

Global Markets Brief

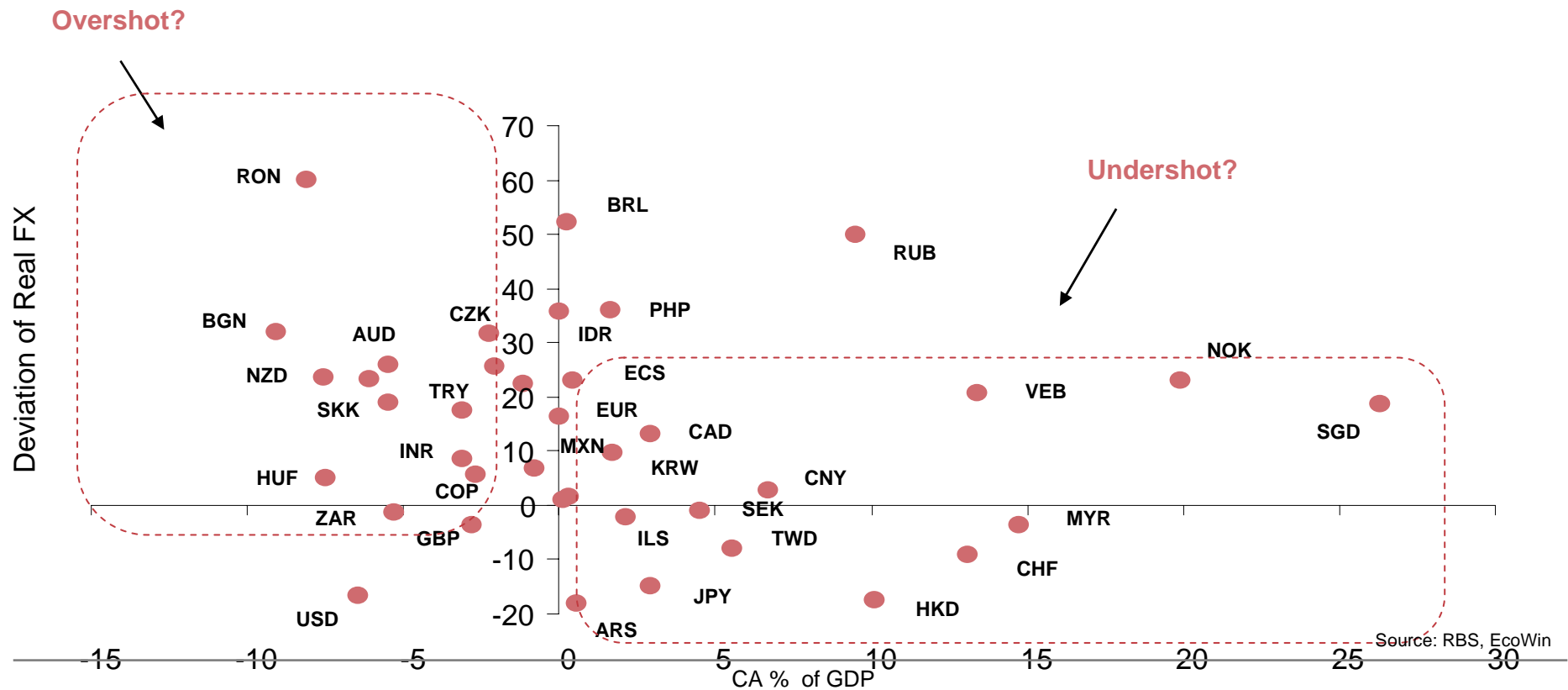
June 2008

David Simmonds

Make it happen™

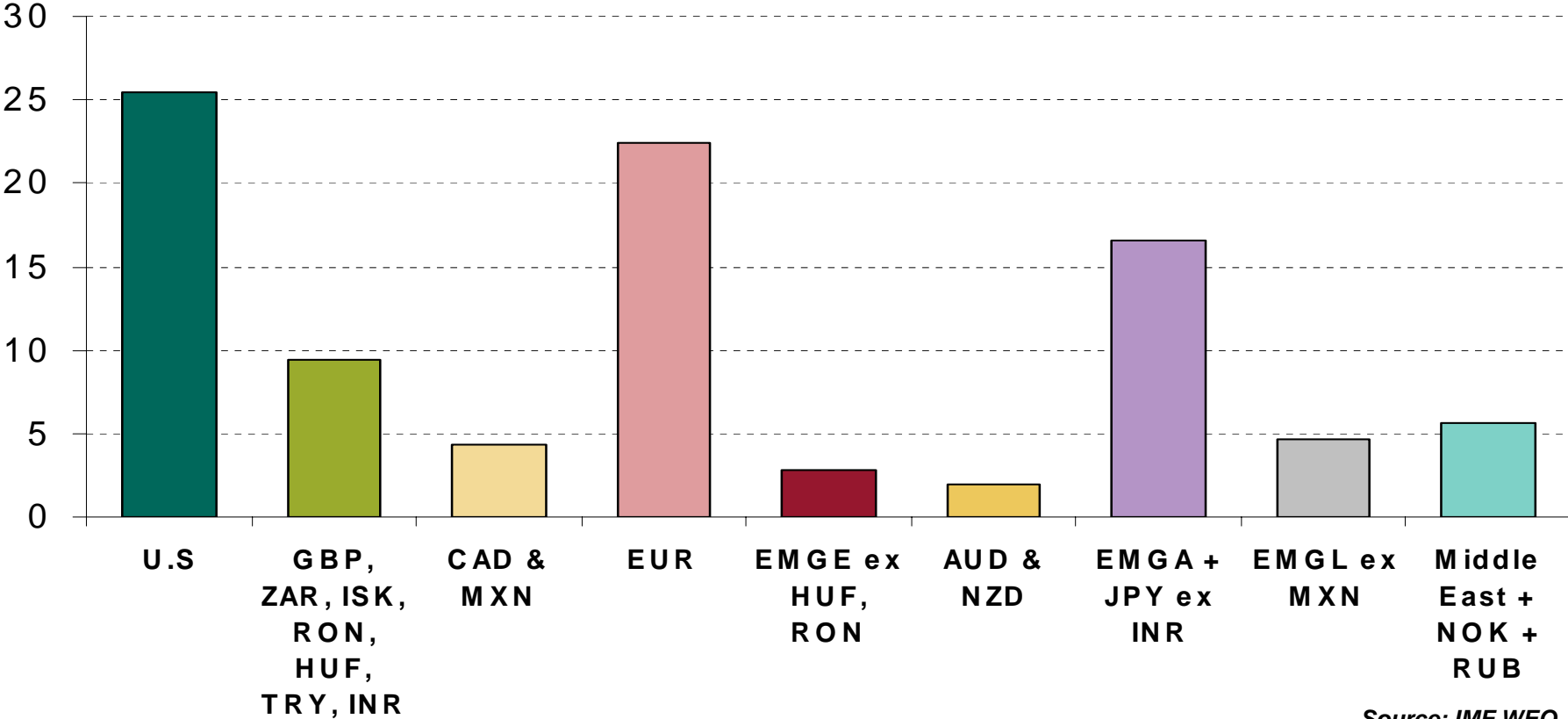
An FX view of the world in one picture

Deviation from 10Y Real Effective Exchange Rate Average vs CA % of GDP



Timing is everything (of course)

Dominoes
(Numbers based on Nominal GDP as % of World Total)

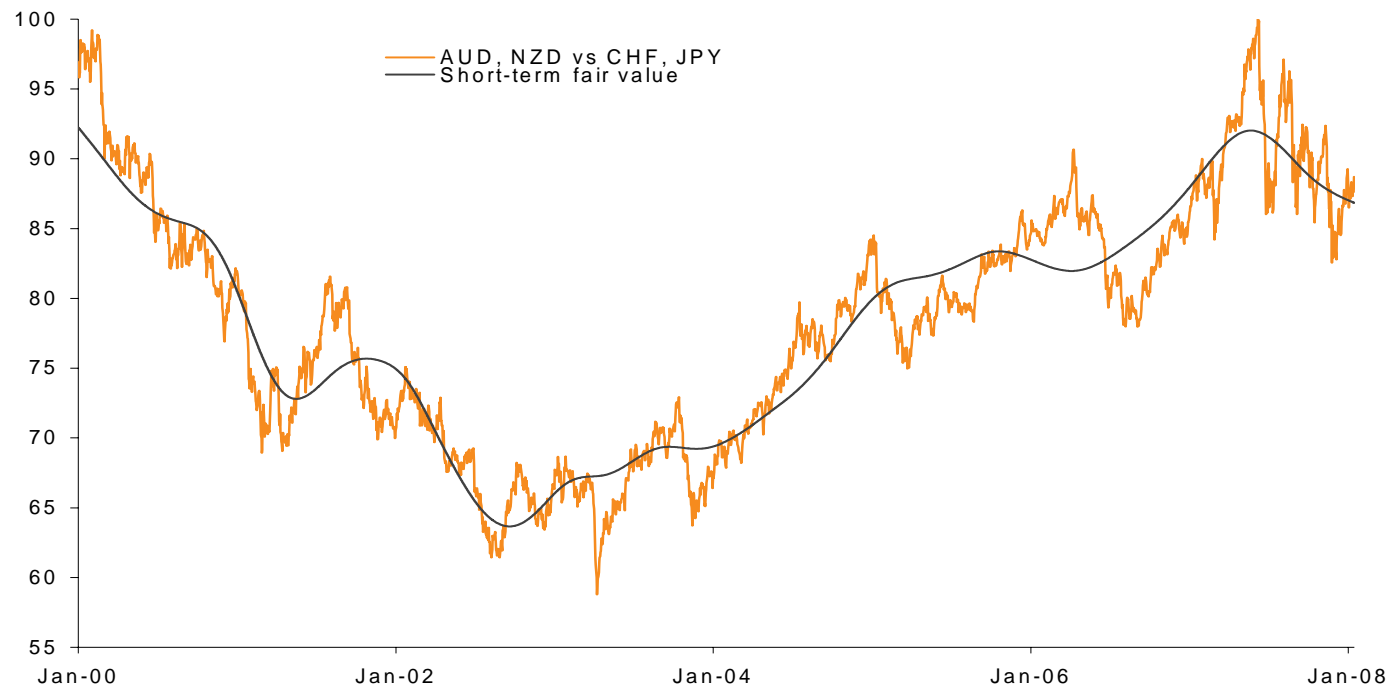


Source: IMF WEO

RBS Carry Trade Rich/Cheap Model (AUD, NZD vs CHF, JPY)

*Explanatory variables:
1y rate spreads, risk
appetite (credit
spreads, vol, US
equities de-trended),
commodity prices
(food, metals de-
trended) and yield
curves (AUD, NZD
and JPY)*

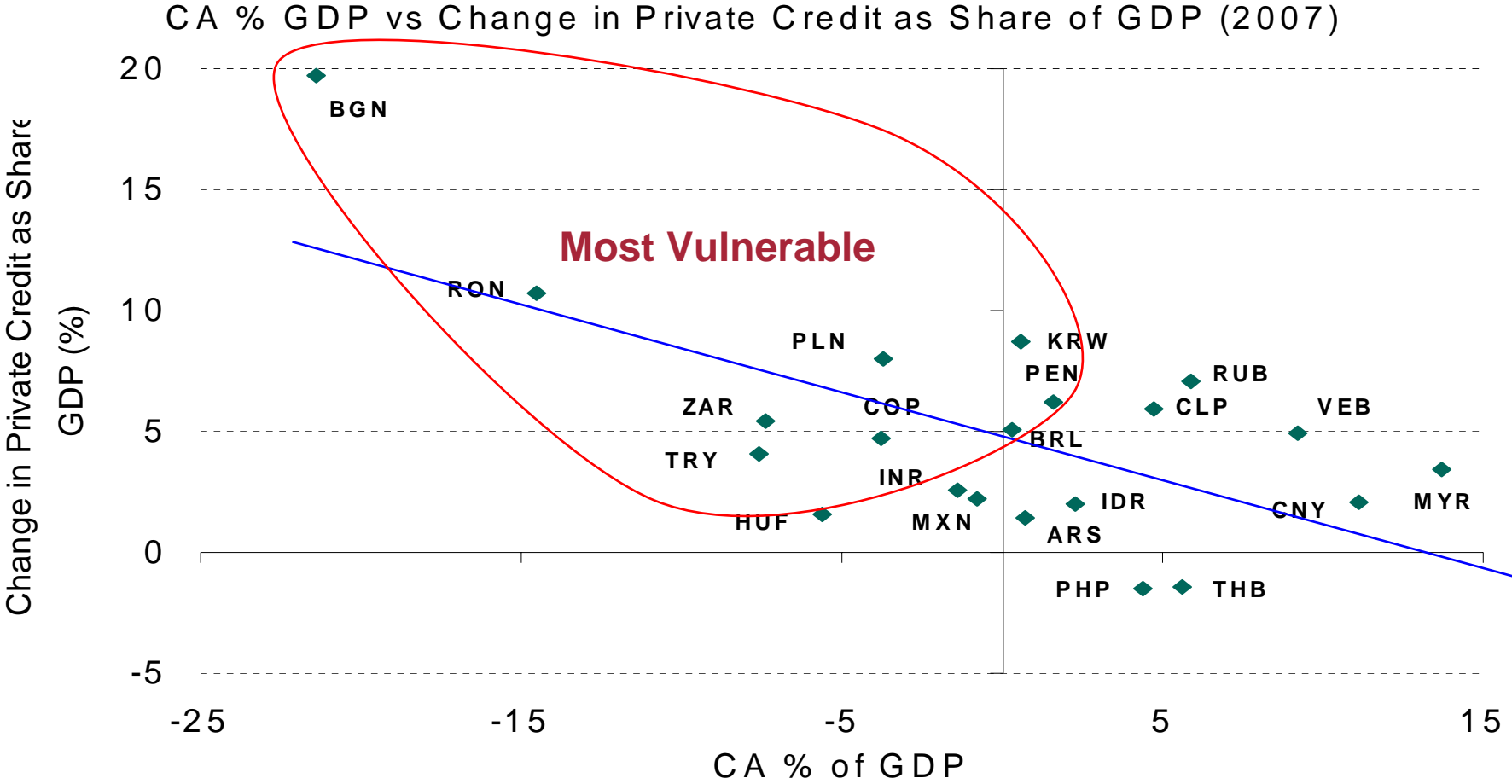
Carry Trade Spot and Smoothed Fitted Trend*



*Hodrick-Prescott Filter

Source: RBS GBM

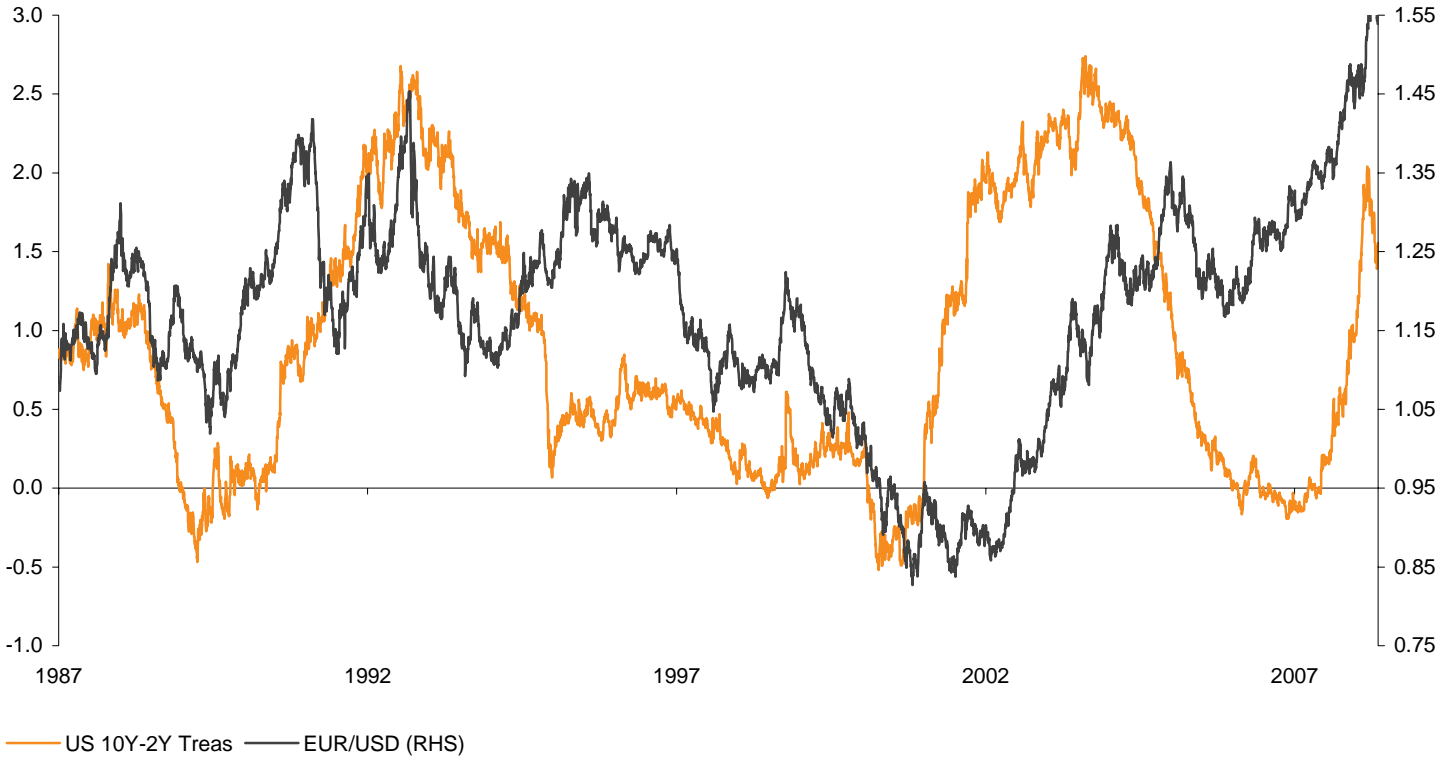
C/A deficit and excess credit growth



US curve shape and EUR/USD

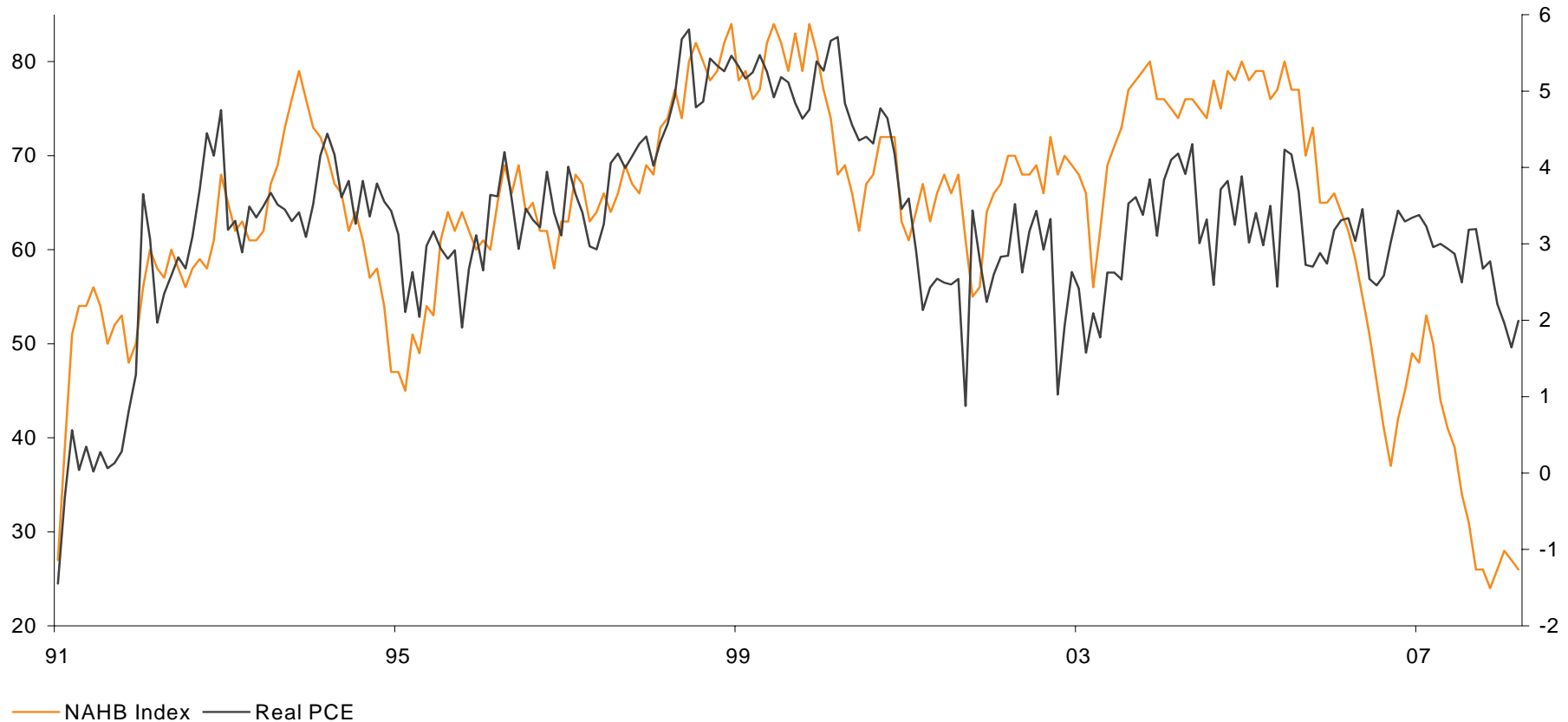
It's hard for the dollar to rally before the curve has stopped steepening. Has it?

2:10s Treasury spread and EUR/USD exchange rate

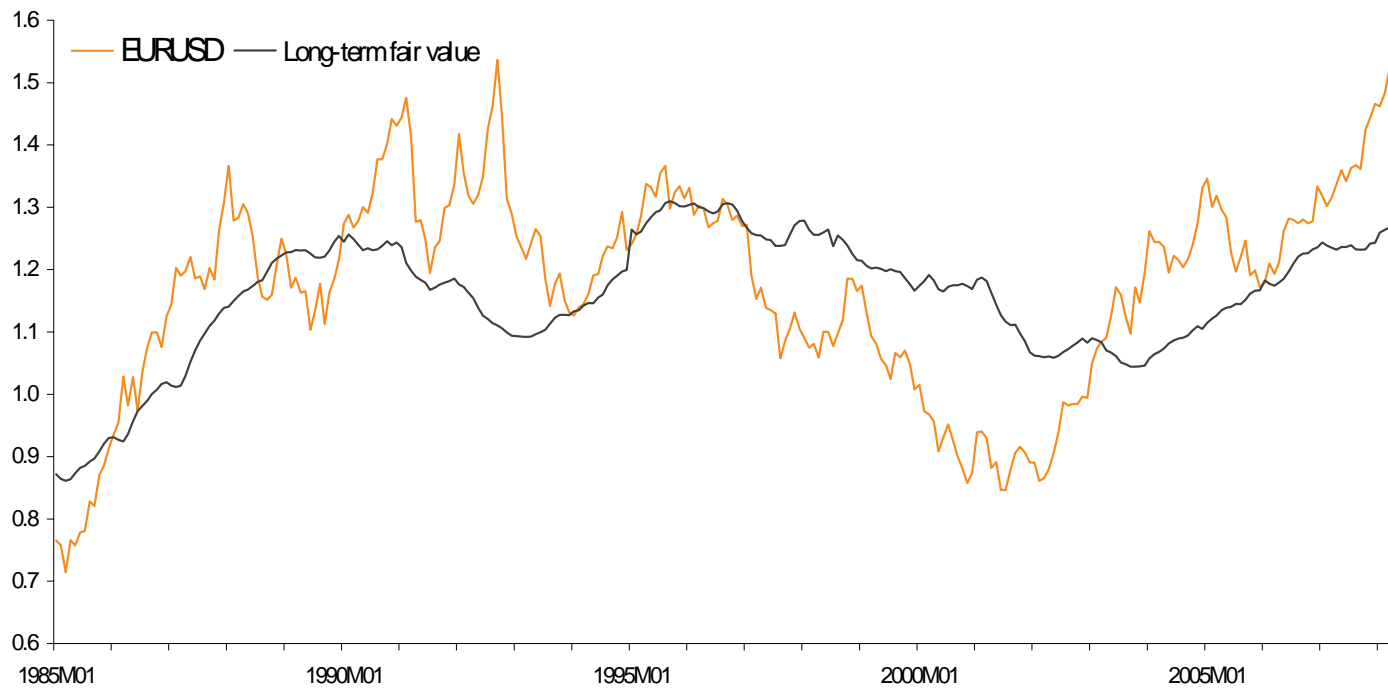


One (only!) macro picture: US consumer gets hurt this time.

US real personal consumption expenditure and NAHB housing index



RBS EUR/USD long term fair value model: when does it matter?



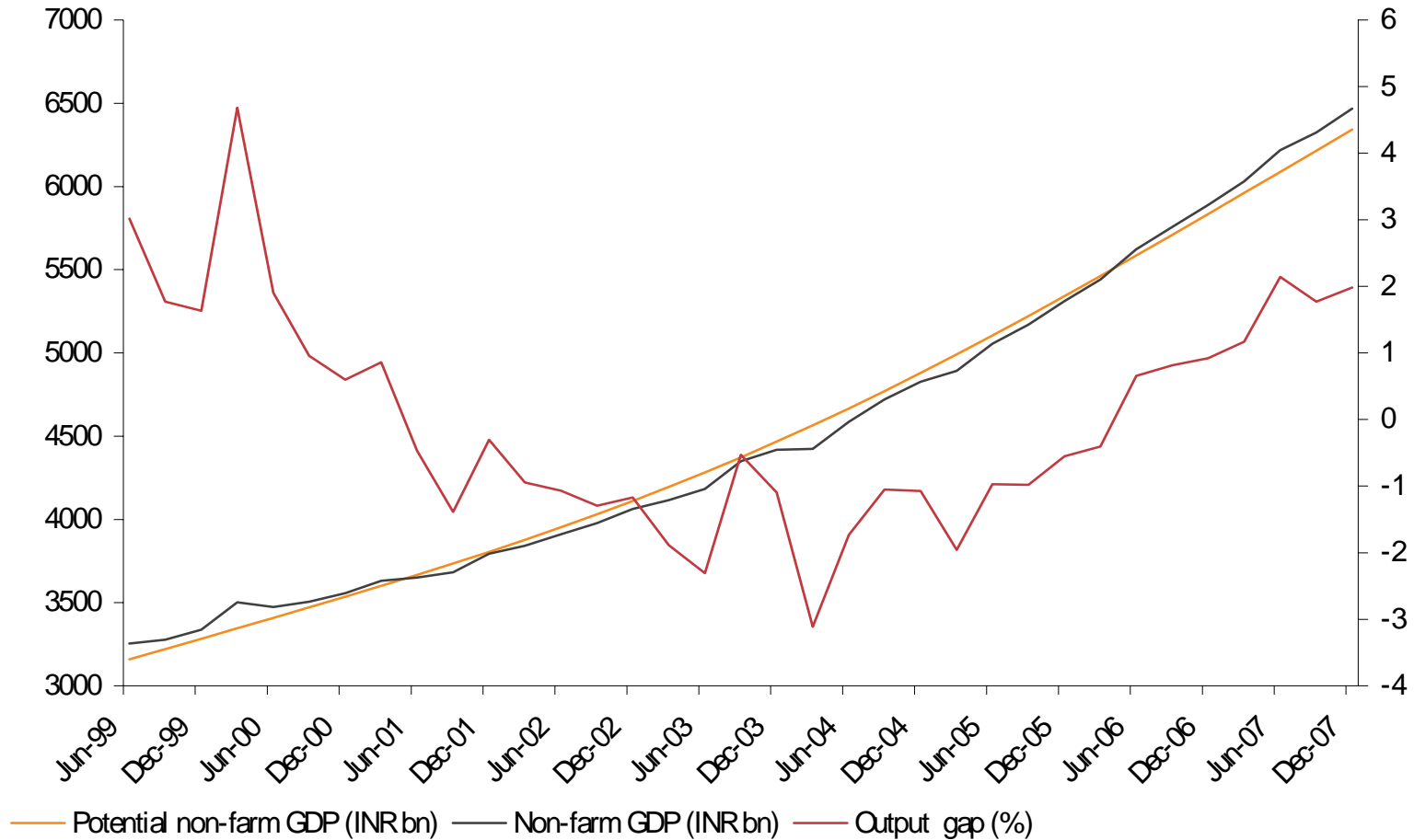


Key issues for India

June 2008

The story until now- above potential growth

Trends in output and deviation from potential



Inflation- reaching politically corrosive levels

Trends in WPI



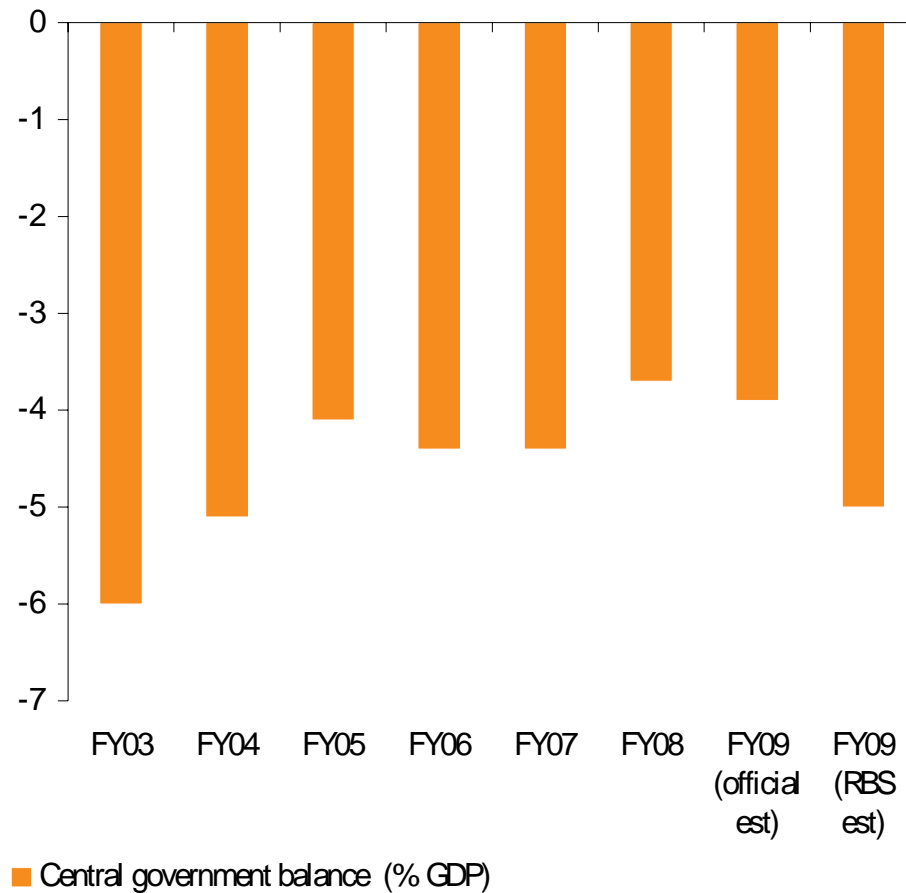
Wholesale price inflation (WPI), the most important measure of inflation has risen to politically corrosive levels

Food prices are at record highs

Measures to tame inflation are largely fiscal

Inflation control measures – fiscal deficit to deteriorate

Past and projected trends in central government balance



Fiscal consolidation has stalled
FY09 (fiscal year ending March 2009)
budget deficit set to breach official
target
Expect higher than budgeted
government bond issuance

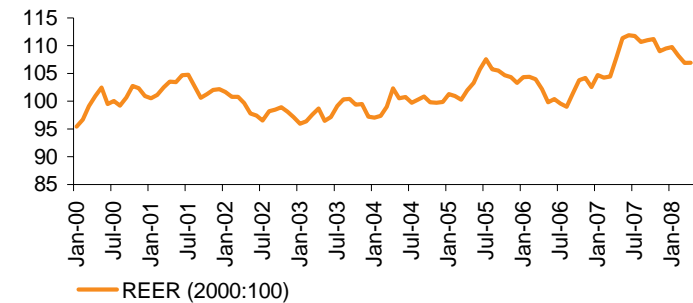
To restore competitiveness ...

RBI appears keen to correct INR overvaluation-REER remains an important metric

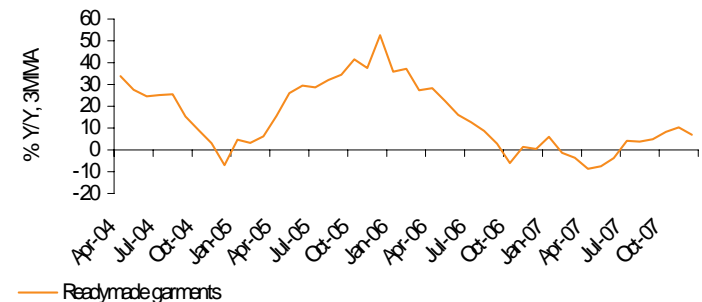
Garment/textile sectors are coming under pressure – this is a politically important constituency

Oil prices are being managed – little need to appreciate INR

Trends in REER

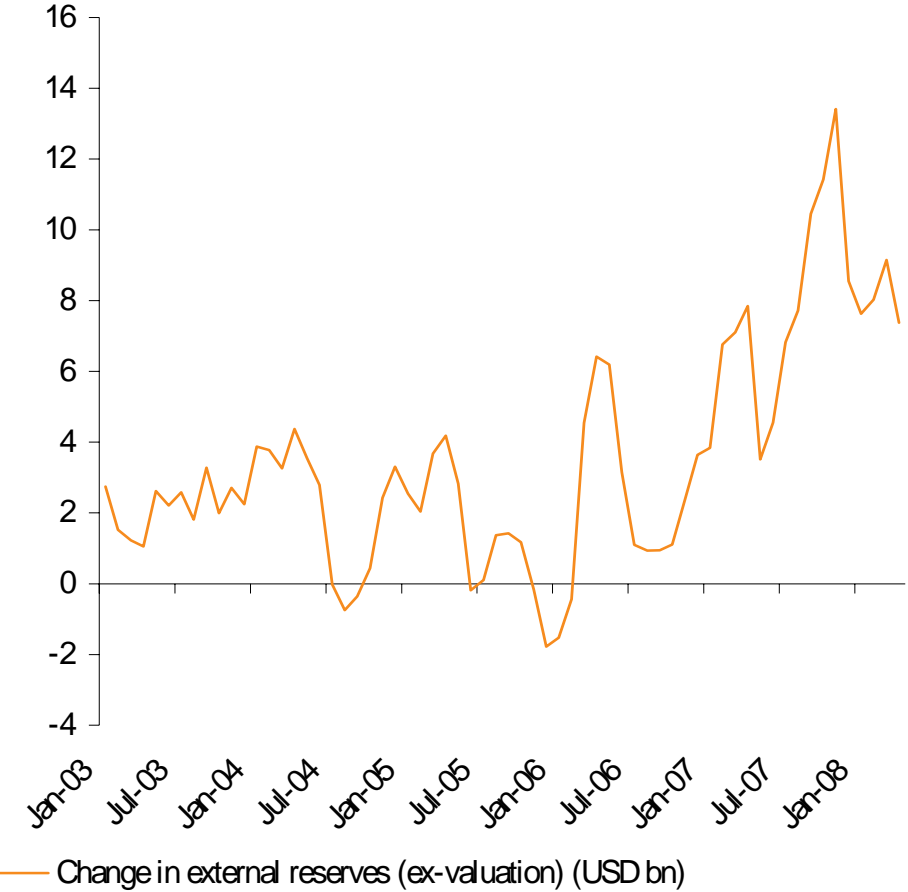


Trends in garment exports



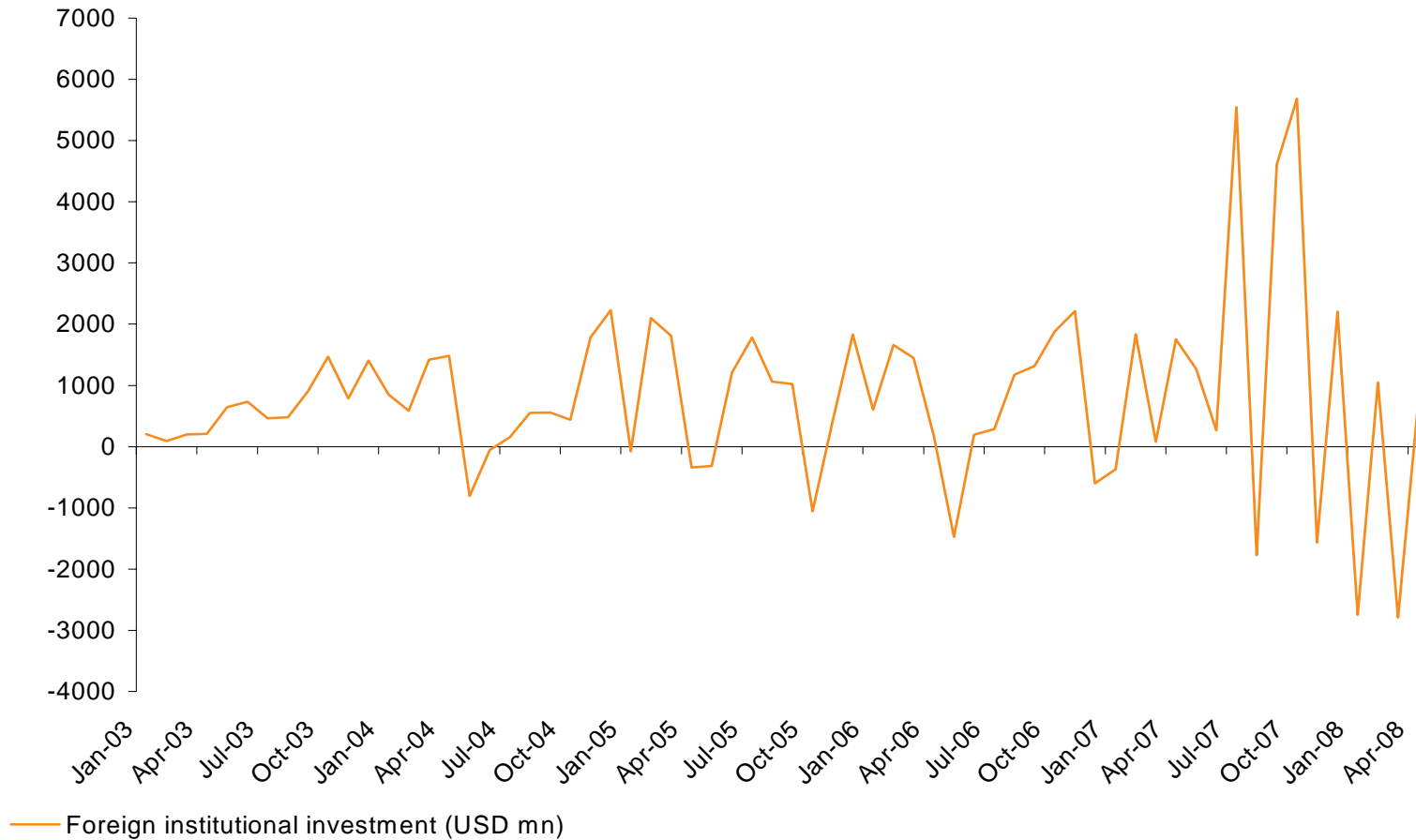
Reserve accumulation still strong but off peak

Trends in external reserve accretion



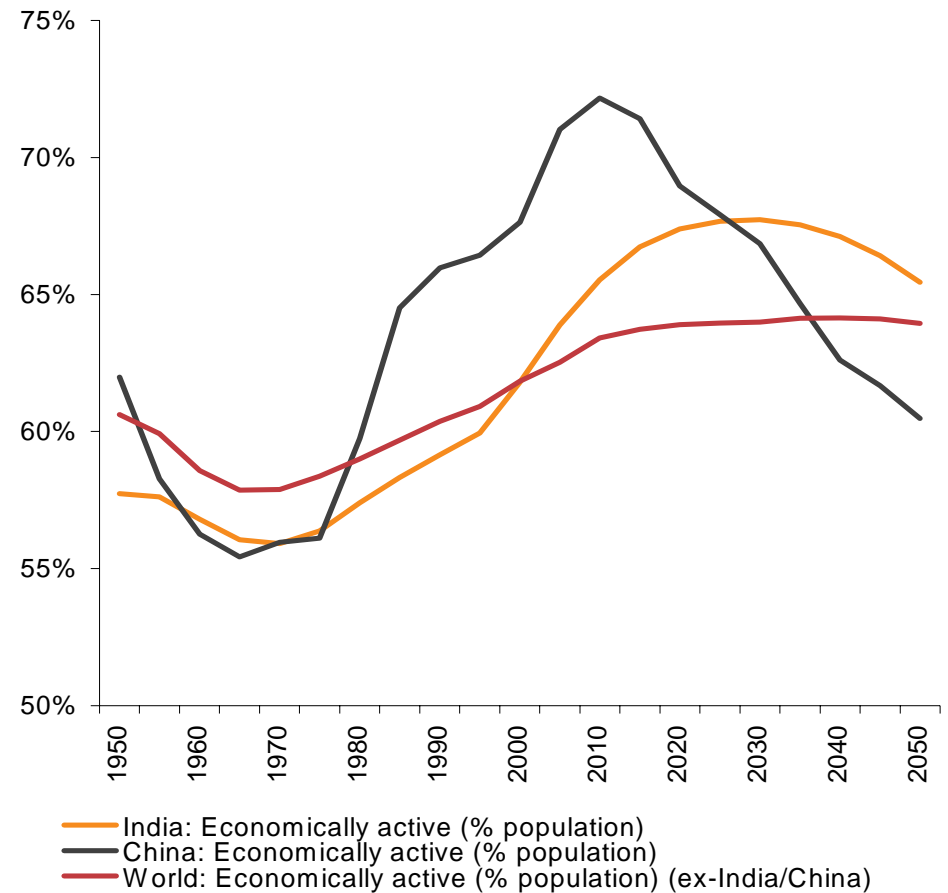
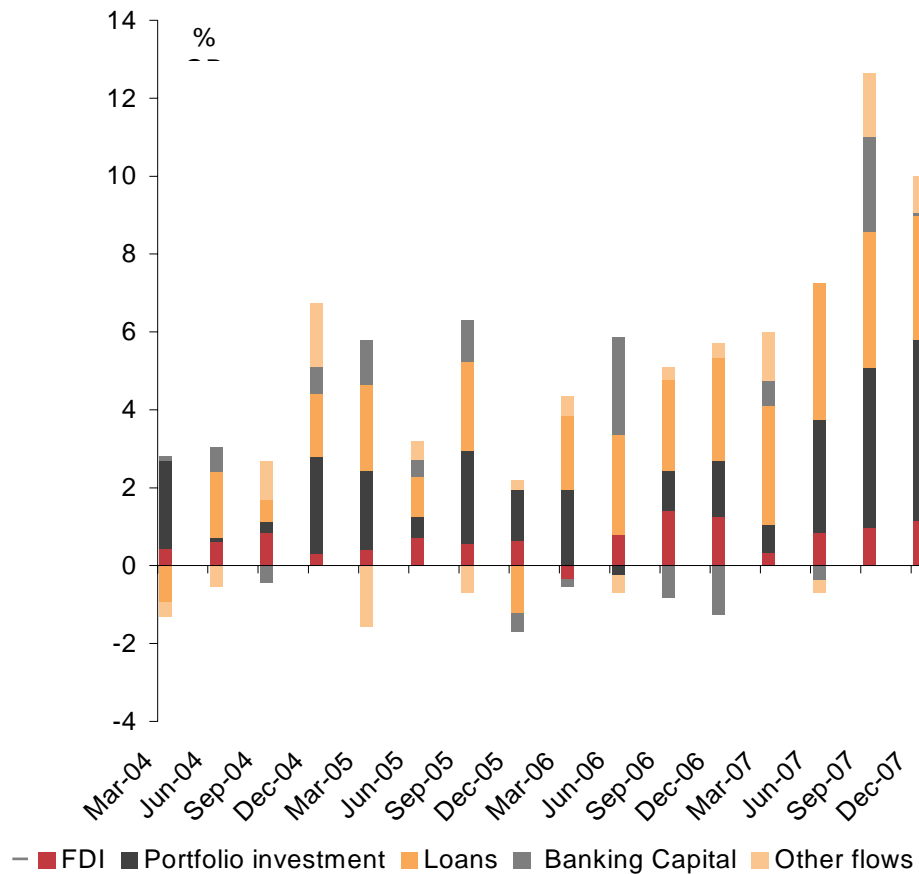
Capital flows have eased for now

Trends in FII investments in India securities



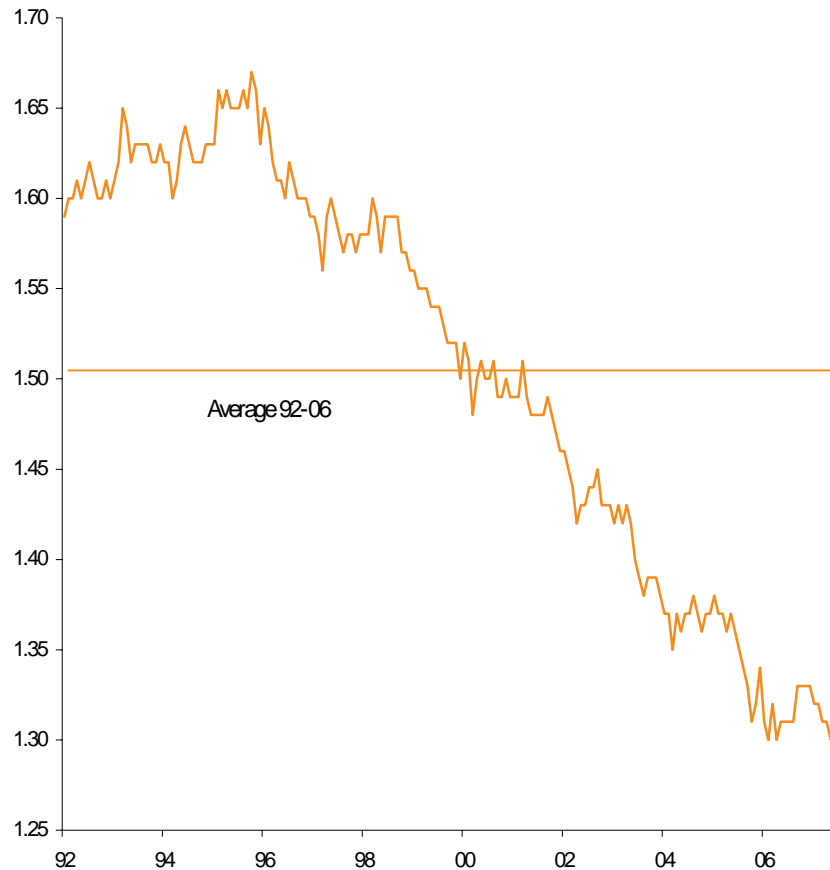
Long term trend is towards higher inflows

Capital flows (% GDP)



The importance of infrastructure

US inventory/sales ratio, %, sa



Source: RBS, CEIC

	Paved roads	World's 50 largest ports	
	% of total	# of ports	TEUs
China	91	9	83,751
India	46	1	2,580
Indonesia	46	1	3,282
Mexico	33	0	0
Vietnam	25	1	1,975

Source: RBS, World Bank, Container Management (2005 data)

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