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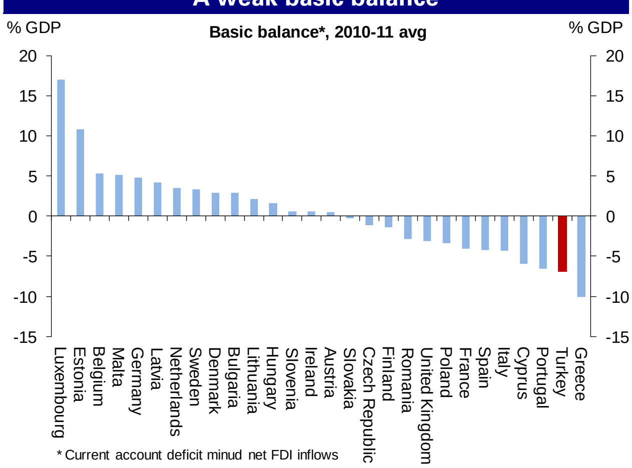
Global Economic Perspectives

How far is Turkey from Europe?

- **Turkey has come a long way since the 80s and 90s when it moved from an import-substitution to an export-oriented development strategy. In this paper, we analyse how far the Turkish economy has caught up with its EU peers.**
- **Although Turkish growth took a severe hit in 2008-09, its economy rebounded impressively in 2010-11. This year, the authorities have 'managed' to engineer a soft landing, that is, a slowing of economic growth against the backdrop of a large and, if it remains at this level, unsustainable current account deficit.**
- **More generally, we find that Turkey has made considerable progress in coming closer to the EU-27, but it remains vulnerable on the external side. Moreover, Turkey may lag behind the EU in the quality of its political and economic governance.**
- **Arguably, the reform momentum has slowed considerably and the lack of progress with regard to EU accession negotiations has not helped. Absent an external anchor (IMF, EU accession) and absent a financial crisis, the incentives to embark upon far-reaching reform that would help propel Turkey to the EU average are limited. That said, smaller piecemeal reform continues. Future convergence in this area will continue to be very gradual, if our reading of the domestic political constellation is correct.**

A weak basic balance



Sources: DB Global Market Research

Economics

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Key Economic Forecasts

	Real GDP % growth[b]			Consumer Prices % growth[c]			Current Account % of GDP[d]			Fiscal Balance % of GDP		
	2012F	2013F	2014F	2012F	2013F	2014F	2012F	2013F	2014F	2012F	2013F	2014F
US	2.1	1.9	3.1	2.1	2.4	2.6	-3.2	-3.5	-3.6	-7.2	-6.3	-5.3
Japan	1.6	0.2	0.3	-0.1	-0.6	1.7	1.0	1.2	1.6	-10.2	-9.8	-7.8
Euroland	-0.4	-0.2	1.1	2.5	1.8	1.7	0.4	0.5	0.7	-3.2	-2.6	-2.0
Germany	**0.8**	0.3	1.5	2.0	1.7	1.6	6.1	5.3	5.0	0.0	**<u>-0.5</u>**	-0.1
France	0.1	-0.1	1.2	2.3	1.7	1.6	-2.5	-2.9	-2.7	-4.8	-3.	-2.8
Italy	-2.1	-0.7	0.5	3.4	2.1	1.7	-0.5	0.3	0.2	-2.6	-2.0	-2.1
Spain	-1.4	-1.3	1.0	2.5	1.8	1.4	-2.9	-2.1	-1.2	-6.7	-5.3	-4.0
UK	-0.3	1.0	1.8	2.8	2.3	1.9	-2.3	-2.1	-1.8	-7.1	-7.2	-5.4
Sweden	1.0	1.5	2.2	1.4	1.7	2.0	6.2	5.4	5.2	-0.5	0.5	1.0
Denmark	-0.2	1.2	1.6	2.3	2.0	2.0	5.5	5.0	5.0	-4.5	-3.0	-2.0
Norway	3.5	2.0	2.5	1.0	2.0	2.0	15.0	14.0	13.0	11.0	10.5	10.0
Poland	2.4	1.9	2.5	3.8	2.6	2.3	-3.9	-3.5	-3.9	-3.6	-3.3	-2.9
Hungary	-1.3	1.0	2.8	5.6	3.8	3.4	1.6	1.5	0.8	-3.0	-2.9	-2.5
Czech Republic	-0.8	1.0	3.4	3.2	2.4	2.1	-1.9	-2.0	-2.4	-3.5	-3.2	-2.7
Australia	3.6	2.4	3.4	1.8	3.0	2.8	-3.5	-4.5	-4.1	-3.0	0.1	0.1
Canada	2.2	2.3	3.0	1.8	2.4	2.3	-2.6	-1.9	-1.3	-1.7	-1.5	-0.9
Asia (ex Japan)	6.1	6.7	6.9	3.9	4.0	4.0	1.7	1.1	0.7	-2.9	-2.8	-2.3
India	5.6	6.7	7.0	7.6	6.9	6.4	-3.2	-3.0	-2.9	-8.0	-7.5	-7.3
China	7.7	8.2	8.0	2.7	3.0	3.0	2.7	2.0	1.3	-1.5	-1.5	-1.0
Latin America	2.9	3.9	4.0	7.8	7.8	8.2	-1.1	-1.3	-1.4	-2.2	-1.9	-1.9
Brazil	1.5	4.2	4.5	5.3	5.1	5.8	-2.2	-2.4	-2.5	-2.0	-1.9	-2.0
EMEA	3.0	3.6	4.0	5.2	5.7	5.2	1.8	1.4	0.4	-0.7	-0.7	-0.7
Russia	4.0	4.3	4.2	5.2	7.4	6.1	4.3	3.4	1.5	0.1	0.0	0.2
G7	1.3	1.2	2.1	1.9	1.8	2.2						
World	2.9	3.1	3.8	3.3	3.3	3.5						

(a) Euroland forecasts as at the last forecast round on 27/09/12. Bold figures signal upward revisions, bold, underlined figures signal downward revisions. (b) GDP figures refer to working day adjusted data. (c) HICP figures for euro-zone countries and the UK (d) Current account figures for Euro area countries include intra regional transactions.

Forecasts: G7 quarterly GDP growth

% qoq saar/annual: % yoy	Q1 12	Q2 12	Q3 12F	Q4 12F	*2012*	Q1 13F	Q2 13F	Q3 13F	Q4 13F	*2013F*	*2014F*
US	2.0	1.3	2.0	1.3	***2.1***	1.5	2.0	3.2	3.6	***1.9***	***3.1***
Japan	5.2	0.3	-3.5	-1.5	***1.6***	1.4	1.4	1.7	1.8	***0.2***	***0.3***
Euroland	0.0	-0.7	-0.2	-1.4	***-0.4***	-0.4	0.6	1.2	0.8	***-0.2***	***1.1***
Germany	2.0	1.1	0.9	-1.3	***0.8***	**<u>-0.2</u>**	**<u>1.0</u>**	**1.8**	**0.9**	***0.3***	***1.5***
France	-0.1	-0.2	0.9	-1.6	***0.1***	-0.4	0.0	0.8	1.2	***-0.1***	***1.2***
Italy	-3.1	-2.9	-0.7	-1.6	***-2.1***	-0.8	0.0	0.8	0.5	***-0.7***	***0.5***
UK	-1.2	-1.5	4.1	0.6	***-0.3***	0.8	1.2	1.6	1.8	***1.0***	***1.8***
Canada	1.8	1.9	1.7	3.1	***2.2***	2.1	2.4	3.4	3.3	***2.3***	***3.0***
G7	1.7	0.5	0.9	0.2	***1.3***	1.0	1.5	**<u>2.4</u>**	2.5	***1.2***	***2.1***

Sources: National authorities, Deutsche Bank

How far is Turkey from Europe?

- **Turkey has come a long way since the 80s and 90s when it moved from an import-substitution to an export-oriented development strategy. In this paper, we analyse how far the Turkish economy has caught up with its EU peers.**
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Introduction

Turkey has come a long way since the 80s and 90s when it moved from an import-substitution to an export-oriented development strategy. A significant decline in economic growth during the early 80s as well as late 80s/ early 90s emboldened reformers led by Turgut Özal to both liberalise and open the economy. Like many other emerging economies, Turkey subsequently experienced several financial crises and was plagued by stop-and-go policies, largely due to premature capital account liberalisation (fashionable at the time), insufficient banking and fiscal reform as well as political shortcomings such as unstable, politically volatile multi-party coalition governments.

Turkey had a little bit of a head-start vis-à-vis Eastern European economies that began economic reform during the early 90s. While another reform spurt took place following the financial crises of 2000-01 under the aegis of the IMF, the Eastern European economies underwent much wider economic and institutional reform in view of their subsequent EU entry. Turkey has nonetheless come a very long way in terms of building an open, outward-looking economy with by and large solid fundamentals.

In this paper, we analyse how far the Turkish economy has caught up with its EU peers. Admittedly, selecting indicators for comparative purposes is a somewhat arbitrary exercise. So the conclusion we reach here should be seen as more impressionistic than systematic in nature. But as in impressionistic paintings, seemingly random brushstrokes generally do end up forming a greater whole, allowing one to see the 'larger picture'. In the following section we present an overview of Turkey's position in several areas compared to the EU average. We then discuss each area in more detail. Our key conclusion is that Turkey has made considerable progress in coming closer to the EU-27, but it remains vulnerable on the external side. Moreover, Turkey lags behind the EU in the quality of its political and economic governance.

How does Turkey compare to the EU-27?

Table 1 shows Turkey's standing relative to the EU-27 in several key areas. In the past few years, Turkey has been economically more successful than its EU-27 peers in terms of real GDP growth. This is bound to continue for the time being, as most EU-27 economies will, at a minimum, experience fiscal tightening and low, if any, economic growth. Turkey, by contrast, is likely to pursue policies aimed at maintaining 4-5% growth, not least because the country will hold local and presidential (2014) as well as parliamentary (2015) elections soon. However, even at this pace, let alone if the economy grows significantly faster than this, Turkey may become increasingly vulnerable to external financing shocks and sharp economic downturns.

Thanks to a solid public debt position and a fair fiscal policy stance and a reasonably solid banking sector, this is, for the time being, unlikely to trigger broader financial problems. A severe and sustained financing and growth shock, however unlikely at the moment, could change this, as the recently IMF FSAP report elaborated in detail1. While many EU-27 members struggle to put public debt on a sustainable path, Turkey's greatest vulnerability stems from a large and possibly widening current account deficit and the poor quality of its financing. Its external vulnerability, a reflection of a very low domestic savings ratio, makes Turkey a bit of an outlier, especially following the adjustment that has taken place in many EU countries since 2009. Turkey's current account deficit is also large compared to its emerging markets peers.

In terms of development, Turkey, not surprisingly, lags the EU average, even though it compares favourably to some of the less advanced EU-27 economies (Bulgaria, Romania) on a number of indicators (e.g. per capita income, growth). Although catching up, Turkey lags in terms of the quality of its institutions and governance. Had EU accession negotiations made progress in recent years, Turkey would today score much higher on these indicators than it currently does.

In terms of international economic integration, Turkey also lags. In terms of trade as well as FDI inflows and stocks Turkey comes in last. The lower degree of integration, even if adjusted for Turkey's greater size relative to its smaller Eastern European peers, can largely be attributed to its non-EU membership status. FDI inflows and trade would likely have been significantly larger if reforms had continued to advance in the context of EU accession

[1] IMF, Turkey Financial System Stability A ssessment, September 2012

negotiations. The composition of exports in terms of geography and product category is comparable to the EU average, even if the overall sophistication of Turkish exports remains significantly below the EU average.

Turkey is also far from converging to the EU average in terms of interest rates, inflation, exchange rate volatility and banking sector size. As in the case of several other indicators, this can be interpreted as Turkey falling short of the EU average or as offering the proverbial low-hanging fruit in terms of growth-enhancing and convergence-accelerating policies and reform.

Last but not least, in institutional terms, Turkey continues to lag the EU-27 by a substantial margin, even though the gap in terms of government effectiveness, corruption and 'doing business' is not as wide as it used to be. Arguably, the reform momentum has slowed considerably and the lack of progress with regard to EU accession negotiations has not helped. Absent an external anchor (IMF, EU accession) and absent a financial crisis, the incentives to embark upon far-reaching reform that would help propel Turkey to the EU average are limited. That said, smaller piecemeal reform continues[2]. Future convergence in this area will continue to be very gradual, if our reading of the domestic political constellation is correct.

Table 1. How far is Turkey from Europe?

Turkey vs EU-27

		Rating
Economic growth & economic structure	Economic growth has outperformed the EU-27 by a large margin	better
	Per capita income is below EU-27 average, but higher than that of poorest EU members	comparable
	Size of industrial sector relative to GDP is in line with the EU-27	comparable
	Agricultural sector is tangibly larger	lagging
	Level of human development & education tangibly below EU-27	lagging
International economic integration	In terms of FDI, Turkey is less open than EU members.	lagging
	In terms of trade, Turkey is less open	lagging
	Geographically, export structure is not too different.	comparable
	Tech-intensity of Turkish exports is very low	lagging
External vulnerability	Current account deficit (and deficit in basic balance) is quite large	lagging
	Relatively low levels of FDI inflows mean that basic balance/ deficit is very large compared to most EU economies	lagging
Financial markets & banking sector	Interest rates and inflation are significantly above the EU-27 average	lagging
	The banking sector is comparatively small (but has also greater potential for further growth)	lagging
Government debt & fiscal policy	Level of debt and fiscal policy stance are far more comfortable	better
Governance & institutions	Turkey lags EU-27 quite a bit. In terms of corruption, government effectiveness and 'doing business', Turkey fares the least worst	lagging

better
comparable
lagging

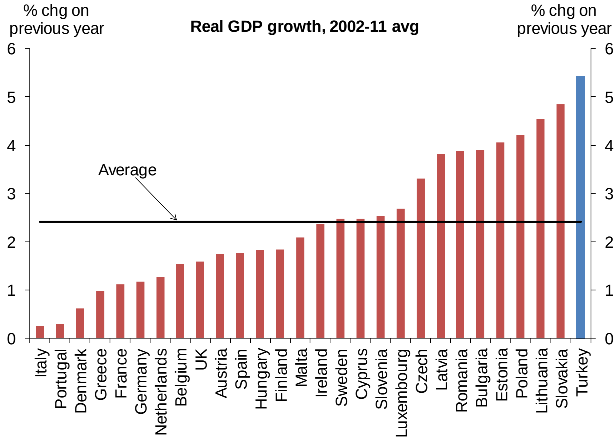
Sources: DB Global Market Research

Economic growth, GDP composition & per capita income

Ten-year real GDP growth reached 5.4% in 2011, by far the highest among the EU-27 plus Turkey. Only Slovakia comes close to matching Turkish growth rates with an average of 4.9%. This compares to an average of 2.4% for the EU-27 as a whole. The volatility of real GDP growth was relatively high in Turkey, but not the highest in the sample. The Baltic countries and Romania experienced higher volatility during 2002-11. Conceptually, one probably ought to adjust for the degree of exchange rate flexibility, the suggestion being that countries with fixed exchange rate arrangements experience higher output volatility, especially in the face of external shocks. Given that the Baltic economies have (quasi) fixed exchange rates, Turkish volatility appears to be relatively high. As we'll argue below, this is not at all surprising, given large Turkish current account deficits and their relatively poor quality of financing.

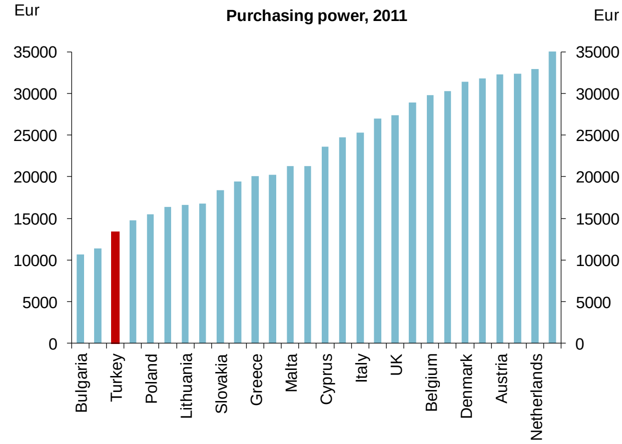
[2] See OECD, Economic Survey of Turkey 2012, for laundry list of reforms.

Chart 1. Turkish growth ahead of others



Sources: Eurostat, DB Global Market Research

Chart 2. Turkey at the lower end of GDP per capita



Sources: Eurostat, DB Global Market Research

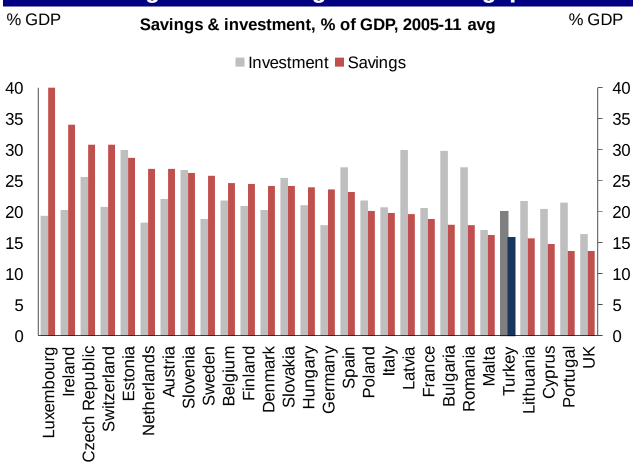
The share of agriculture in GDP is quite large in Turkey, amounting to a little less than 10% of gross value added. In Bulgaria and Romania, the countries with the highest and second-highest agro-production among the EU-27, the share is little more than 5%. Turkey is clearly an outlier. Interestingly, Turkish industrial output at 20% of GVA matches the EU-27 average almost exactly. Like in many other EU countries, the share of industry in total output has been declining in recent years, falling from almost 25% at the beginning of the past decade to 20% today. Agricultural output has declined far less (as a share of total output), falling about 1 percentage point during the same period. In the service sector, construction, transport, storage, communication and financial intermediation have gained shares in value added, accounting for some 35% in 2012. Considering the external deficit, it seems that not enough of these services have become tradable.

Per capita income on a PPP basis amounted to EUR 13,400 in 2011. Turkey's per capita income is higher than Bulgaria's and Romania's and only around 15% below Poland's. Luxembourg's purchasing power per inhabitant is about 2.7x the EU average, while Turkey currently amounts to only half the average. Depending on how one chooses to look at this, Turkey benefits from considerable catch-up potential or lags the EU economies by significant margin, or both. Either way, Turkey is ahead of both Bulgaria and Romania.

It is not surprising that Turkey with one of the lowest per capita income among the EU-27 plus Turkey should have experienced the fastest GDP growth over the past decade or so. Turkish per capita income has increased from 30% of the EU-27 average in 1995 to more than 50% today. This closely shadows the development of Bulgaria and Romania. This goes back to the point of headline versus per capita growth. In per capita terms, Turkey's economic growth was not very different from that of the other Eastern European economies. After all, Turkey's population has continued to expand tangibly. Although population growth has decelerated from 1.4% at the beginning of the past decade to 1% today (and is projected to fall further), most Eastern European countries experienced stagnation, or more often than not saw their populations decline over the past two decades.

Turkey's strong growth took place against the backdrop of a low, actually declining gross domestic savings ratio. The Turkish national savings ratio averaged 16% of GDP 2005-11, compared to an investment ratio of a little more than 20% of GDP. Both ratios are within one standard deviation of the EU-27 mean, the savings ratio barely so. The (unweighted) average investment and savings ratio of the EU-27 during the same period was 22.3% and 23.6% of GDP, respectively. Not surprisingly, Turkey compares relatively poorly in terms of its current account deficit. It is worth mentioning here that in spite of a strong increase in public sector savings during the first half of the past decade, domestic savings as whole declined, from 17% in 2002 to 13% of GDP today. While detailed private savings data are not available, the decline has likely been due to declining household savings on the back of a massive reduction in real interest rates. Unless the national savings ratio increases, Turkey will be forced to run large current account deficits if 4-5% real GDP is to be achieved over the medium term.

Chart 3. A significant savings-investment gap



Sources: Fitch ,DB Global Market Research

International economic integration: trade & FDI

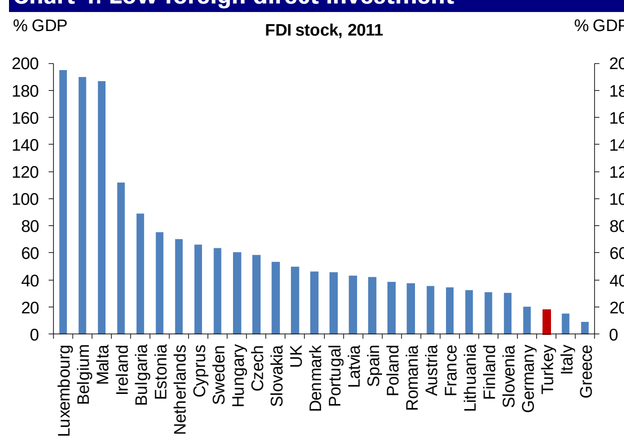
Turkey has historically been running large current account deficits. During the 90s, this resulted in repeated balance-of-payments crises, stop-and-go policies and very high growth volatility. Following the macroeconomic stabilisation and structural reform during the first half of the 2000s, Turkey once more began to run rather large current account deficits. Combined with a moderate-to-poor quality of deficit financing, this has continued to expose Turkey to 'sudden stops' (in capital inflows), as the 2008 global financial crisis demonstrated. A solid public sector debt position and a well-regulated banking sector (required, unlike in the old days, to run only minimal FX risk) has helped prevent the type of broader financial destabilisation and IMF bail-out so typical of the 90s and early 2000s.

The current account deficit, nonetheless, remains very large by post-crisis EU-27 standards. It stood at 10% of GDP in 2011 and is forecast to exceed 8% of GDP this year. A number of EU economies ran large current account deficits, but have since reduced their deficits. This year, Turkey is forecast to run the largest current account deficit among the EU-27 plus Turkey (including Greece).

While Turkey's current account deficit peaked at 10% of GDP in 2011 (after rising from a cyclical low of less than 3% during the 2008-09 global crisis-induced severe recession), the 5Y average is 6% of GDP. Again, this compares relatively favourably to many euro zone peripheral economies during 2006-11. Turkey may not be an outlier in EU-27 terms during this period, but with its current account deficit likely to remain stuck at more than 7-8% of GDP over the medium term, especially once the cyclical recovery kicks in next year, it will be one, if it is not one already.

Moreover, Turkey, unlike some of the EU-27 countries with large deficits, has been receiving relatively lower levels of FDI inflows, especially in the past few years. 5Y and 10Y FDI inflows among the EU-27 averaged more than 5% of GDP compared to around 2% of GDP in Turkey. All other things equal, this translates into a greater dependence on external debt financing (portfolio equity flows to Turkey are typically quite small). And this translates into a heightened sensitivity, if not vulnerability[3] to external shocks, especially sudden stops. Several different factors may account for the low level of FDI inflows. As the size of inflows does not differ significantly from the level observed in other large, non-EU emerging economies, it suggests that not being an EU member holds back potential FDI inflows. The inward FDI stock is also significantly lower, of course. FDI as a share of GDP amounts to 20% of GDP in Turkey compared to an EU-27 average of more than 60%. Even if one scales this ratio to account for Turkey's economic size, this ratio compares unfavorably.

Chart 4. Low foreign direct investment

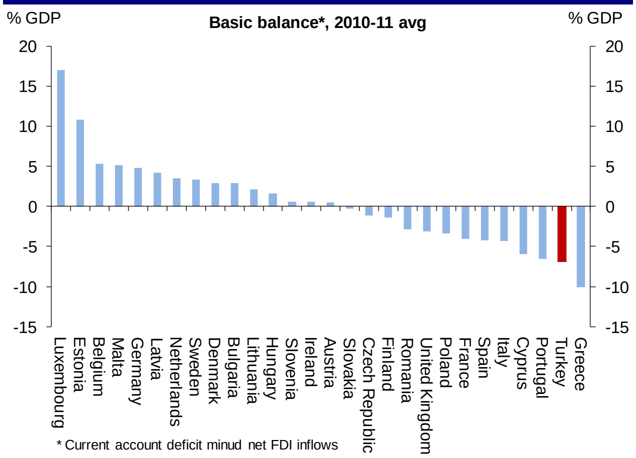


Sources: UNCTAD, DB Global Market Research

As a result, Turkey's basic balance (defined here, for the sake of simplicity, as current account deficit minus FDI inflows) is large. Despite strong underlying GDP growth, a deficit of this size will translate into a rising external debt to GDP ratio.

[3] In this respect, Turkey is a bit of an outlier in the emering markets space. See also Global Economic Perspectives – De-coupling long term, November 8, 2013

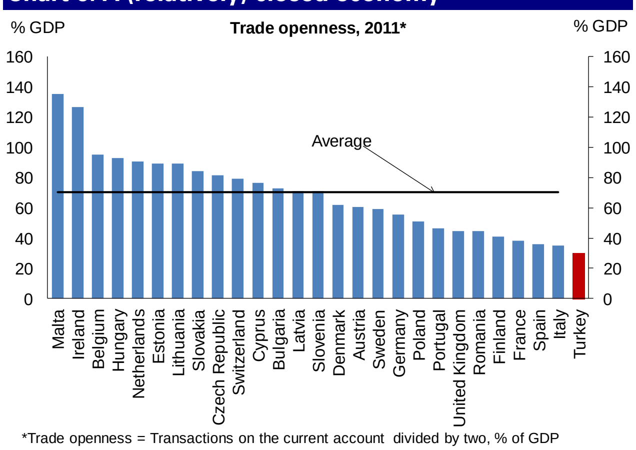
Chart 5. A weak basic balance



Sources: Fitch, DB Global Market Research

Perhaps somewhat more surprisingly, Turkey also lags in terms of trade openness[4]. This may be the cause and/ or effect of relatively low levels of FDI. Trade as a share of GDP amounts to a mere 30% of GDP in Turkey, but to 70% of GDP among the EU-27 (if outlier Luxembourg is excluded). Even Romania and Bulgaria, the most recent joiners, benefit from much greater trade integration, amounting to 45% and 73%, respectively.

Chart 6. A (relatively) closed economy



Sources: Fitch, DB Global Market Research

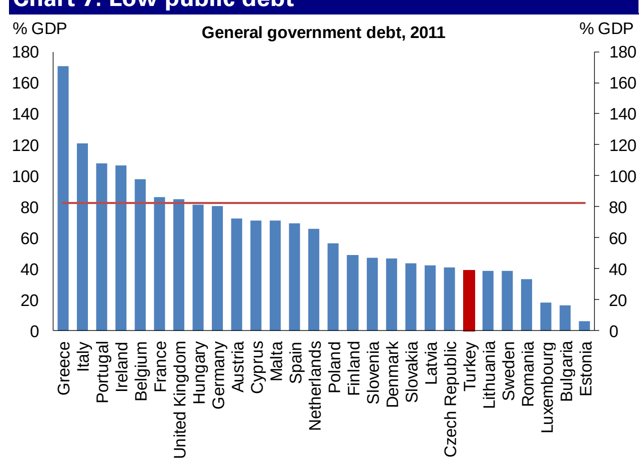
In terms of the geographic composition of exports, though, Turkey is more aligned with the EU-27. The EU-27 countries send 2/3 of their exports to other EU countries. Turkish exports to the EU-27 were somewhat less that that, around 47%. In terms of imports, the comparable figures for 2011 are 63% for the EU and 38% for Turkey, respectively. Pre-2008 crisis, the share of Turkish exports to the EU was in the mid-50s, much closer to the EU average. In recent years, Turkey has significantly expanded its trade relations with its neighbours to the South and East.

Last but not least, in terms of the export product mix, a mixed picture emerges. Manufacturing goods as a share of merchandise exports are exactly the same in both Turkey and the EU, around 80%. In Turkey, high-tech exports are small, though, accounting for only 2% of total manufacturing exports, compared with an EU average of 15%, according to the World Bank.

Government debt and fiscal policy

Turkey has made tremendous progress in terms of fiscal sustainability since the crisis of the early 2000s when it faced near insolvency. General government debt amounts to less than 40% of GDP and is projected to decline to 30% of GDP under the current medium-term fiscal programme by 2015 or so. It is also worth mentioning that Turkey has succeeded in reducing, in fact eliminating, its 'short' FX position as far as the broader consolidated public sector is concerned (which includes amongst other things the central bank and its FX assets). Non-residents do hold a significant share of domestic, LCY-denominated government debt, similar to most other EU countries. Turkey thus compares very favourably to the EU-27 where average (weighted) gross general government debt amounted to 82.5% of GDP in 2011.

Chart 7. Low public debt



Sources: Eurostat, DB Global Market Research

Similarly, the fiscal deficit is quite low. The medium-term fiscal programme forecasts a deficit of less than 2% of GDP, compared to an average unweighted (weighted) fiscal deficit of 4% (4.4%) of GDP in the EU-27 in 2011. While Turkey's debt ratio is projected to decline, the EU-27 will struggle to do the same. Turkey also benefits from much higher underlying nominal GDP growth of 10% or so. Last but not least, real interest rates are currently lower than in many other EU-27 counties. Whether this is sustainable

[4] The sum of the US dollar value of all transactions on the current account of the balance of payments divided by two and expressed as a percentage of GDP at current prices.

remains to be seen, however. Turkey will see its debt ratio fall by around 1-2 percentage points a year.

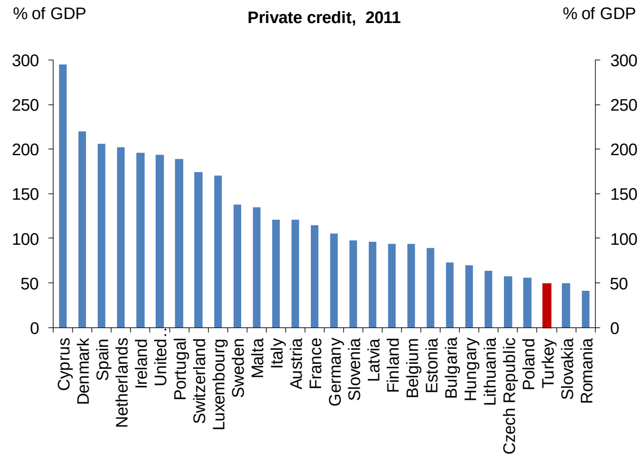
Monetary policy, interest rates, financial markets and the banking sector

The Turkish central bank's inflation target for 2012 is 5.3%, but the authorities are unlikely to bring inflation down much from currently around 8% yoy. The central bank has also been missing its inflation targets more often than not in the past few years. While it appeared in the mid-2000s as if inflation was going to converge to EM levels of 3-4%, it now seems stuck in the 6-8% range. (Unweighted) EU-27 inflation has been running at around 3% in recent months, compared to Turkey's 8-10%. Given the short-term growth outlook in Europe and continued high inflation in Turkey, a significant inflation differential will persist. Turkish inflation, at least, is unlikely to decline to 5% or less before 2016, given upcoming local and presidential elections (2014) as well as parliamentary elections (2015) and the outlook for continued strong capital inflows, which will make the central bank reluctant to hike rates too aggressively.

Turkish interest rates will remain relatively high in nominal terms. In real terms, they are currently around zero, but this, to some extent, is a function of very easy global monetary conditions, the search for yield and solid capital inflows. The CBRT has recently been pursuing an un-orthodox monetary policy relying on a number of different instruments. Comparing euro zone/ EU central bank policy rates is therefore fraught with difficulties. Comparing one-year government bond yields also creates challenges given that European bond yields have been all over the place. It is clear though that nominal Turkish (bond) yields are unlikely to fall much below inflation over the medium term. Therefore, if inflation remains in the 6-8% range, Turkish bond yields as well as central bank policy rates will remain above the EU-27 average, even if they are below the levels seen in some of the peripheral EU countries.

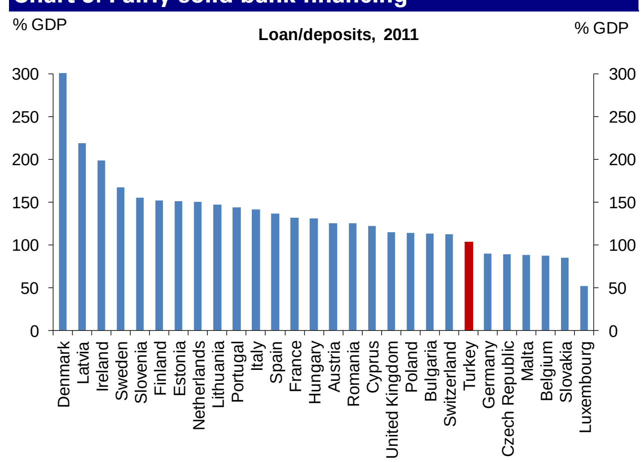
Turkey has been experiencing rapid bank loan growth over the past few years, similar to many other emerging economies. Credit to the private sector has increased very significantly, especially following the 2008 crisis, with the ratio rising from 30% of GDP to 50% of GDP. This took place against the backdrop of very rapid underlying real GDP growth and aggressive monetary easing by the central bank. Real interest rates are close to zero today, after hovering around 10% and more during the mid-2000s. While the increase in credit has been rapid, and is not without risk, the stock of credit to the private sector is not excessive compared to the EU-27. This comparison is somewhat complicated by the fact that most EU-27 countries have higher per capita incomes, which is correlated with a higher degree of outstanding credit. While Turkey's loan growth has outpaced deposit growth, and the loan-deposit ratio now exceeds 100%, this continues to compare favorably to most other EU countries. Once again, Turkey lags and/ or has plenty of catch-up potential in terms of convergence and supporting economic growth, depending on how one wishes to look at it.

Chart 8. Moderate outstanding private credit



Sources: Fitch, DB Global Market Research

Chart 9. Fairly solid bank financing



Sources: Fitch, DB Global Market Research

Quality of institutions and governance

Turkey lies outside one standard deviation of the EU average with regards to institutional, governance, human development and competitiveness indicators. The gap between the EU-27 and Turkey is in some cases considerable, in others less so. Turkey fares poorly in terms of political indicators (stability, choice and accountability), but much better in terms of government effectiveness and doing business as well as corruption, relative to the EU average. Especially striking is the difference with regards to more forward-looking education indicators such as the 'percent of population aged 20-24 having completed at least upper secondary education'. The average among the EU-27 is about 80% compared to a mere 50% in Turkey.

Turkey is literally 'off the charts' here. At the same time, it also suggests that tackling shortcomings in these areas could provide a significant boost to Turkey's economic growth potential. In many respects, Turkey faces many low-hanging fruits in terms of sustaining medium-term economic growth, especially relative to the EU-27.

Table 2. EU-27 versus Turkey-WB governance indicators

	Political stability	Gov effectiveness	Rule of law	Control of corruption	Choice & Accountability	Human Dev Index	Doing Business
STDEV	87.7	95.7	96.5	94.5	95.0	92.6	92.9
Mean	73.4	82.3	82.9	79.5	83.6	85.6	79.4
STDEV	59.0	68.8	69.2	64.4	72.1	78.7	66.0
Turkey	**17.9**	**65.4**	**57.7**	**61.1**	**43.7**	**50.5**	**61.6**

Sources: World Bank ,UN, DB Global Market Research

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Central Bank Watch

US

We expect the Fed will announce at its December meeting that it will continue purchasing $40 bn MBS and $45 bn longer-term treasuries per month after its maturity extension program ends at year-end. We expect them to indicate that the Treasury purchases as well as the MBS purchases will continue at this pace until the labor market shows substantial improvement. The FOMC has been discussing ways to enhance their verbal guidance on policy rate moves. We expect calendar based guidance eventually to be replaced with guidance based on a qualitative description of desired economic outcomes, but not at the December meeting.

	Current	Dec-12	Mar-13	Dec-13
Fed funds rate	0 – 0.25	0 – 0.25	0 – 0.25	0–0.25

Japan

Japanese voters will go to the polls on Dec 16 and the LDP are favored to win. Party leader Abe has vowed to assign the BoJ a higher inflation target, which would likely force the central bank to expand its balance sheet much more aggressively to weaken the yen. But this could also lead to upward pressure on JGB yields exposing the fragility of government finances especially if an LDP government tries to pursue a more expansionary fiscal policy.

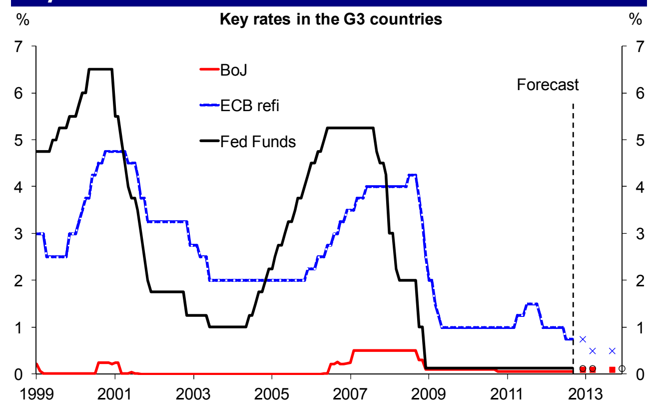
	Current	Dec-12	Mar-13	Sep 13
ON rate	0 – 0.1	0 - 0.1	0 - 0.1	0 - 0.1

Euroland

In November, the ECB left policy unchanged. The tone was modestly dovish. The ECB appears less convinced of a 2013 economic recovery. Financial conditions are improving thanks to the OMT and are equivalent to a monetary easing, but Draghi left open the stance on standard monetary policy next year. The sense is that if activity remains weak into Q1, a rate cut will be on the agenda. This is consistent with our view that the ECB will deliver one 25 bps refi cut in Q1 2013 and only cut the deposit rate into negative territory in the event of a further material economic deterioration. Elsewhere, on OMT, the ECB is clear that the ball is in Madrid's court and that Rajoy will be getting no assurances about OMT in advance of an application.

	Current	Dec-12	Mar-13	Sep-13
Refi rate	0.75	0.75	0.50	0.50

Key rates in the G3 countries



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

UK

The Bank of England decided to pause its QE programme at the November meeting, the third such suspension since the Bank began buying gilts back in early 2009. If we and the MPC are correct in forecasting a slow recovery in economic growth going forward then we might have seen the last of QE. However, recent weakness in the PMI surveys raises the risk that growth begins to contract again after the post-Jubilee bounce in Q3. If the PMIs were to fall further then this could easily support further monetary intervention from the Bank of England (though note that the BoE’s decision to suspend QE was made in the expectation that GDP contracts in Q4). If this really does turn out to be a cessation of the QE programme then we would expect to see interest rates being raised modestly by the end of 2014.

	Current	Dec-12	Mar-13	Sep-13
Bank rate	0.50	0.50	0.50	0.50

Sweden

The Riksbank surprised by cutting rates in September. The risks have risen for further action though we currently do not expect a move at the next meeting: 18 December.

	Current	Dec-12	Mar-13	Sep-13
Repo rate	1.25	1.25	1.25	1.25

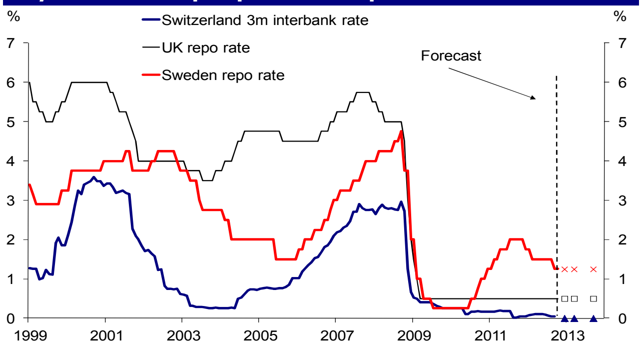
Switzerland

The SNB opted to keep its EUR/CHF floor at 1.20 at its September meeting, but downgraded the outlook for growth and inflation. Next meeting: 13 Dec.

	Current	Dec-12	Mar-13	Sep-13
3M Libor tgt	0.00	0.00	0.00	0.00

Central Bank Watch

Key rates in the peripheral European countries



Source: SRB, SNB, BoE, Haver Analytics, DB Global Markets Research

Canada

Given that both headline and core inflation are materially below the BoC's 2% target, together with the persisting concern about the very high level of household debt to incomes, we think that it is highly unlikely that the Bank will adopt a more restrictive policy stance until late in the second quarter of 2013 or possibly early in the third quarter.

	Current	Dec-12	Jun-13	Dec-13
ON rate	1.00	1.00	1.50	2.00

Australia

The RBA's decision to remain on hold in November was, in our view, a finely balanced decision and we think that the minutes of that meeting as released on 20 November underscore that view. Nevertheless, the combination of an unchanged RBA, improving prospects for a smoothing of the fiscal cliff in the US, recovery in key commodity prices over the past few months, higher than expected inflation in Q3 and an improving view on China have left the market comfortable about the level of rates – and as the front end continues to sell off, short dated volatility has continued to decline.

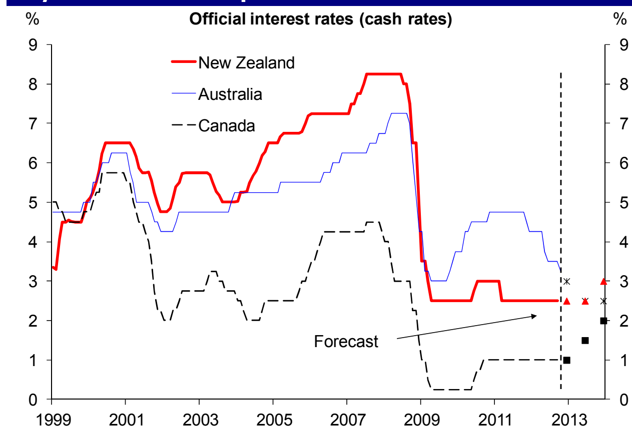
	Current	Dec-12	Jun-13	Dec-13
OC rate	3.25	3.00	2.50	2.50

New Zealand

The data flow in NZ continues to weigh on NZD and underpin our long AUD/NZD trade, with the Q3 retail sales data released in the past week markedly weaker than expected. We continue to see risks that the market prices a greater prospect of RBNZ easing in coming months, further boosting the cross. We therefore continue to hold our long AUD/NZD trade targeting a move to 1.29.

	Current	Dec-12	Jun-13	Dec-13
OC rate	2.50	2.50	2.50	3.00

Key rates in the Peripheral $-bloc



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

China

CPI inflation slowed to 1.7% yoy in October, slightly below the market consensus and September's 1.9%. The deceleration was mainly due to the sharp drop in vegetable prices (by 13% mom). We believe food prices will rise soon as snow is already hitting Northern China now. As a result, CPI inflation will likely rise towards 2.4% yoy in December. PPI deflation narrowed further to 2.8% yoy, compared with September's 3.6% yoy PPI decline. On a mom basis, the PPI rose 0.2% mom, the first sequential increase since May. In general, we believe the Chinese economy is on track to a Q4 recovery. We maintain our forecast that Q4 GDP growth will rise to 7.7% yoy from 7.4% in Q3. We do not expect any rate cut from PBOC anytime soon.

	Current	Dec-12	Mar-13	Sep-13
1-year rate	3.00	3.00	3.00	3.00

India

Noting that that "the persistence of inflationary pressures even as growth has moderated, remains a key challenge," the RBI left key policy rates unchanged and cut the cash reserve ratio by 25bps at the October Q2 FY12/13 review of monetary policy. The RBI is encouraged by the government's recent measures to reduce fiscal risks, but is understandably waiting to see actual progress toward reducing the fiscal deficit. Particularly helpful would be greater clarity on a mechanism for fuel price adjustment, details on expenditure reduction, and contingency measures to maintain fiscal discipline if the targeted non-tax revenues (related to disinvestment and 2G spectrum auctions) do not materialize. We are not inclined to read a great deal in the RBI's policy guidance that "the baseline scenario suggests a reasonable likelihood of further policy

Central Bank Watch

easing" in Q4 FY12/13. Our forecast suggests inflation could come down to 7% by March, but that forecast is subject to substantial margin of error, given lingering risks to food and non-food prices. Hence we are maintaining our call that the first cut in this cycle will likely have to wait until March 2013.

	Current	Dec12	Mar 13	Sep 13
Repo rate	8.00	8.00	7.75	7.00

Brazil

The Central Bank cut the SELIC overnight rate by 25bps to 7.25% in October, and signaled the end of the easing cycle. According to the COPOM statement, "considering the balance of risks to inflation, the Committee understands that stability of monetary conditions for a sufficiently long period is the most adequate strategy to ensure convergence of inflation to the target." Moreover, the decision was not unanimous, as five board members voted for a rate cut, and three voted for no cut. Thus, we now expect the SELIC rate to remain at 7.25% until the end of 2013. Nevertheless, given that the government's main priority is to boost GDP growth, and considering the Central Bank's dovish bias, we cannot completely rule out additional rate cuts in the near future, especially if global economic conditions deteriorate further.

	Current	Oct12	Dec12	Mar13
CBR refi rate	7.25	7.25	7.25	7.25

Russia

CBR keeps rates on hold

The Board of Directors of the Central Bank of Russia (CBR) on 9 November announced its decision to keep key interest rates on hold as expected: refinancing rate at 8.25%, auction repo at 5.50% and fixed depo at 4.25%. The CBR stated that this decision was driven mainly by inflationary risks and economic growth prospects.

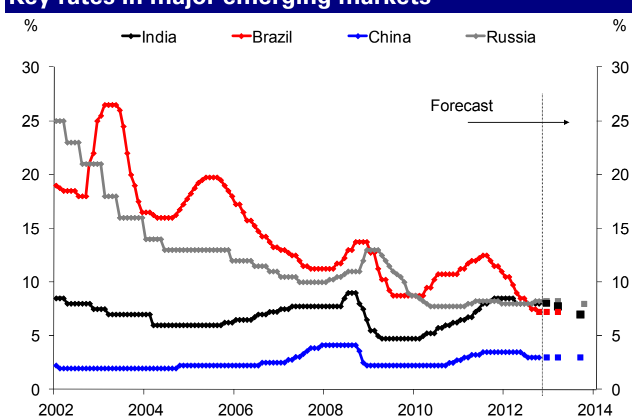
With regard to monetary conditions, the CBR stated that in October and the beginning of November the pace of inflation declined slightly but stayed above the target range of 5-6% yoy. As of 6 November inflation amounted to 6.4% yoy, while core inflation amounted to 5.8% yoy in October. Stabilization was registered in food prices, the key driver of accelerated inflation in recent months. The CBR added that the deceleration in food prices and the September 2012 hike in interest rates could contribute to a further moderation of inflation expectations.

On the production front, the CBR for the first time explicitly admitted that the key macroeconomic indicators point to a certain slowdown in the economic activity: household consumption and industrial production growth rates were largely unchanged, while fixed investment continued to decelerate. According to the CBR, economic confidence indicators remain positive along with the still favorable labour market conditions and retail credit growth that support robust domestic demand. Despite the slower economic growth observed in 2H12, the CBR sees the GDP close to its potential level. Banking credit growth continued to show certain signs of stabilization. However, the risks of a significant economic slowdown stemming from somewhat tighter monetary conditions are considered to be insignificant.

Overall, the CBR policy rate decision was in line with our expectations. As in the previous months, the CBR did not include the paragraph on the short- and medium-term adequacy of interest rates in the statement. In this respect it seems that the CBR is aiming to secure some room for maneuverability going into the end of this year, though clearly compared to earlier statements the tone of the CBR is more dovish. The next policy rate decision meeting is scheduled in the first ten days of December, and we note that given the tone of the statement and recent developments on the inflation front, the probability of a hike at the end of this year is diminishing.

	Current	Dec12	Mar13	Oct13
CBR refi rate	8.25	8.25	8.25	8.00

Key rates in major emerging markets



Source: PBoC, RBI, BCB, CBRF, Haver Analytics, DB Global Markets Research

Global central bank policy rate changes since August 2009

	Trough policy rate	2009 Aug	Sep	Oct	Nov	Dec	2010 Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	2011 Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	2012 Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Net Chan
Israel	0.50	0.75			1.00	1.25			1.50				1.75		2.00				2.25	2.50	3.00		3.25				3.00		2.75		2.50					2.25					2.00		150
Australia	3.00			3.25	3.50	3.75			4.00	4.25	4.50						4.75												4.50	4.25					3.75	3.50				3.25			25
Norway	1.25			1.50		1.75					2.00												2.25							1.75			1.50										25
Vietnam	7.00					8.00											9.00			11.00	12.00	13.00	14.00					15.00					14.00	13.00	12.00	11.00	10.00						300
Malaysia	2.00								2.25		2.50		2.75										3.00																				100
India	4.75								5.00	5.25			5.75		6.00		6.25		6.50		6.75		7.25	7.50	8.00		8.25	8.50						8.00									325
Brazil	8.75									9.50		10.25	10.75						11.25		11.75	12.00		12.25	12.5		12.00	11.50	11.00		10.50		9.75	9.00	8.50		8.00	7.50		7.25			-150
Peru	1.25										1.50	1.75	2.00	2.50	3.00				3.25	3.50	3.75	4.00	4.25																				300
Canada	0.25											0.50	0.75		1.00																												75
Chile	0.50											1.00	1.50	2.00	2.50	2.75	3.00	3.25		3.50	4.00	4.50	5.00	5.25							5.00												450
New Zea	2.50											2.75	3.00								2.50																						0
Taiwan	1.25											1.38			1.50			1.63			1.75			1.88																			63
Sweden	0.25												0.50		0.75	1.00		1.25		1.50		1.75			2.00					1.75		1.50							1.25				100
S Korea	2.00												2.25				2.50		2.75		3.00			3.25													3.00			2.75			75
Thailand	1.25												1.50	1.75				2.00	2.25		2.50	2.75		3.00	3.25	3.50			3.25		3.00									2.75			150
Serbia	8.00													8.50	9.00	9.50	10.50	11.50	12.00		12.25	12.50		12.00	11.75		11.25	10.75	10.00	9.75	9.50					10.00	10.25	10.50		10.75	10.95		295
Uruguay	6.25	8.00				6.25									6.50						7.50			8.00						8.75									9.00				275
Nigeria	6.00														6.25				6.50		7.50		8.00		8.75		9.25	12.00															600
China	2.25															2.50		2.75		3.00		3.25			3.50											3.25	3.00						75
Hungary	5.25	8.0	7.5	7.0	6.5	6.25	6	5.75	5.5	5.25							5.50	5.75	6.00										6.50	7.00									6.75	6.50	6.25	6.00	75
Poland	3.75																		3.75			4.00	4.25	4.50											4.75						4.50		75
Indonesi	5.75																			6.75								6.50	6.00			5.75											0
Colombia	3.00	4.5	4.0		3.5						3.0									3.25	3.50	3.75	4.00	4.25	4.50				4.75		5.00	5.25						5.00	4.75			4.50	150
Russia	7.75	10.75	11	10.0	9.0	8.75		8.5	8.25	8.0	7.75									8.00		8.25								8.00									8.25				50
Philippine	4.00																				4.25		4.50								4.25		4.00				3.75			3.50			-50
Kazakhs	7.00	7.5	7.0																		7.50											7.00	6.50			6.00		5.50					-150
Euroland	1.00																					1.25			1.50				1.25	1.00							0.75						-25
Denmar	0.80	1.35	1.3				1.05															1.30			1.55				1.20	0.80	0.70				0.60	0.45	0.20						-60
Iceland	4.25	12.00			11.00	10.0	9.50		9.00		8.50	8.00		7.00	6.25		5.50	4.50		4.25						4.50			4.75				5.00		5.50	5.75					6.00		175
Czech R	0.75	1.25	1.0								0.75																									0.50				0.25	0.05		-70
Romania	5.25	8.50	8.00				7.50	7.00	6.50		6.25																		6.00		5.75	5.50	5.25										0
Sri Lanka	8.50	11.0	11		9.75								9.5	9.0					8.5													9.00		9.75									125
South Af	5.50	7.0							6.5						6.0		5.5																				5.00						-50
Switzerla	0.00																									0.00																	0
Egypt	8.25																												9.25														100
Turkey	5.75										7							6.5	6.25							5.75																	0

Source: Deutsche Bank, government data

Global data monitor: Recent developments and near-term forecasts

	B'bergcode	Q4-11	Q1-12	Q2-12	Q3-12	Jun-12	Jul-12	Aug-12	Sep-12	Oct-12	Nov-12
OECD leading indicators (6M change, %, ann.)											
OECD		0.2	0.3	0.6		0.7					
US	OLEDUSA	0.9	1.0	1.3	1.8	1.4	1.6	1.8	2.0	2.0	
Euro area	OLEDEU12	-1.3	-1.6	-1.5		-1.4					
Japan	OLEDJAPN	0.4	0.4	0.4		0.4					
China	OLEDCHIN	0.4	0.4	0.4		0.4					
India	OLEDINDI	5.1	5.6	5.7		5.6					
Russia	OLEDRUSS	1.8	1.3	0.3		-0.1					
Brazil	OLEDBRAZ	0.4	0.9	2.3		2.9					
Purchasing manager indices											
Global (manufacturing)		50.1	51.2	50.0	48.7	48.9	48.4	48.4	49.2	49.2	
US (manufacturing ISM)	NAPMPMI	52.4	53.3	52.7	50.3	49.7	49.8	49.6	51.5	51.7	49.0
Euro area (composite)		47.2	49.6	46.4	46.3	46.4	46.5	46.3	46.1	45.7	45.8 f
Japan (manufacturing)	SEASPMI	50.0	50.8	50.4	47.9	49.9	47.9	47.7	48.0	46.9	
China (manufacturing)	EC11CHPM	49.2	48.9	48.6	48.3	48.2	49.3	47.6	47.9	49.5	
India (manufacturing)		52.4	56.3	54.9	52.8	55.0	52.9	52.8	52.8	52.9	
Russia (manufacturing)		51.6	50.8	52.3	51.8	51.0	52.0	51.0	52.4	52.9	
Other business surveys											
US dur. goods orders (%pop1)	DGNOCHNG	2.7	-2.2	0.9	2.1	1.6	3.3	-13.1	9.8	-1.0	
Japanese Tankan (LI)	JNTSMFG	-4.0	-4.0	-1.0	-3.0						
Euro area EC sentiment	EUESEMU	93.6	94.1	91.1	86.4	89.9	87.9	86.1	85.2	84.5	
Industrial production (%pop[1])											
US	IP CHNG	5.1	5.9	2.3	0.0	0.0	0.7	-1.1	0.2	-0.4	
Euro area	EUITEMUM	-7.1	-1.9	-1.9	1.2	-0.4	0.5	0.9	-2.5		
Japan	JNIPMOM	1.7	5.1	-7.7	-15.8	0.4	-1.0	-1.6	-4.1	-4.5	
Retail sales (%pop[1])											
US	RSTAMOM	8.5	6.6	-1.0	5.3	-0.7	0.7	1.0	1.3	-0.3	
Euro area	RSSAEMUM	-4.2	0.8	-2.7	1.5	0.1	-0.1	0.2	-0.2		
Japan (household spending)		2.0	3.4	1.2	-3.4	-1.3	-1.3	2.2	-1.9	0.6	
Labour market											
US non-farm payrolls[2]	NFP TCH	164	226	67	104	45	181	192	148	171	25
Euro area unemployment (%)	UMRTEMU	10.6	10.9	11.3	11.5	11.4	11.5	11.5	11.6		
Japanese unemployment (%)	JNUE	4.4	4.5	4.4	4.2	4.3	4.3	4.2	4.2	4.3	
CP inflation (%yoy)											
US	CPICHNG	3.3	2.8	1.9	1.7	1.7	1.4	1.7	2.0	2.2	
Euro area	ECCPEMUY	2.9	2.7	2.5	2.5	2.4	2.4	2.6	2.6	2.5	2.2
Japan	JNCPIYOY	-0.3	0.3	0.2	-0.4	-0.1	-0.4	-0.5	-0.3	-0.3	
China	CNCPIYOY	4.6	3.8	2.8	1.8	2.1	1.7	2.0	1.8	1.6	
India		9.0	7.4	7.5	7.8	7.6	7.5	8.1	7.9	7.5	
Russia	RUCPIYOY	6.7	3.9	3.8	6.0	4.3	5.6	6.0	6.6	6.6	
Brazil		6.7	5.8	5.0	5.2	4.9	5.2	5.2	5.3	5.4	
Current account (USD bn)[3]											
US (trade balance, g+s)	USTBTOT	-48.8	-49.5	-46.4	-42.6	-41.9	-42.5	-43.8	-41.5		
Euro area		5.7	9.5	12.0	6.3	13.0	4.4	13.5	1.0		
Japan		7.2	6.2	6.3	3.9	9.6	4.2	9.2	-1.8		
China (trade in goods)		8.1	8.8	25.9	20.9	29.4	14.4	22.5	25.6	20.2	
Russia (trade in goods)		19.1	18.0	16.0	14.9	13.7	11.8	14.9	18.0		
Other indicators											
Oil prices (Brent, USD/b)	EUCRBRDT	109.5	118.4	108.5	109.7	95.3	102.8	113.4	113.0	111.9	
FX reserves China (USD bn)	CNGFOREX	3181.1	3305.0	3240.0	3285.1	3240.0	3240.0	3272.9	3285.1		

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

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

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

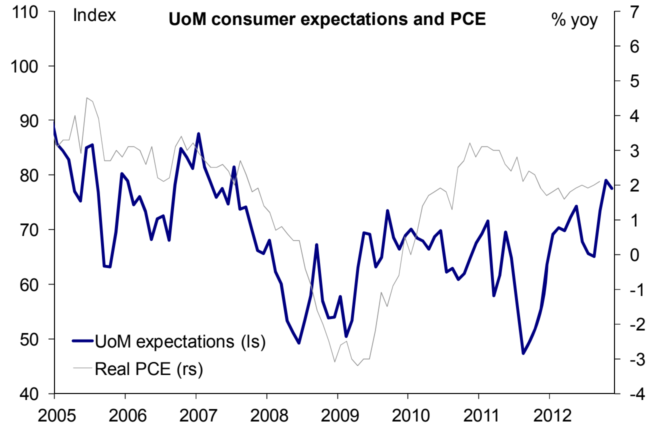
(3) Quarterly data are averages of monthly balances.

(4) 'f' stands for flash estimate

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

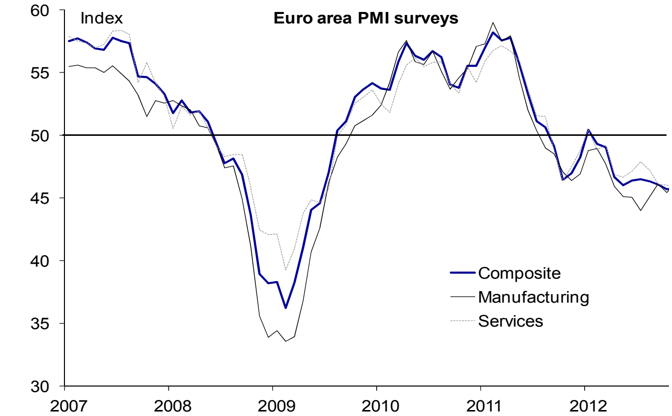
Charts of the Week

Chart 1. In the US, consumer expectations fell to 77.6 in November following two consecutive rise…



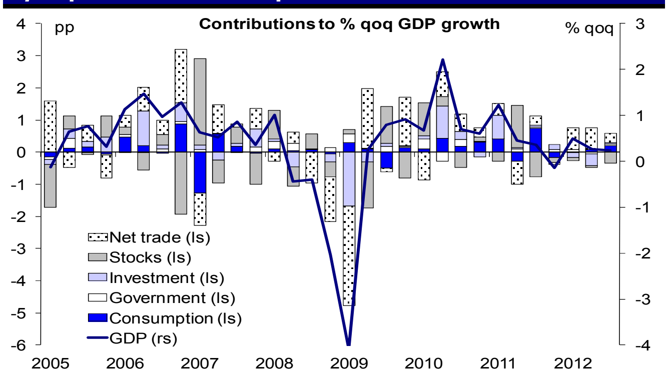
Source: UoM, BEA, DB Global Markets Research

Chart 2….while in Euro area, flash PMIs for November broadly confirmed the downbeat picture



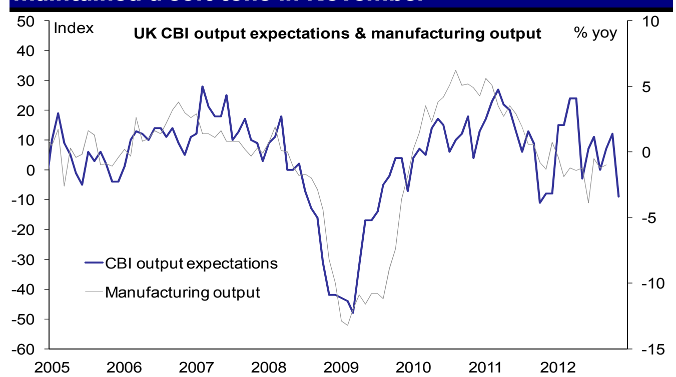
Source: Markit, DB Global Markets Research

Chart 3. In Germany, GDP grew by 0.2% qoq in Q3 driven by exports and consumption…



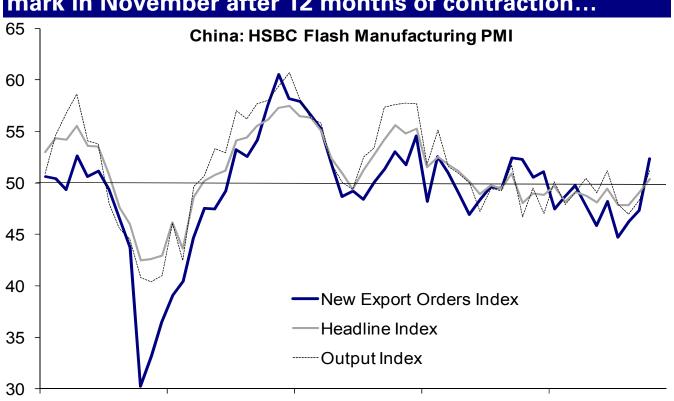
Source: Eurostat, DB Global Markets Research

Chart 4….while in UK, CBI industrial trends survey maintained a soft tone in November



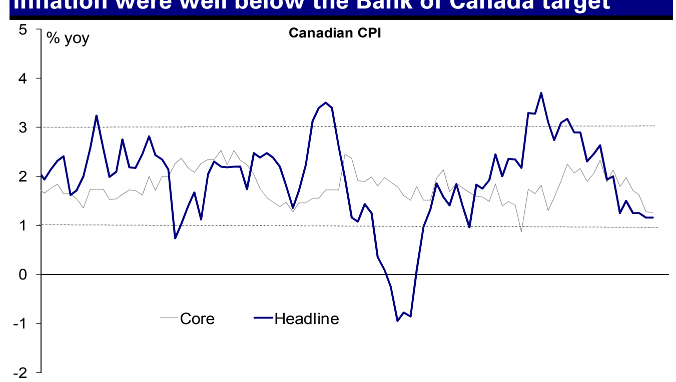
Source: CBI, ONS, DB Global Markets Research

Chart 5. In China, HSBC PMI headline touched the 50 mark in November after 12 months of contraction…



Source: HSBC, DB Global Markets Research

Chart 6….also in Canada, both the headline and core inflation were well below the Bank of Canada target



Source: Statistics Canada, DB Global Markets Research

Global Week Ahead: Thursday, 29 November– Friday, 07 December

- **Dollar Bloc:** In the **US**, the preliminary estimate of Q3 GDP is expected to be at 3.0% qoq, higher than the advance estimate. Among other indicators, we forecast rise in unemployment rate to 8% and rise in personal income by 0.4% mom. Factory orders is likely to grow at 1% mom in Oct. The week will also see the release of many key survey reports –consumer sentiment, Chicago PMI, consumer confidence and ISM (both mfg & non-mfg). In **Canada**, **Australia** and **New Zealand**, policy rates announcement will be important. Besides, Canadian Q3 GDP, Australian labour force survey are the other important releases.
- **Europe:** In the **Euroland**, the area-wide second estimate of Q3 GDP along with ECB's rate decision will be the highlights of the week. IP data from Germany will throw light on the production side of the economy, while area-wide unemployment rate will show the condition of the labour markets. In soft data PMI from across the board and EC's economic sentiment are due. In **UK**, the BoE is likely to keep rates unchanged. PMI's, trade balance, IP are the other indicators scheduled for release. In **Swiss & Scandi**, attention will be on the Q3 GDP data release from across the board. In **CE3**, release of Q3 GDP from all around and announcement of Polish policy rate are important.
- **Asia incl. Japan:** In **Japan,** there are quite a few significant releases (IP, unemployment & CPI) due next week. In **India**, Q3 GDP is expected to rise marginally.

Country	GMT	Release	DB Expected	Consensus	Previous
Thursday, 29 November					
SWITZERLAND	06:45	GDP (Q3)		0.2% (0.9%)	-0.1% (0.5%)
SWEDEN	08:30	GDP (Q3)		0.2% (0.5%)	0.7% (1.3%)
ITALY	09:00	ISAE business confidence (Nov)		88.0	87.6
UK	09:30	Net consumer credit (Oct)	GBP0.4bn	GBP0.3bn	GBP1.2bn
UK	09:30	Net mortgage lending (Oct)	GBP0.6bn	GBP0.6bn	GBP0.5bn
EUROLAND	10:00	Consumer confidence (Nov)		-26.9	-25.7
EUROLAND	10:00	Economic confidence (Nov)		84.5	84.5
US	13:30	GDP prelim (Q3)	3.0%	2.8%	1.3% (2.1%)
US	13:30	GDP deflator prelim (Q3)	2.8%	2.8%	1.6% (1.7%)
US	15:00	Pending home sales (Oct)	0.0%	1.0%	0.3%
JAPAN	23:50	National CPI (Oct)	-0.1% (-0.3%)	(-0.4%)	0.1% (-0.3%)
JAPAN	23:50	Unemployment rate (Oct)	4.3%	4.2%	4.2%
JAPAN	23:50	Industrial production (Oct)	-4.5%	-2.0% (-8.0%)	-4.1% (-8.1%)
Events and meetings: EUROLAND: EU's Barnier to hold speech in Berlin. **EUROLAND:** EU's Rompuy to hold speech in Brussels – 08:00 GMT. **EUROLAND:** EU's Buti to hold speech in Brussels – 09:00 GMT. **US:** Fed's Fisher to hold speech in Frankfurt – 11:00 GMT. **US:** Fed's Dudley to hold speech in New York – 14:00 GMT. **EUROLAND:** ECB's Praet to hold speech in Frankfurt – 16:00 GMT. **EUROLAND:** ECB's Asmussen to hold speech in Berlin – 17:00 GMT. **EUROLAND:** EU's Almunia to hold speech in Rome– 23:00 GMT.					
Friday, 30 November					
INDIA	05:30	GDP (Q3)	(5.6%)	(5.3%)	(5.5%)
DENMARK	08:00	GDP first estimate (Q3)		0.2%	-0.4% (-0.6%)
POLAND	09:00	GDP (Q3)	(2.0%)	(1.8%)	(2.4%)
EUROLAND	10:00	Unemployment rate (Oct)		11.7%	11.6%
EUROLAND	10:00	HICP flash estimate (Nov)	(2.2%)	(2.4%)	(2.5%)
US	13:30	Core PCE deflator (Oct)	0.1%	0.2% (1.7%)	0.1% (1.7%)
US	13:30	PCE (Oct)	0.2%	0.0%	0.8% (3.8%)
US	13:30	Personal income (Oct)	0.4%	0.2%	0.4% (3.9%)
CANADA	13:30	GDP (Q3)	1.0%	0.8%	1.8% (2.4%)
US	14:45	Chicago PMI (Nov)	49.0	50.5	49.9
MEXICO	15:00	Overnight rate (Nov)	4.50%	4.50%	4.50%
Events and meetings: EUROLAND: EU's De Gucht to hold speech in Hamburg. **MEXICO:** Central Bank of Mexico to announce overnight rate – 15:00 GMT. **US:** Fed's Stein & Kocerlakota to hold speech in Boston – 22:00 GMT.					
Monday, 03 December					
SPAIN	08:15	PMI manufacturing (Nov)			43.5
ITALY	08:45	PMI manufacturing (Nov)			45.5
FRANCE	08:50	PMI manufacturing (Nov)			43.7
GERMANY	08:55	PMI manufacturing (Nov)			46.0
EUROLAND	09:00	PMI manufacturing (Nov)			45.4

Country	GMT	Release	DB Expected	Consensus	Previous
Monday, 03 December (continued)					
UK	09:30	PMI manufacturing (Nov)	48.0		47.5
US	15:00	Construction spending (Oct)	0.3%	0.4%	0.6% (7.8%)
US	15:00	ISM (Nov)	49.0	51.3	51.7
US	22:00	Total vehicle sales (Nov)	14.0m	14.8m	14.2m
Events and meetings: EUROLAND: ECB's Noyer & BoJ's Shirakawa to hold speech in Tokyo – 04:00 GMT. **EUROLAND:** Euro group finance minister to meet in Brussels – 16:00 GMT**. US:** Fed's Bullard to hold speech in Arkansas – 18:40 GMT.					
Tuesday, 04 December					
AUSTRALIA	03:30	RBA cash rate announcement (Dec)		3.00%	3.25%
CANADA	14:00	BoC rate announcement (Dec)			1.00%
Events and meetings: AUSTRALIA: RBA to hold board meeting; rate decision to follow at 03:30 GMT. **EUROLAND:** EU finance ministers (EcoFin) to meet in Brussels – 08:00 GMT. **CANADA:** BoC to announce interest rate decision – 14:00 GMT.					
Wednesday, 05 December					
SPAIN	08:15	PMI services (Nov)			41.2
ITALY	08:45	PMI services (Nov)			46.0
FRANCE	08:50	PMI services (Nov)			44.6
GERMANY	08:55	PMI services (Nov)			48.4
EUROLAND	09:00	PMI services (Nov)			46.0
UK	09:30	PMI services (Nov)	51.0		50.6
EUROLAND	10:00	Retail sales (Oct)			-0.2% (-0.8%)
US	13:30	Productivity (Q3)	2.3%	2.8%	2.2% (1.2%)
US	13:30	Unit labor costs (Q3)	-0.3%	-0.9%	1.5% (0.9%)
US	15:00	Factory orders (Oct)	1.0%	0.1%	4.8% (2.2%)
US	15:00	ISM non-mfg (Nov)	53.0	53.5	54.2
NEW ZEALAND	20:00	RBNZ official cash rate (Dec)		2.50%	2.50%
Events and meetings: NEW ZEALAND: RBNZ to announce official cash rate – 20:00 GMT.					
Thursday, 06 December					
AUSTRALIA	00:30	Labour force unemployment rate (Nov)			5.4%
UK	09:30	Visible trade balance (Oct)			-GBP8.4bn
EUROLAND	10:00	GDP first estimate (Q3)			-0.2% (-0.5%)
UK	12:00	BoE rate announcement (Dec)	0.50%	0.50%	0.50%
EUROLAND	12:45	ECB rate decision (Dec)			0.75%
Events and meetings: UK: BoE to announce MPC decision – 12:00 GMT. **EUROLAND:** ECB to hold Governing Council meeting, interest rate announcement scheduled – 12:45 GMT, news conference by Mario Draghi.					
Friday, 07 December					
CZECH	08:00	GDP (Q3)			(-1.0%)
HUNGARY	08:00	GDP (Q3)			(-1.3%)
UK	09:30	Industrial production (Oct)	0.7% (-0.7%)		-1.7% (-2.6%)
GERMANY	11:00	Industrial production (Oct)			-1.8% (-1.2%)
US	13:30	Payrolls (Nov)	25.0k	100.0k	171.0k
US	13:30	Unemployment rate (Nov)	8.0%	7.9%	7.9%
US	14:55	Consumer sentiment prelim (Dec)	84.0	82.5	82.7
Events and meetings: No significant events scheduled.					

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

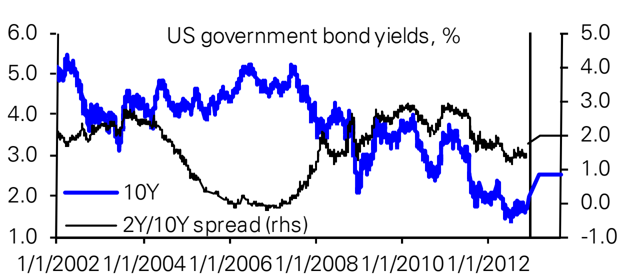
Note: Unless otherwise indicated, numbers without parenthesis are either % month-on-month or % quarter-on-quarter, depending on the frequency of release, while numbers in parenthesis are % year-on-year. * on the release time means indicative release time. * on indicator name means indicative/earliest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

Financial Forecasts

		US	Jpn	Euro	UK	Swe*	Swiss*	Can*	Aus*	NZ*
3M Interest	**Actual**	0.31	0.32	0.19	0.52	1.25	0.00	1.00	3.25	2.50
Rates[1]	**Dec-12**	0.35	0.30	**0.19**	**0.53**	1.25	0.00	1.00	3.00	2.50
DB forecasts	***futures***	(0.32)	(0.32)	(0.19)	(0.52)	---	---	---	---	---
& Futures	**Mar-13**	0.35	0.30	**0.20**	**0.55**	1.25	0.00	1.50	2.50	2.50
	futures	(0.33)	(0.28)	(0.18)	(0.55)	---	---	---	---	---
	Sep-13	0.35	0.30	**0.20**	0.65	1.25	0.00	2.00	2.50	2.75
	futures	(0.37)	(0.24)	(0.23)	(0.58)	---	---	---	---	---
10Y Gov't[2]	**Actual**	1.66	0.73	1.44	1.85	1.51	0.47	1.76	3.29	3.51
Bond	**Dec-12**	2.00	0.80	**1.60**	**2.04**	**1.65**	**0.70**	2.00	**3.50**	4.00
Yields/	***futures***	1.73	0.77	1.51	1.93	---	---	---	---	---
Spreads[3]	**Mar-13**	2.50	0.90	**1.75**	**2.30**	**1.85**	**0.75**	2.50	**3.75**	4.00
DB forecasts	***futures***	1.80	0.81	1.57	1.99	---	---	---	---	---
& Forwards	**Sep-13**	2.50	1.00	**2.25**	**2.90**	**2.45**	**1.15**	3.00	**3.75**	**4.00**
	futures	1.95	0.90	1.71	2.14	---	---	---	---	---
		EUR/ USD	**USD/ JPY**	**EUR/ GBP**	**GBP/ USD**	**EUR/ SEK**	**EUR/ CHF**	**CAD/ USD**	**AUD/ USD**	**NZD/ USD**
Exchange	**Actual**	1.30	82.1	0.81	1.60	8.62	1.20	1.01	1.05	0.82
Rates	**3M**	1.35	82.0	0.84	1.61	8.50	1.21	0.98	1.06	0.83
	6M	1.31	84.0	0.84	1.57	8.38	1.21	0.98	1.06	0.83
	12M	1.24	88.0	0.82	1.52	8.13	1.22	0.99	1.02	0.82

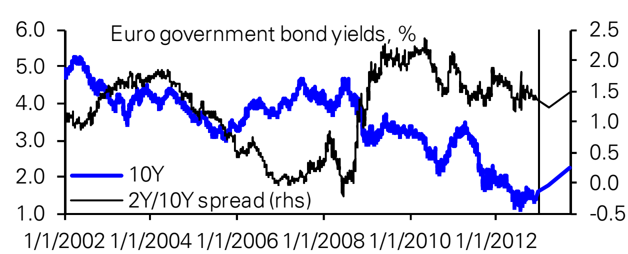
*(1) Future rates calculated from the December, March and September 3M contracts. Forecasts are for the same dates. * indicates policy interest rates.*
(2) Forecasts in this table are produced by the regional fixed income strategists. Forwards estimated from the asset swap curve for 2Y and 10Y yields.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

US 10Y rates



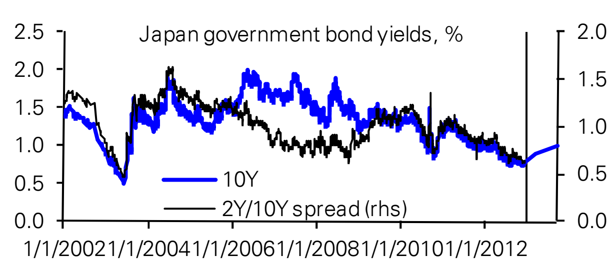
Source: DB Global Markets Research, Bloomberg Finance LP

Euroland 10Y rates



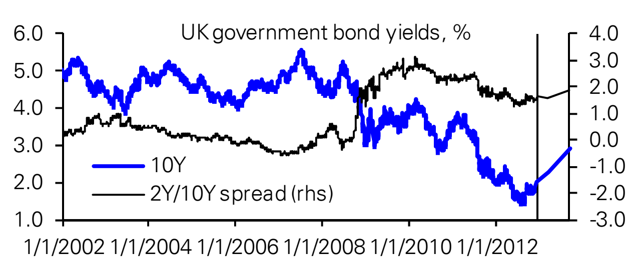
Source: DB Global Markets Research, Bloomberg Finance LP

Japan 10Y rates



Source DB Global Markets Research, Bloomberg Finance LP

UK 10Y rates



Source: DB Global Markets Research, Bloomberg Finance LP

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Europe	**Focus Europe** (weekly) **Europe Inflation Report** (weekly) **Focus Germany** (monthly)
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Appendix 1

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