
From: Tazia Smith [REDACTED] >
Sent: Friday, November 1, 2013 2:38 PM
To: jeevacation@gmail.com
Subject: ISM better, EURUSD extends declines [C]

Classification: Confidential

Good Morning Jeffrey -

ISM Manufacturing rose more than expected to 56.4 (vs consensus of 55.0). EURUSD breaks down below 1.35 (~1.3486...1.3485 is a noted technical level). S&P bouncing around within a 1758-1765 band.

Taper conundrum/complacency described below. I know DB commentary is not of broad interest -- curious if complacency is really as prevalent as DB's Chief Economist suggests. If so, dislocation is ahead and opportunity exists in the trades that have not been working to date: namely long implied vol and higher rates in the US...=

Highest Regards,

Tazia

----- Forwarded by Tazia Smith/db/dbcom on 11/01/2013 10:01 AM -----

From: [REDACTED]
To: [REDACTED]
Date: 11/01/2013 09:10 AM
Subject: Fed taper decision - From Torsten Sisk, DB Chief Intl Economist

Everybody I meet believes the Fed will taper in either December or March. Everybody I meet believes that once the Fed tapers then we will see a repeat of what happened in May and June. But the amazing thing is that nobody is preparing themselves for what we saw in May and June.

Think about that for a minute; everyone says that something will happen in the next six months, which will push rates up, widen credit spreads, push the dollar up and hit EM credit and equities. But nobody does anything to prepare for that repeat of May and June.

What some fixed income investors are doing is buying shorter duration paper but the irony is that most people also expect a flattening of the yield curve over the next several years as short rates have to move up more than long rates, and this will hurt the short end and the belly of the curve more.

We have gotten to a situation where the Fed in September was one inch away from tapering, and at their October meeting they no longer worried about tight financial conditions. Moreover, the minutes of the September meeting said that a majority of FOMC members saw tapering before the end of the year.

Nevertheless, the tone in my meetings in recent weeks has changed back to "they will never taper, so let's just continue with the same trades that have worked well over the past five years, I will be able to get out in time".

A summary of the arguments:

Nick Lawson
Managing Director
Deutsche Bank AG London



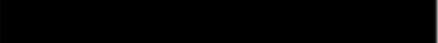
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----- Forwarded by T=zia Smith/db/dbcom on 11/01/2013 10:01 AM -----

From: T 
To: 
Cc: J 
Date: 11/01/2013 09:17 AM
Subject: DB Strategist Commentary: Oct Month Recap + Euro low inflation/deflation risk [C]

Classification: Confidential

Good Morning -

Happy November to all of you - I con=ur with Jim's note below, wow time flies!

DB Global Markets Chief Credit Strat=gist, Jim Reid, reviews October performance across global asset classes in his Early Morning Reid (below). Note his highlights of very low inflation data this week out of Europe, which has the market contemplating ECB rate cuts. Such data has fueled the sharp drop in EURUSD from recent 12mo highs above 1.38 to now 1.35.

On that note, Global Head of FX Research, Bilal Hafeez, features JPY/GBP/EUR action vs. the USD and discusses investors positioning. He is still searching for that extended downward move in EURUSD, he points to opportunity to capture downside in GBP vs USD, and highlights USD action (not "yen-factors") are driving the cross.

Please call us to follow up.

Best Regards,

Tazia

----- Forwarded by T=zia Smith/db/dbcom on 11/01/2013 08:59 AM -----

From: [REDACTED]
To:
Date: 11/01/2013 06:03 AM
Subject: DB Fx: The Other Side Of the Dollar: Yen, Pound, Euro

- Yen – Watching and Waiting

Investors are moderately short yen, and overall trading activity remains high, but the weak yen trend has not re-emerged. This week's BoJ meet=ng was the latest catalyst to have passed. We would likely need to see marked deterioration in data or a sharp fall in the Nikkei to prompt the BoJ, but neither seem forthcoming in the coming weeks. Instead, yen weakness will likely only be triggered either by Japanese outflows or a resumption in dollar strength.

On the first, weekly ministry of finance data does show that Japanese resid=nts have started to venture abroad after having repatriated for much of the year. Some of the outflows may be currency hedged or linked to internal bank hedging flows, but at the very least we are starting to see them.

On the second, the correlation between USD/JPY and other USD-crosses has normalized to positive. Earlier in the year it had plunged into negative territory implying yen-factors were driving the yen. Now that the correlati=n is positive, USD/JPY may rise off the back of broad dollar strength, which is a real possibility in coming months.

- Bad Omen for Sterling

The surge in European currencies appears to have lost momentum over the past week. Weaker data and an overhang of long positions have played a role. The pound is interesting as investors were already scaling back their longs into this weakness suggesting a lack of conviction in their positions. Moreover, outright pound strength ended in late September

when it started to falter against both the euro and Swiss franc (see second chart). GBP/USD would therefore be the naturally vulnerable pair.

- Cut Euro rates are heading lower

Finally the euro is falling. The odd decoupling between different measures of rate differentials that we pointed out a few weeks ago appears to be correcting (see chart). Both 2y sovereign spreads and spreads derived from FX forwards are heading down, which is coinciding with the move lower in the euro. This could finally be the backdrop needed for a more enduring move in the euro. However, we would need more evidence of stronger US data and some evidence of a dovish ECB to feel more comfortable, but at the very least it suggests not being long euros

----- Forwarded by T [REDACTED] on 11/01/2013 08:50 AM -----

From: "Jim Reid, Deutsche Bank" [REDACTED]
To: T [REDACTED],
Date: 11/01/2013 02:33 AM
Subject: Early Morning Reid - Macro Strategy<=font>

Deutsche Bank - Fixed Income Research

Early Morning Reid - Macro Strategy
01 November 2013 (6 pages/ 161 kb)

Download the complete report: http://pull.db-gmresearch.com/p/16182-9779/19221445/DB_EMR_2013-11-01_0900=8c0877a0227.pdf <http://pull.db-gmresearch.com/p/16182-9779/19221445/DB_EMR_20=3-11-01_0900b8c0877a0227.pdf>

Key Market Data

(Index @ Close // Change)
(ITX Crossover @ 341 // -4)
(ITX Europe 125 @ 83 // -2)
(CDX 125 @ 73 // unch)
(CDX HY - pts @ 107.66 // +0.062)
(S&P 500 @ 1757 // -0.38%)
(Brent Oil^ @ 109.25 // -0.74%)
(Gold^ @ 1326 // -1.30%)
(10 yr Treasury^ @ 2.56 // 3 bp)
^ - Change from previous day's 5:30 GMT to 05:30 GMT

Macro Strategy (J. Reid, N. Burns, A. Ip, S. Barker)

How on earth can it be November already. In fact while we're on that how can it be 2013. Life is flying by. Anyway that's enough reflection for a Friday. As markets bid a fond farewell to a strong October, we publish our usual cross-asset class returns graphs and tables in the pdf today with the text at the end of the commentary.

One interesting development this week has been the much lower than expected European inflation rates which in most cases are taking the YoY growth back down to levels only previous seen in the modern era (for a few months) in 2009. Spanish CPI was 0.3-0.4% lower than expected on Wednesday with the straight CPI number in technical deflation at -0.1% YoY. German numbers came in around 0.2% below expectations on the same day (1.2% YoY) with Italy yesterday seeing 0.7% YoY inflation against 1.1-1.2% expected. The overall Eurozone number showed similar declines. It's difficult to know what to think about this though. It has certainly helped the Euro come off its recent peak (1.382 earlier this week to 1.355 as we type) as the market considers the possibility of ECB rate cuts again. Higher than expected Euro unemployment (12.2% vs 12.0% expected) helped on this front too. Simultaneously it seems the Fed isn't going to guarantee us no taper before March even if that eventually materialises. So the liquidity perception balance between the two regions has shifted a bit over the last 48 hours. But back to Euro inflation, our experts think there are some one-offs in the numbers and expect the rate to tick up over the coming months. One can also argue that low inflation in the likes of Spain is a sign of improving competitiveness. Nevertheless there are worries and it certainly ties in with the arguments made in our long-term study from September "A Nominal Problem" where we highlighted how we were having a global problem with both low real GDP and inflation. The combination not being great when you still have a high debt burden. Europe really doesn't need the threat of deflation with so many structural issues still to deal with. Although inflation is expected to edge back up from here we are getting to low enough levels that the behaviour of participants in the economy might start to be influenced by the prospect of falling prices and they may hold back purchases/investments. This is why central banks generally aim for at least 2% on inflation and not zero. You tend to want to make it positive enough that deflation doesn't ever become an imminent risk. So this is one to watch going into 2014. In the nearer-term keep an eye out for the survey of professional forecasters release in the middle of this month. The ECB is very sensitive to the 2-yr ahead reading as a measure of inflation expectations and it may influence their policy stance to some degree at the December meeting and into 2014.

On a more positive note, the latest activity data from China continues to improve. The official manufacturing PMI rose to 51.4 in October from 51.1 in September. It managed to beat expectations of 51.2 and was also the highest reading in 18 months. DB's Jun Ma highlights that October's PMIs are historically lower than those for September, so the MoM uptick is therefore a bit more impressive. The uptrend in October was also confirmed by the final HSBC manufacturing PMI which printed at 50.9 which is higher than the preliminary reading of 50.7 and September's reading of 50.9.

The Chinese data has helped put a floor on Asian equities overnight and S&P 500 futures are nudging higher (+0.15%). The key laggard are Japanese equities where the TOPIX (-X%) is weaker pressured by a number of industrials, ahead of a three day weekend. Electronics-maker Sony is down 13% after surprising the market with a profit downgrade with this impacting sentiment in Japanese equities. While EURUSD continues to be pressured this morning, the sentiment is firmer in AUDUSD (+0.2%) driven by the Chinese PMIs.

In the US, a surprisingly strong Chicago PMI print set the tone early in the day. The PMI surged 10.2 points to 65.9 which was almost 11 points above consensus estimates. Our economists point out that this was the largest monthly increase since July 1983 (+12.7) and the highest level since March 2011 (67.6). Initial jobless claims of 340k were broadly in line with estimates of 338k. The S&P 500 traded down to a session low of 1755 shortly after the Chicago PMI release which triggered further chatter of December tapering, but the dip proved to be brief and equities quickly recovered from those levels. Towards the end of US trading, equities once again gave up those gains to finish near the month on a sour note (S&P500 -0.38% on the day). Financials weighed on the index for much of the day and closed at the lows. A Bloomberg report suggesting that AT&T would make a tilt at Vodafone next year, saw telcos also weigh on equity markets in the final minutes of trading. If the acquisition were to go ahead, it would create the world's largest telecom company with a market cap exceeding \$250bn with more than 500 million subscribers worldwide (Bloomberg). Elsewhere, after the initial post-Chicago PMI selloff, 10yr UST yields drifted back down to be a little higher (2.554%, +1.6bp) on the day – bucking the trend in Europe where core and periphery bond yields fell on the back of the lower inflation numbers.

Looking at the day ahead, today's ISM will be a major focus particularly following the bumper Chicago PMI yesterday. In light of this, DB's Joe Lavorgna has raised his forecast for the ISM by 1.5 points to 57.5. The first of the post-FOMC Fed speak begins today with Bullard speaking on monetary policy in St Louis. In the UK, the manufacturing PMI is the only data of note. RBS is due to report its FY13 results and the expectation is that Chancellor Osborne may speak shortly

after to detail options for dealing with the bank's problem loans. The FT reports that the bank will announce the creation of an internally managed bad bank, refocus on UK retail and business lending and pull back from its overseas operations.

Performance Review

After September's no Fed taper fuelled performance, financial markets were supported in October by the near-term satisfactory resolution of the fiscal situation in the US. Asset returns in October broadly reflect what we've generally seen so far YTD. Developed world equities have seen the best of the returns while the performance of commodities has been disappointing. October's highlights in equities centred on the European periphery where Greek, Italian and Spanish equities returned +17.2%, +11.1% and +8.3% respectively, pushing YTD returns above +20% for Italy and Spain and above +30% for Greece. That said Japanese stocks still lead the way YTD with the Nikkei up just shy of +40% (+39.9%) despite weaker returns in October (-0.9%). EM equities produced another decent month of returns (+4.9%) following the summer's weakness with the MSCI EM index now back into positive territory YTD, only Chinese stocks (-1.5%) saw negative returns in October amongst the EM countries included in our review.

At the other end of the returns spectrum commodities saw further declines with the CRB index (-2.7%) seeing its 6th monthly decline of the year with the YTD performance of -5.8%. Although US WTI crude fell -5.8% in October it is still up (+5.0%) YTD; one of the few commodities to be in positive territory in 2013.

In terms of fixed income returns were positive across the spectrum as key government bond yields saw further declines. 10 year Treasury yields fell around 6bps to 2.55% and traded below 2.5% during October. Government bonds saw more impressive declines in Europe with the 10 year Bund and the 10 Year Gilt both down around 10bps to 1.67% and 2.62% respectively. So government bond total returns were positive with Italian BTPs leading the way (+2.6% in October and +6.2% YTD). EM bonds retraced more of the summer weakness but they remain in negative territory YTD. In credit we saw further outperformance from the higher beta part of the credit spectrum with Fin Sub and HY leading the way. GBP Fin Sub returned an impressive +3.2% in October and is up +8.9% YTD.

Full tables and charts are in the pdf.

Other Market Data

(ITX Sen Fin @ 117 // -4)
(ITX Sub Fin @ 179 // -4)
(CDX EM @ 284 // unch)
(ITX Japan @ 92 // unch)
(ITX Australia @ 105 // -1)
(ITX Asia XJ @ 132 // +1)
(Euro NonSov @ 98.48 // -1)
(Euro Corp @ 132 // unch)
(Euro BBB @ 179.68 // unch)
(Sterling NonGilt @ 131 // unch)
(Sterling Corp @ 159 // unch)
(Sterling BBB @ 218 // unch)
(WTI Oil^ @ 96.50 // -0.43%)
(Dollar Index^ @ 80.32 // +0.68%)
(EUR/USD^ @ 1.355 // -1.27%)
(DJ Stoxx 600 @ 322 // +0.49%)
(NIKKEI @ 14180 // -1.03%)
(Hang Seng @ 23192 // -0.06%)
(VIX @ 13.75 // +0.10)

Key Economic Data

(Release // DB // Prev // Con)

(ISM Manufacturing (Oct) // 57.5 // 56.2 // 55.0) (Unit motor vehicle sales (Oct) // 15.6m // 15.3m // 15.4m)

Topical Deutsche Bank Publications

- * US Economics Weekly - A less dovish Yellen-led Fed, 18 Oct 2013, <= href="http://pull.db-gmresearch.com/p/1958-65EA/91217783/DB_USEconWkly_013-10-18_0900b8c087685286.pdf">http://pull.db-gmresearch.com/p/1958-65EA/91217783/DB_USEconWkly_2013-10-18_0900b8c087685286.pdf
- * FX Daily - Do not slip into Fed complacency, 18 Oct 2013, http://pull.db-gmresearch.com/p/2050-EE46/92110176/DB_FXDaily_2013-10-18_0900b8c=876b93c8.pdf
- * US Daily Economic Notes - Despite apparent loss of momentum, underlying job growth unchanged, 24 Oct 2013, <=ont size=2 color=blue face="Arial">http://pull.db-gmresearch.com/p/1711-22E3/3260203/DB_USEconDly_2013-10-24_0900b8c087713b51.pdf <http://pull.db-gmreseach.com/p/1711-22E3/3260203/DB_USEconDly_2013-10-24_0900b8c087713b51.pdf> =/a>
- * Asset Allocation - When Will EM Stop De-rating?, 24 Oct 2013, http://pull.db-gmresearch.com/p/1288-1307/1573426/0900b8c087705fa7.pdf
- * Q3 Reporting Preview - Cloudy with a chance of sunshine 3, 18 Oct 2013, http://pull.d=-gmresearch.com/p/3241-2F92/91602577/0900b8c08767d576.pdf <http://pull.db-gmresearch.com/p/3241-2F92/91602577/0900b8=08767d576.pdf>
- * Consensus Earnings Trends - Broad-based downgrades in Europe... it remains a multiple expansion story, 24 Oct 2013, http://pull.db-gmresearch.com/p/3248-9C=B/2028754/Consensus_Earnings_Trends.pdf <http://pull.db-g=research.com/p/3248-9C6B/2028754/Consensus_Earnings_Trends.pdf>
- * FX Strategy Weekly - Sorry Is the Hardest Word

Jim Reid (+44) 20 754-72943 - http://pull.db-gmresearch.com/p/16182-9779/19221445/DB_EMR_2013-11-01_0900b8c0877a0227.pdf<=a>. If you have any difficulty accessing the report, please forward this email with the word 'PDF' in the subject line to <mailto:jim.reid@db.com> GMRes=arch.Subscriptions@db.com <mailto:GMResear=h.Subscriptions@db.com> . After 90 days you can access the report on our web site: http://gm.db=com.

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