

The world economy in 2011

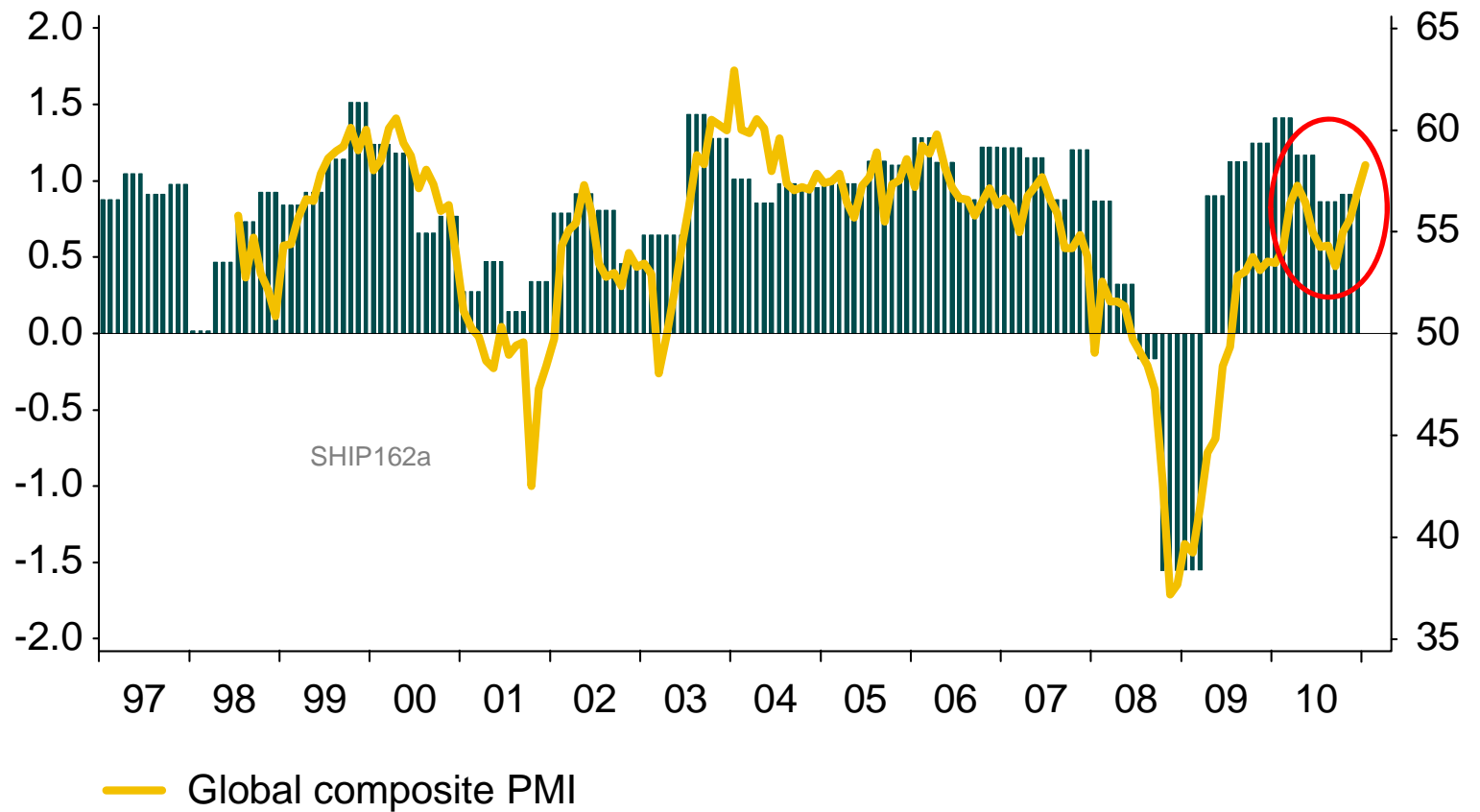
2nd Annual Capital Link Greek Shipping Forum



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World economy is gaining steam entering into 2011

World economic growth and Markit global PMI

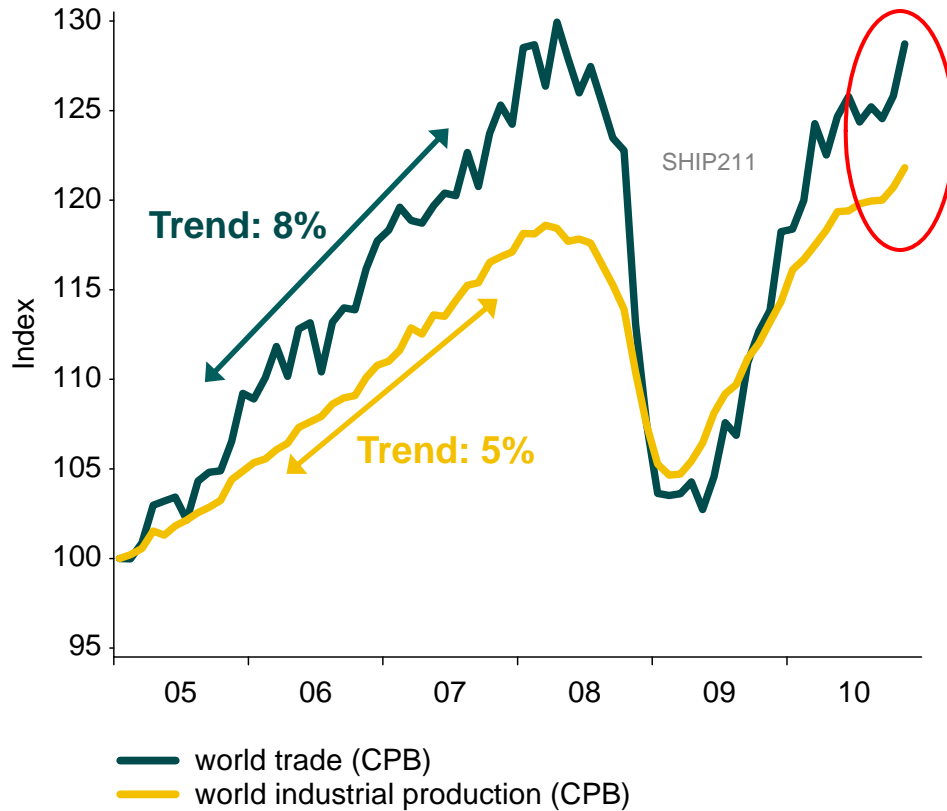


Source: Reuters EcoWin, ABN AMRO

We just went through a typical mid-cycle correction

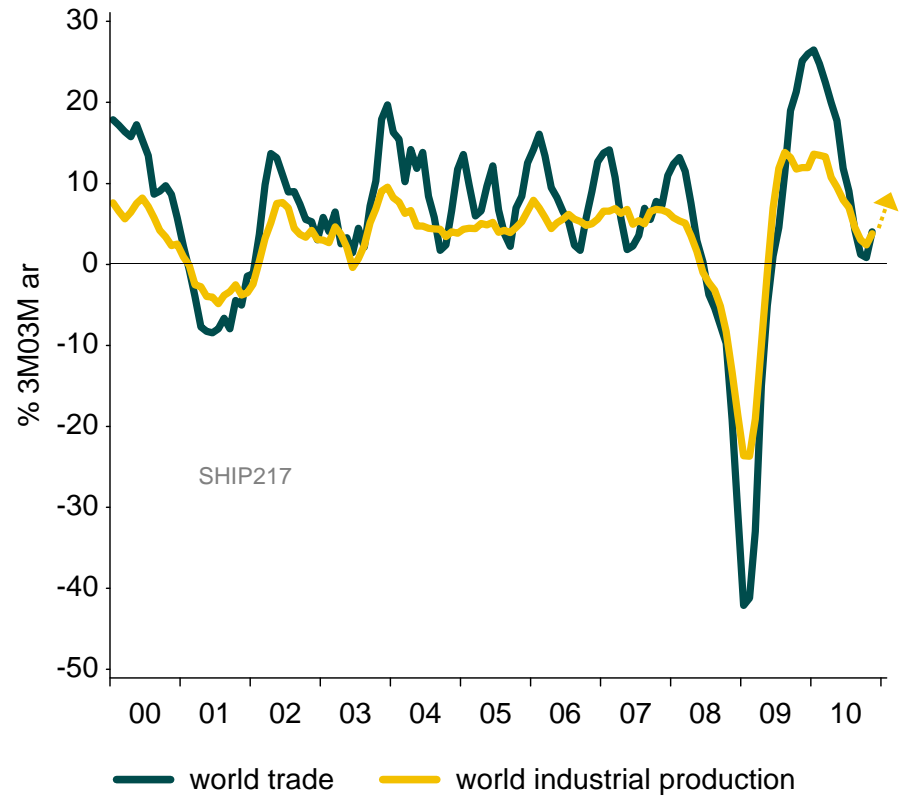
Manufacturing sector and world trade have lost support from stock-building, but overshoot; today we're witnessing the 'correction on the correction'

World trade & ind. prod. (Jan. 2005=100)



Source: Reuters EcoWin

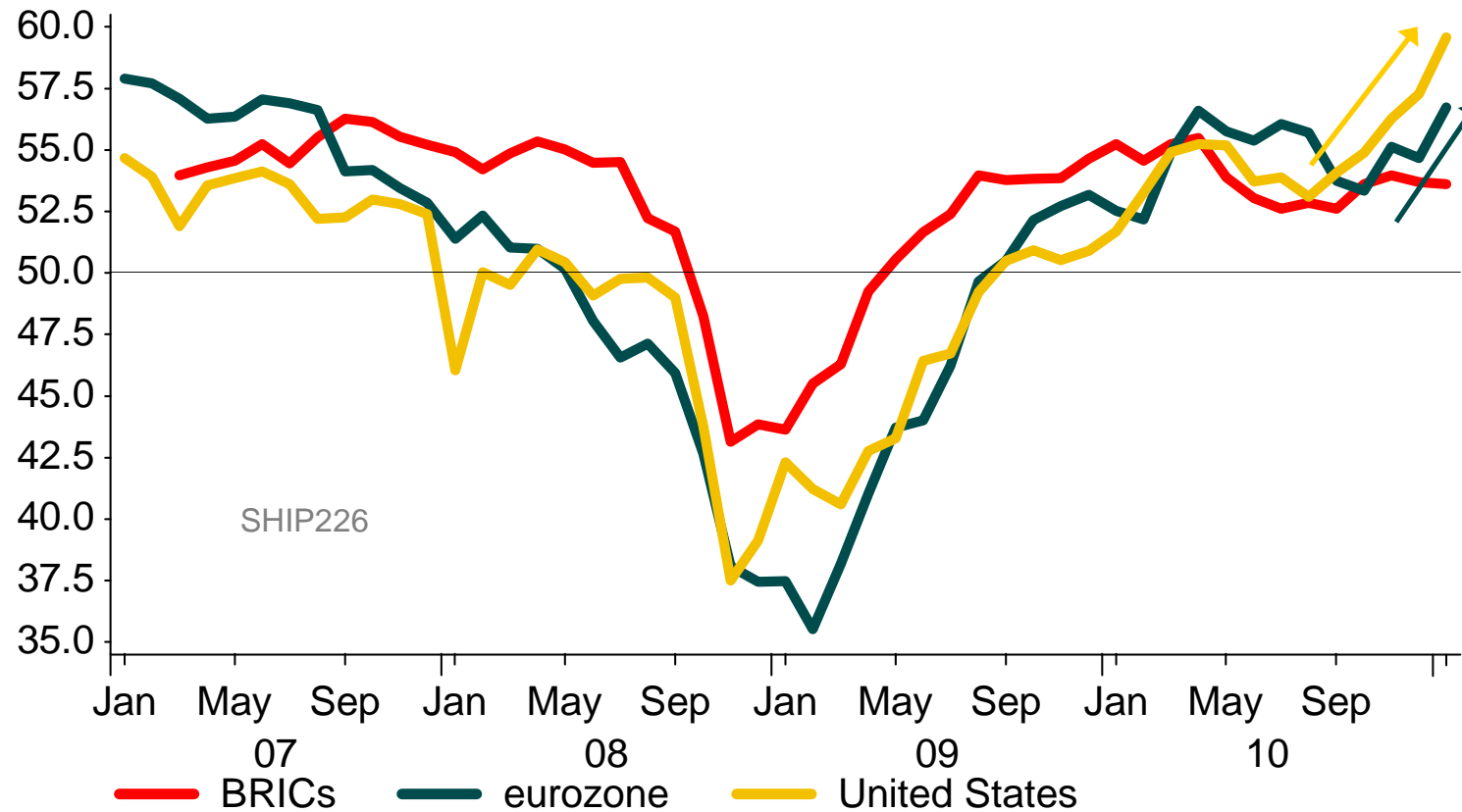
Nothing new under the sun...



Source: Reuters EcoWin

This time the advanced economies are in the lead

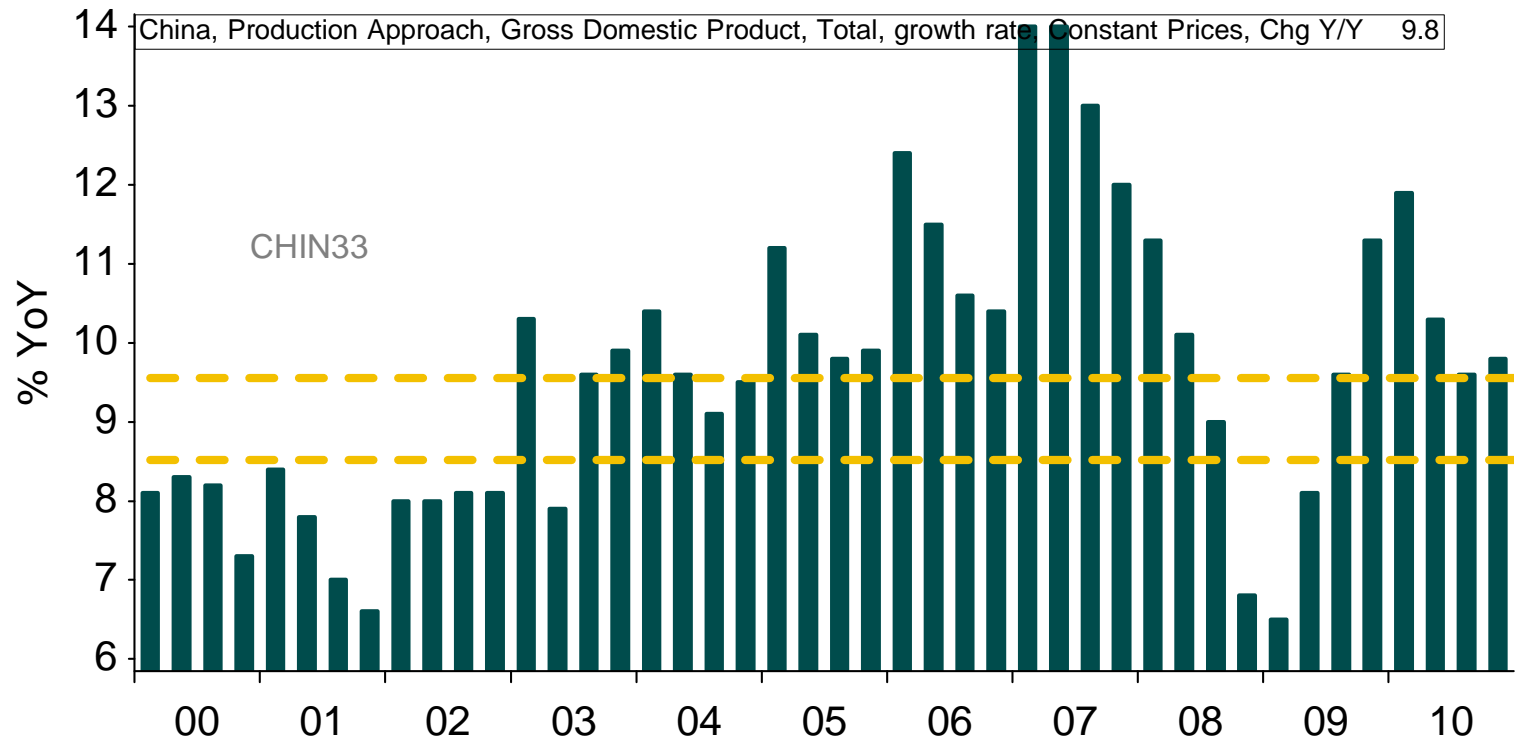
Markit composite PMI's



Source: Reuters EcoWin

The Chinese economy is growing at unsustainable pace...

Real GDP growth is above most estimates of potential growth



Source: Reuters EcoWin

...with potential GDP shifting into a lower gear...

Chinese growth accounts

	1978-1994	1995-2009	2010-2015	2016-2020
employment	3.3	1	0.2	-0.5
labour productivity	6.4	8.5	8.2	7.5
- capital/labour	3	2.7	2.3	2.3
- education/labour	0.5	0.3	0.5	0.6
- total factor productivity	2.9	5.5	5.4	4.6
potential GDP	9.7	9.5	8.4	7

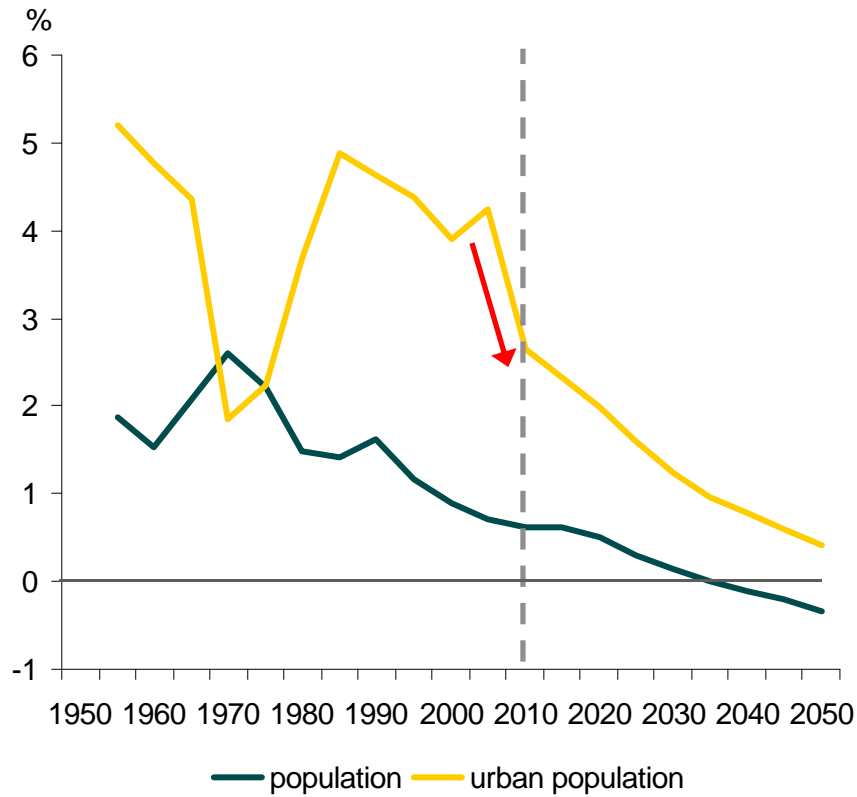
Source: World Bank: China Quarterly Update, June 2010

- Asian Development Bank is more pessimistic and expects potential growth to slow to 6.1% in 2011-2020 and to 5% in 2021-2030 (see ADB Economics Working Paper Series No. 220)

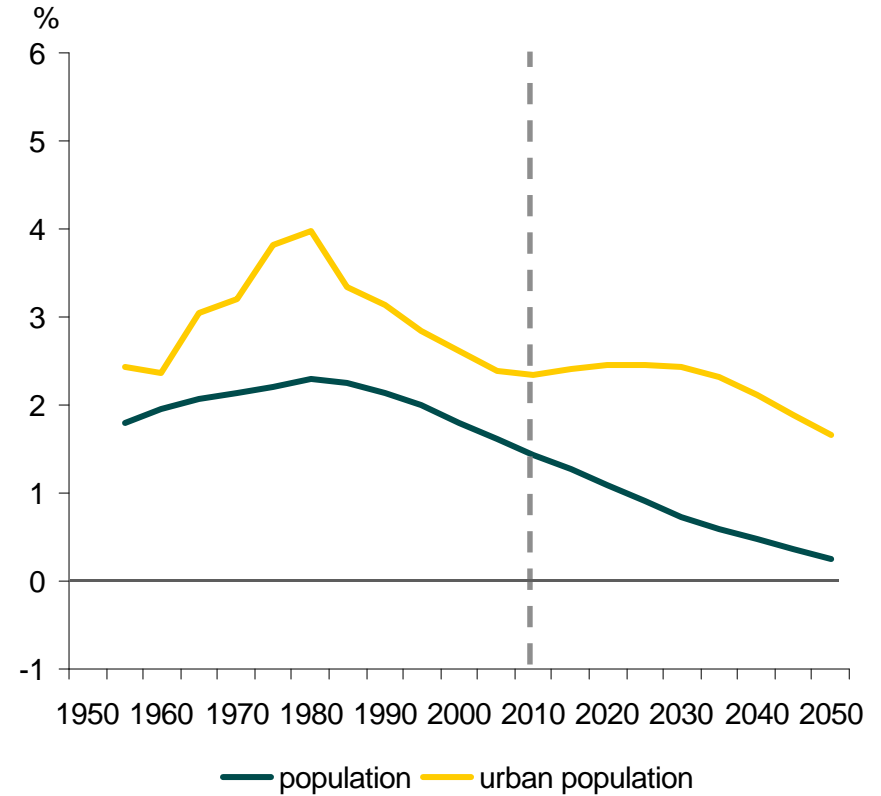
...on unfavourable demographics...

Demographics will favour India in coming decades; this will have a negative impact on Chinese potential growth of 2pp by 2015, compared to 1980-2005 peak levels (4.3%)

China: population growth (total and urban)

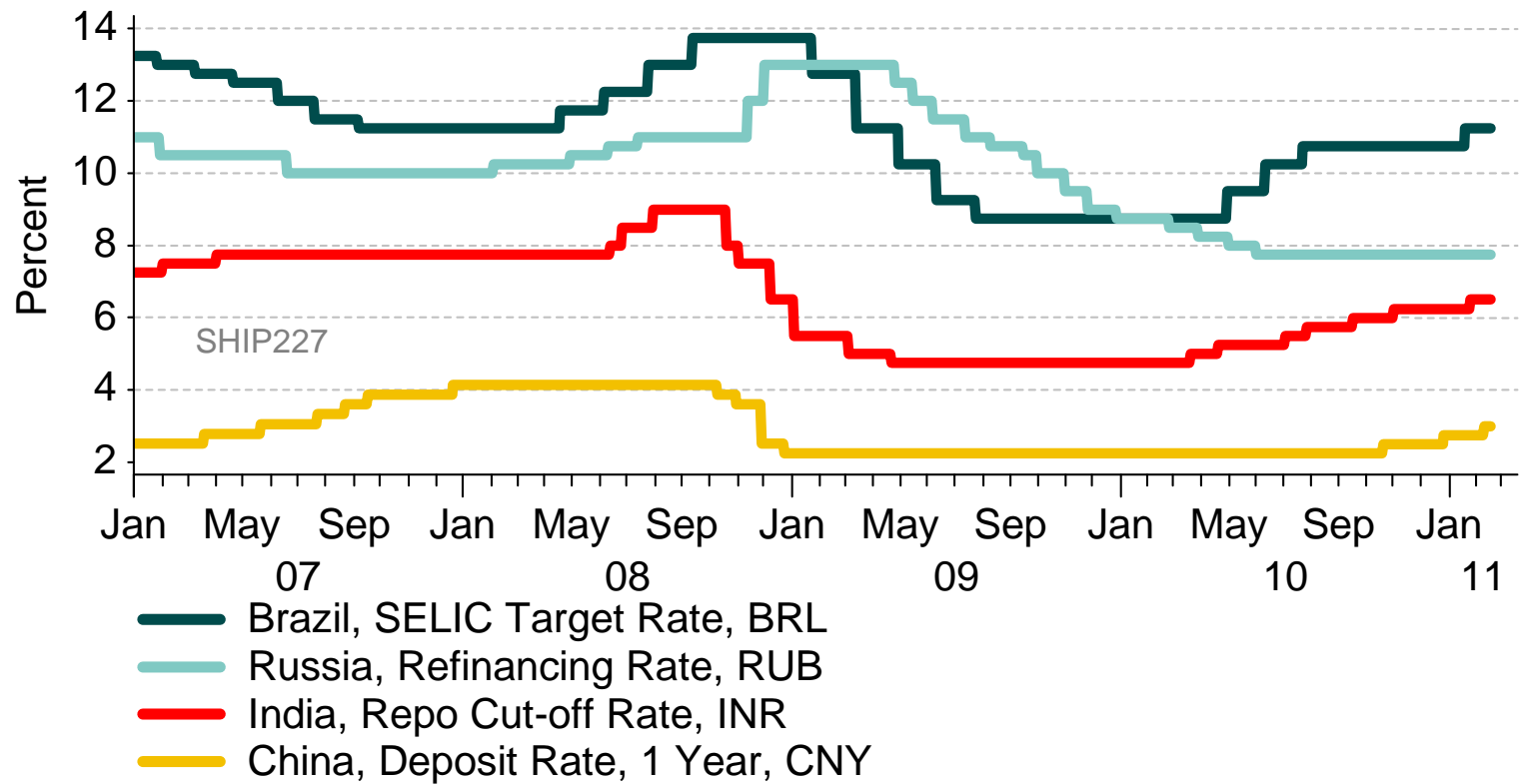


India: population growth (total and urban)



And China is the rule rather than the exception

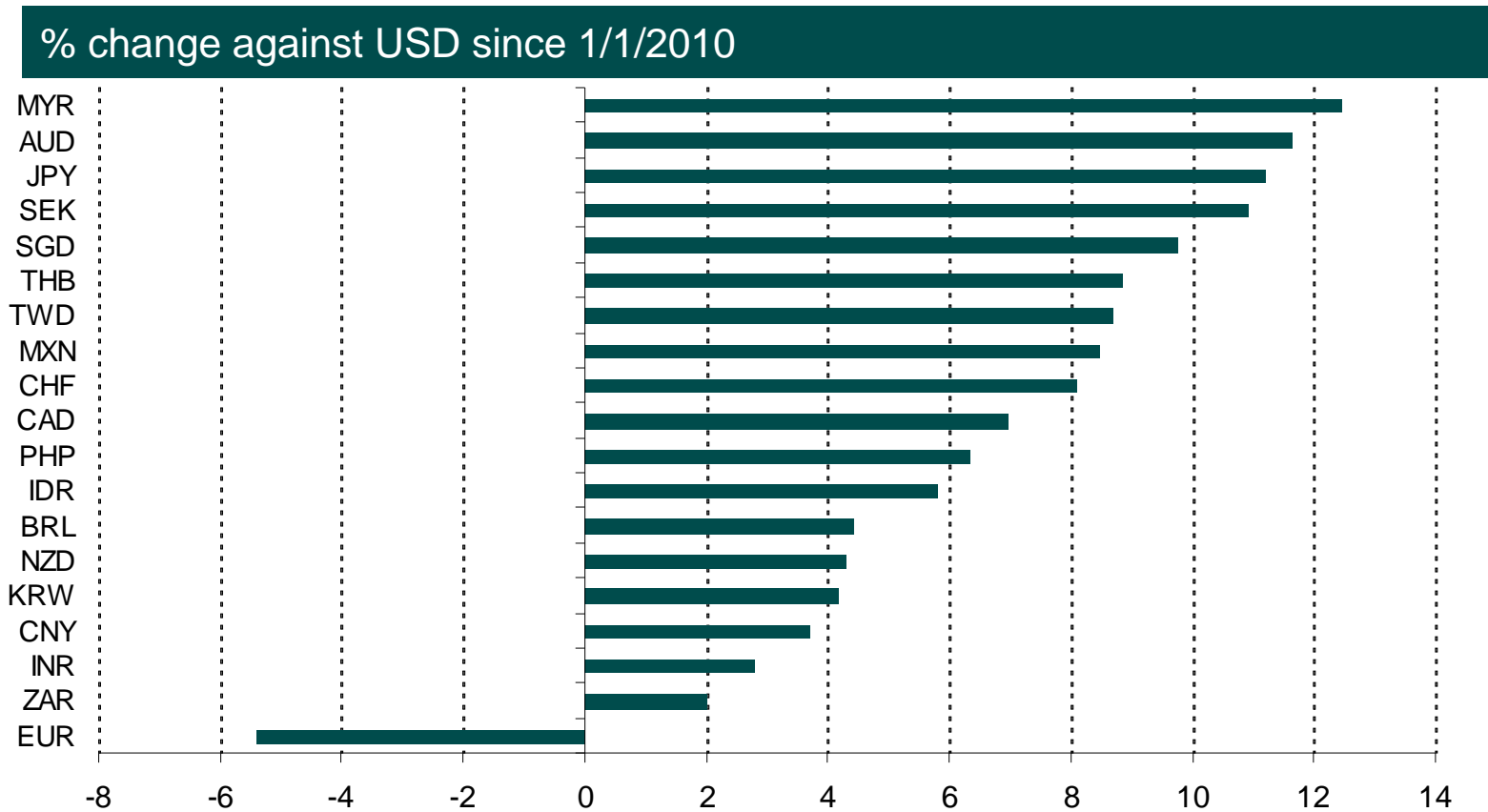
Policy rates in BRIC countries



Source: Reuters EcoWin

Export-dependent economies battle with rising currencies

In response capital controls were introduced in e.g. Brazil, Indonesia, Peru, South Korea, Taiwan, and Thailand; should play reduced role in 2012

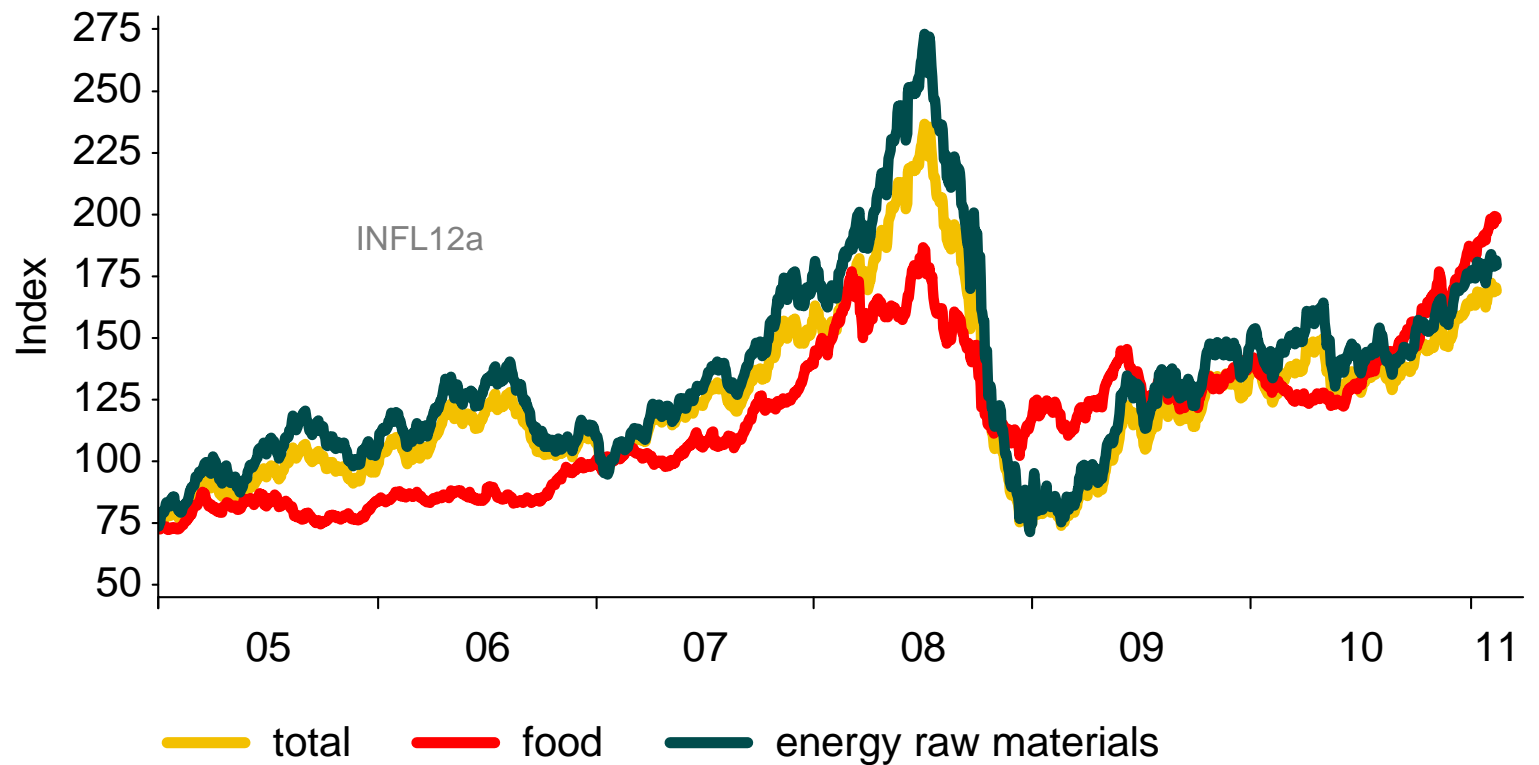


Source: Bloomberg

Soaring food prices pose threat to emerging economies

Soaring food prices are related to ever increasing demand from emerging economies and supply effects from La Nina; we see prices fall in 2011H2; rice largely unaffected!

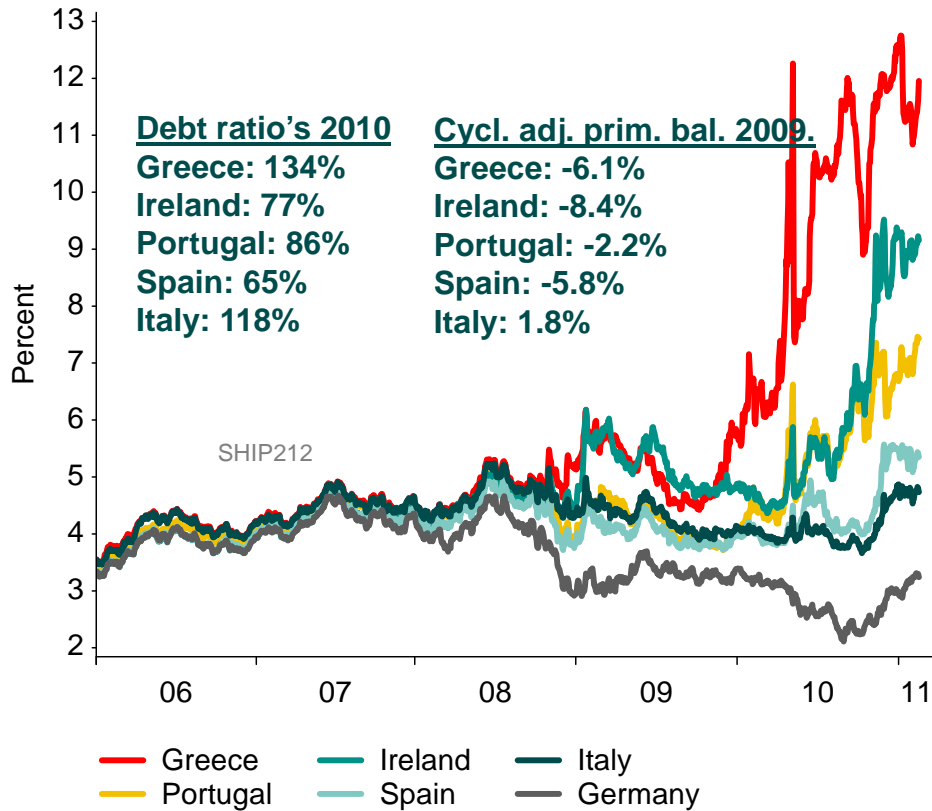
HWWI commodity price indices (Jan. 2007 = 100)



Source: Reuters EcoWin

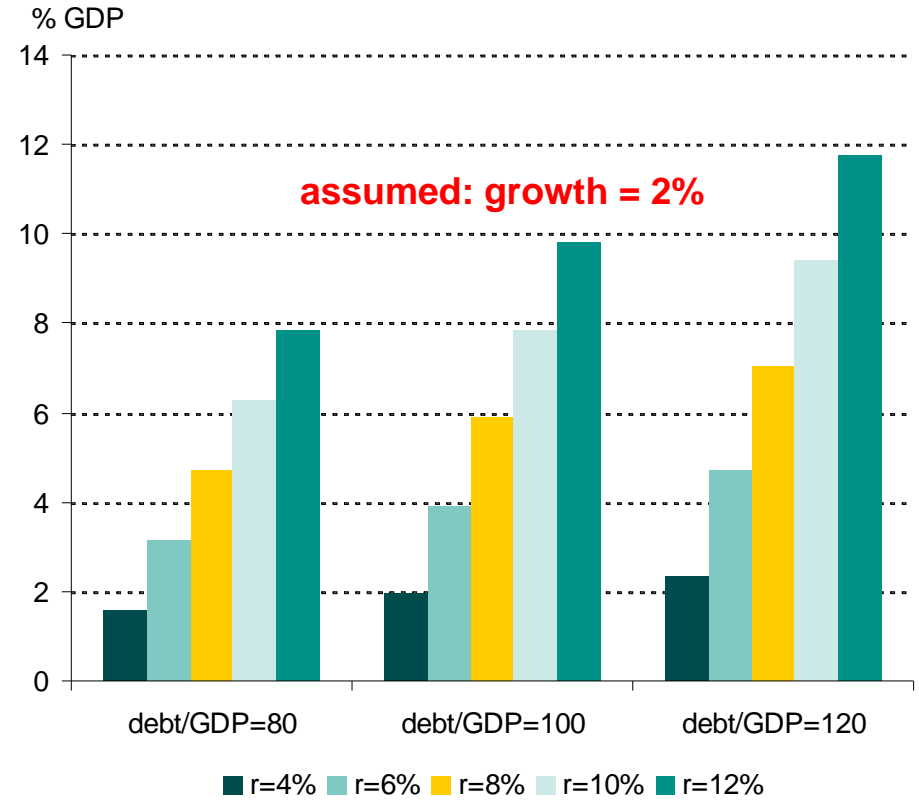
The self-fulfilling prophecy of a loss of market confidence

10-Y yields



Source: Reuters EcoWin

Primary surplus needed to stabilise debt ratio

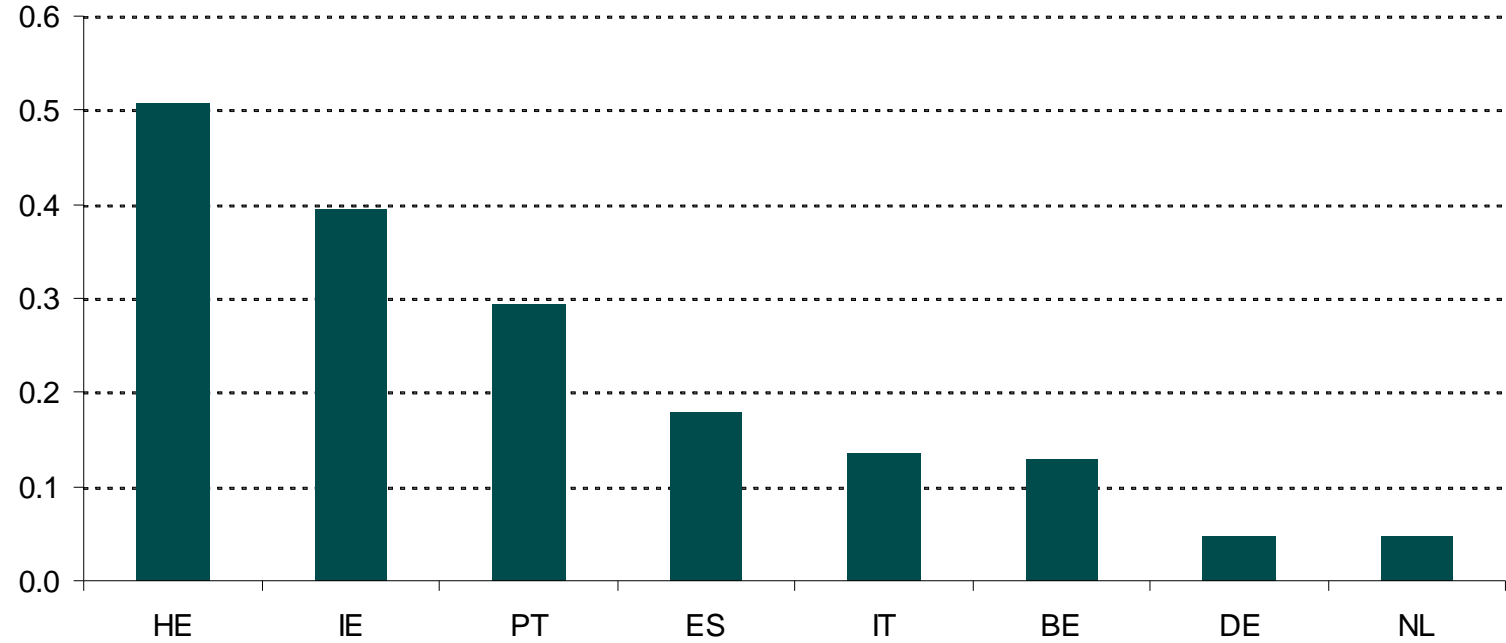


Source: Reuters EcoWin, ABN-AMRO

Markets are pricing in significant chances of default

Although this has much improved since early January

Implied default probabilities from CDS's

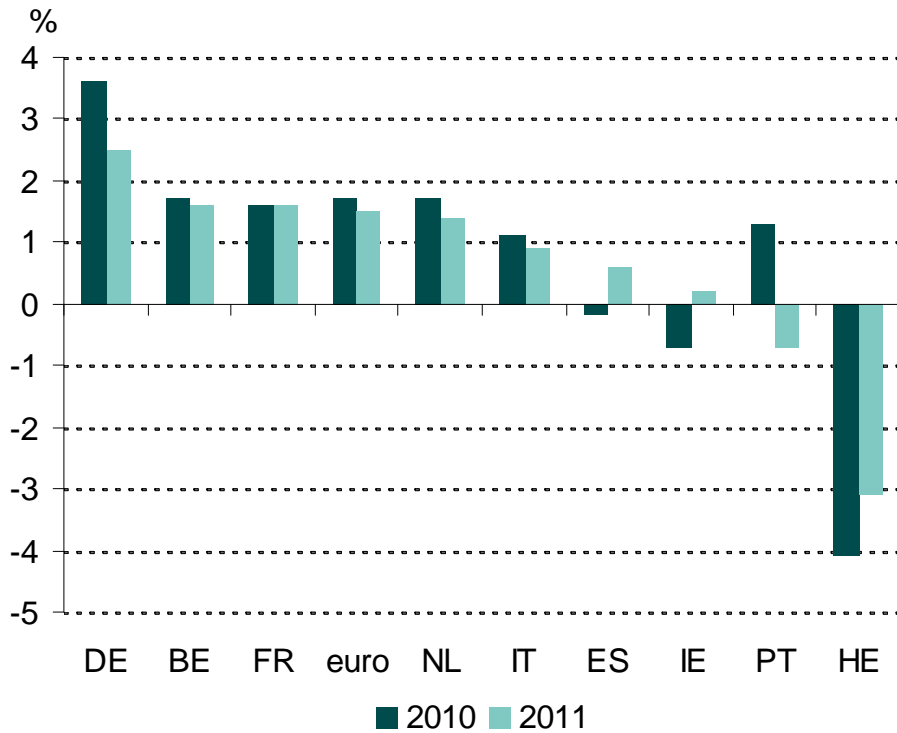


Source: Bloomberg

Eurozone: a two-speed economy

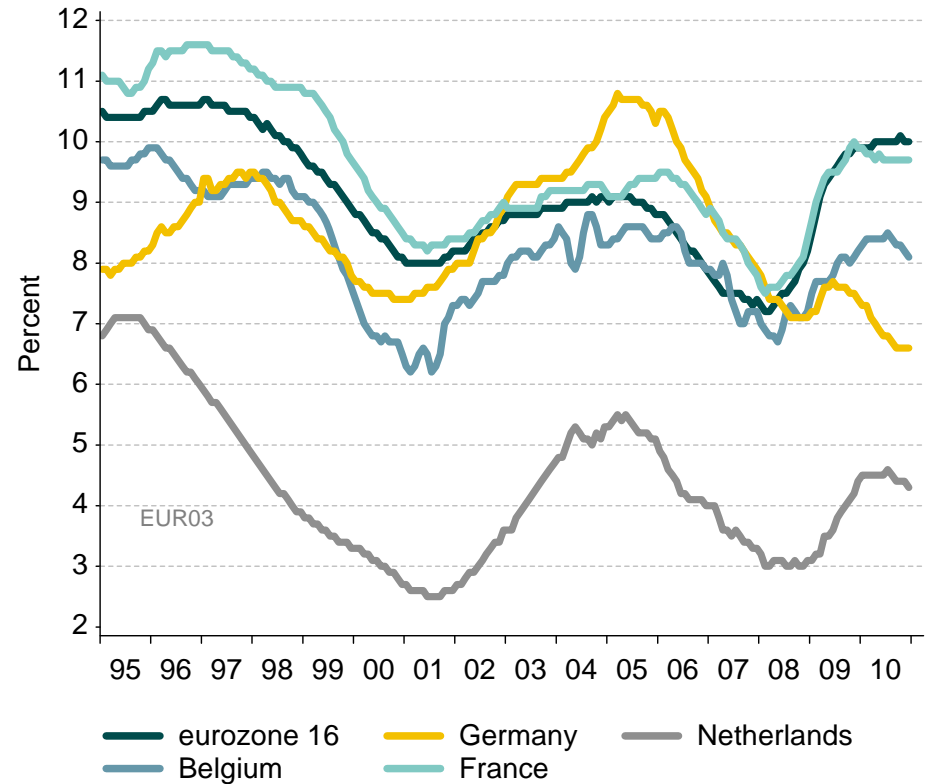
Eurozone periphery is suffering from weak competitiveness and aggressive fiscal cut-backs, but core is doing well

Consensus growth forecasts



Source: Reuters EcoWin, ABN AMRO

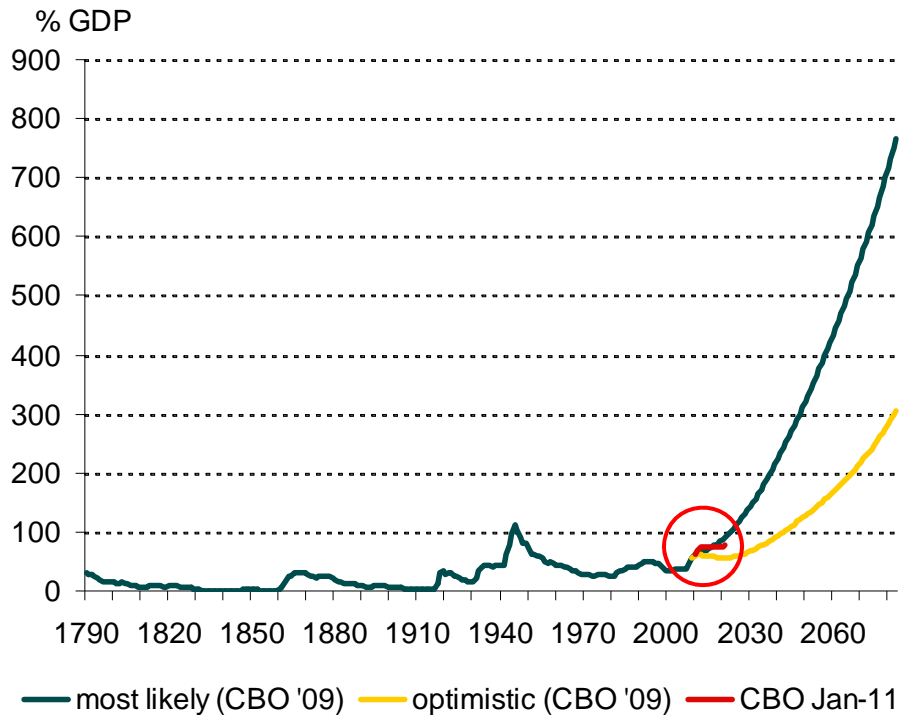
Harmonised unemployment rates



Source: Reuters EcoWin

United States sinking into a fiscal quagmire

Debt ratio about to explode



Source: Congressional Budget Office

Fiscal adjustm. needed to reach 60% debt ratio



Source: IMF

But...long-term pain equals short-term gain!

Fiscal multiplier: ~0.5

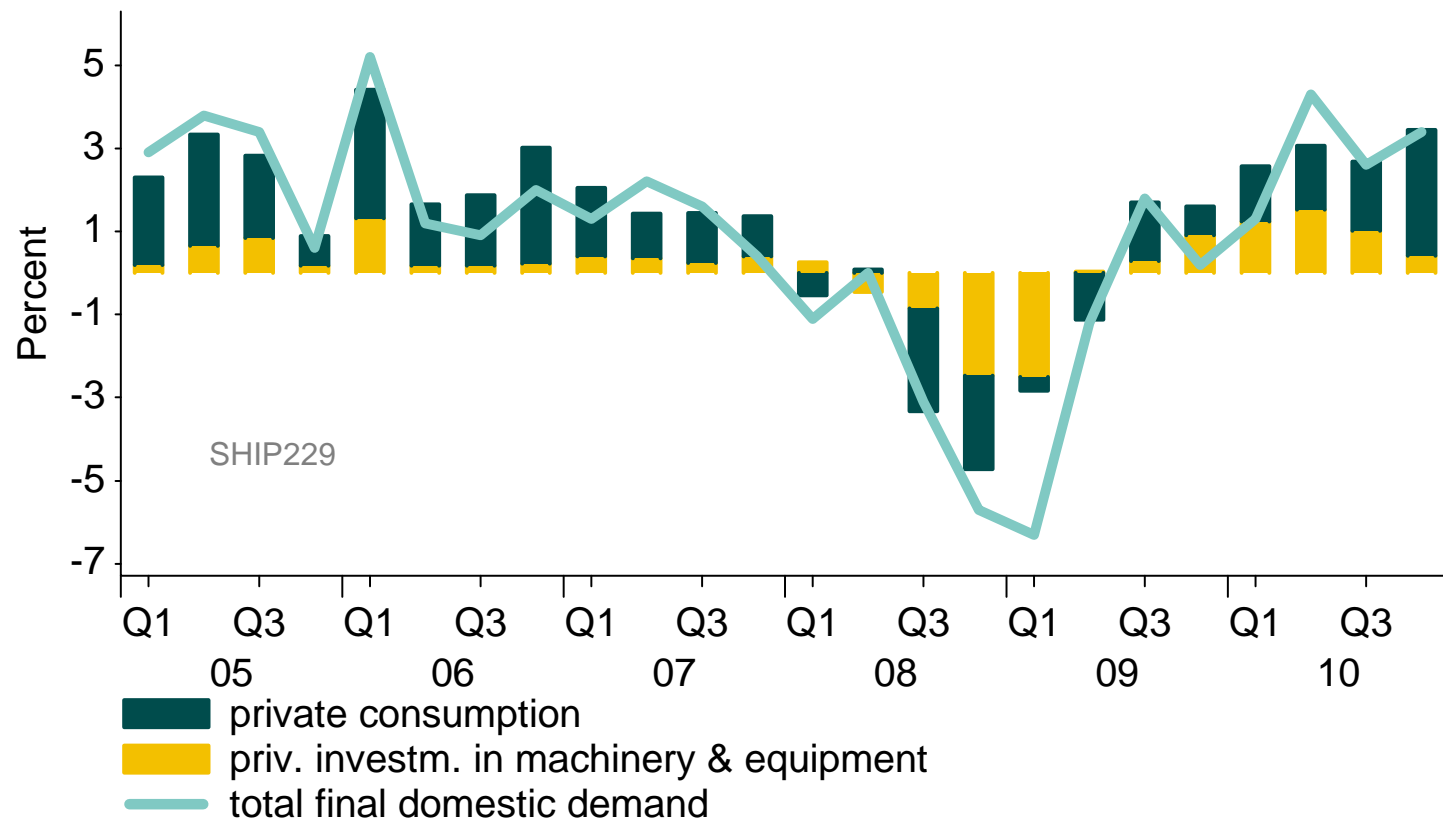
Change in cyclically adjusted primary budget balance



Source: IMF, ABN AMRO

US final domestic demand is getting stronger...

Composition of final domestic demand growth (%QoQ saar)

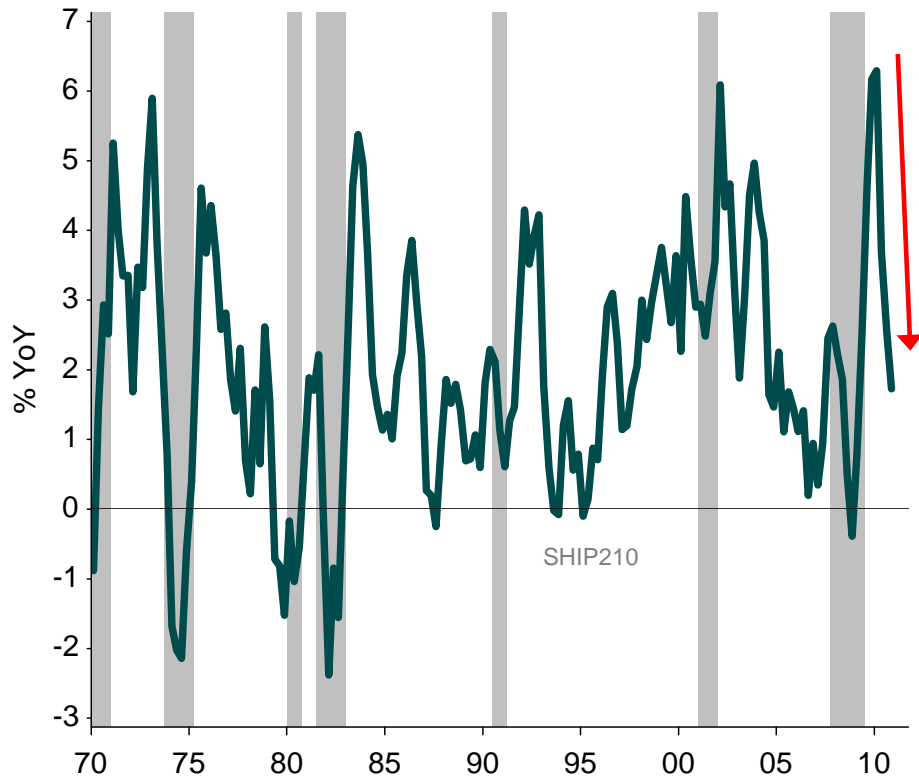


Source: Reuters EcoWin

...and will receive additional boost from labour market

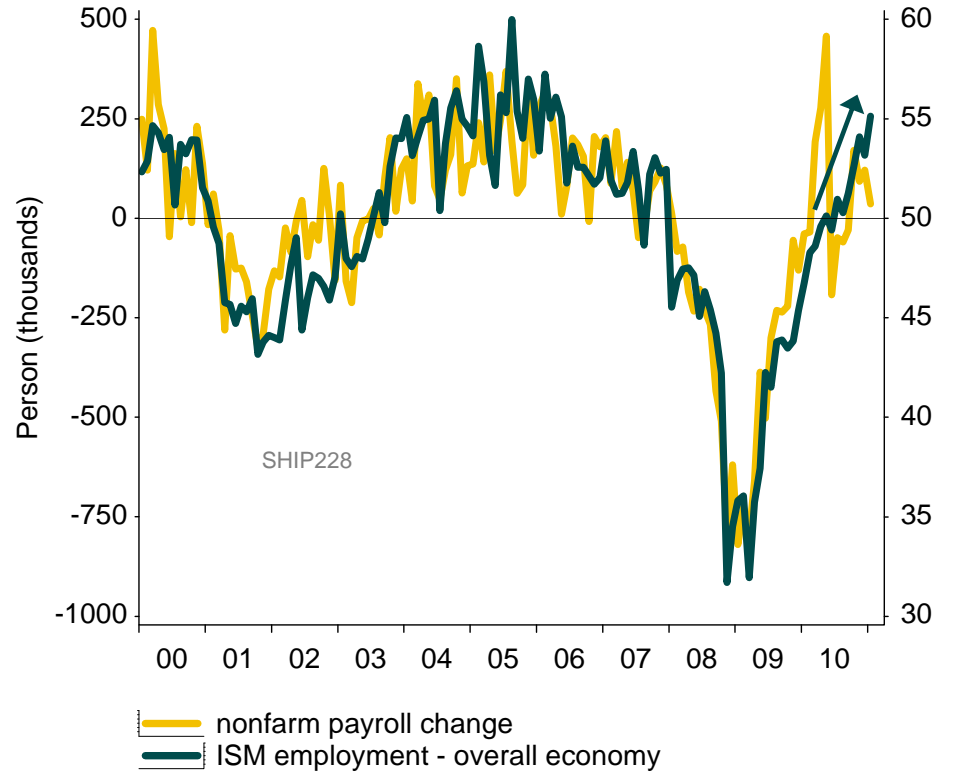
A 1% drop in productivity growth would create 1.4m new jobs (115K extra per month)

Slower growth in labour productivity...



Source: Reuters EcoWin

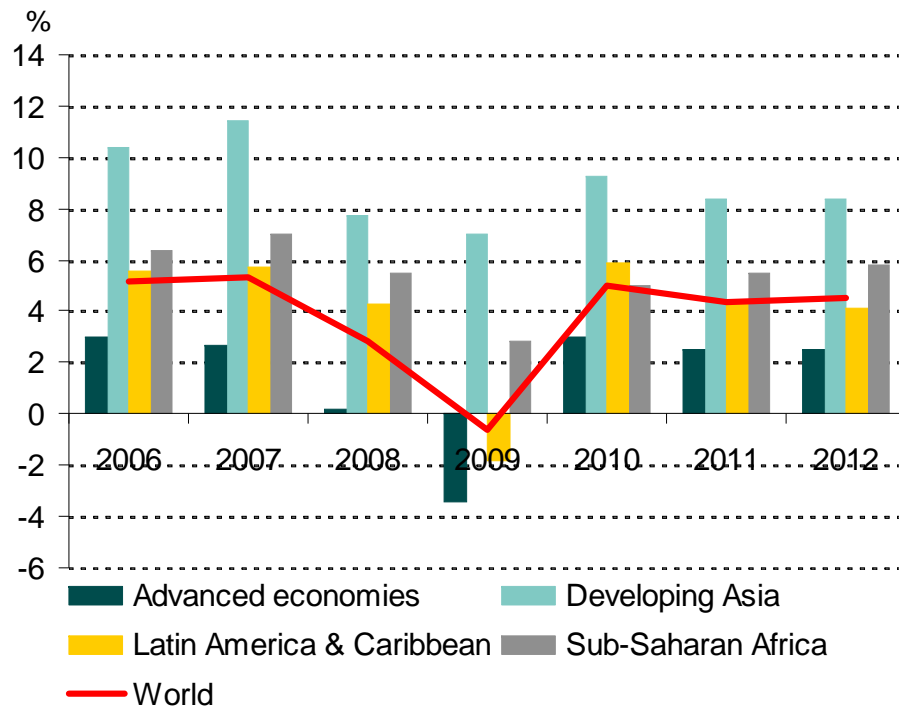
...is about to shift job growth into higher gear



Source: Reuters EcoWin

Upside risks to US and eurozone economies

IMF sees modest slowdown in world growth



Source: IMF

	2009	2010E	2011E	2012E
GDP				
United States	-2.6	2.9	3.3 ↑	3.5
Eurozone	-4.1	1.7	1.6 ↑	1.9
Japan	-6.2	4.0	1.5	1.6
China	9.1	10.5	9.4	9.2
India	7.7	8.8	8.3	8.4
Brazil	-0.7	7.7	4.5	5.5
World	-0.6	5.0	4.4	4.5
World trade				
	-12	15	6	8

Source: ABN AMRO

Thank you !

Any questions?