



Corporate Conference Call

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Why has GBP sold off so aggressively?

- Monetary policy
- Fiscal issues
- Sentiment
- Also:
 - ▶ Global growth
 - ▶ Aggregate saving/the current account
 - ▶ EM reserve diversification
 - ▶ Valuation
- I will concentrate on the first three



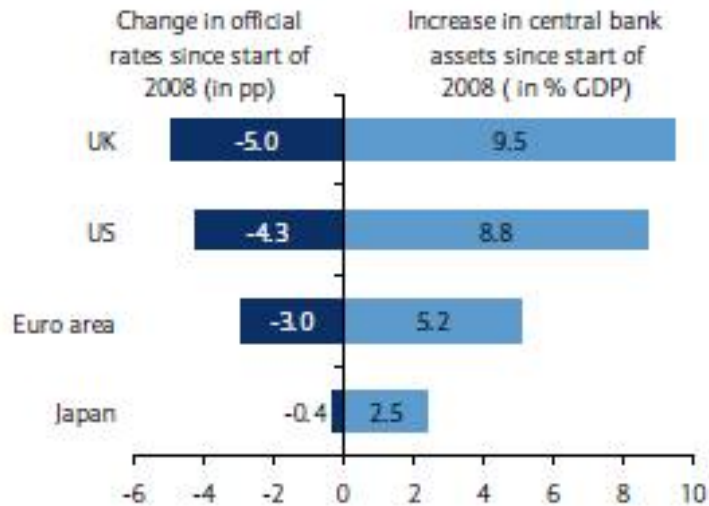
UK macroeconomic outlook

- We expect a firm, if not buoyant, recovery: 1.8% growth in 2010, 2.4% in 2011
- We should see some support from stockbuilding
- Consumption has undershot and should grow despite weak income growth
 - But tight credit availability and concerns about fiscal consolidation will limit its pace
- Unemployment is probably close to its peak, but a further rise is a key risk to the outlook
- The drag from government demand from H2 onwards is likely to be large, and any offsetting boost from net trade is likely to be modest

Monetary policy

- At present this is extremely accommodative in all economies
- But is loosest in the UK, then the US, then the euro zone, especially when taking the level of the exchange rate into account
- Inflationary pressures appear to be stronger in the UK and the size of the QE programme is larger.
- Policy credibility may also be more of a problem for the Bank of England than either of the other central banks
- At present loose monetary policy is weighing on GBP but we expect it to become a positive influence in H2 this year

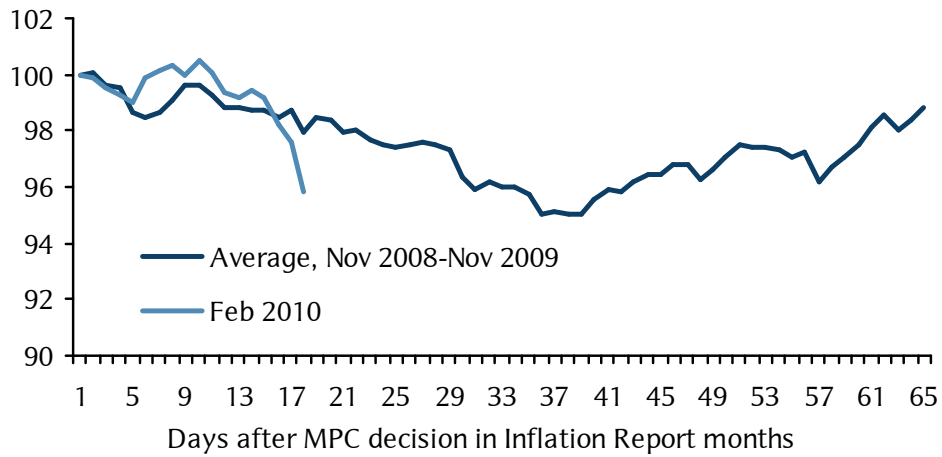
MPC policy has been looser than any other central bank



MPC communication and the markets

- Prior to the decision/IR/minutes we expected no change of policy and a bearish tone to comments
- Decision: no change
- IR: downwards revision to both growth and inflation
 - ▶ Given that change, why no increase of QE?
 - ▶ Led to expectations that some members of the MPC had voted for an increase even though the majority had not
- Minutes: unanimous vote for no change
 - ▶ In itself that was an upside surprise
 - ▶ But the minutes noted that it had been a close-run decision for some members
- TSC hearings: Miles and King suggest the decision was close and if the UK economy continued to be weak QE could be extended
 - ▶ Where is the news? Nonetheless GBP sold off...

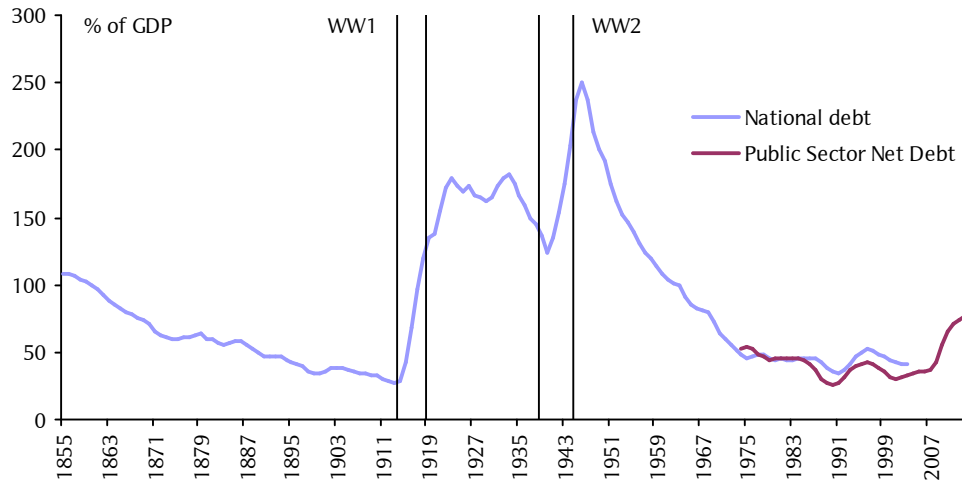
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Fiscal policy

- Worries abound about the UK government's financial position abound
- Exacerbated by the upcoming election
 - ▶ The parties are making this one of the election's key issues
 - ▶ The likelihood of a hung parliament has increased
 - ▶ It is possible that not addressing the deficit quickly will be seen as good for votes
- Taken together, investors fear that the likelihood of firm action to sort out the long-term profile of the government debt will be postponed
 - ▶ Increasing the costs of bringing the deficit back to sustainability
 - ▶ And the likelihood of a sovereign ratings downgrade

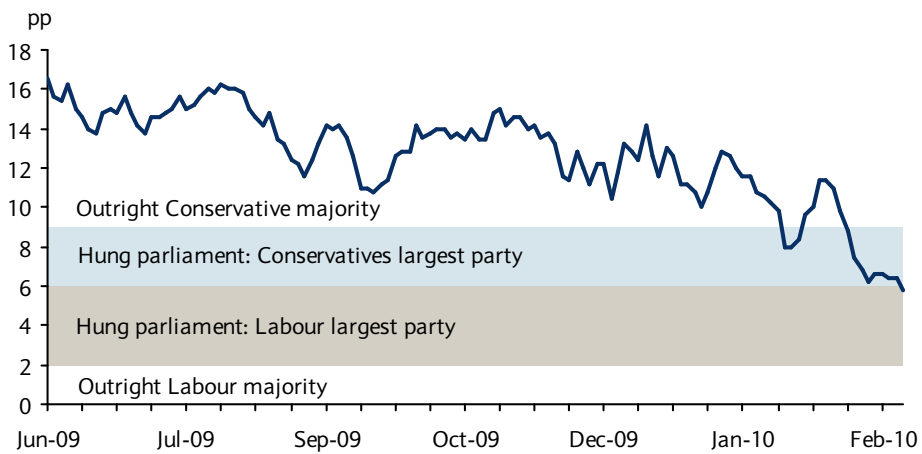
The public finances are a serious issue for the UK



Source: IFS, HM Treasury, Barclays Capital



The Conservatives are widely thought to need a fairly large lead over Labour in order to achieve an overall majority



History teaches us that close elections tend to be followed by short parliaments

Election	Con.	Lab.	Lib.	Majority
1945	189	396	25	Lab 146
1950	298	315	9	Lab 8
1951	320	296	6	Con 16
1955	344	277	6	Con 59
1959	365	258	6	Con 100
1964	303	317	9	Lab 5
1966	253	363	12	Lab 99
1970	330	287	6	Con 31
1974(Feb)	296	301	14	None
1974(Oct)	276	319	13	Lab 5
1979	339	268	11	Con 43
1983	397	209	23	Con 144
1987	376	229	22	Con 102
1992	336	270	20	Con 21
1997	165	418	46	Lab 177
2001	166	413	52	Lab 167
2005	198	356	62	Lab 66

Sentiment matters a lot: “technical” levels have been breached



Forecasts

	Spot	Forecasts			
		1 Month	3 Month	6 Month	1 Year
GBP/USD	1.49	1.57	1.53	1.55	1.67
GBP/EUR	1.10	1.14	1.14	1.15	1.19
EUR/GBP	0.91	0.88	0.88	0.87	0.84
EUR/USD	1.35	1.38	1.35	1.35	1.40
USD/JPY	89	89	92	95	100
USD/CHF	1.08	1.11	1.14	1.16	1.13
USD/CAD	1.06	1.05	1.05	1.08	0.98
AUD/USD	0.89	0.90	0.90	0.88	0.85
NZD/USD	0.69	0.72	0.72	0.70	0.68
EUR/JPY	121	122	124	128	140
EUR/CHF	1.46	1.52	1.53	1.56	1.58
EUR/SEK	9.77	10.00	9.90	9.70	9.40
EUR/NOK	8.07	8.30	8.20	8.10	7.90



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