
Global Market Outlook -- June 2002

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Economic Forecasts Overview 2001-03F

GDP Growth (%)

CPI Inflation (%)

	2001	2002	2003	2001	2002	2003
United States	1.2	2.7	3.5	2.8	1.8	2.0
Japan	-0.6	-0.8	0.3	-0.7	-1.3	-1.1
Euro Area	1.5	1.0	3.0	2.5	2.3	1.9
United Kingdom	2.2	1.6	3.1	2.1	2.1	2.7

Interest Rate Forecast

	<u>Current</u>	<u>3-Month Forecast</u>	<u>12-Month Forecast</u>
<i>Call Money/Repo Rate</i>			
Euro	3.25%	3.25%	3.75%
UK	4.00	4.50	6.00
US	1.75	1.75	3.50
Japan	0.00	0.00	0.00

<i>10-Yr Yields & Spreads</i>	<u>Current</u>	<u>3-M Forecast</u>	<u>12-M Forecast</u>
U.S. Treasury	4.79%	5.25%	5.75%
Euro (Bund)	4.96	5.00	5.40
Gilt-Euro	+9bp	+20bp	+35bp
JGB	1.38	1.50	1.60

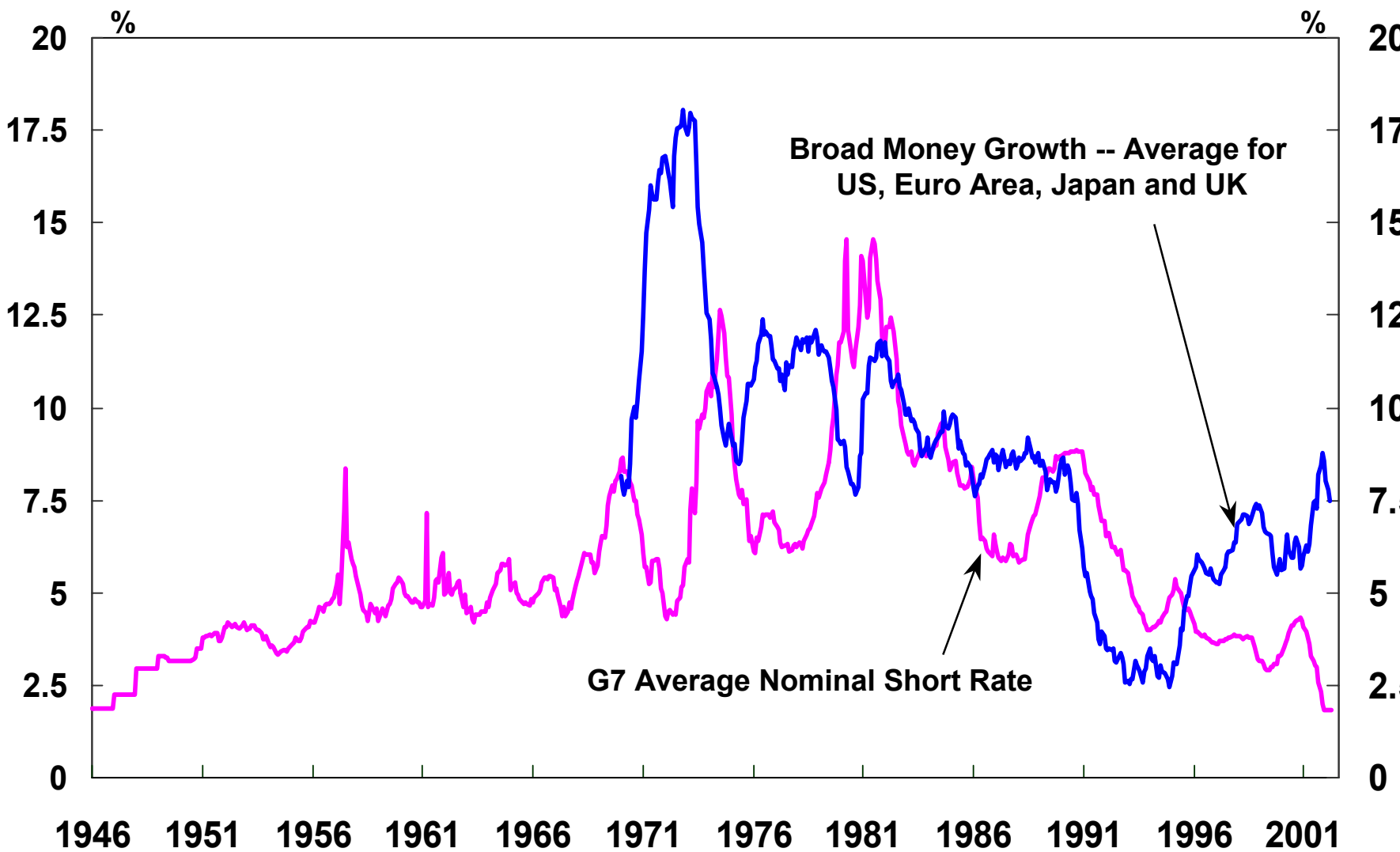
FX Forecast

	Current	3-Month Forecast	12 Month Forecast
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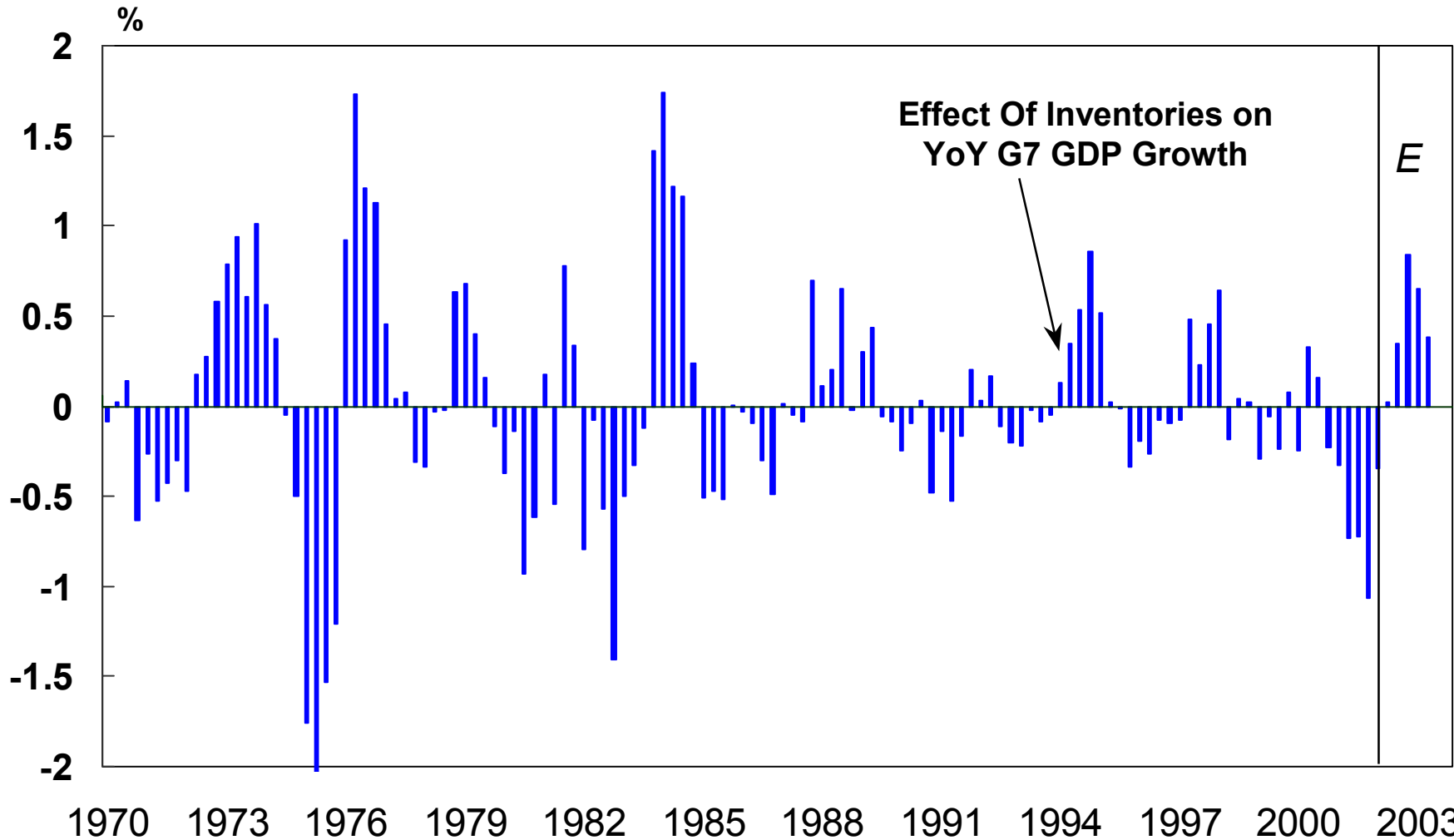
FX

US\$/Euro	0.96	0.96	0.97
£/Euro	64p	64p	65p
US\$/£	1.49	1.50	1.50
Yen/US\$	124	121	135

Monetary Policy Is Exceptionally Supportive Everywhere

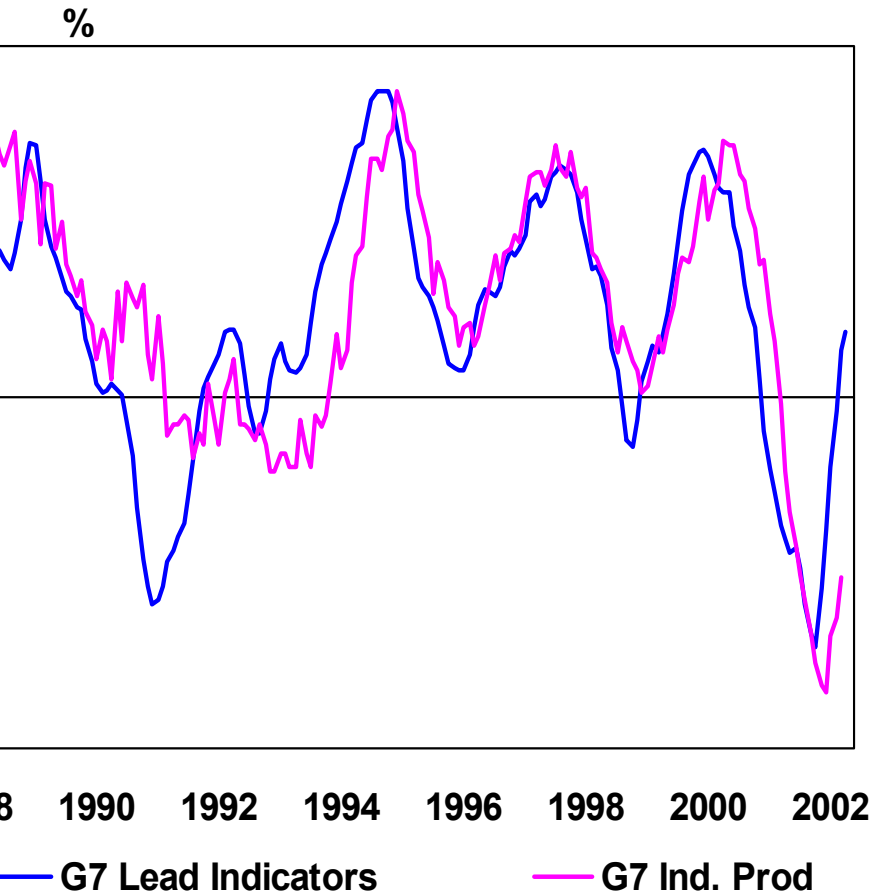


Stock Cycle Will Give Big Boost to G7 Growth

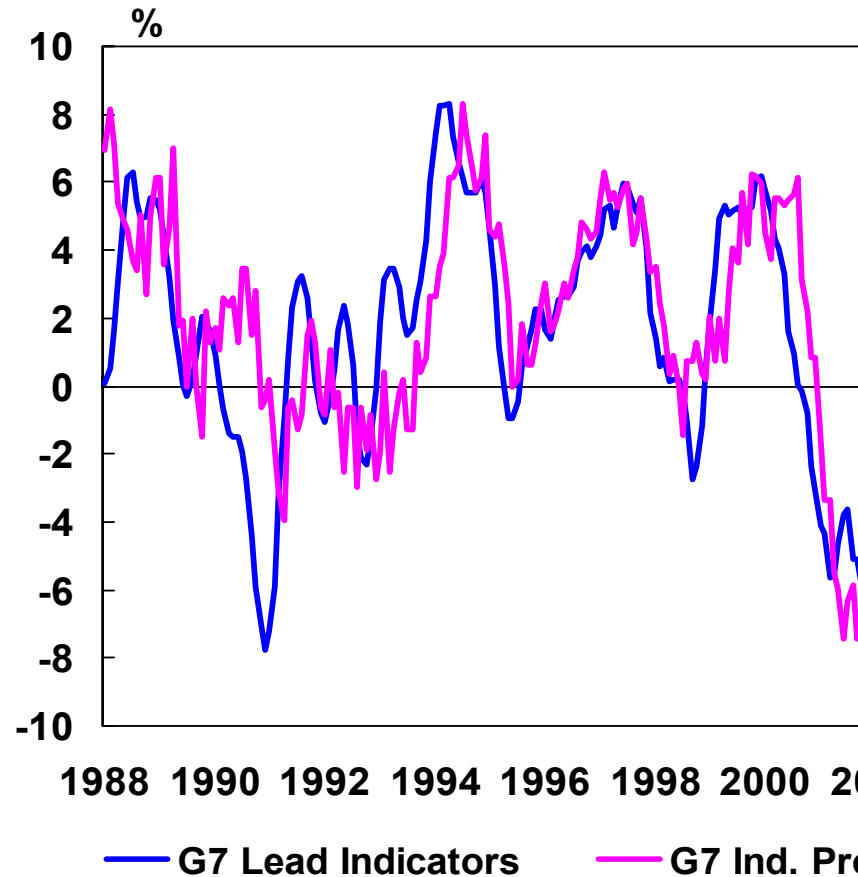


G7 Lead Indicators Rising Strongly

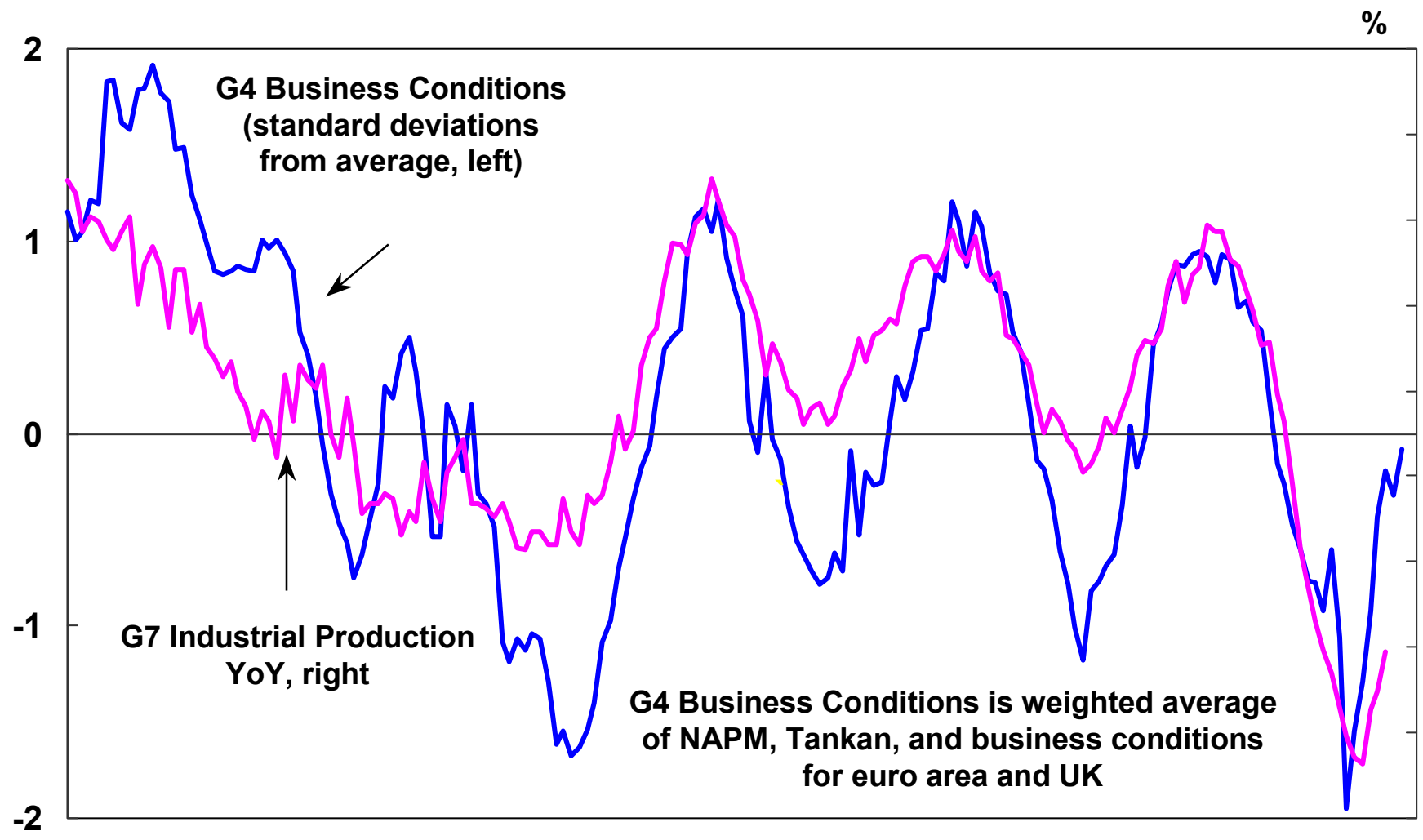
In YoY Terms...



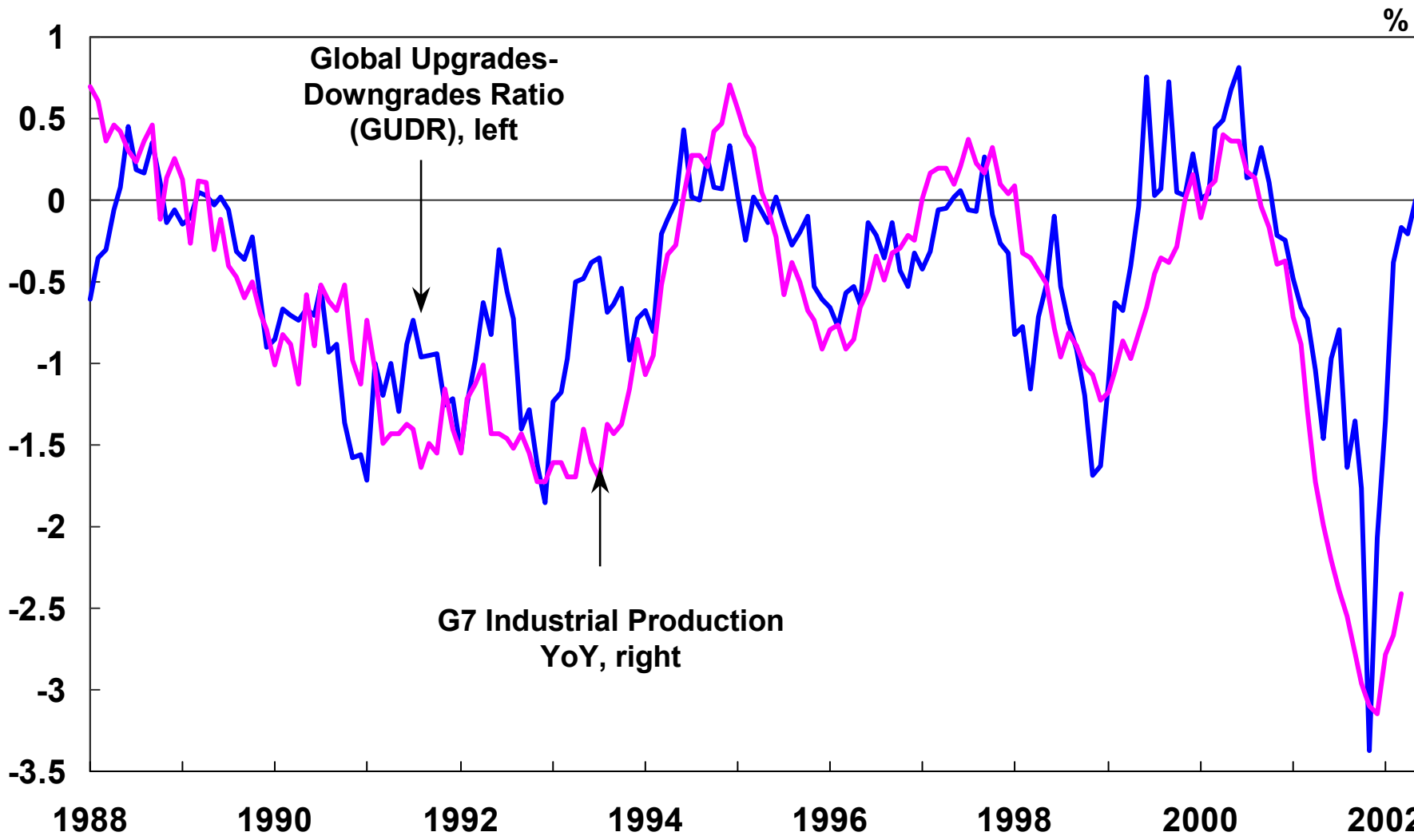
... And Six Month Annualised Changes



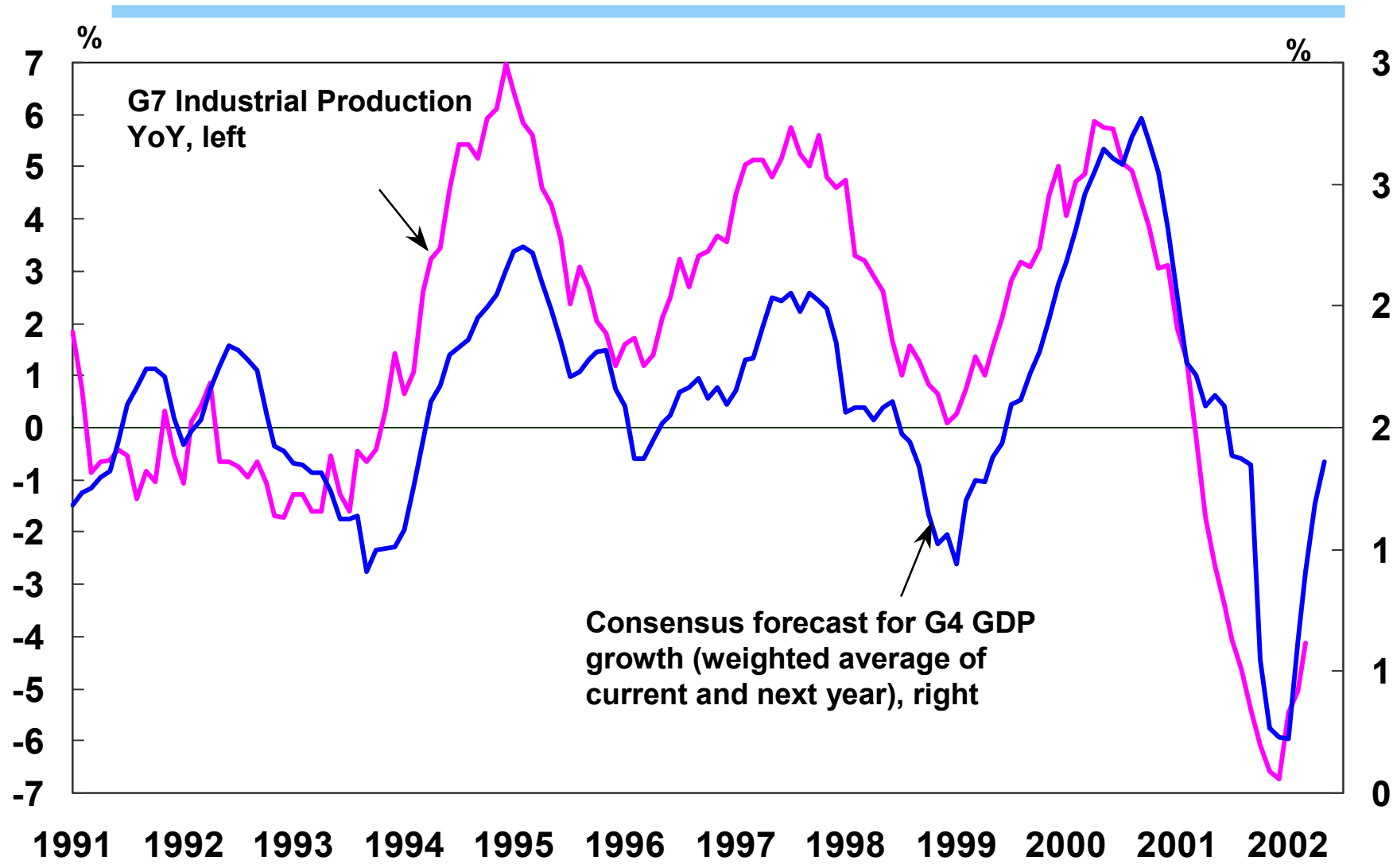
G4 Business Conditions and G7 Industrial Production



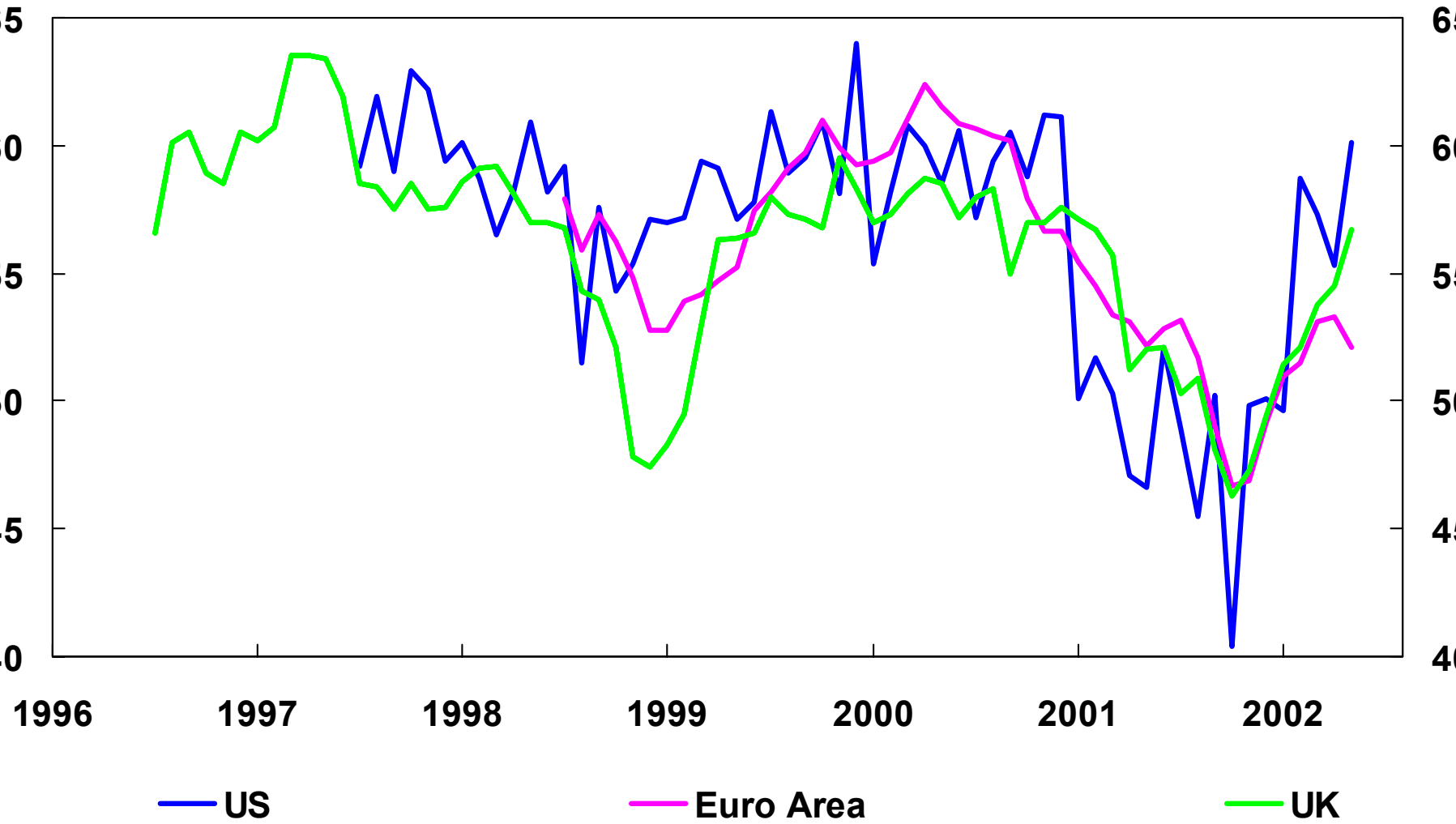
Global Profit Upgrades-Downgrades Ratio & G7 Industrial Production



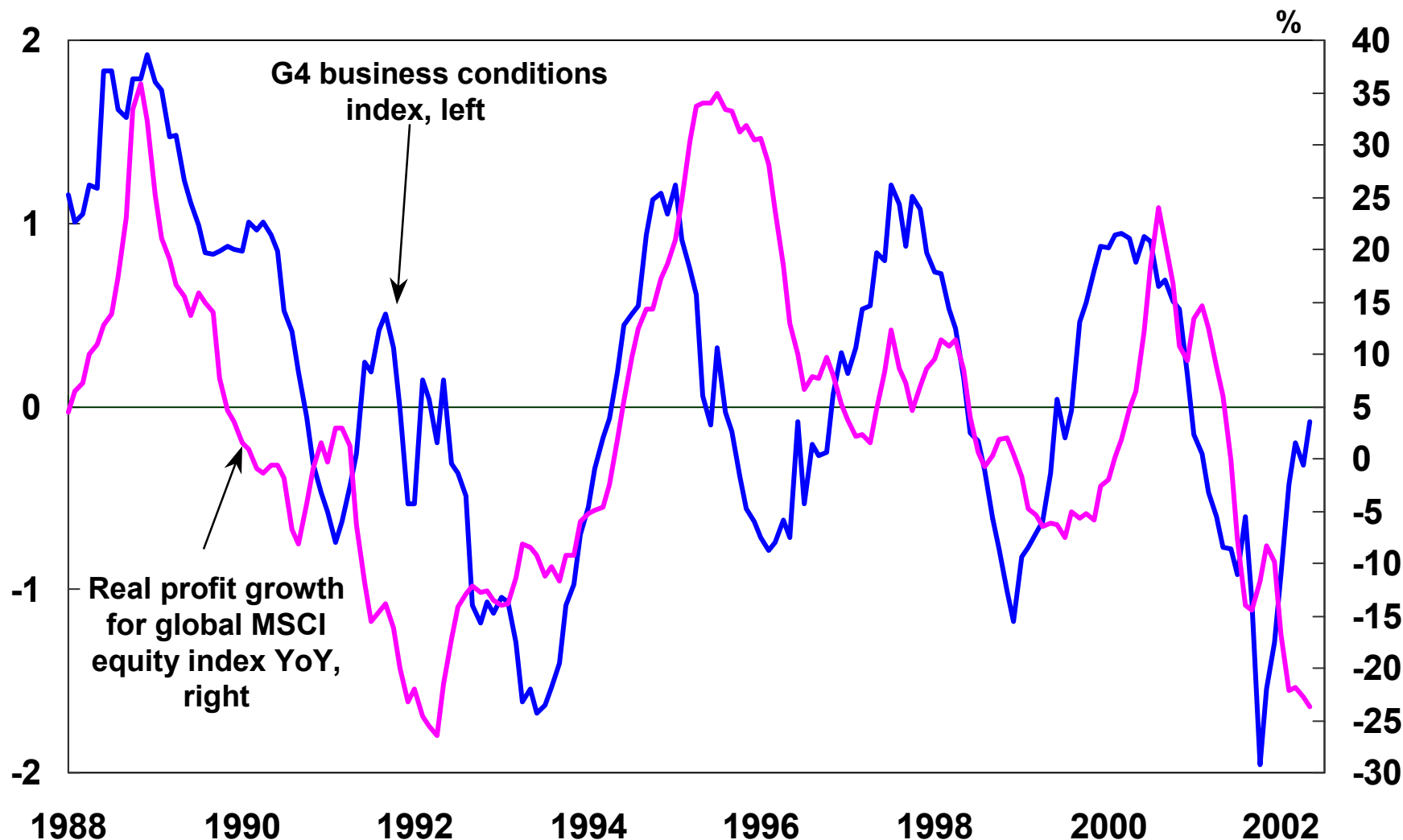
Consensus Usually Slow to Anticipate Economic Turning Point



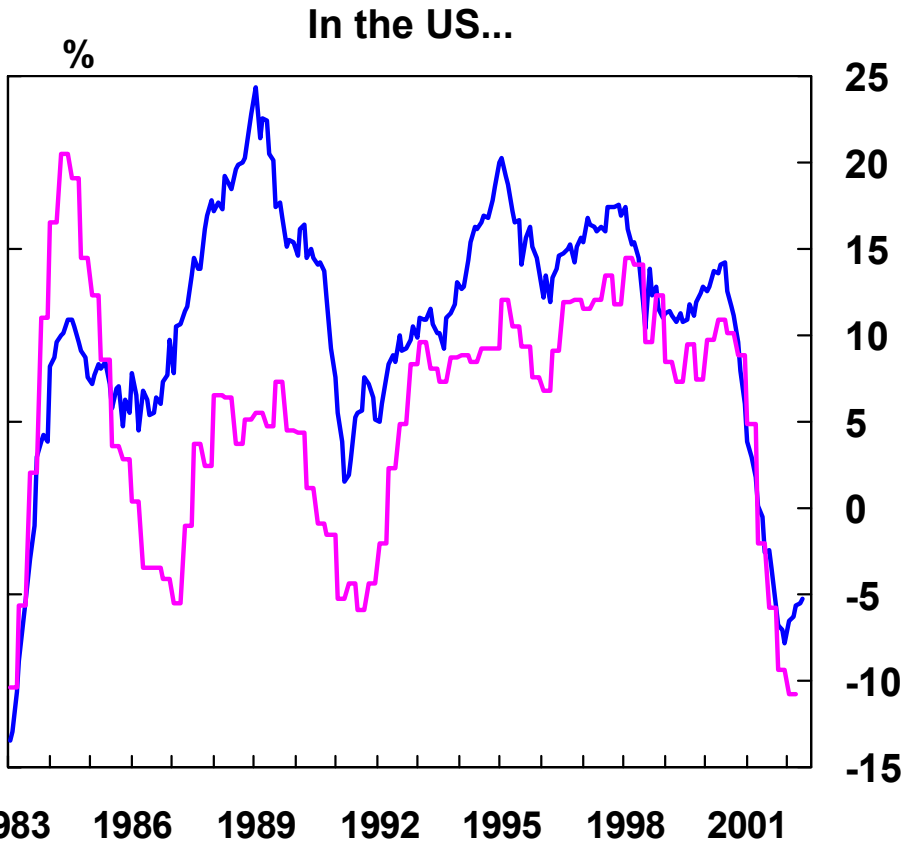
Rebound in Service Sector PMIs Suggests Recovery Not Just Inventory-Led



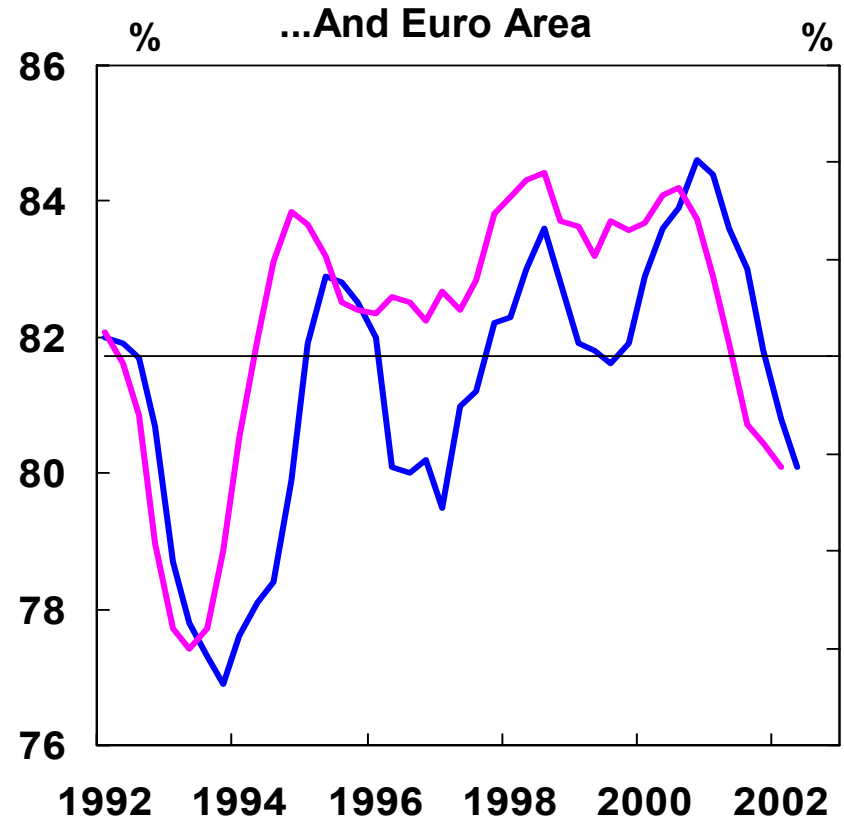
Higher Growth Will Generate Cyclical Profit Rebound



Capacity Use Does Not Lead Capex...



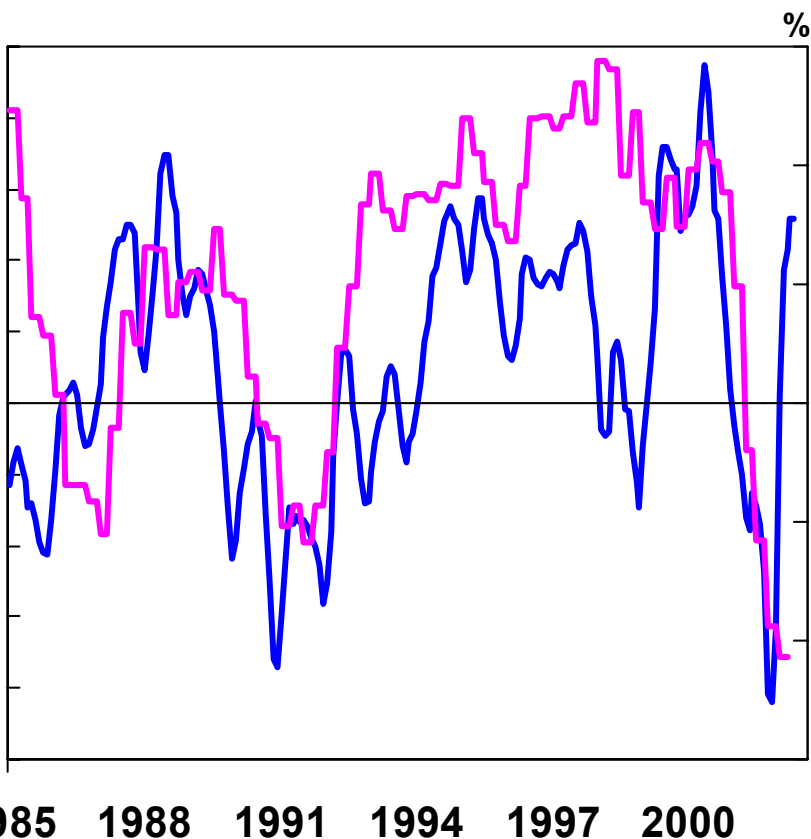
— US Capacity Use (left)
 — US Private Non-Housing Capex YoY (right)



— Capacity Use (left)
 — Business Investment YoY (Euro-4), right

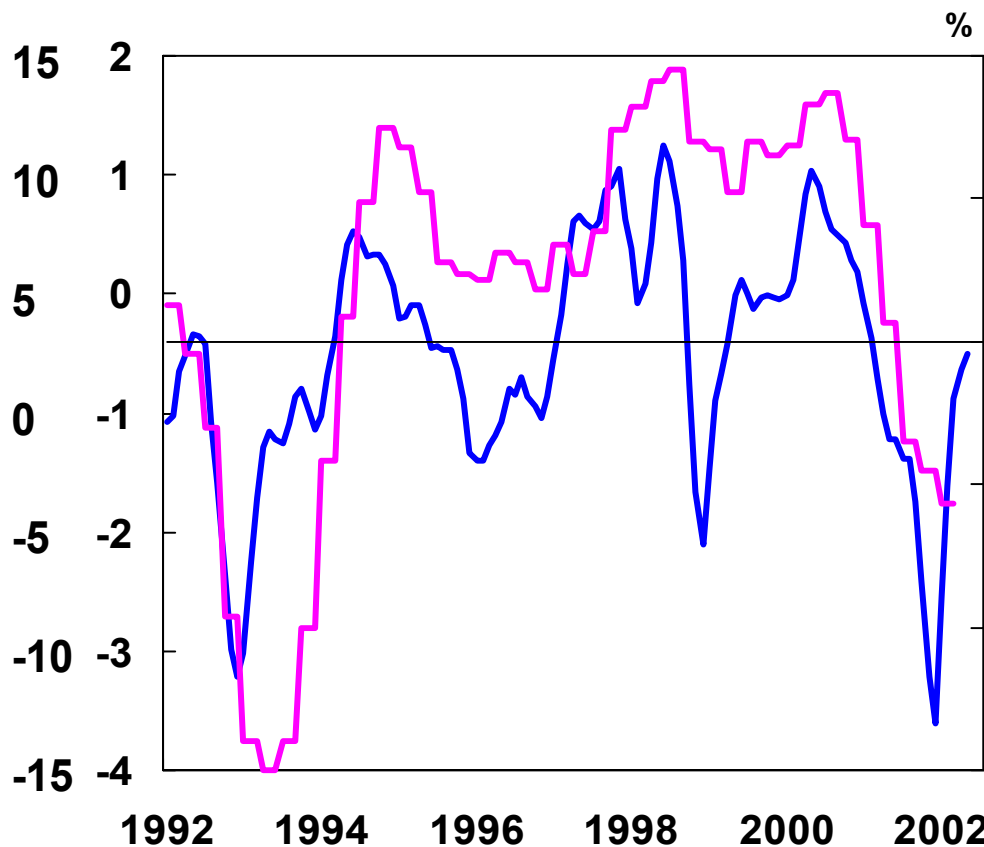
Profitability Beginning to Improve...

US



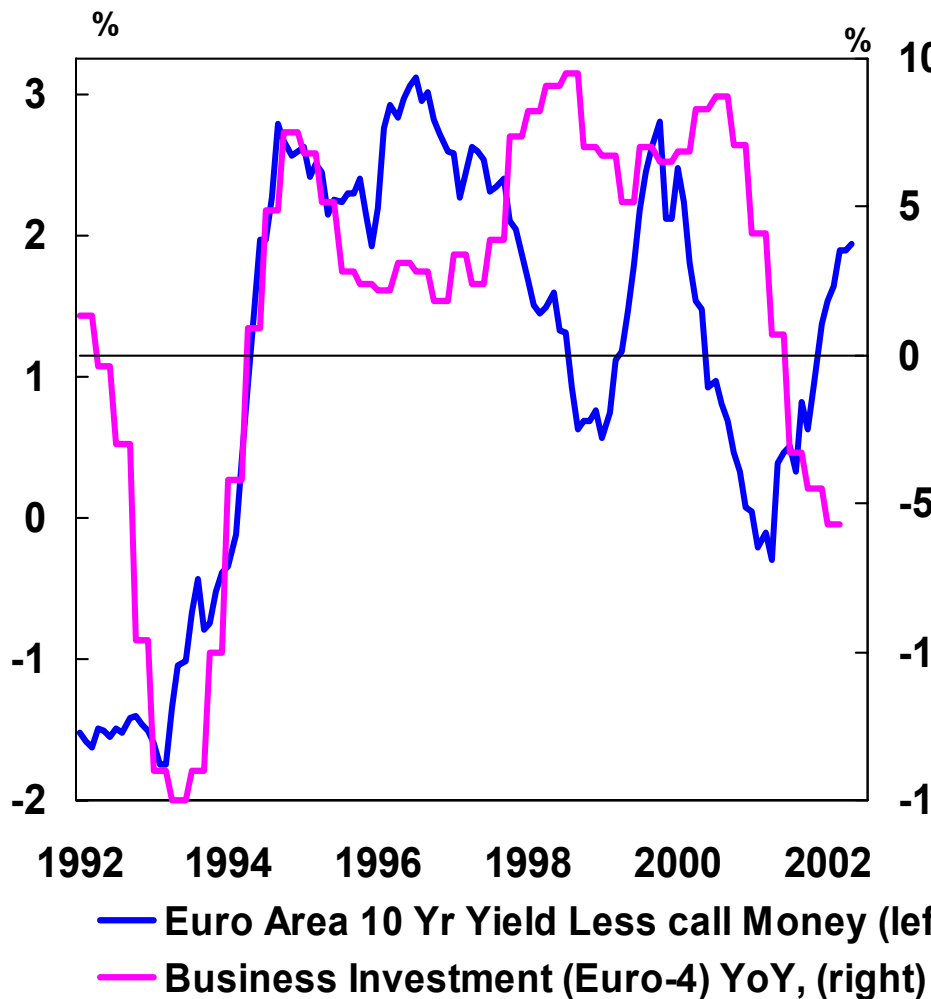
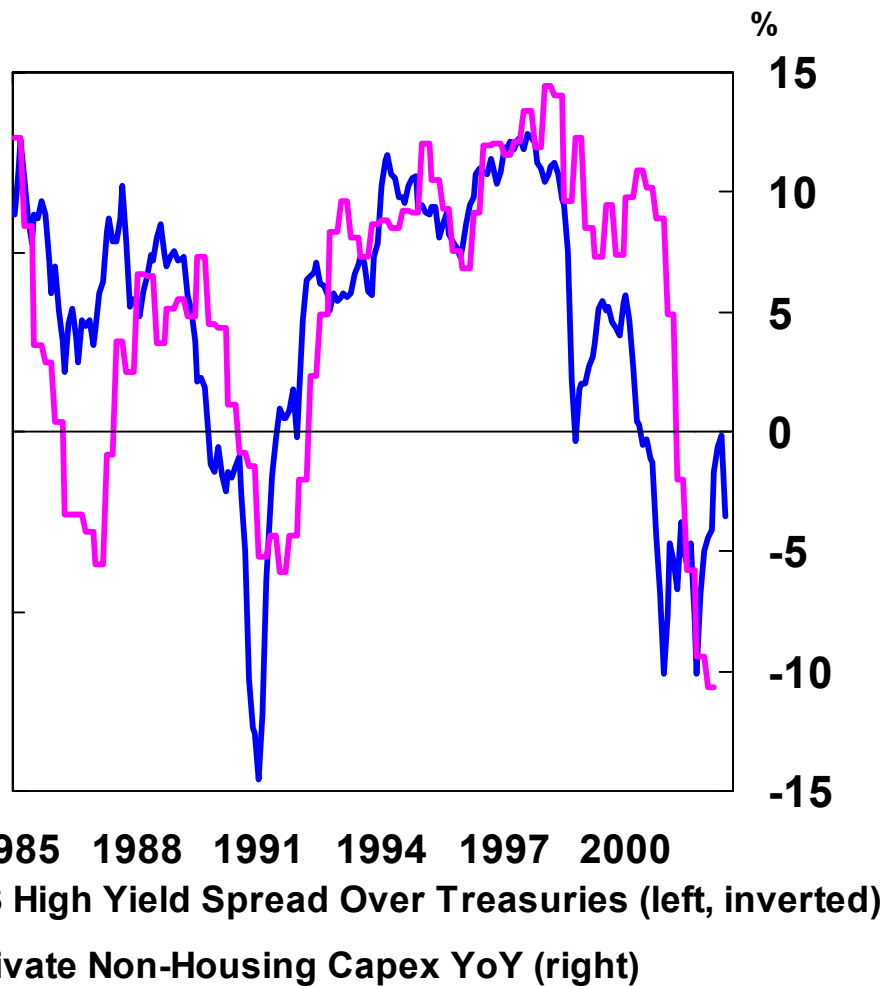
— US Upgrades-Downgrades Ratio (left)
— Private Non-Housing Capex YoY (right)

Euro Area

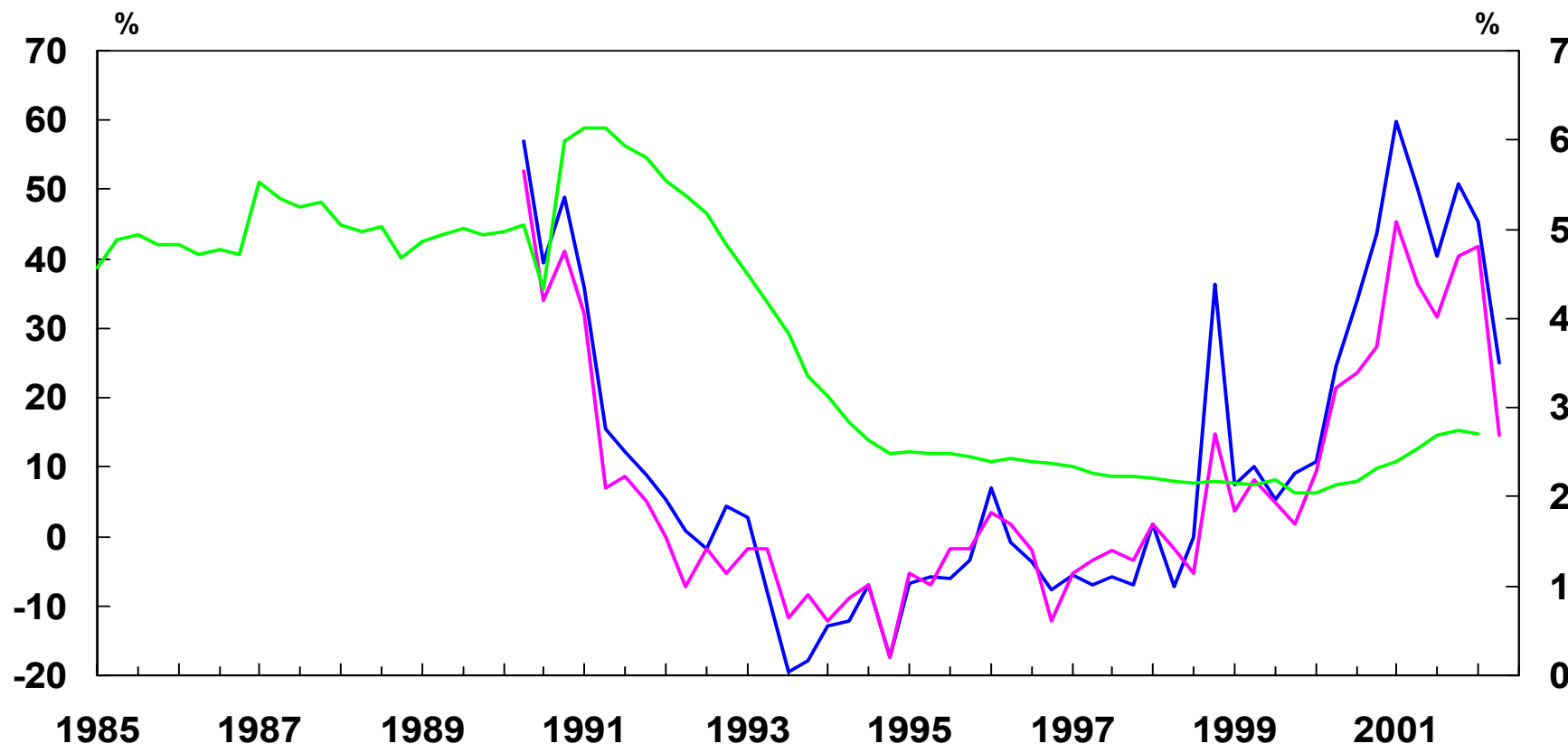


— Upgrades/Downgrades Ratio (left)
— Business Investment (Euro-4) YoY (right)

...and Cost of Capital Less of An Ostacle

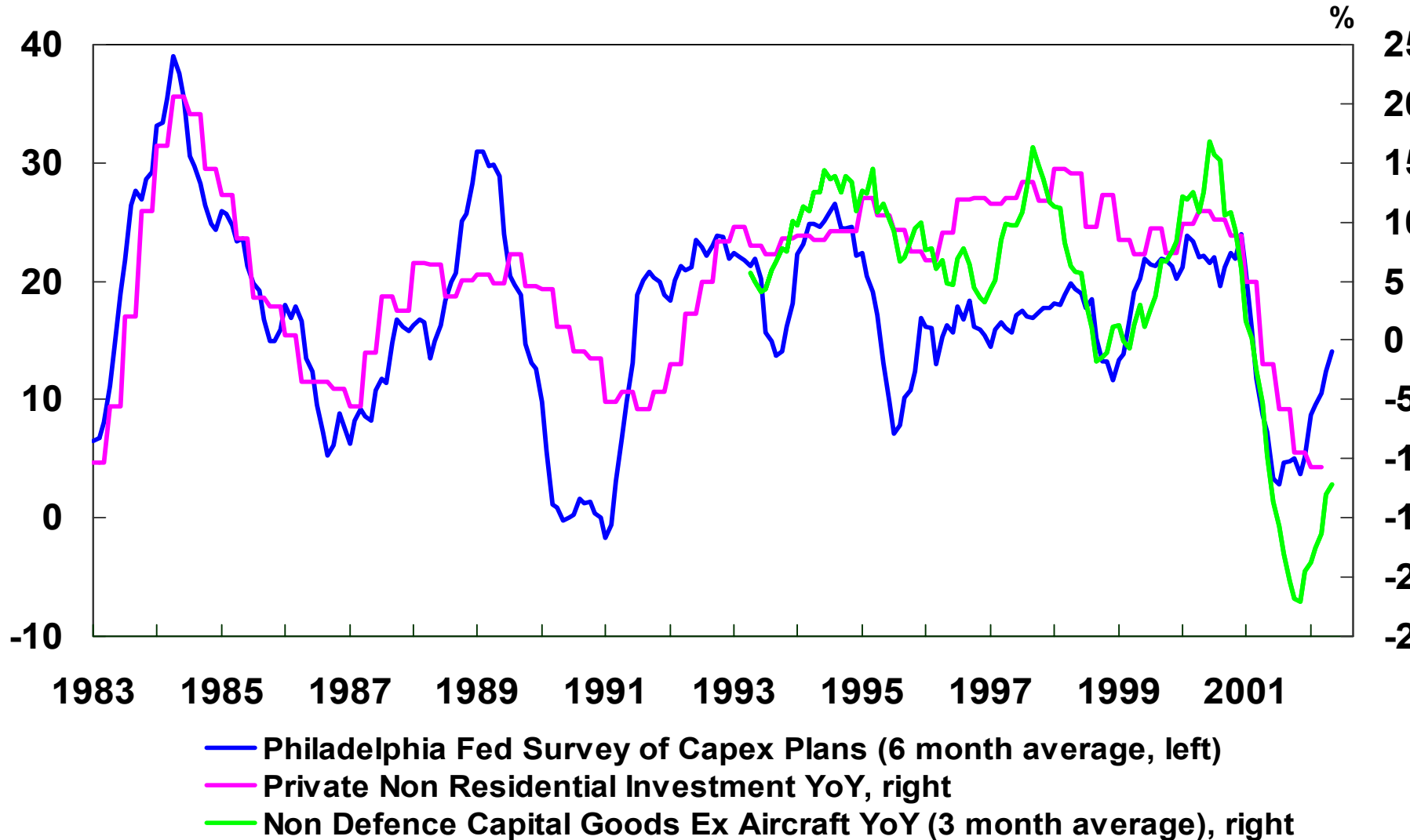


Lending Standards Beginning to Ease Again As Failures Stay Moderate

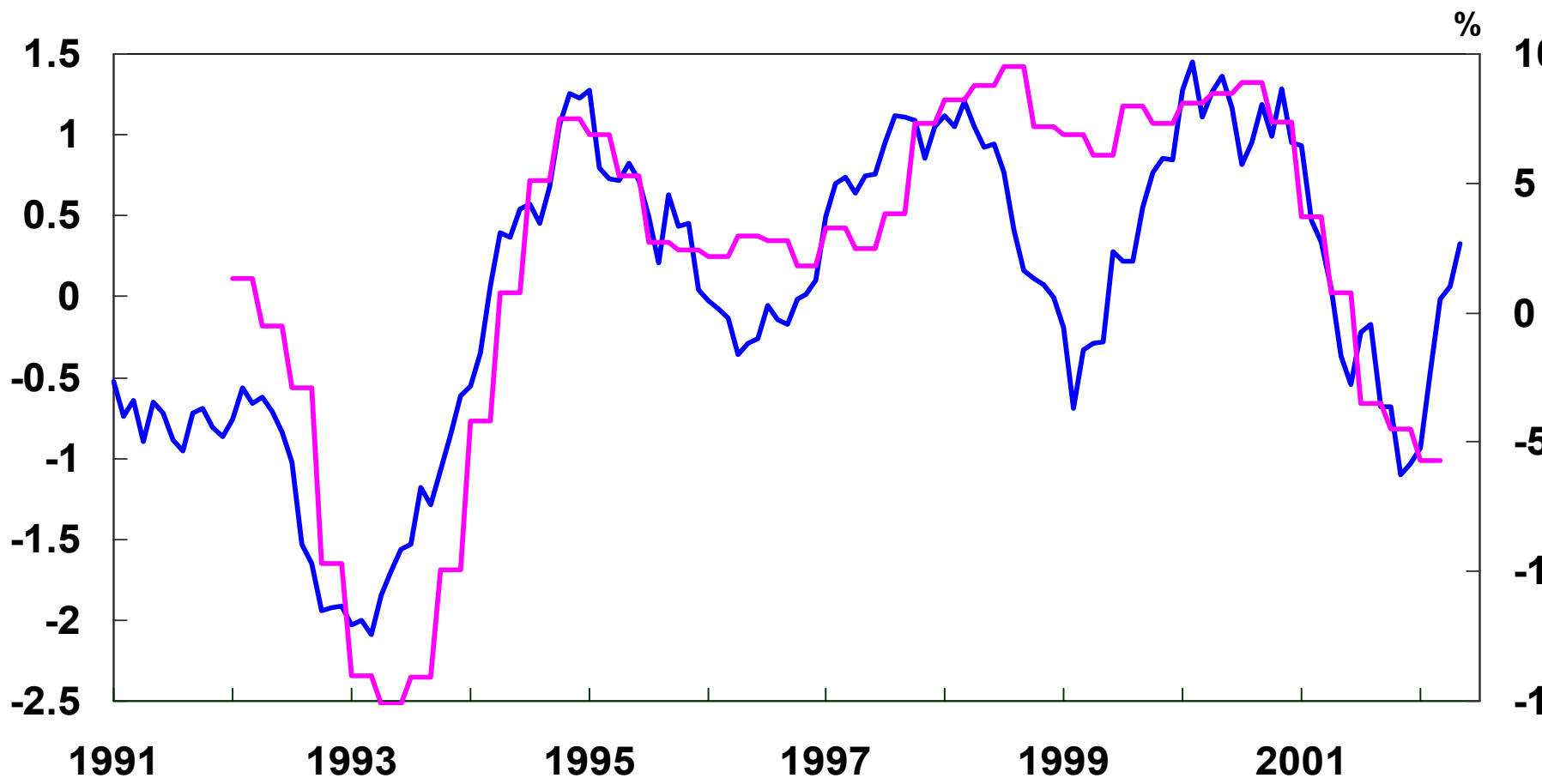


- Pct of Banks Tightening lending standards (Large and Medium Firms, left)
- Pct of Banks Tightening lending standards (small firms, left)
- Total Delinquency Rate (right)

Capex May be Near its Low



...And In the Euro Area As Well



— Capital Goods Sector Confidence -- (Germany, France, Italy), Standard Deviation from Average (Left)

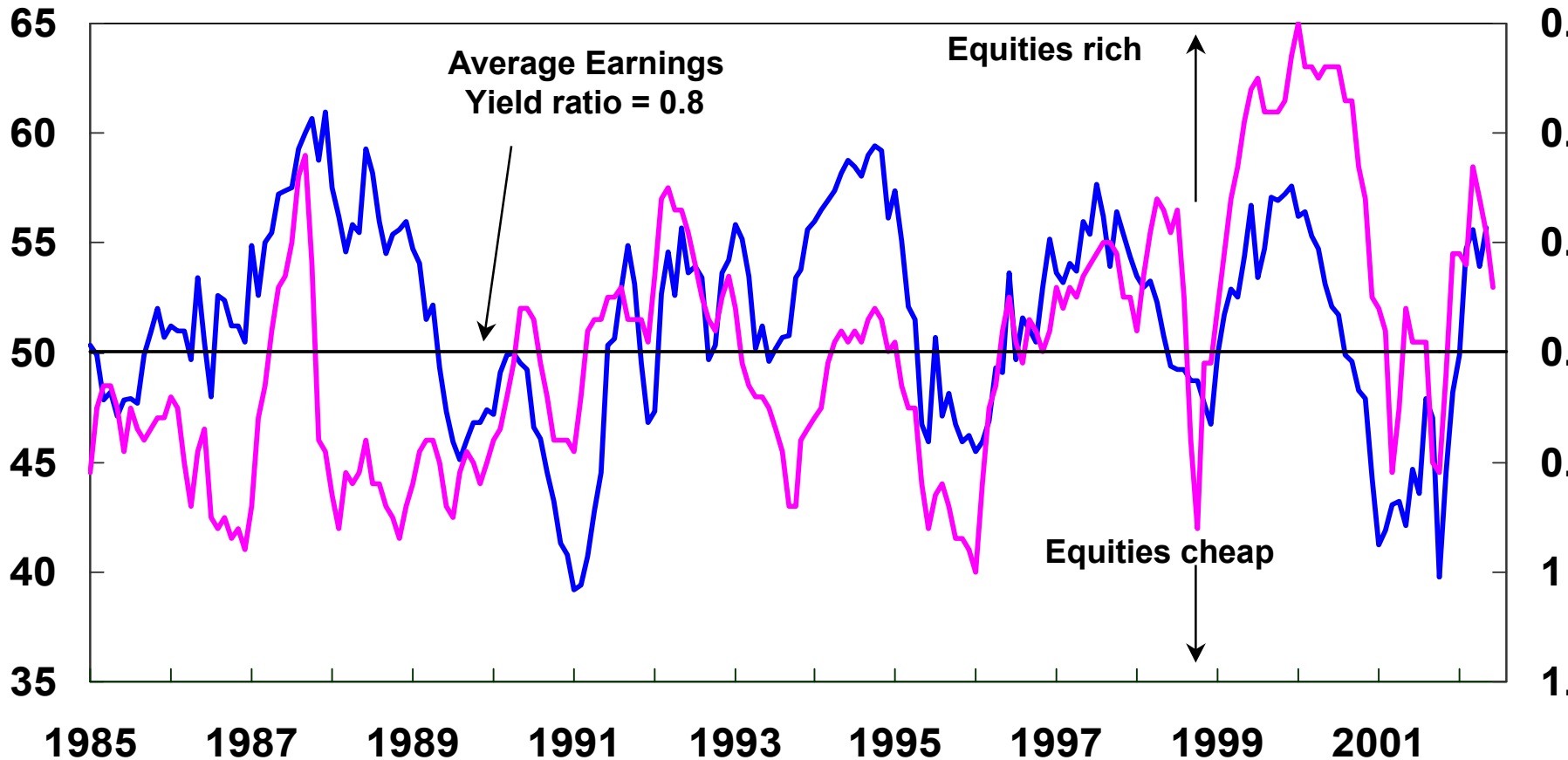
— Business Investment YoY (EMU 4) (Right)

Sources of Oil Output

Millions of Barrels Per Day

	1999	2000	2001 Q1	2001 Q4	2002 Q1
Total Oil Output	74.2	76.8	77.7	77.2	76.8
Iraq		2.6	2.2	2.6	2.6
OPEC ex Iraq		25.5	26.0	23.9	22.2
Total OPEC Crude Oil	26.6	28.1	28.2	26.4	25.5
OPEC NGLs	2.8	2.9	2.9	3.0	3.0
Non OPEC	44.8	45.8	46.6	47.5	47.3

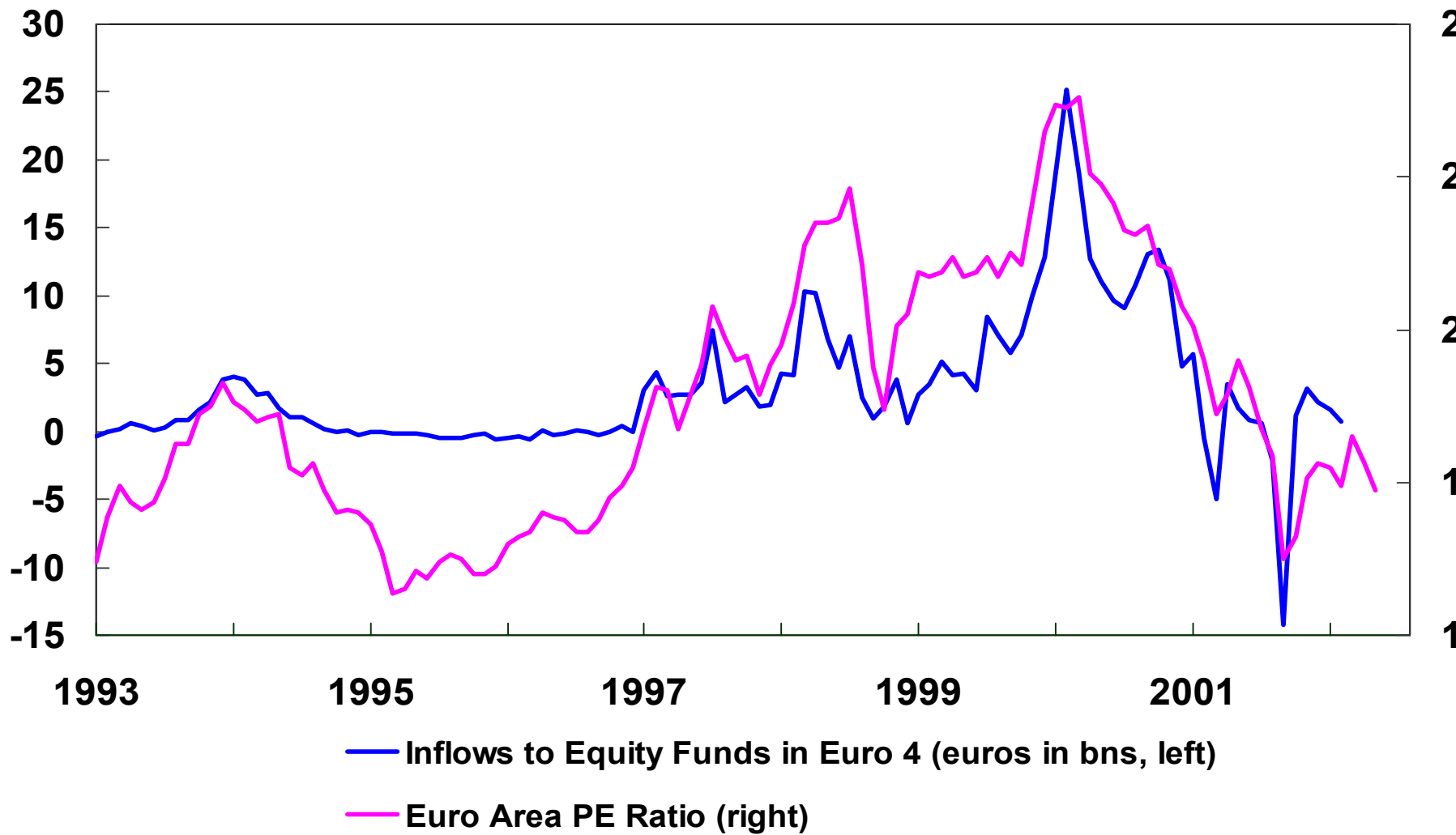
Equity Valuations Still Quite Stretched



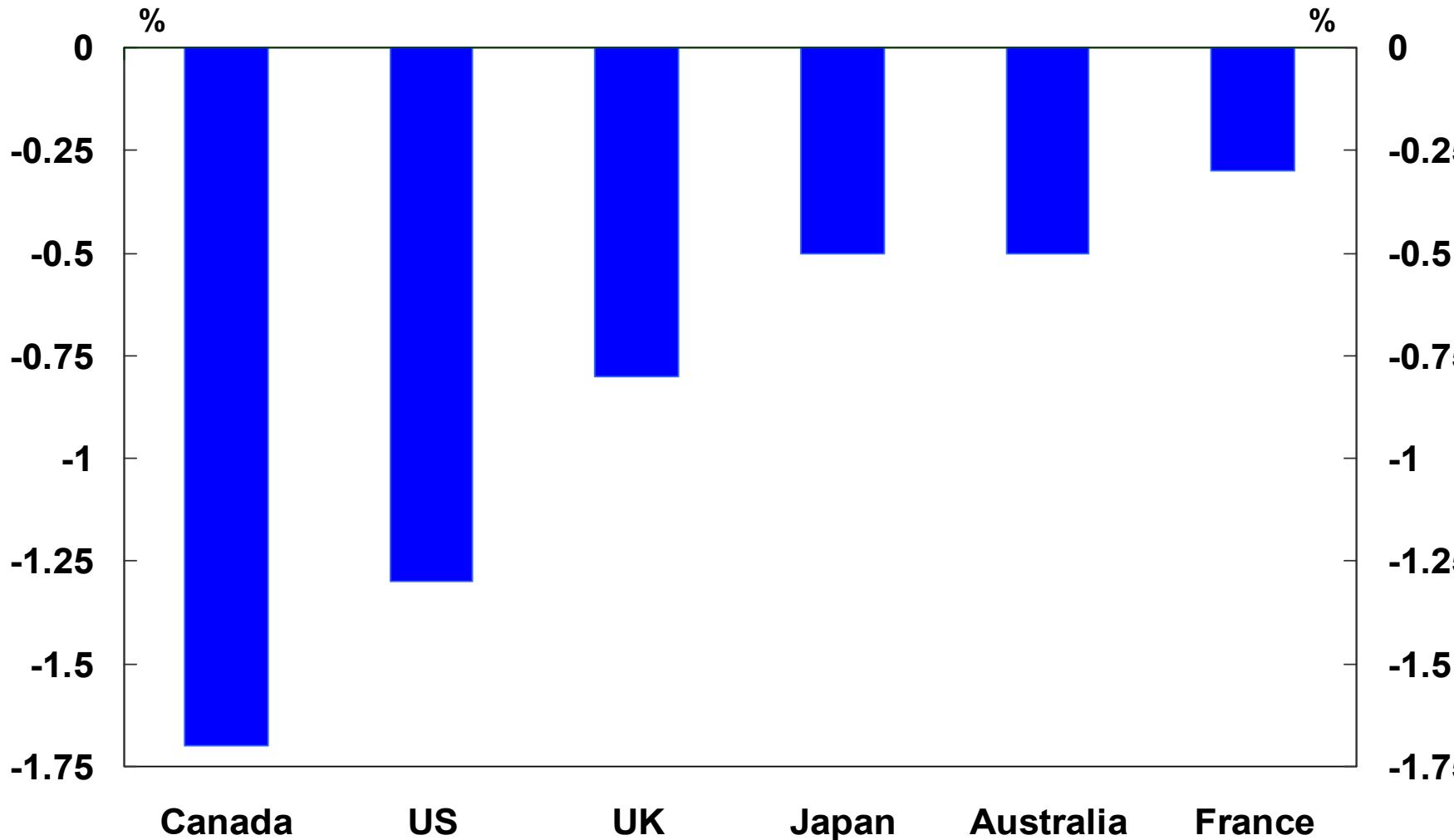
— NAPM (left)

— US Equity Earnings Yield/Govt Bond Yield, right, inverted

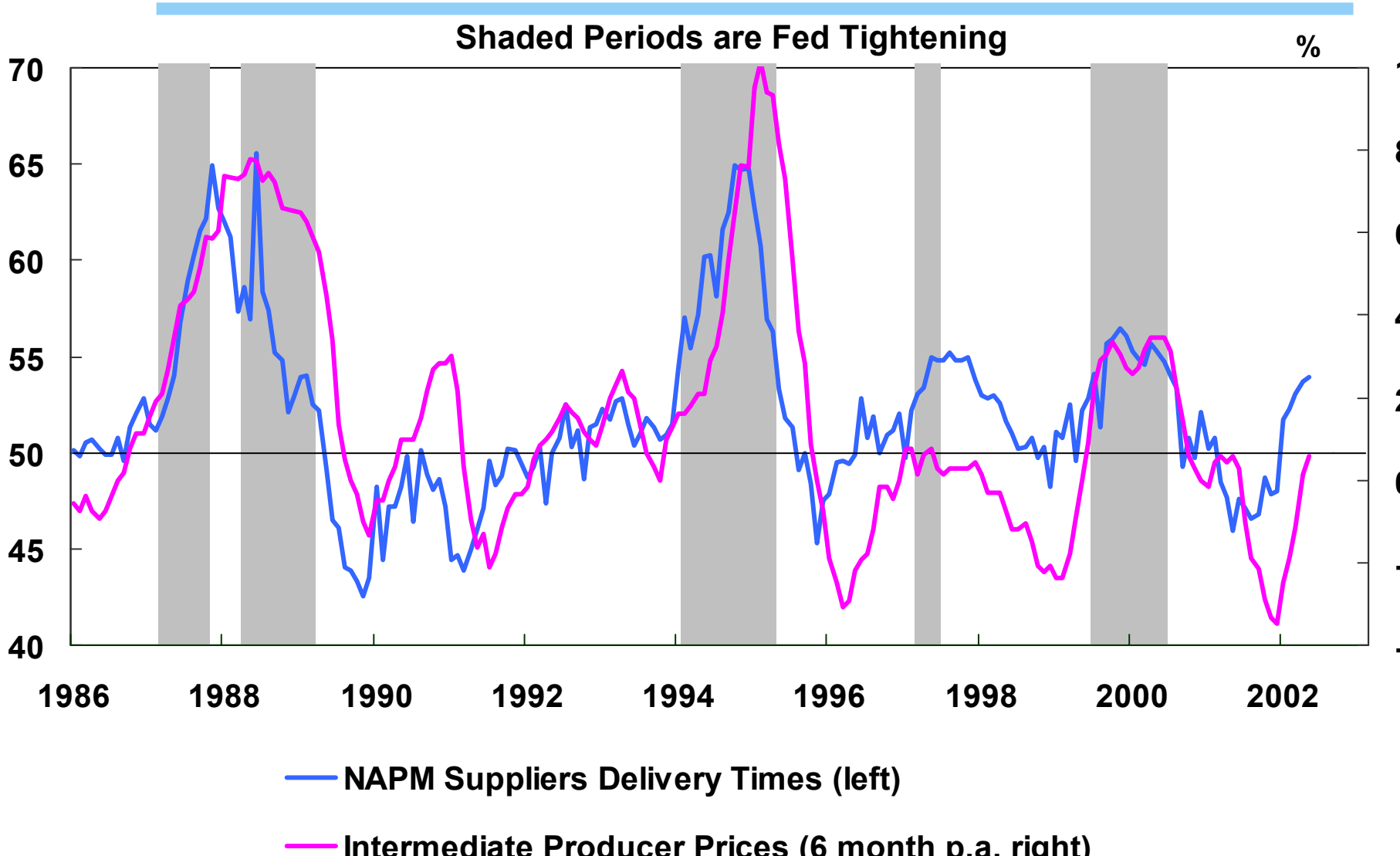
...Euro Area Equities Capped By Burnt Investors



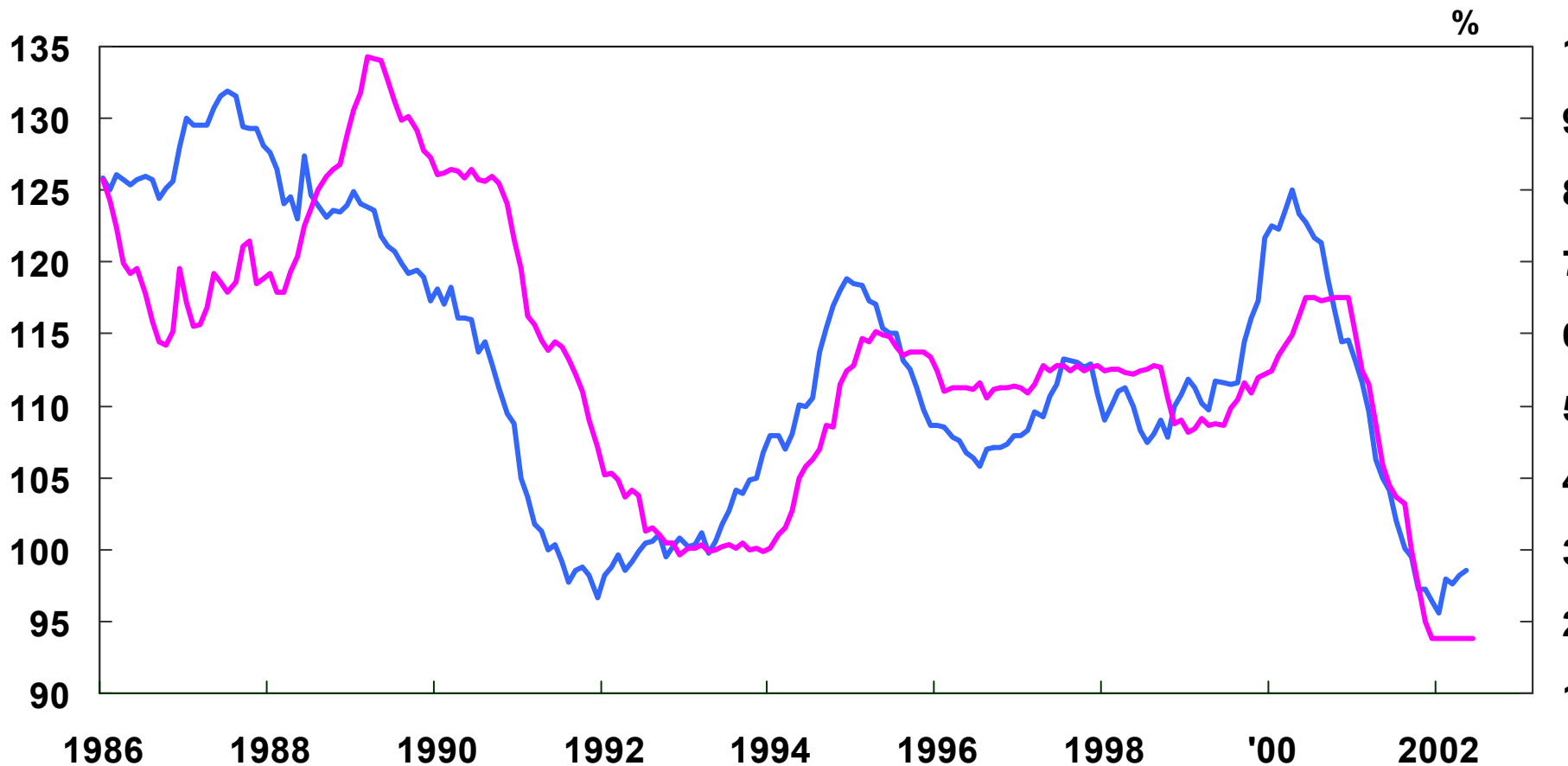
Longrun Effect of a 10% Drop in Share Prices on Consumer Spending



US Lead Inflation Guides Starting To Edge Up (I)



US Lead Inflation Guides Starting To Edge Up (II)

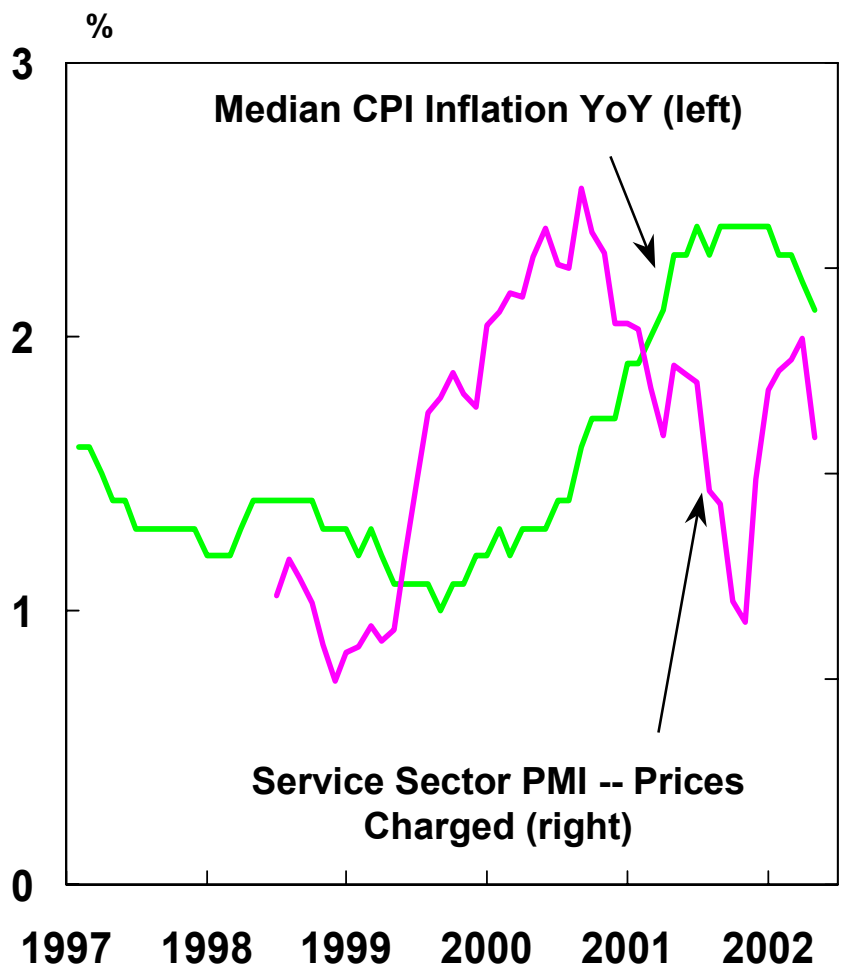
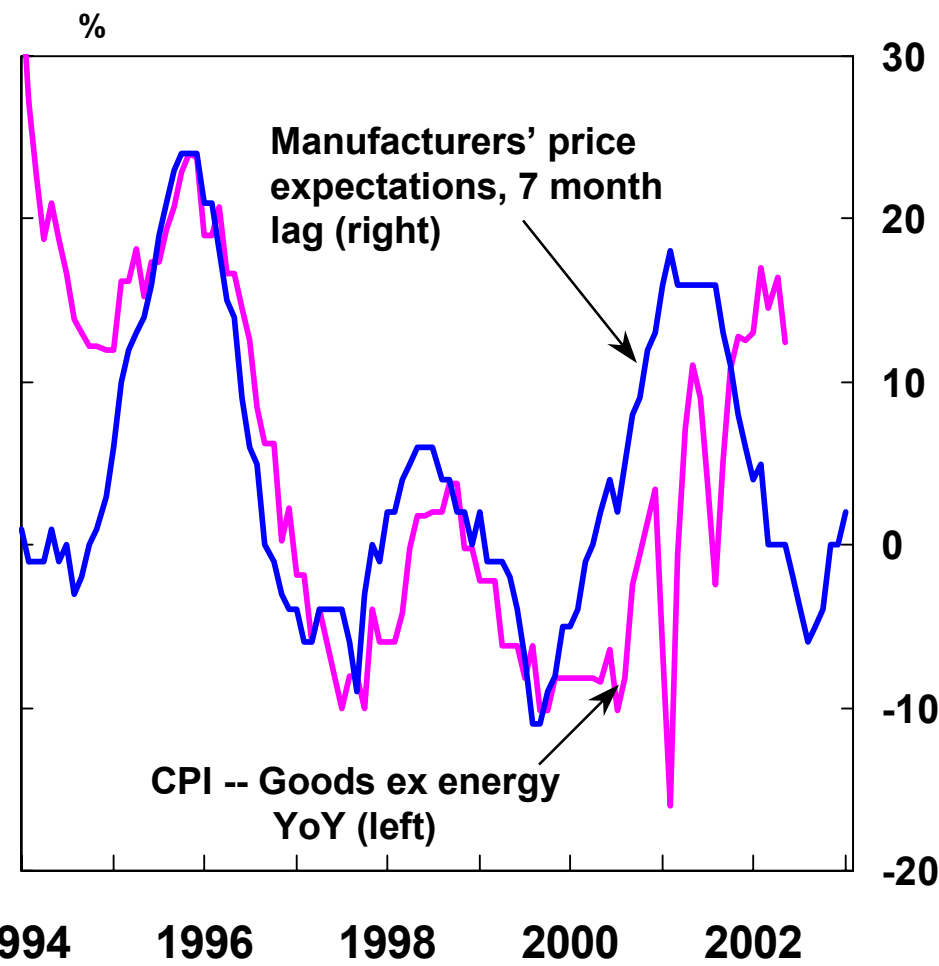


— Leading Index of Inflation (left)

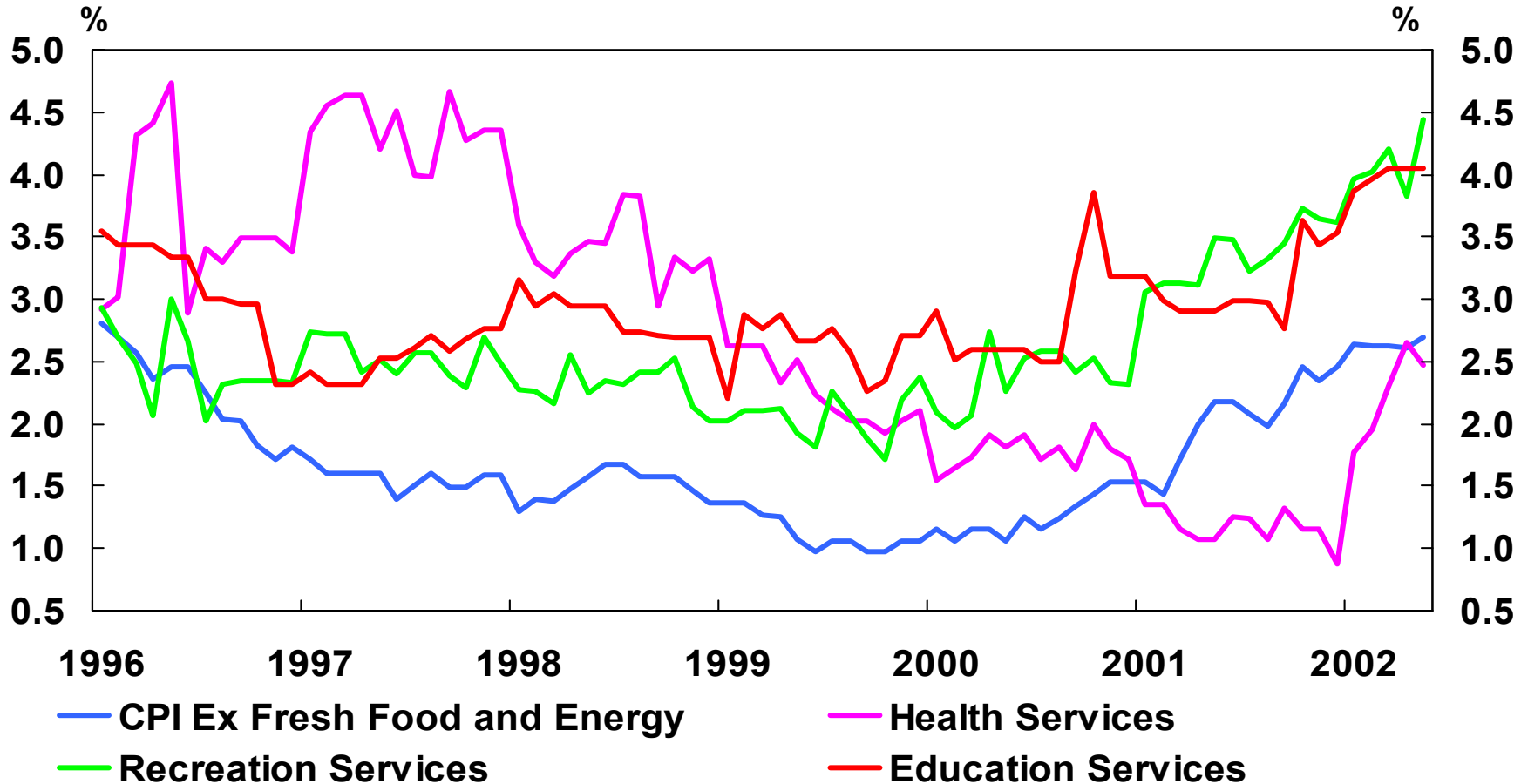
— Target Funds Rate (right)

Leading Price Guides Still Consistent With Some Near-Term Inflation Slowdown

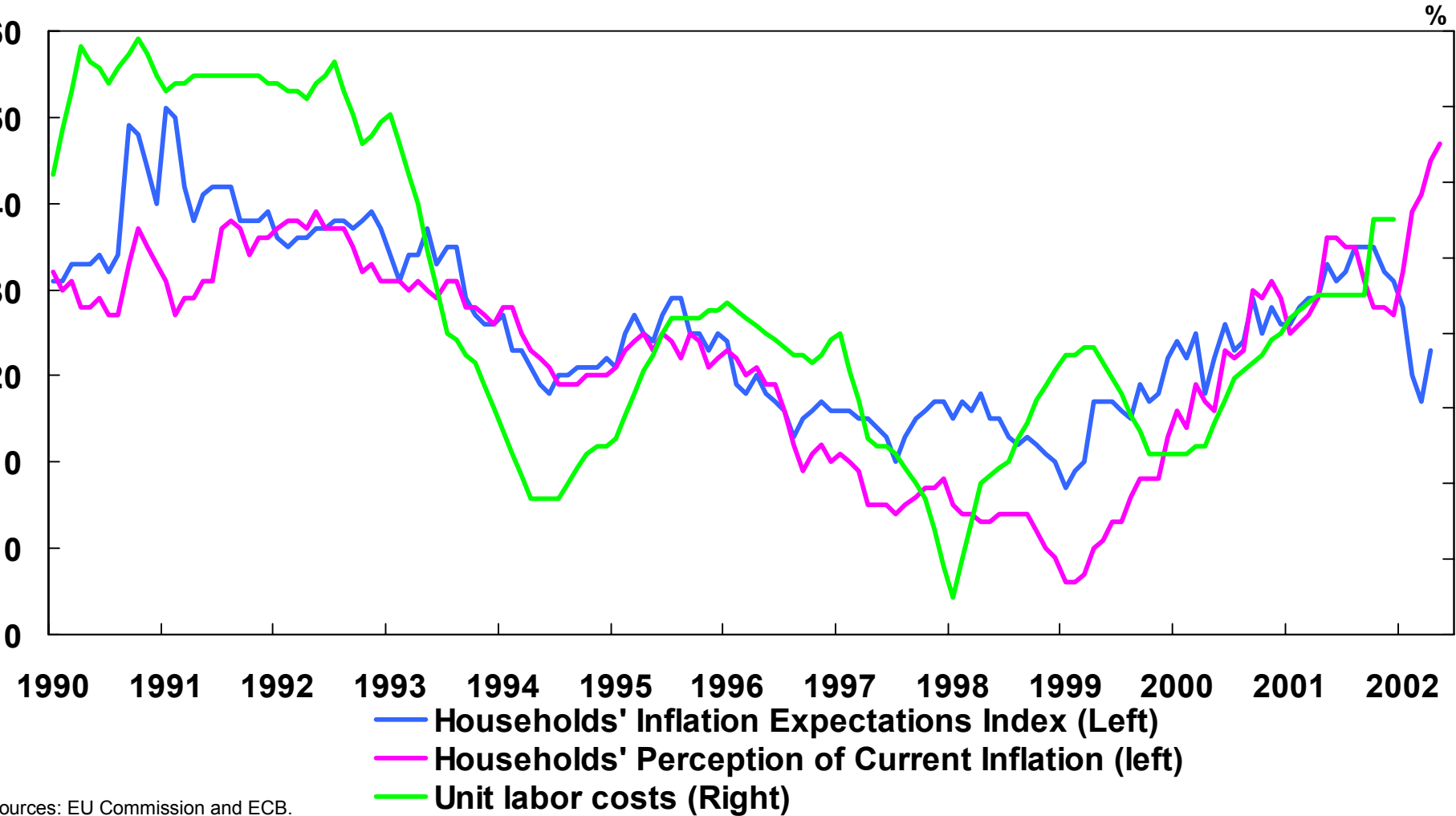
Goods Prices



Core Inflation Pushed Up By Services

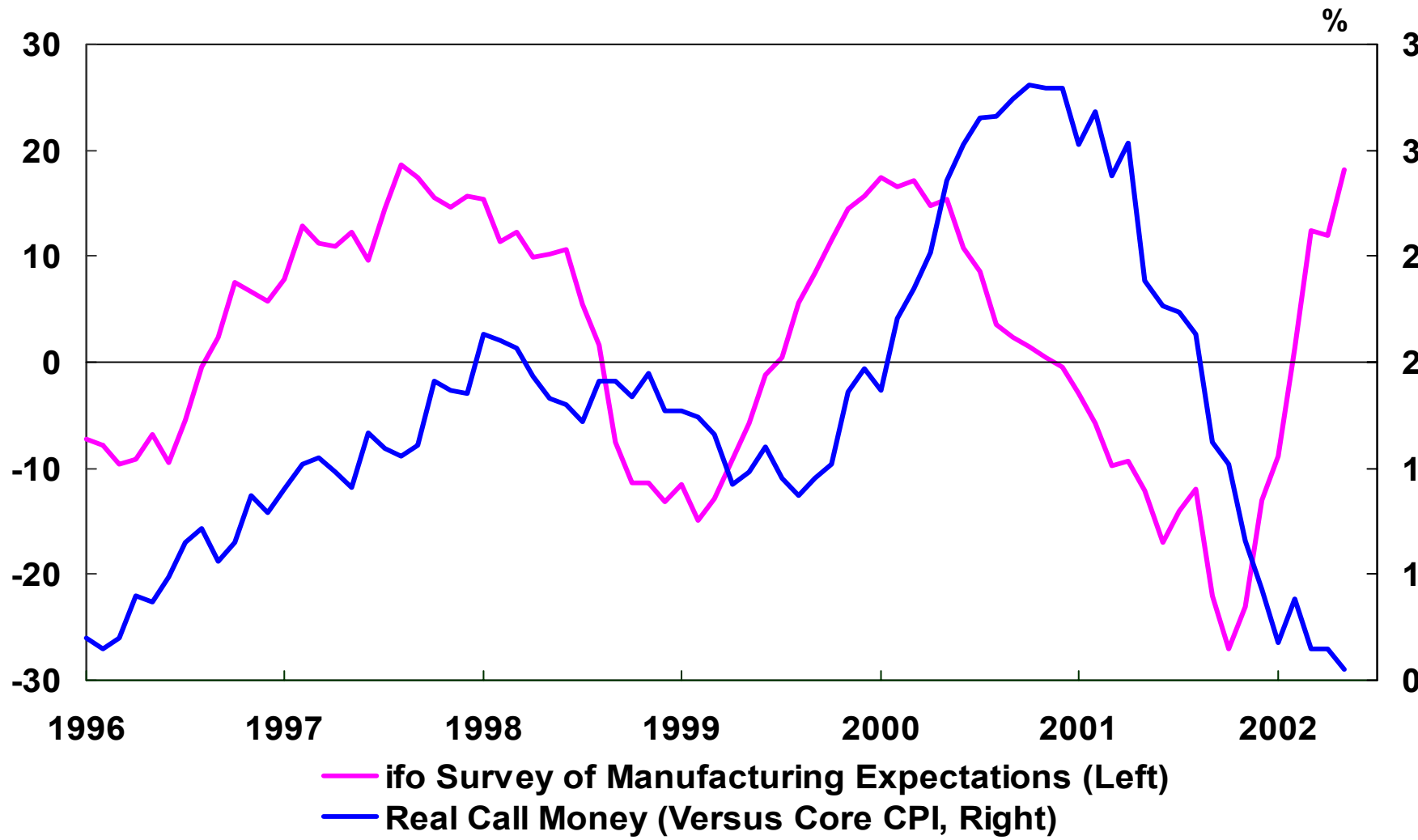


Inflation Expectations Falling Back

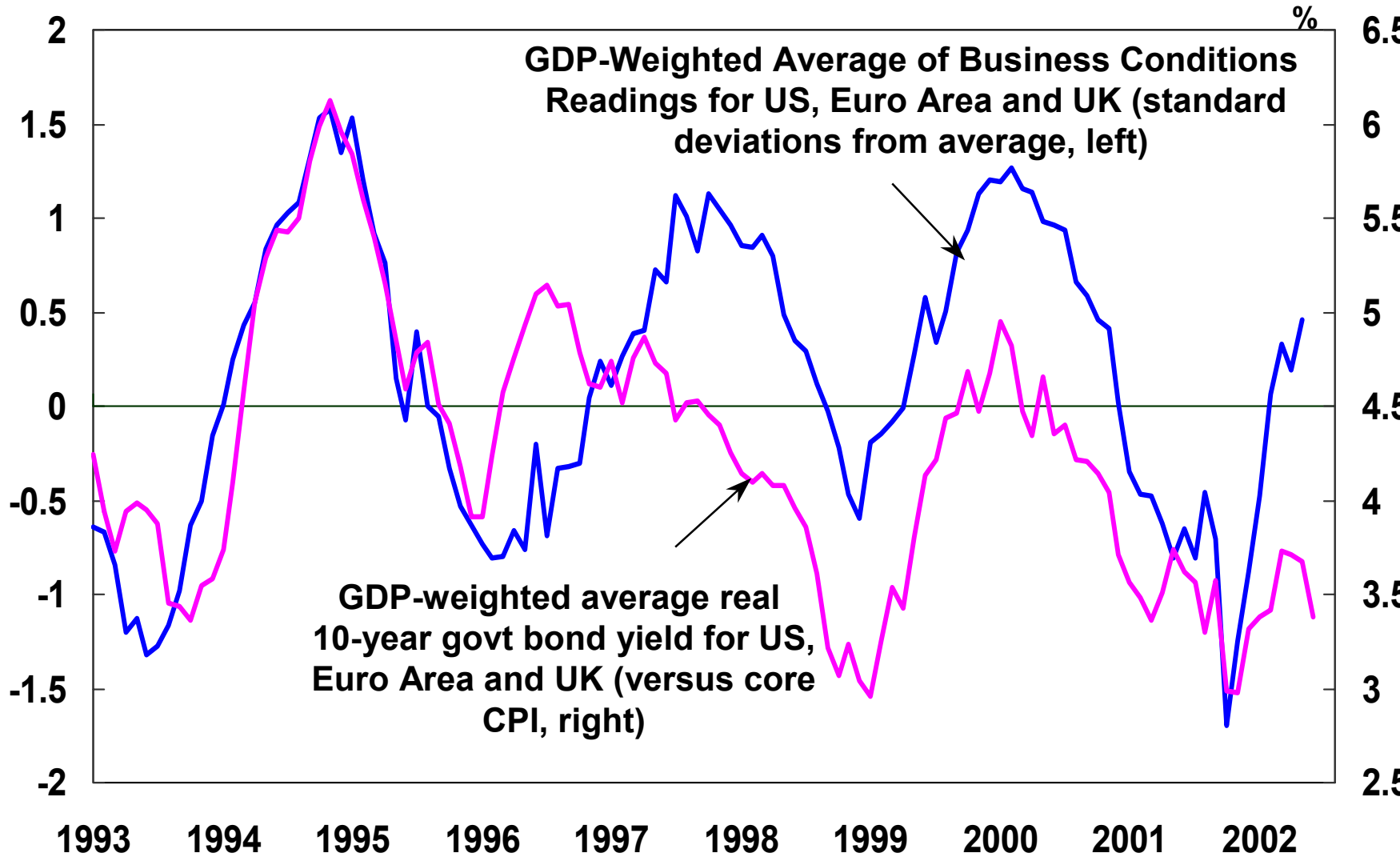


Sources: EU Commission and ECB.

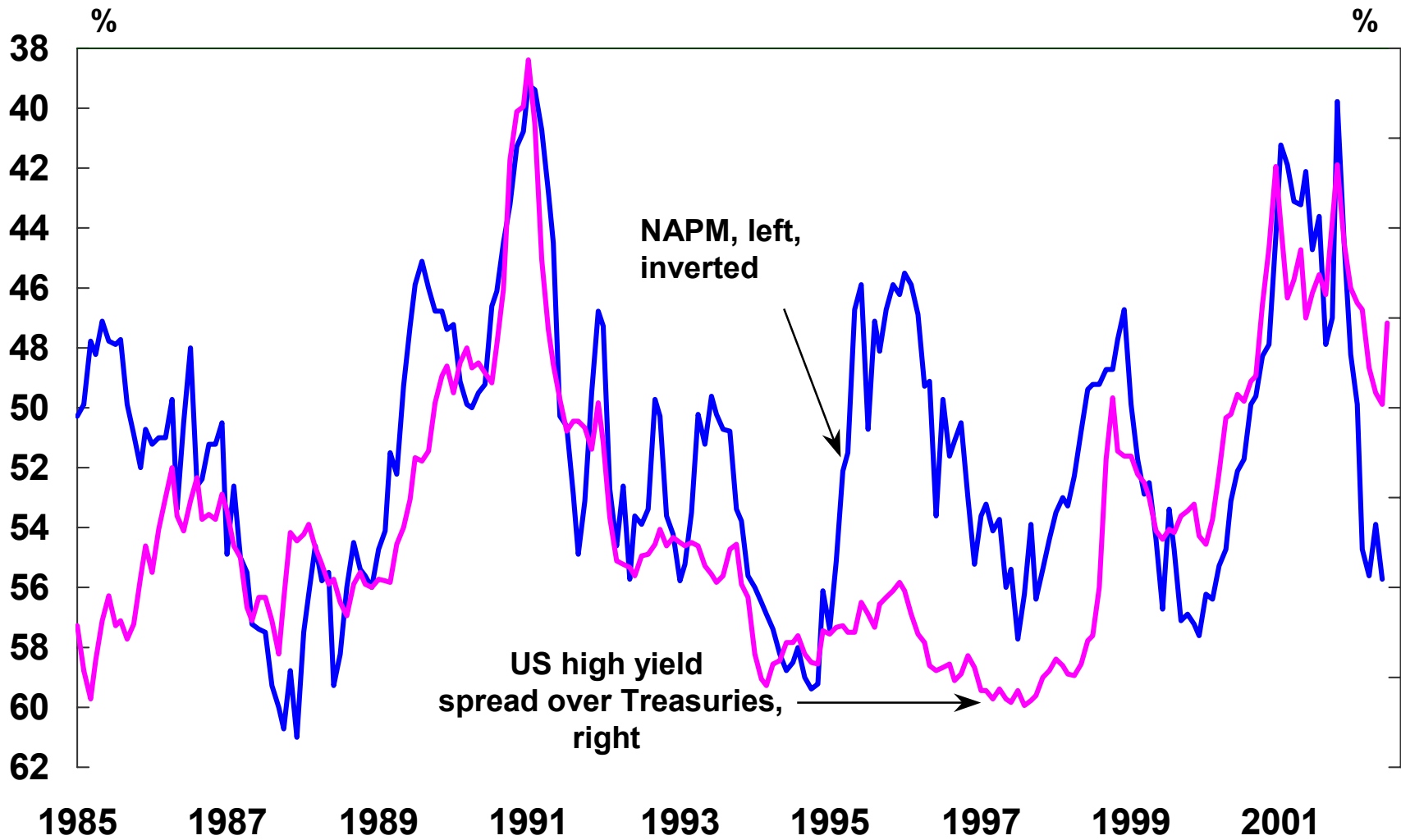
But The ECB Eventually Will Need to Catch Up With the Recovery



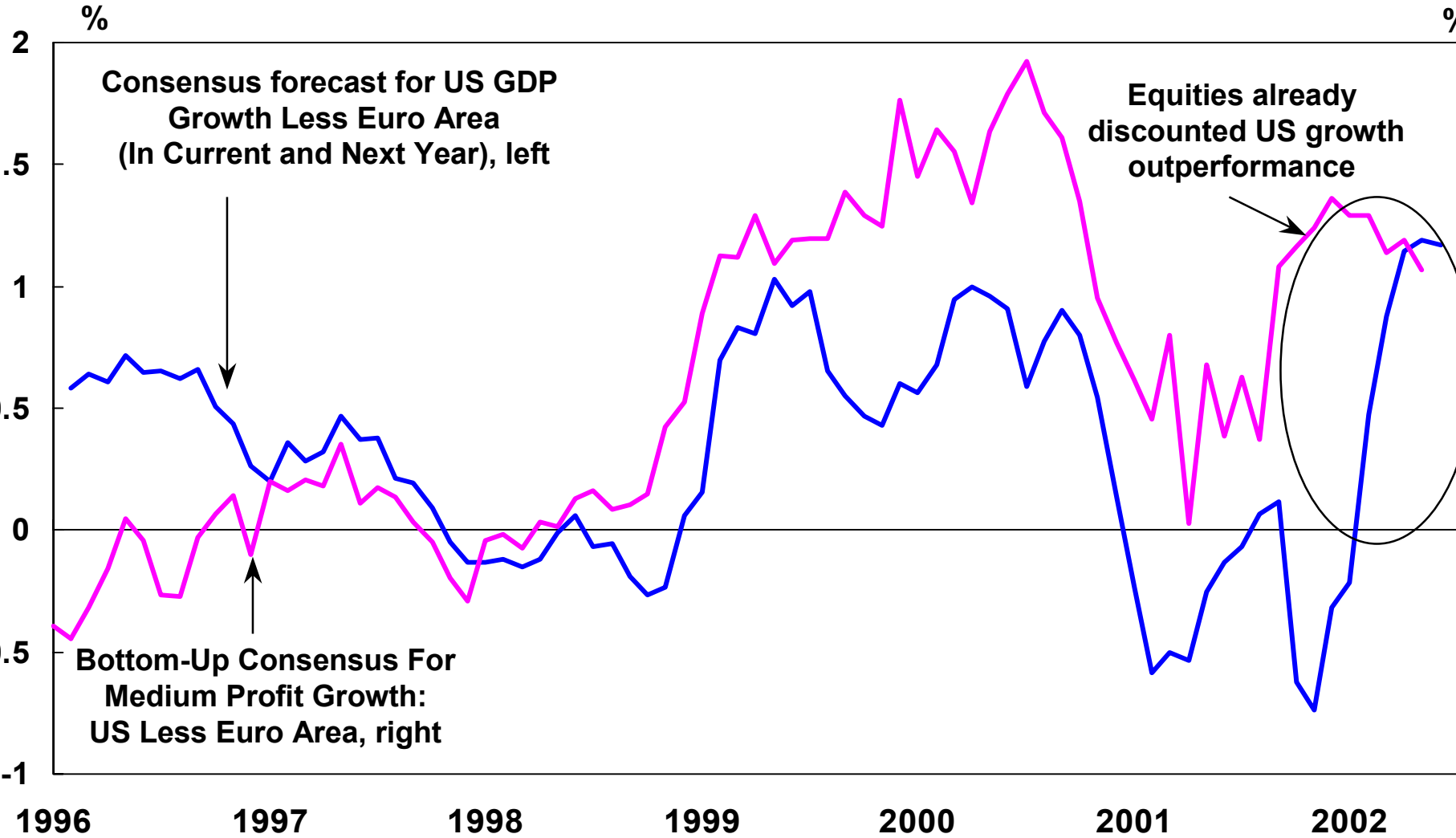
Govt. Bond Yields Vulnerable To Upturn in Growth



But Credit Products Should Gain From Faster Growth

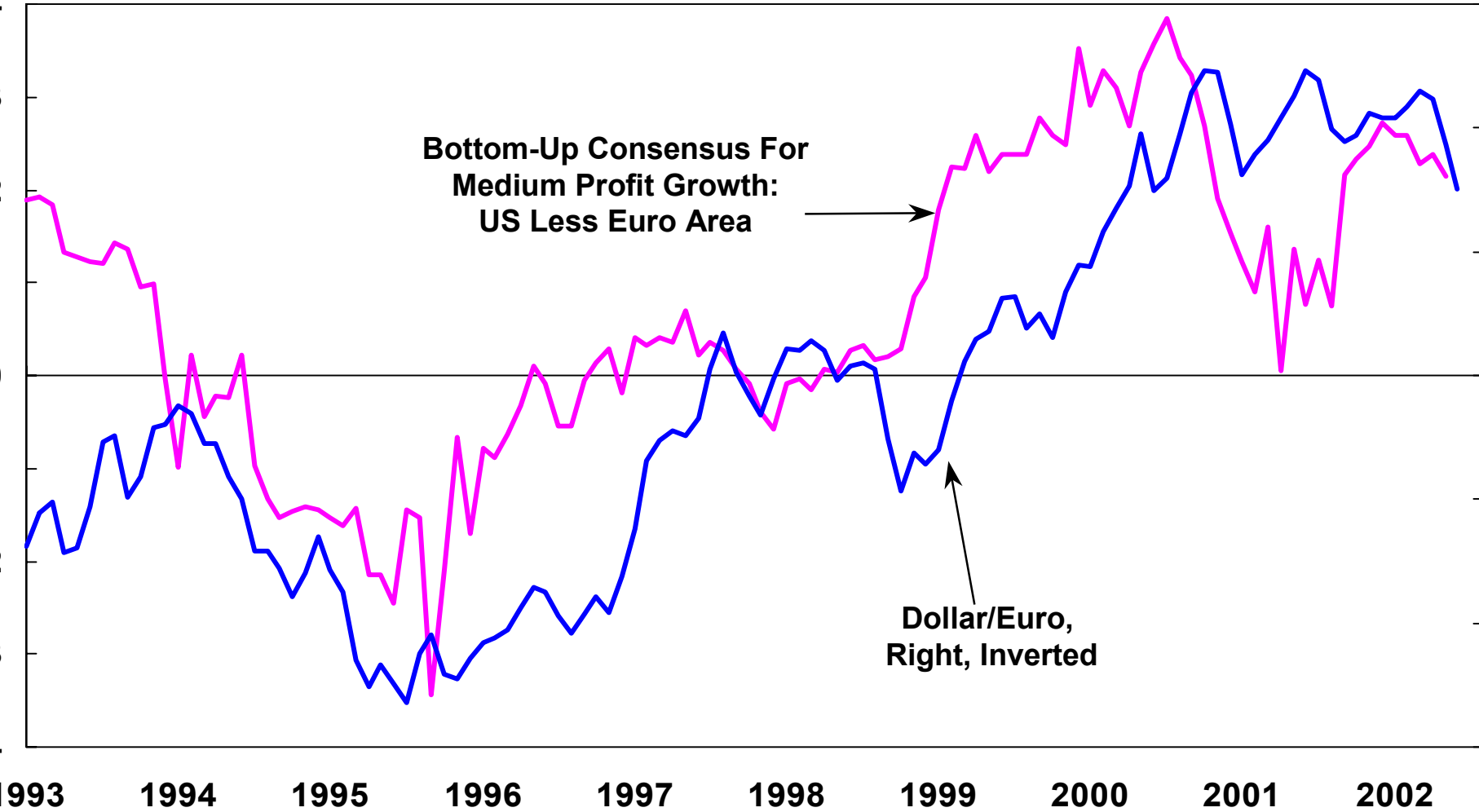


Upward Revisions To US Growth Not Creating Expectations Of Greater Profit Outperformance...

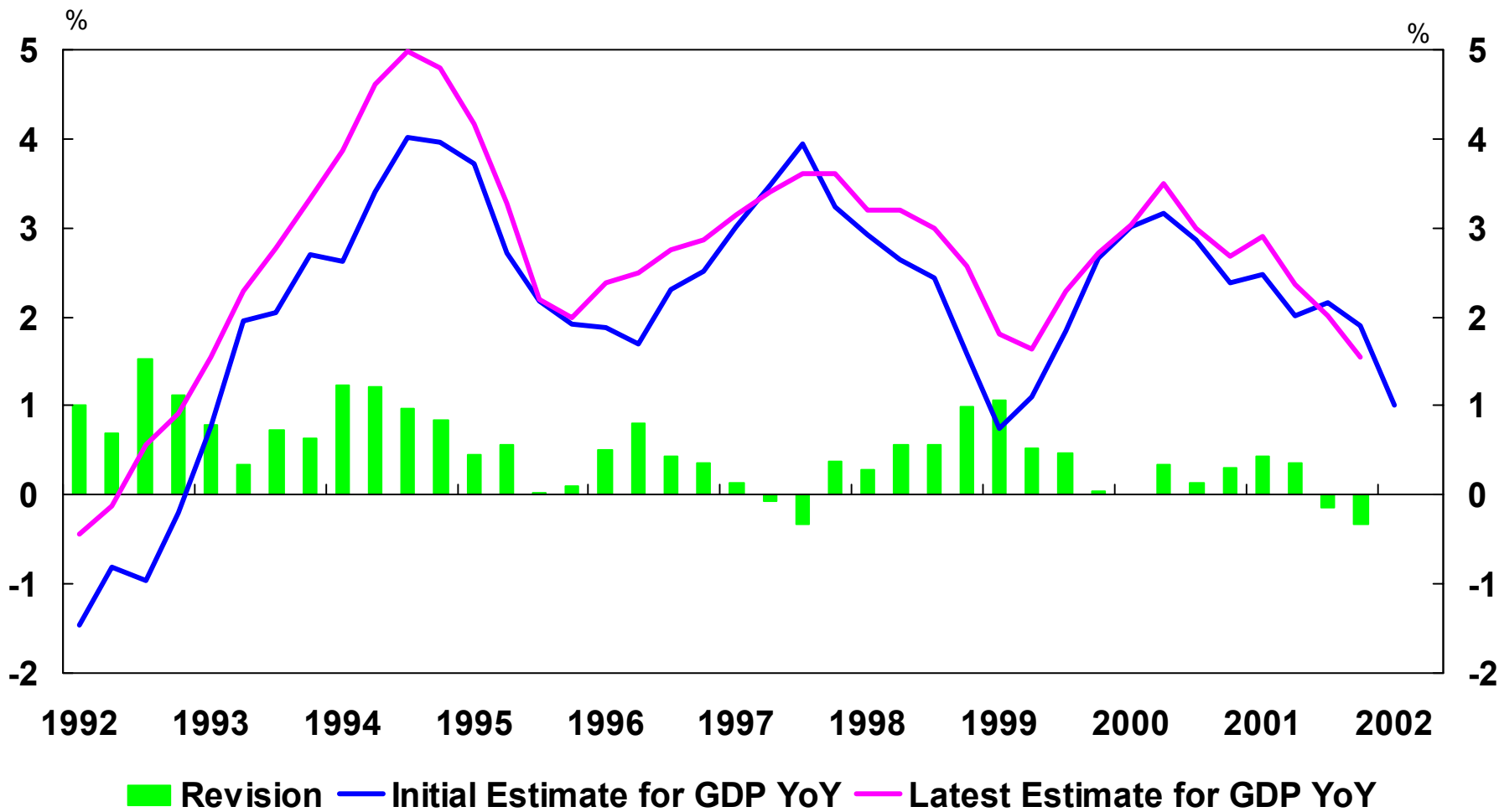


...And Dollar Already Discounts Persistent Profit Outperformance

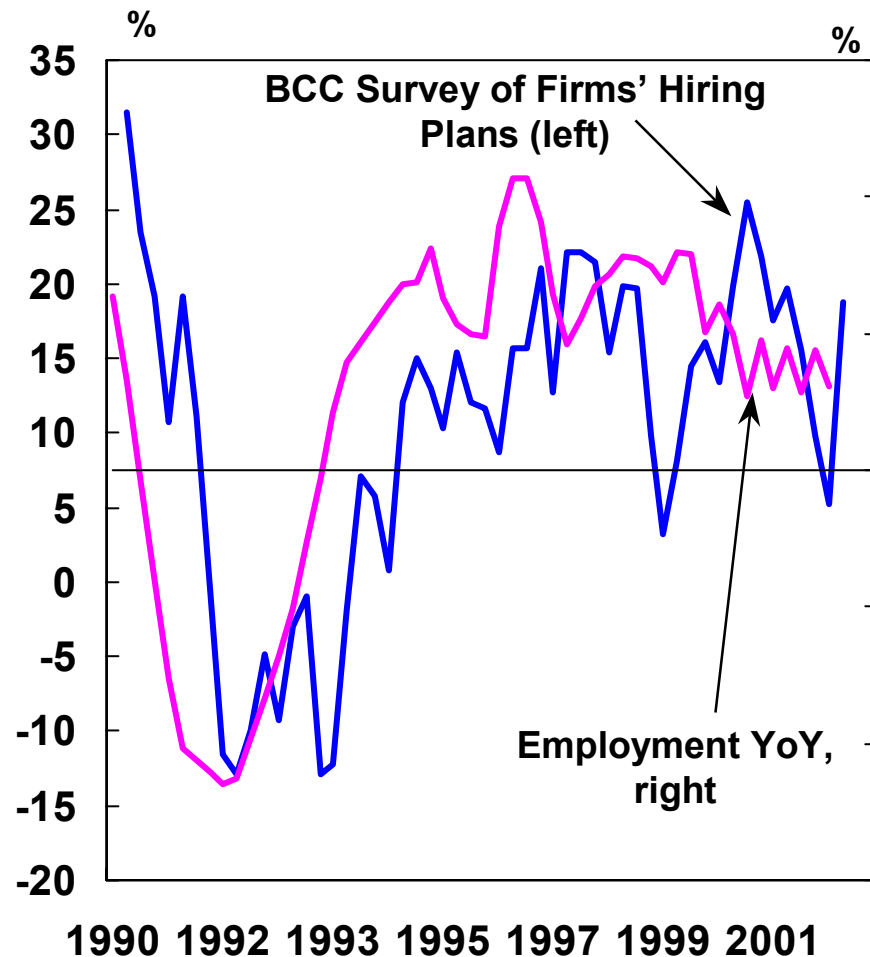
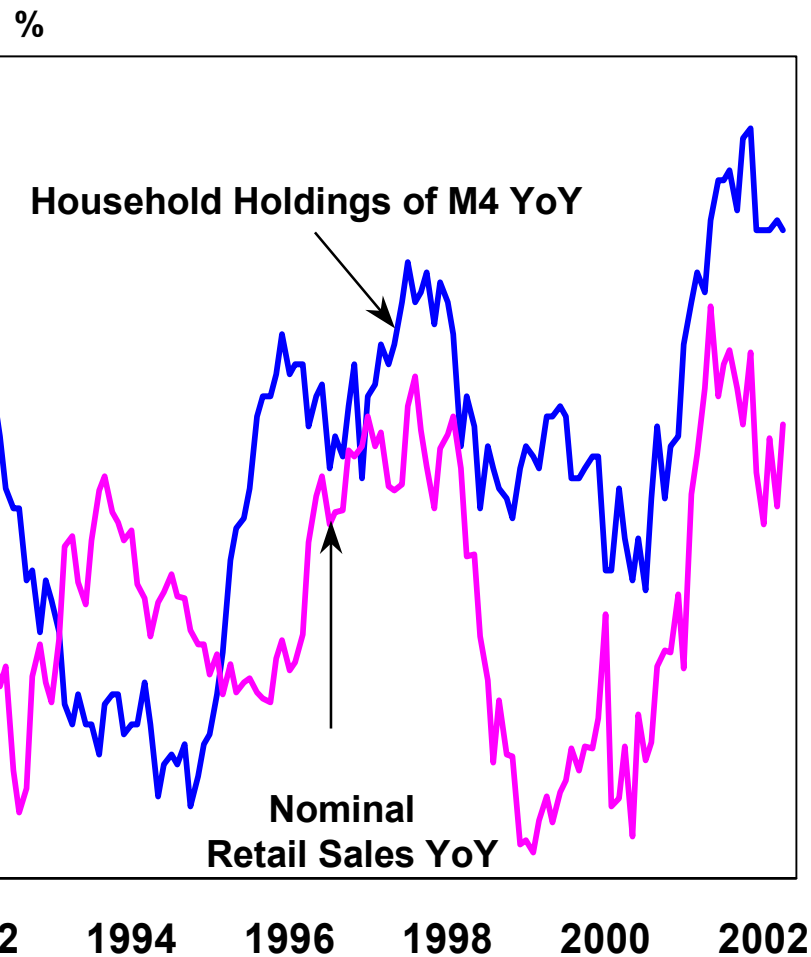
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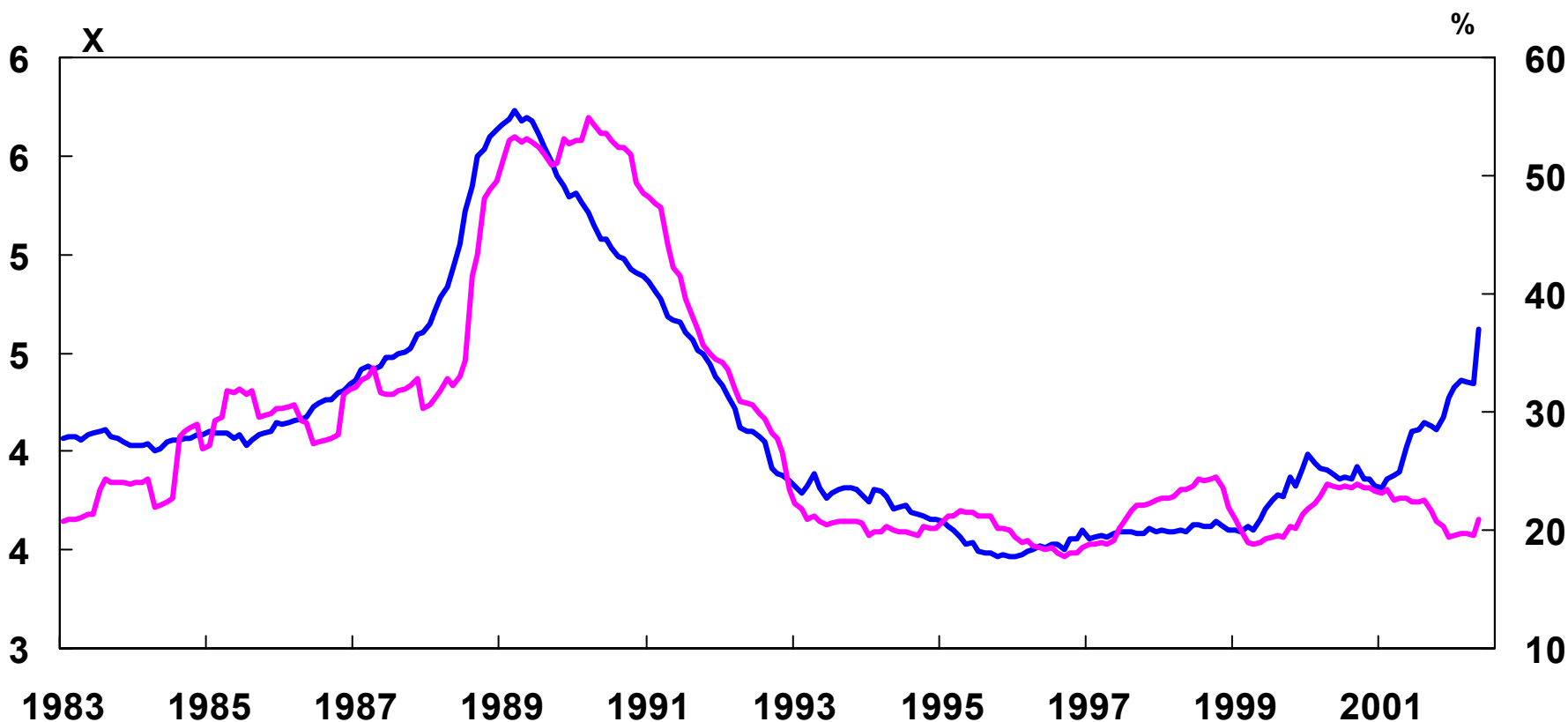
GDP Data Tend to Be Revised Up Markedly



Consumer Cashflow and Jobs Still Fairly Strong



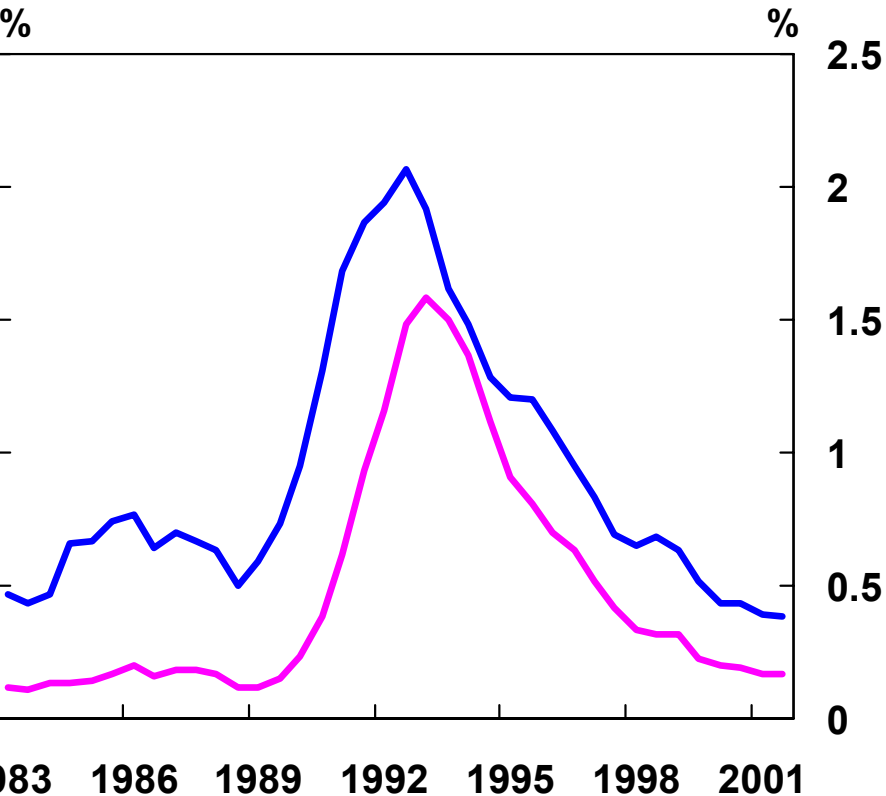
Low Interest Rates Keep Housing Affordable



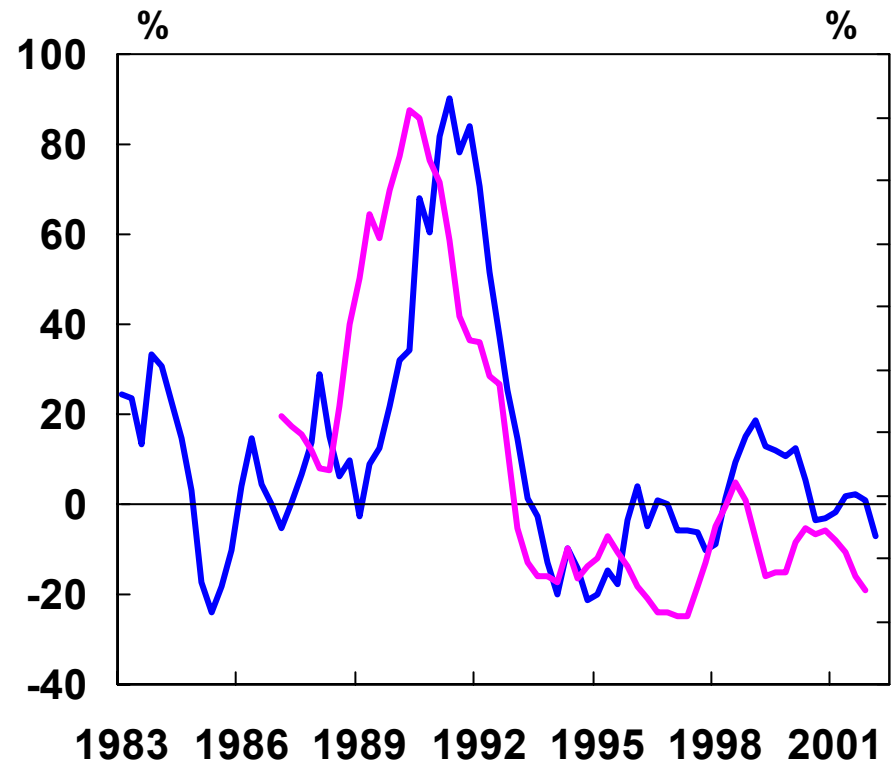
- House Price/Average Gross Wage (left)
- Mortgage Payments On New House/Gross Annual Wage (right)

Household Balance Sheets Not Stretched

UK - Mortgage Arrears (Pct of Outstanding Mortgages), 1983-01



UK - Household Debt Service/Income ratio, and Personal Insolvencies YoY, 1983/02Q1



1983 1986 1989 1992 1995 1998 2001

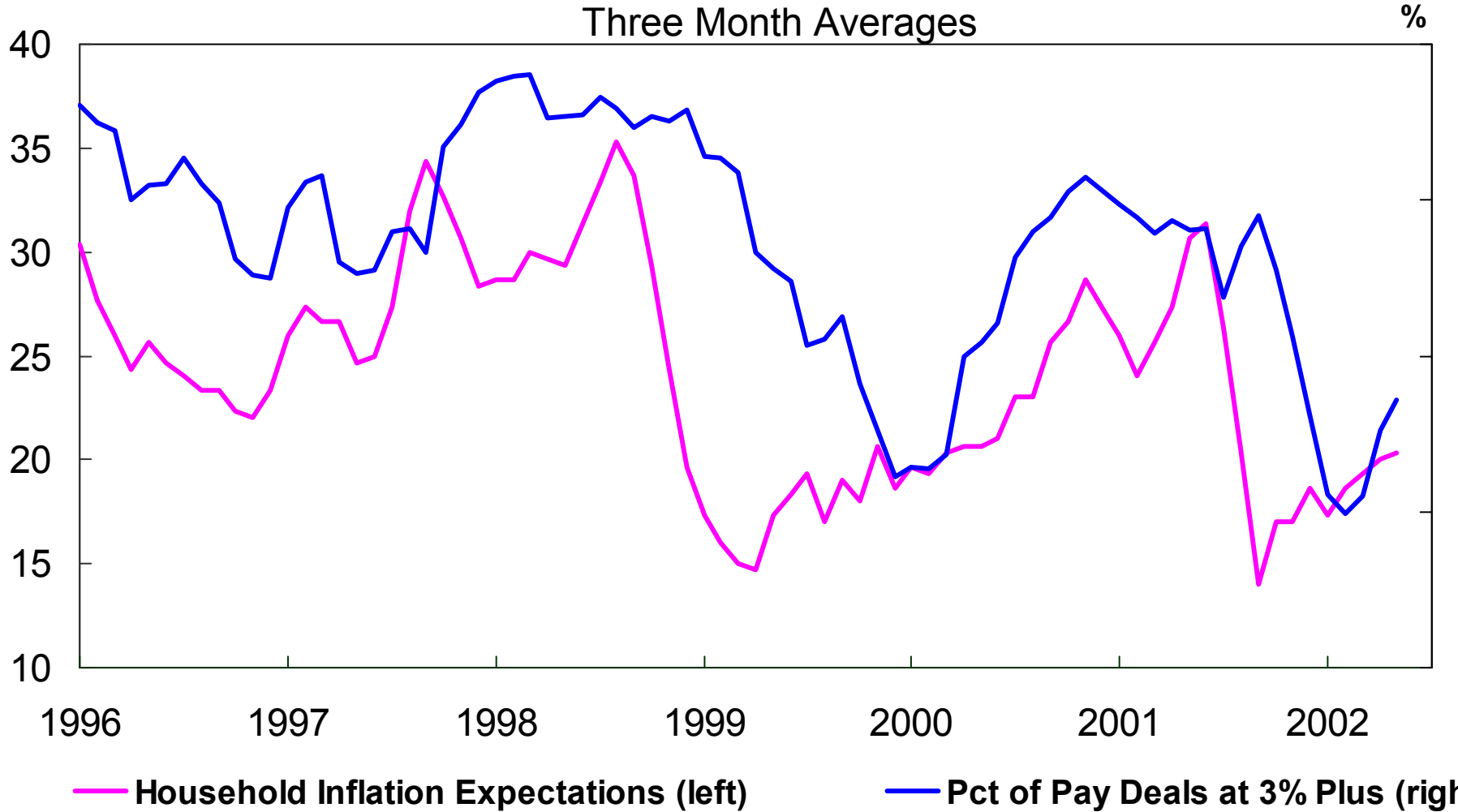
— Personal Insolvencies YoY (left)

— Household Debt Interest Payments/Income (right)

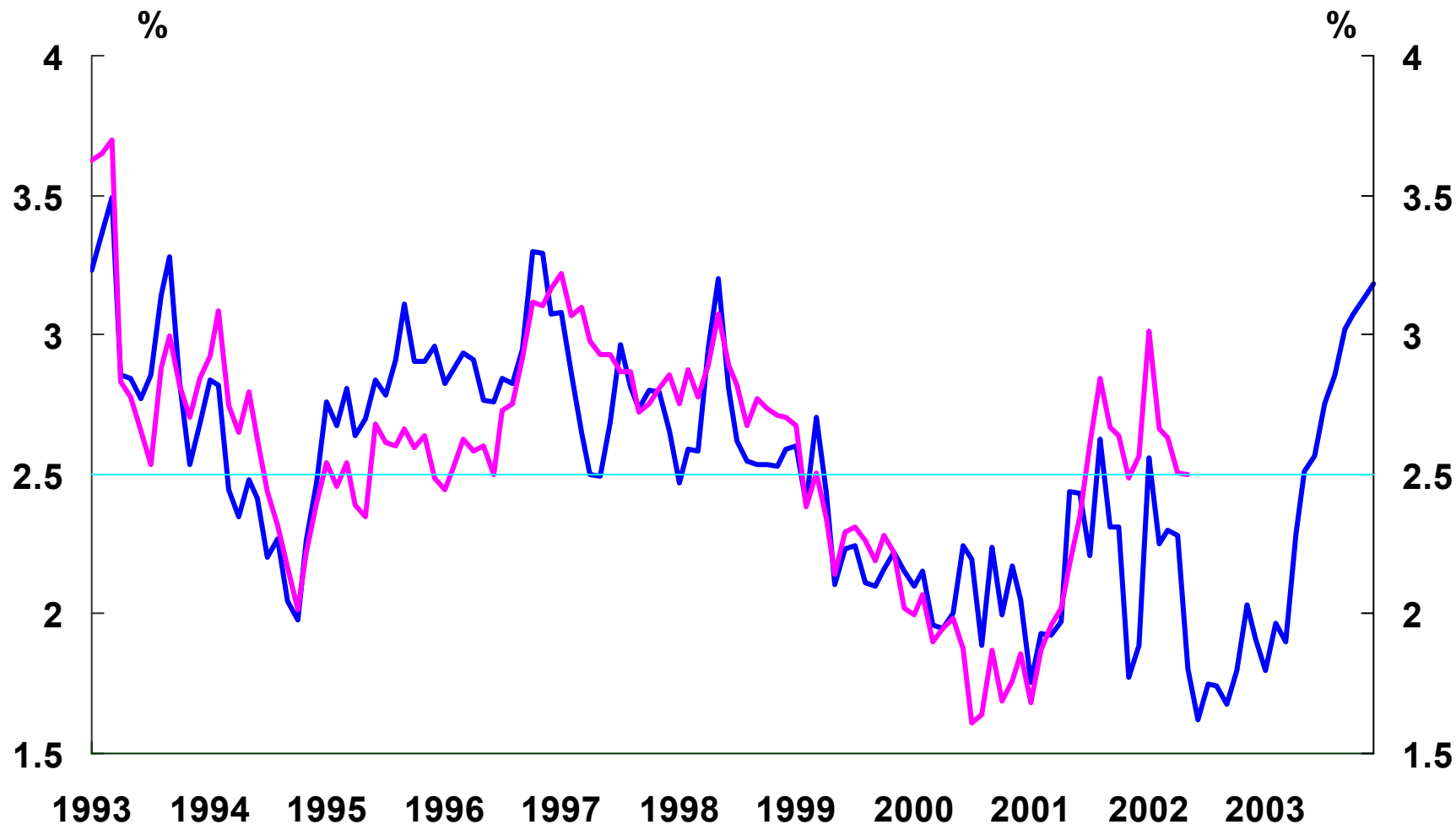
— 6-12 Months in Arrears

— More Than 12 Months in Arrears

Household Inflation Expectations and Pay Deals

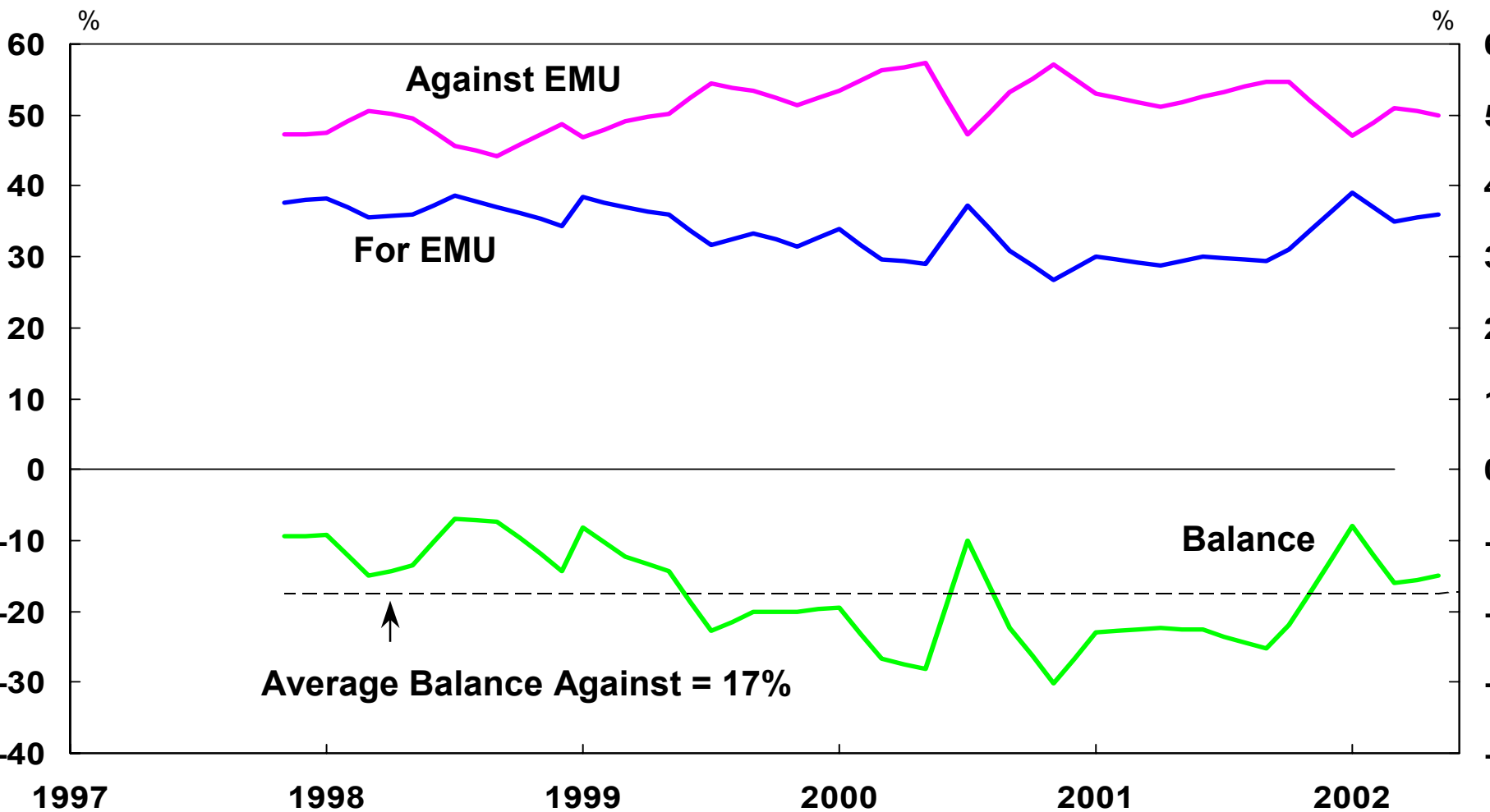


UK Inflation Currently Worse Than It Looks



— RPI Ex Mortgages — RPIX ex food and petrol

If the Government were to strongly urge that Britain should be part of a single European currency, how would you vote?



Voters Top Concerns

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
1.	Health Service	Health Service	Health Service	Health Service	Health Service	Health Serv
2.	Schools	Schools	Schools	Schools	Schools	Schools
3.	Jobs	Jobs	Europe/EMU	Europe/EMU	Crime	Crime
4.	Europe/EMU	Europe/EMU	Jobs	Crime	Defence	Transport
5.	Crime	Crime	Crime	Petrol Price	Europe/EMU	Immigratio
6.	Economy	Pensions	Economy	Jobs	Immigration	Defence
7.	Pensions	Economy	Pensions	Pensions	Jobs	Europe/EM