An FX view of the world in one picture

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

Source: RBS, EcoWin
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

CA % GDP vs Change in Private Credit as Share of GDP (2007)

Most Vulnerable
US curve shape and EUR/USD

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

It’s hard for the dollar to rally before the curve has stopped steepening. Has it?
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?
The story until now - above potential growth

Trends in output and deviation from potential

Potential non-farm GDP (INR bn)    Non-farm GDP (INR bn)    Output gap (%)

Source: CEIC and RBS Global Banking and Markets
Inflation- reaching politically corrosive levels

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.

Source: CEIC and RBS Global Banking and Markets
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
Reserve accumulation still strong but off peak

Trends in external reserve accretion

Source: CEIC and RBS Global Banking and Markets
Capital flows have eased for now

Trends in FII investments in India securities

Source: CEIC and RBS Global Banking and Markets
Long term trend is towards higher inflows

Capital flows (% GDP)

Source: UN Population Division and RBS Global Banking and Markets
The importance of infrastructure

US inventory/sales ratio, %, sa

Source: RBS, CEIC

<table>
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<th>% of total</th>
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Source: RBS, World Bank, Container Management (2005 data)
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