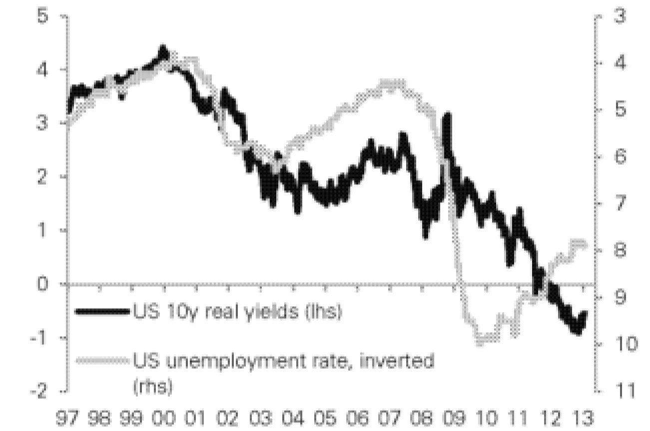
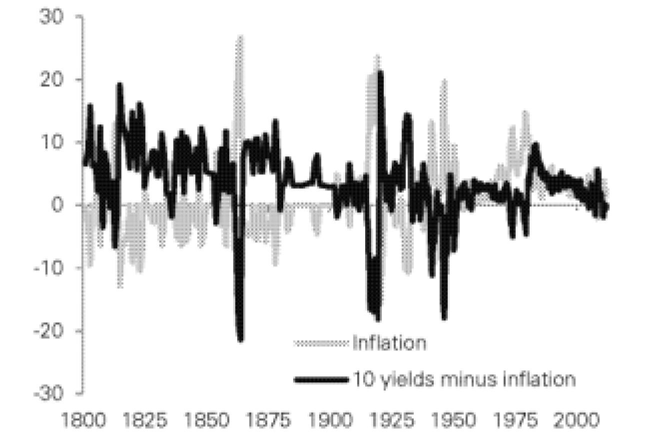
.Figure 9: US Real Yields Turning Up



Source: Deutsche Bank, EcoWin

Figure 10: Lowest US Real Yields Outside Of Inflation Spikes Since 1800



Source: deutsche Bank, EcoWin

did, currency markets are no longer reacting as strongly to such measures. Instead, other central banks are catching up to Fed easing, such as the BoJ since Abe's election (or even earlier the SNB in 2011), are having a distinctly bigger a more negative impact on their currencies over the dollar. Finally, the introduction of the OMT by the ECB in the summer of 2012 has seen the tail risk for the Euro-area significantly reduced.

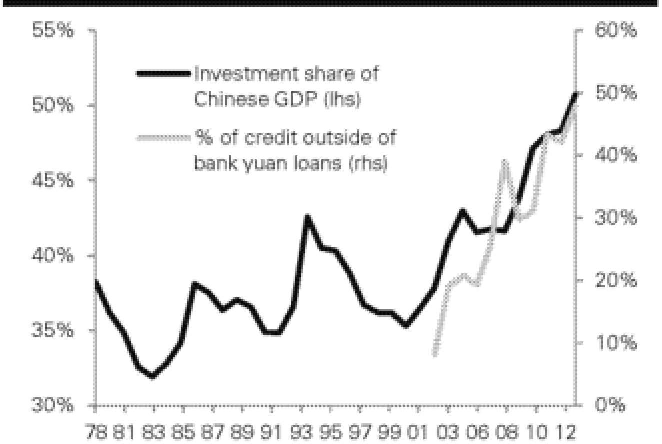
What Goes Up Must Come Down; The Link To China

A new market regime would imply that many of the trends since 2008 will likely reverse. Identifying those trends would also help answer the question of what would happen if the Fed exits QE, which has occupied market participants in recent months.

At the core, two clear trends have been in play since 2008. First, ultra-easy monetary policy by the central banks of the crisis-hit economies in the developed world, notably the Fed and ECB. Second, emerging market growth outperformance, particularly China.

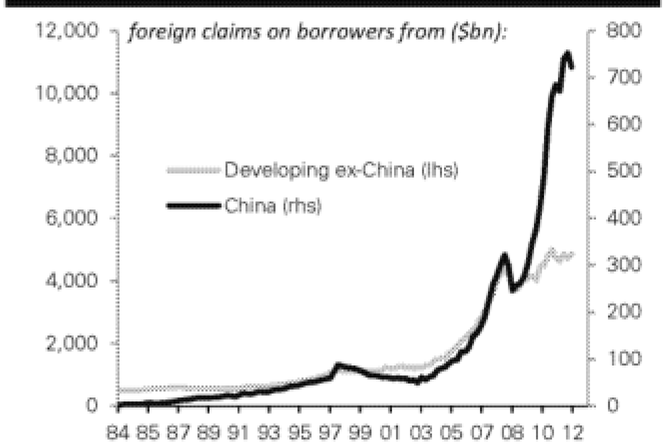
Moreover, both trends are connected. Indeed, Fed easing has seen US real yields, and global liquidity increase, while Chinese growth outperformance has provided a destination for this

Figure 11: Surge in China Investment And Non-Conventional Credit



Source: Deutsche Bank, EcoWin

Figure 12: Cross-Border Banking Lending Going To China



Source: Deutsche Bank, BIS