GLOBAL ECONOMIC OUTLOOK

January 2012

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EXECUTIVE SUMMARY

- The major market defining story over the Christmas period proved to be the take up for the first 3-year Long Term Repo Operation (LTRO) on 21st December that hit a record €489bn – adding a net of almost €200bn worth of new liquidity into the European banking sector. In the US, the budgetary gridlock in Washington may force the Fed to embark on further monetary stimulus via QE3, as any fiscal policy accommodation looks remote. However, the Obama Administration was able to extend payroll tax cuts and unemployment benefits for the first 2 months of 2012 at the end of December. Chinese authorities have become increasingly concerned about growth prospects, as the People's Bank of China (PBoC) cut their Required Reserve Ratio (RRR) by 50bps, indicating further easing in the months ahead "to induce a soft-landing". Within the EMEA region, Hungary has seen its sovereign debt rating downgraded to 'Junk status' by all three rating agencies and has appealed to the IMF for a new credit line. But a row over curbs on Central Bank independence has led to severe criticism from the EU and IMF, preventing any loan agreement. Turkey's Central Bank (CBRT) has been actively intervening in FX markets to help prop up the Lira with a 'war chest' totalling $26bn as significant capital outflows lead to external financing issues.

- It was no surprise that the negative news flow from the Eurozone led to EUR/USD dropping to below the $1.30-level, depreciating by 3.5% on the month. But the risk-off environment continued to attract haven flows into Yen assets, as it gained almost 1% vs. the USD. The strength of the Yen remains a concern for the Japanese authorities with talk of further FX intervention in the pipeline. December was a tough month for the Nordic currencies. Norges Bank decided to act preemptively and cut its repo rate by 50bp, given the significant shocks from the Eurozone crisis. The Riksbank bank followed, albeit by 25bp. This led to NOK shedding 3.4% of its value in the month, while the SEK was down 1.6%. The Swiss Franc also continued to weaken, down 2.7% vs. the USD, but the Swiss National Bank (SNB) continued its dovish tone with the CHF still overvalued as deflationary pressures began to hit the economy. Nevertheless, the EURCHF target was kept at 1.20, with some analysts expecting them to raise the ceiling after data pointed to 'stag-deflationary' pressures. Sterling fared better than other European currencies as the GBP was only 1.2% lower month-on-month. Sterling continues to be pulled in two directions. Despite weak economic data, the currency continues to benefit from Eurozone and structural inflows in the gilt market, pushing EURGBP lower. This has helped it outperform many currencies with better fundamentals throughout 2011H2. The Antipodean currencies were the two best performing G10 currencies, the AUD was almost flat vs. USD, while the NZD appreciated by 0.3% on the month, as favorable interest rate differentials drove demand based on yield spreads. The Canadian dollar managed to outperform its G10 peers, benefiting from strong US fundamentals.

- Most emerging market (EM) currencies saw big falls vs. the USD as the EMEA currencies led the way with the steepest declines on the month. The problems faced by Hungary following its sovereign junk status and subsequent appeal for IMF funds saw the HUF shed 7% of its value month-on-month. With a current account deficit and a large stock of external debt on private sector balance sheets has led to an acute Hungarian funding crisis. A similar story is playing out in Turkey, but the CBRT are intervening heavily in order to prevent the Lira from falling off sharply, limiting the currency depreciation by 3.5% in December. The Czech authorities have a more laissez-faire approach as the 4.5% fall in the Koruna has pushed up inflation to a 35-month high, while the economy stagnates on back of falling EU demand. In Asia, the INR saw the largest decline of 1.7% as portfolio outflows were driven by a combination of risk-off trades and deteriorating economic fundamentals. But in China the CNY appreciated by just over 1% despite a change in the Peoples Bank of China's (PBoC's) monetary policy stance from tightening to an easing-bias. The major Latin American currencies saw steep declines with a growth slowdown and 'flight-to-quality' trades pushing the BRL and MXN down by around 3% on the month. In addition, markets are pricing in an additional 100bp cut in the Brazilian Selic rate after already easing policy by 150bp since August 2011. However, the Colombian Peso has bucked the trend, underpinned by robust growth outlook.

GLOBAL GROWTH OUTLOOK

At the start of 2012, we have broadly kept to our view of a global growth slowdown driven by trend and below-trend growth in the US and China respectively, while the Eurozone enters a deep recession on back of the ongoing debt crisis within the region. We remain bearish on Eurozone growth, at -0.8%y/y this year, which is in stark contrast to our US view, where some upward momentum in payrolls data coupled with improving sentiment data seems to indicate that the US is on course for growth but no better than the 'below-trend' rates of 1.7%y/y and the upwardly revised 2.3%y/y in 2011 and 2012 respectively. A growing US economy should provide some relief for global trade flows as well as a cushion for a beleaguered Chinese export sector. However, with almost 70% of total global trade credit provided by stressed European Banks, declining global trade activity is set to hit Emerging Market (EM) growth prospects in 2012H1. Nevertheless, we are looking for a 'soft-landing' in China where growth should slow to about its 'trend' rate of 8% in 2012, with positive consumer spending partially offsetting the slowdown seen in external demand and weakening property market. The boost from at least positive US and Chinese growth should help both Asia and Latam regional growth to remain robust, aided by strong domestic trends and modest commodity price growth. However, Emerging Europe looks likely to suffer disproportionately from the Eurozone fallout via both trade and credit channels, as European Banks go into 'de-leveraging mode' and squeeze lending among its subsidiaries.

GLOBAL GROWTH FORECASTS

GDP Growth Y/Y	2007	2008	2009	2010	2011 F	2012 F
US	1.9%	0.0%	-2.6%	2.9%	1.7%	2.3%
EUROZONE	2.8%	0.4%	-4.1%	1.7%	1.5%	-0.8%
JAPAN	2.4%	-1.2%	-6.3%	4.0%	-0.7%	1.7%
UK	2.7%	-0.1%	-4.9%	1.3%	0.9%	0.4%
CANADA	2.2%	0.5%	-2.5%	3.1%	2.4%	2.0%
AUSTRALIA	5.0%	2.2%	1.2%	2.7%	1.6%	2.9%
SWITZERLAND	3.7%	1.9%	-1.9%	2.6%	1.6%	0.4%
SWEDEN	3.4%	-0.7%	-5.2%	5.4%	4.3%	1.5%
NORWAY	2.7%	0.8%	-1.4%	2.1%	1.9%	1.8%
NEW ZEALAND	0.9%	2.9%	-1.4%	1.5%	1.8%	3.1%
POLAND	6.8%	5.1%	1.8%	3.8%	4.0%	2.0%
CZECH	6.2%	2.5%	-4.1%	2.3%	1.7%	0.7%
HUNGARY	1.3%	0.7%	-6.6%	1.2%	1.5%	-0.2%
RUSSIA	8.5%	5.2%	-7.9%	4.0%	4.0%	4.0%
SOUTH AFRICA	5.5%	3.7%	-1.7%	2.8%	3.0%	2.9%
TURKEY	4.8%	0.6%	-4.7%	8.9%	8.2%	2.1%
ISRAEL	5.4%	4.2%	0.8%	4.6%	4.4%	3.0%
BRAZIL	6.1%	5.2%	-0.6%	7.5%	2.6%	3.4%
MEXICO	3.3%	1.5%	-6.1%	5.5%	4.0%	3.5%
CHILE	4.6%	3.7%	-1.5%	5.2%	6.2%	4.0%
COLUMBIA	6.1%	2.7%	0.8%	4.3%	4.7%	4.3%
PERU	8.9%	9.8%	0.9%	8.8%	6.2%	5.1%
CHINA	14.2%	9.6%	9.2%	10.3%	9.1%	8.0%
INDIA	9.5%	7.5%	6.8%	8.7%	7.2%	7.0%
TAIWAN	6.0%	0.7%	-1.9%	10.8%	4.1%	3.8%
SOUTH KOREA	5.1%	2.3%	0.2%	6.1%	3.4%	3.4%
SINGAPORE	8.5%	1.8%	-1.3%	14.6%	4.9%	3.2%
MALAYSIA	6.5%	4.7%	-1.7%	7.2%	4.9%	4.7%
PHILIPPINES	7.2%	3.7%	1.1%	7.4%	3.6%	4.3%

GLOBAL INFLATION OUTLOOK

The deterioration in the growth environment led by Europe is having a knock-on effect on easing global inflationary pressures. Within the G3/Developed economy space, we are seeing signs of inflation dropping, with forward looking indicators suggesting a more pronounced decline in consumer prices further into 2012. The US is set to see inflation slow to an average of 2.0%y/y this year, the Eurozone should also see a drop – down from 2.6%y/y in 2011 to 1.6%y/y this year. Both decreases are a result of the favourable base effects, following the commodity price spike from year-end 2010 and a deteriorating growth outlook. The risks to our G3 forecasts are broadly balanced with upside risks emanating from a potential oil price spike resulting from rising Middle-East tensions and hikes in indirect taxation in order to raise much needed revenues. We believe that this will be offset by sluggish demand pressures and a large negative output gap. In the Emerging Markets (EM), the composition of inflation is different, as capacity constraints and small output gaps have led to significant demand-pull inflation. Moreover, cost-push pressures from rising fuel and food prices has significantly curbed household spending, with EM consumers disproportionally more affected than those in the developed world. But weaker growth has kept a lid on inflation pressures in many EM economies, while commodity price base effects become favourable.

GLOBAL INFLATION

	Headline Inflation	Inflation Target	Policy Rate	Real Policy Rate	Policy Stance?		
	Orange Bold = > 2% above target Grey Bold = > 2% below target				Easy	Neutral	Tight
US	3.40%	1.7% to 2% Core	0.13%	-3.28%	Easy		
EUROZONE	2.80%	Max 2.00%	1.00%	-1.80%	Easy		
JAPAN	-0.50%	0.0% to 2.0%	0.10%	0.60%	Easy		
UK	4.80%	2.00%	0.50%	-4.30%	Easy		
CANADA	2.90%	1.00% to 3.00%	1.00%	-1.90%	Easy		
AUSTRALIA	3.50%	2.00% to 3.00%	4.25%	0.75%		Neutral	
SWITZERLAND	-0.70%	Max 2.00%	0.00%	0.70%		Neutral	
SWEDEN	2.80%	2.00%	1.75%	-1.05%	Easy		
NORWAY	0.20%	2.50%	1.75%	1.55%		Neutral	
NEW ZEALAND	4.60%	1.00% to 3.00%	2.50%	-2.10%	Easy		
POLAND	4.80%	1.50% to 3.50%	4.50%	-0.30%		Neutral	
CZECH	2.40%	1.00% to 3.00%	0.75%	-1.65%	Easy		
HUNGARY	4.30%	3.00%	7.00%	2.70%			Tight
RUSSIA	6.10%	6.00% to 7.00%	8.25%	2.15%			Tight
SOUTH AFRICA	6.10%	3.00% to 6.00% core	5.50%	-0.60%		Neutral	
TURKEY	10.45%	5.50%	5.75%	-4.70%	Easy		
ISRAEL	2.60%	1.00% to 3.00%	2.75%	0.15%		Neutral	
BRAZIL	6.50%	2.50% to 6.50%	11.00%	4.50%			Tight
MEXICO	3.82%	2.00% to 4.00%	4.50%	0.68%			Tight
CHILE	4.40%	2.00% to 4.00%	5.00%	0.60%			Tight
COLUMBIA	3.73%	2.00% to 4.00%	4.75%	1.02%		Neutral	
PERU	4.74%	1.00% to 3.00%	4.25%	-0.49%		Neutral	
CHINA	4.20%	-	6.56%	2.36%		Neutral	
INDIA	9.11%	5.00%	8.50%	-0.61%	Easy		
TAIWAN	1.01%	-	1.88%	0.87%		Neutral	
SOUTH KOREA	4.20%	2.00% to 4.00%	3.25%	-0.95%	Easy		
SINGAPORE	5.70%	2.00% to 3.00%	-	-			
MALAYSIA	3.30%	-	3.00%	-0.30%		Neutral	
PHILIPPINES	4.20%	3.00% to 5.00%	4.50%	0.30%		Neutral	

GLOBAL MONETARY POLICY OUTLOOK

Further monetary easing seems to be an option likely forced on the Fed in the wake off 'US fiscal gridlock', as members within the FOMC continue to debate on easing via an effective communication strategy. There is also talk of a QE3 programme with some members in favour of expanding Fed purchases of Mortgage-Backed Securities (MBS) but opposition from the hawks remains intense, especially in light of improving economic conditions and strong payrolls data over recent months. Following the unprecedented action to boost ECB bank liquidity and a further 25bp cut in rates, we had a quiet start to 2012 with no surprises at the January meeting and no change in rates. We saw a record take-up in the ECB 3-year LTRO on 21st December totalling €489bn, but most of this has been parked at the overnight ECB deposit facility (as excess reserves), which has been at record levels of just over €450bn. In Brazil, the Monetary Policy Committee (Copom) cut its official SELIC rate by another 50bps, a total cut of 150bps since August. The Central bank continues to fret about slowing global trade flows coinciding with weaker domestic spending growth. As a result, we expect a further 100bps of cuts by 2012Q1. The People's Bank of China (PBoC) decided to shift to an 'easing bias' by reducing Banks Reserve Requirement Ratio (RRR) by 50bps, as weak sentiment data suggests a pronounced slowdown in exports and manufacturing industry in the months ahead. We expect further RRR cuts this month before the official policy rate is eased sometime in mid-2012. On a positive note, we expect inflation to drop to well below the PBoC's comfort level of 5%y/y by early next year giving room for further targeted easing to boost consumer purchasing power.

GLOBAL MONETARY POLICY FORECASTS

Central Bank Policy Rate y.e.	Current Rate	2010	2011	2012 F
US	0.125%	0.125%	0.13%	0.13%
EUROZONE	1.25%	1.00%	1.00%	0.50%
JAPAN	0.10%	0.10%	0.10%	0.10%
UK	0.50%	0.50%	0.50%	0.50%
CANADA	1.00%	1.00%	1.00%	1.00%
AUSTRALIA	4.50%	4.75%	4.25%	3.50%
SWITZERLAND	0.00%	0.25%	0.00%	0.00%
SWEDEN	2.00%	1.25%	1.75%	1.25%
NORWAY	2.25%	2.00%	1.75%	1.25%
NEW ZEALAND	2.50%	3.50%	2.50%	2.75%
POLAND	4.50%	3.50%	4.50%	4.00%
CZECH	0.75%	0.75%	0.75%	0.75%
HUNGARY	6.00%	5.75%	7.00%	6.50%
RUSSIA	8.25%	7.75%	8.25%	8.25%
SOUTH AFRICA	5.50%	5.50%	5.50%	6.50%
TURKEY	5.75%	6.50%	5.75%	5.75%
ISRAEL	3.00%	2.00%	2.75%	3.00%
BRAZIL	12.00%	10.75%	11.00%	10.00%
MEXICO	4.50%	4.50%	4.50%	4.00%
CHILE	5.25%	3.25%	5.25%	4.75%
COLUMBIA	4.50%	3.00%	4.75%	5.25%
PERU	4.25%	3.00%	4.25%	4.75%
CHINA	6.56%	5.81%	6.56%	6.27%
INDIA	8.50%	6.25%	8.50%	8.00%
TAIWAN	1.88%	1.63%	1.88%	1.88%
SOUTH KOREA	3.25%	2.50%	3.25%	3.25%
SINGAPORE	-	-	-	-
MALAYSIA	3.00%	2.75%	3.00%	3.25%
PHILIPPINES	4.50%	4.00%	4.50%	4.75%

GLOBAL CURRENT ACCOUNT OUTLOOK

Current account balances are set to remain in deficit territory in both the US and Eurozone. The pace of global rebalancing may pick up amid signs that Chinese exports to both the US and Europe are easing considerably. The US current account deficit will tighten to 2.5% of GDP this year from 3.1% in 2011. The slowdown in global trade activity and the easing of the German export engine should see some widening in the Eurozone external balance to -0.8% of GDP in 2011. We may see the current account balance drop to flat in 2012 as weaker trade and portfolio inflows are only partially offset by curbing import demand from deflationary public spending plans. In Japan, we are only expecting a moderate pick-up in export activity following the disruptions caused by the March Earthquake. We pencilled in a surplus of 2.2% of GDP in 2011 falling to 1.8% this year. In China, there are already signs of an export slowdown in the wake of weak G3 demand. China's private consumption continues to flourish from a significant uptick in wage growth and the appreciation in the Yuan has enhanced consumer purchasing power. As a result, we expect the current account surplus to shrink sharply from 4.1% in 2011 to only 1.5% of GDP this year.

GLOBAL CURRENT ACCOUNT FORECASTS

As % share of GDP	2007	2008	2009	2010	2011 F	2012 F
US	-5.1%	-4.7%	-2.7%	-3.2%	-3.1%	-2.5%
EUROZONE	0.2%	-0.7%	0.1%	-0.5%	-0.8%	-0.2%
JAPAN	4.8%	3.2%	2.8%	3.6%	2.2%	1.8%
UK	-2.6%	-1.6%	-1.7%	-3.2%	-2.5%	-2.0%
CANADA	0.8%	0.3%	-3.0%	-3.1%	-3.0%	-2.4%
AUSTRALIA	-6.2%	-4.5%	-4.2%	-2.7%	-1.6%	-0.7%
SWITZERLAND	8.9%	2.3%	11.4%	15.3%	12.0%	11.0%
SWEDEN	9.2%	8.7%	7.0%	6.6%	5.9%	6.0%
NORWAY	14.1%	17.9%	12.9%	12.4%	14.0%	12.2%
NEW ZEALAND	-8.0%	-8.7%	-2.9%	-3.5%	-3.4%	-5.0%
POLAND	-6.2%	-6.6%	-4.0%	-4.4%	-4.6%	-4.9%
CZECH	-3.3%	-0.6%	-3.3%	-3.8%	-3.5%	-3.7%
HUNGARY	-6.9%	-7.4%	0.4%	2.0%	1.4%	0.4%
RUSSIA	5.9%	6.2%	4.1%	5.1%	5.1%	2.7%
SOUTH AFRICA	-7.0%	-7.1%	-4.1%	-2.9%	-3.3%	-3.8%
TURKEY	-5.9%	-5.7%	-2.3%	-6.4%	-10.5%	-9.2%
ISRAEL	2.9%	0.8%	3.6%	3.2%	1.3%	1.6%
BRAZIL	0.1%	-1.7%	-1.5%	-2.3%	-2.4%	-3.2%
MEXICO	-0.9%	-1.5%	-0.7%	-0.5%	-1.4%	-1.7%
CHILE	4.5%	-1.9%	1.6%	1.9%	-0.1%	-0.8%
COLUMBIA	-2.9%	-2.9%	-2.2%	-3.1%	-2.8%	-2.5%
PERU	1.4%	-4.2%	0.2%	-1.5%	-2.0%	-1.4%
CHINA	10.1%	9.1%	5.2%	4.7%	4.1%	1.5%
INDIA	-0.7%	-2.0%	-2.8%	-3.2%	-2.8%	-3.0%
TAIWAN	8.9%	6.9%	11.4%	9.3%	7.8%	8.0%
SOUTH KOREA	2.1%	0.3%	3.9%	2.7%	1.6%	1.5%
SINGAPORE	27.3%	14.6%	19.0%	22.2%	18.1%	17.2%
MALAYSIA	15.9%	17.7%	16.5%	11.5%	9.9%	10.2%
PHILIPPINES	4.8%	2.1%	5.6%	4.2%	1.3%	0.9%

GLOBAL CURRENCY FORECASTS

Our currency outlook continues to expect most emerging market (EM) currencies in the Latin American (Latam) and Asia region to appreciate versus the major developed market currencies. We expect the short EUR Long EM trade to be beneficial – especially among EM currencies within the Latam and Asia currency space. Although we continue to see Yen strength from risk averse trading, we remain Yen negative as some risk buying could result from positive US growth and a China 'soft landing'. Those emerging market currencies which exhibit robust fundamentals (stronger growth, higher interest rates and stronger fiscal and external debt positions) should be able to outperform as and when risk buying returns. In addition, commodity currencies such as CAD and AUD may also be outperformers within the G-10 space, benefiting from modest commodity gains as US and China avoid a 'hard landing' scenario. These same currencies remain undervalued relative to their long term fair value, boosting valuations in the months ahead. We particularly favour Latam and Asian currencies (see table below). Within Europe, we continue to believe the Euro remains overvalued and expect it to weaken somewhat against most other regional currencies (SEK, NOK, CZK & HUF). We expect the US Dollar to gradually strengthen versus the Japanese Yen, though it is likely to weaken against most EM currencies. The USD should outperform most G10 currencies over the next 6 months, but will be offset by a much weaker performance vs. currencies within EM.

FX FORECASTS			
	Spot 13 Jan	6m Forecast	View
G10			
USD	-	-	Neutral
EUR	1.28	1.23	Depreciation
JPY	76.76	78.25	Depreciation
GBP	1.53	1.52	Neutral
CAD	1.02	1.01	Neutral
AUD	1.03	1.01	Neutral
CHF	0.95	0.97	Neutral
SEK	6.93	7.01	Depreciation
NOK	6.00	6.05	Depreciation
NZD	0.79	0.78	Neutral
EMEA			
PLN	3.45	3.59	Depreciation
CZK	20.00	20.59	Depreciation
HUF	241.39	244.25	Depreciation
RUB	31.62	31.18	Appreciation
ZAR	8.07	8.34	Depreciation
TRY	1.85	1.87	Neutral
ILS	3.83	3.83	Neutral
LATAM			
BRL	1.79	1.77	Appreciation
MXN	13.60	12.98	Appreciation
CLP	502.05	494.80	Appreciation
COP	1843.30	1855.60	Neutral
PEN	2.69	2.61	Appreciation
ASIA			
CNY	6.32	6.23	Appreciation
INR	51.61	51.10	Appreciation
TWD	29.95	29.11	Appreciation
KRW	1158.10	1131.75	Appreciation
SGD	1.29	1.27	Appreciation
MYR	3.14	3.06	Appreciation
PHP	44.06	42.49	Appreciation
vs EUR		View vs EUR	
GBP	0.84	0.81	Neutral
CHF	1.21	1.19	Neutral
SEK	8.87	8.61	Appreciation
NOK	7.68	7.42	Appreciation
PLN	4.42	4.41	Neutral
CZK	25.60	25.27	Appreciation
HUF	308.91	299.82	Appreciation

G3 ECONOMIES

United States

-- Recent data on the US economy has been encouraging. As a result, we expect Q4 GDP data to show some bounce back according to monthly trade and industry data after a weak Q3 outturn of 1.8%q/q(A). The labour market has also shown some signs of improvement, as an impressive payroll number in December added 200K jobs and helped push the jobless rate down to 8.5% in December – lowest since February 2009. Downside risks still remain, primarily from the housing market, which remains bogged down with an excess inventory backlog, from consumer confidence, which is still at low levels and from the on-going Eurozone Debt Crisis. Moreover, there is no timeline for agreement on further budgetary measures after bipartisan talks failed to reach an agreement on a medium-term framework. But some good news as Congress agreed to extend payroll tax cuts and unemployment benefits up until end-February.

-- An improving outlook that is dependent on events in Europe, while we expect US fiscal consolidation plans to be a drag on growth prospects. The Fed continues to introduce measures to support the economy – especially in the absence of any fiscal stimulus in the months ahead. In addition, we may see a further stimulus ‘QE3’ programme around mid-2012 as the economy struggles to push down the jobless rate to below the natural rate (NAIRU), which the Fed believes to be around 6% from its current 8.5% rate.

US	2007	2008	2009	2010	2011 F	2012 F
GDP y/y	1.9%	0.0%	-2.6%	2.9%	1.7%	2.3%
CPI y/y	2.8%	3.8%	-0.4%	1.6%	3.1%	2.0%
Fed Rate (y.e.)	4.25%	0.50%	0.125%	0.125%	0.125%	0.125%

Eurozone

-- Eurozone activity almost stagnated in Q3, with a rise of just 0.2%q/q. As a result of the on-going hit to sentiment resulting from the Sovereign Debt Crisis, we expect a sharp growth contraction of around -0.5%q/q in Q4 with the recession confirmed in 2012Q1, where we will see another negative growth outturn of around -0.2%q/q. Our median view is for the Eurozone to go into a ‘prolonged and deep recession’ with any recovery being weak and protracted. We expect 3 quarters of negative growth from Q4. But the ECB’s 3-year liquidity operation (LTRO) saw an additional €489bn added to the banking sector will help ease the chance of a ‘Lehman style default’ in Europe. Though the macro impact should be limited, as banks continue to park this cash at the ECB deposit facility, rather than supply funds to the household and corporate sector.

-- The risks to this forecast are clearly on the downside as the negative feedback loop from sovereign downgrades lead to further pressure for banking sector de-leveraging. Any sharp spikes in credit conditions over and above our present expectations may well drag the Eurozone into a much deeper recession. The fiscal austerity measures undertaken by most governments will squeeze public sector growth, while tighter lending conditions will choke off private demand, with a minimal near-term offset from the ECB. However, a combination of unprecedented levels of monetary easing by the ECB, coupled with the renewed weakness in the Euro currency should provide some partial relief for the economy.

EUROZONE	2007	2008	2009	2010	2011 F	2012 F
GDP y/y	2.8%	0.4%	-4.1%	1.7%	1.5%	-0.8%
CPI y/y	2.1%	3.3%	0.3%	1.6%	2.6%	1.6%
ECB Rate (y.e.)	4.00%	2.50%	1.00%	1.00%	1.00%	0.50%

Japan

-- The prospects for a further sustained expansion have worsened. The export sector is set to be hit by global headwinds, while the domestic recovery stalls. The Yen continues to benefit from flight-to-quality and safe-haven flows hitting net export growth, which coupled with a slowdown in global trade activity, will see weaker growth in 2012H1.

JAPAN	2007	2008	2009	2010	2011 F	2012 F
GDP y/y	2.4%	-1.2%	-6.3%	4.0%	-0.7%	1.7%
CPI y/y	0.0%	1.4%	-1.4%	-0.8%	-0.3%	-0.3%
BoJ Rate (y.e.)	0.50%	0.10%	0.10%	0.10%	0.10%	0.10%

OTHER DEVELOPED ECONOMIES

UK

-- The UK economy may follow the rest of Europe into a recession, on the back of the twin headwinds of a slowdown in global activity, due to the intensification in the Eurozone debt crisis, and a sluggish domestic market, as a result of significant constraints on households and financial sector balance sheets. This should keep growth very weak at 0.9%y/y in 2011, and only 0.4%y/y in 2012. The Bank of England (BoE) MPC is expected to expand its programme of asset purchases in February 2012 after the present programme of buying £75bn worth of GILTS comes to an end. The BoE have no choice but to provide monetary stimulus as the government embarks on fiscal austerity measures that are likely to keep downward pressure on GDP growth.

UK	2007	2008	2009	2010	2011 F	2012 F
GDP y/y	2.7%	-0.1%	-4.9%	1.3%	0.9%	0.4%
CPI y/y	2.3%	3.6%	2.2%	3.3%	4.5%	2.2%
BoE Rate (y.e.)	5.75%	2.00%	0.50%	0.50%	0.50%	0.50%

Australia

-- Australia continues to benefit from a robust resource sector driven by China's need for minerals. However, the domestic sector struggles in the face of elevated RBA interest rates. In light of weak domestic growth and the Chinese slowdown, our 2012 GDP forecast set remain below 3%y/y and we expect 1.6%y/y in 2011. The RBA cut rates by 25bp for a second consecutive month at its December meeting, triggered by softening inflation data. We expect75bps in cuts this year, which will push the policy rate down to 3.50% by year-end.

AUSTRALIA	2007	2008	2009	2010	2011 F	2012 F
GDP y/y	5.0%	2.2%	1.2%	2.7%	1.6%	2.9%
CPI y/y	2.4%	4.4%	1.9%	2.9%	3.5%	2.9%
RBA Rate (y.e.)	6.75%	4.25%	3.75%	4.75%	4.25%	3.50%

New Zealand

-- We are looking at below-consensus growth of 1.8%y/y in 2011, with the local economy being disrupted by the major earthquake in February. However, net trade gains may be smaller than first thought as global conditions weaken this year, with our forecast at 3.1%y/y. As a result, the RBNZ may now decide to keep policy on hold at a historical low of 2.50% over the forecast horizon.

NEW ZEALAND	2007	2008	2009	2010	2011 F	2012 F
GDP y/y	0.9%	2.9%	-1.4%	1.5%	1.8%	3.1%
CPI y/y	2.4%	4.0%	2.2%	2.3%	4.5%	2.3%
CB Rate (y.e.)	8.25%	5.00%	2.50%	3.00%	2.50%	2.50%

Switzerland

-- There are now signs that the Swiss Economy may fall into a recession. The impact of the surge in the CHF pre-SNB intervention has already fed through into the real economy, as survey based indicators hit 2009 recessionary levels. GDP growth is forecast to be 1.6%y/y in 2011, slowing sharply to 0.4%y/y in 2012. With interest rates at zero and SNB fears of deflation, we have already seen SNB FX intervention to stem the strength of the Franc. They have established a ceiling on the EUR/CHF rate at CHF1.20. We now expect this floor to be raised to CHF1.25 in the coming months and possibly to between CHF1.30-1.40, which is what the SNB believes is fair-value.

SWITZERLAND	2007	2008	2009	2010	2011 F	2012 F
GDP y/y	3.7%	1.9%	-1.9%	2.6%	1.6%	0.4%
CPI y/y	0.7%	2.4%	-0.5%	0.7%	0.3%	-0.2%
CB Rate (y.e.)	2.75%	0.50%	0.25%	0.25%	0.00%	0.00%

Canada

-- Unlike the other major economies, economic and survey data point to fairly robust domestic spending growth that will help GDP growth to 2.4%y/y in 2011. Improving US demand and modest commodity price gains should help the economy maintain a growth rate of around 2%y/y in 2012 – outperforming its G7 peers. Medium-term inflation is set to remain well within the Bank of Canada's (BoC) 2% target – dropping from 2.8%y/y in 2011 to 1.7%y/y in 2012, We expect the (BoC) to maintain the policy rate at 1% over the forecast horizon – but there are upside risks to this forecast.

CANADA	2007	2008	2009	2010	2011 F	2012 F
GDP y/y	2.2%	0.5%	-2.5%	3.1%	2.4%	2.0%
CPI y/y	2.1%	2.4%	0.3%	1.8%	2.8%	1.7%
CB Rate (y.e.)	4.25%	1.50%	0.25%	1.00%	1.00%	1.00%

Sweden

-- Following the strength seen in recent years, we are likely to see a significant growth slowdown in activity over our forecast horizon. GDP growth is set to hit 4.1%y/y in 2011 before slowing to 1.5%y/y in 2012, as weakness in domestic sentiment indicators and a Eurozone recession lead to weak data Q4-onwards. This triggered the Riksbank to cut rates by 25bp at their December meeting, with further rate cuts totalling 50bp pencilled in early this year as the economic outlook darkens.

SWEDEN	2007	2008	2009	2010	2011 F	2012 F
GDP y/y	3.4%	-0.7%	-5.2%	5.4%	4.3%	1.5%
CPI y/y	2.2%	3.5%	-0.3%	1.3%	3.0%	2.0%
CB Rate (y.e.)	4.00%	2.00%	0.25%	1.25%	1.75%	1.25%

Norway

-- Unlike other developed markets, the Norwegian economy could buck the trend and see some decent growth versus its European peers. We see the economy being supported by a positive commodities story on back of a China 'soft-landing' scenario and a 'moderate US growth story'. However, we are starting to see the domestic economy begin to slow with the unemployment rate ticking up and income growth slowing. In a surprise move, the Norges Bank cut rates by 50bp to 1.75% at its December meeting. Reasons cited were the ECB rate cuts since November and concerns over a deepening Eurozone recession. More cuts expected in line with our ECB forecast.

NORWAY	2007	2008	2009	2010	2011 F	2012 F
GDP y/y	2.7%	0.8%	-1.4%	2.1%	1.9%	1.8%
CPI y/y	0.7%	3.8%	2.2%	2.4%	1.5%	1.6%
CB Rate (y.e.)	5.25%	3.00%	1.75%	2.00%	1.75%	1.25%

LATAM ECONOMIES

Brazil

-- We are now seeing significant signs of cooling with the economy grounding to a halt in Q3 at 0%q/q from a rise of 0.8%q/q in Q2. The Brazilian Central Bank (BCB) have signalled further cuts in the Selic rate, which will prevent the inflation rate trending back down to its medium-term target of 4.5% - in line with the present BCB forecast. We are looking at two more 50bp cuts to push the Selic rate down to 10.0% by end-2012Q1. Inflation is set to average 5.2%y/y in 2012, while the economy slows to 2.6%y/y in 2011 before rising to about 3.5%y/y in 2012 – helped by a strong H2.

BRAZIL	2007	2008	2009	2010	2011 F	2012 F
GDP y/y	6.1%	5.2%	-0.6%	7.5%	2.6%	3.4%
CPI y/y	3.6%	5.7%	4.9%	5.0%	6.6%	5.2%
CB Rate (y.e.)	11.25%	13.75%	8.75%	10.75%	11.00%	10.00%

Mexico

-- The financial market turmoil and moderate US demand is contributing to a gradual growth slowdown. The weakness in the consumer economy along with lower industrial output growth has GDP growth slowing to 4.0%y/y this year and to 3.5%y/y the year after. Softer inflation pressures should give room for the Central Bank to cut rates by around 50bp by end-2012. But we may see a more neutral stance in policy as the balance of risks are on the upside, especially if on back of some US growth momentum and a positive commodities story in 2012.

MEXICO	2007	2008	2009	2010	2011 F	2012 F
GDP y/y	3.3%	1.5%	-6.1%	5.5%	4.0%	3.5%
CPI y/y	4.0%	5.1%	5.3%	4.2%	3.4%	3.3%
CB Rate (y.e.)	7.50%	8.25%	4.50%	4.50%	4.50%	4.00%

Chile

-- Despite slower growth in 2011H2, we still see strong underlying fundamentals as the economy benefits from strong internal demand. Some growth moderation should help limit inflation to the 3% target. Loose fiscal policy will help partially offset the drag from net exports. However, the Central Bank decided to cut its key rate by 25bp citing increased global weakness. We now expect 75bps of cuts by mid-2012, before rates hiked to 4.75% by end-2012.

CHILE	2007	2008	2009	2010	2011 F	2012 F
GDP y/y	4.6%	3.7%	-1.5%	5.2%	6.2%	4.0%
CPI y/y	4.4%	8.7%	1.6%	1.4%	3.2%	3.0%
CB Rate (y.e.)	6.00%	8.25%	0.50%	3.25%	5.25%	4.75%

Colombia

-- We expect growth to average 4.7%y/y in 2011, dropping only slightly to 4.3%y/y in 2012, this should help ease inflationary pressures to 2.8%y/y in 2012. The Central Bank have held rates at 4.5% after tightening by 150bp this year. But high credit growth and domestic demand pressures will see further hikes in 2012.

COLOMBIA	2007	2008	2009	2010	2011 F	2012 F
GDP y/y	6.1%	2.7%	0.8%	4.3%	4.7%	4.3%
CPI y/y	5.5%	7.0%	4.2%	2.3%	3.3%	3.0%
CB Rate (y.e.)	9.50%	9.50%	3.50%	3.00%	4.75%	5.25%

Peru

-- The economy remains robust and we expect GDP to grow by 6.3%y/y this year and only slow moderately to 5.1%y/y in 2012. A loose fiscal policy should aid growth without overstretching the fiscal accounts, however our policy outlook is for rates to be on hold until 2012H2 when tighter policy should help rein in aggregate demand pressures.

PERU	2007	2008	2009	2010	2011 F	2012 F
GDP y/y	8.9%	9.8%	0.9%	8.8%	6.2%	5.1%
CPI y/y	1.8%	5.8%	3.0%	1.5%	4.0%	2.2%
CB Rate (y.e.)	5.00%	6.50%	1.25%	3.00%	4.25%	4.75%

ASIAN ECONOMIES

China

-- The data from China seems consistent with expectations for a slowdown at the beginning of Q4, taking the 2011 GDP growth figure to around 9%y/y. There are clearly downside risks emanating from the Eurozone crisis hurting global trade flows and significant cooling in the property sector. The authorities have used a host of administrative or 'macro-prudential' measures to specifically slow the banking system and the housing/property sector. But in a sign of changing emphasis to an 'easing' bias, the People's Bank of China (PBoC) cut the Bank Reserve Requirement Ratio by 50bps, with further cuts to come in January. GDP growth is expected to slow to 8.0%y/y in 2012 with inflation sliding to 3.0%y/y in 2012 as we look for a 'Soft landing' scenario but risks are clearly skewed to the downside, with Non-performing loans in the banking sector begin to rise. With a combination of weaker export and residential investment growth, we expect a cut in the key lending rate sometime in 2012H1.

CHINA	2007	2008	2009	2010	2011 F	2012 F
GDP y/y	14.2%	9.6%	9.2%	10.3%	9.1%	8.0%
CPI y/y	4.8%	5.9%	-0.7%	3.3%	5.6%	3.0%
CB Rate (y.e.)	7.47%	5.31%	5.31%	5.81%	6.56%	6.27%

India

-- Unlike the other leading EM economies, the Indian economy is showing signs of a pronounced slowdown, with high interest rates lowering credit demand. However, the monetary policy stance has clearly shifted from a 'tightening bias' to 'neutral', as downside risks to the growth outlook rise. Inflation remains very high at 9.1%y/y in November, well above the 7% rate that would give the Reserve Bank of India (RBI) room to cut rates. As a result, the RBI are unlikely to have much room to cut rates in the months ahead and we are only pencilling in a 50bp cut by end-2012. This should only help GDP growth reach around 7.5%y/y this year.

INDIA	2007	2008	2009	2010	2011 F	2012 F
GDP y/y	9.5%	7.5%	6.8%	8.7%	7.2%	7.0%
CPI y/y	6.4%	8.3%	10.8%	12.1%	8.9%	6.3%
CB Rate (y.e.)	7.75%	6.50%	4.75%	6.25%	8.50%	8.00%

Korea

-- The headwinds facing the manufacturing sector have increased, with latest PMI data in contraction territory for a fifth straight month and export demand beginning to moderate. There is no hard evidence of problems in global markets affecting domestic credit conditions. But a downturn in the trade cycle has led us to downgrade growth to 3.4%y/y this year. Provided growth is in line with our estimates, we expect the Bank of Korea (BoK) to keep rates on hold at 3.25%, with the risks to this forecast clearly on the downside if global developments deteriorate.

KOREA	2007	2008	2009	2010	2011 F	2012 F
GDP y/y	5.1%	2.3%	0.2%	6.1%	3.4%	3.4%
CPI y/y	2.5%	4.7%	2.8%	3.5%	4.0%	2.9%
CB Rate (y.e.)	5.00%	3.00%	2.00%	2.50%	3.25%	3.25%

Taiwan

-- Over-reliance on international markets will curb growth in 2011H2, with our GDP forecast now at 4.1%y/y for 2011. Export growth to Taiwan's largest market in mainland China has moderated, which coupled with a weaker global external backdrop should see growth falling to 3.8%y/y this year. No upcoming changes in the key policy rate, which will remain at on hold over the forecast horizon.

TAIWAN	2007	2008	2009	2010	2011 F	2012 F
GDP y/y	6.0%	0.7%	-1.9%	10.8%	4.1%	4.1%
CPI y/y	1.8%	3.5%	-0.9%	1.0%	1.4%	1.8%
CB Rate (y.e.)	3.375%	2.000%	1.250%	1.625%	1.875%	1.875%

Singapore

-- After contracting by 6.4%q/q annualised in Q2, final figures for Q3 show the economy avoided recession by growing 1.9% on the same basis. Consumer spending grew at its fastest rate since 2007 but contributions from industry and exports have tailed off over recent months. In line with the rest of the region, we expect a sharp moderation in GDP growth to 4.9%y/y in 2011 and to a below-trend rate of 2.2%y/y this year due to a dependency on net trade and underlying manufacturing weakness. The government fears that growth could even possibly drop to below 1%y/y should we see further weakness in the global growth outlook.

SINGAPORE	2007	2008	2009	2010	2011 F	2012 F
GDP y/y	8.5%	1.8%	-1.3%	14.6%	4.9%	2.2%
CPI y/y	2.1%	6.6%	0.6%	2.8%	4.9%	2.4%

Philippines

-- The Philippines economy is set to be weaker than previously thought, in line with its regional peers. But GDP will rise from 3.6%y/y in 2011 to 4.3%y/y in 2012 helped by a strong household sector. No change in the policy rate until well into 2012 as rising demand pressures create upside inflation risks in the medium-term.

PHILIPPINES	2007	2008	2009	2010	2011 F	2012 F
GDP y/y	7.2%	3.7%	1.1%	7.4%	3.6%	4.3%
CPI y/y	2.8%	9.3%	3.2%	3.8%	4.3%	4.0%
CB Rate (y.e.)	5.25%	5.50%	4.00%	4.00%	4.50%	4.75%

Malaysia

-- The hit on the external sector from lower global demand should be mitigated somewhat by the strength in consumer and public spending, this should help growth maintain 4.5%y/y and around 4.4%y/y in 2011 and 2012 respectively. But downside risks to growth could be triggered by a deteriorating global outlook, with exports accounting for 100% of GDP. No change expected in the policy outlook as rates on hold for most of the year.

MALAYSIA	2007	2008	2009	2010	2011 F	2012 F
GDP y/y	6.5%	4.7%	-1.7%	7.2%	4.9%	4.7%
CPI y/y	2.0%	5.4%	0.6%	1.7%	3.2%	2.7%
CB Rate (y.e.)	3.50%	3.25%	2.00%	2.75%	3.00%	3.25%

EMEA ECONOMIES

Russia

-- Growth should reach 4%y/y this year in line with 2011. Inflation pressures remain elevated with a 2012 projection of 7.4%y/y, but still on a downward trend from 8.5%y/y this year. The economy remains susceptible to oil price volatility but both consumer and investment strength means it may be one of the more stronger European performers. The Central Bank policy stance is set to remain neutral over the forecast period.

RUSSIA	2007	2008	2009	2010	2011 F	2012 F
GDP y/y	8.5%	5.2%	-7.9%	4.0%	4.0%	4.0%
CPI y/y	9.0%	14.1%	11.7%	6.9%	8.5%	7.4%
CB Rate (y.e.)	10.00%	13.00%	8.75%	7.75%	8.25%	8.25%

Turkey

-- Risk aversion and financial market turmoil has led to significant portfolio outflows, which has already pushed up interbank rates. The Central Bank continues to prop up the Lira in a bid to prevent an inflation spiral but has only allocated $26bn of reserves for its FX operations. A recession in Europe coupled with rising inflation will erode consumer purchasing power and see growth nose dive to around 2.1%y/y in 2012. With overnight market rates already high, there is an expectation that the Central Bank will be able to keep the policy rate on hold, due a dislocation in the transmission mechanism with the spread between the overnight market rate and policy rate widening. Therefore, rate hikes will be out of the question over forecast horizon.

TURKEY	2007	2008	2009	2010	2011 F	2012 F
GDP y/y	4.8%	0.6%	-4.7%	8.9%	8.2%	2.1%
CPI y/y	8.8%	10.4%	6.3%	8.6%	6.2%	7.2%
CB Rate (y.e.)	15.75%	15.00%	6.50%	6.50%	5.75%	5.75%

South Africa

-- Growth is set to remain around 3.0%y/y over the forecast horizon as a weakening export outlook should be to some extent mitigated by strength in the consumer economy. But with a weak ZAR, the uptick in inflation pressures to the upper-end of the 3-6% target range may result in policy tightening. We expect the South African Reserve Bank (SARB) to go on a hiking cycle as rates are already at historical lows – pushing the policy rate to 6.50% by end-2012.

SOUTH AFRICA	2007	2008	2009	2010	2011 F	2012 F
GDP y/y	5.5%	3.7%	-1.7%	2.8%	3.0%	2.9%
CPI y/y	7.1%	11.5%	7.1%	4.3%	4.9%	5.2%
CB Rate (y.e.)	11.00%	11.50%	7.00%	5.50%	5.50%	6.50%

Poland

-- A Eurozone recession and implementation of fiscal consolidation plans should see growth weaken substantially to 2%y/y this year. But a strong Q3 GDP number suggests some pent-up demand should help Poland achieve growth of around 4%y/y in 2011. Weaker demand Q4-onwards should help keep a lid on price pressures, with inflation at 4%y/y in 2011 and 2.7%y/y in 2012 but this may be offset by renewed Zloty weakness as flight-to-quality leads to sharp private capital outflows and deterioration in the terms of trade. Growth concerns should eventually outweigh, forcing the Central Bank to eventually cut their key policy rate to 4% by end-2012.

POLAND	2007	2008	2009	2010	2011 F	2012 F
GDP y/y	6.8%	5.1%	1.8%	3.8%	4.0%	2.0%
CPI y/y	2.5%	4.2%	3.5%	2.6%	4.0%	2.4%
CB Rate (y.e.)	5.00%	5.00%	3.50%	3.50%	4.50%	4.00%

Czech Rep.

-- The export-sensitive economy is set to be hit severely from the deepening Eurozone debt crisis, with our growth forecasts at 1.7%y/y in 2011 and 0.7%y/y in 2012. The economy will not only be hit by weaker trade activity but it is likely to be affected by tightening credit conditions as European banks start their lending squeeze on foreign subsidiaries that are predominately based in Central and Eastern Europe. But koruna weakness could push inflation above target of 3% in the near term. But the policy rate is set to be on hold over the forecast horizon.

CZECH	2007	2008	2009	2010	2011 F	2012 F
GDP y/y	6.2%	2.5%	-4.1%	2.3%	1.7%	0.7%
CPI y/y	2.8%	6.4%	1.1%	1.5%	1.8%	2.1%
CB Rate (y.e.)	3.50%	2.25%	1.00%	0.75%	0.75%	0.75%

Hungary

-- Our baseline GDP growth forecast is 1.5%y/y in 2011 and has now been downgraded to -0.2%y/y in 2012. Despite Q3 growth surprising on the upside, the outlook for Q4 has deteriorated, all three agencies have now downgraded sovereign debt to 'Junk status' citing high debt levels and weak medium-term growth prospects. All this will put Hungary near at the bottom of the EMEA growth league table. In order to support the Forint, the Central Bank was forced to hike the base rate by 50bps to 7.00% last month. The authorities have been heavily criticised by the EU and IMF on curbing Central Bank independence. This has already delayed any agreement on a much-needed IMF package, which has seen the Forint plunge, driving up inflation pressures. In a bid to attract much needed portfolio investment and support the currency, the Central Bank has been forced to adopt a 'tightening bias'. We expect them to peak at 7.5% by mid-2012 before heading back to 6.5% by end-2012.

HUNGARY	2007	2008	2009	2010	2011 F	2012 F
GDP y/y	1.3%	0.7%	-6.6%	1.2%	1.5%	-0.2%
CPI y/y	8.0%	6.1%	4.2%	4.9%	3.6%	3.6%
CB Rate (y.e.)	7.50%	10.00%	6.25%	5.75%	7.00%	6.50%

Israel

-- Underlying growth fundamentals remain fairly strong but rising geo-political risks from instability in the Arab world could erode investor sentiment, weakening the Shekel. This may lead to imported price pressures that could force the Central Bank to raise rates sometime in 2012. The Bank of Israel surprised the markets by keeping rates on hold at their December meeting, despite rising concerns about the growth outlook on back of weak EU demand.

ISRAEL	2007	2008	2009	2010	2011 F	2012 F
GDP y/y	5.4%	4.2%	0.8%	4.6%	4.4%	3.0%
CPI y/y	0.5%	4.6%	3.3%	2.7%	3.5%	2.0%
CB Rate (y.e.)	4.25%	2.50%	1.25%	2.00%	2.75%	3.00%

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