BARCLAYS CAPITAL

Corporate Conference Call

8 June 2010

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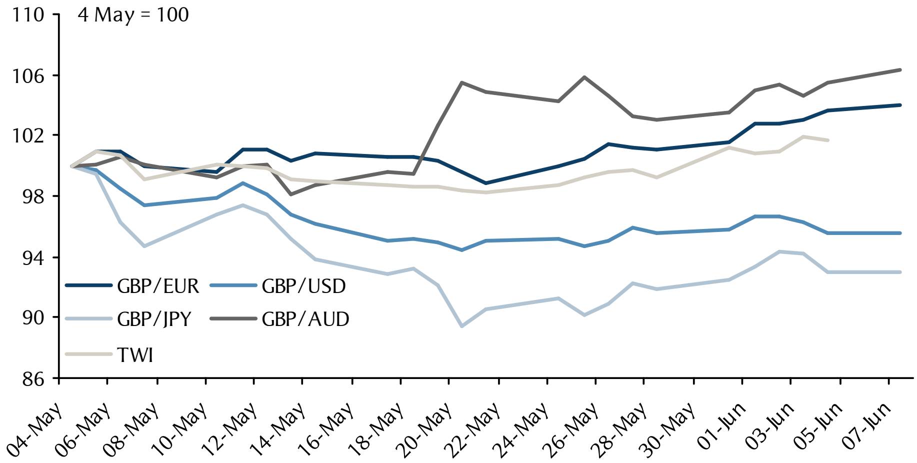
Plan

- Another very bad month for risky assets
- But mixed for sterling
- Why?
  - Monetary policy remains very loose
  - But the great fiscal tightening is just getting underway
  - GBP appears to have become a less "risky" currency – though all is relative
- Ongoing risks to the global economy more generally
  - The euro area problems persist
  - The Chinese property bubble remains a worry
  - And many are concerned about prospects for growth
- What next?

In trade-weighted terms GBP appreciated slightly over the month – up against the EUR and some of the riskier currencies but down against the USD



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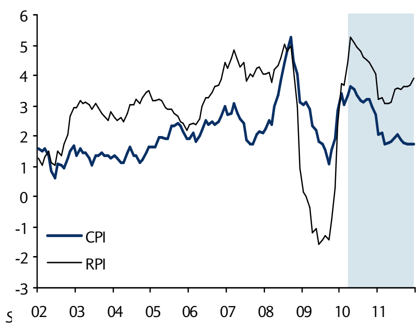
Last updated: 12 May 2010

UK outlook: inflation – summary

UK consumer price indices, % y/y



% y/y											
2008	CPI	RPI	2009	CPI	RPI	2010	CPI	RPI	2011	CPI	RPI
Jan	2.2	4.1	Jan	3.0	0.1	Jan	3.4	3.7	Jan	2.0	3.2
Feb	2.5	4.1	Feb	3.1	0.0	Feb	3.0	3.7	Feb	2.1	3.2
Mar	2.4	3.8	Mar	2.9	-0.4	Mar	3.4	4.4	Mar	1.7	3.1
Apr	3.0	4.2	Apr	2.3	-1.2	Apr	3.6	5.2	Apr	1.8	3.1
May	3.3	4.3	May	2.2	-1.1	May	3.5	5.1	May	1.8	3.2
Jun	3.8	4.6	Jun	1.8	-1.6	Jun	3.3	4.9	Jun	2.0	3.5
Jul	4.4	5.0	Jul	1.7	-1.4	Jul	3.2	4.8	Jul	2.0	3.6
Aug	4.8	4.8	Aug	1.5	-1.3	Aug	3.1	4.6	Aug	1.9	3.5
Sep	5.2	5.0	Sep	1.1	-1.4	Sep	3.2	4.5	Sep	1.8	3.6
Oct	4.5	4.2	Oct	1.5	-0.8	Oct	3.2	4.5	Oct	1.8	3.6
Nov	4.1	3.0	Nov	1.9	0.3	Nov	3.0	4.2	Nov	1.7	3.7
Dec	3.1	0.9	Dec	2.8	2.4	Dec	2.7	3.9	Dec	1.7	3.9
2008	3.6	4.0	2009	2.2	-0.5	2010	3.2	4.5	2011	1.9	3.4
Oil $	97.3		Oil $	61.6		Oil $	83.0		Oil $	89.1	

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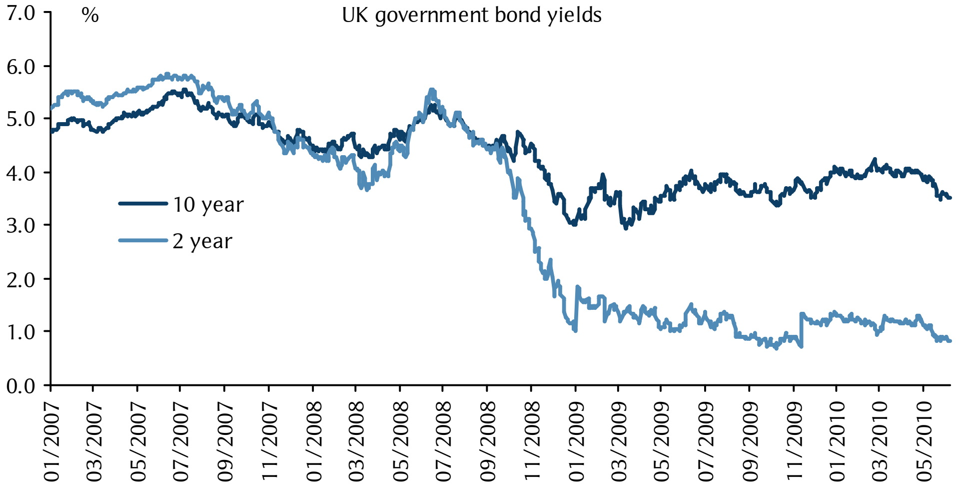
The fiscal situation is likely to dominate short-run commentary on GBP



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Last updated: 14 April 2010

UK has good starting position but bad dynamics

	Rating	Net Debt (% GDP)	Government balance (% GDP) 2008	2009	2010	2011
UK	AAA	46.9	-6.3	-11.9	-11.1	-9.2
France	AAA	53.1	-3.4	-7.5	-7.5	-6.2
Germany	AAA	50.2	0.0	-3.3	-4.7	-3.8
Italy	A+	97.4	-2.7	-5.3	-5.1	-4.6
Japan	AA	96.5	-2.9	-8.8	-9.5	-8.0
US	AAA	56.4	-3.2	-10.0	-8.5	-7.0
Canada	AAA	28.6	0.1	-4.9	-3.0	-2.0
Greece	BBB+	86.1	-7.8	-12.7	-9.1	-6.0

Ratings are as per Standard & Poors on 14 April

Net debt figures are annual data for 2009 via the OECD in order to ensure comparability

Source: Barclays Capital, OECD, Haver analytics, Reuters

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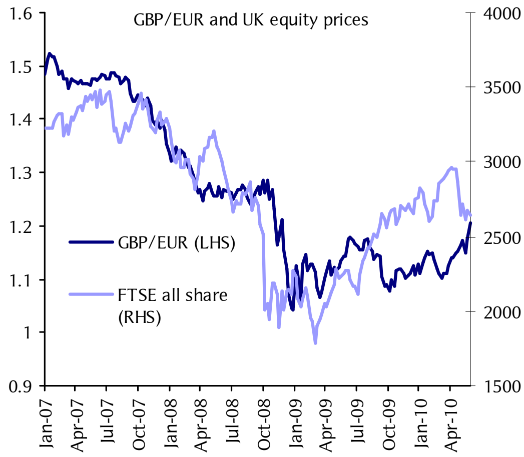
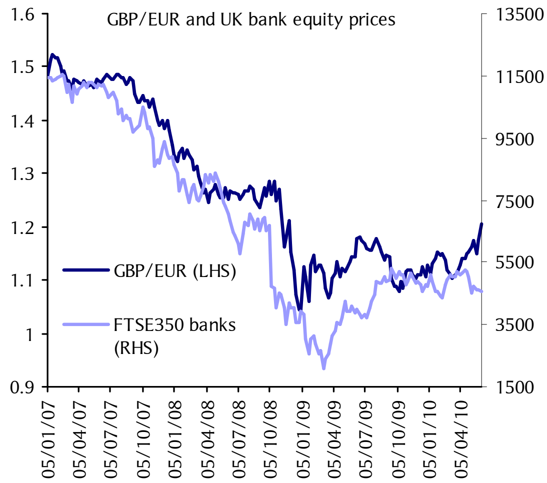
An interesting relationship has developed between GBP and risky asset prices





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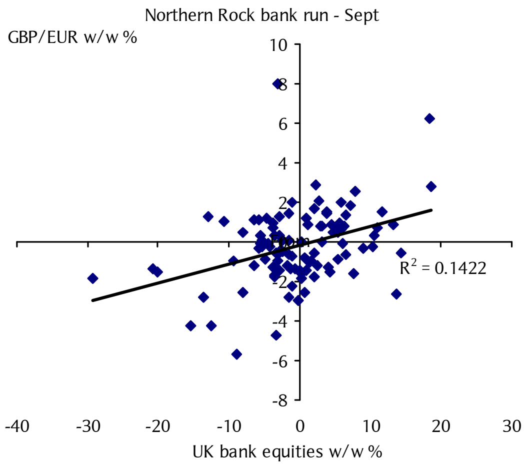
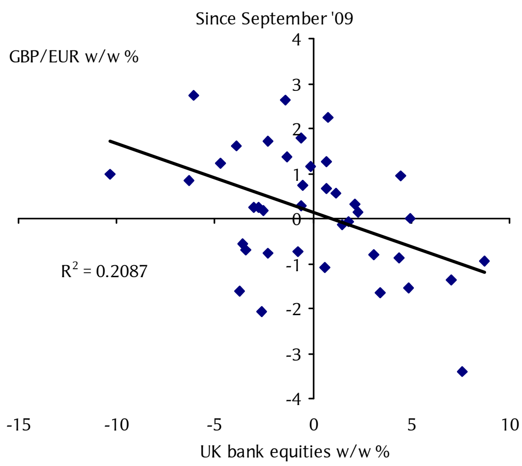
GBP now appears to be something of a safe haven currency – at least against the EUR, for now





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Ongoing sources of concern

- Euro area
- China
- Global growth

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A lot of focus has been placed on the German political response to the crisis…

Germany's net payment to the EU budget, €bn

Note *Gliding 12 months sum. Source: Thomson Financial, Deutsche Bundesbank

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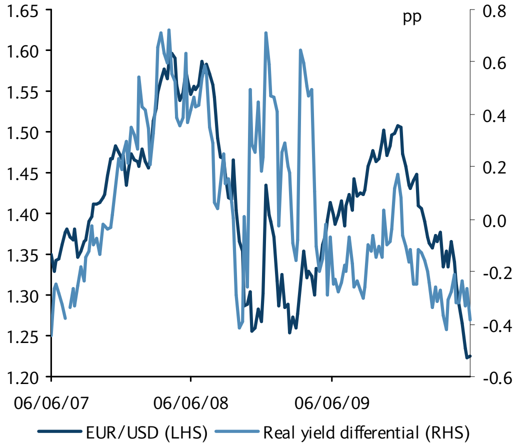
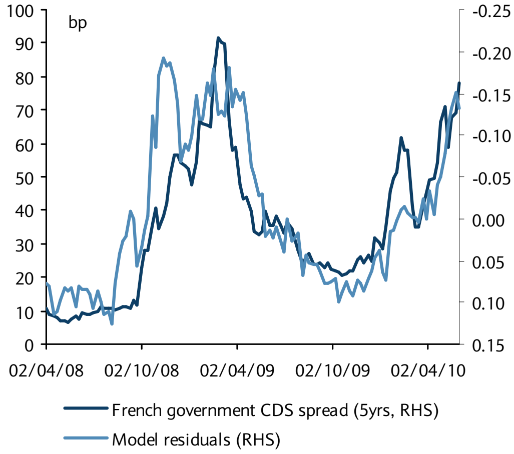
…but in some ways it might be more informative to look to France

The difference between US and French real yields explains much of EUR/USD moves…



…with most of the rest explained by the French sovereign CDS spread



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Chinese growth is unlikely to be hit too hard by action taken on the housing market

	2009	2010F	2011F
Current growth forecast			
Real GDP (%)	8.7	10.1	9.0
Contribution to GDP growth			
Consumption (pp)	4.6	5.4	4.6
Gross Capital Investment (pp)	8.0	5.0	4.4
Change in contribution to GDP growth (pp)	3.9	-3.0	-0.6
of which property investment (pp)	1.1	-0.8	-0.2
Net Exports (pp)	-3.9	-0.3	0.0
Downside risk due to the latest property tightening policy			
Real property investment (%y/y)	24.0	15.7	7.0
Private (%y/y)		10.5	0.0
Public-related housing (%y/y)		100.0	70.0
Change in property investment contribution to GDP growth (pp)		-0.9	-0.9
Decline in growth compared with the current forecast (pp)			
Real GDP (%)		-0.2	-0.7

Note: Contribution to GDP growth = % growth rate * share in GDP in the previous year
Source: CEIC, Barclays Capital

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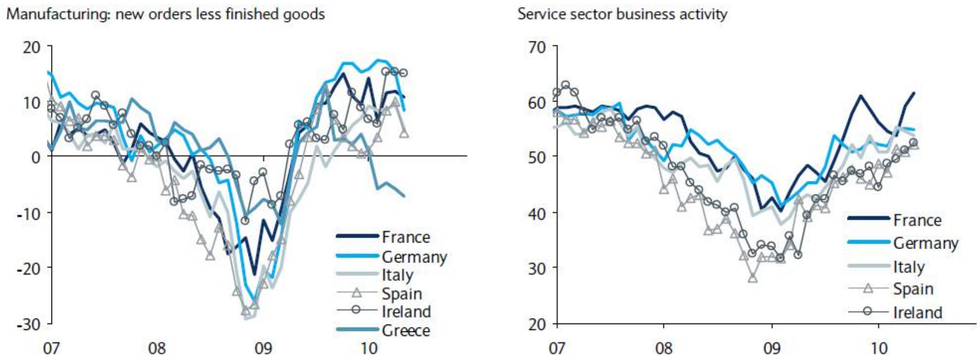
Even the euro area appears to be enjoying a fairly robust recovery – though not in all countries



Source: Barclays Capital, NTC/Markit

[1] See Global Economics Daily I, 3 June 2010
[2] See Figure 3 of Euro Outlook in Global Economics Weekly, 28 May 2010

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Forecasts

		Forecasts			
	Spot	1 Month	3 Month	6 Month	1 Year
GBP/USD	1.45	1.45	1.48	1.57	1.57
GBP/EUR	1.22	1.21	1.23	1.26	1.26
EUR/GBP	0.82	0.83	0.81	0.80	0.80
GBP/JPY	133.5	133.4	139.1	150.7	153.9
GBP/CHF	1.69	1.75	1.81	1.88	1.95
GBP/CAD	1.53	1.45	1.48	1.62	1.68
GBP/AUD	1.78	1.65	1.68	1.87	1.91
GBP/NZD	2.20	2.07	2.11	2.28	2.34
GBP/SEK	11.71	11.78	11.84	11.93	11.81
GBP/NOK	9.71	9.79	9.93	9.92	9.86
memo:					
EUR/USD	1.19	1.20	1.20	1.25	1.25
USD/JPY	92	92	94	96	98

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