Danske Markets

Global outlook

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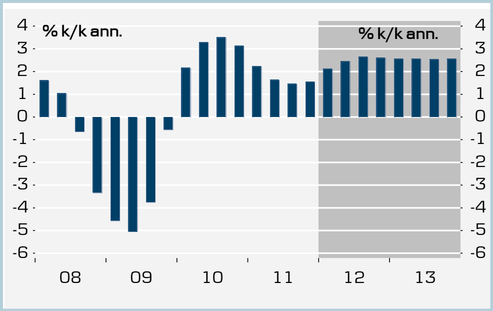
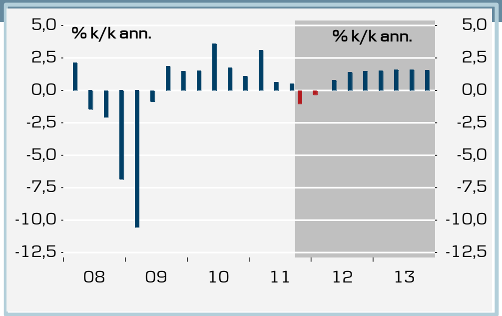
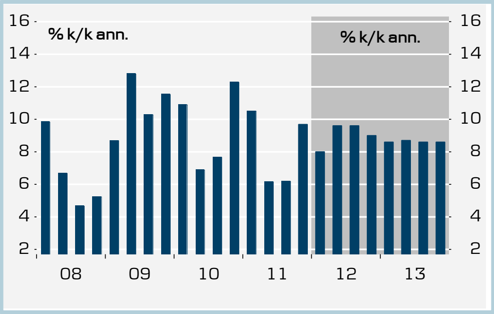
Moderate global growth
- GDP estimates for 2012



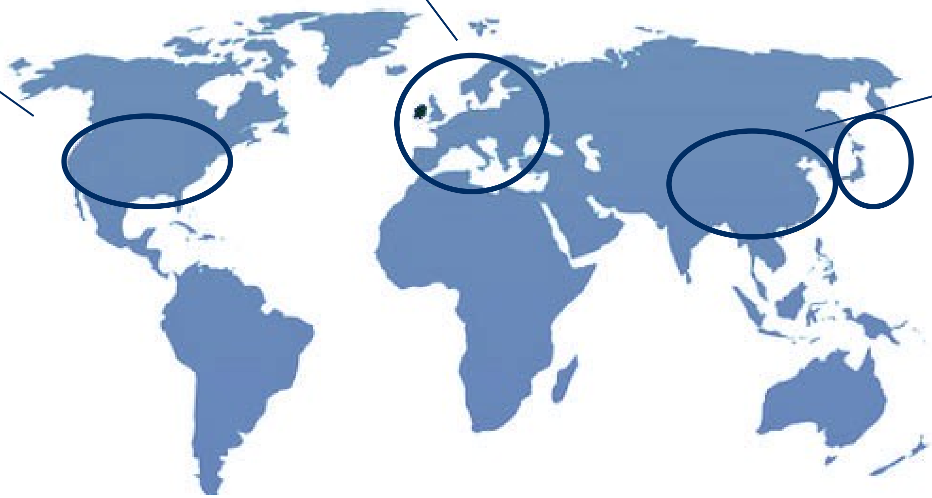
US 2.5%



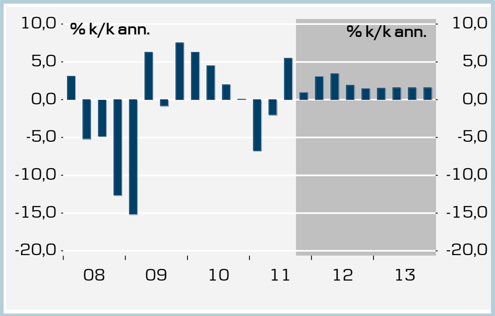
Euro area 0.3%



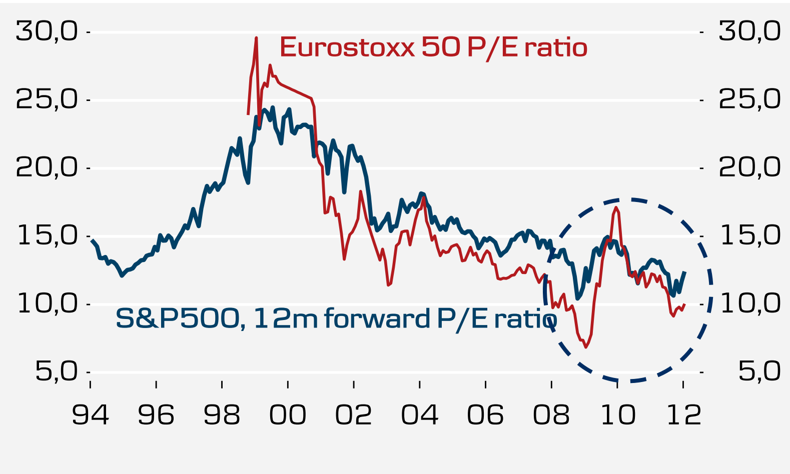
China 8.5%

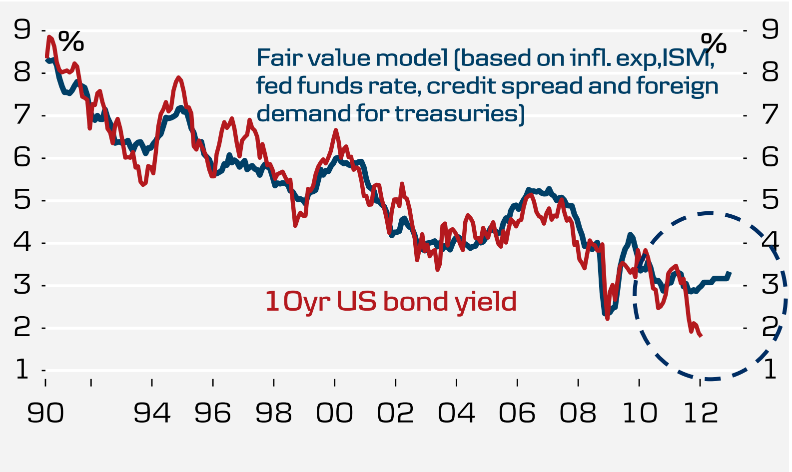


Japan 2.5%



Markets are pricing very negative scenario





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Global forecasts
- above consensus in all regions

% å/å	2012				2013			
	Danske Bank	Consensus	OECD	IMF	Danske Bank	Consensus	OECD	IMF
USA	**2.5**	2.3	2.0	1.8	**2.6**	2.4	2.5	2.2
Euro	**0.3**	-0.4	0.2	-0.5	**1.5**	1.0	1.4	0.8
Japan	**2.5**	1.7	2.0	1.7	**1.6**	1.7	1.6	1.6
Kina	**8.5**	8.5	8.5	8.2	**9.1**	8.2	9.5	8.8

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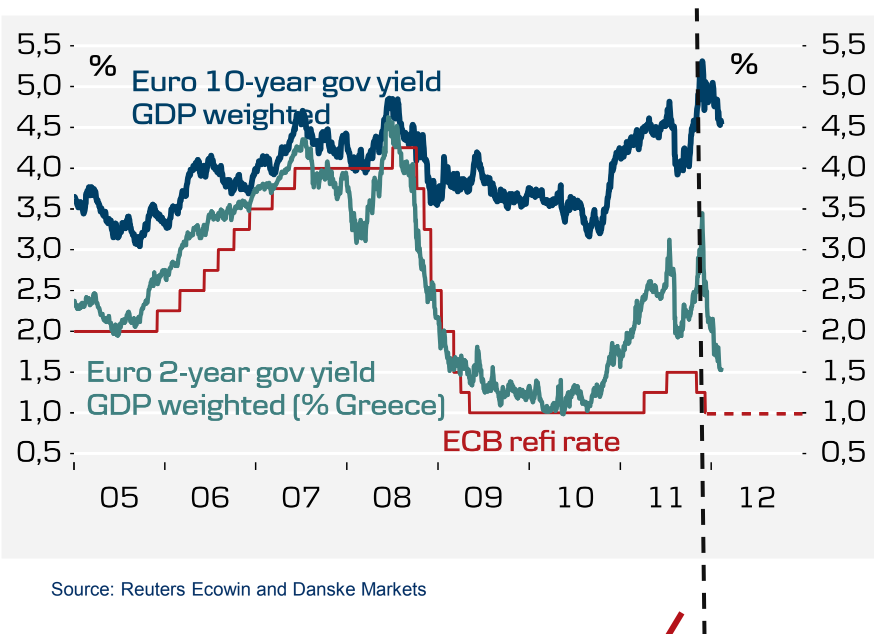
Euro area growth outlook

A rising tide lifts all boats

Debt crisis still main theme

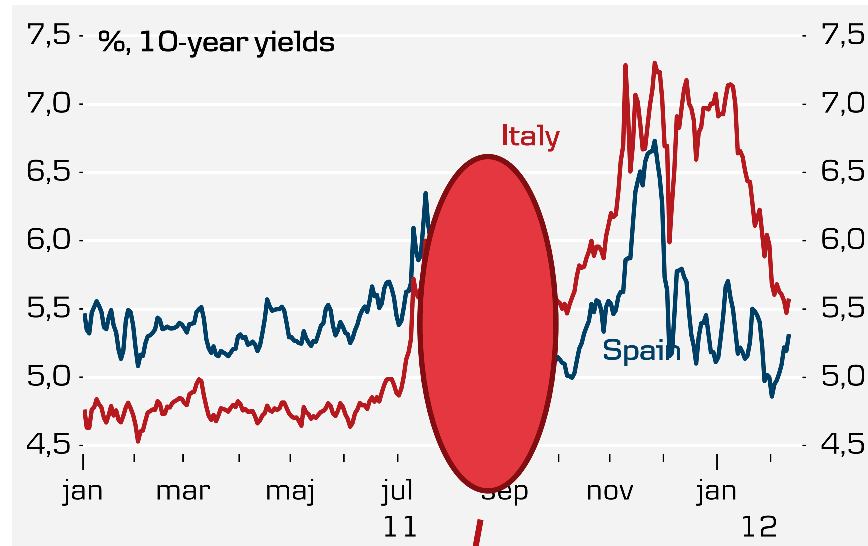
We have moved one step back from the edge…



Source: Reuters Ecowin and Danske Markets

3Y LTRO has given some relief

…but focus remain on Italy and Spain



Source: Reuters Ecowin and Danske Markets

ECB's purchases restarted

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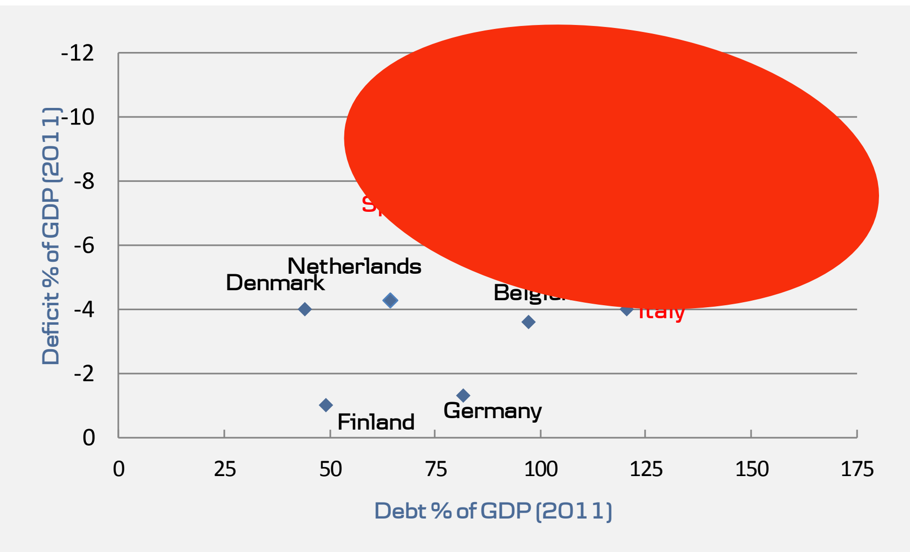
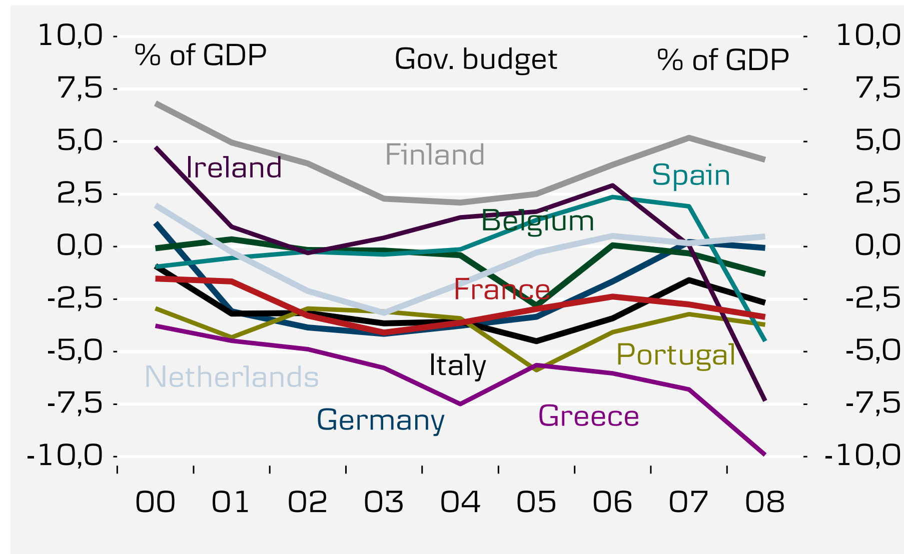
Sovereign debt crisis

Problem in public finances is evident…



Source: EU-Commission

…but was not that clear before financial crisis



Source: Reuters Ecowin and Danske Markets

Crisis is here to stay – Key events in the coming months

1. Negotiations on Greek PSI deal and second rescue package.
2. Auctions in Italy and Spain.
3. Bank recapitalisation in Europe.
4. EU summit details.
5. EFSF role in secondary markets.
6. IMF role in debt crisis should be clarified.
7. General election in France.

… and medium term risk factors

8. Package for Greece not clear it is sustainable.
9. Spanish housing market and banking sector.
10. Fear of contagion – is Portugal next in line?
11. Increased fiscal integration –implementation risks and treaty changes.

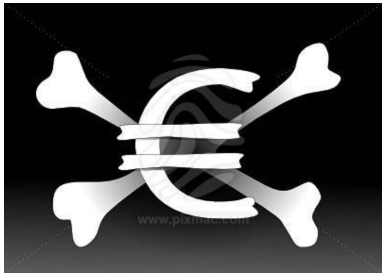
Debt crisis scenarios

Main scenario

Alternative scenarios

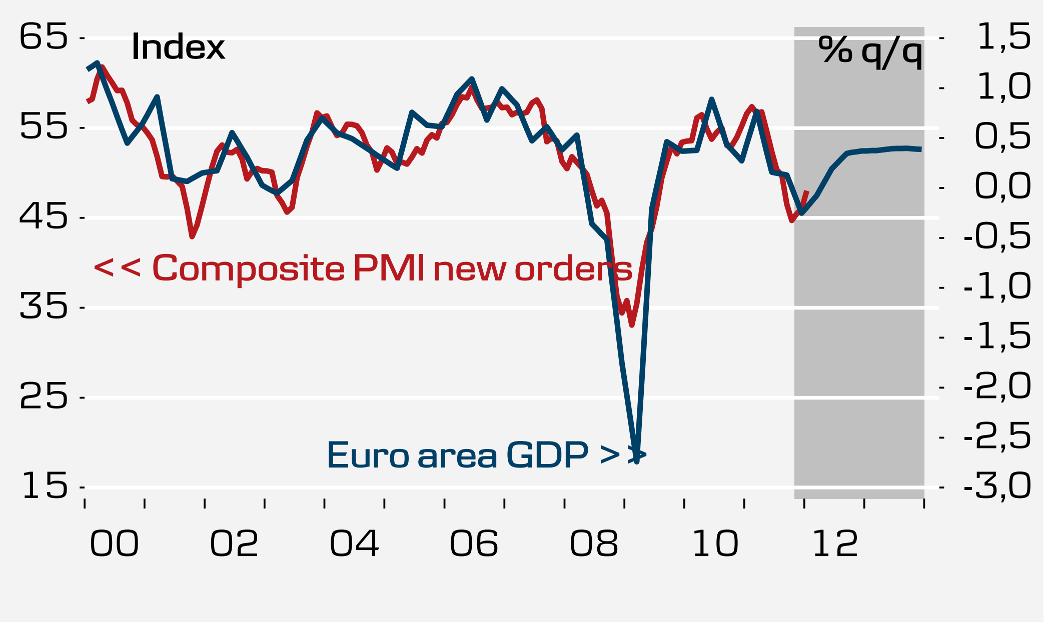
Euro breakdown

1. ECB bond purchases and 3 year LTROs
2. Closer fiscal integration – eurobonds



Five reasons why euro recession will be short

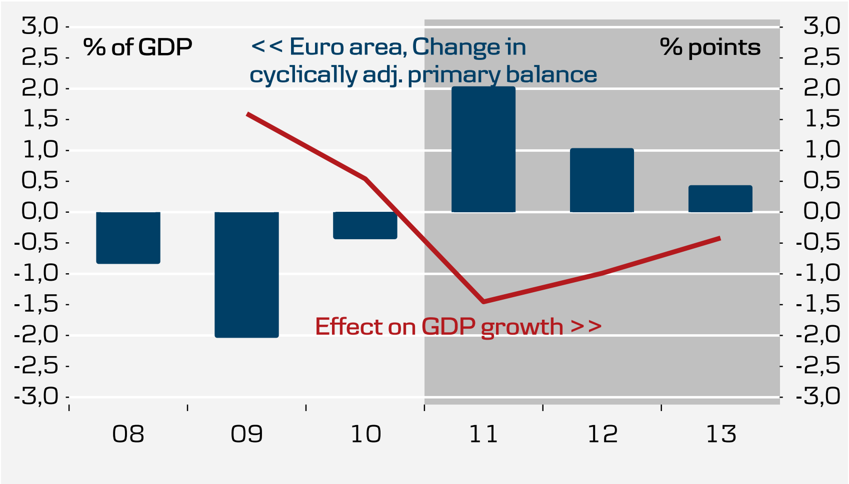
1. **Fiscal headwind** is significant – but is *not* getting stronger
2. **US recovery** normally leads the Euro area
3. **Emerging Markets** to drive stronger export growth
4. The recession is partly due to **”overproduction”**
5. **Financial headwinds** expected to ease slightly during 2012

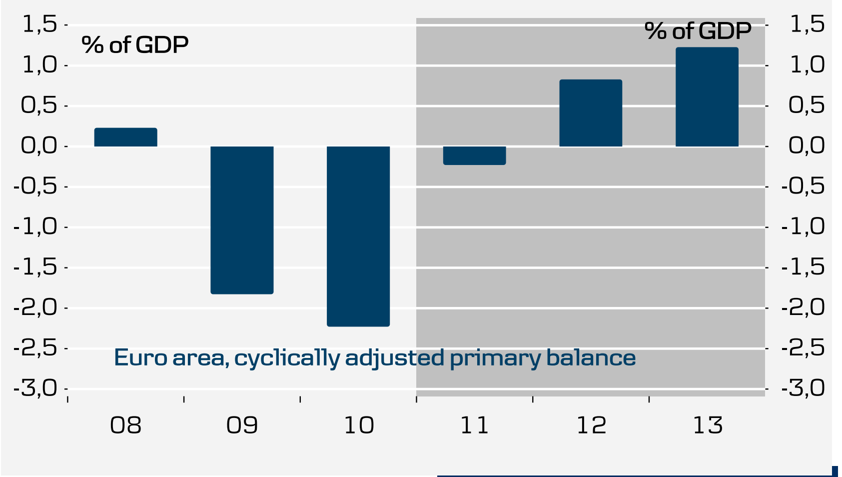


#1: Fiscal headwind is significant – but is *not* getting stronger

- Fiscal policy continues to be tightened in 2012…
- … but contrary to popular belief the tightening is not getting stronger
- If anything it is getting slightly smaller according to current plans

	Cyclically-adjusted primary bal, % of GDP		
	2010	2011E	2012E
Spain	-5,1	-2,3	-1,7
Italy	1,3	2,1	4,1
Greece	-3,1	1,5	5,1
Portugal	-6,2	-0,4	2,8
Ireland	-26,2	-5,5	-3,7
France	-3,4	-2,1	-1,2
Germany	-1,0	1,1	1,6





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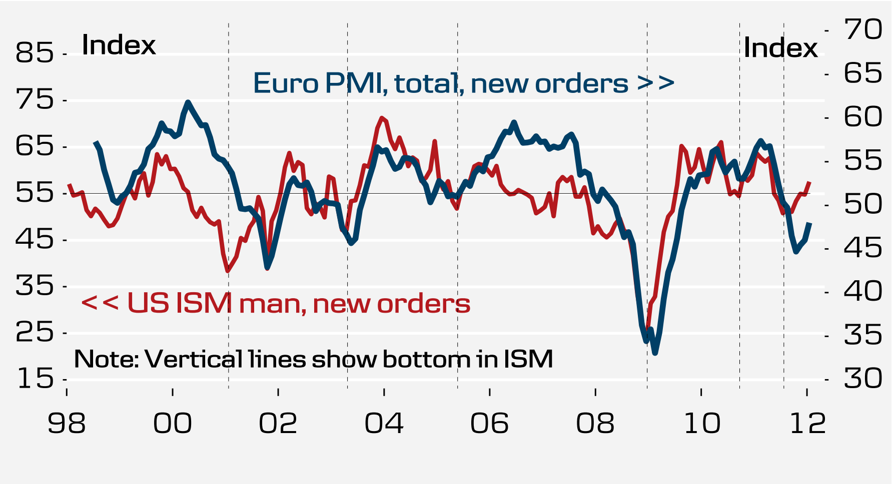
#2: US recovery normally leads the euro area

- Global industrial cycle very synchronised due to globalisation
- The turn in the US industrial cycle signal a turn in the global industrial cycle
- Normal that US leads the euro area
- We look for further rise in ISM towards 55-56 in coming months – Euro PMI likely to follow



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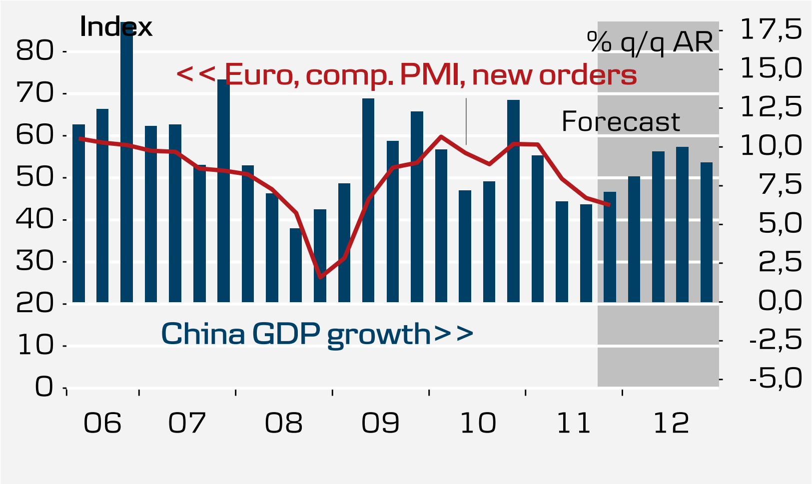
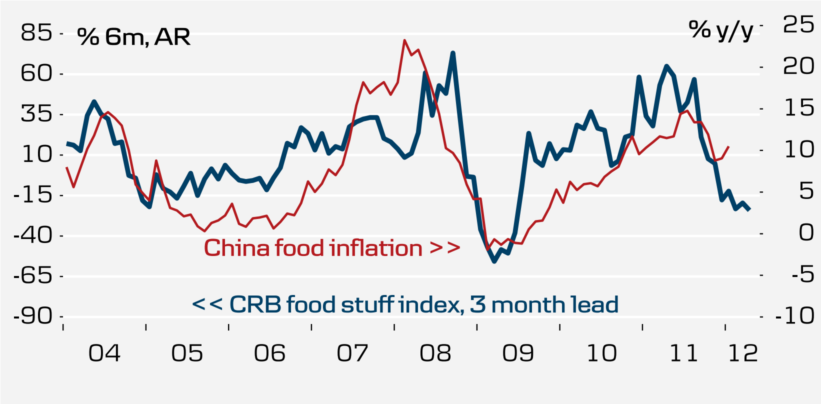
#3: Emerging Markets to drive stronger export growth

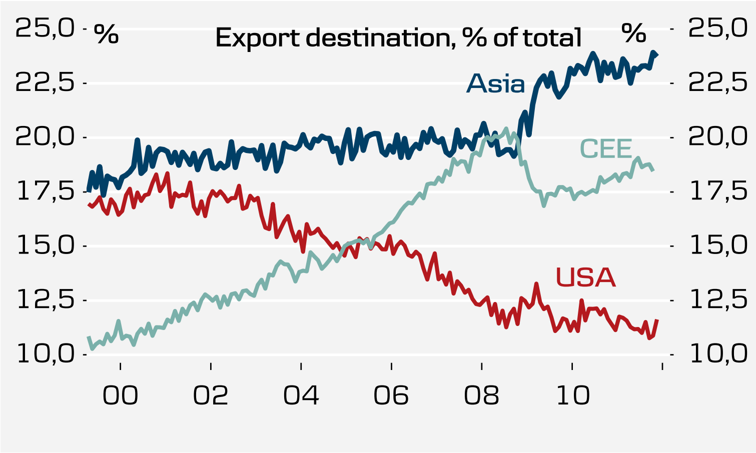
- Chinese growth to recover in coming quarters
- Euro PMI has had high correlation with China in recent years
- Major headwind from food prices has turned into tailwind
- Has two effects:
  - Real income growth goes up
  - Policy goes from tightening to easing
- Same effect in most Emerging Markets

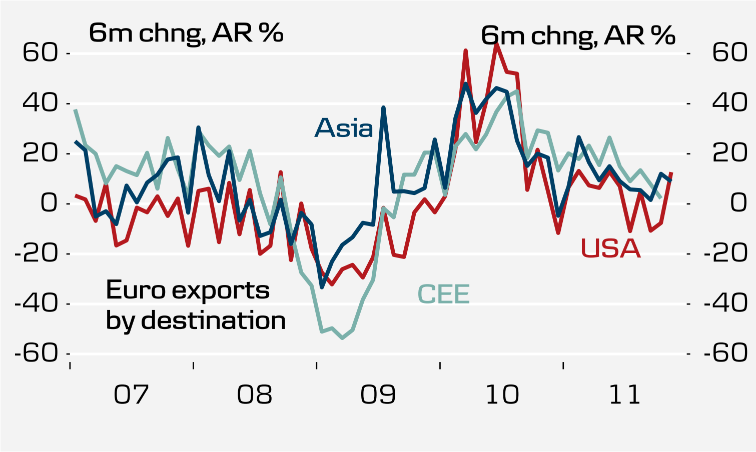




#3: Emerging Markets to drive stronger export growth

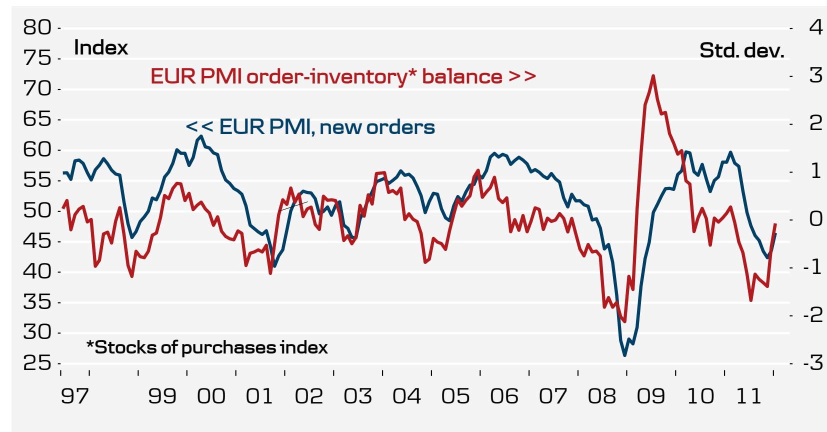
- Emerging Markets importance for the euro area has grown significantly over past 10 years
- Asia now buys more than 20% of euro exports. CEE just below 20%
- US only buys around 10%
- Slowdown in Emerging Markets have been important factor in euro export slowdown
- As Emerging Markets growth recover it will also lift euro area exports

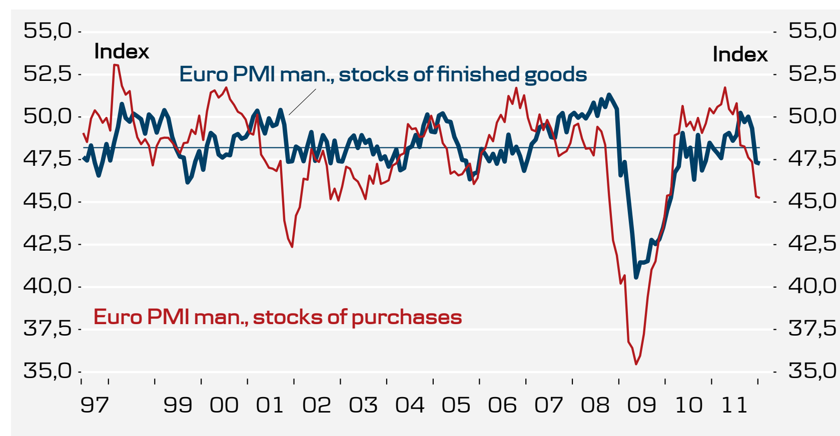




#4: The recession is partly due to inventory build-up

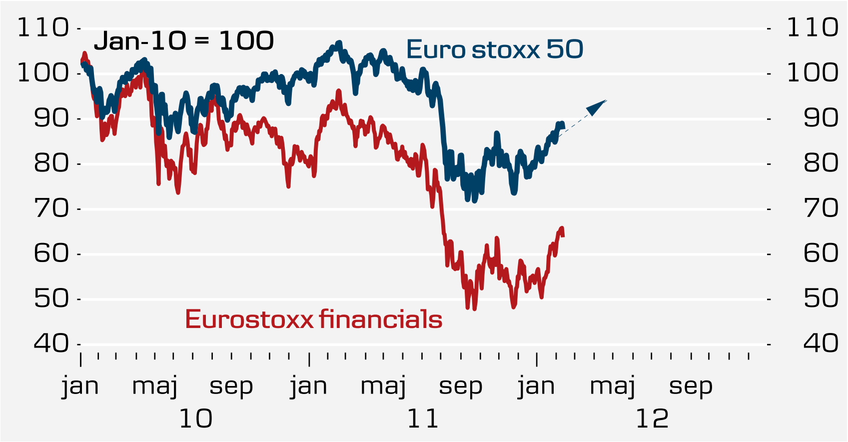
- Euro area growth outperformed in H1 growing 1.9% vs 0.8% in US
- Part of the production rise went to inventories as sales slowed
- Current decline in production is partly adjustment to sales
- But this will be a temporary effect

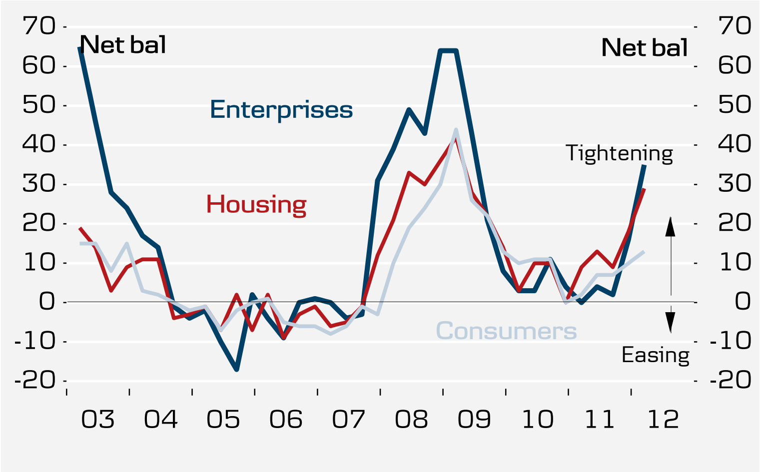


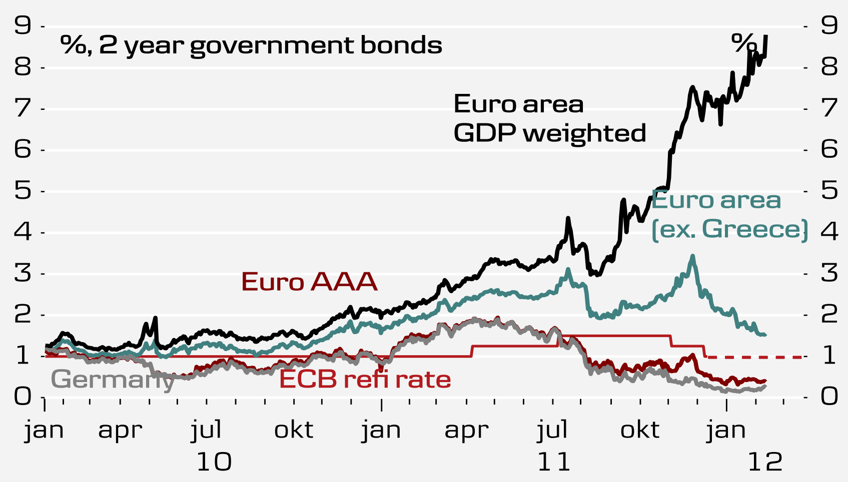


#5: Financial headwind to ease slightly during 2012

- Financial headwind substantial in 2011
- Bond yields higher, equities lower, credit standards tighter
- Credit tightening intensify in short term but expected to decline again in H2 2012
- 36-mont LTRO will give significant help to the banks – very cheap funding







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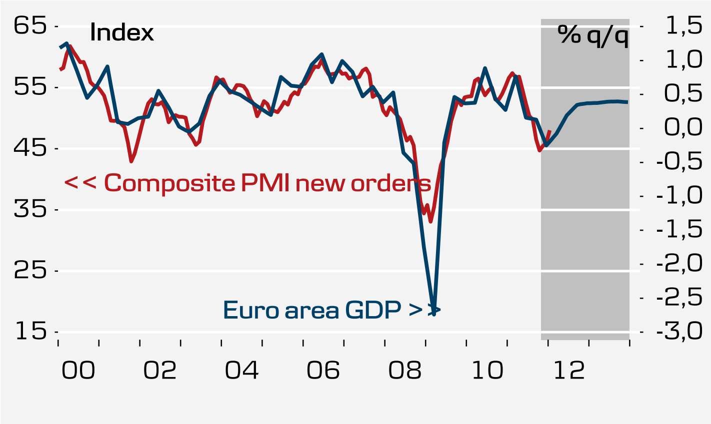
Summary: Euro area *growth* to surprise vs market pessimism

- Euro area in recession in coming quarters
- ***Pace of decline to taper off now -> PMI is going to rise***
- Growth to recover slowly from Q2 to 1½% by end-2012
- Five reasons:
  - US recovery leads euro
  - China recovers in early 2012
  - Inventory adjustment temporary drag
  - Fiscal headwind *not* getting stronger
  - Financial headwinds to ease slightly



- Downside risk: worsening of euro debt crisis

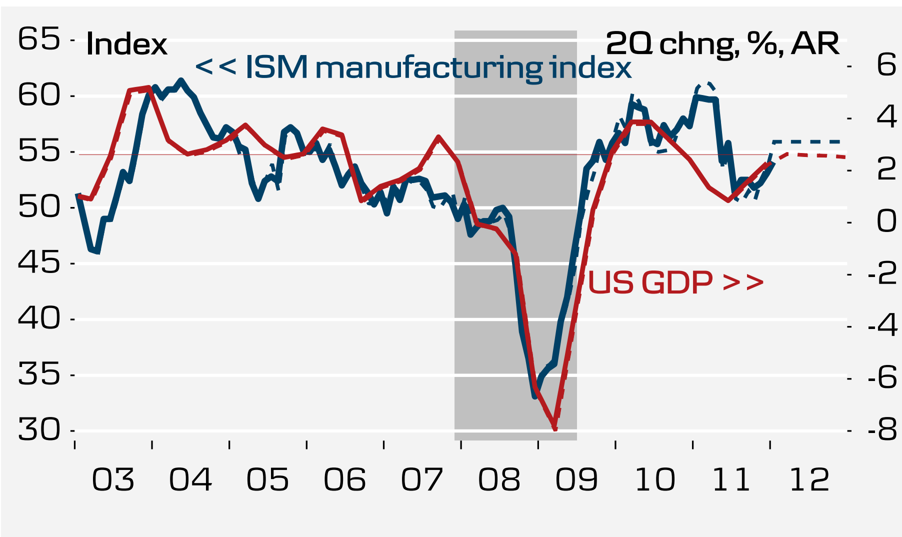

GP
Export
53.70
-4.70
Vol 44,737,003
Op 58.90
$53.60/53.70S
Hi 59.10
Lo
Hide
Upper

US Outlook

Growth at 2.8% in Q4

- Expected to continue at 2½% in 2012

ISM to stay around 55 as growth hums along

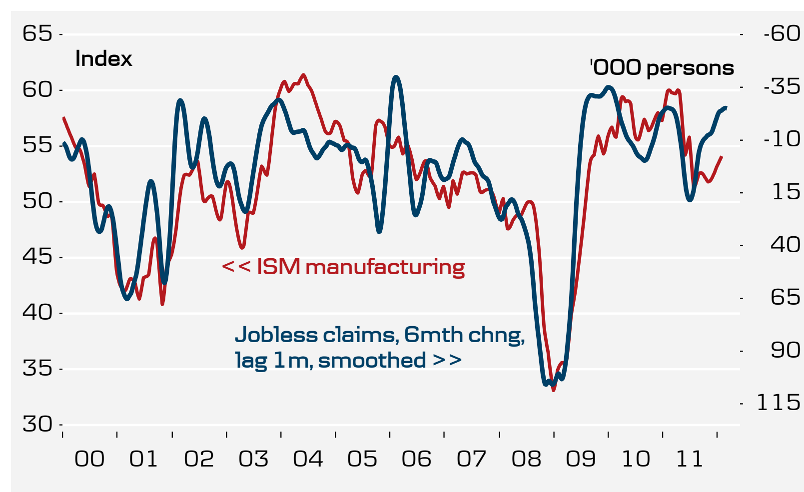


Note: Grey bar show US recession

GDP outlook (consensus in paranthesis)

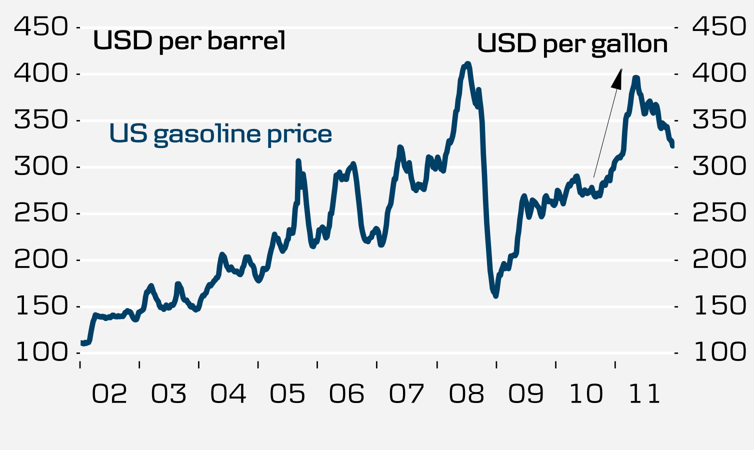
2011:	1.8% (1.8)
2012:	2.5% (2.1)
2013:	2.6% (2.5%)

Claims support stronger ISM

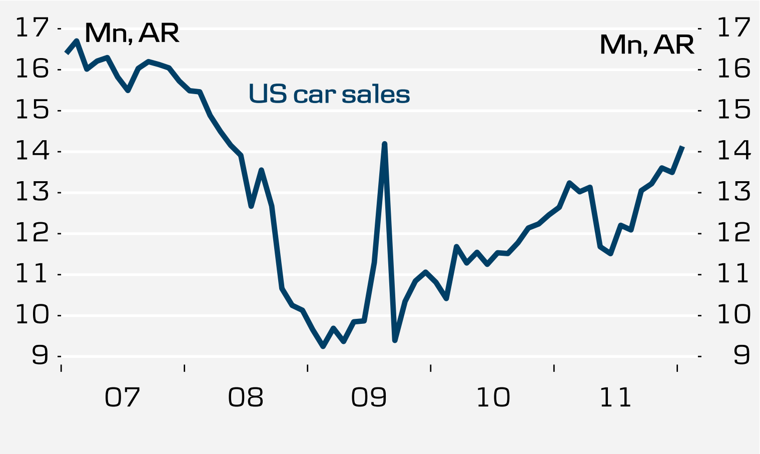


Why recovery? Headwinds turning to tailwinds

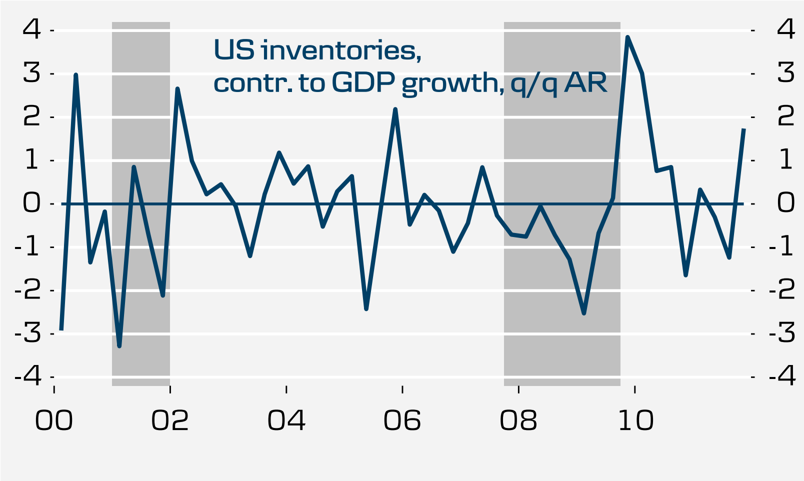
#1: Headwind from gasoline faded



#2: Car sales higher post Japanese earthquake



#3: Inventory contribution to turn positive



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Chinese Outlook

China

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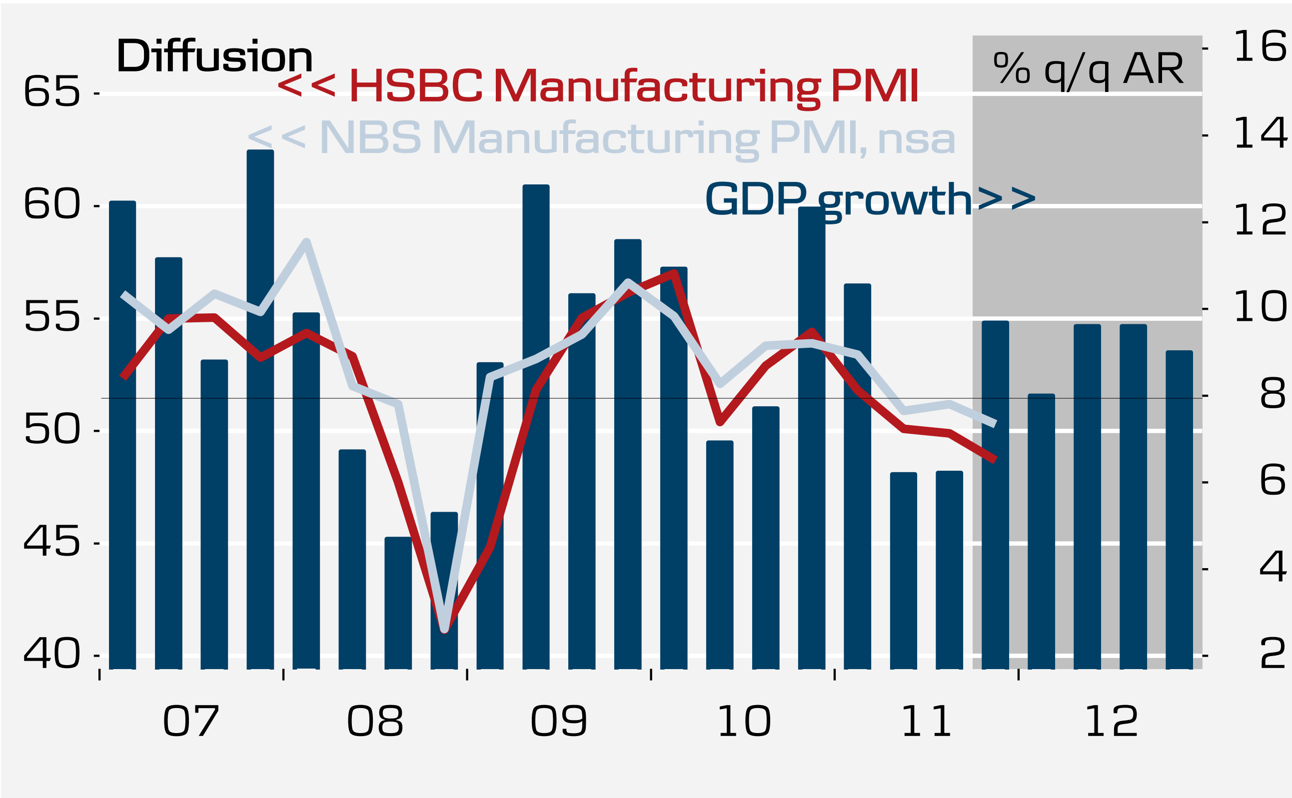
PMI stabilisation signal worst maybe over



Source: Reuters Ecowin and Danske Markets

Room to ease monetary policy

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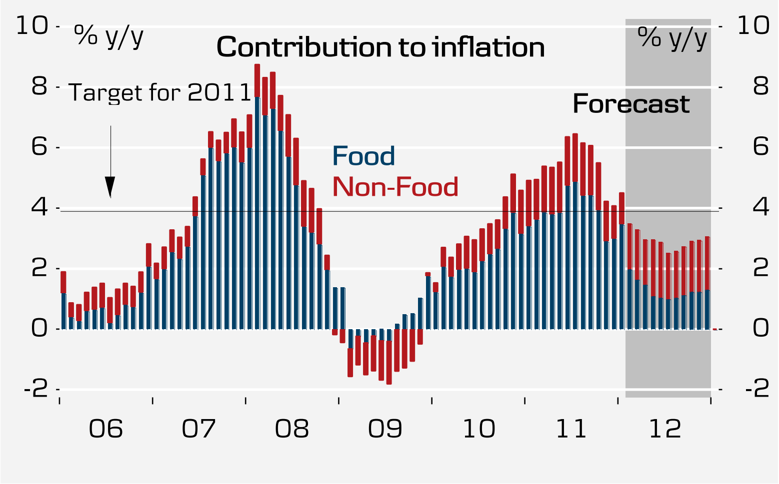
- Inflation is poised to drop sharply
  - Around 3½% in mid-2012
  - Inflation target for 2012 expected to be 4%

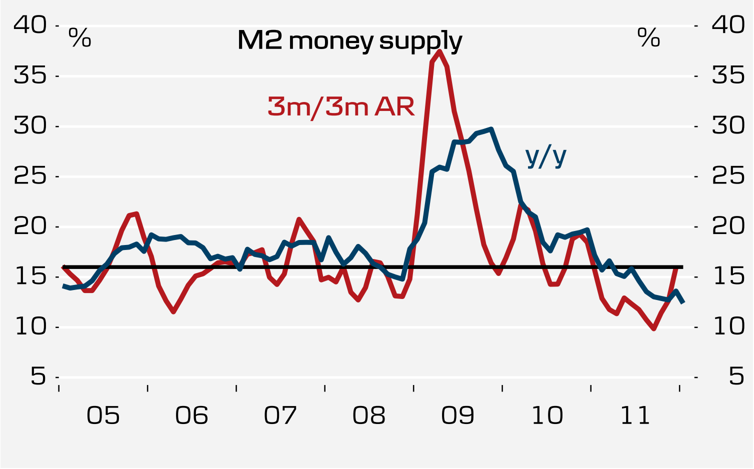
- Credit/money supply growth is already substantially below target
  - M2 target has become more important for PBoC
  - M2 target for 2012 is expected to remain 16%
  - Credit growth will be allowed to pick up

Inflation poised to drop sharply



Source: China's National Bureau of Statistics,

Credit/money supply growth below target



Source: China's National Bureau of Statistics and Danske Markets

What are China's options?

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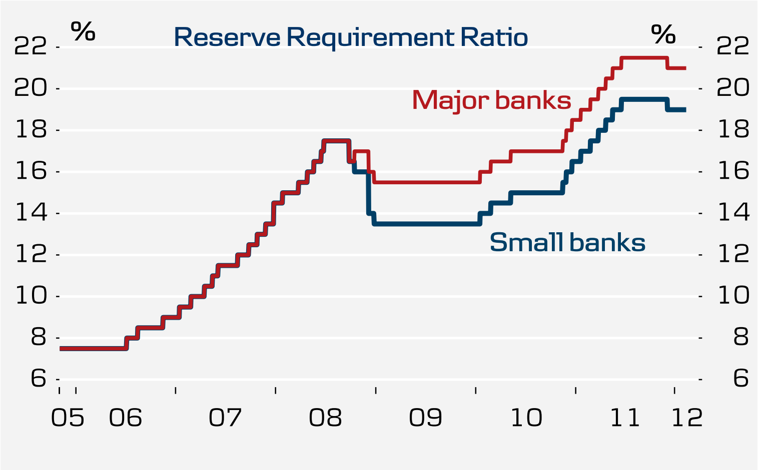
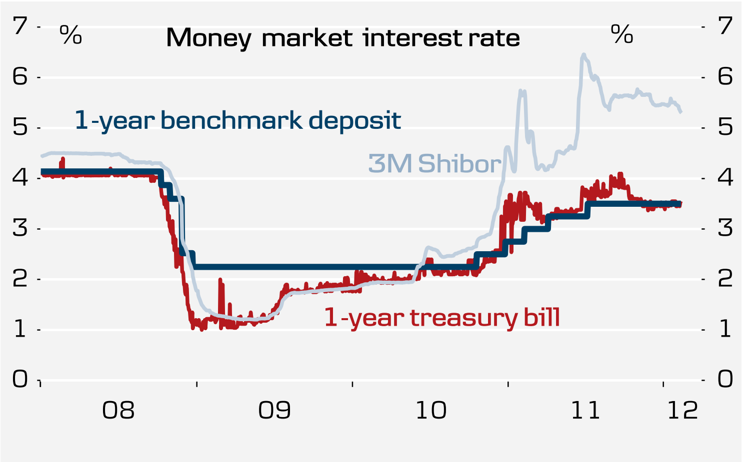
- Improve liquidity in the interbank market through open market operations
- Cut the reserve requirement for commercial banks
- Ease credit quota's for commercial banks
- Cut leading interest rates
- Ease fiscal policy
  - Construction of social housing could be accelerated



Source: China's National Bureau of Statistics,

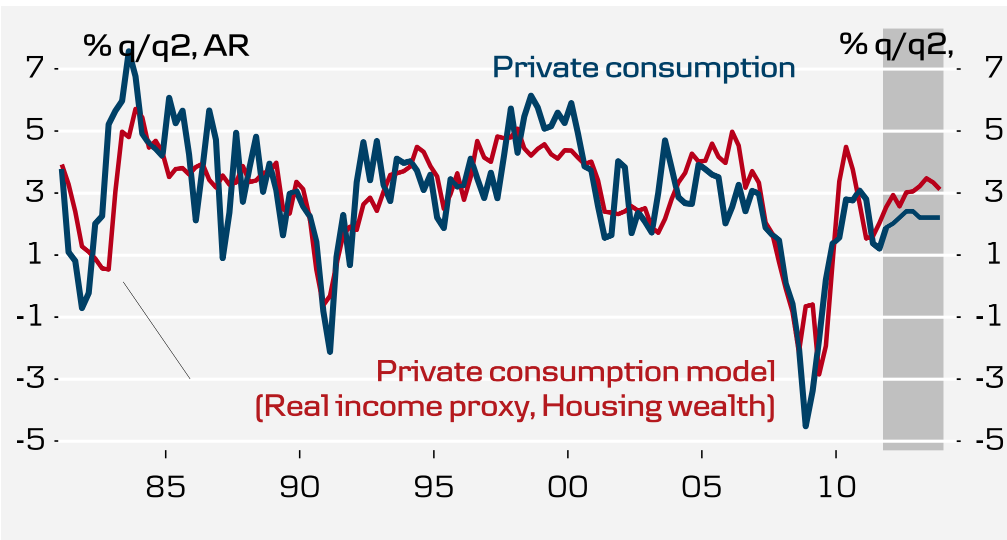


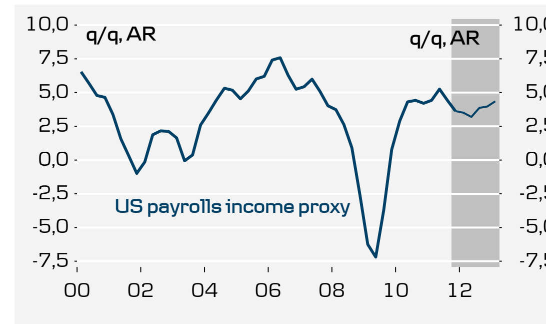
Source: China's National Bureau of Statistics and Danske Markets

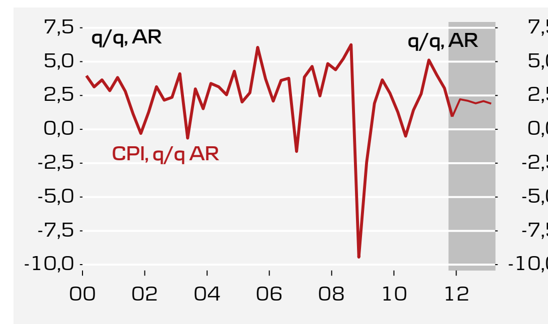
Summary China

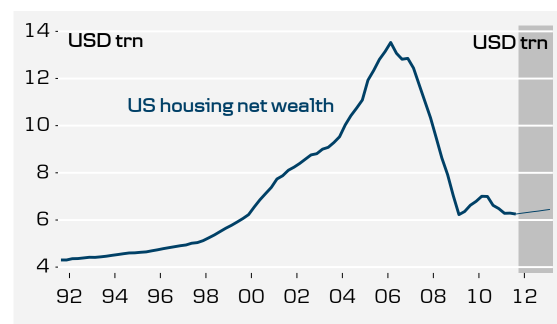
- We still expect 2012 to be a year of recovery for China
  - Inflation poised to decline substantially and will not be a major constraint on policy
  - Recovery will be supported by both monetary and fiscal easing
  - However, policy response will be cautious and depend on how the economy performs in the coming months
  - Lower inflation supports private consumption
  - Gradual improvement in exports
- However, only modest recovery in Q1 12 and there will be downside risk
  - Adjustment in property market will continue to weigh in the short run
  - Import of commodities could suffer in the short run
- Appreciation of CNY to continue albeit the pace is poised to slow

US consumer underpinned by stronger employment and lower inflation



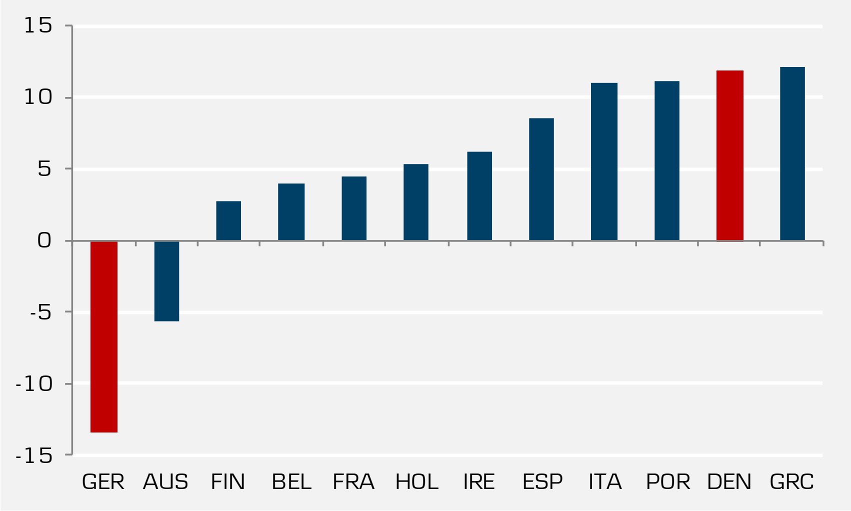




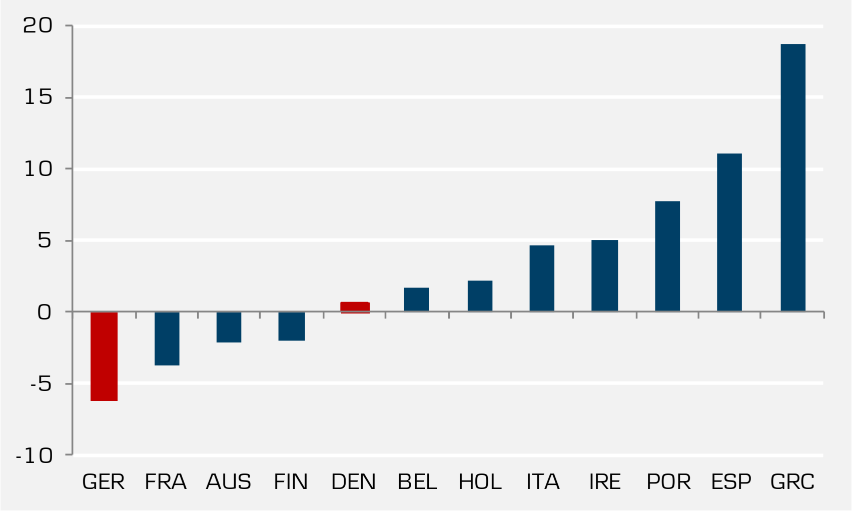


Big currency misalignments in the Euro zone

Over/Under valuation to euro based on unit labour cost since 1999



Over/Under valuation to euro based on HICP since 1999



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Winners and losers in an EMU break-up

		Austria	Belgium	Cyprus	Estonia	Finland	France	Germany	Greece	Ireland	Italy	Luxembourg	Malta	Netherlands	Portugal	Slovak Rep	Slovenia	Spain
REER	Over/undervaluation (1994-)	-1.4%	1.1%	n/a	16.9%	-3.9%	-3.9%	-6.0%	7.1%	2.5%	0.9%	n/a	n/a	-1.4%	2.2%	33.1%	2.8%	4.3%
	Z-score	0.5	0.3		-1.3	0.8	0.8	1.0	-0.3	0.1	0.3			0.5	0.2	-2.9	0.1	0.0
CPI	Cummulated dev since entry	-2%	2%	4%	3%	-3%	-3%	-7%	17%	6%	5%	14%	3%	0%	8%	1%	4%	14%
	Z-score	0.9	0.3	0.0	0.2	1.1	1.1	1.6	-2.0	-0.3	-0.2	-1.6	0.1	0.5	-0.7	0.4	0.0	-1.5
C/A	% of GDP (2011)	2.8	0.6	-7.2	2.4	2.5	-2.7	5.0	-8.4	1.8	-3.5	9.8	-3.8	7.5	-8.6	-1.3	-1.7	-3.8
	Z-score	0.6	0.2	-1.3	0.6	0.6	-0.4	1.1	-1.5	0.4	-0.6	1.9	-0.6	1.5	-1.5	-0.1	-0.2	-0.6
Budget	% of GDP (2011)	-3.5	-3.5	-6.6	-0.1	-1.0	-5.9	-1.7	-8.0	-10.3	-4.0	-0.7	-2.9	-3.8	-5.9	-4.9	-6.2	-6.1
	Z-score	0.3	0.3	-0.8	1.6	1.3	-0.5	1.0	-1.3	-2.2	0.1	1.4	0.6	0.2	-0.5	-0.2	-0.6	-0.6
Debt	% of GDP (2011)	72	95	64	6	50	87	83	166	109	121	20	66	66	106	45	44	67
	Z-score	0.1	-0.5	0.3	1.8	0.6	-0.3	-0.2	-2.4	-0.9	-1.2	1.4	0.2	0.2	-0.8	0.8	0.8	0.2
NFA	% of GDP (2007)	-9%	33%	n/a	n/a	-30%	14%	19%	-101%	-20%	1%	n/a	n/a	44%	-91%	-45%	-22%	-77%
	Z-score	0.3	1.2			-0.2	0.8	0.9	-1.7	0.0	0.5			1.4	-1.5	-0.5	0.0	-1.2
Liquidity	Equity market cap	0.2%	0.5%	0.0%	0.0%	0.3%	3.1%	2.8%	0.1%	0.2%	1.1%	0.1%	0.0%	0.5%	0.2%	0.0%	0.0%	1.2%
	Z-score	-0.4	-0.1	-0.6	-0.6	-0.3	2.6	2.3	-0.6	-0.4	0.5	-0.6	-0.6	-0.1	-0.5	-0.6	-0.6	0.6
Total	Z-score	2.3	1.6	-2.4	2.2	3.9	4.0	7.6	-9.7	-3.2	-0.6	2.6	-0.4	4.3	-5.4	-3.2	-0.6	-3.2

Note: Net financial asset data is sourced from Barnes (2010), OECD WKP83.

- **Most overvalued EMU currencies by PPP:** GRD, LUF, ESP and PTE
- **Most undervalued EMU currencies by PPP:** DEM, FRF, FIM and ATS

- **Germany, Netherlands, France and Finland appear strongest on most measures – though France is running a current account deficit**

- **Greece, Portugal, Spain, Ireland and the Slovak Republic is expected to see the biggest depreciation of their currency in a total EMU break-up scenario**

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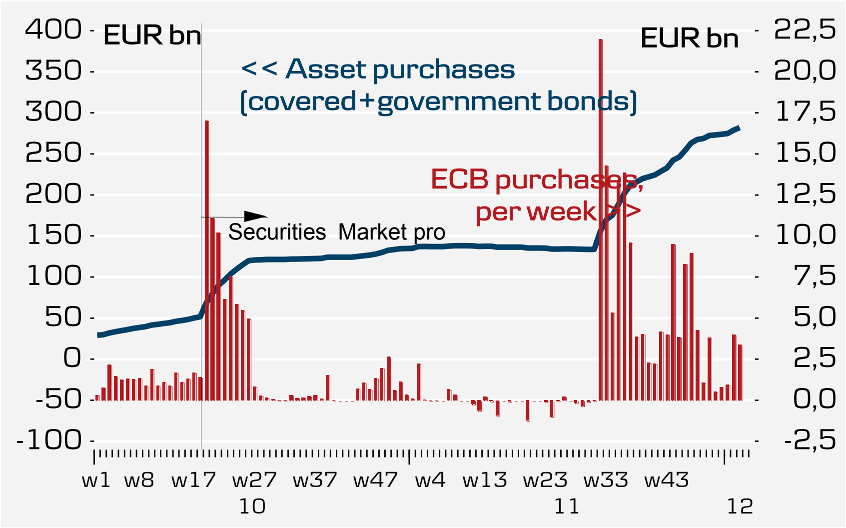
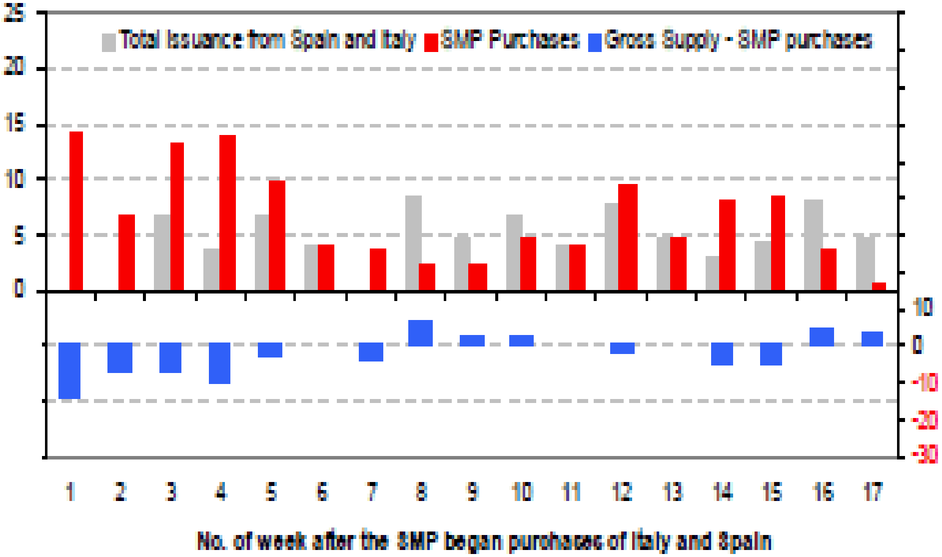
ECB could step up SMP in 2012

ECB has included Italy and Spain…



Source: Reuters Ecowin and Danske Markets

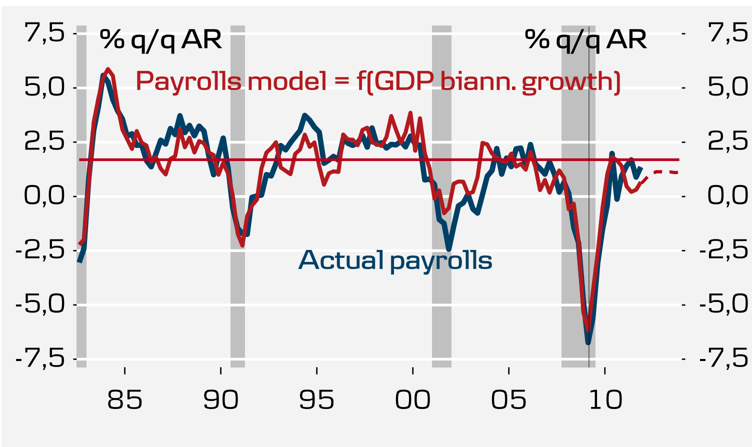
…and could more than double SMP in 2012



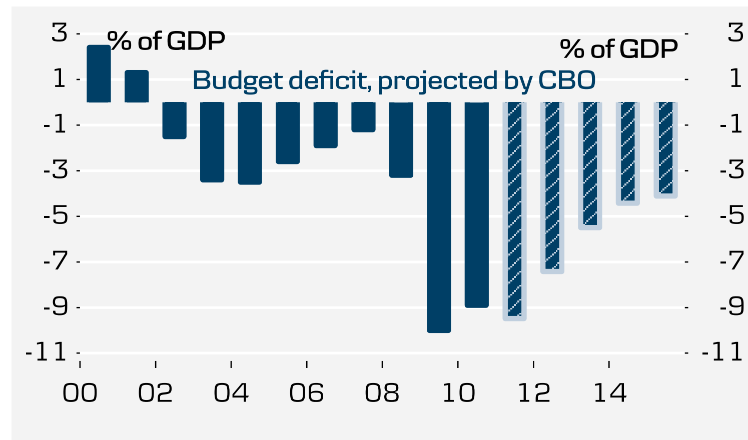
Source: Bloomberg, ECB and Citi

4 reasons for low long term growth in the US

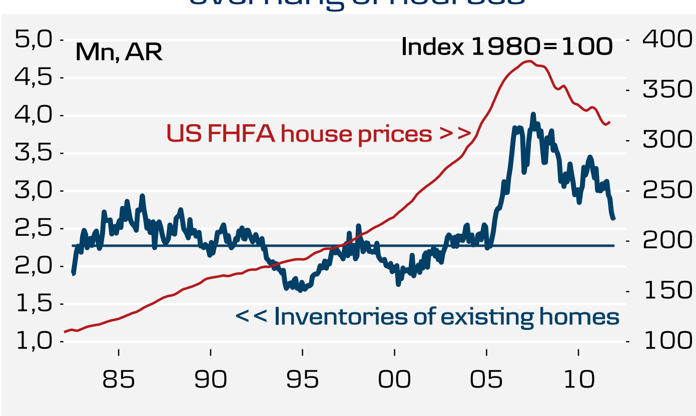
#1: Job growth to stay sluggish



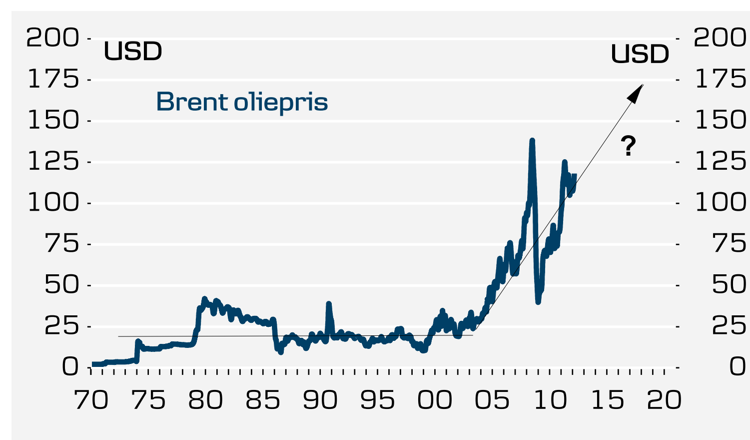
#2: Strong fiscal tightening in pipeline



#3: House prices under pressure from huge overhang of hourses



#4 Super cycle in oil prices is new headwind



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