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Plate Spinning

November 2015

Jim Reid
Global Head of Fundamental Credit Strategy
(+44) 20 7547 2943
jim.reid@db.com

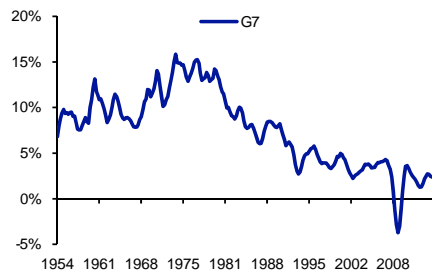
DISCLOSURES AND ANALYST CERTIFICATIONS ARE LOCATED IN APPENDIX 1. MICA(P) 054/04/2013

Passion to Perform

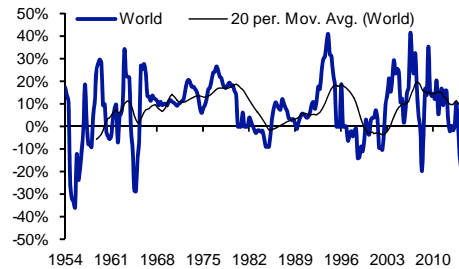


Global Nominal GDP growth still very weak

G7 still fairly weak relative to history



World NGDP growth in Dollars very negative



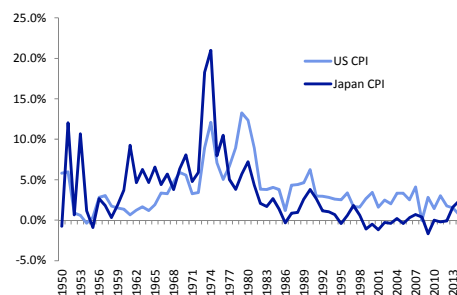
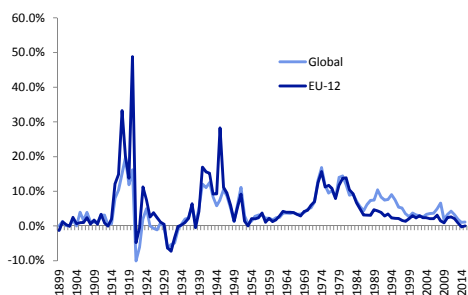
Source: Deutsche Bank, GFD
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Global Inflation very low at the moment.. Close to multi-decade lows most regions...



Euro median inflation at zero...

.. As is Japan and US inflation...



Source: Deutsche Bank, GFD

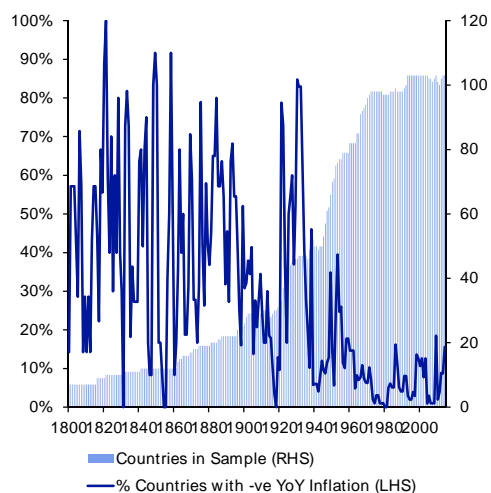
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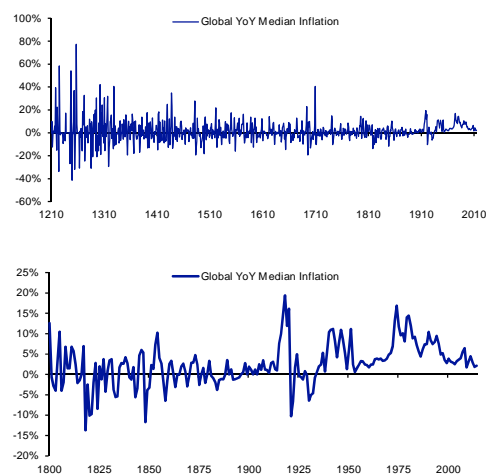
The modern era has seen a positive inflation bias – before the last 70 years deflation almost as common as inflation



Percentage of Countries with Negative YoY Inflation since 1800



Global Median YoY Inflation since 1210 (top) and 1800 (bottom)



Source: Deutsche Bank, GFD

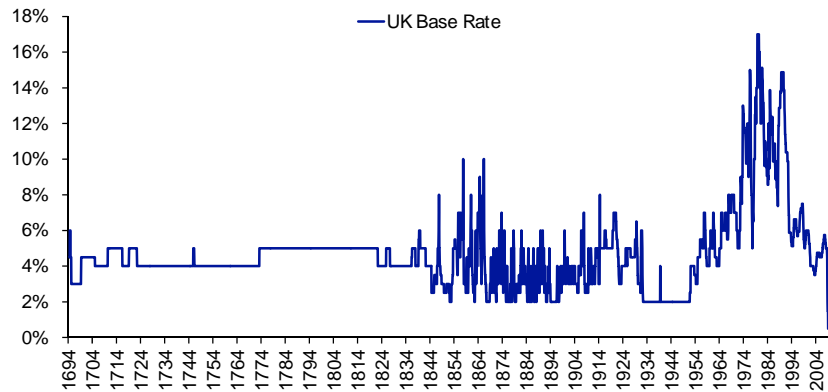
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Sometimes we don't appreciate just how unusual the financial world is today



UK Base Rates (0.5%) lowest (by 1.5%) since BoE formed in 1694...



Source: Deutsche Bank, GFD

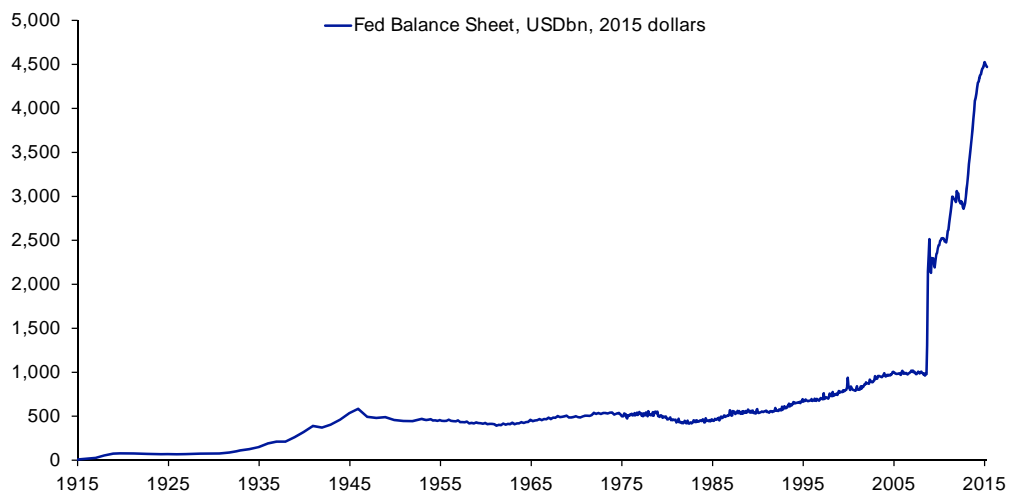
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A Journey into the Unknown



Fed Balance Sheet (\$bn), in 2015 Dollars



Source: Deutsche Bank, Haver, St. Louis Fed, Bloomberg Finance LLP

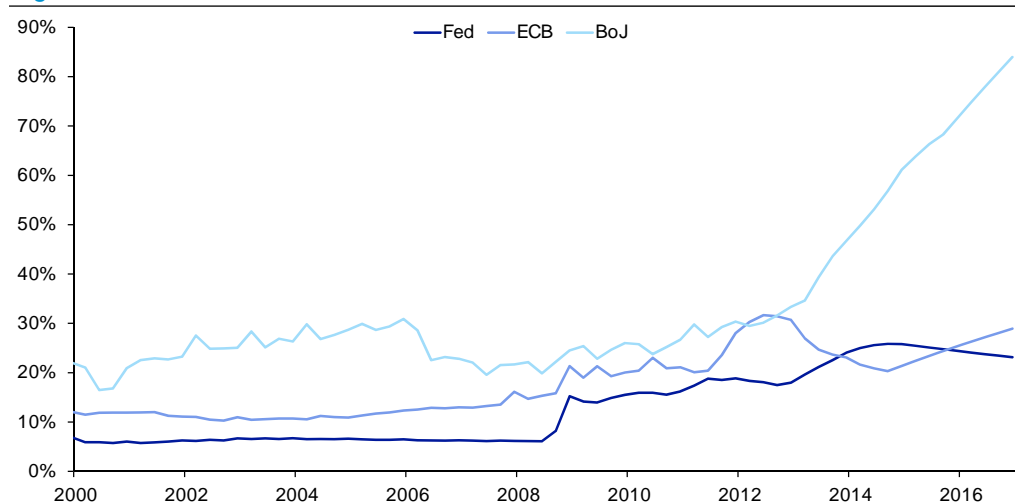
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BoJ – One of the greatest monetary experiments in history?



Big DM central banks balance sheets as % of GDP



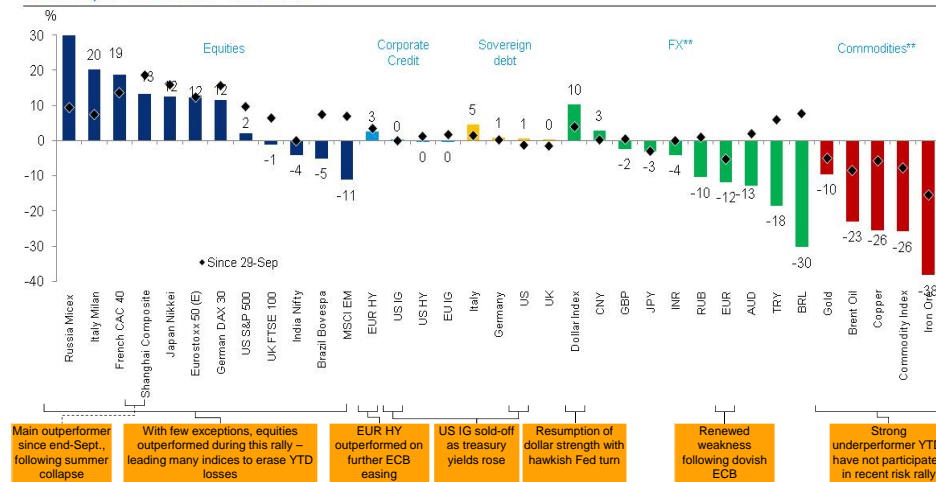
Source: Deutsche Bank, Bloomberg Finance LLP

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The risk rally since end-September has erased YTD losses in many cases. Equities continue to be the key outperformer

Returns per asset class* 2015 YTD



Note: (*) Total return accounts for both income (interest or dividends) and capital appreciation. (**) FX, Commodities are spot returns.

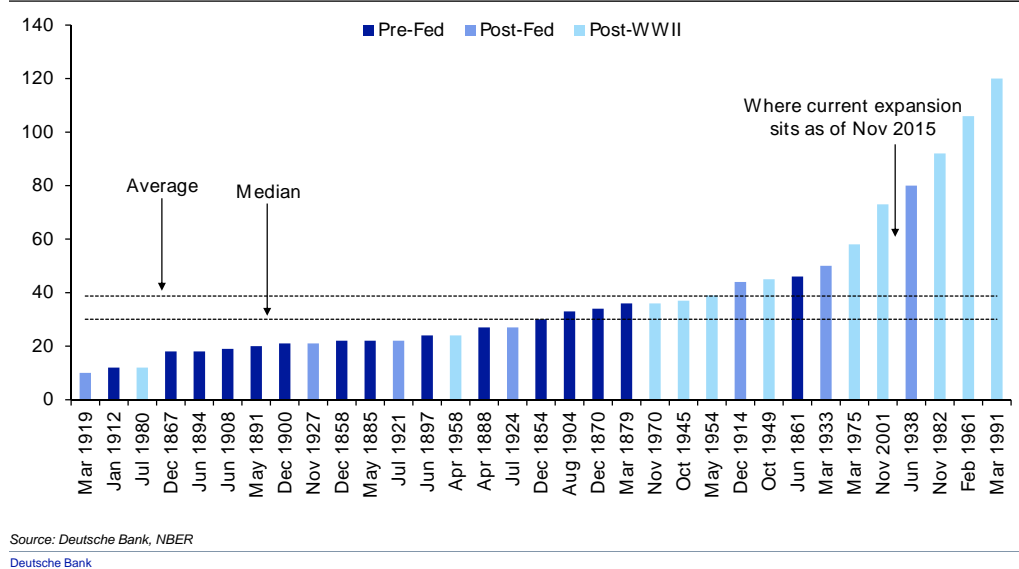
Source: Bloomberg Finance LP, Deutsche Bank Research. As of 17-Nov, Europe COB

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Is this Cycle Becoming Extended?



Length of Business Cycle Expansions since 1854 (months)

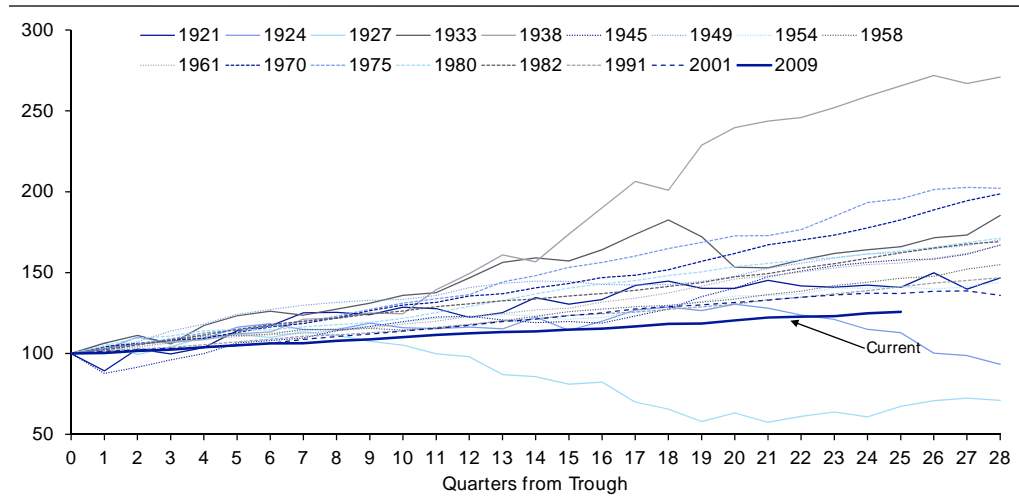


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A long US business cycle but very weak relative to history...



Current US Nominal GDP Growth vs. Other Recoveries since 1921

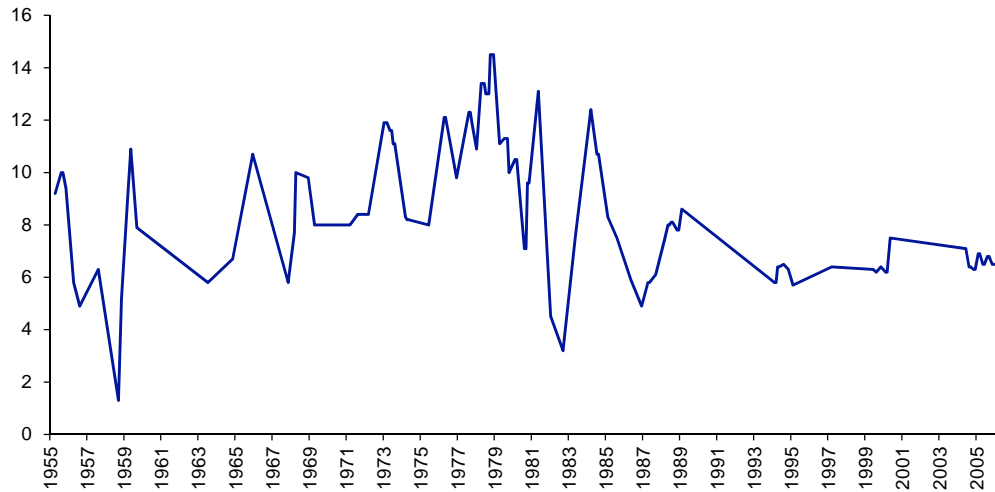


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US Nominal GDP (YoY) the Quarter the FED Raised Rates post WWII



Only 2 of 118 hikes lower than current level... And they were quickly reversed..

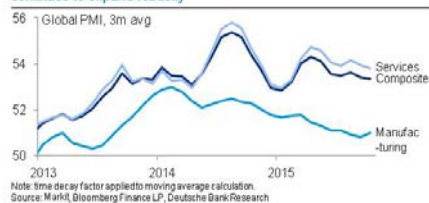


Source: GFD
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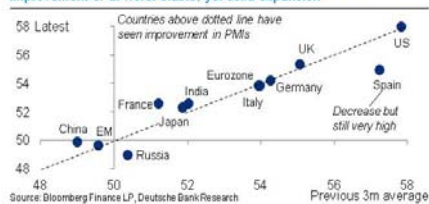
Macro data and clarity on monetary policy have reduced the risk of a negative scenario, diminishing global growth concerns

Manufacturing PMIs have bottomed out while the services sector continues to expand robustly



Note: time decay factor applied to moving average calculation.
Source: Markit, Bloomberg Finance LP, Deutsche Bank Research

Composite PMI: with very few exceptions, latest readings point to improvement or at worst stable, yet solid expansion



Source: Bloomberg Finance LP, Deutsche Bank Research

China and global growth concerns had dominated markets since the summer

Weak data in China / EM, some disappointing US data and the renewed decline in oil prices sparked fears of a global growth slowdown

Fed's decision not to hike in September citing these global headwinds exacerbated concerns

Worries appeared overdone; since then the data have stabilised or improved...

Data in China have surprised to the upside US data have been mixed but on average point to resilient domestic demand

Eurozone data confirm stable above-trend growth

Global manufacturing, which had been particularly weak, appears to have bottomed

...and monetary policy has become clearer with a rate cut in China, signals of ECB easing and renewed expectations of a Fed hike

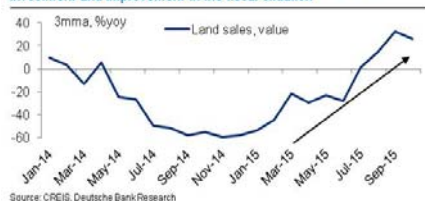
PMIs, the single best indicator of global growth momentum, have generally improved

This has reduced the risk of a downside scenario and helped fade global growth concerns

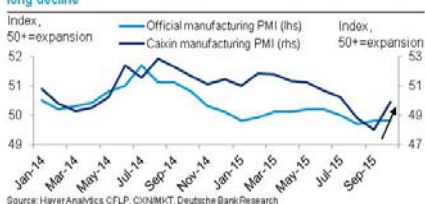
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In China, better macro data have diminished downside risks, increasing support for our “no hard landing” view

Land sales have accelerated, signalling a rebound in property investment and improvement in the fiscal situation



Manufacturing PMIs showing signs of stabilising / rising after a year-long decline



Supportive data has improved China sentiment – Q4 2015 consensus forecasts were revised up

We still expect a near-term growth pickup led by a rebound in investment spending

PMIs have stabilised and risen in some cases
Strong land sales indicate a rebound of property investment

Extent to which improving land sales trend boosts fiscal situation and government spending is underappreciated by the market

Policy easing will continue to support growth

Aggressive fiscal and monetary easing started several months ago

Fiscal easing continues and we see further monetary easing (RRR* cuts) through end-2016

Beyond the cyclical rebound, growth set to continue its structural decline

Signals that growth target likely to be reduced to 6.5% from 7% in next five year plan (2016-20)

Next year's growth objective remains uncertain

Lower growth target helps policy makers to balance growth and structural adjustments

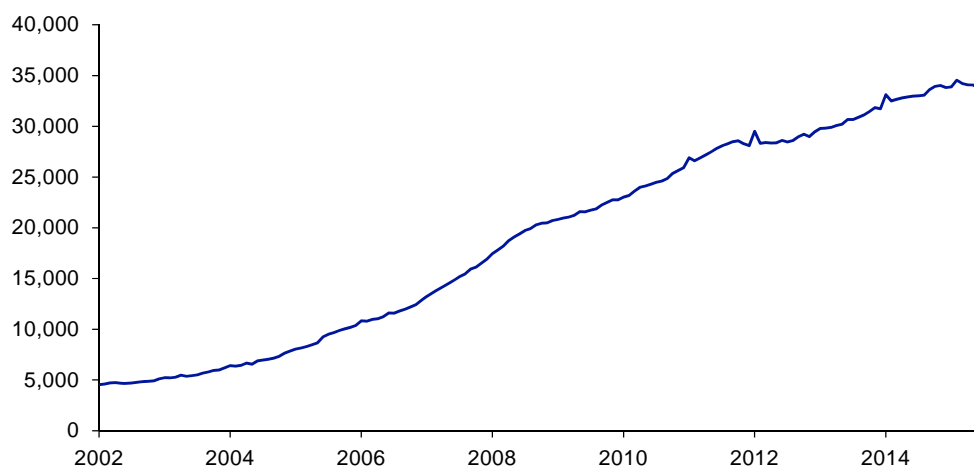
Note (*): Reserve requirement ratio for large banks.

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China reserves fall for the first time in over a decade - is this Quantitative Tightening?



PBOC Total Assets (CNY bn)



Source: Deutsche Bank, Bloomberg Finance LLP

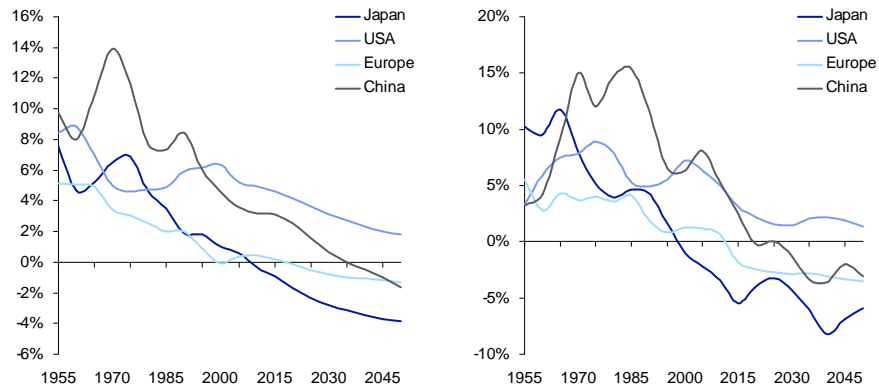
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Demographics. Is Europe the next Japan? Will US be spared the same fate?



% Change in the Overall Population (left) and Economically Active' 15-64 Year Old Group (right)



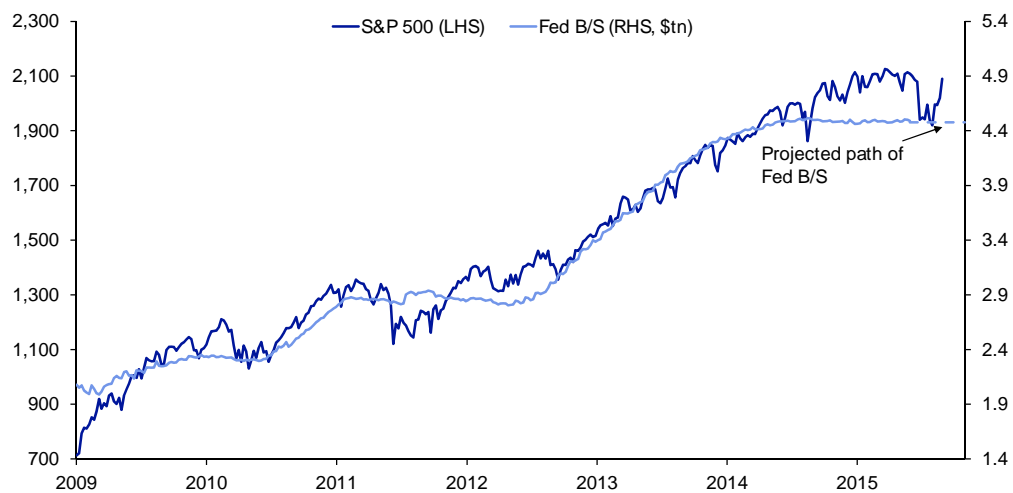
Source: Deutsche Bank, Bloomberg Finance LLP
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Without US QE, S&P 500 has struggled to match QE performance



S&P 500 and Fed Balance Sheet



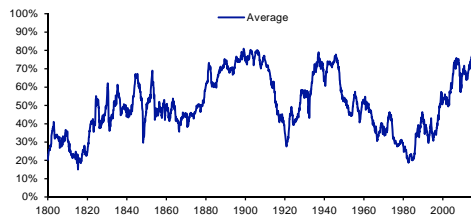
Source: Deutsche Bank, Bloomberg Finance LLP
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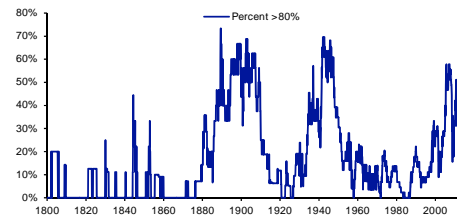
Highest Global Asset Prices on Record? Combined Valuation of Global Equity, Bond and Housing. 100% most expensive, 0% cheapest



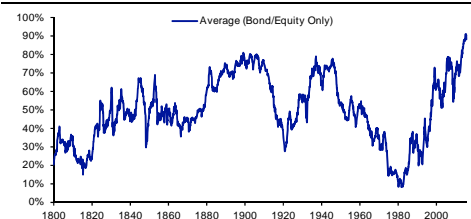
15 DM Country Equity, Bond and Housing (%)



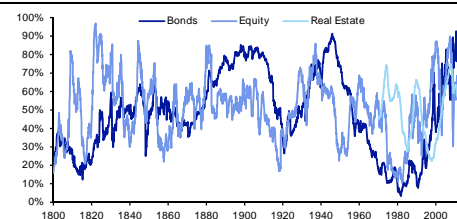
Individual Countries in Top 20% vs History



Just Equity and Bonds (no Housing)



Individual Time Series of 15 Countries



Source: Deutsche Bank, Bloomberg Finance LLP, Mark-it Group

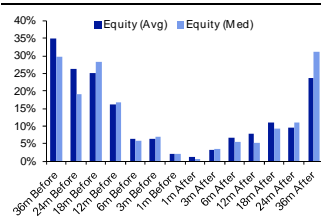
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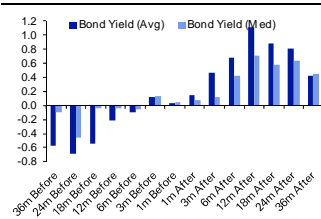
Impact of First US Rate Hike on Economic/Market Variables. Data since 1950.



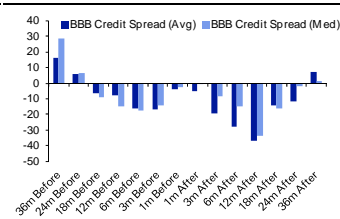
Equities



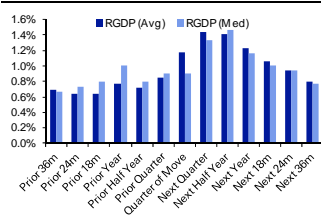
Bond Yields



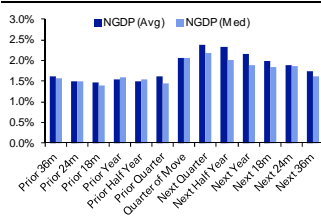
Credit Spreads



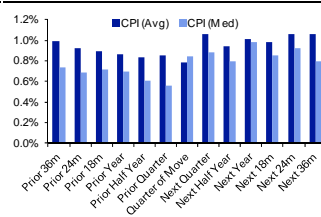
Real GDP



Nominal GDP



CPI



Source: Deutsche Bank, GFD

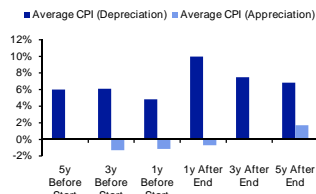
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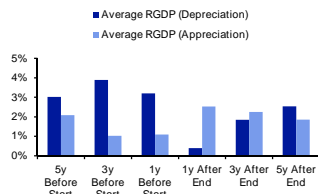
Currency Wars: The Impact Historically of Large FX moves (vs US \$) on Economic and Market Variables



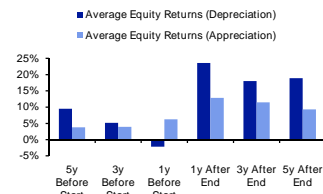
CPI



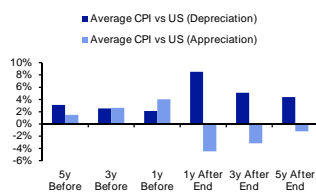
Real GDP



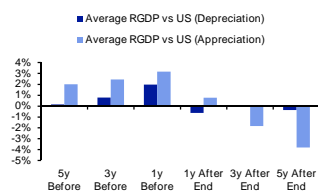
Equities



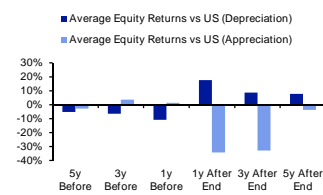
CPI vs US CPI



Real GDP vs US



Equities vs US



Source: Deutsche Bank, GFD

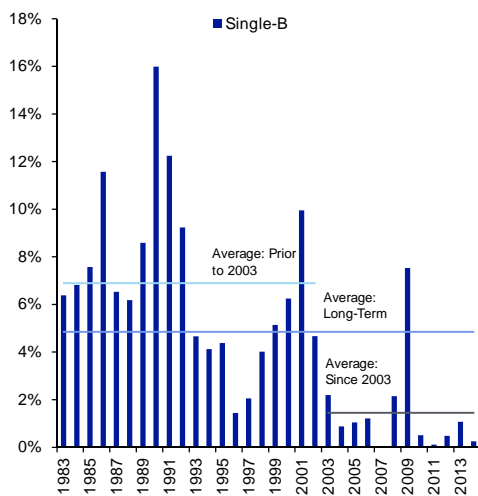
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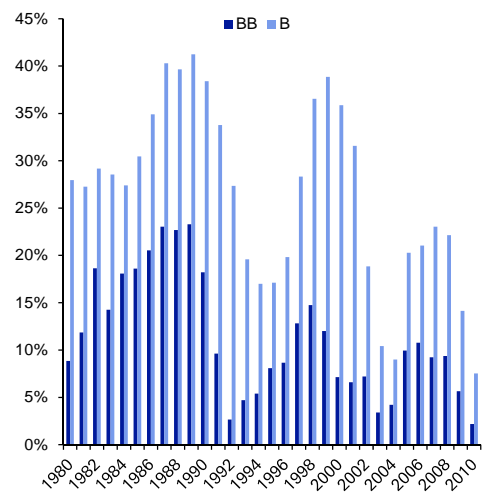
2010-14 saw the lowest 5-yr cumulative default rate for BBs and single-Bs on record... Extending a 13-year ultra low run



Global Single-B Annual Default Rates



Global BB and Single-B 5yr Cumulative Default Rates by Cohort



Source: Deutsche Bank, Moody's

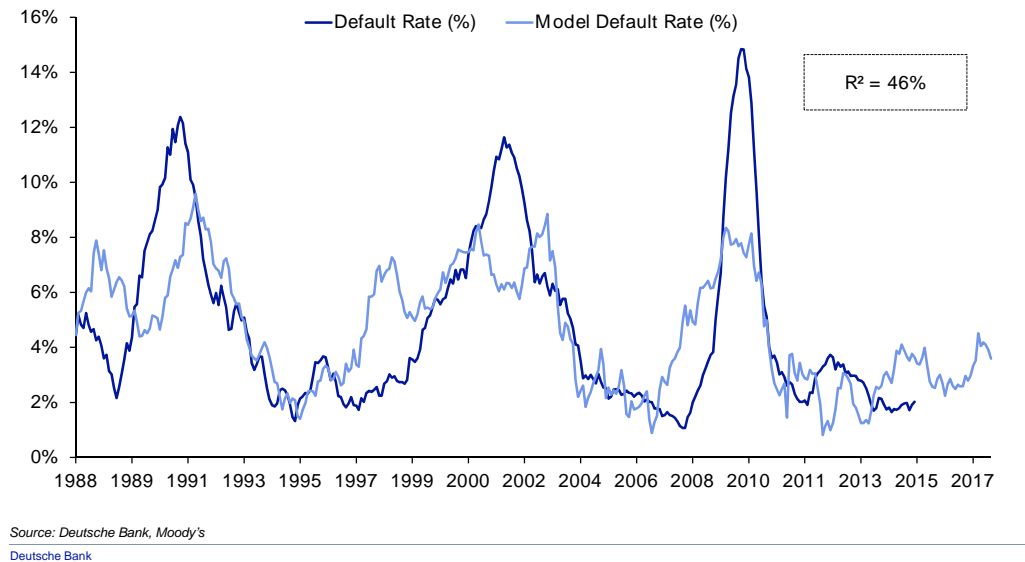
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US Default Model



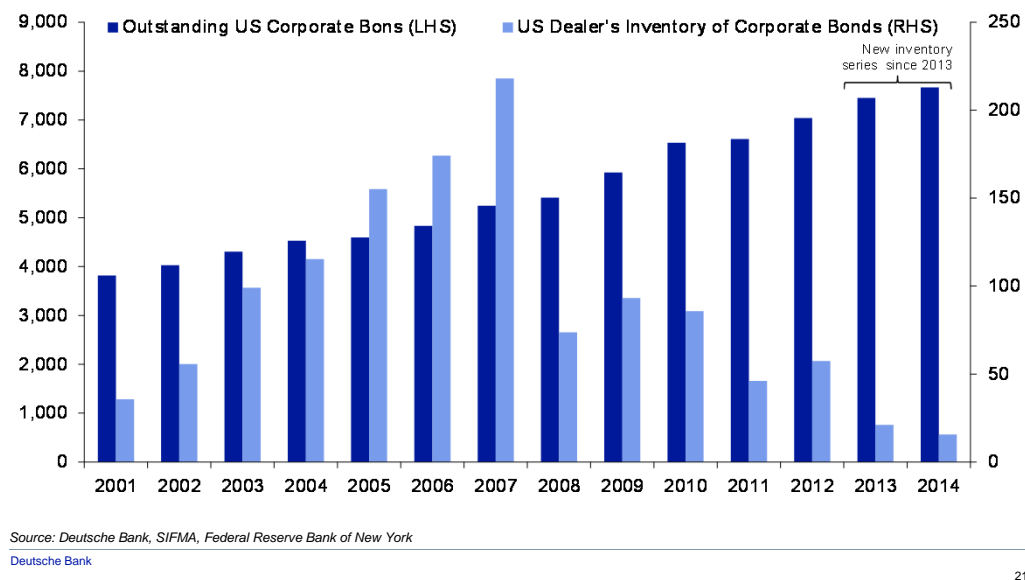
US Default Model vs Actual Default Rate



Is credit market liquidity the most underpriced it's ever been?



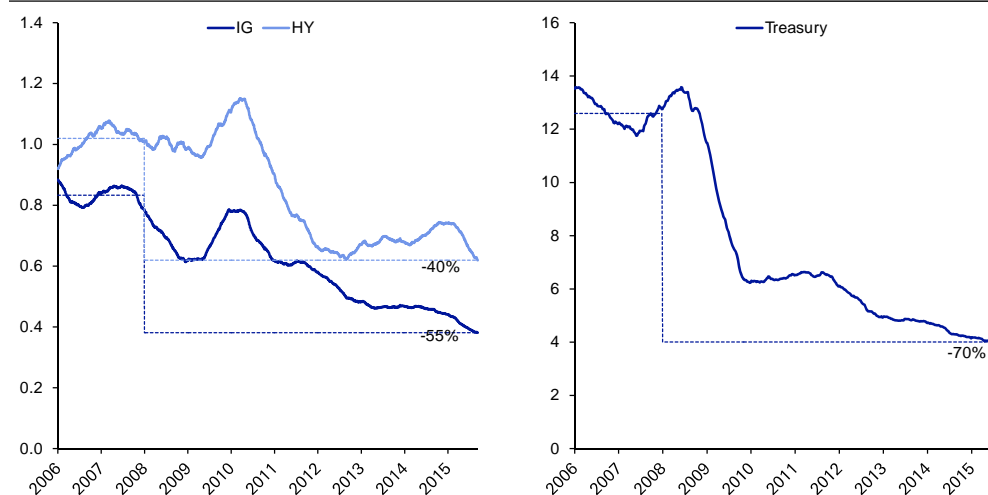
Outstanding US Corporate Bond Market vs US Dealer's Inventory (\$bn)



Safer fixed income assets have been impacted by the liquidity withdrawal to a greater extent



12 Month Average Daily Trading Volumes for HY, IG and Treasuries as a Percent of Market Size (%)



Source: Deutsche Bank, TRACE, Federal Reserve

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Political risk remains across Europe, but we don't expect materially adverse scenarios that would jeopardise the recovery



Portugal

Incumbent centre-right coalition lost its majority at October election

Base case of a minority centre-right government failed following opposition from a united left

A Socialist-led leftist government appears more likely

Caretaker government followed by new elections also possible

The left's programme avoids radical policies but is overall negative for future growth and debt sustainability

Concessions made to radical-left

Reform progress unlikely, could even see policy regression

Deficit targets sensible but risk of fiscal slippage

By keeping sovereign bond yields contained ECB support reduces incentives to reform and be fiscally disciplined (moral hazard)



Spain

Sense of political risk in Spain heightened due to Catalonia...

Steps toward independence following September pro-independence vote

Firm response from Madrid

...But expect a compromise that avoids independence centred on overhaul of regional financing

Risk of negative outcome at the Dec. general election is receding

Breakdown of 2-party system*, rise of Podemos** a concern

Opinion polls show a rising chance of a more pro-business government...

...Reducing risk of a fragmented government and of radical left influencing economic policy

Polls can evolve – but baseline scenario is market positive



Greece

Increased political stability as both incumbent SYRIZA and opposition support agreement with Europe

Key priorities for Greece are debt relief and bank recapitalisation

Some issues remain unresolved; there will be noise in negotiations, but should see rapid compromise

Reform implementation is key for avoiding a re-escalation of the crisis UK and Brexit

Referendum on EU membership by end-2017, possibly during 2016 – with negotiations in coming quarters

Some of the UK's demands are legitimate calls for EU reform

Support for an IN vote has eroded in recent months

But Brexit is a bad outcome for both sides and we ultimately expect a compromise that avoids it



Note: (*) Neither of the two major traditional parties, centre-right incumbent Partido Popular (PP) and Socialists, likely to win majority). (**) Radical left party

It's getting political – 13-Nov-2015

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Challenging oil fundamentals should keep prices low until supply / demand rebalances toward end-2016

Oil prices are once again testing post-crisis lows after a brief period of stability

Concerns have risen that oil prices are likely to remain lower for longer

For example, the IEA* recently called for oil supply to remain above demand through 2020

A sustained rebound in oil prices is unlikely in the near-term given negative fundamentals

Oil market remains in substantial oversupply
OECD inventories to rise from already high levels through H1-2016

Declining rig count in the US likely needed to support price until US production falls more convincingly

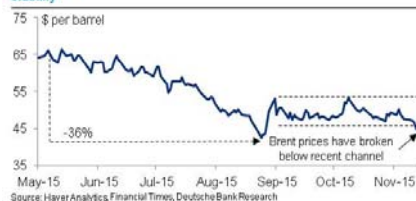
However we see supply / demand rebalancing toward end-2016

Should allow for a more sustainable, although very gradual, rise in oil prices

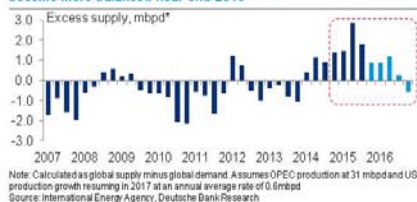
End-2016 Brent forecast of USD59/bbl

Nonetheless, risks remain to the downside of this view, which requires a sharp drop in US supply

Brent oil prices have moved lower after more than two months of stability



Oil excess supply at highest levels in nearly two decades, but should become more balanced near end-2016



Note: (*) International Energy Agency

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Appendix 1

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