Lee Overlay Partners
CURRENCY OVERLAY MANAGEMENT

# GLOBAL ECONOMIC OUTLOOK

**MARCH 2011**

**CONTENTS**

# EXECUTIVE SUMMARY

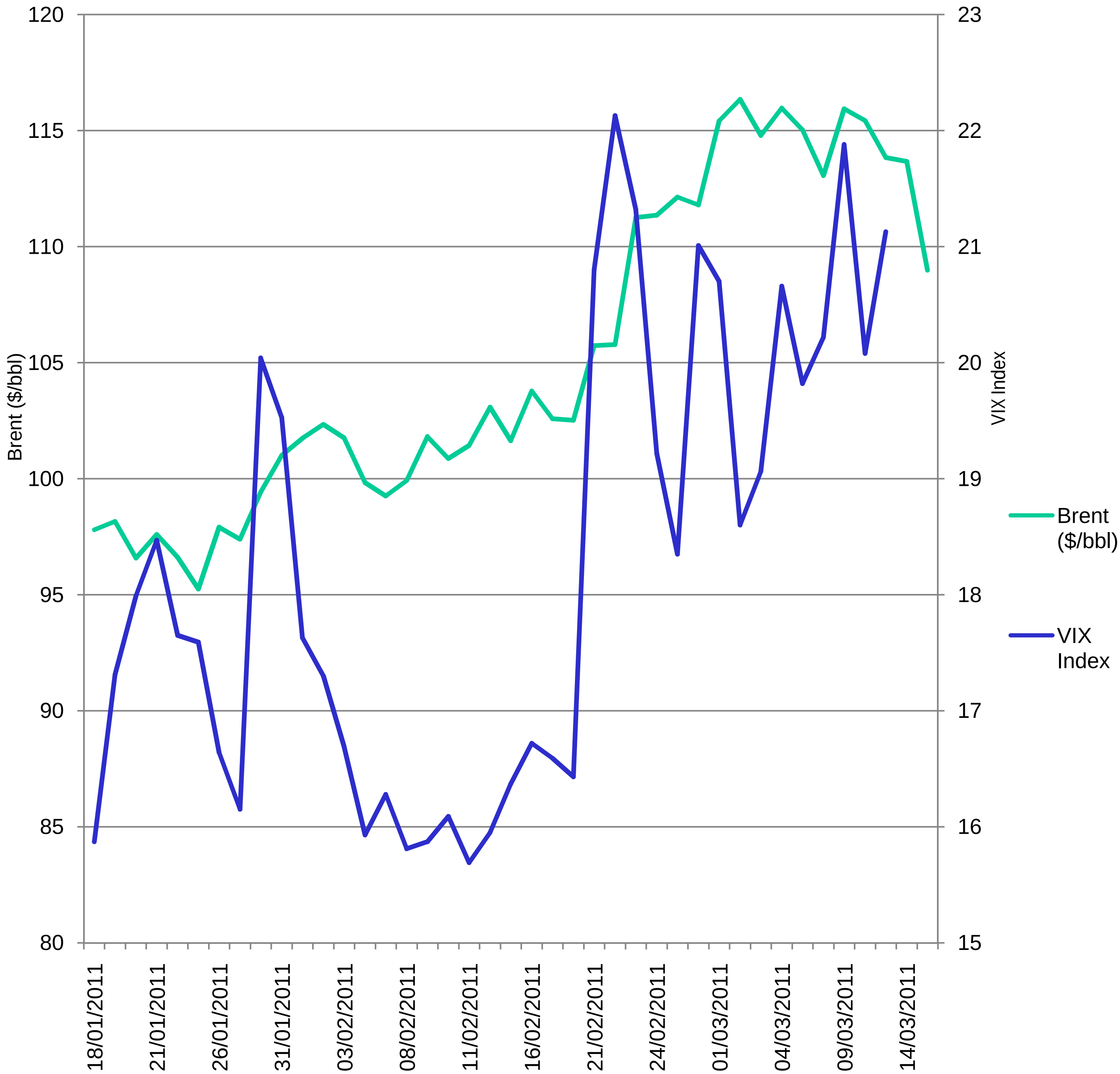
- Geopolitical tensions, natural disasters, rising oil prices and Eurozone policy uncertainty have led to a testing past few weeks for financial markets and the global economy. Nonetheless, we still view the global economy as being on a solid recovery path. We maintain our 3.3% forecast for US GDP growth in 2011 and continue to expect no interest rate moves until 2012. While unemployment is falling, it remains elevated and continues to play on policymakers' concerns along with the still struggling housing market and strained fiscal situation. Moreover, we look for the Fed to complete QE2 in June and don't think that QE3 is likely to happen, unless there were to be a big deterioration in the data.

- It has been a busy last month in the Eurozone, with the ECB and Eurozone government and finance ministers surprising the markets. On the ECB front, President Trichet shocked the markets at the March monetary policy press conference where he stated that the governing council is exercising "strong vigilance" – a term which has historically signalled a rate hike in the subsequent meeting. As such, we look for rates to move up by 25bps in April. Nonetheless, Trichet emphasised that this "is certainly not the start of a series" of hikes, and we maintain our end-year forecast for rates at 1.5% given the still weak recovery and ongoing periphery stresses. Meanwhile, markets had been expecting nothing solid to come out of the exceptional meeting of Eurozone heads of states and governments on 11 March ahead of the 24-25 March summit. However, earlier than expected progress was made on some issues, although the surprise element related more to the timing of the agreement than the content. Ministers endorsed the 'Pact for the Euro,' which establishes a stronger co-ordination of economy policy, but also made some agreement on the reform of the existing temporary regime of emergency financial support. Leaders pledged to increase the effective lending capacity of the European Financial Stability Facility (EFSF) so as to make the €440bn 'fully effective' (due to guarantees needed to maintain its AAA credit rating, the EFSF's lending capacity was limited to €250bn). Moreover, Greek loan costs have been lowered by 100bp and the maturities of the Greek loans have been extended to 7.5 years from 3 years. Ireland's reluctance to accept harmonisation of corporate taxes appears to have prevented a deal from being reached on the interest rate on its aid loans, and the upcoming summit will be keenly awaited for any developments on this front.

- The price of oil has surged over recent weeks as tensions have mounted in the Middle East and spread to Libya, also causing the VIX to spike (please see chart on following page). While Libya is only a small oil producer, ranking eighteenth in the world and accounting for 2% of global output, uncertainty over how long Libyan production will be out of action and whether unrest spreads to the larger emerging market producers has driven market concern.

- Recent weeks have also seen natural disasters cause tragedy in both New Zealand and Japan. A 6.3-magnitude earthquake struck the Canterbury region in New Zealand's South Island on 22nd February, causing widespread physical damage and multiple fatalities. The final death toll is expected to be over 200, making the earthquake the second-deadliest natural disaster recorded in New Zealand. It followed nearly six months after the 7.1 magnitude 2010 Canterbury earthquake that caused significant damage to the region but no direct fatalities. The rescue effort is still under way, but the earthquake means that the economy could contract in Q1, while the rebuilding effort may not boost growth until late 2011 onwards. The RBNZ made an emergency 50bps cut in reaction and we expect monetary policy to remain on hold in the near term as the bank assesses the outlook. Meanwhile a 9.0 magnitude earthquake struck off the coast of Japan on 11th March, causing extremely disruptive tsunami waves of up to 10 metres. The earthquake and tsunami have caused extensive and severe damage, with the number of fatalities, already counted in the thousands, still being assessed. The earthquake was the strongest known to have hit Japan and the fourth strongest in the world on record. The BoJ voted unanimously to keep its key interest rate at 0.10% after the disaster and doubled the size of its asset purchase programme to JPY10trn, while also adding JPY15trn into the market as part of an emergency liquidity provision.

**Middle East tensions have led to a rise in oil prices and the VIX...**




Source: Bloomberg

# GLOBAL GROWTH OUTLOOK

*Summary: Overall, despite the geopolitical tensions and natural disasters that have rocked market sentiment in recent weeks, we continue to view the global economy as being on a solid recovery path, with recent data supporting this outlook. In the US, while challenges remain – including high foreclosure rates, rising commodity prices and strained local government budgets – recent indicators continue to paint a picture of recovery, with unemployment (although still elevated) moving in the right direction, manufacturing and service sector activity expanding and business confidence firming. Although the eurozone recovery remains uneven, with solid growth in the core 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 unexpectedly early announcement by eurozone leaders on measures to tackle the sovereign debt crisis will likely provide some reassurance to the markets that assertive action is being taken, but questions still remain and the 24-25 March summit will be eagerly awaited for further detail. Overall, Asian economies should register the strongest growth globally again this year, led by China and India. Chile and Peru look likely to lead the pack in terms of growth in Latin America this year, while Russia, Poland and Turkey look set 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% | 2.8% | 3.3% |
| EUROZONE | 3.0% | 2.8% | 0.4% | -4.1% | 1.7% | 1.7% |
| JAPAN | 2.0% | 2.4% | -1.2% | -6.3% | 4.2% | 1.5% |
| UK | 2.8% | 2.7% | -0.1% | -4.9% | 1.5% | 1.8% |
| CANADA | 2.8% | 2.2% | 0.5% | -2.5% | 3.1% | 2.8% |
| AUSTRALIA | 2.8% | 5.0% | 2.2% | 1.2% | 2.8% | 3.2% |
| SWITZERLAND | 3.6% | 3.7% | 1.9% | -1.9% | 2.6% | 2.0% |
| SWEDEN | 4.5% | 3.4% | -0.7% | -5.2% | 5.3% | 4.0% |
| 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% | 1.5% |
| 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% | 1.2% | 2.8% |
| RUSSIA | 8.2% | 8.5% | 5.2% | -7.9% | 4.0% | 4.5% |
| SOUTH AFRICA | 5.6% | 5.5% | 3.7% | -1.7% | 2.8% | 3.5% |
| TURKEY | 6.9% | 4.8% | 0.6% | -4.7% | 8.0% | 4.5% |
| ISRAEL | 5.7% | 5.4% | 4.2% | 0.8% | 4.5% | 3.8% |
| BRAZIL | 4.0% | 6.1% | 5.2% | -0.6% | 7.5% | 4.5% |
| MEXICO | 5.2% | 3.3% | 1.5% | -6.1% | 5.5% | 4.0% |
| CHILE | 4.6% | 4.6% | 3.7% | -1.5% | 5.3% | 6.0% |
| COLOMBIA | 7.1% | 6.1% | 2.7% | 0.8% | 4.3% | 4.5% |
| PERU | 7.7% | 8.9% | 9.8% | 0.9% | 8.8% | 7.0% |
| CHINA | 12.7% | 14.2% | 9.6% | 9.2% | 10.3% | 9.5% |
| INDIA | 9.8% | 9.5% | 7.5% | 6.8% | 8.7% | 8.5% |
| TAIWAN | 5.4% | 6.0% | 0.7% | -1.9% | 10.8% | 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% | 14.6% | 5.0% |
| MALAYSIA | 5.8% | 6.5% | 4.7% | -1.7% | 7.2% | 5.2% |
| PHILIPPINES | 5.4% | 7.2% | 3.7% | 1.1% | 7.4% | 5.0% |

Forecast Downgrade Forecast Upgrade

# GLOBAL MONETARY POLICY OUTLOOK

*Summary: Rising global inflation has remained a key market focus in recent weeks, as geopolitical tensions drove oil above $100/bbl, with concerns growing over the potential pass-through into higher inflation expectations and broader price pressures. In China, where rising food prices are of major concern, overall inflation held at 4.9% in Feb but food price inflation accelerated to 11% on the year. The developed world is also seeing headline inflation on the rise, with the UK appearing to be in the most awkward position. UK inflation hit 4.0%y/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, which held steady at 2.4% in February according to an initial estimate, remains at its highest since October 2008. Nonetheless, there is still a large amount of spare capacity in most of the developed world - in contrast to most emerging market countries - and this should help to keep core inflation in check despite rising headline rates.*

**GLOBAL INFLATION**

| | Headline Inflation | Inflation Target | Policy Rate | Real Policy Rate | Policy Stance? | | |
|---|---|---|---|---|---|---|---|
| | Orange Bold = > 2% above target | | | | Easy | Neutral | Tight |
| | Grey Bold = > 2% below target | | | | | | |
| US | 1.6% | 1.7% to 2.0% Core | 0.125% | -1.48% | Easy | | |
| EUROZONE | 2.3% | Max 2.00% | 1.00% | -1.30% | 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 | 2.3% | 1.00% to 3.00% | 1.00% | -1.30% | Easy | | |
| AUSTRALIA | 2.7% | 2.00% to 3.00% | 4.75% | 2.05% | | Neutral | |
| SWITZERLAND | 0.5% | Max 2.00% | 0.25% | -0.25% | Easy | | |
| SWEDEN | 2.5% | 2.00% | 1.50% | -1.00% | Easy | | |
| NORWAY | 1.2% | 2.50% | 2.00% | 0.80% | | Neutral | |
| NEW ZEALAND | 4.0% | 1.00% to 3.00% | 2.50% | -1.50% | Easy | | |
| POLAND | 3.8% | 1.50% to 3.50% | 3.75% | -0.05% | | Neutral | |
| CZECH | 1.8% | 1.00% to 3.00% | 0.75% | -1.05% | Easy | | |
| HUNGARY | 4.1% | 3.00% | 6.00% | 1.90% | | Neutral | |
| RUSSIA | 9.5% | 6.00% to 7.00% | 8.00% | -1.50% | Easy | | |
| SOUTH AFRICA | 3.7% | 3.00% to 6.00% | 5.50% | 1.80% | | Neutral | |
| TURKEY | 4.2% | 5.5% end '11 | 6.25% | 2.09% | | Neutral | |
| ISRAEL | 3.6% | 1.00% to 3.00% | 2.50% | -1.10% | Easy | | |
| BRAZIL | 6.0% | 2.50% to 6.50% | 11.75% | 5.74% | | | Tight |
| MEXICO | 3.6% | 2.00% to 4.00% | 4.50% | 0.93% | | Neutral | |
| CHILE | 2.7% | 2.00% to 4.00% | 3.50% | 0.80% | | Neutral | |
| COLOMBIA | 3.2% | 2.00% to 4.00% | 3.25% | 0.08% | | Neutral | |
| PERU | 2.2% | 1.00% to 3.00% | 3.75% | 1.55% | | Neutral | |
| CHINA | 4.9% | - | 6.06% | 1.16% | | Neutral | |
| INDIA | 9.3% | - | 6.50% | -2.80% | Easy | | |
| TAIWAN | 1.3% | - | 1.625% | 0.33% | | Neutral | |
| SOUTH KOREA | 4.5% | 2.00% to 4.00% | 3.00% | -1.50% | Easy | | |
| SINGAPORE | 5.5% | 2.00% to 3.00% for 201 | - | - | | | Tight |
| MALAYSIA | 2.4% | - | 2.75% | 0.35% | | Neutral | |
| PHILIPPINES | 4.3% | 3.00% to 5.00% | 4.00% | -0.30% | | Neutral | |

# GLOBAL MONETARY POLICY OUTLOOK

*Summary: Our monetary policy outlook across the major developed economies remains broadly unchanged. While a hike from the ECB looks like a done deal for April following the March ECB press conference at which President Trichet took the markets by surprise with a virtual pre-announcement of a hike, we expect only one further 25bps hike to follow later in the year given ongoing periphery tensions and a still muted recovery. Nonetheless, the outlook has been muddied by the signal of an earlier than expected commencement of the tightening cycle and data on both the growth and inflation front over coming months should provide further guidance for the outlook for Eurozone monetary policy. In the UK, while the minutes of the Feb meeting revealed another MPC member voted for a rate hike, we maintain our view that rates will move up by just 50bps this year, although the outlook is uncertain with the strength of forthcoming data to play a key role in deciding the timing and extent of any hiking. We continue to expect no hikes from the Fed until 2012 at the earliest given moderate underlying inflation and still elevated unemployment. We expect the Fed to complete QE2 in June and don't think that QE3 is likely to happen, unless there were to be a big deterioration in the data. In New Zealand, the devastating earthquake that hit Christchurch in February led to an emergency 50bps cut in rates to 2.50%. While we acknowledge the risk of an earlier hike as rebuilding efforts put upward pressure on inflation, we currently expect rates to remain on hold for the rest of the year. Meanwhile, 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 rising inflation. In Latin America, we have raised our end-year interest rate forecasts for Chile, Colombia and Peru –the central banks in all three countries hiked rates by 25bps over the past month and exhibited relatively hawkish stances.*

**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** | 1.50% | 0.25% | 1.25% | 2.50% |
| **NORWAY** | 2.00% | 1.75% | 2.00% | 2.75% |
| **NEW ZEALAND** | 2.50% | 2.50% | 3.00% | 2.50% |
| **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% | 6.00% |
| **RUSSIA** | 8.00% | 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** | 2.50% | 1.25% | 2.00% | 3.25% |
| **BRAZIL** | 11.75% | 8.75% | 10.75% | 12.50% |
| **MEXICO** | 4.50% | 4.50% | 4.50% | 4.50% |
| **CHILE** | 3.50% | 0.50% | 3.25% | 5.50% |
| **COLOMBIA** | 3.25% | 3.50% | 3.00% | 4.50% |
| **PERU** | 3.75% | 1.25% | 3.00% | 4.50% |
| **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** | 3.00% | 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 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. Meanwhile, although Eurozone periphery jitters have moderated to some degree in recent months as government officials and ministers continue to work on a resolution, we still look for modest Euro weakness versus the Dollar, as concerns persist.*

**FX FORECASTS**

| | Spot 14 Mar | 6m Forecast | View |
|---|---|---|---|
| **G10** | | | |
| EUR | 1.38 | 1.37 | Depreciation |
| JPY | 81.82 | 87.70 | Depreciation |
| GBP | 1.60 | 1.58 | Depreciation |
| CAD | 0.98 | 0.97 | Neutral |
| AUD | 1.01 | 1.02 | Neutral |
| CHF | 0.93 | 0.97 | Depreciation |
| SEK | 6.38 | 6.34 | Appreciation |
| NOK | 5.64 | 5.59 | Appreciation |
| NZD | 0.74 | 0.78 | Appreciation |
| **EMEA** | | | |
| PLN | 2.91 | 2.79 | Appreciation |
| CZK | 17.53 | 17.38 | Neutral |
| HUF | 197.18 | 193.78 | Appreciation |
| RUB | 28.67 | 28.27 | Appreciation |
| ZAR | 6.91 | 6.85 | Neutral |
| TRY | 1.59 | 1.52 | Appreciation |
| ILS | 3.57 | 3.51 | Appreciation |
| **LATAM** | | | |
| BRL | 1.66 | 1.63 | Appreciation |
| MXN | 11.96 | 11.76 | Appreciation |
| CLP | 479.65 | 474.00 | Appreciation |
| COP | 1867.00 | 1834.86 | Appreciation |
| PEN | 2.77 | 2.72 | Appreciation |
| **ASIA** | | | |
| CNY | 6.57 | 6.46 | Appreciation |
| INR | 45.25 | 42.17 | Appreciation |
| TWD | 29.58 | 28.45 | Appreciation |
| KRW | 1124.30 | 1086.66 | Appreciation |
| SGD | 1.27 | 1.25 | Appreciation |
| MYR | 3.04 | 2.98 | Appreciation |
| PHP | 43.63 | 42.75 | Appreciation |
| **vs EUR** | | View vs EUR | |
| GBP | 0.86 | 0.87 | Neutral |
| CHF | 1.28 | 1.32 | Depreciation |
| SEK | 8.83 | 8.68 | Appreciation |
| NOK | 7.81 | 7.65 | Appreciation |
| PLN | 4.03 | 3.82 | Appreciation |
| CZK | 24.27 | 23.78 | Appreciation |
| HUF | 272.88 | 265.09 | Appreciation |

# G3 ECONOMIES

## United States

-- We continue to look for growth of around 3.3% this year and feel that recent data supports this view. Business optimism is improving, manufacturing activity is expanding and consumer spending increased in Jan for a seventh consecutive month, albeit at a relatively muted pace. Moreover, the unemployment rate dropped below 9% for the first time in two years in Feb as payrolls showed a respectable gain. Nonetheless, we recognise that the output gap is unlikely to be closed for years and headwinds remain, with continuing foreclosures depressing the housing market and big national and state deficits and higher gasoline prices. In terms of inflation, we have raised our forecast for CPI growth in 2011 to 2.0% from 1.8% previously given the recent rapid ascent of oil prices. Nonetheless, we expect inflation to remain relatively tame given the competitive pressures faced by businesses and limited wage bargaining power given still elevated unemployment. We expect the Fed to complete QE2 in June and don't think that QE3 is likely to happen, unless there were to be a big deterioration in the data. Moreover, our outlook for the start of Fed hiking in 2012 remains unchanged.

| US | 2006 | 2007 | 2008 | 2009 | 2010 F | 2011 F |
|---|---|---|---|---|---|---|
| GDP y/y | 2.7% | 1.9% | 0.0% | -2.6% | 2.8% | 3.3% |
| CPI y/y | 3.2% | 2.8% | 3.8% | -0.4% | 1.6% | 2.0% |
| Fed Rate (y.e.) | 5.25% | 4.25% | 0.50% | 0.125% | 0.125% | 0.125% |

## Eurozone

-- While the first estimate of Q4 2010 GDP showed relatively muted growth towards the end of last year, this was weighed on to some degree by the poor weather across much of the region. More recent indicators of the economy suggest growth should show a more healthy bounce in Q1 and suggest that the eurozone recovery, albeit fairly muted and uneven, is continuing to develop. PMI survey data, retail sales, confidence indicators, retail sales and jobless figures have all shown improvements over the last month. Growth in the periphery remains weak and should continue to over the coming years as governments try to reign in their deficits. Nonetheless, growth is expected to register at a similar rate in 2011 to 2010 (we have revised our forecast up to 1.7% from 1.5% prior), helped largely by an improving core, particularly Germany where the global trade recovery is spurring activity in the export-oriented nation. Meanwhile, we have raised our inflation expectation for 2011 on the back of the recent oil price shock and now look for CPI growth of 2.2% this year. At the March monetary policy meeting, ECB President Trichet shocked the markets with a markedly more hawkish tone than had been expected, noting that the bank is exercising "strong vigilance" – a term which has historically signalled a rate hike in the subsequent meeting. As such, we look for rates to move up by 25bps in April. Nonetheless, Trichet emphasised that this "is certainly not the start of a series" of hikes, and we maintain our end-year forecast for rates at 1.5% given the still weak recovery and ongoing periphery stresses.

| EUROZONE | 2006 | 2007 | 2008 | 2009 | 2010 F | 2011 F |
|---|---|---|---|---|---|---|
| GDP y/y | 3.0% | 2.8% | 0.4% | -4.1% | 1.7% | 1.7% |
| CPI y/y | 2.2% | 2.1% | 3.3% | 0.3% | 1.6% | 2.2% |
| ECB Rate (y.e.) | 3.50% | 4.00% | 2.50% | 1.00% | 1.00% | 1.50% |

# OTHER DEVELOPED ECONOMIES

**Japan**

-- The largest ever earthquake to hit Japan, measured at magnitude 9.0, struck on Friday, March 11th. Tsunamis, fires and an explosion at a nuclear plant have led to severe devastation, with a huge loss of life and the destruction of many towns and villages. Just days after the tremor, the extent of the physical and financial impact is virtually impossible to gauge and as such, we have made no adjustments to our forecasts and will await further information before making any necessary amendments to these next month. Nonetheless, the impact on export infrastructure and industrial production will likely hit GDP in the second and third quarters, while a burst of reconstruction activity could provide support in Q4. The BoJ voted unanimously to keep its key interest rate at 0.10% after the disaster and doubled the size of its asset purchase programme to JPY10trn, while also adding JPY15trn into the market as part of an emergency liquidity provision.

| 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% |

**UK**

-- The shock decline in Q4 GDP was revised to show an even deeper 0.6%q/q drop (initially estimated at -0.5%). While growth is expected to show a bounce back from the first quarter, 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 look for growth of 1.8% this year (revised down from 2.0%), 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 3.9%y/y (up from 3.5% prev.). While the minutes of the Feb meeting revealed another MPC member voted for a rate hike, we maintain our view that rates will move up by just 50bps this year, although the outlook is uncertain with the strength of forthcoming data to play a key role in deciding the timing and extent of any hiking.

| UK | 2006 | 2007 | 2008 | 2009 | 2010 F | 2011 F |
|---|---|---|---|---|---|---|
| GDP y/y | 2.8% | 2.7% | -0.1% | -4.9% | 1.5% | 1.8% |
| CPI y/y | 2.3% | 2.3% | 3.6% | 2.2% | 3.3% | 3.9% |
| BoE Rate (y.e.) | 4.25% | 5.75% | 2.00% | 0.50% | 0.50% | 1.00% |

**Australia**

-- Recent economic data has been mixed. While retail sales increased in Jan and business confidence picked up, consumer sentiment saw a dip. Meanwhile, despite a 58K drop in part-time employment, full-time employment rose by 48K. The drag on GDP this year due to 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 stick to our f/c for end-year rates at 5.25%.

| AUSTRALIA | 2006 | 2007 | 2008 | 2009 | 2010 F | 2011 F |
|---|---|---|---|---|---|---|
| GDP y/y | 2.8% | 5.0% | 2.2% | 1.2% | 2.8% | 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**

-- A severe earthquake struck New Zealand in February, destroying the centre of Christchurch, the country's second-largest city, with a large loss of life. The rescue effort is still under way, but the earthquake means that the economy could contract in Q1, while the rebuilding effort may not boost growth until late 2011 onwards. As such, we have revised our 2011 growth forecast down to 1.5% from 3.0% previously. However, risks to this forecast are large as the impacts of the disaster are still being assessed. Similarly, we have for now revised down our end-year interest rate forecast to 2.50% from 4.00% prior, following the 50bps cut in March and the central bank's statement that suggest the emergency cut will not be removed until the rebuilding phase materialises.

| NEW ZEALAND | 2006 | 2007 | 2008 | 2009 | 2010 F | 2011 F |
|---|---|---|---|---|---|---|
| GDP y/y | 3.2% | 0.9% | 2.9% | -1.4% | 1.5% | 1.5% |
| 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% | 2.50% |

## Canada

-- Recent data points to an ongoing recovery. Canada unexpectedly posted its first trade surplus in 10 months in December as energy and metals powered the biggest jump in exports in almost three decades. Despite a December drop in retail sales, the economy grew at a stronger than expected annualized 3.3% in Q4. We have revised up our growth forecast to 2.8% this year (2.5% previously) and correspondingly revised our inflation forecast for 2011 to 2.5% from 2.2% previously. The BoC left rates on hold at 1.00% again in Mar and we continue to look for rates at 2.00% by year-end as policymakers maintain a cautious outlook.

| CANADA | 2006 | 2007 | 2008 | 2009 | 2010 F | 2011 F |
|---|---|---|---|---|---|---|
| GDP y/y | 2.8% | 2.2% | 0.5% | -2.5% | 3.1% | 2.8% |
| CPI y/y | 2.0% | 2.1% | 2.4% | 0.3% | 1.8% | 2.5% |
| CB Rate (y.e.) | 4.25% | 4.25% | 1.50% | 0.25% | 1.00% | 2.00% |

## Switzerland

-- We expect growth of about 2.0% in 2011 (revised up from 1.7%). While the strong franc poses a challenge to the country's exporters, the pick up in Germany (the biggest buyer of Swiss products) and growth in the emerging markets should support export sales. Swiss inflation remains muted as the strong franc dampens import costs and we look for CPI to average 0.8% this year. 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% | 2.6% | 2.0% |
| 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% |

## Sweden

-- The Swedish economy continues to recover quite robustly, driven by exports. Q4 GDP rose by a stronger than expected 7.3%y/y, the fastest pace on record. We expect 2011 growth of 4.0% (upwardly revised from 3.5%) and look for Sweden to remain one of the most dynamic economies in Europe this year. Inflation exceeded the Riksbank's 2% target for a second consecutive month in Jan as it hit 2.5%. 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% | 5.3% | 4.0% |
| CPI y/y | 1.4% | 2.2% | 3.5% | -0.3% | 1.3% | 2.3% |
| 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. 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 and look for rates at 2.75% by year-end.

| 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

-- The economy grew by a blistering 7.5% in 2010, a rate unmatched since 1986. The economy has shown signs of cooling this year. Although industrial production surprised to the upside in Jan, growing by 0.2%m/m, the manufacturing sector is struggling with high unit labour costs, low spare capacity and tight labour markets. Moreover, a tightening of credit conditions have contributed to a slowing in loan growth, which should help to cool domestic demand at the margin and assist in the process of returning the economy back towards a more sustainable growth rate of around 4.5% this year. Meanwhile, the lack of spare capacity and the tight labour market should keep inflation at the top of the target range ahead. Worried about overheating and inflation, the government is trimming 50 billion reals from this year's budget and the central bank raised interest rates by 50bps (to 11.75%) earlier this month for the second time this year. However, the bank looks likely to be cautious ahead, as it singalled that it will use other macro tools including reserve requirements and the government's fiscal consolidation plan as offsets to further rate hikes. As such, we look for only moderate further hiking this year, with rates expected to be at 12.50% by year-end.

| 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. The central bank voted to keep rates on hold again at its March meeting. While the bank noted that the balance of risks for inflation has deteriorated given the rise in commodity prices, Middle East tensions and bad domestic weather, it also commented that the favourable exchange rate, negative output gap and moderate cost pressures have so far kept inflation in check, while the recovery in domestic demand remains gradual and unemployment is still high. 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% | 5.5% | 4.0% |
| CPI y/y | 3.6% | 4.0% | 5.1% | 5.3% | 4.2% | 3.9% |
| CB Rate (y.e.) | 7.00% | 7.50% | 8.25% | 4.50% | 4.50% | 4.50% |

## 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. The central bank hiked rates by 25bps in Feb to 3.50% and indicated in its relatively hawkish statement that it would be necessary to continue to withdraw monetary stimulus in the coming months as the bank appears to be growing increasingly worried over food prices and rising inflation expectations. As such, we have raised our end-year interest rate forecast to 5.50%.

| CHILE | 2006 | 2007 | 2008 | 2009 | 2010 F | 2011 F |
|---|---|---|---|---|---|---|
| GDP y/y | 4.6% | 4.6% | 3.7% | -1.5% | 5.3% | 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% | 5.50% |

## 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. The central bank surprised the market with a sooner than expected initiation of the rate hike cycle by raising rates 25bps to 3.25% in Feb in an effort to contain inflation expectations given a deteriorating inflation outlook. The rhetoric suggests a gradual tightening cycle with the pace and amount of rate hikes data dependent. Reflecting these developments, we have raised our CPI f/c for 2011 to 3.5% from 3.1% prior and our end-year rate expectation to 4.50% from 4.00% prior.

| COLOMBIA | 2006 | 2007 | 2008 | 2009 | 2010 F | 2011 F |
|---|---|---|---|---|---|---|
| **GDP y/y** | 7.1% | 6.1% | 2.7% | 0.8% | 4.3% | 4.5% |
| **CPI y/y** | 4.3% | 5.5% | 7.0% | 4.2% | 2.3% | 3.5% |
| **CB Rate (y.e.)** | 7.85% | 9.50% | 9.50% | 3.50% | 3.00% | 4.50% |

## Peru

-- Peru expanded by an impressive 8.8% in 2010 and we look for growth to remain robust in 2011, although the pace of expansion should slow to about 7%, with ongoing support from manufacturing, construction and private investment. In a "preventative" measure to tackle inflation and inflation expectations, Peru's central bank raised rates 25bps for a 3rd month running in Mar to 3.75%, and indicated that policy remains accommodative, adding that 4.5% - where we now expect rates to be at year-end – would be more "neutral."

| PERU | 2006 | 2007 | 2008 | 2009 | 2010 F | 2011 F |
|---|---|---|---|---|---|---|
| **GDP y/y** | 7.7% | 8.9% | 9.8% | 0.9% | 8.8% | 7.0% |
| **CPI y/y** | 2.0% | 1.8% | 5.8% | 3.0% | 1.5% | 3.0% |
| **CB Rate (y.e.)** | 4.50% | 5.00% | 6.50% | 1.25% | 3.00% | 4.50% |

# ASIAN ECONOMIES

**China**

-- While the Chinese trade balance surprisingly posted a deficit in Feb on a slowdown in export growth, the Lunar New Year Holiday is likely to have weighed. Overall, when taking Jan and Feb together, exports were up a healthier 21% on Jan/Feb 2010 while imports were up 36% over the same period. Meanwhile, industrial production rose 14.1%y/y in Jan-Feb, while retails sales growth remained strong at 11.6%y/y. Headline CPI inflation was steady in February at 4.9%, close to a recent 2-year high. With the recent spike in oil prices still to feed through fully, inflation is likely to remain uncomfortably strong over the coming 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. Reflecting this, for the second time this year and the eighth move since the beginning of 2010 the PBoC raised banks' reserve ratio by 50bp in Feb to 19.50%. 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 look for the key interest 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% |

**India**

-- Activity and trade data have generally remained solid, keeping the policy focus firmly on inflation. Headline WPI-inflation eased slightly from +8.4% y/y to +8.2% in January, but remains uncomfortably high. Significant upside risks still remain in the near-term, with PMI surveys showing strong increases in input and output prices, and the latest spike in oil prices providing an additional cause for concern. As such, we continue to expect rates to hit 7.5% by year-end.

| INDIA | 2006 | 2007 | 2008 | 2009 | 2010 F | 2011 F |
|---|---|---|---|---|---|---|
| GDP y/y | 9.8% | 9.5% | 7.5% | 6.8% | 8.7% | 8.5% |
| CPI y/y | 6.3% | 6.4% | 8.3% | 10.8% | 12.1% | 7.5% |
| CB Rate (y.e.) | | 7.75% | 6.50% | 4.75% | 6.25% | 7.50% |

**Korea**

-- Recent data have generally been positive, with industrial production growth picking up again in Jan and PMI data showing further industrial strength in Feb. While export growth fell in Feb, this came after a very strong Jan, and Korea should continue to gain support from robust external demand ahead. Meanwhile, inflation has accelerated further, reaching a near two-year high of 4.5%y/y in Jan, the second month above the 4% upper end of the target range. As such, we expect further hikes from the BoK this year, following the 25bps hike earlier this month. However, the BoK governor has noted that the pace of tightening should remain gradual and we look for rates at 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% | 3.5% | 3.7% |
| CB Rate (y.e.) | 4.50% | 5.00% | 3.00% | 2.00% | 2.50% | 3.50% |

**Taiwan**

-- Industrial production rose by 17.2%y/y in Jan, with broad based gains across the different sectors. All in all, we look for growth to remain solid this year after the economy expanded by nearly 11% in 2010, but expect it to 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% | 10.8% | 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 14.6% 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% | 14.6% | 5.0% |
| CPI y/y | 1.0% | 2.1% | 6.6% | 0.6% | 2.8% | 3.0% |

**Philippines**

-- The Philippines economy continues to strengthen. We expect growth to match that in Taiwan, at about 5% in 2011. Despite the recent moderation in exports, the outlook remains positive. At the same time, domestic demand indicators remain robust and inflationary pressures continue to rise, leading to a more hawkish tone recently from the central bank. We maintain our forecast for end year rates at 4.50%.

| PHILIPPINES | 2006 | 2007 | 2008 | 2009 | 2010 F | 2011 F |
|---|---|---|---|---|---|---|
| GDP y/y | 5.4% | 7.2% | 3.7% | 1.1% | 7.4% | 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% |

**Malaysia**

-- We look for growth to slow to just over 5% this year after a 7.2% 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, which kept rates on hold again in March, is likely to gradually resume tightening 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% | 7.2% | 5.2% |
| CPI y/y | 3.6% | 2.0% | 5.4% | 0.6% | 1.7% | 2.5% |
| CB Rate (y.e.) | 3.50% | 3.50% | 3.25% | 2.00% | 2.75% | 3.25% |

# EMEA ECONOMIES

**Russia**

-- We look for growth to pick up to 4.5% in 2011 on the back of a stronger domestic market, after a severe drought hampered activity last year. As an oil exporter, the recent pick up in oil prices should support growth and lead to stronger current account receipts. Meanwhile, inflation pressures should remain strong in H1 and we look for CPI growth of 9.0% this year (upwardly revised from our previous f/c of 8.5%). The CBR unexpectedly hiked the key refinancing rate to 8.00% in Feb and we continue to look for rates at 8.50% by year-end.

| 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% | 6.9% | 9.0% |
| CB Rate (y.e.) | 11.00% | 10.00% | 13.00% | 8.75% | 7.75% | 8.50% |

**Turkey**

-- Turkey's PMI hit a new all-time high of 58.5 in Feb, export growth is accelerating, while local bank and credit growth has remained strong (+3.4% YTD) despite sizeable bank reserve requirement increases. The central bank held rates at 6.25% in Feb after Jan's unexpected 25bps cut but adopted a slightly more hawkish stance, flagging inflation risks posed by rising energy and commodity prices and the improving domestic and external backdrop. We continue to look for rates at 7.25% by year-end.

| TURKEY | 2006 | 2007 | 2008 | 2009 | 2010 F | 2011 F |
|---|---|---|---|---|---|---|
| GDP y/y | 6.9% | 4.8% | 0.6% | -4.7% | 8.0% | 4.5% |
| 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 2.8% in 2010, we look for growth to pick up somewhat to 3.5% in 2011, with risks stemming from still elevated unemployment and weak private sector credit growth. Nonetheless, retail activity has been growing strongly, while the recovery in manufacturing is continuing, albeit at a measured pace. 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% | 2.8% | 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 grow at about 4.0% this year, on foot of relatively stronger domestic demand conditions and the brighter outlook for Germany, the country's main trading partner. CPI growth hit a stronger than expected 21-month high of 3.8%y/y in Jan. We expect further gradual tightening from the central bank this year despite a pause in March at 3.75%.

| 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% | 3.5% |
| CB Rate (y.e.) | 4.00% | 5.00% | 5.00% | 3.50% | 3.50% | 4.50% |

## Czech

-- The recovery in Czech is likely to remain weaker than in Poland. Nonetheless, early indications suggest the economy got off to a good start in 2011 with industrial output sticking in double digit growth in Jan. Growth should be helped by exports, however, fiscal restraint is likely to keep a lid on domestic activity. With growth subdued, and inflation contained, we expect the 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

-- While the domestic economy is still fragile, external demand remains strong and should help GDP to rise by about 2.8% this year. Having hiked interest rates by a cumulative 75bp at the turn of the year – in what the NBH described as a pre-emptive move - policy is likely to remain on hold for now. The changes at the NBH, with the appointment of two government backed MPC members, with a further two yet to be added, adds a degree of uncertainty going ahead. For now, we look for rates to hold steady at their current 6.00% (downgraded from 6.25%) for the rest of this year, although the coming months should provide more direction.

| HUNGARY | 2006 | 2007 | 2008 | 2009 | 2010 F | 2011 F |
|---|---|---|---|---|---|---|
| **GDP y/y** | 4.0% | 1.3% | 0.7% | -6.6% | 1.2% | 2.8% |
| **CPI y/y** | 3.9% | 8.0% | 6.1% | 4.2% | 4.9% | 3.8% |
| **CB Rate (y.e.)** | 8.00% | 7.50% | 10.00% | 6.25% | 5.75% | 6.00% |

## Israel

-- The impressive 7.7% annualized Q4 growth figure released earlier this month has led us to upgrade our growth forecast for 2011 to 3.8% from 3.5% prior. Meanwhile, CPI growth hit a higher than expected 3.6% in Jan, breaching the central bank's 1% to 3% target range for the first time since March 2010. The central bank hiked rates by a further quarter point to 2.50% in Feb and noted there could be a "somewhat faster pace" of rate hikes ahead. As such, we have raised our f/c for year-end rates to 3.25% from 3.00%.

| ISRAEL | 2006 | 2007 | 2008 | 2009 | 2010 F | 2011 F |
|---|---|---|---|---|---|---|
| **GDP y/y** | 5.7% | 5.4% | 4.2% | 0.8% | 4.5% | 3.8% |
| **CPI y/y** | 2.2% | 0.5% | 4.6% | 3.3% | 2.7% | 3.1% |
| **CB Rate (y.e.)** | 4.50% | 4.25% | 2.50% | 1.25% | 2.00% | 3.25% |

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