

The Euro, Italy and how we reached our dollar call

The woes of the Eurozone have returned with a vengeance, boosting the dollar. It might yet be a while before calm returns.

Our long-term strategic target level of 1.15 dollars per euro has been reached sooner than expected. In less than six weeks, the dollar has appreciated from 1.24 to 1.15 per euro. Initially, this was merely the reversal of the dollar weakness we had been anticipating. This rebound in strength took the greenback to about 1.17 per euro. More recently, and as far as the last two cents on the way towards our target are concerned, it would be more appropriate to talk about a euro weakness. The decline in the exchange rate of the Eurozone's common currency coincided with a drastic widening in spreads on sovereign-bond yields of the periphery, especially the Italian ones.

This time around, it is not hard to identify the primary trigger. Belatedly, markets have woken up to the difficulties surrounding the formation of a new Italian government. This has reduced the appetite for European risky assets across the board, while boosting core-country sovereign bonds (the yield on 10-year German Bunds decreased from 0.64% to 0.28% in less than two weeks). The dynamics in Italy remain unpredictable. The same is true for contagion risks and continuing spillover effects to – and potentially beyond – other Eurozone countries. Against this backdrop, we have reduced risk in many asset classes:

- **Currencies:** Euro-skeptic sentiment and the dollar's status as a safe haven could result in further appreciation. Having reached our strategic goal of 1.15 dollars per euro, we are working on our 12-month orientation and plan to reformulate the new target level shortly on the occasion of our quarterly strategy conference.
- **Equities:** We keep a positive strategic view, because we continue to see a positive economic outlook for Europe as a whole. Tactically, we have downgraded European equities to neutral and wait for better entry levels.
- **Fixed income:** Following the weekend's developments, we have become more skeptical on Italian government bonds. For European corporates, we had already shifted to a neutral stance on both investment-grade and high-yield bonds last week.

In our view, Italian politics could continue to prove a drag on capital markets throughout the summer. Compared to previous episodes of Eurozone troubles, the European Central Bank (ECB) is likely to have less scope to react. This could add to investors' nervousness.

First and foremost, however, developments in Rome look set to dominate sentiment. To be sure, political uncertainty in Italy is

In a nutshell

- The political drama surrounding the new Italian government continues. One way or the other, this is likely to prove a drag on financial markets in coming months.
- As a result of renewed Eurozone concerns, we have reached our EUR/USD target level sooner than expected.
- From a tactical perspective, we prefer to reduce risk, while monitoring how events in Italy and the Eurozone continue to evolve.

All opinions and claims are based upon data on 5/29/18 and may not come to pass. This information is subject to change at any time, based upon economic, market and other considerations and should not be construed as a recommendation. Past performance is not indicative of future returns. Forecasts are based on assumptions, estimates, opinions and hypothetical models that may prove to be incorrect. Deutsche Asset Management Investment GmbH

CRC 057913 (05/2018)

nothing new. Nor are the Eurozone's structural weaknesses. Now, our base scenario sees new elections that especially Lega appears to be pushing for. From a narrow, political perspective, this makes sense. Italian opinion polls should be taken with a pinch of salt, but the most recent ones suggest substantial gains for Lega. Mostly, Lega's gains might come at the expense of Forza Italia, its right-wing ally. (For more details on Italian polling, see our preview of the last election "[An Italian muddle](#)".)

The majority of Italians maintains a positive view towards Europe. However, last week's events show that the risk potential for the common currency remains high. The election campaign could well turn into a de-facto referendum on the European Union (EU) and the euro. In addition, populist parties may benefit from other topics as well. This includes skepticism towards established parties and the refugee crisis, as well as what Italians perceive as meddling out of Brussels, Paris and Berlin.

Independently of the timing of any new vote, we expect Italy to remain a key topic at the European summit on June 28 and 29. That said, it is still early days. The political landscape of Italy does not look all that different from the picture we warned about back in February, ahead of the last election in March. Uncertainty is high, but as usual that cuts both ways.

All opinions and claims are based upon data on 5/29/18 and may not come to pass. This information is subject to change at any time, based upon economic, market and other considerations and should not be construed as a recommendation. Past performance is not indicative of future returns. Forecasts are based on assumptions, estimates, opinions and hypothetical models that may prove to be incorrect. Deutsche Asset Management Investment GmbH

CRC 057913 (05/2018)

Glossary

European Central Bank (ECB)

The **European Central Bank (ECB)** is the central bank for the Eurozone.

European Union (EU)

The **European Union (EU)** is a political and economic union of 28 member states located primarily in Europe.

Eurozone

The **Eurozone** is formed of 19 European Union member states that have adopted the euro as their common currency and sole legal tender.

Forza Italia

The current **Forza Italia**, established in 2013, is a centre-right political party in Italy with populist elements. Its leader is once again Silvio Berlusconi, who also led the original Forza Italia, established in 1993, which, however, was much bigger as its contemporary version.

Lega

The **Lega** (formerly "Lega Nord") is a right-wing populist party in Italy. It was founded in 1991 through the merger of various parties. It is considered anti-globalist and Eurosceptic.

Periphery

Periphery countries are less developed than the core countries of a specific region. In the Eurozone, the euro periphery consists of the economically weaker countries such as Greece, Portugal, Italy, Spain and Ireland.

Spread

The **spread** is the difference between the quoted rates of return on two different investments, usually of different credit quality.

All opinions and claims are based upon data on 5/29/18 and may not come to pass. This information is subject to change at any time, based upon economic, market and other considerations and should not be construed as a recommendation. Past performance is not indicative of future returns. Forecasts are based on assumptions, estimates, opinions and hypothetical models that may prove to be incorrect. Deutsche Asset Management Investment GmbH

CRC 057913 (05/2018)

Risk warning

Investments are subject to investment risk, including market fluctuations, regulatory change, possible delays in repayment and loss of income and principal invested. The value of investments can fall as well as rise and you might not get back the amount originally invested at any point in time.

Investments in Foreign Countries – Such investments may be in countries that prove to be politically or economically unstable. Furthermore, in the case of investments in foreign securities or other assets, any fluctuations in currency exchange rates will affect the value of the investments and any restrictions imposed to prevent capital flight may make it difficult or impossible to exchange or repatriate foreign currency.

Foreign Exchange/Currency – Such transactions involve multiple risks, including currency risk and settlement risk. Economic or financial instability, lack of timely or reliable financial information or unfavorable political or legal developments may substantially and permanently alter the conditions, terms, marketability or price of a foreign currency. Profits and losses in transactions in foreign exchange will also be affected by fluctuations in currency where there is a need to convert the product's denomination(s) to another currency. Time zone differences may cause several hours to elapse between a payment being made in one currency and an offsetting payment in another currency. Relevant movements in currencies during the settlement period may seriously erode potential profits or significantly increase any losses.

High Yield Fixed Income Securities – Investing in high yield bonds, which tend to be more volatile than investment grade fixed income securities, is speculative. These bonds are affected by interest rate changes and the creditworthiness of the issuers, and investing in high yield bonds poses additional credit risk, as well as greater risk of default.

Hedge Funds – An investment in hedge funds is speculative and involves a high degree of risk, and is suitable only for “Qualified Purchasers” as defined by the US Investment Company Act of 1940 and “Accredited Investors” as defined in Regulation D of the 1933 Securities Act. No assurance can be given that a hedge fund's investment objective will be achieved, or that investors will receive a return of all or part of their investment.

Commodities – The risk of loss in trading commodities can be substantial. The price of commodities (e.g., raw industrial materials such as gold, copper and aluminium) may be subject to substantial fluctuations over short periods of time and may be affected by unpredicted international monetary and political policies. Additionally, valuations of commodities may be susceptible to such adverse global economic, political or regulatory developments. Prospective investors must independently assess the appropriateness of an investment in commodities in light of their own financial condition and objectives. Not all affiliates

All opinions and claims are based upon data on 5/29/18 and may not come to pass. This information is subject to change at any time, based upon economic, market and other considerations and should not be construed as a recommendation. Past performance is not indicative of future returns. Forecasts are based on assumptions, estimates, opinions and hypothetical models that may prove to be incorrect. Deutsche Asset Management Investment GmbH

CRC 057913 (05/2018)

or subsidiaries of Deutsche Bank Group offer commodities or commodities-related products and services.

Investment in private equity funds is speculative and involves significant risks including illiquidity, heightened potential for loss and lack of transparency. The environment for private equity investments is increasingly volatile and competitive, and an investor should only invest in the fund if the investor can withstand a total loss. In light of the fact that there are restrictions on withdrawals, transfers and redemptions, and the Funds are not registered under the securities laws of any jurisdictions, an investment in the funds will be illiquid. Investors should be prepared to bear the financial risks of their investments for an indefinite period of time.

Investment in real estate may be or become nonperforming after acquisition for a wide variety of reasons. Nonperforming real estate investment may require substantial workout negotiations and/ or restructuring.

Environmental liabilities may pose a risk such that the owner or operator of real property may become liable for the costs of removal or remediation of certain hazardous substances released on, about, under, or in its property. Additionally, to the extent real estate investments are made in foreign countries, such countries may prove to be politically or economically unstable. Finally, exposure to fluctuations in currency exchange rates may affect the value of a real estate investment.

Structured solutions are not suitable for all investors due to potential illiquidity, optionality, time to redemption, and the payoff profile of the strategy. We or our affiliates or persons associated with us or such affiliates may: maintain a long or short position in securities referred to herein, or in related futures or options, purchase or sell, make a market in, or engage in any other transaction involving such securities, and earn brokerage or other compensation. Calculations of returns on the instruments may be linked to a referenced index or interest rate. In such cases, the investments may not be suitable for persons unfamiliar with such index or interest rates, or unwilling or unable to bear the risks associated with the transaction. Products denominated in a currency, other than the investor's home currency, will be subject to changes in exchange rates, which may have an adverse effect on the value, price or income return of the products. These products may not be readily realizable investments and are not traded on any regulated market.

Important Information – UK

Issued in the UK by Deutsche Asset Management (UK) Limited. Deutsche Asset Management (UK) Limited is authorised and regulated by the Financial Conduct Authority.

DWS is the brand name of DWS Group GmbH & Co. KGaA. The respective legal entities offering products or services under the DWS brand are specified in the respective contracts, sales materials and other product information documents. DWS, through DWS Group GmbH & Co. KGaA, its affiliated companies and its officers and employees (collectively "DWS") are communicating this document in good faith and on the following basis.

All opinions and claims are based upon data on 5/29/18 and may not come to pass. This information is subject to change at any time, based upon economic, market and other considerations and should not be construed as a recommendation. Past performance is not indicative of future returns. Forecasts are based on assumptions, estimates, opinions and hypothetical models that may prove to be incorrect. Deutsche Asset Management Investment GmbH

CRC 057913 (05/2018)

This document is a financial promotion and is for general information purposes only and consequently may not be complete or accurate for your specific purposes. It is not intended to be an offer or solicitation, advice or recommendation, or the basis for any contract to purchase or sell any security, or other instrument, or for DWS to enter into or arrange any type of transaction as a consequence of any information contained herein. It has been prepared without consideration of the investment needs, objectives or financial circumstances of any investor.

This document does not identify all the risks (direct and indirect) or other considerations which might be material to you when entering into a transaction. Before making an investment decision, investors need to consider, with or without the assistance of an investment adviser, whether the investments and strategies described or provided by DWS, are suitability and appropriate, in light of their particular investment needs, objectives and financial circumstances. We assume no responsibility to advise the recipients of this document with regard to changes in our views.

Past performance is no guarantee of future results.

The products mentioned in this document may be subject to investment risk including market fluctuations, regulatory change, counterparty risk, possible delays in repayment and loss of income and principal invested. Additionally, investments denominated in an alternative currency will be subject to currency risk, changes in exchange rates which may have an adverse effect on the value, price or income of the investment. The value of an investment can fall as well as rise and you might not get back the amount originally invested at any point in time.

We have gathered the information contained in this document from sources we believe to be reliable; but we do not guarantee the accuracy, completeness or fairness of such information and it should not be relied on as such. DWS has no obligation to update, modify or amend this document or to otherwise notify the recipient in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate.

DWS does not give taxation or legal advice. Prospective investors should seek advice from their own taxation agents and lawyers regarding the tax consequences on the purchase, ownership, disposal, redemption or transfer of the investments and strategies suggested by DWS. The relevant tax laws or regulations of the tax authorities may change at any time. DWS is not responsible for and has no obligation with respect to any tax implications on the investment suggested.

No assurance can be given that any investment described herein would yield favorable investment results or that the investment objectives will be achieved. In general, the securities and financial instruments presented herein are not insured by the Federal Deposit Insurance Corporation ("FDIC"), and are not guaranteed by or obligations of DWS or its affiliates. We or our affiliates or persons associated with us may act upon or use material in this report

All opinions and claims are based upon data on 5/29/18 and may not come to pass. This information is subject to change at any time, based upon economic, market and other considerations and should not be construed as a recommendation. Past performance is not indicative of future returns. Forecasts are based on assumptions, estimates, opinions and hypothetical models that may prove to be incorrect. Deutsche Asset Management Investment GmbH

CRC 057913 (05/2018)

prior to publication. DWS may engage in transactions in a manner inconsistent with the views discussed herein. Opinions expressed herein may differ from the opinions expressed by departments or other divisions or affiliates of DWS.

This document contains forward looking statements. Forward looking statements include, but are not limited to assumptions, estimates, projections, opinions, models and hypothetical performance analysis. The forward looking statements expressed constitute the author's judgment as of the date of this material. Forward looking statements involve significant elements of subjective judgments and analyses and changes thereto and/or consideration of different or additional factors could have a material impact on the results indicated. Therefore, actual results may vary, perhaps materially, from the results contained herein. No representation or warranty is made by DWS as to the reasonableness or completeness of such forward looking statements or to any other financial information contained in this document.

This document may not be reproduced or circulated without our written authority. The manner of circulation and distribution of this document may be restricted by law or regulation in certain countries, including the United States. This document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, including the United States, where such distribution, publication, availability or use would be contrary to law or regulation or which would subject DWS to any registration or licensing requirement within such jurisdiction not currently met within such jurisdiction. Persons into whose possession this document may come are required to inform themselves of, and to observe, such restrictions.

DWS conducts its business according to the principle that it must manage conflicts of interest fairly, both between itself and its clients and between one client and another.

As a global financial services provider, DWS faces actual and potential Conflicts of Interest periodically. DWS's policy is to take all reasonable steps to maintain and operate effective organisational and administrative arrangements to identify and manage relevant conflicts. Senior management within the firm are responsible for ensuring that the firm's systems, controls and procedures are adequate to identify and manage Conflicts of Interest.

DWS is a trading name of Deutsche Asset Management (UK) Limited. Registered in England & Wales No 5233891. Registered Office: Winchester House, 1 Great Winchester Street, London EC2N 2DB. Deutsche Asset Management (UK) Limited is authorised and regulated by the Financial Conduct Authority. Financial Services Registration Number 429806.

This document may not be distributed in Canada, Japan, the United States of America, or to any U.S. person

All opinions and claims are based upon data on 5/29/18 and may not come to pass. This information is subject to change at any time, based upon economic, market and other considerations and should not be construed as a recommendation. Past performance is not indicative of future returns. Forecasts are based on assumptions, estimates, opinions and hypothetical models that may prove to be incorrect. Deutsche Asset Management Investment GmbH

CRC 057913 (05/2018)

Disclaimer EMEA

DWS represents the asset management activities conducted by DWS Group GmbH & Co. KGaA or any of its subsidiaries. Clients will be provided DWS products or services by one or more legal entities that will be identified to clients pursuant to the contracts, agreements, offering materials or other documentation relevant to such products or services. The information contained in this document does not constitute investment advice.

This document has been prepared without consideration of the investment needs, objectives or financial circumstances of any investor. Before making an investment decision, investors need to consider, with or without the assistance of an investment adviser, whether the investments and strategies described or provided by DWS, are appropriate, in light of their particular investment needs, objectives and financial circumstances. Furthermore, any report or analysis within this document is shown for information/discussion/illustrative purposes and does not constitute an offer, recommendation or solicitation to conclude a transaction and should not be treated as giving investment advice.

The terms of any investment will be exclusively subject to the detailed provisions, including risk considerations, contained in the Offering Documents. When making an investment decision, you should rely on the final documentation relating to the transaction and not the summary contained herein.

Investments are subject to various risks, including market fluctuations, regulatory change, possible delays in repayment and loss of income and principal invested. The value of investments can fall as well as rise and you may not recover the amount originally invested at any point in time. Furthermore, substantial fluctuations of the value of the investment are possible even over short periods of time.

This publication contains forward looking statements. Past performance is not a reliable indication of future results. Forward looking statements include, but are not limited to assumptions, estimates, projections, opinions, models and hypothetical performance analysis and involve significant elements of subjective judgments and analyses and changes thereto and/or consideration of different or additional factors could have a material impact on the results indicated. Therefore, actual results may vary, perhaps materially, from the results contained herein. No representation or warranty is made by Deutsche Asset Management Investment GmbH as to the reasonableness or completeness of such forward looking statements or to any other financial information contained herein.

This document may not be reproduced or circulated without our written authority. The manner of circulation and distribution of this document may be restricted by law or regulation in certain countries, including the United States. Deutsche Asset Management Investment GmbH does not give tax or legal advice. All statements of opinion reflect the current assessment of

All opinions and claims are based upon data on 5/29/18 and may not come to pass. This information is subject to change at any time, based upon economic, market and other considerations and should not be construed as a recommendation. Past performance is not indicative of future returns. Forecasts are based on assumptions, estimates, opinions and hypothetical models that may prove to be incorrect. Deutsche Asset Management Investment GmbH

CRC 057913 (05/2018)

Deutsche Asset Management Investment GmbH and are subject to change without notice.

Kingdom of Bahrain

For Residents of the Kingdom of Bahrain: This document does not constitute an offer for sale of, or participation in, securities, derivatives or funds marketed in Bahrain within the meaning of Bahrain Monetary Agency Regulations. All applications for investment should be received and any allotments should be made, in each case from outside of Bahrain. This document has been prepared for private information purposes of intended investors only who will be institutions. No invitation shall be made to the public in the Kingdom of Bahrain and this document will not be issued, passed to, or made available to the public generally. The Central Bank (CBB) has not reviewed, nor has it approved, this document or the marketing of such securities, derivatives or funds in the Kingdom of Bahrain. Accordingly, the securities, derivatives or funds may not be offered or sold in Bahrain or to residents thereof except as permitted by Bahrain law. The CBB is not responsible for performance of the securities, derivatives or funds.

State of Kuwait

This document has been sent to you at your own request. This presentation is not for general circulation to the public in Kuwait. The Interests have not been licensed for offering in Kuwait by the Kuwait Capital Markets Authority or any other relevant Kuwaiti government agency. The offering of the Interests in Kuwait on the basis a private placement or public offering is, therefore, restricted in accordance with Decree Law No. 31 of 1990 and the implementing regulations thereto (as amended) and Law No. 7 of 2010 and the bylaws thereto (as amended). No private or public offering of the Interests is being made in Kuwait, and no agreement relating to the sale of the Interests will be concluded in Kuwait. No marketing or solicitation or inducement activities are being used to offer or market the Interests in Kuwait.

United Arab Emirates

United Arab Emirates Deutsche Bank AG in the Dubai International Financial Centre (registered no. 00045) is regulated by the Dubai Financial Services Authority. Deutsche Bank AG – DIFC Branch may only undertake the financial services activities that fall within the scope of its existing DFSA license. Principal place of business in the DIFC: Dubai International Financial Centre, The Gate Village, Building 5, PO Box 504902, Dubai, U.A.E. This information has been distributed by Deutsche Bank AG. Related financial products or services are only available to Professional Clients, as defined by the Dubai Financial Services Authority.

State of Qatar

Deutsche Bank AG in the Qatar Financial Centre (registered no. 00032) is regulated by the Qatar Financial Centre Regulatory Authority. Deutsche Bank AG - QFC Branch may only undertake the financial services activities that fall within the scope of its existing QFCRA license. Principal place of business in the QFC:

All opinions and claims are based upon data on 5/29/18 and may not come to pass. This information is subject to change at any time, based upon economic, market and other considerations and should not be construed as a recommendation. Past performance is not indicative of future returns. Forecasts are based on assumptions, estimates, opinions and hypothetical models that may prove to be incorrect. Deutsche Asset Management Investment GmbH

CRC 057913 (05/2018)

Qatar Financial Centre, Tower, West Bay, Level 5, PO Box 14928, Doha, Qatar. This information has been distributed by Deutsche Bank AG. Related financial products or services are only available to Business Customers, as defined by the Qatar Financial Centre Regulatory Authority.

Kingdom of Saudi Arabia

Deutsche Securities Saudi Arabia LLC Company, (registered no. 07073-37) is regulated by the Capital Market Authority. Deutsche Securities Saudi Arabia may only undertake the financial services activities that fall within the scope of its existing CMA license. Principal place of business in Saudi Arabia: King Fahad Road, Al Olaya District, P.O. Box 301809, Faisaliah Tower – 17th Floor, 11372 Riyadh, Saudi Arabia.

This document may not be distributed in Canada, Japan, the United States of America, or to any U.S. person.

© 2018 Deutsche Asset Management Investment GmbH. All rights reserved. No further distribution is allowed without prior written consent of the Issuer.

Publisher: Deutsche Asset Management Investment GmbH, Mainzer Landstraße 11-17, 60329 Frankfurt am Main, Germany

All opinions and claims are based upon data on 5/29/18 and may not come to pass. This information is subject to change at any time, based upon economic, market and other considerations and should not be construed as a recommendation. Past performance is not indicative of future returns. Forecasts are based on assumptions, estimates, opinions and hypothetical models that may prove to be incorrect. Deutsche Asset Management Investment GmbH

CRC 057913 (05/2018)