



## Corporate Conference Call

5 January 2010

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Chief Sterling Strategist

### Plan

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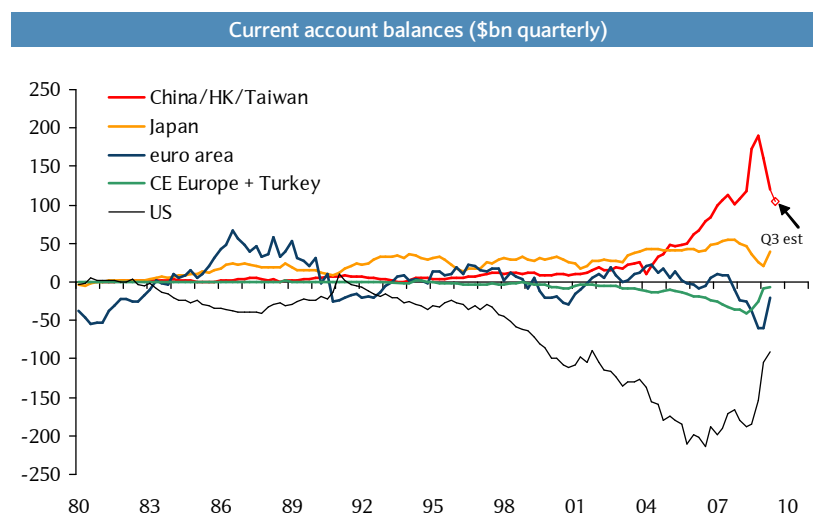
- What does 2010 hold in store?
  - ▶ Barcap's latest Global Outlook
- What do the Q3 national accounts tell us about the state of the UK?



## Outlook for global growth continues to improve

- Global GDP likely to continue to surprise on upside as recovery consolidates in the US and Europe
  - ▶ BarCap projection for global real GDP: 4.2% in 2010
  - ▶ Strong productivity should bolster profits and hence investment
- Divergence between commodity and core inflation likely to continue given regional composition of global expansion
- With very high unemployment, the Fed is unlikely to start raising rates till Sept. 2010. ECB likely to follow, not lead. BoE?

## Re-balancing at work



## Recovery likely to become more balanced – though EM Asia will still outperform

### GDP growth forecasts

		4Q09	1Q10	2Q10	3Q10	2010	2011
<b>US</b>	Consensus	3.0	2.6	2.6	2.8	2.6	3.0
q/q saar	BarCap	4.0	5.0	3.0	3.5	3.5	3.1
<b>Eurozone</b>	Consensus	-0.1	0.8	1.3	1.1	1.2	na
y/y	BarCap	-0.2	1.1	1.6	1.7	1.5	1.9
<b>Japan</b>	Consensus	1.6	0.5	0.8	1.3	1.2	1.2
q/q saar	BarCap	3.6	1.0	0.4	2.0	1.7	1.8
<b>UK</b>	Consensus	-1.1	0.0	1.2	1.9	1.3	2.0
y/y	BarCap	-3.0	0.0	1.2	2.2	1.5	2.2
<b>Brazil</b>	Consensus	3.7	5.2	5.0	4.9	5.0	4.5
y/y	BarCap	4.4	6.6	5.7	4.8	5.3	4.4
<b>Russia</b>	Consensus	-1.2	3.5	3.9	2.1	3.0	4.5
y/y	BarCap	1.2	3.5	5.1	4.4	4.3	3.6
<b>China</b>	Consensus	10.2	10.4	9.7	9.4	9.6	na
y/y	BarCap	11.4	12.0	9.7	8.6	9.6	9.0

Sources: Bloomberg, Blue Chip, Barclays Capital



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## Global interest rate forecasts

	30-Nov-09	2010				2011			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>EA Refi Rate (period end)</b>		1.00	1.00	1.00	1.00	1.25	1.50	1.75	2.00
3M EURIBOR	0.68	0.90	1.03	1.22	1.30	1.95	2.23	2.23	2.23
2yr Euro Government	1.26	1.75	2.05	2.25	2.45	2.80	3.10	3.30	3.30
5 yr Euro Government	2.23	2.80	3.00	3.20	3.30	3.55	3.65	3.80	3.80
10yr Euro Government	3.14	3.55	3.70	3.80	3.90	4.00	4.05	4.15	4.15
30yr Euro Government	3.90	4.05	4.10	4.15	4.20	4.25	4.25	4.30	4.30
<b>US Fed Funds (period end)</b>		0.00	0.00	0.50	1.00	1.00	1.00	1.50	2.00
3M USD LIBOR	0.25	0.28	0.27	0.75	1.20	1.20	1.20	1.70	2.20
2-year Treasury	0.68	1.10	1.60	2.00	2.30	2.30	2.30	2.30	2.30
5-year Treasury	2.03	2.50	3.00	3.40	3.60	3.60	3.60	3.60	3.60
10-year Treasury	3.21	3.70	4.20	4.50	4.50	4.50	4.50	4.50	4.50
30-year Treasury	4.20	4.70	5.20	5.50	5.50	5.50	5.50	5.50	5.50
<b>UK Bank Rate (period end)</b>		0.50	0.50	1.00	1.50	2.00	2.50	3.00	3.00
3M LIBOR	0.61	0.79	0.82	1.34	1.85	2.33	2.81	3.32	3.32
2yr UK Government	1.14	1.00	1.25	1.50	1.75	2.30	2.50	2.80	2.80
5 yr UK Government	2.57	2.90	3.00	3.10	3.30	3.50	3.60	3.70	3.70
10yr UK Government	3.50	3.85	4.10	4.20	4.40	4.60	4.65	4.70	4.70
30yr UK Government	4.09	4.15	4.20	4.25	4.30	4.30	4.30	4.30	4.30



Source: Barclays Capital

Last update: 9 December 2009

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## Are our US forecasts too bullish? History points to a strong recovery in real GDP growth

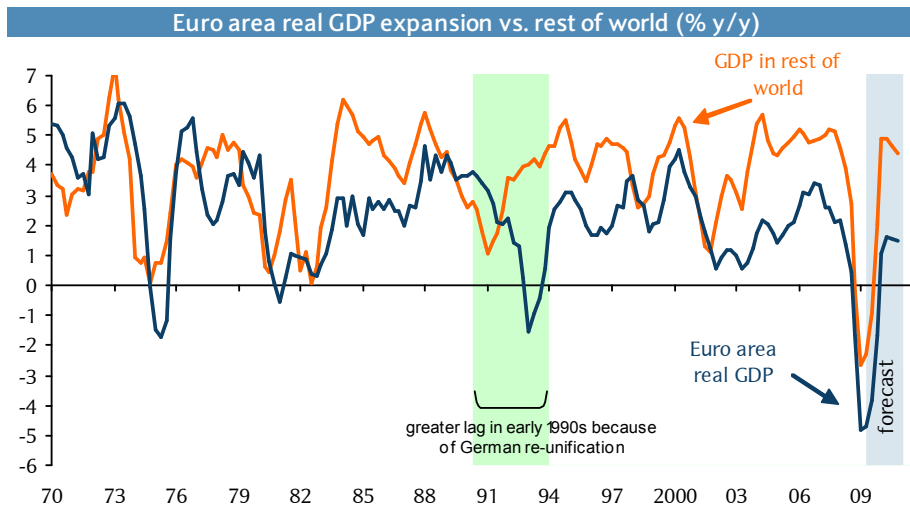
Recession	Deepest q/q GDP decline in recession	Strongest q/q rise in first year of recovery
1948-1949	-5.4	17.2
1953-1954	-6.2	12.0
1957-1958	-10.4	10.5
1960-1961	-5.0	8.4
1969-1970	-4.2	11.5
1973-1975	-4.8	9.4
1980	-7.9	8.6
1981-1982	-6.4	9.3
1990-1991	-3.5	4.5
2001-2001	-1.1	3.5
2007-2009	-6.4	5.0*

Note: asterisk indicates forecast. Source: BEA, NBER, Haver Analytics, Barclays Capital.



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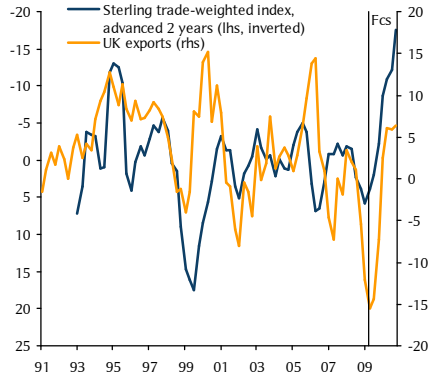
## Europe's fortunes lag – but are nonetheless close correlated with - the global economy



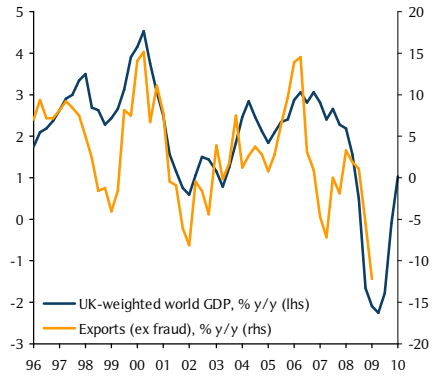
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## Lower sterling versus weak external demand

Sterling and UK exports

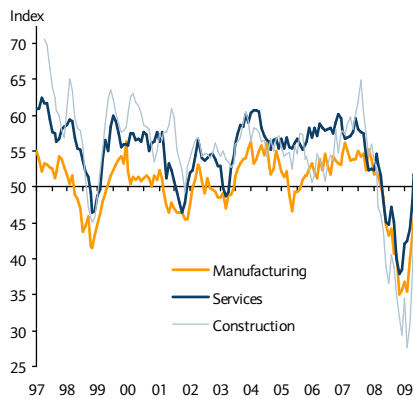


Goods exports and world GDP

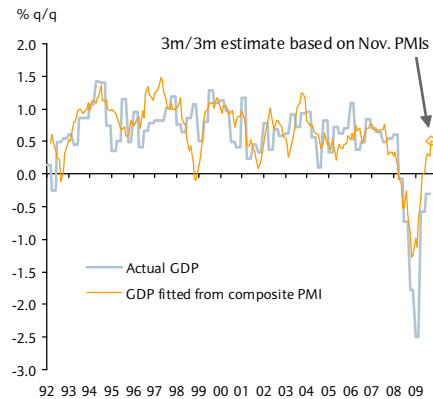


## PMIs point to stronger growth in Q4 but have been unreliable

PMI indices

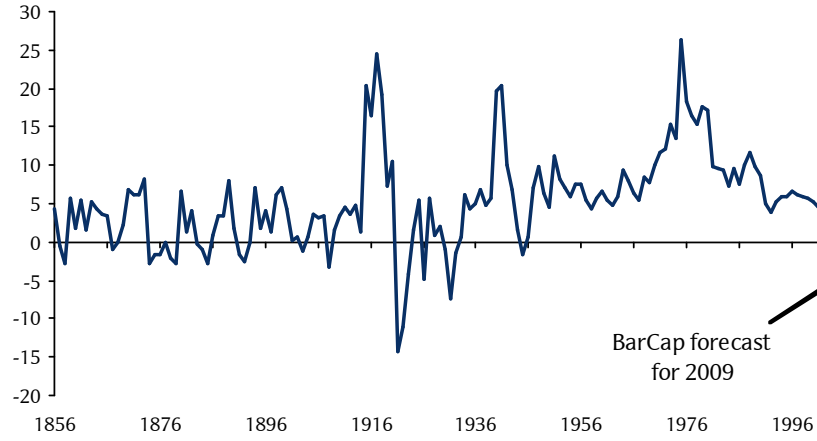


GDP and PMI-based indicator, % q/q



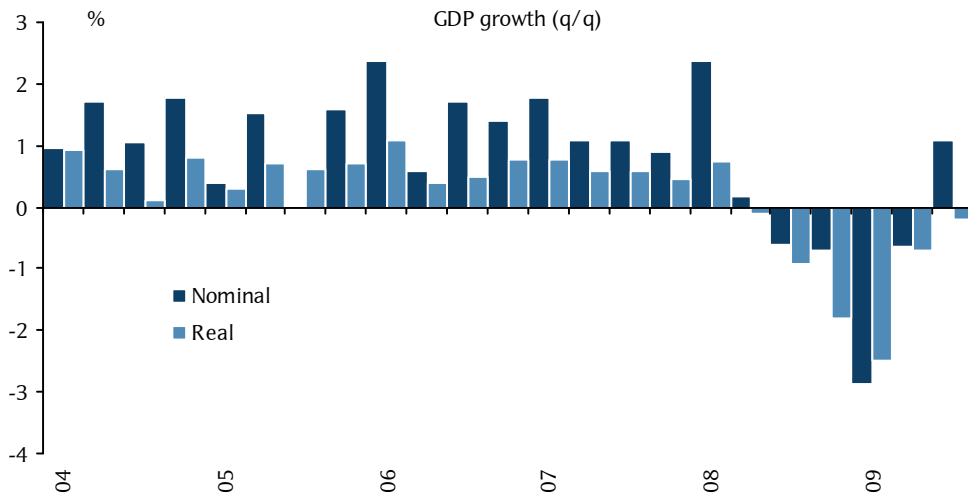
### Nominal GDP expected to fall most since 1930s: Cue QE

Nominal GDP, % y/y

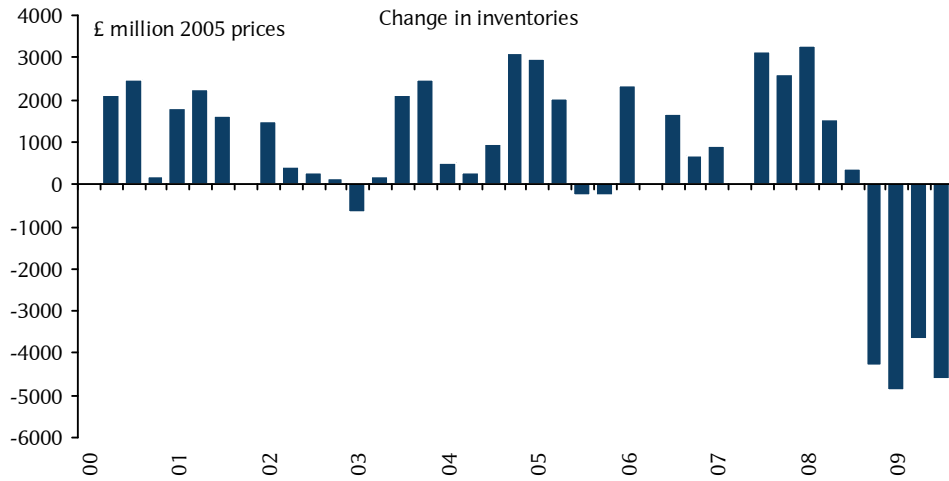


### Q3 saw a further recovery of nominal GDP growth ...

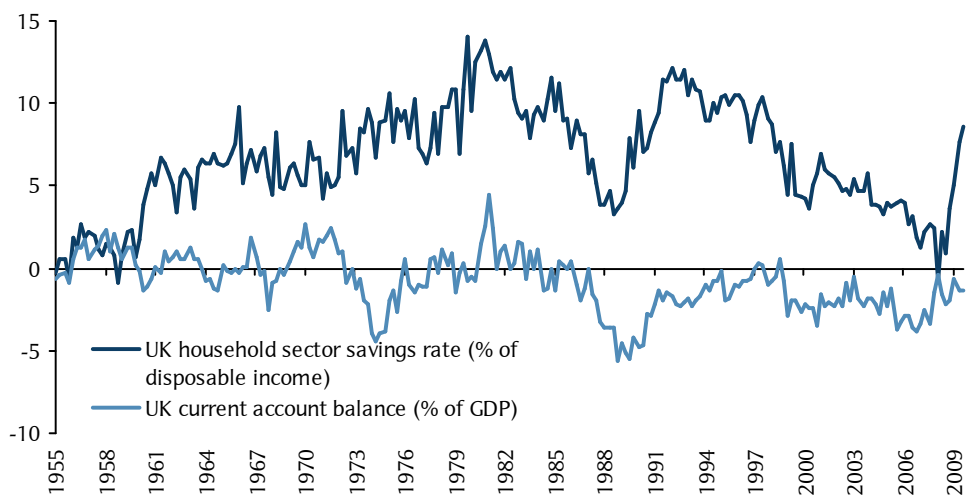
GDP growth (q/q)



... and another huge reduction in inventories



The adjustment in the household sector savings rate has been unprecedentedly quick



## Prospects for sterling

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- Positives:
  - ▶ Current level (especially against the EUR)
  - ▶ Other economies' issues
    - Greece
    - Restructuring the US economy
- Negatives:
  - ▶ Fiscal policy, especially when coupled with uncertainties about the election result
- Monetary policy:
  - ▶ This has been a negative, probably too early to call it a positive
  - ▶ But we think this will be a significant positive going forward

## Barclays Capital G10 FX Forecasts

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	Spot	Forecasts			
		1 Month	3 Month	6 Month	1 Year
GBP/USD	1.62	1.59	1.63	1.63	1.73
GBP/EUR	1.13	1.08	1.12	1.16	1.19
EUR/GBP	0.89	0.92	0.89	0.86	0.84
EUR/USD	1.44	1.47	1.45	1.40	1.45
USD/JPY	90	89	92	95	100
USD/CHF	1.04	1.04	1.06	1.11	1.09
USD/CAD	1.07	1.04	1.05	1.08	0.98
AUD/USD	0.89	0.90	0.90	0.92	0.92
NZD/USD	0.71	0.72	0.72	0.74	0.74
EUR/JPY	130	131	133	133	145
EUR/CHF	1.50	1.52	1.53	1.56	1.58
EUR/SEK	10.45	10.00	9.90	9.70	9.40
EUR/NOK	8.40	8.30	8.20	8.10	7.90

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