Deutsche Bank
Markets Research

Global | Economics

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Early Morning Reid
Macro Strategy

I'll be honest and say that yesterday's EMR was a bit of a daze. I had a belated party for my 40th on Saturday and spent virtually the entire Friday night awake with my builders trying to put a house back together that has been owned by the builders for 8 months. I had 15 people there until 4am Friday night with 3 of them working non-stop until the first guests arrived at 230pm. Never have I been so stressed and tired. So all day Sunday and Monday morning were a bit of a daze. Sadly I'm now back living with builders again as they finish things off after the party. It was blissful for the few hours we were apart. At least we've moved out of the kitchen where we were living and sleeping for nearly 5 months before last week. Hopefully by the time the second half of the year ends I'll never have to see a builder again.

Anyway, the second half has now begun for markets and in our H1/Q2/ June performance review today we show that most assets have had a positive year so far. So much so that if the year eventually goes to penalties it will end up being a very poor second half showing in line with many of England's in recent years!! We briefly review the numbers at the end but all the data and charts are in the pdf of this document. Its pretty rare to have almost all main global assets in positive territory this far into a year. Central bank liquidity continues to drive markets in our opinion which has helped this synchronised uplift in valuations. However we can't help sensing that there's less joy over these returns than might be expected. Investors are worried about valuations in numerous assets and worried that the Fed might become more hawkish soon. There's little chance of the ECB following suit anytime soon though and European Government bonds have had a very good 2014 so far.

Over the last month we've again highlighted how many European Government bond markets have hit multi-century, all time yield lows. Well yesterday it was the turn of the Dutch 10 year yield to go through it's all time low again. The Dutch series is where we have our longest history of any government bond market with data going back to 1517 spanning almost half a millennia. The graph is in the pdf today and further shows just how unique the current situation is. The level of uncertainty about how this all ends must by definition be very high given this.

So as we start H2, Asian markets are trading with a stronger tone this morning helped by a solid start to the global manufacturing PMIs. The official Chinese manufacturing PMI printed at 51.0, in line with consensus and at a six month high. The final HSBC Chinese manufacturing PMI came in at 50.7, slightly below the flash reading of 50.8, but this is also the highest print of the year. The PMIs for other Asian bellwethers including Indonesia and Taiwan were also up on a month-to-month basis. The Nikkei (+1.2%) is the clear outperformer today, on decent volumes and despite a drop in the Japanese Q2 tankan manufacturing index to 12 from 17 previously and 15 expected. The capex component of the Tankan survey was above expectations however (+7.4% vs 6.0%) expected, which is strongest rate of growth since 2007. This has helped USDJPY (+0.1%) today. Outside of Japan, activity has been subdued with Hong Kong markets shut for July 1st holidays. The Indonesian

Market Data

Index	Close	Change
ITX Crossover	242	+3
ITX Europe 125	62	+1
CDX 125	59	+1
CDX HY - pts	108.66	-0.154
S&P 500	1960	-0.04%
Brent Oil^	112.55	-0.66%
Gold^	1327	+0.83%
10 yr Treasury^	2.52	-1 bp
ITX Sen Fin	68	+2
ITX Sub Fin	103	+3
CDX EM	237	+4
ITX Japan	68	-1
ITX Australia	85	+2
ITX Asia XJ	105	unch
Euro NonSov	69.15	unch
Euro Corp	103	unch
Euro BBB	133.94	+1
Sterling NonGilt	115	unch
Sterling Corp	139	unch
Sterling BBB	176	unch
WTI Oil^	105.65	-0.09%
Dollar Index^	79.82	-0.27%
EUR/USD^	1.369	+0.31%
DJ Stoxx 600	342	-0.03%
NIKKEI	15332	+1.12%
Hang Seng	23191	0%
VIX	11.57	+0.31

^ - Change from previous day's 05.30 GMT to 05:30 GMT. Levels as of 05:30 London time. European and US CDS indices above refer to 'old' off the run series

Upcoming Events

Release	DB	Prev	Con
ISM manufacturing (June)	55.0	55.4	55.8
Construction spending (May)	+0.5%	+0.2%	+0.5%
Unit motor vehicle sales (June)	16.4M	16.7M	16.3M

Topical DB Publications

World Outlook - The calm before the storm, 25 June 2014
FX Daily - The single most important question for policymakers, 24 June 2014
European Staffing - Later than it seems, 25 June 2014
European Equity Strategy - The return of the stock alpha, 20 Jun 2014
Focus Europe - Down but not out , 20 Jun 2014