

GLOBAL ECONOMIC OUTLOOK

May 2010

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GLOBAL ECONOMIC OUTLOOK MAY 2010

EXECUTIVE SUMMARY

- Overall, in our assessment, the global economy remains on a solid recovery path. However, regional differences in the pace of recovery have increased, requiring a more nuanced outlook across the major regions. Furthermore, downside risks due to financial market instability have increased.
- The latest indicators for the US have been quite positive. Other economies in the Americas also show ongoing improvements, with growth accelerating in Canada, Mexico and Brazil. We have upgraded our growth forecast for the US and a number of other regional economies. We continue to expect the Fed to commence tightening rates from Q4 this year. With inflation pressures weak, the pace of tightening is likely to be very gradual. We expect many other regional central banks to either commence or continue monetary tightening at a moderate pace over the balance of this year and into 2011.
- The Asian region remains the best performing region globally. China and India continue to register strong growth. However, inflation pressures are building in both economies. As such, we expect ongoing monetary tightening from authorities in both countries. Other smaller regional economies are enjoying a strong rebound also. We have upgraded our growth forecasts across the region. The Japanese economy is benefiting from this strong regional dynamic, and we have upgraded our Japanese GDP growth forecast marginally. The Australian economy continues to perform strongly.
- The outlook for Europe, however, is more challenging. The past six weeks or so have seen serious difficulties emerge in the government bond markets of peripheral Eurozone economies, placing significant downward pressure on the Euro and on European equity markets. These difficulties have posed a serious threat to financial stability in the Eurozone and in the wider region. The response from Eurozone governments has been strong, with a €750bn package deployed to stabilise conditions and allow peripheral states to avoid very damaging fiscal crises (see more on this in Eurozone country section). We feel that the measures taken were strong and appropriate. As such we have left our Eurozone growth forecast unchanged at 1.5% (the weaker Euro should help offset some of the negative growth effects of the crisis). However, as we now stand it remains unclear if these measures will prove sufficient and as such risks for the Eurozone now lie to the downside. Given these difficult conditions we now feel that the ECB are likely to hold off on monetary tightening until 2011, and we have lowered our end year ECB policy rate forecast from 1.50% to 1.00%. Due to the Eurozone's dominant regional economic status, these difficulties also imply downside risks for other regional economies, including the UK.
- The Eurozone debt crisis has increased financial market volatility globally, and placed downward pressure on equity prices across all regions. The potential for a further intensification of the crisis in Europe, although not our central view, does represent the principal downside risk for the global outlook.
- Our currency outlook has not significantly changed. We remain negative on the Euro and Japanese Yen. We feel the fundamentals of both currencies are weak (weak growth, low interest rates, significant fiscal deficit challenges). The Yen remains overvalued from a valuation perspective, though the Euro is now approaching fair value. In contrast, many emerging market currencies, and some developed currencies, offer far stronger fundamentals (stronger growth, higher interest rates and strong fiscal and external debt positions), while at the same time they remain undervalued relative to long term fair value. We favour the Canadian Dollar, Polish Zloty, Mexican Peso and several Asian currencies.

GLOBAL ECONOMIC OUTLOOK MAY 2010

GLOBAL GROWTH OUTLOOK

Summary: The global recovery remains on track, though regional differences in the strength of recovery have increased. Recovery is strongest in Asia, and we have upgraded many of our regional growth forecasts. The US economic recovery has strengthened slightly over recent months, and we have revised up our US GDP forecast. However, conditions are less favourable in Europe. The fiscal crisis in the Eurozone has prevented a strengthening in regional growth, as has occurred elsewhere. Our central scenario sees growth remaining below trend across the region, while risks are to the downside. Overall, taking all changes together, our global growth forecast has increased from 4.25% to 4.50%. The key global risk is the potential for an intensification of the crisis in Europe. Given the strong response from European governments and the ECB, this is not our central scenario, but nonetheless remains a possibility that requires close monitoring.

GLOBAL GROWTH FORECASTS						
GDP Growth Y/Y	2006	2007	2008	2009 E	2010 F (OLD)	2010 F (NEW)
US	3.3%	2.0%	1.1%	-2.50%	2.50%	3.00%
EUROZONE	3.0%	2.6%	0.7%	-4.00%	1.50%	1.50%
JAPAN	2.0%	2.4%	-0.6%	-5.50%	1.50%	2.00%
UK	2.8%	3.0%	0.7%	-4.00%	1.50%	1.50%
CANADA	3.1%	2.7%	0.8%	-2.00%	2.50%	3.00%
AUSTRALIA	2.9%	4.0%	2.1%	1.00%	2.50%	3.00%
SWITZERLAND	2.7%	2.5%	2.0%	-1.50%	2.00%	2.00%
SWEDEN	4.3%	2.7%	0.0%	-5.00%	2.50%	2.50%
NORWAY	4.4%	4.5%	2.0%	-1.50%	2.50%	2.50%
NEW ZEALAND	1.5%	3.0%	0.5%	-1.50%	2.50%	2.50%
POLAND	6.2%	6.7%	4.5%	1.50%	3.00%	3.00%
CZECH	6.8%	6.0%	3.5%	-3.00%	2.50%	2.00%
HUNGARY	4.1%	1.1%	0.5%	-5.00%	2.50%	2.00%
RUSSIA	7.4%	8.1%	5.5%	-8.00%	4.00%	5.00%
SOUTH AFRICA	5.4%	5.1%	3.1%	-2.00%	3.00%	3.50%
TURKEY	6.9%	4.6%	1.0%	-6.00%	4.00%	4.50%
ISRAEL	5.2%	5.4%	3.2%	-1.00%	3.00%	3.50%
BRAZIL	3.7%	5.7%	5.0%	0.00%	5.50%	6.00%
MEXICO	4.9%	3.5%	1.3%	-7.00%	4.00%	5.00%
CHILE	4.3%	5.1%	3.4%	-1.50%	4.00%	4.00%
ARGENTINA	8.5%	5.7%	7.0%	-2.00%	3.00%	3.00%
COLUMBIA	6.8%	7.7%	3.0%	-1.50%	4.00%	4.00%
PERU	7.7%	8.9%	9.8%	1.50%	5.00%	7.00%
CHINA	11.6%	13.0%	9.0%	8.50%	10.50%	10.50%
INDIA	9.9%	9.2%	7.4%	6.50%	8.50%	8.50%
TAIWAN	4.9%	5.7%	0.0%	-3.00%	5.00%	6.00%
SOUTH KOREA	5.2%	5.1%	2.2%	-1.00%	5.00%	6.00%
SINGAPORE	8.4%	7.8%	1.0%	-4.00%	6.00%	7.00%
MALAYSIA	5.8%	6.3%	4.6%	-3.00%	5.00%	6.00%
INDONESIA	5.5%	6.3%	6.1%	4.00%	5.00%	6.00%
PHILIPPINES	5.5%	7.5%	4.0%	2.00%	5.00%	6.00%
WORLD	5.00%	4.50%	3.50%	-1.50%	4.25%	4.50%
Forecast Downgrade		Forecast Upgrade				

GLOBAL ECONOMIC OUTLOOK MAY 2010

GLOBAL MONETARY POLICY OUTLOOK

Summary: Inflation pressures remain well contained in developed economies. The large volume of spare capacity (high unemployment in particular) in the major developed economies is likely to keep inflation pressures in check over coming quarters. However, inflation pressures in many emerging market economies are now beginning to build. Levels of spare capacity are lower in large emerging economies such as China, India and Brazil. As such, the robust recovery in these economies is feeding through into upward pressures on inflation rates more readily.

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	1.30%	2.00%	0.13%	-1.18%	Easy
EUROZONE	1.50%	Max 2.00%	1.00%	-0.50%	Easy
JAPAN	-1.20%	1.00%	0.00%	1.20%	Neutral
UK	3.40%	Max 3.00%	0.50%	-2.90%	Easy
CANADA	1.40%	1.00% to 3.00%	0.25%	-1.15%	Easy
AUSTRALIA	2.90%	2.00% to 3.00%	4.50% (hike)	1.35%	Tight
SWITZERLAND	1.40%	Max 2.00%	0.25%	-1.15%	Easy
SWEDEN	1.00%	1.00% to 3.00%	0.25%	-0.75%	Easy
NORWAY	3.30%	2.50%	2.00% (hike)	-1.30%	Easy
NEW ZEALAND	2.00%	1.00% to 3.00%	2.50%	0.50%	Neutral
POLAND	2.80%	1.50% to 3.50%	3.50%	0.70%	Neutral
CZECH	1.10%	2.00% to 4.00%	0.75% (cut)	-0.35%	Easy
HUNGARY	5.60%	2.00% to 4.00%	5.25% (cut)	-0.35%	Easy
RUSSIA	6.00%	9.00% approx	-	na	-
SOUTH AFRICA	5.10%	3.00% to 6.00% core	6.50%	1.40%	Neutral
TURKEY	10.20%	6.00%	6.50%	-3.70%	Easy
ISRAEL	3.20%	1.00% to 3.00%	1.50%	-1.70%	Easy
BRAZIL	5.30%	2.50% to 6.50%	9.50% (hike)	4.20%	Tight
MEXICO	4.30%	2.00% to 4.00%	4.50%	0.20%	Neutral
CHILE	0.90%	2.00% to 4.00%	0.50%	-0.40%	Easy
ARGENTINA	10%±	-	-	na	-
COLUMBIA	2.00%	3.00% to 4.00%	3.00% (cut)	1.00%	Neutral
PERU	0.80%	1.00% to 3.00%	1.50% (hike)	0.70%	Neutral
CHINA	2.80%	-	5.31%	2.51%	Tight
INDIA (avg CPI and PPI)	12.3%	6.50%	5.00%	-7.25%	Easy
TAIWAN	1.30%	-	1.25%	-0.05%	Easy
SOUTH KOREA	2.60%	2.00% to 4.00%	2.00%	-0.60%	Easy
SINGAPORE	1.50%	1.50%	-	na	Tight
MALAYSIA	1.30%	na	2.25%	0.95%	Neutral
INDONESIA	3.90%	4.00% to 6.00%	-	na	-
PHILIPPINES	4.40%	3.00% to 5.00%	4.25%	-0.15%	Easy

GLOBAL ECONOMIC OUTLOOK MAY 2010

GLOBAL MONETARY POLICY OUTLOOK

Summary: Although inflation pressures remain well contained in most economies globally (with the possible exception of several large emerging market economies), and spare capacity is significant, we continue to feel that medium term financial stability considerations will motivate most central banks globally to begin (or continue) the process of monetary normalisation. Several economies have already started this process (Australia, Norway and Israel being the earliest movers) and are likely to continue. Over coming months we expect a number of other central banks, particularly in emerging markets, to join this process. Inflation pressures are not as benign in China, India, Brazil and Turkey and monetary tightening in these economies may need to be somewhat more forceful. We continue to expect the Fed to commence tightening at the end of 2010 and to continue only very gradually into 2010, reflecting the depth of the recession and degree of spare capacity present. We have, however, slightly altered our forecasts for the Eurozone and the UK. Recent difficulties in the Eurozone mean that the recovery is now in doubt. This will likely keep the ECB on hold for longer. Following the UK election it looks as if fiscal tightening will be accelerated – as a result we expect the BoE to compensate with easier monetary policy for longer. We have also lowered our rate forecasts for several other smaller European economies.

GLOBAL MONETARY POLICY FORECASTS				
Central Bank Policy Rate	Current Rate	2009	2010 F (OLD)	2010 F (NEW)
US	0.125%	0.125%	1.00%	1.00%
EUROZONE	1.00%	1.00%	1.50%	1.00%
JAPAN	0.00%	0.00%	0.00%	0.00%
UK	0.50%	0.50%	1.00%	0.50%
CANADA	0.25%	0.25%	2.00%	2.00%
AUSTRALIA	4.50% (hike)	3.75%	4.75%	5.00%
SWITZERLAND	0.25%	0.25%	1.00%	0.50%
SWEDEN	0.25%	0.25%	1.00%	0.75%
NORWAY	2.00% (hike)	1.75%	2.50%	2.50%
NEW ZEALAND	2.50%	2.50%	3.75%	3.75%
POLAND	3.50%	3.50%	4.25%	4.25%
CZECH	0.75% (cut)	1.00%	2.25%	1.50%
HUNGARY	5.25% (cut)	6.25%	5.00%	5.00%
RUSSIA	-	-	-	-
SOUTH AFRICA	6.50%	7.00%	8.00%	7.00%
TURKEY	6.50%	6.50%	8.00%	8.00%
ISRAEL	1.50%	1.25%	2.50%	2.50%
BRAZIL	9.50% (hike)	8.75%	11.00%	11.50%
MEXICO	4.50%	4.50%	5.00%	5.00%
CHILE	0.50%	0.50%	2.00%	2.00%
ARGENTINA	-	-	-	-
COLUMBIA	3.00% (cut)	3.50%	5.00%	5.00%
PERU	1.50% (hike)	1.25%	4.00%	4.00%
CHINA	5.31%	5.31%	6.50%	6.50%
INDIA	5.00%	4.75%	6.50%	6.50%
TAIWAN	1.25%	1.25%	2.00%	2.00%
SOUTH KOREA	2.00%	2.00%	3.50%	3.00%
SINGAPORE	-	-	-	-
MALAYSIA	2.25%	2.00%	3.00%	3.00%
INDONESIA	-	-	-	-
PHILIPPINES	4.25%	4.00%	5.00%	5.00%

Forecast Downgrade

Forecast Upgrade

GLOBAL ECONOMIC OUTLOOK MAY 2010

GLOBAL CURRENCY FORECASTS

Summary: Our currency outlook has not significantly changed. We remain negative on the Euro and Japanese Yen. We feel the fundamentals of both currencies are weak (weak growth, low interest rates, significant fiscal deficit challenges). The Yen remains overvalued from a valuation perspective, though the Euro is now approaching fair value. In contrast, many emerging market currencies, and some developed currencies, offer far stronger fundamentals (stronger growth, higher interest rates and strong fiscal and external debt positions), while at the same time they remain undervalued relative to long term fair value. We favour the Canadian Dollar, Polish Zloty, Mexican Peso and several Asian currencies. Within Europe, we continue to believe the Euro remains somewhat overvalued (though less so following recent depreciation) and expect it to weaken against most other regional currencies (GBP, SEK, NOK, PLN). We expect the US Dollar to continue to gradually strengthen versus the Euro and Japanese Yen.

FX FORECASTS			
vs USD	Spot May 18	6m Forecast	View
G10			
EUR	1.24	1.18	depreciation
JPY	93	98	depreciation
GBP	1.44	1.45	neutral
CAD	1.03	1.00	appreciation
AUD	0.87	0.90	appreciation
CHF	1.13	1.15	neutral
SEK	7.72	7.60	neutral
NOK	6.27	6.20	neutral
NZD	0.70	0.70	neutral
EMEA			
PLN	3.24	3.15	appreciation
CZK	20.6	21.25	depreciation
HUF	224	235	depreciation
RUB	30.3	30.0	neutral
ZAR	7.57	7.80	depreciation
TRY	1.54	1.55	neutral
ILS	3.78	3.55	appreciation
LATAM			
BRL	1.80	1.75	appreciation
MXN	12.6	12.0	appreciation
CLP	544	530	neutral
COP	1974	2050	depreciation
PEN	2.84	2.75	neutral
ASIA			
CNY	6.83	6.55	appreciation
INR	45.6	43.50	appreciation
TWD	31.8	30.75	appreciation
KRW	1147	1100	appreciation
SGD	1.39	1.36	neutral
MYR	3.22	3.15	neutral
PHP	45.2	44.5	neutral
vs EUR			View vs EUR
GBP	0.86	0.82	appreciation
CHF	1.40	1.36	appreciation
SEK	9.55	9.00	appreciation
NOK	7.76	7.30	appreciation
PLN	4.01	3.75	appreciation
CZK	25.5	25.1	neutral
HUF	277	277	neutral

GLOBAL ECONOMIC OUTLOOK MAY 2010

G3 ECONOMIES

United States

-- The dataflow from the US has continued to improve. Employment growth registered another solid month in April, with payrolls expanding 290k. Indicators of consumer confidence and spending remain solid, though not as strong as during most recovery phases. The latest inflation data indicates that, as expected by the market, price pressures remain weak.

-- We have revised up our growth outlook, and now see GDP expanding by 3% over the year as a whole. However, spare capacity is likely to remain significant, and this should keep inflation pressures relatively low. We continue to expect the Fed to begin gradually unwinding the exceptional stimulus provided to the economy from Q4 2010 (taking rates up 75bp to 1% by year end, unchanged). The increase in global financial market volatility linked to events in Europe presents a downside risk to our outlook.

US	Trend	2006	2007	2008	2009 E	2010 F
GDP y/y	2.9%	2.9%	2.25%	0.50%	-2.50%	3.00%
Core CPI (y.e.)	2.8%	2.5%	2.25%	2.00%	1.25%	1.25%
Fed Rate (y.e.)	4.2%	5.25%	4.25%	0.50%	0.125%	1.00%

Eurozone

-- Developments in the Eurozone have dominated global markets over the past several months. As had been feared, the severe fiscal difficulties experienced in Greece spread to other peripheral Eurozone economies, severely constraining the ability of these governments to borrow, and posing a serious risk to the financial stability of the Eurozone ('core' Eurozone banks have lent heavily to peripheral economies). However, Eurozone governments and the ECB have reacted forcefully, announcing a package of measures to restore stability. These measures included a €400bn SPV to lend if needed to peripheral states, and a move from the ECB to buy the debt of peripheral states. These measures decisively turned market confidence initially, though markets have fallen back since. The outlook remains uncertain.

-- Our call is that the package will ultimately succeed in restoring stability. A weakening of the Euro and ongoing strong growth outside of Europe should cushion the negative impact on Eurozone growth. As such we have retained our 1.5% GDP growth forecast. However, risks are now clearly to the downside for growth. We have, however, changed our monetary policy call. It now seems likely that the ECB will hold on tightening rates until 2011, to provide some additional needed support to the recovery.

EUROZONE	Trend	2006	2007	2008	2009 E	2010 F
GDP y/y	2.3%	2.9%	2.75%	0.50%	-4.00%	1.50%
CPI (y.e.)	1.9%	2.2%	3.00%	2.00%	0.50%	1.50%
ECB Rate (y.e.)	2.9%	3.5%	4.00%	2.50%	1.00%	1.00%

Japan

-- Recent data indicates that the Japanese economy continues to enjoy a solid growth rebound, aided by the strong growth dynamic in Asia. Growth may now be closer to 2% than our prior 1.5% forecast, and we have revised accordingly.

-- We expect GDP growth of 2.0% for 2010 as a whole, with H1 quite solid, but H2 slightly weaker. Significant spare capacity across the economy, along with the strength of the Yen, is likely to intensify deflationary forces. Tackling these deflationary forces should be a policy priority to a greater degree than is currently the case. Unconventional policy measures from the BoJ may yet be required.

JAPAN	Trend	2006	2007	2008	2009 E	2010 F
GDP y/y	1.3%	2.2%	2.00%	0.00%	-5.50%	2.00%
CPI (y.e.)	0.0%	0.3%	0.50%	0.00%	-1.50%	-1.00%
BoJ Rate (y.e.)	0.5%	0.3%	0.50%	0.15%	0.00%	0.00%

GLOBAL ECONOMIC OUTLOOK MAY 2010

OTHER DEVELOPED ECONOMIES

UK

-- The UK data remains solid, pointing to upside risks to our growth forecast. However, the stresses experienced in Europe in recent weeks present a downside risk to growth. As such we are comfortable leaving our growth forecast unchanged at 1.5%. The new coalition government looks set to tighten fiscal policy more rapidly than previously planned. Given this tighter fiscal policy stance we have lowered our end year BoE policy rate forecast from 1% to 0.50% (i.e. no change to rates before 2011).

UK	Trend	2006	2007	2008	2009 E	2010 F
GDP y/y	2.4%	2.8%	2.75%	1.00%	-4.00%	1.50%
CPI (y.e.)	1.5%	2.3%	2.25%	3.00%	2.00%	2.00%
BoE Rate (y.e.)	6.3%	4.3%	5.75%	2.00%	0.50%	0.50%

Australia

-- The Australian economy continues to expand strongly, aided by strong growth in Asia. We have revised up our GDP growth forecast to 3%, from 2.5%. With the growth profile stronger, we have increased our policy rate forecast, and see rates ending the year at 5% (vs 4.75% prior).

AUSTRALIA	Trend	2006	2007	2008	2009 E	2010 F
GDP y/y	3.2%	2.7%	4.00%	2.50%	1.00%	3.00%
CPI (y.e.)	2.8%	3.5%	3.00%	3.50%	2.00%	2.50%
RBA Rate (y.e.)	6.1%	6.3%	6.75%	4.25%	3.75%	5.00%

New Zealand

-- We expect GDP growth to register +2.5% in 2010 (unchanged), as New Zealand benefits somewhat from strong regional growth in Asia (and associated impact on commodity demand), and a modest domestic recovery. We expect the RBNZ to tighten rates by 125bp through 2010 (unchanged).

NEW ZEALAND	Trend	2006	2007	2008	2009 E	2010 F
GDP y/y	3.0%	1.8%	2.75%	0.50%	-1.50%	2.50%
CPI (y.e.)	2.3%	3.3%	3.25%	3.25%	2.00%	2.50%
RBNZ Rate (y.e.)	7.5%	7.3%	8.25%	5.00%	2.50%	3.75%

Canada

-- Recent data has been strong, particularly in relation to employment growth. With the US recovery also strengthening, we have increased our GDP growth forecast from 2.5% to 3%. We expect the BoC to begin tightening policy in coming quarters, taking rates back to 2.00% by year-end (unchanged).

CANADA	Trend	2006	2007	2008	2009 E	2010 F
GDP y/y	2.7%	2.8%	2.75%	1.00%	-2.00%	3.00%
CPI (y.e.)	1.9%	2.0%	2.50%	2.00%	1.25%	2.00%
BoC Rate (y.e.)	5.1%	4.3%	4.50%	1.50%	0.25%	2.00%

Switzerland

-- We continue to expect growth of about 2%, as both external and domestic demand recovers gradually. The Swiss Franc has continued to strengthen, tightening monetary conditions. Given this fact, and given the financial stresses in the Eurozone, we have pushed our forecast monetary tightening into 2011.

SWITZERLAND	Trend	2006	2007	2008	2009 E	2010 F
GDP y/y	1.4%	3.2%	2.50%	2.00%	-1.50%	2.00%
CPI (y.e.)	1.8%	1.1%	2.00%	1.50%	0.00%	1.00%
SNB Rate (y.e.)	2.4%	2.0%	2.75%	0.50%	0.25%	0.50%

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Sweden

-- We have maintained our growth forecast at 2.5%, though the downside risks to the Eurozone outlook also imply downside risks for Sweden's export focused economy. We continue to expect the Riksbank to commence tightening by year end, though we now see rates only reaching 0.75% by year end (1% prior).

SWEDEN	Trend	2006	2007	2008	2009 E	2010 F
GDP y/y	3.0%	4.5%	2.75%	0.75%	-5.00%	2.50%
CPI (y.e.)	1.5%	1.5%	2.50%	2.00%	1.00%	2.00%
CB Rate (y.e.)	3.9%	3.0%	4.00%	2.00%	0.25%	0.75%

Norway

-- As with Sweden, although Norway's recovery is robust, downside risks may now be present due to the risks facing the Eurozone (though our growth forecast is unchanged at 2.5%). We expect the tightening cycle to continue, with the policy rate ending 2010 at 2.5% (+50bp from current levels, unchanged).

NORWAY	Trend	2006	2007	2008	2009 E	2010 F
GDP y/y	2.7%	4.3%	5.00%	2.00%	-1.50%	2.50%
CPI (y.e.)	2.3%	2.3%	2.50%	2.00%	2.00%	2.00%
CB Rate (y.e.)	5.2%	3.5%	5.00%	4.25%	1.75%	2.50%

LATAM ECONOMIES

Brazil

-- Recent data from Brazil indicates that growth remains strong. Strong commodity prices, a recovery in world trade, and strong capital inflows are driving growth. Based on the latest data we have revised up our 2010 GDP growth forecast again, from 5.5% to 6.0%. With growth progressing quite strongly, we expect inflation pressures to increase in coming quarters. As such we continue to expect the central bank to deliver significant monetary tightening through the remainder of the year (with rates reaching 11.5% by year end; revised up from 11% prior).

BRAZIL	Trend	2006	2007	2008	2009 E	2010 F
GDP y/y	2.8%	3.7%	4.8%	5.0%	0.00%	6.00%
CPI (y.e.)	7.9%	3.3%	4.5%	5.5%	4.00%	5.00%
CB Rate (y.e.)	-	15.0%	11.25%	13.75%	8.75%	11.50%

Mexico

-- 2009 was an extremely difficult year for the Mexican economy, with one of the most severe contractions in GDP seen globally (due to a sharp fall in exports to the US, along with the impact of swine flu). However, while significant challenges remain, we continue to expect an improvement into 2010 in line with the US and global recovery. We expect GDP growth of about 5% in 2010 (revised up from 4% on foot of our upgrades to global growth and the latest data from Mexico). We continue to expect monetary tightening later in 2010 (perhaps +50bp in Q4 2010, unchanged), taking rates to 5% by year end.

MEXICO	Trend	2006	2007	2008	2009 E	2010 F
GDP y/y	4.4%	4.5%	3.0%	2.0%	-7.00%	5.00%
CPI (y.e.)	4.7%	3.8%	4.0%	6.0%	4.00%	4.50%
CB Rate (y.e.)	6.8%	7.0%	7.50%	8.25%	4.50%	5.00%

GLOBAL ECONOMIC OUTLOOK MAY 2010

Chile

-- The recent earthquake is likely to have offsetting effects on GDP, with output reduced due to damage to the capital stock, offset to some degree by a boost to output from the investment needed to rebuild. As such, for now, we have left our forecasts unchanged. We continue to expect tighter policy in 2010 as the economy recovers (+150bp to 2%, unchanged). The impact of the earthquake is not yet fully clear and needs to be monitored (one possibility is that monetary policy may remain slightly easier for longer).

CHILE	2005	2006	2007	2008	2009 E	2010 F
GDP y/y	6.3%	4.5%	5.3%	4.0%	-1.50%	4.00%
CPI (y.e.)	3.1%	3.5%	7.5%	8.0%	-1.00%	2.50%
CB Rate (y.e.)	4.50%	5.30%	6.00%	8.25%	0.50%	2.00%

Columbia

-- We have no forecast changes. We expect GDP growth of 4% in 2010 (on foot of continued global recovery, policy stimulus and strong commodity prices). Following a surprise monetary easing in late 2009 in response to currency strength, we expect policy to be reversed, with tightening to come in 2010.

COLUMBIA	2005	2006	2007	2008	2009 E	2010 F
GDP y/y	6.4%	6.8%	7.5%	4.0%	-1.50%	4.00%
CPI (y.e.)	1.5%	4.3%	5.3%	6.0%	3.00%	4.00%
CB Rate (y.e.)			9.75%	9.50%	3.50%	5.00%

Peru

-- Peru looks set to return to strong growth in 2010, aided by monetary stimulus and elevated commodity prices. Based on the latest data (GDP growth 8.8% y/y in Mar) we have revised up our 2010 growth forecast to 7% (from 5.5%). Peru cut rates aggressively in 2009. With growth recovering we expect monetary tightening in 2010 (taking rates to 4% by year end, unchanged).

PERU	2005	2006	2007	2008	2009 E	2010 F
GDP y/y	6.4%	7.7%	7.5%	9.0%	1.50%	7.00%
CPI (y.e.)	1.5%	1.1%	3.8%	6.0%	1.00%	3.00%
CB Rate (y.e.)			5.25%	6.50%	1.25%	4.00%

ASIAN ECONOMIES

China

-- The macro data from China has strengthened further, and is now pointing to above trend growth. GDP expanded a strong 11.9% y/y in Q1, beating market expectations. GDP growth could reach 10.5% for the year as a whole (unchanged). However, we do still expect a slowing over H2 as tighter policy takes effect. The medium term risks to inflation are now on the upside, owing to strong demand growth and strong growth in monetary aggregates. This strong credit growth also presents risks in terms of property and other asset prices. As such, we continue to expect ongoing monetary tightening, taking the form of both policy rate hikes and a range of administrative measures (such as increases to bank required reserve ratios, and other measures to slow credit creation). This tightening from China may prompt some nervousness in global equity markets, but is necessary and ultimately beneficial in terms of ensuring medium term financial stability in China.

CHINA	2005	2006	2007	2008	2009 E	2010 F
GDP y/y	9.9%	10.5%	11.50%	9.50%	8.50%	10.50%
CPI (y.e.)	1.8%	2.0%	7.00%	4.00%	1.00%	3.00%
CB Rate (y.e.)			8.00%	5.58%	5.31%	6.50%

GLOBAL ECONOMIC OUTLOOK MAY 2010

India

-- As in China, recent data from India points to ongoing strong GDP growth. We maintain our growth forecast for 2010 of 8.5%. With growth strong, already elevated inflation pressures may increase. The RBI has commenced tightening, in line with our expectations. However, further monetary tightening measures are needed. We expect +150bp of tightening by year end, taking rates to 6.5% (unchanged).

INDIA	2005	2006	2007	2008	2009 E	2010 F
GDP y/y	8.5%	9.0%	9.0%	7.5%	6.50%	8.50%
CPI/WPI (y.e.)	5.5%	7.0%	7.0%	8.5%	7.00%	9.00%
CB Rate (y.e.)	6.25%	7.25%	7.75%	6.50%	4.75%	6.50%

Korea

-- As in Asia generally, the latest data from Korea has been quite strong, pointing to upside risks to our growth forecasts. As such, we have revised up our 2010 growth forecast to 6% (vs 5% prior). The BoK has been slower to tighten rates than we anticipated. Although we continue to expect tightening measures, we have pushed back some of that tightening into 2011 (y.e. rate forecast from 3.5% to 3%).

KOREA	2005	2006	2007	2008	2009 E	2010 F
GDP y/y	4.0%	5.0%	5.0%	4.5%	-1.00%	6.00%
CPI (y.e.)	2.7%	2.3%	3.5%	4.5%	2.50%	3.00%
CB Rate (y.e.)	3.75%	4.50%	5.00%	3.00%	2.00%	3.00%

Taiwan

-- Recovery momentum appears to have picked up in Taiwan in recent months, as it has generally in the Asian region. The latest readings from the leading indicator index point to robust growth into 2010. With regional growth risks now to the upside, we have revised up our outlook for Taiwan. We expect GDP growth of 6% (5% previously). We expect 75bp of tightening in 2010 (unchanged), though inflation pressures remain weak.

TAIWAN	2005	2006	2007	2008	2009 E	2010 F
GDP y/y	4.0%	4.8%	5.5%	4.0%	-3.00%	6.00%
CPI (y.e.)	2.3%	0.5%	3.3%	2.0%	-0.50%	1.00%
CB Rate (y.e.)	2.3%	2.8%	3.25%	2.00%	1.25%	2.00%

Singapore

-- Q1 GDP data for Singapore was very strong. Indicators of export performance have continued to strengthen over recent months on foot of the strong regional growth dynamic. GDP expanded about 8% q/q (32% annualised!) in Q1. As such, in line with our stronger regional outlook, we have revised up our 2010 GDP growth forecast from 6% to 7%. Following the GDP data the MAS moved to tighten monetary policy by allowing the Singapore Dollar to appreciate. Further monetary tightening looks likely.

SINGAPORE	2005	2006	2007	2008	2009 E	2010 F
GDP y/y	6.6%	7.9%	7.5%	3.0%	-4.00%	7.00%
CPI (y.e.)	0.5%	1.0%	1.8%	5.0%	0.00%	1.50%

Philippines

-- The Philippines economy continues to strengthen, in line with regional peers. We expect growth to match that in Korea and Taiwan, at about 6% y/y (unchanged from prior). There may be some downside risks to this outlook. We expect rates to be tightened by about 75bp to 5% by year end.

PHILLIPPINES	2005	2006	2007	2008	2009 E	2010 F
GDP y/y	5.1%	5.5%	7.5%	4.0%	2.00%	6.00%
CPI (y.e.)	7.7%	6.3%	2.5%	9.0%	3.50%	4.00%
CB Rate (y.e.)			5.00%	6.00%	4.00%	5.00%

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Malaysia

-- We continue to expect a solid recovery in 2010. In line with our upgrades to regional growth we have revised up our GDP growth forecast to 6%, from 5%. Monetary policy is likely to be tightened somewhat through 2010 (unchanged), following on from a recent 25bp hike.

MALAYSIA	2005	2006	2007	2008	2009 E	2010 F
GDP y/y	5.0%	5.9%	6.5%	5.5%	-3.00%	6.00%
CPI (y.e.)	3.0%	3.6%	2.3%	6.0%	0.00%	1.00%
CB Rate (y.e.)			3.50%	3.25%	2.00%	3.00%

EMEA ECONOMIES

Russia

-- The data from Russia has continued to gradually improve. Recent indicators point to upside risks to our growth forecast, and as such we have tentatively moved our forecast higher, to 5% from 4% previously. The key risks to Russia centre on the path for oil prices and any spillover effects from current Eurozone difficulties – we will be watching these elements closely.

RUSSIA	2005	2006	2007	2008	2009 E	2010 F
GDP y/y	5.8%	6.3%	7.50%	6.50%	-8.00%	5.00%
CPI (y.e.)	11.0%	9.0%	12.00%	14.00%	9.00%	9.00%

Turkey

-- As in Russia, recent data points to a solid recovery and upside risks to our forecast. Therefore we have moved our growth forecast higher, from 4% to 4.5%. Again, as in Russia, developments in the Eurozone are a risk factor. With growth returning, inflation risks are rising. Thus far the central bank has held on monetary tightening. However, we feel that they will soon be forced to action (+150bp, unchanged).

TURKEY	2005	2006	2007	2008	2009 E	2010 F
GDP y/y	6.5%	6.0%	5.0%	2.0%	-6.00%	4.50%
CPI (y.e.)	8.2%	10.0%	8.3%	12.0%	6.00%	7.00%
CB Rate (y.e.)	13.50%	17.50%	15.75%	15.00%	6.50%	8.00%

South Africa

-- We continue to expect a gradual recovery in 2010 to 3.5% growth (revised up from 3%) – somewhat below the rates envisaged for LATAM and Asia. Our prior end year forecast for rates now looks unlikely to be achieved, and as such we have revised down our end year forecast to 7% from 8%.

SOUTH AFRICA	2005	2006	2007	2008	2009 E	2010 F
GDP y/y	4.9%	5.0%	5.0%	3.5%	-2.00%	3.50%
CPI (y.e.)	3.4%	4.8%	9.0%	12.0%	6.00%	6.00%
CB Rate (y.e.)	7.00%	9.00%	10.50%	12.00%	7.00%	7.00%

Poland

-- We continue to expect GDP growth of 3%, marginally outperforming regional peers in Eastern Europe (unchanged). We expect gradual tightening from the central bank through 2010 (unchanged). Due to the difficulties in the Eurozone, risks now lie to the downside for both growth and policy rates.

POLAND	2005	2006	2007	2008	2009 E	2010 F
GDP y/y	3.1%	5.8%	6.5%	5.0%	1.50%	3.00%
CPI (y.e.)	2.2%	1.3%	3.5%	4.5%	3.00%	3.00%
CB Rate (y.e.)	4.50%	4.00%	5.00%	5.25%	3.50%	4.25%

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Czech

-- Although the Czech economy continues to gradually recover, the slow pace of that recovery, and the risks facing the Eurozone have caused us to revise down our GDP forecast from 2.5% to 2%. The Czech central bank has been quite aggressive in easing rates. Given the profile of risks now facing the economy, we have changed our monetary policy forecasts. We now see rates rising only modestly, to 1.5%, over the final months of the year, with risks to the downside.

CZECH	2005	2006	2007	2008	2009 E	2010 F
GDP y/y	5.0%	5.5%	6.5%	4.0%	-3.00%	2.00%
CPI (y.e.)	1.7%	2.5%	5.0%	5.0%	0.50%	2.00%
CB Rate (y.e.)	2.00%	2.50%	3.50%	2.50%	1.00%	1.50%

Hungary

-- The modest recovery in Hungary looks likely to continue. The stresses being experienced in the Eurozone present a downside risk to the outlook however. We have thus revised down our forecast from 2.5% to 2%. Our forecast is towards the upper end of market expectations. We maintain our monetary policy outlook, and see rates continuing to fall, reaching 5% by year end, with downside risks towards 4% should growth falter decisively.

HUNGARY	2005	2006	2007	2008	2009 E	2010 F
GDP y/y	4.0%	3.5%	2.5%	1.5%	-5.00%	2.00%
CPI (y.e.)	3.5%	4.0%	6.5%	6.0%	5.00%	4.00%
CB Rate (y.e.)	6.00%	8.00%	7.25%	10.00%	6.25%	5.00%

Israel

-- Conditions in Israel continue to improve, with data through Q1 quite solid. We expect GDP growth of 3.5% for 2010 (revised up from 3% on foot of stronger recent data). Inflation pressures are now building gradually. With growth a little stronger, and inflation a little higher, the central bank may tighten rates about 125bp over the course of the year, taking rates to 2.50% (unchanged).

ISRAEL	2005	2006	2007	2008	2009 E	2010 F
GDP y/y	5.5%	5.1%	5.3%	5.0%	-1.00%	3.50%
CPI (y.e.)	1.3%	2.1%	0.5%	4.0%	3.50%	3.00%
CB Rate (y.e.)	4.50%	5.00%	4.00%	1.75%	1.25%	2.50%

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