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Global Economic Perspectives

The Geuro: A parallel currency for Greece?

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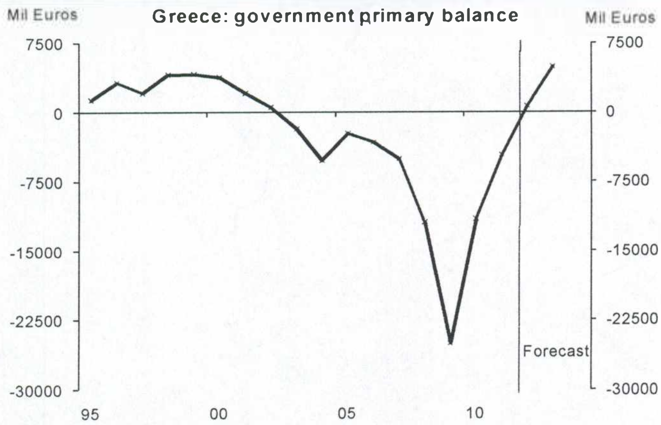
Greece unlikely to achieve the primary budget surplus envisaged by the Troika



Source: OECD, Haver Analytics and Deutsche Bank Global Market Research

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Key Economic Forecasts

	Real GDP % growth[b]			Consumer Prices % growth[c]			Current Account % of GDP[d]			Fiscal Balance % of GDP		
	2011	**2012F**	**2013F**	**2011**	**2012F**	**2013F**	**2011F**	**2012F**	**2013F**	**2011F**	**2012F**	**2013F**
US	1.7	2.6	3.0	3.1	2.5	2.6	-3.1	-3.1	-3.2	-8.3	-6.1	-5.1
Japan	-0.7	2.8	1.5	-0.3	-0.1	-0.2	2.0	2.2	2.6	-10.1	-10.1	-9.2
Euroland	1.5	-0.2	0.8	2.7	2.5	1.7	0.0	-0.1	0.1	-4.1	-3.4	-2.4
Germany	3.1	0.5	1.0	2.5	2.0	1.5	5.7	4.9	4.5	-1.0	-1.0	-0.8
France	1.7	0.3	0.9	2.3	2.3	1.7	-2.2	-2.3	-2.6	-5.2	-4.8	-3.5
Italy	0.5	-1.3	0.3	2.9	3.2	2.1	-3.2	-2.0	-1.5	-3.9	-1.9	-0.2
Spain	0.7	-1.2	0.3	3.1	1.9	1.2	-3.5	-2.9	-2.5	-8.5	-6.2	-4.7
UK	0.7	**0.3**	2.0	4.5	2.8	2.1	-1.9	-2.0	-1.9	-8.3	-5.6	-6.0
Sweden	4.0	1.0	2.2	2.6	1.8	1.8	7.2	6.5	6.0	0.3	0.6	1.2
Denmark	1.0	0.7	1.5	2.8	2.2	2.0	6.5	5.5	5.0	-1.8	-3.5	-2.5
Norway	1.7	2.2	2.4	1.3	1.7	2.1	14.5	14.5	13.8	13.6	10.5	10.0
Poland	4.3	2.5	2.0	4.3	**3.6**	**3.3**	-4.3	-4.0	-3.6	-5.1	**-3.2**	**-3.0**
Hungary	1.7	-0.4	2.8	3.9	5.5	4.2	1.4	**0.7**	**0.8**	4.2	**-3.0**	-2.9
Czech Republic	1.7	0.0	2.5	1.9	3.5	2.2	-3.1	-2.5	-2.4	-4.3	-3.8	-3.5
Australia	2.0	2.3	3.5	3.4	2.5	3.0	-2.2	-2.7	-3.0	-3.3	-2.5	0.1
Canada	2.5	2.5	3.0	2.9	2.4	2.5	-2.8	-2.3	-2.1	-1.9	-1.7	-1.4
Asia (ex Japan)	7.4	7.1	7.4	6.1	**4.1**	**4.4**	2.0	**1.4**	1.1	-2.4	**-2.3**	**-2.0**
India	7.3	7.3	7.5	9.5	**7.0**	**6.8**	-3.3	**-3.6**	**-3.8**	-8.1	-7.8	-7.5
China	9.2	**8.5**	8.6	5.4	3.1	3.5	2.8	2.5	1.9	-2.0	-1.5	-1.3
Latin America	4.3	**3.4**	**4.1**	8.4	**7.8**	**8.0**	-0.7	**-1.3**	**-1.6**	-2.2	**-1.9**	-1.8
Brazil	2.7	**2.6**	**4.7**	6.6	5.3	**5.5**	-2.1	**-2.7**	**-3.2**	-2.6	-1.4	**-1.5**
EMEA	4.7	3.2	4.0	6.5	**5.6**	6.1	2.0	1.9	1.4	-0.3	**-0.7**	**-0.2**
Russia	4.3	4.6	4.9	8.4	5.5	7.6	5.7	4.4	2.7	0.8	0.1	0.6
G7	1.4	1.9	2.2	2.6	2.1	1.9						
World	3.6	3.4	3.9	4.5	3.5	**3.6**						

(a) Euroland forecasts as at the last forecast round on 23/03/12. 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 11**	**Q2 11**	**Q3 11**	**Q4 11F**	***2011F***	**Q1 12F**	**Q2 12F**	**Q3 12F**	**Q4 12F**	***2012F***	***2013F***
US	0.4	1.3	1.8	3.0	***1.7***	2.2	2.9	3.2	3.3	***2.6***	***3.0***
Japan	-7.9	-1.2	7.6	0.1	***-0.7***	4.1	4.1	2.7	1.6	***2.8***	***1.5***
Euroland	2.9	0.6	0.6	-1.2	***1.5***	0.1	-0.4	0.9	0.8	***-0.2***	***0.8***
Germany	5.5	1.1	2.3	-0.7	***3.1***	2.1	0.9	1.7	2.0	***0.5***	***1.0***
France	3.7	-0.2	1.1	0.3	***1.7***	0.2	-0.2	0.2	0.2	***0.3***	***0.9***
Italy	0.3	1.4	-0.8	-2.6	***0.5***	-3.2	-1.1	0.3	0.2	***-1.3***	***0.3***
UK	1.0	-0.2	2.3	-1.2	***0.7***	-0.8	0.1	2.8	1.4	***1.0***	***2.0***
Canada	3.7	-0.6	4.2	1.8	***2.5***	3.0	3.1	3.1	2.6	***2.7***	***3.0***
G7	0.0	0.6	2.7	1.2	***1.4***	1.8	2.2	2.5	2.3	***1.9***	***2.2***

Sources: National authorities, DB Global Markets Research

The Geuro: A parallel currency for Greece?

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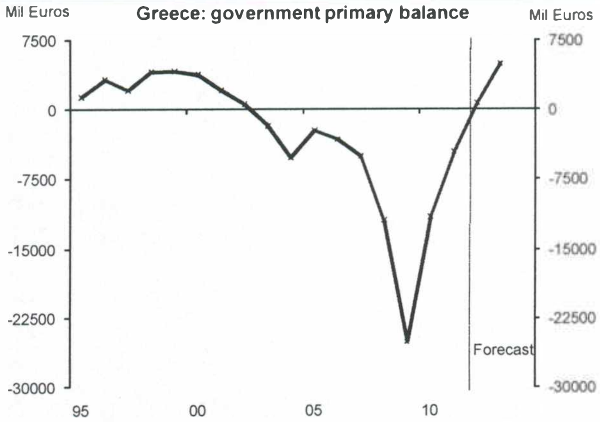
As Greece goes into a new round of elections, speculation about an exit of the country from the euro has reached fever pitch. Market participants and economists attempt to calculate the loss to external creditors resulting from a Greek euro exit and assess the contagion effects for other EMU member countries (see the excellent analysis of our colleagues Gilles Moec and Mark Wall in this week's Focus Europe). Most conclude that while the direct financial costs to Greece's external creditors would be high, the real threat arises from a collapse of the social, political and economic system in Greece and the knock-on effects that the Greek drama would have on residents in and creditors of other countries under financial pressure.

A key assumption underlying the commonly sketched scenarios is that Greece would have to replace the euro by a new currency following the end of financial assistance from abroad. We would expect the result to be wide-spread default and a collapse of the banking sector, which could lead to economic, social and political catastrophes. However, in view of the strong preference of the Greek electorate to keep the euro (albeit not the Troika-led adjustment programme) and the objective of EU governments and institutions to minimize the costs of a breakdown of the adjustment programme, a complete exit from EMU and introduction of a new currency does not seem to be realistic. More likely, in our view, is a partial stop in financial assistance, with continuing support for debt service needs and the Greek banking sector but no further support for the financing of the government's primary expenses. In this case, difficulties of the Greek government to pay its bills could induce it to issue IoUs that would form the nucleus of a national parallel currency. Thus, instead of being replaced in one stroke, the euro could be supplemented by a financial instrument that assumes currency character. Being gradual and only partial, the process of euro replacement could be less disruptive than commonly described.

The politics of squaring the circle

Recent opinion polls suggest that about ¾ of the Greek population want to keep the euro. However, about the same share is against the continuation of the Troika-led fiscal and economic adjustment programme. Protest parties have reconciled these seemingly contradictory positions by assuring voters that the IMF and EU would continue to support Greece financially even if the government fails to comply with the programme. With this, according to recent polls, they are likely to receive a majority in the upcoming elections and dominate the new government.

Chart 1: Greece unlikely to achieve the primary budget surplus envisaged by the Troika



Source: OECD, Haver Analytics and Deutsche Bank Global Market Research

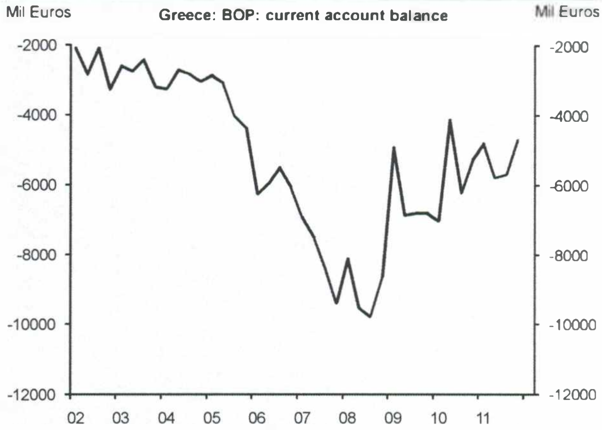
It is possible that Greece will win this game of one-upmanship. Top IMF and EU officials may yield to Greek demands for an end of harsh austerity and painful structural reform out of fear of the consequences of a sudden stop of financial assistance. A bank run in Greece could lead to bank runs in other countries under financial pressure; a radicalisation of Greek politics could impair the functioning of the EU or NATO, and a breakdown of the fabric of society could lead to a humanitarian emergency. In view of these risks they may opt to continue financial assistance even when a new Greek government refuses to comply with the conditions originally established in the IMF-led programme.

However, giving in to Greek demands would also have undesirable consequences. Other countries presently receiving financial assistance might follow the Greek example and insist on easier terms, the credibility of policy conditions in future adjustment programmes could seriously suffer, and electorates in countries funding the assistance may punish their leaders for diverting their tax money to other countries without proper safeguards for ensuring repayment. In Germany, where presently about half of the population believes that the euro has been a failure, political pressure for exiting EMU could build up. On balance, we would therefore expect the arguments against further financial assistance to dominate, if the Greek authorities refuse or are unable to comply with the policy conditions under the adjustment programme. A decision by the IMF to stop disbursements would be enough to end financial assistance.[1] However, in line with a practice established for the May-tranche of the programme, funds necessary for debt service payments could still be paid into an escrow account so as to avoid another round of default by the Greek government.

EMU exit with a bang

If the Greek government were to fail to quickly generate the necessary surplus in its primary budget after a stop of financial assistance, it would be unable to pay bills for current expenses, such a salaries, pensions, supplies, and debt service. While the failure to pay salaries and bills would probably have no immediate consequences, failure to service the government debt would trigger a renewed default rating, making it impossible for Greek banks to borrow from the ECB against collateral in the form of Greek government bonds. Cut off from the ECB, the Greek banks would likely collapse, leaving the economy without a payment and credit system. Transactions could only take place against cash remaining in the economy after the collapse of the banking sector. Hence, very few bills would be paid and economic activity would grind to a halt. The political and social consequences of an economic collapse could be devastating. Hence, it seems highly likely that all actors involved will do the utmost to avoid such a scenario.

Chart 2: Without official assistance from abroad Greece would need to balance its current account



Source: Bank of Greece, Haver Analytics and Deutsche Bank Global Market Research

Sliding out of EMU

Avoiding an economic, social and political catastrophe in Greece with unforeseeable consequences for Europe and possibly the world does not require giving in to Greek government tactics. Ensuring debt service payments and the survival of the banking sector would in our view be enough to avoid a catastrophe when financial assistance to a non-compliant Greek government is stopped.

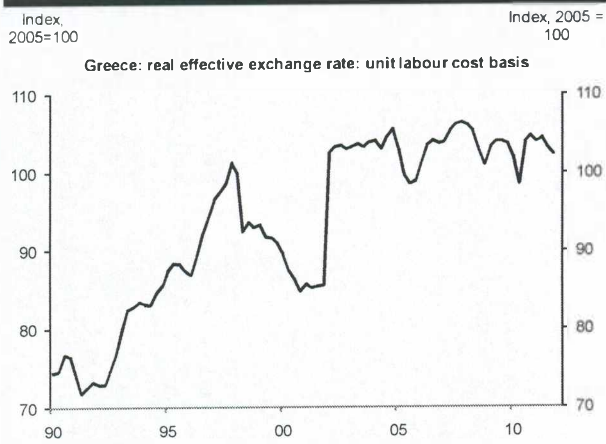
Assuming that the Greek government is unable to quickly balance its primary budget, a plausible response of the government to the shortage of euro cash as a result of the end of financial transfers would be to issue debtor notes (IoUs) to its creditors, promising payment as soon as fresh euro cash would become available. As creditors lacking euro cash would have to use the IoUs to settle their own bills, these instruments would assume the role of a parallel currency (let's call it Geuro). The Geuro would probably quickly be used in most domestic transactions. For the purchase of essential imports, Geuros would have to be exchanged against euros, most likely at a hefty discount of 50% or more. Since an increasing number of domestic goods, services and wages would be paid in devalued Geuros, the export sector could reduce its prices in euro and regain competitiveness against foreign suppliers. The exchange rate of the Geuro relative to the euro would be determined by the primary budget gap of the government that is being filled by Geuro issuance. Political pressure could build for more prudent policies as Greek residents saw their terms of trade decline.

[1] In fact, the IMF statutes do not allow disbursements under a stand-by programme when a government has not signed the memorandum of understanding spelling out policy conditions. For Germany, a viable IMF Programme is a legal requirement to agree to EFSF disbursements.

Following the recent restructuring of government debt, the Greek banks have lost almost all of their equity capital. Write-offs on loans extended to private households and companies now receiving primarily devalued Geuros would increase the capital shortfall. To avoid a collapse with devastating consequences for the real economy, the banks would likely need to be moved into a European "Bad Bank" and re-capitalised with claims on the EFSF. Since they would now be under European administration, deposits with them would be safe (hence a new Greek government would be unlikely to resist such a move). Hence, customers who fled into euro banknotes before stabilization of the banks could now safely re-deposit their cash. Seeing that Greek depositors have been saved, anxious bank customers in other countries could regain confidence and leave their deposits with their banks. The European Bad Bank for Greek banks might then form the nucleus of a European "banking union", including bank supervision, bank restructuring and resolution, and deposit insurance at the euro area level. It is now widely recognized that such a "banking union" is probably a necessary ingredient for a stable architecture of EMU.

There would now be two parallel currency circuits in Greece: the euro circuit and the Geuro circuit. The former would be sustained by the euro deposits of and credits to companies in the export sector. After its initial shrinkage due to the emergence of the Geuro, the euro circuit would grow again on the back of the higher euro revenues of the export sector following its improved competitiveness. The Geuro circuit would be fed by Geuro issuance of the government to fund its primary budget deficit. It would then be in the hands of the Greek government to reduce the issuance of new Geuros by shrinking its primary deficit and thus to stabilize the exchange rate of the Geuro against the euro.

Chart 3: A parallel currency would facilitate exchange rate devaluation



Source: IMF, Haver Analytics and Deutsche Bank Global Market Research

Thus, if reason prevails, Greece could formally remain in EMU, execute the exchange rate devaluation necessary to regain international competitiveness, and in the future decide for itself through issuance of Geuros, whether and over what time span it would want to return to a hard currency that is stable against the euro. It could eventually even return completely to the euro by repurchasing Geuros against euros.

Conclusion

In our view, the IMF and other euro area countries are unlikely to give in to pressure from Greece for a de facto end of the adjustment programme. The precedent of such an accommodation could lead to an erosion of adjustment efforts in other countries and eventually political pressure in Germany for EMU exit. At the same time, however, Greece is unlikely to formally leave the euro, nor are the other euro area countries likely to abandon Greece entirely. The path of least resistance could be the stop of financial assistance to the Greek government and the continuation of payments for debt service and the stabilization of the Greek banks in a European "Bad Bank". In this case, a parallel currency to the euro could emerge, allowing Greece a devaluation of its exchange rate without formally exiting EMU. It would be in the hands of the Greek authorities to stabilize the exchange rate of the parallel currency against the euro via prudent fiscal policy and structural reform so as to keep the door open to a future return to the euro.

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Central Bank Watch

US

At its April FOMC meeting, the Fed reconfirmed its conditional expectation that policy rates would be held near zero until at least late 2014. It also indicated that the maturity extension program would be completed at mid-year with no indication of an extension. We expect that the Fed will remain in this aggressively easy policy stance, though without taking further actions, for some time to come. While further easing via balance sheet policies are on the table, such measures are unlikely to be adopted unless the economic recovery and improvement in the labor market stall (e.g., payroll gains average 100k or less per month for a number of months) and/or inflation trends noticeably below and away from the Fed's objective of 2%. Our expectation that payroll employment gains will register at least 150-200k per month, with the unemployment rate gradually receding and core inflation remaining near 2%, is consistent with the Fed remaining on track with its current policy stance well into 2013. However, we also expect that the unemployment rate will continue to improve somewhat faster than the Fed projects, and that barring the realization of negative risks on the euro, Middle East, and US fiscal fronts, exit from the current very easy stance of US monetary policy will commence before the end of 2013, roughly a year ahead of the Fed's current schedule.

	Current	Jun12	Dec12	Mar13
Fed funds rate	0–0.25	0–0.25	0–0.25	0–0.25

Japan

On 27 April, the Bank of Japan (BoJ) decided with regard to the Asset Purchase Program to increase the purchase of Japanese Government bonds (JGBs) by ¥10trn, to lower the outstanding fixed-rate funds to financial institutions by ¥5trn, to increase purchases of ETFs by ¥200bn and of REITs by ¥10bn, to increase the outstanding holdings of the Program by about ¥5trn, and to extend the duration of JGBs held under this Program from two to three years. However, there was no debate at all over more fundamental issues such as setting a target for total assets or the abolition of the 'banknote rule'. The Asset Purchase Program is just a sub-set of the BoJ balance sheet and an increase is the Asset Purchase Program does not necessarily mean an equivalent increase in total assets. We also note that if the outright purchase of JGBs continues at the current pace of ¥1.8trn a month, total holdings of JGBs by the BoJ (excluding those under the Asset Purchase Program) will exceed total bank notes by mid-2013.

However, we think that the BoJ monetary policy stance will remain at the existing 'conditional' easing stance (easing if exogenous conditions worsen but the status quo otherwise).

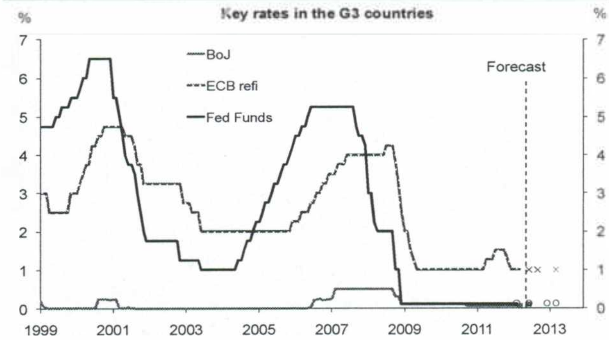
	Current	Jun12
ON rate	0.05 – 0.1	0.10

Euroland

Mario Draghi's main goal at the May Council meeting was to calm market expectations for a knee-jerk policy easing in response to recent deterioration in economic data, even if the removal of the upside risks to inflation and the acknowledgement of 'prevailing uncertainty' in the statement's all important first paragraph suggests that the ECB is not blind. In June the Governing Council will release a new set of forecasts. They could pave the way for an even more dovish tone, but August may be more decisive as the Governing Council will have the first results of the next Bank Lending Survey. If the situation continues to deteriorate, we think that the central bank should focus more on provision of liquidity, for instance by launching another LTRO.

	Current	Jun12	Sep12	Mar13
Refi rate	1.00	1.00	1.00	1.00

Key rates in the G3 countries



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

UK

The Bank of England opted to suspend its QE scheme at its May meeting, the last of the GBP50bn of gilt purchases sanctioned in February being completed in early May. We do not expect any further QE from the MPC, although the risks posed by a further deterioration in European sentiment (particularly in relation to the political situation in Greece) remain both high and difficult to calibrate. Our view is that the Bank begins to tighten policy by raising rates gradually from the end of 2013 onwards. However, before that the Bank will have to decide whether to reinvest the proceeds of the first of its gilt holdings to come up for redemption (in March and September 2013).

	Current	Jun12	Sep12	Mar13
Bank rate	0.50	0.50	0.50	0.50

Central Bank Watch

Sweden

The Riksbank left rates unchanged in April despite cutting its inflation & growth forecasts. Next meeting: 4 July.

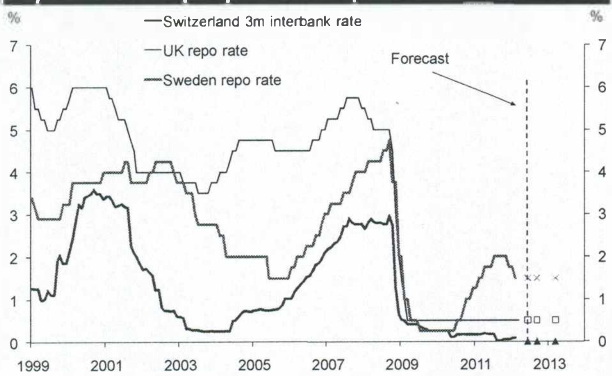
	Current	Jun12	Sep 12	Mar13
Repo rate	1.50	1.50	1.50	1.50

Switzerland

EUR/CHF remains close to the level at which the SNB has promised to keep it below (1.20). Next meeting: 14 June.

	Current	Jun12	Sep12	Mar13
3M Libor tgt	0.00	0.00	0.00	0.00

Key rates in the peripheral European countries



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

Canada

In the near term, the Bank of Canada's attention is likely to be focused on Europe given the heightened uncertainty about direction of its fiscal policy following elections in Greece and France. Given the more hawkish tone of the most recent (April) Bank of Canada Policy Rate Announcement, these very strong employment reports definitely increase the possibility of a July rate hike. Nevertheless, we continue to expect that the Bank will remain on hold into the second half of this year and that it will probably raise its target for the overnight rate in September. As indicated previously, this prospect is conditional on a gradual stabilization of the European sovereign debt crisis of the next few months.

	Current	Jun12	Dec12	Mar13
ON rate	1.00	1.00	1.50	2.00

Australia

RBA minutes strike a dovish tone; however, the local data flow has lifted since the Board meeting. We noted on the release of the SMP (4 May 2012) that the most striking thing about the inflation forecast was the increasing use of ranges. Indeed, come June 2013 the forecast table in the SMP had underlying inflation either at the top, or at the bottom, of the target band - the published forecast being 2-3%.Since the May Board meeting, the local data, however, have tended to print on the stronger side of expectations. On balance, we don't see enough in these minutes to justify a follow-up rate cut in June - especially given the move back down in the unemployment rate to 4.9% in April. Consumer sentiment in May, also failed to get much of a lift from the RBA's 50bp rate cut.

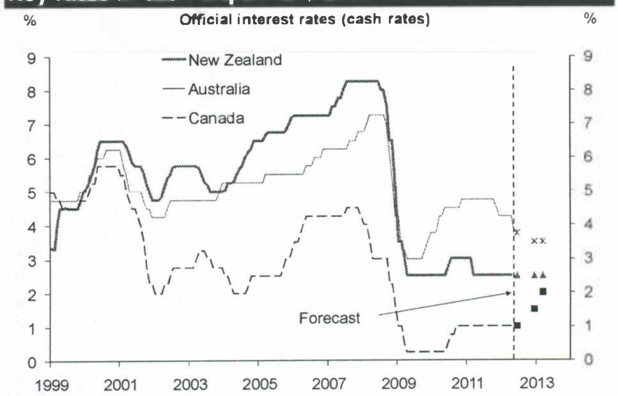
	Current	Jun12	Dec12	Mar13
OC rate	3.75	3.75	3.50	3.50

New Zealand

Retail sales snap back in Q1, services PMI solid in April. This report was close enough to our expectation so as not to change our estimate that the economy grew about 0.2% qoq in Q1, below the RBNZ's March estimate of 0.6% qoq. In addition we note a solid rise in today's BNZ-Business NZ performance of services index, with the April reading of 56.7 equaling a level last seen in March 2010. These readings suggest the economy may have begun to gain some momentum in Q2 despite pressures in the manufacturing sector, and count against the RBNZ cutting the OCR as soon at the 14 June Monetary Policy Statement. Whether the RBNZ will validate this easing with a cut in the OCR at a later date will depend on developments in the global economy and prices for New Zealand's key commodity exports, the path taken by the exchange rate, the profile of the rebuilding process in Christchurch and how the economy responds to the significant fiscal consolidation that lies ahead.

	Current	Jun12	Dec12	Mar13
OC rate	2.50	2.50	2.50	2.50

Key rates in the Peripheral $-bloc



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

China

The PBOC announced a 50bps RRR cut on Sunday (May 13th), to be effective on May 18. The policy move mainly reflects the authorities' intention to support growth after disappointing April data and renewed uncertainty in Euro land. The RRR cut is the third in the past 6 months, and we expect one more cut within three months. April CPI inflation came down to 3.4% from 3.6% yoy in March.

Central Bank Watch

We continue to expect that CPI will fall toward 2.5-2.7% yoy in September or October, providing room for further, albeit modest, policy easing.

	Current	Jun12	Sep12
1-year rate	3.50	3.50	3.50

India

The Reserve Bank of India cut policy rates by 50bps on April 17. Monetary easing was on the cards as in addition to slower growth, January-March was characterized as the first quarter of positive real interest rate (repo minus average inflation) in two years. Looking ahead, there are good reasons for the RBI to want to go slow, as pointed out in the policy guidance: inflation has moderated, but could become sticky going forward with high oil prices, large suppressed inflation, pass-through from a weaker rupee, the impact of tax hikes in the budget, continued wage pressure, and structural impediments to supply. The saving grace is that the pricing power of companies has waned with a softening of demand.

Inflation surprised on upside in April, with the WPI rising by 7.2%yoy. Our revised forecast sees inflation hovering in the 7.5-8% range during the rest of 2012, although core inflation may not be higher than 5% as pricing power abates due to weak demand. The fact that inflation has firmed while growth is weak is rather alarming, underscoring the supply constrained nature of the economy. The RBI's room for flexibility has been exhausted; the best the central bank can do now is to remain at the sideline with rates unchanged, focus on ensuring orderly supply of liquidity, and oversee the stability of the financial sector.

	Current	Jun12	Sep 12	Mar 13
Repo rate	8.00	8.00	8.00	8.00

Brazil

The Central Bank cut the SELIC overnight rate again by 75bps to 9.00% in April, in response to a slower-than-expected economic recovery, and also part of the government's strategy to weaken the exchange rate to defend the local industry from the competition of imported goods. After suggesting, in March, that the SELIC rate would not drop below 9%, in April the Central Bank opened the door for additional rate cuts by claiming, in the COPOM statement, that the rate cut continued the easing cycle. The COPOM minutes sanctioned expectations of additional rate cuts by claiming that the CB would pursue further monetary easing with "parsimony." Moreover, the government has finally decided to submit a bill reducing the remuneration rules of the savings accounts, which practically set a "floor" of approximately 8.5% for the SELIC rate (the savings accounts are exempt from income tax and had a guaranteed return of 6.17% p.a.). Therefore, we now expect two 50bp rate cuts in May and July, and have lowered our year-end SELIC rate forecast further to 8.00%. We believe that the risk remains tilted toward lower rates.

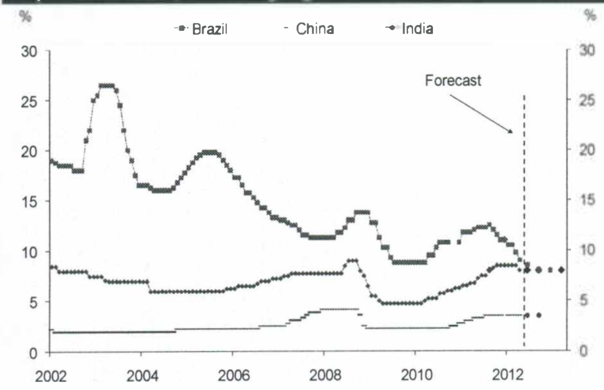
	Current	Jun12	Sep12	Dec12
CBR refi rate	9.00	8.50	8.00	8.00

Russia

On April 9th the CBR's Board decided to keep rates unchanged, including the refinancing, repo and depo rates. The refinancing rate was set at 8%, the auction repo at 5.25%, fixed repo at 6.25%, while the o/n deposit rate was set at 4%. According to the statement issued by the CBR this decision is based upon the assessment of inflation risks and the prospects for economic growth. Overall, monetary authorities observe moderate improvement in macroeconomic dynamics: the growth of industrial production accelerated in February, capital expenditures remained at a relatively high level, while the dynamics of real wages and consumer lending on the background of low unemployment are favorable to stability of consumer demand. According to the CBR inflation in March remained at a low level—3.7% YoY, while the core inflation slowed to 5.5% YoY. CBR expects this trend to be reversed in the near future on the back of regulated tariff hikes. At the same time the CBR states that in its rate decisions it is guided by the medium-term dynamics in inflation.

	Current	Apr 12	Jun12
CBR refi rate	8.00	8.00	8.00

Key rates in major emerging markets



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

Global central bank policy rate 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	Net Chan
Israel	0.50	0.75			[illegible]	[illegible]			[illegible]				[illegible]		2.00				2.25	2.50	3.00		[illegible]				3.00		2.75		2.50					[illegible]
Australi	3.00			3.25	3.50	3.75			4.00	4.25	4.50						4.75												4.50	4.25				3.75		75
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		600
Malaysi	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		25
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 Za	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				125
S Korea	2.00												2.25				2.50		2.75		3.00			3.25												125
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					175
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					150
Uruguay	6.25	8.00				6.25									6.50						7.50			8.00						8.75						250
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											125
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						175
Poland	3.75																		3.75			4.00	4.25	4.50											4.75	100
Indones	5.75																			6.75								6.50	6.00			5.75				0
Colombi	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				225
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						25
Philippi	4.00																				4.25		4.50								4.25		4.00			0
Kazakhs	7.00	7.5	7.0																		7.50															50
Euroland	1.00																					1.25			1.50				1.25	1.00						0
Denmar	0.80	1.35	1.3				1.05															1.30			1.55				1.20	0.80						0
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			75
Czech R	0.75	1.25	1.0								0.75																									0
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 Lank	8.50	11.0	11		9.75								9.5	9.0					8.5													9.00		9.75		125
South A	5.50	7.0							6.5						6.0		5.5																			0
Switzerl	0.00																									0.00										0
Egypt	8.25																												9.25							100
Turkey	5.75										7							6.5	6.25							5.75										0

Note: 1. Reserve Bank of India hiked twice in July, each by 25bps

2. Turkey 1 week repo rate is available from May 2010

Source: Deutsche Bank, government data

Global data monitor: Recent developments and near-term forecasts

	B'bergcode	Q2-11	Q3-11	Q4-11	Q1-12	Dec-11	Jan-12	Feb-12	Mar-12	Apr-12	May-12
OECD leading indicators (6M change, %, ann.)											
OECD		1.0	0.5	0.1		0.1	0.2				
US	OLEDUSA	1.5	1.1	0.9	1.1	0.9	1.0	1.1	1.2		
Euro area	OLEDEU12	0.7	-0.4	-1.4		-1.6	-6.3				
Japan	OLEDJAPN	0.4	0.1	0.0		-0.1	0.0				
China	OLEDCHIN	0.4	0.1	0.0		-0.1	0.0				
India	OLEDINDI	5.0	4.3	4.8		5.1	5.7				
Russia	OLEDRUSS	4.5	2.6	1.1		0.8	0.7				
Brazil	OLEDBRAZ	2.9	1.7	0.7		0.6	0.8				
Purchasing manager indices											
Global (manufacturing)		54.2	50.9	50.0	51.3	50.5	51.6	51.2	51.0	51.0	
US (manufacturing ISM)	NAPMPMI	56.6	52.1	52.4	53.3	53.1	54.1	52.4	53.4	54.8	54.5
Euro area (composite)		55.6	50.3	47.2	49.6	48.3	50.4	49.3	49.1	46.7	
Japan (manufacturing)	SEASPMI	49.3	51.1	50.0	50.8	50.2	50.7	50.5	51.1	50.7	
China (manufacturing)	EC11CHPM	51.2	49.7	49.2	48.9	48.7	48.8	49.6	48.3	49.3	
India (manufacturing)		56.9	52.2	52.4	56.3	54.2	57.5	56.6	54.7	54.9	
Russia (manufacturing)		51.1	49.9	51.6	50.8	51.6	50.8	50.7	50.8	52.9	
Other business surveys											
US dur. goods orders (%pop1)	DGNOCHNG	-0.6	1.0	2.5	-1.8	3.3	-3.5	1.9	-4.0	1.0	
Japanese Tankan (LI)	JNTSMFG	-9.0	2.0	-4.0	-4.0						
Euro area EC sentiment	EUESEMU	105.2	98.4	93.6	94.1	92.8	93.4	94.5	94.5	92.8	
Industrial production (%pop[1])											
US	IP CHNG	1.2	5.6	5.0	5.4	0.8	0.6	0.4	-0.6	1.1	
Euro area	EUITEMUM	0.4	3.1	-7.9	-1.8	-1.0	0.0	0.8	-0.3		
Japan	JNIPMOM	-15.8	23.6	1.7	5.1	2.3	0.9	-1.6	1.3		
Retail sales (%pop[1])											
US	RSTAMOM	5.6	5.2	8.8	7.2	0.0	0.6	1.0	0.7	0.1	
Euro area	RSSAEMUM	-2.2	1.4	-4.3	0.8	-1.3	1.1	-0.1	0.5		
Japan (household spending)		-6.7	5.1	1.9	3.5	-0.1	-0.1	1.8	-0.1		
Labour market											
US non-farm payrolls[2]	NFP TCH	130	128	164	229	223	275	259	154	115	150
Euro area unemployment (%)	UMRTEMU	10.0	10.2	10.5	10.8	10.6	10.8	10.8	10.9		
Japanese unemployment (%)	JNUE	4.7	4.4	4.4	4.5	4.5	4.6	4.5	4.5		
CP inflation (%yoy)											
US	CPICHNG	3.4	3.8	3.3	2.8	3.0	2.9	2.9	2.7	2.3	
Euro area	ECCPEMUY	2.8	2.7	2.9	2.7	2.7	2.7	2.7	2.7	2.6	2.6
Japan	JNCPIYOY	-0.4	0.1	-0.3	0.3	-0.2	0.1	0.3	0.5		
China	CNCPIYOY	5.9	6.4	4.6	3.8	4.1	4.6	3.2	3.6	3.4	
India		9.6	9.9	9.0	7.0	7.7	6.7	7.3	6.8	7.2	
Russia	RUCPIYOY	9.5	8.1	6.7	3.9	6.1	4.2	3.7	3.7	3.6	
Brazil		6.6	7.1	6.7	5.8	6.5	6.2	5.8	5.2	5.1	
Current account (USD bn)[3]											
US (trade balance, g+s)	USTBTOT	-48.4	-44.9	-47.0	-49.9	-50.4	-52.5	-45.4	-51.8		
Euro area		-2.9	-0.1	1.8	0.0	3.9	4.8	-1.7			
Japan		7.7	10.9	7.2	7.4	9.0	1.8	10.9	9.5		
China (trade in goods)		18.9	16.1	8.0	8.8	12.1	23.0	-19.4	22.8	28.1	
Russia (trade in goods)		16.2	16.1	19.1	18.3	19.9	17.8	19.3	17.9		
Other indicators											
Oil prices (Brent, USD/b)	EUCRBRDT	117.6	113.3	109.5	118.4	108.2	110.5	119.4	125.4	120.1	
FX reserves China (USD bn)	CNGFOREX	3197.5	3201.7	3181.1	3305.0	3181.1	3253.6	3309.7	3305.0		

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

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

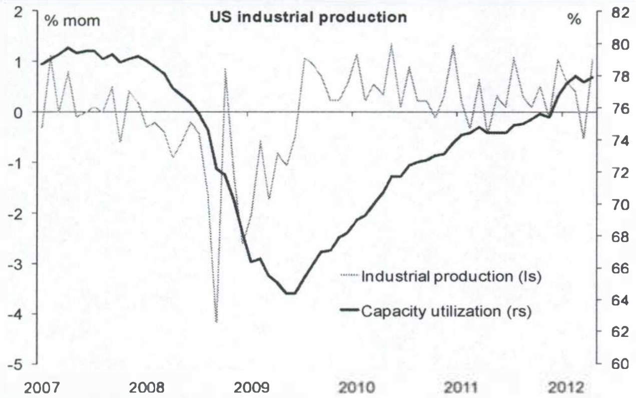
(2) pop change in '000, quarterly data are averages of monthly changes.

(3) Quarterly data are averages of monthly balances.

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

Charts of the Week

Chart 1. In the US, production continued to expand for the month of April...

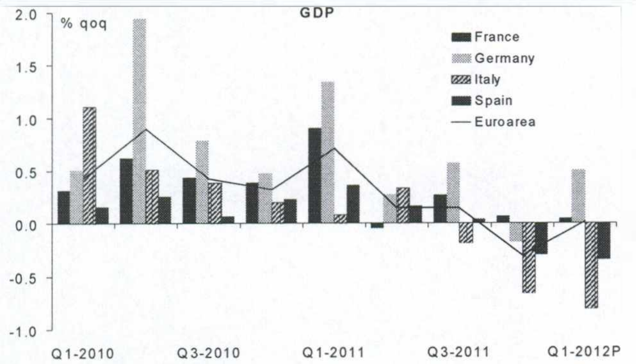


Source: FRB, DB Global Markets Research

Chart 2...while retail sales rose in April at the slowest pace since the beginning of the year

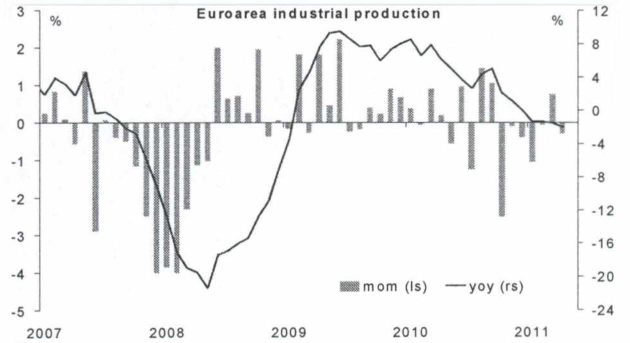
Source: FRB, DB Global Markets Research

Chart 3.In Euro area, GDP stabilized in Q1, 2012 with Germany outperforming its peers



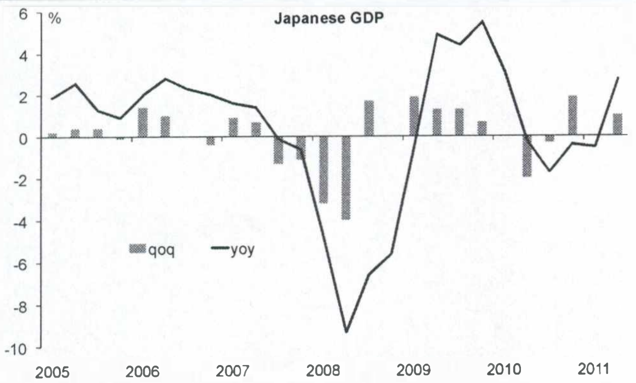
Source: Eurostat, DB Global Markets Research

Chart 4...but production dropped in March as output in the energy sector collapsed



Source: Eurostat, DB Global Markets Research

Chart 5. In Japan, the economy registered strong growth of 1.0% qoq from the last quarter...



Source: ESRI, DB Global Markets Research

Chart 6... while in China, industrial production came out softer in April

Source: NBS, CFLP, DB Global Markets Research

Global Week Ahead: Friday, 18 May – Friday, 25 May

- **Dollar Bloc**: In the **US**, we forecast durable goods for April to rise to 1.0%. In soft data, consumer sentiment is likely to improve marginally. We expect new home sales and existing home sales to post marginal rises as well. In **Canada**, consumer prices are likely to rise; also due are retail sales and leading indicator data. In **New Zealand**, trade data is a significant release of the week.
- **Europe:** In the **Eurozone,** some key surveys like the German IFO, French INSEE, Belgian BNB business confidence and flash PMI reports will garner considerable market attention. On the hard data front, the final Q1 German GDP and Euroland new orders will be the most important releases. Italy's industrial sales, retail sales and consumer confidence will reflect the health of that country's economy. Aside from French consumer confidence, German and Spanish PPI and Spanish trade balance are the other releases in the week ahead. In the **UK,** focus will be on the GDP second estimate which is expected to confirm the first estimate. We forecast a rise in consumer prices, while retail sales and CBI industrial trends are likely to worsen. In **Switzerland,** trade balance is due. In **Scandinavia,** the Norwegian GDP will be in focus. In **CE3,** Polish net core inflation and industrial production along with Hungarian retail sales are scheduled for release.
- **Asia incl. Japan:** In **Japan,** the BoJ will announce the target rate for June. In addition, all industry activity index and inflation are the other major releases.

Country	GMT	Release	DB Expected	Consensus	Previous
Friday, 18 May					
SPAIN	-	Trade balance (Mar)			-EUR3.8bn
GERMANY	06:00	PPI (Apr)	0.3% (2.6%)	0.3% (2.5%)	0.6% (3.3%)
ITALY	08:00	Industrial orders (Mar)	0.8%	1.0%	-2.5% (-13.2%)
ITALY	08:00	Industrial sales (Mar)			2.3% (-1.5%)
CANADA	12:30	CPI (Apr)	0.5% (2.2%)	0.3% (1.9%)	0.4% (1.9%)
CHILE	12:30	GDP (Q1)	(5.6%)		(4.5%)
Events and meetings: EUROLAND: EU's Rompuy to hold speech in US. **EUROLAND:** EU's Rehn to hold speech in London. **EUROLAND:** ECB's Gonzalez-Paramo to hold speech in London – 10:00 GMT. **GERMANY:** German Chancellor Merkel to speak in Mannheim – 12:00 GMT.					
Monday, 21 May					
JAPAN	04:30	All industry activity index (Mar)			-0.1%
SWITZERLAND	05:45	SECO consumer confidence (Apr)		-14.0	-19.0
EUROLAND	09:00	Construction output (Mar)			-7.1% (-12.9%)
POLAND	12:00	Industrial production (Apr)		(2.8%)	(0.7%)
Events and meetings: EUROLAND: EU's Rompuy to hold speech in Chicago. **EUROLAND:** ECB's Asmussen to hold speech in Berlin. **EUROLAND:** ECB's Constancio to hold speech in Tokyo – 08:00 GMT. **US:** Fed's Lockhart to hold speech in Tokyo – 09:15 GMT. **EUROLAND:** EU's Kroes to hold speech in Brussels – 10:30 GMT.					
Tuesday, 22 May					
NORWAY	08:00	GDP (Q1)			0.50%
UK	08:30	CPI (Apr)	0.9% (3.3%)		0.3% (3.5%)
UK	08:30	RPIX (Apr)	(3.5%)		(3.7%)
UK	08:30	RPI (Apr)	0.8% (3.5%)		0.4% (3.6%)
UK	08:30	PSNB (Apr)			GBP15.9bn
UK	08:30	PSNCR (Apr)	-GBP16.5bn		GBP16.5bn
POLAND	12:00	Net core inflation (Apr)		0.5% (2.6%)	0.3% (2.4%)
RUSSIA	12:00	Retail sales (Apr)			(7.3%)
US	14:00	Existing home sales (Apr)	4.6m	4.6m	4.5m
US	14:00	Richmond fed (May)		12.0	14.0
Events and meetings: US: Fed's Lockhart to hold speech in Hong Kong – 10:15 GMT.					
Wednesday, 23 May					
JAPAN	-	BOJ target rate (Jun)			0.10%
SWEDEN	07:30	Unemployment rate (Apr)		7.8%	7.7%
EUROLAND	08:00	Current account (Mar)			-EUR1.3bn
ITALY	08:00	Consumer confidence (May)			89.0
UK	08:30	Retail sales (Apr)	0.4% (1.7%)		1.5% (2.8%)

Country	GMT	Release	DB Expected	Consensus	Previous
Wednesday, 23 May (continued)					
EUROLAND	09:00	Industrial new orders (Mar)			-1.2% (-6.1%)
UK	10:00	CBI industrial trends survey (May)	18.0		24.0
CANADA	12:30	Retail sales (Mar)			-0.2%
CANADA	12:30	Leading indicators (May)			0.4%
US	14:00	House price index (Mar)			0.3%
US	14:00	New home sales (Apr)	340.0k	335.0k (2.1%)	328.0k (-7.1%)
NEW ZEALAND	22:45	Overseas merchandise trade (Apr)			NZD134.0m
Events and meetings: JAPAN: Bank of Japan to announce interest rate decision. **EUROLAND:** EU's Ashton to hold speech in Baghdad. **UK:** Bank of England to publish minutes of its May 09-10 monetary policy committee meeting – 08:30 GMT. **EUROLAND:** EU's Almunia to hold speech in Sopot– 14:30 GMT. **US:** Fed's Kocherlakota to hold speech in South Dakota – 18:00 GMT.					
Thursday, 24 May					
GERMANY	06:00	GDP (Q1)	0.5% (1.7%)	0.5% (1.7%)	-0.2% (1.5%)
SWITZERLAND	06:00	Trade balance (Apr)			CHF1.7bn
FRANCE	06:45	INSEE business confidence (May)		95.0	95.0
FRANCE	06:45	Personal production outlook (May)			-4.0
FRANCE	06:45	Production outlook indicator (May)			-14.0
HUNGARY	07:00	Retail sales (Mar)		(-0.8%)	(-1.4%)
EUROLAND	08:00	PMI composite, flash (May)			46.7
EUROLAND	08:00	PMI manufacturing, flash (May)		46.1	45.9
EUROLAND	08:00	PMI services, flash (May)		47.2	46.9
GERMANY	08:00	IFO - business climate (May)	110.1	109.5	109.9
GERMANY	08:00	IFO - current assessment (May)		117.3	117.5
GERMANY	08:00	IFO - expectations (May)		102.0	102.7
UK	08:30	GDP second estimate (Q1)	-0.2% (0.0%)		-0.3% (0.5%)
UK	08:30	Business investment (Q1)			-5.6% (-2.0%)
SOUTH AFRICA	11:00	SARB rate decision (Jun)		5.50%	5.50%
BRAZIL	12:00	Unemployment rate (Apr)			6.2%
US	12:30	Durable goods (Apr)	1.0%	1.0%	-4.0% (2.7%)
US	12:30	Durable goods ex transport (Apr)	0.0%	1.0%	-0.8% (5.0%)
BELGIUM	13:00	BNB business confidence (May)		-11.0	-10.7
MEXICO	13:00	GDP current (Q1)			(11.0%)
JAPAN	23:50	National CPI (Apr)		(0.4%)	0.1% (0.5%)
Events and meetings: SOUTH AFRICA: Reserve Bank of South Africa to announce rate decision – 11:00 GMT. **EUROLAND:** ECB's Draghi and Visco to hold speech in Rome – 12:30 GMT. **US:** Fed's Dudley to hold speech in New York – 14:30 GMT. **EUROLAND:** ECB's Asmussen to hold speech in Sopot – 16:20 GMT.					
Friday, 25 May					
FRANCE	06:45	Consumer confidence (May)			88.0
SPAIN	07:00	PPI (Apr)			0.8% (3.3%)
ITALY	08:00	Retail sales (Mar)			0.6% (0.1%)
US	13:55	Consumer sentiment (May)	78.0	77.8	76.4
Events and meetings: NORWAY: Norges Bank's Olsen to hold speech in Oslo. **EUROLAND:** ECB's Praet to hold speech in Milan – 07:00 GMT. **EUROLAND:** EU's Barnier to hold speech in Brussels – 14:30 GMT.					

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

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

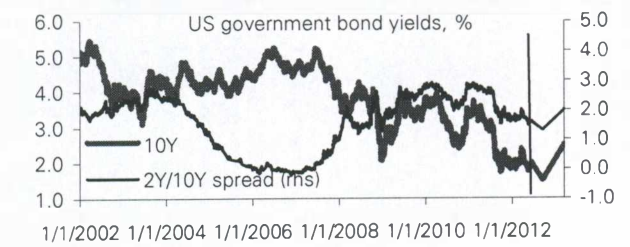
Financial Forecasts

		US	Jpn	Euro	UK	Swe*	Swiss*	Can*	Aus*	NZ*
3M Interest	Actual	0.47	0.33	0.69	1.01	1.50	0.00	1.00	3.75	2.50
Rates[1]	Jun-12	0.50	0.30	0.70	0.85	1.50	0.00	1.00	3.75	2.50
DB forecasts	*futures*	(0.50)	(0.34)	(0.66)	(1.04)	—	—	—	—	—
& Futures	Sep-12	0.50	0.30	0.70	0.85	1.50	0.00	1.50	**3.50**	2.50
	futures	(0.61)	(0.34)	(0.63)	(1.12)	—	—	—	—	—
	Mar-13	0.50	0.30	0.85	0.85	1.50	0.00	2.00	**3.50**	2.50
	futures	(0.68)	(0.34)	(0.65)	(1.12)	—	—	—	—	—
10Y Gov't[2]	Actual	1.79	0.85	1.46	1.87	1.21	0.35	1.57	2.96	2.99
Bond	Jun-12	2.00	1.10	2.20	2.60	2.30	1.10	2.25	4.00	4.00
Yields/	*futures*	1.85	0.86	1.51	1.94	—	—	—	—	—
Spreads[3]	Sep-12	1.50	1.10	2.25	2.70	2.45	1.05	3.00	4.50	4.50
DB forecasts	*futures*	1.92	0.89	1.56	1.99	—	—	—	—	—
& Forwards	Mar-13	2.50	1.20	2.35	3.10	2.65	1.05	3.00	4.50	4.50
	futures	2.05	0.97	1.66	2.10	—	—	—	—	—

		EUR/ USD	USD/ JPY	EUR/ GBP	GBP/ USD	EUR/ SEK	EUR/ CHF	CAD/ USD	AUD/ USD	NZD/ USD
Exchange	Actual	1.27	80.4	0.80	1.59	9.12	1.20	1.01	0.99	0.77
Rates	3M	1.25	80.0	0.83	1.51	8.75	1.21	1.00	1.00	0.80
	6M	1.30	80.0	0.85	1.53	8.50	1.21	1.00	1.00	0.80
	12M	1.35	82.0	0.86	1.57	8.25	1.21	1.00	1.00	0.80

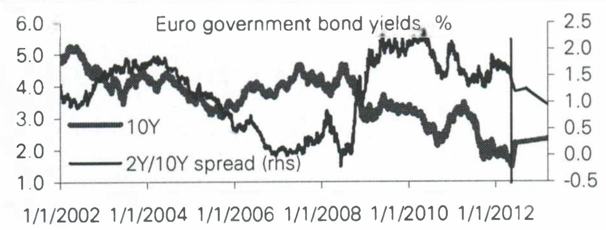
*(1) Future rates calculated from the June, September and March 3M contracts. Forecasts are for the same dates. * indicates policy interest rates.*
(2) Forecasts in this table are produced by the regional fixed income strategists. Forwards estimated from the asset swap curve for 2Y and 10Y yields.
(3)Bond yield spreads are versus Euroland. 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



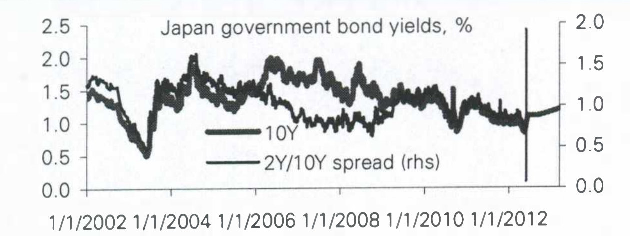
Source: DB Global Markets Research, Bloomberg Finance LP

Euroland 10Y rates



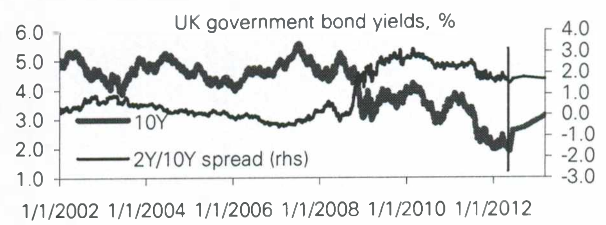
Source: DB Global Markets Research, Bloomberg Finance LP

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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Appendix 1

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