Deutsche Bank

7 October 2011

Focus Europe

Policy momentum

Special Report

Table of Contents

Euro Policy Response Accelerating.................. Page 03
ECB: 12-mth tenders, covered bonds and a rate cut signal .... Page 07
Euro Sovereign Events: What to watch .... Page 09
Italy: Moody's downgrades Italy by three notches .... Page 11
Inflation .... Page 14
UK: Getting ahead of the curve .... Page 15
Hungary: October 2008 versus October 2011 Page 19
Rate Views .... Page 22

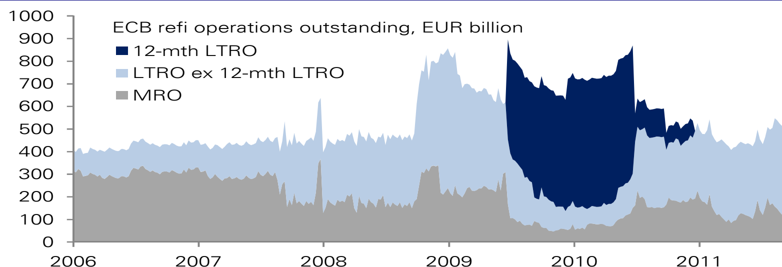
The IMF head, in her speech at Jackson Hole has probably laid out the blue print for an acceleration in the European crisis resolution process by focus energies on recapitalizing banks. Judging by the statements from diverse European sources, it seems a concrete process will start very soon. There are numerous points to sort out. The Europeans seem to hesitate between a fully integrated approach where the EFSF is the sole supplier of funding and a more decentralized option, where EFSF funding is reserved to the struggling countries. We think the latter is probably more practical financially. Using the EFSF as sole financier of bank recapitalization would leave very little to support the Italian and Spanish bond markets. We think that even in the decentralized option, some leveraging is necessary.

It might not have cut rates in October, but the ECB impressed with its non-standard policies. 12-month liquidity has been re-introduced and a new covered bond purchasing program unveiled. The growing risk of credit crunch lies behind the non-standard actions. With crunch risks feeling increasingly material, we expect the ECB to cut the refi rate too within the coming months. After the recent high inflation print, we now believe it more likely the ECB cuts in two steps, that is, by 25bp before and after Christmas.

There was always a significant risk that the Bank of England would sanction an additional round of QE this week given market pressures. As a result of its action (GBP75bn of QE over the coming four months) we have changed our outlook for policy. We see the Bank delivering a further GBP50bn of QE at the February 2012 meeting.

In October 2008 the National Bank of Hungary announced an emergency 300bps rate hike when the forint was trading around 280/EUR and Hungary's CDS around 500 (5-year). The currency is now trading weaker at around 300/EUR and CDS is slightly wider. Cross-currency basis swaps have also widened out similar to October 2008. Despite these similarities we explain why the NBH is not yet in hiking territory.

ECB re-introduces 12-month LTRO tenders



Source: Deutsche Bank, ECB

Research Team

Euroland
Gilles Moec
(+44) 20 754-52088
Marco Stringa
(+44) 20 754-74900
Mark Wall
(+44) 20 754-52087

UK/Scandinavia
George Buckley
(+44) 20 754-51372

Central Europe
Caroline Grady
(+44) 20 754-59913

Inflation Strategy/Economics
Markus Heider
(+44) 20 754-52167

Deutsche Bank AG/London

All prices are those current at the end of the previous trading session unless otherwise indicated. Prices are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Deutsche Bank and subject companies. Deutsche Bank does and seeks to do business with companies covered in its research reports. Thus, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. DISCLOSURES AND ANALYST CERTIFICATIONS ARE LOCATED IN APPENDIX 1. MICA(P) 146/04/2011.

Economic Forecasts

	Real GDP % growth[b]			Consumer Prices % growth[c]			Current Account % of GDP[d]			Fiscal Balance % of GDP		
	2010	2011F	2012F	2010	2011F	2012F	2010	2011F	2012F	2010	2011F	2012F
Euroland (top-down)	1.7	1.5	0.4	1.6	2.7	1.8	-0.5	-0.7	-0.3	-6.0	-4.7	-3.7
Germany[b]	3.6	2.8	0.7	1.1	2.3	1.5	5.6	5.4	5.1	-3.3	-2.0	-1.7
France	1.4	1.4	0.3	1.7	2.2	1.6	-1.8	-2.8	-2.6	-7.0	-5.9	-5.0
Italy	1.2	0.5	-0.2	1.6	2.7	1.9	-3.5	-3.8	-3.0	-4.6	-4.0	-2.2
Spain	-0.1	0.7	0.0	2.0	3.0	1.3	-4.6	-3.9	-3.3	-9.2	-6.6	-5.0
Netherlands	1.6	1.7	0.4	0.9	2.5	2.1	6.7	7.0	8.0	-5.4	-3.8	-3.1
Belgium	2.1	2.1	0.5	2.3	3.4	2.0	2.4	2.0	2.0	-4.1	-3.6	-3.7
Austria	2.3	2.8	0.5	1.7	3.5	2.3	2.6	2.5	2.5	-4.6	-3.2	-2.7
Finland	3.6	2.9	1.1	1.7	3.4	2.2	3.0	2.0	2.0	-2.5	-1.6	-1.1
Greece	-4.4	-5.3	-2.2	4.7	3.2	1.1	-11.8	-9.0	-7.0	-11.1	-9.6	-9.1
Portugal	1.3	-1.5	-2.6	1.4	3.3	1.6	-9.8	-8.0	-6.5	-9.1	-5.9	-5.6
Ireland	-0.4	1.6	0.8	-1.6	1.1	1.0	-0.7	0.0	0.5	-32.4	-9.8	-8.3
UK	1.4	1.1	1.3	3.3	4.5	3.2	-3.2	-3.5	-2.4	-9.3	-8.2	-6.9
Sweden	5.4	4.1	1.3	1.3	2.7	2.0	6.3	6.5	6.0	-0.1	1.9	3.0
Denmark	1.7	1.4	1.2	2.3	2.6	1.9	5.2	5.8	5.6	-5.3	-1.6	-0.8
Norway	0.3	2.2	1.3	2.4	1.6	1.8	12.5	12.8	13.8	10.6	9.1	10.8
Switzerland	2.7	2.0	1.0	0.7	0.7	0.7	15.6	13.8	13.5	0.8	1.0	1.3
Poland	3.8	3.6	2.6	2.6	4.0	2.3	-4.5	-4.8	-3.9	-7.9	-5.8	-4.7
Hungary	1.2	1.4	1.6	4.9	3.7	2.9	2.0	1.6	1.3	-4.3	1.5	-2.8
Czech Republic	2.2	2.0	1.6	1.5	1.9	3.6	-3.9	-3.0	-3.4	-4.7	-4.3	-4.0
US	3.0	1.7	**2.0**	1.6	**3.3**	**3.2**	-3.2	-3.1	-2.7	-8.8	**-8.5**	**-6.2**
Japan	4.0	-0.7	1.3	-0.7	-0.2	-0.1	3.6	2.5	2.9	-8.7	-8.8	-9.3
World	5.1	3.7	**3.5**	3.2	4.4	**3.4**						

(a) Euro Area and the Big 4 forecasts are frozen as of 03/10/11. All smaller euro area country forecasts are as of 03/10/11. 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. (e) The revised inflation forecasts assume brent oil of $75/pb at the end of 2009 and $63.9/pb on average in 2010.

Source: National statistics, national central banks, Deutsche Bank forecasts.

Forecasts: Euroland GDP growth by components[1] and central bank rates

Euroland, % qoq	**11-Q1**	**11-Q2**	**11-Q3F**	**11-Q4F**	**12-Q1F**	**12-Q2F**	**12-Q3F**	**12-Q4F**	**2010**	**2011F**	**2012F**
GDP	0.8	0.2	0.0	-0.1	-0.1	0.2	0.4	0.4	***1.7***	***1.5***	***0.4***
Private Consumption	0.2	-0.2	0.2	-0.1	-0.1	0.1	0.2	0.2	***0.8***	***0.5***	***0.1***
Gov. Consumption	0.4	-0.2	0.1	-0.1	0.1	0.1	0.1	0.1	***0.5***	***0.4***	***0.2***
Investment	1.8	0.2	-1.0	-1.2	0.0	0.5	1.0	1.0	***-0.8***	***1.5***	***-0.2***
Stocks (contribution)	0.0	0.0	-0.1	0.1	-0.3	0.0	0.0	0.0	***0.6***	***0.1***	***-0.3***
Exports	2.0	0.7	0.2	-0.5	0.5	1.0	1.5	1.5	***10.8***	***5.7***	***2.4***
Imports	1.5	0.2	-0.2	-0.9	0.1	1.0	1.4	1.4	***9.1***	***4.2***	***1.2***
Net Trade (contrib..)	0.2	0.3	0.2	0.2	0.2	0.0	0.1	0.1	***0.8***	***0.8***	***0.6***
HICP inflation, % yoy	2.5	2.7	2.6	2.8	2.2	1.8	1.7	1.6	***1.6***	***2.7***	***1.8***
Core inflation, % yoy	1.3	1.7	1.3	1.6	1.7	1.6	1.6	1.5	***1.0***	***1.4***	***1.6***
EMU4 GDP, % qoq											
Germany	1.3	0.1	0.3	0.1	0.1	0.2	0.4	0.4	***3.6***	***2.8***	***0.7***
France	0.9	0.0	0.1	-0.2	-0.1	0.2	0.3	0.3	***1.4***	***1.4***	***0.3***
Italy	0.1	0.3	-0.2	-0.4	-0.1	0.0	0.3	0.4	***1.2***	***0.5***	***-0.2***
Spain	0.4	0.2	0.2	-0.3	-0.3	0.2	0.3	0.4	***-0.1***	***0.7***	***0.0***
Central Bank Rates (eop)											
ECB refi rate	1.00	1.25	1.50	1.00	1.00	1.00	1.00	1.00			
US fed funds target rate	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25			
BoE bank rate	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75			
BoJ O/N call rate	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10			

Source: National statistics, national central banks, Deutsche Bank forecasts. (1) Forecasts in lower table as of 03/10/11

Euro Policy Response Accelerating

- **The IMF head, in her speech at Jackson Hole in August, has likely laid out the blue print for an acceleration in the European crisis resolution process by refocusing energies on recapitalizing the banks. Judging by the public statements from diverse European authorities, it seems that a concrete process may start soon.**
- **There are still numerous points to sort out. The Europeans seem to hesitate between a fully integrated approach – where the EFSF is the sole supplier of funding – and a more decentralized option, where EFSF funding is reserved to the struggling countries. In our view, the latter is probably more practical from a financial point of view.**
- **Using the EFSF as sole financier of a large enough bank recapitalization may leave little fire power to continue to support the Italian and Spanish bond markets. In any case, we think that even in the decentralized option, some form of enhancement of the EFSF's fire power is necessary. We do not think a bank recapitalization can alone solve the sovereign crisis. Sovereigns will likely need to be helped along as they deliver on structural adjustment. Given the flat refusal of the ECB to be involved and the reluctance of the German government to let the EFSF borrow money, offering a partial guarantee to buyers of Italian and Spanish bonds might be the way forward, in our opinion.**
- **Reaching a consensus on all this will likely require some of those lengthy European negotiations but the roadmap is probably the clearest since the beginning of the crisis. The European Council on 17-18 October could be crucial.**
- **Anyway, we think this would only be a staging post, albeit significant. Ultimately, a structural resolution of the crisis will likely take (i) progress in the struggling countries (in particular structural reforms in Italy) and (ii) progress on the European governance, such as a real move towards the automaticity of the Stability and Growth Pact and its incorporation in national laws via constitutional reforms. We believe this will take time.**

The Jackson Hole blueprint

Given the intricacies of the European decision making process, with seventeen EMU member states and two – not necessarily aligned – federal institutions, the ECB and the European Commission, it may take an "exogenous shock" to get things going. We think the IMF played this role in the last few weeks. Indeed, Christine Lagarde's first major speech at Jackson Hole on 28 August, with its focus on bank recapitalisation, despite the criticism it drew, may have written the blueprint for an acceleration in the resolution process of European sovereign crisis.

Lagarde's statement was quite straightforward: *"[European] banks need urgent recapitalization. They must be strong enough to withstand the risks of sovereigns and weak growth. This is key to cutting the chains of contagion. If it is not addressed, we could easily see the further spread of economic weakness to core countries, or even a debilitating liquidity crisis. The most efficient solution would be mandatory substantial recapitalization—seeking private resources first, but using public funds if necessary. One option would be to mobilize EFSF or other European-wide funding to recapitalize banks directly, which would avoid placing even greater burdens on vulnerable sovereigns".*

In our view, focusing on banks is a complete change of logic in the approach to the European crisis. So far, the focus has been on maintaining every country's liquidity via loans or, as in the case of Spain and Italy since August, the ECB's bond buying. However, in a context in which investors doubt the sovereigns' solvency and therefore price in a significant probability of default, banks, given their specific exposure to this risk, come under increasing pressure. We note making sure the banks can continue to access funding, as has been the ECB's constant policy since 2007, helps but should not be a solution. While lengthening the duration of the liquidity supply operations – as the ECB did this week again – brings visibility to banks, they remain at risk since a fall in the value of the collateral triggers margin calls by the central bank.

It will take time for the sovereigns to prove their case to investors. Indeed, the governments could deliver on the deficit cutting targets in the short run, however in many cases, the concerns about debt sustainability arose more from a grim assessment of the *outlook for potential growth* than from fiscal management per se. In the meantime, the Euro area risk is that it falls into a self-reinforcing recessionary spiral where banks react to market pressure by slimming down their balance sheet and hence turn off credit origination, which in turn triggers more cyclical deterioration in the fiscal deficits. In the IMF's thinking, which seems now to be relayed by a growing number of European decision makers protecting

the banks from the consequences of potential sovereign defaults, has seemingly become urgent from a macroeconomic point of view. As we pointed out in the Focus Europe last week, the net flows of new loans to businesses and households have already abruptly slowed down this summer from a post-recovery peak in the spring across the Euro area, with the exception of Germany. We believe this is likely to continue, judging by the steep net tightening of credit standards for businesses reported this week in the latest bank lending survey. Safeguarding financial stability *and* growth are now two aligned targets.

Angela Merkel remained relatively prudent on Wednesday 5 October, when she stated that *"time is running out"* to establish whether recapitalisation is necessary in Europe. However, the sequence briefly described in her speech is similar to that of Lagarde: first, troubled banks would need to seek capital on their own and national governments will help if that is not possible and *"if a country cannot do it then there is the possibility of using the EFSF"*. Concretely, for Germany, finance minister Schaueble publicly mentioned this week the possibility to re-open the Soffin framework, created in November 2008. We note the German government is taking a leadership role on these issues in Europe, which contrasts with the hesitant path followed so far. We believe the latter is likely contributing to the market improvement of the last few days.

The European Commission President confirmed on Thursday 6 October that some concrete steps are being explored, stating that "*we are now proposing member states to have a coordinated action to recapitalize banks and so to get rid of toxic assets they may have*".

In our view, recapitalisation can be part of the solution but cannot be a panacea. Indeed, it may be interpreted as a sign of readiness for the European decision makers to let countries restructure. We believe it is therefore essential that the resources devoted to the recapitalisation do not crowd out those made available to protect the sovereigns, also taking into account the possibility of an extension of the crisis beyond the current. **In our view, a Euro-wide recapitalisation has to be accompanied by some form of enhancement of the EFSF's fire power.**

A road map to bank recapitalisation

On 6 October, the European Banking Authority noted it is *"reviewing banks' capital position"*. The latest stress test exercise failed to reassure the markets in July because the threshold for the capital ratio (5%) was too low and the assumptions on the default risk and shock in sovereign bond values were too lenient (only 8 banks failed, with a total shortfall of EUR 2.5bn). However, on this occasion, the EBA collected a wealth of information – in particular the exposure to sovereign risk – which can be re-used now to provide first broad estimates.

From this basis (adverse scenario), but moving the target for the core tier 1 ratio to 7%, we would assess the capital shortfall at EUR 83.6bn for the Eurozone banks. We note changing the assumptions for the sovereign default risks/fall in sovereign bond value from the stress tests' scenario is an uncertain process. Using the assumptions retained by Moody's when recently downgrading prominent French banks (60% for Greece, 50% for Ireland and Portugal, 10% for Spain and 7% for Italy), the capital shortfall would then rise to .EUR 175bn for Eurozone banks. To illustrate, raising the shock on Italian and Spanish sovereign bonds portfolio to 20% would result in a total capital shortfall of EUR 245bn.

However, this does not take into account that since December 2010, the starting point for the EBA stress tests, European banks have reduced their exposure to the peripherals and raised capital. Broadly speaking, the capital shortfall for European banks in a more credible exercise would probably stand in a EUR150/200bn range. Interestingly, this would not be very different from the IMF's assessment (EUR200bn), although based on a completely different, "top down" methodology, which we think by now has likely become the market's central expectation.

EUR 150/200bn looks modest given the size of the Eurozone's economy (1.5%/2.0%) of GDP, and this should not dramatically alter public debt trajectory (especially since a fraction of the capital shortfall would be covered by private investors). However, **there may be some disagreement on the burden sharing, and more precisely the extent to which the effort would have to be mutualized via the EFSF.**

We think Angela Merkel's point of view is clear: EFSF funding should be reserved to countries which are deprived of normal market access. In our view, this could cover the countries currently under program – Greece, Ireland and Portugal – as well as the sovereigns currently benefitting from the ECB's support via bond buying (Italy and Spain). In this case, the recapitalization exercise would be based on a common methodology (presumably elaborated with the EBA) and possibly under a single timetable (to give the operation the "shock and awe" characteristic which magnified the impact of TARP in the US. However – and this was seemingly Lagarde's approach – there may be some preference for a completely integrated procedure with the EFSF as the sole supplier of funds, with no direct capital injection from the countries which still enjoy full market access.

In our view, the integrated approach, while it may be more conceptually elegant, is hardly practical. The EFSF today (assuming the intent would still be to retain its

AAA rating) has a finite fire power of EUR 440bn, which can be pushed to EUR 500bn when taking into account the EFSM (EUR 60bn). Out of these EUR 500bn, EUR 97bn have been committed to Ireland and Portugal. The remaining EUR 403bn would have to be allocated between:

(i) An extension of the support to Ireland and Portugal. The former has already, via its finance minister, mentioned additional funding from the EFSF to reduce the cost burden of its current bank recapitalization, while the latter should in our view be maintained under support beyond 2H 2013, when it is supposed to return to the market.

(ii) The second package to Greece. where the EU's participation is so far targeted at EUR72.7bn out of EUR 109bn (if the current IMF participation is prolonged). To avoid some double counting, we note this second package would contain EUR 20bn in additional funding to the Greek banks restructuring fund (the same applies to the Portuguese banks for which EUR 12bn are already earmarked in the current program). Ireland has also some unused recapitalisation fund under its program.

(iii) Bank recapitalization.

(iv) Intervention on the primary and secondary bond market, presumably in favour of Italy and Spain.

True, the EFSF's fire power could be leveraged up (more on this in the next section) but in any case this would likely be restricted to market intervention, perhaps if a system of limited guarantee was put in place. One euro spent on bank recapitalization is one euro less that can be leveraged. From a purely financial point of view, we believe it makes sense to restrict the EFSF funding for bank recapitalization in the struggling countries only. Besides, there may be something strangely circular in AAA countries tapping the EFSF while guaranteeing it at the same time, even if this may be technically feasible[1].

On the 6th of October, the French economic newspaper Les Echos reported that the French government favoured the integrated approach – i.e. blanket funding via the EFSF – and was reluctant to fund the French recapitalization on its own strength. Les Echos attributed this reluctance to concerns in Paris about the impact of a recapitalization effort on its AAA rating. We think that this may be misguided.

First, in our estimate a more stringent stress test could imply a recapitalization of between EUR 15 bn and EUR 30bn (depending on the assumptions], i.e. 1 or 1.5% of French GDP. Not insignificant for a "fragile" AAA, but also not necessarily mechanically consistent with a downgrade. Second, we think that France is faced with the following alternative: either recapitalizing its banks now in a sustainable way, which implies in our view leaving the EFSF enough fire power to deal efficiently with the periphery, and retain a chance of keeping its AAA, or "crowd out" the EFSF by tapping its resources at the risk of losing its AAA later if the European crisis deepens.

More money needed anyway

As a mid-range estimate, and assuming France finally opts for a recapitalization "on its own strength", we think that dedicating EUR 135bn of EFSF to boost the capital buffers in banks in the periphery is a reasonable figure. With a residual EUR 52.7bn earmarked for a second Greek package (i.e. excluding the EUR 20bn earmarked to recapitalise banks to avoid double counting) and additional spending on Ireland and Portugal of circa EUR 35bn**, the remaining fire power of the EU, available for market intervention, would stand at around EUR 180bn**. In a rosy scenario the bank recapitalization would likely suffice to "jolt" the market so that Spain and Italy would no longer need support. This might be the case for the former, since sorting out the banking industry there would remove a significant layer of anxiety. We believe it is unlikely to occur in Italy, since market concerns focus less on banks but more on the political conditions and the growth performance.

Taking into account our projection for the primary balance, covering Italy's and Spain's total financing needs until the end of 2014, covering coupons, bond redemptions and primary balance, would stand at EUR 695bn. (we exclude T-bills which we assume can continue to be easily rolled by the domestic banks). This means that a leveraging of a factor of nearly 4 would be necessary under the (strong) assumption that these two countries would be totally deprived of any market access for the next three years.

Note that a factor 5 or higher should be considered in order to provide some insurance against the possibility of an extension of the crisis to other countries, such as Belgium for instance.

The constraints around the leveraging conditions appear plentiful. First, it is increasingly clear to us that the ECB is unwilling to participate in a leveraging exercise. Jean-Claude Trichet's recent words regarding this were unambiguous (see companion paper on the ECB's meeting in this issue of Focus Europe). Second, the German government, via Schaueble, noted it was opposed to any solution whereby the EFSF would "borrow money". We believe this may leave the avenue open for the EFSF providing a partial guarantee on buyers of Italian and Spanish securities. Instead of substituting itself to the private sector – which could deplete its fire

[1] The EFSF terms (page 26 of the consolidated version published on the EFSF website) state that a country tapping the EFSF can request from the other members the right to withdraw from the guarantees, which seems to imply that in the default case a country receiving EFSF support could stay as a guarantor.

power rapidly – the EFSF would "nudge" the private investors to resume their support to these countries.

The alternative, if no solution is found to enhance the EFSF, is that the ECB continues to support Italy and Spain via its SMP, with all the fragility – given the central bank's reluctance to pre-commit – that it would entail.

Conclusion: closer to resolution

We believe the roadmap is becoming clear. A common approach has to be found on a Euro wide bank recapitalization (methodology, burden sharing), while the policy makers ought to agree on a leveraging system for the EFSF. This may be a relatively quick process. This weekend a Merkel/Sarkozy summit might be the occasion to iron out the differences across the two countries' approach. A European Council meeting (head of state level) will take place on 17-18 October and could be the occasion of another discussion, so that the recapitalization process (with agreeing on a common methodology and gathering the updated data as a first step) could start in the second half of October for an implementation in November/December.

Note however that another issue may complicate the discussions. Indeed, it is now clear that the German government is inclined to change the parameters of the Greek PSI to impose a higher cost on the private sector. The French authorities seem to be more circumspect. The first approach seeks "closure", i.e. a configuration where Greece could be returned on a more sustainable path and therefore cease to be a source of discussion and anxiety, without major second round effects as the periphery may be better protected by the bank recapitalization and a leveraged EFSF. The second approach seems to favour "prudence", first ensuring that the peripherals safeguard system is tested and digested by the market prior to more radical actions.

Reaching a consensus on all these points will still require some of those lengthy – and noisy – European negotiations, but in our view the roadmap now seems the clearest since the beginning of the crisis.

Anyway, we think this would only be a staging post, albeit significant. Ultimately, a structural resolution of the crisis will likely take (i) progress in the struggling countries (in particular structural reforms in Italy) and (ii) progress on the European governance, such as a real move towards the automaticity of the Stability and Growth Pact and its incorporation in national laws via constitutional reforms. We believe this will take time.

Gilles Moec (44) 20 7545 2088
Marco Stringa (44) 20 7547 7000
Mark Wall (44) 20 7545 2087

ECB: 12-mth tenders, covered bonds and a rate cut signal

- **The ECB offered new non-standard monetary policy measures at the October Council meeting. Two "12-month" LTRO tenders and a new EUR40bn covered bond purchasing programme were announced. Outgoing ECB President Trichet stressed the "amplitude" of these "very important" measures. The ECB's Q3 Bank Lending Survey was released early and, as we feared, shows that stresses in bank-funding markets are translating into tighter lending standards and are compounding the risks to growth.**
- **Interest rates were left unchanged but the door was at least opened to an easing in the coming months. The ECB expectation for economic growth is softening, rates were no longer described as "accommodative" and the absence of "close monitoring" or "very close monitoring" might well be a device to signal how close the Council is to cutting rates. Cuts were discussed and only a "consensus" of Council members approved leaving rates unchanged.**
- **A rate cut remains a data-dependent call, but we suspect the real economy data will give the ECB reason to cut in November. However, the recent deterioration in inflation will probably make the ECB reluctant to cut by 50bp in one step. We now believe it more likely the ECB cuts in two steps, that is, by 25bp before and after Christmas. This would reduce the refi rate to 1% in Q1, a level where we expect it to remain through 2012.**

It was a subdued tone from Trichet's final ECB press conference. The ECB is responding to the increasing signs of stress and distress from the banking sector by announcing an enhancement of its non-standard monetary policies. The new policies are taking two forms.

First, the ECB will offer two virtual year-long LTRO tenders, one of approximately 12 months' duration in October and one of 13 months' duration in December. The latter will importantly allow the financing of financial institutions into early 2013, i.e., carrying them over the usual year-end challenges. These will be full allotment tenders with the price indexed to the average refi rate over the life of the tender, i.e., if the ECB cuts rates, banks will benefit from the cheaper refinancing rate, although it also means that banks are exposed to rate hikes were they to occur later on. The ECB also announced it was keeping the MRO on full allotment until at least mid-2012.

Second, the ECB will establish a new covered bond purchasing programme, to be called CBPP2. Recall, an earlier covered bond purchasing programme (CBPP1) ran from June 2009 to July 2010 and purchased EUR60bn of covered bonds. CBPP2 will similarly run for a year, but with a smaller EUR40bn volume. The exact modalities of the CBPP2 have not been announced yet. All that has been said so far is the amount, the period and the fact that it will cover primary and secondary purchases.

Interestingly, the ECB has chosen to establish a new independent covered bond purchasing scheme rather than purchase covered bonds through the Securities Markets Programme (SMP). The latter has the authority to purchase private debt securities including covered bonds. The SMP could also direct the purchasing towards the goal of "correcting impairments of the monetary transmission mechanism".

Although it was never said, we believe the CBPP1 was a weighted purchasing programme, perhaps weighted by the ECB's capital key. That is, the vast majority of the purchasing benefited the big member states, including Germany. The ECB will announce the precise modalities of CBPP2 on 3 November. If it is another weighted programme, at least there will be considerable support for France and Italy, but not proportionately more support for peripherals. However, it might not be a weighted, evenly spread programme. When announced, CBPP1 was said to be "distributed" across the euro area. No such term was mentioned for CBPP2.

The surprisingly early release of the ECB's Q3 Bank Lending Survey (it would not normally be released until a week before the November Council meeting) gives ample justification to the relatively aggressive new non-standard policy measures. Across lending to corporates and households, bank lending standards have clearly tightened in Q3. The key reason is constraints on bank liquidity and strains in funding markets. Worrying also are the signs of deterioration in demand for credit, again across both corporates and households. The sovereign debt crisis, banking crisis and economic crisis are synonymous.

Against this background, we are a little disappointed that the ECB did not also announce a cut in the refi rate. For sure, the latest HICP inflation data threw up something of a roadblock, but the economic cycle has clearly deteriorated and the risks to the downside we would think are growing. We forecast technical recession in the euro area over the next six months and if the sovereign crisis is

not managed in an orderly fashion the risks would be skewed to the downside.

The door is open to an ECB rate cut. The Council's description of growth is evolving in a negative fashion. Last month the Council talked of "moderate" growth in the second half of 2011. This month, the Council sees "very moderate" growth and that financial market tensions and tighter financing conditions are likely to "dampen" growth in the second half of the year. That rates are no longer described as "accommodative" could very well be the precursor to a cut. That the usual reference to "close"/"very close monitoring", normally a rhetorical device used to signal rate hikes, has been completely dropped from the statement might also be significant in signaling how close we are to a rate cut.

Trichet said there had been a thorough analysis of the pros and cons of cutting rates and that there was only a "consensus" in support of leaving rates on hold. Given this, one could hardly be surprised if the ECB cuts rates in November, even if it is Mario Draghi's maiden Council meeting. The evolution of the Council's opinion has been quite clearly signaled by Trichet -- the Council is moving to be in favour of a rate cut. Therefore, the idea that Draghi presides over a cut at his first Council meeting should not be taken as a sign of a new, soft Draghi-led ECB. If anything, it would signal continuity of management.

An interest rate cut remains a data-dependent call, but we suspect the real economy data will give the ECB reason to cut in November. However, the recent deterioration in inflation will probably make the ECB reluctant to cut by 50bp in one step. We now believe it more likely the ECB cuts by 25bp before and after Christmas, getting the refi rate down to 1% in Q1 2012. We expect the refi rate to remain there through 2012.

Finally, on the question of the ECB providing leverage to the EFSF, Trichet said he did not consider it to be “appropriate”. Not a definitive stance, but clearly the outgoing President is not in favour.

Mark Wall (44) 20 7545 2087
Gilles Moec (44) 20 7545 2088

Euro Sovereign Events: What to watch

- **The following is a list of key events to watch over the next several weeks which could have bearing over how the euro sovereign debt crisis evolves.**
- **7-8 October: CSU Annual Party Congress**. The German CSU Party, the Bavarian sister party of Merkel's CDU Party, will hold its annual party congress.
- **8 October: Sarkozy meets Lagarde**. French President Sarkozy meets with IMF Director General Legarde in Paris.
- **9 October: Merkels meets Sarkozy**. German Chancellor Merkel meets with French President Sarkozy to discuss the October 17-18 European Council meeting. Meeting starts at 16.00 London time.
- **9 October: First round vote for Socialist Party candidate for French 2012 Presidential Election.**
- **10 October: Malta votes on EFSF**. Malta this week delayed its vote on the EFSF amendments after a former prime minister raised legal objections. Due to the overall political consensus among both government (1 seat majority) and opposition, we continue to below ratification by Malta as unproblematic.
- **10 October: Asmusen confirmation hearing**. Joerg Asmusen will have his confirmation hearing at the European Parliament for his appointment to the Executive Board as the successor to Juergen Stark. This should be a useful occasion to hear his views on the use of the ECB balance sheet, including the growth of the SMP and whether to leveraging the EFSF.
- **11 October: Slovakia to vote on EFSF**. The Slovak governing coalition made some progress towards the ratification of EFSF 2.0. According to local press, SaS caucus chair Jozef Kollar said his party would approve the resolution, given that an addendum would enable the establishment of a new committee, comprising representatives of all six parliamentary parties. The committee would vote on each EFSF bail-out with every party holding a veto right. In case the approval of a specific loan is rejected by the committee, Slovakia could not provide binding guarantees. The addendum to the law would also require all governing coalition partners to vote against the ESM. Although no final agreement has been reached yet, coalition partners welcomed SaS' openness towards a resolution and did not reject the proposal so far. SaS leader and parliament speaker Richard Sulik (who previously wanted the vote delayed until late October) said, according to local press, he had no reason to delay the vote until after 11 October. The governing parties will hold more talks on Monday, a rejection, however, is becoming increasingly unlikely. Another reason is that opposition party Smer said it would approve the reform in a second vote if a first vote fails, demanding early elections or a reconfiguration of the government, however, as a concession. We stick to our view that a fairly fragile agreement can be reached at best in Slovakia. If SaS' current proposal would be enacted, further wrangling to secure majorities is just down the road.
- **11 October: Trichet testifies on ESRB**. Outgoing ECB President Trichet will be speaking on the European Systemic Risk Board, which he also currently chairs, to the European Parliament.
- **11 October:** Italy auction. Bills.
- **11 October:** Greece auction. Bills.
- **13 October: Italy auction**. Bonds and Floating Rate Notes.
- **13 October (tentative): Italian main government party to present proposal to boost growth.** According to the Italian press, a sub-committee of the main ruling party will present a package of reforms aimed at boosting GDP growth to the Prime and Finance Ministers by 13 October. Based on reports by the Italian press, the proposal could include infrastructure investments by promoting the participation of private investors, liberalisations and pension measures. The above would represent positive but in our view insufficient step forwards to materially boost growth and regain investors' confidence. Our concern is that the government has not fully embraced the urgent need for far reaching reforms and that it will continue to under-deliver also because of the division within the majority. A worsening of the real economy (and/or of financial market stress) could lead to "unblock" the political outlook in Italy.
- **13-16 October: G20 Finance Ministers and Governors Meeting**. International policymakers have asked for the EU to endorse the EFSF amendments by this G20 meeting.
- **Mid-October: EU-IMF fourth review of Irish loan programme**. Good progress was noted by Ireland at

the third review in July. No hurdles are foreseen with the fourth review.

- **16 October: Second round vote for Socialist Party candidate for French 2012 Presidential Election.**
- **17-18 October: European Council meeting**. This is a meeting of the EU heads of state and government, the highest decision-making authority in the EU. This could be the occasion of another "grand bargain" so that the bank recapitalization process (with agreement on a common methodology and gathering the updated data as a first step) could start in the second half of October for an implementation in November/December. 'Maximising' the EFSF is likely to be the other major discussion point. The Council should also rubberstamp ECOFIN's decision to replace Juergen Stark with Joerg Asmusen.
- **18 October: Spain auction**. Bills.
- **18 October: Greece auction.** Bills.
- **19 October: Strikes in Greece**. The ADEDY and GSEE trade unions are due to hold a day of strike action against the government's austerity plans.
- **20 October: Spain auction.** Bonds.
- **22 October: Greek coupon due**. EUR1.1bn coupon is due for payment. The EU would not have delayed the disbursement of the EUR8bn sixth loan trache if it felt there was a real risk of a technical default.
- **24 October (tbc): Troika report on Greece**. According to a comment this week by Eurogroup President Jean-Claude Juncker, the Troika (European Commission, ECB and IMF) staff report on Greece's compliance with the terms for the sixth loan tranche disbursement will be published on 24 October.
- **24 October: EU-China summit**. EU and Chinese leaders meet in Tianjin, China.
- **25 October: Spain auction**. Bills.
- **26, 27 and 28 October: Italy auction**. Bonds and Bills.
- **27 October: Irish Presidential election**. The Presidency is a mostly ceremonial position but there are certain limited powers with the job.
- **29 October: Moody's review of Spain due to conclude**. Moody's put Spain on review for downgrade on 29 July. The normal 3 month window will be closing. Moody's currently rates Spain at Aa2 (S&P AA, Fitch AA+). This is three notches above Moody's recently downwardly revised rating for Italy (A2).
- **31 October: Jean-Claude Trichet's term as ECB President expires**. From 1 November 2011, Mario Draghi assumes the role of ECB President.
- **End October/beginning November**. According to the Italian press, in a cabinet meeting on 29 September it was decided that the Senate will vote on the government's proposed fiscal constitutional fiscal rule within 40 days – for a brief discussion of the proposal see page 11 in Focus Europe on 16 September. Compared to the swift action of the Spanish parliament, it is somewhat disappointing that the vote in Italy will not start earlier. Note that the ratification process of a constitutional decree in Italy can be quite long. In the best case scenario the process will conclude in late January or more likely in February 2012. But if the parliament does not reach a consensus of 2/3, a referendum will have to be called.

November

- **November: Second Greek loan programme**. The intention had been to complete the second loan programme in October. However, the whole timeframe has slipped as Greece initially struggled to convince the Troika it was able to comply with the terms of the original loan programme and secure the sixth tranche payment. Several things have to be achieved for the new loan programme is begin: EFSF 2.0 needs to be unanimously approved, Greece must agree a new MoU, the 2012 Budget approved and a PSI/bond exchange needs to be completed successfully.
- **Early-to-mid November: Greece to vote on 2012 Budget**.
- **3 November: ECB Council Meeting**. This is Mario Draghi's first meeting as ECB President. Given the deterioration in the real economy and the growing threat of credit crunch-type dynamics, we think a 25bp rate cut it likely. The modalities of the new covered bond purchasing programme.
- **3-4 November: G20 Leaders Summit**. In Cannes, France.
- **7-8 November: Eurogroup/ECOFIN Finance Ministers meetings**. This is expected to be the meeting at which European finance ministers decision to disburse the sixth loan tranche payment to Greece.
- **20 November: Spanish general election**.

Gilles Moec (44) 20 7545 2088
Marco Stringa (44) 20 7547 4900
Mark Wall (44) 20 7545 2087

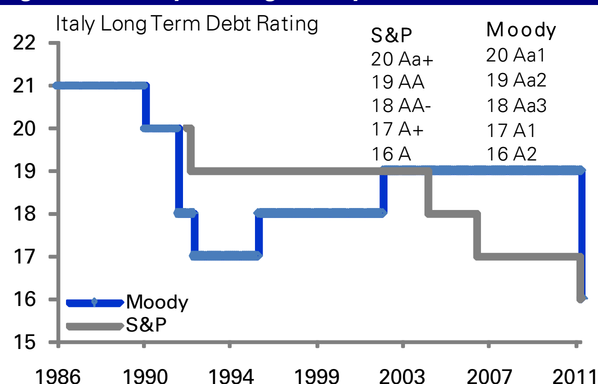
Italy: Moody's downgrades Italy by three notches

- **On 4 October, Moody's downgraded Italy's government bond rating to A2 with a negative outlook, from Aa2. This is Moody's lowest rating on Italy over the period for which we have data (since 1986).**
- **The downgrade was widely expected, although there was some hope that it would be limited to two notches.**
- **The three key drivers of this downgrade were (i) an increase in long-term funding risk, (ii) concerns about economic growth and (iii) implementation risks in meeting the fiscal targets due to economic and political uncertainties.**
- **The Italian Composite PMI deteriorated again in September. This points to downside risk with respect to our GDP Q3 forecast of a 0.2% qoq fall.**

Moody's catches up with S&P

On 4 October, Moody's has downgraded Italy's government bond rating to A2 with a negative outlook, from Aa2, i.e. a three-notch downgrade (the short-term rating at Prime-1 was left unchanged). This is Moody's lowest rating on Italy over the period for which we have data (since 1986).

Figure 1: Moody's rating of Italy fell to a new low



Source: Deutsche Bank, Bloomberg

The downgrade was widely expected, although there was some hope that it would be limited to two notches. As we wrote in Focus Europe on 23 September, the three-notch downgrade brings Moody's assessment of Italy in line with that of S&P. Note that, similar to S&P, Moody's now has a negative outlook on its rating for Italy.[2]

As a result of today's downgrade, both Moody's and S&P currently rate Italy three notches below Spain (although Spain is on review for possible downgrade, with a decision to be communicated by 29 October). One could argue that the rating agencies, Moody's in particular, have now caught up with the dramatic turnaround in market indicators over the summer. Indeed, according to market indicators, doubts about Italy's solvency are currently greater than those regarding Spain:

- First, while the yield on Italian ten-year government bonds was about 60bps below that of equivalent Spanish bonds at the beginning of June 2011, at the moment of writing (6 October) it is about 45bps above Spanish bonds.
- Second, since the beginning of June, Italy and Spain CDS premia increased by *312bps* to 474bps and *123bps* to 375bps, respectively (data 5 October). As we see it, one key explanation is that the Spanish government's response has been more credible in the eyes of market participants.

The three key drivers of the downgrade by Moody's were (i) an increase in long-term funding risk, (ii) concerns about economic growth and (iii) implementation risks in meeting the fiscal targets due to economic and political uncertainties.

(i) Long-term funding risk

The rating agency stated that due to the current sovereign debt crisis, it sees a material increase in long-term funding risks for euro area countries with high levels of public debt, such as Italy.

The rating agency stated that although on the one hand policy actions within the euro area could reduce investors' concerns and stabilise funding markets, the opposite could also occur.

Furthermore, the rating agency noted that it sees a sort of structural break in terms of market confidence towards euro area sovereign debt markets. Hence, although the rating agency views the risk of default by Italy as remote,

[2] In S&P terminology, a "Negative Outlook" generally means that there is a downgrade risk in the medium-term (18 -24 months) whereas "Credit Watch Negative" suggests imminent downgrade risk (3-6mths). The equivalents for Moody's are "Negative Outlook" and "Review for possible downgrade", respectively.

it also says that the country vulnerability to loss of market access at affordable rates justifies the new rating.

Indeed, Moody's highlighted that a key driver of the size of the rating action – the three-notch downgrade – was the "*country's susceptibility to financial shocks due to a structural shift in market sentiment regarding euro-area countries with high debt burdens*".

Obviously, a loss of confidence for a country with high debt can have serious repercussion on the cost of servicing the debt with respect to GDP. However, there is the risk of circularity between downgrades and government yields when the latter becomes a key driver of rating action.

(ii) Economic growth

The second key factor mentioned by Moody's was the increased downside risk to economic growth due to macroeconomic structural weaknesses and a weakening global outlook.

The rating agency mentioned two key elements that we have discussed regularly in Focus Europe: low productivity and important labour and product market rigidities. This, in our view, is the *n-th* confirmation that Italy is paying the bill for failing to implement a comprehensive programme of growth-enhancing reforms before, during and after the crisis.

Besides low domestic potential growth, Moody's also took into account that Italy's GDP performance will be adversely affected by the likely slowdown in external demand.

(iii) Implementation risks

The third and last reason for the downgrade is more directly linked to the recent government's handling of the crisis. The rating agency wrote that since more than half of the new fiscal package is based on tax hikes, the fiscal targets are particularly vulnerable to weaker growth. We also believe that the fact that the government could not agree on a more meaningful acceleration of the pension adjustment process played an important role in Moody's assessment that the political consensus for new expenditure cuts will be difficult to achieve.

That said, according to the Italian press, the Italian government could announce further measures before the end of October on the pensions front.

Factors still supporting Italy's credit rating

Along with the above concerns, Moody's highlighted the positive factors that still underpin Italy's rating. These included a lack of significant imbalances in the economy or severe pressure on private financial and non-financial sector balance sheets. We have highlighted these points in Focus Europe over the past months by, for example, showing that (i) once non-financial corporate and household debt is added to the public debt, Italy scores better than the euro-area average (as well as France) and (ii) households' net wealth in Italy as a proportion of disposable income is the highest among G7 countries.

Among the positive factors, Moody's also mentioned the actions undertaken by the government over the past three months. However, as discussed above, it also criticised the excessive use of tax hikes. This is in line with our view: the overall size of the summer packages is good, but its composition is detrimental to GDP growth (see Focus Europe, 23 September).

Summing up

Italy remains under pressure from the markets and rating agencies; both Moody's and S&P's outlook on Italy is negative. Our view continues to be that Italy would be best served by responding with a three-fold strategy of (i) fiscal consolidation (ii) structural reforms and (iii) a privatisation programme (and possibly a wealth tax).

Would the above be sufficient to regain market confidence? Given the deep confidence crisis regarding the euro area, a Europe-wide response may be necessary. The deterioration of growth prospects along with the increasing pressure on the European banking system may push European politicians to envisage a coordinated and comprehensive plan to dealing with the euro-area crisis; we believe that (i) bank recapitalisations, (ii) strengthening of EFSF 2.0 to potentially help Italy as well and (iii) a convincing solution to the Greek conundrum would present clear benefits for Italy.

More bad news from the PMIs

The Italian Composite PMI deteriorated again in September, falling to 47.7 from 48.0 a month before, below the 50 mark that separates growth from contraction. The composite index fell on the month as the better-than-expected outcome in the Italian Manufacturing PMI on 3 October was more than offset by the fall in the Services PMI published on 5 October.

The Italian Services PMI declined to 45.8, the lowest level since July 2009, from 48.4 in August, well below expectations of 47.3. It is not only the level but also the speed of deterioration that is worrying. The latter is particularly true for the Services Business Expectations index, which fell to 54.4 in September from 60.2 in August versus an average of 75.3 in the decade before the crisis (note that, contrary to the manufacturing index, the

headline Services PMI is not a composite index). **In the past five months since the local peak in May 2011, business expectations have fallen by 17.8 points, the fastest five-month fall since the beginning of the series in 1998.**

The Italian Manufacturing PMI increased to 48.3 in September from 47.0 in August versus expectations of a fall of 0.5 points. The key driver of the better-than-expected performance was the output index, which jumped by 5 points to 52.8. But manufacturing new orders remained in contractionary territory at 45.1. Indeed, **the difference between the manufacturing output and new orders indices is particularly wide: since 1997 only once, in September 2008, was the difference between the two indices wider. Also, in that case, the output index was higher than that of new orders. In the following four months, the output index fell by close to 9 points.**

The above does not bode well for the composite index. The Composite PMI uses the Manufacturing Output PMI rather than the headline manufacturing index. Hence, in September the composite index benefited from the jump in the manufacturing output index. The concern is that the output index will fall back below 50. While new orders could jump up, Italy is embarking on fiscal tightening heavily based on tax hikes, and activity in the rest of Europe is expected to slow materially. Indeed, the euro-area Composite PMI fell to 49.1 in September from 50.7 in August.

The Italian Construction PMI also declined in September to 43.1 from 44.2 in August. What does all this mean for GDP growth? The composite output index correlates well with Italian GDP. It does not capture all the volatility in GDP, but it does a good job of signalling the short-term trend. **A simple regression based on changes and levels of the Composite and Construction PMIs implies an Italian GDP fall of 0.6% qoq in Q3 2011.** If we assume that both indices remain at the September level for the rest of the year, our simple regression would point to another 0.4% qoq fall in Q4 2011. We currently expect contractions in Italian GDP of 0.2% qoq and 0.4% qoq in Q3 and Q4 2011, respectively.

Marco Stringa (44) 20 7547 4900

Inflation

- **This week's PPI data point to further upward pressure on UK and euro area consumer core inflation in the coming months.**
- **Business survey price balances have continued to fall in September however, which is consistent with the view that CPI inflation will slow in 2012.**

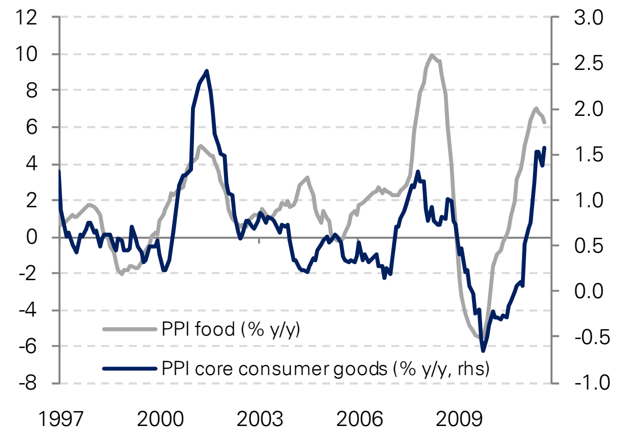
This week brought PPI and business survey data for the UK and the euro area. Downstream PPI trends in both markets show that pipeline price pressures remain high which will probably prevent a slowdown in underlying CPI inflation in the coming few months. At the same time, business surveys' price indices have declined further in September which, together with the recent correction in commodity prices, is consistent with a decline in headline inflation through next year.

In the euro area, PPI inflation for core consumption goods rose to 1.57% y/y in August, which was the fastest rate since 2001 (chart 1). This will continue to put upward pressures on HICP core goods inflation in the coming months. Recent trends in survey indicators such as the 'output price' or 'delivery times' indices of the manufacturing PMI suggest however that core consumer goods PPI inflation could peak in Q4 this year. This would be consistent with HICP core goods inflation leveling off early next year and slowing in H2 2012.

PPI inflation for food products is now showing some signs of easing (6.2% from 6.6% in July; chart 1) and given trends in world agricultural prices this summer, should continue to slow into next year. This suggests that HICP processed food inflation (excluding tobacco) could peak around the turn of the year. Altogether, with oil prices having eased in past months, available evidence is consistent with the view that euro area headline inflation will slow quickly next year; with oil prices at current levels, we would see it back below 2% in Q2.

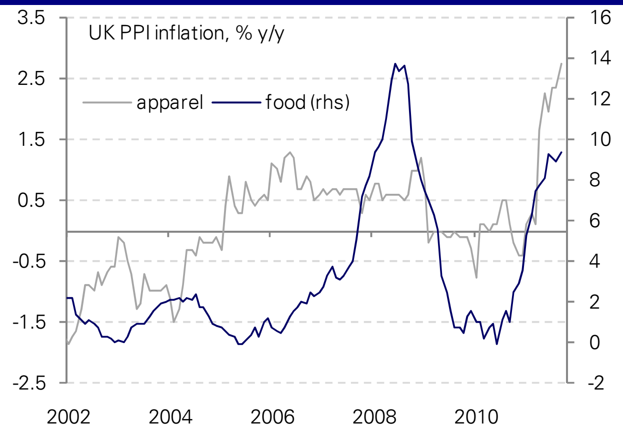
In the UK, September PPI data this week was somewhat higher than expected by consensus. Inflation for consumer goods continued to increase; PPI food, for example, rose to 9.4% y/y (from 8.9%), while producer clothing inflation increased to 2.7% y/y, the fastest in over ten years (chart 2). Monthly price increases in these indices have slowed over the past few months, but nevertheless recent trends in producer prices make a quick easing in CPI core inflation look unlikely in the near-term. Output price balances from the PMIs have however continued to fall in September (chart 3). This, together with lower oil prices as well as base effects from this year's VAT hike, suggest that headline CPI and RPI inflation will decline next year.

1. Downstream PPI inflation remains high in EUR…



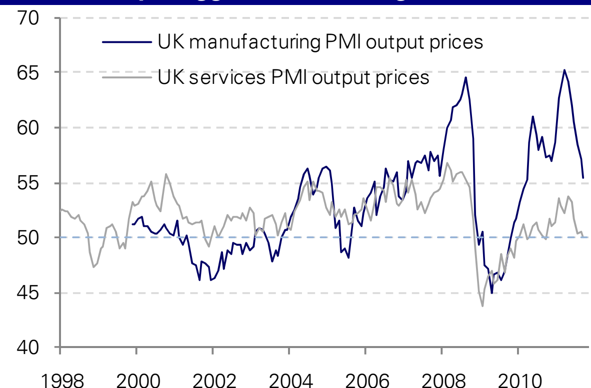
Source: Eurostat, Deutsche Bank

2. …and rises further in the UK



Source: ONS, Deutsche Bank

3. But surveys suggest some easing ahead



Source: Markit, Deutsche Bank

Markus Heider (44) 20 7545 2167

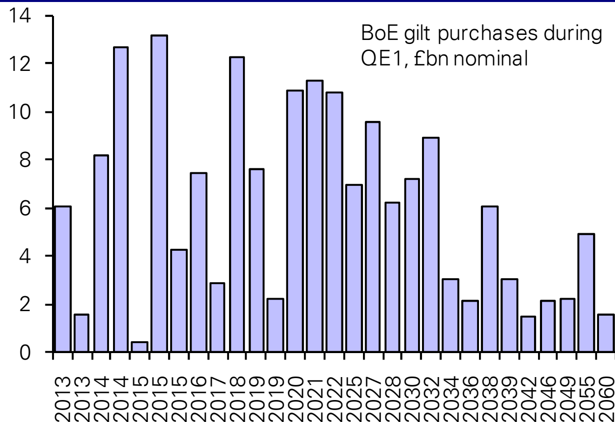
UK: Getting ahead of the curve

- **There was always a significant risk that the Bank would sanction an additional round of QE this week given market pressures. As a result of its action (GBP75bn of QE over the coming four months) we have changed our outlook for policy.**
- **With the MPC's willingness to undertake further easing having grown over recent months and bank funding risks escalating over the next two quarters (a key reason for the Bank's decision this week), we see the Bank delivering a further GBP50bn of QE at the February 2012 meeting.**

QE2 sets sail

The Bank of England announced GBP75bn of QE at its October meeting, versus economist expectations of no move until next month (last week's Reuters survey recorded a 40% median likelihood of a move this week). The purchases, all of which are to be of gilts, are to be completed over the next four months, taking total QE to GBP275bn. Back in 2009, the Bank's first GBP200bn of QE was worth around 14% of 2009 GDP; today's GBP75bn is worth an extra 5% of 2011 GDP. There is no doubt this is an aggressive move: the 2009 announcements amounted to an initial GBP75bn in March 2009, followed by increments of GBP50bn in May, GBP50bn in August and a final GBP25bn in November. It is worth comparing the programme to that of the Fed – GBP275bn of purchases by the BoE amounts to around 19% of 2010 GDP, versus the Fed's purchases which are worth around 16% of 2010 US GDP.

BoE purchases of gilts under QE1 – by maturity

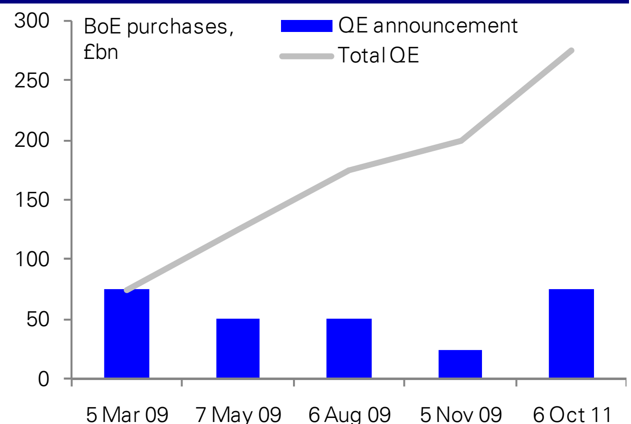


Source: DB Global Markets Research, Bank of England

What assets does the Bank intend to buy? Starting on Monday 10 October, the Bank will purchase just over GBP5bn of gilts each week, split evenly into the following maturity buckets: 3-10Y (reverse auctions on Monday each week), 25Y+ (Tuesdays) and 10-25Y (Wednesdays). This is the same range of maturities as were purchased in the 2009 round of QE. The details of which bonds will be bought in the following week will be announced on Thursday afternoons at 4pm.

With a two-week break over Christmas, GBP75bn of gilt purchases will take us until the week before the February MPC decision. At that point, the Bank can use the backdrop of its new GDP and inflation forecasts published in the *Inflation Report* to make a judgment on whether more QE is required. With the term refinancing bulge for banks in the first quarter of next year particularly acute (estimates are for over EUR250bn of European bank redemptions in the first quarter of 2012, following EUR180bn in the current quarter – see *Credit Strategy Weekly* 23 September and *European Banks Strategy* 22 September for more details), the credit squeeze could easily become worse at that stage. As a result, we have changed our view and are now assuming that a further GBP50bn of QE will be delivered at that point[3].

BoE QE announcements to date



Source: DB Global Markets Research, Bank of England

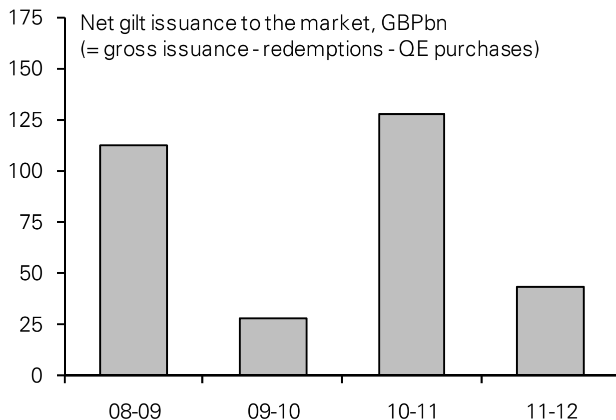
In the meantime, of course, Monday's Party Conference speech by the Chancellor has raised the possibility of "credit easing", details of which look set to be announced by the Treasury at the end of next month (the Autumn Statement is on 29 November). In the exchange of letters between the Governor and the Chancellor (authorising the Bank to expand its QE programme to a total of GBP275bn) Mr. Osborne talks of the need for the government to

[3] As the Governor paraphrased Keynes in his interview with the BBC following the Bank's decision: "when the world changes, we change our response".

encourage lending to small and medium sized businesses, stating that "such interventions should complement the MPC's asset purchases". His letter also reminds the Governor that, "the APF continues to include facilities for eligible private sector assets", suggesting that he might have preferred the Bank to indulge in some purchases of corporate bonds.

But the Bank has been reticent to do this – even with their purchases indemnified by the Treasury – seemingly because of the arbitrariness in the choice of which private sector bonds should be purchased (some MPC members clearly believe that this is politically sensitive and should be a decision for the government[4]). Of the GBP200bn of first-round QE, the Bank purchased GBP198.3bn of gilts and currently owns only just over GBP1bn of corporate bonds (the commercial paper that the Bank purchased has since matured). The Bank has argued in the past that the mere fact it "stood ready" to purchase private sector paper should have been sufficient to impact on yields (in a similar vein to Baumol's contestability theory). But with no more purchases of private sector debt scheduled through the creation of central bank reserves (i.e. QE-based) it will be left to the government to step in. Such purchases would have to be funded (if they weren't then they'd be QE), possibly by the issuance of T-bills.

BoE reducing effective supply of gilts in 2011-12



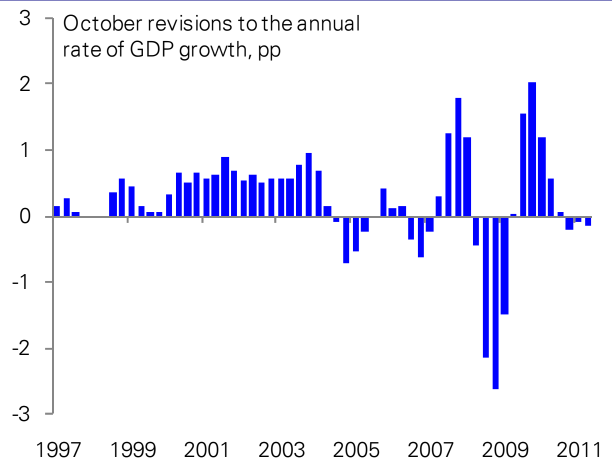
Source: DB Global Markets Research, DMO, Bank of England

In the first instance, it seems that the government would buy the bonds of large corporates, with a view to purchasing CLOs of small/medium size loans from banks thereafter. The full details of the scheme are unlikely to be outlined until the end of November. While it will be separate to the Bank of England's QE operations, it could potentially be done through the existing Asset Purchase Facility (after all, when this was initially set up in January 2009, prior to the announcement of QE, it was designed such that corporate bonds and commercial paper would be purchased via the issuance of T-bills). Being financed by the issuance of government debt, there should be no impact on public sector net debt given that increased liabilities will be offset by the rise in liquid asset holdings.

Returning to the Bank of England's statement which accompanied this latest QE announcement (the bulk of the text was the same as that of the Governor's letter to the Chancellor), the MPC cited a number of reasons for its decision to embark on another round of QE. In particular, the weakening UK and global picture, falling real incomes, the fiscal consolidation and strains in the banking sector were highlighted, as well as spare capacity being, "greater and more persistent than previously expected".

This latter point is interesting, as in the Bank's August *Inflation Report* the MPC had suggested the opposite ("a limited degree of spare capacity within businesses is likely to remain"). We suspect that part of this change in thinking – which, all things being equal, should pull down more significantly on the Bank's inflation forecasts going forward – is due to the new GDP figures published by the ONS this week. They showed a stronger trend in growth up until the crisis, but since the peak GDP has been even weaker. That seems supportive of there being a larger output gap than had been the case pre-revisions.

Revisions support more spare capacity



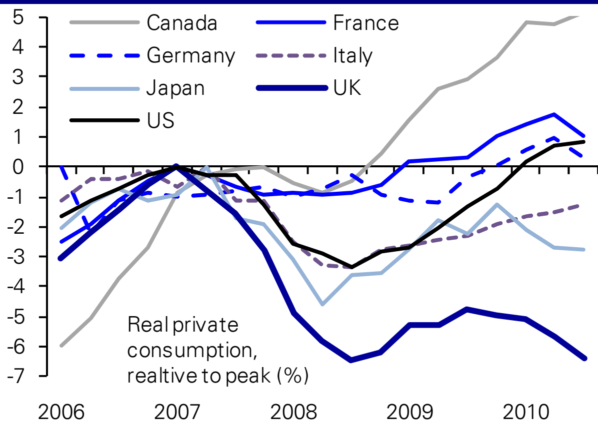
Source: DB Global Markets Research, ONS

GDP revisions

On that note, let us take a more in depth look at this week's GDP report. The figures revealed a downward revision to the quarterly rate of growth in Q2 from 0.2% to 0.1%; consumption (down 0.6% qoq) & net exports were weaker than expected, while government spending was stronger (1.1% qoq with Q1 revised up).

[4] As the Governor pointed out, "it should not be for Bank of England officials to decide which [private sector] assets to buy".

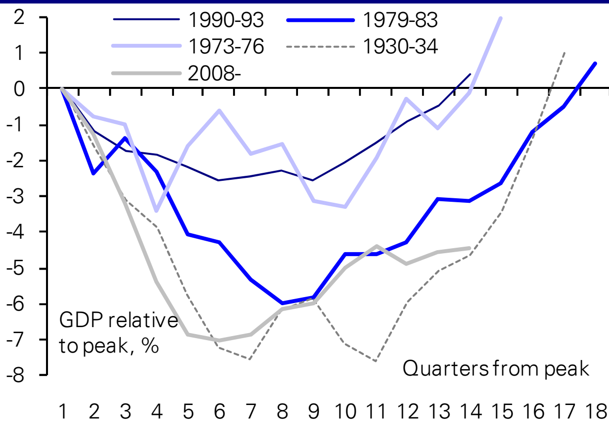
Consumption versus peak the worst in the G7



Source: DB Global Markets Research, Haver Analytics

This is not an encouraging mix, particularly with real incomes and global growth potentially holding back consumption and exports going forward, and government spending unlikely to maintain such a strong growth rate as that of H1 (4% annualised). Still, with growth even weaker in Q2 the snapback in Q3 may well prove greater. At the time of the BoE's August *Inflation Report* we estimate that the MPC had been expecting growth of around 0.7% qoq in Q3.

Shaping up to be the worst recession on record



Source: DB Global Markets Research, ONS, NIESR

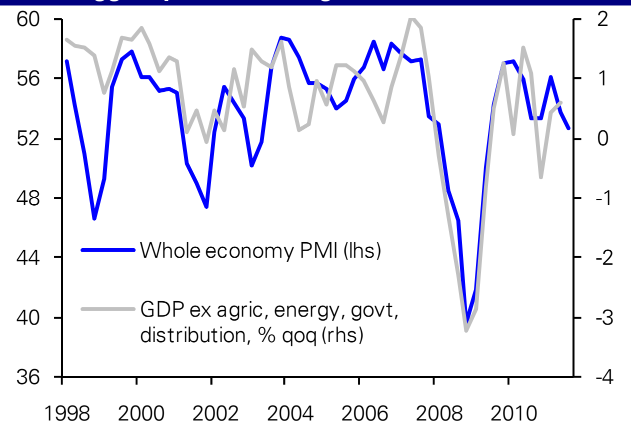
There were substantial revisions to GDP over time in this week's release. First, the recession is now shorter by a quarter (five rather than six quarters long) but also deeper (peak to trough of 7.1% versus 6.4% previously). Second, the recovery since the recession ended is broadly similar. But with a larger fall in GDP during the recession output is now 4.4% below peak, versus 3.9% previously reported. Finally, the rise in GDP since BoE independence in mid-1997 is 4% greater according to the revisions. While some of this can be accounted for by stronger private consumption (related to the switch from RPI to CPI based deflators), it is worth noting that export growth has been revised notably higher too. Indeed, net trade has contributed more positively to GDP growth over the past three years.

What are the implications of these revisions for policy? As we discussed above one argument is that with long-run growth higher, but the economy weaker since the onset of recession, the output gap might be wider than expected. The BoE revised down its estimate of spare capacity at the time of the August *Inflation Report*, but these latest revisions seem to have influenced their view for the output gap being potentially larger and more persistent than originally expected. A wider output gap could mean a larger downward effect on inflation than was previously believed, implying the need for more QE and rates lower for longer. On fiscal policy, a wider output gap could mean more of the deficit is attributed to cyclical rather than structural factors, although the OBR estimate of the gap to be published next month is still likely to be somewhat narrower than it was in March.

Bank action despite better PMI

Q2 growth may have been revised lower but the September manufacturing and services PMI surveys surprised on the upside this week, both rising by 2 points in during the month (to 51.1 & 52.9 respectively) despite expectations of a fall.

PMIs suggest positive GDP growth



Source: DB Global Markets Research, Markit, ONS

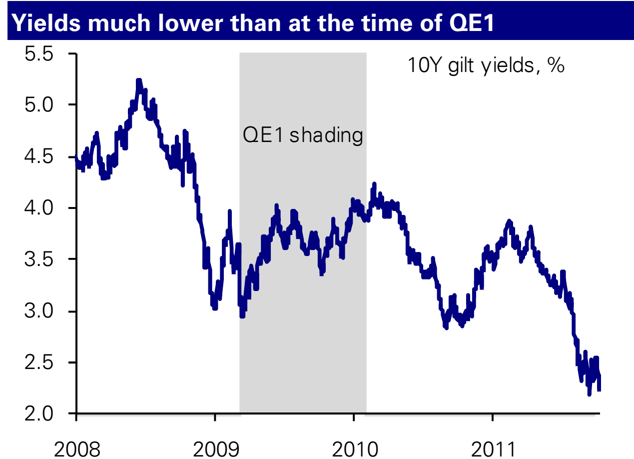
At just shy of 53 the whole-economy PMI is now only a point below its long-run average, and consistent with GDP growth of 0.4% qoq according to Markit (see chart above). However, given that the weak Q2 outturn was due partly to temporary factors (the Japanese earthquake & tsunami and the Royal Wedding in particular) we would expect to see some output carried over into Q3. Recall that such factors were estimated to have knocked up to 0.5pp of Q2 GDP, so the Q3 numbers (published 1 November) should be evaluated bearing that in mind.

The impact of QE – upping the dosage

What has been the impact on the markets since the Bank's decision? 10Y gilts rallied by 6bps on the news but yields have since risen back above pre-announcement levels; this was helped by a recovery in global stock markets during Thursday's afternoon session, with equities up around 7% from Wednesday's close at the time of writing; and sterling fell by around 1% on the news (both against USD and EUR), though has since recovered all of these losses against USD (and almost all of the losses against EUR). On sterling, in the event that the Fed proves unwilling to sanction more QE in the near-term but the UK does (after all, our forecasts for UK growth next year are substantially lower than those of the US) then there may be further downside risks to the currency looking ahead.

What will be the impact on the economy of undertaking more QE? The Bank of England's latest Quarterly Bulletin estimates that the impact of QE1 so far has been to raise the level of real GDP by between 1.5% and 2%, and increase inflation by between 0.75% and 1.5%. However, there is a risk that this second round of QE may be less effective. After all, bonds have rallied sharply since the first round of QE was announced (see chart below), limiting the potential for as substantial a fall in yields as over the past two years. While there may be a diminishing marginal effectiveness of QE given that the 'bank lending channel' is impaired, Adam Posen made an important point in a speech last month. He argued that, "if it will take somewhat more purchases to have the same effect as when the economy was in overt crisis, but we know that effect is significantly greater than zero, we should simply up the dosage". With the Bank opting for GBP75bn of QE this week Mr. Posen seems to have won over the rest of the MPC.

Yields much lower than at the time of QE1



Source: DB Global Markets Research, Bloomberg, Bank of England

George Buckley(44) 20 7545 1372

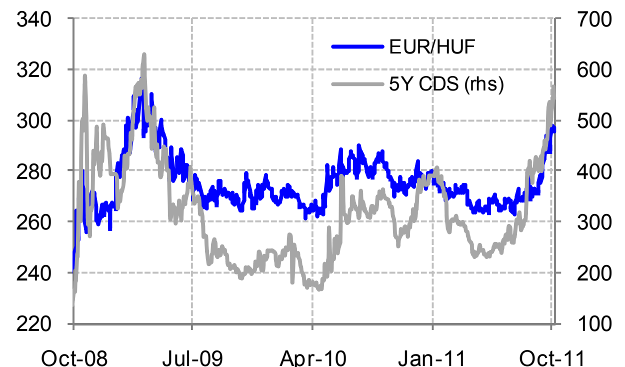
Hungary: October 2008 versus October 2011

- **The NBH announced an emergency 300bps rate hike in October 2008 when the forint was trading around 280/EUR and Hungary's CDS around 500 (5-year). The currency is now trading weaker at around 300/EUR and CDS is slightly wider. Cross-currency basis swaps have also widened out similar to October 2008. Despite these similarities there are several differences which suggest to us we are not yet in hiking territory.**
- **Firstly, the pace of FX depreciation and CDS widening was more pronounced in 2008 with the weakness coming in a much shorter period of time. Second, non-resident holdings of Hungarian government securities were in sharp decline in 2008 whereas foreign holdings have declined only marginally recently. Third, FX implied vol spiked in October 2008 and while this has moved up recently it is not close to the 2008 highs. Fourth, the level of NBH FX reserves is more than double that of 2008 leaving an additional source of currency support. Fifth, the C/A is now in surplus and the gross external financing requirement has narrowed from the 2008/09 highs. The 2008 rate hike also came at a time of pronounced worries over Hungary's external refinancing capacity which is not the case now.**
- **The next NBH policy meeting is on October 25th. While it is possible that Deputy Governor Kiraly again votes for a rate hike we do not expect this will be the majority. With the government remaining committed to a 2.5% fiscal deficit for next year, the medium-term inflation outlook now lower due to weak domestic demand and recent forint depreciation more contained than in Poland, Turkey or South Africa, we do not see sufficient rationale for a rate hike.**

Three years on

The NBH hiked rates by 300bps on October 22nd. The hike was announced at a special meeting held two days after a scheduled MPC meeting where rates remained on hold at 8.5%. The short statement said only that the MPC decided to raise rates "after reviewing the latest financial market developments" with the Bank later saying that this was needed to "preserve the stability of the domestic financial intermediary system, check capital outflows, prevent depreciation expectations from increasing further, as well as to make it more expensive to speculate against the forint". At the meeting the NBH also narrowed the interest rate corridor between the o/n lending and deposit facilities to +/-50bps around the policy rate from +/-100bps previously. The minutes of the meeting were not published so we do not know if the vote was unanimous. The forint was trading at 278/EUR the day before the meeting and therefore stronger than current levels. Implied FX volatility had spiked

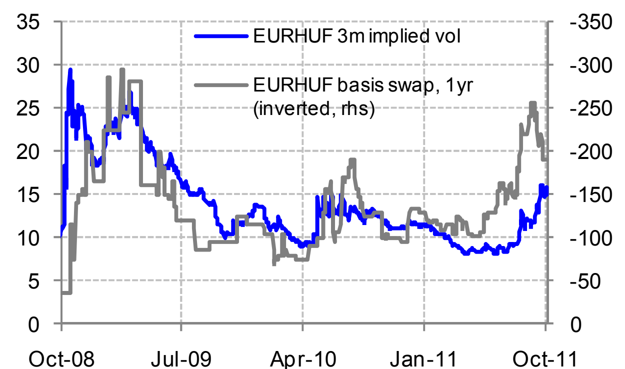
The forint in now weaker than in October 2008 and CDS is slightly wider



Source: Bloomberg Finance LP, DB Global Markets Research

CDS was trading at 480 on the day before the hike, jumping to 530 after the NBH announcement and up by a very large 387bps during the previous month on the back of mounting concerns over Hungary's refinancing capacity. The IMF had already announced it was in discussions with Hungary over a multilateral financing package and on October 28th a EUR20bn IMF/EU/World Bank financing package was confirmed bringing CDS sharply back.

Some stress is evident from FX vol and cross-currency swaps but not to the extent of 2008

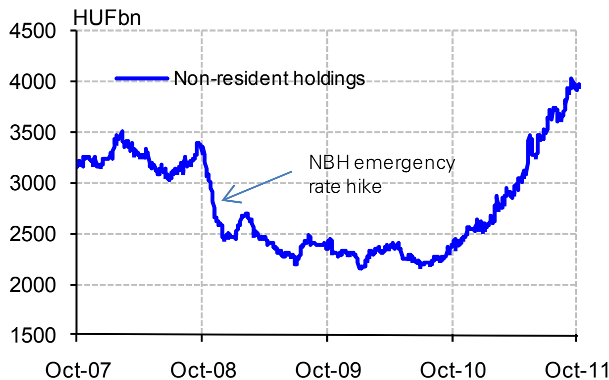


Source: Bloomberg Finance LP

The policy rate was subsequently reduced by 50bps at the next scheduled policy meeting at end November with the cuts continuing in December and January. The forint continued to move weaker through early 2009 reaching an all-time high of 316/EUR in early March prompting the NBH to announce it would start converting its EU transfers via the spot market in an effort to lean against the depreciation. With the forint now back around 300/EUR and CDS also wider than in 2008 there are increased expectations of a rate hike from the NBH with the market now pricing in around 75bps in rate hikes in the next three months.

Pace of FX weakness. One important difference between October 2011 and October 2008 is the pace of weakness. The forint weakened by around 10% in the week before the 300bps rate hike whereas the recent pace of currency depreciation has been slower although it has come when CHF/HUF is much weaker than in 2008. Implied volatility is also lower currently than in 2008 although it has increased during the past few months. The same is true for CDS where 5-year spreads are now wider than in October 2008 at around 560bps but again the move has been less aggressive with the widening in the past month at 140bps. Even from the year low in May the increase remains smaller than the 330bps widening in the month preceding the 2008 hike.

Non-resident holdings of Hungarian bonds were felling sharply at the time of the Oct 08 hike



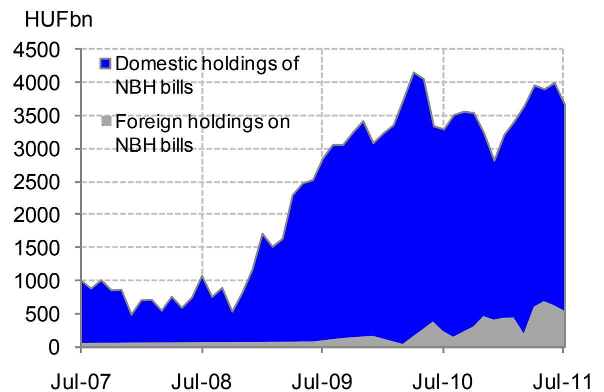
Source: Bloomberg Finance LP

Non-resident holdings: Foreign holdings of Hungarian T-bonds were falling sharply at the time of the October 2008 hike and therefore contributing to the capital outflows. This is not true in the current environment with data as of October 6th showing a very modest (-1.4%) fall since the all-time high of HUF4015bn reported for mid September. It is true that the share of foreign ownership is now significantly higher than in the past (around 40% of total currently versus 30% in September 2008) which leaves sizeable risks from such a reversal going forward.

The abolishing of the former 2nd pillar pension system earlier this year also leaves a smaller local market to absorb non-resident selling.

Data on non-resident holdings of 2-week NBH bills is less timely with full data currently available only through July at HUF490bn (the most recent NBH chart pack shows this dropping closer to HUF360bn for August). But with foreign holdings of NBH bills peaking at HUF682bn in February the scope for outflows is considerably lower compared with T-bonds. It is unlikely therefore that recent currency weakness stems from non-resident selling of NBH bills.

Non-resident holding of NBH bills does not have nearly as far to fall

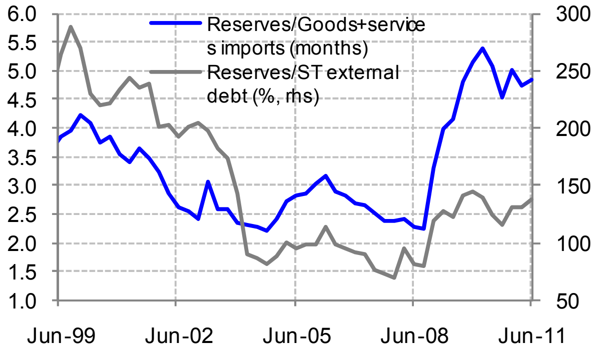


Source: NBH

FX reserves: At EUR35.6bn Hungary's FX reserves are more than double the 2008 level which suggests interest rates are not the only tool available to the NBH to support the currency. With EUR16bn in FX reserves in September 2008 this covered just 2.2 months of goods and services import and 79.5% of short term debt. The position now is more comfortable at 4.9 months of goods and services imports covered through Q2 and 137.9% of ST debt. The C/A is also in surplus at 1.5% of GDP as of Q2 2011 (4-quarter-rolling basis) versus a deficit of 6.4% of GDP from Q2 2008. This leaves reserves coverage of ST debt plus the C/A at 142.5% versus a 75.9% in 2008.

Although the improvement in the C/A position has been material (8% of GDP between Q2 2006 and Q2 2011) the overall financing requirement is still swamped by debt redemptions with Hungary's overall gross external financing requirement peaking at around 42.5% of GDP in 2008/2009. This has since dropped to an estimated 35.5% of GDP for 2011 which is still large but a 7% of GDP improvement.

FX reserves now cover almost 140% of ST debt and close to 5 months of imports



Source: Haver Analytics, DB Global Markets Research k

Forint weakness related to a lack of confidence in Hungary's ability to finance its external debt is not the situation we are in now. External financing needs are covered for this year, there is no evidence that foreign banks have reduced their exposure to Hungary despite the introduction of a bank levy, the discounted early repayment option on FX-denominated mortgages and the closure of the 2nd pillar pension system. And at around 6% YTD forint depreciation against the EUR is also less than the depreciation of the zloty, lira or rand highlighting that the current weakness is not specific to Hungary.

Hungary's external financing requirement has narrowed by 7% of GDP from 2008/2009

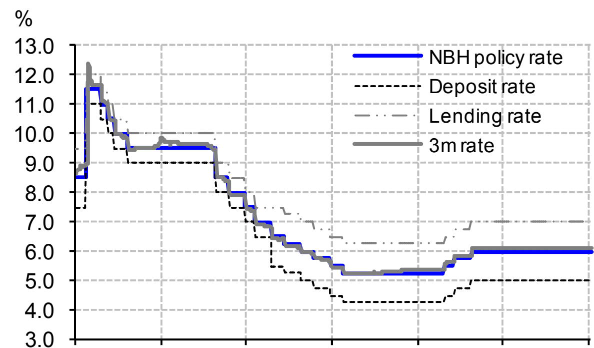
EURbn	2005	2006	2007	2008	2009	2010	2011F
Gross Financing Req.	28.4	31.0	34.4	45.1	39.5	37.7	37.8
C/A (deficit = negative)	6.6	6.6	7.2	7.8	0.2	-1.1	-0.7
Amortisation (MLT)	9.2	8.7	10.0	14.8	19.4	18.8	13.4
Amortisation (ST)	12.6	15.7	17.1	22.5	19.9	20.0	25.0
Financing	28.4	31.0	34.4	45.1	39.5	37.7	37.8
Non-debt creating	*5.0*	*3.0*	*0.9*	*3.8*	*0.7*	*2.3*	*3.7*
FDI (net)	4.4	2.3	0.2	2.8	-0.4	0.6	1.3
EU capital inflows	0.6	0.7	0.7	1.0	1.1	1.7	2.4
Debt creating	*29.4*	*30.9*	*33.6*	*51.3*	*44.6*	*39.6*	*34.1*
Sovereign Eurobonds	3.7	1.5	1.2	1.8	1.0	1.4	4.0
Multilateral financing				6.9	7.5		
Foreign purchases of HGBs	4.6	6.3	4.1	0.2	-3.4	0.4	5.5
Banks + corporates	21.1	23.2	28.3	42.3	39.5	37.8	24.6
Errors & omissions	-1.7	-2.1	-1.6	-2.9	-0.3	-1.2	0.0
Reserves (+ = decrease)	-4.3	-0.8	1.5	-7.0	-5.5	-3.0	0.0
Gross Financing Req.							
% of GDP	32.1	34.6	34.1	42.4	42.5	38.3	35.5

Source: DB Global Markets Research

The Bank has already committed to use its FX reserves to meet commercial bank FX funding requirements related to the discounted early repayment option on FX mortgages. Governor Simor said the aim of this was to guide market expectations in the right direction but this has not prevented the currency weakening further even with the first auction now taking place. We estimate maximum reserves usage from this policy at around EUR4.6bn and in reality much lower. FX reserves will also drop by another EUR3bn by year end with a EUR1bn Eurobond redemption on October 28th and a EUR2bn repayment to the EU on December 9th (financing was raised to cover both repayments earlier in the year). But even taking these factors into account we expect the NBH still has significant firepower to support the forint through intervention if the currency weakens further.

Banking sector liquidity: The maintenance of financial stability in the face of problems for banks to access FX swap facilities was a factor behind the rate hike and request for multilateral funding. A EUR5bn swap line was agreed with the SNB in January 2009, extended through to January 2010, which allowed the NBH to provide EUR/CHF fixed rate swap tenders. A EUR2.5bn swap line with the ECB was also agreed in January 2010 after an initial EUR5bn repo agreement in October 2008 and 3 and 6-month EUR/HUF swap tenders were also introduced by the NBH from March 2009. The government also channeled EUR2bn in IMF funding directly into three domestic banks to alleviate FX funding pressures (the three banks were OTP, FHB Mortgage Bank and the Hungarian Development Bank). The NBH also introduced 2-week and 6-month loan facilities and purchased government securities in the secondary market to add to forint liquidity in the banking sector. While there are some concerns over access to FX financing currently (as seen via the cross-currency basis swap market) the FX liquidity stresses in the banking system are not those of 2008/2009.

There are no obvious signs of current stress in money markets

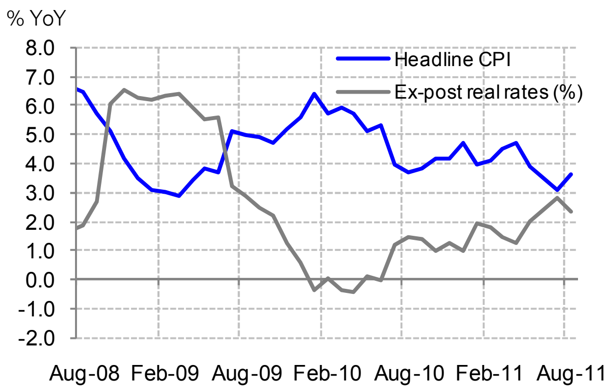


Source: Bloomberg Finance LP

Inflation outlook: One final consideration in any possible rate hike by the NBH is the inflation environment. The

minutes from the September 20th MPC meeting showed Deputy Governor Kiraly as the one MPC member voting for a 25bps hike with the rationale listed as the inflation outlook and financial stability risks. As discussed above, financial stability risks are less pronounced than in 2008 while the inflation outlook is arguably better too. August CPI was released at 3.6% YoY versus a NBH target of 3% and therefore lower than the 5.7% YoY reading for September 2008 CPI that would have been available to the NBH at the time of the October emergency hike.

Inflation is currently lower than in late 2008



Source: Haver Analytics, DB Global markets Research

The MPC reviewed the Bank's latest inflation forecasts at the September MPC meeting which saw the 2012 CPI forecast revised up to 3.9% from 3.6% previously (pavg basis). The expected timing for inflation to drop back to target was shifted to Q1 2013 from end 2012 previously due to forthcoming tax changes but the medium-term upside risks to inflation were deemed to have fallen due to weak domestic demand. The MPC also said it would monitor tax-adjusted core inflation going forward (given the one-off impact on headline CPI from fiscal policy) and we do not expect any significant inflationary pressures to become evident on this metric given the outlook for domestic demand.

2012 inflation forecasts were revised upwards in the September IR and growth forecasts revised markedly downwards

	Inflation forecasts (% YoY)			GDP forecasts (%)		
	Previous	*Latest*	*Change*	*Previous*	*Latest*	*Change*
2011	3.9	3.9	0.0	2.6	1.6	-1.0
2012	3.6	3.9	0.3	2.7	1.5	-1.2

Source: NBH

Rates outlook. The next NBH meeting is scheduled for October 25th. While we do not rule out another vote within the MPC for a rate hike our baseline remains that the policy rate will remain on hold at 6% for the foreseeable months. With the government remaining committed to a 2.5% fiscal deficit for next year, medium-term inflation risks now lower due to the weak domestic economy and the financial market stresses in Hungary not as pronounced as in 2008 we do not see a high enough probability of a hike to make this our baseline call. That forint depreciation has been less pronounced than elsewhere in the region and also less rapid compared with 2008 is another reason arguing against a rate hike. The recent downgrade to the NBH GDP growth forecasts is another reason not to hike. Should the currency weaken further in conjunction with more policy unpredictability or a loosening of the fiscal stance a rate hike will become increasingly likely but probably not of the size of 2008.

Caroline Grady (44) 207 545 9913

Rate Views

Euro Area

Interest rates were left unchanged today but the door was at least opened to an easing in the coming months. The ECB expectation for economic growth is softening, rates were no longer described as "accommodative" and the absence of "close monitoring" or "very close monitoring" might well be a devise to signal how close the Council is to cutting rates. Cuts were discussed today and only a "consensus" of Council members approved leaving rates unchanged. A rate cut remains a data-dependent call, but we suspect the real economy data will give the ECB reason to cut in November. However, the recent deterioration in inflation will probably make the ECB reluctant to cut by 50bp in one step. We now believe it more likely the ECB cuts in two steps, that is, by 25bp before and after Christmas. This will reduce the refi rate to 1% in Q1, a level where we expect it to remain through 2012.

	Current	Dec11	Mar12	Sep12
3m Libor projections				
Mkt	1.50	1.34	1.25	1.21
DB	---	1.30	1.30	1.30
refi rate forecast				
DB	1.50	1.25	1.00	1.00
10-year government yields				
DB	1.99	2.25	2.50	2.75

UK

The risks were always high that the Bank would deliver a second round of QE from the October meeting, but in the event the MPC went even further, sanctioning an additional GBP75bn of QE to be conducted over the next four months. This was above expectations of GBP50bn at the November meeting. We now believe that the MPC will vote for another GBP50bn in February next year (to be completed by May) when the current purchase programme is complete. Thereafter we expect the economy to show signs of improving, although it may time some time before the Bank is confident of raising interest rates (2013 on beyond).

	Current	Dec11	Mar12	Sep12
3m Libor projections				
Mkt	0.96	1.02	1.05	1.11
DB	---	0.85	0.85	0.85
Bank Rate forecast				
DB	0.50	0.50	0.50	0.50
10-year government yields				
DB	2.47	2.70	2.90	3.40

Switzerland

The SNB acted boldly for the fourth time between scheduled meetings to target an exchange rate of 1.20 vs. EUR, promising intervention in "unlimited quantities".

	Current	Dec11	Mar12	Sep12
3M Libor tgt	0.00	0.00	0.00	0.00

Sweden

The Riksbank left rates on hold at 2.00% at its September meeting, as the market expected. The next meeting is on 27 October (again no change expected).

	Current	Dec11	Mar12	Sep12
Repo rate	2.00	2.00	2.00	2.00

Norway

Norges Bank tightened once in May after a year-long pause, raising rates by 25bps, but we have now taken near-term hikes off the table. Next meeting 19 Oct.

	Current	Dec11	Mar12	Sep12
Deposit rate	2.25	2.25	2.25	2.25

Denmark

The central bank followed the ECB by raising interest rates a quarter point at its July meeting, maintaining a constant 5bps spread. We expect the spread to remain at this level.

	Current	Dec11	Mar12	Sep12
Lending rate	1.55	1.30	1.05	1.05

Poland

With lower-than-expected CPI in June and July and worries over a more pronounced slowdown in GDP growth than previously expected, we no longer see further hikes from the NBP.

	Current	Dec11	Mar12	Sep12
2-week repo	4.50	4.50	4.25	3.50

Hungary

Despite ongoing weakness in consumer spending, we do not yet see scope for rate cuts in Hungary.

	Current	Dec11	Mar12	Sep12
Base Rate	6.00	6.00	6.00	6.00

Czech Republic

Given the downward revisions to our growth forecasts and the revision to our ECB call, we now expect the first rate hike only in 2013.

	Current	Dec11	Mar12	Sep12
Repo rate	0.75	0.75	0.75	0.75

Source for all tables: DB Global Markets Research

Euroland Data Monitor

	B'berg code	Q4 2010	Q1 2011	Q2 2011	Q3 2011	May 2011	Jun 2011	Jul 2011	Aug 2011	Sep 2011	Oct 2011
Business surveys and output											
Aggregate											
PMI composite		54.9	57.6	55.6	50.3	55.8	53.3	51.1	50.7	49.1	
Industry											
EC industrial conf.	EUICEMU	2.7	6.5	4.3	-2.6	3.8	3.5	0.9	-2.7	-5.9	
PMI manufacturing		55.7	57.9	54.9	49.3	54.6	52.0	50.4	49.0	48.5	
Headline IP (% pop1)	EUITEMUM	7.4	3.8	1.0		0.2	-0.7	0.9			
Capacity Utilisation	EUUCEMU	78.1	80.2	81.6	80.9						
Construction											
EC construction conf.	EUCOEMU	-26.3	-25.0	-24.3	-24.3	-25.0	-24.0	-24.0	-23.0	-26.0	
Services											
EC services conf.	EUSCEMU	9.0	10.6	9.9	3.9	9.3	10.1	7.9	3.7	0.0	
PMI services		54.3	56.6	55.5	50.6	56.0	53.7	51.6	51.5	48.8	
National Sentiment											
Ifo	GRIFPBUS	113.3	114.7	114.2	109.7	114.1	114.4	112.8	108.7	107.5	
INSEE	INSESYNT	101.7	107.7	108.3	102.0	106	110.0	105.0	102.0	99.0	
Consumer demand											
EC consumer survey	EUCCEMU	-10.4	-10.6	-10.4	-15.6	-9.9	-9.7	-11.2	-16.5	-19.1	
Retail sales (% pop)	RSSAEMUM	-1.2	-0.5	-1.2	0.0	-1.2	0.6	0.2	-0.3		
New car reg. (sa, % yoy)		-10.7	-2.4	-1.5	2.5	-1.0	-3.5	2.6	5.6		
Foreign sector											
Foreign orders	EUI3EMU	-9.6	-0.9	-1.0	-8.4	-0.8	-2.4	-4.4	-9.2	-11.6	
Exports (sa val. % pop)		6.7	24.6	1.0		1.4	-5.0	2.0			
Imports (sa val. % pop)		4.5	29.6	0.3		0.3	-4.1	1.9			
Net trade (nsa EUR bn)	XTTBEZ	-1.0	-17.4	-5.2		-0.5	0.1	4.3			
Labour market											
Unemployment rate (%)	UMRTEMU	10.1	10.0	10.0	10.0	10.0	10.0	10.0	10.0		
Change in unemployment (k)		-101.7	-210.0	49.3	57.3	62.0	7.0	51.0	-38.0		
Employment (% yoy)		0.2	0.3	0.5							
Prices, wages and costs											
Prices (% yoy)											
Harmonised CPI	ECCPEMUY	2.0	2.5	2.8	2.6	2.7	2.7	2.5	2.5	2.8	
Core HICP (Eurostat))	CPEXEMUY	1.1	1.1	1.6	1.3	1.5	1.6	1.2	1.2	1.5	
Harmonised PPI	PPTXEMU	4.8	6.4	5.8	5.4	5.7	5.3	5.6	5.4		
Oil Price (USD)	EUCRBRDT	86.6	104.8	117.6	113.3	115.2	114.1	116.9	110.2	112.7	
EUR/USD	EUR	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	
Inflation expectations											
EC household survey	EUA8EMU	11.9	25.8	27.6	25.6	27.4	24.6	25.4	26.0	25.3	
EC industrial survey	EUI5EMU	11.9	21.1	19.2	8.9	20.3	16.1	12.4	7.9	6.3	
Unit labour cost (% yoy)											
Unit labour cost		-0.1	0.2	1.3							
Labour productivity		1.7	2.1	1.1							
Compensation.		1.6	2.3	2.5							
Hourly labour costs (sa)		1.5	2.5								
Money (% yoy)											
M3	ECMAM3YY	1.6	2.0	2.0	2.5	2.3	1.9	2.1	2.8		
M3 trend (3m cma)	ECMA3MTH					2.1	2.1	2.3			
Credit - private	ECMSCDXE	1.6	2.2	2.4	1.9	2.6	2.2	2.0	1.8		
Credit - public	ECMSCDGY	12.6	10.3	5.9	5.1	5.7	4.7	4.9	5.3		

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 are annualised.
Source: Deutsche Bank forecasts, Eurostat, Ifo, INSEE, Reuters, European Commission, National statistical offices, Bloomberg Finance LP.

The Week Ahead: Euro Zone

- In **Euroland**, focus will be on the release of **area wide** (Wed), **French** (Mon) & **Italian** (Mon) production data, while **area wide** (Fri), **German** (Mon) and **Italian** (Fri) **trade balance** are also published.
- The week will also see the release of **inflation data** from across the region.

Source: Deutsche Bank

Key Data & Events

Day	Time (GMT)	Release	DB Forecast	Consensus	Previous
Mon	06.00	German trade balance (Aug)		EUR8.2bn	EUR10.4bn
	06.45	French industrial production (Aug)			1.5% (3.7%)
	06.45	French manufacturing production (Aug)			1.4% (4.2%)
	08.00	Italian industrial production (Aug)		0.1% (-2.7%)	-0.7% (-1.6%)
	10.00	Euroland OECD leading indicator (Aug)			100.8
Tue	07.00	Spanish CPI (Sep)			0.1% (3.0%)
	07.00	Spanish HICP (Sep)			0.0% (2.7%)
Wed	05.30	French CPI (Sep)			0.5% (2.2%)
	05.30	French HICP (Sep)			0.6% (2.4%)
	09.00	Euroland industrial production (Aug)		-0.7% (2.2%)	1.0% (4.2%)
Thu	06.00	German CPI (Sep)		0.1% (2.6%)	0.0% (2.4%)
	06.00	German HICP (Sep)		(2.8%)	0.0% (2.5%)
Fri	08.00	Italian trade balance (Aug)			EUR1.44bn
	09.00	Euroland trade balance (Aug)			-EUR2.5bn
	09.00	Euroland HICP (Sep)	0.6% (2.8%)		0.2% (2.5%)
	09.00	Euroland core HICP (Sep)	(1.5%)		(1.2%)
	09.00	Italian CPI (Sep)		0.1% (3.1%)	0.3% (2.8%)
	09.00	Italian HICP (Sep)		1.9% (3.5%)	0.4% (2.3%)

dbCalendar**: For more forward-looking calendars of data and events, as well as various tools to analyse data surprises, go to our new online calendar:* ***http://gm-secure.db.com/dbCalendar

Thu, 13
EU's Rompuy and Barosso to speak in Brussels
ECB's Constancio to speak in Brussels

*Source: Various National Statistical Offices, Bloomberg, Reuters, S&P MMS, DB Global Markets Research. Growth rates in parentheses are year-on-year, while those without parentheses are this period over last period. * signifies provisional release day (or time if asterix beside time*

The Week Ahead: Rest of Europe & the USA[1]

- In the **US**, we expect the **trade deficit** to widen and **retail sales** to grow modestly**.** Also **consumer sentiment** and **business inventories** are the other major releases due this week, along with **initial jobless claims**.
- In the **UK**, we expect **manufacturing production** to fall slightly but **unemployment** to continue rising.

Source: Deutsche Bank

Key Data & Events

Day	Time (GMT)	Release	DB Forecast	Consensus	Previous
Mon	07.00	Danish CPI (Sep)			0.0% (2.6%)
	07.00	Danish HICP (Sep)			-0.1% (2.4%)
	07.00	Danish trade balance s.a. (Aug)			DKK5.9bn
	07.00	Czech CPI (Sep)		-0.3% (1.7%)	-0.3% (1.7%)
	07.00	Czech unemployment rate (Sep)		8.1%	8.2%
	07.30	Swedish industrial production (Aug)			2.8% (8.2%)
	07.30	Swedish industrial orders (Aug)			0.6% (0.4%)
	08.00	Norwegian CPI (Sep)			-0.6% (1.3%)
	08.00	Norwegian CPIATE (Sep)			-0.6% (0.8%)
	08.00	Norwegian PPI (Sep)			-2.5% (12.8%)
Tue	07.00	Hungarian CPI (Sep)		0.1% (3.8%)	-0.1% (3.6%)
	07.30	Swedish CPI headline (Sep)			0.0% (3.4%)
	07.30	Swedish CPIX (Sep)			0.0% (1.6%)
	08.30	UK industrial production (Aug)	0.0% (-0.1%)	0.1% (-1.0%)	-0.2% (-0.7%)
	08.30	UK manufacturing production (Aug)	-0.1% (1.6%)	-0.1% (1.7%)	0.1% (1.9%)
Wed	08.30	UK claimant count change (Sep)	25.0k	19.0k	20.3k
	08.30	UK ILO unemployment change (Aug)	80.0k		80.0k
	08.30	UK unemployment rate (Sep)	5.0%		4.9%
	12.00	Polish merchandise trade balance (Aug)			-EUR1,200.0m
Thu	07.15	Swiss combined PPI and IPI (Sep)			-1.2% (-1.9%)
	08.30	UK trade balance non EU25 (Aug)	-GBP5.3bn		-GBP5.5bn
	08.30	UK visible trade balance (Aug)	-GBP8.8bn	-GBP8.7bn	-GBP8.9bn
	12.00	Polish CPI (Sep)			0.0% (4.3%)
	12.30	US initial jobless claims (Oct)			
	12.30	US trade balance (Aug)	-USD46.0bn	-USD46.0bn	-USD44.8bn
Fri	12.30	US export prices (Sep)			0.5% (9.6%)
	12.30	US import prices (Sep)	-0.5%	-0.4% (12.5%)	-0.4% (13.0%)
	12.30	US non-petroleum import prices (Sep)			0.3% (5.5%)
	12.30	US retail sales (Sep)	0.1%	0.4%	0.0% (7.2%)
	12.30	US retail sales ex autos (Sep)	0.2%	0.2%	0.1% (7.3%)
	13.55	US consumer sentiment prelim (Oct)	52.0	60.0	59.4
	14.00	US business inventories (Aug)	0.4%	0.4%	0.4% (10.6%)

dbCalendar**: For more forward-looking calendars of data and events, as well as various tools to analyse data surprises, go to our new online calendar: **http://gm-secure.db.com/dbCalendar

Mon 10
BoE's Miles to speak in London

Wed 12
Fed's Pianalto to hold speech in Akron – 17:15 GMT
Fed's Plosser to speak in Philadelphia – 17:30 GMT

Thu, 13
Fed's Kocherlakota to speak in Sydney – 18:30 GMT

The list of data and events for the US is not comprehensive. Please see the web-based week ahead for a more complete list.

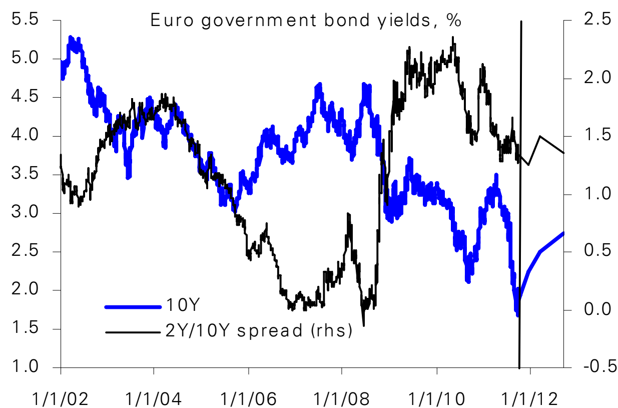
Source: Various National Statistical Offices, Bloomberg Finance LP Finance LP, Reuters, S&P MMS, DB Global Markets Research

Financial Forecasts

		US	Jpn	Euro	UK	Swiss*	Swe*	Den*	Nor*	Pol*	Hun*	Cze*
3M Interest	Actual	0.01	0.33	1.50	0.96	0.00	2.00	1.55	2.25	4.50	6.00	0.75
Rates[1]	Dec-11	**0.00**	**0.30**	1.30	0.85	0.00	2.00	1.30	2.25	4.50	6.00	0.75
DB forecasts	(futures)	(0.01)	(0.33)	(1.34)	(1.02)	--	--	--	--	--	--	--
& Futures,	Mar-12	**0.00**	**0.30**	1.30	0.85	0.00	2.00	1.05	2.25	4.25	6.00	0.75
*Central Bank	(futures)	(0.03)	(0.33)	(1.25)	(1.05)	--	--	--	--	--	--	--
Rates	Sep-12	**0.00**	**0.30**	1.30	0.85	0.00	2.00	1.05	2.25	3.50	6.00	0.75
	(futures)	(0.04)	(0.32)	(1.21)	(1.11)	--	--	--	--	--	--	--
						[---- Spreads			----]	[---- Rates		----]
10Y Gov't[2]	Actual	1.99	1.00	1.99	2.47	-0.95	-0.13	0.19	0.48	5.82	8.08	3.25
Bond	Dec-11	1.75	**0.90**	2.25	2.70	-0.85	0.00	0.20	0.50	6.60	7.35	4.40
Yields/	(futures)	(2.07)	(1.04)	(1.99)	(2.47)	--	--	--	--	--	--	--
Spreads[3]	Mar-12	2.00	**0.90**	2.50	2.90	-0.95	0.00	0.10	0.40	6.60	7.35	4.40
DB forecasts	(futures)	(2.13)	(1.08)	(2.03)	(2.52)	--	--	--	--	--	--	--
& Forwards	Sep-12	2.50	**1.00**	2.75	3.40	-0.80	0.20	0.25	0.65	6.60	7.35	4.40
	(futures)	(2.26)	(1.15)	(2.09)	(2.60)	--	--	--	--	--	--	--
		EUR/ USD	USD/ JPY	EUR/ GBP	GBP/ USD	EUR/ CHF	EUR/ SEK	EUR/ DKK	EUR/ NOK	EUR/ PLN	EUR/ HUF	EUR/ CZK
Exchange	Actual	1.34	76.6	0.87	1.55	9.14	7.44	7.83	1.24	4.38	296.3	24.7
Rates	3M	1.30	78.0	0.86	1.51	1.30	8.70	7.46	7.60	4.00	275.0	**24.2**
	6M	1.27	78.0	0.86	1.48	1.25	8.50	7.46	7.50	3.93	**276.0**	**24.0**
	12M	1.25	84.0	0.84	1.49	1.25	8.00	7.46	7.50	3.78	**279.0**	**23.7**

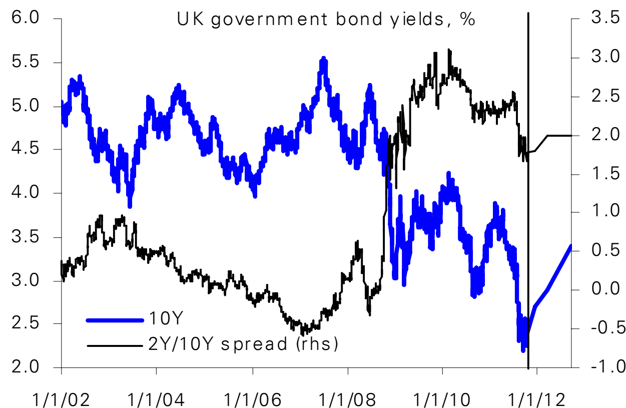
(1) Future rates calculated from the December , March and September 3M contracts. Forecasts are for the same dates. Central bank rates for the CE-4, Scandinavia and Switzerland
(2) Forecasts in this table are produced by the regional economists, and are not obtained from DByield. 10-year forwards estimated from the asset swap curve.
(3) Bond yield spreads are versus Euroland.
Source: Bloomberg Finance LP, DB Global Markets Research. Revised forecasts in bold type. All current rates taken as at Friday 11:00 GMT.

Euro government bonds: yield and slope



Source: Deutsche Bank. Forecasts to right of vertical line.

UK government bonds: yield and slope



Source: Deutsche Bank. Forecasts to right of vertical line.

Appendix 1

Important Disclosures

Additional information available upon request

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

Analyst Certification

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

Deutsche Bank debt rating key

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

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

Regulatory Disclosures

1. Important Additional Conflict Disclosures

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

2. Short-Term Trade Ideas

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

3. Country-Specific Disclosures

Australia and New Zealand: This research, and any access to it, is intended only for "wholesale clients" within the meaning of the Australian Corporations Act and New Zealand Financial Advisors Act respectively.
Brazil: The views expressed above accurately reflect personal views of the authors about the subject company(ies) and its(their) securities, including in relation to Deutsche Bank. The compensation of the equity research analyst(s) is indirectly affected by revenues deriving from the business and financial transactions of Deutsche Bank.
EU countries: Disclosures relating to our obligations under MiFiD can be found at http://www.globalmarkets.db.com/riskdisclosures.
Japan: Disclosures under the Financial Instruments and Exchange Law: Company name - Deutsche Securities Inc. Registration number - Registered as a financial instruments dealer by the Head of the Kanto Local Finance Bureau (Kinsho) No. 117. Member of associations: JSDA, Type II Financial Instruments Firms Association, The Financial Futures Association of Japan. Commissions and risks involved in stock transactions - for stock transactions, we charge stock commissions and consumption tax by multiplying the transaction amount by the commission rate agreed with each customer. Stock transactions can lead to losses as a result of share price fluctuations and other factors. Transactions in foreign stocks can lead to additional losses stemming from foreign exchange fluctuations. "Moody's", "Standard & Poor's", and "Fitch" mentioned in this report are not registered credit rating agencies in Japan unless “Japan” is specifically designated in the name of the entity.
Malaysia: Deutsche Bank AG and/or its affiliate(s) may maintain positions in the securities referred to herein and may from time to time offer those securities for purchase or may have an interest to purchase such securities. Deutsche Bank may engage in transactions in a manner inconsistent with the views discussed herein.
Russia: This information, interpretation and opinions submitted herein are not in the context of, and do not constitute, any appraisal or evaluation activity requiring a license in the Russian Federation.

Risks to Fixed Income Positions

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

David Folkerts-Landau
Managing Director
Global Head of Research

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

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

Principal Locations

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

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

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

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

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

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

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

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

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

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

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

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

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

Global Disclaimer

The information and opinions in this report were prepared by Deutsche Bank AG or one of its affiliates (collectively "Deutsche Bank"). The information herein is believed to be reliable and has been obtained from public sources believed to be reliable. Deutsche Bank makes no representation as to the accuracy or completeness of such information.

Deutsche Bank may engage in securities transactions, on a proprietary basis or otherwise, in a manner **inconsistent** with the view taken in this research report. In addition, others within Deutsche Bank, including strategists and sales staff, may take a view that is **inconsistent** with that taken in this research report.

Opinions, estimates and projections in this report constitute the current judgement of the author as of the date of this report. They do not necessarily reflect the opinions of Deutsche Bank and are subject to change without notice. Deutsche Bank has no obligation to update, modify or amend this report or to otherwise notify a recipient thereof in the event that any opinion, forecast or estimate set forth herein, changes or subsequently becomes inaccurate. Prices and availability of financial instruments are subject to change without notice. This report is provided for informational purposes only. It is not an offer or a solicitation of an offer to buy or sell any financial instruments or to participate in any particular trading strategy. Target prices are inherently imprecise and a product of the analyst judgement.

As a result of Deutsche Bank's March 2010 acquisition of BHF-Bank AG, a security may be covered by more than one analyst within the Deutsche Bank group. Each of these analysts may use differing methodologies to value the security; as a result, the recommendations may differ and the price targets and estimates of each may vary widely.

In August 2009, Deutsche Bank instituted a new policy whereby analysts may choose not to set or maintain a target price of certain issuers under coverage with a Hold rating. In particular, this will typically occur for "Hold" rated stocks having a market cap smaller than most other companies in its sector or region. We believe that such policy will allow us to make best use of our resources. Please visit our website at http://gm.db.com to determine the target price of any stock.

The financial instruments discussed in this report may not be suitable for all investors and investors must make their own informed investment decisions. Stock transactions can lead to losses as a result of price fluctuations and other factors. If a financial instrument is denominated in a currency other than an investor's currency, a change in exchange rates may adversely affect the investment. Past performance is not necessarily indicative of future results. Deutsche Bank may with respect to securities covered by this report, sell to or buy from customers on a principal basis, and consider this report in deciding to trade on a proprietary basis.

Unless governing law provides otherwise, all transactions should be executed through the Deutsche Bank entity in the investor's home jurisdiction. In the U.S. this report is approved and/or distributed by Deutsche Bank Securities Inc., a member of the NYSE, the NASD, NFA and SIPC. In Germany this report is approved and/or communicated by Deutsche Bank AG Frankfurt authorized by the BaFin. In the United Kingdom this report is approved and/or communicated by Deutsche Bank AG London, a member of the London Stock Exchange and regulated by the Financial Services Authority for the conduct of investment business in the UK and authorized by the BaFin. This report is distributed in Hong Kong by Deutsche Bank AG, Hong Kong Branch, in Korea by Deutsche Securities Korea Co. This report is distributed in Singapore by Deutsche Bank AG, Singapore Branch, and recipients in Singapore of this report are to contact Deutsche Bank AG, Singapore Branch in respect of any matters arising from, or in connection with, this report. Where this report is issued or promulgated in Singapore to a person who is not an accredited investor, expert investor or institutional investor (as defined in the applicable Singapore laws and regulations), Deutsche Bank AG, Singapore Branch accepts legal responsibility to such person for the contents of this report. In Japan this report is approved and/or distributed by Deutsche Securities Inc. The information contained in this report does not constitute the provision of investment advice. In Australia, retail clients should obtain a copy of a Product Disclosure Statement (PDS) relating to any financial product referred to in this report and consider the PDS before making any decision about whether to acquire the product. Deutsche Bank AG Johannesburg is incorporated in the Federal Republic of Germany (Branch Register Number in South Africa: 1998/003298/10). Additional information relative to securities, other financial products or issuers discussed in this report is available upon request. This report may not be reproduced, distributed or published by any person for any purpose without Deutsche Bank's prior written consent. Please cite source when quoting.

Copyright © 2011 Deutsche Bank AG