



The world economy in 2011

Capital Link's 5th Annual Invest in International Shipping Forum

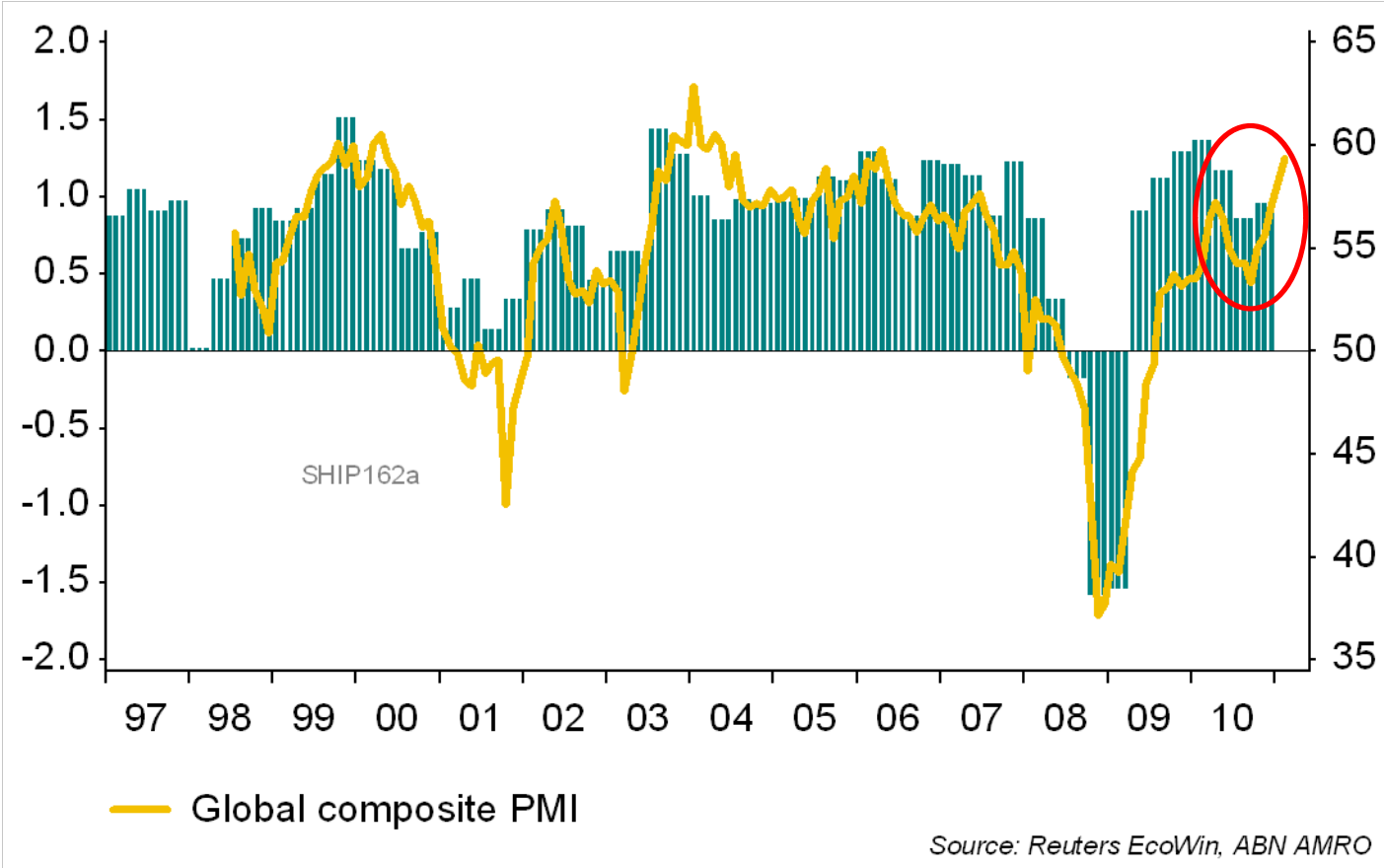
New York, March 24, 2011

Guy Verberne

Head of Investment
Strategy

World economy is gaining steam entering into 2011

World economic growth and Markit global PMI

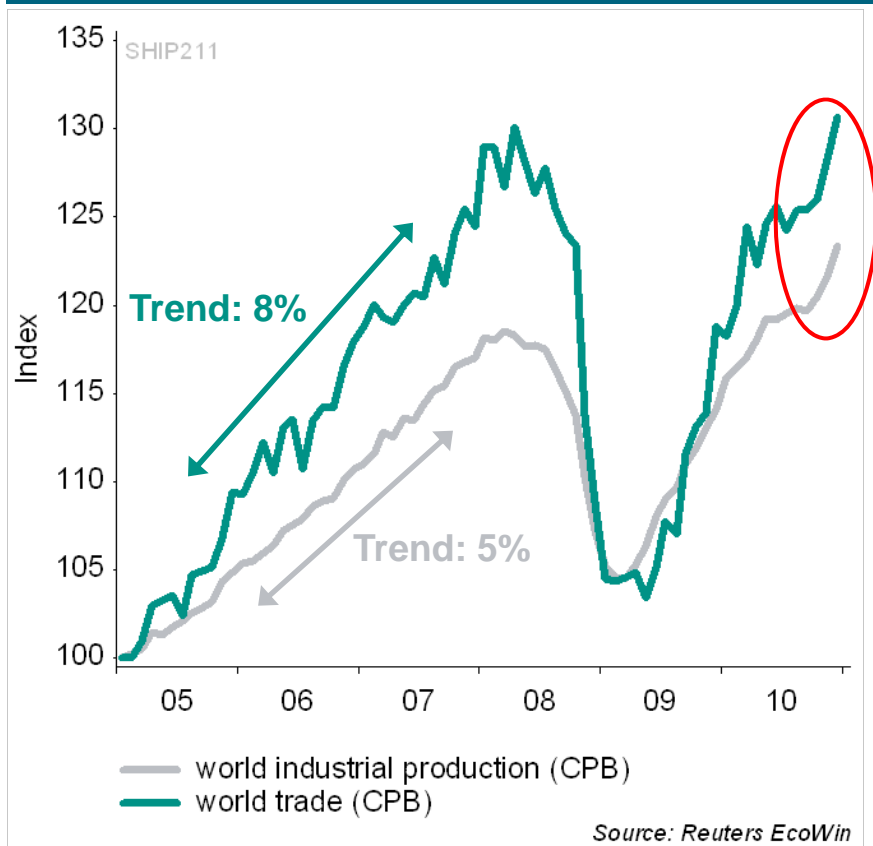


Source: Reuters EcoWin, ABN AMRO

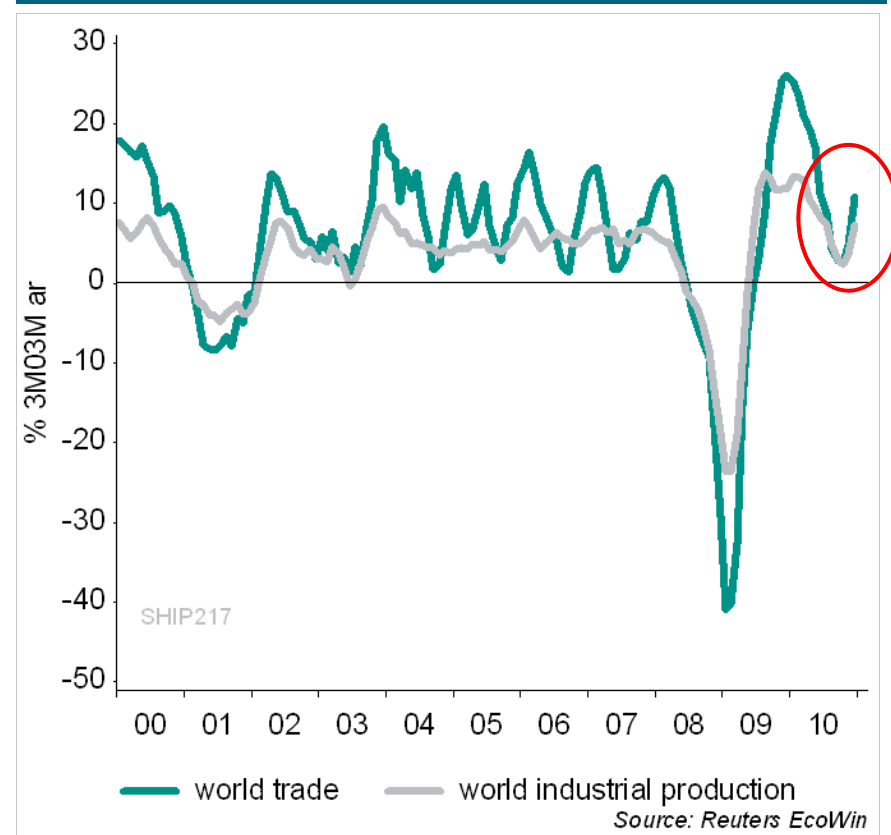
We just went through a typical mid-cycle correction

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

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

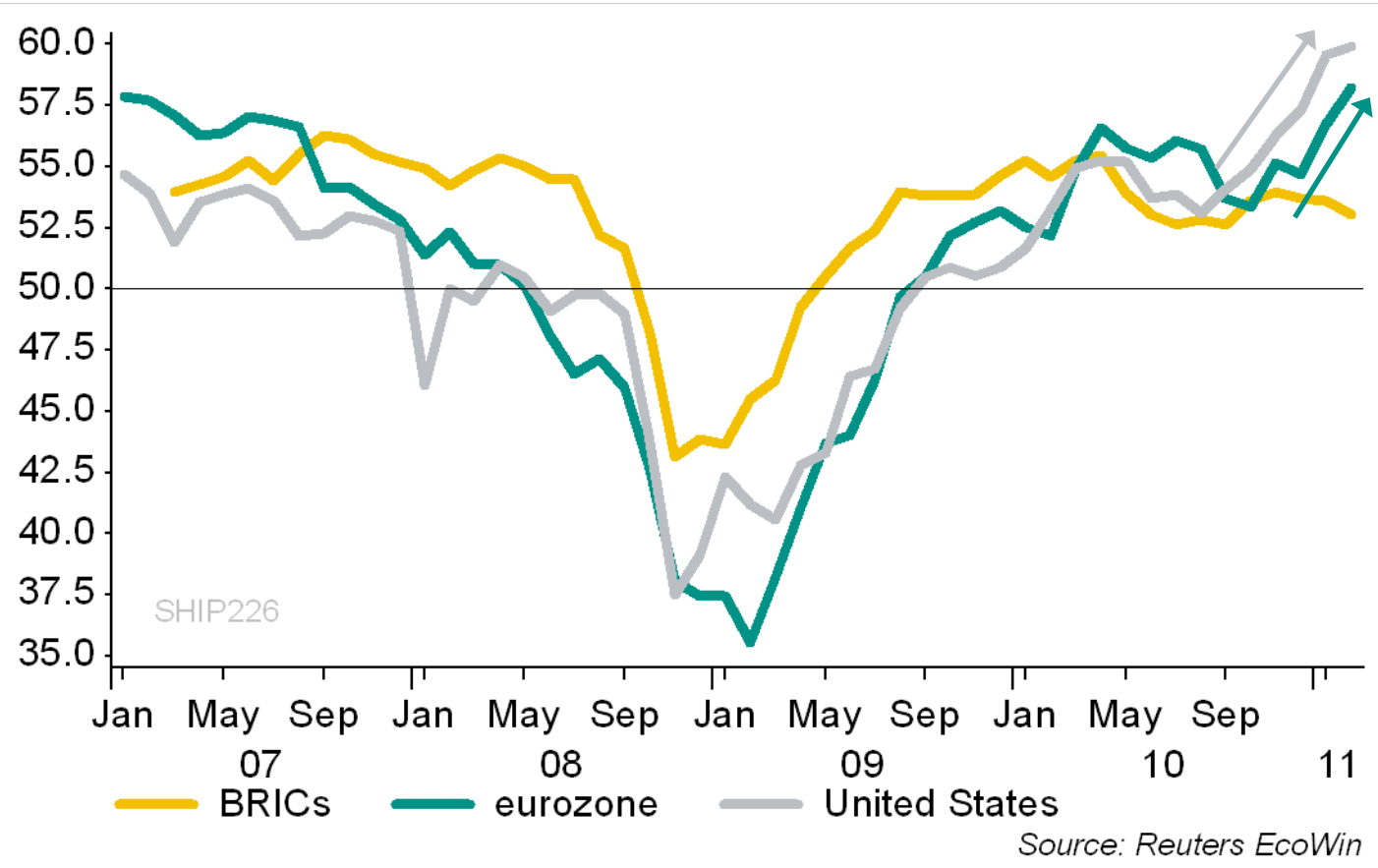


Nothing new under the sun...



This time the advanced economies are in the lead

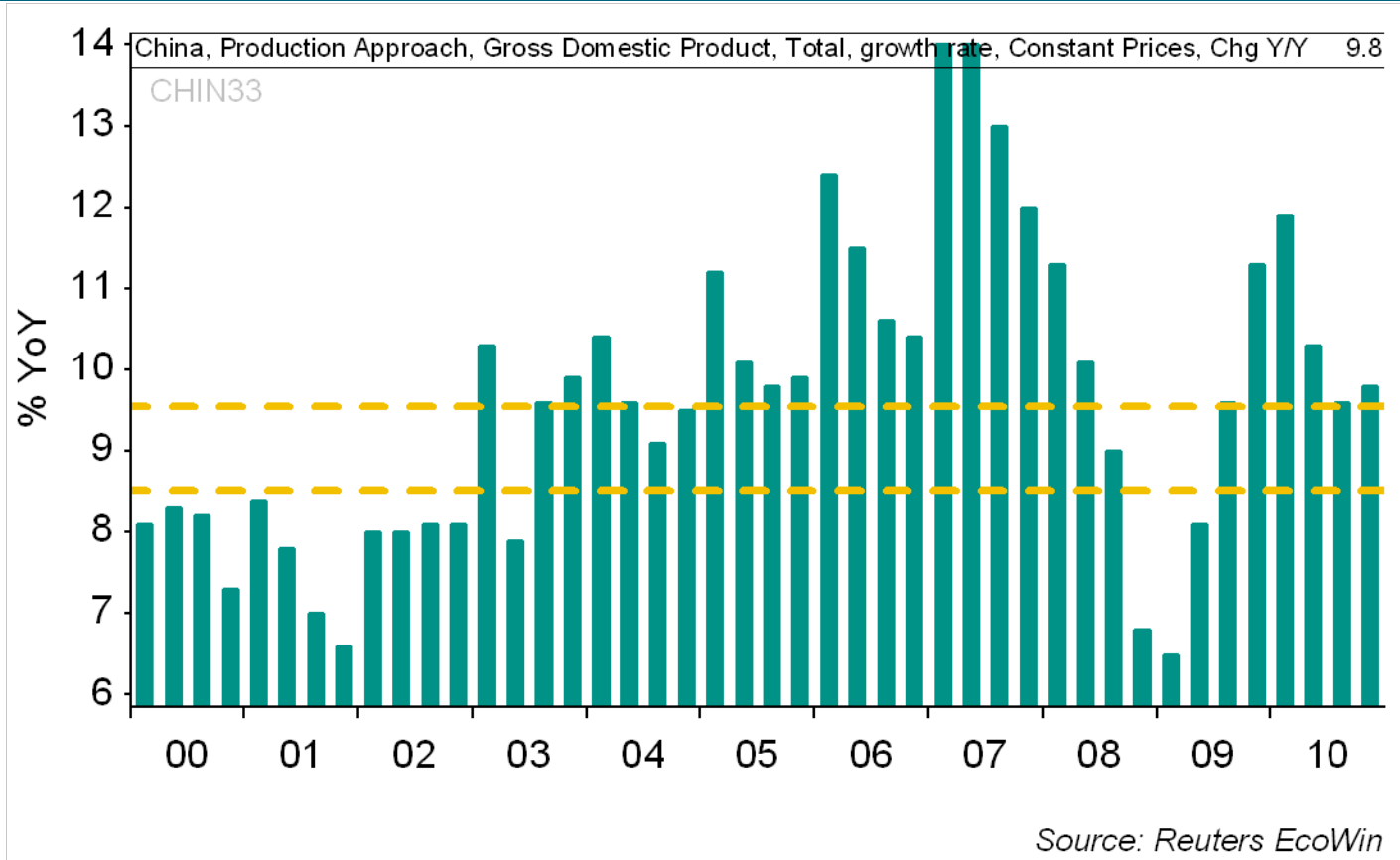
Markit composite PMI's



Source: Reuters EcoWin

Chinese economy is growing at unsustainable pace...

Real GDP growth is above most estimates of potential growth



...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

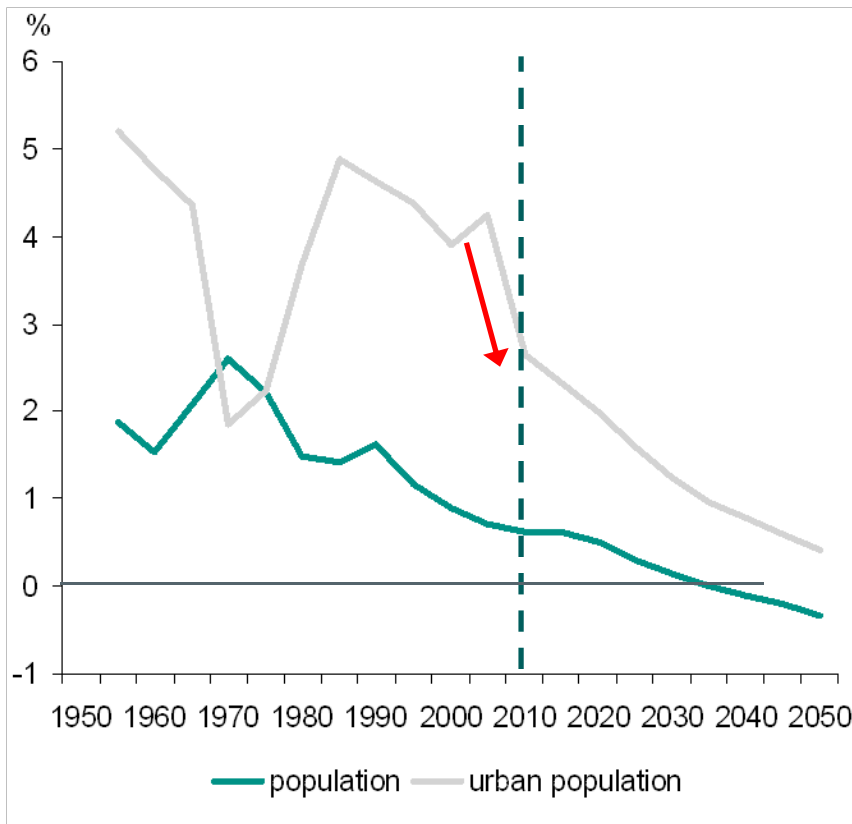
Source: World Bank: China Quarterly Update, June 2010

- 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)

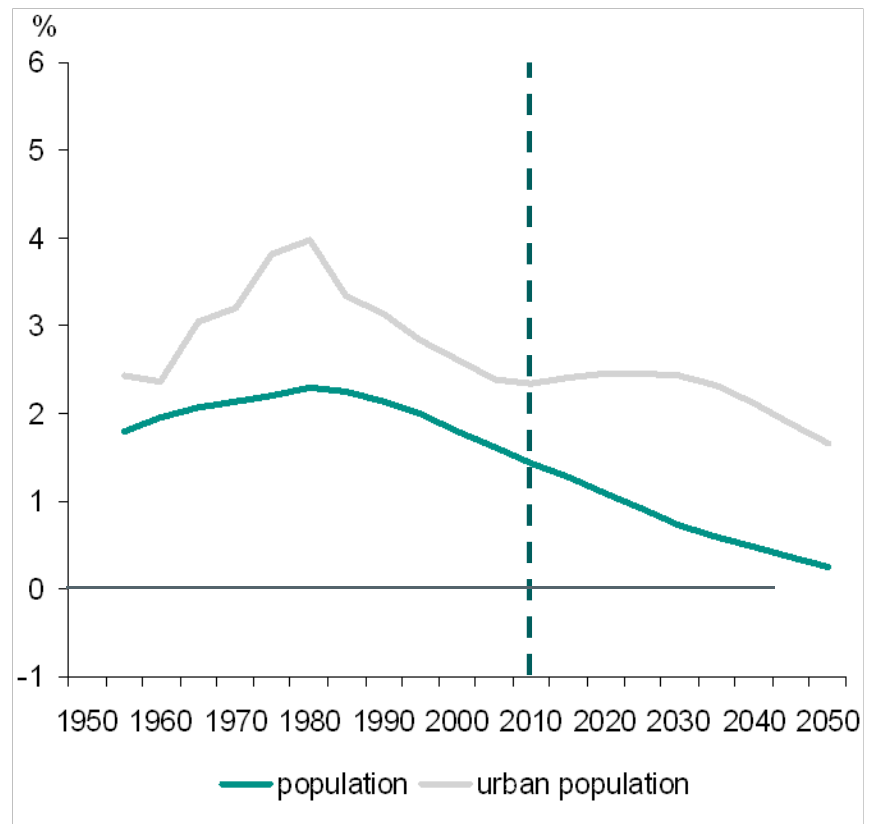
...on unfavourable demographics...

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)



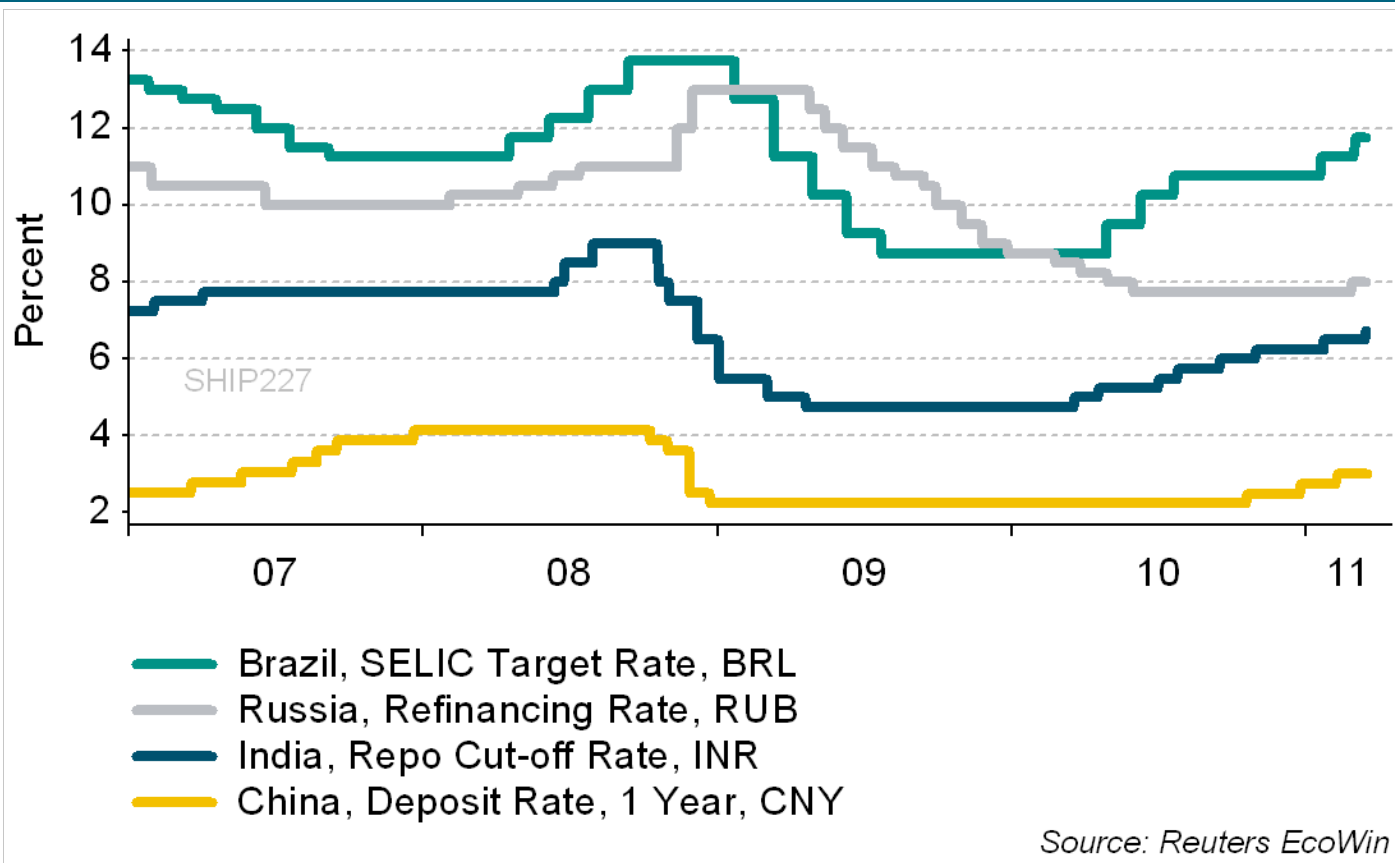
India: population growth (total and urban)



Source: United Nations, ABN AMRO

And China is the rule rather than the exception

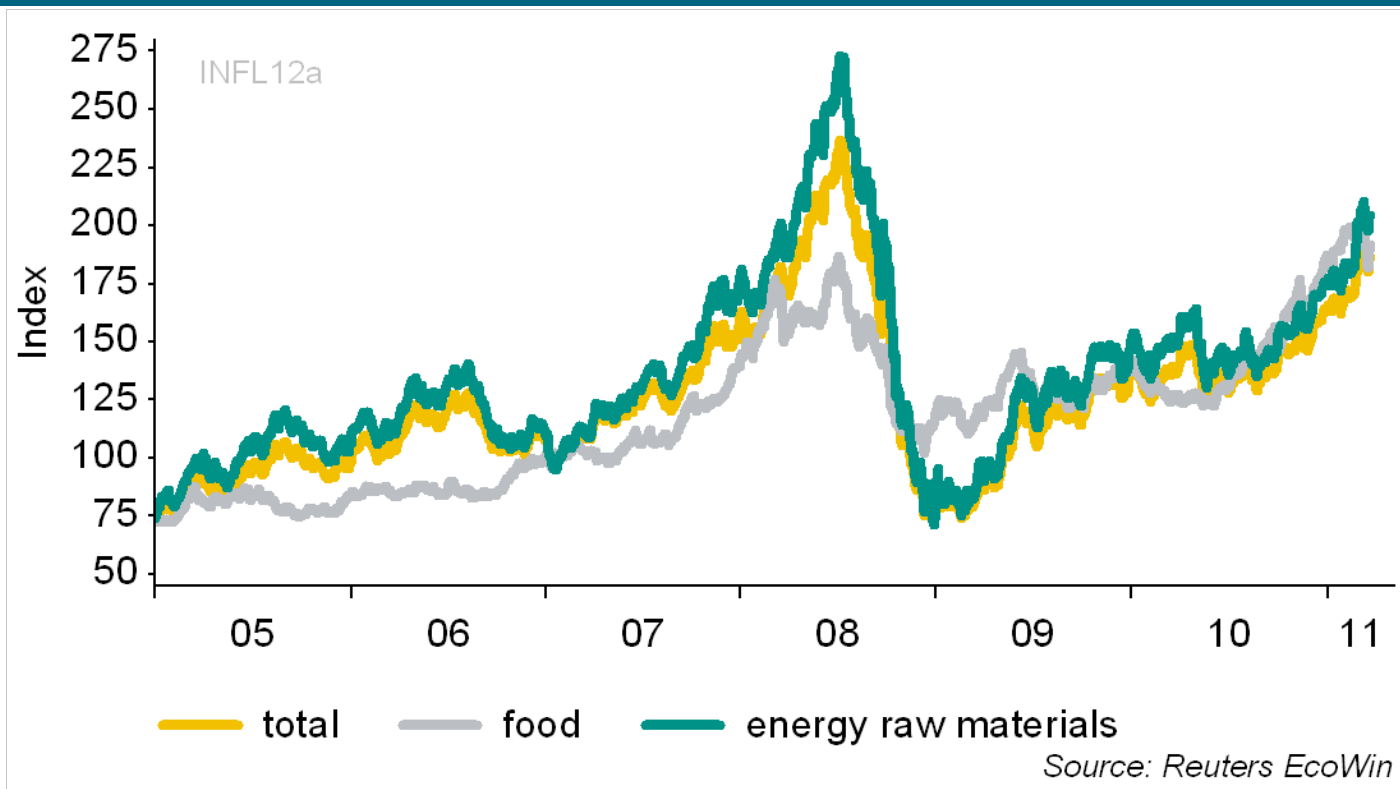
Policy rates in BRIC countries



Soaring food prices pose threat to emerging econ.

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)



Negative impact of rising energy prices still limited

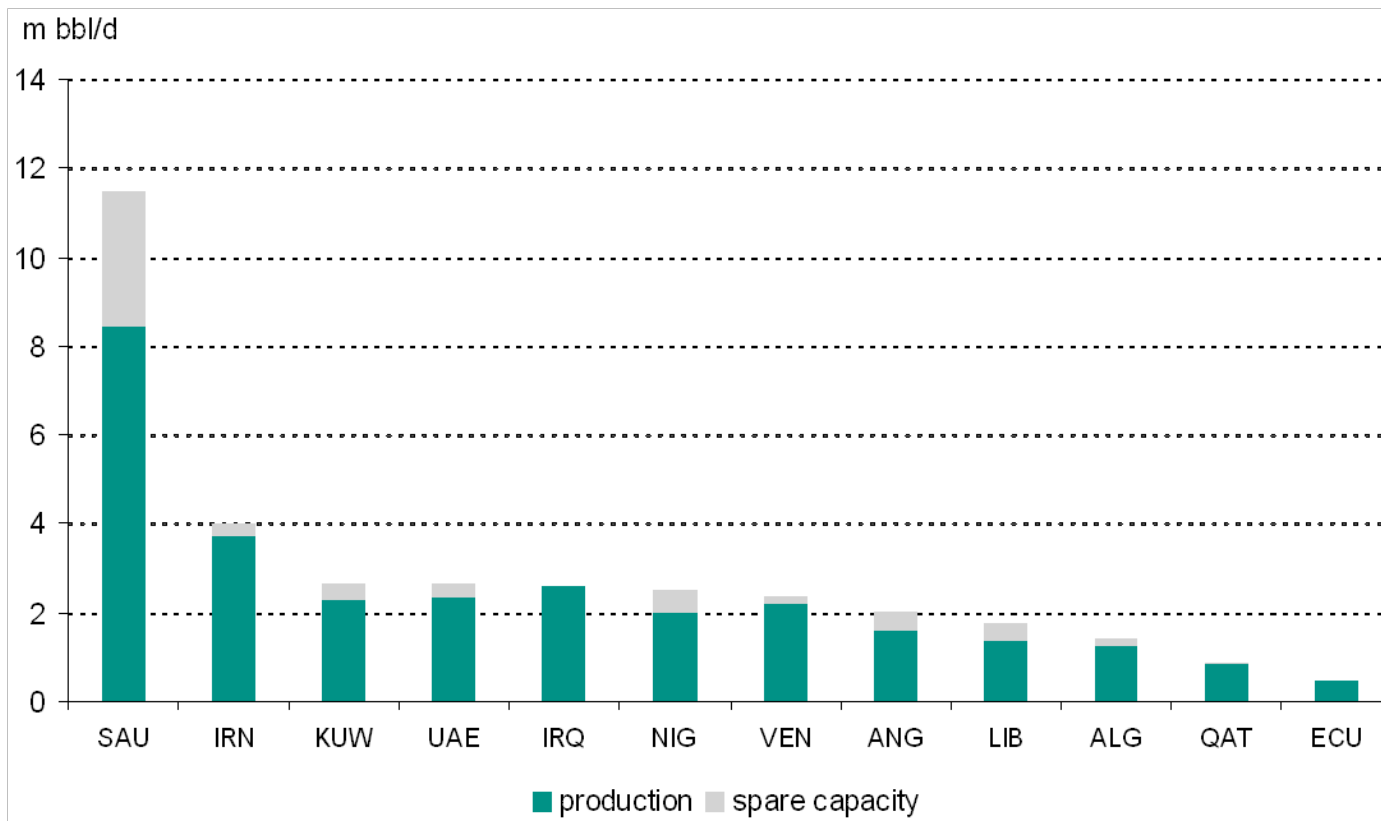
A \$10/bbl rise in crude oil prices, reduces US and eurozone GDP by 0.2%

Increase in Brent \$/bbl largely demand-driven

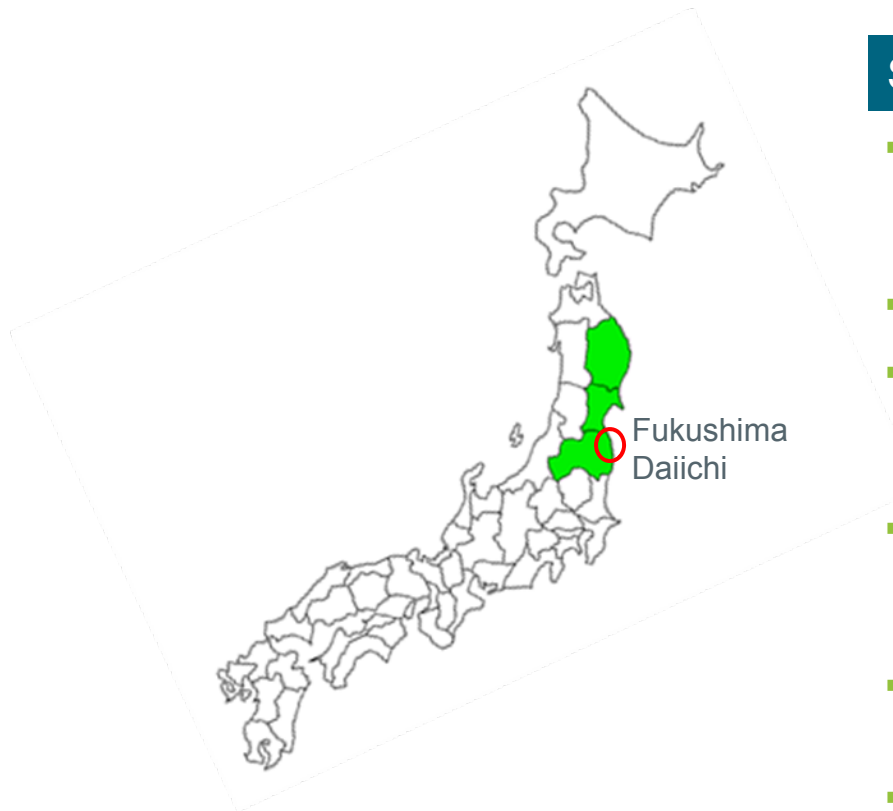


Sufficient spare capacity to cope with Libya

Crude oil production and spare capacity



Japanese nuclear crisis: limited economic impact

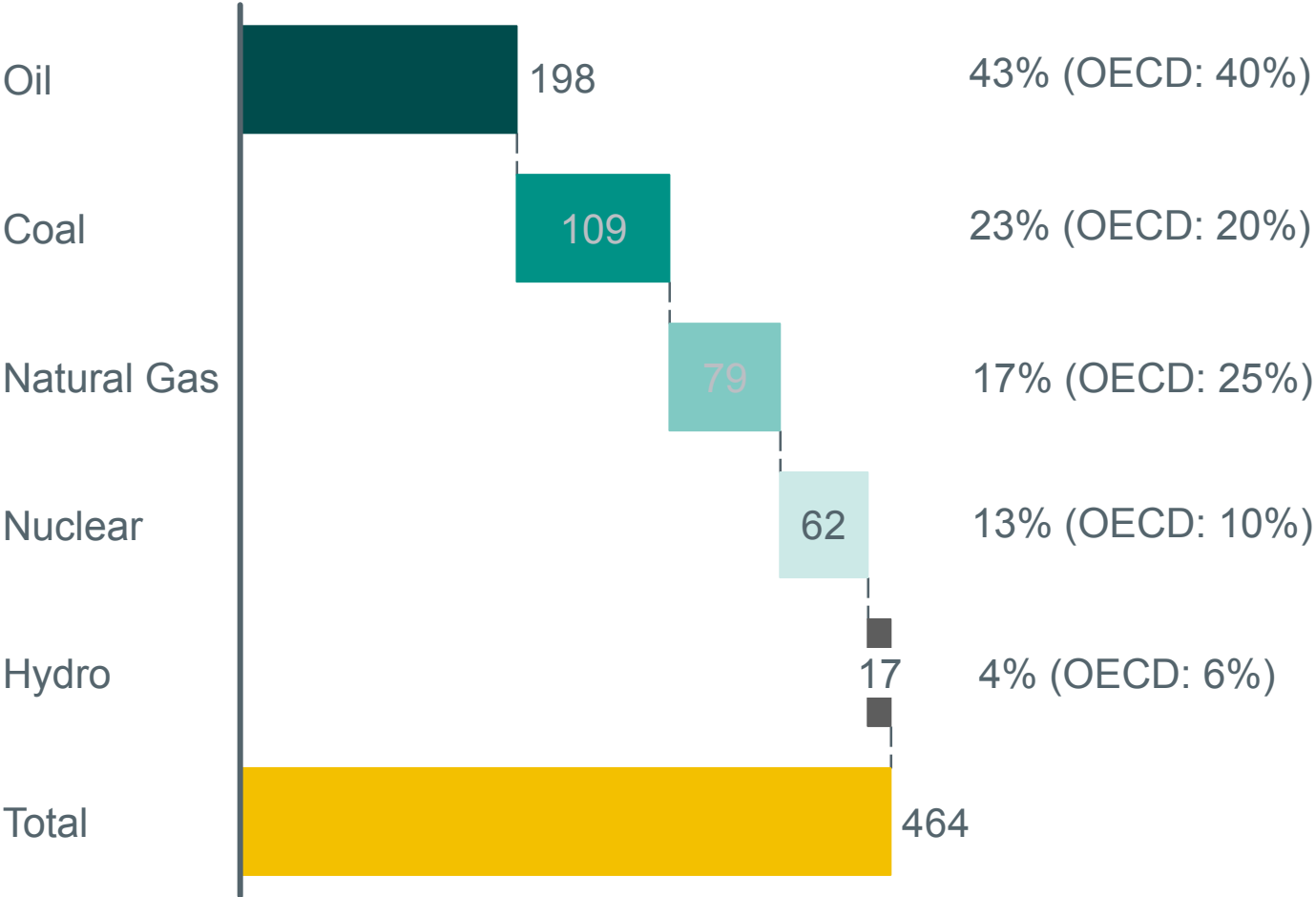


Some sobering numbers

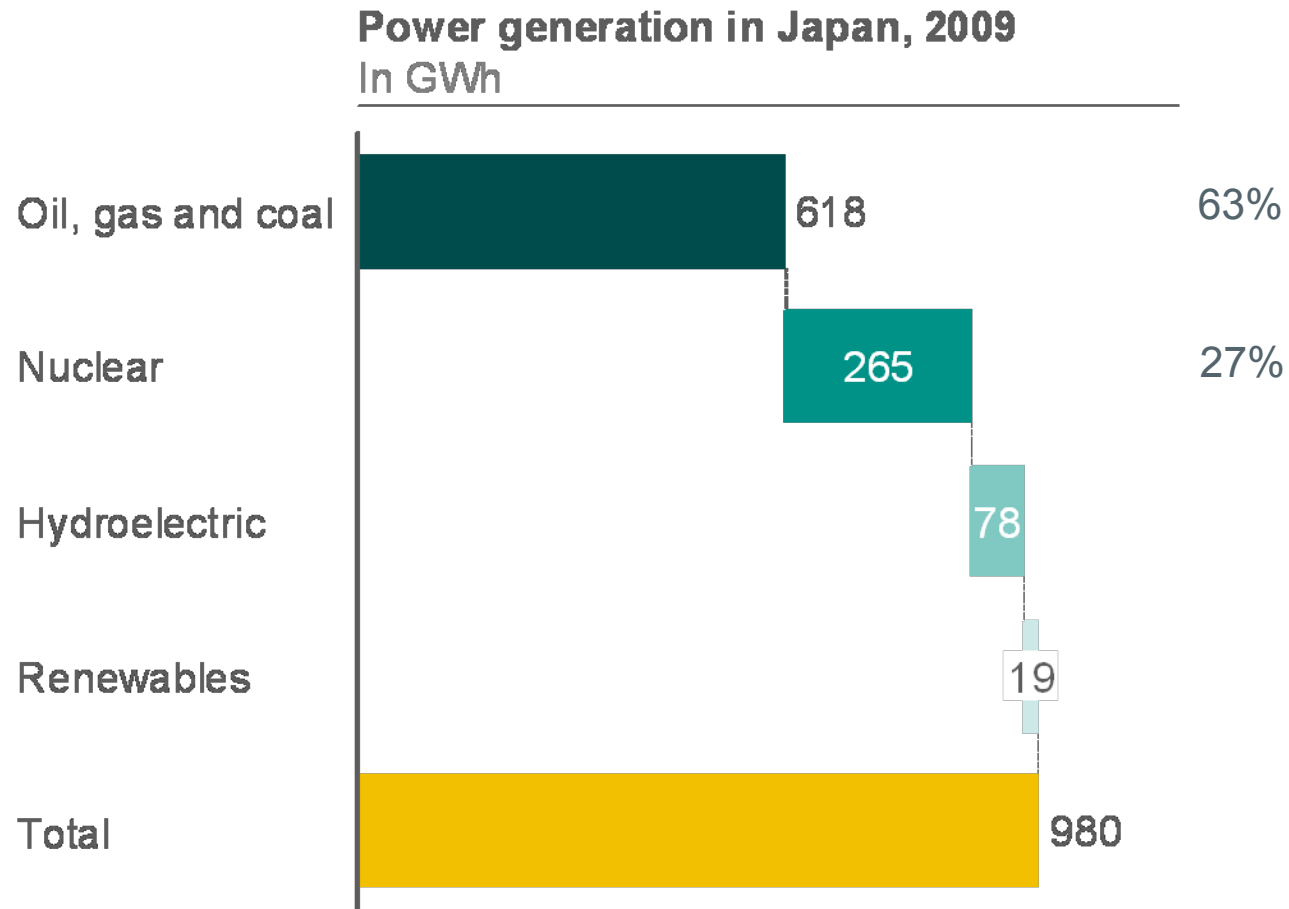
- Worst affected regions (Iwate, Miyagi and Fukushima prefectures) account for 4.1% of Japanese GDP
- Japanese GDP accounts for 6% of world GDP
- Japan evacuation zone: 12 miles around Fukushima Daiichi plant (77k residents); 12-19 miles: stay indoors (an additional 62k)
- US recommended evacuation zone: 50 miles (2m residents; 1.6% of total population of 126,5m)
- Chernobyl exclusion zone; 18 miles radius, uninhabitable until today
- Estimates of earthquake damage: around JPY 20 trillion (USD 247bn): 4% GDP; reconstruction effort should ultimately boost Japanese GDP

Japan's primary energy consumption

Primary consumption in Japan, 2009
In million tonnes of oil equivalent (boe)



Fossil fuels drive 2/3 of electricity generation



Source: US Department of Energy, Energy Information Administration

Japan is biggest LNG importer (35% = 64 mtpa)

Effect

Power generation

- Some 27 percent of Japan's electricity comes from nuclear

Nuclear outage

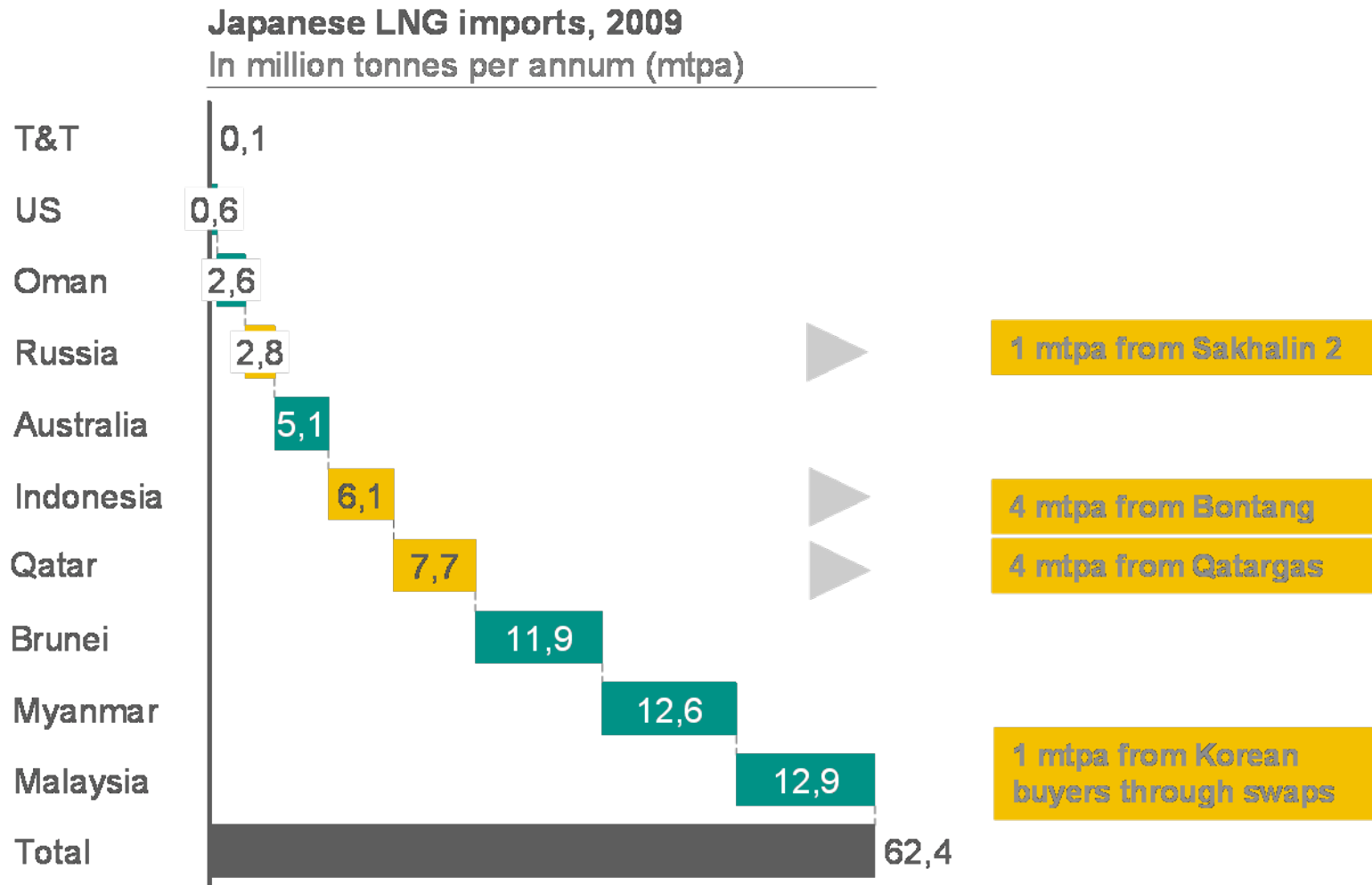
- Some 12 GW of nuclear was knocked out in the earthquake (total: 49 GW)
- Nuclear was used as a baseload fuel, for mid-load it is gas and coal
- So additional gas imports likely with low gas versus oil prices

Gas/LNG imports

- To replace 12 GW of power generation capacity, gas-fired plants to receive 10 mtpa of LNG (16% increase in imports)
- This corresponds to some 14-15 LNG cargoes per year

To have significant impact on LNG flows

Likely sources of additional LNG imports

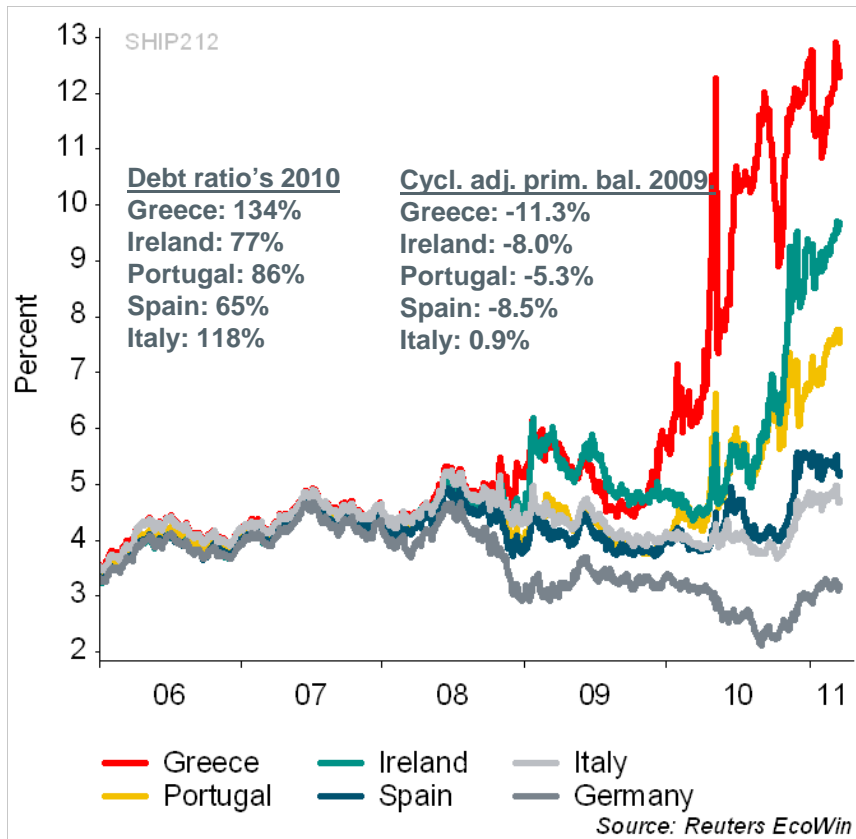


Source: BP Statistical Review of World Energy 2010

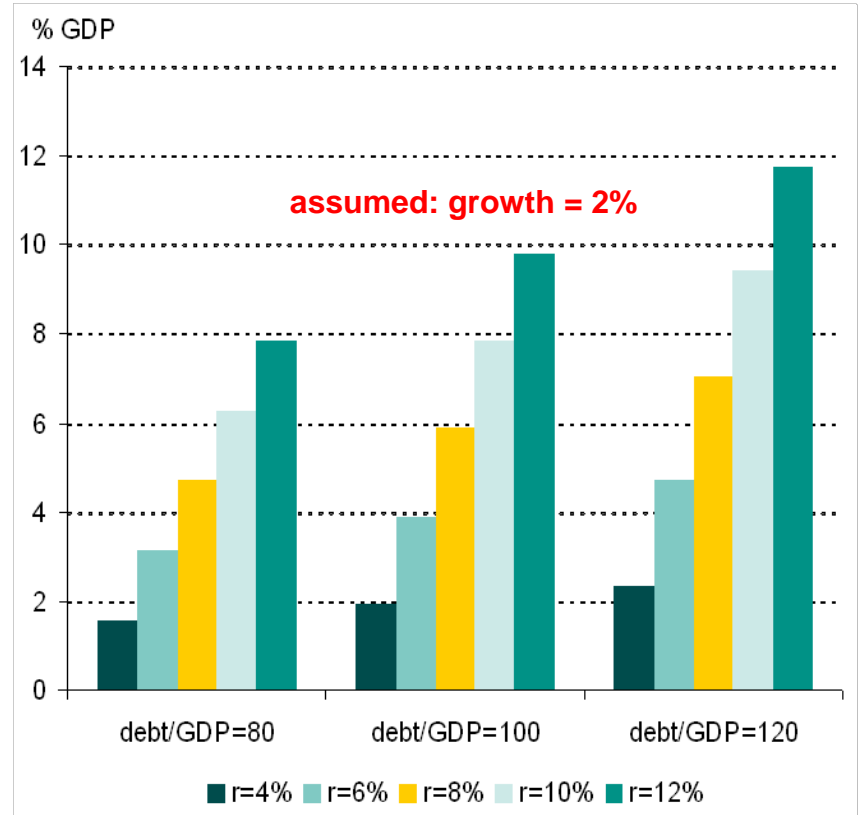
The self-fulfilling prophecy of a loss of market conf.

An example: Greece is moving from a cyclically adjusted deficit of 11.5% GDP in 2009 to a surplus of 6.5% in 2015; its debt ratio will peak at 159% in 2012 and fall to 147% in 2016; the brunt of the cut-backs takes place in 2010 (10pp)

10-Y yields

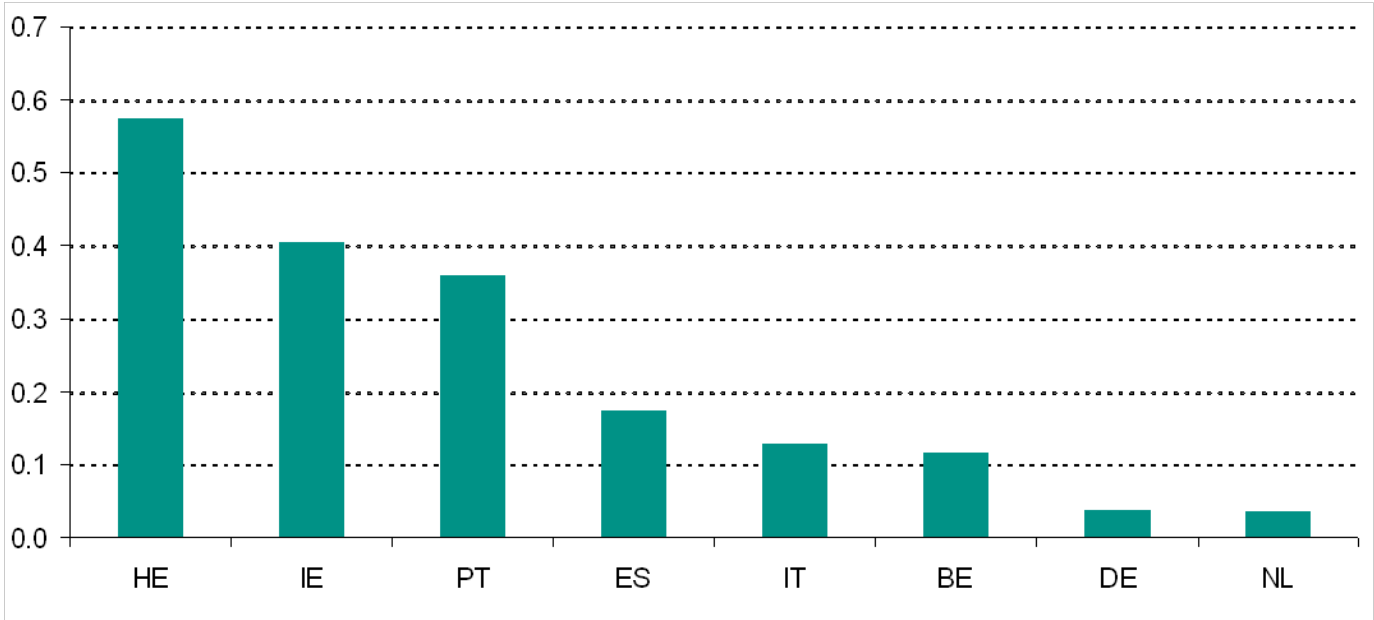


Prim. surplus needed to stabilise debt ratio



Markets are pricing in significant chances of default

Implied default probabilities from CDS's

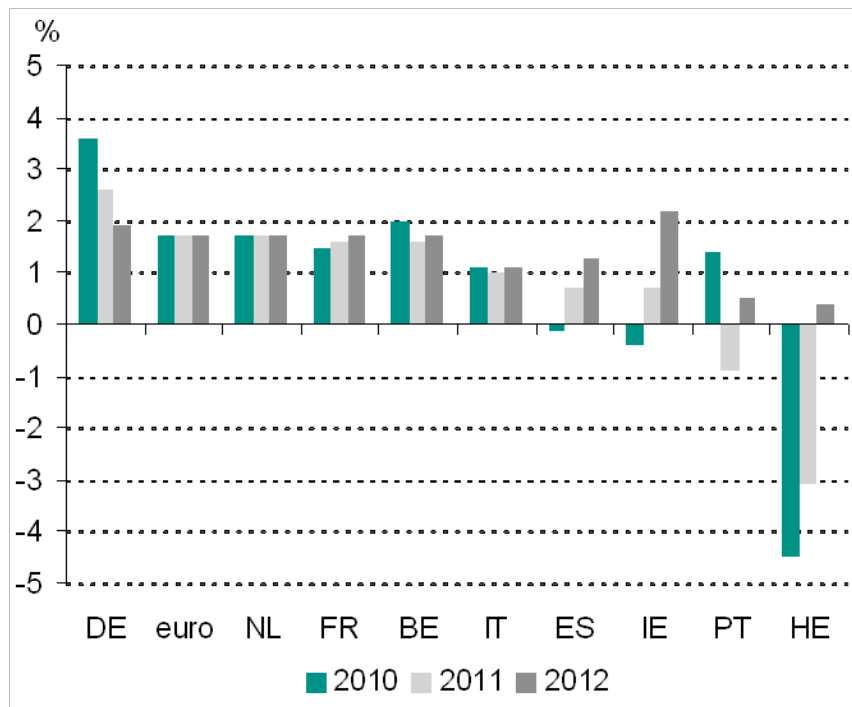


Source: Bloomberg

Eurozone: a two-speed economy

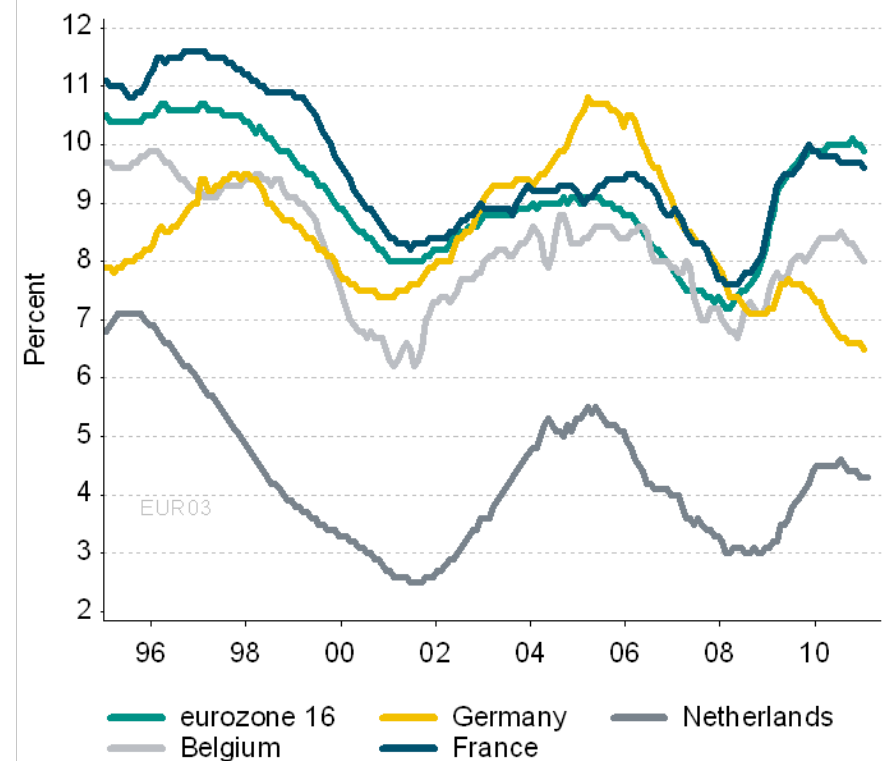
Eurozone periphery is suffering from weak competitiveness and aggressive fiscal cut-backs, but core is doing well

Consensus growth forecasts



Source: Reuters EcoWin, ABN AMRO

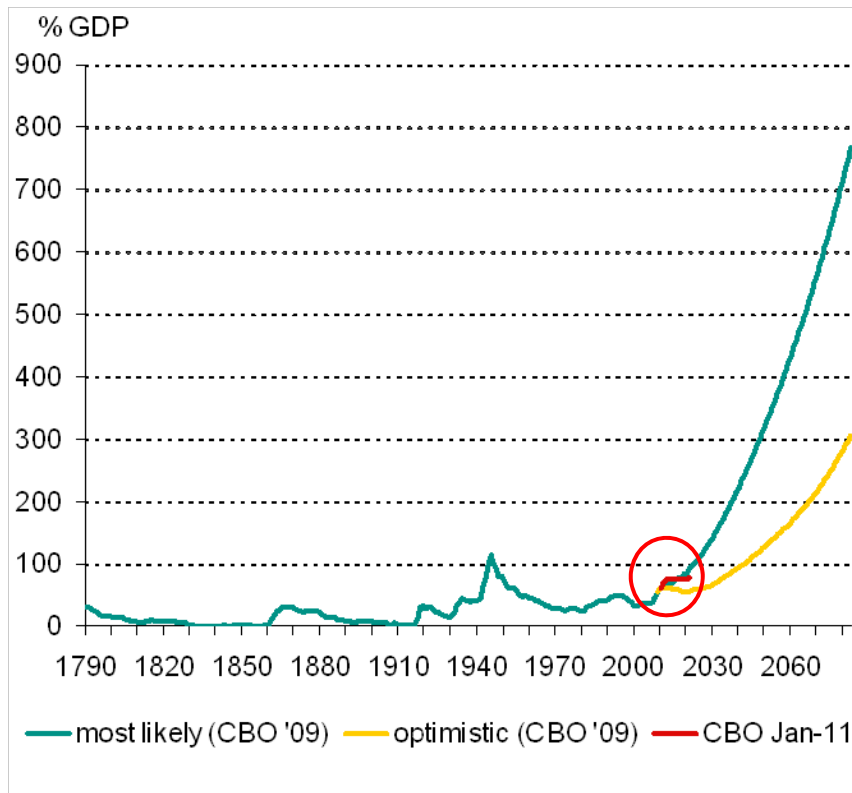
Harmonised unemployment rates



Source: Reuters EcoWin

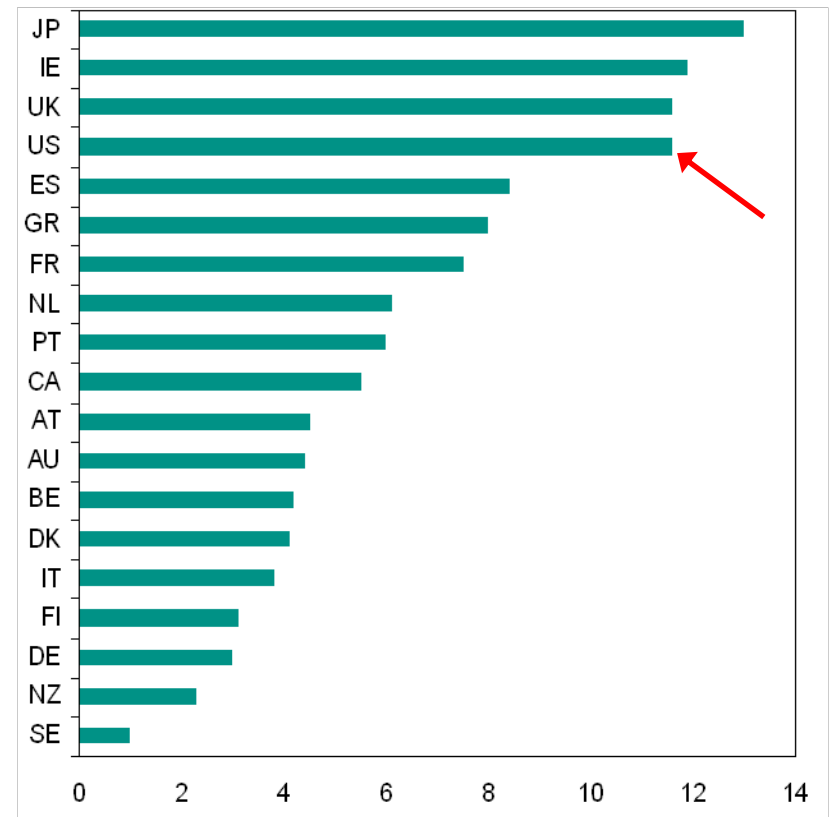
United States sinking into a fiscal quagmire

Debt ratio about to explode



Source: Congressional Budget Office

Fiscal adj. needed to reach 60% debt ratio

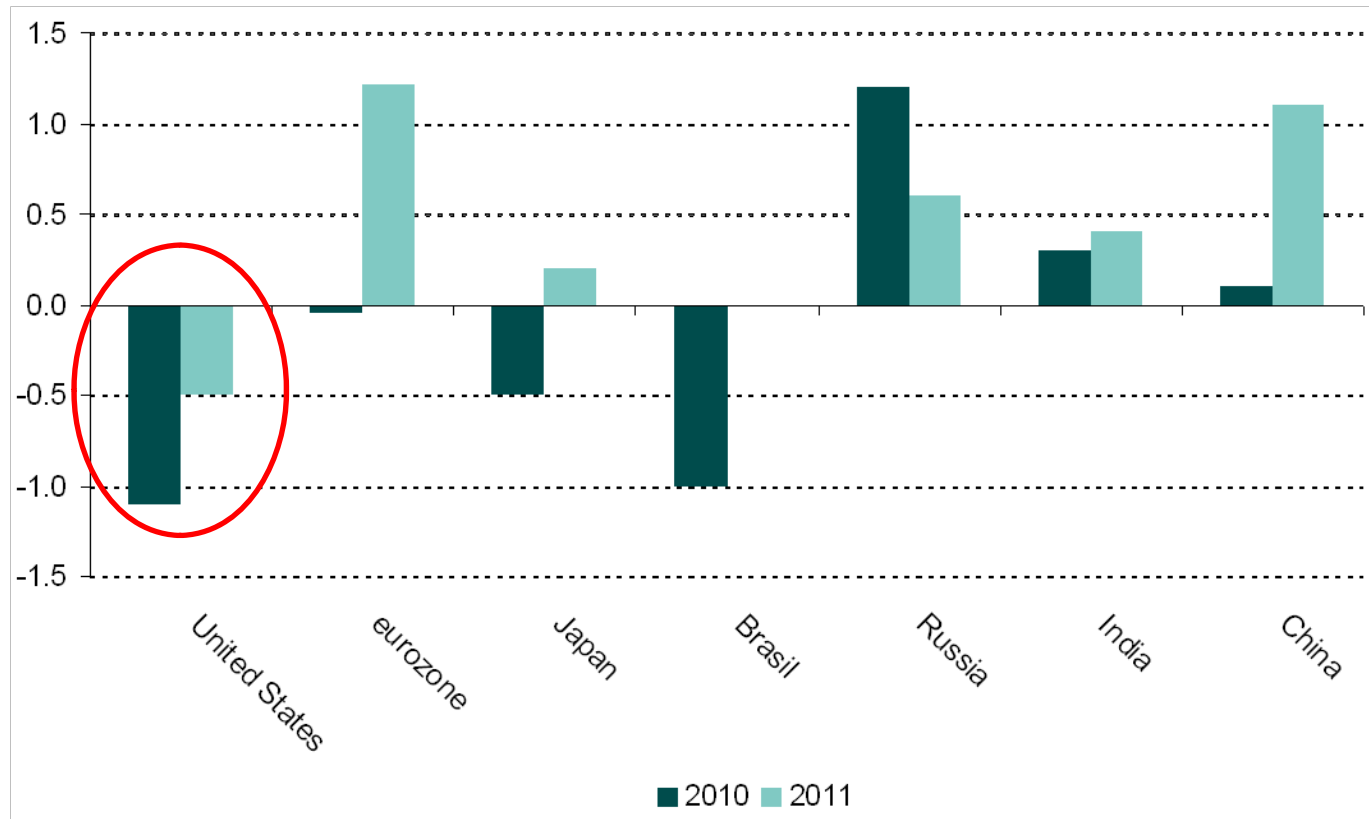


Source: IMF

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

Fiscal multiplier: ~ 0.5

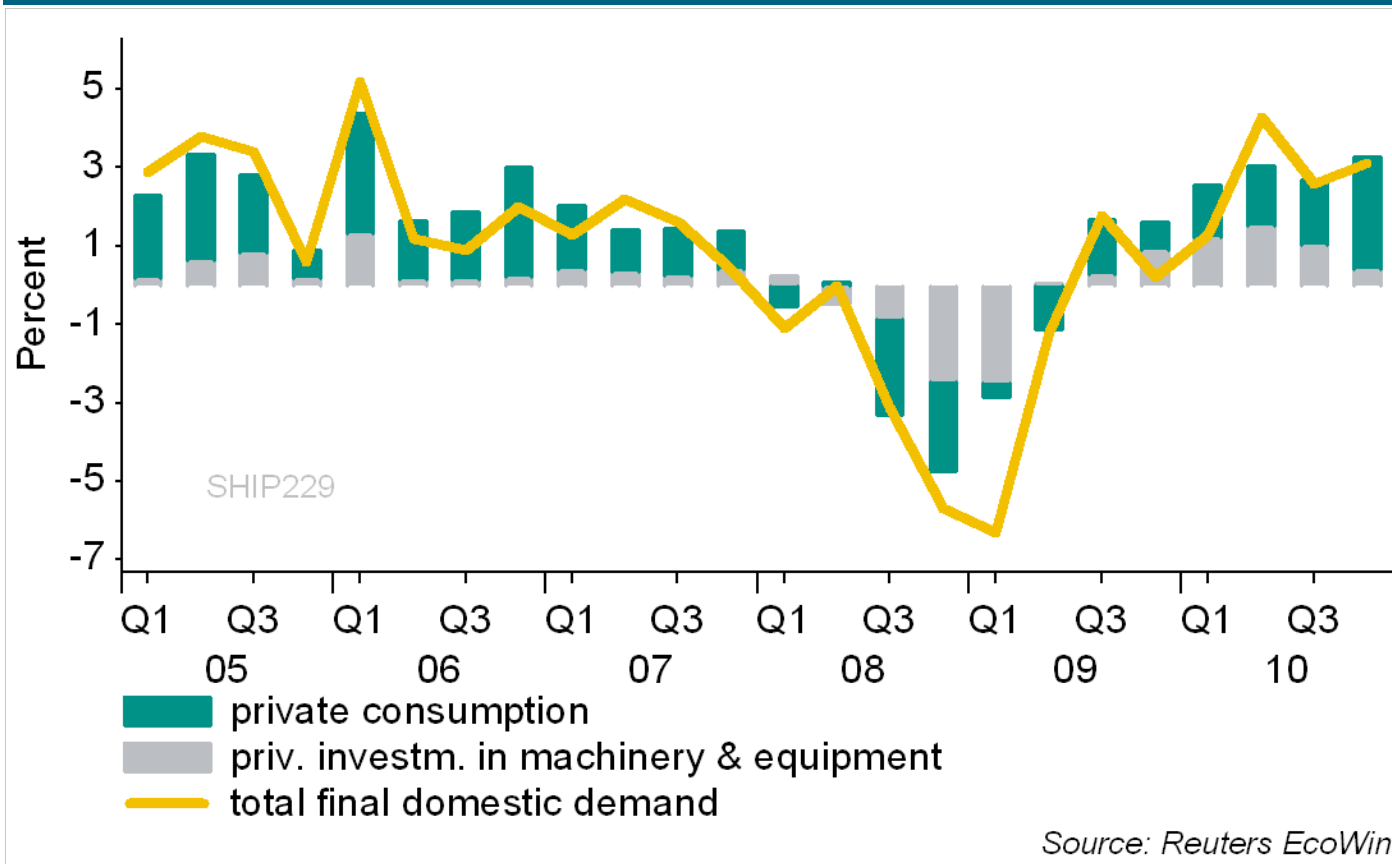
Change in cyclically adjusted primary budget balance



Source: IMF, ABN AMRO

US final domestic demand is getting stronger...

Composition of final domestic demand growth (%QoQ saar)

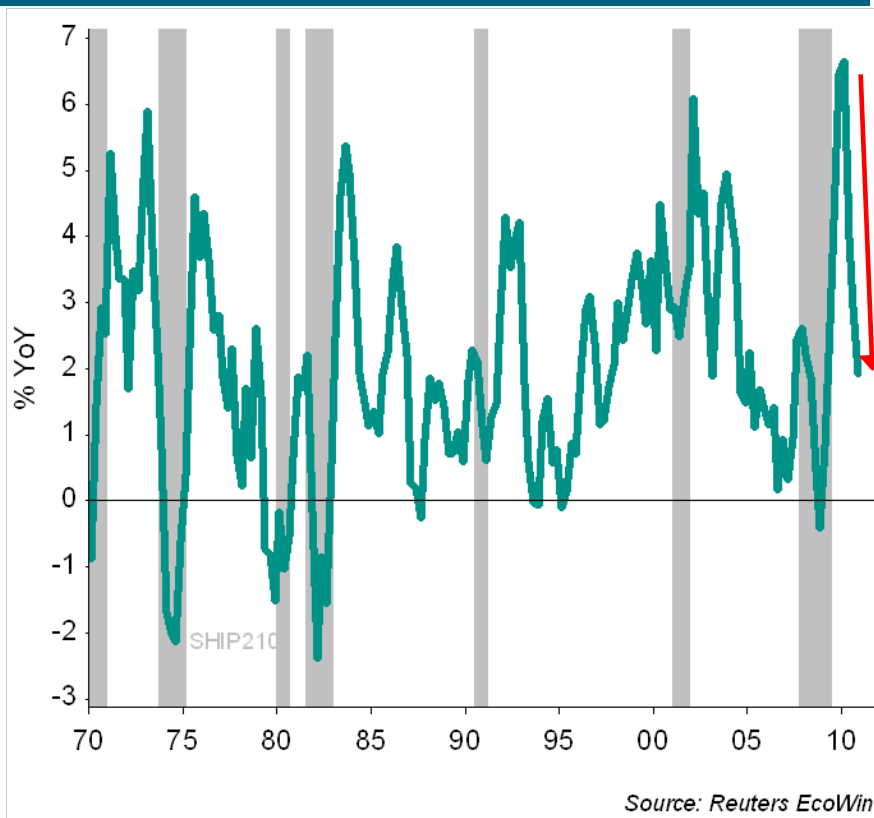


Source: Reuters EcoWin

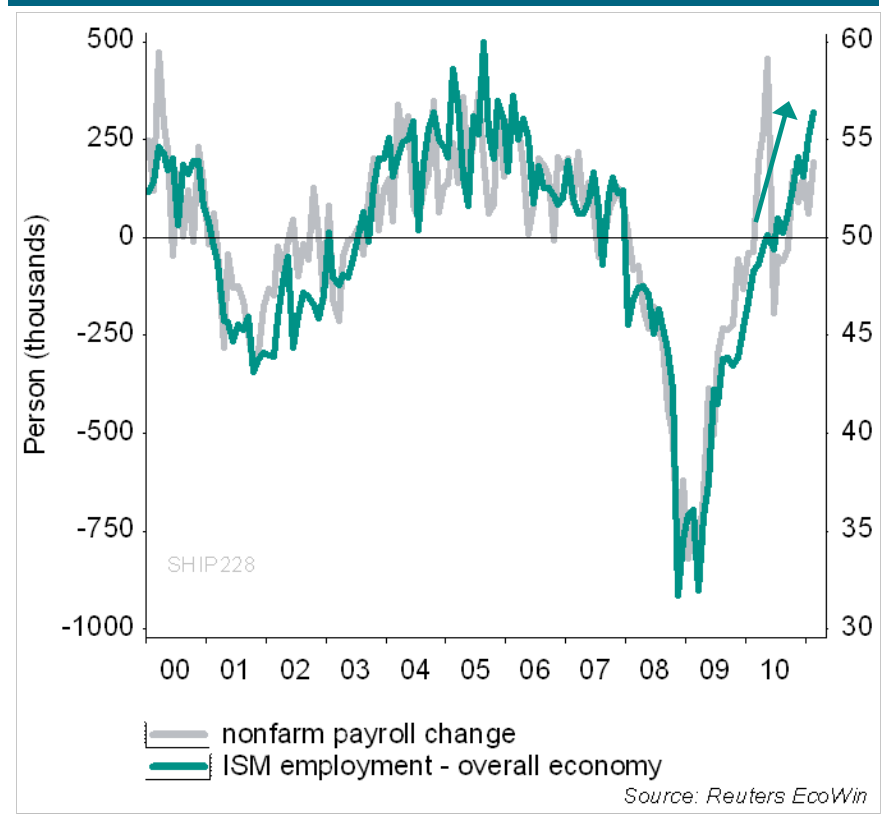
...and will receive additional boost from labour market

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

Slower growth in labour productivity...

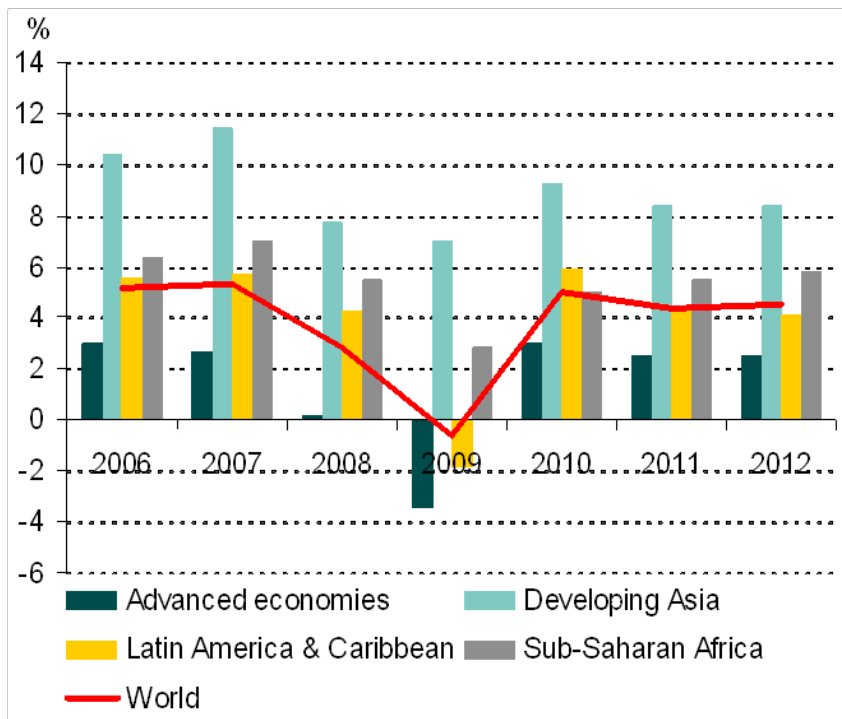


...is shifting job growth into higher gear



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	2.8	3.2↑	3.5
Eurozone	-4.1	1.7	1.8↑	1.9
Japan	-6.2	4.0	1.4	1.6
China	9.2	10.5	9.4	9.2
India	7.7	8.7	8.3	8.4
Brazil	-0.7	7.5	4.5	5.5
World	-0.4	4.9	4.3	4.5
World trade				
	-12	15	6	8

Source: ABN AMRO

Thank you !
Any questions?