

GLOBAL ECONOMIC OUTLOOK

FEBRUARY 2011

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GLOBAL ECONOMIC OUTLOOK FEBRUARY 2011

EXECUTIVE SUMMARY

“ We continue to assess the global economy as being on a solid recovery path. In the US, we maintain our 3.3% forecast for GDP growth in 2011 and continue to expect no interest rate moves until 2012 as high unemployment and the struggling housing market continue to play on policymakers' concerns. In Japan, the BoJ voted to keep rates on hold this month but upgraded its view of the economy for the first time in nine months, noting that Japanese exports and production are picking up thanks to global growth led by emerging markets. We look for Japanese growth to cool to 1.5% this year (unchanged from our January outlook) and expect the BoJ to maintain its loose monetary stance over the forecast horizon as deflation looks set to persist. In the eurozone, the ECB is likely to maintain its wait-and-see approach over the next few months. While inflation registered above the bank's 2.0%/y target in both December and January, officials have emphasised that although inflation is likely to climb further, inflation expectations remain firmly anchored. We expect the tightening process to begin in the latter part of the year, with a total of 50 basis points in hikes pencilled in by year end. We have slightly lowered our projection for monetary tightening in Australia this year. RBA chief Glenn Stevens said recently that the current level (of interest rate) is about right for the medium-term outlook we have. We now look for the interest rate to currently at 4.75% - to end the year at 5.25% versus our prior forecast of 5.50%.

“ Market attention in recent weeks has been captivated by the historic events in Egypt. The Egyptian Revolution of 2011, as it has come to be known, saw over a million people take to the streets in an attempt to overthrow the Egyptian President Hosni Mubarak, with citizens demanding an end to corruption and democratic reforms of the political system. Protesting began on 25 January following similar events in Tunisia and saw at least 105 deaths over the course of the 18 days of nationwide revolt. Despite initial defiance, Mubarak finally resigned from office on 11 February with power turned over to the military until elections are due to be held in six months. The easing of tensions in Egypt following Mubarak's resignation helped to trigger a relief rally in stock markets although fears remain that unrest could spread from Egypt across the Middle East, which has offered some support to safe haven investments such as gold.

“ Another key theme dominating market focus in recent weeks has been rising global inflation. In China, the CPI rose to 4.9%/y/y in January. While the increase (from 4.6%/y/y in December) was smaller than expected, inflation remains stubbornly above Beijing's official target for this year of 4%, even after the central bank has lifted interest rates three times since October. Meanwhile, the Bank of England voted to keep rates on hold at 0.5% at its February meeting despite some speculation of a possible hike given soaring inflation which hit 4.0%/y/y in January and is expected to rise further in the months ahead. However, while pressure is rising on the bank to start removing monetary stimulus, we continue to expect the BoE to hold off from hiking rates in the first half of the year as the growth outlook remains fragile.

“ We have not made any adjustments to our medium term currency outlook this month and continue to expect the G3 currencies (USD, JPY and EUR) to weaken over time versus the majority of other developed and emerging currencies. While the US should see a pick up in growth in 2011, unemployment remains elevated and along with the Eurozone and Japan, the economy faces low interest rates and a large debt burden. The fundamentals of most other economies are stronger, and this points to currency strength (stronger growth, higher real interest rates, stronger fiscal positions). Currencies in Asia remain most undervalued, and therefore have the most scope for appreciation in the medium/longer term. Eurozone periphery jitters have generally moderated over the past two months, but we still look for modest Euro weakness versus the Dollar, as concerns persist.

GLOBAL ECONOMIC OUTLOOK FEBRUARY 2011

GLOBAL GROWTH OUTLOOK

Summary: Overall, we continue to view the global economy as being on a solid recovery path, with recent data supporting this outlook. The US economy finished 2010 on a solid footing, with Q4 growth accelerating to a 3.2% annualized pace. While challenges remain – including high foreclosure rates, rising commodity prices and strained local government budgets – recent indicators, including firming business and consumer confidence, point to sustained recovery ahead. Although the eurozone recovery remains uneven, with solid growth in core countries coupled with a much weaker periphery, the recovery will likely prove resilient over the course of this year, powered largely by the heavily trade dependent Germany which is benefitting from the pick up in global trade. Meanwhile, the ECB returned to the market earlier this month to buy Portuguese debt as Portugal's cost of borrowing soared, signaling that debt crisis jitters persist. Eurozone policy makers are still debating the possible strengthening of the rescue fund and closer economic integration, with no solid proposals announced as yet. Asian economies remain likely to register the strongest growth globally again this year, led by China – which surpassed Japan as the world's second largest economy in 2010 – and India, although growth should slow somewhat given the strong spurt in 2010. Chile and Peru look likely to lead the pack in terms of growth in Latin America this year, while Russia, Poland and Turkey are likely to be the leaders in EMEA.

GLOBAL GROWTH FORECASTS						
GDP Growth Y/Y	2006	2007	2008	2009	2010 E	2011 F
US	2.7%	1.9%	0.0%	-2.6%	2.9%	3.3%
EUROZONE	3.0%	2.8%	0.4%	-4.1%	1.7%	1.5%
JAPAN	2.0%	2.4%	-1.2%	-6.3%	4.2%	1.5%
UK	2.8%	2.7%	-0.1%	-4.9%	1.7%	2.0%
CANADA	2.8%	2.2%	0.5%	-2.5%	2.9%	2.5%
AUSTRALIA	2.8%	5.0%	2.2%	1.2%	2.7%	3.2%
SWITZERLAND	3.6%	3.7%	1.9%	-1.9%	2.7%	1.7%
SWEDEN	4.5%	3.4%	-0.7%	-5.2%	5.2%	3.5%
NORWAY	2.3%	2.7%	0.8%	-1.4%	2.0%	3.0%
NEW ZEALAND	3.2%	0.9%	2.9%	-1.4%	1.5%	3.0%
POLAND	6.2%	6.8%	5.1%	1.8%	3.8%	4.0%
CZECH	6.8%	6.2%	2.5%	-4.1%	2.3%	2.5%
HUNGARY	4.0%	1.3%	0.7%	-6.6%	1.0%	2.5%
RUSSIA	8.2%	8.5%	5.2%	-7.9%	4.0%	4.5%
SOUTH AFRICA	5.6%	5.5%	3.7%	-1.7%	3.0%	3.5%
TURKEY	6.9%	4.8%	0.6%	-4.7%	8.0%	5.0%
ISRAEL	5.7%	5.4%	4.2%	0.8%	4.0%	3.5%
BRAZIL	4.0%	6.1%	5.2%	-0.6%	7.5%	4.5%
MEXICO	5.2%	3.3%	1.5%	-6.1%	5.1%	4.0%
CHILE	4.6%	4.6%	3.7%	-1.5%	5.5%	6.0%
COLOMBIA	7.1%	6.1%	2.7%	0.8%	4.4%	4.5%
PERU	7.7%	8.9%	9.8%	0.9%	8.5%	7.0%
CHINA	12.7%	14.2%	9.6%	9.2%	10.3%	9.5%
INDIA	9.8%	9.5%	7.5%	6.8%	8.5%	8.5%
TAIWAN	5.4%	6.0%	0.7%	-1.9%	10.3%	5.0%
SOUTH KOREA	5.2%	5.1%	2.3%	0.2%	6.1%	4.1%
SINGAPORE	8.6%	8.5%	1.8%	-1.3%	14.7%	5.0%
MALAYSIA	5.8%	6.5%	4.7%	-1.7%	7.0%	5.2%
PHILIPPINES	5.4%	7.2%	3.7%	1.1%	7.0%	5.0%

Forecast Downgrade

Forecast Upgrade

GLOBAL ECONOMIC OUTLOOK FEBRUARY 2011

GLOBAL MONETARY POLICY OUTLOOK

Summary: Growing fears over rising emerging market inflation have prompted declines in world markets over recent weeks. Indeed, an IMF official recently added to concerns, stating that soaring inflation across Asia, which has been driven by extreme weather conditions and supply constraints, is showing signs of spilling over into broader price pressures. The developed world is also seeing headline inflation on the rise, with the UK seemingly in the most awkward position. UK inflation hit 4.0%/y in Jan – double the Bank of England's target – and is expected to rise further in the coming months, spurred largely by one off price shocks such as the rise in VAT, commodity price rises and the depreciation of sterling. Meanwhile, inflation in the eurozone rose above the ECB's target in December for the first time in more than two years and gained further in January to hit 2.4% - its highest since October 2008.

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	1.5%	1.7% to 2.0% Core	0.125%	-1.38%	Easy
EUROZONE	2.2%	Max 2.00%	1.00%	-1.20%	Easy
JAPAN	0.0%	0.0% to 2.0%	0.10%	0.10%	Neutral
UK	4.0%	2.00%	0.50%	-3.50%	Easy
CANADA	2.4%	1.00% to 3.00%	1.00%	-1.40%	Easy
AUSTRALIA	2.7%	2.00% to 3.00%	4.75%	2.05%	Neutral
SWITZERLAND	0.3%	Max 2.00%	0.25%	-0.05%	Easy
SWEDEN	2.3%	2.00%	1.25%	-1.05%	Easy
NORWAY	2.0%	2.50%	2.00%	0.00%	Easy
NEW ZEALAND	4.0%	1.00% to 3.00%	3.00%	-1.00%	Easy
POLAND	3.1%	1.50% to 3.50%	3.75%	0.65%	Neutral
CZECH	1.7%	1.00% to 3.00%	0.75%	-0.95%	Easy
HUNGARY	4.7%	3.00%	6.00%	1.30%	Neutral
RUSSIA	9.6%	6.00% to 7.00%	7.75%	-1.85%	Easy
SOUTH AFRICA	3.5%	3.00% to 6.00%	5.50%	2.00%	Neutral
TURKEY	4.9%	5.5% end '11	6.25%	1.35%	Neutral
ISRAEL	2.7%	1.00% to 3.00%	2.25%	-0.45%	Easy
BRAZIL	6.0%	2.50% to 6.50%	11.25%	5.26%	Tight
MEXICO	3.8%	2.00% to 4.00%	4.50%	0.72%	Neutral
CHILE	2.7%	2.00% to 4.00%	3.25%	0.55%	Neutral
COLOMBIA	3.4%	2.00% to 4.00%	3.00%	-0.40%	Easy
PERU	2.2%	1.00% to 3.00%	3.50%	1.33%	Neutral
CHINA	4.9%	-	6.06%	1.16%	Neutral
INDIA	9.5%	-	6.50%	-2.97%	Easy
TAIWAN	1.1%	-	1.625%	0.52%	Neutral
SOUTH KOREA	4.1%	2.00% to 4.00%	2.75%	-1.35%	Easy
SINGAPORE	4.6%	2.00% to 3.00% for 201	-	-	Tight
MALAYSIA	2.2%	-	2.75%	0.55%	Neutral
PHILIPPINES	3.5%	3.00% to 5.00%	4.00%	0.50%	Neutral

GLOBAL MONETARY POLICY OUTLOOK

Summary: Our monetary policy outlook across the major developed economies remains broadly unchanged. Despite inflation rising further above the 2%/y target in Jan, we continue to expect no move in ECB rates in the first half of this year, given ongoing periphery concerns and the bank's insistence that price developments will remain in line with price stability over the medium term. The BoE voted to keep rates on hold at its Feb meeting, despite some market speculation of a possible hike given soaring inflation. However, we continue to expect the BoE to hold firm in the first half of the year as the growth outlook remains fragile – a stark reminder of which was provided by the shock 0.5%/q/q decline in Q4 GDP. Moreover, MPC members have been keen to stress that the inflation spike is due to one-off shocks and the economy is still operating with a large amount of spare capacity. Meanwhile, we maintain our outlook for no hikes from the Fed until 2012 at the earliest given moderate underlying inflation and still elevated unemployment. We have slightly lowered our rate forecast for Australia and now look for a cumulative 50bps of tightening to leave the rate at 5.25% by year end (previous f/c: 5.50%). RBA chief Glenn Stevens said recently that “the current level (of interest rate) is about right for the medium-term outlook we have,” and the central bank has emphasised recently that it will look past the (inflationary) impact of recent floods when setting policy. Authorities in smaller developed economies and the emerging markets are likely to continue to tighten policy this year in the face of solid growth and building inflation, which has become a growing market focus in recent weeks. Indeed, the PBOC raised the benchmark rate earlier this month as it remains concerned about rising food and property prices.

GLOBAL MONETARY POLICY FORECASTS

Central Bank Policy Rate y.e.	Current Rate	2009	2010	2011 F
US	0.125%	0.125%	0.125%	0.125%
EUROZONE	1.00%	1.00%	1.00%	1.50%
JAPAN	0.10%	0.10%	0.10%	0.10%
UK	0.50%	0.50%	0.50%	1.00%
CANADA	1.00%	0.25%	1.00%	2.00%
AUSTRALIA	4.75%	3.75%	4.75%	5.25%
SWITZERLAND	0.25%	0.25%	0.25%	0.75%
SWEDEN	1.25%	0.25%	1.25%	2.50%
NORWAY	2.00%	1.75%	2.00%	2.75%
NEW ZEALAND	3.00%	2.50%	3.00%	4.00%
POLAND	3.75%	3.50%	3.50%	4.50%
CZECH	0.75%	1.00%	0.75%	1.50%
HUNGARY	6.00%	6.25%	5.75%	6.25%
RUSSIA	7.75%	8.75%	7.75%	8.50%
SOUTH AFRICA	5.50%	7.00%	5.50%	6.00%
TURKEY	6.25%	6.50%	6.50%	7.25%
ISRAEL	2.25%	1.25%	2.00%	3.00%
BRAZIL	11.25%	8.75%	10.75%	12.50%
MEXICO	4.50%	4.50%	4.50%	4.50%
CHILE	3.25%	0.50%	3.25%	5.25%
COLOMBIA	3.00%	3.50%	3.00%	4.00%
PERU	3.50%	1.25%	3.00%	4.00%
CHINA	6.06%	5.31%	5.81%	6.56%
INDIA	6.50%	4.75%	6.25%	7.50%
TAIWAN	1.625%	1.250%	1.625%	2.125%
SOUTH KOREA	2.75%	2.00%	2.50%	3.50%
SINGAPORE	-	-	-	-
MALAYSIA	2.75%	2.00%	2.75%	3.25%
PHILIPPINES	4.00%	4.00%	4.00%	4.50%

Forecast Downgrade

Forecast Upgrade

GLOBAL ECONOMIC OUTLOOK FEBRUARY 2011

GLOBAL CURRENCY FORECASTS

Summary: Our medium term currency outlook remains unchanged. We continue to expect the G3 currencies (USD, JPY and EUR) to weaken over time versus the majority of other developed and emerging currencies. While the US should see a pick up in growth in 2011, unemployment remains elevated and along with the Eurozone and Japan, the economy faces low interest rates and a large debt burden. The fundamentals of most other economies are stronger, and this points to currency strength (stronger growth, higher real interest rates, stronger fiscal positions). Currencies in Asia remain most undervalued, and therefore have the most scope for appreciation in the medium/longer term. Eurozone periphery jitters have generally moderated over the past two months, but we still look for modest Euro weakness versus the Dollar, as concerns persist.

FX FORECASTS			
	Spot 15 Feb	6m Forecast	View
G10			
EUR	1.35	1.34	Depreciation
JPY	83.38	85.70	Depreciation
GBP	1.60	1.57	Depreciation
CAD	0.99	0.97	Appreciation
AUD	1.00	1.01	Neutral
CHF	0.97	0.97	Neutral
SEK	6.50	6.48	Appreciation
NOK	5.85	5.75	Appreciation
NZD	0.76	0.79	Appreciation
EMEA			
PLN	2.94	2.81	Appreciation
CZK	18.07	17.62	Appreciation
HUF	201.86	198.39	Neutral
RUB	29.32	29.07	Appreciation
ZAR	7.33	7.06	Appreciation
TRY	1.60	1.55	Appreciation
ILS	3.66	3.57	Appreciation
LATAM			
BRL	1.67	1.63	Appreciation
MXN	12.05	11.83	Appreciation
CLP	469.45	482.60	Depreciation
COP	1889.00	1837.00	Appreciation
PEN	2.77	2.74	Appreciation
ASIA			
CNY	6.60	6.51	Appreciation
INR	45.50	42.75	Appreciation
TWD	29.31	28.55	Appreciation
KRW	1122.85	1094.19	Appreciation
SGD	1.28	1.27	Neutral
MYR	3.05	3.01	Appreciation
PHP	43.65	43.43	Appreciation
vs EUR		View vs EUR	
GBP	0.84	0.86	Neutral
CHF	1.31	1.31	Neutral
SEK	8.76	8.69	Appreciation
NOK	7.87	7.70	Appreciation
PLN	3.95	3.76	Appreciation
CZK	24.33	23.61	Appreciation
HUF	271.73	265.84	Appreciation

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G3 ECONOMIES

United States

US data has generally showed continued improvement in recent weeks. The Jan ISM manufacturing index rose to its highest since 2004, supported by a surge in the new orders and employment indices, despite a disappointing non-farm payrolls print. Indeed, payrolls rose just 36K in Jan, However, the decline was mostly led by weather-sensitive sectors such as construction and transportation and away from these sectors payroll data were more robust. Indeed, Fed Chairman Bernanke said recently that there are some grounds for optimism on the employment front, but noted that hiring is still anaemic. All in all, while the economy is continuing to improve steadily, we recognise that the output gap is unlikely to be closed for years and various problems remain. A survey showing that a net 5.2% of banks tightened lending standards on mortgages further in Q1 does nothing to improve the outlook for the beleaguered housing market. Meanwhile, state fiscal woes and higher gasoline prices also pose risks. Overall, we maintain our forecast for 3.3% growth in 2011. We have slightly raised our CPI forecast (to 1.8% from 1.5% prev), with inflation likely to remain relatively tame as high unemployment and the struggling housing market continue to weigh. Our outlook for the start of Fed tightening in 2012 remains unchanged.

US	2006	2007	2008	2009	2010 F	2011 F
GDP y/y	2.7%	1.9%	0.0%	-2.6%	2.9%	3.3%
CPI y/y	3.2%	2.8%	3.8%	-0.4%	1.6%	1.8%
Fed Rate (y.e.)	5.25%	4.25%	0.50%	0.125%	0.125%	0.125%

Eurozone

-- The upturn in global manufacturing is continuing to support growth in Germany, which is leading the Eurozone rebound. Overall Eurozone data in recent weeks has been a mixed bag with the Jan composite PMI hitting its highest in nine months, the number of unemployed declining for a third consecutive month in Dec and retail sales posting a surprise fall at the end of 2010. While European policymakers are showing they are ready to address the lingering fiscal and financial problems in some member states more forcefully and comprehensively than before, the eurozone recovery still remains uneven, despite signs of improvement in the periphery from the latest PMI surveys. Meanwhile, inflationary pressures are building in the region, as reflected in rising producer and consumer prices. Despite these developments, the ECB did not change its tone on inflation and growth in the latest policy meeting, confirming our view that the ECB is likely to maintain a wait-and-see approach over the next few months. We expect tightening to begin late in the year, taking rates to 1.5% by year end.

EUROZONE	2006	2007	2008	2009	2010 F	2011 F
GDP y/y	3.0%	2.8%	0.4%	-4.1%	1.7%	1.5%
CPI y/y	2.2%	2.1%	3.3%	0.3%	1.6%	2.0%
ECB Rate (y.e.)	3.5%	4.00%	2.50%	1.00%	1.00%	1.50%

Japan

-- We look for growth to cool to 1.5%yoy in 2011, with stronger momentum in the second half of the year. Export growth accelerated for a second month in Dec and industrial production increased the most in 11 months, boosting hopes that the economy will emerge from its lull in the first half of this year after probably contracting in Q4. While exports should continue to provide some support given strong emerging market demand and the US recovery, the strength of the Yen will likely continue to weigh. Meanwhile, despite recent gains in commodity prices, deflation is likely to persist and keep a dampener on consumer demand, particularly given ongoing consumer pessimism. All in all, we expect the BoJ to continue with its current policy, and do not expect any tightening or reversal of unconventional measures for the foreseeable future.

JAPAN	2006	2007	2008	2009	2010 F	2011 F
GDP y/y	2.0%	2.4%	-1.2%	-6.3%	4.2%	1.5%
CPI y/y	0.3%	0.0%	1.4%	-1.4%	-1.0%	-0.2%
BoJ Rate (y.e.)	0.25%	0.50%	0.10%	0.10%	0.10%	0.10%

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OTHER DEVELOPED ECONOMIES

UK

-- Q1 GDP is expected to show a bounce back after the shock 0.5%q/q Q4 decline. However, with fiscal tightening increasingly kicking in, inflation comfortably outstripping pay growth and house prices falling, the outlook for consumer spending and overall GDP growth in 2011 remains muted. Indeed, we stick to our forecast for 2.0% growth in 2011, below the economy's long run average of 2.5%. CPI hit 4.0%/y/y in January . double the 2% target . and is likely to rise further ahead. For 2011 overall, we look for CPI to register at 3.5%/y/y. All in all, we look for rates to move up 50 basis points by the end of the year.

UK	2006	2007	2008	2009	2010 F	2011 F
GDP y/y	2.8%	2.7%	-0.1%	-4.9%	1.7%	2.0%
CPI y/y	2.3%	2.3%	3.6%	2.2%	3.3%	3.5%
BoE Rate (y.e.)	4.3%	5.75%	2.00%	0.50%	0.50%	1.00%

Australia

-- Recent economic data has been mixed. While retail sales were anaemic in Dec and there was an 8K drop in full-time employment in Jan, part-time employment rose by 32K and business confidence rebounded in Jan on optimism the economy will weather the floods. The drag on GDP this year due to the losses of coal and agricultural exports, destruction of inventories and shutting down of businesses will to some extent be offset by rebuilding and restoration. Meanwhile, the supply side shock will put upward pressure on prices. We have revised down our f/c for end-year rates to 5.25% from 5.50% given recent dovish comments by the RBA.

AUSTRALIA	2006	2007	2008	2009	2010 F	2011 F
GDP y/y	2.8%	5.0%	2.2%	1.2%	2.7%	3.2%
CPI y/y	3.6%	2.4%	4.4%	1.9%	2.9%	3.4%
RBA Rate (y.e.)	6.25%	6.75%	4.25%	3.75%	4.75%	5.25%

New Zealand

-- Recent data showed employment fell by 0.5% in Q4, while Finance Minister English said the economy may have contracted again in Q4, as consumers have focused on paying back debts over spending. Overall, we expect GDP growth to pick up to around 3.0% in 2011 (previous f/c: 3.5%), helped by stronger world growth and a pick up in business confidence and investment. The RBNZ noted at its Jan meeting that underlying inflation remains comfortably within target. We expect the bank to keep rates on hold in the months ahead, as it waits for evidence of a robust recovery, before tightening through H2.

NEW ZEALAND	2006	2007	2008	2009	2010 F	2011 F
GDP y/y	3.2%	0.9%	2.9%	-1.4%	1.5%	3.0%
CPI y/y	3.4%	2.4%	4.0%	2.2%	2.3%	3.0%
CB Rate (y.e.)	7.25%	8.25%	5.00%	2.50%	3.00%	4.00%

Canada

-- Recent data points to an ongoing recovery, with GDP figures for November showing the fastest growth in eight months. We look for growth of around 2.5% this year, slowing slightly from an estimated 2.9% in 2010. The central bank left its benchmark interest rate at 1% last month but surprised markets with its cautious stance on monetary policy. Policymakers believe that inflation remains subdued and that Canada's failure to improve its competitiveness over the years won't allow the country to fully benefit from a much improved US outlook. As such, the bank may wait until at least Q2 to begin hiking again and we look for rates at 2.0% by year-end.

CANADA	2006	2007	2008	2009	2010 F	2011 F
GDP y/y	2.8%	2.2%	0.5%	-2.5%	2.9%	2.5%
CPI y/y	2.0%	2.1%	2.4%	0.3%	1.8%	2.2%
CB Rate (y.e.)	4.25%	4.25%	1.50%	0.25%	1.00%	2.00%

Switzerland

-- We expect growth of about 1.7% into 2011, slowing from around 2.7% in 2010, with the strong franc posing a significant challenge to the country's exporters. Swiss inflation unexpectedly slowed in Jan as the franc's appreciation helped push down the cost of imported goods. We look for rates to end the year higher at 0.75%.

SWITZERLAND	2006	2007	2008	2009	2010 F	2011 F
GDP y/y	3.6%	3.7%	1.9%	-1.9%	2.7%	1.7%
CPI y/y	1.1%	0.7%	2.4%	-0.5%	0.7%	0.8%
CB Rate (y.e.)	2.00%	2.75%	0.50%	0.25%	0.25%	0.75%

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Sweden

-- The Swedish economy continues to recover quite robustly, driven by exports. We expect 2011 growth of 3.5% following an estimated 5.2% expansion in 2010 (upwardly revised from 4.5%) and look for Sweden to remain one of the most dynamic economies in Europe this year. Inflation has remained low in Sweden, but the CPI jumped to 2.3% year on year in December, bringing prices more in line with the Riksbank's target of 2%. We look for the Riksbank to bring rates up to 2.50% by year end.

SWEDEN	2006	2007	2008	2009	2010 F	2011 F
GDP y/y	4.5%	3.4%	-0.7%	-5.2%	5.2%	3.5%
CPI y/y	1.4%	2.2%	3.5%	-0.3%	1.3%	2.0%
CB Rate (y.e.)	3.00%	4.00%	2.00%	0.25%	1.25%	2.50%

Norway

-- We expect growth in Norway of about 3% in 2011 (revised from our previous f/c of 2.0%), improving on the estimated 2% expansion in 2010. With policymakers recently noting the rise in Norwegian house prices and pick up in consumer spending, we expect rates will begin to move higher again this year.

NORWAY	2006	2007	2008	2009	2010 F	2011 F
GDP y/y	2.3%	2.7%	0.8%	-1.4%	2.0%	3.0%
CPI y/y	2.3%	0.7%	3.8%	2.2%	2.4%	2.3%
CB Rate (y.e.)	3.50%	5.25%	3.00%	1.75%	2.00%	2.75%

LATAM ECONOMIES

Brazil

-- After an estimated robust 7.5% expansion in 2010, we look for growth to cool to 4.5% this year, with capital expenditure and exports likely to continue to provide support. Headline inflation hit 5.99% in Jan and the minutes of the most recent monetary policy meeting in Jan said that a tight labour market and robust domestic demand would continue to put pressure on consumer prices ahead. We look for CPI growth of 5.5% this year. Brazil's government said recently that it will implement 50bn reals of spending cuts in order to curb inflation and help prevent the economy from overheating. Alongside this, we expect further rate hikes over the course of the year, despite the strong real, and look for rates to end the year at 12.50%.

BRAZIL	2006	2007	2008	2009	2010 F	2011 F
GDP y/y	4.0%	6.1%	5.2%	-0.6%	7.5%	4.5%
CPI y/y	4.2%	3.6%	5.7%	4.9%	5.0%	5.5%
CB Rate (y.e.)	13.25%	11.25%	13.75%	8.75%	10.75%	12.50%

Mexico

-- We expect growth to register at 4% this year, helped by a combination of a stronger US economy, significant FDI announcements and an ambitious infrastructure spending agenda by the government. Despite the recent dramatic increase in international commodity prices, the central bank has played down potential concerns over the feed through to inflation and voted to keep rates on hold at its January interest rate meeting. The central bank cited the recent strengthening of the peso as a benevolent factor in offsetting rising price pressures. While the recently released monetary policy minutes (the first ever published) did note that the balance of risks for inflation have slightly worsened since late last year, they also recognised opposing risk factors such as remaining slack in the labour market. All in all, given the subdued inflation outlook, we continue to look for rates to be kept on hold throughout the year, with tightening unlikely to begin until 2012.

MEXICO	2006	2007	2008	2009	2010 F	2011 F
GDP y/y	5.2%	3.3%	1.5%	-6.1%	5.1%	4.0%
CPI y/y	3.6%	4.0%	5.1%	5.3%	4.1%	3.9%
CB Rate (y.e.)	7.00%	7.50%	8.25%	4.50%	4.50%	4.50%

GLOBAL ECONOMIC OUTLOOK FEBRUARY 2011

Chile

-- As in the LATAM region generally, Chile's recovery remains quite robust and we look for growth of 6.0% in 2011. The manufacturing sector is gaining momentum and exports have picked up recently, leading to a more balanced economic performance with both domestic and external support. We look for inflation of around 3.5% in 2011. Despite an interest rate pause in January likely owing to the strength of the currency, inflation expectations have been steadily rising since late last year. As such, we expect the tightening cycle to resume later this year and have raised our end-year interest rate forecast to 5.25%.

CHILE	2006	2007	2008	2009	2010 F	2011 F
GDP y/y	4.6%	4.6%	3.7%	-1.5%	5.5%	6.0%
CPI y/y	3.4%	4.4%	8.7%	1.6%	1.4%	3.5%
CB Rate (y.e.)	5.25%	6.00%	8.25%	0.50%	3.25%	5.25%

Colombia

-- We expect growth of around 4.5% in 2011 following an estimated similar pace of expansion in 2010. Activity should be supported by spending to repair infrastructure after the heaviest rains in three decades hit the country during the second half of 2010, putting upward pressure on inflation on the back of the supply shock. Recent commodity price gains should put further pressure on food inflation, albeit moderately as the economy is still operating below potential. We look for rates to rise to 4% this year.

COLOMBIA	2006	2007	2008	2009	2010 F	2011 F
GDP y/y	7.1%	6.1%	2.7%	0.8%	4.4%	4.5%
CPI y/y	4.3%	5.5%	7.0%	4.2%	2.3%	3.1%
CB Rate (y.e.)	7.85%	9.50%	9.50%	3.50%	3.00%	4.00%

Peru

-- Peru looks to have grown by around 8.5% in 2010 and we look for growth to remain robust in 2011, although the pace of expansion should slow to about the 7% mark, with ongoing support from manufacturing, construction and private investment. With commodity price rises placing upward pressure on inflation, we look for rates to rise further this year after the central bank hiked for a second consecutive month in Feb to 3.5%.

PERU	2006	2007	2008	2009	2010 F	2011 F
GDP y/y	7.7%	8.9%	9.8%	0.9%	8.5%	7.0%
CPI y/y	2.0%	1.8%	5.8%	3.0%	1.5%	2.5%
CB Rate (y.e.)	4.50%	5.00%	6.50%	1.25%	3.00%	4.00%

ASIAN ECONOMIES

China

-- Recent Chinese data have shown solid domestic activity, strong exports and imports and a sharp pick-up in inflation. Although risks to the outlook remain, relating to global growth and ongoing concerns over the still frothy property market, we still expect growth to remain solid this year, although register a slightly slower rate of 9.5%/y/y as a whole. The PBOC raised rates for a third time since mid October earlier this month (to 6.06% from 5.81%) in an effort to dampen rising inflation. In December the annual rate slowed to 4.6% but is expected to rise further as the cost of food and commodities continues to increase. Indeed, PPI inflation remains at elevated levels, PMI data are showing strong growth in input prices and inflation expectations have also picked up in recent months. While much of the recent acceleration in headline inflation has been driven by food prices, broader price pressures have also increased significantly with loose liquidity conditions having clearly contributed. We continue to expect further tightening this year, with hikes in both the reserve requirement and benchmark rate as the govt continues to try to cool CPI growth. Indeed, we have raised our rates f/c and now expect the key rate to reach 6.56% by year-end.

CHINA	2006	2007	2008	2009	2010 F	2011 F
GDP y/y	12.7%	14.2%	9.6%	9.2%	10.3%	9.5%
CPI y/y	1.5%	4.8%	5.9%	-0.7%	3.3%	4.5%
CB Rate (y.e.)	6.12%	7.47%	5.31%	5.31%	5.81%	6.56%

GLOBAL ECONOMIC OUTLOOK FEBRUARY 2011

India

-- The latest data from India continues to point to ongoing robust GDP growth. Despite a slowdown in y/y industrial production in Dec, this largely reflected base effects and the underlying trend remains strong. We have raised our 2011 GDP f/c to 8.5% and now expect more aggressive monetary tightening this year than previously f/c, with rates expected to hit 7.5% by year-end (previous f/c 7.0%), as inflation pressures remain elevated.

INDIA	2006	2007	2008	2009	2010 F	2011 F
GDP y/y	9.8%	9.5%	7.5%	6.8%	8.5%	8.5%
CPI y/y	6.3%	6.4%	8.3%	10.8%	11.5%	7.5%
CB Rate (y.e.)		7.75%	6.50%	4.75%	6.25%	7.50%

Korea

-- Industrial production posted its fastest m/m gain since May in Dec. With the US economy . a major destination for Korean exports . appearing to have turned a corner, we look for growth to remain solid, but ease to 4.1% this year. Inflation jumped above expectations to 4.1%/y/y in Jan and looks set to move higher with PMI data showing strong input price growth and Jan PPI inflation rising to 6.2%/y/y. As a result we have lifted our CPI f/c for 2011 to 3.7%/y/y (from 3.3%) After unexpectedly holding rates at 2.75% in Feb, we expect the tightening cycle to resume this year with rates likely to move up to 3.50% by year end.

KOREA	2006	2007	2008	2009	2010 F	2011 F
GDP y/y	5.2%	5.1%	2.3%	0.2%	6.1%	4.1%
CPI y/y	2.2%	2.5%	4.7%	2.8%	3.0%	3.7%
CB Rate (y.e.)	4.50%	5.00%	3.00%	2.00%	2.50%	3.50%

Taiwan

-- A steady economic revival, helped by robust exports and easing unemployment likely helped Taiwan register a growth rate of 10.3% in 2010. We expect growth to remain solid but slow to a more sustainable 5.0% in 2011. Inflation remains low, and as such, while we expect further monetary tightening this year, it is likely to remain gradual and modest.

TAIWAN	2006	2007	2008	2009	2010 F	2011 F
GDP y/y	5.4%	6.0%	0.7%	-1.9%	10.3%	5.0%
CPI y/y	0.6%	1.8%	3.5%	-0.9%	1.0%	2.0%
CB Rate (y.e.)	2.750%	3.375%	2.000%	1.250%	1.625%	2.125%

Singapore

-- Driven by trade, Singapore's economy expanded by an estimated 14.7% in 2010. However, growth looks set to slow to a still respectable 5% pace this year as the post crisis bounce fades. Given full employment, the focus of policy has tilted towards inflation, driven by a surge in immigration, rising asset values and higher imported prices, signalling additional monetary tightening ahead.

SINGAPORE	2006	2007	2008	2009	2010 F	2011 F
GDP y/y	8.6%	8.5%	1.8%	-1.3%	14.7%	5.0%
CPI y/y	1.0%	2.1%	6.6%	0.6%	3.0%	3.0%

Philippines

-- The Philippines economy continues to strengthen, in line with regional peers. We expect growth to match that in Taiwan, at about 5% in 2011. The central bank held rates at 4.0% in Feb and said that it does not see any urgency to hike as inflation expectations are well managed. As such, we have revised down our f/c for end year rates to 4.50% from our prior f/c of 4.75%.

PHILIPPINES	2006	2007	2008	2009	2010 F	2011 F
GDP y/y	5.4%	7.2%	3.7%	1.1%	7.0%	5.0%
CPI y/y	6.2%	2.8%	9.3%	3.2%	3.8%	4.0%
CB Rate (y.e.)	7.50%	5.25%	5.50%	4.00%	4.00%	4.50%

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Malaysia

-- We look for growth to slow to just over 5% this year after a forecast 7% pick-up in 2010, as the export sector likely loses some steam, but with support from domestic demand owing to supportive government policy measures. The central bank is likely to continue to gradually tighten monetary policy this year, although the prospect of a general election should keep a cap on the extent of this.

MALAYSIA	2006	2007	2008	2009	2010 F	2011 F
GDP y/y	5.8%	6.5%	4.7%	-1.7%	7.0%	5.2%
CPI y/y	3.6%	2.0%	5.4%	0.6%	1.9%	2.5%
CB Rate (y.e.)	3.50%	3.50%	3.25%	2.00%	2.75%	3.25%

EMEA ECONOMIES

Russia

-- In 2010, the country likely posted a moderate growth rate of around 4%, hampered by an unusually severe drought. We look for growth to pick up to 4.5% in 2011 on the back of a stronger domestic market. Besides the fact that unemployment has fallen by more than two percentage points from its high of 9% in 2010, retail and automobile sales have recovered appreciably and business investment has increased considerably. Driven by higher food prices, inflation pressures should remain strong in H1 and we look for CPI growth of 8.5% this year (upwardly revised from our previous f/c of 7.5%).

RUSSIA	2006	2007	2008	2009	2010 F	2011 F
GDP y/y	8.2%	8.5%	5.2%	-7.9%	4.0%	4.5%
CPI y/y	9.7%	9.0%	14.1%	11.7%	7.0%	8.5%
CB Rate (y.e.)	11.00%	10.00%	13.00%	8.75%	7.75%	8.50%

Turkey

-- We look for GDP growth to cool to a respectable 5% this year after registering an estimated 8.0% in 2010. As expected, inflation fell sharply at the start of 2011 (4.9%/y/y from 6.4% in Dec) on favourable base effects. However, core inflation edged higher while the PPI rose by a much higher than expected 2.4%/m/m, suggesting significant price pressures in the pipeline. We look for rates at 7.25% by year-end (downwardly revised from our previous 7.50% f/c).

TURKEY	2006	2007	2008	2009	2010 F	2011 F
GDP y/y	6.9%	4.8%	0.6%	-4.7%	8.0%	5.0%
CPI y/y	9.6%	8.8%	10.4%	6.3%	8.6%	6.5%
CB Rate (y.e.)	17.50%	15.75%	15.00%	6.50%	6.50%	7.25%

South Africa

-- After a gradual recovery of an estimated 3.0% in 2010, we look for growth to pick up slightly to 3.5% in 2011, with risks stemming from still elevated unemployment (the jobless rate fell to 24% in Q4 from 25.3% in Q3) and weak private sector credit growth. The RBSA left rates steady at 5.50% at the January MPC meeting and highlighted greater concern about upside inflation risks emanating from the recent rapid rise in commodity prices. All in all, we expect the central bank to raise rates gradually in H2 2011.

SOUTH AFRICA	2006	2007	2008	2009	2010 F	2011 F
GDP y/y	5.6%	5.5%	3.7%	-1.7%	3.0%	3.5%
CPI y/y	4.7%	7.1%	11.5%	7.1%	4.3%	4.5%
CB Rate (y.e.)	9.00%	11.00%	11.50%	7.00%	5.50%	6.00%

Poland

-- We continue to expect Poland to outperform regional peers in Eastern Europe, on foot of relatively stronger domestic demand conditions and look for growth of 4.0%/y/y this year. Rising inflation has already started the process of rate normalisation. We expect further gradual tightening from the central bank this year after a 25bps hike to 3.75% in Jan on the back of growing inflationary concerns.

POLAND	2006	2007	2008	2009	2010 F	2011 F
GDP y/y	6.2%	6.8%	5.1%	1.8%	3.8%	4.0%
CPI y/y	1.0%	2.5%	4.2%	3.5%	2.6%	3.3%
CB Rate (y.e.)	4.00%	5.00%	5.00%	3.50%	3.50%	4.50%

GLOBAL ECONOMIC OUTLOOK FEBRUARY 2011

Czech

-- The recovery in Czech is weaker than in Poland, and this looks likely to continue into 2011, with Czech growth likely to register at 2.5%, more or less in line with performance in 2010 . With growth subdued, and inflation contained, we expect the Czech central bank to raise rates only very gradually in 2011, with the strength of the koruna helping to offset inflationary pressures to some extent.

CZECH	2006	2007	2008	2009	2010 F	2011 F
GDP y/y	6.8%	6.2%	2.5%	-4.1%	2.3%	2.5%
CPI y/y	2.5%	2.8%	6.4%	1.1%	1.5%	2.2%
CB Rate (y.e.)	2.50%	3.50%	2.25%	1.00%	0.75%	1.50%

Hungary

-- Hungary looks likely to continue to under perform regional peers in terms of growth in 2011. Nonetheless, we expect GDP to expand by 2.5%, with growth picking up from an estimated 1% in 2010. The minutes of the Jan monetary policy meeting revealed a three way split with 4 policymakers voting for a hike, two for a hold and one for a cut. This has raised the possibility that rates may have reached a peak this year, but we continue to look for one further hike given inflationary pressures.

HUNGARY	2006	2007	2008	2009	2010 F	2011 F
GDP y/y	4.0%	1.3%	0.7%	-6.6%	1.0%	2.5%
CPI y/y	3.9%	8.0%	6.1%	4.2%	4.8%	3.8%
CB Rate (y.e.)	8.00%	7.50%	10.00%	6.25%	5.75%	6.25%

Israel

-- We expect growth to slow to 3.5% this year, close to trend, from an estimated 4% in 2010. The strengthening of the shekel in the past few years has hurt the economy's competitiveness. The central bank hiked rates by a quarter point to 2.25% in Jan as inflation threatens to exceed the target range of 1% to 3% this year. As such, we expect further gradual tightening this year and have raised our f/c for year-end rates to 3.00% from 2.75%.

ISRAEL	2006	2007	2008	2009	2010 F	2011 F
GDP y/y	5.7%	5.4%	4.2%	0.8%	4.0%	3.5%
CPI y/y	2.2%	0.5%	4.6%	3.3%	2.7%	3.0%
CB Rate (y.e.)	4.50%	4.25%	2.50%	1.25%	2.00%	3.00%

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