

# Global recovery: Grand illusion or real recovery

November 2009

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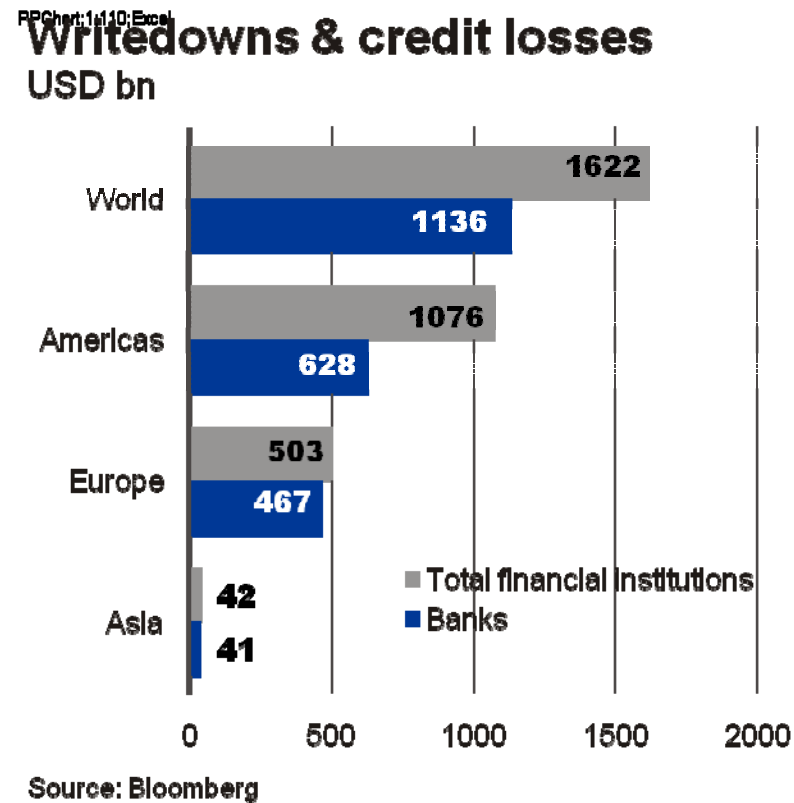


## Key questions (*and answers*)

- How will the recovery look like?  
*(Initially V-shaped, turning into a diminishing sine-wave)*
- How will trend growth look like after the crisis?  
*(Lower in all countries affected by the crisis)*
- Will the “new normal” be a deflationary or inflationary environment?  
*(We think inflationary)*

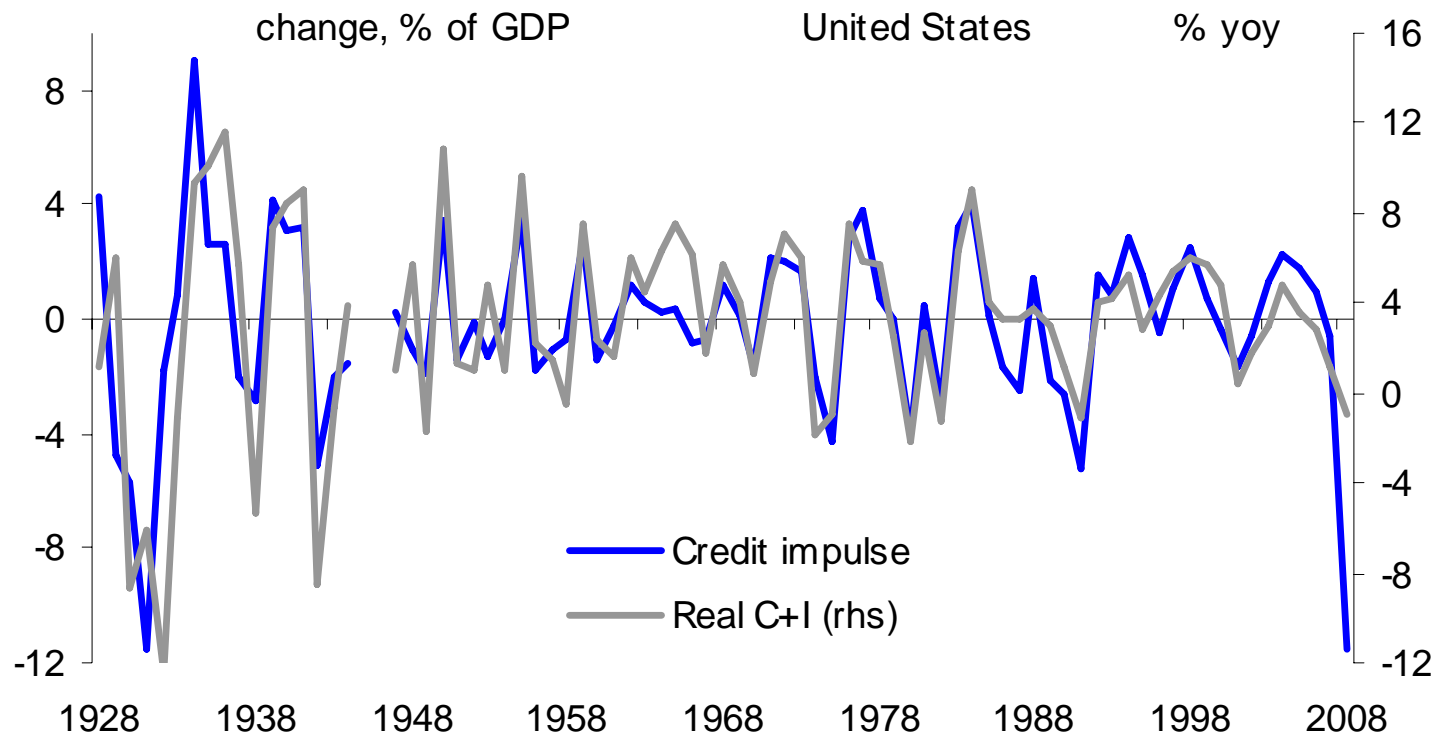


# Financial institutions worldwide have so far written off USD 1 622 bn





# US: The impact of credit on demand

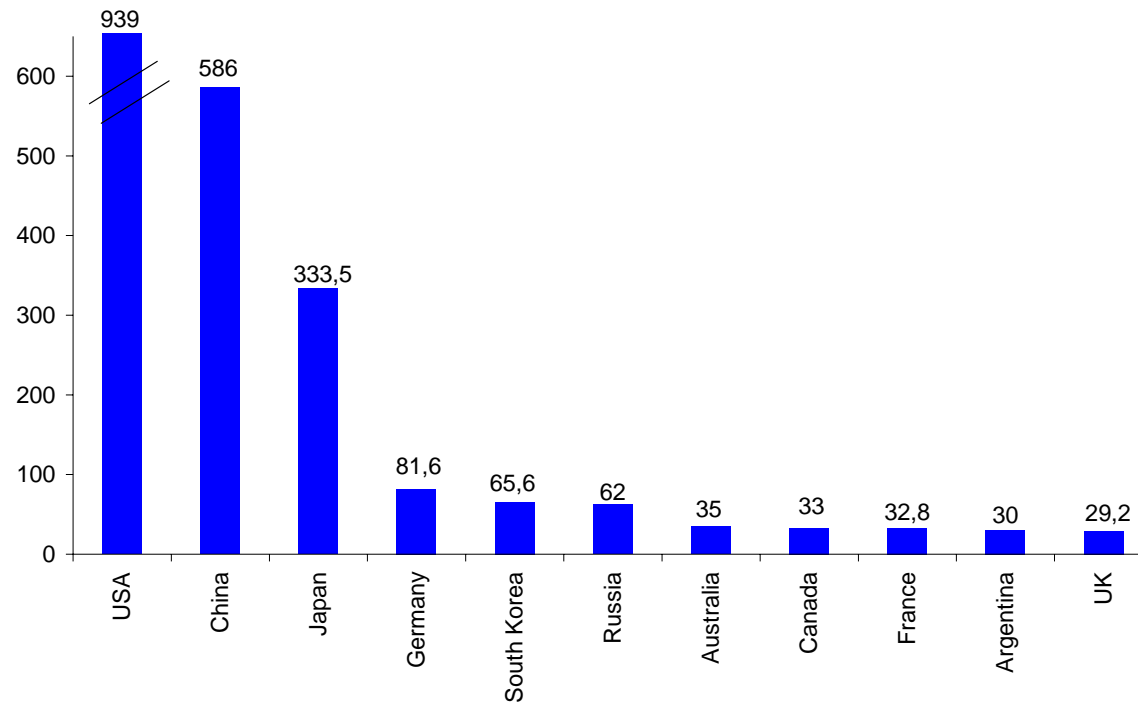


Notes: Credit impulse := change in net lending flows from financial to private non-financial sector in % of GDP; Real C+I := real private consumption + investment

Source: US Federal Reserve, DB Global Markets Research



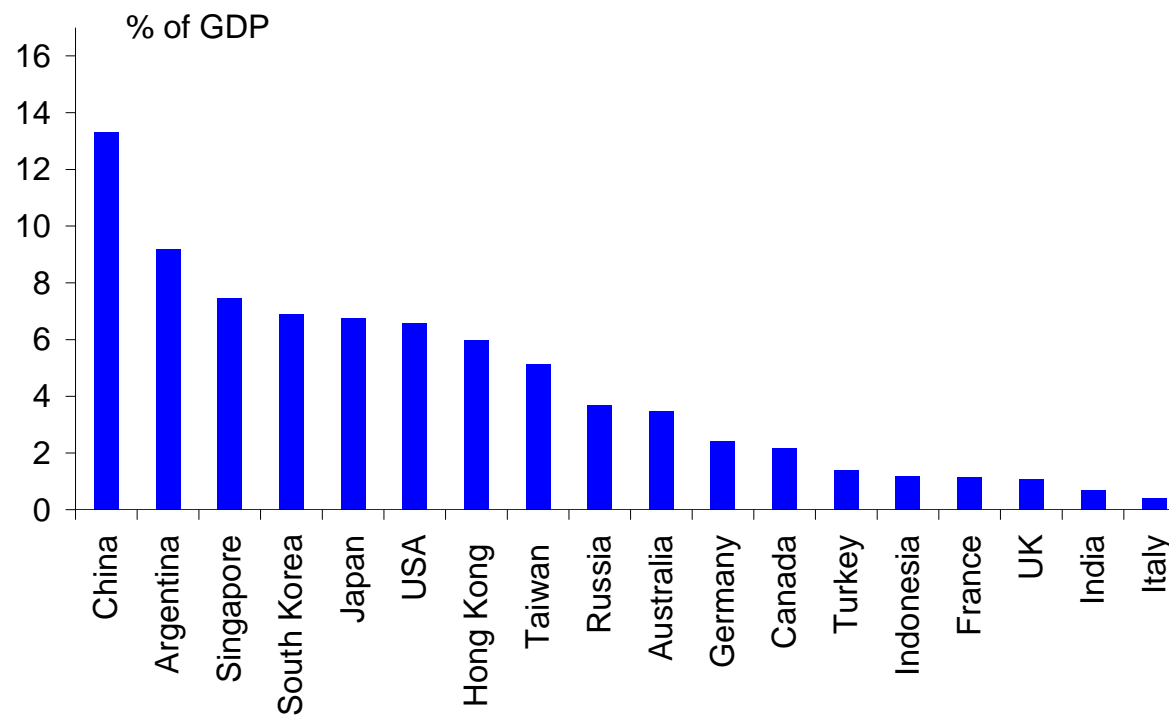
## Absolute size of stimulus packages (US-\$bn)



Sources: Factiva, National authorities, Deutsche Bank



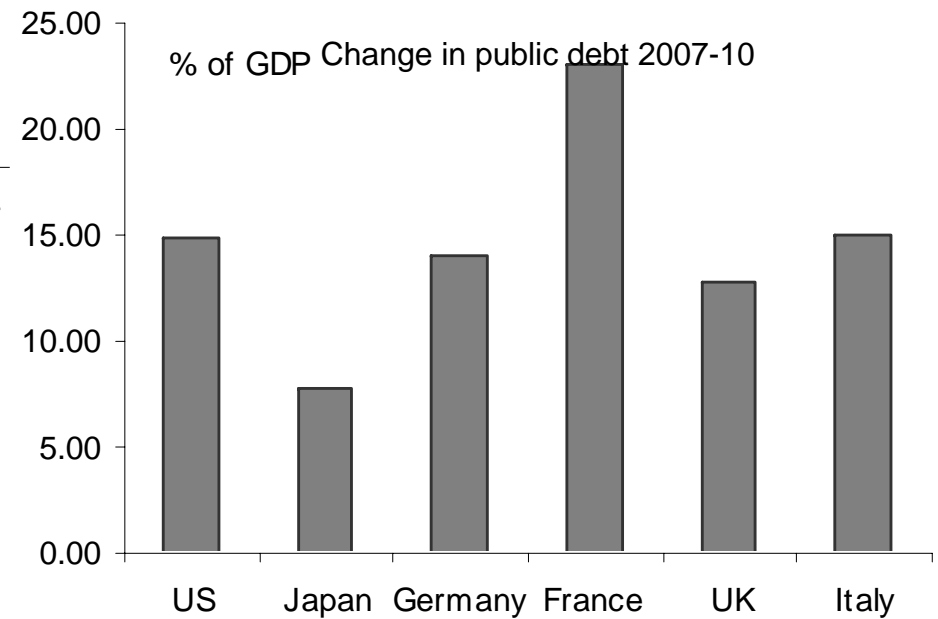
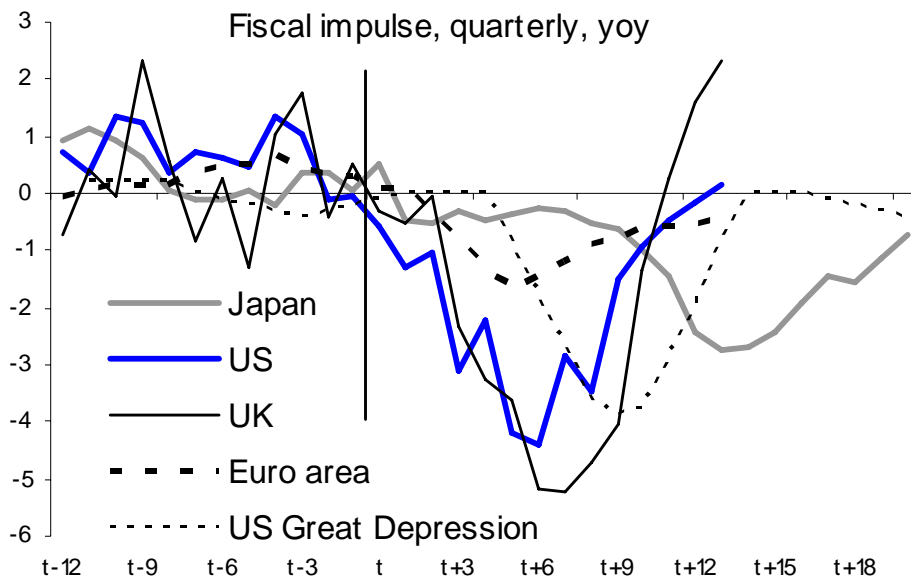
## Relative size of stimulus packages as % of GDP



Sources: Factiva, National authorities, Deutsche Bank



# Fiscal stimulus



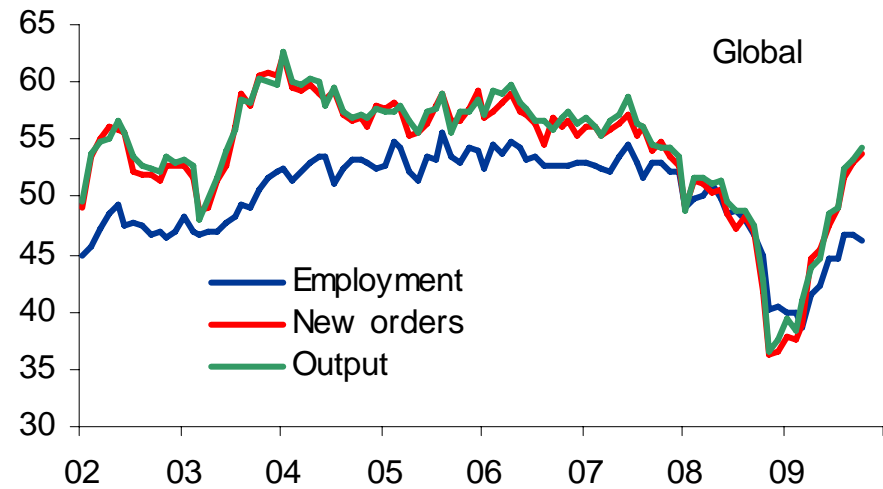
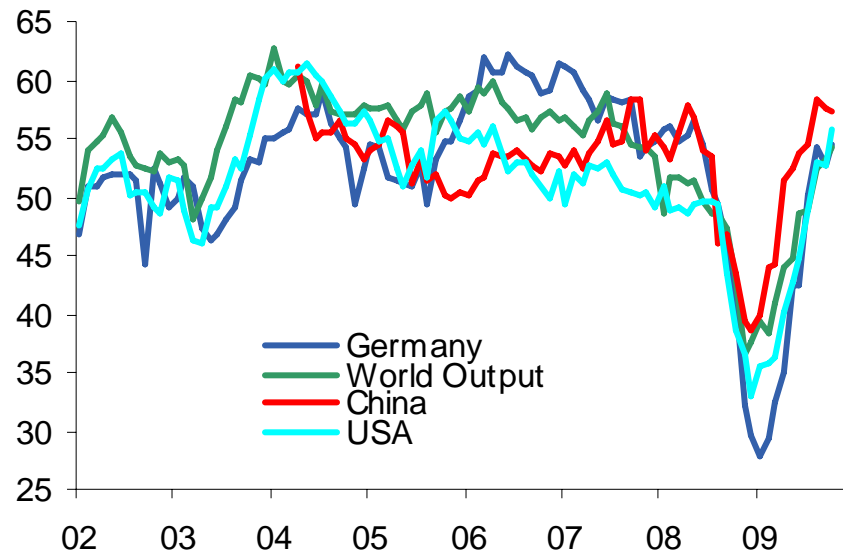
Notes: t marks quarter in which crisis started, t-x and t+x quarters before and after

Source: DB Global Markets Research



# World leading indicators close to their peaks

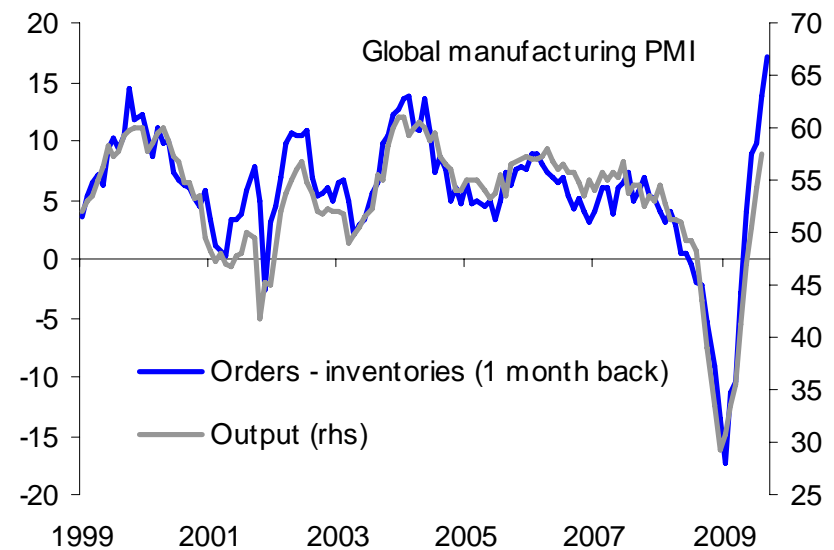
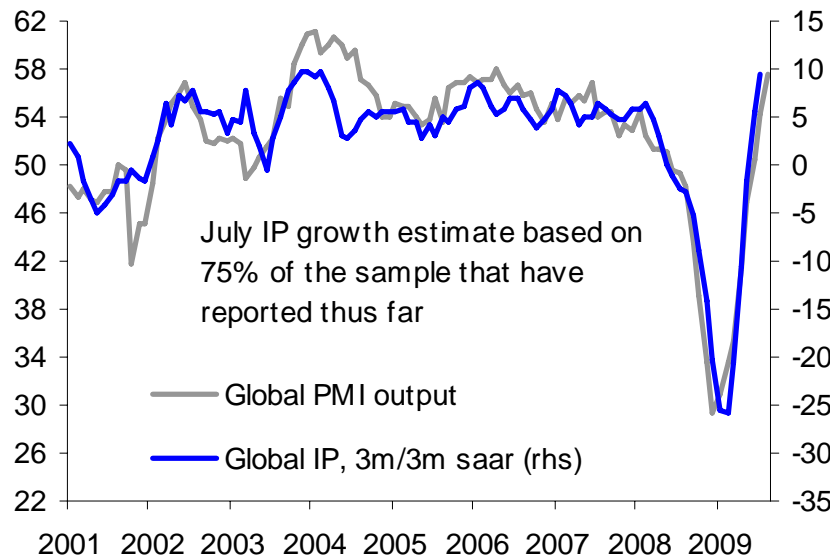
## PMI



Sources: Markit, OECD, DB Global Markets Research



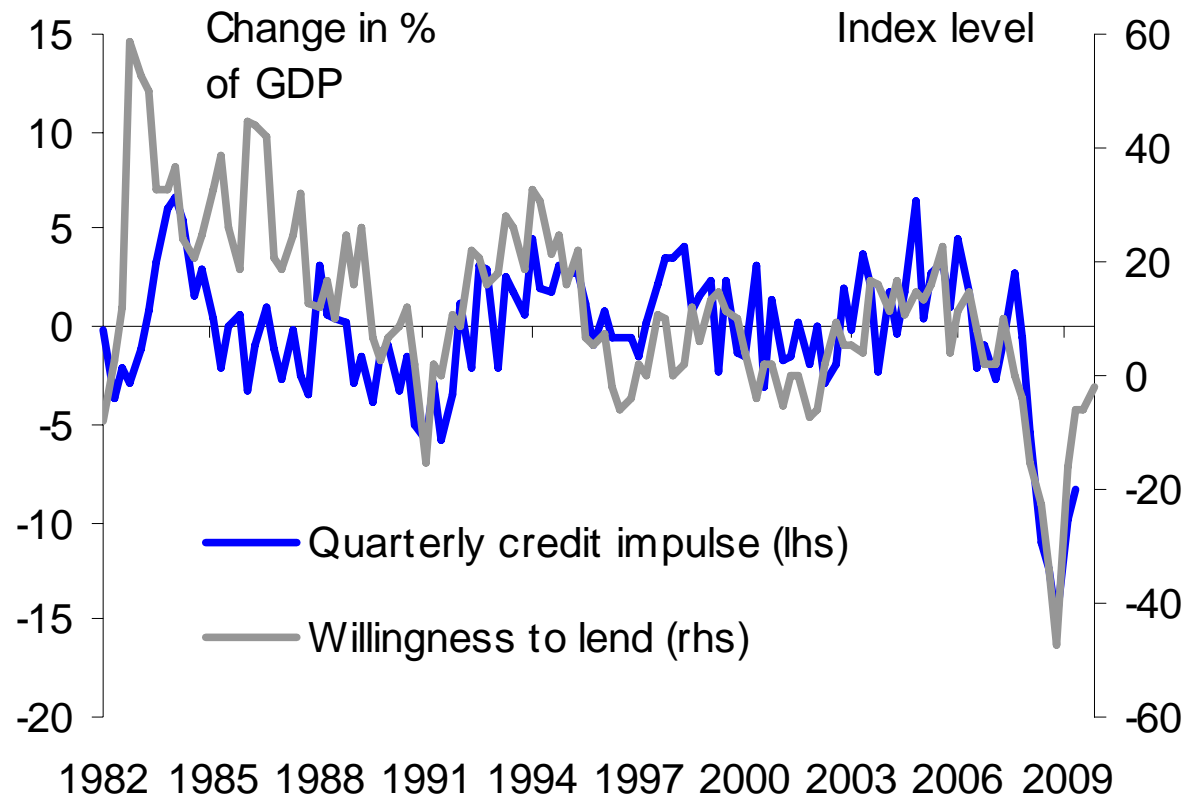
# Consensus view of “sluggish recovery” likely to be challenged as inventory cycle...





## ...and credit impulse are turning

**Q2 US credit impulse improving; bank lending survey suggesting further rise in Q3-Q4**



Source: US Federal Reserve, DB Global Markets Research

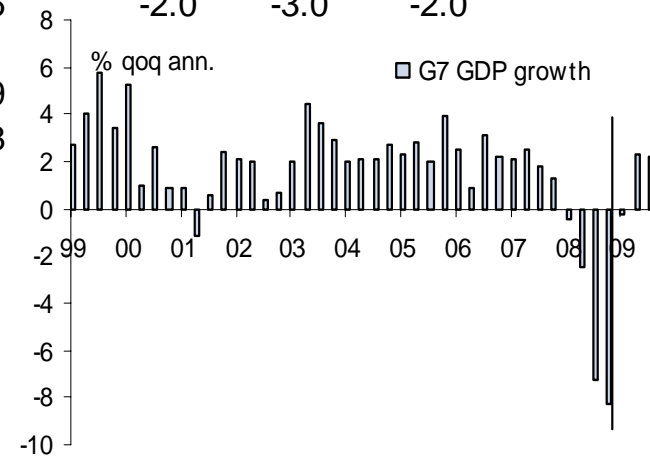
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# Global recession in 2009 but recovery in 2010

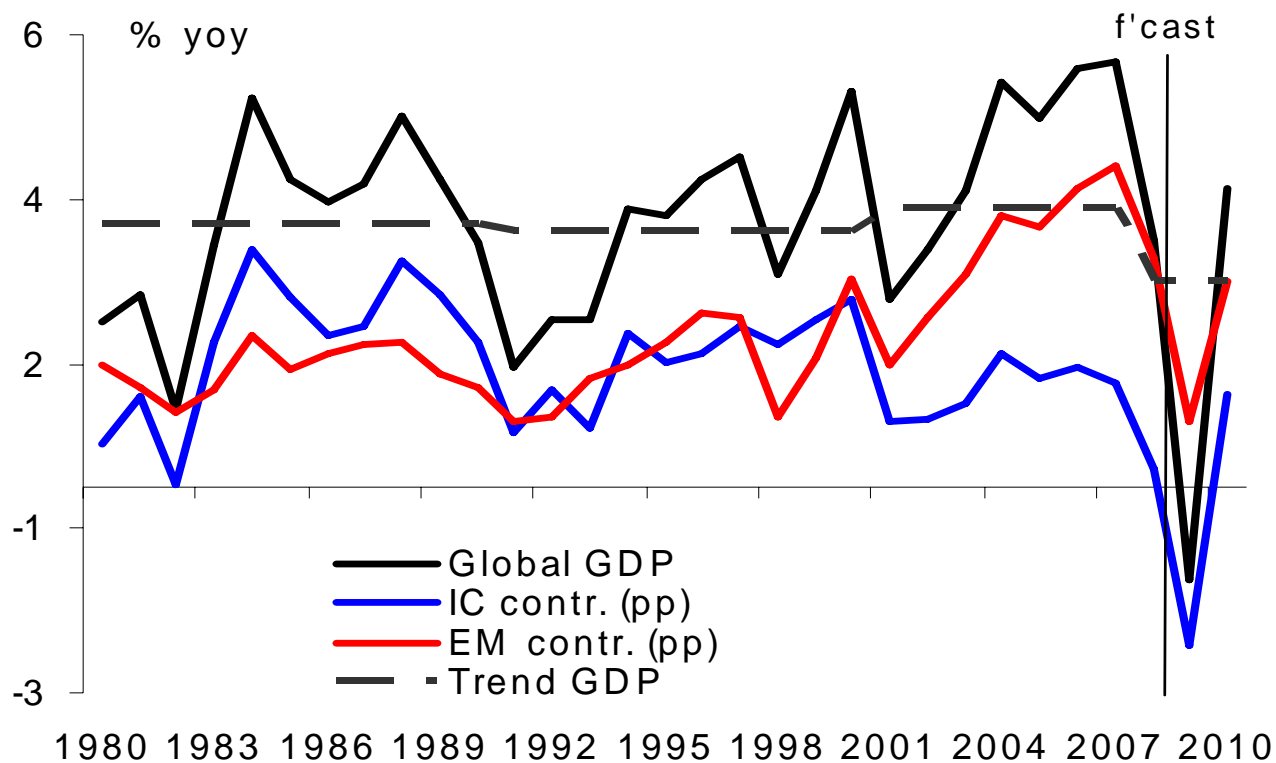
	Real GDP, % growth			CPI, % yoy			Fiscal balance, % of GDP		
	2008	2009F	2010F	2008	2009F	2010F	2008	2009F	2010F
US	0.4	-2.4	3.6	3.8	-0.4	1.3	-3.1	-13.3	-7.3
Japan	-0.7	-6.1	1.0	1.4	-1.3	-1.6	-4.2	-6.5	-7.6
Euroland	0.6	-3.8	1.6	3.3	0.3	1.1	-1.9	-6.3	-6.9
Germany	1.4	-5.0	1.8	2.8	0.3	0.7	-0.1	-4.5	-6.5
Asia (ex Japan)	6.8	5.3	7.2	6.6	0.6	4.0	-1.7	-4.2	-3.9
China	9.0	8.7	9.0	5.9	-0.5	3.4	-0.4	-3.0	-3.0
EMEA	4.3	-5.4	3.8	12.7	8.9	8.1	0.2	-6.3	-5.4
Russia	5.6	-7.4	3.8	13.3	10.1	9.8	3.4	-6.1	-3.5
Latin Ameri	4.0	-2.4	3.5	10.0	6.6	7.5	-0.8	-0.8	-0.6
Brazil	5.1	0.3	5.2	5.9	4.3	4.5	-2.0	-3.0	-2.0
<b>G7</b>	<b>0.3</b>	<b>-3.5</b>	<b>2.6</b>	<b>3.2</b>	<b>-0.1</b>	<b>0.9</b>			
<b>Global</b>	<b>2.7</b>	<b>-1.1</b>	<b>3.9</b>	<b>5.3</b>	<b>1.3</b>	<b>2.8</b>			



Source: DB Global Markets Research



# Lower global trend growth and different growth drivers in the future

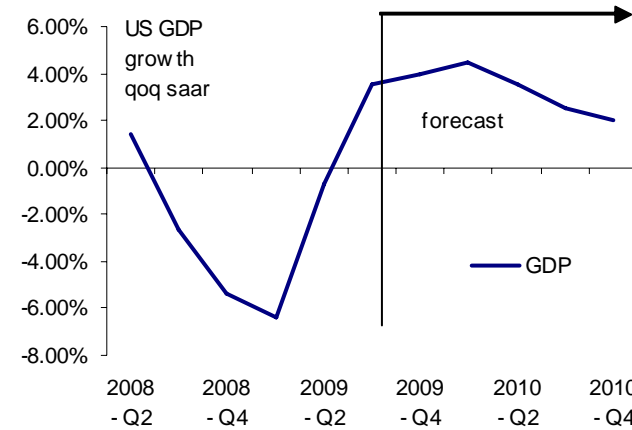
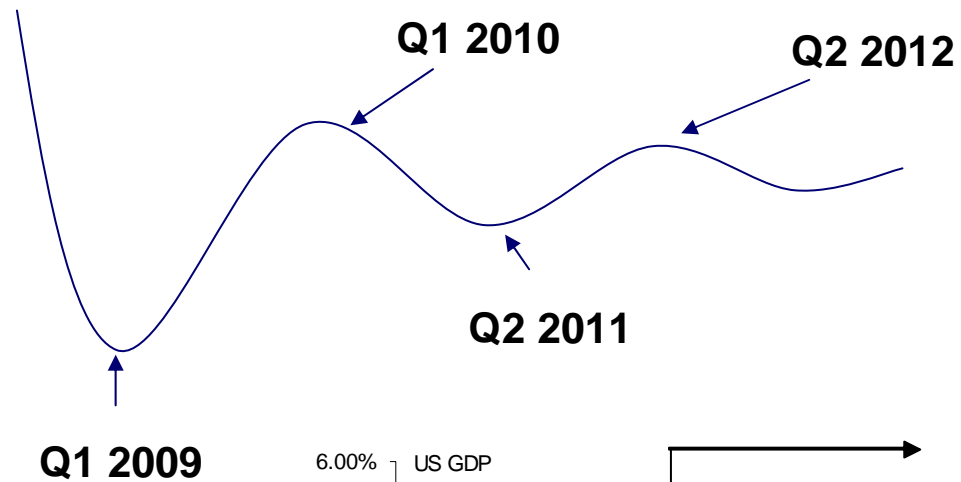


Source: DB Global Markets Research



## How to think about recovery

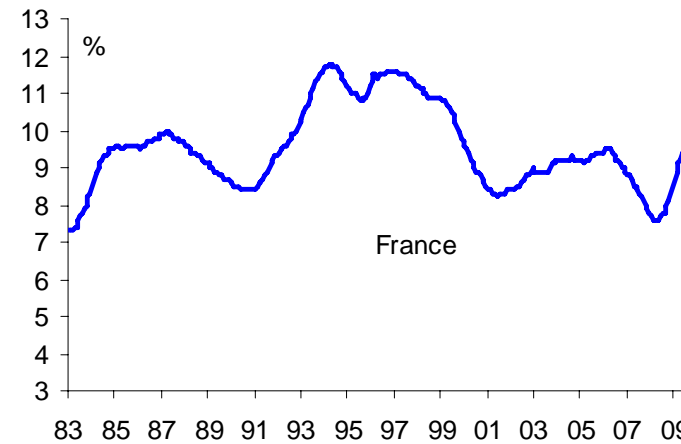
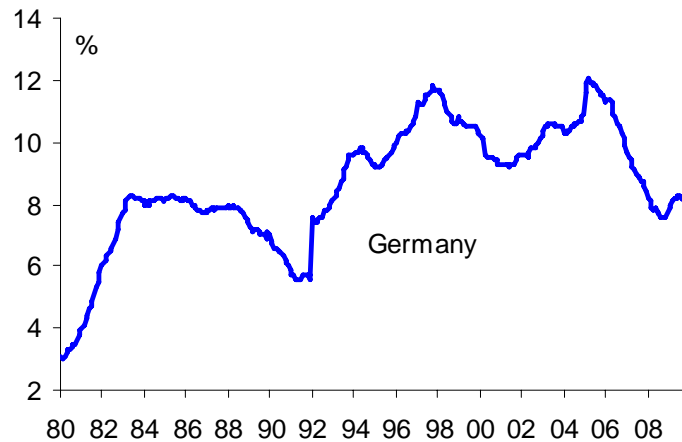
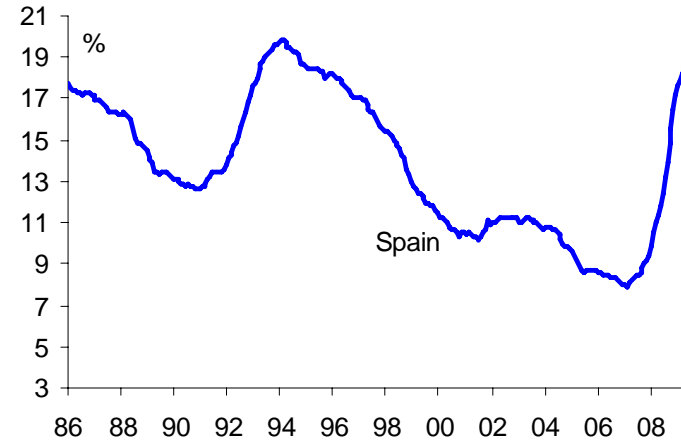
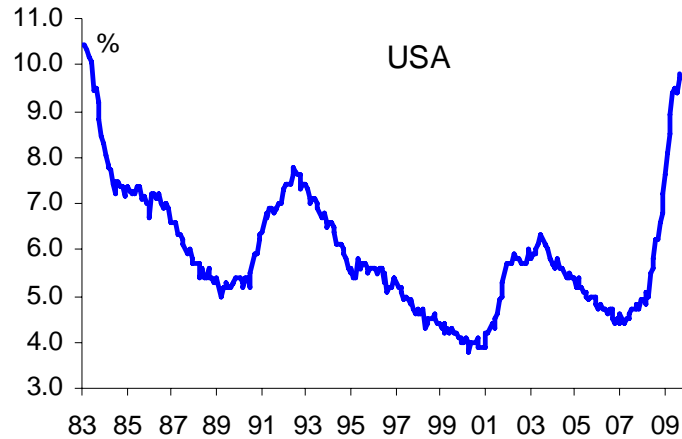
- No “V”
- No “U”
- No “L”
- But: Diminishing sine wave





# Unemployment: a rising problem

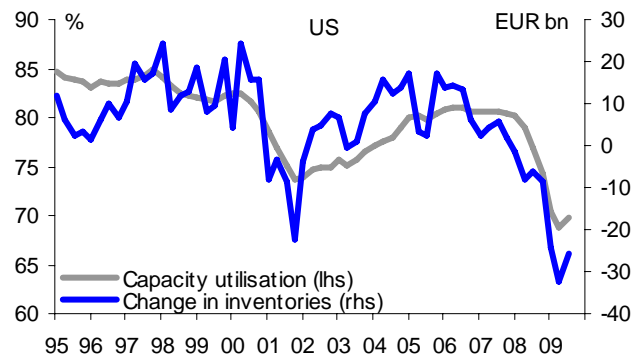
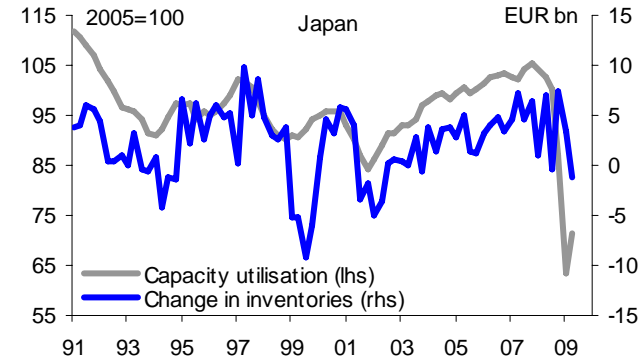
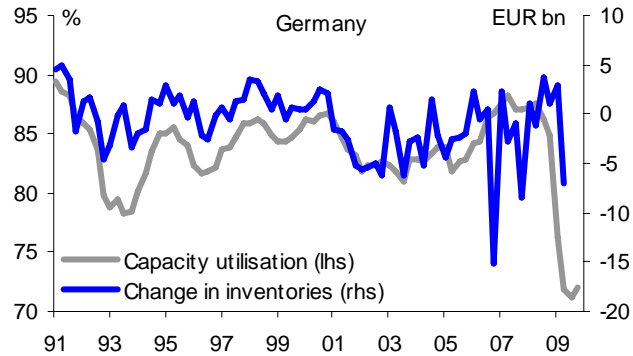
## Unemployment rates



Sources: Global Insight, DB Global Markets Research



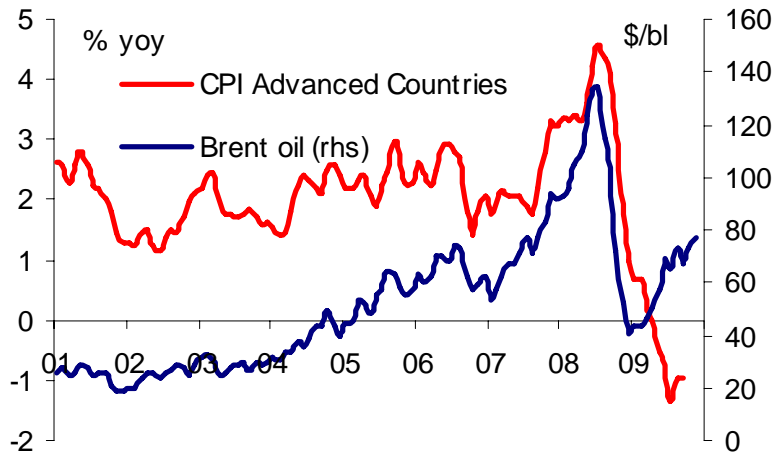
# Capacity utilisation should limit pricing power



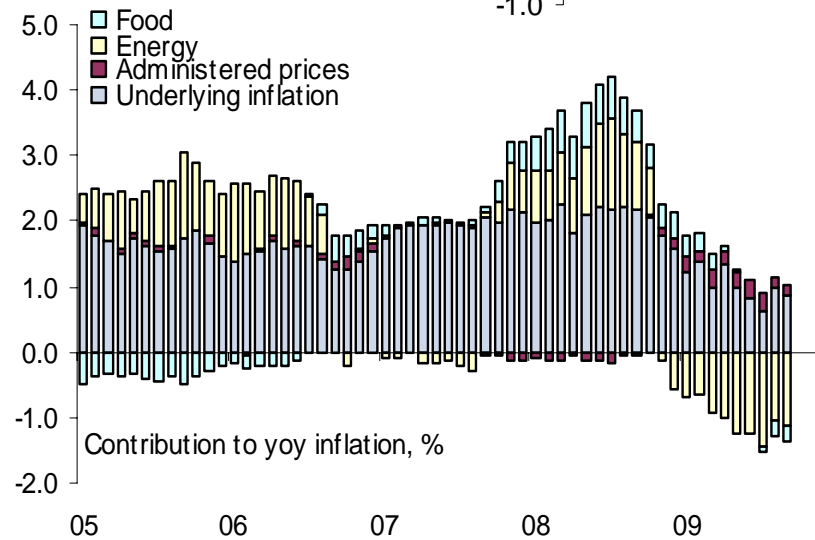
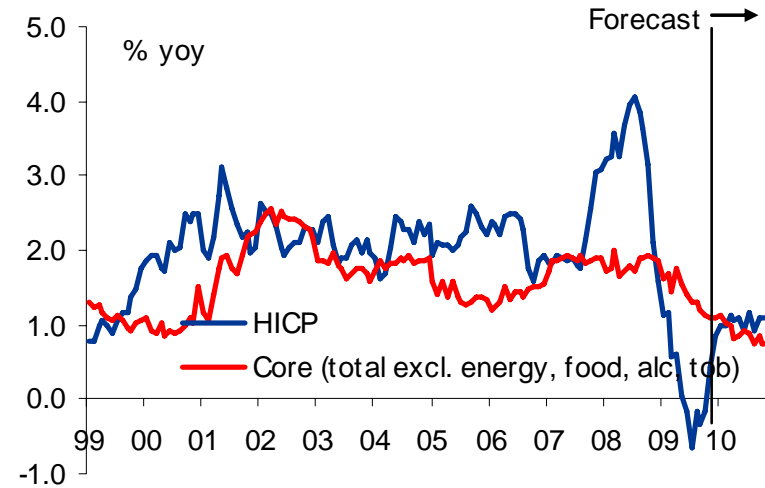
Sources: Global Insight, DB Global Markets Research



# Deflation is the risk, not inflation



**Euroland inflation**



Sources: ECB, Bloomberg, DB Global Markets Research

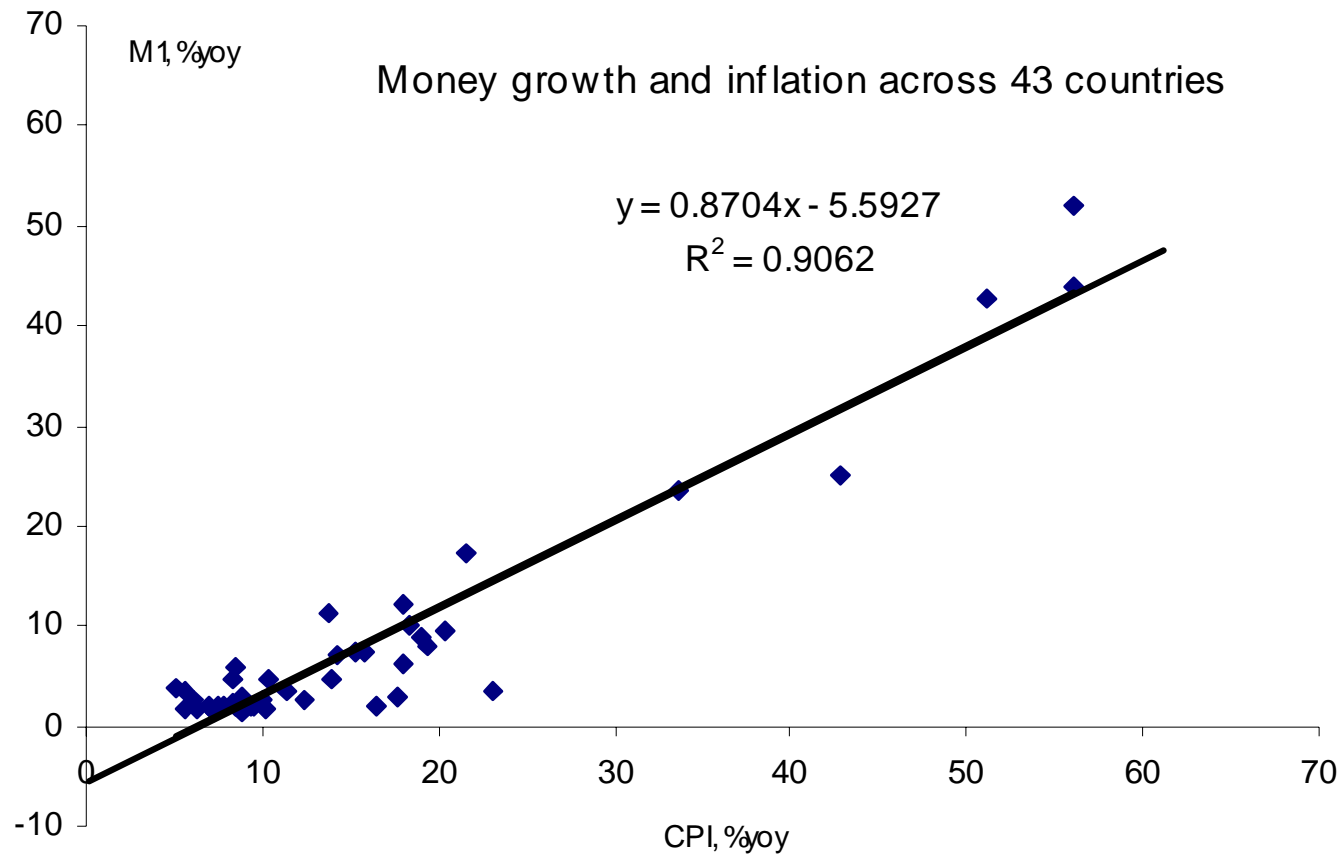


## But inflation is the more likely medium-term outcome

- Massive central bank money creation and a surge in public debt have created a significant inflation potential
- Output gaps are likely to be smaller than generally assumed and relationship between output gaps and inflation is uncertain
- Exit from easy policies will be very cautious as in the “new normal” central banks need to secure financial stability and fiscal solvency
- In contrast to the Great Depression and Japan’s deflationary decade we had massive front-loaded monetary and fiscal stimulus



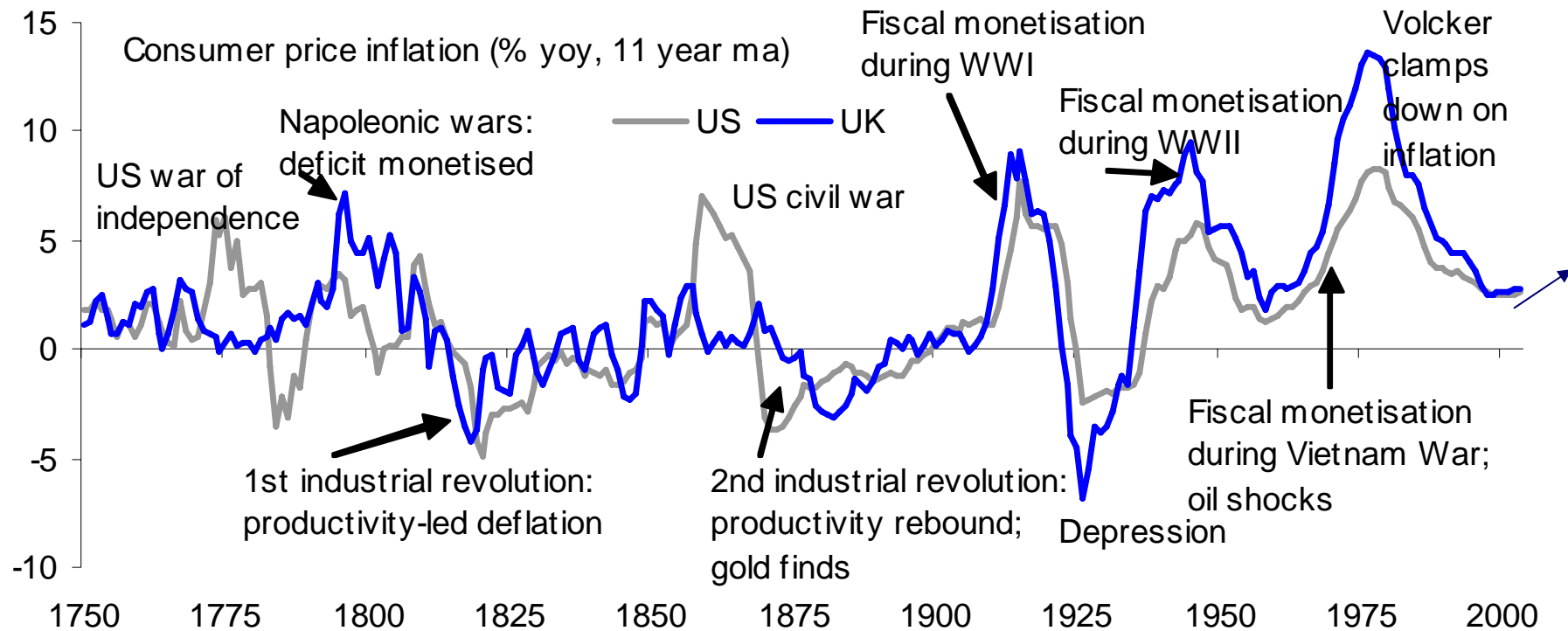
# In the long-run inflation is a monetary phenomenon



Source: IFS, DB Global Markets Research



# History points to monetisation of public debt and inflation

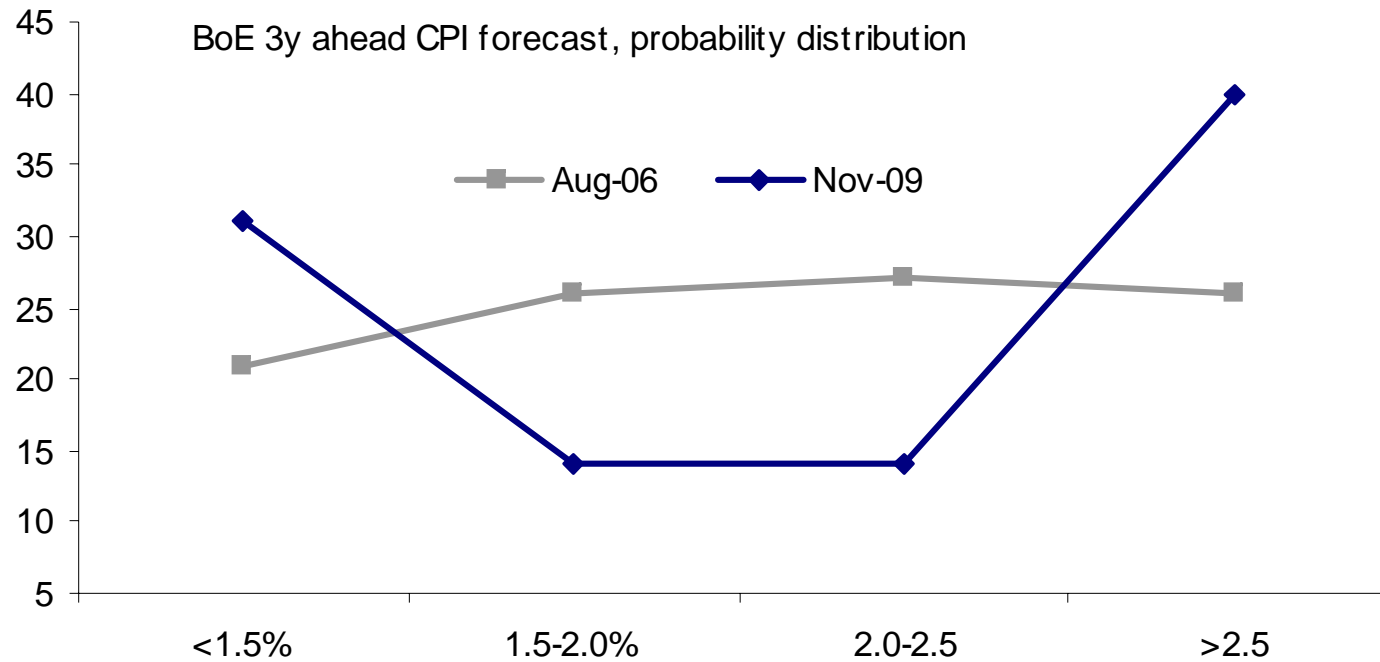


Source: DB Global Markets Research, Economic History Service



# A bi-modal distribution of outcomes...

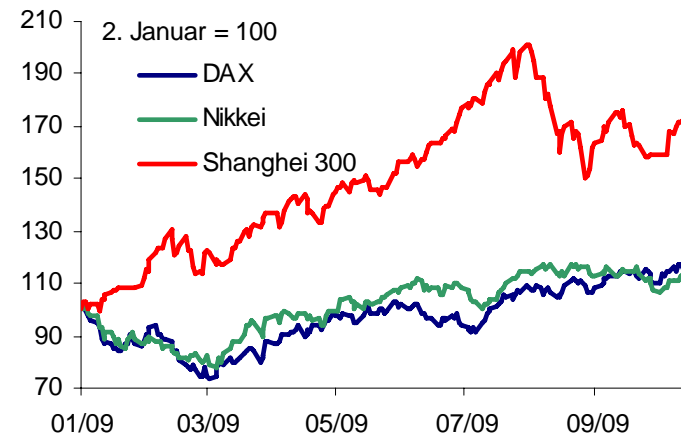
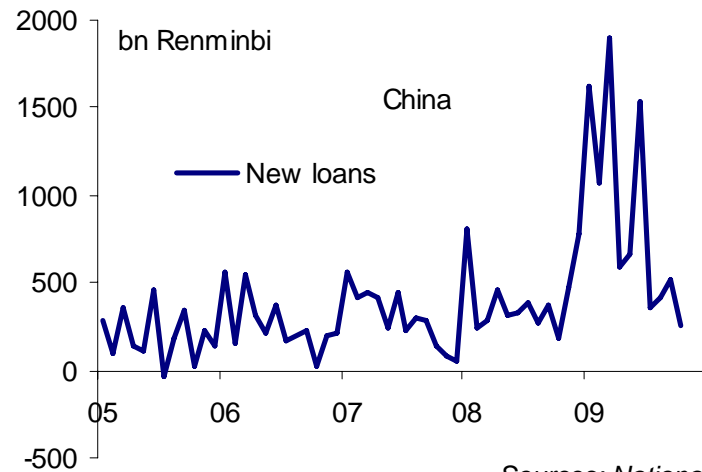
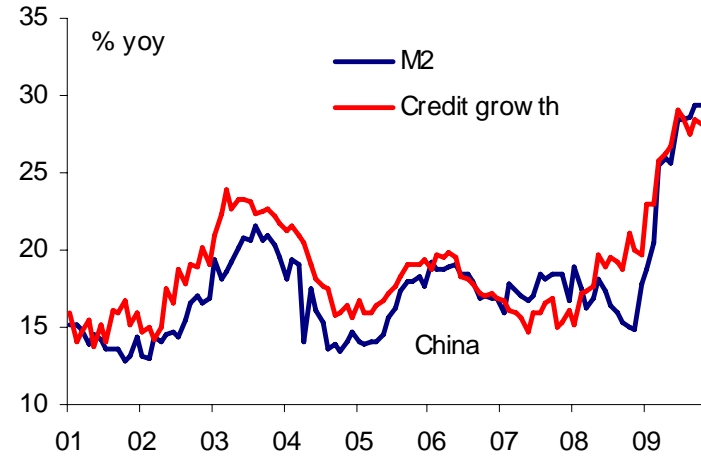
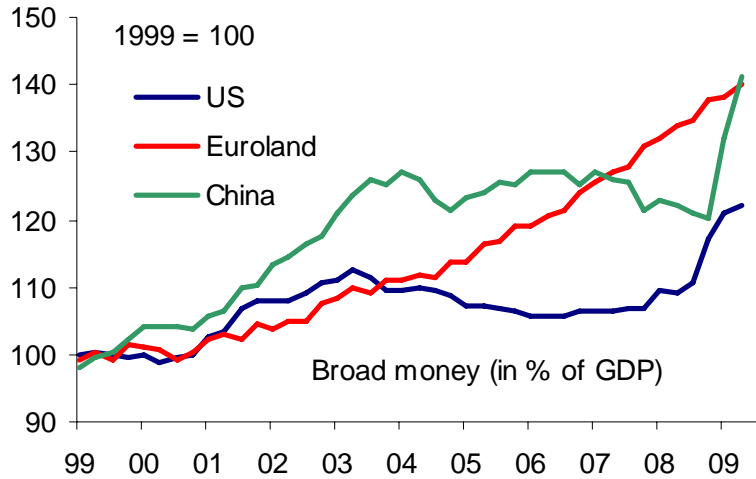
*...according to the Bank of England. We agree.*



Source: Bank of England, Inflation Reports



# Central banks have provided strong stimulus

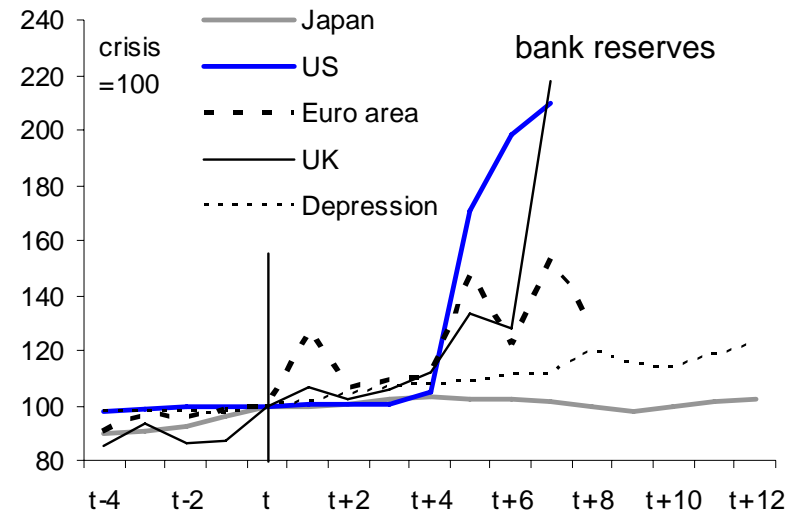
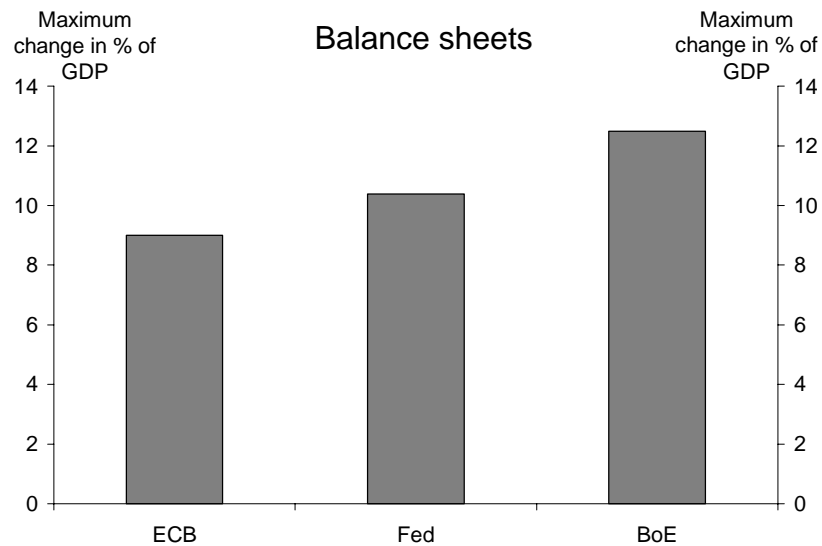


Sources: National central banks, DB Global Markets Research



# Massive monetary stimulus...

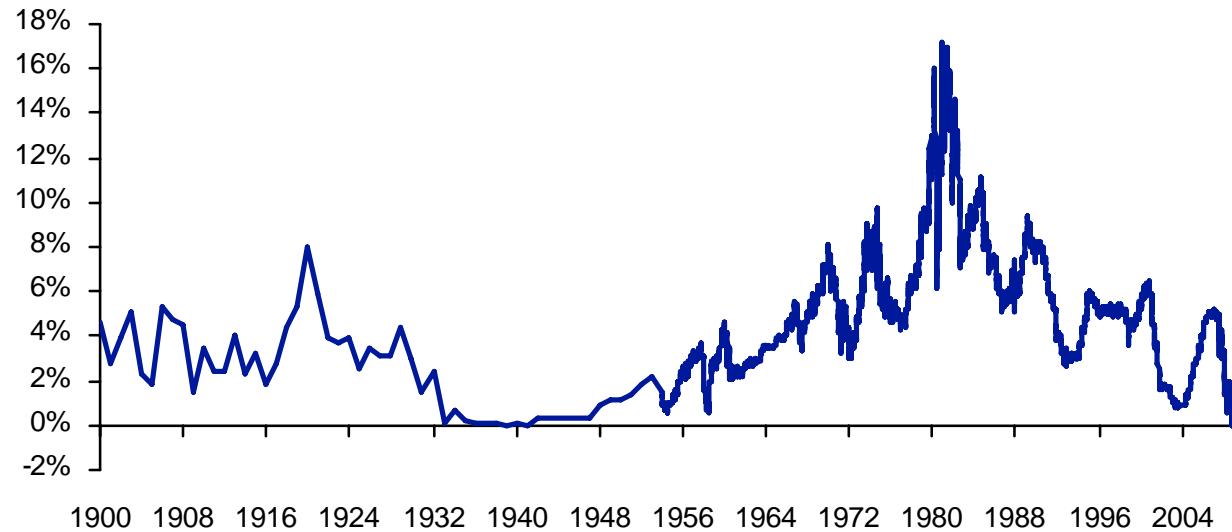
*...including big balance sheet expansion leading to surge in reserves*



Notes: t marks quarter in which crisis started, t-x and t+x quarters before and after



# US 3-month Government Yield – ZIRP a rare and troubling event?

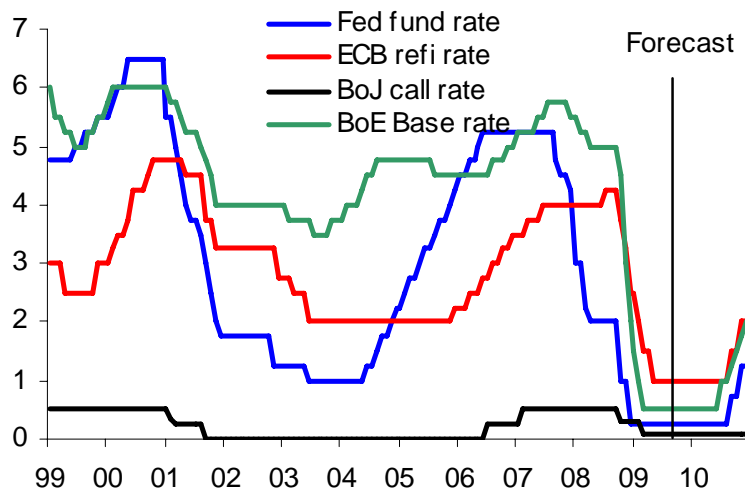


Source: Bloomberg, GFD, NBER



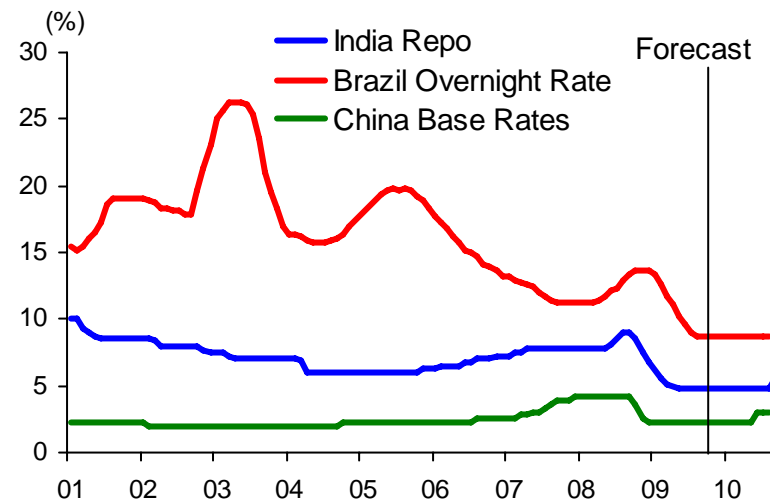
# Central bank policy should remain accommodative

Central bank rates



Sources: Eurostat, Global Insight, DB Global Markets Research

Key rates in major emerging markets



Sources: DB Global Markets Research

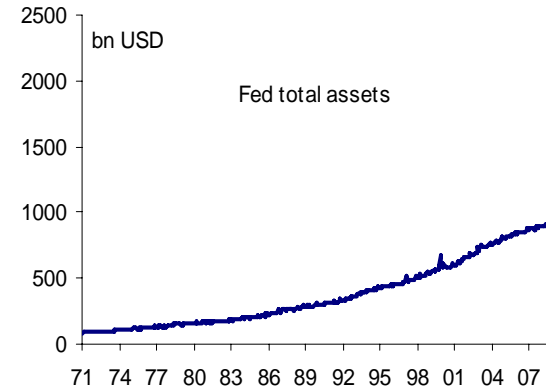
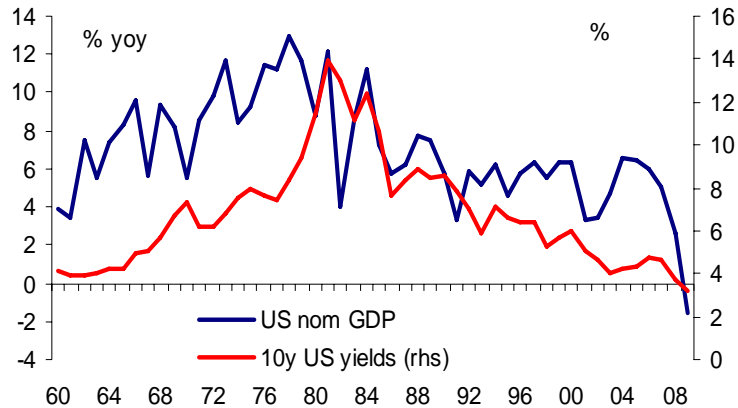


## Financial markets in a sweet spot

- Recovery to surprise to the upside over the next quarters
  - Inflation to remain very low near-term
  - Key central banks keeping emergency regime in place for now
- ⇒ Default risk free assets are overvalued; risky assets will follow suit, a mini-financial bubble likely to emerge
- But concerns about growth in the second half of 2010 plus fears of eventual “reflation” could induce renewed weakness of risky assets as of next spring



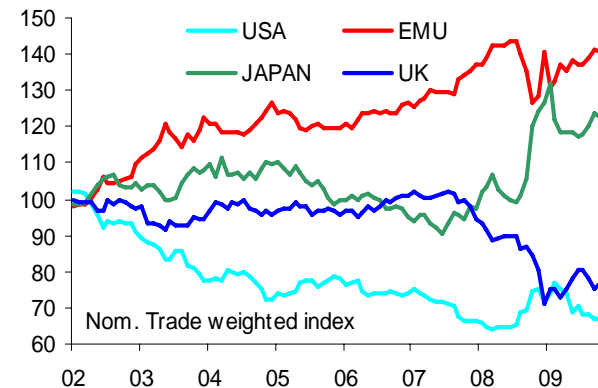
# US bond market – really the next bubble?



Fundamentally, US bond market does not seem to be too expensive

Strong supply should be counterbalanced by Fed and international investors.

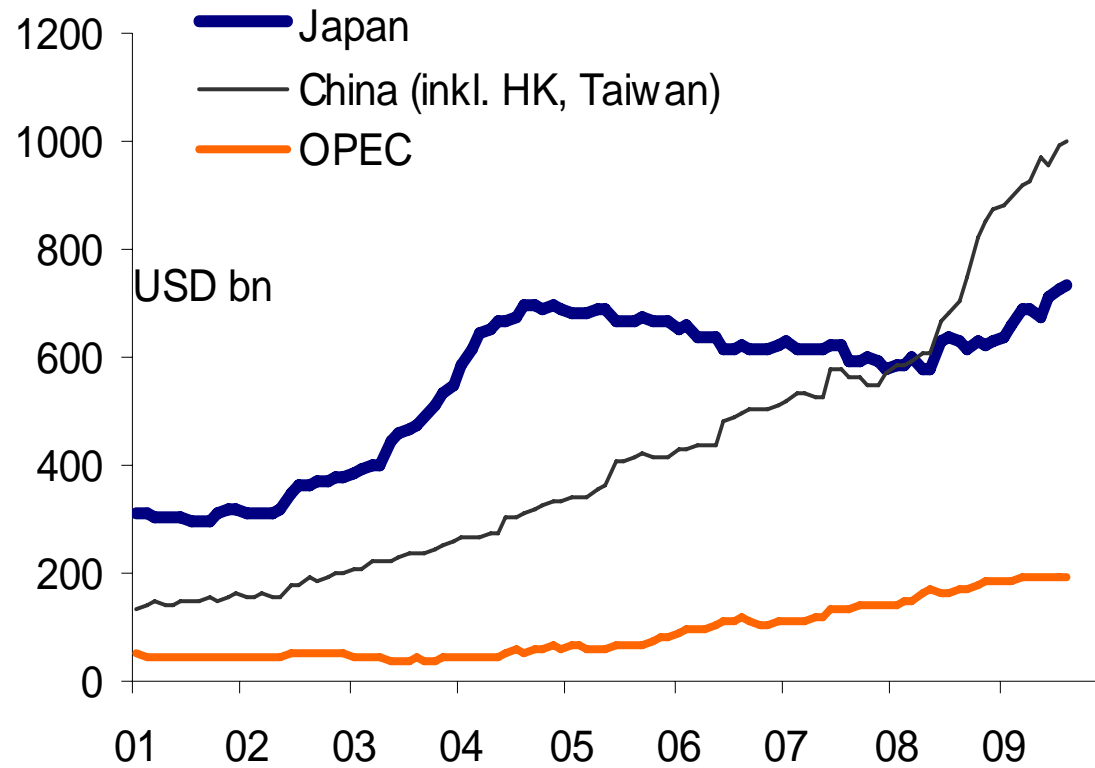
However, Fed could be stopped out by a rise in inflation and foreign investors could be stopped out by a depreciation of the US dollar



Source: DB Global Markets Research



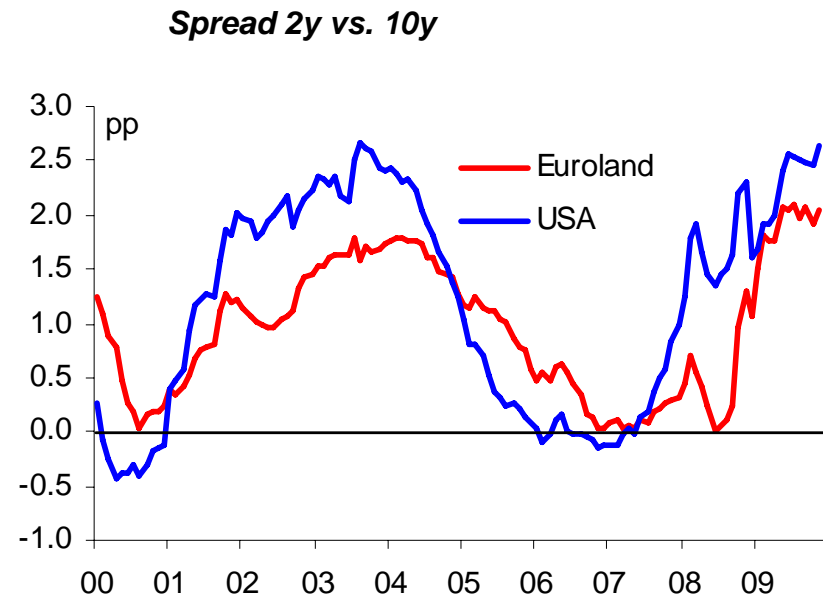
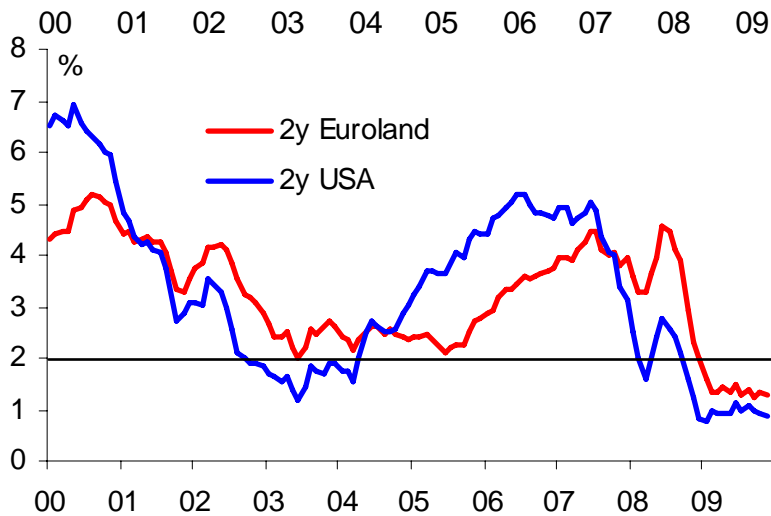
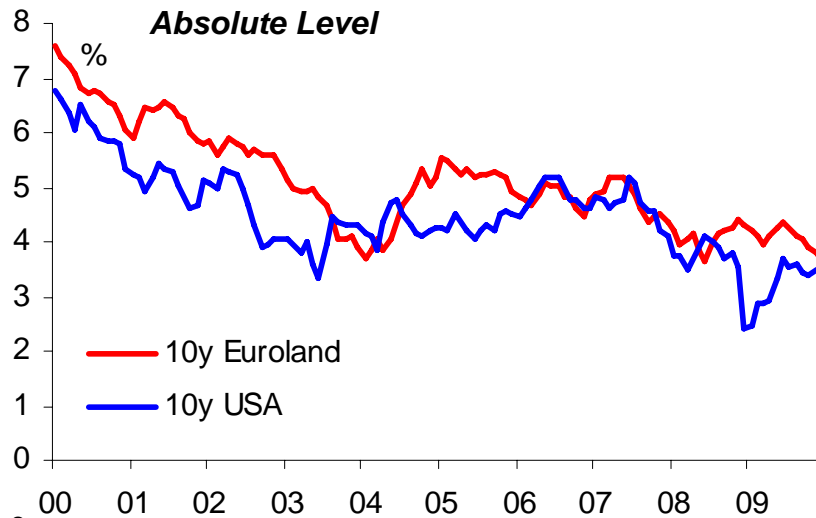
# Foreign US bond holding



Sources: DB Global Markets Research



# Bond markets – yield curves indicate pressure in government bond markets

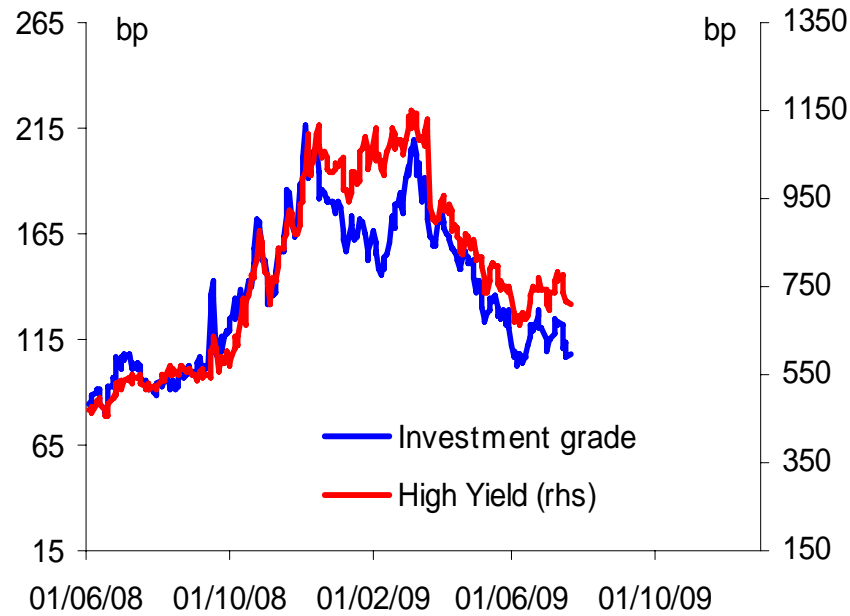


Source: DB Global Markets Research

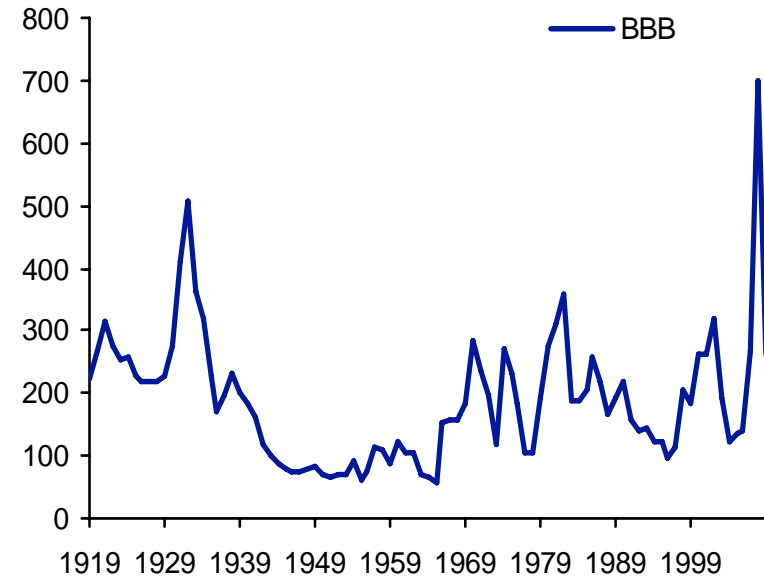


# Spreads have tightened

### Credit default swaps on European iTraxx



### Long-term US BBB spreads vs Treasuries (bp)

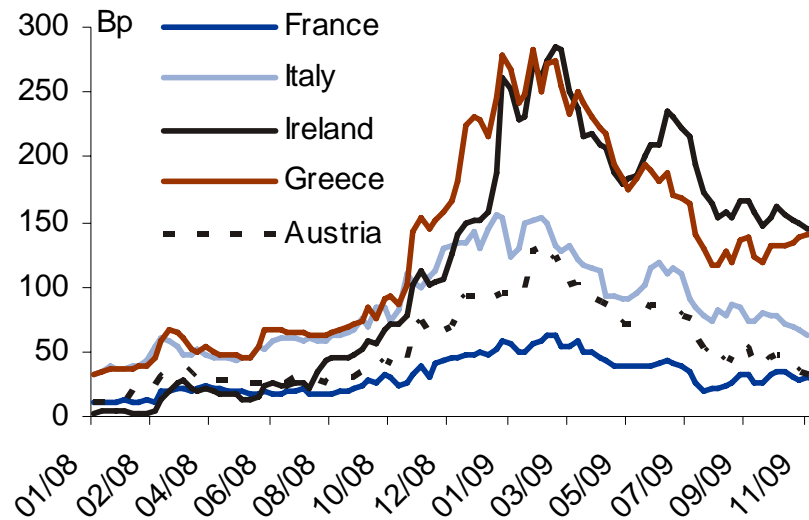


Sources: Bloomberg, DB Global Markets Research

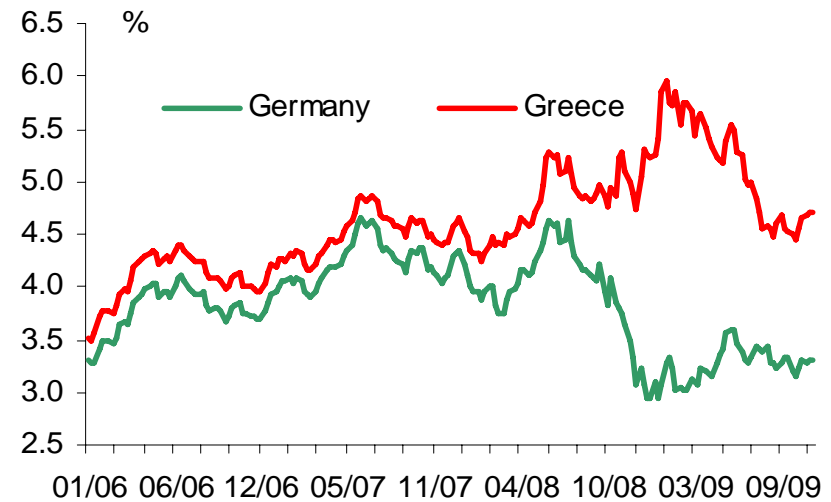


# Tensions have eased within the Eurozone

*Spread vs. Bund (10y)*



*Government bond yields (10y)*



Sources: DB Global Markets Research

## Appendix



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