

GLOBAL ECONOMIC OUTLOOK

June 2010

CONTENTS

SUMMARY & OVERVIEW Page 2

GLOBAL ECONOMIC FORECASTS Page 3

GLOBAL CURRENCY FORECASTS Page 6

COUNTRY FORECASTS Page 7

GLOBAL ECONOMIC OUTLOOK JUNE 2010

EXECUTIVE SUMMARY

- Our outlook is predominantly unchanged this month. In our view the global economy remains on a solid recovery path. However, regional differences in the pace of recovery have increased, requiring a more nuanced outlook across the major regions. Furthermore, downside risks due to financial market instability have increased.
- The latest indicators for the US have been solid, despite slightly softer payrolls data. Other economies in the Americas also show ongoing improvements, with growth accelerating in Canada, Mexico and Brazil. We have pushed back our forecasts for Fed hikes on foot of heightened risks stemming from difficulties in the Eurozone and increased financial market instability. With inflation pressures weak, the pace of tightening into 2011 is likely to be very gradual. We expect many other regional central banks to either commence or continue monetary tightening at a moderate pace over the balance of this year and into 2011.
- The Asian region remains the best performing region globally. China and India continue to register strong growth. However, inflation pressures are building in both economies. As such, we expect ongoing monetary tightening from authorities in both countries – and this may result in some slowing in growth into H2 this year and 2011. Other smaller regional economies are enjoying a strong rebound also. The Japanese economy is benefiting from this strong regional dynamic. The Australian economy continues to perform strongly.
- The outlook for Europe remains more challenging. The fiscal position of peripheral member states remains a significant concern for markets, though conditions have calmed somewhat in recent weeks. The response from Eurozone governments to the crisis has been strong, with a €750bn package deployed to stabilise conditions. We feel that the measures taken were strong and appropriate. As such we continue to see Eurozone growth at 1.5% (the weaker Euro should help offset some of the negative growth effects of the crisis). However, as we now stand it remains unclear if these measures will prove sufficient and as such risks for the Eurozone lie to the downside. Given these difficult conditions we feel that the ECB are likely to hold off on monetary tightening until well into 2011. Due to the Eurozone's dominant regional economic status, these difficulties also imply downside risks for other regional economies, including the UK.
- Although the Eurozone support package initially failed to calm markets globally, recent weeks have seen somewhat calmer conditions, aided by the promise from the EU to publish stress tests on the regions major banks. Nonetheless, the potential for a further intensification of the crisis in Europe, with strong spillover effects on financial markets globally, represents the principal downside risk for the global outlook (though it is not our central view).
- Our currency outlook has not significantly changed. We remain negative on the Euro and Japanese Yen. We feel the fundamentals of both currencies are weak (weak growth, low interest rates, significant fiscal challenges). The Yen remains overvalued from a valuation perspective, though the Euro is now approaching fair value. In contrast, many emerging market currencies, and some developed currencies, offer far stronger fundamentals (stronger growth, higher interest rates and strong fiscal and external debt positions), while at the same time they remain undervalued relative to long term fair value. We favour the Canadian Dollar, Polish Zloty, Mexican Peso and several Asian currencies.

GLOBAL ECONOMIC OUTLOOK JUNE 2010

GLOBAL GROWTH OUTLOOK

Summary: The global recovery remains on track, though regional differences in the strength of recovery have increased. Recovery remains strongest in Asia, though a natural slowing from above trend growth to trend like growth can be anticipated over H2. The US economic recovery has strengthened slightly over recent months, and we continue to see US growth of 3% this year. However, conditions are less favourable in Europe. The fiscal crisis in the Eurozone has prevented a strengthening in regional growth, as has occurred elsewhere. Our central scenario sees growth remaining below trend across the region, while risks remain to the downside. Overall, we see global growth registering 4.5%, close to trend, and certainly a stronger result than was anticipated 9 months ago. The key global risk is the potential for an intensification of the crisis in Europe. Given the strong response from European governments and the ECB, this is not our central scenario, but nonetheless remains a possibility that requires close monitoring.

GLOBAL GROWTH FORECASTS						
GDP Growth Y/Y	2006	2007	2008	2009	2010 F (OLD)	2010 F (NEW)
US	3.3%	2.0%	1.1%	-2.50%	3.00%	3.00%
EUROZONE	3.0%	2.6%	0.7%	-4.00%	1.50%	1.50%
JAPAN	2.0%	2.4%	-0.6%	-5.50%	2.00%	2.50%
UK	2.8%	3.0%	0.7%	-4.00%	1.50%	1.50%
CANADA	3.1%	2.7%	0.8%	-2.00%	3.00%	3.00%
AUSTRALIA	2.9%	4.0%	2.1%	1.00%	3.00%	3.00%
SWITZERLAND	2.7%	2.5%	2.0%	-1.50%	2.50%	2.50%
SWEDEN	4.3%	2.7%	0.0%	-5.00%	2.50%	2.50%
NORWAY	4.4%	4.5%	2.0%	-1.50%	2.50%	2.50%
NEW ZEALAND	1.5%	3.0%	0.5%	-1.50%	2.50%	2.50%
POLAND	6.2%	6.7%	4.5%	1.50%	3.00%	3.00%
CZECH	6.8%	6.0%	3.5%	-3.00%	2.00%	1.50%
HUNGARY	4.1%	1.1%	0.5%	-5.00%	2.00%	1.50%
RUSSIA	7.4%	8.1%	5.5%	-8.00%	5.00%	5.00%
SOUTH AFRICA	5.4%	5.1%	3.1%	-2.00%	3.50%	3.50%
TURKEY	6.9%	4.6%	1.0%	-6.00%	4.50%	4.50%
ISRAEL	5.2%	5.4%	3.2%	-1.00%	3.50%	3.50%
BRAZIL	3.7%	5.7%	5.0%	0.00%	6.00%	6.00%
MEXICO	4.9%	3.5%	1.3%	-7.00%	5.00%	5.00%
CHILE	4.3%	5.1%	3.4%	-1.50%	4.00%	4.00%
ARGENTINA	8.5%	5.7%	7.0%	-2.00%	3.00%	3.00%
COLUMBIA	6.8%	7.7%	3.0%	-1.50%	4.00%	4.00%
PERU	7.7%	8.9%	9.8%	1.50%	7.00%	7.00%
CHINA	11.6%	13.0%	9.0%	8.50%	10.50%	10.50%
INDIA	9.9%	9.2%	7.4%	6.50%	8.50%	8.50%
TAIWAN	4.9%	5.7%	0.0%	-3.00%	6.00%	6.00%
SOUTH KOREA	5.2%	5.1%	2.2%	-1.00%	6.00%	6.00%
SINGAPORE	8.4%	7.8%	1.0%	-4.00%	7.00%	7.00%
MALAYSIA	5.8%	6.3%	4.6%	-3.00%	6.00%	6.00%
INDONESIA	5.5%	6.3%	6.1%	4.00%	6.00%	6.00%
PHILIPPINES	5.5%	7.5%	4.0%	2.00%	6.00%	6.00%
WORLD	5.00%	4.50%	3.50%	-1.50%	4.50%	4.50%
Forecast Downgrade	Forecast Upgrade					

GLOBAL ECONOMIC OUTLOOK JUNE 2010

GLOBAL MONETARY POLICY OUTLOOK

Summary: Inflation pressures remain well contained in developed economies. The large volume of spare capacity (high unemployment in particular) in the major developed economies is likely to keep inflation pressures in check over coming quarters. However, inflation pressures in many emerging market economies are now beginning to build. Levels of spare capacity are lower in large emerging economies such as China, India and Brazil. As such, the robust recovery in these economies is feeding through into upward pressures on inflation rates more readily.

GLOBAL INFLATION					
	Headline Inflation	Inflation Target	Policy Rate	Real Policy Rate	Policy Stance?
	Orange Bold = > 2% above target				Easy Neutral Tight
	Grey Bold = > 2% below target				←————→
US	1.20%	2% Core	0.13%	-1.08%	Easy
EUROZONE	1.60%	Max 2.00%	1.00%	-0.60%	Easy
JAPAN	-1.50%	1.00%	0.00%	1.50%	Neutral
UK	3.70%	Max 3.00%	0.50%	-3.20%	Easy
CANADA	1.80%	1.00% to 3.00%	0.50% (+25bp)	-1.30%	Easy
AUSTRALIA	2.90%	2.00% to 3.00%	4.50%	1.35%	Neutral
SWITZERLAND	1.40%	Max 2.00%	0.25%	-1.15%	Easy
SWEDEN	1.00%	1.00% to 3.00%	0.25%	-0.75%	Easy
NORWAY	3.30%	2.50%	2.00%	-1.30%	Easy
NEW ZEALAND	2.00%	1.00% to 3.00%	2.75% (+25bp)	0.75%	Neutral
POLAND	2.40%	1.50% to 3.50%	3.50%	1.10%	Neutral
CZECH	1.10%	2.00% to 4.00%	0.75%	-0.35%	Easy
HUNGARY	5.60%	3.00%	5.00% (-25bp)	-0.60%	Easy
RUSSIA	6.00%	9.00% approx	-	na	
SOUTH AFRICA	4.80%	3.00% to 6.00% core	6.50%	1.70%	Neutral
TURKEY	10.20%	6.50%	6.50%	-3.70%	Easy
ISRAEL	3.00%	1.00% to 3.00%	1.50%	-1.50%	Easy
BRAZIL	5.30%	2.50% to 6.50%	10.25% (+75bp)	4.95%	Tight
MEXICO	4.30%	2.00% to 4.00%	4.50%	0.20%	Neutral
CHILE	0.90%	2.00% to 4.00%	1.00% (+50bp)	0.10%	Neutral
ARGENTINA	-	-	-	na	-
COLUMBIA	2.00%	2.00% to 4.00%	3.00%	1.00%	Neutral
PERU	1.00%	1.00% to 3.00%	1.75% (+25bp)	0.75%	Neutral
CHINA	2.80%	-	5.31%	2.51%	Tight
INDIA (avg CPI and PPI)	11.7%	8.50%	3.75%	-6.70%	Easy
TAIWAN	1.30%	-	1.25%	-0.05%	Easy
SOUTH KOREA	2.70%	2.00% to 4.00%	2.00%	-0.70%	Easy
SINGAPORE	2.80%	1.50%	-	na	Tight
MALAYSIA	1.50%	na	2.50% (+25bp)	1.00%	Neutral
INDONESIA	4.20%	4.00% to 6.00%	-	na	-
PHILIPPINES	4.30%	3.00% to 5.00%	4.25%	-0.05%	Easy

GLOBAL ECONOMIC OUTLOOK JUNE 2010

GLOBAL MONETARY POLICY OUTLOOK

Summary: Our monetary policy outlook is unchanged across most economies. We continue to feel that medium term financial stability considerations will motivate most central banks globally to begin/continue the process of monetary normalisation. Inflation pressures are most obvious in several large emerging markets, including China, India, Brazil and Turkey, and monetary tightening in these economies may need to be somewhat more forceful. Our outlook for monetary policy in Europe is mostly unchanged. Europe is the region with the weakest recovery and most significant financial stability challenges, and as such we continue to feel that monetary tightening will be very gradual in the region, with both the Eurozone and the UK waiting until well into 2011 to tighten. We have also moved down our rate forecasts for several EMEA economies, in line with the risks facing European economies generally. The main change this month relates to our Fed rate forecast. We have decided to push back the profile for tightening. The recent difficulties in the Eurozone, and attendant financial market volatility, along with our reading of recent comments from FOMC members, point to a slower path for Fed tightening.

GLOBAL MONETARY POLICY FORECASTS				
Central Bank Policy Rate	Current Rate	2009	2010 F (OLD)	2010 F (NEW)
US	0.125%	0.125%	1.00%	0.50%
EUROZONE	1.00%	1.00%	1.00%	1.00%
JAPAN	0.00%	0.00%	0.00%	0.00%
UK	0.50%	0.50%	0.50%	0.50%
CANADA	0.50% (+25bp)	0.25%	2.00%	1.50%
AUSTRALIA	4.50%	3.75%	5.00%	5.00%
SWITZERLAND	0.25%	0.25%	0.50%	0.50%
SWEDEN	0.25%	0.25%	0.75%	0.75%
NORWAY	2.00%	1.75%	2.50%	2.50%
NEW ZEALAND	2.75% (+25bp)	2.50%	3.75%	3.75%
POLAND	3.50%	3.50%	4.25%	4.00%
CZECH	0.75%	1.00%	1.50%	1.00%
HUNGARY	5.00% (-25bp)	6.25%	5.00%	4.50%
RUSSIA	-	-	-	-
SOUTH AFRICA	6.50%	7.00%	7.00%	7.00%
TURKEY	6.50%	6.50%	8.00%	8.00%
ISRAEL	1.50%	1.25%	2.50%	2.50%
BRAZIL	10.25% (+75bp)	8.75%	11.50%	11.50%
MEXICO	4.50%	4.50%	5.00%	5.00%
CHILE	1.00% (+50bp)	0.50%	2.00%	2.00%
ARGENTINA	-	-	-	-
COLUMBIA	3.00%	3.50%	5.00%	5.00%
PERU	1.75% (+25bp)	1.25%	4.00%	4.00%
CHINA	5.31%	5.31%	6.50%	6.00%
INDIA	3.75%	3.75%	5.00%	5.00%
TAIWAN	1.25%	1.25%	2.00%	2.00%
SOUTH KOREA	2.00%	2.00%	3.00%	3.00%
SINGAPORE	-	-	-	-
MALAYSIA	2.50% (+25bp)	2.00%	3.00%	3.00%
INDONESIA	-	-	-	-
PHILIPPINES	4.25%	4.00%	5.00%	5.00%

Forecast Downgrade

Forecast Upgrade

GLOBAL ECONOMIC OUTLOOK JUNE 2010

GLOBAL CURRENCY FORECASTS

Summary: Our currency outlook is unchanged for the most part. We remain negative on the Euro and Japanese Yen. We feel the fundamentals of both currencies are weak (weak growth, low interest rates, significant fiscal challenges). The Yen remains overvalued from a valuation perspective, though the Euro is now approaching fair value. In contrast, many emerging market currencies, and some developed currencies, offer far stronger fundamentals (stronger growth, higher interest rates and stronger fiscal and external debt positions), while at the same time they remain undervalued relative to long term fair value. We favour the Canadian Dollar, Polish Zloty, Mexican Peso and several Asian currencies. Within Europe, we continue to believe the Euro remains somewhat overvalued (though less so following recent depreciation) and expect it to weaken against most other regional currencies (GBP, SEK, NOK, PLN). We expect the US Dollar to continue to gradually strengthen versus the Euro and Japanese Yen.

FX FORECASTS			
vs USD	Spot May 18	6m Forecast	View
G10			
EUR	1.24	1.18	depreciation
JPY	91	96	depreciation
GBP	1.48	1.50	neutral
CAD	1.03	1.00	appreciation
AUD	0.86	0.90	appreciation
CHF	1.11	1.13	neutral
SEK	7.76	7.75	neutral
NOK	6.39	6.40	neutral
NZD	0.70	0.70	neutral
EMEA			
PLN	3.30	3.20	appreciation
CZK	20.8	21.40	depreciation
HUF	227	235	depreciation
RUB	30.9	30.5	neutral
ZAR	7.59	7.80	depreciation
TRY	1.56	1.55	neutral
ILS	3.83	3.70	appreciation
LATAM			
BRL	1.78	1.75	appreciation
MXN	12.6	12.0	appreciation
CLP	531	530	neutral
COP	1904	1975	depreciation
PEN	2.84	2.80	neutral
ASIA			
CNY	6.83	6.55	appreciation
INR	46.3	44.50	appreciation
TWD	32.3	31.0	appreciation
KRW	1214	1160	appreciation
SGD	1.39	1.36	neutral
MYR	3.27	3.20	neutral
PHP	46.1	45.3	neutral
vs EUR			View vs EUR
GBP	0.84	0.82	neutral
CHF	1.38	1.33	neutral
SEK	9.58	9.20	appreciation
NOK	7.89	7.60	appreciation
PLN	4.08	3.80	appreciation
CZK	25.8	25.3	neutral
HUF	281	277	neutral

GLOBAL ECONOMIC OUTLOOK JUNE 2010

G3 ECONOMIES

United States

-- The data over the past month remains consistent with our 3% GDP growth forecast in our view. The latest payroll data disappointed market expectations somewhat. However, the broad trend in the labour market data is towards gradual improvement, and it is too early to read too much into one months data.

-- We continue to see GDP expanding by 3% over the year as a whole. The Fed is looking for GDP growth approaching 3.5%, so our view is towards the conservative end of expectations. Spare capacity is likely to remain significant however, and this should keep inflation pressures relatively low. The difficulties in the Eurozone, and the associated pickup in financial market volatility, presents a downside risk to growth going forward, though market conditions have improved slightly in recent weeks. Given this risk factor, and our reading of the inclinations of key FOMC members, we have decided to push back our forecast tightening into 2011 for the most part. We now see the Fed commencing tightening at the very end of this year, hiking gradually into 2011 (end year forecast revised down from 1% to 0.5%).

US	Trend	2006	2007	2008	2009	2010 F
GDP y/y	2.9%	2.9%	2.25%	0.50%	-2.50%	3.00%
Core CPI (y.e.)	2.8%	2.5%	2.25%	2.00%	1.25%	1.25%
Fed Rate (y.e.)	4.2%	5.25%	4.25%	0.50%	0.125%	0.50%

Eurozone

-- The Eurozone has remained the focus of global markets for much of the past month. Concerns regarding the fiscal positions of peripheral member states remain acute (particularly Spain and Portugal). The massive €750bn support package put in place nearly 6 weeks ago has failed to fully calm markets. However, in recent weeks market conditions have improved somewhat. An EU pledge to publish stress tests of the EU's 25 largest banks (with more to come) has played a role in calming markets somewhat (with leaks indicating that most banks are well capitalised). Clearly, however, significant vulnerabilities remain going forward and the situation requires close monitoring.

-- We continue to expect that the package will ultimately succeed in restoring stability. The weakening of the Euro, and ongoing strong growth outside of Europe, should cushion the negative impact on Eurozone growth. As such we have retained our 1.5% GDP growth forecast. However, risks are now probably to the downside for growth. Following a change last month, our monetary policy call is unchanged this month – we expect the ECB to leave rates on hold until well into 2011.

EUROZONE	Trend	2006	2007	2008	2009	2010 F
GDP y/y	2.3%	2.9%	2.75%	0.50%	-4.00%	1.50%
CPI (y.e.)	1.9%	2.2%	3.00%	2.00%	0.50%	1.50%
ECB Rate (y.e.)	2.9%	3.5%	4.00%	2.50%	1.00%	1.00%

Japan

-- Recent data indicates that the Japanese economy continues to enjoy a solid growth rebound, aided by the strong growth dynamic in Asia.

-- We expect GDP growth of 2.5% (revised up from 2%) for 2010 as a whole, with H1 quite solid, but H2 slightly weaker. Significant spare capacity, along with the strength of the Yen, is likely to intensify deflationary forces. Tackling these deflationary forces should be a policy priority to a greater degree than is currently the case. Unconventional policy measures from the BoJ may yet be required.

JAPAN	Trend	2006	2007	2008	2009	2010 F
GDP y/y	1.3%	2.2%	2.00%	0.00%	-5.50%	2.50%
CPI (y.e.)	0.0%	0.3%	0.50%	0.00%	-1.50%	-1.00%
BoJ Rate (y.e.)	0.5%	0.3%	0.50%	0.15%	0.00%	0.00%

GLOBAL ECONOMIC OUTLOOK JUNE 2010

OTHER DEVELOPED ECONOMIES

UK

-- The data from the UK continues to point to ongoing recovery. We remain comfortable with our 2010 GDP growth forecast of 1.5% (unchanged). The new chancellor, George Osborne, has announced plans for an emergency budget on June 22. Given the likely tighter fiscal stance we feel the BoE will remain comfortable leaving rates on hold through the end of the year, despite somewhat above target inflation. The Eurozone difficulties, and the tightening of fiscal policy, present downside growth risks.

UK	Trend	2006	2007	2008	2009	2010 F
GDP y/y	2.4%	2.8%	2.75%	1.00%	-4.00%	1.50%
CPI (y.e.)	1.5%	2.3%	2.25%	3.00%	2.00%	2.00%
BoE Rate (y.e.)	6.3%	4.3%	5.75%	2.00%	0.50%	0.50%

Australia

-- The Australian economy continues to expand robustly, aided by strong growth in the Asian region. We expect GDP growth of 3% for 2010 as a whole, perhaps slowing modestly into year end. We expect the RBA to tighten a further 50bp by year end, taking the policy rate to 5%.

AUSTRALIA	Trend	2006	2007	2008	2009	2010 F
GDP y/y	3.2%	2.7%	4.00%	2.50%	1.00%	3.00%
CPI (y.e.)	2.8%	3.5%	3.00%	3.50%	2.00%	2.50%
RBA Rate (y.e.)	6.1%	6.3%	6.75%	4.25%	3.75%	5.00%

New Zealand

-- We expect GDP growth to register 2.5% in 2010 (unchanged), as New Zealand benefits somewhat from strong regional growth in Asia (and associated impact on commodity demand), and a modest domestic recovery. We expect the RBNZ to tighten rates to 3.75% by year end (unchanged).

NEW ZEALAND	Trend	2006	2007	2008	2009	2010 F
GDP y/y	3.0%	1.8%	2.75%	0.50%	-1.50%	2.50%
CPI (y.e.)	2.3%	3.3%	3.25%	3.25%	2.00%	2.50%
RBNZ Rate (y.e.)	7.5%	7.3%	8.25%	5.00%	2.50%	3.75%

Canada

-- Recent data has been quite strong, particularly in relation to the labour market. We expect GDP growth of 3% for the year as a whole, roughly in line with trend. We expect the BoC to tighten rates to 1.5% by year end (revised down from 2% on foot of our changed Fed rate forecast).

CANADA	Trend	2006	2007	2008	2009	2010 F
GDP y/y	2.7%	2.8%	2.75%	1.00%	-2.00%	3.00%
CPI (y.e.)	1.9%	2.0%	2.50%	2.00%	1.25%	2.00%
BoC Rate (y.e.)	5.1%	4.3%	4.50%	1.50%	0.25%	1.50%

Switzerland

-- We expect growth of about 2.5%, as both external and domestic demand recover gradually. The Swiss Franc has continued to strengthen, tightening monetary conditions. In light of this, and given the financial stresses in the Eurozone, we expect monetary tightening to be delayed until 2011 for the most part.

SWITZERLAND	Trend	2006	2007	2008	2009	2010 F
GDP y/y	1.4%	3.2%	2.50%	2.00%	-1.50%	2.50%
CPI (y.e.)	1.8%	1.1%	2.00%	1.50%	0.00%	1.00%
SNB Rate (y.e.)	2.4%	2.0%	2.75%	0.50%	0.25%	0.50%

GLOBAL ECONOMIC OUTLOOK JUNE 2010

Sweden

-- We expect GDP growth of 2.5%, as Sweden's export focused economy benefits from the upturn in global output. We continue to expect the Riksbank to commence tightening by year end, though the process of tightening will be a very gradual one, as elsewhere in Europe. The difficulties experienced in the Eurozone in recent months represent a downside risk that we continue to monitor.

SWEDEN	Trend	2006	2007	2008	2009	2010 F
GDP y/y	3.0%	4.5%	2.75%	0.75%	-5.00%	2.50%
CPI (y.e.)	1.5%	1.5%	2.50%	2.00%	1.00%	2.00%
CB Rate (y.e.)	3.9%	3.0%	4.00%	2.00%	0.25%	0.75%

Norway

-- As with Sweden, we expect growth of about 2.5% for 2010 as a whole, close to trend. We expect the tightening cycle to continue, with the policy rate ending 2010 at 2.5% (+50bp from current levels, unchanged). As elsewhere in Europe, the Eurozone difficulties represent a downside risk.

NORWAY	Trend	2006	2007	2008	2009	2010 F
GDP y/y	2.7%	4.3%	5.00%	2.00%	-1.50%	2.50%
CPI (y.e.)	2.3%	2.3%	2.50%	2.00%	2.00%	2.00%
CB Rate (y.e.)	5.2%	3.5%	5.00%	4.25%	1.75%	2.50%

LATAM ECONOMIES

Brazil

-- Recent data from Brazil indicates that growth remains strong. Strong commodity prices, a recovery in world trade, and strong capital inflows are driving growth. Based on the latest data we expect growth for the year of about 6%. With growth progressing quite strongly, we expect inflation pressures to increase in coming quarters. As such we continue to expect the central bank to deliver significant monetary tightening through the remainder of the year (with rates reaching 11.5% by year end).

BRAZIL	Trend	2006	2007	2008	2009	2010 F
GDP y/y	2.8%	3.7%	4.8%	5.0%	0.00%	6.00%
CPI (y.e.)	7.9%	3.3%	4.5%	5.5%	4.00%	5.00%
CB Rate (y.e.)	-	15.0%	11.25%	13.75%	8.75%	11.50%

Mexico

-- 2009 was an extremely difficult year for the Mexican economy, suffering one of the worst recessions seen globally (due to a sharp fall in exports to the US, along with the impact of swine flu). However, while significant challenges remain, we continue to expect an improvement through 2010 in line with the US and global recovery. We expect GDP growth of about 5% in 2010 (unchanged). We continue to expect monetary tightening later in 2010 (perhaps +50bp in Q4 2010, unchanged), taking rates to 5% by year end.

MEXICO	Trend	2006	2007	2008	2009	2010 F
GDP y/y	4.4%	4.5%	3.0%	2.0%	-7.00%	5.00%
CPI (y.e.)	4.7%	3.8%	4.0%	6.0%	4.00%	4.50%
CB Rate (y.e.)	6.8%	7.0%	7.50%	8.25%	4.50%	5.00%

GLOBAL ECONOMIC OUTLOOK JUNE 2010

Chile

-- The recent earthquake is likely to have offsetting effects on GDP, with output reduced due to damage to the capital stock, offset to some degree by a boost to output from the investment needed to rebuild. As such, for now, we have left our forecasts unchanged. We continue to expect tighter policy in 2010 as the economy recovers (+150bp to 2%, unchanged). The central bank commenced the tightening process with a 50bp hike in early June.

CHILE	2005	2006	2007	2008	2009	2010 F
GDP y/y	6.3%	4.5%	5.3%	4.0%	-1.50%	4.00%
CPI (y.e.)	3.1%	3.5%	7.5%	8.0%	-1.00%	2.50%
CB Rate (y.e.)	4.50%	5.30%	6.00%	8.25%	0.50%	2.00%

Columbia

-- We have no forecast changes. We expect GDP growth of 4% in 2010 (on foot of continued global recovery, policy stimulus and strong commodity prices). Following a surprise monetary easing in late 2009 in response to currency strength, we expect policy to be reversed, with tightening to come in 2010.

COLUMBIA	2005	2006	2007	2008	2009	2010 F
GDP y/y	6.4%	6.8%	7.5%	4.0%	-1.50%	4.00%
CPI (y.e.)	1.5%	4.3%	5.3%	6.0%	3.00%	4.00%
CB Rate (y.e.)			9.75%	9.50%	3.50%	5.00%

Peru

-- Peru looks set to return to strong growth in 2010, aided by monetary stimulus and elevated commodity prices. Based on the latest data (GDP growth was 9.3% y/y in Apr) we expect GDP growth of up to 7% for 2010 as a whole. Peru cut rates aggressively in 2009. With growth recovering we expect monetary tightening in 2010 (taking rates to 4% by year end, unchanged).

PERU	2005	2006	2007	2008	2009	2010 F
GDP y/y	6.4%	7.7%	7.5%	9.0%	1.50%	7.00%
CPI (y.e.)	1.5%	1.1%	3.8%	6.0%	1.00%	3.00%
CB Rate (y.e.)			5.25%	6.50%	1.25%	4.00%

ASIAN ECONOMIES

China

-- The macro data from China over H1 has pointed to above trend growth (Q1 GDP +11.9% y/y). This has prompted some concerns regarding overheating. This is leading to an ongoing gradual tightening of monetary policy. We anticipate that growth will now ease moderately into H2, leaving overall 2010 GDP growth at about 10.5% (above 11% y/y in H1, slightly below 10% y/y in H2). The medium term risks to inflation are now on the upside, owing to strong demand growth and strong growth in monetary aggregates. This strong credit growth also presents risks in terms of property and other asset prices. As such, we continue to expect ongoing monetary tightening, taking the form of both policy rate hikes and a range of administrative measures (we have lowered our rate forecast to 6% vs 6.5% prior as more emphasis is being placed on alternative tightening mechanisms by the PBOC). This tightening is necessary and ultimately beneficial in terms of ensuring medium term financial stability in China.

CHINA	2005	2006	2007	2008	2009	2010 F
GDP y/y	9.9%	10.5%	11.50%	9.50%	8.50%	10.50%
CPI (y.e.)	1.8%	2.0%	7.00%	4.00%	1.00%	3.00%
CB Rate (y.e.)			8.00%	5.58%	5.31%	6.00%

GLOBAL ECONOMIC OUTLOOK JUNE 2010

India

-- As in China, recent data from India points to ongoing strong GDP growth. We maintain our growth forecast for 2010 of 8.5%. With growth strong, already elevated inflation pressures may increase. The RBI has commenced tightening, in line with our expectations. However, further monetary tightening measures are needed. We expect +150bp of tightening by year end, taking rates to 5% (reverse repo rate).

INDIA	2005	2006	2007	2008	2009	2010 F
GDP y/y	8.5%	9.0%	9.0%	7.5%	6.50%	8.50%
CPI/WPI (y.e.)	5.5%	7.0%	7.0%	8.5%	7.00%	9.00%
CB Rate (y.e.)	5.50%	6.00%	6.00%	6.00%	3.75%	5.00%

Korea

-- As in Asia generally, the latest data from Korea remains quite strong. As such, we continue to expect growth of about 6% for 2010 (slightly above trend). The BoK has been slower to tighten rates than we anticipated. We have pushed back some of our forecast monetary tightening into 2011, but still expect the BoK to commence tightening measures by Q4 this year.

KOREA	2005	2006	2007	2008	2009	2010 F
GDP y/y	4.0%	5.0%	5.0%	4.5%	-1.00%	6.00%
CPI (y.e.)	2.7%	2.3%	3.5%	4.5%	2.50%	3.00%
CB Rate (y.e.)	3.75%	4.50%	5.00%	3.00%	2.00%	3.00%

Taiwan

-- Recovery momentum appears to have picked up in Taiwan in recent months, as it has generally in the Asian region. The latest readings from the leading indicator index point to robust growth into 2010. We expect GDP growth of 6% (unchanged). We expect 75bp of tightening in 2010 (unchanged), though inflation pressures remain weak.

TAIWAN	2005	2006	2007	2008	2009	2010 F
GDP y/y	4.0%	4.8%	5.5%	4.0%	-3.00%	6.00%
CPI (y.e.)	2.3%	0.5%	3.3%	2.0%	-0.50%	1.00%
CB Rate (y.e.)	2.3%	2.8%	3.25%	2.00%	1.25%	2.00%

Singapore

-- Q1 GDP data for Singapore was very strong. Indicators of growth have continued to strengthen over recent months on foot of the strong regional growth dynamic. GDP expanded about 8% q/q (32% annualised) in Q1 alone. As such, we expect a strong outturn for 2010, with GDP expanding 7%. At its most recent meeting the MAS moved to tighten monetary policy by allowing the Singapore Dollar to appreciate. Further monetary tightening in H2 looks likely.

SINGAPORE	2005	2006	2007	2008	2009	2010 F
GDP y/y	6.6%	7.9%	7.5%	3.0%	-4.00%	7.00%
CPI (y.e.)	0.5%	1.0%	1.8%	5.0%	0.00%	1.50%

Philippines

-- The Philippines economy continues to strengthen, in line with regional peers. We expect growth to match that in Korea and Taiwan, at about 6% y/y (unchanged from prior). We expect rates to be tightened by about 75bp to 5% by year end.

PHILIPPINES	2005	2006	2007	2008	2009	2010 F
GDP y/y	5.1%	5.5%	7.5%	4.0%	2.00%	6.00%
CPI (y.e.)	7.7%	6.3%	2.5%	9.0%	3.50%	4.00%
CB Rate (y.e.)			5.00%	6.00%	4.00%	5.00%

GLOBAL ECONOMIC OUTLOOK JUNE 2010

Malaysia

-- We continue to expect a solid recovery in 2010, with GDP growth of close to 6% on foot of stronger domestic and external demand conditions. Monetary policy is likely to be gradually tightened through 2010 (unchanged), following on from a recent 25bp hike.

MALAYSIA	2005	2006	2007	2008	2009	2010 F
GDP y/y	5.0%	5.9%	6.5%	5.5%	-3.00%	6.00%
CPI (y.e.)	3.0%	3.6%	2.3%	6.0%	0.00%	1.00%
CB Rate (y.e.)			3.50%	3.25%	2.00%	3.00%

EMEA ECONOMIES

Russia

-- The data from Russia continues to gradually improve. Recent indicators point to growth of about 5%, significantly improved from 2009, though still below pre crisis growth rates. Risks centre on the path for oil prices and any impact from Eurozone difficulties – we will be watching these elements closely.

RUSSIA	2005	2006	2007	2008	2009	2010 F
GDP y/y	5.8%	6.3%	7.50%	6.50%	-8.00%	5.00%
CPI (y.e.)	11.0%	9.0%	12.00%	14.00%	9.00%	9.00%

Turkey

-- As in Russia, recent data points to a solid recovery, with our 4.5% GDP growth forecast looking increasingly likely (with slightly higher growth a possibility) As in Russia, developments in the Eurozone are a risk factor. With growth returning, inflation risks are rising. Thus far the central bank has held on monetary tightening. However, we feel that they will soon be forced to action (+150bp, unchanged).

TURKEY	2005	2006	2007	2008	2009	2010 F
GDP y/y	6.5%	6.0%	5.0%	2.0%	-6.00%	4.50%
CPI (y.e.)	8.2%	10.0%	8.3%	12.0%	6.00%	7.00%
CB Rate (y.e.)	13.50%	17.50%	15.75%	15.00%	6.50%	8.00%

South Africa

-- We continue to expect a gradual recovery in 2010 to 3.5% GDP growth – somewhat below the rates envisaged for LATAM and Asia. The RBSA has been more aggressive in cutting rates than we or the market expected. As a result we revised down our end year rate forecast to 7% last month. We retain this forecast (this represents +50bp from current rates).

SOUTH AFRICA	2005	2006	2007	2008	2009	2010 F
GDP y/y	4.9%	5.0%	5.0%	3.5%	-2.00%	3.50%
CPI (y.e.)	3.4%	4.8%	9.0%	12.0%	6.00%	6.00%
CB Rate (y.e.)	7.00%	9.00%	10.50%	12.00%	7.00%	7.00%

Poland

-- We continue to expect GDP growth of 3%, outperforming regional peers in Eastern Europe (unchanged). We expect gradual tightening from the central bank through 2010, though we have lowered our end year rate forecast slightly (from 4.25% to 4%) on foot of lower inflation. Due to the recent difficulties in the Eurozone, growth risks may now lie somewhat to the downside.

POLAND	2005	2006	2007	2008	2009	2010 F
GDP y/y	3.1%	5.8%	6.5%	5.0%	1.50%	3.00%
CPI (y.e.)	2.2%	1.3%	3.5%	4.5%	3.00%	3.00%
CB Rate (y.e.)	4.50%	4.00%	5.00%	5.25%	3.50%	4.00%

GLOBAL ECONOMIC OUTLOOK JUNE 2010

Czech

-- Although the Czech economy continues to gradually recover, the slow pace of that recovery, and the risks facing the Eurozone, have caused us to again revise down our GDP forecasts slightly, from 2% to 1.5%. The Czech central bank has been quite aggressive in easing rates. Given the profile of risks now facing the economy, we have again lowered our policy rate forecasts. We now see rates remaining broadly unchanged to year end (1% rate forecast for end year).

CZECH	2005	2006	2007	2008	2009	2010 F
GDP y/y	5.0%	5.5%	6.5%	4.0%	-3.00%	1.50%
CPI (y.e.)	1.7%	2.5%	5.0%	5.0%	0.50%	2.00%
CB Rate (y.e.)	2.00%	2.50%	3.50%	2.50%	1.00%	1.00%

Hungary

-- The modest recovery in Hungary looks likely to continue. The stresses being experienced in the Eurozone present a downside risk to the outlook. As in Czech, we have further revised down our growth forecast from 2% to 1.5%. Our forecast remains towards the upper end of market expectations. We have lowered our monetary policy outlook, and see rates being reduced to 4.5% by year end, with downside risks towards 4%.

HUNGARY	2005	2006	2007	2008	2009	2010 F
GDP y/y	4.0%	3.5%	2.5%	1.5%	-5.00%	1.50%
CPI (y.e.)	3.5%	4.0%	6.5%	6.0%	5.00%	4.00%
CB Rate (y.e.)	6.00%	8.00%	7.25%	10.00%	6.25%	4.50%

Israel

-- Conditions in Israel continue to improve, with data through Q1 quite solid. We expect GDP growth of 3.5% for 2010. Inflation pressures are now building gradually. With growth a little stronger, and inflation a little higher, the central bank may tighten rates about 125bp over the course of the year, taking rates to 2.50% by year end (unchanged). The downside risks to Eurozone growth present a downside risk at the margin.

ISRAEL	2005	2006	2007	2008	2009	2010 F
GDP y/y	5.5%	5.1%	5.3%	5.0%	-1.00%	3.50%
CPI (y.e.)	1.3%	2.1%	0.5%	4.0%	3.50%	3.00%
CB Rate (y.e.)	4.50%	5.00%	4.00%	1.75%	1.25%	2.50%

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