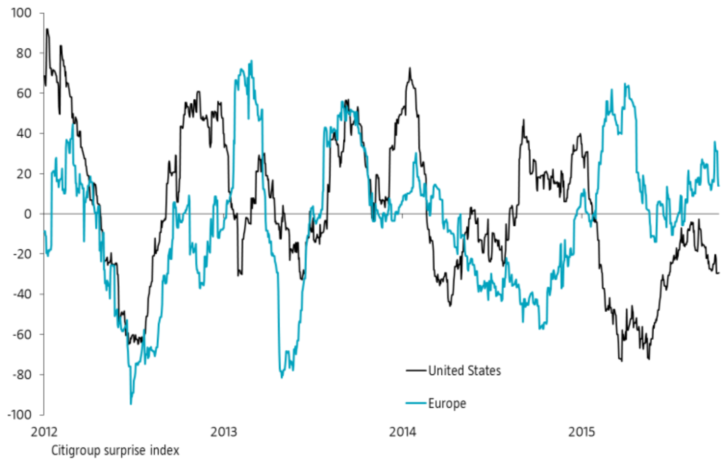
Multi-asset markets outlook

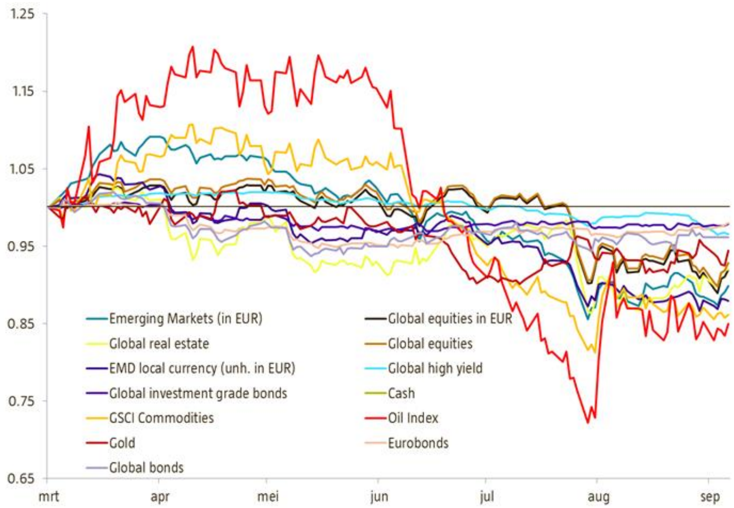
October 2015

General overview

Surprise indices were negative for the US, deteriorating for Europe



Multi-asset performance over the past six months: nothing but losers



- Whereas the industrialized world experienced a pretty solid second quarter, there is no denying that underlying momentum deteriorated during the third quarter. The US in particular weakened more than expected, hit by a combination of the fall-out from commodity prices, the strength of the dollar and slowing growth in emerging markets. In this respect, it was pretty impressive to see Europe managing to surprise on the upside. Although this growth slowdown is certainly a negative surprise, we expect it to be a temporary phenomenon: China will reboot its economy through extra stimulus if necessary, while low energy prices will boost consumer demand.

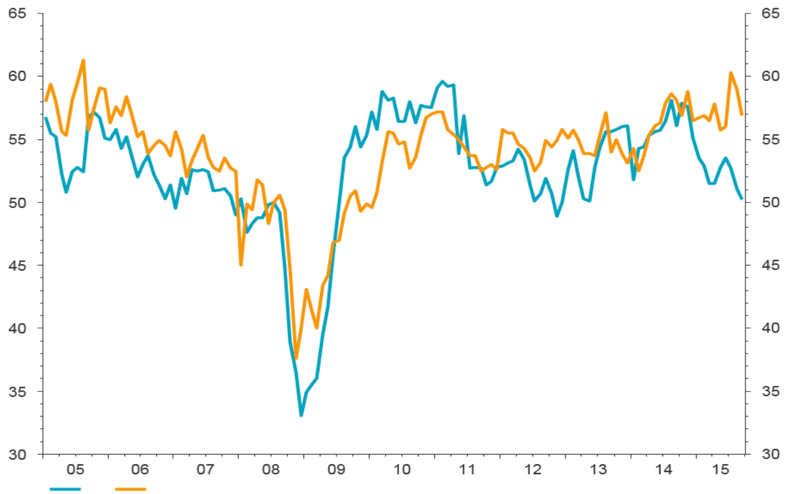
- The financial markets were far from pleased with the slowdown. And sell-offs in big names like Glencore (-30% in one day) and Volkswagen (-40%) added to the nervousness. It is remarkable to see that over a six-month timeframe, none of the major asset classes has managed to book a positive result. Looking back, this is a rare situation, as normally a sell-off in one asset class (stocks) leads to a flight to safety which boosts others (bonds or gold, for example).

- Given that we expect the growth slowdown to be temporary, we have been adding risk (equities, high yield) during recent months. And we have also reduced our underweight in credits at the expense of government bonds.

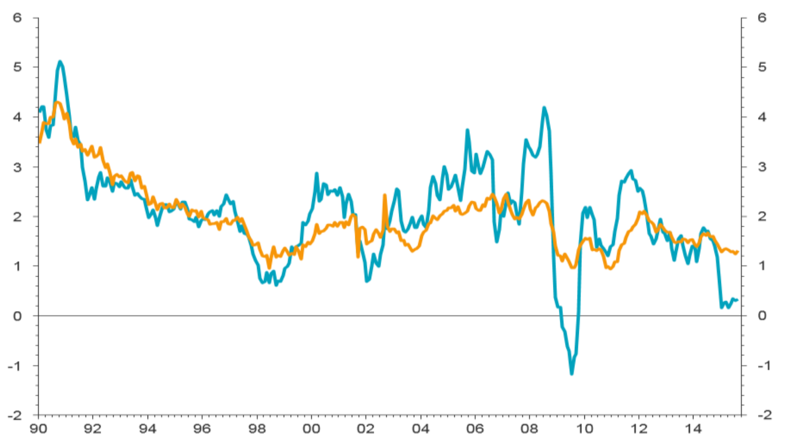
United States

Economy

Confidence indicators (ISM manufacturing and non-manufacturing) weaken



Headline and core PCE fail to press the Fed into action



- Though the US economy in Q2 turned out to be even stronger than the first two estimates (3.9% QoQ), recently worries about the economy have intensified. The trade-weighted strength of the US dollar and continuing weak demand from emerging markets are weighing on exports. Domestically, recent weak growth in private sector jobs is raising concerns. The manufacturing ISM index is now only barely in expansion territory (50.2)) and the non-manufacturing index is coming down rapidly. However, continued growth, albeit at an overly modest pace, remains our baseline scenario based on increasing consumer strength.

- Understandably, the Fed chose to keep things on hold for the time being. We expect a rate hike on 16 December at the earliest, but the likelihood has declined with the US economy slowing on account of the global headwinds.

- The political stalemate resulting in a near shutdown of the US government certainly doesn't help to inspire confidence. And a new showdown is looming for 11 December. Although a shutdown would be short-lived and economically unimportant, it would once again be politically very damaging for the Republican Party shortly before the start of the election year, and could contribute to additional volatility in financial markets.

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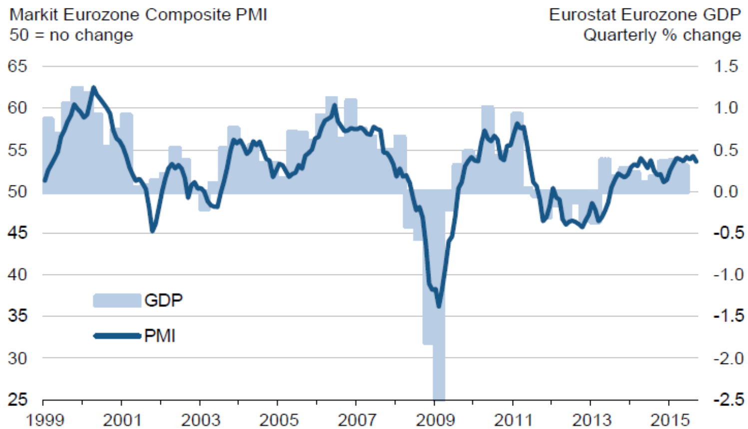
Economy

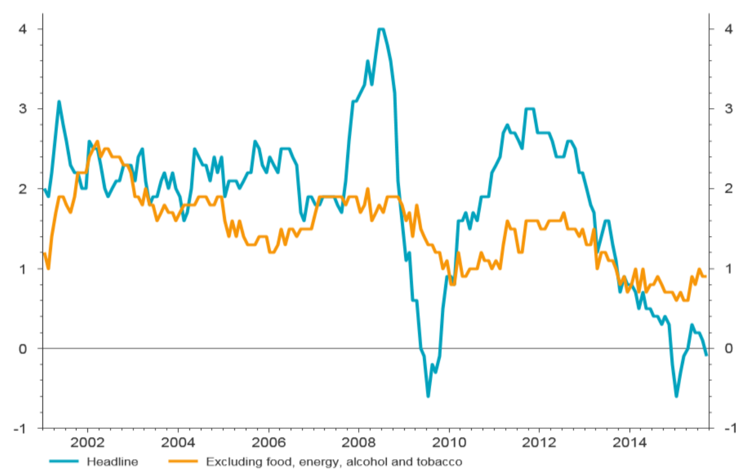
Europe

Eurozone rate of growth is weakening



Sources: Markit, Eurostat. GDP = gross domestic product

Eurozone drifts back into headline deflation



Source: Thomson Reuters Datastream

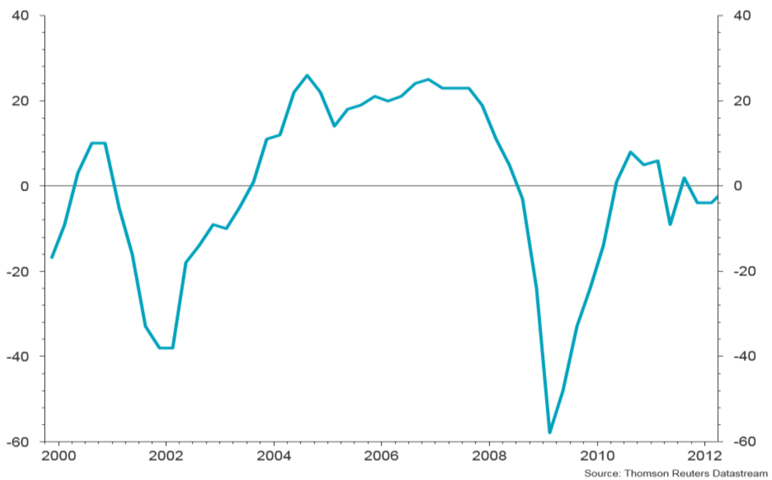
- So far, the European economy doesn't seem to be suffering as a result of the weakness in emerging markets. The composite PMI is only slightly lower than in previous months. Nevertheless, the Eurozone economy has failed to accelerate further over summer, and September figures were relatively weak overall.

- The ECB's president and its Chief Economist have made surprisingly pessimistic comments about the outlook for the Eurozone economy and inflation. These could be partly exaggerated to justify increased QE now that the ECB's preferred inflation measure (headline inflation) has once again dropped into negative territory, but could also reflect the conviction that it is only a matter of time before the Eurozone economy, heavily dependent on external demand, will start to suffer from emerging market weakness too. The Eurozone economy also needs a weak euro, so it is likely that the ECB will extend or increase its QE program or do both at the next meeting of the governing council, 22 October.

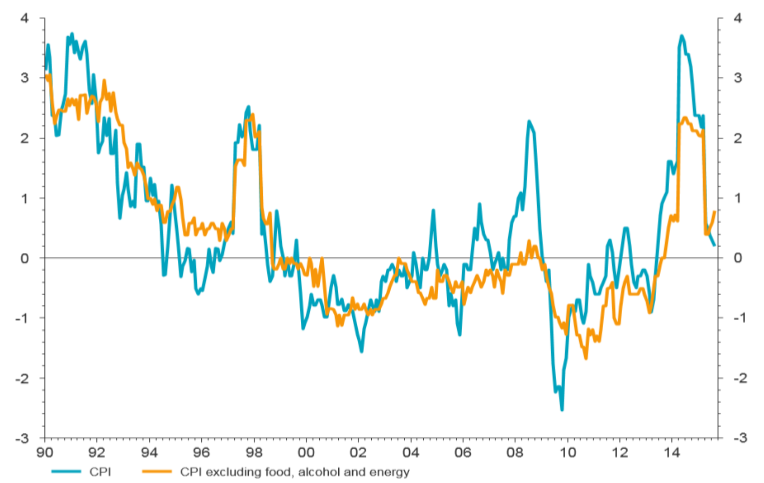
- Greek elections resulted in victory for the 'known quantity', Alexis Tsipras. Bank recapitalization remains urgent, but Greece is generally expected to deliver on its creditors' demands. Catalan secessionists failed to gain a convincing mandate, the constructive opposition Cuidadanos did well, but Podemos did not. Meanwhile, Portuguese elections failed to remove the austerity government.

Japan

Tankan large manufacturers index in negative territory



Headline inflation is heading south



- After a disappointing second quarter in which Japan's GDP shrank by 1.2% on an annualized basis, worries about the third quarter are rising. Industrial production fell again in August, suggesting that the Japanese economy will have fallen back into a technical recession in the third quarter. On the basis of some indicators, Japan is once again experiencing deflation, although to a mild extent. As a consequence, pressure on the so far amazingly optimistic Bank of Japan to increase stimulus measures is mounting. On 30 October, when the bank updates its economic forecasts, further QE is likely to be announced. The Bank of Japan may even be more aggressive by raising its inflation target, for example.

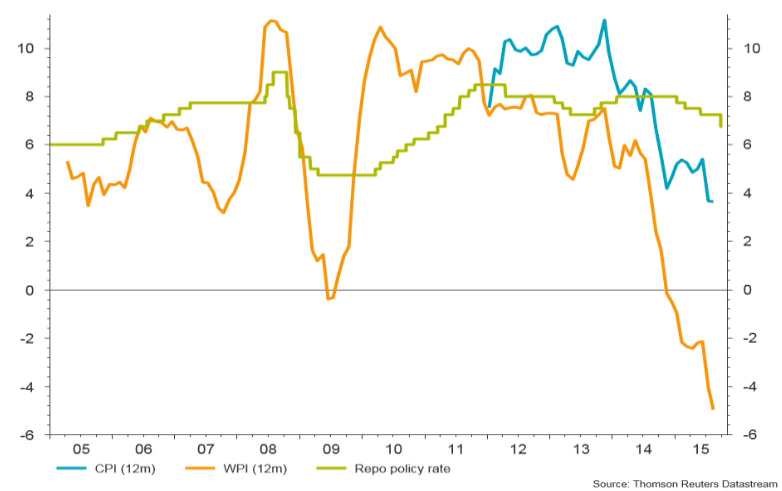
- In the meantime, on 24 September, Prime Minister Shinzo Abe fired off 'three new arrows', otherwise known as Abenomics 2.0. This despite the fact that two of his three earlier arrows have hardly been used. The first new arrow is a pledge to boost nominal GDP by 22% – but there is no timeframe, nor any detail on how this will be achieved. The second and third new arrows merely elaborate the existing program of structural reform, which has been disappointing so far.

- A positive longer-term development is the successful conclusion of the negotiations on the 12-country Trans-Pacific Partnership. However, an important remaining hurdle is the US Congress.

Our highlight this month: India

India's composite business optimism is bottoming out

Sharp fall in benchmark WPI paves way for additional rate cuts

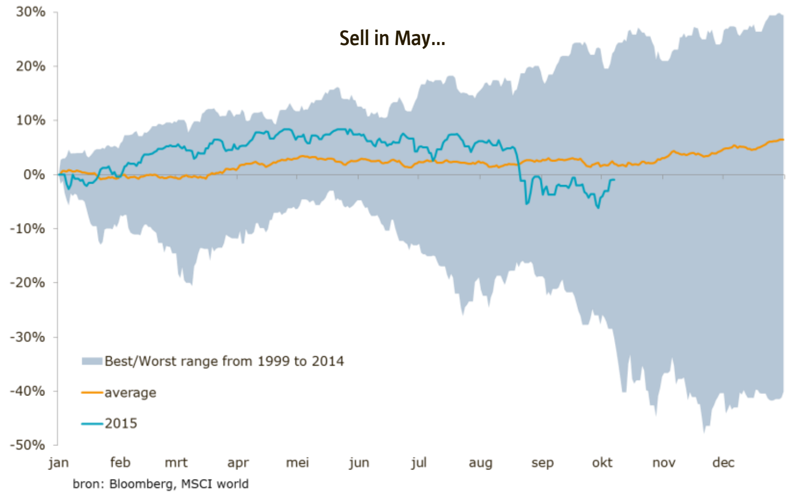


- The Indian economy is one of the few bright spots in the emerging markets. This year its growth rate will amount to about 7.5%. Consumer inflation is characteristically stubborn, though the benchmark wholesale price index shows a sharp deflationary trend.

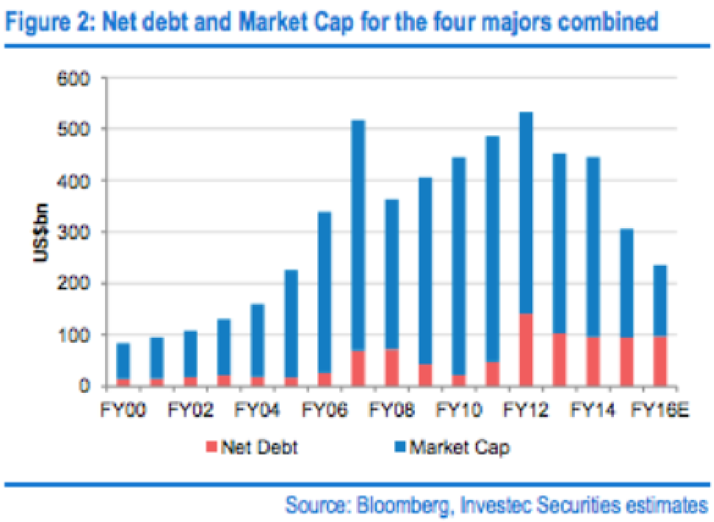
- The market was surprised by the relatively aggressive rate cut of 50 basis points by the Reserve Bank of India under the leadership of the generally hawkish 'rockstar economist' Raghuram Rajan. One reason why the rate cut was surprising is that food inflation risks have increased recently, as India faces a second year of drought. The monsoon, which produces about three quarters of India's total rainfall between June and September, and feeds around two-thirds of Indian agriculture, disappointed this year with 14% lower rainfall than the long-term average.

- Growing concern about the world economy appears to have been the main reason for the cut. Global trade seems to be shrinking. The crash of China's clearly overvalued stock market and the slight, but ill-managed devaluation of the yuan have unnerved financial markets. Capital is flowing out of emerging markets. India, a commodity importer with few strong ties to China, is still holding up fairly well. But the recovery 'is still far from robust', says the RBI.

Equities (I)



Lower stock prices and stable debt mean weakened credit outlook for oil producers

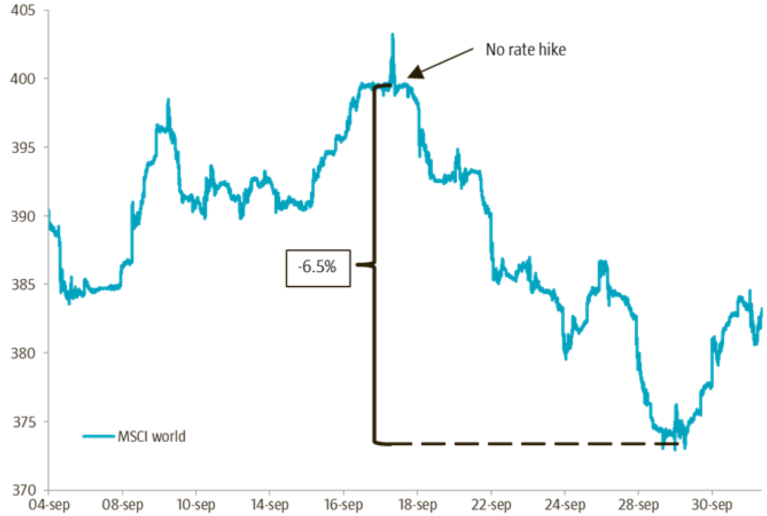


- Ever since equity markets sold off in an impressive fashion back in August, volatility has remained elevated, with stocks moving between fear and hope. While concern about the extent of the Chinese slowdown was the main factor then, a number of new elements of uncertainty have since arisen. This is partially linked to the impact of the decline in oil prices: even though they seem to have reached a new equilibrium level, the ripple effects of the huge 2014-2015 price correction are still spilling over into financial markets.

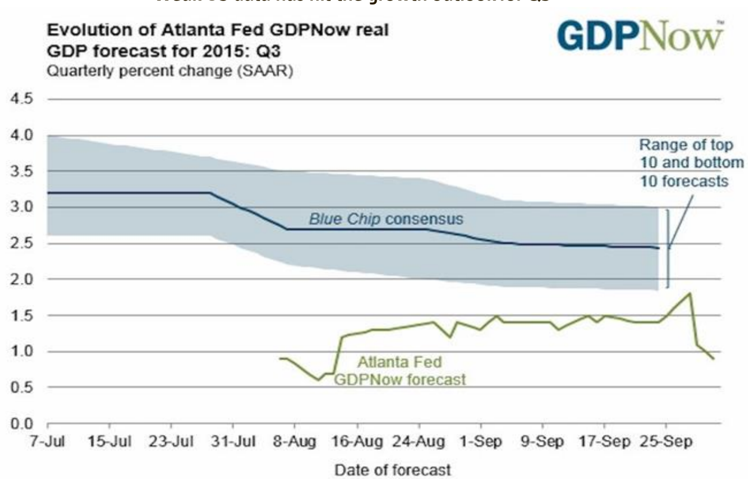
- Concerns about deteriorating leverage in commodity producing companies (mining giant Glencore lost 30% in one day of trading), and reports of oil producing countries liquidating parts of their investment portfolios had a negative impact on sentiment for equities. Added to this was the uncertainty surrounding the Fed's future policy. The Fed's intentions in not raising rates during the FOMC meeting were probably good, but the move unintentionally raised doubts about the underlying strength of the US economy. These were further exacerbated by weaker US economic data, which clearly showed that the US has been hit by a mid-cycle slowdown. Again, this is partly the spillover from the weakness in the mining and excavation sector, which is partly the result of weaker Chinese growth rates in combination with the strong dollar.

Equities (II)

Fed decision to keep rates stable was not seen as good news by the market



Weak US data has hit the growth outlook for Q3



Sources: *Blue Chip Economic Indicators* and *Blue Chip Financial Forecasts*

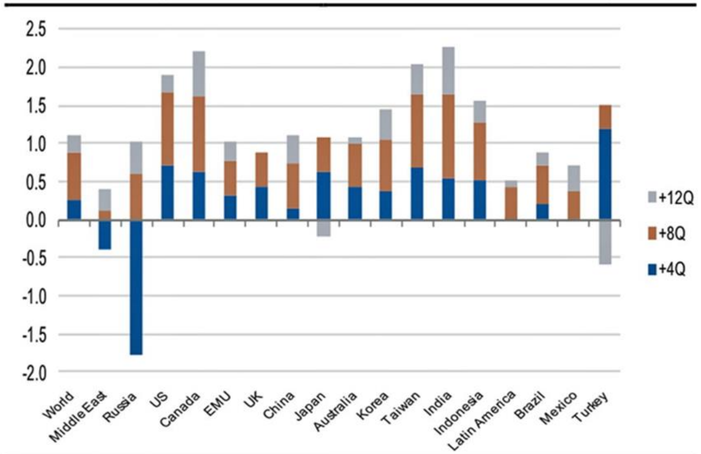
- And then there was Volkswagen. Claiming that this equates to a Lehman moment is overstating things (by a wide margin), but there is no denying that investor sentiment was significantly affected by the totally unexpected 40% sell-off resulting from the pollution scandal. Although we are not claiming that this has led to a market wide sell-off, these kinds of events do raise people's awareness that investing is not without risks.

- This additional risk and uncertainty in the financial markets has had the logical effect of making risky assets trade in a volatile and, on balance negative, way. Worldwide, stocks have fallen back to their August lows. In itself this is the classic trading pattern you see following a sharp sell-off: a prolonged period of volatility, with stocks trying to determine where the new equilibrium should be. Whether stocks will recover, or be hit by a second leg down ultimately depends on two factors. The first is the state of the world economy. Much of the correction we have seen so far has been linked to growth concerns in China and (to a lesser extent) the US. The data we have seen so far confirm that growth has weakened in recent months, which raises the question of whether we are at the beginning of a recession, or whether this is just a temporary slowdown. We continue to think that it will be temporary event, as China still has plenty of room to stimulate the economy, either using budgetary or monetary means.

Equities (III)

The positive effects of the oil price decline take some time to feed through into the system

Cumulated impact on GDP from a $20/b decline in oil prices



Source: SG Cross Asset Research/Economics

Stocks are not cheap. Then again, what is, these days?

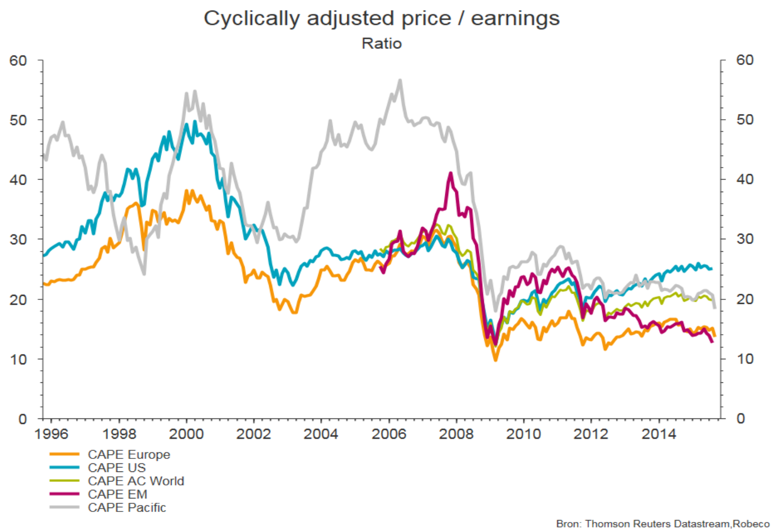
- Another positive note is the fact that global economic demand will be supported by the oil price windfall. So far, the focus has been on the fall-out in the production sector, while the real improvement in personal income (4% in the US) has mostly been ignored.

- In case we are wrong in our growth outlook, we then come to the second factor: monetary policy. At this stage there is speculation that there will be new measures announced by the Bank of Japan, with the ECB also possibly joining them, mostly on account of weak inflation expectations. If the world economy weakens further, rate hikes by the Fed will be off the table and speculation on renewed QE will resurface before long. The main risk here is that at a certain point QE may lose its effectiveness, in which case stocks will indeed decline further. We do not think we have come to this point yet, though.

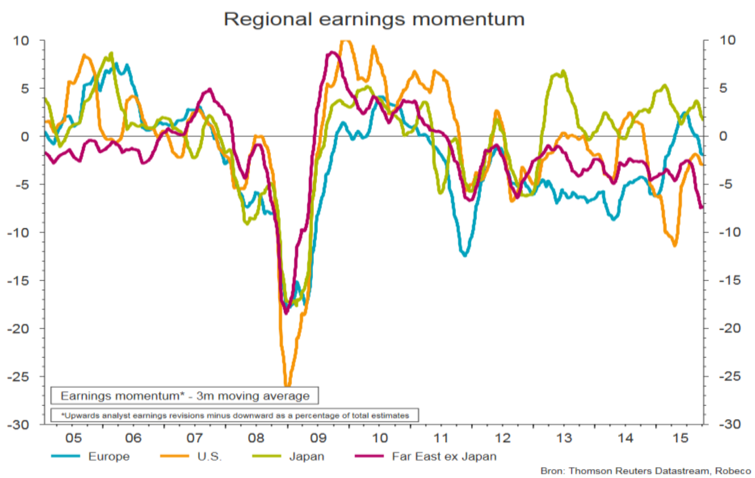
- As you may remember, we moved to a neutral position on equities at the beginning of the summer. Following the recent sell-off we are now in the process of moving back to an overweight position using a step-by-step approach. Despite the sell-off, stocks are not exactly cheap, but given our positive growth outlook the risk/reward ratio has clearly improved.

Developed Market Equities

Lower CAPEs everywhere



Earnings momentum is negative



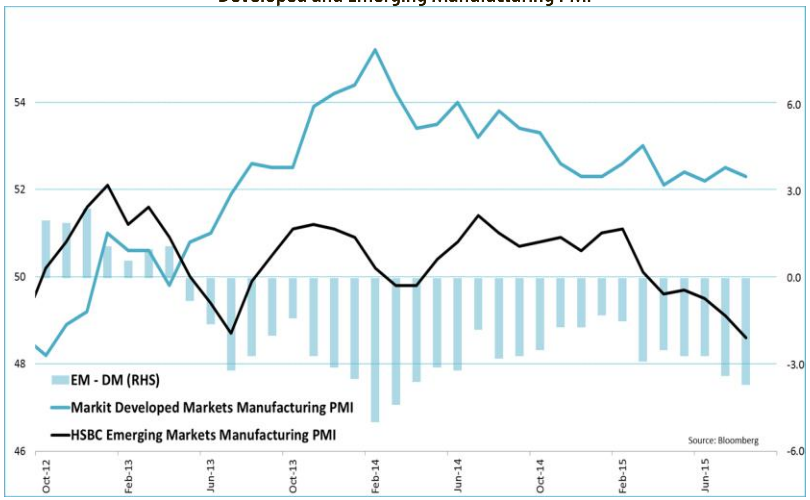
- September brought us more equity volatility and investors are now clearly demanding a higher risk premium for stock investments. Looking ahead at the outlook for developed market equities, we continue to favor Europe and Japan rather than the US. From a valuation point of view, the gap between the US and the Eurozone on CAPE metrics has widened in the past month in the favor of European stocks. Also, on a 12-month forward P/E multiple, Europe is now trading below its the historical average discount versus the US. With a Fed rate hike still expected (but when?) and various ECB officials talking about QE extension, Europe has more scope for equity price appreciation, especially when taking relative valuation into account. In Japan, macro figures have continued to disappoint and have increased the possibility of further QE.

- Earnings revisions by analysts have shown large downward cross-regional moves and are now in negative territory for most regions on a three-month basis. Given the ongoing recovery characterized by decent (albeit decelerating) PMIs and low wage pressure, the recent downgrades in earnings revisions have probably undershot on the negative news flow from China and Volkswagen.

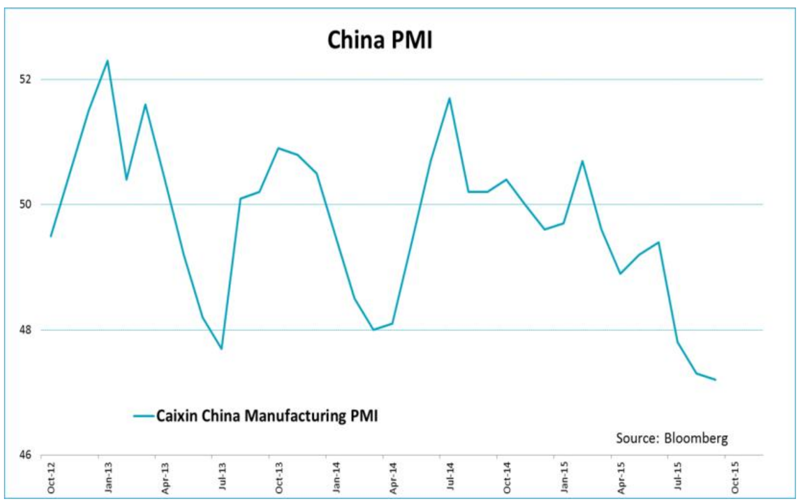
- With respect to relative momentum, 1M equity momentum has been negative, with slightly better relative momentum for the US than Europe and Japan.

Equities: Emerging vs Developed (I)

Developed and Emerging Manufacturing PMI



China is slowing down



- From an economic perspective, things have yet to improve in emerging markets. Macro data offers strong confirmation that economic growth is slowing. PMI numbers underpin the fact that economic conditions are also worsening relative to developed countries, as is shown in the graph on the left.

- China is the most prominent example of slowing EM growth. The latest manufacturing PMI came in at 47.2. China has, so far, opted for ‘targeted’ stimulus by lowering interest rates and the reserve requirement for banks. Recently it also eased downpayment rules for first-time home buyers and lowered automobile taxes. So far, the country has refrained from the massive investment projects it implemented in the past. We think that China will more aggressively add stimulus to shore up growth, also because lowering interest rates further increases the risk of capital outflows, as the country tries to open up its financial markets. For the record, we don’t expect a major slowdown in economic growth at this point.

- The economic outlook for some other EM countries is worrisome. Brazil, South Africa, Russia and Turkey are all having serious growth issues, to some extent related to their current account deficits.

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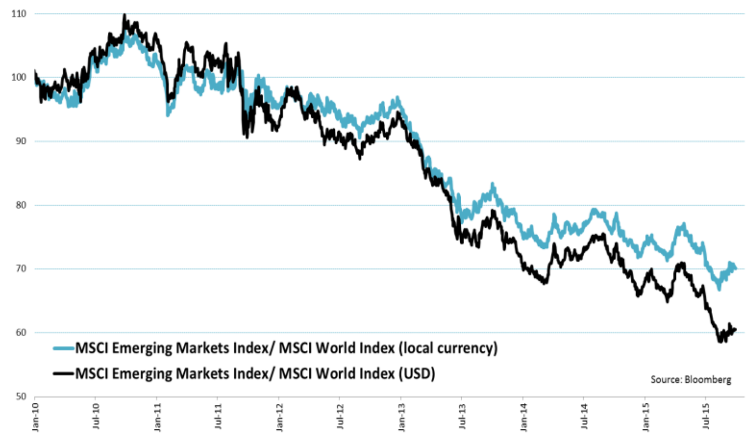
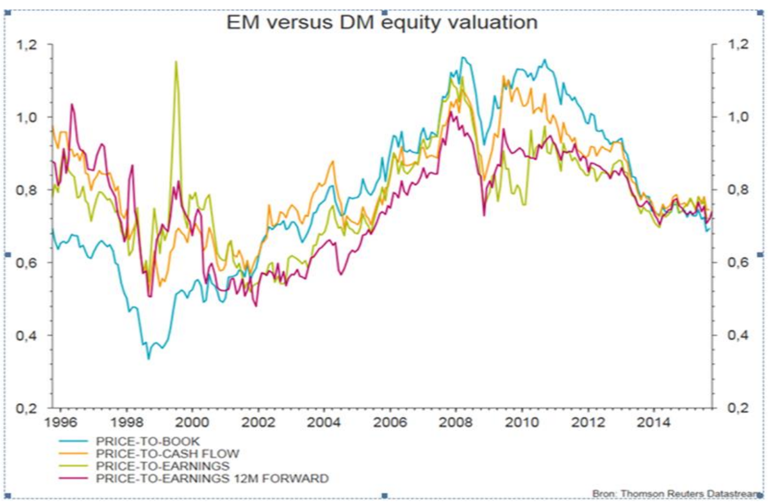
Equities: Emerging vs Developed (II)

Equities

USD strength negative for EM



Valuation discount



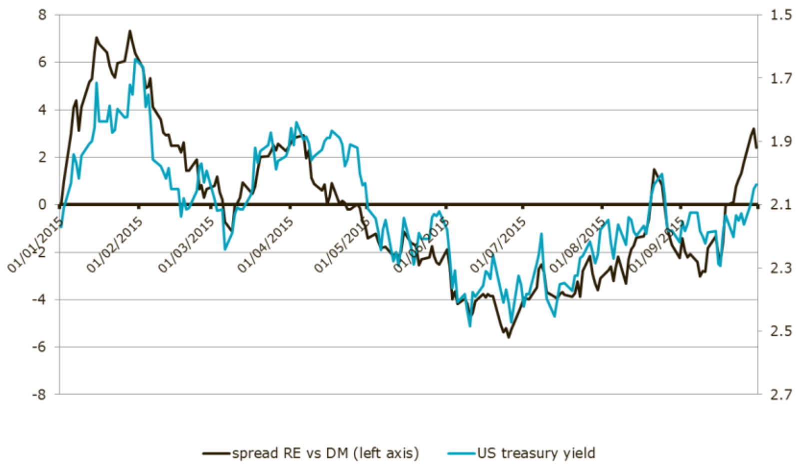
- Current account deficits and slowing growth have led to a depreciation in EM currencies. At this point we don't think the adjustment is yet over. We also expect the Fed to start hiking rates somewhere in the near future. EM currencies have regained some of their losses as the Fed postponed its first rate hike, but we think US dollar strength could be with us for a while. The graph below shows that a rising USD is often accompanied by EM underperformance.

- Company profits aren't looking upbeat either. Globally, earnings growth is being revised downward, but the downgrades are biggest for EM. The mining and oil sector are having a hard time, but banks are also under investor scrutiny as the massive rise in EM corporate debt will lead to more defaults.

- A positive for emerging markets is valuation. However, valuation is a notoriously bad timing factor, and we think it's fair for EM to trade at a discount given the poor outlook. That said, in recent weeks investors have become increasingly pessimistic about emerging markets. As a result, their positioning has already significantly shifted (more shorts). This is a factor to keep an eye on, especially since we have become more upbeat on equities in general. We maintain our underweight for now.

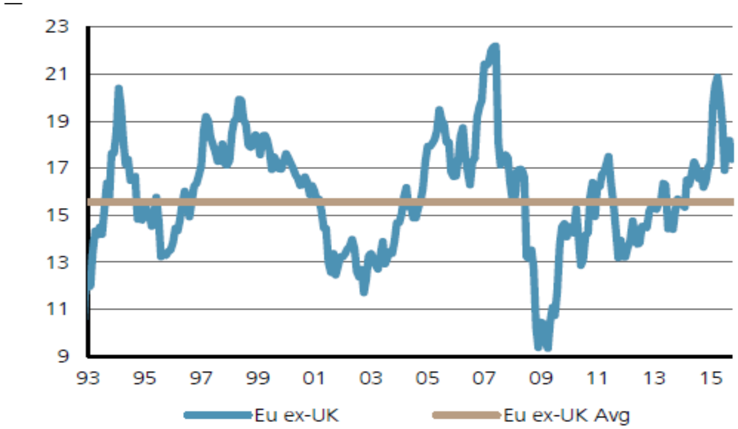
Real estate

During the market turmoil, real estate outperformed global equities



Source: Bloomberg, Robeco

European P/E is higher than its historical average



Source: Worldscope, I/B/E/S, DataStream, UBS estimates, as of 30 Sep 2015.

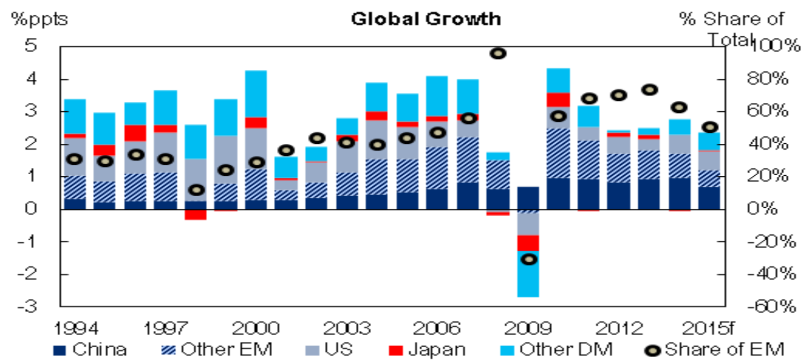
- Amidst the market turmoil in September, real estate performed relatively well compared to global equities. The S&P Developed Index (in USD) rose 1.1% last month, while the relevant equity indices posted negative returns. Together with government bonds, real estate proved to be a safe haven. Interest rates came down, and as the relatively high correlation between real estate and US Treasuries continued, it was an easy job for real estate to outperform.

- The market is still waiting for the Fed rate hike before interest rate markets will choose a concrete direction. A rate hike isn't bad for real estate, as it is a sign of economic strength. The correlation with the bond markets – which peaked earlier this year – tends to diminish once the rate-hike cycle starts. That said, the markets have been discussing a rate rise for more than a year now, so the chances that the first rate hike is already priced in, is close to 100%. In the US, valuations came down, but are still stretched compared to historical levels. Japan is a bit better, but the picture in Europe is the same as the US in that respect.

- Although economies are improving, which is a positive factor for real estate, the upcoming rate hike is causing interest rate volatility. Valuations are stretched, so we remain neutral on real estate.

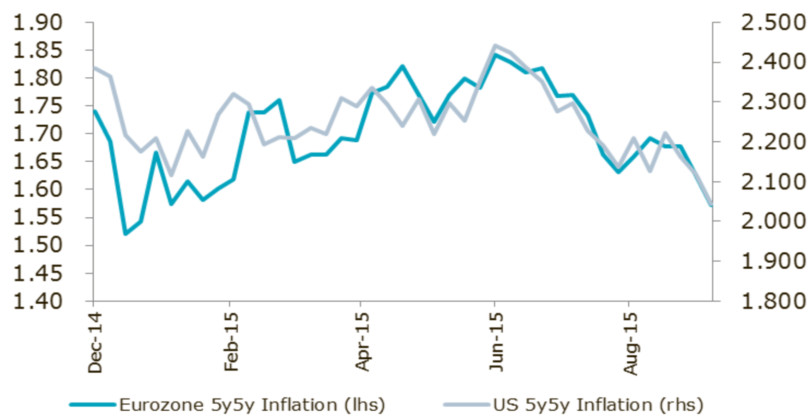
AAA Bonds (I)

Composition of Global growth over the last 20 years



Source: Haver, Citi Research; Note: For 2015F data, we assume around 5% growth rate in China rather than our officially forecasted growth of around 6.8%)

Eurozone and US 5-year inflation



Source: Bloomberg

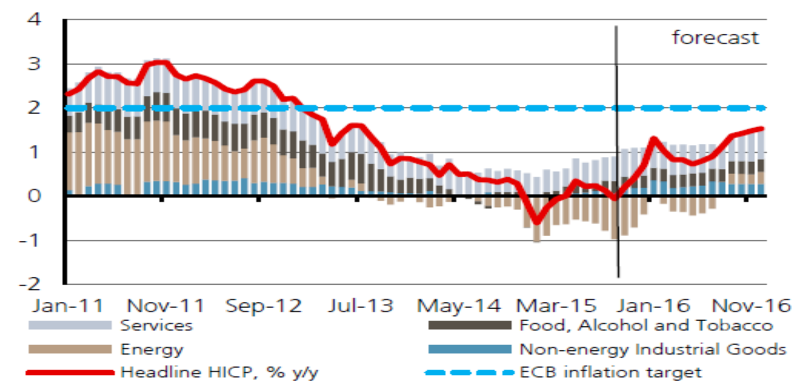
- In September financial markets remained in risk-off mode. The markets continued to worry about emerging markets, especially China. This unrest was also evident among the central banks and the Fed's decision to not start raising rates was the clearest example of this. This move was actually pretty unique as it isn't often that the Fed chooses to weigh international developments more heavily than local ones when taking a rate decision.

- The question on everyone's mind once again is: **will there be growth?** This is not strange when you realize how substantial China's contribution to global growth has been over the past few years. However we should not close our eyes to developments elsewhere – currently growth in both Europe and the US seem to be coming along nicely. Yes, growth is still fragile in Europe, but it looks as if we have finally turned the corner. We also think that China has enough firepower (fiscal and monetary) to keep things from escalating. So the worries about growth seem rather overdone. We also take comfort in the fact that central banks are not insensitive to developments.

- Furthermore, we continue to view declining energy prices as an ultimately positive factor, as they are a tailwind for consumers. Of course they have an immediate **>>**

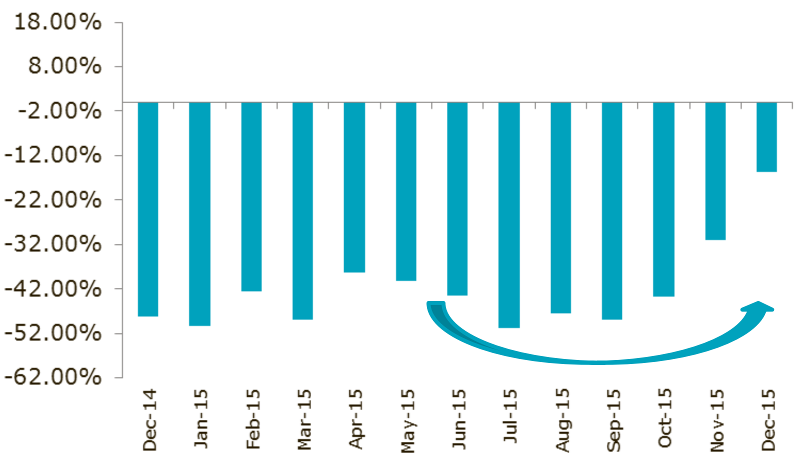
AAA Bonds(II)

Energy a drag but less so than other components of CPI



Source: Haver, UBS.

Negative impact of lower oil prices on inflation will fade



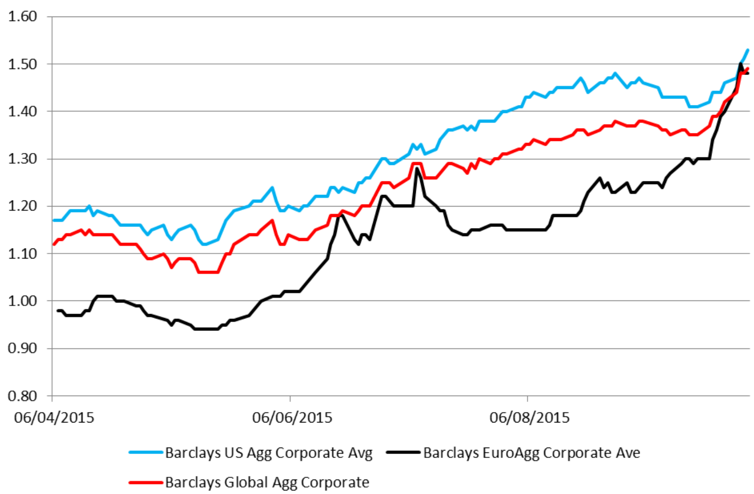
Source Bloomberg

- negative impact on inflation and we acknowledge that, given the current low levels, this is uncomfortable. In September most market-based inflation indicators such as the 5y5y forward inflation declined further in both Europe and the US. We think the market is reacting too aggressively to something that should prove to be just a temporary phenomenon. If oil prices remain around current levels the negative impact on inflation figures should soon start to dissipate. We think it is also encouraging that inflation in the service sector is starting to creep up: historically service inflation tends to be more persistent than manufacturing and commodity inflation. Although this will not prevent low to negative inflation numbers in the short term in Europe, it indicates that we are probably in a bottoming phase in inflation terms.

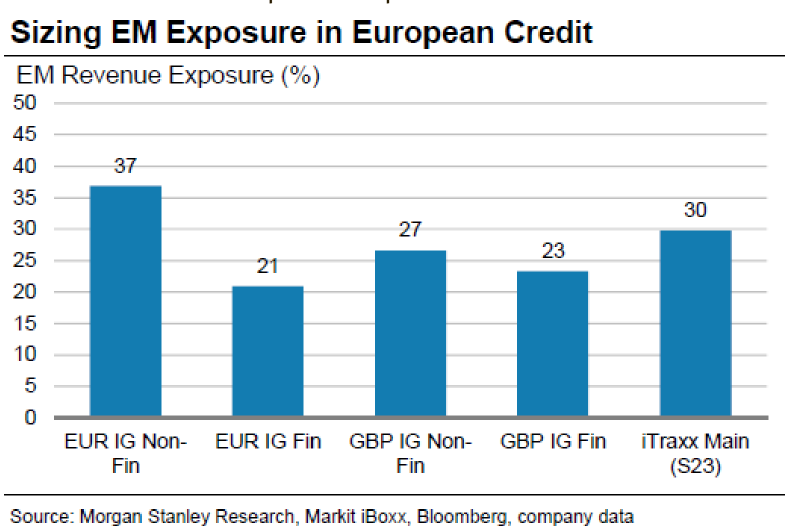
- In line with last month we stick to our view that bonds are expensive and that this valuation richness will keep them from fully living up to their role as a natural safe haven in times of financial stress. However financial market stress and the continued possibility of more QE by the ECB and the Bo could keep a cap on rates for the coming period. We maintain our bias for rates to move higher, and currently see better value in credits, which is why we have increased our underweight in AAA bonds in favor of credits.

Investment Grade Credits

Volkswagen effect: Sharp wijdeling in European spreads



European credit exposure toe EM



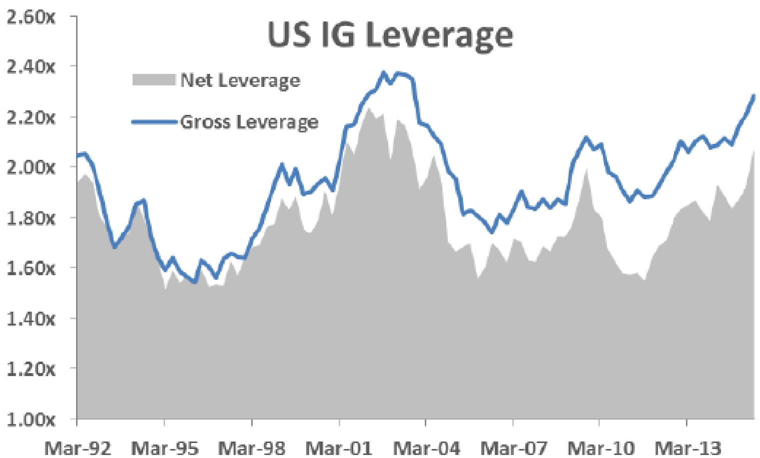
- There was considerable turbulence in the European credit markets last month. The yield on European investment grade credits rose another 17 bps to 1.59. But as government yields were falling, the spread actually widened slightly more, ending up near 1.5%. Most of the widening could be attributed to the scandal around Volkswagen and the effect it had on the market as a whole. Autos and auto parts make up 5% of the IG index, so there was a lot of contagion.

- Besides the Volkswagen effect, the influence of emerging markets is one of the reasons for spread widening. Investors increasingly fear that the downturn in the Chinese economy and the related worldwide commodity price decline will affect European corporates. Direct IG exposure to China is limited to about 5.5%; the rest is exposure to other EM countries. If we break down the EM exposure to sector level, most of the exposure is in the energy sector, with consumer staples the runner-up.

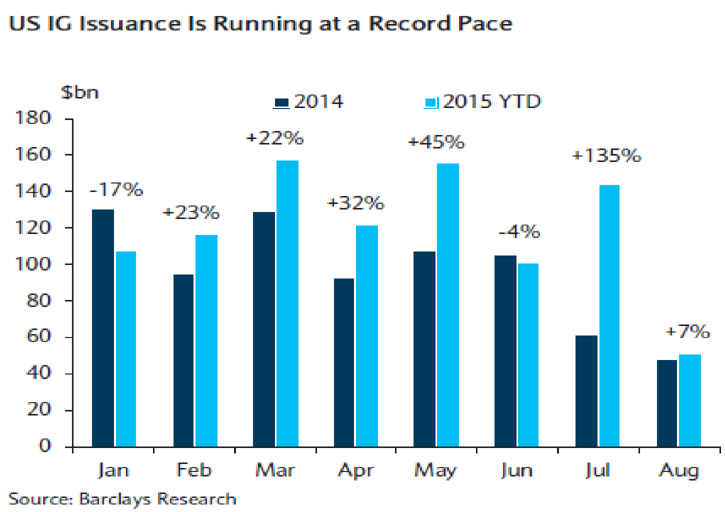
- The European economy itself is growing at a gradual pace, which is a positive factor for European credits. In addition, companies in Europe are generally financed more conservatively than their American counterparts. And, if the ECB relaxes their QE program rules , it too might be buying credits in 2016.

Investment Grade Credits

Divergence spreads



Record US IG Issuance



- US credit spreads have been rising for a while now. But this month, they widened because of falling government bond yields; the corporate bond yield came down as well, but only by 6bps. The spread is comparable with European levels now.
- Contrary to the European story, there are several reasons for the rise in US spreads. The US market is also vulnerable to EM and commodity exposure. But another reason is that corporate leverage is approaching 2002-2004 peak levels. The issuance of new debt is at high levels, far exceeding issuance in earlier years. The proceeds are used for debt-funded M&A activities and share buybacks, which are historically also at elevated levels. As debt levels increase and corporate revenues can’t keep pace, the risks rise too and that is what we have seen in the last few months.
- US spreads have risen recently and there is a reason for this: they look attractive from a valuation perspective, but there are risks too. The outlook for European credits is better. For the asset class, we maintain our underweight position in credits and favour high yield bonds. Compared to government bonds, the spread is becoming more attractive and we prefer credits over government bonds.

Fixed Income

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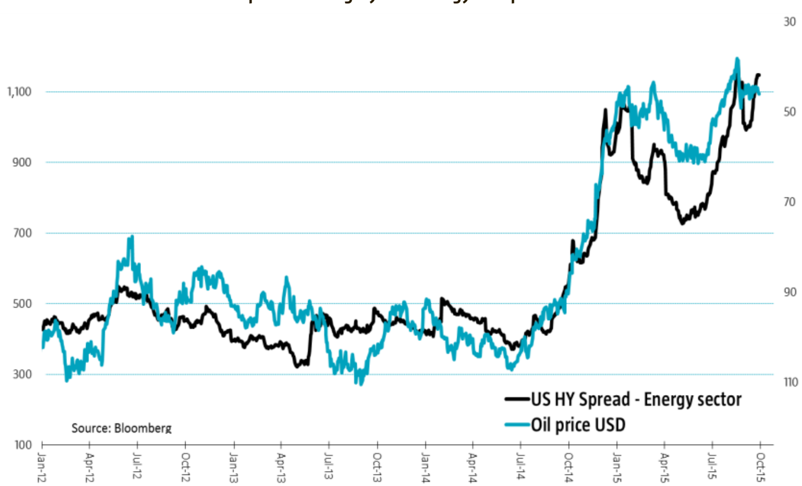
High Yield (I)

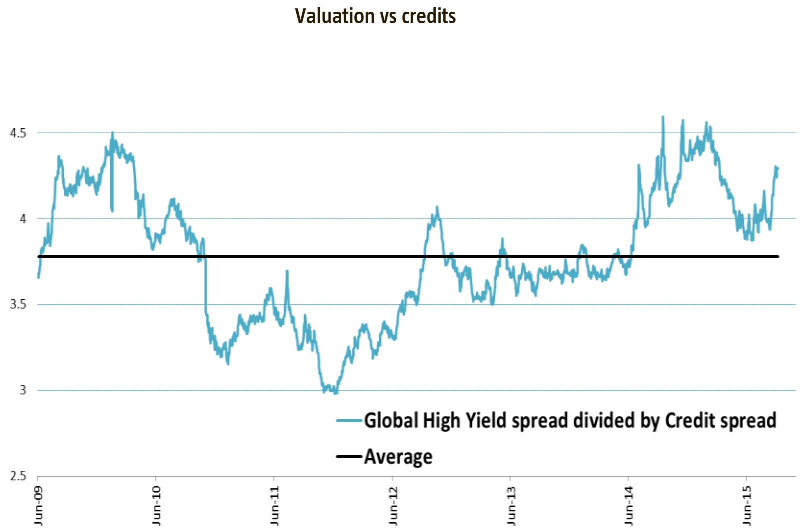


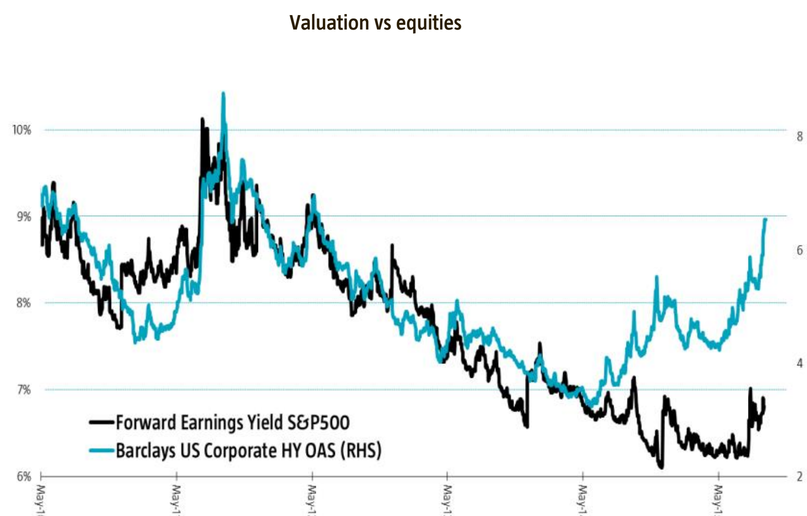
- High yield spreads have continued to widen. At the beginning of October the average spread on global high yield bonds equaled 650 basis points. That's the highest spread level since early 2012.

- High yield bonds have suffered from a global downturn in sentiment. Volatility is persistently high and investors have become more pessimistic. On top of that macro numbers have disappointed recently, increasing investors' anxiety. The widening in the high yield spread reflects the fall in the ISM index to 50.2. We don't expect this economic soft patch to broaden, however. The US economy will grow at least another 2.5% next year and Eurozone growth continues to recover. Historically, high yield has realized healthy returns during periods with similar economic conditions.

- As mentioned before, the disappointing performance of high yield coincides with a sharp fall in oil prices. Energy and shale companies, make up a significant portion of the US high yield universe. The graph to the left shows that energy-company related high yield spreads have widened significantly as oil prices have come down. Defaults will rise sharply, but current spreads offers significant compensation.

High Yield (II)





- More importantly, investors are too negative about defaults in the rest of the high yield universe, we think. Excluding energy and mining, current spreads imply a default rate of almost 5%. Given the current economic conditions this is too bearish.

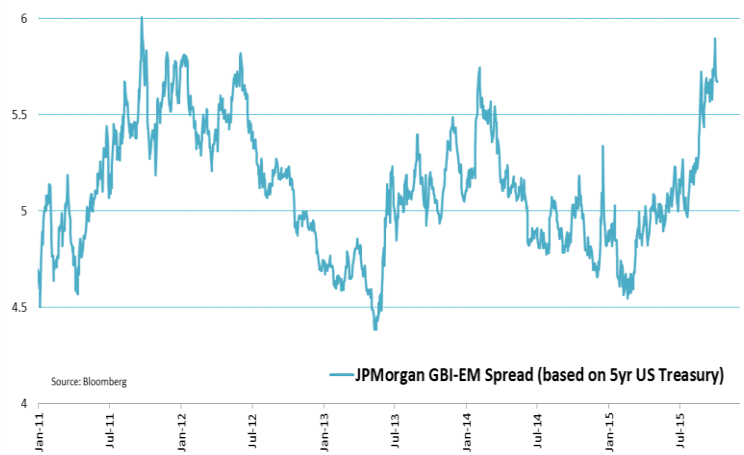
- Our overweight in high yield companies is predominantly driven by valuation. As the graphs on the right show high yield is attractively valued compared to credits (which have also become more attractive in recent weeks) and to equities. Some of that attractive valuation has to do with a decrease in liquidity as a result of tighter bank regulations. However, current valuations can not be solely explained by a liquidity premium and suggest further economic weakness, and thus defaults, going forward. We do not expect this scenario to unfold at this point in time.

- We expect economic growth to hold up, and the Fed to slowly start raising rates. Higher interest payments are unlikely to result in balance sheet stress, even though the leverage ratio of high yield companies has steadily increased over the last couple of years. Interest costs have actually gone down as bond yields have fallen sharply. We remain overweight high yield debt.

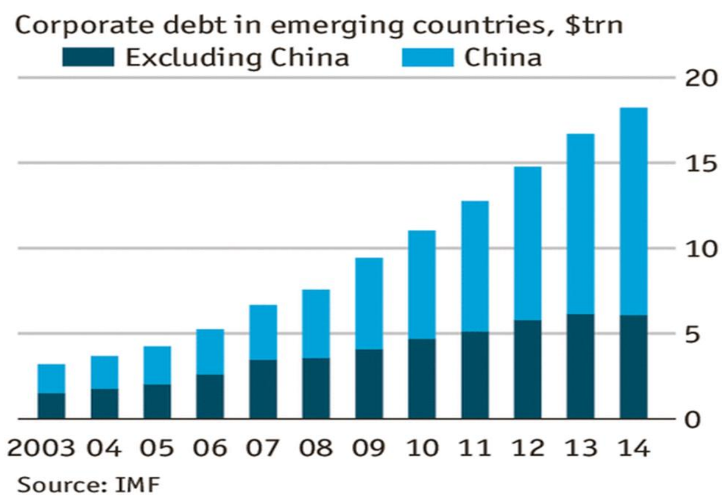
Fixed Income

Emerging Market Debt (I)

Emerging market debt spread compared to the 5-year US Treasury



EM currencies versus the USD over the last three months



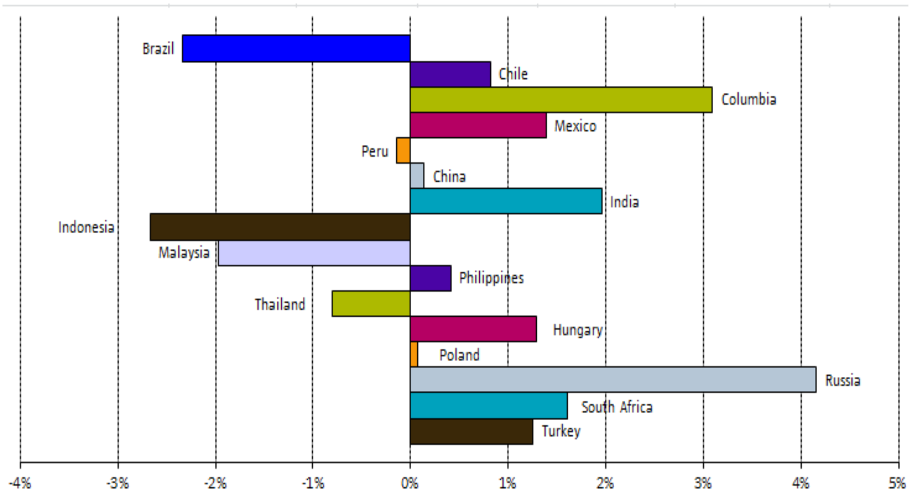
- The graph to the left reveals that the spread on emerging market debt has risen significantly in recent months. Currently, the spread is near to its highest level of the last three years, with the overall yield close to 7%.

- In recent weeks a third factor has started to negatively impact emerging debt. Worries about global growth, especially the disappointing numbers in emerging markets, and a prolonged period of elevated volatility are now accompanied by worries about corporate debt levels as well.

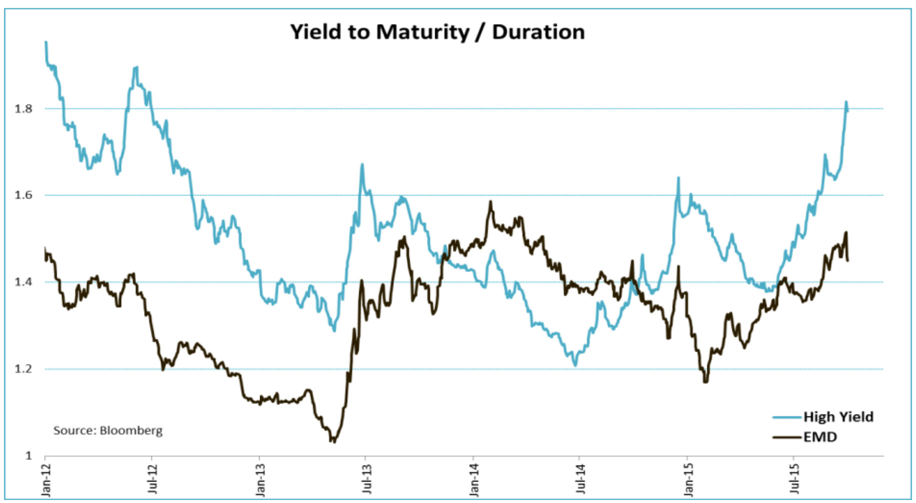
- As the graph at the bottom shows, corporate debt levels, measured as a percentage of GDP, have been steadily rising in recent years. In some emerging countries, China being one of them, corporate debt levels actually top those of developed countries. The multi-year devaluation of EM currencies is leading to a significant rise in the foreign currency debt burden, mostly USD. We would like to add two comments here. First, this risk is not new, but is now being emphasized as a result of increased levels of uncertainty. Second, the relationship between hard currency company debt and sovereign local currency debt is blurred at best. Defaults, as long as restricted to a minority of companies, do not necessarily impact the financial health of the sovereign.

Emerging Market Debt (II)

Emerging currencies against the US dollar



Yield EMD vs High Yield



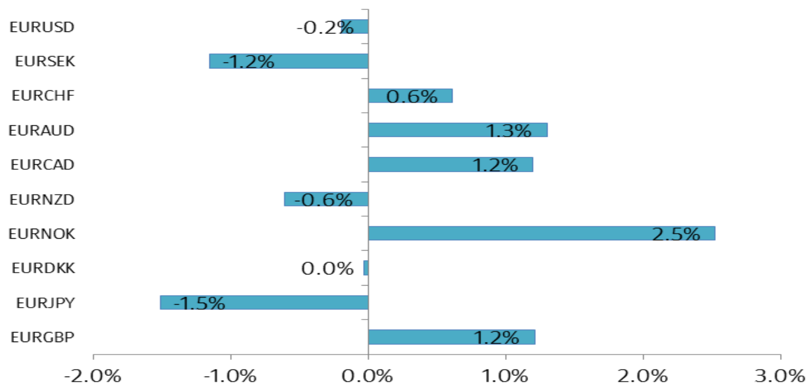
- That said, currency depreciation remains a key risk factor, as FX returns are the main driver of emerging debt returns. At this point we do not think that emerging market currencies have yet reached their lows. However, the massive depreciation of the last couple of months, or years even, means that valuation for some of these currencies is starting to look attractive.

- On the other hand, the volatility of emerging currencies has increased significantly, making the asset class (comparable to emerging equities) less attractive from a risk/return perspective. The currencies of countries that are facing recession, like Brazil and Russia, move particularly aggressively. Continuous pressure on commodity prices isn't helping either.

- Despite the rise in spreads, valuation has become a little less attractive compared to high yield. The impact of energy-related high yield debt has a lot to do with this. Still the valuations of both asset classes have improved. This is the main reason we have decided not to underweight emerging debt at this point. The additional yield compared to credit and government bonds is substantial and we also think investors will find their way into this asset class, as the search for yield goes on.

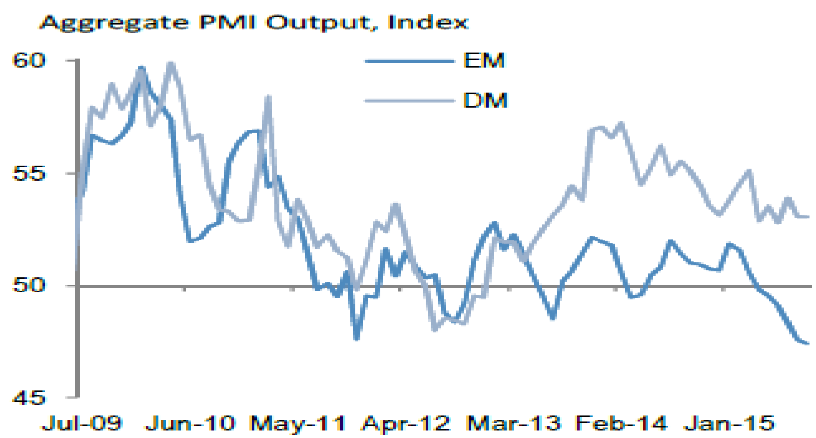
FX (I)

Euro's September performance was a mixed bag



Source: Bloomberg

Divergence between EM and DM is increasing



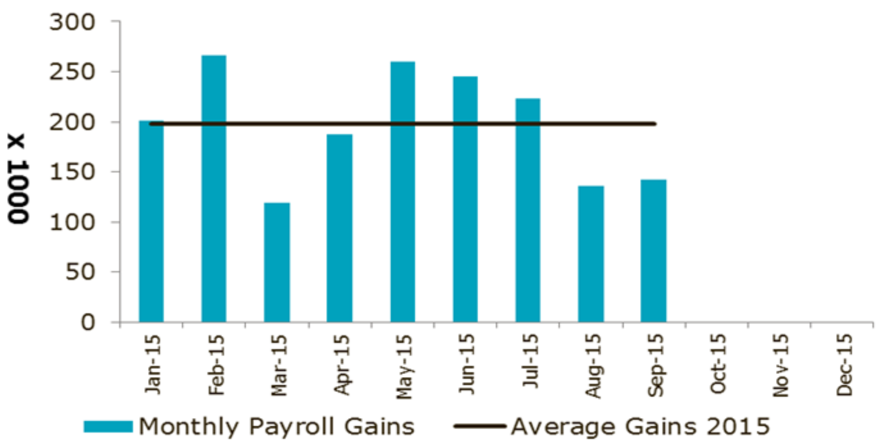
Source: JPMorgan

- In September the performance of the euro was in line with the themes that are currently playing out in financial markets. The dominant theme remains China, and in its slipstream, the other emerging markets. The realization that Chinese growth is set to decline compared to the previous decade is having a profound impact on commodities. As a result, the so called commodity currencies like AUD, CAD and NOK remained under pressure. At the other end of the spectrum, we see that the well-known safe havens are doing what they always do in times of financial stress. Both the yen and the US dollar gained some ground against the euro. Sterling underperformed as interest rate hike expectations were priced out. One rather awkward development was that the more cyclical SEK actually outperformed the more defensive CHF in a relatively risk-averse month.

- So will October bring us more of the same or will something change? We think that the market will remain obsessed about growth or to be more precise the apparent lack of it. Sentiment will only change if investors have proof that they are too pessimistic on growth. We expect this proof to be given in the months ahead and feel that the current sentiment on US and Chinese growth is too negative. We are aware that developed markets will not be completely shielded from the fallout from the emerging markets, as the latest data from Japan clearly show. We just don't think that we are on the verge of a global recession.

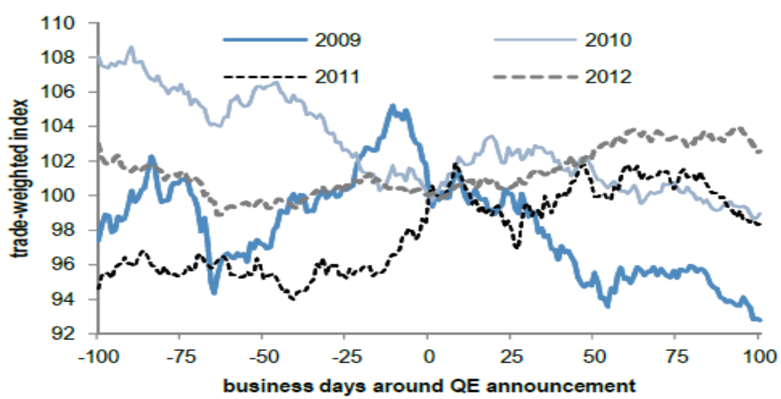
FX (II)

Developed Markets not shielded from EM fall out



Source: Bloomberg

Diminishing returns of Fed QE on the dollar



Source: J.P. Morgan

– As usual the markets are looking for help from the monetary authorities. So who will offer help and reassure them? For the developed markets we automatically tend to look towards the central banks, who have been in risk management mode since 2008.The general message we are receiving from them is encouraging – they are still willing to act if necessary. The Fed's action – or perhaps more correctly non-action – was a strong signal. In Japan it looks as though the Bo will receive some help from the government as Prime Minister Abe has just announced his ' three new arrows'. Their focus seems to be on supporting real growth. In China we look for both fiscal stimulus and a supportive central bank.

– The one risk of an overemphasis on monetary stimulus is that it will start to lose its effectiveness over time. We do not believe we have reached this point just yet, but it is clear that this would be a real risk for the yen, as this has been the one arrow that seems to have worked for Abe so far. We stick to our call that the dollar is the currency you want to own, but the problem here is that you probably shouldn't really own it at these levels. So we are looking for favorable entry levels to take up USD long positions against both the euro and the yen.

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