means some softening of US growth ahead."

[2] We built two versions of our FCI, one that is restricted to information from eight high frequency variables that are available on a daily or weekly basis; this high frequency version allows us to have a better real-time gauge of financial conditions.[2] The second index is constructed from a broader set of 16 variables, including several of lower frequency (e.g. monthly and quarterly). We focus on the high-frequency version in the analysis that follows.

[3] See GEP October 2014.

the Wilshire 5000 and various credit spreads -- including the spreads of corporate Baa rated bonds and mortgage rates over the 10-year Treasury yield -- have tightened financial conditions. A similar story is true if we consider movements in our index since mid-2014.

Chart 3. Lower oil prices and 10-year term premium account for more supportive financial conditions over the past year

Change from Q1-2014 to Q1-2015 estimate

Variables	Contribution
Price of Oil Relative to 2Year MA	0.72
ACM Term Premium: 10 Year (%)	0.03
10YrT-note/3monthTbill Spread	-0.04
FedFunds/3monthTBill Spread	-0.07
Baa/10yr T-note Spread	-0.13
Wilshire 5000	-0.16
30-yr Conventional mortgage/ 10yr T-note Spread	-0.36

Source: Deutsche Bank Research

Notably absent from this discussion is the impact of the stronger dollar on financial conditions, which has garnered significant attention recently. In fact, we find that the correlation between changes in the dollar and economic growth over the subsequent year is rather limited historically. As a result, the dollar does not appear in our high frequency FCI. This result is broadly consistent with the USMPF FCI, which places a relatively small weight on the dollar (e.g. the dollar receives the 16th smallest weight in the USMPF FCI out of more than 40 variables).

Potential big movers of financial conditions this year

There are at least two important events in 2015 that could have significant implications for the US and global growth outlook through their impact on financial conditions: Fed liftoff and potential Greek exit. In this section we discuss our expectations for how these events will unfold over the year ahead.

Prospects for a liftoff tantrum in 2015

Chair Yellen's recent Congressional testimony signaled a removal of the "patient" language from the post-meeting FOMC statement in March. This shift would leave open the possibility for the first rate hike at the June meeting, but we expect that it will explicitly not guarantee such a move. The Fed is clearly shifting away from calendar-based guidance. The timing and pace of rate hikes will be based on how well incoming data conforms to or supports their expectations for economic activity (most importantly the labor market) and inflation. This assessment is likely to occur on a meeting-by-meeting basis beginning in June.

Key to the timing of the first rate hike is when the Fed observes sufficient data to make them "reasonably confident" that inflation will move back to target over time. In the minutes to the January 2015 FOMC meeting, participants noted that in addition to continued above-potential growth and improving labor market conditions, several additional developments would bolster this confidence, including: firming in core inflation, rebounding measures of market inflation compensation, and accelerating wages.[4]

Our baseline view expects the economy to continue to grow above potential and the labor market to continue to expand robustly, with labor market slack -- measured as either the headline unemployment gap or broader measures of

[4] See the minutes from the January 2015 FOMC meeting here: http://www.federalreserve.gov/monetarypolicy/fomcminutes20150128.htm

slack such as the U-6 gap -- closing within a year or so. We also expect the employment cost index (ECI) to show further gains in April. If these further gains are significant (e.g., with ECI growth rising above 2.5% for Q1 2015), and are corroborated by strengthening in alternative measures of wages, then June would be in play for liftoff. Absent these strong moves in wages over the next few months, September appears more likely.

Beyond the first rate hike, the Fed has indicated that the speed of ascent will be slower than historical experience but faster than currently expected by the market. Crucial for the evolution of financial conditions around this event is how the current gap between the Fed's median dots for the fed funds rate and market expectations is resolved. A sharp market reassessment of the entire path and rapid convergence to the Fed's median dots around liftoff would result in a swift increase in yields, a spike in volatility, and a likely retrenchment in risk assets for at least some time. This is not the most likely outcome in our view. Indeed, we assume it will take some time (and evidence that the economy is remaining on track in the wake of at least several rate hikes) for market expectations about rates to move fully in line with the Fed's.

Greek risk in 2015

The second key risk event this year, though one with a substantially lower probability attached to it, relates to a possible negative outcome to current negotiations between Greece and its creditors. Although Greece's request for an extension of the original bailout marks a first step toward an amicable resolution, our House View remains that it is only the first step in a long process that we expect to culminate in a compromise that keeps Greece in the Eurozone.[5]

This process should extend for several months, and includes additional steps, including the negotiation of completion of the existing bailout, the approval by the Greek parliament, negotiations of the new program, and subsequent approval of the new program by Greek and national parliaments. With government funding and bank liquidity needs always close at hand, the chances of a misstep along this road and the sudden emergence of a crisis are nontrivial.

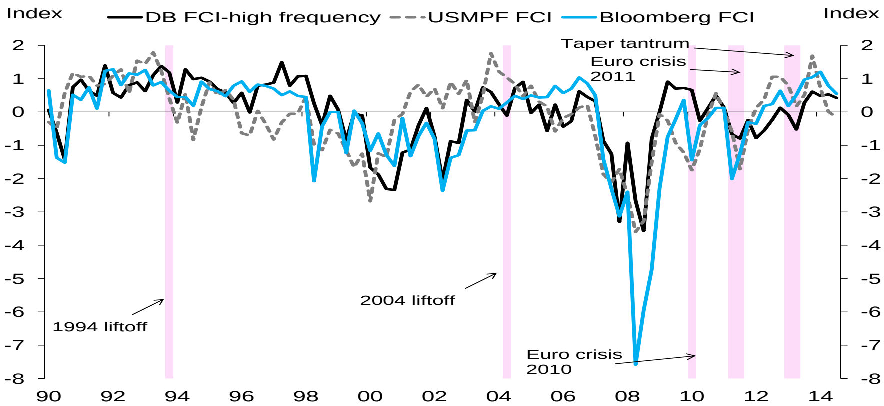
That said, the potential for significant contagion related to a Greek exit is much reduced relative to previous euro-crisis episodes, for several reasons. First, foreign exposure to Greece is much lower, with foreign banking sector claims on Greece 80% below the post-crisis peak. Second, the vulnerability of other European economies to shocks is much reduced. For example, foreign ownership of public debt has declined substantially in countries such as Italy and Spain. Finally, the Eurozone has erected significant firewalls to protect against the spread of future crises, including the newly initiated quantitative easing program.

Financial conditions around historical episodes

How have financial conditions in the US reacted to earlier episodes of Fed liftoff and euro-crisis? Chart 4 once again shows our high frequency FCI with the USMPF and Bloomberg alternatives. We highlight the following episodes: Fed liftoff in 1994 and 2004, euro crisis events in the summer of 2010 and 2011, and the taper tantrum in 2013.

[5] See our latest House View for more details: http://pull.db-gmresearch.com/cgi-bin/pull/DocPull/3341-8ECD/12785970/DB_TheHouseView_2015-02-22_GDPBD00000276868.pdf

Chart 4. Shifts in Fed policy and Euro-related risk have caused financial conditions to tighten in the past



Source: USMPF (2010), Bloomberg Finance LP, Deutsche Bank Research

Financial conditions have tightened significantly around each of these episodes, though the magnitude of tightening is substantially less than occurred during the financial crisis, or even the mild recession in the early 2000s. These movements are generally consistent with measures of volatility in fixed income and equity markets from the VIX and MOVE indexes during these time periods. Fixed income volatility was elevated during the 1994 rate hike cycle but did not reach levels observed during the financial crisis and the recession in the early 2000s, and both measures of vol fell around the 2004 liftoff. The VIX and MOVE indexes then spiked around the euro crisis events in 2010 and 2011. Finally, while the MOVE jumped in response to the taper tantrum, the VIX remained relatively subdued.

The magnitude and persistence of the tightening depended on the event (Chart 5). All episodes except the 2004 rate hike had the peak decline in the FCI (relative to its pre-event value) occur in the quarter after the episode. Moreover, the tightening of financial conditions was persistent across episodes, with financial conditions tighter two quarters after each event except the 2004 rate hike cycle and the 2013 taper tantrum. Finally, the starting point for financial conditions was very important for whether these events led to conditions that were a drag on growth (i.e. FCIs that were negative). Indeed, even though the 1994 rate hike cycle led to the most severe tightening of financial conditions of the events we consider, this tightening occurred from a supportive base with high starting points for the FCI. As a result, the FCI declined but remained in positive territory, suggesting that financial conditions continued to support growth. Conversely, our FCI fell into negative territory during several episodes in which financial conditions tightened less than in 1994, including the 2004 rate hike.

Chart 5. Changes in DB high frequency FCI relative to pre-event level

Episode	On impact	1 quarter later	2 quarters later
1994 liftoff	-0.20	-1.10	-0.10
2004 liftoff	-0.34	0.48	0.67
2010 euro crisis	-0.06	-0.99	-0.61
2011 euro crisis	-0.80	-0.93	-0.38
2013 taper tantrum	-0.21	-0.65	0.15

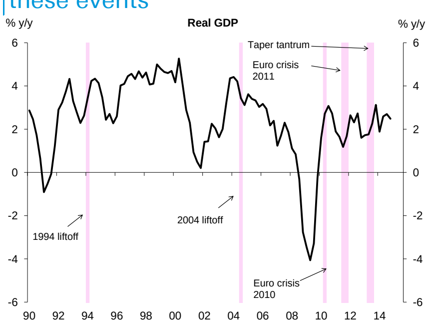
Source: Deutsche Bank Research

While there were many similarities across these episodes, there were also several differences that lead to potentially interesting inferences. In particular, the well-telegraphed rate hike cycle in 2004 was associated with a quicker rebound in financial conditions than the surprise tightening in 1994. In addition, the 2013 taper tantrum, which was induced by a shift in expectations about Fed policy rather than an actual tightening, also was associated with a more rapid rebound in financial conditions than the 1994 tightening and the 2010 and 2011 euro crisis events. While interesting, we caution against drawing conclusive takeaways from only a few data points.

Impact on the real economy

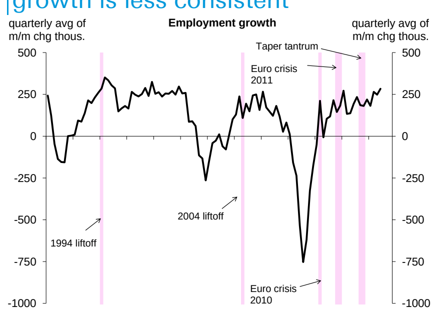
So far we have established that these events are often associated with a substantial tightening of financial conditions. But how important, if at all, were these events for the real economy? In general, shifts in Fed policy and euro crisis events were followed by slower growth over subsequent quarters (Chart 6). Typically, year-over-year real GDP growth peaked during the 2 quarters after the start of the event and then declined over the next several quarters.[6] This dynamic held across all episodes we have considered; however, the initial decline in growth occurred prior to the start of rate hikes during 2004. The effect on employment growth was more mixed across events, with several episodes associated with a slowdown in employment growth, while employment growth remained relatively steady following liftoff in 2004 and the taper tantrum in 2013 (Chart 7). Similarly, these events appear to have had little consistent impact on inflation. The prevailing trend in inflation leading up to the 1994 and 2004 rate hikes remained in place after liftoff and well into the rate hike cycle, while the two euro crisis events we consider were associated with a reversal of trend in inflation, with inflation tending to fall after these events (Chart 8).

Chart 6. Growth tends to slow after these events



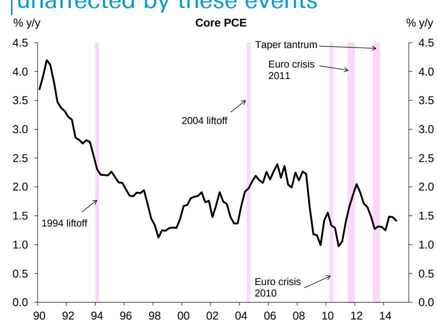
Source: BEA, Deutsche Bank Research

Chart 7. The impact on employment growth is less consistent



Source: BLS, Deutsche Bank Research

Chart 8. Core inflation relatively unaffected by these events



Source: BEA, Deutsche Bank Research

Financial conditions in real-time versus ex-post readings

Finally, we consider the behaviour of our FCI in response to these events at a higher frequency than the quarterly values that have been discussed thus far. The fact that our FCIs are composed of quarterly averages of higher frequency data motivates this exploration, as sharp intra-quarter moves in financial conditions will not be reflected in the ex-post readings of our FCI if these moves are reversed within the quarter or are offset by moves in the opposite direction earlier in the quarter.

We have constructed real-time readings of our FCI around these episodes by taking averages of the daily data through a certain point. We chose the cut-off date to roughly coincide with the trough (i.e. most significant tightening) in the FCI in that quarter. This analysis suggests that our ex-post FCI typically underestimated the severity of the initial tightening in financial conditions that occurred during these episodes, as the real-time readings on our FCI are lower

[6] We focus here on year-over-year growth rates to take a broader view that smoothes quarterly fluctuations.

than the ex-post realizations for these quarters for all events under consideration (Chart 9). In certain cases, such as the 1994 rate hike, our real-time readings would have suggested that financial conditions were a drag on growth, whereas much of this tightening was subsequently reversed over the remainder of the quarter, and financial conditions appeared modestly supportive of growth when all data became available. The taper tantrum was the one event that did not show a significant reversal of the tightening within the quarter. An additional example of this finding, which we do not show here, was the difference between the real-time reading of our FCI during the sharp risk-off episode around mid-October 2014 and the ex-post value of our FCI for that same quarter. At the time of the episode our FCI had fallen into negative territory, suggesting that financial conditions had become a significant drag on growth. But the rapid rebound in financial markets lifted the FCI into positive territory for the quarter.

Chart 9. High-frequency readings on our FCI suggest that financial conditions tighten around these events more than suggested by the quarterly values

Events	Period	FCI value full quarter	FCI value real time
1994 liftoff	Q2-1994	0.28	-0.26
2004 liftoff	Q3-2004	-0.11	-0.31
2010 euro crisis	Q3-2010	-0.27	-0.41
2011 euro crisis	Q4-2011	-0.80	-1.19
2013 taper tantrum	Q3-2013	-0.53	-0.56

Note: Real time values are the averages of daily or weekly values up until the trough for each episode.
Source: Deutsche Bank

In summary, there are several interesting takeaways from this historical record:

- Sharp moves in financial conditions that originate from event risks in financial markets are often reversed in relatively short order, suggesting that the Fed should not react to every transitory move if it can identify it as such.
- Reassessments of expectations about Fed policy (e.g. taper tantrum) can be as important for financial conditions as actual shifts in policy, and can also lead to more persistent moves in financial conditions.
- While managing expectations is important around rate hikes, it does not fully insulate the economy from a significant tightening of financial conditions. Financial conditions tightened around both the well-telegraphed rate hikes in 2004 and the more unexpected swift increase in rates in 1994.
- International events can be important for financial conditions and the US economy. This is especially so for risk originating from Europe given the strong financial linkages between the economies.

Implications for the US growth outlook

In this section we use a simple empirical model of real GDP growth to investigate how shocks to financial conditions could impact US growth this year. In our model, quarter-over-quarter annualized growth of real GDP is a function of past values and current and lagged values of our high-frequency FCI. Chart 10 shows the results of this regression model.

Chart 10. DB FCI has important implications for growth

Variable	Value	Std Error
Constant	1.63	0.37
Real GDP (-1)	0.10	0.10
Real GDP (-2)	0.17	0.09
Real GDP (-4)	0.13	0.09
DB HF FCI	0.80	0.30
DB HF FCI (-1)	0.49	0.33
R-squared		0.38
Adjusted R-squared		0.35

Source: Deutsche Bank Research

To calibrate the extent to which financial conditions could tighten in response to the start of rate hikes this year, we consider the average moves in our high-frequency FCI in response to liftoff in 1994 and 2004 as well as the taper tantrum in 2013. On average, our FCI declined by about 0.8 points around these different episodes, with a range of -1.1 in response to the 1994 episode to -0.6 for the taper tantrum. Based on our empirical model, the direct effects of this move would be to reduce real GDP growth by about 60bps in the quarter of liftoff and 50bps in the following quarter. Indirect effects through lagged GDP growth would lead to a marginally higher impact. These estimates may be on the high side because the Fed appears to be doing a good job of telegraphing the coming liftoff.

Conducting a similar exercise for the euro-related events, we find that the high frequency FCI fell about 0.5 points in response to the 2010 event and almost 0.9 points in 2011, for an average decline of 0.7 points between the two events. Based on this historical record, a spike in euro risk this year would likely have nearly as large of an impact on growth as Fed liftoff.

Do these estimates seem reasonable compared to the observed moves in real GDP around these events? In response to the start of rate hikes in 1994, real GDP growth on a quarter-over-quarter annualized basis fell 150bps from 5.5% to a still robust 4.0% in the period of liftoff. Growth then rebounded to 5.6% in the following quarter, and only exhibited a more noticeable downtrend beginning two quarters after the initial hike when the fed funds rate had been increased by more than 150bps.[7] In response to the start of rate hikes in 2004, real GDP growth was relatively unaffected initially, and growth only began to slow noticeably 3 quarters after the initial hike as the fed funds rate rose by more than 150bps again. Finally, real GDP growth initially fell by about 100bps in response to the taper tantrum, and then rebounded robustly over the next two quarters. Broadly similar dynamics are apparent around the euro events we consider in 2010 and 2011. Given that (1) the Fed is intent on signaling as clearly as possible the timing of liftoff and has stated that it will be patient in normalizing policy from there, and (2) the US and European insulation from contagion from Greek risk is much improved, our model estimates appear reasonable.

Conclusion

Several events this year have the potential to lead to sharp moves in financial conditions and some slowing of US growth as a result. In this piece we have focused primarily to the impact of Fed liftoff and have also discussed the potential for a spike in euro risk to spillover onto US growth prospects.

[7] However, growth of private domestic demand (defined here as the sum of personal consumption and non-residential and residential investment) displayed a more notable downtrend during this period.

One important question that has been evident in recent Fedspeak, including the minutes from the January 2015 FOMC meeting, is whether liftoff will be associated with a large enough tightening of financial conditions to cause the Fed to delay or reverse course on rate hikes. Our analysis suggests that similar historical shifts in Fed policy generally lead to tighter financial conditions that can subtract about 50bps from growth over several quarters. With our view that underlying growth in the US economy is currently 3%+, such a negative impact would be meaningful but not sufficient to derail momentum. That is, growth would still remain well above potential, allowing for labor market slack to continue to decline. Moreover, so far, the Fed has been doing a good job of telegraphing its intentions, and we find that well-telegraphed policies allow financial conditions to rebound more quickly following the initial shock, moderating the ultimate adverse impact on growth. However, we must acknowledge that the historical record is not a perfect guide for how the market will react to an unprecedented shift away from the more than six year stay at the zero lower bound. These risks and the potential for greater market volatility than in the past could very well amplify the effects on the real economy this time around. But the potential for market volatility alone should not dissuade the Fed from hiking rates. Indeed, delaying liftoff further because of these concerns would likely only result in a more significant market reaction down the road.

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Central Bank Watch

G3

US

Chair Yellen's recent testimony signaled an expected removal of "patient" language from the Fed's post-meeting statement in March. Yellen will make it clear, however, that this does not necessarily mean liftoff in June. The probability distribution between June and September remains flat (though July would be less likely). The outcome will likely be determined by the strength of wage inflation data in the months to come. We expect the post-liftoff rate of ascent to be slow, at least initially.

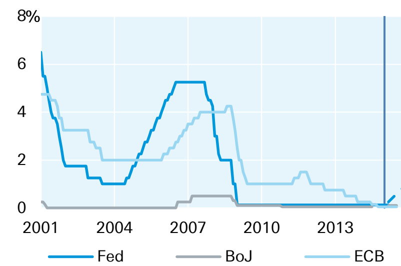
Japan

The disinflationary pressure from falling oil prices has probably ended – retail gas prices rose in February – but that leaves headline inflation (ex-VAT) at 0.2%yoy in January and core-core inflation at only 0.3%. But with the economy growing at an above-potential rate and labour markets still very tight, the BoJ is likely to keep policy unchanged at least until it has a sense of the outcome of the Spring wage negotiations.

Euroland

The ECB impressed markets on 22 January with a large public QE programme. E60bn a month for 18 months equates to E1.1tr of purchases, possibly more if TLTRO is a success. The pledge is also open-ended – the ECB is prepared to keep purchasing until inflation shows a sustained recovery.

Figure 1: G3 policy rates



%	Current	Mar-15	Jun-15	Sep-15	Dec-15
Fed	0.13	0.25	0.50	0.75	1.00
BoJ	0.10	0.10	0.10	0.10	0.10
ECB	0.05	0.05	0.05	0.05	0.05

Source: Deutsche Bank Research

Other European countries

UK

Our view remains for lift-off in Bank of England policy rates from May next year. This would be consistent with our call on the Fed (June 2015); typically the BoE moves rates around 9 months after the US.

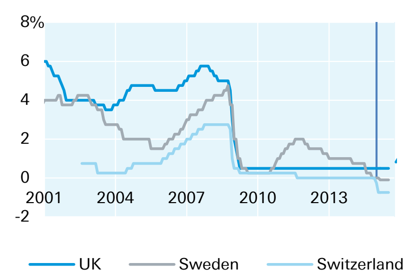
Sweden

The Riksbank loosened policy at its February meeting, cutting rates below zero and embarking on modest QE. More easing could come if inflation disappoints.

Switzerland

The SNB shocked the markets by abandoning the CHF peg, causing a sizable jump in CHF vs. the EUR. We expect EUR/CHF to rise to 1.10 by year-end.

Figure 2: Key European policy rates



%	Current	Mar-15	Jun-15	Sep-15	Dec-15
BoE	0.50	0.50	0.50	0.50	0.50
SRB	-0.10	-0.10	-0.10	-0.10	-0.10
SNB	-0.75	-0.75	-0.75	-0.75	-0.75

Source: Deutsche Bank Research

Dollar bloc

Canada

The Bank of Canada on March 4, announced that it is maintaining its target for the overnight rate at 0.75%. In the press statement BoC said '' the risks around the inflation profile are now more balanced and financial stability risks are evolving as expected in January. At present, we judge that the current degree of monetary policy stimulus is still appropriate and the target for the overnight rate remains at 3/4 per cent.''

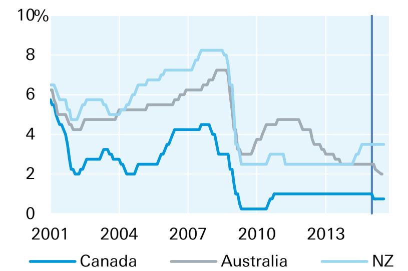
Australia

The RBA in its March Board meeting left cut the cash rate unchanged at 2.25%, but. "further easing of policy may be appropriate over the period ahead" On hold, but a very clear easing bias (as reflected in the line above) in the post meeting statement. The statement also saw the re-appearance of 'for the time being'; namely: "The Board judged that, having eased monetary policy at the previous meeting, it was appropriate to hold interest rates steady for the time being".

New Zealand

As was widely expected the RBNZ announced that it had decided to retain the OCR at 3.5%. The Bank believes that future rate adjustments, either up or down, will depend on the emerging flow of economic data.

Figure 3: Dollar bloc policy rates



%	Current	Mar-15	Jun-15	Sep-15	Dec-15
BoC	0.75	0.75	0.75	0.75	0.75
RBA	2.25	2.00	2.00	2.00	2.00
RBNZ	3.50	3.50	3.50	3.50	3.50

Source: Deutsche Bank Research

BRICs

China

Growth momentum remains weak as property investment growth continues to slow and a fiscal contraction kicks in. We expect growth to drop sharply to 6.8% yoy in H1 2015. The policy easing cycle has started. We expect the government to cut benchmark interest rates again by 25bp and cut the RRR by 50bps in Q2 to stabilize the economy. We expect growth to pick up slightly in H2 2015, and full year growth to reach 7%.

India

In a nod to the prevailing disinflationary trend and an expression of endorsement of the FY16 budget, the RBI implemented yet another off-cycle rate cut on 4th March, reducing the policy repo rate by 25bps to 7.5%. We think the RBI would try to front-load the cuts as the second half of the year is fraught with uncertainty. We are therefore leaving our call for two more rate cuts of 25bps each (April and June) unchanged.

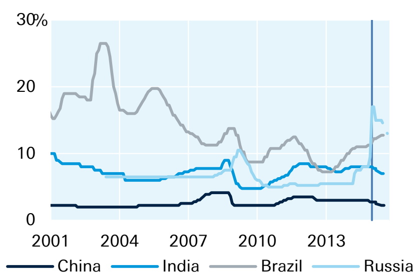
Brazil

The BCB faces a tough dilemma, as inflation expectations continue to deteriorate at the same time that economic activity is weakening further. We believe high inflation will prompt the BCB to raise rates by 50bps again in March, but expect it to be the final hike due to the looming recession.

Russia

On 30 January, the Bank of Russia Board of Directors decided to reduce the key rate from 17.00 to 15.00 percent per annum due to the shift in the balance of risks of accelerated consumer price growth and cooling economy.

Figure 4: BRICs policy rates



%	Current	Mar-15	Jun-15	Sep-15	Dec-15
PBoC	2.50	2.50	2.25	2.25	2.25
RBI	7.50	7.50	7.00	7.00	7.00
BCB	12.25	12.25	12.75	12.75	12.75
CBRF	15.00	15.0	15.0	13.0	N.A

Source: Deutsche Bank Research

Central Bank policy rate monitor

	Max (2007-2008)	Trough policy rate*	2013 Jan	Feb	Mar	Apr	May	June	July	Aug	Sep	Oct	Nov	Dec	2014 Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	2015 Jan	Feb	Mar
US	5.25	0.13	0.13																										
Japan	0.50	0.10	0.10																										
Euro area	4.25	0.05	0.75				0.50 ↓						0.25 ↓							0.15 ↓			0.05 ↓						
UK	5.75	0.50	0.50																										
Sweden	4.75	-0.10	1.00											0.75 ↓	0.75						0.25 ↓			0.00 ↓				-0.10 ↓	
Denmark	5.50	-0.75	-0.10															0.05 ↑					-0.05 ↓				-0.50 ↓	-0.75 ↓	
Norway	5.75	1.25	1.50																							1.25 ↓			
Switzerland	2.75	-0.75	0.00																							-0.25 ↓	-0.75 ↓		
Australia	7.25	2.25	3.00				2.75 ↓	2.75		2.50 ↓																		2.25 ↓	
Canada	4.50	0.25	1.00																								0.75 ↓		
New Zealand	8.25	2.50	2.50														2.75 ↑	3.00 ↑		3.25 ↑	3.50 ↑								
EMEA																													
Czech	3.75	0.05	0.05																										
Hungary	11.50	2.10	5.50	5.25 ↓	5.00 ↓	4.75 ↓	4.50 ↓	4.25 ↓	4.00 ↓	3.80 ↓	3.60 ↓	3.40 ↓	3.20 ↓	3.00 ↓	2.85 ↓	2.70 ↓	2.60 ↓	2.50 ↓	2.40 ↓	2.30 ↓	2.10 ↓								
Israel	4.50	0.25	1.75				1.50 ↓	1.25 ↓				1.00 ↓					0.75 ↓					0.50 ↓	0.25 ↓						0.10 ↓
Kazakhstan	11.00	5.50	5.50																										
Poland	6.00	2.00	4.00	3.75 ↓	3.25 ↓		3.00 ↓	2.75 ↓	2.50 ↓															2.00 ↓					1.5 ↓
Romania	10.25	2.25	5.25						5.00 ↓	4.50 ↓		4.25 ↓	4.00 ↓		3.75 ↓	3.50 ↓						3.25 ↓		3.00 ↓	2.75 ↓		2.50 ↓	2.25 ↓	
Russia	9.50	5.00	5.50														7.00 ↑	7.50 ↑			8.00 ↑				9.50 ↑	17.00 ↑		15.00 ↓	
South Africa	12.00	5.00	5.00												5.50 ↑						5.75 ↑								
Turkey	22.50	4.50	5.50			4.50 ↓	4.50								10.00			9.50 ↓	8.75 ↓	8.25 ↓						7.75 ↓	7.50 ↓		
Ukraine	12.00	6.50	7.50					7.00 ↓		6.50 ↓								9.50 ↑			12.50 ↑				14.00 ↑			19.50 ↑	30.0 ↑
LatAm																													
Brazil	13.75	7.25	7.25			7.50 ↑	8.00 ↑		8.50 ↑	9.00 ↑		9.50 ↑	10.00 ↑		10.50 ↑	10.75 ↑		11.00 ↑						11.25 ↑		11.75 ↑	12.25 ↑		
Chile	8.25	0.50	5.00									4.75 ↓	4.50 ↓			4.25 ↓	4.00 ↓				3.75 ↓	3.50 ↓	3.25 ↓	3.00 ↓	3.00				
Colombia	10.00	3.00	4.00	3.75 ↓	3.25 ↓													3.50 ↑	3.75 ↑	4.00 ↑	4.25 ↑	4.50 ↑							
Mexico	8.25	3.00	4.50		4.00 ↓						3.75 ↓	3.50 ↓								3.00 ↓								3.00	
Peru	6.50	1.25	4.25										4.00 ↓								3.75 ↓		3.50 ↓				3.25 ↓		
Asia																													
China	4.14	2.25	3.00																						2.75 ↓				2.5 ↓
Hong Kong	6.75	0.50	0.50																										
India	9.00	4.75	7.75		7.50 ↓		7.25 ↓				7.50 ↑	7.75 ↑			8.00 ↑												7.75 ↓		7.5 ↓
Indonesia	9.50	5.75	5.75					6.00 ↑	6.50 ↑	7.00 ↑	7.25 ↑		7.50 ↑												7.75 ↑			7.50 ↓	
Korea	5.25	2.00	2.75				2.50 ↓															2.25 ↓		2.00 ↓					
Malaysia	3.50	2.00	3.00																		3.25 ↑								
Philippines	7.50	3.50	3.50																		3.75 ↑		4.00 ↑						
Singapore	3.25	0.17	0.18																										
Sri Lanka	12.00	8.00	9.50				9.00 ↓					8.50 ↓			8.00 ↓														
Taiwan	3.63	1.25	1.88																										
Thailand	4.75	1.25	2.75				2.50 ↓						2.25 ↓				2.00 ↓												
Vietnam	15.00	6.50	9.00		8.00 ↓		7.00 ↓										6.50 ↓												

Note: red arrows means rate hike ,green arrow means rate cut.

Source: Deutsche Bank, Central Banks, Haver Analytics

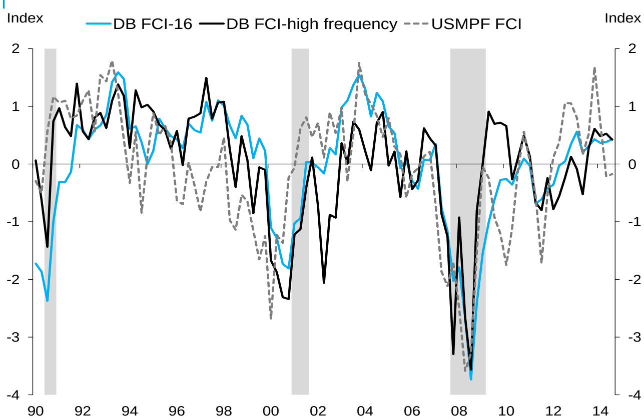
Global data monitor :Recent developments and near term forecasts

	B'bergcode	Q2-14	Q3-14	Q4-14	Q1-15	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15
OECD leading indicators											
(6M change, %, ann.)											
OECD		1.9	1.7			1.6					
US	OLE3US	2.2	2.1	2.2		2.2	2.2	2.2	2.3		
Euro area	OLE3EURA	1.4	0.7			0.5					
Japan	OLE3JAPA	0.8	-0.2			-0.4					
China	OLE3CHIN	8.4	8.4	9.1		8.6	8.8	9.1	9.5		
India	OLE3INDI	5.8	6.3			6.5					
Russia	OLE3RUSS	3.6	3.5			3.2					
Brazil	OLE3BRAZ	1.2	1.9			2.0					
Other business surveys											
US dur. goods orders (%pop1)	DGNOCHNG	0.9	1.1	-1.9		-0.7	0.3	-2.2	-3.7	2.8	
Japanese Tankan (LI)	JNTSMFG	12.0	13.0	12.0							
Euro area EC sentiment	EUESEMU	102.2	100.8	100.7	101.8	99.9	100.7	100.7	100.6	101.4	102.1
Industrial production (%pop1)											
US	IP CHNG	5.7	4.1	4.3		0.7	-0.1	1.1	-0.3	0.2	
Euro area	EUITEMUM	0.1	-1.5	1.0		0.5	0.3	0.1	0.0		
Japan	JNIPMOM	-14.4	-7.5	6.8		2.9	0.4	-0.5	0.8	4.0	
Retail sales (%pop1)											
US	RSTAMOM	9.2	4.3	1.9		-0.1	0.3	0.4	-0.9	-0.8	1.0
Euro area	RSSAEMUM	2.0	0.8	3.0		-0.9	0.6	0.6	0.4	1.1	
Japan (household spending)		-37.1	0.0	8.2		1.5	0.9	0.4			
Labour market											
US non-farm payrolls2	NFP TCH	284	237	324		250	221	423	329	257	250
Euro area unemployment (%)	UMRTEMU	11.6	11.5	11.4		11.5	11.5	11.4	11.3	11.2	
Japanese unemployment (%)	JNUE	3.6	3.6	3.5		3.6	3.5	3.5	3.4	3.6	
CP inflation (%yoy)											
US	CPICHNG	2.1	1.8	1.2		1.7	1.7	1.3	0.8	-0.1	
Euro area	ECCPEMUY	0.6	0.4	0.2	-0.8	0.3	0.4	0.3	-0.2	-0.6	-0.3
Japan	JNCPIYOY	3.6	3.3	2.5		3.3	2.9	2.4	2.4	2.4	
China	CNCPIYOY	2.3	2.1	1.6		1.8	1.7	1.6	1.6	0.9	
India		8.2	7.7	4.8		6.7	5.5	4.2	4.6	5.1	
Russia	RUCPIYOY	7.6	7.7	9.6		8.0	8.3	9.1	11.4	15.0	
Brazil		6.4	6.6	6.5		6.7	6.6	6.6	6.4	7.1	
Current account (USD bn)3											
US (trade balance, g+s)	USTBTOT	-43.4	-41.1	-42.7		-43.2	-41.9	-39.8	-46.6	-43.0	
Euro area (EUR bn)	XTSBEZ	14.4	15.7	21.7		18.3	20.1	21.6	23.3		
Japan		2.2	1.9	8.3		4.0	8.8	7.9	8.2		
China (trade in goods)		85.9	128.1	129.1							
Russia (trade in goods)		17.3	15.3	13.5		12.2	14.2	13.4	13		
Other indicators											
Oil prices (Brent, USD/b)	EUCRBRDT	109.7	102.0	76.3		97.4	87.5	78.8	62.6		
FX reserves China (USD bn)	CNGFOREX	3993.2	3887.7	3843.0							

Quarterly data in shaded areas are quarter-to-date. Monthly data in the shaded areas are forecasts.
%pop=%change in this period over previous period. Quarter on quarter growth rates is annualized.
Pop change in '000, quarterly data averages of monthly changes.
Quarterly data are averages of monthly balances.
Source: Bloomberg Finance LP, Reuters, Eurostat, European Commission, OECD, Bank of Japan, National statistical offices, Markit/JP Morgan, Deutsche Bank Research

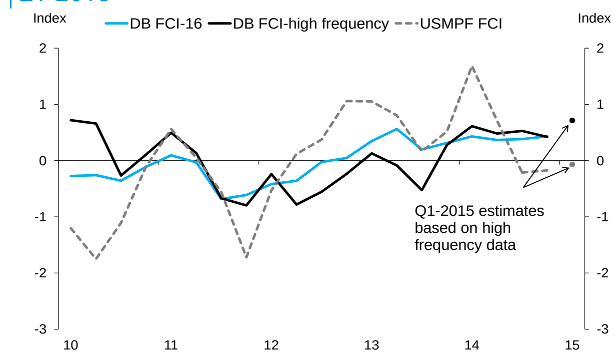
US financial conditions monitor

Chart 1: US FCIs from 1990 through Q4-2014



Source: USMPF (2010), Deutsche Bank Research

Chart 2: US FCIs with high frequency estimates for Q1-2015



Note: Data for the USMPF FCI for Q4-2014 is an estimate based on available data.

Source: USMPF (2010), Deutsche Bank Research

Chart 3: Contributions to change in DB high frequency FCI

Change from Q4-2014 to Q1-2015 estimate

Variables	Contribution
Price of Oil Relative to 2Year MA	0.37
Wilshire 5000	0.09
ACM Term Premium: 10 Year (%)	0.05
10YrT-note/3monthTbill Spread	-0.01
FedFunds/3monthTBill Spread	-0.02
Baa/10yr T-note Spread	-0.05
30-yr Conventional mortgage/ 10yr T-note Spread	-0.14

Change from Q3-2014 to Q4-2014

Variables	Contributior
Price of Oil Relative to 2Year MA	0.30
10YrT-note/3monthTbill Spread	-0.01
FedFunds/3monthTBill Spread	-0.01
ACM Term Premium: 10 Year (%)	-0.02
30-yr Conventional mortgage/ 10yr T-note Spread	-0.08
Baa/10yr T-note Spread	-0.12
Wilshire 5000	-0.16

Source: Deutsche Bank Research

Chart 4: Contributions to change in USMPF FCI

Change from Q4-2014 to Q1-2015 estimate

Top 5 positive variables	Contribution
Idiosyncratic Bank Stock Volatility	0.15
Total Non-mortgage ABS Issuance (NSA) Relative to 4Q MA	0.08
Price of Oil Relative to 2Year MA	0.07
VIX Index	0.07
ABS Issuance (Relative to 4Q MA)	0.06
Top 5 negative variables	
Loan Performance National House Price Index (SA, Jan.2000=100)	-0.12
Bank rate on new car loans, 48-month/Two-year Treasury Spread	-0.04
FRB Sr Officers Survey: Banks Willingness to Lend to Consumers (%)	-0.04
Financial Market Cap (percent of S&P 500)	-0.04
10YrT-note/3monthTbill Spread	-0.04

Change from Q3-2014 to Q4-2014

Top 5 positive variables	Contribution
Loan Performance National House Price Index (SA, Jan.2000=100)	0.16
Financial Market Cap (percent of S&P 500)	0.07
Jumbo/30yr Conventional Spread	0.05
Commercial Paper Outstanding: All Issuers (SA, Bil.$)	0.05
Price of Oil Relative to 2Year MA	0.04
Top 5 negative variables	
CMBS Issuance (Alert Database) (Relative to 4Q MA)	-0.11
Idiosyncratic Bank Stock Volatility	-0.08
Real Broad Trade-Weighted Exchange Value of the US$ (Mar-73=100)	-0.07
FRB Sr Officers Survey: Banks Willingness to Lend to Consumers (%)	-0.04
ABS Issuers: Assets; Consumer Credit (NSA, Bil.$)	-0.04

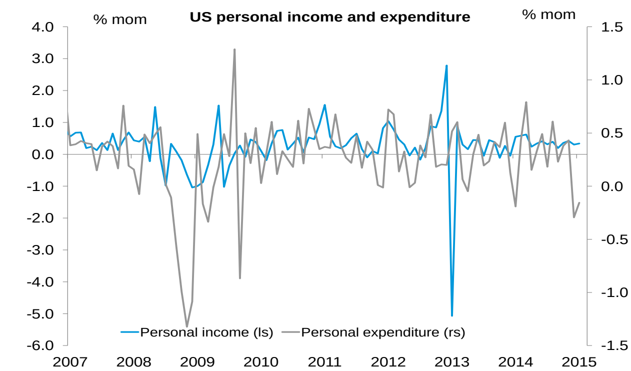
Source: Deutsche Bank Research

Charts of the Week

Chart1. In the US, February manufacturing ISM fell-0.6 pt. to 52.9, the lowest reading on the index since January 2014. This is mainly attributed by sharp fall in new export orders lowest level since Nov 2012.

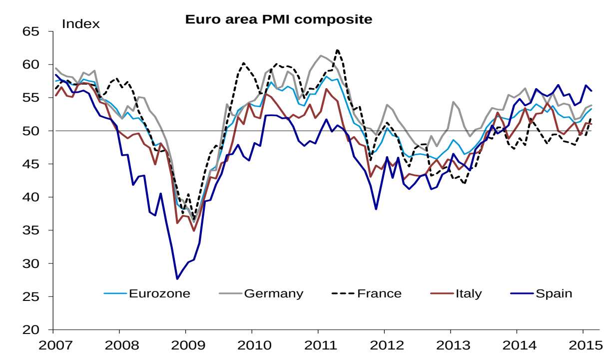
Source ISM, Haver Analytics , Deutsche Bank Research

Chart 2. …Also US personal spending declined by 0.2% in Jan 2015 following a 0.3% drop in Dec 2014. While Personal income rose by 0.3% mom in January.



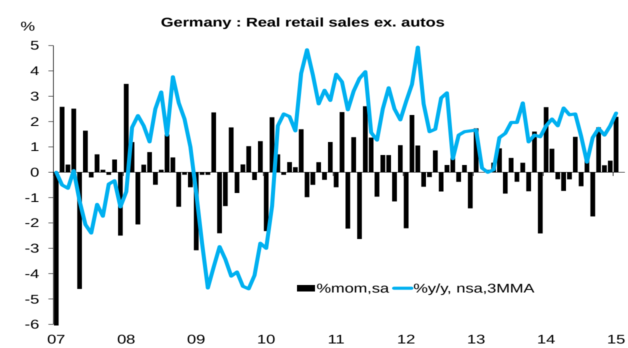
Source: Conference Board, Haver Analytics, Deutsche Bank Research

Chart 3. Euro area PMI composite continued to expand in February; mainly accelerated by expansion in Germany and France



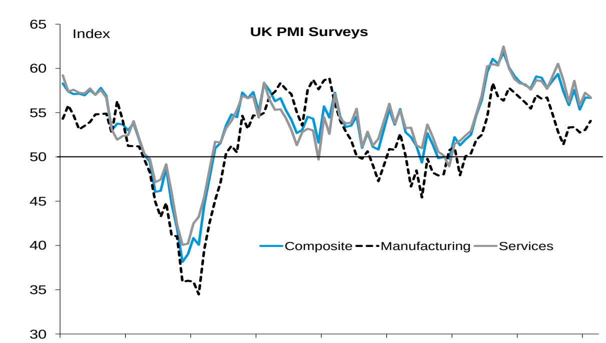
Source: MARKIT Haver Analytics, Deutsche Bank Research

Chart 4. German real retail sales surprised substantially to the upside in January (+2.9% mom vs. Reuters expectations of a 0.4% increase)



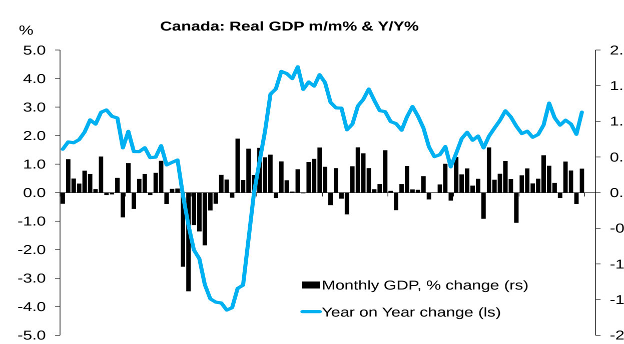
Source: StBA, Haver Analytics, Deutsche Bank Research

Chart 5. In UK, manufacturing activity grew while services sector remained subdued in January.



Source Markit, CIPS, Haver Analytics, Deutsche Bank Research

Chart 6. In Canada, following a 0.2%m/m decline in November, real GDP rebounded by 0.3%m/m (+2.8%y/y) in December.



Source: StatCan, Haver Analytics, Deutsche Bank Research

Global Week Ahead: Thursday, 05 March – Friday, 13 March

- Dollar Bloc: In the US, the focus will be on the employment report (payrolls to go down to 250k). In Canada we have the housing starts and employment data for February. In Australia we have the February employment report in line. In New Zealand we have the RBNZ MPC meeting for March. In CEE, we have employment report for Czech Republic Q4 final GDP data for Hungary.
- Europe: In the Eurozone, we have GDP Q4 prelim release and also the ECB rate decision for March. In UK, we have the BoE rate announcement for March.
- Asia incl. Japan: In Japan the focus will be on Q4 final GDP print. In India we have CPI and Industrial production data lined up for February and January respectively.

Country	GMT	Release	DB Expected	Consensus	Previous
		Thursday, 05 Mar			
AUSTRALIA	00:30	Intl. trade in g and s (Jan)	-AUD1.25bn	-AUD0.93bn	-AUD0.44bn
AUSTRALIA	01:30	Retail trade (Jan)	1.0%	0.4%	0.2% (4.1%)
GERMANY	07:00	Factory orders (Jan)		-1.0%	4.2% (3.4%)
GERMANY	08:30	PMI construction (Feb)			49.5
ITALY	09:00	GDP (Q4)		0.0% (-0.3%)	-0.1% (-0.5%)
EUROLAND	09:10	Retail PMI (Feb)			46.6
FRANCE	09:10	Retail PMI (Feb)			44.0
GERMANY	09:10	Retail PMI (Feb)			52.3
ITALY	09:10	Retail PMI (Feb)			41.2
UK	12:00	BoE rate announcement (Mar)	0.50%	0.50%	0.50%
EUROLAND	12:45	ECB rate decision (Mar)		0.05%	0.05%
US	13:30	Continuing claims (Feb)			2,401.0k
US	13:30	Productivity (Q4)	-2.1%		2.4% (1.0%)
US	13:30	Unit labor costs (Q4)	3.0%		-1.0% (1.2%)
US	15:00	Factory orders (Jan)	-0.5%	0.2%	-3.4% (-3.6%)

Events and meetings: EUROLAND: EU's Mogherini to meet Finnish Prime Minister Stubb in Helsinki. – 09:30 GMT. EUROLAND: EU's Mogherini and Finland's Stubb to hold press conference – 10:15 GMT. EUROLAND: EU's Dombrovskis, Thyssen, Social Partners to brief in Brussels. – 12:00 GMT. UK: BoE to make rate announcement for March – 12:00 GMT. EUROLAND: ECB to make rate decision for March – 12:45 GMT. EUROLAND: ECB president Draghi to hold press conference after meeting – 13:30 GMT. EUROLAND: EU's Mogherini to speak in Helsinki on 'EU as Peacemaker' – 15:00 GMT.

Country	GMT	Release	DB Expected	Consensus	Previous
		Friday, 06 Mar			
JAPAN	05:00	Leading economic index (Jan)			105.20
GERMANY	07:00	IP (Jan)			(-0.7%)
FRANCE	07:45	Trade balance (Jan)			-EUR3.4bn
HUNGARY	08:00	GDP (Q4)	(3.4%)		0.9% (3.4%)
DENMARK	08:00	IP (Jan)			0.8%
SPAIN	08:00	IP (Jan)			(2.1%)
HUNGARY	08:00	Industrial production (prelim) (Jan)			(4.60%)
SWITZERLAND	08:15	CPI (Feb)		0.00% (-0.60%)	-0.40% (-0.50%)
NORWAY	09:00	IP (Jan)			0.30% (3.50%)
ITALY	09:00	PPI (Jan)			-0.8% (-2.1%)
EUROLAND	10:00	GDP second estimate (Q4)	0.3% (0.9%)	0.3% (0.9%)	0.2% (0.8%)
CHILE	11:00	CPI (Feb)	0.2% (4.2%)		0.1% (4.5%)
US	12:30	Avg hourly earning (Feb)	0.3%	0.2% (2.1%)	0.5% (2.2%)
US	12:30	Avg workweek (Feb)	34.5hours	34.6hours	34.6hours
US	12:30	Index of agg hours (Feb)			-0.1% (3.5%)
US	12:30	Payrolls (Feb)	250.0k	235.0k	257.0k
US	12:30	Unemployment rate (Feb)	5.5%	5.6%	5.7%
US	13:30	Trade balance (Jan)	-USD43.0bn	-USD41.7bn	-USD46.6bn
US	20:00	Consumer credit (Jan)	USD14.0bn	USD14.8bn	USD14.8bn

Events and meetings: EUROLAND: EU foreign ministers to start two-day meeting in Latvia – 11:00 GMT. US: Fed's Williams to speak on the Economic Outlook in Honolulu. – 03:00 GMT.

Country	GMT	Release	DB Expected	Consensus	Previous
		Sunday, 08 Mar			
JAPAN	23:50	GDP deflator (Q4)		2.3%	(2.3%)
JAPAN	23:50	Real GDP (annualised) (Q4)		2.20%	2.20%
JAPAN	23:50	Real GDP (Q4)		0.60%	0.60%
JAPAN	23:50	BoP current account (Jan)			JPY976.60bn

Events and meetings: No events or meetings are scheduled at this date   Source: Deutsche bank

Country	GMT	Release	DB Expected	Consensus	Previous
		Monday, 09 Mar			
GERMANY	07:00	Current account balance (Jan)			EUR25.3bn
CZECH REPUBLIC	08:00	Unemployment rate (Feb)			7.7%
EUROLAND	10:00	OECD leading indicator (Jan)			100.6
CANADA	12:15	Housing starts (Feb)			187.3k

Events and meetings: EUROLAND: EU's Jourova to present Justice Scoreboard in Brussels. – 10:00 GMT. EUROLAND: Eura-Area finance ministers to meet in Brussels. – 14:00 GMT. EUROLAND: EU'S Mogherini to speak at Think Tank conference. – 15:30 GMT. US: Fed's Kocherlakota to speak to bankers in Minneapolis. – 17:05 GMT. US: Fed's Mester to speak on economy, monetary policy in Washington. – 18:25 GMT.

Country	GMT	Release	DB Expected	Consensus	Previous
		Tuesday, 10 Mar			
CHINA	01:30	Consumer price index (Feb)			(0.8%)
FRANCE	07:45	IP (Jan)			1.5% (-0.1%)
DENMARK	08:00	HICP (Feb)			-0.60% (-0.30%)
HUNGARY	08:00	CPI (Feb)		(-1.2%)	-0.2% (-1.4%)
SPAIN	08:00	Retail sales (Jan)			(6.5%)
NORWAY	09:00	CPI (Feb)			-0.10% (2.00%)
ITALY	09:00	IP (Jan)			0.4% (0.1%)
NORWAY	09:00	PPI (Feb)			-4.50% (-12.40%)
US	15:00	Wholesale inventories (Jan)	0.1%		0.1% (6.7%)
NEW ZEALAND	20:00	RBNZ official cash rate (Mar)		3.50%	3.50%

Events and meetings: EUROLAND: EU finance ministers to hold meeting in Brussels - 08:00 GMT. NEW ZEALAND: Reserve Bank of New Zealand to announce cash rate for March - 20:00 GMT.

Country	GMT	Release	DB Expected	Consensus	Previous
		Wednesday, 11 Mar			
FRANCE	06:30	Payroll employment - final (Q4)			-55.2k qoq sa (-0.4%)
FRANCE	07:45	Current account balance (Jan)			-EUR1.9bn
UK	09:30	IP (Jan)	0.1% (1.3%)		-0.2% (0.5%)
UK	09:30	Manufacturing production (Jan)	0.2% (2.6%)		0.1% (2.4%)

Events and meetings: No events or meetings are scheduled at this date.

Country	GMT	Release	DB Expected	Consensus	Previous
		Thursday, 12 Mar			
AUSTRALIA	00:30	Labour force unemp rate (Feb)			6.4%
GERMANY	07:00	HICP (Feb)			-1.3% (-0.5%)
FRANCE	07:45	HICP (Feb)			-1.1% (-0.4%)
SPAIN	08:00	HICP (Feb)			-2.2% (-1.5%)
UK	09:30	Visible trade balance (Jan)	-GBP9.50bn		-GBP10.15bn
EUROLAND	10:00	IP (Jan)			0.0% (-0.2%)
INDIA	12:00	CPI (Feb)	(5.2%)		(5.1%)
INDIA	12:00	IP (Jan)	(1.2%)		(1.7%)
US	12:30	Continuing claims (Feb)			
US	12:30	Initial jobless claims (Feb)		295.0k	313.0k
US	12:30	Export prices (Feb)			-2.3% (-5.4%)
US	12:30	Import prices (Feb)			-2.8% (-8.0%)
US	13:30	Retail sales ex autos (Feb)	0.6%		-0.9% (1.4%)
US	13:30	Retail sales (Feb)	1.0%		-0.8% (2.8%)
US	14:00	Business inventories (Jan)	0.1%		0.1% (3.9%)

Events and meetings: No events or meetings are scheduled at this date.

Country	GMT	Release	DB Expected	Consensus	Previous
		Friday, 13 Mar			
UK	09:30	Construction output (Jan)			(5.5%)
ITALY	10:00	HICP (Feb)			-2.5%
RUSSIA	10:30	CBR monetary policy committee meeting (Mar)			15.00%
US	12:30	Core PPI (Feb)	0.3%		-0.1% (1.6%)
US	12:30	PPI (Feb)	0.2%		-0.8% (0.0%)
CANADA	13:30	Unemployment rate (Feb)			6.6%
US	14:00	Consumer sentiment prelim (Mar)	95.0		95.4

Events and meetings: RUSSIA: Central Bank of Russia to have MPC meeting for March. 10:30 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

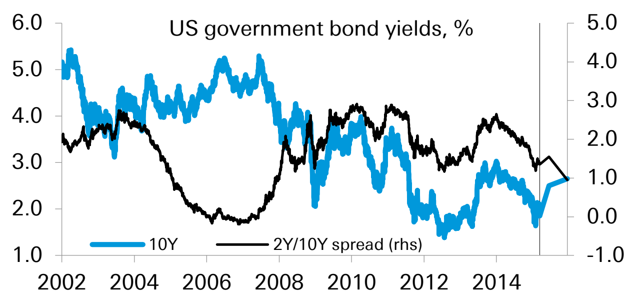
Source: Deutsche Bank

Financial Forecasts

		US	Jpn	Euro	UK	Swe*	Swiss*	Can*	Aus*	NZ*
3M Interest	Actual	0.35	0.20	0.04	0.56	-0.10	-0.75	0.75	2.25	3.50
Rates[1]	Mar-15	0.35	0.15	0.00	0.58	-0.10	-0.75	0.75	2.00	3.50
DB forecasts	Jun-15	0.75	0.15	0.00	0.59	-0.10	-0.75	0.75	2.00	3.50
	Dec-15	1.35	0.15	-0.10	0.60	-0.10	-0.75	0.75	2.00	3.50
10Y Gov't[2]	Actual	2.09	0.38	0.36	1.87	n.a.	n.a.	1.43	2.38	3.29
Bond/Yields	Mar-15	1.85	0.40	0.30	1.50	n.a.	n.a.	1.70	2.25	3.25
Spreads[3]	Jun-15	2.50	0.45	0.40	1.70	n.a.	n.a.	1.80	2.75	3.75
DB forecasts	Dec-15	2.65	0.60	0.40	2.25	n.a.	n.a.	2.50	3.00	4.00
		EUR/ USD	USD/ JPY	EUR/ GBP	GBP/ USD	EUR/ SEK	EUR/ CHF	USD/ CAD	AUD/ USD	NZD/ USD
Exchange	Actual	1.12	119.6	0.73	0.91	9.29	1.51	1.25	0.78	0.75
Rates	Mar-15	1.11	119.0	0.73	1.52	9.20	1.05	1.26	0.78	0.72
	Jun-15	1.09	121.0	0.74	1.47	9.00	1.07	1.28	0.77	0.70
	Dec-15	1.05	125.0	0.77	1.36	8.90	1.10	1.30	0.73	0.66

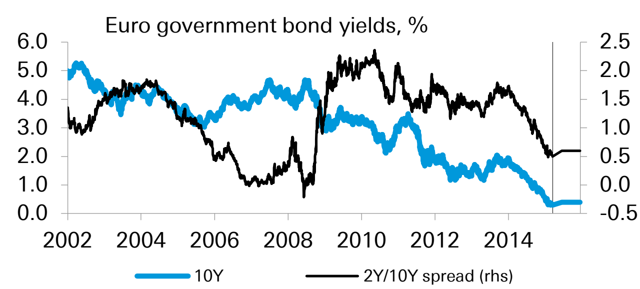
*(1) Forecasts are the same dates. * indicates policy rates.*
(2) Forecasts in this table are produced by the regional fixed income strategists.
(3) US 10Y Govt. bond yield forecasts has been taken from US Fixed Income Weekly.
Sources: Bloomberg Finance LP, Deutsche Bank Research. Revised forecasts in bold type.

US 10Y rates



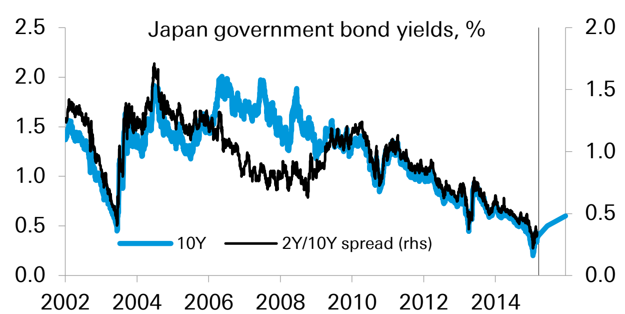
Source: Deutsche Bank Research, Bloomberg Finance LP

Euroland 10Y rates



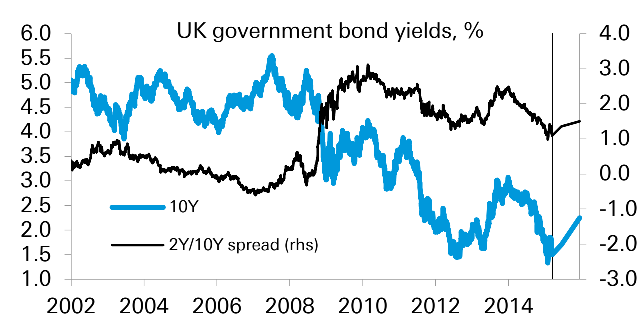
Source: Deutsche Bank Research, Bloomberg Finance LP

Japan 10Y rates



Source: Deutsche Bank Research, Bloomberg Finance LP

UK 10Y rates



Source: Deutsche Bank Research, Bloomberg Finance LP

Appendix 1

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