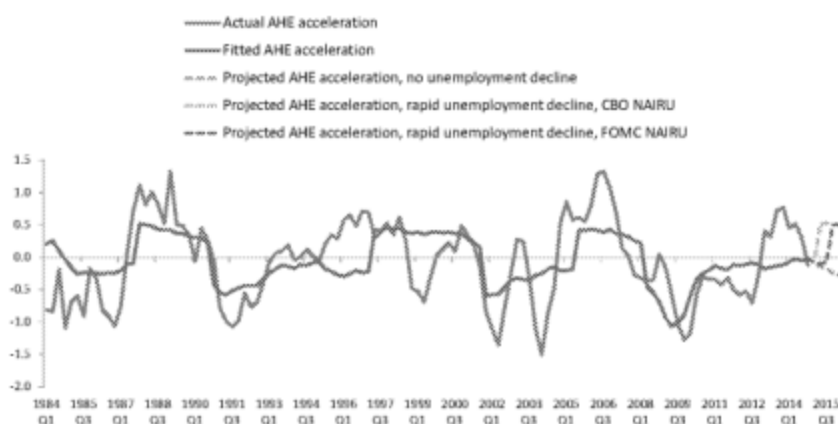




# US Fixed Income Weekly

- There are plenty of minefields out there but none are likely to dominate what we still think for now is a powerful rationale that warrants the current term structure. Long rates are well defined by low to negative term premium and a low terminal Funds rate. While we still see plenty of reasons why the Fed struggles to lift off making it as hard as it always has been to make money on shorting front rates to say a 3M forward horizon.
- There are reasonable risk reward trades that we like including using bullish rate views to buy cheap risk on protection e.g. on SPX. We also for choice rather receive the market than pay it based on term premium staying very negative (Europe) but also the risk of some softer US data. This would favor curve caps and some relief steepening. Volatility should be higher in the front end relative to the back end.
- The round out for 2014 GDP data was fascinating because like Rip Van Winkle after 5 years of would be accelerating recovery, we realize that there has been no acceleration - for five years! A rock solid dullness of sub 4 percent nominal growth. And everyone is so afraid of inflation! More importantly it clearly justifies the low terminal funds rate that the market is pricing as it leaves as many questions unanswered in terms of productivity and profits especially.
- We look at the potential for Japanese financial sector demand for overseas securities to pick up in 2015 and conclude there is up to \$200 billion to come based on dollar yen moving to 130 and recent sensitivities of asset allocation decisions as well as pre-announced pension asset reallocations.

Actual, fitted, and projected wage acceleration



Source: Haver Analytics and Deutsche Bank

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DISCLOSURES AND ANALYST CERTIFICATIONS ARE LOCATED IN APPENDIX 1. MCI (P) 148/04/2014.