



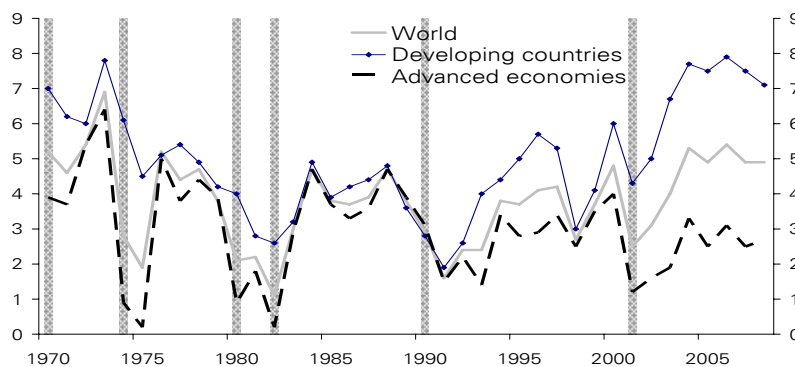
29 October 2007

Global Economic Perspectives

How Sensitive is Growth in Emerging Markets to a US Slowdown?

- Our answer to this question is: **As long as a US slowdown does not lead to turbulence in emerging market economies' exchange rates and stock markets, sensitivity is likely to be moderate.**
- An export-oriented development strategy has paved the way for rapid growth in emerging market economies, raising these countries' share in world GDP. Although conventional measures of the size of EM economies based on PPP exchange rates overstate the size of this country group from a financial markets perspective, we find that calculations based on market exchange rates also point to the growing importance of this country group.
- Although greater openness has probably made EM countries more vulnerable to economic shocks from abroad we show that the impulse emanating from a slowdown of the US economy through the trade channel is likely to be moderate.
- However, we would expect a greater fall-out from a US slowdown on EM economic performance if such a development were accompanied by rapid appreciation of EM exchange rates or declines in EM stock markets generated by a falling US stock market.

We are projecting EM growth to stay above growth in the advanced countries



Source: DB Global Markets Research

Economic Outlook

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DISCLOSURES AND ANALYST CERTIFICATIONS ARE LOCATED IN APPENDIX 1

Key Economic Forecasts

| | Real GDP % growth ^b | | | Consumer Prices % growth ^c | | | Current Account % of GDP ^d | | | Fiscal Balance % of GDP | | |
|------------------------|-----------------------------------|------------|-------------|--|------------|------------|--|-------------|-------------|----------------------------|------------|------------|
| | 2006 | 2007F | 2008F | 2006 | 2007F | 2008F | 2006 | 2007F | 2008F | 2006 | 2007F | 2008F |
| US | 2.9 | 2.0 | 2.2 | 3.2 | 2.9 | 2.2 | -6.2 | -5.1 | -4.7 | -1.9 | -1.2 | -1.6 |
| Japan | 2.2 | 1.8 | 1.8 | 0.2 | 0.0 | 0.5 | 3.9 | 4.8 | 5.2 | -5.2 | -3.7 | -3.3 |
| Euroland | 2.9 | 2.6 | 1.7 | 2.2 | 2.0 | 2.0 | -0.1 | 0.1 | 0.1 | -1.5 | -1.0 | -0.9 |
| Germany | 3.1 | 2.5 | 1.9 | 1.8 | 2.1 | 2.1 | 5.1 | 4.2 | 5.1 | -1.6 | -0.6 | -0.2 |
| France | 2.2 | 1.8 | 1.8 | 1.9 | 1.5 | 1.8 | -1.5 | -1.2 | -1.0 | -2.5 | -2.5 | -2.4 |
| Italy | 1.9 | 1.8 | 1.4 | 2.2 | 1.8 | 1.8 | -2.6 | -2.4 | -2.1 | -4.4 | -2.6 | -2.4 |
| Spain | 3.9 | 3.8 | 2.8 | 3.6 | 2.6 | 3.1 | -8.7 | -9.4 | -8.2 | 1.8 | 1.7 | 1.1 |
| UK | 2.8 | 2.9 | 1.8 | 2.3 | 2.3 | 1.8 | -3.2 | -3.3 | -3.3 | -2.3 | -2.7 | -2.5 |
| Sweden | 4.2 | 3.4 | 3.0 | 1.2 | 1.1 | 1.6 | 7.2 | 6.7 | 6.0 | 2.5 | 1.8 | 1.6 |
| Denmark | 3.5 | 1.3 | 1.7 | 1.9 | 1.5 | 1.5 | 2.5 | 1.0 | 1.0 | 4.6 | 3.0 | 2.7 |
| Norway | 2.8 | 3.2 | 2.5 | 0.8 | 1.5 | 1.9 | 16.4 | 15.0 | 14.0 | 18.0 | 16.5 | 15.0 |
| Switzerland | 3.2 | 2.7 | 2.1 | 1.1 | 0.6 | 1.1 | 16.9 | 16.0 | 15.0 | 1.1 | 1.0 | 0.7 |
| Poland | 6.1 | 6.6 | 5.0 | 1.0 | 2.3 | 2.8 | -2.3 | -4.2 | -4.9 | -4.2 | -3.5 | -3.9 |
| Hungary | 3.9 | 1.5 | 2.3 | 3.9 | 7.6 | 3.8 | -5.7 | -4.4 | -3.9 | -9.2 | -6.4 | -5.1 |
| Czech Republic | 6.1 | 6.2 | 4.9 | 2.5 | 2.6 | 3.9 | -4.2 | -3.8 | -4.5 | -2.9 | -3.9 | -3.8 |
| Slovakia | 8.3 | 8.9 | 7.2 | 4.5 | 2.5 | 2.5 | -8.3 | -4.3 | -4.1 | -3.4 | -2.9 | -2.8 |
| Australia | 2.7 | 4.4 | 3.5 | 3.5 | 2.4 | 3.1 | -5.5 | -6.2 | -6.7 | 1.6 | 1.3 | 1.0 |
| Canada | 2.8 | 2.7 | 2.4 | 2.0 | 2.4 | 2.7 | 1.6 | 0.3 | 0.2 | | | |
| Asia (ex Japan) | 9.3 | 9.3 | 8.4 | 3.3 | 4.3 | 3.4 | 5.2 | 5.3 | 5.4 | -2.3 | -2.2 | -2.1 |
| India | 9.7 | 8.8 | 8.0 | 5.2 | 4.9 | 4.5 | -1.0 | -0.8 | -1.1 | -6.5 | -6.2 | -6.0 |
| China | 11.0 | 11.4 | 10.4 | 1.5 | 4.6 | 3.5 | 8.7 | 9.5 | 9.5 | -1.3 | -1.0 | -0.8 |
| Latin America | 5.2 | 4.8 | 4.2 | 4.8 | 5.1 | 4.9 | 2.1 | 0.8 | -0.3 | 3.7 | 3.0 | 2.3 |
| Brazil | 3.7 | 4.8 | 4.4 | 3.1 | 4.0 | 4.2 | 1.3 | 0.8 | 0.1 | -2.9 | -1.5 | -1.3 |
| EMEA | 6.4 | 6.3 | 5.9 | 8.4 | 7.6 | 7.0 | 0.3 | -0.7 | -1.8 | 2.3 | -0.3 | -0.5 |
| Russia | 6.7 | 7.5 | 7.3 | 9.1 | 9.3 | 8.5 | 9.6 | 7.2 | 2.3 | 7.5 | 3.9 | 1.3 |
| G7 | 2.7 | 2.1 | 2.0 | 2.3 | 2.1 | 1.8 | | | | | | |
| World | 5.4 | 5.1 | 4.6 | 3.1 | 3.4 | 3.0 | | | | | | |

(a) Euroland forecasts as at the last forecast round on 28/09/2007. Bold figures signal upward revisions, bold, underlined figures signal downward revisions.

(b) GDP figures refer to working day adjusted data. The non-adjusted growth forecasts for Germany are 2.4% in 2007 and 2.2% in 2008. (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 06 | Q2 06 | Q3 06 | Q4 06 | 2006 | Q1 07 | Q2 07 | Q3 07F | Q4 07F | 2007F | 2008F |
|--------------------------|-------|-------|-------|-------|------------|-------|-------|------------|------------|------------|------------|
| US | 4.8 | 2.4 | 1.1 | 2.1 | 2.9 | 0.6 | 3.8 | 2.7 | 1.4 | 2.0 | 2.2 |
| Japan | 2.4 | 2.4 | -0.5 | 5.6 | 2.2 | 3.0 | -1.2 | 2.2 | -2.1 | 1.8 | 1.8 |
| Euroland | 3.6 | 3.9 | 2.4 | 3.2 | 2.9 | 3.1 | 1.3 | 2.6 | 1.1 | 2.6 | 1.7 |
| Germany | 3.5 | 5.4 | 3.0 | 4.0 | 3.1 | 2.2 | 1.0 | 1.7 | 2.0 | 2.5 | 1.9 |
| France | 2.8 | 3.7 | 0.2 | 1.6 | 2.2 | 2.3 | 1.2 | 2.5 | 1.5 | 1.8 | 1.8 |
| Italy | 3.2 | 2.4 | 1.2 | 4.6 | 1.9 | 1.1 | 0.5 | 1.5 | 1.2 | 1.8 | 1.4 |
| UK | 3.3 | 3.3 | 2.7 | 3.3 | 2.8 | 3.2 | 3.3 | 3.2 | 1.6 | 2.9 | 1.8 |
| Canada | 3.4 | 1.5 | 1.3 | 1.5 | 2.8 | 3.9 | 3.4 | 2.9 | 2.4 | 2.7 | 2.4 |
| G7 | 3.9 | 2.8 | 1.1 | 3.1 | 2.7 | 1.6 | 2.3 | 2.5 | 0.9 | 2.1 | 2.0 |

Sources: National authorities, DB Global Markets Research

How Sensitive is Growth in Emerging Markets to a US Slowdown?

Introduction

Over the past five years emerging markets have been enjoying very high growth rates both when compared to history and when compared to the OECD countries. This impressive performance has been driven by a number of factors including structural reforms, increasing commodity prices and solid growth in export partner countries.

Looking ahead, fears have increased that the US economy will slow significantly as the housing sector problems spill over to the rest of the economy. Under such a scenario the following question becomes important for investors: Will emerging markets be able to decouple and enjoy continued high growth?

The believers in the decoupling hypothesis tend to emphasize two key arguments. First, rapid growth in emerging markets has raised their overall share of world GDP which in turn has reduced the relative importance of shocks in the US to their overall GDP. Second, emerging markets have in recent years experienced an increase in growth in domestic demand, suggesting that they may have become less dependent on net exports.

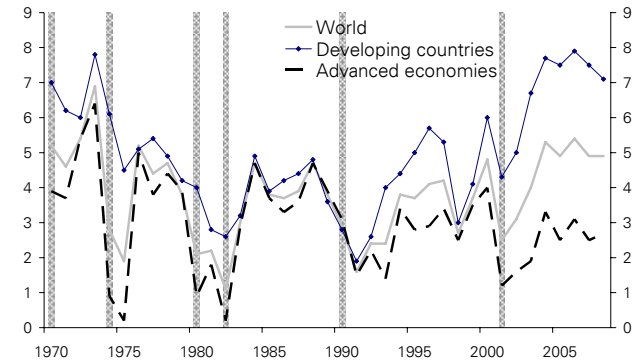
To investigate the decoupling hypothesis we take a closer look at the various trade and financial linkages through which a US slowdown could affect emerging markets. We find that for several reasons, emerging markets economies are unlikely to be less sensitive to a downturn in the US today than they were several decades ago; indeed the sensitivity may have increased. At the same time, the effect may be smaller than some estimates have suggested. Unless accompanied by financial turbulence, a US economic downturn may indeed well have only moderate effects on emerging market growth

Emerging markets' growing importance in world output and growth

As discussed in our latest World Outlook, growth in emerging markets has been significantly above growth in advanced countries since 2001 and this difference in growth levels is projected to persist in coming years (Chart 1). This region has also accounted for a predominant share of total world growth in recent years, with China's double-digit expansion contributing 2 percentage points, or more than a third of total world growth recently (Chart 2). As a result of this rapid growth, over the past three decades, emerging markets' share of world GDP has risen from a little over one-third to roughly half (Chart 3). At the same time, the US share has declined modestly to about 20%. These shifts in GDP shares would appear to have reduced (but not eliminated),

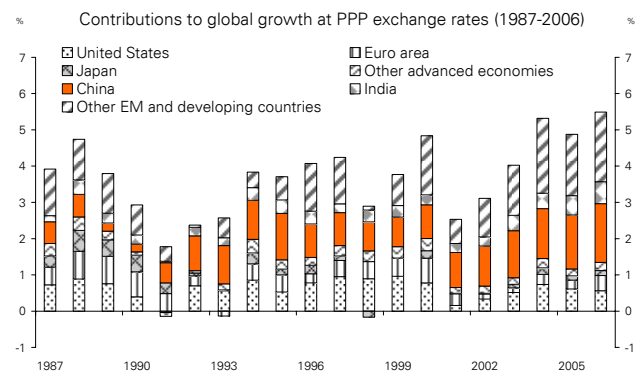
the importance of shocks in the US to the global and emerging market economies.

1. We are projecting EM growth to stay above growth in the advanced countries



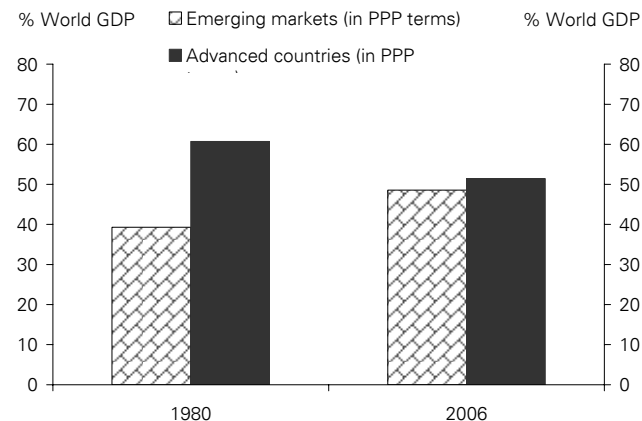
Source: DB Global Markets Research

2. Contributions to global growth



Sources: IMF WEO, DB Global Markets Research

3. Emerging markets' share of world GDP has increased



Sources: IMF WEO, DB Global Markets Research

Is decoupling overstated?

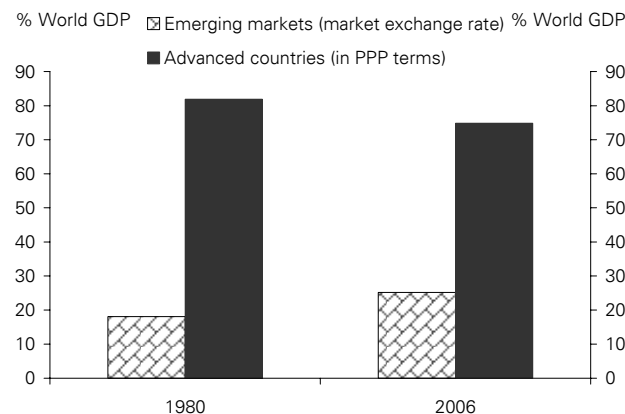
There are several reasons why one can question whether decoupling has progressed as far as the above GDP share data would suggest. One concerns a significant measurement bias in the use of PPP exchange rates. A second is that while emerging markets have grown in importance in the global economy, their exposure to net exports has increased as well, tending to make them more sensitive to foreign growth shocks. A third is that the relative stability of their exchange rates relative to the dollar may be weakening ahead, and they may become more exposed to currency adjustment. And finally, domestic financial markets have been developing in these countries, and the growing importance of shocks transmitted internationally through equity and other financial markets may be increasing their exposure to developments in the US and other industrial countries. We consider each of these issues in turn.

Measurement issue: PPP vs market exchange rate conversion of GDPs

The estimates of world GDP discussed above are based on aggregations using purchasing power parity (PPP) exchange rates. PPP exchange rates reflect the relative price levels of goods and services across countries in their national currencies. They are used to compare actual quantities of goods and services consumed or produced across countries at a common price level in a single currency. For example, under PPP conversion, a McDonalds hamburger that costs USD 3.0 in the US is assumed to be valued at the same price (USD 3.0) in Germany and China as it is in the US. However, when converted at current market exchange rates, the prices of goods and services in most emerging markets tend to be well below those in the US and other industrial countries. At current market rates, that hamburger may cost USD 5 in Germany but less than USD 1 in China. That is, the nominal values of their currencies relative to the dollar (their market exchange rates) run well below PPP exchange rates.¹ For this reason, when EM GDPs are converted to dollars at market rates, they are substantially lower and account for a smaller share of growth in world GDP (as indicated in Chart 4) than the PPP-based numbers show. Indeed, on this basis, the EMs' share of world GDP is currently only 25%, half the PPP-based number. Nevertheless, there was still some decoupling in the sense that even under the market rate conversion, the share of EMs in world GDP has grown significantly over the past several decades.

¹ The US-China PPP exchange rate is currently 2; that is, a representative basket of goods and services that costs USD 1 in the US costs RMB 2 in China. In comparison, the current nominal exchange rate is 7.5, which means that translated at market exchange rates, China's price level for the common basket of goods and services is 2/7.5 times the US price level.

4. EM share of world GDP significantly smaller when converted at market exchange rates



Sources: IMF WEO, DB Global Markets Research

Which measure is more appropriate for our purposes?

PPPs do a better job of measuring the comparative "quantities" of goods and services that are produced (and consumed) across countries, and therefore are more appropriate for measuring relative outputs in terms of the "welfare" they produce for each country's residents. But market rates are more appropriate for assessing the effects of a foreign shock on a country's income. EM exporters are paid at the higher prices (in their local currency) implied by current market exchange rates, not at their lower domestic prices implied by PPP exchange rates. Hence shifts in US growth probably loom more important to emerging market countries than the PPP-based estimates of GDP suggest.

Growing importance of EM net exports may have increased sensitivity to foreign shocks

Exports have expanded substantially faster than GDP globally in recent decades (Chart 5), and this is true of EMs as well as industrial countries. China's exports have now risen to nearly 40% of its GDP, and other major EMs have shown substantial increases in the importance of trade to their economies as well (Chart 6). It used to be the case that exports were heavily re-exports of imports with only moderate value added, but the share of value added in exports has risen significantly as they have become more sophisticated and the number of workers employed in the export sector has risen tremendously. It used to be the case that the negative effects of a drop in exports was substantially mitigated by a resulting drop in imported intermediate goods, with relatively small damage to GDP. But final goods imports (especially capital goods) have been growing in importance. Intermediate imports may decline when exports drop, but

now a downward adjustment of imports is more likely to require a decline in final demand, especially cyclically-sensitive investment, which has itself risen to nearly 40% of China's GDP. In any event, net exports have been rising noticeably as a share of GDP in many countries (Chart 7), further indicating an increasing exposure to external demand shocks that has at least partially offset the growing importance of the overall scale of EM GDP relative to that of the US.

5. Exports as share of world GDP



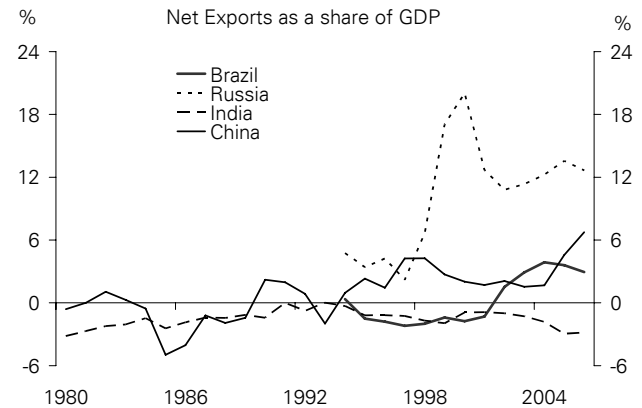
Sources: IMF WEO, DB Global Markets Research

6. Share of exports in EM GDP has been rising



Sources: National Sources, CEIC, DB Global Markets Research

7. Share of net exports in EM GDP has risen too



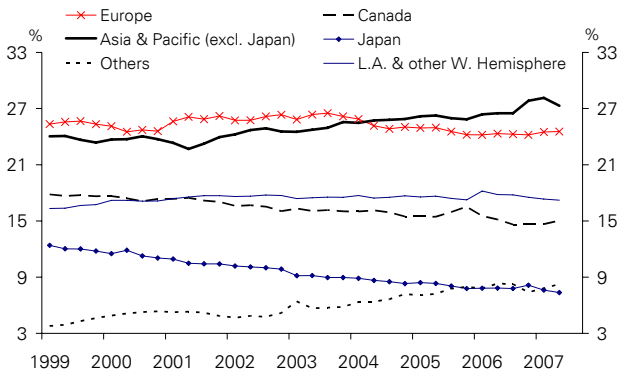
Sources: National Sources, CEIC, DB Global Markets Research

How sensitive are EMs to a shift in US growth?

Emerging markets supply roughly half of US imports (Chart 8), but just how sensitive is their overall output to changes in US demand? We can calculate the sensitivity of EM GDP to a decline in US GDP as follows. Assume a 1% drop in US GDP leads to a 2% drop in US imports (the income elasticity of US imports has been fairly stable over the years in the vicinity of 2.0). This translates to about USD 50bn on a base of total imports of USD2.3trn. Half of those imports or USD 25bn come from emerging market economies. A drop in exports of USD 25bn would be equal to about 0.2% of EM GDP converted at market rates and 0.1% at PPP rates. This is a small effect. It may well be increased by such things as third-country effects (declines in exports among EMs and to other industrial countries hit by the slowdown in the US, multiplier effects to domestic investment and consumption as output and employment in the export sector falls, and by more amorphous negative "confidence" effects. But even if the effect is two or three times as large as our simple calculation, a recession in the US is not going to engender a recession in EMs purely through trade channels. This may help to explain why EMs have held up so well in the face of sub-par US growth over the past couple years. When we do the same calculation as described above based on 1993 data (the first year where trade data are available by destination), we get essentially the same result, because EM exports to the US in 1993 accounted for roughly the same share of EM GDP than as it does today, and we suspect that the offset through reduced import demand is smaller today than it was in 1993. Hence the evidence for decoupling via reduced importance of trade flows is weak at best.

8. Emerging markets supply roughly half of US imports

Composition of US imports of goods & services (by region)



Sources: BEA, DB Global Markets Research

VAR simulation confirms moderate response

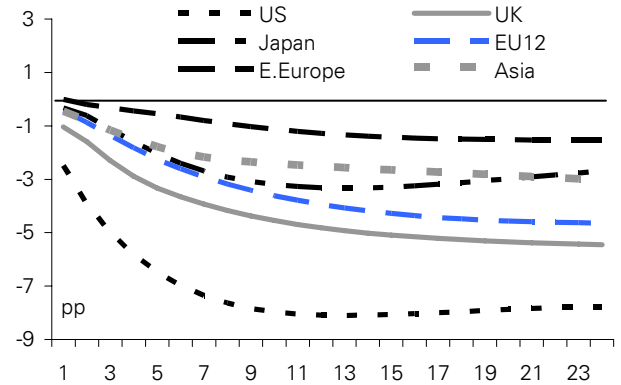
To check our back-of-the envelope calculation in the previous section, we simulated the response to an US output change of a number of countries or regions with the help of a simple vector-autoregressive model. As a proxy for economic output we used the output components of monthly purchasing managers' indices in the manufacturing sector. The model was estimated from the end of 2001 to the end 2007 (thus encompassing roughly one economic cycle) for the US, Euro area, Japan, UK, emerging Asia (due to data limitations represented by China, Hong Kong and Singapore), and emerging Eastern Europe (represented by Russia, Poland, and the Czech Republic). All variables were considered to be endogenous, allowing unconstrained international business cycle spillovers. Given the simplicity of the model and the limitations of the data the results of the simulations are only tentative. However, when considered with the analysis of the previous sections, they help to answer the question posed at the beginning of how strongly a US slow-down will affect emerging market economies.

Chart 9 shows the accumulated response to a one-standard deviation (generalized) negative shock to the output component of the US purchasing managers' (ISM) index in the following 24 months. During the estimation period, a one standard deviation negative shock represented a roughly 5 point decline in the index. In the US, the shock builds over time, depressing the index eventually by some 8 percentage points. Elsewhere, output in Western Europe, i.e., the UK and the euro area, reacts fairly strongly to the US shock (with losses equivalent to about half of the size experienced in the US). Much less affected are Japan and the emerging market economies of Asia and Eastern Europe. For the latter two

regions, the loss is less than one third the size recorded in the US, supporting our earlier assessment that emerging market economies, so far at least, have been only moderately influenced by US economic fluctuations.

During the estimation period of the VAR EM exchange rates were fairly stable against the USD and stock markets performed reasonably well. Looking ahead, however, if a US slowdown would be associated with sharply appreciating EM currencies and a significant pullback in global stock markets it would likely magnify significantly the negative impact on emerging market economies. This leaves open the possibility that the impact could be greater going forward via financial/stock market linkages.

9. Accumulated impulse response to a one standard deviation negative shock to US output (in percentage point changes of the output component of the manufacturing PMIs)

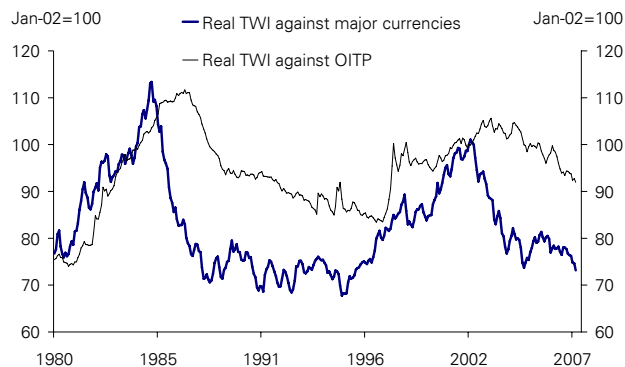


Sources: NTC, DB Global Markets Research

Exchange rates could begin to magnify the effect

The negative effects of the downturn in the US could be augmented if the slowdown also depresses the dollar in foreign exchange markets. With EM currencies moving toward greater upward flexibility against the dollar (shown as a recent decline in the OITP value of the dollar in Chart 10), this could increase the negative effect of the US downturn. Of course, over the longer term, an uptrend in the EMs' terms of trade (which will move their market exchange rates closer to the PPP rates) will tend to reduce the relative importance of US GDP in the world economy on a market rate basis.

10. Real value of dollar has been declining against EM (OITP) currencies in recent years



Sources: FRB, DB Global Markets Research

Other financial linkages may magnify the negative effect significantly further

The financial linkages of EMs to industrial countries have increased dramatically over the past couple decades with the increasing development of domestic capital markets in EMs along with rapid development of and investment in global communications technology and steady increases in cross-border capital flows. One financial linkage that is much greater today than it was in the 1980s is across equity markets. Equity market capitalization has grown tremendously in EMs in recent years (Table 1), and in some of these countries now exceeds that in the US as a ratio to GDP. With capitalizations having reached these levels, even with significant ownership held by non-EM residents, the potential for sell-offs affecting domestic economic activity has no doubt increased significantly.

Table 1. Stock market cap as % of GDP

| | 2003 | Sep-2007 |
|---------------|------|----------|
| Argentina | 56% | 27% |
| Brazil | 33% | 198% |
| China | 35% | 252% |
| India | 34% | 171% |
| Indonesia | 18% | 57% |
| Mexico | 18% | 132% |
| Russia | 41% | 153% |
| South Africa | 137% | 667% |
| Thailand | 58% | 71% |
| Memo: | | |
| United States | 117% | 174% |

Source: DB Global Markets Research

Over the past decade, the cross-border correlations among year-to-year movements in stock markets have been quite high (Table 2). Should a downturn in the US hit the US stock market, we would expect to see significant

selloffs elsewhere. Overall, this financial connection has likely increased the vulnerability of emerging markets to a slowdown in the US; if stock markets in emerging markets move lower with the US stock market, the economic implications will be negative via wealth effects and companies' investment decisions in emerging markets as well as in the US.

Table 2. Stock return correlations

| Common sample correlation matrix | | | | | |
|----------------------------------|------|--------|--------|-------|-------|
| | US | Brazil | Russia | India | China |
| US | 1.00 | | | | |
| Brazil | 0.82 | 1.00 | | | |
| Russia | 0.21 | 0.44 | 1.00 | | |
| India | 0.76 | 0.78 | 0.40 | 1.00 | |
| China | 0.43 | 0.21 | -0.01 | 0.15 | 1.00 |

Note: Sample: 2000 – 2007. Returns calculated yoy

Source: DB Global Markets Research

Conclusions

An export-oriented development strategy has paved the way for rapid growth in emerging market economies, raising these countries share in world GDP. Although conventional measures of the size of EM economies based on PPP exchange rates overstate the size of this country group from a financial markets perspective, we find that calculations based on market exchange rates also point to the growing importance of this country group. Greater openness has probably made EM countries more vulnerable to economic shocks from abroad. However, we showed that the impulse emanating from a slowdown of the US economy through the trade channel is nevertheless likely to be moderate.

Looking ahead, a new trend toward increasing exchange rate flexibility will tend to increase the sensitivity of EM economies to foreign developments. And financial market linkages, particularly co-movements across equity markets are becoming increasingly important. Equity market capitalization relative to GDP in many EMs now rivals and in several cases exceeds that in industrial countries. Hence, the vulnerability of EMs to a US slowdown may be intensified via financial linkages, including both increasing flexibility of exchange rates (a possible appreciation of EM currencies against the dollar) and perhaps even more so via stock market linkages should the US market turn down significantly.

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Central Bank Watch

US

Recent economic data have been mixed to modestly more negative, with housing a bit weaker than expected and jobless claims potentially starting to trend higher, but durable goods ex-transport ex-defense fairly solid. There are signs that the worst of the credit crunch may be behind us, but there is still considerable uncertainty about how strongly the economy will eventually respond to the credit tightening and especially to falling home prices. The Fed cut rates more than expected in September and told us the economic picture was too uncertain to assess the current balance of risks. We think it will see the downside risks to growth as warranting at least another 25 bps in cuts, and we do not expect it to disappoint strong market expectations for such a cut this week. Having cut another 25bps, we do not expect the Fed to give a clear signal that more may be coming.

| | Current | Dec07 | Mar08 | Sep08 |
|----------------|---------|-------|-------|-------|
| Fed funds rate | 4.75 | 4.50 | 4.50 | 4.50 |

Japan

Trade statistics for September revealed a large surplus of ¥1,637.8bn. For 3Q 2007, we estimate that external demand bolstered real GDP growth QoQ by 0.4-0.5 percentage points. The nationwide core CPI dipped 0.1% YoY in September, remaining below zero for the eighth month running. The October Tokyo core CPI, however, rose 0.0% thanks to the uptrend in energy prices, finally emerging from the minus column. September production retreated in a negative reaction from August's sharp increase, but the electronic component and device sector enjoyed notably bright growth. Overall, the next rate hike is not expected until Q4, and the risk is that there will be no BoJ rate hikes until a new Governor takes office in March 2008.

| | Current | Dec07 | Mar08 | Sep08 |
|---------|---------|-------|-------|-------|
| ON rate | 0.50 | 0.75 | 0.75 | 1.00 |

Euroland

At its last meeting the ECB left the refi rate unchanged at 4.00%. They retained their bias to tighten, but seem in no rush to raise rates, signaling steady rates for the time being while awaiting further developments and data. Economic confidence indicators have been coming in worse than expected recently and the euro has appreciated. We expect these developments to continue and to exert downward pressure on economic growth. As downside risks to growth increase and upside risks to inflation ease we expect the ECB to change course and start cutting rates in 2008H1.

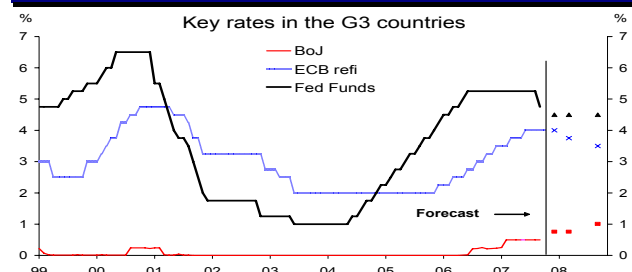
| | Current | Dec07 | Mar08 | Sep08 |
|-----------|---------|-------|-------|-------|
| Repo rate | 4.00 | 4.00 | 3.75 | 3.50 |

UK

The money market turmoil has affected the UK strongly, with LIBOR rates peaking at more than 100bp above the policy rate. The fundamentals for the UK consumer were already expected to slow in H2, and the tightening in the money market will only add to that slowdown. We now expect the BoE to cut rates in 2008H1.

| | Current | Dec07 | Mar08 | Sep08 |
|-----------|---------|-------|-------|-------|
| Repo rate | 5.75 | 5.75 | 5.75 | 5.25 |

Key rates in the G3 countries



Source: DB Global Markets Research

Sweden

As expected the financial market turbulence did not stop the Riksbank out of their hiking path, and rates were raised by 25bp at their latest meeting. However, the risks are that the next hike gets postponed well into Q4.

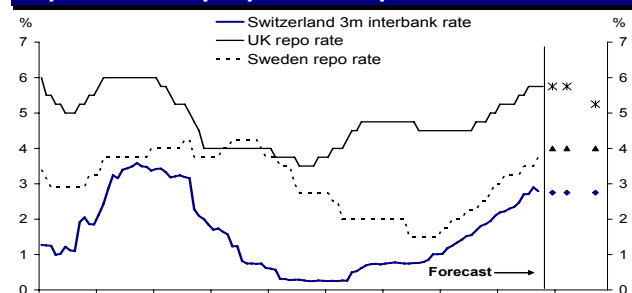
| | Current | Dec07 | Mar08 | Sep08 |
|-----------|---------|-------|-------|-------|
| Repo rate | 3.75 | 4.00 | 4.25 | 4.25 |

Switzerland

The strengthening of the CHF has made a further rate hike by the SNB unnecessary, and we now expect rates to remain on hold at 2.75%.

| | Current | Dec07 | Mar08 | Sep08 |
|----------|---------|-------|-------|-------|
| 3M Libor | 2.75 | 2.75 | 2.75 | 2.75 |

Key rates in the peripheral European countries



Source: DB Global Markets Research

Central Bank Watch (continued)

Canada

The appreciating Canadian dollar constitutes a challenge for the BoC and there remains downside risks emanating from the US. Rates are probably on hold at 4.50% until year end. On the assumption that the financial turbulence eases by then, our economists still expect the rate hike path to resume further out.

| | Current | Dec07 | Mar08 | Sep08 |
|---------|---------|-------|-------|-------|
| ON rate | 4.50 | 4.50 | 4.75 | 5.00 |

Australia

Underlying inflation printed at the high end of expectations in Q3 and was revised up in Q1 to leave the average of the RBA's statistical measures up 3.0% through the year. Given that the domestic activity case for further monetary tightening has already been made the strength of underlying inflation means that further tightening of domestic monetary policy in the short term appears inevitable to us.

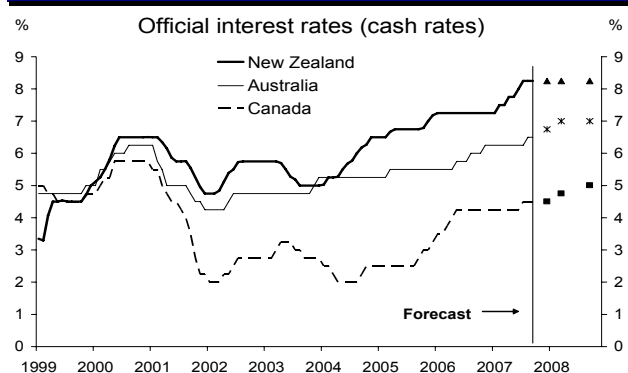
| | Current | Dec07 | Mar08 | Sep08 |
|---------|---------|-------|-------|-------|
| ON rate | 6.50 | 6.75 | 7.00 | 7.00 |

New Zealand

For the RBNZ the balance of risks has shifted from previously being on the upside, to now being on the downside. A rate cut may be needed for wholesale funding markets to normalise.

| | Current | Dec07 | Mar08 | Sep08 |
|----------|---------|-------|-------|-------|
| O/N rate | 8.25 | 8.25 | 8.25 | 8.25 |

Key rates in the Peripheral \$-bloc



Source: DB Global Markets Research

China

On the growth front the economy continues to grow at a rapid pace and recently the PBOC tightened policy again by raising the reserve requirements by another 0.5, bringing the reserve requirement ratio to 13%. CPI inflation is likely to stabilize in coming months.

| | Current | Dec07 | Mar08 | Sep08 |
|-------------|---------|-------|-------|-------|
| 1-year rate | 3.87 | 3.87 | 3.87 | 3.87 |

India

The Reserve Bank has tightened monetary conditions significantly since late last year via rate hikes, increased reserve requirements and a stronger currency. The data flow suggests that this tightening is starting to become effective in slowing activity and inflationary pressure. The RBI will now remain on hold, and cut gradually by 100bp throughout 2008. Risks to that view are broadly symmetric.

| | Current | Dec07 | Mar08 | Sep08 |
|------|---------|-------|-------|-------|
| Repo | 7.75 | 7.75 | 7.50 | 7.00 |

Brazil

Brazilian markets have recovered faster than expected from the global credit crisis turmoil due to the large amount of international reserves, current account surplus and historically low interest rates. Although we expect the economy to grow almost 5% this year, we still see some room for additional monetary easing.

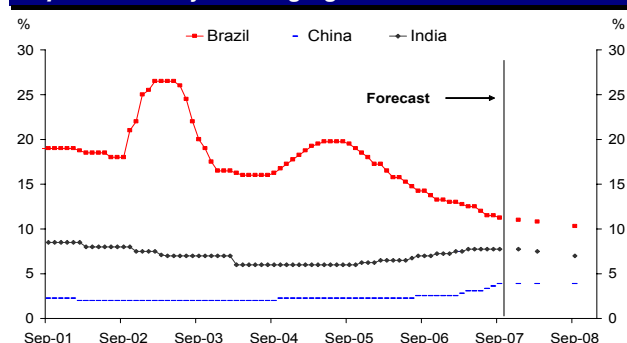
| | Current | Dec07 | Mar08 | Sep08 |
|----------|---------|-------|-------|-------|
| O/N rate | 11.25 | 11.00 | 10.80 | 10.30 |

Russia

Although capital outflows reversed in 2007Q3, Russia remains attractive for long term investment. Politics remain stable, with Putin's continued involvement all but certain, and growth strong.

| | Current | Dec07 | Mar08 | Sep08 |
|----------|---------|-------|-------|-------|
| O/N rate | 3.00 | 3.00 | 3.75 | 3.75 |

Key rates in major emerging markets



Source: DB Global Markets Research

Global data monitor: Recent developments and near-term forecasts

| | B'bergcode | Q4 06 | Q1 07 | Q2 07 | Q3 07 | May 07 | Jun 07 | Jul 07 | Aug 07 | Sep 07 | Oct 07 |
|---|------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| OECD leading indicators | | | | | | | | | | | |
| (6M change, %, ann.) | | | | | | | | | | | |
| OECD | | 1.5 | 1.3 | 2.3 | 1.4 | 2.5 | 2.7 | 2.0 | 0.7 | | |
| US | OLEDUSA | 0.6 | 0.7 | 3.4 | 2.9 | 3.5 | 4.4 | 3.8 | 2.1 | | |
| Euro area | OLEDEU12 | 2.0 | 1.3 | 1.2 | 0.0 | 1.3 | 1.1 | 0.5 | -0.6 | | |
| Japan | OLEDJAPN | 0.7 | -0.1 | -0.4 | -2.8 | -0.1 | -0.9 | -2.1 | -3.4 | | |
| China | OLEDCHIN | 15.5 | 19.3 | 16.3 | 15.3 | 15.9 | 15.4 | 15.3 | 15.4 | | |
| India | OLEDINDI | 8.8 | 6.4 | 7.2 | 6.2 | 7.0 | 8.1 | 6.2 | | | |
| Russia | OLEDRUSS | 0.1 | -1.1 | 2.3 | 4.2 | 2.2 | 3.8 | 4.1 | 4.4 | | |
| Brazil | OLEDBRAZ | 5.0 | 5.9 | 9.8 | 8.0 | 10.5 | 9.2 | 8.4 | 7.7 | | |
| Purchasing manager indices | | | | | | | | | | | |
| Global (manufacturing) | | 53.7 | 53.0 | 54.4 | 53.7 | 54.3 | 54.8 | 53.5 | 53.8 | 53.7 | |
| US (manufacturing ISM) | NAPMPMI | 50.9 | 50.8 | 55.2 | 52.9 | 55.0 | 56.0 | 53.8 | 52.9 | 52.0 | 51.0 |
| Euro area (composite) | | 57.5 | 57.5 | 57.2 | 56.5 | 56.8 | 57.8 | 57.5 | 57.4 | 54.7 | 54.5 |
| Japan (manufacturing) | SEASPMI | 53.7 | 53.0 | 51.4 | 49.5 | 51.4 | 50.4 | 49.0 | 49.6 | 49.8 | |
| China (manufacturing) | CPMINDX | 52.5 | 52.4 | 54.1 | 53.9 | 54.1 | 55.0 | 53.2 | 53.4 | 55.0 | |
| India (manufacturing) | | 58.3 | 54.0 | 53.5 | 56.6 | 53.4 | 53.2 | 52.9 | 57.9 | 59.1 | |
| Russia (manufacturing) | | 52.6 | 52.5 | 53.7 | 52.9 | 54.4 | 53.0 | 53.4 | 53.2 | 52.2 | |
| Other business surveys | | | | | | | | | | | |
| US dur. goods orders (%pop1) | DGNOCHNG | -6.1 | -9.6 | 15.1 | 8.2 | -2.4 | 1.8 | 5.9 | -5.3 | -1.7 | |
| Japanese Tankan (LI) | JTFIFILA | 25.0 | 23.0 | 23.0 | 23.0 | | | | | | |
| Euro area EC sentiment | EUESEMU | 109.9 | 110.0 | 111.6 | 109.3 | 112.1 | 111.7 | 111.0 | 109.9 | 107.1 | 106.5 |
| Industrial production | | | | | | | | | | | |
| (%pop1) | | | | | | | | | | | |
| US | IPCHNG | -1.5 | 1.1 | 3.5 | 4.0 | -0.1 | 0.5 | 0.6 | 0.0 | 0.1 | |
| Euro area | EUITEMUM | 3.0 | 4.1 | 2.1 | 6.9 | 1.0 | 0.0 | 0.7 | 1.2 | -0.4 | |
| Japan | JNIPMOM | 8.6 | -4.8 | 0.5 | 9.4 | -0.3 | 1.3 | -0.4 | 3.5 | -1.4 | |
| Retail sales (%pop1) | | | | | | | | | | | |
| US | RSTAMOM | 1.0 | 6.3 | 5.4 | 4.0 | 1.6 | -0.8 | 0.6 | 0.3 | 0.6 | |
| Euro area | RSSAEMUM | 1.5 | -0.1 | 0.8 | 2.5 | -0.7 | 0.6 | 0.4 | 0.1 | 0.5 | |
| Japan (household spending) | JHHSLERY | 6.5 | 3.9 | -0.3 | -4.8 | -0.2 | -0.2 | -1.2 | 0.4 | -0.5 | |
| Labour market | | | | | | | | | | | |
| US non-farm payrolls ² | NFPTCH | 177 | 142 | 126 | 97 | 188 | 69 | 93 | 89 | 110 | 90 |
| Euro area unemployment (%) | UMRTEMU | 7.6 | 7.2 | 7.0 | 6.9 | 7.0 | 6.9 | 6.9 | 6.9 | 6.9 | |
| Japanese unemployment (%) | JNUE | 4.0 | 4.0 | 3.8 | 3.7 | 3.8 | 3.7 | 3.6 | 3.8 | 3.7 | |
| CP inflation (%yoy) | | | | | | | | | | | |
| US | CPICHNG | 1.9 | 2.4 | 2.7 | 2.4 | 2.7 | 2.7 | 2.4 | 2.0 | 2.8 | |
| Euro area | ECCPEMUY | 1.8 | 1.9 | 1.9 | 1.9 | 1.9 | 1.9 | 1.8 | 1.7 | 2.1 | 2.4 |
| Japan | JCPNSGM | 0.3 | -0.1 | -0.1 | -0.1 | 0.0 | -0.2 | 0.0 | -0.2 | -0.2 | |
| China | CNCPIYOY | 2.0 | 2.7 | 3.6 | 6.1 | 3.4 | 4.4 | 5.6 | 6.5 | 6.2 | |
| India | INWHOLEY | 5.5 | 6.4 | 5.4 | 3.9 | 5.5 | 4.5 | 4.4 | 3.9 | 3.5 | |
| Russia | RUCPIYOY | 9.1 | 7.7 | 7.9 | 8.9 | 7.8 | 8.4 | 8.7 | 8.6 | 9.4 | |
| Brazil | | 3.1 | 3.0 | 3.3 | 4.0 | 3.2 | 3.7 | 3.7 | 4.2 | 4.1 | |
| Current account (USD bn)³ | | | | | | | | | | | |
| US (trade balance, g+s) | USTBTOT | -59.0 | -59.2 | -59.2 | -58.3 | -59.6 | -59.4 | -59.0 | -57.6 | -58.0 | |
| Euro area | | 1.0 | 3.5 | 3.3 | 5.2 | 1.2 | 9.3 | 5.3 | 5.2 | | |
| Japan | JNBPAB | 16.2 | 15.7 | 18.0 | 16.6 | 18.3 | 16.6 | 14.5 | 18.8 | | |
| China (trade in goods) | | 18.8 | 21.2 | 22.9 | 23.4 | 22.6 | 25.7 | 23.3 | 22.6 | 24.3 | |
| Russia (trade in goods) | RUCACAL | 10.0 | 9.5 | 10.5 | 10.0 | 12.4 | 8.7 | 10.5 | 9.5 | | |
| Other indicators | | | | | | | | | | | |
| Oil prices (Brent, USD/b) | EUCRBRDT | 59.7 | 57.8 | 68.7 | 74.9 | 67.6 | 71.0 | 77.0 | 70.8 | 77.0 | |
| FX reserves China (USD bn) | CNGFOREX | 1066.3 | 1202.0 | 1332.6 | 1433.6 | 1292.7 | 1332.6 | 1385.2 | 1408.6 | 1433.6 | |

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

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

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

(3) Quarterly data are averages of monthly balances.

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

Global Week Ahead: Tuesday, 30 October – Monday, 5 November

- **Dollar Bloc:** In a data-filled week in the **US**, focus will lie on the FOMC meeting on Wednesday. We expect the Fed to cut both the funds and discount rates by 25 bps. We expect an easing bias to be adopted. Among the data releases, the October employment report and the ISM index along with the September personal income & consumption report (including the core PCE deflator) will bear important policy implications. Also, the advance estimate of Q3 GDP is expected to come in at a modest 2.7% qoq (annualized). There is a lot of data to be released in **Australia**, with the most important likely to be the retail trade release on Thursday. In **Canada**, the October employment report will provide insights on the strength of the economy in Q4. In **New Zealand**, the NBNZ business survey due for release this week will throw light on the headline confidence and key activity indicators.
- **Europe:** In **Euroland**, survey evidence – including consumer and industrial confidence for the Eurozone, final PMI manufacturing for the whole area and the major economies (all for October) – will provide the first insight into growth in Q4. In addition to several HICP and CPI numbers at the national level this week, we will have the HICP flash estimate for Eurozone in October. Also due are unemployment rates for the Eurozone, Germany and France, as well as retail sales numbers for Germany. In the **UK**, the October PMI manufacturing index will be watched closely following its decline last month (we expect further downside surprises over the coming months). Also the CBI distributive trades report will provide insights on whether the retail sector will continue to remain upbeat in Q4. In **Switzerland**, we expect the KOF economic barometer along with the PMI to point to a slowdown in growth in the coming months. In **Scandinavia**, the central bank meetings in Sweden and Norway should be in the limelight (we expect rates to remain unchanged this week). There are rate decisions due in the **CE4** (Poland and Slovakia).
- **Asia incl. Japan:** In **Japan**, we expect the BoJ to keep rates unchanged at the upcoming meeting this week. On the data side, we will receive housing starts figures for September which is expected to show some easing. In **India**, the trade balance data for September is due in the week ahead.

| Country | GMT | Release | DB Expected | Actual | Consensus | Previous |
|----------------------------|-------|---------------------------------|-------------|--------|-----------|----------|
| Tuesday, 30 October | | | | | | |
| NEWZEALAND | 02:00 | NBNZ business survey (Oct) | -32.0 | | | -26.5 |
| GERMANY | 07:00 | Retail sales (Sep) | 0.6% | | 0.8% | -1.6% |
| SWDEN | 08:30 | Riksbank interest rate (Oct) | 3.75% | | 4.00% | 3.75% |
| GERMANY | 08:55 | Unemployment rate (Oct) | 8.8% | | 8.7% | 8.8% |
| EUROLAND | 09:00 | Retail PMI (Oct) | | | | 50.5 |
| UK | 09:30 | CBI trade survey (Oct) | 16.0% | | | 17.0% |
| BRAZIL | 10:00 | FGV inflation IGP- M (Oct) | 0.8% | | 0.90% | 1.3% |
| CANADA | 12:30 | Industrial product prices (Sep) | -0.3% | | -0.4% | -1.0% |
| CANADA | 12:30 | Raw materials price index (Sep) | 0.7% | | 0.8% | -2.8% |
| US | 14:00 | Consumer confidence (Oct) | 98.0 | | 99.0 | 99.8 |

Events and meetings: **EUROLAND:** ECB's Erkki Liikanen to hold speech – 08:10 GMT. **SWEDEN:** Riksbank to announce the interest rate decision – 08:30 GMT. **US:** Federal Reserve to start two-day FOMC meeting. **EUROLAND:** ECB's Mario Draghi to hold speech – 23:00 GMT. **SLOVAKIA:** National Bank of Slovakia to announce interest rate decision. DB expects rates on hold at 4.25%.

| Wednesday, 31 October | | | | | | |
|------------------------------|-------|------------------------------|--------------|--|--------------|---------------|
| POLAND | – | MPC meeting (Nov) | 4.75% | | 4.75% | 4.75% |
| AUSTRALIA | 00:30 | Private sector credit (Sep) | 0.9% (16.2%) | | 1.0% | 1.5% (16.2%) |
| JAPAN | – | BOJ target rate (Oct) | | | 0.5% | 0.5% |
| JAPAN | 05:00 | Housing starts (Sep) | 0.85m | | 0.854m | 0.729m |
| GERMANY | 06:00 | Retail sales (Sep) | 0.6% | | 0.8% (-0.8%) | -1.4% (-2.2%) |
| EUROLAND | 10:00 | Economic confidence (Oct) | 106.4 | | 106.5 | 107.1 |
| EUROLAND | 10:00 | Industrial confidence (Oct) | 1.0 | | 2.0 | 3.0 |
| EUROLAND | 10:00 | Services confidence (Oct) | 18.5 | | 18.0 | 18.0 |
| EUROLAND | 10:00 | Consumer confidence (Oct) | -6.5 | | -5.0 | -5.0 |
| EUROLAND | 10:00 | Unemployment rate (Sep) | 6.9% | | 6.9% | 6.9% |
| EUROLAND | 10:00 | HICP flash estimate (Oct) | (2.4%) | | (2.3%) | (2.1%) |
| ITALY | 10:00 | HICP preliminary (Oct) | 0.2% (1.7%) | | 0.4% (2.0%) | 0.8% (1.7%) |
| SWITZERLAND | 10:30 | KOF economic barometer (Oct) | 2.10 | | 2.10 | 2.14 |

| Country | GMT | Release | DB Expected | Actual | Consensus | Previous |
|--|-------|--------------------------------|-------------|--------|-----------|-------------|
| Wednesday, 31 October (continued) | | | | | | |
| US | 12:30 | GDP adv (Q3) | 2.7% | | 3.0% | 3.4% (1.8%) |
| US | 12:30 | GDP deflator adv (Q3) | 1.7% | | 2.0% | 2.7% (2.7%) |
| US | 12:30 | Employment cost Index (Q3) | 0.8% | | 0.9% | 0.9% (3.4%) |
| NORWAY | 13:00 | Norges bank deposit rate (Oct) | 5.00% | | 5.00% | 5.00% |
| US | 13:45 | Chicago PMI (Oct) | 53.0 | | 53.0 | 54.2 |
| US | 18:15 | FOMC rate (Oct) | 4.50% | | 4.50% | 4.75% |

Events and meetings: **JAPAN:** Bank of Japan to hold Monetary Policy meeting – 03:30 GMT. **JAPAN:** Bank of Japan to release the Monthly Report – 06:00 GMT. **JAPAN:** Bank of Japan Governor Toshihiko Fukui to hold news conference – 06:30 GMT. **SWITZERLAND:** Swiss National Bank Chairman Jean-Pierre Roth to hold speech – 09:00 GMT. **EUROLAND:** ECB's Mario Draghi to hold speech – 09:30 GMT. **US:** Fed's Open Market Committee to meet on interest rates – 13:00 GMT. **NORWAY:** Norges Bank to announce interest rate decision – 13:00 GMT; press conference to follow at 13:45 GMT. **EUROLAND:** ECB's Axel Weber to hold speech – 16:00 GMT. **SWEDEN:** Riksbank's Lars Nyberg to hold speech – 16:30 GMT. **POLAND:** National Bank of Poland to announce interest rate decision. DB expects rates on hold at 4.75%.

| Thursday, 1 November | | | | | | |
|-----------------------------|-------|------------------------------|-------|--|-------------|-------------|
| SWITZERLAND | 08:30 | PMI Manufacturing (Oct) | 58.00 | | 58.00 | 57.60 |
| UK | 09:30 | PMI Manufacturing (Oct) | 54.8 | | 54.4 | 55.1 |
| US | 12:30 | Initial jobless claims (Oct) | 350k | | 330k | 331k |
| US | 12:30 | Core PCE deflator (Sep) | 0.1% | | 0.2% (1.8%) | 0.1% (1.8%) |
| US | 12:30 | PCE (Sep) | 0.3% | | | 0.6% (5.3%) |
| US | 14:00 | ISM (Oct) | 51.0 | | 51.5 | 52.0 |

Events and meetings: **IMF:** Former French finance minister Dominique Strauss-Kahn to succeed Spaniard Rodrigo Rato as IMF Managing Director. **ICELAND:** Central Bank of Iceland to announce interest rate decision – 12:00 GMT. **EUROLAND:** ECB's Axel Weber to hold speech – 16:00 GMT. **SWITZERLAND:** Swiss National Bank's Thomas Jordan to hold speech – 17:00 GMT.

| Friday, 2 November | | | | | | |
|---------------------------|-------|--------------------------|---------------|--|--------------|---------------|
| SWITZERLAND | 06:45 | CPI (Oct) | 0.60% (0.90%) | | 0.70% (1.1%) | 0.10% (0.70%) |
| EUROLAND | 09:00 | PMI manufacturing (Oct) | 51.5 | | 51.5 | 53.2 |
| US | 12:30 | Payrolls (Oct) | 90k | | 80k | 110k |
| US | 12:30 | Unemployment rate (Oct) | 4.7% | | 4.7% | 4.7% |
| US | 12:30 | Avg hourly earning (Oct) | 0.3% | | 0.3% (4.0%) | 0.4% (4.1%) |

Events and meetings: **CZECH REP.:** Czech National Bank to release minutes of October 25 MPC meeting – 12:00 GMT. **EUROLAND:** ECB's Axel Weber to hold speech – 15:00 GMT.

| Monday, 5 November | | | | | | |
|---------------------------|-------|--------------------------------|-------------|--|--|-------------|
| EUROLAND | 09:00 | PMI services (Oct) | 55.6 | | | 54.2 |
| EUROLAND | 09:00 | PMI composite (Oct) | 54.5 | | | 54.7 |
| UK | 09:30 | Manufacturing production (Sep) | 0.2% (0.8%) | | | 0.4% (0.6%) |
| UK | 09:30 | IP (Sep) | 0.2% (0.4%) | | | 0.1% (0.7%) |
| UK | 09:30 | PMI services (Oct) | 56.3 | | | 56.7 |
| US | 15:00 | ISM non-mfg (Oct) | | | | 54.8 |

Events and meetings: **JAPAN:** BoJ Governor Fukui to meet local business leaders – 06:00 GMT; news conference at 08:30 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

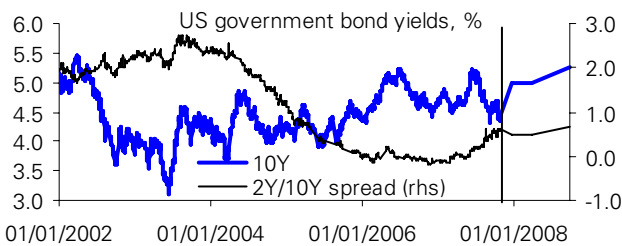
| | | US | Jap | Euro | UK | Swe | Swiss | Can | Aus | NZ |
|--------------------------------------|-----------------|---------------------|--------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| 3M Interest Rates¹ | Actual | 4.98 | 0.85 | 4.60 | 6.27 | 4.37 | 2.79 | 4.85 | 6.86 | 8.66 |
| | Dec07 | 4.50 | 0.70 | 4.25 | 6.00 | 4.10 | 2.75 | 4.90 | 6.75 | 8.55 |
| DB forecasts & Futures | futures | 4.67 | 1.04 | 4.49 | 5.97 | 4.53 | 2.86 | 4.73 | 7.05 | 8.62 |
| | Mar08 | 4.50 | 0.95 | 3.85 | 5.65 | 4.10 | 2.75 | 5.15 | 6.65 | 8.50 |
| | futures | 4.45 | 1.00 | 4.40 | 5.73 | 4.48 | 2.91 | 4.55 | 7.15 | 8.58 |
| | Sep08 | 4.50 | 1.20 | 3.65 | 5.40 | 4.10 | 2.75 | 5.15 | 6.85 | 8.40 |
| | futures | 4.27 | 1.07 | 4.33 | 5.56 | 4.55 | 2.99 | 4.58 | 7.18 | 8.31 |
| 2Y Gov't² Bond | Actual | 3.74 | 0.79 | 3.93 | 4.99 | 4.13 | 2.52 | 4.23 | 6.57 | 7.07 |
| | Dec07 | 4.50 | 0.95 | 3.90 | 5.15 | 4.10 | 2.50 | 4.00 | 6.00 | 7.00 |
| | forwards | 3.89 | 0.89 | 4.05 | 4.89 | 4.18 | 2.57 | 4.24 | 6.60 | 6.81 |
| Yields/ Spreads³ | Mar08 | 4.50 | 1.00 | 3.85 | 5.00 | 4.10 | 2.55 | 4.50 | 6.50 | 7.00 |
| DB forecasts & Forwards | forwards | 3.90 | 0.94 | 4.04 | 4.83 | 4.19 | 2.59 | 4.24 | 6.60 | 6.66 |
| | Sep08 | 4.60 | 1.30 | 3.75 | 4.90 | 4.05 | 2.45 | 5.00 | 6.50 | 6.50 |
| | forwards | 4.00 | 1.05 | 4.08 | 4.78 | 4.24 | 2.62 | 4.31 | 6.58 | 6.40 |
| 10Y Gov't² Bond | Actual | 4.38 | 1.64 | 4.17 | 4.86 | 4.23 | 2.96 | 4.38 | 6.20 | 6.42 |
| | Dec07 | 5.00 | 1.60 | 4.30 | 5.00 | 4.25 | 3.00 | 4.25 | 5.75 | 6.25 |
| | forwards | 4.60 | 1.67 | 4.30 | 4.87 | 4.30 | 3.03 | 4.42 | 6.16 | 6.31 |
| Yields/ Spreads³ | Mar08 | 5.00 | 1.70 | 4.30 | 5.00 | 4.25 | 3.10 | 5.00 | 6.25 | 6.50 |
| DB forecasts & Forwards | forwards | 4.62 | 1.72 | 4.31 | 4.84 | 4.30 | 3.06 | 4.43 | 6.14 | 6.26 |
| | Sep08 | 5.25 | 1.80 | 4.25 | 5.00 | 4.25 | 3.05 | 5.50 | 6.50 | 6.50 |
| | forwards | 4.68 | 1.81 | 4.34 | 4.77 | 4.33 | 3.11 | 4.46 | 6.10 | 6.16 |
| Exchange Rates | Actual | EUR/USD 1.44 | USD/JPY 114 | EUR/GBP 0.70 | GBP/USD 2.05 | EUR/SEK 9.18 | EUR/CHF 1.67 | CAD/USD 0.96 | AUD/USD 0.92 | NZD/USD 0.76 |
| | 3M | 1.45 | 110 | 0.72 | 2.01 | 9.10 | 1.59 | 1.00 | 0.85 | 0.73 |
| | 6M | 1.44 | 106 | 0.73 | 1.98 | 9.08 | 1.58 | 1.01 | 0.83 | 0.71 |
| | 12M | 1.41 | 99 | 0.74 | 1.90 | 9.03 | 1.57 | 1.04 | 0.78 | 0.66 |

(1) Future rates calculated from the March, June and December 3M contracts. Forecasts are for the same dates.

(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.

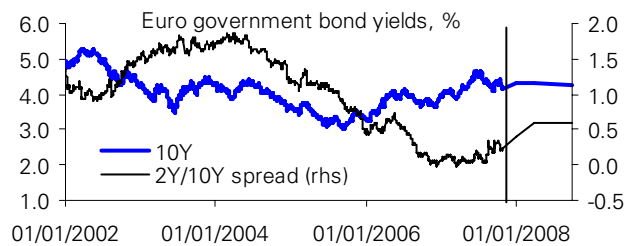
Sources: Bloomberg, DB Global Markets Research. Revised forecasts in bold type. All current rates taken as at Friday 11:00 GMT.

US 10Y rates and 2Y-10Y slope



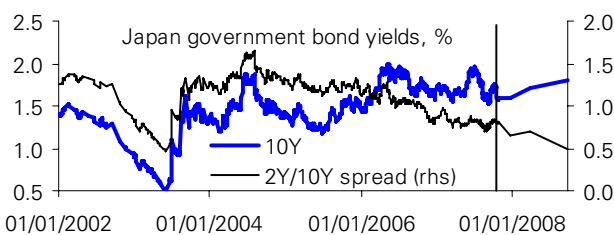
Source: DB Global Markets Research

Euroland 10Y rates and 2Y-10Y slope



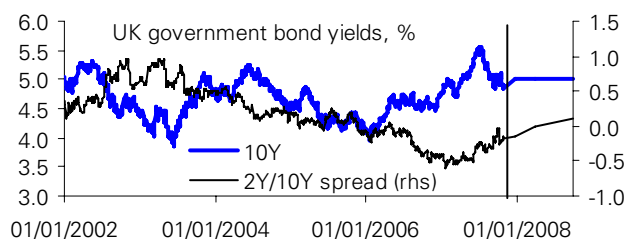
Source: DB Global Markets Research

Japan 10Y rates and 2Y-10Y slope



Source: DB Global Markets Research

UK 10Y rates and 2Y-10Y slope



Source: DB Global Markets Research

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Notes

Appendix 1

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