

MONTHLY REVIEW

Macroeconomy and Financial Markets
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Macroeconomic Situation - June 2011

In June, our newsletter discusses the downturn in American economic statistics and Greek debt.

The highlights:

The publication of growth rates in the first quarter shows that expansion is continuing but still with significant disparities.

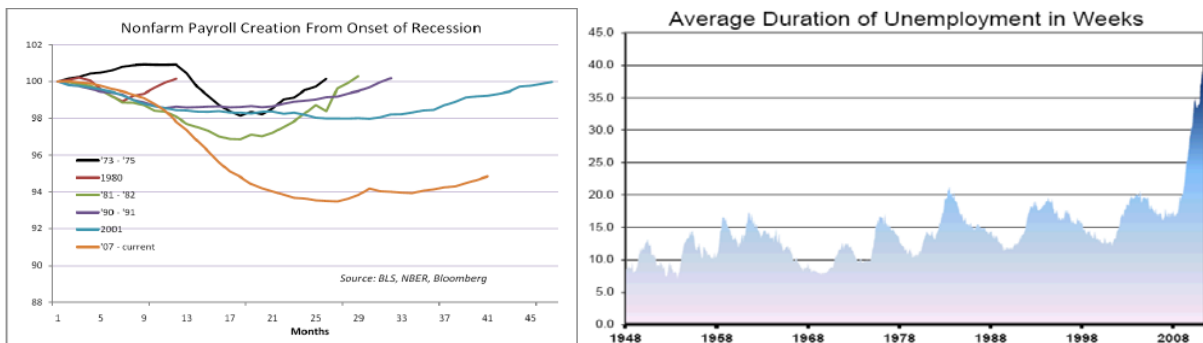
Over and above these previous figures, we can see the brutal deterioration of recent economic data and advanced indicators. We can also see that bad news, coming as a surprise and in contrast to the consensus view, has increased almost everywhere.



This reversal of the trend was abrupt and may be temporary (trouble linked to Japan). However, some elements do point to the fact that the recovery is fragile.

In the USA:

-Employment: The weakness of the recovery in terms of employment in the USA shows that companies are reluctant to commit in the long-term and to invest in human capital (at least in mainland America). The recovery is creating much fewer jobs than the previous ones, with periods of unemployment lengthening sharply, thus forcing the issue of social treatment of unemployment.



-Real Estate: The real estate market is showing no signs whatsoever of recovery in the USA, highlighting the lack of American confidence in the economic recovery. They are most concerned with finding a stable, long-lasting job while continuing in their debt reduction.

These two factors are the cornerstones of the Fed's monetary policy, which will remain accommodating until the economy starts to create jobs and the real estate sector starts on the road to solid recovery.

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In Europe:

The publications of growth rates in the first quarter were very accurate, on the whole. However, some disparities remain.

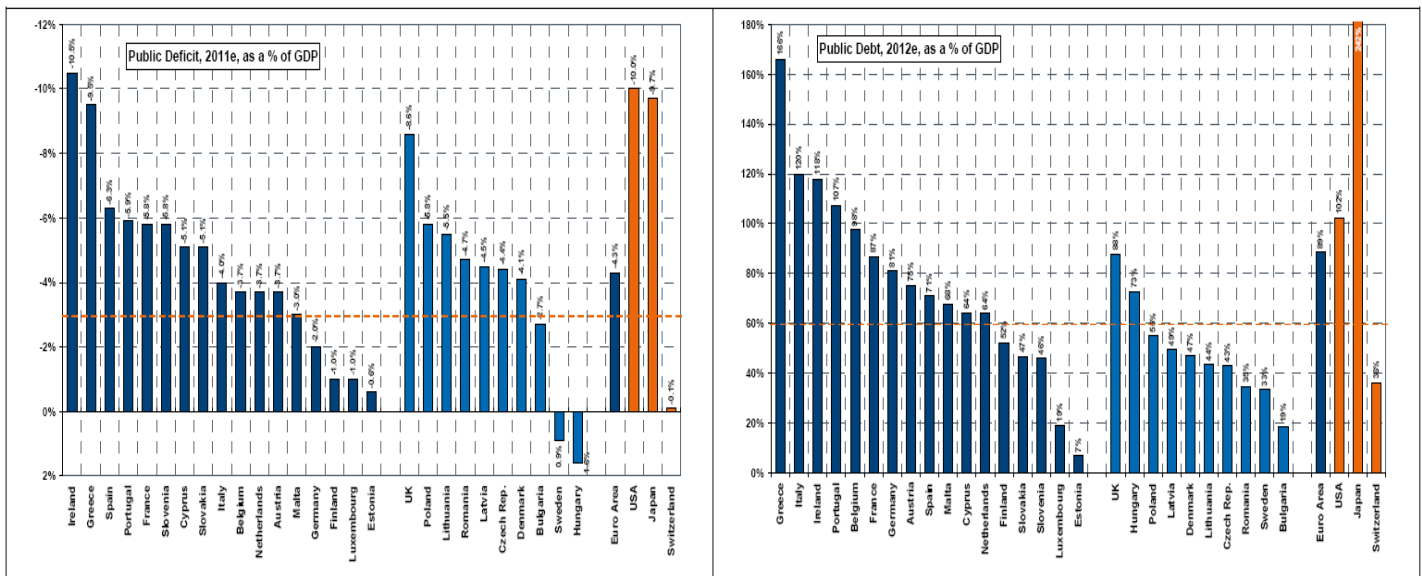
	GROWTH 1st QUARTER (YOY)	INFLATION 1st QUARTER (YOY)
Euro zone	+2.5%	+2.47%
France	+2.2%	+2%
Germany	+4.8%	+2.17%
Greece	-5.5%	+4.47%
Portugal	-0.6%	+3.67%
Spain	+0.8%	+3.23%
Italy	+1%	+2.27%

The issue of debts remains most present, and is focused again on Greece: concerns over Greece's capacity to honour her debts are steadily growing despite the various types of assistance given. Investors seem convinced that Greece cannot escape defaulting on her payments. The question seems to be not if but when and how.

oWhen? If Greece were to default right now, the contagion risk would be very high, as numerous European countries remain very fragile (Portugal and Ireland). If such contagion were to reach Spain and Italy, this may be very difficult to manage. Giving these countries some time so they can remedy the situation and strengthen their financial systems (Ireland and Spain) would make Greece's defaulting, in two or three years' time, less dangerous for the financial system.

oHow? This question is a complex one. The chairman of the ECB does not want to entertain any talk of a default in any shape or form, fearing a scenario identical to that of the fall of Lehman Brothers. A hard and fast default would have consequences that nobody can foresee. In actual fact, it would no longer simply be a matter of paying the debt – the phenomenon would extend to paying state suppliers, civil servants and so on. Were this to occur, the Greek banking system would be destroyed, rendering the financing of SMEs virtually impossible. The fact that Greece belongs to a single currency system makes the issue more complex, significantly strengthening risks of contagion. It seems that the most reasonable result borrows a little from many solutions: massive privatisations, new austerity plans, voluntary participation of the private sector in losses on debts, etc.

Reminder of deficit and debt levels:



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Emerging Economies:

	GROWTH 1st QUARTER (YOY)	INFLATION 1st QUARTER (YOY)
Brazil	+4.17%	+6.10%
Russia	+4.10%	+9.53%
India	+7.8%	+8.98%
China	+9.7%	+5.07%

The pace of growth in emerging countries remains high, thus contributing to the sound results of global companies. However, inflationary pressures are becoming high, especially in Russia and India.

Consensus:

Please find enclosed the latest consensus from Bloomberg on growth and inflation forecasts over the 2011-2013 period.

Country	Actual / Forecasts										Country	Actual / Forecasts									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013		2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
1) United States (yoy %)	3.60	3.10	2.70	1.90	0.00	-2.60	2.90	2.60	3.00	3.00	1) United States (yoy %)	2.68	3.38	3.23	2.87	3.85	-0.35	1.63	3.00	2.20	2.40
2) Euro (yoy %)	2.20	1.60	3.10	2.80	0.30	-4.10	1.70	1.90	1.65	1.90	2) Euro (yoy %)	2.15	2.19	2.18	2.13	3.28	0.29	1.58	2.60	2.00	1.90
3) Japan (yoy %)	2.78	1.93	2.03	2.35	-1.15	-6.28	3.98	-0.40	2.77	1.96	3) Japan (yoy %)	-0.01	-0.28	0.25	0.06	1.38	-1.35	-0.70	0.40	0.33	0.50
4) United Kingdom (yoy %)	3.00	2.20	2.80	2.70	-0.10	-4.90	1.30	1.40	2.00	2.50	4) United Kingdom (yoy %)	1.35	2.04	2.32	2.34	3.61	2.18	3.31	4.30	2.30	--
5) Canada (yoy %)	3.12	3.02	2.83	2.20	0.70	-2.77	3.22	2.90	2.80	2.55	5) Canada (yoy %)	1.84	2.21	2.00	2.14	2.38	0.31	1.78	2.90	2.10	2.00
6) Australia (yoy %)	3.78	3.13	2.60	4.60	2.63	1.35	2.68	2.80	4.00	3.50	6) Australia (yoy %)	2.35	2.68	3.55	2.35	4.35	1.85	2.88	3.30	3.00	2.80
7) New Zealand (yoy %)	4.03	0.85	0.60	0.78	-0.58	0.48	0.35	1.30	3.70	3.50	7) New Zealand (yoy %)	2.28	3.05	3.35	2.38	3.98	2.15	2.30	3.80	2.60	2.90
8) Switzerland (yoy %)	2.53	2.65	3.63	3.65	1.88	-1.90	2.55	2.40	2.05	2.00	8) Switzerland (yoy %)	0.80	1.18	1.08	0.73	2.43	-0.48	0.68	0.90	1.20	1.20
9) Denmark (yoy %)	2.30	2.43	3.58	1.73	-1.10	-5.23	2.13	--	--	--	9) Denmark (yoy %)	1.14	1.80	1.88	1.72	3.40	1.33	2.29	--	--	--
10) Norway (yoy %)	3.88	2.75	2.28	2.73	0.78	-1.70	0.33	2.60	2.50	--	10) Norway (yoy %)	0.49	1.53	2.34	0.73	3.76	2.16	2.40	1.80	2.20	--
11) Sweden (yoy %)	3.70	3.15	4.58	3.43	-0.68	-5.25	5.40	4.50	2.80	2.80	11) Sweden (yoy %)	0.38	0.46	1.36	2.21	3.48	-0.31	1.26	2.60	2.42	2.05
12) Germany (yoy %)	1.20	0.80	3.40	2.70	1.00	-4.70	3.60	3.25	1.95	2.20	12) Germany (yoy %)	1.80	1.89	1.78	2.29	2.76	0.23	1.15	2.40	1.90	1.75
13) France (yoy %)	2.50	1.80	2.50	2.30	-0.10	-2.70	1.50	2.15	1.70	--	13) France (yoy %)	2.33	1.91	1.91	1.60	3.17	0.11	1.73	2.20	1.65	--
14) Italy (yoy %)	1.50	0.70	2.00	1.50	-1.30	-5.20	1.30	0.95	1.15	--	14) Italy (yoy %)	2.28	2.18	2.22	2.04	3.49	0.77	1.64	2.60	2.00	--

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