Deutsche Bank

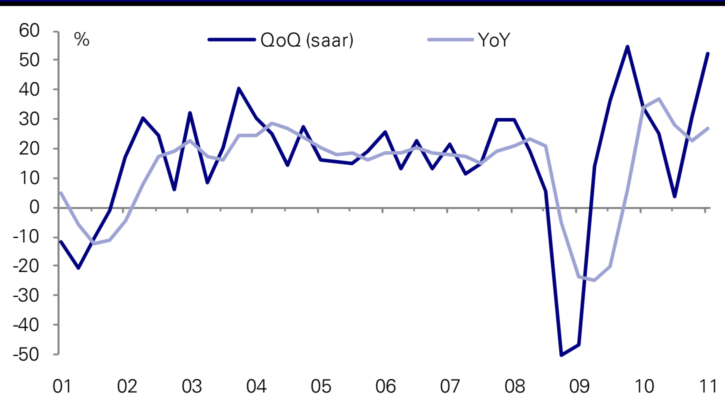
15 April 2011

Global Economic Perspectives

Emerging Asia's Growth Surge

- **The external impulse to growth in Asia is remarkably strong. We estimate that in Q1 exports rose at their fastest QoQ(saar) pace in 18 years except for the 2009Q4 rebound from the recession.**
- **For a region of very open economies – particularly the emerging markets – this surge in exports is likely to push Q1 GDP above consensus expectations leading to another round of forecast upgrades. We have already seen this in China and Singapore.**
- **But this also means that output gaps are closing faster than expected and with commodity prices still pushing inflation higher the risks of a significant rise in core inflation in the months ahead is surely rising.**
- **Asian central banks have been setting interest rates with a view to core inflation rather than headline, we think. But even measured against core inflation real policy rates are well below levels that were reached during 2006-07 suggesting that even if core inflation doesn't rise significantly from here there is much more upside potential to interest rates than is currently forecast.**
- **The situation in the developed markets is markedly different. Natural disasters in Australia, New Zealand and Japan have not only interrupted the recovery they have in New Zealand and Japan knocked back growth in 2011 significantly. We now forecast a substantial decline in 2011 GDP in Japan. In Australia and New Zealand, the shocks to growth are likely to be temporary – growth later this year is likely to be higher than we previously forecast. In Japan, though, we see a much longer lasting drag on growth from the earthquakes and radiation leaks.**

Exports from Emerging Asia



Sources: CEIC and Deutsche Bank CIB Research

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Economics

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Key Economic Forecasts

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

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

Forecasts: G7 quarterly GDP growth

% qoq saar/annual: % yoy	Q1 10	Q2 10	Q3 10	Q4 10	*2010*	Q1 11F	Q2 11F	Q3 11F	Q4 11F	*2011F*	*2012F*
US	3.7	1.7	2.6	3.1	***2.9***	3.8	4.2	4.1	4.3	***3.5***	***3.9***
Japan	6.1	2.1	3.3	-1.3	***4.0***	-5.2	-8.1	2.2	3.8	***-2.1***	***1.9***
Euroland	1.6	4.0	1.4	1.1	***1.8***	2.0	0.9	1.1	1.4	***1.5***	***1.5***
Germany	2.6	9.2	2.8	1.5	***3.5***	2.8	2.2	1.4	1.3	***2.5***	***1.6***
France	1.1	2.4	1.0	1.4	***1.5***	1.9	0.5	1.5	1.7	***1.4***	***1.7***
Italy	2.1	2.1	1.3	0.5	***1.2***	1.3	0.6	0.8	0.0	***0.9***	***1.2***
UK	0.8	4.3	2.9	-1.9	***1.3***	3.3	2.2	2.0	1.7	***1.8***	***2.0***
Canada	5.5	2.2	1.8	3.3	***3.1***	4.0	3.4	3.5	2.6	***3.2***	***3.4***
G7	3.5	2.8	2.5	1.6	***2.8***	1.9	1.3	2.9	3.1	***2.1***	***2.9***

Sources: National authorities, DB Global Markets Research

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

Emerging Asia's Growth Surge

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Introduction

For many months, the focus in Asia has been almost exclusively on the region's rising inflation rates and policy implications. We've addressed these issues in these pages a few times in recent months. But almost lost along the way has been the news that measures of growth in real activity have tended to surprise to the upside despite the rising inflation rates. Indeed, not just our own but also the consensus forecasts for growth in almost all Asian emerging market economies have been revised up since the beginning of the year.

This note therefore updates readers on the growth experience in the region in recent quarters, months and even days. What we see at work is a very powerful export-led growth surge that could lead to another round of upward forecast revisions in the coming weeks as Q1 GDP reports come in.

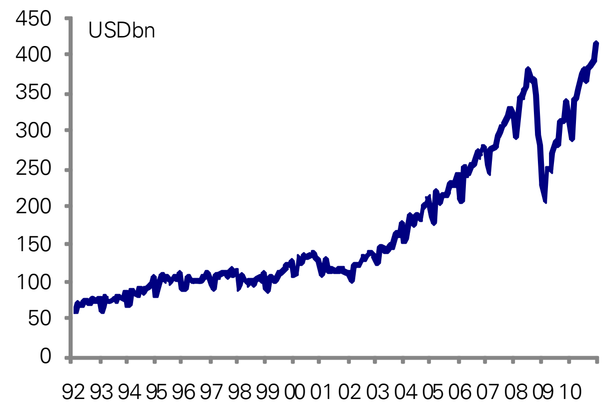
As an illustration of what might be to come – albeit likely an exaggerated one – consider Singapore. Singapore is a bellwether for Asia because it reports its initial estimate of quarterly growth before all other countries except Vietnam and as a very small, very open, economy it often is an exemplar (at times a leading indicator) of growth in the other small open economies in the region. On April 14, the government of Singapore estimated Q1 GDP growth was 23.5%QoQ (saar) – double the consensus expectation. Q1 growth last year was a remarkable 39.9%QoQ (saar), so the YoY growth rate declined to 8.5% from 12% in 2010Q4. But even if we assume a pullback in sequential growth in Q2, this announcement is likely to lead to significant upward revisions in growth forecasts for Singapore.

Less spectacularly, GDP growth in China has also exceeded our expectations in Q1, easing to 9.7% from 9.8% in 2010Q4, slightly higher than our (above-consensus) forecast of 9.5%. The government has not yet published the component data, but among the monthly data, retail sales and fixed assets investment growth this year have been in line with or below, our forecasts, while exports have far exceeded our forecasts.

Financial crisis recap

The global financial crisis hit Asia hard. A region of mostly export-driven economies was unlikely to survive a recession in the US and Europe and the collapse in trade in September 2008 ended the optimists' faith in decoupling. In fact, the decline in exports across Asia Pacific – from peak to trough a 31% drop in seasonally adjusted exports between 2009Q3 and 2010Q1—dwarfed the contractions experienced during the Asian financial crisis or the 2000/01 "tech wreck". But as the chart below shows, the recovery was swift. It took only five quarters to return to the pre-crisis level of trade activity.

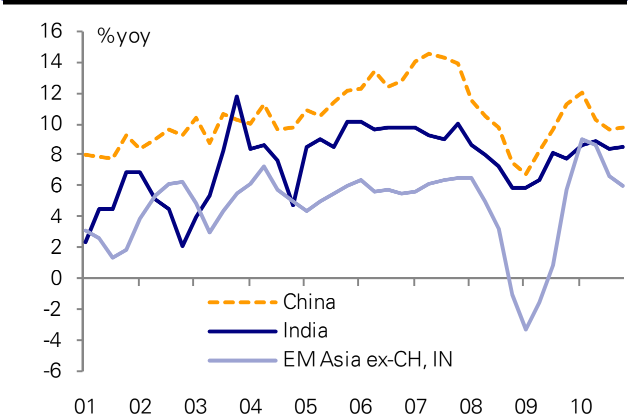
Figure 1: Total exports in Asia Pacific, 1992-2010



Source: CEIC and Deutsche Bank CIB Research

In emerging Asia, GDP declined in 2009 in Hong Kong, Malaysia, Singapore, Taiwan and Thailand. South Korea narrowly avoided a full-year decline in GDP but was in recession for three quarters.

Figure 2: GDP in emerging Asia

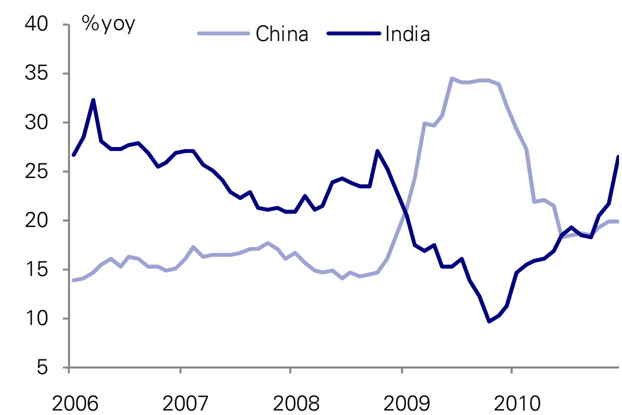


Source: CEIC and Deutsche Bank CIB Research

Even China and India were hurt by the global recession, countries we don't normally think of as "export-led" like East Asia's small open economies. In both countries growth had been easing before exports collapsed as monetary policy was tightened: growth in China slowed from 14.6% in 2007Q2 to 10.5% in 2008Q2 as interest were increased 189bps. But as the global recession took hold, growth in China fell to 7.5%yoy in 2008Q4 (we estimate QoQ(saar) growth was 3.3% that quarter). Indian growth slowed from 10%yoy in the final quarter of 2007 to 8.1% in 2008Q2 as credit growth slowed in the aftermath of 275bps of rate hike and reserve requirement increases.

China's extraordinary monetary stimulus in early 2009 – we estimate credit rose more than 50% on a QoQ(saar) basis in 2009Q1 – coincided with the bottoming out of trade volumes, so both factors contributed to a very strong rebound. We estimate 2009Q2 GDP growth was 16.3%QoQ(sa) and the output gap that opened up in late 2008 was closed by 2009Q3. Indian monetary stimulus was less aggressive – reserve requirements were cut 4.25% and 4% respectively but whereas credit growth in China rose to a 13-year high in 2009 (peaking at 34%) credit growth in India fell to a 13-year low that year

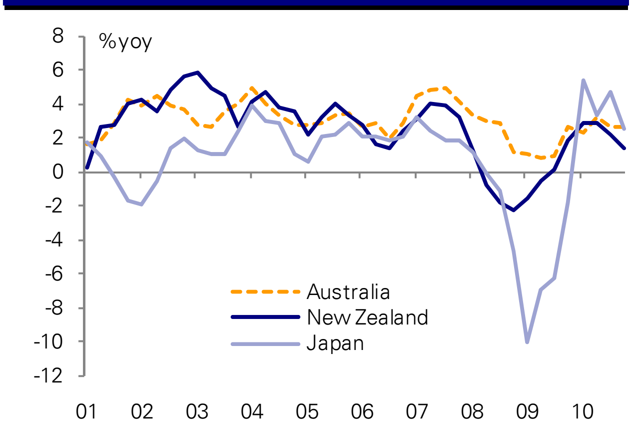
Figure 3: Bank lending in China and India, 2006-2010



Source: CEIC and Deutsche Bank CIB Research

It was not just the emerging markets that were hit by the recession, of course. Japan, an economy we view increasingly in the same way we do South Korea as an advanced economy but one whose business cycle is driven by external demand, experienced the largest quarterly decline in GDP in at least 30 years, a 23.4%QoQ(saar) contraction. For the whole of 2009, the Japanese economy contracted 6.3% in 2009. Even today, after two years of growth, GDP is only back to where it was in early 2006.

Figure 4: GDP in developed Asia



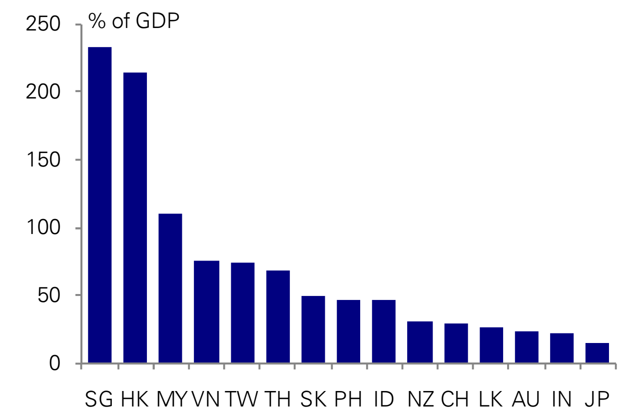
Source: CEIC and Deutsche Bank CIB Research

New Zealand's economy started falling in early 2008 and the economy contracted for five consecutive quarters – a cumulative decline of 2.5% of GDP. Australia experienced only one quarterly decline in GDP. Commodity exports were about as badly hit by the financial crisis as were manufactured goods' exports, but the flexibility of their exchange rates and the smaller share of GDP accounted for by the export sectors insulated the Australia and New Zealand economies to a greater extent than in North Asia.

Exports drive emerging Asian grow

This last point is key, we think, to understanding growth in Asia Pacific. This region includes some of the most open economies in the world – gross exports of goods and services are more than 100% of GDP in Singapore, Hong Kong and Malaysia

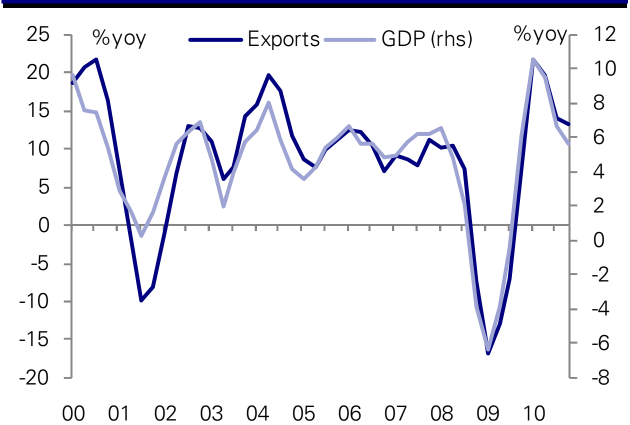
Figure 5: Exports of goods and services in Asia Pacific



Source: CEIC, Haver and Deutsche Bank CIB Research. Nominal values in China and Vietnam (2008 data for Vietnam).

We find it useful to treat the small open economies in East Asia as a group – a little unfair perhaps to Indonesia and the Philippines which are less export-dependent than the others. But by plotting exports versus GDP as in the chart below one can readily see how important exports are to the performance of these economies. Put another way, this chart suggests how much of a challenge it is to try to wean these economies off exports as the main driver of growth.

Figure 6: Asia-8 GDP and exports

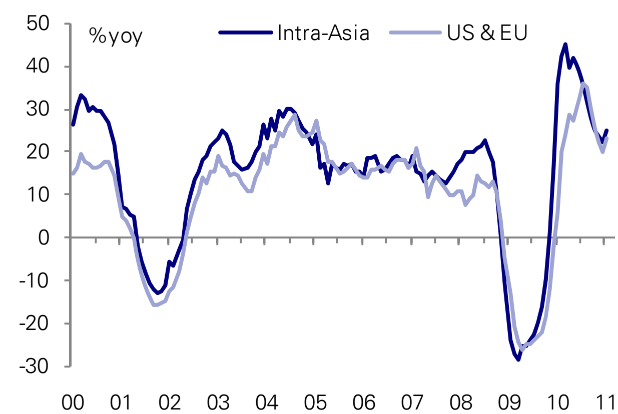


Sources: CEIC and Deutsche Bank CIB Research. "Asia-8" is Hong Kong, Indonesia, Malaysia, the Philippines, Singapore, South Korea, Taiwan and Thailand. For lack of real export data we cannot include Vietnam.

Importantly, Asia's exports are highly concentrated – at least in a statistical sense. While it's true that more than half of Asia Pacific exports go to other Asia Pacific economies, aside from Australia and New Zealand, this intra-regional trade is dominated by trade in parts and components or other intermediate goods for which the final demand is, more often than not, outside the region. The Asian Development Bank (ADB) estimated that in 2008 parts and components accounted for 55% of intra-regional trade. For emerging Asia plus Japan, the ADB estimated that 71% of the demand for final goods exported lay outside the region. The US accounted for 24%, the EU 22%.[1]

With so much of intra-regional trade therefore dependent on final demand outside the region, it's no surprise that exports within Asia correlate so highly with exports to non-Asian economies as the chart below for exports from emerging Asia shows.

Figure 7: Emerging Asia exports by destination

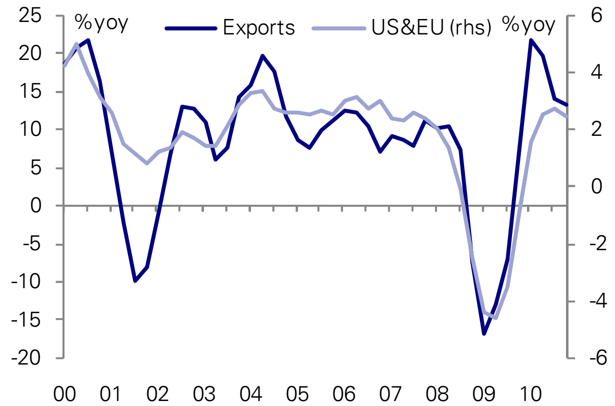


Sources: CEIC and Deutsche Bank CIB Research. "Intra-Asia" includes emerging Asia plus Japan

So, with the US and EU taking half of Asia's exports of final goods, we find a close correlation between Asia-8 exports and US&EU GDP growth

[1] "Asian Development Bank Outlook 2010 Update," September 2010.

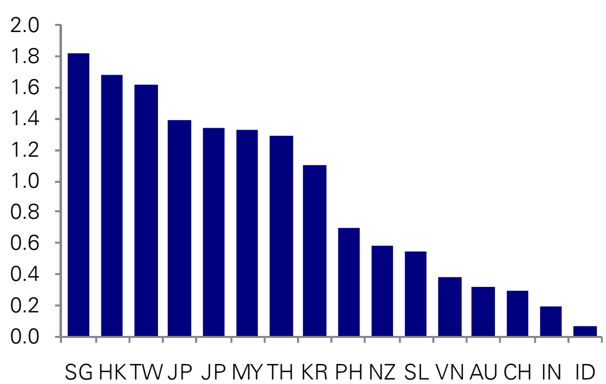
Figure 8: Asia-8 GDP and US & EU GDP



Sources: CEIC and Deutsche Bank CIB Research

A comparison between the chart above and the one to the left indicates that GDP growth in Asia-8 rises and falls somewhat more than GDP growth in the US & EU combined economies. We describe the small open economies in emerging Asia as "high beta" economies with respect to growth in the advanced industrial economies. The chart below shows these "growth betas" across all economies in Asia Pacific. Not surprisingly, the ranking of economies in this chart is not dissimilar to the ranking of economies in Figure 5.

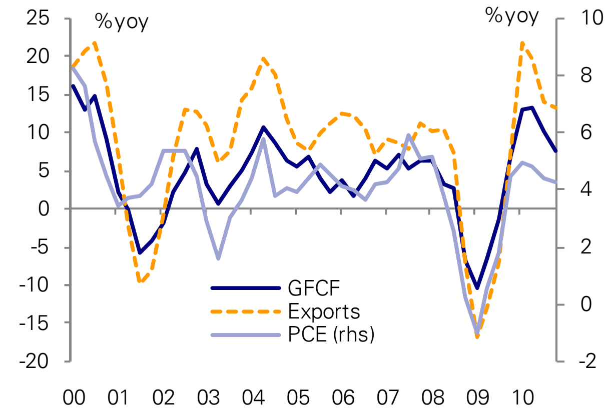
Figure 9: "Growth betas" in Asia Pacific



Sources: CEIC, Haver and Deutsche Bank CIB Research. The "growth beta" is the slope coefficient of a regression of each economy's quarterly GDP growth since 2000 on growth in the PPP-weighted combination of the US and European Union economies.

We commented above that the close relationship between exports and GDP growth in the Asia-8 economies indicates how difficult it could be to wean these economies off their export dependence. We are often asked about "domestic demand" versus "external demand" a source of growth. The chart below should dispel any notion that this is a useful distinction in these economies. The correlation between private consumption and exports over the past eleven years is 0.7. It's clearly much higher during periods of extreme fluctuations in exports. Over this period, the correlation between gross fixed capital formation and exports exceeds 0.9.

Figure 10: Components of GDP in Asia-8



Sources: CEIC and Deutsche Bank CIB Research

The foregoing may have been obvious to many readers, but we commonly find ourselves reiterating these arguments even today. The implication, we think, is clear. Growth in emerging Asia's small open economies is primarily a consequence of growth in the US and EU. Improving growth in these advanced economies should be expected to lead to stronger Asian export growth, and with it stronger "domestic demand" growth with the consequence that GDP growth in Asia rises by a multiple (about 1.4) of the rise in US & EU GDP growth.

Growth in Japan is also "high beta" with respect to growth in the US and EU: domestic consumption growth is relatively slow and stable compared to growth in exports that the latter's influence dominates the business cycle in recent years.

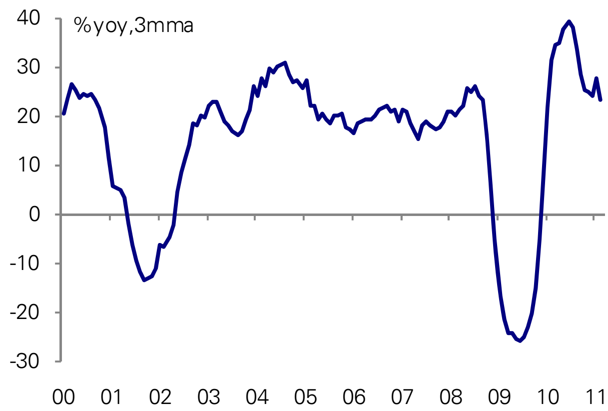
Australia, New Zealand, China and India – and, properly, Indonesia and Vietnam – are Asia's "low beta" economies. Exports are important, obviously, but they do not dominate growth the way they do in the "high beta" economies.

Emerging Asian exports are surging

With this long preamble, we turn to the very recent trade data in emerging Asia and find that growth has far exceeded our expectations. The above discussion about the importance of exports to overall growth in this group of economies leads naturally to an expectation that GDP growth will exceed our forecasts – as it has already in China and Singapore.

Total exports from the ten major emerging Asian economies have slowed over the past year, although the decline has tapered off. Jan/Feb export growth averaged 24.7%yoy, up from 24.0% in 2010Q4

Figure 11: Emerging Asia exports

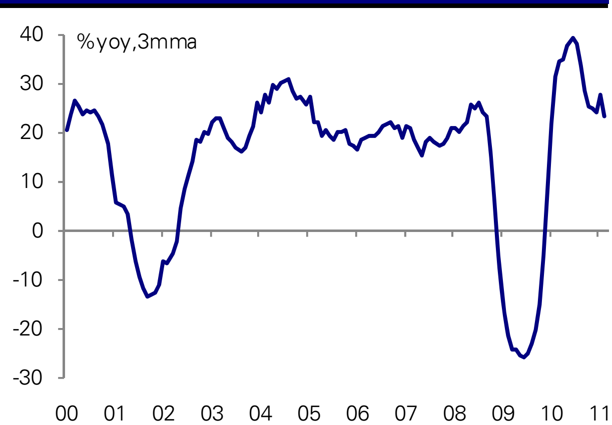


Sources: CEIC and Deutsche Bank CIB Research

But examining YoY growth is looking too far back into the past. We prefer to seasonally adjust the data and look at the sequential momentum. This is problematic with monthly data since Asian holidays are largely lunar holidays and the usual seasonal adjustment programs don't handle these varying seasonal factors well. We have quarterly (nominal) exports from China, South Korea and Taiwan – these three economies account for 70% of total emerging Asia exports – so we can seasonally adjust these data.

For the other economies, where we have data only through February, we apply the Jan/Feb average YoY growth rate to the March 2010 values to arrive at a placeholder for March 2011. Note that in China this would have underestimated March exports by nearly 15%; in Taiwan it would have overestimated March exports by about 5% and in South Korea export growth in March was essentially the same as the Jan/Feb average.

Figure 12: Emerging Asian export growth

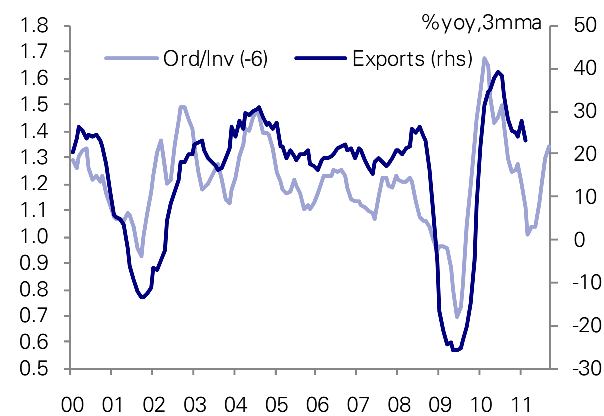


Sources: CEIC and Deutsche Bank CIB Research

Investors who focus on YoY growth rates will have missed the fact that sequential growth in Asian exports is nearly as strong as it was in 2009Q4, the peak of the post-crisis recovery. In fact, Q1 appears to have seen the second-fastest sequential growth in Asian exports in the nineteen years for which we have data for all these economies.

As Figure 7 shows, growth in intra-regional and extra-regional exports is similar and it is not obvious that the rebound in export activity is being driven by any one particular region. Indeed, we would argue that there is little to be gained by looking beyond the US and EU as the drivers of this recent export surge. We note, for example, that the US' ISM index – specifically the ratio of new orders to inventories of finished goods lagged six months – is the best leading indicator of Asian export growth. The ISM survey, therefore, has been indicating for some time that Asian export growth, on a YoY basis, would bottom out in about April or May and then rise quickly through Q3.

Figure 13: US orders/inventories and Asian exports



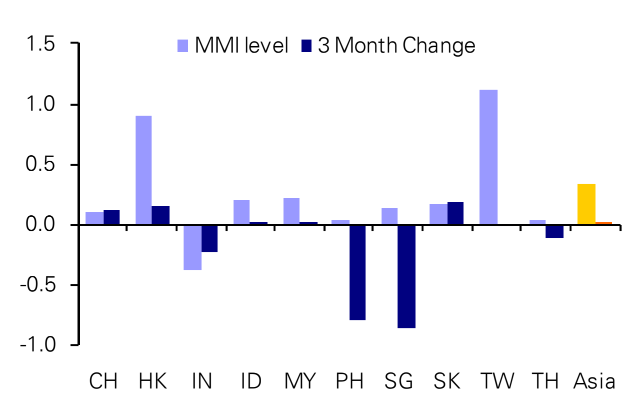
Sources: CEIC and Deutsche Bank CIB Research

The European PMIs tell a similar story – and almost a coincident one to the ISM – which is favourable for Asian exporters. While the QoQ growth rates already tell us that Asian growth is surging again, it will be increasingly evident to investors who look only at YoY growth rates over the next couple of months.

Starting the year with such robust exports presents significant upside risk to the growth forecasts for Asian economies. Our growth forecasts currently assume exports rise 14% this year in real, inflation-adjusted, terms. If exports rise at only a 4% annualized rate (the rate to which growth slowed in Q3 last year) for the rest of the year they will have grown about 14% in nominal terms this year. Given how strong the growth impulse has been in Q1, a pullback in growth in Q2 seems likely. But unless our US and EU growth forecasts are cut significantly, it seems likely that full-year export growth will exceed our current forecasts. And given the link from exports to growth in the small open economies in particular, this means there is probably upside risk to our above-consensus growth forecasts for Asia.

Our Macroeconomic Momentum Indicator takes monthly trade data and combines it with other indicators – of retail sales, credit growth, industrial production etc – to construct a monthly proxy of GDP growth. We have enough data only to construct MMIs through February, but using those data we can arrive at a preliminary forecast for Q1 GDP.

Figure 14: Macroeconomic momentum in Asia



Sources: CEIC and Deutsche Bank CIB Research. MMIs are normalized so that a reading of zero represents long run average growth.

The MMIs indicate that growth in Asia is, on average, beginning to level off at a rate that is still above the long-run average. The current readings are still the highest in Taiwan and Hong Kong – growth is about one standard deviation above long-run average. Growth (YoY) is slowing the fastest in Singapore and the Philippines. Note that the Singapore government's 'advance GDP report includes as-yet unpublished estimates of activity in March. They are evidently forecasting exceptional growth in March. We estimate, for example, that their GDP estimate implies about 30%mom(sa) (not annualized!) growth in manufacturing output in March.

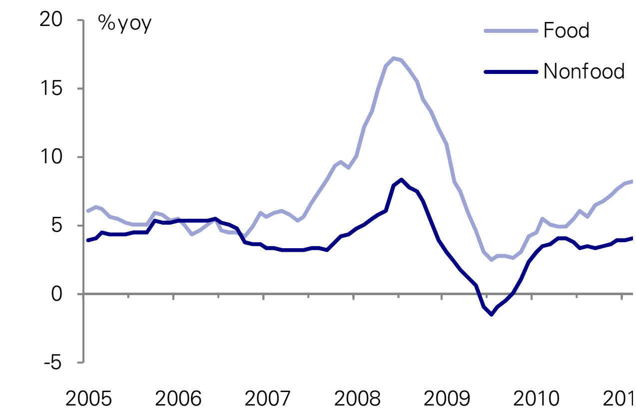
Our MMI for China – based on February data – suggested a little upside risk to our 9.5% growth forecast. Indeed, the official estimate was 9.7% -- the MMI indication was 9.8%. The MMIs also suggest there is significant upside risk to our growth forecasts in Hong Kong and Taiwan. Only in Thailand have the data through February indicated that Q1 growth would be lower than our current forecast.

We aren't ignoring inflation

As the March inflation data in China and India remind us, inflation is still trending higher. And with growth apparently much stronger than we'd been expecting, the risks of much higher core inflation are evidently greater than we had been expecting.

Asian central banks have essentially split the difference between the Fed and European Central Bank. The former has a core inflation mandate, the latter a headline inflation target – hence, the ECB is the first to raise rates while the Fed waits for confirmation that core price stability is at risk. Asian central banks generally target headline inflation but have been, we think, using core inflation as a guide to policy in an environment of high food price inflation but much lower – and generally stable – non-food inflation.

Figure 15: Food and non-food inflation in Asia

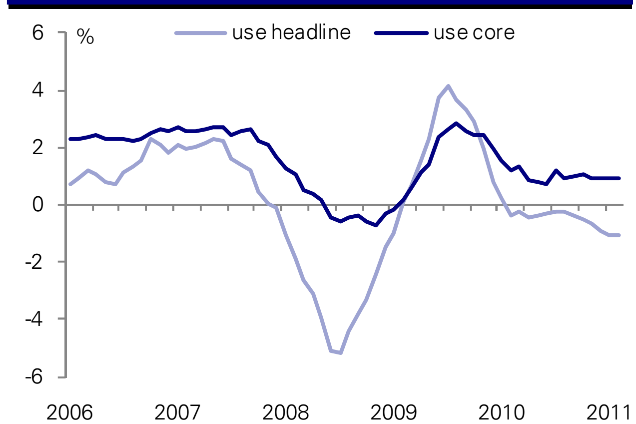


Sources: CEIC and Deutsche Bank CIB Research

Nonfood inflation was, on average, 4% in Asia compared with food inflation of just over 8%. Nonfood inflation has risen by 0.5% over the past year while food inflation has risen 2.7%. So headline inflation has risen 1.3%. The non-food inflation rate today is 0.3% below its 2005-07 average. If food prices stabilize, then core inflation may only continue to creep higher as it has over the past year.

If we accept that that is how Asian central banks have acted, then we can illustrate the policy stance as they see it by comparing policy rates not to headline inflation but to core inflation (non-food where we can't get a true core).

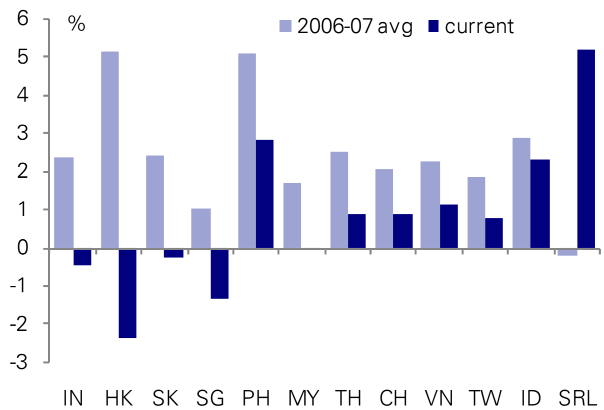
Figure 16: Real policy rates in emerging Asia



Sources: CEIC and Deutsche Bank CIB Research. Central bank policy interest rates minus headline or core inflation, averaged across China, Hong Kong, India, Indonesia, Malaysia, the Philippines, Singapore (3m Sibor), South Korea, Sri Lanka, Taiwan, Thailand and Vietnam.

Measured against headline inflation, as is well known, real interest rates are falling. Central banks simply have not raised rates in line with headline inflation. But measured against core inflation, real rates are still falling, but not as quickly. But even the latter measure suggests policy is overly accommodative today. Whereas central banks were trying to tighten monetary conditions in 2007, today's real rates (against core inflation) are generally much lower – on average nearly 150bps – than they were in 2006-07.

Figure 17: Real (core) policy rates in Asia



Sources: CEIC and Deutsche Bank CIB Research

In Figure 17 we have ranked the economies from left to right in descending order of the gap between current real rates and where they were on average in 2006-07 when central banks were last tightening policy. So in India, the real rate measured this way is 283bps below where it was when they were last tightening policy in 2006-07. In South Korea, real rates are 267bps too low and in China, real rates are about 120bps too low judged this way.

Our expectation is that the preference of central banks is to close this gap gradually over the next year or two (assisted by the Fed rate hikes in 2012 which will take the pressure off Asian currencies as rates go up). But even the rate hikes that would be required to return real rates to where they were in 2006-07 are well above consensus expectations or what is priced in.

The danger, moreover, is that food and fuel inflation remain high for longer than expected and that with stronger growth the pass-through from commodities to core inflation will get stronger. In our view, for example this is what has happened in India – so even while food inflation falls in India, the policy response has been too slow to contain core inflation which has risen to 7.2% in March from 5% in January.

Disaster strikes

While prospects for growth in the emerging markets have brightened since the beginning of the year, the opposite has happened in developed Asian economies. An awesome string of natural disasters has struck Australia, New Zealand and Japan this year. We summarize here how these tragedies have impacted our views on the growth outlook for these countries.

GDP measures the value of the flow of final goods and services delivered in an economy. So the destruction of physical capital and loss of lives (human capital) is not reflected in GDP. It does, though, reflect the decline in the flow of goods and services resulting from the decline in the capital stock. Conceptually, the treatment of a natural disaster is similar to that of a recession. An initial shock reduces value added in one quarter relative to the previous one: QoQ GDP is lower, even negative. In the next quarter, the absence of a shock means growth can go back to what it was previously minus the previous growth contribution of the capital stock that has been destroyed. Thereafter, the rebuilding/replacement of capital and goods destroyed represent potentially a new source of growth – in the same way that fiscal stimulus does – to help the economy return to its pre-shock trend through a period of above-average growth.

In Australia, the worst flooding for 37 years in Queensland – a state that accounted for about 20% of 2010 GDP – was a disaster to the agricultural and mining sectors, but coming very early in the year it represents we think more a reallocation of growth within the year – output lost in January/February is likely to be made up later in the year. Hence, our full-year growth forecast for the economy is unaffected. First quarter growth is now expected to be 0.5% below the previous forecast, but Q2 growth is now 0.8% higher than previously forecast. Importantly, floods are a true supply shock that result in a rise in prices. Given that much of what Queensland produces is exported, Australia's terms of trade have been boosted by the floods, which also helps to mitigate the downside to growth. Inflation will likely be higher, so perhaps the Reserve Bank, which has paused after raising rates 175bps may feel a need to raise rates perhaps more than they did previously. We still expect another three rate hikes in the next twelve months.

Christchurch, New Zealand, was hit with a magnitude 6.3 earthquake in February which followed a 7.0 earthquake the previous September. The second quake destroyed about one-third of the business district in a region that accounted for about 10% of national GDP. The immediate shock we think reduced Q1 GDP by at least 0.5% relative to our previous forecast – so a net contraction of about 0.3% in the quarter. We assume that the damage to consumer sentiment even outside the region and the lasting impact on economic activity in Christchurch will also dampen Q2 growth relative to our previous forecast.

But thereafter, the reconstruction effort – which is likely to be drawn out over a few years – plus the near-term monetary (50bps rate cut in March) stimulus – should push growth above our previous forecast. The net effect is to lower 2011 GDP growth to a little over 1% from our previous forecast of 2.3%, but to raise 2012 growth to 4.5% from 3.2% previously and 2013 growth to 3.8% from 2.6%.

The massive earthquake (magnitude 9.0, the largest ever recorded) and tsunami that his northeastern Japan in March are not only much greater disasters and human tragedies but also much more complex economic events. In the framework described above, the likelihood is that in Japan the impact of the disaster on other regions will be much greater than is likely to be the case in Australia or New Zealand and the positive effect on future growth from rebuilding may be much weaker and more drawn out. The key issues in this respect are (1) the continuing very large aftershocks that will delay any attempts at reconstruction work (clearing away rubble and repairing damaged homes and businesses is treated as the production of intermediate activities that don't count towards GDP); (2) the loss of power generating capacity means that when the hot summer months come in July – September, businesses and households may be expected to cut power consumption by as much as 25% and 20% respectively; and (3) consumer sentiment is further hit by the fear of radiation contamination which is likely to reduce discretionary spending. So whereas in Australia and New Zealand three to six months after the disaster one can imagine growth rises above the previous forecast trend, in Japan the economy may still be struggling to stabilize.

Consequently, our growth forecast for Japan has been reduced much more than it has been in Australia or New Zealand. We now see the economy contracting 2.1% this year – in February we had been forecasting 1.6% growth. And in 2012 we still see growth of only 1.9%, essentially unchanged from February. There is still considerable uncertainty of course – in many respects the economy can be considered still to be in the initial disaster phase rather than in the stabilization or recovery phase of a disaster. For example, should power generating capacity be increased more than expected during the spring months, the constrain on future activity might not be as great as it currently appears. But overall, our sense is that the output loss from the earthquake looks likely to be much more long-lasting than is typically the case after natural disasters.

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Central Bank Watch

US

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

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

Japan

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

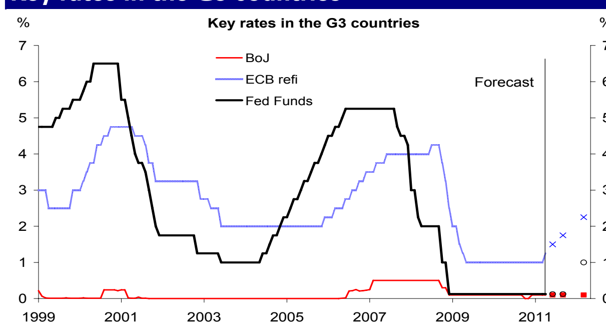
	Current	Jun11	Sep 11	Mar12
ON rate	0.10	0.10	0.10	0.10

Euroland

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

	Current	Jun11	Sep 11	Mar12
Refi rate	1.25	1.50	1.75	2.25

Key rates in the G3 countries



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

UK

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

	Current	Jun11	Sep 11	Mar12
Bank rate	0.50	0.50	0.75	1.25

Sweden

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

	Current	Jun11	Sep 11	Mar12
Repo rate	1.50	1.75	2.25	3.00

Switzerland

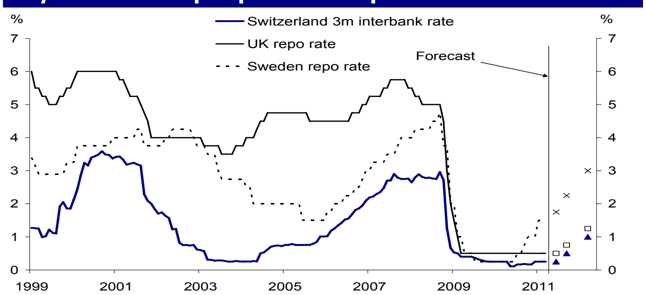
The SNB left policy rates unchanged in March. While the economy has performed better than expected, we see the

Central Bank Watch (continued)

franc continuing to limit the rise in core inflation. The next meeting is on 16 June.

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

Key rates in the peripheral European countries



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

Canada

Although expectations about future sales, employment and investment cooled somewhat in the first quarter, they remain solidly in positive territory. This assessment applies particularly to the outlook for investment and also to hiring plans. Further, the shift in inflation expectations appears to reflect the significant upward pressure on commodity/input prices. Regarding BoC monetary policy, recent elevated concern about the impact of higher oil prices and Japan's post tsunami nuclear crisis on US/global growth, plus the desire to remain neutral during the Federal election campaign, will probably keep the BoC on the sidelines at the next policy rate announcement. However, the significant increase in inflationary expectations reported by the BOS, in our view, strengthens our expectation that the Bank will likely adopt a more restrictive policy stance and resume raising its target for the overnight rate at the end of May.

	Current	Jun11	Dec11	Mar12
ON rate	1.00	1.25	2.25	2.75

Australia

RBA cash rate left unchanged, and little new in the post-meeting statement. So many sentences and phrases in this statement repeat word-for-word those contained in the March statement. In our view, this limited evolution in the statement, combined with what appears to be a high degree of comfort with the current policy stance, suggests to us that the Bank expects to be on hold for some time. It also suggests that the Bank is looking through the recent volatility in the domestic data, and is taking a medium-term view on the likely impact of events such as instability in the Middle East and the recent tragedy in Japan. Our own expectations for RBA action over 2011 is for a hike in September and then a further move in Q4 2011.

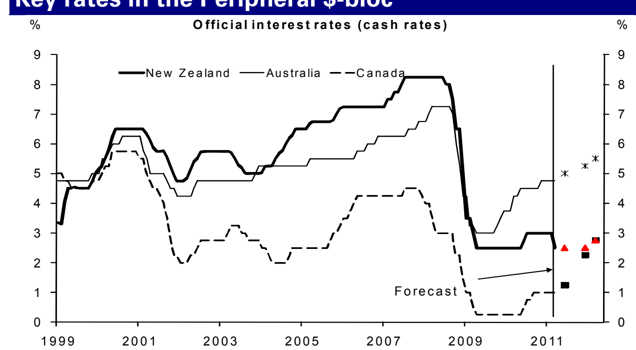
	Current	Jun11	Dec11	Mar12
OC rate	4.75	4.75	5.25	5.50

New Zealand

The markets reaction to RBNZ press statement was a slight firming in the NZ Dollar and a more significant weakening in interest rate markets. The firming in the NZ Dollar seems logical to us given the RBNZ's new-found comfort with the exchange rate. But the weakening in interest rate markets is slightly perplexing. We certainly don't think that the RBNZ set out to generate such a reaction having eased policy just a month earlier. To be sure, that the RBNZ now accepts that the appreciation of the exchange rate will facilitate the necessary adjustment in the real exchange rate suggests that a buoyant currency will be no obstacle to a hike in interest rates if developments in the domestic economy were to demand a hike. But at the same time, to the extent that the RBNZ's greater indifference with respect to the exchange rate encourages the currency to trade higher; all else equal the amount of pressure that will need to be exerted on the domestic economy through rising interest rates is consequently weaker. Indeed, the prospect of a significant tightening in the Government fiscal policy stance and a continued firm exchange rate continue to suggest that domestic interest rates will remain much lower over the next few years than was the case over the previous economic cycle.

	Current	Jun11	Dec11	Mar12
OC rate	2.50	2.50	2.50	2.75

Key rates in the Peripheral $-bloc



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

China

We remain comfortable with our forecast that yoy CPI will hover around 5% between March and May before jumping to 5.8% in June; and it will then fall towards 4% in December. Given the outlook of inflation peaking in June, we maintain our baseline forecast of one more rate hikes (likely to occur in July) and two more RRR hikes in the remainder of this year. This represents a significant reduction in frequency and aggressiveness of policy tightening in the remainder of this year compared with the past 12 months. Moreover, some policy observers appear to suggest that even the next rate hike may not be necessary.

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

Central Bank Watch (continued)

India

Stressing that managing inflationary expectations and containing the spillover of food and commodity prices into more generalised inflation was the main objective, the Reserve Bank of India tightened monetary policy again in its March 17 review, raising the repo and reverse repo rates to 6.75% and 5.75%, respectively. Apart from elevated food and fuel price inflation risks, the central bank sees emerging demand side risk to inflation as well. The output gap has been closing, wage growth is robust (14-18%), and public social spending programs are boosting income of the rural poor. Given these risks, the central bank revised up its inflation forecast for March 2011 to 8% (from 7%), same as our projection. It also recognized that the risk to the forecast was to the upside. There was no discussion about the inflation forecast for FY11/12, the central bank would publish those figures in May. Incorporating the risks highlighted by the central bank, we see inflation remaining around 8% through the course of the year. [February inflation print of 8.3% further reinforces our concerns].

The RBI justified the rate hikes by arguing that the growth-inflation balance of risk has tilted toward the intensification of inflation. We see the RBI remaining open to further rate hikes, especially as we see no major respite from inflation pressure in the coming months. Indeed, the central bank may have to be ready to allow for some growth to be sacrificed, if necessary, in its fight on inflation. If the non-core to core price spillover continues, which seems rather likely in our view, the central bank will continue to act. We expect at least another 75 basis points in rate hikes during 2011.

	Current	Jun11	Sep11	Mar12
Repo rate	6.75	7.00	7.50	7.50

Brazil

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

	Current	Jun11	Sep11	Mar12
CBR refi rate	11.75	12.25	12.25	12.25

Russia

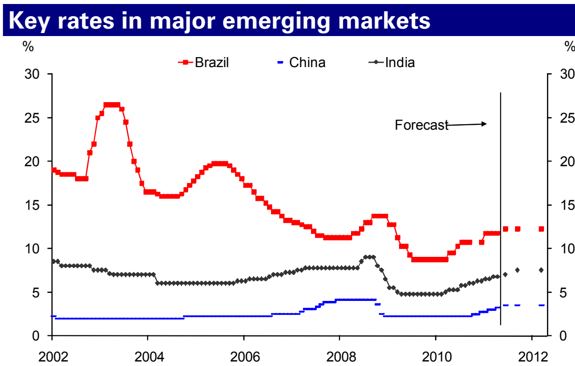
On 25 March, the CBR released the decision of the Board of Directors, which involved the increase in reserve requirements by 100 basis points to 5.5% on liabilities in roubles and hard currency to enterprises and a 50 basis point increase to 4% in reserve requirements on liabilities in roubles and hard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

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

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

	Current	Jun11	Sep11	Mar12
CBR refi rate	8.00	8.25	8.25	8.00

Key rates in major emerging markets



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

Global central bank policy rate hikes since September 2008

	Trough	2009				2010										2011				Total
	policy	Aug	Oct	Nov	Dec	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	bps
Israel	0.50	0.75		1.00	1.25	1.50				1.75		2.00				2.25	2.50	3.00		250
Australia	3.00		3.25	3.50	3.75	4.00	4.25	4.50						4.75						175
Norway	1.25		1.50		1.75			2.00												75
Vietnam	7.00				8.00									9.00			11.00	12.00		500
Malaysia	2.00					2.25		2.50		2.75										75
India	4.75					5.00	5.25			5.75		6.00		6.25		6.50		6.75		200
Brazil	8.75						9.50		10.25	10.75						11.25		11.75		300
Peru	1.25							1.50	1.75	2.00	2.50	3.00				3.25	3.50	3.75	4.00	275
Canada	0.25								0.50	0.75		1.00								75
Chile	0.50								1.00	1.50	2.00	2.50	2.75	3.00	3.25		3.50	4.00	4.50	400
New Zealand	2.50								2.75	3.00										50
Taiwan	1.25								1.38			1.50			1.63			1.75		50
Sweden	0.25									0.50		0.75	1.00		1.25		1.50			125
S Korea	2.00									2.25				2.50		2.75		3.00		100
Thailand	1.25									1.50	1.75				2.00	2.25		2.50		125
Serbia	8.00										8.50	9.00	9.50	10.50	11.50	12.00		12.25		425
Uruguay	6.25											6.50								25
Nigeria	6.00											6.25				6.50				50
China	2.25												2.50		2.75		3.00		3.25	100
Hungary	5.25													5.50	5.75	6.00				75
Poland	3.50															3.75			4.00	50
Indonesia	6.50																6.75			25
Colombia	3.00																3.25	3.50		50
Russia	7.75																8.00			25
Philippines	4.00																	4.25		25
Kazakhstan	7.00																	7.50		50
Euroland	1.00																		1.25	25
Denmark	1.05																		1.30	25

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

Global data monitor: Recent developments and near-term forecasts

	B'bergcode	Q2-10	Q3-10	Q4-10	Q1-11	Nov-10	Dec-10	Jan-11	Feb-11	Mar-11	Apr-11
OECD leading indicators (6M change, %, ann.)											
OECD		8.2	4.0	1.4	0.6	1.4	1.0	0.7	0.5		
US	OLEDUSA	9.3	4.8	2.2	1.1	2.2	1.7	1.3	0.9		
Euro area	OLEDEU12	7.4	2.7	-0.1	-1.0	-0.2	-0.6	-0.9	-1.1		
Japan	OLEDJAPN	7.5	4.7	2.9	2.8	2.8	2.6	2.7	2.9		
China	OLEDCHIN	16.8	12.5	12.1	12.8	12.1	12.3	12.6	13.0		
India	OLEDINDI	11.1	8.8	7.3	6.5	7.3	6.8	6.5	6.4		
Russia	OLEDRUSS	14.4	10.5	8.8	8.4	8.7	8.6	8.4	8.3		
Brazil	OLEDBRAZ	11.8	4.9	2.3	1.3	2.3	1.9	1.5	1.1		
Purchasing manager indices											
Global (manufacturing)		56.4	54.3	55.4	57.3	55.2	56.2	57.4	57.8	56.6	
US (manufacturing ISM)	NAPMPMI	57.6	55.2	57.9	61.1	58.2	58.5	60.8	61.4	61.2	
Euro area (composite)		56.6	55.7	54.9	57.6	55.5	55.5	57.0	58.2	57.6	
Japan (manufacturing)	SEASPMI	54.2	50.8	47.6	50.2	47.3	48.3	51.4	52.9	46.4	
China (manufacturing)	EC11CHPM	52.8	51.4	54.8	52.7	55.3	54.4	54.5	51.7	51.8	
India (manufacturing)		57.8	56.7	57.4	57.6	58.4	56.7	56.8	57.9	57.9	
Russia (manufacturing)		52.2	52.3	52.2	54.8	51.1	53.5	53.5	55.2	55.6	
Other business surveys											
US dur. goods orders (%pop1)	DGNOCHNG	0.7	1.8	-1.3	1.5	-0.1	-0.6	3.7	-0.6	1.0	
Japanese Tankan (LI)	JNTSMFG	1.0	8.0	5.0	6.0						
Euro area EC sentiment	EUESEMU	99.1	102.3	105.6	107.3	105.6	106.9	106.8	107.9	107.3	
Industrial production (%pop[1])											
US	IP CHNG	7.2	6.7	3.7	5.2	0.3	1.4	0.2	0.0	0.4	
Euro area	EUITEMUM	9.7	4.4	7.8		1.5	0.3	0.3	0.7		
Japan	JNIPMOM	6.2	-7.1	-6.1	17.0	1.0	3.3	1.3	0.4		
Retail sales (%pop[1])											
US	RSTAMOM	5.4	3.3	13.8	7.7	0.8	0.6	0.7	1.0	0.8	
Euro area	RSSAEMUM	0.3	1.5	-1.1	-0.1	-0.1	-0.3	0.2	-0.1		
Japan (household spending)		-6.4	6.0	-6.3	-2.8	0.2	-2.4	1.0	-0.2		
Labour market											
US non-farm payrolls[2]	NFP TCH	181	-46	139	159	93	152	68	194	216	
Euro area unemployment (%)	UMRTEMU	10.0	10.0	10.0	10.0	10.0	10.0	10.0	9.9		
Japanese unemployment (%)	JNUE	5.1	5.0	5.0	4.8	5.1	4.9	4.9	4.6		
CP inflation (%yoy)											
US	CPICHNG	1.8	1.2	1.3	1.7	1.1	1.5	1.6	2.1		
Euro area	ECCPEMUY	1.6	1.7	2.0	2.4	1.9	2.2	2.3	2.4	2.6	
Japan	JNCPIYOY	-0.9	-0.8	0.1	-0.1	0.1	0.0	0.0	0.0	-0.1	
China	CNCPIYOY	2.7	3.3	4.7	5.1	5.2	4.8	5.1	5.0		
India		10.6	9.3	8.9	7.8	8.1	9.3	8.1	8.1		
Russia	RUCPIYOY	5.9	6.1	8.1	9.5	8.1	8.8	9.6	9.4	9.4	
Brazil		5.1	4.6	5.6	6.1	5.6	5.9	6.0	6.0	6.3	
Current account (USD bn)[3]											
US (trade balance, g+s)	USTBTOT	-44.2	-44.2	-38.9		-38.2	-40.3	-46.3	-43.0		
Euro area		-2.9	-6.2	-14.7		-14.3	-16.5	-0.9			
Japan		14.2	17.0	17.4	13.9	15.2	18.3	13.2	14.7		
China (trade in goods)		15.9	19.3	14.2	5.4	13.7	13.9	5.4	-3.6	14.4	
Russia (trade in goods)		12.7	9.5	13.0	16.0	12.7	15.1	13.1	19.0		
Other indicators											
Oil prices (Brent, USD/b)	EUCRBRDT	78.3	77.6	87.2	104.9	85.9	92.1	97.7	103.1	113.9	
FX reserves China (USD bn)	CNGFOREX	2454.3	2648.3	2847.3		2767.8	2847.3				

Quarterly data in shaded areas are quarter-to-date. Monthly data in the shaded areas are forecasts.

(1) % pop = % change this period over previous period. Quarter on quarter growth rates is annualised.

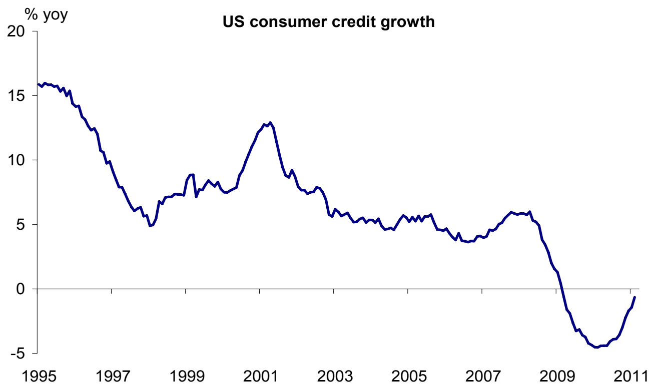
(2) pop change in '000, quarterly data are averages of monthly changes.

(3) Quarterly data are averages of monthly balances.

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

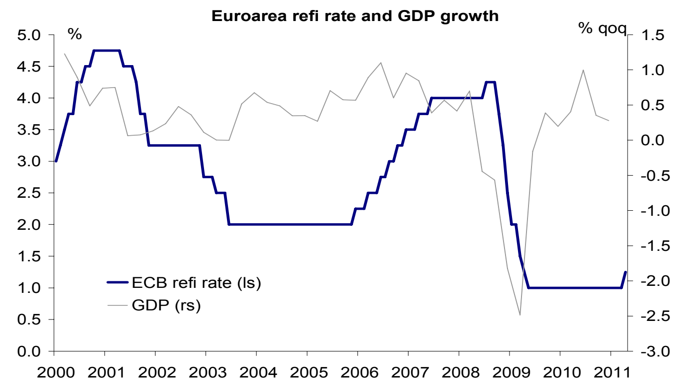
Charts of the Week

Chart 1. In the US, expansion of education loans led to the rise in consumer credit for a fifth straight month…



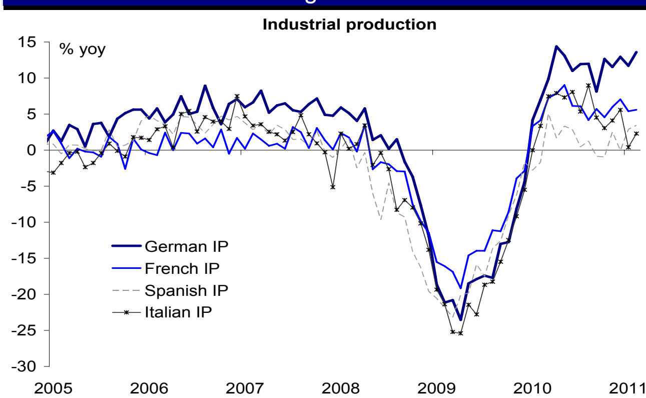
Source: Federal Reserve, DB Global Markets Research

Chart 2. …while in Euroarea the ECB raised interest rates for the first time in almost three years to combat inflation



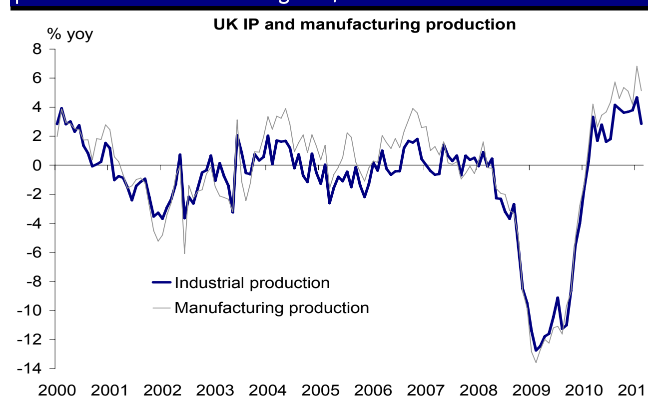
Source: ECB, Eurostat, DB Global Markets Research

Chart 3. The rise in German IP was complemented by French IP which rose on increased global demand…



Source: Eurostat, Bundesbank, INSEE, ISTAT, DB Global Markets Research

Chart 4. …while in UK both manufacturing and industrial production continued to grow, but at a lower rate

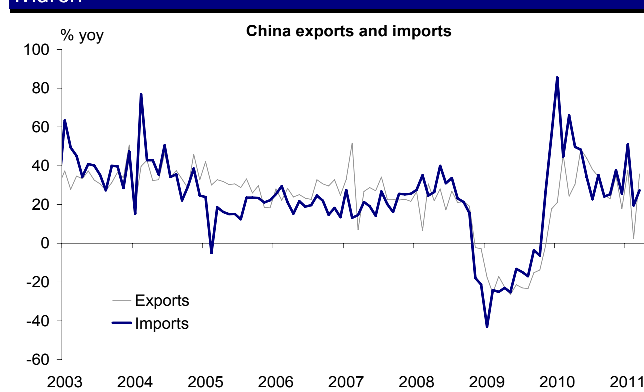


Source: ONS, DB Global Markets Research

Chart 5. In India, the unexpected deceleration in IP might not be sufficient for the RBI to hold rates…

Source: CSO, DB Global Markets Research

Chart 6. …while China recorded a surprise trade surplus for March



Source: China customs, DB Global Markets Research

Global Week Ahead: Friday, 15 April – Wednesday, 20 April

- **Dollar Bloc**: In the **US**, markets will be focused on March CPI and IP figures. On the survey side, we will have NY Fed and Michigan consumer sentiment survey reports. The release of housing starts & permits, existing home sales together with NAHB housing index will shed light on housing market. In **Australia**, the RBA will publish its minutes on Tuesday. In **Canada**, March's CPI report and leading indicator are the major highlights. In **New Zealand**, we will have Q1 CPI data due this week.
- **Europe**: In the **Eurozone**, attention will be on the flash estimates of manufacturing and services PMI for the region, Germany and France. Also markets will pay attention on area-wide and Italian HICP data. The release of area-wide construction output and Italian industrial orders will tell us about the activity level; while Euroarea, Italian and Spanish trade balance data will reveal information on the trade dynamics. Elsewhere, German PPI is due this week. In the **UK**, we will receive the BoE's minutes. In **Scandinavia**, focus will be on Riksbank rate setting meeting. In **CE3**, the Hungarian Central bank will announce its rate decision.
- **Asia incl. Japan**: In **Japan**, we will have consumer confidence and trade balance data as major releases. In **China**, we will have Q1 GDP report. Other important data due this week are – retail sales, IP & CPI. In **India**, March's WPI data will be in limelight this week.

Country	GMT	Release	DB Expected	Consensus	Previous
		Friday, 15 April			
CHINA	02:00	CPI (Mar)	(5.1%)	(5.2%)	(4.9%)
CHINA	02:00	Fixed asset investment (ytd) (Mar)	(24.0%)	(24.8%)	(24.9%)
CHINA	02:00	GDP constant price (Q1)	(9.5%)	(9.4%)	(9.8%)
CHINA	02:00	Industrial production (Mar)	(14.3%)	(14.0%)	(14.9%)
CHINA	02:00	PPI (Mar)	(7.0%)	(7.2%)	(7.2%)
CHINA	02:00	Retail sales (Mar)	(17.0%)	(16.5%)	(11.6%)
INDIA	06:30	WPI monthly (Mar)	(8.5%)	(8.4%)	(8.3%)
CZECH	07:00	PPI (Mar)		(6.0%)	(5.4%)
TURKEY	07:00	Unemployment rate (Jan)			11.4%
NORWAY	08:00	Trade balance (Mar)		NOK30.8bn	NOK30.8bn
ITALY	08:00	Trade balance (Feb)			-EUR6.6bn
EUROLAND	09:00	Trade balance (Feb)	-EUR3.4bn	-EUR3.6bn	-EUR3.3bn
EUROLAND	09:00	HICP (Mar)	1.2% (2.6%)	1.3% (2.6%)	0.4% (2.4%)
EUROLAND	09:00	Core HICP (Mar)	(1.2%)	(1.1%)	(1.0%)
ITALY	09:00	HICP (Mar)		2.0% (2.6%)	0.2% (2.1%)
BRAZIL	11:00	FGV inflation IGP-10 (Apr)		0.6%	0.8%
US	12:30	CPI (Mar)	0.4%	0.5% (2.6%)	0.5% (2.1%)
US	12:30	Core CPI (Mar)	0.2%	0.2% (1.2%)	0.2% (1.1%)
US	12:30	NY Fed empire state survey (Apr)	16.0	17.0	17.5
US	13:00	Net foreign sec purchase (Feb)		USD42.3bn	USD51.5bn
US	13:15	Industrial production (Mar)	0.4%	0.6%	-0.1% (5.5%)
US	13:15	Capacity utilization (Mar)	77.4%	77.4%	76.3%
US	13:55	Consumer sentiment prelim (Apr)	70.0	69.0	67.5
MEXICO	14:00	Overnight rate (Apr)	4.50%	4.50%	4.50%

Events and Meetings: UK: Bank of England's Tucker to hold speech in New York. **EUROLAND**: EU's Van Rompuy to hold speech in Brussels – 07:30 GMT. **EUROLAND**: ECB's Orphanides to hold speech in New York – 13:00 GMT. **EUROLAND**: ECB's Constancio to hold speech in New York– 14:00 GMT. **US**: Fed's Evans to hold speech in New York – 15:15 GMT. **MEXICO**: Central Bank of Mexico to announce overnight rate – 14:00 GMT. **US**: Fed's Hoeing to hold speech in Indiana – 17:30 GMT. **EUROLAND**: ECB's Weber to hold speech in Washington – 20:30 GMT.

		Sunday, 17 April			
NEW ZEALAND	22:45	CPI (Q1)			2.3% (4.0%)
		Monday, 18 April			
HUNGARY	12:00	MPC meeting (May)		6.00%	6.00%
US	14:00	NAHB housing market index (Apr)	18.0	17.0	17.0

Events and Meetings: HUNGARY: National Bank of Hungary to announce interest rate decision – 12:00 GMT. **US**: Fed's Fisher and Lockhart to hold speech in Atlanta – 14:30 GMT. **US**: Fed's Bullard to hold speech in Kentucky – 16:00 GMT. **US**: Fed's Fisher to hold speech in Atlanta – 16:30 GMT.

Country	GMT	Release	DB Expected	Consensus	Previous
		Tuesday, 19 April			
JAPAN	05:00	Consumer confidence (Mar)			40.7
EUROLAND	06:00	New car registration (Mar)			(0.9%)
FRANCE	07:00	PMI manufacturing, flash (Apr)			55.4
FRANCE	07:00	PMI services, flash (Apr)			60.4
GERMANY	07:30	PMI manufacturing, flash (Apr)		60.0	60.9
GERMANY	07:30	PMI services, flash (Apr)		59.8	60.1
EUROLAND	08:00	PMI manufacturing, flash (Apr)		57.1	57.5
EUROLAND	08:00	PMI services, flash (Apr)		57.0	57.2
EUROLAND	08:00	PMI composite, flash (Apr)			57.6
EUROLAND	08:00	Current account (Feb)			-EUR0.7bn
EUROLAND	09:00	Construction output (Feb)	0.5%		1.8% (-4.5%)
CANADA	11:00	CPI (Mar)			0.3% (2.2%)
CANADA	11:00	Core CPI (Mar)			0.2% (0.9%)
US	12:30	Building permits (Mar)	540.0k	540.0k	517.0k
US	12:30	Housing starts (Mar)	525.0k	520.0k	479.0k
CANADA	12:30	Leading indicators (Apr)			0.8%
CANADA	12:30	Wholesale sales (Feb)			1.5%

Events and meetings: **AUSTRALIA**: Reserve Bank of Australia to release minutes of its April monetory policy meeting – 1.30 GMT. **EUROLAND**: ECB's Constancio to hold speech in Brussels – 13:00 GMT.

Country	GMT	Release	DB Expected	Consensus	Previous
		Wednesday, 20 April			
SPAIN	-	Trade balance (Feb)			-EUR4.9bn
BRAZIL	-	SELIC target - central bank (Apr)		12.25%	11.75%
AUSTRALIA	01:30	Export prices (Q1)			-8.1% (19.4%)
AUSTRALIA	01:30	Import prices (Q1)			-3.8% (-1.0%)
GERMANY	06:00	PPI (Mar)		1.1% (6.7%)	0.7% (6.4%)
SWEDEN	07:30	Riksbank interest rate (Apr)		1.75%	1.50%
SOUTH AFRICA	08:00	CPI (Mar)		1.2% (4.0%)	0.7% (3.7%)
ITALY	08:00	Industrial orders (Feb)			-0.3% (17.5%)
ITALY	08:00	Industrial sales (Feb)			1.0% (8.0%)
SOUTH AFRICA	11:00	Retail sales (Feb)		(7.2%)	(6.4%)
BRAZIL	12:00	IBGE CPI IPCA - 15 (Apr)		0.6%	0.6%
POLAND	12:00	Net core inflation (Mar)		0.3% (1.8%)	0.1% (1.7%)
BELGIUM	13:00	Consumer confidence (Apr)			-2.0
MEXICO	13:00	Unemployment rate (Mar)		5.0%	5.4%
MEXICO	14:00	Mexico bi-weekly CPI (Apr)		-0.1%	0.1%
MEXICO	14:00	Bi-weekly core CPI (Apr)		0.1%	0.2%
US	14:00	Existing home sales (Mar)	5.0m	5.0m	4.9m
NEW ZEALAND	22:45	Tourist arrivals (Mar)			-4.0% (0.2%)

Events and meetings: BRAZIL: Central Bank of Brazil to announce SELIC target rate. **EUROLAND**: ECB to hold final day Governing Council meeting, no interest rate announcements scheduled. **SWEDEN**: Riksbank to announce interest rate decision – 7:30 GMT. **UK**: Bank of England to publish minutes of its April 6-7 monetary policy committee meeting – 8:30 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.

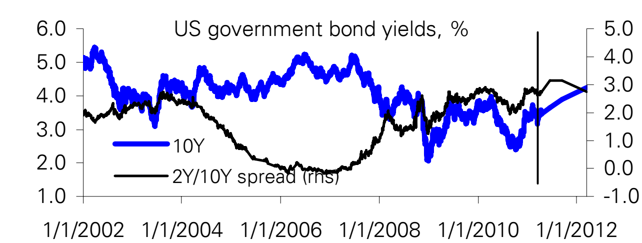
Note: Unless otherwise indicated, numbers without parenthesis are either % month-on-month or % quarter-on-quarter, depending on the frequency of release, while numbers in parenthesis are % year-on-year. * on the release time means indicative release time. * on indicator name means indicative/earliest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

Financial Forecasts

		US	Jpn	Euro	UK	Swe*	Swiss*	Can*	Aus*	NZ*
3M Interest	**Actual**	0.28	0.33	1.27	0.82	1.50	0.25	1.00	4.75	2.50
Rates[1]	**Jun11**	0.30	0.35	1.50	0.80	1.75	0.25	1.25	**4.75**	2.50
DB forecasts	***futures***	0.29	0.33	1.56	0.88	---	---	---	---	---
& Futures	**Sep11**	0.40	0.35	1.75	1.10	2.25	0.50	1.75	5.25	2.50
	futures	0.36	0.33	1.89	1.07	---	---	---	---	---
	Mar12	1.25	0.35	2.25	1.55	3.00	1.00	2.75	5.50	2.75
	futures	0.76	0.35	2.35	1.55	---	---	---	---	---
10Y Gov't[2]	**Actual**	3.46	1.30	3.42	3.70	3.32	1.90	3.09	5.54	5.38
Bond	**Jun11**	3.65	1.30	3.50	3.80	3.65	2.10	**3.50**	5.50	**5.50**
Yields/	***futures***	3.59	1.36	3.51	3.81	---	---	---	---	---
Spreads[3]	**Sep11**	3.90	1.30	3.75	3.90	3.95	2.45	**3.50**	5.00	5.00
DB forecasts	***futures***	3.71	1.41	3.58	3.90	---	---	---	---	---
& Forwards	**Mar12**	4.25	1.40	4.10	4.20	4.35	2.90	3.50	5.00	5.00
	futures	3.94	1.50	3.70	4.07	---	---	---	---	---
		EUR/ USD	**USD/ JPY**	**EUR/ GBP**	**GBP/ USD**	**EUR/ SEK**	**EUR/ CHF**	**CAD/ USD**	**AUD/ USD**	**NZD/ USD**
Exchange	**Actual**	1.45	83.5	0.89	1.64	9.02	1.30	0.96	1.05	0.79
Rates	**3M**	1.40	75.0	0.86	1.63	8.50	1.29	0.95	1.03	0.76
	6M	1.35	78.0	0.84	1.61	8.20	1.35	0.95	0.97	0.72
	12M	1.30	78.0	0.79	1.65	8.00	1.37	1.00	0.92	0.70

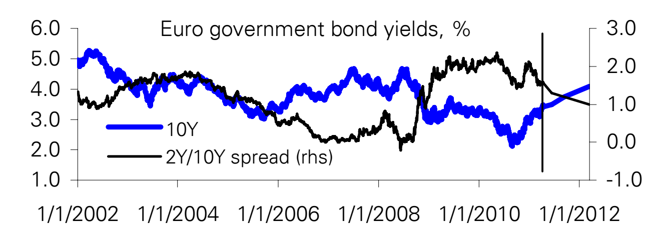
*(1) Future rates calculated from the June, September and March 3M contracts. Forecasts are for the same dates. * indicates policy interest rates.*
(2) Forecasts in this table are produced by the regional fixed income strategists. Forwards estimated from the asset swap curve for 2Y and 10Y yields.
(3)Bond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

US 10Y rates



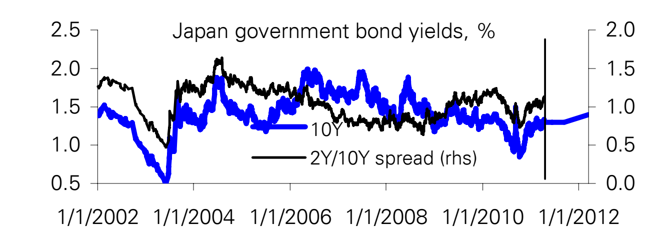
Source: DB Global Markets Research, Bloomberg Finance LP

Euroland 10Y rates



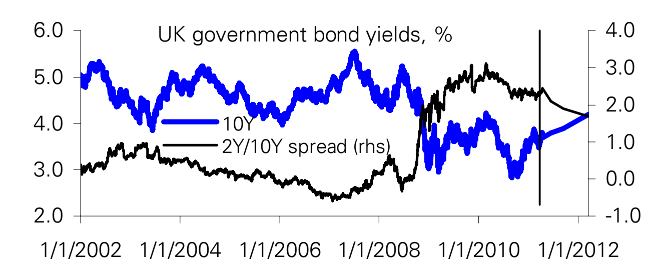
Source: DB Global Markets Research, Bloomberg Finance LP

Japan 10Y rates



Source DB Global Markets Research, Bloomberg Finance LP

UK 10Y rates



Source: DB Global Markets Research, Bloomberg Finance LP

Main Deutsche Bank Global Economics Publications

Global	**Dbdaily – European Edition** (daily) **Dbdaily – Asian Edition** (daily) **Dbdaily – Pacific Edition** (daily) **Global Economics Perspectives** (weekly) **The World Outlook** (quarterly) **Global Macro Issues** (occasional paper series) ▪ Credit impulse: Lessons from the Great Depression (13 March 2009) ▪ The impact of credit on growth (19 November 2008) ▪ Commodities: Falling off their peak (31 July 2008) ▪ How far could US Home Prices Fall? (Oct 5, 2007) ▪ Why Hasn't Homebuilding Employment Dropped? (July 10, 2007) ▪ Is Emerging Asia Holding Down US Inflation (Feb 26, 2007) ▪ Evolution in Bretton-Woods II: Controlled Reflation as the Path of Least Resistance (Dec 7, 2006) ▪ US Trend Employment Growth Has Fallen To 100,000 Per Month (Dec 6, 2006) ▪ Understanding MEW and How It Is Spent (Nov 17, 2006) ▪ Financial system modernisation and economic growth in Europe: Financial markets as risk managers for the economy (Oct 27, 2006) ▪ Housing and the US Consumer: What Foreign Experience Has to Say (Oct 16, 2006) ▪ The Transatlantic Productivity Divide: Reasons and Consequences (Oct 13, 2006)
US	**US Daily Economic Notes** (daily) **US Economics and Strategy Weekly** (weekly)
Europe	**Europe Inflation Report** (weekly) **Focus Europe** (weekly)
Japan	**Japan Economics Weekly** (weekly)
Emerging Markets	**Emerging Markets Daily** – **European Edition** (daily) **Emerging Markets Daily – Asian Edition** (daily) **Emerging Markets Daily – US Edition** (daily) **EM Event Radar** (weekly) **EM Monetary Policy Rate Calls** (monthly) **Emerging Markets Monthly** (monthly) **EM Balance of Payment Monitor** (quarterly) **Emerging Markets Special Publications** (occasional series)
Dollar Bloc	**Dollar Bloc Weekly** (weekly) **Australian Economics Monthly** (monthly)
Asia	**Asia Economics Daily** (daily) **Asia Economics Monthly** (monthly) **Real Exchange Rate Monitor** (monthly)

Appendix 1

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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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