

What might go worse than expected?



Jim Power



The Year that was Globally

- Lack of growth, high unemployment & unsustainable sovereign debt dominant themes
- Very difficult year for developed global economy
- Euro Zone crisis rumbled on
- Wisdom of austerity now being questioned by IMF & others
- Policy makers struggling
- 2013 will be an interesting and challenging year for the developed world



The Year Ahead Globally

- Much of developed world in recession going into 2013
- Euro Zone crisis will remain the key issue – much more needed for lasting solution
- Emerging world will drive global growth – the rest will struggle in face of sovereign debt mountain
- Change in orthodoxy?

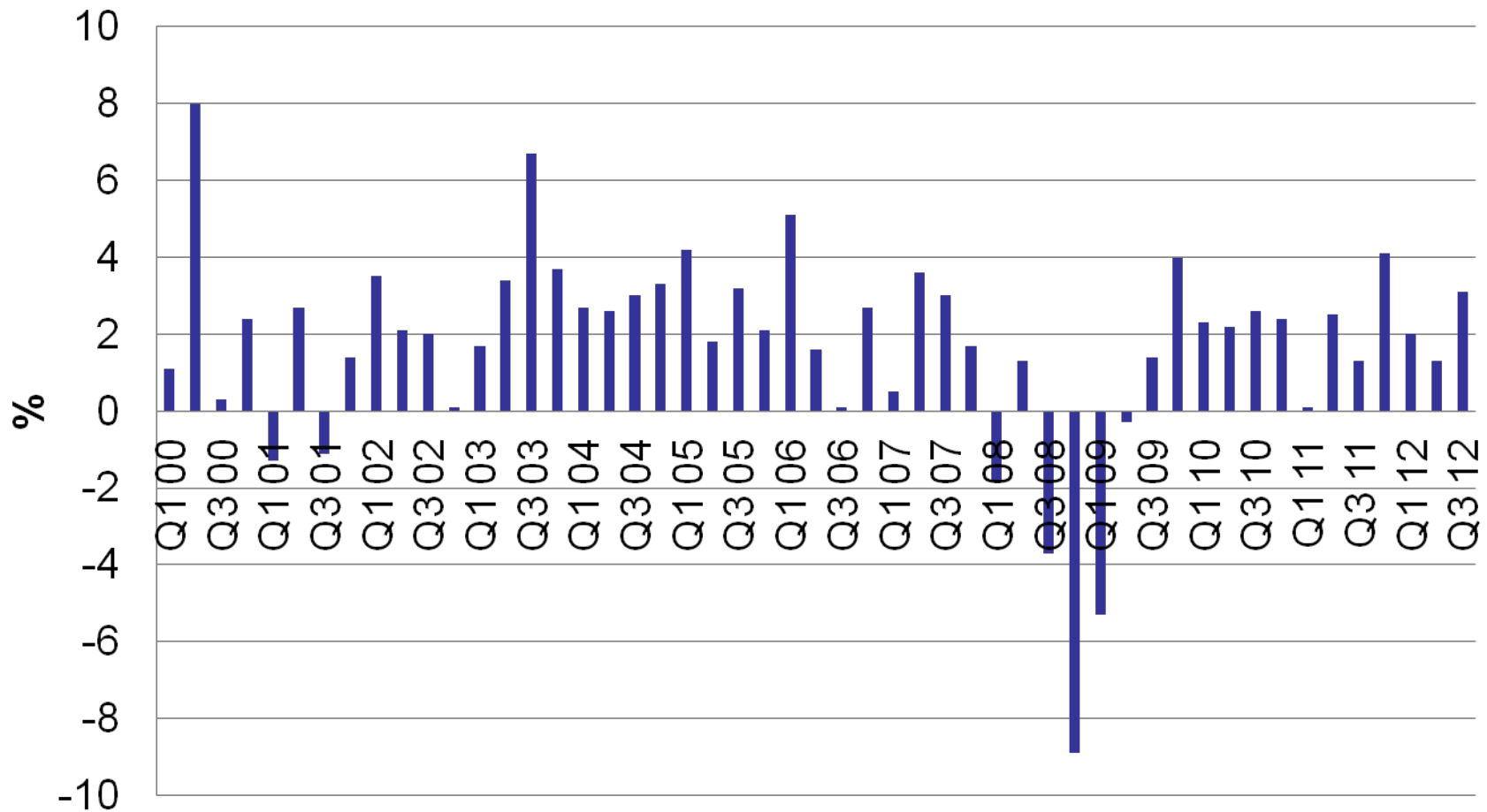


The Euro Zone Crisis

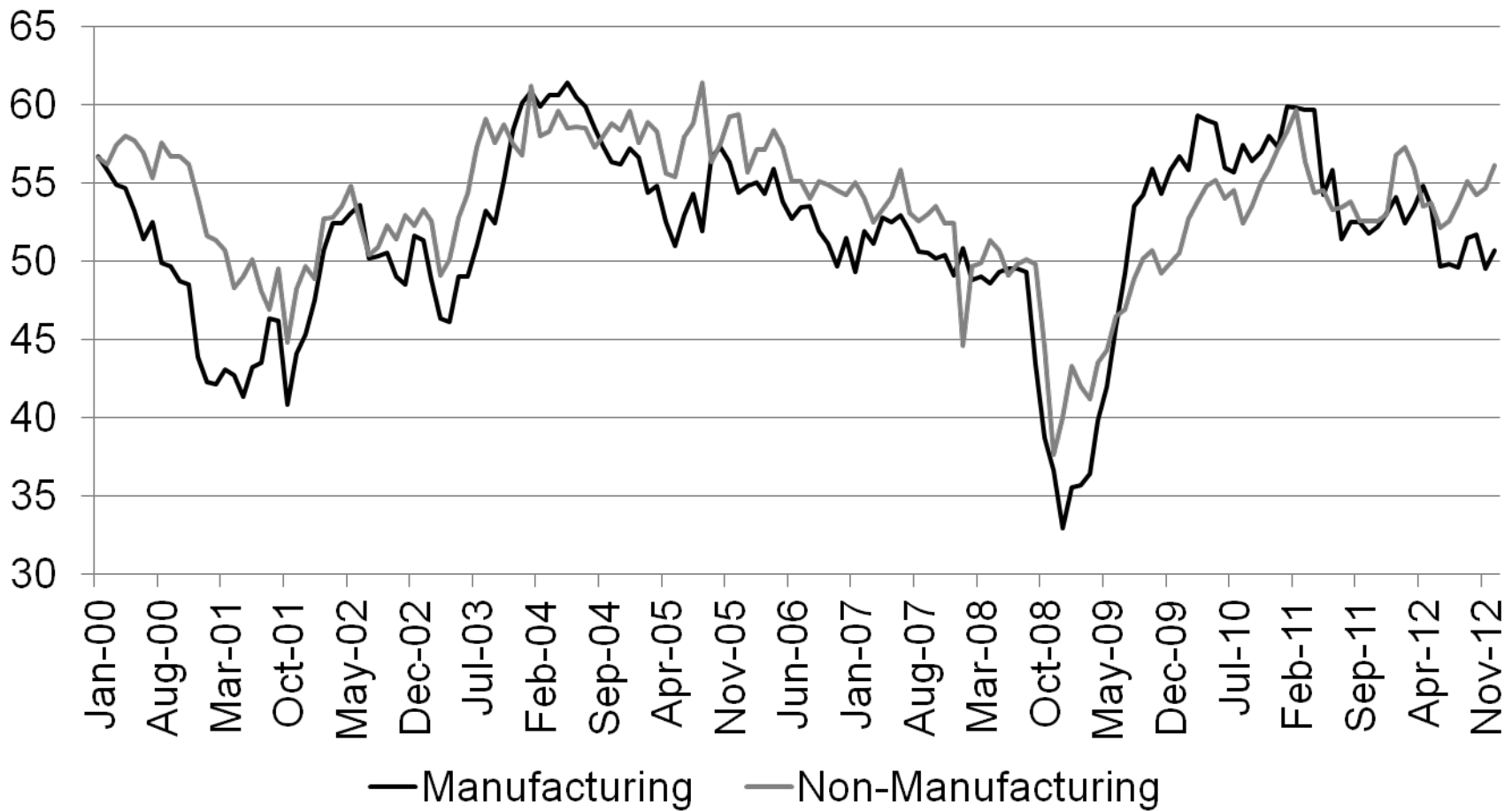
- EMU structure has failed to cope with global crisis that blew up in 2007 – serious shortcomings
- Lack of banking oversight; Fiscal Federalism; Super Finance Ministry; Political Union; Euro Debt Agency issuing Euro Bonds; Fiscal Discipline; lack of focus on growth
- Strong and unorthodox approach to crisis– very non-Germanic
- Realisation that cost of keeping EMU together < cost of it falling apart
- Political & Economic risks massive
- Can Greece possibly survive? If not, implications for the rest very tricky
- EU leaders will have to do much more
- Politics v Economics the real issue



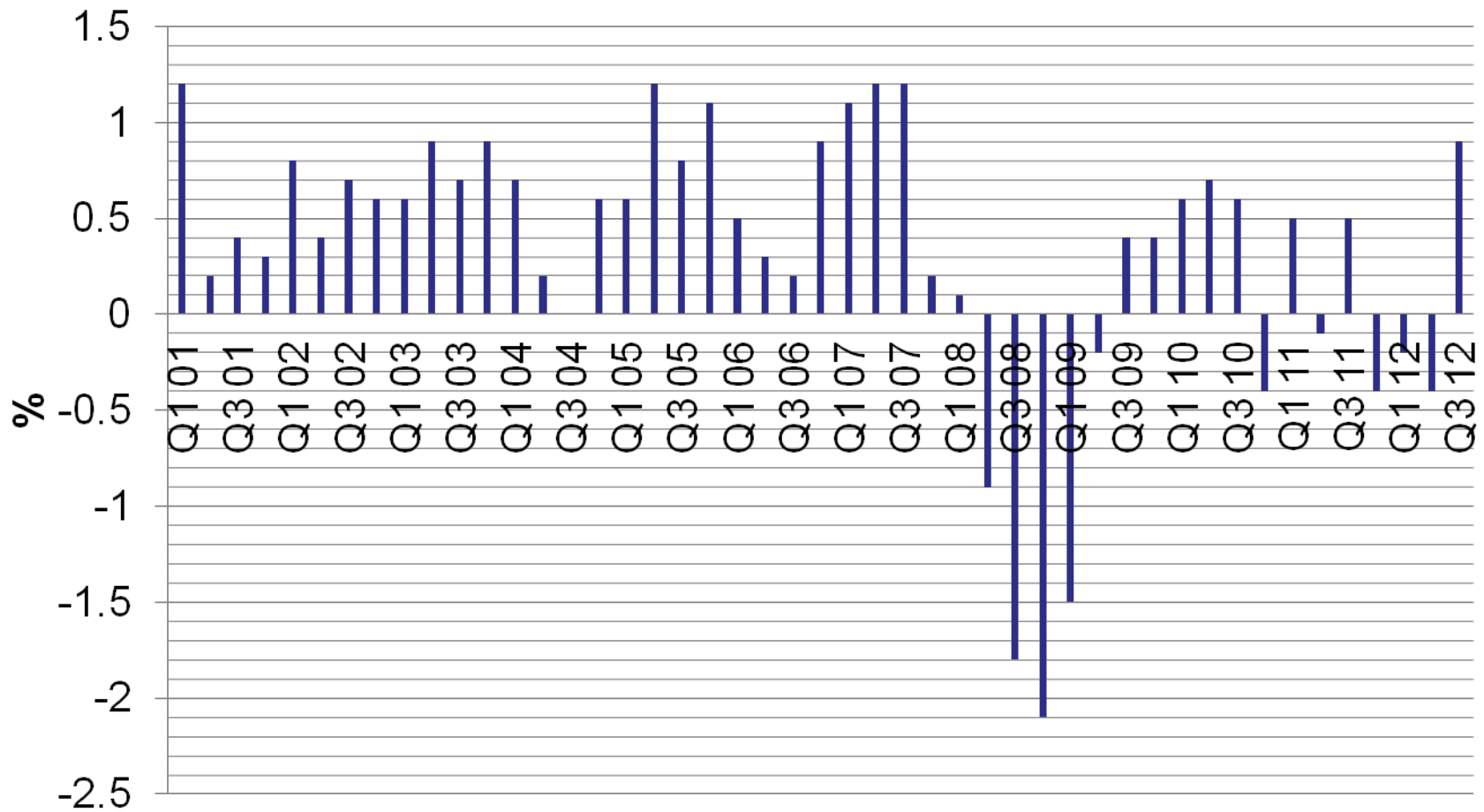
US GDP



USM ISM Indices

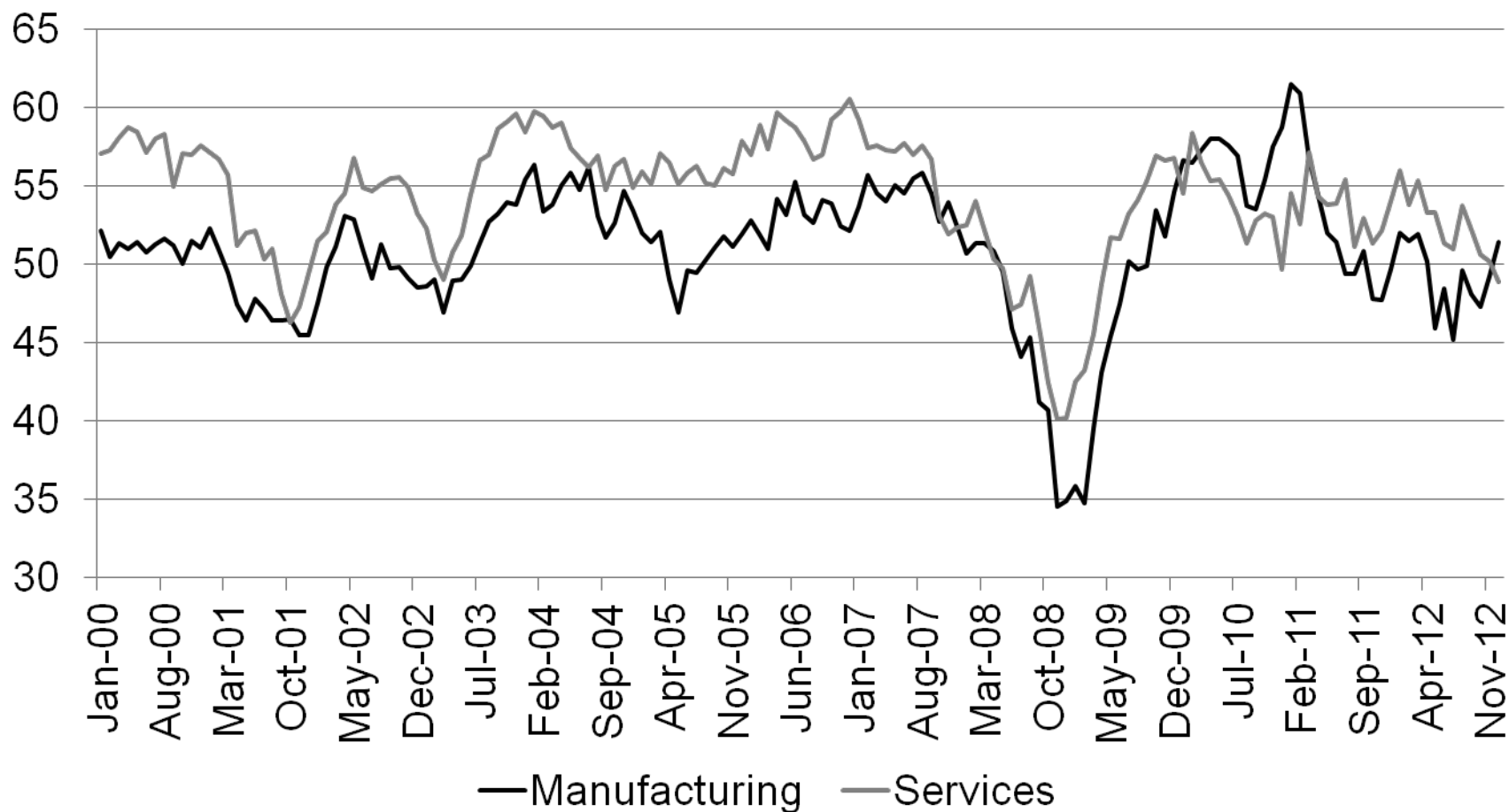


UK GDP





UK PMI Indices



German GDP

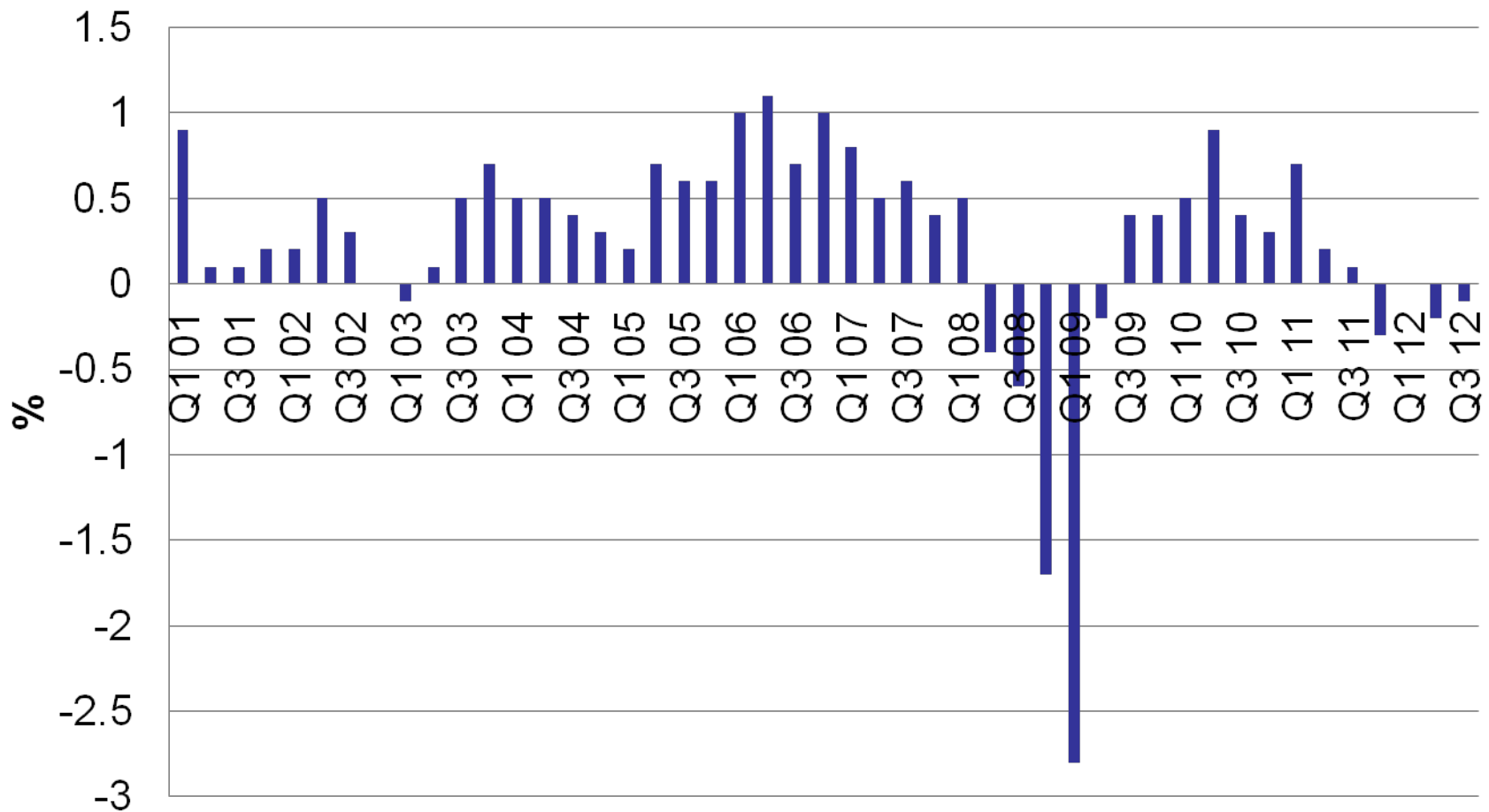




German PMI Indices



Euro Zone GDP





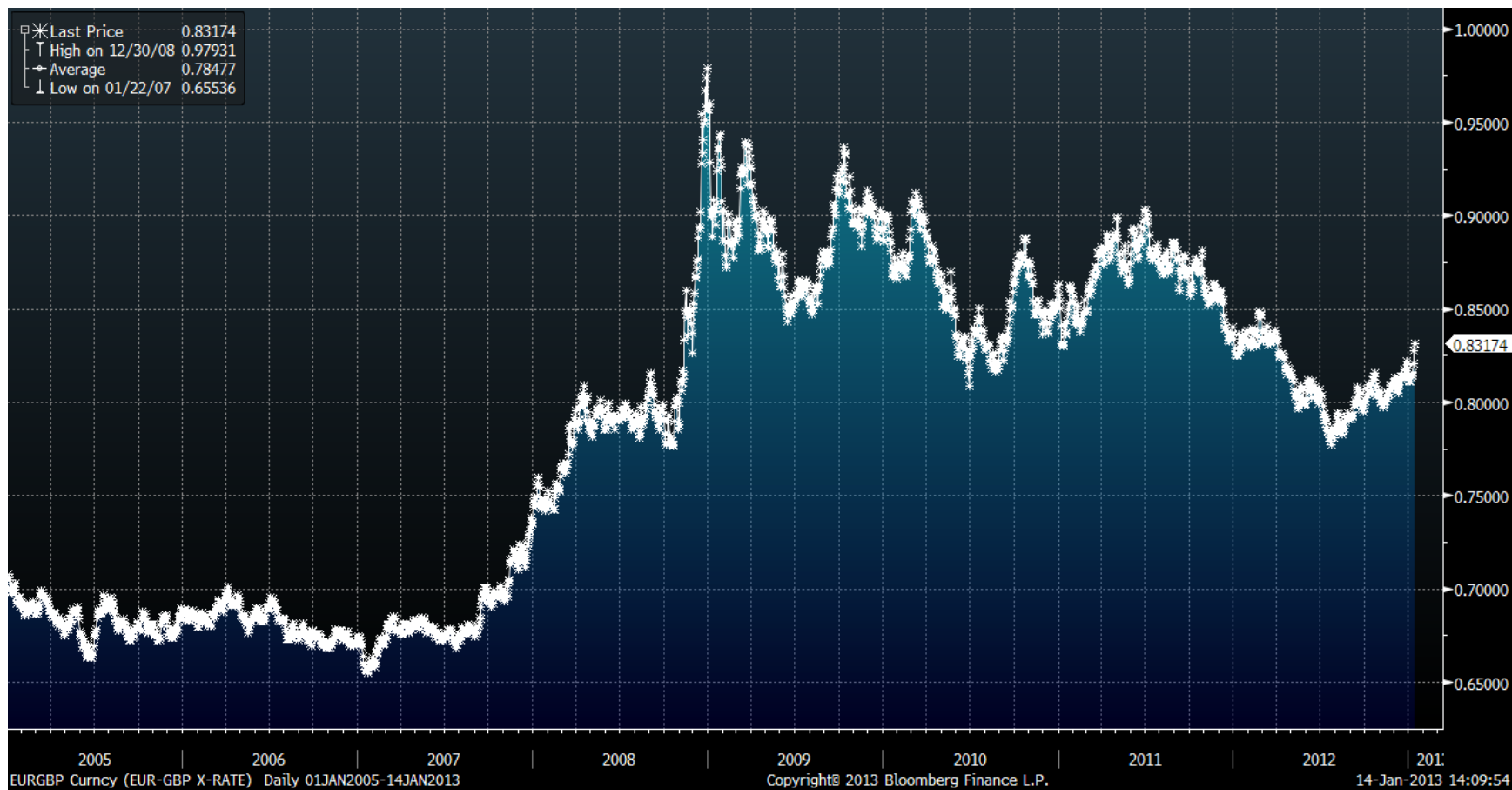
Euro Zone PMI





iapf

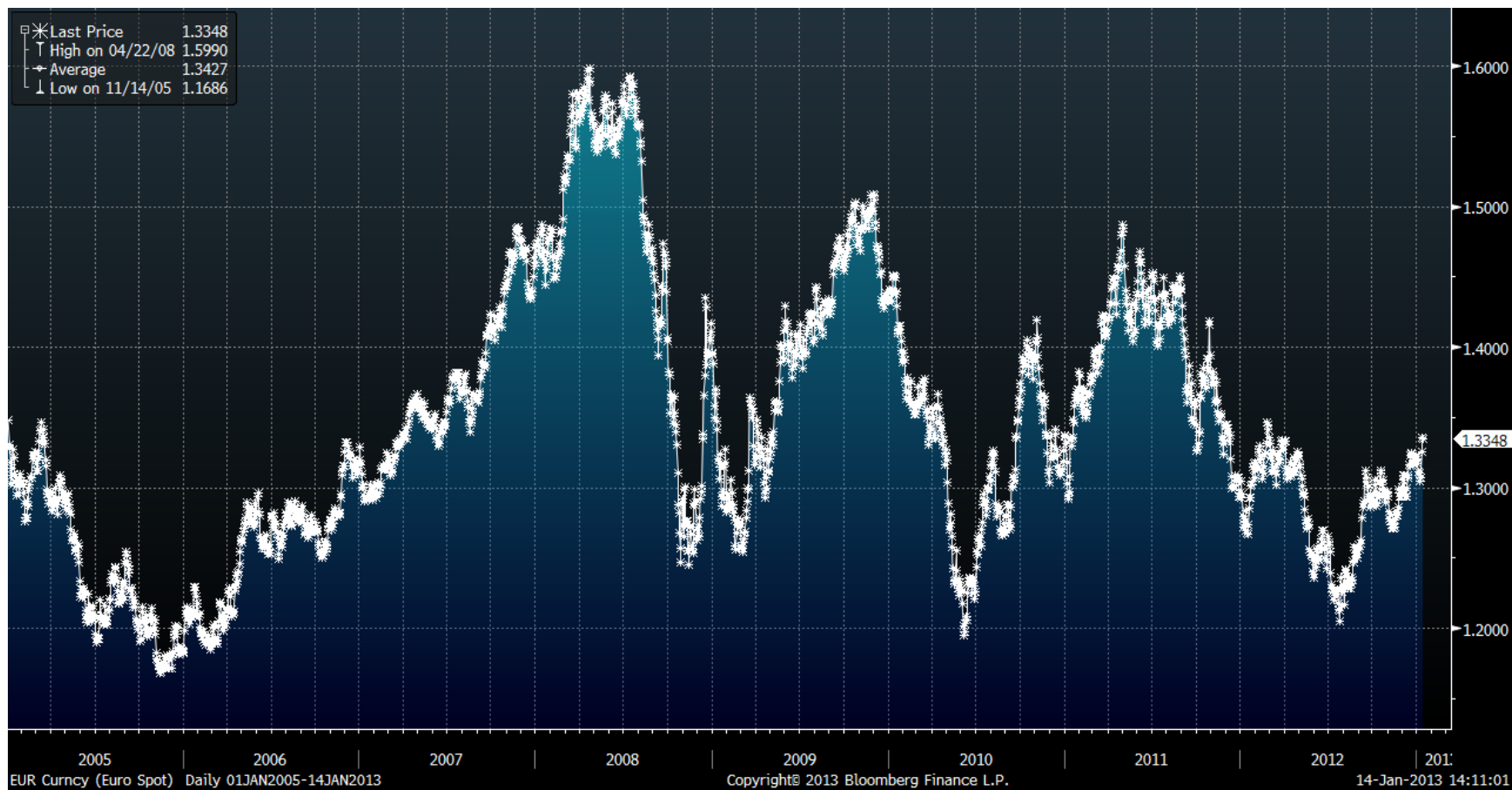
Sterling v Euro





iapf

USD v Euro





iapf

Brent Crude





10-YEAR BOND SPREADS OVER GERMANY

COUNTRY	16/01/12	14/01/13
Germany	1.78%	1.55%
France	+130 bps	+57 bps
Belgium	+240 bps	+62 bps
Italy	+485 bps	+260 bps
Spain	+345 bps	+341 bps
Portugal	+1,102 bps	+455 bps
Ireland	+607 bps	+241 bps (5 Y)
Greece	+3,244 bps	1,001 bps



Equity Market Indices

MARKET	2012	Jan 1 st -Jan 14 th 2013
S&P 500	+12.4%	+3.2%
Dow Jones	+6.3%	+2.9%
DAX	+29.1%	+1.8%
CAC	+15.2%	+2.2%
FTSE 100	+5.8%	+3.8%
ISEQ	+17.1%	+2.4%
Hang Seng	+20.0%	+3.3%
NIKKEI	21.4%	+3.9%



iapf

S&P 500





iopf

DAX





iapf

FTSE 100





Debt & Unemployment (2012)

Source: Eurostat, Oct 2012	GEN GOVT GROSS DEBT % GDP	UNEMPLOYMENT(Latest)
Euro Area	93.6%	11.8%
Germany	83.0%	6.9%
France	90.0%	10.5%
Italy	126.3%	11.1%
Greece	170.7%	26.8%
UK	88.7%	7.8%
Spain	90.7%	26.6%
Ireland	117.7%	14.6%
US	107.2%	7.8%
Japan	236.6%	4.1%

Global Outlook from OECD

(Source: OECD Nov '12)	2012f	2013f	2014f
OECD	1.4%	1.4%	2.3%
US	2.2%	2.0%	2.8%
Euro Zone	-0.4%	-0.1%	1.3%
Germany	0.9%	0.6%	1.9%
France	0.2%	0.3%	1.3%
UK	-0.1%	0.9%	1.6%
Italy	-2.2%	-1.0%	0.6%
Spain	-1.3%	-1.4%	0.5%
India	4.5%	5.9%	7.0%
China	7.5%	8.5%	8.9%



What might go worse than expected?

- Economic growth in the Developed World
- Euro Zone crisis – political turmoil
- Israeli conflict
- No obvious currency risks
- **LACK OF GROWTH THE KEY RISK IN 2013 –
MARKETS VERY UN-CONCERNED**
- **WILL ORTHODOXY CONTINUE TO REIGN?**