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World Outlook

Special Issue

Attack on America
Implications for Global Politics, Economics and Markets

The destruction of the World Trade Centre was only the beginning of what we believe will be a struggle against terrorism for several years. There will be further attacks, and counterattacks with more casualties and destruction. We can expect that the economic and financial policies that will ultimately emerge will remain with us for some time to come. Near term, the focus will be on the stability of Pakistan and its relations with Afghanistan and others in the region. We believe the near term deterioration in economic conditions in the US will in time be overpowered by a massive fiscal stimulus—with defense spending rising to 5–7% of GDP—and extremely accommodative monetary policy.

The impact on global growth

Our team of economists around the globe have put together their opinion on the impact on economic growth. The terrorist attacks could not have come at a more critical juncture for the global economy. The US economy is now in recession and will pull the rest of the global economy down with it. Global growth is expected to slip to 2.2% this year from 4.7% in 2000, the lowest since 1992. G7 growth we see falling to 1%, not much higher than the 0.7% we saw in the midst of the last global recession in 1991, with three quarters of mild contraction in 2001 versus just the one quarter then. The main central banks will be reducing rates even further, with the Fed dropping rates to 2% by year end. Growth in the main economies will be heading back to trend by the end of 2002, from a mixture of fiscal and monetary stimulus, but it will be too late to really benefit the full year growth figure for the G7, which will stay at 1%, giving the weakest two year performance since the early 80s global recession.

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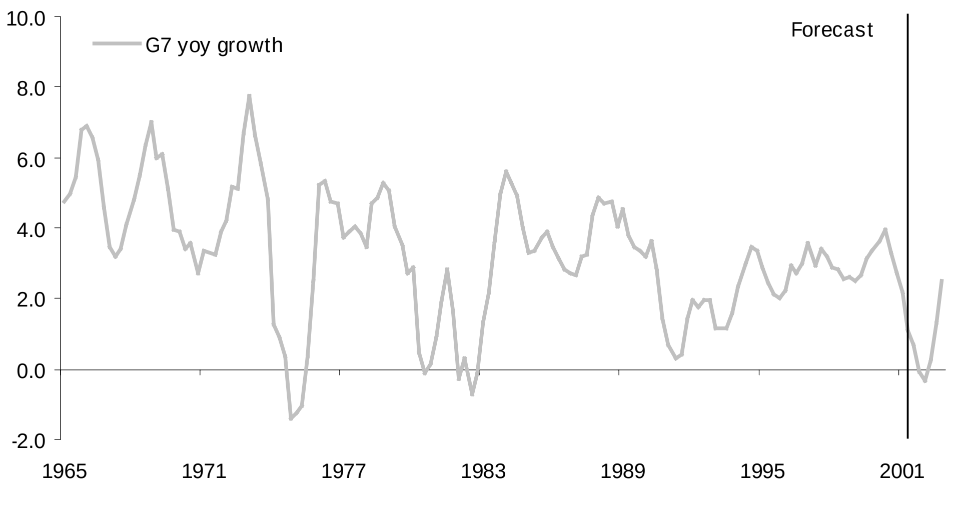
Growth to decline near term but a V-shaped recovery still intact



Source: Bloomberg

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Attack on America – Implications for Global Politics, Economics and Markets

Edited transcript of a conference call by David Folkerts-Landau, Global Head of Global Markets Research, held on 18 September 2001

This is an emotional time for all of us. I saw the South Tower collapse exactly one week ago from just a few blocks away, and many if not most people on this call will know some of those in the financial industry who have lost their lives. But I believe that the best way to honor those who perished is to ensure that the damage done by our adversaries to the global financial and trading system is limited. We have spent the last seven days mobilizing the research resources of this bank. We have tapped aggressively into our information and analytical resources from around the world to gather the information and perform the analysis necessary to understand the implications of what happened last Tuesday for investment and trading decisions for the balance of this year and through next year.

At the time of the disaster, the global economy was already on the edge of recession and there is little doubt that the scale of the destruction of economic value, combined with a loss of confidence, will precipitate one of the most severe global recessions in recent memory, unless there is an equally unprecedented stimulative policy response.

In order to assess the strength and nature of the response in economic policy and their impact on global markets it is necessary to form a view of the nature of the political and military conflict. Let me make characterize the conflict by making four points:

First, this is not just an attack on a high-profile target by a small fringe group with a minor political grievance. This attack is part of a war being waged by a highly motivated, fanatical religious group---the so called Islamic Fundamentalists-- supported with finance and shelter by significant numbers of people and several nation states. This is not just about Osama Bin Laden, this is about an ideology that is fundamentally opposed to the liberal global economic system.

Second, the scale and sophistication of last Tuesday's events, signal that to win this conflict will require significant economic expenditure. The willingness on the part of the opponent to make extensive use of human sacrifice as a weapon will force an extensive military and security mobilization. You will recall that it was the extensive damage inflicted by Kamikaze fighters during the battle of Okinawa that let Truman to consider the use of the atomic bomb. Our open economies and societies are currently highly vulnerable to attack by this foe. Indeed, the global economic and political system has generated such extraordinary economic value with great efficiency precisely because it is so liberal, but that is also its Achilles heel.

Third, looking back now it seems almost stupid of us not to have recognized the harbingers of what was to come. It will be even more ignorant to believe that we have seen the last of this opponent. The destruction of the World Trade Center was only the beginning. There will be more attacks, and counterattacks with more casualties and economic destruction. Hence we can expect that the economic and financial policies that will ultimately emerge will remain with us for some to come.

I spent Sunday in Washington talking to numerous people in and out of the US Government and the International Financial Institutions. My summary assessment is that by and large **the nature of the threat and its implications for policy are fully internalized by the current US administration.** It is understood, for example, that the problem we now confront will not be solved by eliminating Osama Bin Laden. To use Secretary of State Colin Powell's words, this problem will only be solved by "eliminating the states". Make no mistake – it is also fully understood that without state support the WTC tragedy could not have happened.

Fourth, the US political scene is presently characterized by complete political consensus (one only has to listen to Democratic Party Leader Dick Gephardt talk about giving up the Social Security surplus, or about giving powers to the CIA). Not since Pearl Harbour has there been such agreement – not in the Korean War, Vietnam and not in the Gulf War. This is why both houses of Congress have given the President almost unlimited authority to respond to the perceived threat. It is understood that this was an attack on the civilian United States, creating a level of fear that a government has to redress, particularly one that is facing difficult mid-term elections. We, therefore, believe that the military and economic response taken by the US in the months and years to come will be overwhelming and sustained.

The near term evolution of this crisis is likely to revolve around Pakistan, not Afghanistan. While President Musharraf has so far seemingly acceded to US demands, Pakistan's recognition and tacit support of the Taliban is a fact that is unlikely to be lost in Washington. Furthermore, President Musharraf does not enjoy the support of a strong ethnic group, and he is said to be suspiciously watched by the mid/lower rungs of the military which is dominated by conservative and Taliban friendly elements.

Yet the US needs access to Afghanistan, a country that is land-locked 800 miles away from water and therefore almost immune from attack from all but its neighbors immediate neighbors. The US could in theory use India, but in practice that would likely destabilise the Pakistan government – this is a risk policy-makers will be loath to take with a nation known to possess around 20 nuclear devices. But we believe that, ultimately, the Taliban will not give up Osama Bin Laden, and that the US will gradually align itself more fully with India.

It follows that there is significant risk of upheaval in Pakistan in the coming three months. Indeed, of all the risks we observe, this is the one we believe policy-makers and investors should be most focused on right now.

Let me outline now, in broad terms, how we see the global economic and financial environment developing over the next 18 months.

In the near-term, there little doubt that global economic performance will markedly weaken.. In the US, consumer spending plunged by around 4% in the year after Iraq invaded Kuwait. Furthermore, consumer confidence had already fallen to an eight year low *prior to* last Monday's tragedy. For the time being we are assuming – conservatively I think – that personal consumption will fall by at least 2-3 % (annual rate) in Q4, and be flat in 2001 Q1. This leads us to conclude that US GDP growth will shrink by 1.5% in Q4. In other words, the US economy *today* is in recession. We believe this slowdown will be less pronounced in Europe, where consumer spending has held up better and where the fundamentals supporting it look somewhat stronger.

However, we believe that a near term deterioration in economic conditions will in time be overpowered by a massive fiscal stimulus and an extremely accommodative (particularly in the US) monetary policy.

In terms of the likely security build-up, we see an ultimate increase in expenditure of between 2 and 4%, likely built up in increments of 0.5 to 0.75 percent per year and ultimately reaching 5 to 7 percent of GDP. This is comparable to the Reagan build-up in the early 1980s. The House has already appropriated USD 20bn. This will be followed by more as needed (missile defense and a public health infrastructure able to cope with biological and chemical attacks will both likely be on the wish list). Agreements about maintaining the surplus in the Social Security Trust Fund (the "lock box") will be put aside by both parties. The overall surplus in the US fiscal accounts consists of USD 2 billion on the operating budget and USD 174 bn in the SS trust fund.

We believe the outlook for monetary policy will be dominated by aggressive easing to stave off continued recession until potential growth (still in excess of 3%) is attained. The Discount window will remain wide open in the near-term as the US financial system finds its feet. Swap arrangements with other central banks will remain in place to alleviate short-term liquidity problems. In short, monetary expansion will be used until private sector spending recovers. This means a further 50 bps Fed funds target reduction at the October 2nd FOMC meeting, with a further 50 bps cut by year-end, taking the target down to 2%.

Let me also say a few words about the prospects for productivity growth and the price of oil. On the former, I remain rather optimistic, at least in the short-to medium-term. First, even if there might eventually be an element of "crowding-out", that would be unlikely to be evident for a significant period of time, particularly if much of the new stimulus comes from the high-technology sector (as likely it will). Second, one should not lose sight of the fundamental productivity transformation that is now clearly evident in the official statistics. In short, we believe that trend growth in the US economy is still in excess of 3%.

To say the outlook for the price of oil is uncertain is of course a significant under-statement. Weaker private sector demand will undoubtedly provide some upward restraint on prices, and we do not expect the US military retaliation – at least initially – to be particularly fuel-intensive. OPEC's initial response (led by Saudi Arabia) to the crisis has been positive, with some talk even of increasing supply to restrain prices. However, as this conflict intensifies in the months ahead – as we expect it will – and if one of the targets of US retaliation is in or nearer the key Gulf States, we believe that OPEC's harmony will be put to the test. This is bound at some point to put upward pressure on oil prices, over short periods of time and stress perhaps acutely so.

Let me summarize the economic outlook in the US. After being in recession through year-end, we believe the economy will begin to recover in the first half of 2002 (by 1.5-2.0% at an annual rate). As the public sector's expansion begins to get traction, as confidence recovers as the initial phase of this conflict seems to be resolved and as a result of very accommodative monetary policy in the mean-time, and as productivity growth remains intact at around 2.5%, we believe the pace of growth will then accelerate significantly.in the second half of 2002. Indeed, our current projection for the second half of 2002 is that the economy will grow by 4.5-5.0%.

Outlook for US Treasury market

What does this all mean for the outlook for US Treasury bonds? Our view is that aggressively expansionary monetary policy and loose fiscal policy will produce a **significantly steeper yield curve**. We have already seen much of this, with the 2-10 year government bond spread rise by more than 50 bps in the last week alone. However, this particular trend almost certainly has further to run as the fed Funds target is reduced to 2% but also (for the long end of the yield curve) as the fiscal implications of US government policy become clear in the months ahead, and as the economy begins to recover.

Credit

Fair value credit spreads will increase significantly, for three reasons.

First, insurance companies have been significant buyers of credit and credit protection in the recent past (this sector owns about 30 percent of all corporate bonds in the US), but these investors will now come under pressure to outright sell credit and shed risk, to raise liquidity. At the same time the banking system—partly in response to Basle, partly by strategic choice—no longer wishes to be the residual supplier of credit. At the same time, other net holders of credit will also become more risk averse.

Second, event risk has increased and it will remain.

Third, with equity markets likely to remain weak for at least the balance of the year, there will be increased need to access the credit market by corporates.

Let me outline some statistics. After the 1987 crash credit spreads went from 170 bps to 230 bps for about two months. After the Iraqi invasion in 1990 they went from 170 to 220 for about five months. After Russia/LTCM in 1998 spreads went from 145 to 220, also for about five months.

As always, the higher end of the credit spectrum will perform better during the down move, but the reverse will be true in the second half of next year. There will, however, be significant difference across the main credit sectors. . Let me mention a couple of – probably rather obvious – likely sector trends. It has I think already gone without saying that transportation is an obvious first industrial casualty of this conflict (those of you skeptical of the medium-term fiscal impact response should reflect on the hearing airline companies are already receiving on Capitol Hill in terms of bail-outs!). In our view the leisure industries will likely not be far behind as private sector demand falters in the months ahead. I have already mentioned the negative impact on insurance companies, while I believe finance companies will suffer relative to their better-capitalised (and liquid) banking counterparts. As demand recovers and public sector activity intensifies, on the other hand, expect technology and even telecommunications to benefit. The big winners will be defense industries and the technology sector, both key beneficiaries of increased military spending.

Swaps

Swap spreads have increased, particularly at the shorter maturities, and they will not return anytime soon to their historical levels (2-year USD swap spreads have risen from 50 bps pre-crisis to 65 bps currently, and we predict higher in the month ahead). Longer-dated swap spreads have not increased by as much (USD 10-year swap spreads were 80 bps prior to the Crisis and have risen by less than 5 bps since). However, we believe much of this is to do with technical factors (particularly convexity hedging on the part of Mortgage players) and is not indicative of (the lack of) change on the overall credit environment.

Equities

As I have said, I believe we are at the beginning of a major new global conflict with far reaching political and economic consequences. The coming months will see further terrorists acts in response to US retaliation; also a possible unanticipated widening of the conflict. This environment will produce increased risk aversion, a rise in the Equity risk premium (which fell significantly after the end of the Cold War) and greater market volatility. Indeed, our calculations (based on the Dividend Discount model) suggest that a 10 bps increase in the equity risk premium results in 7 percent equilibrium decline in equity valuations in the near term. However, in line with our outlook for the US and hence globally, we would expect global equity markets, being a leading indicator, to start appreciating significantly as early as Q1 2002.

Concluding thoughts

Let my conclude by saying that this is not a time for continuous marginal adjustments in investment decisions, but that this a time for a fundamental rethinking, a discontinuous strategic adjustment in allocation and trading decisions. The intellectual challenge ahead is not about whether swap spreads widen by a further 20 bps, whether 2Y Treasuries go below 2 percent, whether corporate earnings will decline by 10% or 15%, or whether the US economy shrinks by 0.5% or 0.75% in the next six months. The winners will be those who over the next few months make the correct long-term strategic allocation decisions (whether investment or capital allocation). It is our intention to redirect our research resources to provide you with this information and analysis. We will be preparing analyses sector by sector over the coming days. Let me also take the opportunity to thank all my colleagues in research who have made a tremendous effort to help me shed some light on the issues we now face in the course of the past week.

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Attack on America – The impact on global growth

- **The terrorist attacks could not have come at a more critical juncture for the global economy.**
- **The US economy is now in recession and will pull the rest of the global economy down with it.**
- **Global growth is expected to slip to 2.2% this year from 4.7% in 2000, the lowest since 1992. G7 growth we see falling to 1%, not much higher than the 0.7% we saw in the midst of the last global recession in 1991, with three quarters of mild contraction in 2001 versus just the one quarter in the 1990s recession.**
- **The main central banks will be reducing rates even further, with the Fed dropping rates to 2% by year end.**
- **Growth in the main economies will be heading back to trend by the end of 2002, from a mixture of fiscal and monetary stimulus, but it will be too late to really benefit the full year growth figure for the G7, which will stay at 1%, giving the weakest two year performance since the early 80s global recession.**

Oil price assumptions

Our baseline assumption for Brent is for it to be USD26 per barrel at the end of 2001 and to fall to USD20 at the end of 2002. This has not changed as a result of the terrorist attacks. Prior to the attacks, our oil analysts saw a spiky short term outlook with a combination of excess production and weaker global demand dampening the price through next year. For sure, US military action in the Mid East could be destabilising and push oil higher, but "post crisis" the outlook remains one of a supply imbalance. Assuming that oil prices remain under control, central banks will have little reason to delay rate cuts as the downside risks to economic growth amplify. We expect global inflation to fall to 2.4% in 2002 from 3.1% this year.

Regional GDP Growth

% growth	1999	2000	2001F	2002F
US	4.2	4.1	1.0	1.1
Japan	0.8	1.5	-0.6	-0.4
Euroland	2.5	3.4	1.4	1.1
G7	3.1	3.5	1.0	1.0
Asia (ex Japan)	6.2	7.0	5.3	6.5
EMEA	1.0	6.2	1.1	3.7
Latam	0.1	6.7	0.6	3.6
Global Growth	3.5	4.7	2.2	2.9

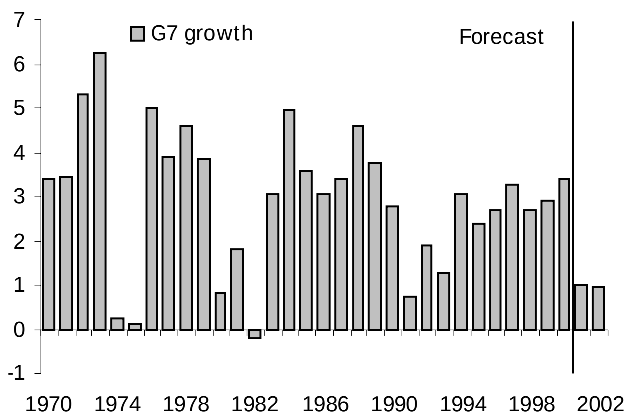
Source: National Statistics Offices, DB Global Markets Research

Global Economic Cycle

Based on our revised forecasts, global GDP growth will fall from 4.7% in 2000 to 2.2% in 2001. This was previous forecast at 2.6% and was already representing the fastest deceleration in the global economy since the first oil price shock and the lowest since 1992. The G7 bloc is expected to see growth slow to 1% this year from 3.4% in 2000. This is still not as weak as the 0.7% registered at the last global recession in the early 1990s. However, G7 growth is expected to remain at 1% in 2002, making the weakest two-year period for the G7 since the global recession in the early 1980s.

That said, the reason for the weakness in 2002 on a year-average basis is a statistical artefact related to the weakness in the economic cycle in the H2 2001 and H1 2002; in fact there are three quarters of negative qoq growth in this period implying a recession for the G7 bloc – in the 1990 "recession" there was only one quarter of negative growth and one quarter with zero growth. In year-over-year terms, G7 growth falls from 2.8% in Q4 2000 to -0.1% in Q4 2001 and bounces back up to 2.4% yoy in Q4 2002. This compares to an average yoy growth rate for the G7 of 3.5% over the past four decades, although Europe and the US ought to be back at trend growth in Q4 2002.

G7 GDP Growth



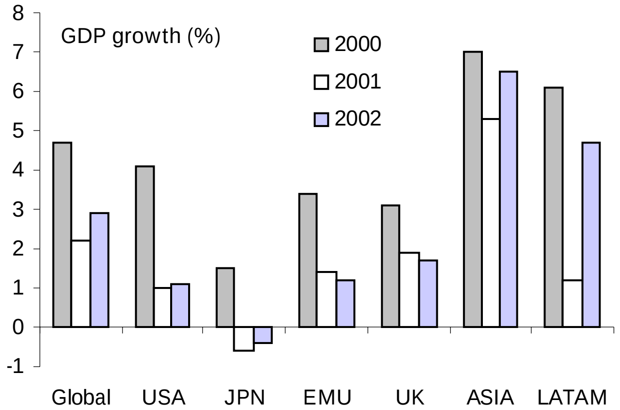
Source: Datastream, DB Global Markets Research

The reason we have the global GDP forecast rising to 2.9% in 2002 from 2.2% this year is largely because of emerging markets. For sure, certain economies, such as those in Asia, are heavily geared to the US cycle so a recession in the US is amplified in Asia and vice versa next year as the US recovers through the course of the year. But moreover, there are significant base effects in the likes of Turkey and Argentina, countries which are key to their specific regions which suffered distinct economic problems in 2001 entirely separate from the economic threat now facing the G7. As these unilateral events are unlikely to be repeated in 2002, year-over-year economic growth recovers because of base effects.

USA

The US economy was flat in Q2 and showed early signs of a small decline in output in Q3 before the attack. A plunge in consumer confidence and spending (a la Gulf War) will put the economy firmly in recession in H2 this year. This weakness begets aggressive further Fed easing (with the Fed funds rate bottoming at 2% before year-end). In addition, increased fiscal spending on defense, security, transportation infrastructure, and rebuilding and amounting to roughly 1 percent of GDP will be phased in over the year ahead. This monetary and fiscal stimulus, along with some anticipated pickup in business fixed investment and inventories will boost GDP growth to well above trend by H2 next year. We expect the consumer sector to continue to be a drag on growth, however, as the personal saving rate is pushed toward more normal levels in response to increased uncertainty, unemployment and a very weak stock market. Elevated unemployment should keep inflation pressures quite subdued through 2002.

Global & Regional GDP Growth Rates



Source: National Statistical Offices, DB Global Markets Research

Japan

The global tech wreck has been felt acutely in Japan, with industrial output and exports down as much in this cycle as in previous periods of recession, but over a more concentrated timeframe in this cycle. Private consumption has been more resilient of late, although the fundamentals (a fall in incomes) mean we cannot be too bullish. Although consumer confidence will fall on the back of the terrorist attacks, we do not anticipate a dramatic impact on consumption. What the Japanese authorities fear the most is not the potential for higher oil prices to tax economic growth but the potential for an appreciation of the yen to choke off any recovery and Japan has already intervened in FX markets to weaken the yen as it is pushed higher against the dollar. An early recovery in the Japanese cycle now seems unlikely without a massive fiscal spend. PM Koizumi however seems not to be considering this at this stage. We see a gradual decline in the economy for another few quarters and the Japanese economic cycle is unlikely to bottom until mid 2002.

Europe

The euro zone economy was already slowing and a recession in the US will have significant implications and delay the recovery. We do not forecast an outright recession as we have reason to be relatively upbeat on the prospects for consumption. Confidence will fall as a result of the terrorist attacks and labour markets are set to weaken more than previous expected as growth slows because of the impact on investment of weakening confidence and as exports slow, but lower inflation will boost income growth. There is likely to be a modest pick up in government spending to offset the falls in other components of demand, but not enough to lead to fears of a breach of the Growth and Stability Pact limit on deficits. We now expect the economy to only show signs of recovery in H2 2002. GDP growth is forecast at 1.4% this year (previously 1.7%) and 1.1% next year (previously 1.9%). Growth should be back at potential by the end of 2002 in our baseline scenario where the ECB cuts rates to 3%. The main risks are higher oil prices and a sharper appreciation of the euro. This scenario would crimp growth, likely resulting in a recession.

Dollar Bloc

The deeper than expected downturn in the US suggests a more prolonged downturn in Canada and an interruption to the Australian and NZ recoveries. We now look for weaker dollar-bloc activity in Q4-01 and Q1-02 as consumer spending, business investment and exports are adversely affected. Thereafter we expect concerted global monetary and fiscal easing to produce a stronger recovery in H2-2002 than previously factored.

Asia (ex Japan)

The revised US outlook has significant implications for the more open Asian economies. With domestic demand already quite weak, care of the fragile banking system, and exports to suffer further as the US slips into recession, Asian growth forecasts have fallen. Given the leverage these economies have to the US cycle, a recovery in the US as 2002 proceeds will benefit Asian growth hugely. In the relatively closed Chinese economy, we expect fiscal stimulus to offset any reduction in trade, leaving growth unchanged.

Latin America

The Latin American economies will in general be hit by the twin forces of weaker global demand and lower cross-border capital flows. Coming on top of already existing political difficulties in Brazil and risks of contagion from Argentina at least until the zero deficit rule gains credibility, we have knocked our 2001 forecast for the region to 0.6%. It is not all negative news. Higher oil prices, if they do spike up, would benefit the likes of Mexico, Ecuador and to a lesser extent Argentina. From a geopolitical sense, the US may now have greater interest in helping maintain political and economic stability in this region.

EMEA

We expect Emerging Europe to weather the economic impact of recent events in the US better than other emerging regions, partly thanks to having only indirect links to the US. Within Emerging Europe, Russia is in the strongest position particularly if there is a spike in oil price because of Russia's significant oil export business. This would help Russia meet its debt obligations. Turkey appears to be the most vulnerable given its pre-existing economic weakness and its geographical position and NATO membership, particularly if conflict erupts nearby. However, recent developments, strengthen significantly the likelihood of continued international financial support, provided economic policies remain on track, and this should reduce the risk of a credit event in the near term.

Central Banks

In the immediate aftermath of the terrorist attacks, the key central banks made moves to ensure there was no shortage of liquidity in the system. When the Fed cuts rates 50bp on September 17 to shore up confidence, many other central banks followed suit, with even the ECB cutting by 50bp and the BoJ cutting the ODR 15bp to 0.1% in a largely symbolic move, although it pledge to continue liquidity. Rather aggressive rate cuts are likely among the major central banks at least, with the Fed to cut a further 100bp to 2% by year end — the lowest since the early 1960s — the ECB 75bp to 3% by the end of Q1 2002, and the Bank of England 75bp to 4% by the close of this year. Over supply of liquidity is continuing for the time being.

Bond yields

10Y Treasury yields, which are currently 4.70%, are expected to fall to 4.50% in the next 3 months as the economy slips into recession. Within 12 months, these longer rates should be back up at 5% as the economy starts to recover and inflation expectations rise. Bund yields we expect to fall to 4.4% in 3 months before recovering to 4.8% over the next year. 10Y JGB yields we expect to hold steady at about the 1.40% level.

Risk Scenarios

One major risk, particularly in light of where US military action may occur, is a more persistent spike in oil prices which not only drives inflation higher but also reduces economic growth. We calculate that a oil price USD10 higher than forecast would reduce US GDP growth by about 0.25% in terms of the direct impact, slightly less in Euroland.

Another risk is a sharper fall in the dollar. Our baseline scenario has the dollar falling against the euro to EUR/USD1.00 over the next 12 months. A sharper fall could be destabilising for the global economy at a time when the instability is not wanted, c.f. the BoJ's reaction to the rising yen. A sharper rise in EUR/USD could conceivably see the Fed ease rates less and the ECB ease rates more than the baseline.

There is also a risk that outside the US, economic authorities are less able to deal with the impact the terrorist attacks have on confidence. Both the Fed and the US government have plenty of room for manoeuvre on the stimulus front. US real short rates could well stay below zero for two or three quarters, while in the aftermath of the attacks it may prove relatively easy to increase US defence spending. Japan, on the other hand, is somewhat hamstrung by near zero interest rates already and the bad-debt burdened banking system while Koizumi may be reluctant to offer a massive stimulus packages. Both the ECB and the European national governments we believe do have room for more stimulus if necessary. The Growth and Stability Pact, though binding in its requirements for fiscal deficits, will not be a constraint in 2002.

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GDP Year-over-Year (YoY) Growth

	2000				2001				2002			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
USA	4.2	5.2	4.4	2.8	2.5	1.2	0.6	-0.3	-0.5	0.2	1.5	3.2
Japan	2.4	1.0	0.3	2.5	0.2	-0.7	-0.7	-1.3	-1.3	-0.8	0.1	0.1
Euroland	3.6	3.9	3.3	2.9	2.4	1.7	1.3	0.4	0.1	0.6	1.3	2.3
Germany	2.9	4.3	3.2	2.5	1.8	0.6	0.7	0.3	0.1	0.6	1.2	2.4
France	3.6	3.5	3.4	3.1	2.8	2.3	1.8	0.7	0.3	0.6	1.2	2.5
Italy	3.3	3.0	2.7	2.7	2.5	2.0	1.5	0.4	-0.3	0.4	1.2	2.3
United Kingdom	3.2	3.4	3.0	2.6	2.7	2.1	1.6	1.4	1.2	1.4	1.7	2.3
Canada	5.0	4.8	4.4	3.5	2.5	2.1	0.9	0.0	-0.5	0.4	1.6	3.6
G7	**3.6**	**4.0**	**3.3**	**2.8**	**2.1**	**1.1**	**0.6**	**-0.1**	**-0.4**	**0.2**	**1.2**	**2.4**

Source: National Statistics Offices, DB Global Markets Research

US

Recession and recovery

- **We now see a sharper "V" shaped path for US GDP growth over the year ahead. Output will drop substantially into recession in H2 and recover at a stronger rate (though to a lower level at the end of next year) than we had previously.**
- **The Fed will ease more aggressively in the near term, lowering the target Fed funds rate to 2%, and not reverse course until mid-2002. The risks are still weighted more heavily on the downside, but are large on both sides of this central scenario.**

Introduction The terrorist attack on America has substantially altered the prospects for the US economy; it has also significantly raised the degree of uncertainty beyond what we normally attach to our baseline forecast. We present first the revised baseline and then discuss the risks.

Recent revisions Our forecast for the US now incorporates a significantly weaker path for economic activity in the very near term, moving us into a clear recession in the second half of 2001. At the same time, we see a stronger recovery to above trend growth in H2 2002 than we had projected previously (see chart below). Our forecast had already been revised down to near-recession levels in early September as the labor market proved weaker than expected in July and August and as prospects for the stock market became more clouded by the huge drop in profits so far this year. The terrorist attack has weakened things significantly further in the near term and has generated more demand stimulus for the longer term.

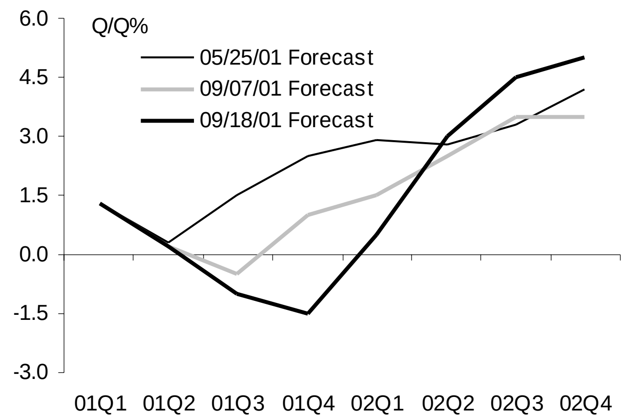
Weaker consumer sector The change in our view about the near term is driven primarily by a much weaker consumer sector. We expect consumer confidence to drop sharply in the next few months. In the late summer and fall of 1990 after Saddam Hussein marched into Kuwait, the University of Michigan index of consumer sentiment fell 45% (chart). Real consumer spending dropped 3.3% at an annual rate in Q4 that year and another 1.8% in Q1 1991.

Rebound in saving We see consumer spending dropping at a 1-1/2% annual rate in Q4 (relative to our previous projection of a 2-1/2% increase, which was boosted in part by the tax rebate), and a further 1/2% decline in Q1. We then see spending recovering gradually next year, but lagging well behind growth in income, with the personal saving rate rising more than 2 percentage points. Increased uncertainty, rising unemployment, and a growing negative wealth effect associated with the falling stock market will all act to boost the saving rate back toward more historically normal levels.

Investment weak in near term Business spending on plant and equipment should continue to decline, despite some increased spending to beef up security, especially in the transportation sector. A greater drop in profits in the near term will keep investment spending depressed through Q1. We then expect it to show positive growth in Q2 and to expand more strongly in H2. The growth of the business capital stock will have slowed to historically low rates by early next year, and investment will turn around as soon as it is clear that the consumer sector has bottomed. We expect investment to get a boost from lower interest rates as well as from increased spending on security and the rebuilding effort in New York.

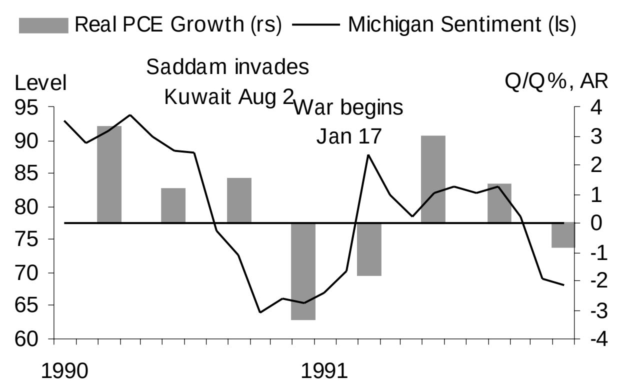
Inventories should continue to decline over the next two quarters, but at diminishing rates, which means they will begin to make a positive contribution to GDP growth in the months ahead. Until they feel risks of disruption have been eliminated, firms will want to hold higher precautionary stocks than before.

GDP Growth Outlook: Now more "V" shaped



Source : DB Global Markets Research

Consumption plunged ahead of the Gulf War



Source : DB Global Markets Research

Key Indicators:

Economic Activity

	Calendar Year			
	1999	2000	2001F	2002F
Real GDP Growth (% annual rate)	4.1	4.1	1.0	1.2
Private Consumption	5.0	4.8	2.7	1.0
Private Investment	6.6	6.8	-7.1	-0.7
Government Expenditures	3.3	2.7	4.0	6.2
Exports	3.2	9.5	-2.7	-0.3
Imports	10.5	13.4	-0.7	2.5
Contributions to changes in GDP				
Change in inventory	-0.2	-0.1	-0.9	0.5
Net exports	-1.1	-0.9	-0.2	-0.4
Other Real Indicators				
Industrial Production %yoy	4.1	5.6	-2.3	2.0
Capacity Utilisation %	81.2	82.1	77.5	76.4
Unemployment rate %	4.2	4.0	4.7	5.4
Prices and wages				
CPI %yoy	2.2	3.4	3.2	2.0
Policies & External Balances				
Fiscal balance % of GDP	1.3	2.4	1.7	1.9
Current account % of GDP	-3.5	-4.5	-4.4	-4.6

Sources: National authorities, DB

Financial Forecasts

	Current	3M	6M	12M
Official	3.00	2.00	2.00	2.50
3M rate	2.60	2.25	2.50	3.00
10Y rate	4.68	4.50	4.75	5.00
EUR/USD	0.92	0.95	0.98	1.00
USD/JPY	116	117	125	140

Source: DB, as of 18 September 2001

Fiscal boost We expect federal government spending to rise strongly over the year ahead. Increased spending on defense, security, transportation infrastructure, and ailing industries (particularly the airlines) will boost spending by an amount approaching 1% of GDP. (See our separate theme piece on the fiscal outlook.) This stimulus, along with further Fed easing, will boost growth significantly in the last three quarters of 2002.

More job losses and subdued inflation With unemployment now likely to rise into the 5-1/2 to 6% range in the next couple quarters and capacity utilization declining further, we see core inflation trending down. Absent a spike in oil prices or a plunge in the dollar, inflation risks will remain subdued through next year, even with a bounceback in growth in H2 2002.

Monetary stimulus The Fed has made substantial injections of liquidity since September 11. In addition to Monday's announcement of a 50bp cut in the federal funds target rate, daily repo operations have led to a 250 bp deviation of the overnight rate below its target. Once the Fed is certain financial markets have resumed functioning properly, the excess liquidity will be withdrawn. Nevertheless, we believe the Fed will cut its target rate by another 100 bps to 2% over the next few months, as the US economy slips into recession. Assuming consumer confidence drops next week and recent negative trends in the equity market continue**,** the first move will come with a 50 bp cut on October 2. We see the Fed beginning to raise rates toward a more "neutral" level of rates by the middle of 2002 as growth recovers.

The 10-year Treasury yield should drop a bit in the months just ahead as the economy weakens; but we do not see it bottoming much below 4.5%, as prospects for fiscal stimulus and a pickup in growth improve. The 10-year should begin to move up in H1 on early signs of a turn-around in growth, several months ahead of the initial Fed tightening.

Downside risks The risks around this forecast are considerably greater than usual. Much depends first on the scope and duration of US military operations, and the most immediate risks are on the downside. Our baseline forecast assumes the US becomes involved in an expanding and protracted military conflict, but one that does not prompt a large sustained increase in oil prices. The outlook could worsen further if tensions heat up enough in the Middle East to seriously threaten and partially cut off oil supplies. For every $10 per barrel that oil prices rise, US GDP growth would be reduced by about ¼%. More important, a series of terrorist counterattacks could depress consumer confidence and spending even further than we foresee, pushing the economy into a deeper and more prolonged downturn next year.

Upside Risks At the same time, the outlook could brighten considerably in the near term if consumer confidence and spending holds up better than expected in the face of recent events. We should also consider the possibility of a quick and successful surgical strike in Afghanistan that credibly reduces the immediate terrorist threat and gives sentiment and, thus, private spending a considerable lift. The Gulf War was won more easily and at lower cost than many had feared, but the chances of a surprise in that direction seem slimmer this time around.

Whither the dollar? One final risk concerns dollar exchange rates. Our baseline forecast sees the dollar depreciating further in the near term, especially against the euro, but then deriving some strength later next year from the pickup in the economy. Certainly the greater flexibility and responsiveness of US macro policy relative to that in Japan and even Europe is a plus for dollar assets. Consistent with this view, equity markets abroad have responded even more negatively than the US market so far. At the same time, the risk premium on dollar assets may have risen (a negative for the dollar) now that the US is perceived as just as likely a target for terrorist attack as other major countries. A sharp decline in the dollar would be a plus for the US economy via increased net exports, and would mean the Fed would reverse course sooner because of the additional stimulus to growth. But this event would also be a significant negative for other countries.

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Japan

The lagging economic recovery

High-tech exports plummet

Real GDP skidded 0.8% qoq in the second (April-June) quarter of this year, a further sign that Japan is slipping into recession. Industrial production topped out in August 2000, and tumbled 12.3% in the subsequent eleven months to July 2001. In Japan's two previous periods of major production drops in the post-bubble era, output slid 13.6% in the 30 months from May 1991 through January 1994, and 10.9% in the 23 months from May 1997 through April 1999. Production has already fallen by an equivalent amount this time in an exceedingly brief period. This is due primarily to the sudden slowdown in high-tech production demand in the U.S. and worldwide. Exports have dropped 18.2% in volume terms in 13 months from June 2000, widely outpacing the 12.2% falloff in the 15 months from October 1997 to February 1999 during the Asian currency crisis. Electrical machinery exports are declining at a pace of more than 20% yoy in value terms. Japan's present economic slowdown is being led by decreasing exports, particularly electrical machinery.

Consumption remains solid

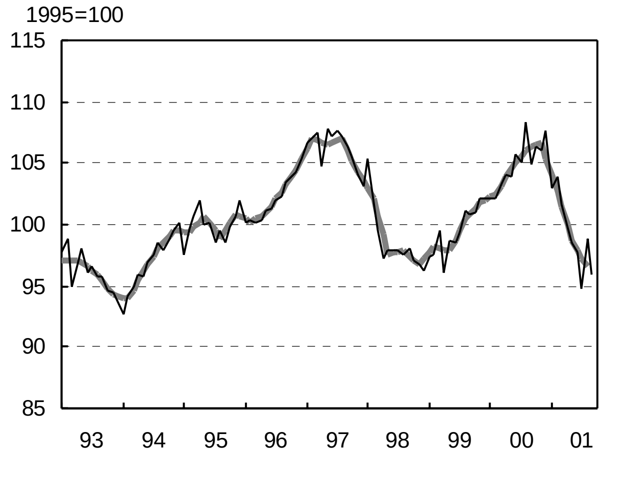
Consumption has remained relatively robust considering the restructuring trend at manufacturers. GDP consumption was up 0.5% qoq in the second quarter, an extremely buoyant rise. Technical factors (distortions in seasonal adjustments) account for much of this, but monthly figures such as department store sales and auto sales remain fairly bright. Consumption is determined mainly by incomes and propensity to consume. The former looks to edge downward in the coming months in line with receding corporate earnings. Regarding the latter, we have observed no wealth effect on consumer spending due to rising assets as in the U.S. these past few years, and would not expect any sharp drop in consumption in the future. The tragic events in the U.S. have been a tremendous shock to the Japanese public, but we cannot envision any resulting cutbacks in spending by households. While there may be some impact on overseas travel, the 50 largest travel agencies in Japan reported JPY2.6tn in revenues from overseas trips in FY2000. Even a 10% drop over the next six months would only reduce private consumption by 0.04 percentage points. International travel cancellations often translate into an equivalent rise in domestic travel, which would further mitigate the impact.

Yen upsurge could batter economy

Japanese consumer confidence is unlikely to be affected drastically by the events in the U.S. The economy may be vulnerable, though, to the knockdown effects of rising oil prices. According to a model by the Cabinet Office, a 10% rise in fuel prices would depress real consumer spending by 0.03% the first year and by 0.05% the second year, thereby dragging GDP down 0.02% and 0.07%, respectively. However, crude averaged around USD30/barrel in 2000 and around USD27/barrel in January-August 2001. We forecast a price of USD26/barrel at the end of 2001 and USD20/barrel at the end of 2002, with little adverse effect on GDP.

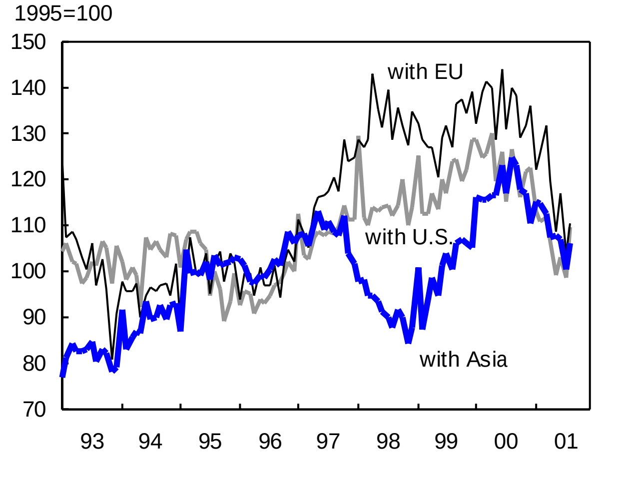
The real threat to the economy would seem to come from the resurgent yen. The Cabinet Office's model finds that a 10% jump in the Japanese currency against the dollar would send GDP down 0.4% the first year and 1.1% the second year. A 10% change in forex rates has an immensely larger impact than a similar variance in oil prices, and must be considered entirely possible given the usual volatility in currency markets. A sudden

Industrial Production



Note : Not calendar adjusted. August and September production figures are based on METI survey.
Source : METI

Export Volume Indices by Region



Note: SA.

Source: MoF

leap in the yen would strike a severe blow at a time of economic slowdown. MoF seems well aware of this point, and has intervened powerfully to keep the yen above the USD/JPY117 mark.

Early recovery unlikely without massive spending

In response to the large shrinkage in the economy in the second quarter, the Japanese government is now working on a supplementary budget. However, Prime Minister Junichiro Koizumi does not seem to be considering any significant increase in public spending. The extra budget will probably concentrate on measures for the job market, which do not represent vast and short-term injections of money into the economy like public works. Regarding help for the U.S. anti-terrorist campaign, Japan may contribute a sum equivalent to the JPY1tn it gave during the Gulf War. Since tax revenues are likely to slide due to the limp economy, even a small rise in spending for the economy may result in an unexpected increase in JGB issuance. Bond investors should remain aware of this point.

The Japanese economy will probably be linked to some extent to the U.S. economic cycle. Before last week, we had expected the falloff in industrial production to end in the first quarter of 2002. However, exports may continue to fall for another several quarters as U.S. consumption falters, which suggests that a turnaround in production will be delayed by a quarter. Though the IT-related slump in output has been easing lately, the economy looks to continue its gradual decline for at least another two quarters, and is unlikely to reach bottom before the middle of next year at the earliest.

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Key Indicators:

Economic Activity

	Calendar Year			
	1999	**2000**	**2001F**	**2002F**
Real GDP Growth (% annual rate)	0.8	1.5	-0.6	-0.4
Private Consumption	1.2	0.5	0.2	0.3
Private Investment	-3.2	3.9	-1.5	-3.8
Government Investment	4.9	-7.2	-4.1	-4.4
Government Consumption	4.0	3.6	2.6	2.9
Exports	1.4	12.1	-4.9	-1.0
Imports	3.0	9.9	1.1	0.6
Contributions to changes in GDP				
Change in inventory	-0.2	0.1	0.1	0.1
Net exports	-0.1	0.4	-0.6	-0.2
Other Real Indicators				
Industrial Production %yoy	0.8	5.9	-6.5	-0.5
Capacity Utilisation %	70.0	73.2	68.9	69.9
Unemployment rate %	4.7	4.7	5.0	5.4
Prices and wages				
CPI %yoy	-0.3	-0.6	-0.7	-0.4
Core CPI %yoy	-0.1	-0.4	-0.9	-0.4
WPI %yoy	-1.5	0.1	-0.7	-0.5
Compensation %yoy	-0.8	2.6	1.2	0.9
Productivity %yoy	2.5	0.8	0.6	1.0
Unit labour costs %yoy	-1.7	0.7	1.6	-0.1

Sources: National authorities, DB

Policies & External Balances

	Calendar Year			
	1999	**2000**	**2001F**	**2002F**
Growth in Money Supply	3.6	2.1	2.9	2.9
Fiscal Balance				
Actual (% of GDP)	-7.9	-6.9	-6.1	-6.5
Trade Balance				
level (USD billions)	123.3	116.7	68.5	48.4
% of GDP	2.7	2.5	1.7	1.3
Current Account Balance				
level (USD billions)	106.9	116.9	84.9	61.7
% of GDP	2.4	2.5	2.1	1.7

Sources: National authorities, DB

Financial Forecasts

	Current	**3M**	**6M**	**12M**
Official	0.00	0.00	0.00	0.00
3M rate	0.06	0.05	0.04	0.04
10Y rate	1.35	1.40	1.40	1.40
USD/JPY	118	117	125	140
EUR/JPY	100	111	123	140

Source: DB, as of 18 September 2001

Euroland

Following the US profile, but on a smaller scale

Growth prospects in the aftermath of the terrorist attacks in the US

With a marked slowdown already in place, the terrible blow to business and consumer confidence from the recent tragedy and the spillover from the recession in the US are expected to lead to a significant deterioration of the prospects for economic activity in Euroland. Although we can not rule out an outright recession, we expect the consumer sector to hold up sufficiently to offset the fall in investment and the drag from net exports. A moderate increase in government spending will also provide some support to growth since at least a modest increase in security and military expenditure should be expected.

As a result, we expect a mild contraction (-0.8% qoq annualized) in economic activity only in Q4 this year. GDP should however stagnate both in Q3 2001 and in Q1 the following year, with a small acceleration in Q2. We see a recovery gaining some momentum only in the second part of next year, following the improvement in confidence, the acceleration in global economic activity and the rise in household disposable income from the fall in inflation. The appreciation of the euro and the lack of a very powerful stimulus from fiscal policies will however set a limit to the strength of the recovery that we see bringing the yoy rate of GDP growth back to potential only in Q4 of next year. These developments imply a rate of real **GDP growth of 1.4% for 2001 and of 1.1% for 2002** (revised down from 1.7% and 1.9% respectively).

The picture at the aggregate Euroland level reflects consistent developments in all the countries that adopted the euro: common are the external shock and the monetary policy reaction to it, very similar the budgetary responses. We see **real GDP growth in Germany at 0.8% and 0.9% in 2001 and 2002, respectively; at 1.9% and 1.1% in France; at 1.7% and 1.0% in Italy; at 2.5% and 1.7% in Spain.**

Inflation poised to go below the 2% threshold

Under the assumption of declining oil prices in spite of the increased political and military tensions, headline inflation is set to go below 2% in the early months of next year. The descent will continue and become quicker in Q2 2002 because of favourable basis effects, but it will bounce back towards the end of the year. **We expect inflation to average 2.5% in 2001 and 1.7% in 2002.**

Core inflation will peak in the Autumn of 2001, as the pass-through effects of the depreciation of the euro and of the foodstuff price hikes peter out, reinforced by the slowdown in demand. Weak economic activity will then lead to a steady decline in core inflation throughout 2002.

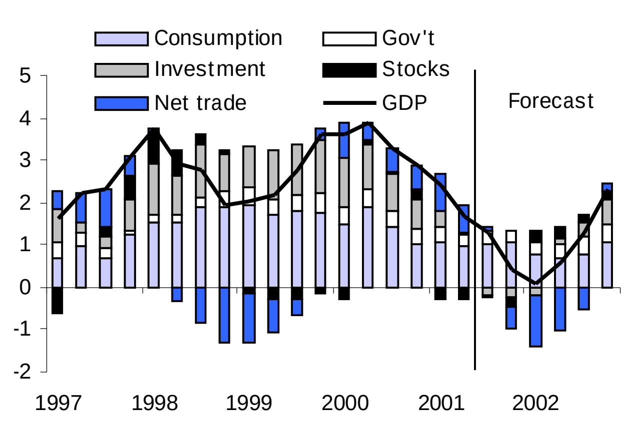
Public-sector finances under pressure

As a result of the slowdown, tax-revenue losses and some additional expenditure, fiscal positions deteriorate. At **1.2% of GDP in 2001**, the aggregate Euroland budget deficit is likely to be twice as high as the governments originally projected. **For 2002 we think a deficit of 1½% of GDP is likely**. Net borrowing requirements are thus likely to come to approximately EUR 105 bn in 2002 and thus more than 4 times higher than foreseen in the stability programmes.

Interest rates to decline at both the long and the short end

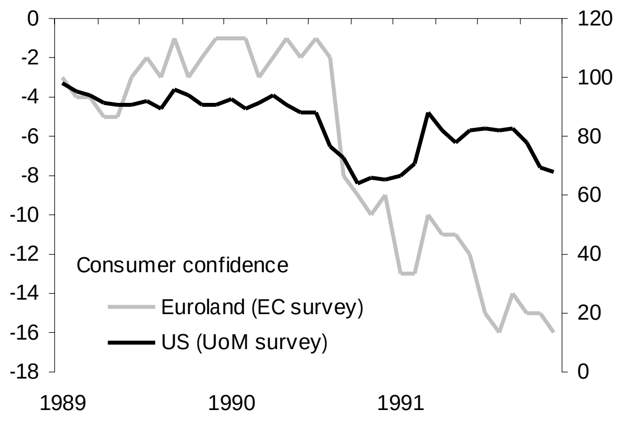
In an environment of very weak economic growth and benign inflation outlook, monetary policy will continue to ease so as to provide support to domestic demand. On the back of the aggressive action on the part of the Fed, of an appreciation in the euro and of a continuation of wage moderation favoured by the slack in the labour market, we expect **the monetary action of the ECB to be quite vigorous, with the refi rate to go to 3% by**

Composition of GDP Growth



Source: Eurostat, DB Global Markets Research

Consumer confidence during the Gulf War



Source: EC, UoM, DB Global Markets Research

Q1 2002. As regards the timing, we would see one or two 25-bp cuts before year end.

In an environment of weak growth, declining inflation, relaxation of monetary conditions but higher deficits, we expect the yield on 10-year government bonds to decline only moderately from current levels and then to rebound as soon as the indications of a forthcoming recovery in the second half of next year are reliable enough. More generally, the bond market is likely to benefit from the generalised increase in risk aversion that is likely to characterise the global political scene in the foreseeable future. **Against this background we forecast the 10-year Bund yield to be 4.4%, 4.5% and 4.7% in 3, 6 and 12 months respectively**.

Risk scenarios

After the tragic events in the US the world is less safe and even more unpredictable. Two key elements can shape the risk scenarios attached to our forecast: oil price and strength of US growth.

In spite of the vast amount of spare capacity in the industry, **an increase in the oil price** stands as a very tangible possibility in the event of an escalation of military action. A **USD10 increase in the price of oil** with respect to the baseline would cause Euroland to go into recession**. GDP growth in 2002 would be 0.5%**, with a further toll on economic activity to be levied on 2003 growth. **Inflation in 2002** would on average remain **above the 2% threshold** even if wage moderation were to persist because of poor labour market conditions and ECB credibility.

Although the direct trade linkages between US and Euroland are relatively small (less than 10% of foreign trade is with the US), departures of the US growth from the profile assumed in the main scenario would have important consequences for growth through the impact on confidence and world demand. **Lower growth in the US by 1 percentage point** and **a depreciation of the USD by 10% in trade-weighted terms** would imply **lower growth in Euroland by 0.6 percentage points and lower inflation by 0.4 percentage points in 2002.** Stronger growth and an appreciation of the USD would have roughly symmetrical effects.

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Key Indicators:

Economic Activity

	1999	2000	2001F	2002F
Real GDP Growth (% annual rate)	2.6	3.4	1.4	1.1
Private Consumption	3.2	2.6	1.8	1.5
Private Investment	5.5	4.4	0.2	1.8
Government Expenditures	2.1	1.9	1.6	1.6
Exports	5.1	11.9	3.0	0.4
Imports	7	10.7	2.4	2.3
Contributions to changes in GDP				
Change in inventory	-0.2	0.0	-0.2	0.2
Net exports	-0.5	0.6	0.3	-0.7
Other Real Indicators				
Industrial Production %yoy	2.0	5.6	0.7	1.0
Unemployment rate %	9.9	8.8	8.5	8.4
Prices				
HICP %yoy	1.1	2.3	2.6	1.7
DBCI %yoy	1.2	1.4	2.2	1.7

Sources: National authorities, DB

Policies & External Balances

	1999	2000	2001F	2002F
Fiscal balance % of GDP	-1.3	0.3	-1.2	-1.6
Current account % of GDP	-0.1	-0.4	-0.6	-0.5

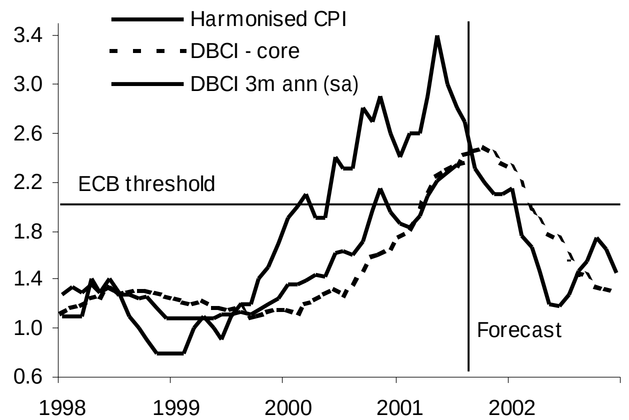
Sources: National authorities, DB

Financial Forecasts

	Current	3M	6M	12M
Official	3.75	3.25	3.00	3.25
3M rate	3.69	3.30	3.10	3.40
10Y rate	4.87	4.40	4.50	4.70
EUR/USD	0.92	0.95	0.98	1.00

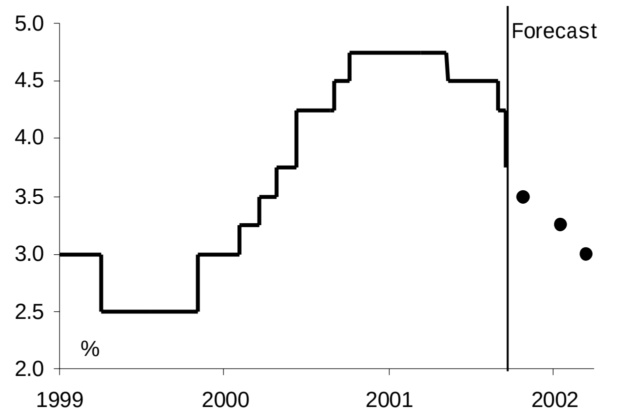
Source: DB, as of 19 June 2001

Headline and Core Inflation



Source: Eurostat, DB Global Markets Research

ECB Refi Rate



Source: ECB, DB Global Markets Research

UK

More sub-trend growth looming

We had already seen evidence that the global slowdown was taking its toll on the UK economy even before the recent terrorist attacks. The changes we have made to our main global forecasts will clearly have ramifications for our view on the domestic economy. The problem for policymakers of course lies in the twin-speed economy. However, we expect domestic consumption to show some clear signs of easing in coming months, which should permit the MPC to lower rates to 4%, helping underpin an eventual economic recovery.

Output side of economy already weakening

Manufacturing output has declined by 4.4% since the beginning of the year, enough to reduce GDP by almost 1%. Within this, the "tech sector" of electrical and optical output has declined by over 18%. Evidence of the impact of the US-led slowdown on the UK is thus not difficult to find. A sluggish (though not recessionary) manufacturing sector is something the authorities have become used to in recent years: the annual increase from 1995-2000 was under 1%. But the depths of this weakness are disturbing. Moreover, the service sector is also under pressure.

New orders in the August PMI service sector report fell to their lowest since the start of 1999; the two main reasons were business uncertainty, and the impact of manufacturing recession. Given the recent events in the US, and their expected impact on near-term world activity, these two conditions can be expected to deteriorate. The service sector recorded a rise in output of 0.8% in Q2, close to its 0.9% average since 1993. We do not believe this pace will be sustained over the next few quarters. As we document elsewhere, we have made significant reductions to our global forecasts in the near-term, which will take their toll on UK output.

Deutsche Bank Forecast:

(%yoy unless stated)	1999	2000	2001F	2002F
Real GDP Growth	2.3	3.1	1.9	1.7
Priv. Consumption	4.4	3.7	3.3	2.3
Govt Consumption	4.0	2.3	2.8	3.5
Investment	5.4	2.8	0.8	1.7
Exports	4.0	8.4	0.7	-0.4
Imports	8.1	9.6	2.8	2.1
Industrial Prod	0.5	1.5	-1.8	-0.2
Unemployment (%)	6.0	5.5	5.1	5.4
RPIX	2.3	2.1	2.2	2.3

Source: DB Global Markets Research

And the consumer will yet take notice

Thus far, the consumer sector has remained upbeat. Consumption rose by almost 5% annualised in Q2, gross mortgage lending has risen by over 50% yoy, and confidence on personal finances remains at high levels. But we see risks, both in the absolute level of debt (110% of disposable income) and the state of the labour market. We believe that the labour market is turning (the ILO employment rate fell, albeit slightly, in May-July): with growth expected to remain sub-trend for some time yet, the labour market may be strong, but is not immune. In the current uncertain environment, consumers are likely to become risk averse, especially if unemployment rises. We expect to see consumption dip temporarily below trend in coming month, along with a slowdown in the housing market.

Investment by corporates is also forecast to weaken further in the next couple of quarters. On the expenditure side, net exports should act as a further drag given the outlook for world GDP. *In terms of overall growth, our forecasts are provisional* (not least as we await full Q2 data at the time of writing where we expect to see significant back revisions), but we look for a slowdown to only 0.2% and 0.3% in Q4 and Q1 respectively (although no recession is forecast). Beyond this, a combination of monetary stimulus, continued fiscal expansion, and a recovery in global growth, should allow a return to above trend growth in H2. In terms of annual rates we now look for 1.9% (from 2.1%) in 2001 and 1.7% (2.5%) in 2002; this latter rate does disguise an acceleration during the year.

Repo rate to fall to 4%; inflation to stay low

The latest inflation figures saw RPIX rise above target for the first time since March 1999 at 2.6%; moreover, if one strips out energy, alcohol, tobacco and food the rate has risen to 2.9% from only 1.8% six months ago. This will concern some on the MPC, but we believe those fears will be eased when growth remains below trend. There are both cyclical, and structural, reasons to expect inflation to stay low (and to decline in the service sector). In terms of MPC action, although we feel their 25bps compromise cut intermeeting was slightly disappointing, we have lowered our repo forecast to 4% and expect the next move at the October 4 meeting. The repo rate should be increased in H2 next year in response to rising growth.

Risks - higher oil price, exchange rate moves?

Clearly, although the oil price has fallen in recent days, there remain upside risks. In the event of, say, a USD10 rise relative to our baseline projections, the direct inflation impact is muted due to the high petrol tax wedge. Second-round effects could well prove more worrisome. However, such an outcome could adversely impact on growth, ensuring the MPC would not tighten policy in response. Perhaps a bigger risk would be a sharp fall in sterling, perhaps in tandem with the dollar. If inflationary, this could limit MPC action.

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Dollar-bloc

Recovery Interrupted

- The deeper than expected downturn in the US suggests a more prolonged downturn in Canada and an interruption to the Australian and NZ recoveries.
- We now look for weaker dollar-bloc activity in Q4-01 and Q1-02 as consumer spending, business investment and exports are adversely affected.
- Thereafter we expect concerted global monetary and fiscal easing to produce a stronger recovery in H2-2002 than previously factored.

Canada

- Canadian GDP is now expected to fall 0.4% in Q3-01 and 2% in Q4-01. Growth is forecast to be flat in Q1-02 but above trend thereafter, averaging 4.7% saar between Q2 and Q4-02.
- The initial impact of the US crisis has been a sharp slump in demand for services such as air travel, rail, tourism, financial and freight.
- Second round effects are likely to be a rise in unemployment, and a coincident decline in consumer confidence and demand.
- Further weakening in demand could push inflation below the floor of the BoC's 1% to 3% target range in 2002, consistent with further BoC easing.

Australia

- Domestic data have continued to recover strongly. Q3-01 GDP growth is likely to print well above trend.
- The recovery is now expected to be "interrupted" in Q4-01 and Q1-02, however. Sub-trend growth of around 2% saar is now forecast for these quarters.
- Recovery is then likely to be rejoined into end-2002 as the impact of concerted domestic and global easing takes effect. We see another 50bps worth of RBA easing by end-2001.
- Inflation is expected to track higher than previously forecast due to the combination of higher than expected oil prices, a lower AUD and higher than expected transport prices.

New Zealand

- Low interest rates, a massive improvement in the terms of trade and a weak currency have allowed NZ to buck the global slowdown to date.
- With the growth pulse around 0.8% qoq, the unemployment rate at a 13-year low and measures of skill shortages at extreme levels, there has been rising pressure on wage rates and core inflation.
- Renewed global weakness now threatens the outlook, damaging the well-performing tourism sector, generally depressing export demand and prices obtained, and undermining robust business and consumer confidence.
- Following the RBNZ's early 50bps cut in the OCR to 5.25% our central scenario looks for a further 25bps cut at the 14 November MPS. The clear risk is the RBNZ delivers more easing, and sooner.

Deutsche Bank Forecasts: Australia

Economic Forecasts (annual average)	2000	2001F	2002F	Q4-02/Q4-01
Real GDP Growth	3.3	2.1	3.5	3.7
CPI	4.5	4.4	2.2	2.2
Current Account (%GDP)	-4.1	-2.5	-2.9	-3.1*

* end period

Financial Forecasts (end period)	Now	3 mths	6 mths	12 mths
Official Rates	4.75	4.25	4.25	4.75
Ten year Bonds	5.53	5.25/50	5.75/6.0	6.25/6.75
AUD/USD	0.49	0.54	0.56	0.58

Source: DB Global Markets Research

Deutsche Bank Forecasts: Canada

Economic Forecasts (annual average)	2000	2001F	2002F	Q4-02/Q4-01
Real GDP Growth	4.1	1.4	1.3	3.6
CPI	2.7	2.8	1.8	2.2
Current Account (%GDP)	2.6	3.4	1.5	1.1*

* end period

Financial Forecasts (end period)	Now	3 mths	6 mths	12 mths
Official Rates	3.50	2.75	2.50	2.75
Ten year Bonds	5.26	4.75	5.25	5.75
CAD/USD	1.57	1.52	1.49	1.46

Source: DB Global Markets Research

Deutsche Bank Forecasts: New Zealand

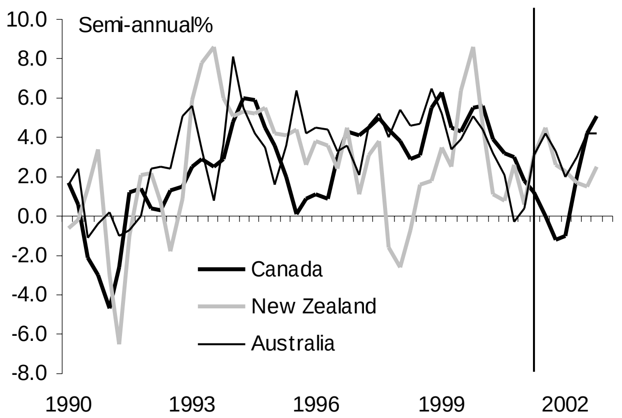
Economic Forecasts (annual average)	2000	2001F	2002F	Q4-02/Q4-01
Real GDP Growth	3.7	2.3	2.4	2.1
CPI	2.7	2.6	2.6	2.3
Current Account (%GDP)	-5.5	-3.4	-3.7	-3.9*

* end period

Financial Forecasts (end period)	Now	3 mths	6 mths	12 mths
Official Rates	5.25	5.00	5.00	5.75
Ten year Bonds	6.51	6.25/50	6.50/75	6.75/7.25
NZD/USD	0.41	0.44	0.46	0.48

Source: DB Global Markets Research

GDP Growth in the Peripheral $-bloc



Source: DB Global Markets Research

Asia

An exaggerated business cycle

The revisions to the economic outlook for the US and other industrial countries described above has led to some significant changes in growth forecasts for most Asian emerging markets. Most of the small open economies in the region have seen a significant downward revision to expected 2001 growth (on the order of 100bps) but a similarly large increase in forecast growth for 2002. Excluding China and India, the region is expected to see growth slow to 1.4% in 2001 from 6.5% last year, before rising to 4.9% growth next year.

In China, we expect additional fiscal stimulus will offset a further reduction in the trade surplus, leaving the growth outlook unchanged. We do not think the additional government debt poses a threat to medium term fiscal sustainability. In India, domestic demand has been weaker than expected so far, but unlike in China, we are concerned that debt sustainability is threatened by delays in fiscal reforms.

For the more open economies in the region the expectation of even faster declines in exports continues to dominate the growth forecast as an independent domestic demand dynamic is still largely absent. Since the Asian crisis – and mainly because of weaknesses in banking systems, we would argue – domestic consumption and investment demand has become more closely correlated with exports. Rural income growth in Indonesia and the Philippines seems to have sustained reasonable growth in consumption, but Hong Kong, Malaysia, Singapore, South Korea, Taiwan and Thailand have all seen significant declines in consumption growth -- in sharp contrast to 1990-91 when only Hong Kong and Singapore saw a significant decline. We expect to see further weakening of consumption growth as exports decline even faster in the coming months.

Asia: Trade Characteristics

	Merchandise Exports (% GDP)	Exports to US (% of total)	Net Oil Exports (% of GDP)
China	23.1	20.1	1.2
Hong Kong	14.3	30.0	0.0
India	9.8	21.7	0.0
Indonesia	40.3	13.6	5.5
Malaysia	109.6	20.0	0.1
Philippines	51.0	28.0	-4.6
Singapore	71.1	23.2	0.0
South Korea	37.7	20.0	-6.3
Taiwan	47.8	22.5	-3.7
Thailand	57.3	19.6	-0.1

Notes: For Hong Kong and Singapore, domestic exports only.

Source: CEIC

The US is particularly important to the outlook as it is for most countries their largest export market. With direct exports to the US accounting for more than 10% of GDP in some countries, we would expect that a 1% increase in US growth would add significantly more than 10bps to Asian growth. The possibility of higher oil prices is a worry for Asia's oil importers, especially the Philippines, South Korea and Taiwan, but would be a significant boon to Indonesia, where profits from oil and gas exports are a significant source of government revenue.

While our forecasts for growth next year show a sharp increase everywhere except China, we do not anticipate that inflation would be a problem – even in the event of a sustained increase in oil prices – except perhaps in South Korea. There, inflation is only a "problem" in the sense that the central bank has set a fairly low inflation target. A sharper than expected depreciation of the IDR could, potentially generate significant inflation pressures again, but that is not our expectation. Hence, only in South Korea do we expect to see a tightening of monetary policy next year.

Deutsche Bank Forecast:

(%yoy unless stated)	1999	2000	2001F	2002F
Real GDP Growth	6.4	7.2	5.3	6.6
Priv. Consumption	6.9	7.2	5.6	6.2
Govt Consumption	7.3	8.0	6.7	5.9
Investment	3.7	8.9	4.6	6.6
Exports	6.5	19.5	2.4	8.8
Imports	11.2	19.7	3.1	9.1
Industrial Prod	8.1	9.4	5.9	8.1
CPI	1.4	1.4	2.8	3.3
CA Bal (% GDP)	4.2	3.5	2.4	2.5

Source: DB Global Markets Research

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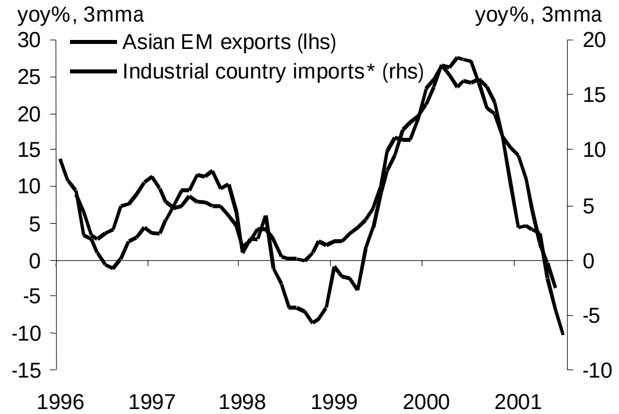
Industrial country imports and Asian exports



Source: DB Global Markets Research

Latin America

Mirroring the global slowdown

There is no doubt that weaker global economic activity and lower cross-border capital flows will make the Latin American region more vulnerable to further adverse shocks. In addition, the substantial uncertainties about the outlook for Argentina, and its possible contagion, are likely to stay at least until the zero deficit rule in that country gains more credibility. Reflecting this new environment, we have revised downwards our growth projecting for the region to 0.6% this year from three months ago. Based on the expectation of a strong recovery in the US by the second half of next year, we still project next year growth in the 3.6% range.

External demand and capital flows to be main channels of transmission…

The whole region is sensitive to global economic conditions either through external demand or capital flows. Flagging US economic growth in the short term will have a particularly adverse effect on Mexico's economic activity, which before the tragic events was already expected to grow below the 1% pace this year. Similarly, since the new global environment is likely to result in lower cross-border capital flows in the near term, we expect some adverse impact on FDI flows. Any significant reduction in capital inflows (especially in FDI) may primarily affect Mexico and Brazil.

…and weaker currencies the outcome

The positive impact of higher oil prices may partly offset the above mentioned negative factors for Mexico and limit somehow the effect on the peso. On the contrary, a new oil shock can exacerbate the adverse impact on economies such as Brazil and Chile. Thus the domestic currencies of both of these countries, which have been vulnerable to contagion from Argentina's market turbulence, are likely to remain under pressure. Brazil's situation is further complicated by the political uncertainty that will persist for the next year until the October 2002 presidential elections.

Oil and geopolitical factors: the potential silver linings…

The upward pressure on oil prices in the near term could be especially favourable for Venezuela and Ecuador, and to a lesser extend Argentina, offsetting the effects of weaker external demand. Likewise the geopolitical configuration that is expected to emerge may have a beneficial impact on Latin America. Specifically, the US can be expected to have an increasing interest in helping maintain political and economic stability in the region as well as in promoting its economic development. Accordingly, we expect to see concrete advances in the negotiations toward trade integration between North and South America as well as a greater propensity to provide multilateral assistance to countries in the region through the IFIs.

Argentina, notwithstanding, remains the main risk…

Argentina is a relatively close oil producing economy that would only marginally be affected by the global environment. Likewise, the increased uncertainty in the global outlook makes it less likely that the US and other advanced countries will let the country get into a default/devaluation crisis provided that it follows the zero deficit rule. Argentina's outlook will ultimately depend on the resurgence of sustainable growth, about which there are very little indications thus far.

Deutsche Bank Forecast:

(%yoy unless stated)	1999	2000	2001F	2002F
Real GDP Growth	0.1	6.7	0.6	3.6
Priv. Consumption	-1.5	9.2	0.4	4.1
Govt Consumption	-7.6	9.7	-4.8	4.5
Investment	266	326	322	339
Exports	263	310	314	332
Imports	-1.2	5.3	-1.1	3.6
Fiscal Bal (% GDP)	-2.9	-2.1	-2.3	-1.8
CA Bal (% GDP)	-3.0	-2.9	-2.5	-3.1

Source: DB Global Markets Research

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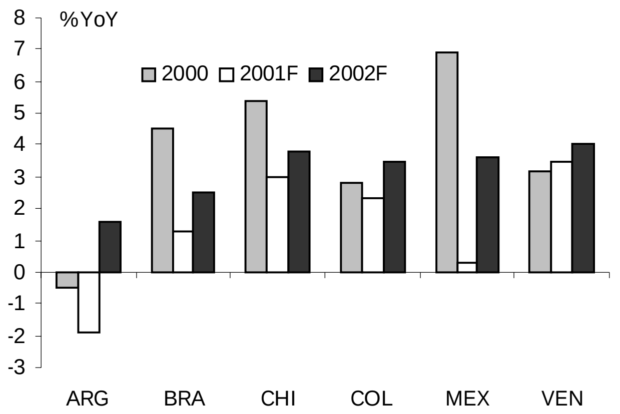
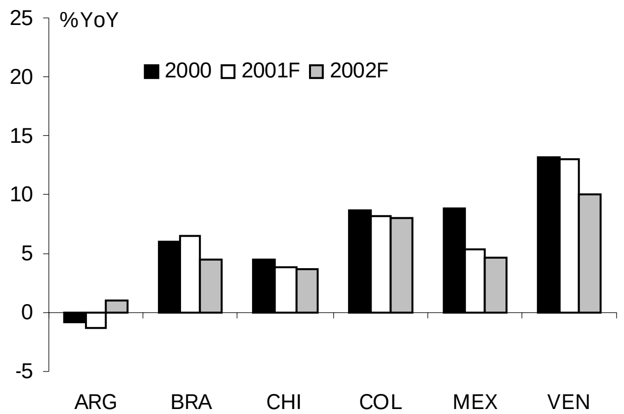
GDP growth



Source: DB Global Markets Research

Inflation



Source: DB Global Markets Research

Emerging Europe

- **We expect Emerging Europe to weather the economic impact of recent events in the US better than other emerging regions, partly thanks to having only indirect links to the US.**
- **Within Emerging Europe, Russia is in the strongest position, whereas Turkey appears as the most vulnerable, but should be able to count on continued international financial support.**

Turkey appears as the most vulnerable to current developments, given pre-existing economic fragility in the aftermath of February's financial crisis, its dependence on imported oil, and its geographical position and NATO membership that could place it at the centre of the action should the US response involve the Middle East. Turkey is strongly linked to the EU, which accounted for over 50% of Turkey's exports in H1 01, and the projected weakening of activity in Europe will make it harder for Turkey's recovery to take hold. Moreover, increased perceived uncertainty in the region will hurt the tourism industry, with adverse repercussions on growth and the external balance. Oil products account for close to 20% of Turkey's imports, and projected stronger oil prices will contribute to pushing the current account into a small deficit next year, compared to a 0.6% of GDP surplus previously expected. A substantial rise in oil prices would of course result in a significant deterioration of the current account with a corresponding rise in financing requirement. Consumer and business confidence are likely to weaken in the near term, in line with the gloomier growth prospects, and should start recovering in Q2-Q3 2002. In this environment, the needed sustained decline in interest rates will be difficult to achieve, and pressure on the lira is likely to persist. The likely decline in capital flows to emerging markets and the possible increase in foreign borrowing costs are of particular concern, given Turkey's sizeable financing requirement. However, recent developments, in our view, strengthen significantly the likelihood of continued official international financial support, provided economic policies remain on track, and this should reduce the risk of a credit event in the near term.

Fiscal and current account balances in **Russia** should instead benefit from higher oil prices, as should the growth outlook. Russia's exports are highly sensitive to commodity prices and a USD1pb change in the price of oil leads to a USD1bn change in export volume. Given that oil and oil products account for over 30% of all exports, we expect the current account surplus to reach USD44bn (14.5% of GDP) in 2001 and USD28bn (8.5% of GDP) in 2002. Similarly, budget revenues exhibit strong sensitivity to oil price movements. Export-related tax payments change by USD230-290m for a USD1pb move in the price of oil. We therefore expect the forecasted higher oil prices to bolster the government's ability to reach a fiscal surplus for the third consecutive year, which, in turn, will improve prospects for meeting debt payment obligations in 2002-03. We also expect the CBR to continue its policy of allowing the rouble to depreciate gradually and to intervene to smooth any sharp exchange rate moves.

Economic fundamentals in **Central Europe (CE3)** remain sound, although the outlook could be negatively affected by recent developments. In the medium term, the main risk for the CE3 is that of a deterioration in external current account balances—due to lower external demand and higher prices of imported oil—combined with strengthened inflationary pressures and lower FDI inflows. This would require a stronger fiscal response in order to limit macroeconomic imbalances. The pressure for fiscal adjustment is going to be particularly intense in the Czech Republic and Poland. All CE3 countries direct 60-70% of their exports to the EU, and their export and GDP growth will therefore suffer from the weaker near-term outlook for EU growth. We believe that lower growth and lower interest rates in industrial countries will lead to a more accommodating monetary stance and steepening yield curves in the CE3. Domestic currencies in the CE3 have so far held up well, but are likely to come under some pressure as external balances weaken. Should oil prices rise considerably above our baseline projection, the CE3 could experience a sharp increase in consumer inflation, and current account deficits could widen to dangerous levels. A weakening of the USD would instead have a beneficial impact, as the cost of oil imports (priced in USD) would decline while a relatively stronger EUR would make the CE3's exports more competitive.

Slower world growth and higher oil prices will also have a negative impact on **South Africa**'s current account and GDP growth. Higher oil prices will also put additional pressure on inflation, although we believe the SARB's 3% - 6% target for 2002 remains within reach. Recent benign inflation figures made it easier for the SARB to follow the lead of the Fed by cutting its key repo rate by 50bps to 9.5% at its 20 September meeting. SARB Governor Mboweni cautioned, however, that producer price inflation had accelerated and that it was highly unlikely that imported inflation would slow in the coming months, implying that the outlook for consumer inflation remained subject to significant risks. The rand weakened further in the aftermath of the recent events, and reached new record lows against both the USD and the EUR. On a trade-weighted basis, the rand has weakened by 11.5% since the beginning of the year. Looking forward, the rand will remain vulnerable, particularly in view of the expected in capital inflows into EMs.

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KEY ECONOMIC INDICATORS

	Growth of Real GDP (% yoy)				Inflation, CPI (% yoy)			
	1999	2000	2001F	2002F	1999	2000	2001F	2002F
US	4.1	4.1	1.0	1.2	2.2	3.4	3.2	2.0
Japan	0.8	1.5	-0.6	-0.4	-0.3	-0.6	-0.7	-0.4
Euroland	2.5	3.4	1.4	1.1	1.1	2.3	2.6	1.7
Germany	1.7	3.2	0.8	0.9	0.7	2.1	2.5	1.8
France	3.0	3.4	1.9	1.1	0.6	1.8	1.7	1.2
Italy	1.6	2.9	1.7	1.0	1.7	2.6	2.7	1.8
Spain	4.0	4.3	2.5	1.7	2.2	3.5	3.7	2.3
Netherlands	3.9	3.9	1.0	0.9	2.2	2.5	4.8	1.7
Belgium	2.7	4.1	1.3	1.1	1.1	2.7	2.5	1.5
Austria	2.8	3.4	1.1	0.7	0.5	2.0	2.3	1.3
Finland	4.0	5.7	1.3	1.2	1.3	2.9	2.5	1.6
Greece	3.4	4.1	4.2	4.4	2.1	2.9	3.4	2.6
Portugal	3.3	3.3	1.2	1.2	2.2	2.8	4.3	2.3
Ireland	9.8	9.0	3.5	2.7	2.5	5.3	4.0	3.3
Other Industrial Countries								
United Kingdom	2.3	3.1	1.9	1.7	1.6	2.9	2.0	1.7
Denmark	2.1	2.9	1.3	1.8	2.5	3.0	2.4	2.0
Norway	1.0	2.1	1.2	1.8	2.3	3.1	3.2	2.0
Sweden	3.9	3.5	1.9	1.5	0.3	1.3	2.5	2.0
Switzerland	1.5	3.4	1.9	2.1	0.8	1.6	1.4	1.5
Canada	5.1	4.4	2.3	2.8	1.7	2.7	2.9	1.8
Australia	4.7	3.3	2.1	3.5	1.5	4.5	4.4	2.2
New Zealand	3.8	3.7	2.3	2.4	1.3	2.7	2.6	2.6
Emerging Europe								
Czech Republic	-0.4	2.9	3.2	3.0	2.1	3.9	5.1	4.8
Hungary	4.5	5.2	4.3	4.1	10.0	9.8	9.2	5.6
Poland	4.0	4.2	2.5	3.8	7.3	10.1	6.0	5.5
Russia	5.4	8.3	5.0	4.5	85.7	20.8	21.0	12.6
Turkey	-4.7	7.1	-7.0	3.0	64.9	54.9	51.8	46.1
South Africa	1.9	3.1	2.5	3.0	5.3	5.3	5.8	4.1
Asia (ex-Japan)								
China	7.1	8.0	7.7	7.7	-1.6	0.4	2.0	3.0
Hong Kong	3.0	10.5	0.0	4.5	-4.0	-3.7	-1.0	1.0
India	6.5	6.0	5.2	6.2	3.9	3.6	3.0	4.0
Indonesia	0.8	4.8	2.7	4.2	20.7	3.8	11.3	7.0
Korea	10.9	8.8	2.3	6.5	0.8	2.3	4.6	4.0
Malaysia	6.1	8.3	0.5	5.0	2.7	1.5	1.4	2.5
Philippines	3.4	4.0	2.8	5.0	6.8	4.3	6.3	4.7
Singapore	5.4	9.9	-1.0	4.5	0.4	1.2	1.3	1.5
Taiwan	5.4	5.9	-1.3	4.0	0.2	1.3	0.0	1.0
Thailand	4.2	4.4	1.5	4.5	0.3	1.5	1.7	2.3
Latin America								
Argentina	-3.0	-0.5	-1.9	1.6	-2.1	-0.8	-1.4	0.8
Brazil	0.8	4.5	1.3	2.0	4.9	7.0	6.7	5.6
Chile	-1.1	5.4	3.0	3.8	2.3	4.5	3.8	3.6
Colombia	-4.3	2.8	2.3	3.5	9.2	8.8	8.2	8.0
Mexico	3.7	6.9	0.3	3.6	12.3	8.9	5.3	4.7
Venezuela	-7.2	3.2	3.5	4.0	20.0	13.2	13.0	10.0
World	**3.6**	**4.7**	**2.2**	**2.9**	**3.3**	**3.1**	**3.1**	**2.3**

Source: Deutsche Bank Global Markets Research, National Statistical Authorities

INTEREST RATES

	3M rate				10Y rate				Official rate			
	Current	3 months	6 months	12 months	Current	3 months	6 months	12 months	Current	3 months	6 months	12 months
US	2.60	2.25	2.50	3.00	4.68	4.50	4.75	5.00	3.00	2.00	2.00	2.50
Japan	0.06	0.05	0.04	0.04	1.36	1.40	1.40	1.40	0.00	0.00	0.00	0.00
Euroland	3.69	3.30	3.10	3.40	4.86	4.40	4.50	4.70	3.75	3.25	3.00	3.25
Other Industrial Countries												
United Kingdom	5.25	5.10	5.10	5.20	4.90	4.45	4.55	4.75	4.75	4.25	4.00	4.50
Denmark	4.97	4.65	4.55	4.55	5.14	4.70	4.80	5.00	4.15	3.65	3.40	3.65
Norway	6.91	7.25	7.25	7.25	6.41	6.00	6.10	6.30	7.00	7.00	7.00	7.00
Sweden	4.54	4.40	4.40	4.50	5.35	4.85	4.90	5.10	3.75	3.50	3.50	3.75
Switzerland	2.71	3.00	3.00	3.00	3.13	3.30	3.40	3.60	3.25	3.00	3.00	3.00
Canada	3.31	4.00	4.00	4.25	5.30	5.90	6.00	6.25	4.50	4.00	4.00	4.00
Australia	4.38	4.25	4.25	5.25	5.53	5.25	5.75	6.25	4.75	4.25	4.25	4.75
New Zealand	5.32	5.10	5.30	6.00	6.62	6.25/6.50	6.50/6.75	6.75/7.25	5.25	5.00	5.25	5.75

EMERGING MARKETS SHORT-TERM RATES

	Current	3 months	6 months	12 months
Emerging Europe				
Czech Republic	5.30	5.65	5.90	5.90
Hungary	11.00	10.00	9.30	8.80
Poland	14.50	12.00	10.30	10.30
Turkey	91.10	65.00	60.00	45.00
South Africa	9.50	8.90	8.50	8.30
Asia (ex-Japan)				
China*	2.25	2.25	2.25	3.00
Hong Kong	2.80	2.00	2.00	2.50
India	7.00	7.10	7.20	7.20
Indonesia	17.80	17.00	16.50	14.50
Korea	4.40	4.20	4.20	5.00
Malaysia	3.30	3.00	3.00	3.00
Philippines	12.70	13.50	14.00	12.50
Singapore	2.10	2.00	2.00	2.00
Taiwan	3.30	2.25	2.25	2.75
Thailand	3.50	3.50	3.50	3.75
Latin America				
Argentina	28.10	15.00	12.00	9.00
Brazil ^	19.10	19.00	17.50	16.50
Chile	7.30	7.10	7.20	7.40
Colombia	12.00	12.30	12.60	13.50
Mexico	10.85	10.30	9.97	9.51
Venezuela	21.60	16.00	16.50	15.00

**Short term rate is 1Y deposit rate ^ Short term rate is Selic (overnight) rate*

Source: Deutsche Bank Global Markets Research, Bloomberg, Datastream

EXCHANGE RATES

	FX Rate (vs. US Dollar)				FX Rate (vs. Euro)				FX Rate (vs. Yen)			
	Current	3 months	6 months	12 months	Current	3 months	6 months	12 months	Current	3 months	6 months	12 months
US					0.92	0.95	0.98	1.00	116	117	125	140
Japan	116	117	125	140	107	111	123	140				
Euroland	0.92	0.95	0.98	1.00					107	111	123	140
Other Industrial Countries												
United Kingdom	1.46	1.48	1.51	1.52	0.63	0.64	0.65	0.66	169	173	189	213
Denmark	8.09	7.85	7.61	7.46	7.45	7.46	7.46	7.46	14.4	14.9	16.4	18.8
Norway	8.63	8.53	8.47	8.35	7.94	8.10	8.30	8.35	13.5	13.7	14.8	16.8
Sweden	10.83	10.32	9.80	9.50	9.97	9.80	9.60	9.50	10.7	11.3	12.8	14.7
Switzerland	1.57	1.56	1.54	1.52	1.45	1.48	1.51	1.52	74.0	75.1	81.1	92.1
Canada	1.56	1.55	1.52	1.50	1.44	1.47	1.49	1.50	74.4	75.5	82.2	93.3
Australia	0.49	0.54	0.56	0.58	1.86	1.76	1.75	1.72	57.5	63.2	70.0	81.2
New Zealand	0.40	0.44	0.46	0.48	2.29	2.16	2.13	2.08	46.8	51.5	57.5	67.2
Emerging Europe												
Czech Republic	34.2	36.0	35.0	34.6	31.5	34.2	34.3	34.6				
Hungary	258	271	268	258	237	258	262	258				
Poland	4.20	4.30	4.35	4.41	3.86	4.09	4.26	4.41				
Russia	29.5	30.00	30.38	31.13	27.1	28.5	29.8	31.1				
Turkey	1,500,000	1,500,000	1,671,286	1,858,462	1,380,000	1,425,000	1,637,860	1,858,462				
South Africa	8.63	8.50	8.20	8.40	7.94	8.08	8.04	8.40				
Asia (ex-Japan)												
China	8.28	8.28	8.28	8.28					14.0	14.1	15.1	16.9
Hong Kong	7.80	7.80	7.80	7.80					14.9	15.0	16.0	17.9
India	48.00	48.30	48.90	49.50					2.4	2.4	2.6	2.8
Indonesia	9,580	10,000	10,000	9,200					0.01	0.01	0.01	0.02
Korea	1,296	1,300	1,275	1,225					0.09	0.09	0.10	0.11
Malaysia	3.80	3.80	3.80	3.80					30.6	30.8	32.9	36.8
Philippines	51.40	52.00	53.50	51.00					2.3	2.3	2.3	2.7
Singapore	1.74	1.78	1.76	1.74					66.9	65.7	71.0	80.5
Taiwan	34.60	34.50	34.00	35.00					3.4	3.4	3.7	4.0
Thailand	44.10	45.00	45.50	47.00					2.6	2.6	2.7	3.0
Latin America												
Argentina	1.00	1.00	1.00	1.00	0.92	0.95	0.98	1.00				
Brazil	2.71	2.40	2.45	2.60	2.49	2.28	2.40	2.60				
Chile	690	695	690	680	635	660	676	680				
Colombia	2,344	2,390	2,457	2,521	2,156	2,271	2,408	2,521				
Mexico	9.43	9.52	9.65	9.90	8.68	9.04	9.46	9.90				
Venezuela	744	770	775	847	684	732	759	847				

Source: Deutsche Bank Global Markets Research, Bloomberg, Datastream

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