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Global Economic Perspectives

Economics

Asian property markets - no significant bubbles yet

- **After house price bubbles burst in many OECD countries, investors are keeping a watchful eye for price developments on asset markets that could signal a bubble. House prices in Beijing, Shanghai and many other Chinese cities have increased very rapidly in the course of the last few quarters, and our set of valuation indicators suggest these markets are currently overvalued. This also holds for Hong Kong and Singapore.**
- **Office demand is picking up strongly; rents are starting to rise after falling heavily in many cities. Still, caution is also advised particularly for Chinese office markets, as cap rates have fallen significantly over the last few quarters. Prices for prime offices have evidently been rising much faster than rents, indicating that investors expecting a strong upswing.**
- **Overvaluation in housing, and to a much lesser extent office markets, is not an Asia-wide phenomenon but is concentrated in a few countries only. No downside risks are being displayed in Indonesian and Korean property markets or in Malaysian office markets.**
- **While the risk of a downward adjustment has obviously risen on some residential markets, we do not believe this could trigger severe macroeconomic distortions, as regulatory bodies have acted prudently so far, i.e. there is no subprime segment in the analysed markets and debt-financing plays a much smaller role than in many OECD countries. Finally, medium to long-term drivers like urbanisation and population growth are still intact.**

Property markets in Asia: Risks are concentrated in China, Hong Kong and Singapore

	China	Hong Kong	Singapore	Indonesia	Korea
Housing market indicators					
Price-rent-ratio	Elevated	Elevated	Slightly elevated	Cheap	Fair
Price-income ratio	Elevated	Elevated	Elevated	Cheap	Fair
Supply side	High risk	Moderate risk	No risk	n.a.	Moderate risk
Office market indicators					
Rental recovery	Moderate after strong decline	Strong after strong decline	Slow after strong decline	n.a.	Moderate after no rental decline
Cap rates	Strong compression	Strong compression	Moderate compression	n.a.	Moderate compression
Structural factors					
Demographics	Still favourable	Depending on migration	Depending on migration	Favourable	Moderately favourable
Risk within financial system	Low	Moderate	Moderate	Low	Moderate

Source: Deutsche Bank

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Key Economic Forecasts

	Real GDP % growth[b]			Consumer Prices % growth[c]			Current Account % of GDP[d]			Fiscal Balance % of GDP		
	2009	2010F	2011F	2009	2010F	2011F	2009	2010F	2011F	2009	2010F	2011F
US	-2.4	3.5	3.6	-0.3	**1.8**	1.9	-2.9	-3.0	-3.1	-10.2	-8.6	-6.3
Japan	-5.2	3.3	0.8	-1.4	-1.0	-0.9	2.8	4.1	5.0	-5.6	-6.3	-6.6
Euroland	-4.0	0.9	1.0	0.3	1.5	1.5	-0.6	0.2	0.1	-6.1	-6.8	-5.7
Germany	-4.9	2.0	1.3	0.2	1.2	1.3	5.0	6.4	6.1	-3.3	-5.3	-4.6
France	-2.5	1.1	1.0	0.1	1.7	1.3	-2.0	-1.9	-2.1	-7.5	-7.9	-6.2
Italy	-5.1	0.8	0.8	0.8	1.6	1.7	-3.3	-3.0	-3.1	-5.3	-4.9	-3.3
Spain	-3.6	-0.7	0.0	-0.3	1.5	1.4	-5.0	-3.9	-3.6	-11.2	-9.0	-7.1
UK	-4.9	1.5	2.5	2.2	3.2	0.9	-1.3	-1.0	-0.8	-11.1	-11.0	-8.0
Sweden	-4.7	1.2	2.7	-0.3	1.5	2.0	7.4	7.5	8.0	-5.8	-5.0	-3.5
Denmark	-5.1	1.5	2.0	1.3	2.0	1.0	3.0	2.5	2.0	-6.7	-7.0	-5.0
Norway	-1.4	1.5	2.8	2.2	1.6	1.6	13.9	15.0	16.0	7.6	8.0	10.0
Poland	1.7	3.2	3.1	3.5	2.5	2.5	-0.7	-3.3	-4.1	-7.1	-6.5	-5.7
Hungary	-6.3	1.5	3.4	4.2	4.2	2.2	0.3	-1.0	-2.4	-4.0	-5.0	-3.6
Czech Republic	-4.2	2.7	3.0	1.0	1.6	2.3	-1.1	-2.0	-2.8	-6.5	-5.0	-4.1
Australia	1.3	2.8	4.0	1.8	2.5	3.0	-4.1	-6.1	-6.2	-2.1	-4.5	-3.5
Canada	-2.6	3.5	3.5	0.3	2.2	2.3	-2.7	-2.4	-2.1	-3.5	-3.0	-1.6
Asia (ex Japan)	5.6	8.2	7.6	0.8	4.6	3.9	5.0	3.7	3.1	-3.5	-3.0	-3.0
India	5.7	7.7	7.6	2.2	9.0	6.7	-1.1	-1.4	-1.5	-10.1	-8.8	-8.2
China	8.7	9.8	9.3	-0.7	3.4	2.5	5.8	4.3	2.9	-2.9	-2.5	-2.0
Latin America	-2.7	4.5	3.8	6.4	9.6	8.0	-0.6	-1.2	-1.5	-3.2	-2.2	-2.2
Brazil	-0.2	6.7	4.5	4.3	5.6	5.0	-1.5	-2.6	-3.2	-3.3	-2.0	-2.7
EMEA	-5.3	4.2	4.3	8.0	7.7	6.6	0.8	-0.9	-0.4	-5.7	-4.4	-2.6
Russia	-7.9	4.0	4.5	8.8	8.1	7.3	4.8	1.7	2.9	-6.1	-3.3	-0.5
G7	-3.5	2.8	2.5	-0.1	**1.4**	1.3						
World	-1.1	4.3	4.0	1.2	**3.2**	2.9						

(a) Euroland forecasts as at the last forecast round on 28/05/2010. 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 09	Q2 09	Q3 09	Q4 09	*2009*	Q1 10F	Q2 10F	Q3 10F	Q4 10F	*2010F*	*2011F*
US	-6.4	-0.7	2.2	5.6	***-2.4***	**3.0**	4.0	3.7	3.8	***3.5***	***3.6***
Japan	-15.9	7.4	0.5	4.2	***-5.2***	4.9	3.1	1.8	0.2	***3.3***	***0.8***
Euroland	-9.5	-0.5	1.6	0.2	***-4.0***	0.8	1.8	1.4	0.9	***0.9***	***1.0***
Germany	-13.3	1.8	2.9	0.7	***-4.9***	0.6	4.3	1.9	1.4	***2.0***	***1.3***
France	-5.6	0.9	1.0	2.2	***-2.5***	0.5	1.1	0.9	0.7	***1.1***	***1.0***
Italy	-10.9	-1.1	1.5	-0.2	***-5.1***	2.1	0.8	0.4	0.4	***0.8***	***0.8***
UK	-10.0	-2.7	-1.1	1.8	***-4.9***	0.8	2.6	2.8	2.9	***1.5***	***2.5***
Canada	-7.0	-3.5	0.9	5.0	***-2.6***	5.2	3.8	3.6	4.0	***3.5***	***3.5***
G7	-9.2	0.6	1.6	3.9	***-3.5***	**2.7**	3.3	2.7	2.5	***2.8***	***2.5***

Sources: National authorities, DB Global Markets Research

Asian property markets: No significant bubbles yet

- **After house price bubbles burst in many OECD countries, investors are keeping a watchful eye for price developments on asset markets that could signal a bubble. House prices in Beijing, Shanghai and many other Chinese cities have increased very rapidly in the course of the last few quarters, and our set of valuation indicators suggests these markets are currently overvalued. This also holds for Hong Kong and Singapore.**
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Introduction

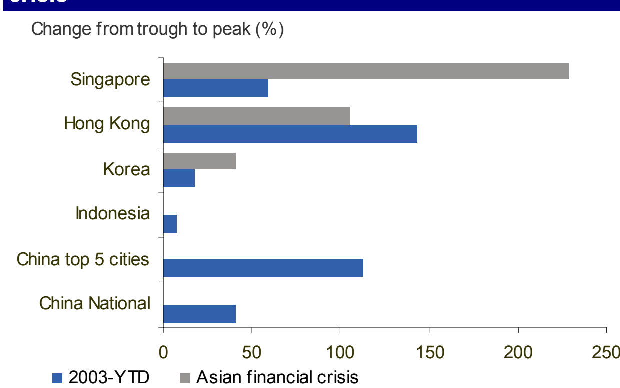
The boom in Western residential property markets and the subsequent collapse in house prices set the stage for the financial crisis and global recession.[1] Although displaying some downturn in prices and transaction volumes in late 2008, most Asian housing markets have survived the global recession quite well. However, many Asian office markets were also heavily affected by the global economic downturn. Governments in many countries initiated support measures for the property sector within their fiscal stimulus packages. Together with low interest rates and a relatively positive economic outlook this has led to again increasing transaction volumes as well as strongly rising property prices in both the residential and the commercial segments. The question that now arises is whether this upward trend has already gone too far.

In this study we take a look at five important markets in non-Japan Asia: China, Hong Kong, Indonesia, South Korea, and Singapore[2]. While we focus on residential real estate, we will also discuss recent developments in the office markets. Furthermore, we will give an overview on key structural factors shaping the future outlook for these property markets.

Overview – housing markets

The Asian housing markets saw a strong upward price trend since 2003 (see chart). Only in a few cases was this trend briefly interrupted in the course of the global recession. In fact, over the last year house prices in major Asian conurbations have increased even faster than in the pre-crisis years. This sharp upsurge evokes memories of the Asian financial crisis in 1997/98, especially so in Hong Kong and Singapore, which were hit hardest by the price deterioration then. However, the current developments are influenced by a new structural factor that had not yet materialised in the 1990s: the rise of China and India. Following its accession to the WTO in 2001, China's openness has significantly increased in terms of trade and investment and Asia has become more attractive to investors. Thus, current developments will very likely have different fundamental support compared to the 1990s.

Figure 1: House price upsurge lower than in Asian crisis

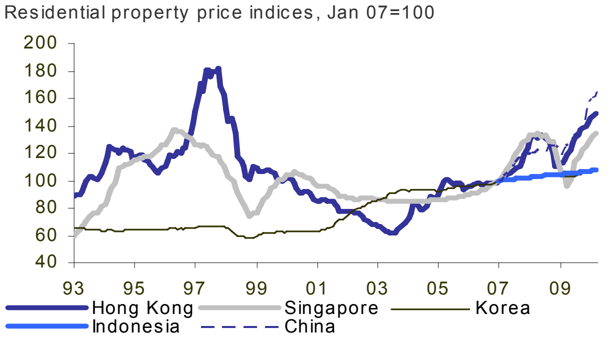


Source: Deutsche Bank, CEIC

[1] Just, Tobias and Thomas Mayer (2010). Housing markets in OECD countries – Risks remain in Europe. Deutsche Bank Global Markets Research, Global Economic Perspective, February 24, 2010.

[2] In some cases we also look at other markets when data availability allows for.

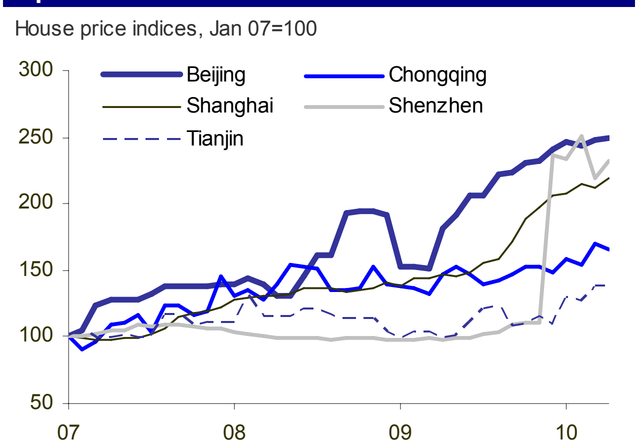
Figure 2: House prices increasing



Source: Deutsche Bank, CEIC

In Singapore, property prices have increased by 34% compared to January 2007, while in China they rose by no less than 67% until March 2010. Within China, the price boom was not only confined to cities such as Beijing or Shanghai, but also took place in other cities like Tianjin and Chongqing where prices have rallied in the past few years. Despite some putative downward pressure over the past few weeks in some Chinese metro areas, the overall upward trend is still uninterrupted.

Figure 3: Housing in China's cities increasingly expensive



Source: Deutsche Bank, CEIC

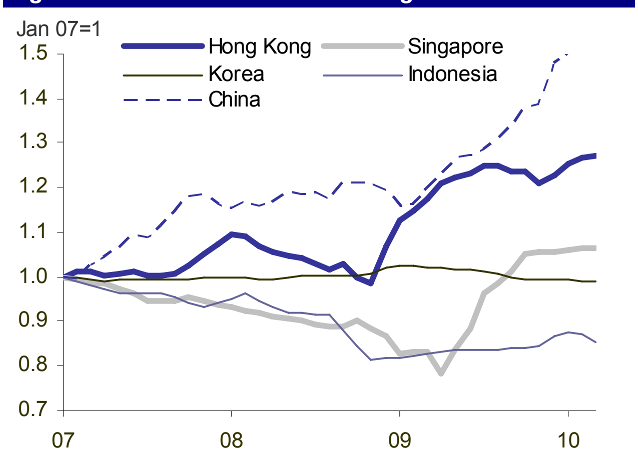
Even though current volatility[3] in house prices is not as high as during the Asian financial crisis, recent developments in the Asian real estate market are still quite remarkable since they are the largest upward deviations from the long-term growth rate since the late 1990s. It is noteworthy that price changes were especially big for prime assets in central areas. In Beijing, purchasers were mainly interested in property within the 4th ring road.[4] A similar pattern can be observed in Hong Kong: the growth trend was strongest in Hong Kong CBD, and the price surge does not seem to have reached its peak yet.

Singapore's central area faced a sharp decline in prices for residential property at the beginning of 2009 after increasing constantly since 2002. However, the price drop was quickly followed by a sharp increase over the past five months.

Key valuation measures for residential property suggest some overheating

Investors pay particularly attention to the development of the price-rent-ratio, as a rising ratio suggests that an increasing share of an investor's expected return stems more from expected capital appreciation than from current rental returns. The speculative motive then obviously plays an increasing role. The price-rent-ratios for the analysed Asian markets do not follow identical trends: In Hong Kong and Singapore, prices have risen significantly faster than rents over the past few quarters, while in China this has even been the case for the last three years. This clearly signals that prices have decoupled from rental demand. However, this does not hold for Korea and Indonesia.

Figure 4: Price–rent ratio increasing



Source: Deutsche Bank, CEIC

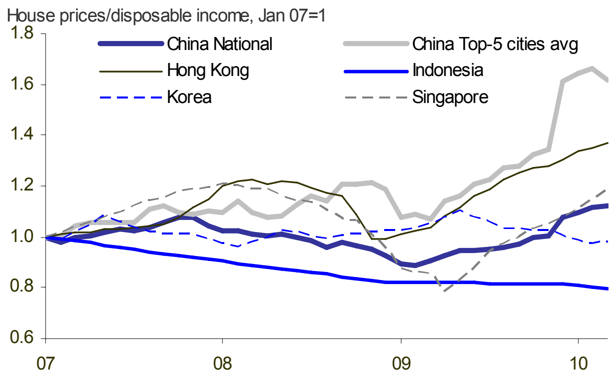
From a consumer's perspective, buying residential property became less affordable as households are having to spend an increasing share of their disposable income on

[3] Measured by month-over-month changes.

[4] This includes all kinds of property, not just residential property.

housing. Especially in China's top-5 cities and in Hong Kong prices rose much faster than incomes. In Beijing, an average household now needs to spend seventeen years of income to afford buying a 100 square metre apartment.[5] A notable exception is Indonesia, where our affordability index declined since January 2007 by roughly 20%.

Figure 5: Affordability in selected Asian countries



Source: Deutsche Bank, Local sources, CEIC data

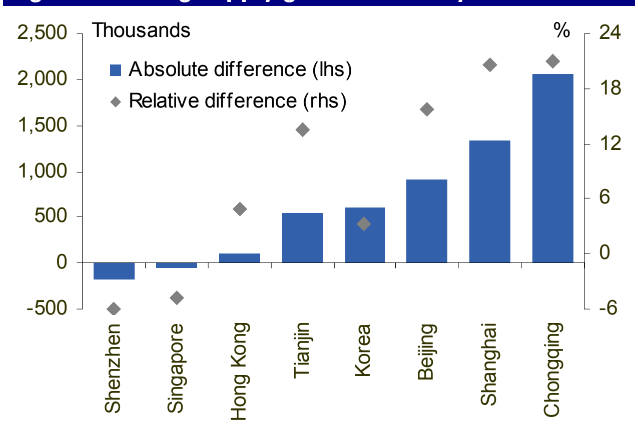
Supply-side developments

Comparing residential property completions and the increase in the number of households in key Chinese cities reveals that risks from the supply side for further price correction are substantial: in our sample, additional supply has been growing much faster than the number of new households in all Chinese cities apart from Shenzhen. In absolute terms, the number of newly completed residential units exceeded the increase in urban households by 2 million between 2000 and 2009 in Chongqing and Shanghai. And even in relative terms (i.e. absolute difference compared to total households in 2008) there has clearly been strong supply growth (see chart 6).[6] Compared to major Chinese cities, relative "excess supply" is significantly smaller in Hong Kong at less than 5% in 2009. In addition, vacancy rates for private residential units are edging down on average. At the same time, however, vacancy rates for larger flats (above 100 square metres) have been trending upwards since 2006, hinting to larger potential oversupply in the higher-end market.

Over the last ten years housing construction has been quite stable in Korea, averaging 400,000 units per year. The ratio of housing units to households was already high at close to 95% in the mid-1990s but continued to rise to around 105%. Reportedly, the number of unsold apartments is rising, depressing the outlook for prices. Unlike in other countries, property prices have been flat in Indonesia over the past years, also reflecting strong supply growth from 2004 onwards. In Singapore, however, residential housing completions did not keep pace with the increase in household numbers. Total completions dropped from 50,000 units in 1998 to only around 9,300 in 2006, driven primarily by a sharp decline in public housing coming on stream. With vacancy rates dropping sharply in Singapore this should lend support to the rapid price growth – barring a sharp reduction in economic growth.

In mainland China and Hong Kong, the government owns all land and thus has direct control over land supply for residential property developments. This control can be used to avert a sharp price correction. Government influence over the property market is also high in Singapore and Korea. Whenever house prices show a strong uptrend, governments in Singapore as well as in Korea have in the past stepped in and introduced various measures to slow the sharp rise in prices, for example via tightening lending rules, hiking capital gains tax on property (as in 2006), increasing transaction fees, etc.

Figure 6: Strong supply growth – mainly in China



Absolute difference = Cumulative number of completions minus number of new households between 2000 and 2009 (2007 for Korea)
Relative difference = Absolute difference to number of households in 2009 (2008 for Korea)
Source: CEIC, national sources, Deutsche Bank

Office markets have recovered rapidly

While residential units account for the larger part of an economy's overall property stock, there are three important reasons for also looking at the developments in

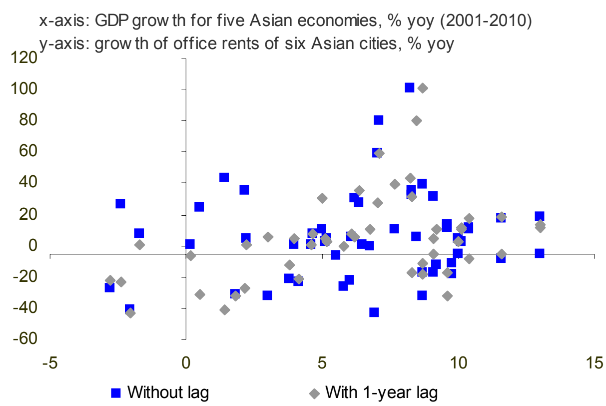
[5] The Economist. China's property market: Home truths. May 29, 2010

[6] However, the China-specific household registration system (*hukou*) might lead to an overstatement using official figures on households because additional residential units might also be bought by households classified as rural. Nevertheless, the numbers support anecdotal evidence of empty apartment buildings in many bigger Chinese cities.

commercial property markets: First, commercial property markets tend to be more volatile than residential property markets. This is due to the second fact that demand in commercial real estate markets is very often more closely linked to the overall economic development than housing demand. Third, institutional investors often prefer to invest in commercial property rather than in residential property, as commercial properties are usually bigger and this allows for larger transactions that reduce overall transaction costs.

Even though office demand is closely related to economic performance, chart 7 shows that there is little correlation between GDP growth and rental growth in the prime office locations of six major cities in Asian economies. The R^2 between real GDP growth and office rental growth (one-year lagged) is less than 0.2; regressing unlagged GDP growth yields an even lower R^2. This comparatively low correlation stems primarily from two factors: first, there are significant vacancies on Asian, particularly Chinese, office markets. These result from an ongoing construction boom, i.e. the supply factors erode the correlation between demand growth and rental growth. Second, the lack of transparency on many Asian property markets prevents markets from working efficiently in the short term.[7]

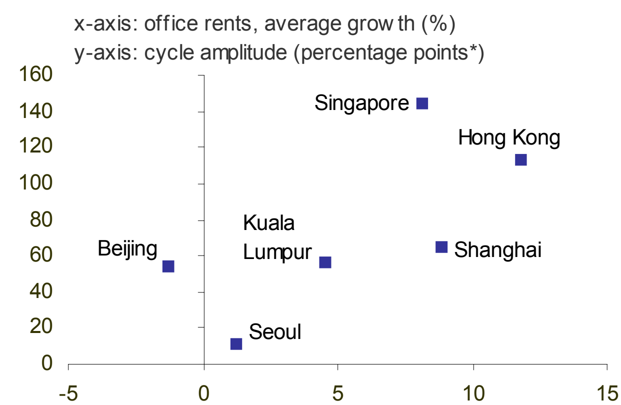
Figure 7: Loose fit



Cities are: Beijing, Shanghai, Hong Kong, Singapore, Seoul, Kuala Lumpur
Source: Deutsche Bank, JLL, RREEF

The Asian office markets analysed in this report show remarkable differences: while office rents (in local currencies) increased by roughly 20% in Beijing and Seoul during the upswing that ended in 2008, office rents in Shanghai increased by more than 170%, in Singapore by more than 380% and in Hong Kong by no less than 550% from the lowest level to the last peak. Three things are important here: First, the upswing was followed by a sharp downswing after 2008, and especially those markets that had shown strong rental growth were cooling markedly: office rents in Shanghai and Hong Kong dropped by 40% from peak to trough, in Singapore by no less than 60%. Second, the very cyclical markets are also those markets with highest trend growth in office rents, i.e. risk seems to be closely related to the associated (rental) returns.

Figure 8: Different levels of risk



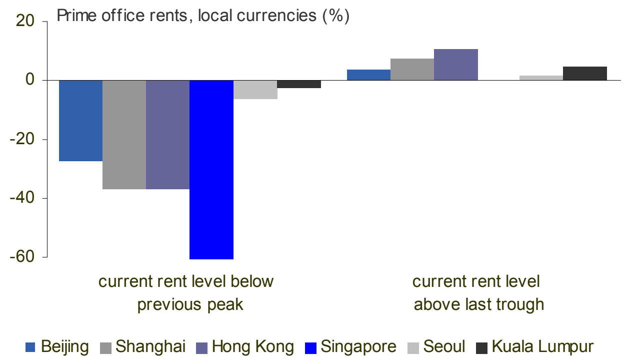
* The cycle amplitude is the difference between the highest and the lowest growth rate of the last ten years.
Source: Deutsche Bank, JLL, RREEF

Third, all rental markets but Singapore's have touched bottom; since the beginning of 2010 office rents have started to pick up. However, despite strong economic growth in the region, the rental momentum is still comparatively low and office rents are still a long way from their previous peak levels[8].

[7] In Jones Lang LaSalle's Real Estate Transparency Index Hong Kong and Singapore ranked 11 and 12 respectively among 81 analysed markets; Malaysia ranked 23, South Korea 44, China's Tier-1 cities 49 and Indonesia 55 (cp. Jones Lang LaSalle (2008). Real Estate Transparency Index, From Opacity to Transparency. London).

[8] With Kuala Lumpur being the exception as office markets there were not overheated before the crisis and continued their moderate trend growth path over the last two years.

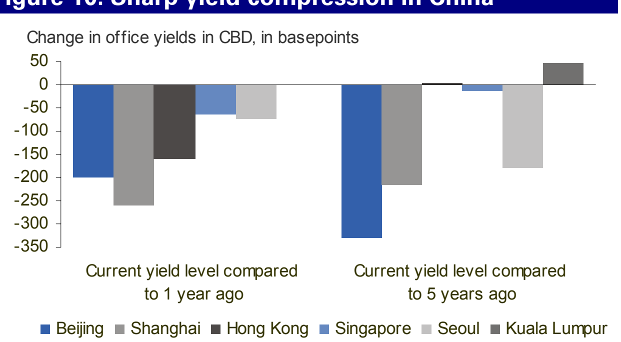
Figure 9: Gradually recovering



Source: Deutsche Bank, JLL, RREEF

However, the developments on the letting markets tell only one half of the story: market (rental) yields have been falling on all markets during the crisis years. In Beijing yields have dropped by 200 bp in just one year, in Shanghai they have plummeted by more than 250 bp. With regards to (implicit) capital values this investor appetite for Asian commercial property has offset to a large degree the rental momentum. Capital values today are no more than 15% below the pre-crisis peak in Seoul, Hong Kong and Shanghai. They are about the same level in Kuala Lumpur and have now even topped the pre-crisis peak in Beijing. Nominal capital values in Shanghai and Hong Kong have risen by 30-40% within the last four quarters. As the increase occurred within just a few quarters, real capital values have not changed much. Of course, part of this development stems from a level effect. Still, investors need to observe this momentum very carefully over the next few quarters. For Singapore caution is also well advised. Though capital values have not yet been rising, Singapore's rental yields have moved counter-cyclical over the last few years: office yields rose by more than 250 bp during the boom years and have fallen during the recession by almost 250 bp (peak to trough).

Figure 10: Sharp yield compression in China



Source: Deutsche Bank, JLL, RREEF

Overall, while economic momentum promises that office rents will continue to rise over the next few quarters – on the back of the favourable economic environment – it seems that investment markets have been anticipating this future trend already to a large degree in Shanghai, Beijing and to a lesser extent even in Singapore. As many short and long-term trends for Asian commercial real estate are firmly intact, we are not (yet) warning of a new bubble on commercial real estate markets. However, we would like to emphasise that we are concerned about the adjustment pace in China and Singapore. In order to avoid more significant stress in the future it seems that price growth will have to fall over the next few quarters. In Seoul and Kuala Lumpur the development so far seems much less at risk of developing into a new bubble than in the other markets.

Demographics

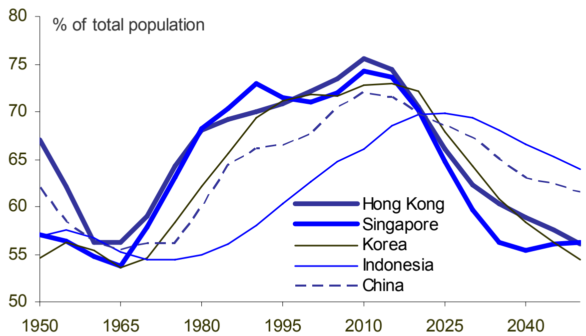
Even though fertility rates have dropped significantly over the last decades in the Asian countries covered in this report the overall demographic outlook remains better than in many European countries, as the future development benefits from higher birth rates in the past and a significant increase in life expectancy that is expected to continue. Still population growth rates are falling also in Asia, and the labour force in particular is set to fall after 2010 in China and after 2025 in Indonesia.

Table 1: Favourable demographic outlook

		China	Hong Kong	Indonesia	Korea	Singapore
Birth rate	Per 1000 persons, 2008	12.1	9.4	18.6	9.4	10.2
Increase in life expectancy	Years, 2010 compared to 1950	32.2	21.2	33.2	31.5	19.9
Population growth rate	% p.a., average 2000-2030	0.5	0.7	0.9	0.2	1.0

Sources: UN, World Bank, Deutsche Bank

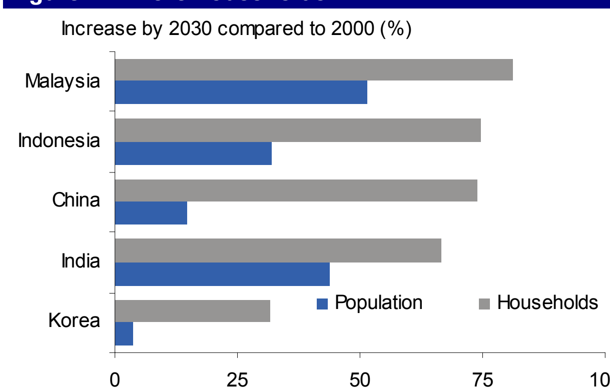
Figure 11: Working population peaks



Source: Deutsche Bank, UN Population Division

However, it is important to note that even the strong population growth in Asian countries, especially in Malaysia, Indonesia, India and to a lesser extent also in China and Korea, significantly underestimates the future housing demand for three reasons: First, housing demand is determined by the number of households rather than by the number of people. Income growth, urbanisation and the expected decrease of fertility rates in Asia all point towards a marked contraction in average household size.[9] UN Habitat estimates that in 2030 there will be roughly 75% more households in Asia than in 2000, i.e. almost 700 million households. In China alone the expected increase amounts to roughly 300 million households by 2030 (compared to 2000).

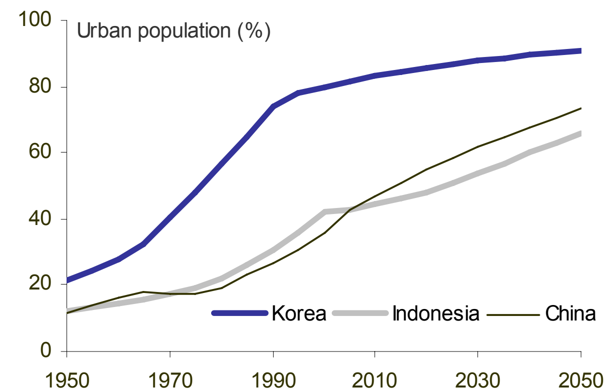
Figure 12: More households



Source: Deutsche Bank, UN

Second, the urbanisation trend implies that even a stagnant number of households would require new building activity as demand will be especially high in urban areas and will back strong house price growth. In South Korea, China and Indonesia, the urbanisation trend accelerated after 1990.[10]

Figure 13: Clear trend towards urbanisation



Source: Deutsche Bank, UN Urbanisation Report

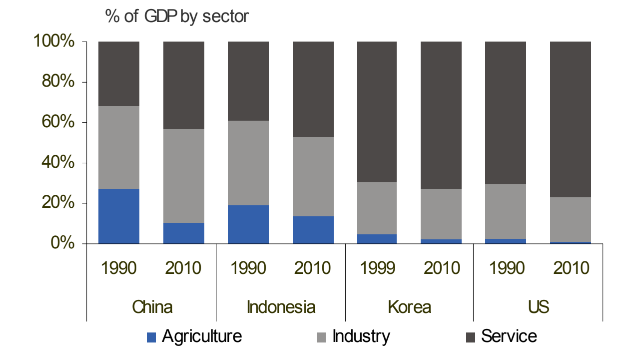
Third, continuous income growth gives demand additional upsurge as households can spend a larger share of their income on housing. This trend suggests that the demand for quality housing and for larger units will also rise as people will demand more space per person.

With regards to the office markets, especially ageing of the Chinese population implies that the labour force will start to shrink within the next 20 years. However, this development is likely to be offset by structural changes: the share of the service sector in many Asian economies is comparatively small (less than 50% – with Korea being an exception). Unless the laws of structural change do not apply to Asia – which is unlikely – the next decades will bring a gradual increase in the service sector's share in overall GDP. In Western economies the service sector accounts for more than 70% of GDP and about 60% of these services are office jobs. A shift towards this economic structure would imply a dramatic increase in office demand over the next two or three decades, particularly in China, India, Indonesia, Malaysia and to a much lesser extent to Korea.

[9] Cp. Just, T. (2009). Demografie und Immobilien. Oldenburg. München for a description of these mechanisms as well as for a simple panel regression for 38 economies with fixed effects which reveals that the average household size tends to decline in growing economies with an increasingly urban population and a drop in fertility rates.

[10] Hong Kong and Singapore as city states are entirely urbanised.

Figure 14: The gradual shift towards service societies



Source: Deutsche Bank, EIU, CEIC

Regulatory environment safeguards against serious problems

In late 2009, many governments in the region started to withdraw and phase out stimulus measures, including property sector support. Also, banks were asked to scrutinise borrowers' income situation more carefully and regulatory requirements for taking out mortgages have been tightened in most countries that saw steep property price increases. In addition, the differentiation between transaction and holding markets (measured by associated costs in buying and selling property) might help to gauge the potential future price correction. Trading real estate can become quite costly in China, Korea and Indonesia while Hong Kong and Singapore benefit from lower comparative transaction costs (see table 2). The introduction of a property tax in some provinces and cities is currently being considered in China. While this might amplify the decline in transaction volumes, it could also help to reduce price volatility in the future.

Table 2: Overview of property-related taxes

	Deed tax	Stamp duty tax	Transaction tax(es)	Property tax	Income tax	Capital gains tax	Inheritance tax
China*	3-5% of property value plus fixed registration fee	0.1% of property value (to be paid by buyer and seller equally)			5% of gross rental income	Individual income tax: 20% of net gains, maximum deduction of 10% of property cost; Business tax: 5% of net gains, property owner-occupied for 5 years is exempt; Land appreciation tax: based on net gain, ranges from 30% to 60%.	No
Hong Kong		Payable on purchase of real estate; varies according to total value of property; starts from HKD 100 for values of less than HKD 2 m to up to 4.25% of the value for values above HKD 21.7 m			15% of annual rent receivable with 20% for repairs and outgoings deductable	No	No (abolished in 2006)
Indonesia	1% of property value	IDR 37,000	Transfer tax: 5% of property price (to be paid by seller); Tax on acquisition of land and building: 5% of property price less IDR 60 m (to be paid by buyer)	0.5% of assessed property value	20% of gross rental income for individuals, 25% for corporates; subject to 10% VAT	20% of capital gains for individuals, 25% for corporates; acquisition and improvement costs are deducted	No
Korea		National Revenue Stamp from KRW 20,000 to KRW 350,000, depending on property value	Acquisition tax: 2% of sale price; Registration tax: 2% of sale price; Other taxes: 0.6% of sale price	0.07-4% p.a., depending on location, type of building, etc.; Comprehensive real estate holding tax for properties exceeding certain threshold amounts, ranges from 0.5-2%.	Taxed at progressive rates depending on rental income and property value; subject to 10% VAT	Taxable gain is defined as total gains less necessary expenses (acquisition, improvement etc.), special deduction for holding period, standard deductions for capital gains; progressive rates: 6% for amounts up to KRW 12 m, 15% on band over KRW 12 m, 24% on band over KRW 24 m, 35% on band over KRW 88 m	Progressive rates: 10% of property value up to KRW 100 m, 20% for amount exceeding KRW 100 m to KRW 500 m, 30% for KRW 500 m to KRW 1 bn, 40% for KRW 1 bn to KRW 3 bn, 50% for more than KRW 3 bn
Singapore		1% of first SGD 180,000 plus 2% of second SGD 180,000 plus 3% of remaining property value		10% of annual value (i.e. estimated rent); 4% if owner-occupied	20% of gross rental income less property tax, insurance, maintainance and repairs (for individuals)	No	5% up to SGD 12 m, 10% on amount exceeding SGD 12 m

Tax rates and procedures vary substantially from city to city. Numbers given here refer to Shanghai only.

Sources: Local authorities, World Bank, Global Property Guide, Deutsche Bank

In several countries in the region, banks' exposure to the property sector is at or above 2004-2007 historical averages (the perceived "boom" period before the financial crisis, see table 3). In China, direct exposure to the real estate market is estimated at 25% of total loans and is likely much higher when accounting for indirect exposure. Banks' exposure to the property market is substantial in Hong Kong and Singapore (around 50% of total bank loans). In both countries, loans to building and construction sectors and real estate developers are above historical levels, and mortgage lending also picked up again in late 2009. Note also, that banks' exposure to the property sector is relatively high in Korea, with housing loans and real estate project financing together accounting for around 25% of total bank loans.[11]

Table 3: Banking system indicators

		China	Hong Kong	Indonesia	Korea	Singapore
Building & construction loans / loans to real estate sector, % of total loans	Latest	7.1	27.9	5.9	na	17.1
	Historical avg	5.8	22.8	5.8	na	13.5
Housing loans / residential mortgages, % of total loans	Latest	13.3	25.4	7.8	20.3	33.2
	Historical avg	10.0	27.7	7.4	23.1	32.7
Real credit growth, % yoy	Latest	17.8	4.5	4.8	3.9	5.8
	Historical avg	10.1	5.5	1.0	5.9	4.3
NPL ratio, % of total loans	Latest	1.4	1.3	3.3	1.2	2.3
	Historical avg	9.4	1.7	6.2	1.2	3.7

Latest is Q4 09 for KOR and Q1 10 for CHN, HKG (except for NPLs), IDN and SGP (except for NPLs) / Historical average is 2004-07
Sources: Local sources, IMF, Deutsche Bank

Regulatory limits for loan-to-value ratios were set rather conservatively in the past and have been further tightened in many countries in order to help stabilise property markets. In Hong Kong, the regulatory maximum loan-to-value ratio is 70% (60% for mortgage loans with amounts of more than HKD 20 m), with a five-year-average LTV ratio of 62%. In mid-2009, Korea's central bank was quick to lower the maximum regulatory LTV ratio from 60% to 50% for residential property purchases in urban areas like Seoul. In Singapore, the bulk of mortgages (around 60%) show LTV ratios of less than 70%. These numbers compare to average LTV ratios of 112% in the Netherlands and 83% in Spain before the global financial crisis hit.[12] In addition, experience during the Asian crisis led many NJA banks to be careful in extending credit to real estate developers. This is for instance the case in Indonesia where only around 35% of all residential property developments are financed by bank loans.

Only Hong Kong, Singapore, and Korea have substantial mortgage markets with mortgage loans reaching between 25% and 40% of GDP. The importance of mortgage financing is less pronounced in China (around 14% of GDP) and Indonesia (less than 3% of GDP). In Korea, the overwhelming majority of housing loans are at floating rates (80-95%), i.e. interest rate hikes will impact households directly. Floating rate contracts also dominate in Singapore but the fact that monetary policy is carried out using the exchange rate has led to stable interest rates, thus mitigating risks for borrowers from this side. Overall, we expect only moderate rate hikes later this year, thus limiting interest rate risk for households in the near future.

In general, NJA households show strong balance sheets. In Singapore, aggregated household net wealth stood at four times GDP and households' total assets reached six times household liabilities as of Q3 2009. While cash and deposits plus social security fund balances together exceed aggregate household liabilities, property is the single largest source of household wealth. Therefore, overall household wealth could be significantly impacted by sharp price corrections in the real estate market. Still, delinquency rates are very low for household loans in general and mortgages in particular. In Hong Kong, the delinquency rate for housing loans has been declining steadily over the past eight years and recently stabilised at 0.03%. The same pattern can be observed in Korea, where the home mortgage delinquency rate was less than 0.5% in Q3 2009. The NPL ratio for housing loans is less than 1% in Singapore. Therefore, subprime risk – that started the global financial crisis – is virtually nil.

Conclusion

Both residential and office prices have risen rapidly over the last few quarters in many Asian economies. Important valuation measures suggest that current prices are not supported by either incomes or rents especially in China and Singapore. The risk of a downward adjustment has obviously risen, not least due to recently introduced administrative measures to cool property prices. Even

[11] Bank of Korea puts the total exposure of Korean banks to real estate project financing at 5.3% of total loans. Cf. Bank of Korea (2009). Financial Stability Report. November 2009.

[12] Just, Tobias and Stefanie Ebner (2006). US house prices declining: Is Europe next? Deutsche Bank Research, Current Issues, October 11, 2006. p. 5.

though we consider price declines likely in the course of the next few quarters in those overheated urban areas, it is important to note that for three reasons we do not expect that this adjustment will cause a new serious crisis for those economies or even the global economy: first, price increases since 2007 are still lower than the rises seen prior to the Asian crisis. Second, with fewer debt-financed property transactions and prudent regulatory moves the residential property markets in Asia are facing a lower risk of rising delinquencies. Third, many medium and long-term trends like urbanisation and household formation are still intact, backing medium-term demand growth. Therefore we conclude that a Japan-style scenario is unlikely for the countries covered in this study. Having said that if other macroeconomic risks materialise – like slower global and regional growth or faster-than-expected rises in inflation and sharper monetary tightening – real estate markets are unlikely to be able to keep the overall economy afloat. Also, while administrative measures introduced to date appear to be well-targeted and reasonable, there is a risk of future overshooting. Most observers of Asian real estate markets focus on residential markets, neglecting the fact that some Asian office markets are also already starting to show initial signs of overheating. Caution is advised, as Asian property – both residential and commercial – markets are prone to strong cyclicality along an upward trend.

Table 4: Property markets in Asia: Risks are concentrated in China, Hong Kong and Singapore

	China	Hong Kong	Singapore	Indonesia	Korea
Housing market indicators					
Price-rent-ratio	Elevated	Elevated	Slightly elevated	Cheap	Fair
Price-income ratio	Elevated	Elevated	Elevated	Cheap	Fair
Supply side	High risk	Moderate risk	No risk	n.a.	Moderate risk
Office market indicators					
Rental recovery	Moderate after strong decline	Strong after strong decline	Slow after strong decline	n.a.	Moderate after no rental decline
Cap rates	Strong compression	Strong compression	Moderate compression	n.a.	Moderate compression
Structural factors					
Demographics	Still favourable	Depending on migration	Depending on migration	Favourable	Moderately favourable
Risk within financial system	Low	Moderate	Moderate	Low	Moderate

Source: Deutsche Bank

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Central Bank Watch

US

While sounding somewhat more upbeat on US economic developments in its recent statements, the Fed has held fast with its extended period message to date. Recent developments in Europe have added significant downside risks to the picture and likely delayed the timing of a move to the next step of signaling a possible rate increase to come via a modification of "extended period". The recent news on inflation (coming in a bit lower than expected) will also tend to encourage the Fed to sit tight in the near term as developments in Europe unfold. To signal a possible rate increase, the Fed will need to see clear evidence that the above-trend economic expansion is becoming sustainable. This means employment growing fast enough to reduce the unemployment rate over time and underlying support from growth in private spending gathering some momentum. They will also likely need to see some evidence that credit conditions facing households and smaller firms have been improving and the situation in Europe is stabilizing. At this juncture, these conditions seem unlikely to be in place to allow for a significant modification of the Fed's message at the June meeting. Accordingly, the likelihood of a rate increase occurring in the second half of 2010 has slipped and our US economics team has put off its call for an initial rate hike from Q3 to Q4. This call assumes that growth in US output and employment will continue at significantly above-trend rates for the rest of this year.

	Current	Jun10	Sep10	Mar11
Fed funds rate	0 - 0.25	0 - 0.25	0.25	1.25

Japan

The BoJ has focused on stability of money markets and financial position of corporate sectors. Although they have introduced outright purchase of CP, corporate bonds and equities, they have maintained 0.1% at their policy rate with interest payments on excess reserve at the same rate. We believe the Bank of Japan would maintain its passive stance toward a return to the zero interest rate regime and quantitative monetary easing. The target overnight call rate would remain 0.1% for a long time.

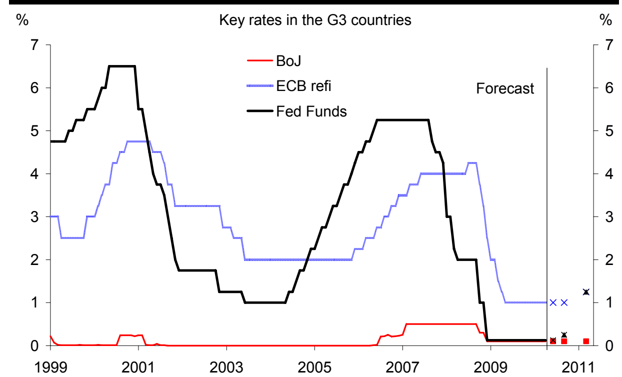
	Current	Jun10	Sep10	Mar11
ON rate	0.10	0.10	0.10	0.10

Euroland

The market continues to trade off concerns about the effectiveness of the bailout package and risks of a double dip, rather than the economic news (on that note, the key economic news have been the business surveys, which have provided some mixed signals). Market sentiment remains fragile. With the recovery likely to struggle for traction, inflation benign, expectations anchored and fiscal policy having to tighten to achieve sustainability, we think that the ECB can afford to wait longer before starting to tighten the monetary policy stance. We have pushed our expectation of the first hike back to March 2011; we see the refi rate rising to 2% by end-2011.

	Current	Jun10	Sep10	Mar11
Refi rate	1.00	1.00	1.00	1.25

Key rates in the G3 countries



Source: DB Global Markets Research

UK

UK rate markets have rallied over recent weeks in response to developments in the euro area and (to a lesser extent) the positive outcome of the coalition negotiations. Ten year gilt yields have fallen sharply, by around 65bps since their recent peak in February to just over 3.5%, while short sterling has rallied sharply too. Indeed, the Dec11 contract has rallied by 80bps (the rate is now 1.80%) over the past month, and the strip is now pricing in only just over 100bps of official rate hikes over the next two years. While we maintain, for now, our view of the first rate hike coming towards the end of this year, the risks have clearly moved towards a more delayed tightening from the Bank.

	Current	Jun10	Sep10	Mar11
Bank rate	0.50	0.50	0.50	0.75

Sweden

The Riksbank left policy unchanged at its April meeting, and said that rates could begin rising as soon as the summer. Next meeting: 1 July.

	Current	Jun10	Sep10	Mar11
Repo rate	0.25	0.25	0.50	1.50

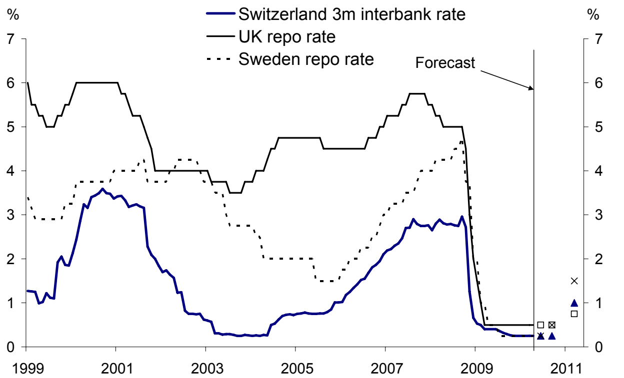
Switzerland

The SNB left policy rates unchanged at the March meeting. With the economy having performed better than expected, we see the first move up in rates before the end of the year. Next meeting: June 17.

	Current	Jun10	Sep10	Mar11
3M Libor tgt	0.25	0.25	0.25	1.00

Central Bank Watch (continued)

Key rates in the peripheral European countries



Source: DB Global Markets Research

Canada

According to the BoC, the broad forces of household, bank, and sovereign deleveraging will add to the variability, and temper the pace, of global growth. The spillover into Canada from tensions in Europe was described as "limited to a modest fall in commodity prices and some tightening of financial conditions." As far as the Canadian economy is concerned, the BoC suggested that activity and inflation was unfolding largely as expected. The BoC concluded by noting that even after the decision considerable monetary stimulus remains in place, consistent with achieving the 2% inflation target in light of the significant excess supply in Canada, the strength of domestic spending and the uneven global recovery. Moreover "Given the considerable uncertainty surrounding the outlook, any further reduction of monetary stimulus would have to be weighed carefully against domestic and global economic developments".

	Current	Jun10	Dec10	Mar11
ON rate	0.50	0.50	1.50	2.00

Australia

The RBA Board "views this setting of monetary policy as appropriate for the near term." As we noted last month, if the RBA's central scenario generally plays out, the Bank does not believe that interest rates at "average levels" for end-user borrowers will not be high enough to limit overall growth to a sustainable rate over the medium term. As a result, today's 4.50% cash rate is only described by the Board as "appropriate for the near term".

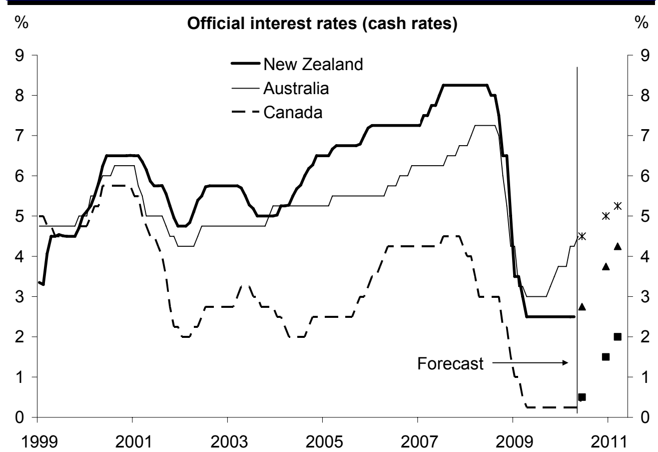
	Current	Jun10	Dec10	Mar11
OC rate	4.50	4.50	5.00	5.25

New Zealand

The RBNZ left the Official Cash Rate (OCR) at 2.5% in April's meeting and, as we expected, opened the door wide open for a rate hike at subsequent meetings. In particular, the RBNZ evolved its language to note that "we expect to begin removing policy stimulus over the coming months, provided the economy continues to evolve as projected" with the economy expected "to recover in line with or slightly faster than our March Statement projection". In our view there is no doubt that April's statement was designed to underpin expectations that the RBNZ will most likely hike the OCR by 25bps at the next meeting on 10 June. Given the momentum we see in the forward looking domestic and global economic indicators we think a 25bp hike on 10 June is highly likely, beginning a tightening cycle that will eventually lift the OCR back up to about 5%.

	Current	Jun10	Dec10	Mar11
OC rate	2.50	2.75	3.75	4.25

Key rates in the Peripheral $-bloc



Source: DB Global Markets Research

China

Out of concerns on issues including the EU sovereign debt crisis and the accumulated lagged effect of latest tightening measures, the general government seems to have more preference for administrative means over interest rate to cool off the economy. And we lower our rate hike expectation to 27bps for the next 12 months in spite of rising inflation. We expect CPI and PPI to peak in Q3 at around 4.5% and 7.5%, respectively. On exchange rate side, as the RMB has appreciated against the Euro to a large degree in the past a few months, our estimated RMB NEER has appreciated by 6.3% since its low in 2009 year-end. Thus we see a smaller chance of RMB exchange rate regime shift in the short-run, although we still see a 60% chance of such a movement in June.

	Current	Jun10	Sep10	Mar11
1-year rate	2.25	2.52	2.52	2.52

India

The Reserve Bank of India raised interest rates for the second time this year on April 20, raising the repo and

Central Bank Watch (continued)

reverse repo rates under the Liquidity Adjustment Facility (LAF) by 25 basis points each. It also raised the Cash Reserve Ration (CRR) by 25bps. This marked a firming of the central bank's exit strategy from a highly accommodative stance that had been in place for more than a year. The move took place in the backdrop of rising economic momentum (supported by strong industrial production, PMI, retails sales, and trade figures) and sustained inflation pressures. The central bank expressed concern that WPI inflation was uncomfortably high, but stressed that it would raise rates in a "calibrated" manner as it balances inflation risks against its other goals, namely supporting economic growth and the management of the government's large borrowing program.

It had been clear in recent months that the RBI would tighten rates steadily through the course of this year. WPI inflation has been close to double through April, and although there are incipient signs of some easing of inflation pressures, risk of prices remaining elevated is high. Following the two 25bps rate hikes in March and April, we expect the RBI to raise rates by another 100bps through the course of 2010. This would still leave real interest rates in negative territory, and hence would not slow economic growth (we expect real GDP growth to head toward 8% this year). But if WPI inflation does not fall toward 7% in the second half of 2010, more aggressive rate hikes could well be entertained by the central bank.

	Current	Jun10	Sep10	Mar11
Repo rate	5.25	5.25	5.75	6.25

Brazil

The COPOM unanimously raised the SELIC overnight rate by 75bp to 9.50% in April, making up for the controversial decision to keep interest rates unchanged in March despite the sharp deterioration in inflation expectations and signs of economic overheating. Economic activity has been boosted by low interest rates, growing labor income, high business and consumer confidence, and overly expansionary fiscal policy, so that we expect GDP to grow at least 6.7% in 2010. We expect consumer prices to rise 5.6% this year, exceeding the official inflation target of 4.5% by a large margin. In order to slow the economy and staunch the deterioration in inflation expectations, we expect the COPOM to implement three additional hikes of 75bp each this year, which would raise the SELIC rate to 11.75% by year-end.

	Current	Jun10	Sep10	Mar11
O/N rate	9.50	10.25	11.75	11.75

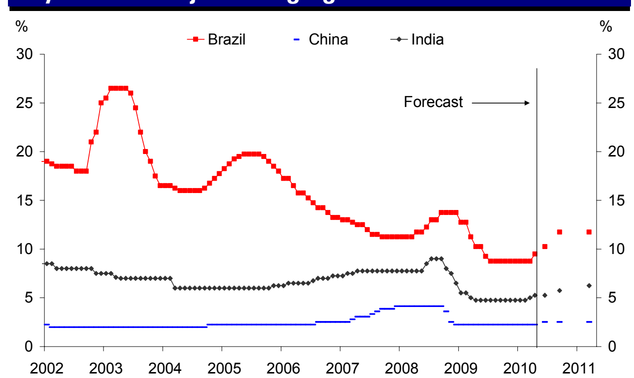
Russia

Starting from May 30th the CBR reduced the refinancing rate by 25 basis points to7.75%.This was already 14th reduction in the refinancing rate since April2009 when the rate stood at a 13%. According to the statement released by the CBR, the decision to reduce the refinancing rate is partly due to the moderation in inflationary pressures as the 12-month inflation rate declined from 8.8% at the end of last year to 6.0% as of beginning May. Moreover, the CBR explicitly referred in its statement to the absence of factors that could lead to a significant acceleration in inflation this year. At the same time the statement points to the instability in the path of economic recovery, with the main rationale for the reduction in interest rates being the need to boost economic activity via higher lending.

Also, according to the CBR statement 'CBR considers likely to keep the current level of the refinancing rate for the nearest months'. Next CBR meeting will take place in the end of June, and on our view, the rate will likely remain at the current 7.75% for the nearest summer months. However, the risks are more on the downside. First, CBR head Sergey Ignatiev recently stated that inflation in June-July will likely stay at May-April level in MoM terms. If this forecast realizes, then in YoY terms inflation will decline by low-5% in July, thus leaving more space for further refinancing rate decline. Second, if the jitters on the global markets continue and start taking their toll on the global economic growth, this could be another factor for the Central Bank's authorities to continue their easing campaign.

	Current	Jun10	Sep10	Mar11
CBR refi rate	7.75	7.75	7.75	8.00

Key rates in major emerging markets



Source: DB Global Markets Research

Global data monitor: Recent developments and near-term forecasts

	B'bergcode	Q3-09	Q4-09	Q1-10	Q2-10	Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10
OECD leading indicators											
(6M change, %, ann.)											
OECD		-2.1	5.4	9.8		9.2	10.0	10.2			
US	OLEDUSA	-4.2	4.4	10.6		9.4	10.9	11.5			
Euro area	OLEDEU12	-0.8	6.3	9.4		9.2	9.6	9.4			
Japan	OLEDJAPN	-8.0	-0.1	7.3		5.6	7.6	8.8			
China	OLEDCHIN	22.1	24.6	21.7		23.4	21.8	19.9			
India	OLEDINDI	7.8	12.8	15.3		15.3	15.5	15.2			
Russia	OLEDRUSS	-3.5	11.1	17.4		17.0	17.9				
Brazil	OLEDBRAZ	-1.1	14.6	18.9		20.1	19.5	17.3			
Purchasing manager indices											
Global (manufacturing)		51.2	53.4	56.0	57.1	55.6	55.3	57.0	57.4	56.7	
US (manufacturing ISM)	NAPMPMI	51.4	54.6	58.2	60.1	58.4	56.5	59.6	60.4	59.7	
Euro area (composite)		49.5	53.6	54.4	56.9	53.7	53.7	55.9	57.3	56.4	
Japan (manufacturing)	SEASPMI	52.8	53.5	52.5	54.3	52.5	52.5	52.4	53.8	54.7	
China (manufacturing)	CPMINDX	54.3	55.7	56.7	54.0	57.4	55.8	57.0	55.2	52.7	
India (manufacturing)		54.5	54.4	58.0	58.1	57.7	58.5	57.8	57.2	59.0	
Russia (manufacturing)		50.0	49.2	50.4	52.1	50.8	50.2	50.2	52.1	52.0	
Other business surveys											
US dur. goods orders (%pop1)	DGNOCHNG	2.7	0.2	1.8		4.9	0.5	0.1	2.8	1.5	
Japanese Tankan (LI)	JTFIFILA	-33.0	-24.0	-14.0							
Euro area EC sentiment	EUESEMU	84.1	91.9	96.6	99.5	96.0	95.9	97.9	100.6	98.4	
Industrial production (%pop[1])											
US	IP CHNG	6.4	7.0	7.4		1.2	-0.2	0.3	0.8	0.5	
Euro area	EUITEMUM	3.5	8.7	16.0		1.9	0.7	1.2			
Japan	JNIPMOM	22.8	25.9	30.9		4.3	-0.6	1.2	1.3		
Retail sales (%pop[1])											
US	RSTAMOM	7.3	7.5	8.2		0.3	0.6	2.1	0.4	0.4	
Euro area	RSSAEMUM	-0.8	0.1	0.8		-0.3	-0.1	0.5	-1.2		
Japan (household spending)	JHHSLERY	3.1	4.3	-1.4		-1.3	-1.6	5.9	-6.3		
Labour market											
US non-farm payrolls[2]	NFPTCH	-261	-90	87	361	14	39	208	290	431	
Euro area unemployment (%)	UMRTEMU	9.7	9.8	10.0		9.9	10.0	10.0	10.1		
Japanese unemployment (%)	JNUE	5.4	5.2	4.9	5.0	4.9	4.9	5.0	5.1		
CP inflation (%yoy)											
US	CPICHNG	-1.6	1.4	2.4		2.6	2.1	2.3	2.2		
Euro area	ECCPEMUY	-0.4	0.4	1.1		1.0	0.9	1.4	1.5	1.6	
Japan	JCPNSGM	-2.2	-2.0	-1.2		-1.3	-1.1	-1.1	-1.2	-1.2	
China	CNCPIYOY	-1.3	0.4	2.1		1.3	2.7	2.2	2.6		
India	INWHOLEY	-0.2	5.0	9.8		9.5	9.9	9.9	9.6		
Russia	RUCPIYOY	11.4	9.2	7.2	5.7	8.0	7.2	6.5	6.1	6.0	
Brazil		4.4	4.2	4.9		4.6	4.8	5.2	5.3		
Current account (USD bn)[3]											
US (trade balance, g+s)	USTBTOT	-32.1	-36.3	-38.9		-37.0	-39.4	-40.4	-41.0		
Euro area		-4.1	-3.8	-2.1		-2.4	-6.2	2.3			
Japan	JNBPAB	12.9	14.7	16.7		18.8	11.8	19.5	14.8		
China (trade in goods)		13.8	12.6	6.2		12.0	9.6	-3.1	9.6		
Russia (trade in goods)	RUCACAL	9.8	11.9	18.1		18.4	19.4	16.4			
Other indicators											
Oil prices (Brent, USD/b)	EUCRBRDT	68.2	74.6	76.3	80.0	76.3	73.7	79.0	84.7	75.2	
FX reserves China (USD bn)	CNGFOREX	2272.6	2399.2	2447.1		2415.2	2424.6	2447.1			

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.

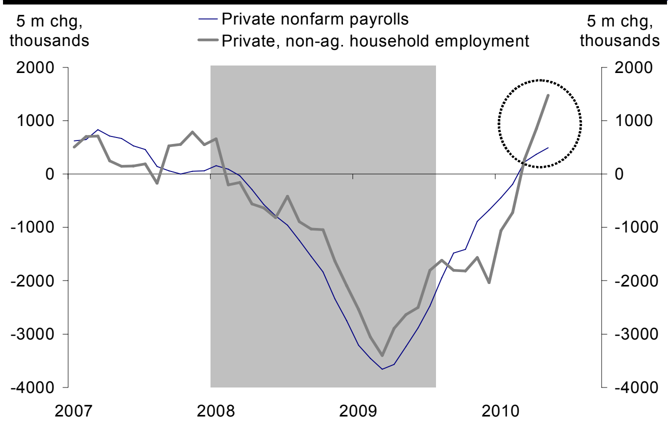
(2) pop change in '000, quarterly data are averages of monthly changes.

(3) Quarterly data are averages of monthly balances.

Sources: Bloomberg, Reuters, Eurostat, European Commission, OECD, Bank of Japan, National statistical offices.

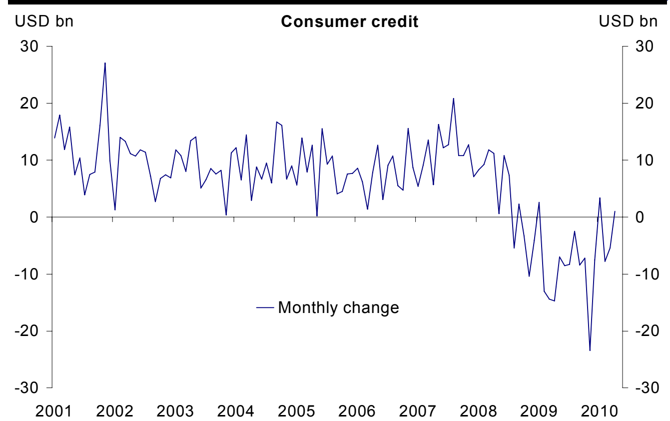
Charts of the Week

Chart 1. In US, large gains in household employment point to faster payroll gains…



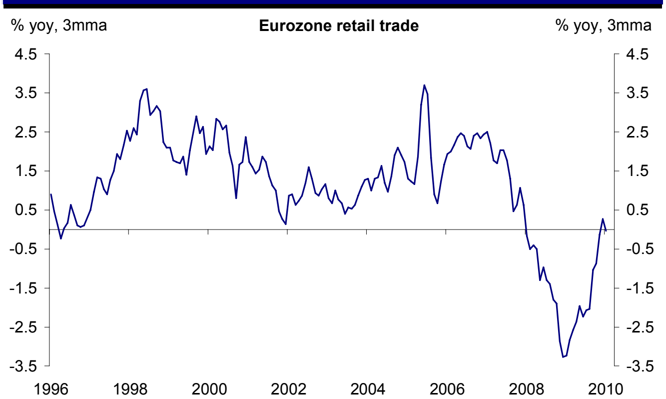
Source: BLS, NBER, DB Global Markets Research

Chart 2.…while consumer borrowing rose in April for the first time in 3 months



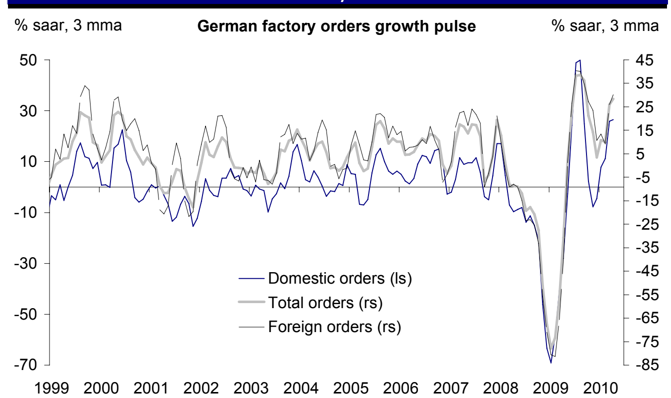
Source: FRB, DB Global Markets Research

Chart 3. Eurozone retail sales came on the softer side…



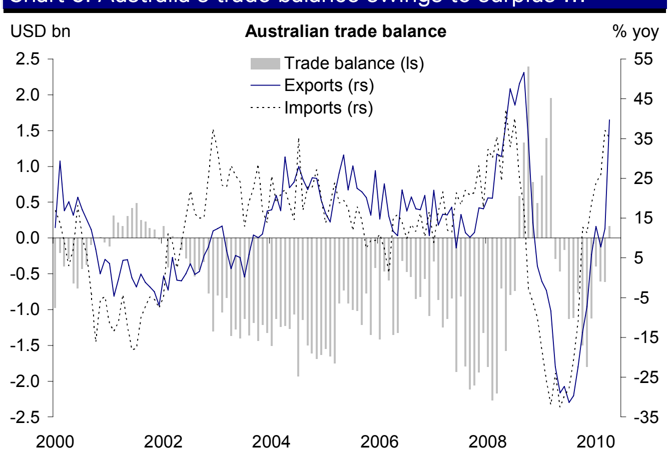
Source: Eurostat, DB Global Markets Research

Chart 4.…while German factory orders rose further



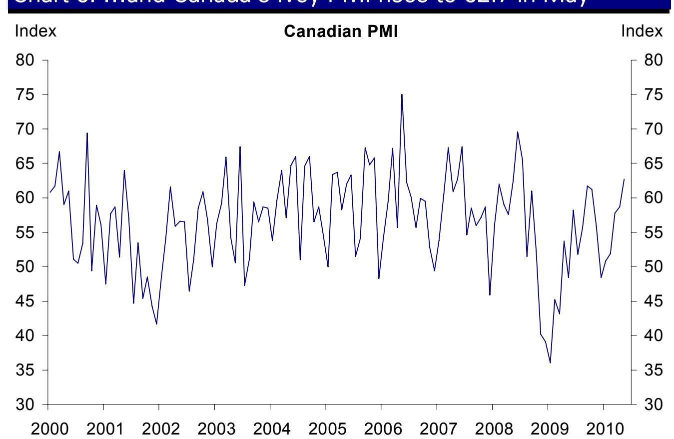
Source: Bundesbank,, DB Global Markets Research

Chart 5. Australia's trade balance swings to surplus …



Source: ABS, DB Global Markets Research

Chart 6. …and Canada's Ivey PMI rises to 62.7 in May



Source: PMAC, DB Global Markets Research

Global Week Ahead: Thursday, 10 June – Wednesday, 16 June

- **Dollar Bloc**: In the **US**, we expect Fed's Bernanke to speak on financial recovery. Data wise, we will closely monitor the June survey reports (consumer sentiment & NY Fed) – both look likely to improve further. The NAHB index along with housing starts and permits data should throw light on the evolution of housing market, while IP and retail sales figures will tell us about the activity level. Other crucial data releases include trade balance, PPI and business inventories numbers. In **Australia**, markets will closely follow the May employment data – we envisage the participation rate to tick up to 65.3%. In **Canada**, April's merchandise trade report is likely to attract the most attention – given the solid growth in US durable goods orders along with stronger demand in China; we believe Canadian exports to rebound. In **New Zealand**, retail sales data for April is due for release.

- **Europe**: In the **Eurozone**, we will have ECB rate setting meeting on Thursday. The release of area-wide and German ZEW sentiment survey report along with IP data for the region, France & Italy together with Italian GDP figures should garner markets attention. On the inflation front, we will receive the May HICP data from across the board; while we get to know about the labour market with the release of Euro area, Italian and Spanish labour costs data. Besides, Euroarea and Italian trade balance data are also due. In the **UK**, the BOE interest rate meeting is due on Thursday. On the data front, there are many crucial releases – PPI, IP, CPI and claimant count numbers.

- **Asia incl. Japan**: In **Japan**, the BoJ will have its rate decision on Tuesday. In **China**, many important data releases such as trade balance, IP & retail sales will be in limelight. In **India**, we are likely to see improvement in April's IP data.

Country	GMT	Release	DB Expected	Actual	Consensus	Previous
		Thursday, 10 Jun				
CHINA	-	Trade balance (May)	USD15.6bn		USD8.8bn	USD1.7bn
AUSTRALIA	01:30	Labour force unemp rate (May)	5.4%		5.4%	5.4%
AUSTRALIA	01:30	Participation rate (May)	65.3%		65.2%	65.2%
JAPAN	05:00	Consumer confidence (May)				42.1
GERMANY	06:00	HICP (May)			0.1% (1.2%)	-0.1% (1.0%)
FRANCE	06:45	Industrial production (Apr)			0.1% (6.9%)	1.0% (6.2%)
FRANCE	07:45	Payroll employment - final (Q1)				-20.4k qoq
ITALY	08:00	Industrial production (Apr)			0.6% (6.7%)	-0.1% (6.4%)
ITALY	09:00	GDP (Q1)			0.5% (0.6%)	-0.3% (-3.0%)
UK	11:00	BoE rate announcement (Jun)			0.50%	0.50%
EUROLAND	11:45	ECB rate decision (Jun)			1.00%	1.00%
US	12:30	Initial jobless claims (Jun 5)			450.0k	453.0k
CANADA	12:30	Trade balance (Apr)			CAD0.6bn	CAD0.3bn
US	12:30	Trade balance (Apr)	-USD41.0bn		-USD41.0bn	-USD40.4bn
US	18:00	Treasury budget balance (May)			-USD140.0bn	-USD189.7bn

Events and Meetings: UK: Bank of England to announce interest rate decision – 11:00 GMT. **EUROLAND**: ECB to hold Governing Council meeting, interest rate announcement scheduled – 11:45 GMT; news conference to follow at 12:30 GMT. **EUROLAND**: ECB's Trichet to hold speech in Vienna – 19:00 GMT. **US**: Treasury's Geithner to testify on China in Washington – 14:00 GMT.

		Friday, 11 Jun				
INDIA	-	Industrial production (Apr)	(14.0%)		(14.2%)	(13.5%)
CHINA	02:00	Consumer price index (May)	(3.0%)		(3.0%)	(2.8%)
CHINA	02:00	Industrial production (May)	(16.5%)		(17.0%)	(17.8%)
CHINA	02:00	Retail sales (May)	(18.3%)		(18.5%)	(18.5%)
FRANCE	06:45	HICP (May)			0.1% (1.9%)	0.3% (1.9%)
SPAIN	07:00	HICP (May)			0.2% (1.8%)	1.1% (1.6%)
UK	08:30	Industrial production (Apr)			0.4% (2.2%)	2.0% (2.0%)
UK	08:30	Core input PPI (May)				-0.1% (6.4%)
UK	08:30	Core output PPI (May)			0.4% (4.7%)	1.1% (4.4%)
UK	08:30	Input PPI (May)			-1.0% (10.7%)	0.6% (13.1%)
UK	08:30	Output PPI (May)			0.5% (5.8%)	1.4% (5.7%)
US	12:30	Retail sales ex autos (May)	0.5%		0.1%	0.4% (7.6%)
US	12:30	Retail sales (May)	0.4%		0.2%	0.4% (8.8%)
US	14:00	Business inventories (Apr)	0.4%		0.5%	0.4% (-4.7%)
US	14:00	Consumer sentiment prelim (Jun)	74.5		74.5	73.6

Country	GMT	Release	DB Expected	Actual	Consensus	Previous
Friday, 11 Jun (continued)						
Events and Meetings: EUROLAND: ECB's Tumpel-Gugerell to hold speech in Warsaw – 07:00 GMT. **UK**: Bank of England to publish inflation attitudes survey – 08:30 GMT. **US**: Fed's Plosser to hold speech on economy in Pennsylvania – 12:20 GMT. **US**: Fed's Kocherlakota to hold speech on economy in Minneapolis – 16:00 GMT.						
Sunday, 13 Jun						
NEW ZEALAND	22:45	Retail trade (Apr)				0.5% (3.2%)
Events and Meetings: No significant event scheduled for the day						
Monday, 14 Jun						
EUROLAND	09:00	Industrial production (Apr)				1.3% (6.9%)
Events and Meetings: No significant event scheduled for the day.						
Tuesday, 15 Jun						
JAPAN	-	BOJ target rate (Jul)				0.10%
EUROLAND	06:00	New car registration (May)				(-7.4%)
ITALY	08:00	Trade balance (Apr)				-EUR1.3bn
UK	08:30	CPI (May)				0.6% (3.7%)
UK	08:30	Core CPI (May)				(3.1%)
GERMANY	09:00	ZEW survey (econ. sentiment) (Jun)				45.8
EUROLAND	09:00	Trade balance (Apr)				EUR0.6bn
EUROLAND	09:00	ZEW survey (econ. sentiment) (Jun)				37.6
EUROLAND	09:00	Employment (Q1)				-0.2% (-2.0%)
US	12:30	Import prices (May)	0.5%		-1.3%	0.9% (11.1%)
US	12:30	NY fed empire state survey (Jun)	23.0		19.9	19.1
US	13:00	Net foreign sec purchase (Apr)				USD140.5bn
US	17:00	NAHB housing market index (Jun)	24.0		22.0	22.0
CHILE	22:00	Nominal overnight rate target (Jul)			0.75%	0.50%
Events and meetings: JAPAN: Bank of Japan to announce interest rate decision. **AUSTRALIA**: Reserve Bank of Australia to publish minutes of its June 1 board meeting – 01:30 GMT. **CHILI**: Central Bank of Chili to announce interest rate decision – 22:00 GMT.						
Wednesday, 16 Jun						
ITALY	08:00	HICP (May)				0.9% (1.6%)
UK	08:30	Claimant count change (May)				-27.1k
UK	08:30	Unemployment rate (May)				4.8%
EUROLAND	09:00	Core HICP (May)	(0.8%)			(0.8%)
EUROLAND	09:00	HICP (May)	0.1% (1.6%)			0.5% (1.5%)
EUROLAND	09:00	Labour costs (Q1)				(2.2%)
US	12:30	Building permits (May)	635.0k		630.0k	606.0k
US	12:30	Housing starts (May)	680.0k		652.0k	672.0k
US	12:30	Core PPI (May)	0.2%		0.1% (1.1%)	0.2% (1.0%)
US	12:30	PPI (May)	-0.3%		-0.5% (4.9%)	-0.1% (5.5%)
US	13:15	Capacity utilization (May)	73.9%		74.5%	73.7%
US	13:15	Industrial production (May)	0.5%		0.9%	0.8% (5.2%)
Events and meetings: US: Fed's Plosser (18:15 GMT) and Bernanke (21:45 GMT) to hold speech in New York.						

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.

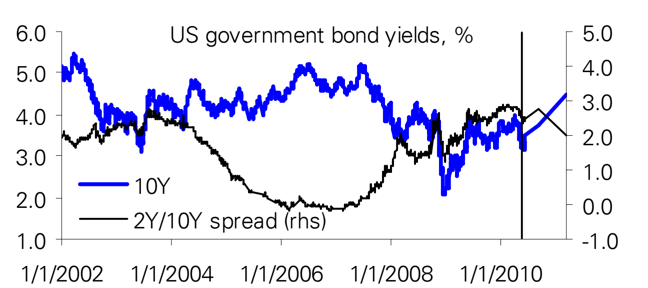
Note: Unless otherwise indicated, numbers without parenthesis are either % month-on-month or % quarter-on-quarter, depending on the frequency of release, while numbers in parenthesis are % year-on-year. * on the release time means indicative release time. * on indicator name means indicative/earliest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

Financial Forecasts

		US	Jpn	Euro	UK	Swe*	Swiss*	Can*	Aus*	NZ*
3M Interest	**Actual**	0.54	0.39	0.65	0.73	0.25	0.25	0.50	4.50	2.50
Rates[1]	**Jun10**	0.30	0.40	0.70	0.75	0.25	0.25	0.50	4.50	2.75
DB forecasts	***futures***	0.56	0.39	0.73	0.75	---	---	---	---	---
& Futures	**Sep10**	0.40	0.40	0.90	0.90	0.50	0.25	1.25	4.75	3.50
	futures	0.77	0.36	0.88	0.93	---	---	---	---	---
	Mar11	1.50	0.40	1.50	1.30	1.50	1.00	2.00	5.25	4.25
	futures	1.05	0.35	0.97	1.18	---	---	---	---	---
10Y Gov't[2]	**Actual**	3.18	1.24	2.55	3.50	2.39	1.33	3.11	5.28	5.28
Bond	**Jun10**	3.50	1.30	3.10	4.00	3.15	1.90	4.25	5.75	6.00
Yields/	***forwards***	3.29	1.30	2.64	3.61	---	---	---	---	---
Spreads[3]	**Sep10**	3.75	1.30	3.25	4.30	3.40	2.15	4.00	5.25	6.00
DB forecasts	***forwards***	3.39	1.34	2.72	3.70	---	---	---	---	---
& Forwards	**Mar11**	4.50	1.20	3.60	4.70	3.60	2.35	3.75	5.00	5.50
	forwards	3.55	1.43	2.85	3.85	---	---	---	---	---
		EUR/ USD	**USD/ JPY**	**EUR/ GBP**	**GBP/ USD**	**EUR/ SEK**	**EUR/ CHF**	**CAD/ USD**	**AUD/ USD**	**NZD/ USD**
Exchange	**Actual**	1.20	91.8	0.82	1.45	9.63	1.39	0.95	0.82	0.66
Rates	**3M**	**1.25**	**88.0**	**0.81**	**1.54**	9.50	1.40	**1.00**	**0.80**	**0.66**
	6M	**1.30**	**85.0**	**0.80**	**1.63**	9.25	1.45	**0.95**	**0.80**	**0.66**
	12M	1.35	**82.0**	**0.78**	**1.73**	9.00	1.50	0.95	0.80	0.66

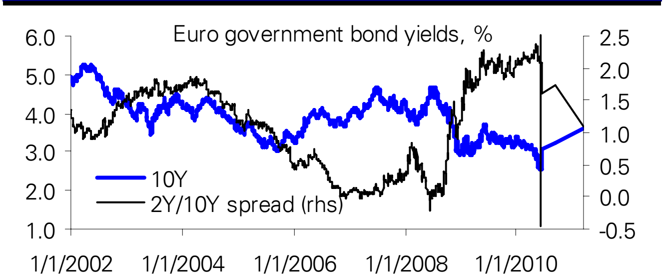
*(1) Future rates calculated from the June, September and March 3M contracts. Forecasts are for the same dates. * indicates policy interest rates.*
(2) Forecasts in this table are produced by the regional fixed income strategists. Forwards estimated from the asset swap curve for 2Y and 10Y yields.
(3)Bond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

US 10Y rates



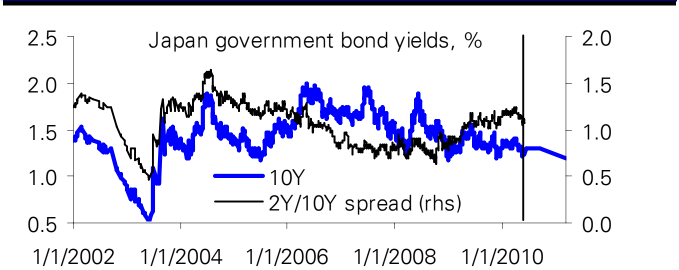
Source: DB Global Markets Research

Euroland 10Y rates



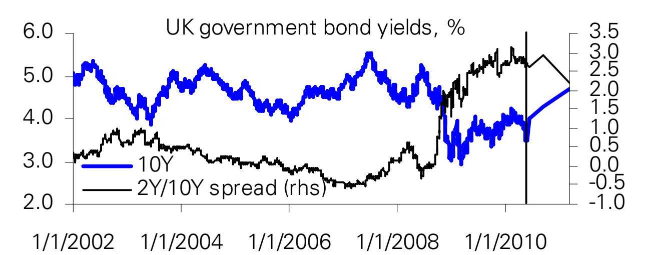
Source: DB Global Markets Research

Japan 10Y rates



Source DB Global Markets Research

UK 10Y rates



Source: DB Global Markets Research

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US

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Dollar Bloc

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Asia

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Asia Economics Monthly (monthly)
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Appendix 1

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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.

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