2009: Good, Bad or Ugly?

17 March 2009

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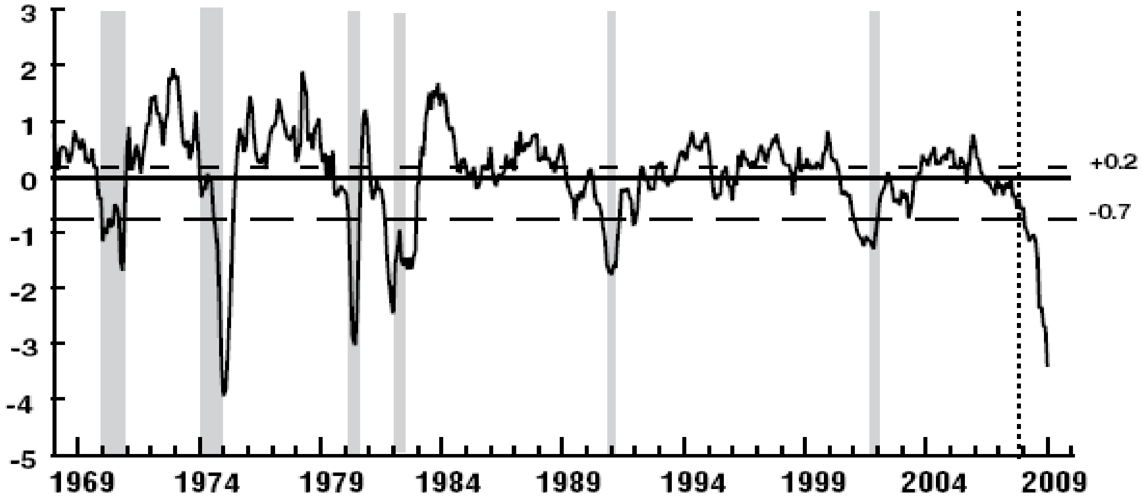
Global Economic Perspective

	Year		
	2008	2009	2010
Real GDP Growth			
United States	1.3	-2.7	2.0
Germany	1.3	-2.5	0.8
Japan	-0.4	-3.8	0.8
Australia	2.3	0.2	3.6
Consumer Price Inflation			
United States	3.8	-1.9	1.7
Germany	2.6	0.6	1.4
Japan	1.4	-0.8	-0.2
Australia	3.7	2.5	2.5

CFNAI-MA3 and Business Cycles – 23 February 2009



Notes: Shading indicates official periods of recession as identified by the National Bureau of Economic Research; the dashed vertical line indicates the most recent business cycle peak. A CFNAI-MA3 value below –0.70 following a period of economic expansion indicates an increasing likelihood that a recession has begun. A CFNAI-MA3 value above +0.20 following a period of economic contraction indicates a significant likelihood that a recession has ended.

The 3 month average of the Chicago Fed National Activity Index has now declined to -3.41. This is lower than any level during the 1982 Recession. It is now the lowest level since 1975.

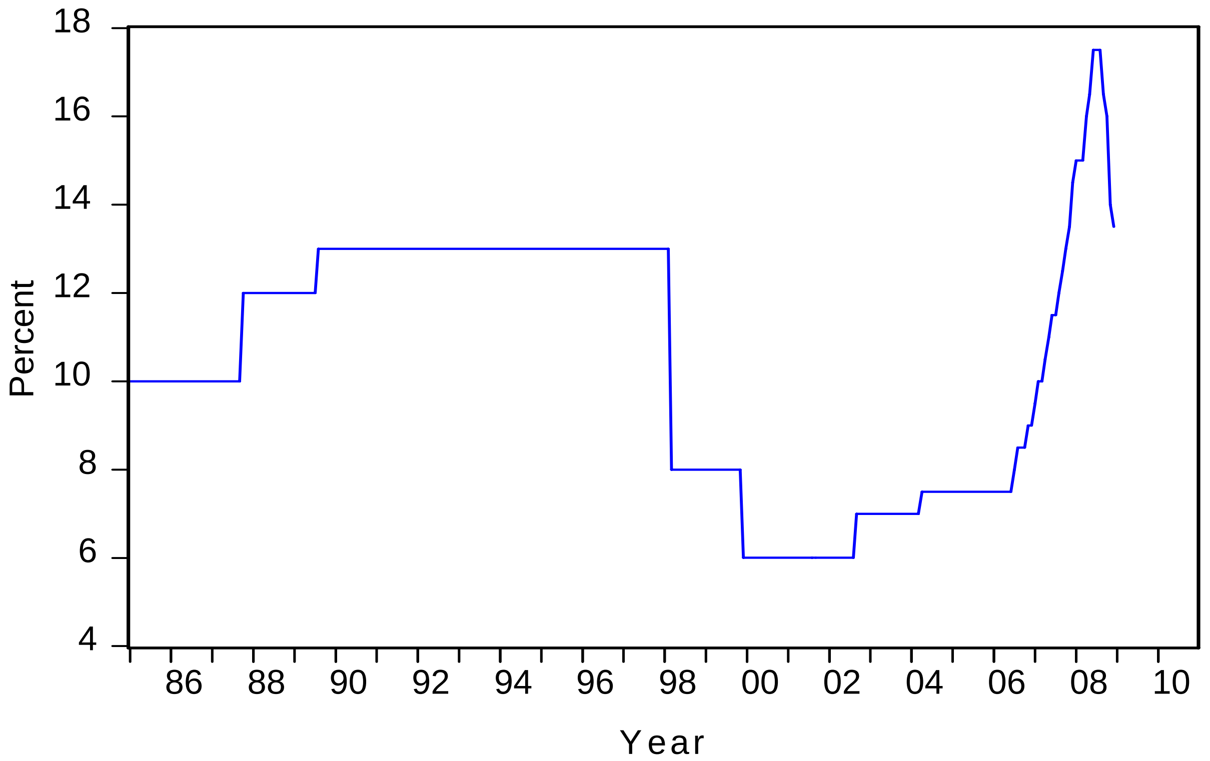
Asian Economic Perspective

	Year 2008	2009	2010
Real GDP Growth			
China	9.0	7.0	8.3
North East Asia (1)	6.8	4.2	6.6
South East Asia (2)	4.7	1.7	4.3
Consumer Price Inflation			
China	5.9	0.3	1.6
North East Asia (1)	5.4	0.7	1.7
South East Asia (2)	8.7	3.6	4.2

(1) China, Hong Kong, South Korea, Taiwan

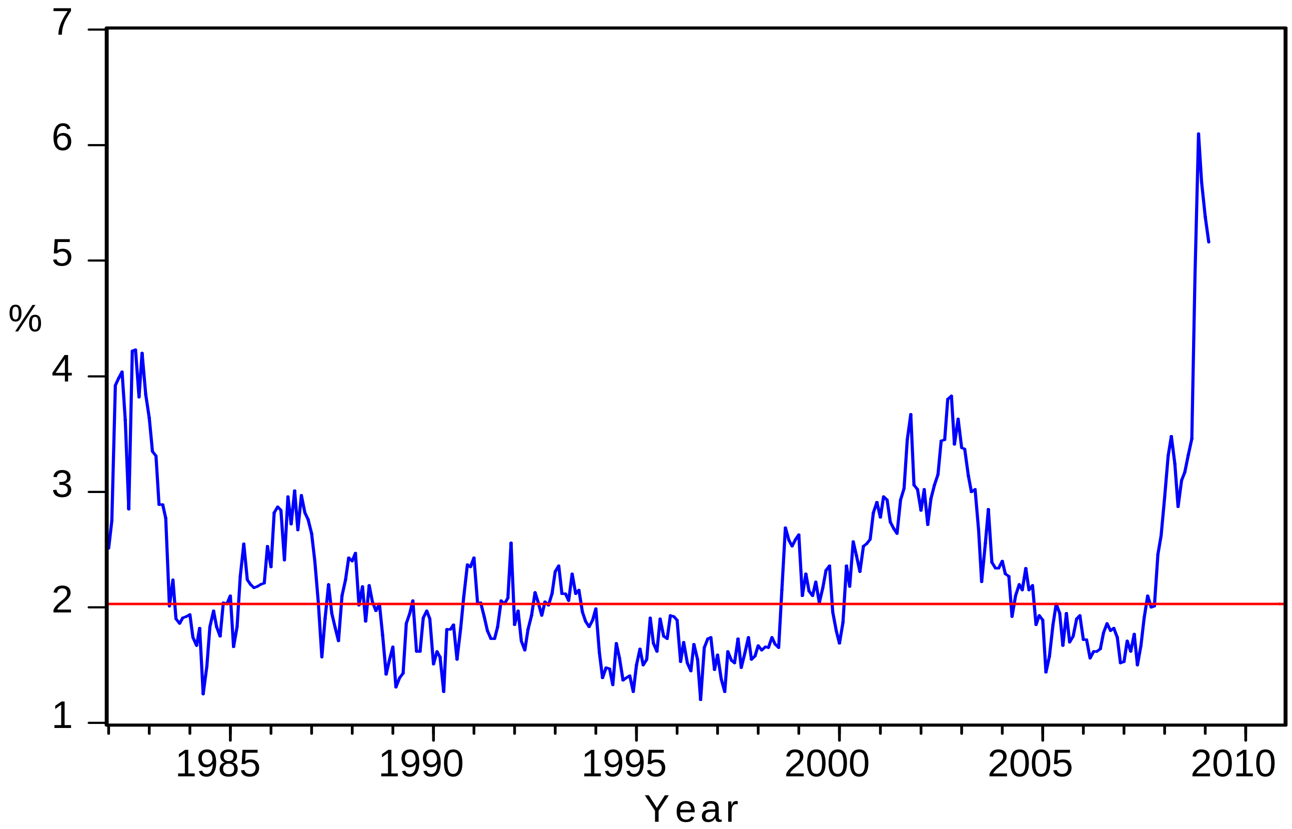
(2) Indonesia, Malaysia, Singapore, Thailand and the Philippines

China Required Reserve Ratio – 1988 to 2009



In 2008 China tightened its monetary policy in the form of the Required Reserve Ratio to the highest level in a generation. This has generated a rapid slowdown in Chinese domestic demand. The rapid cuts in the Reserve Deposit Ratio since late 2008 should begin to turn around the Chinese economy in the second half of 2009.

US Corporate Risk Spread (BAA – Benchmark) 16 February 2009



This corporate risk spread is down 94 basis points since end November. It is however well above the peak of the previous deep recession in 1982.

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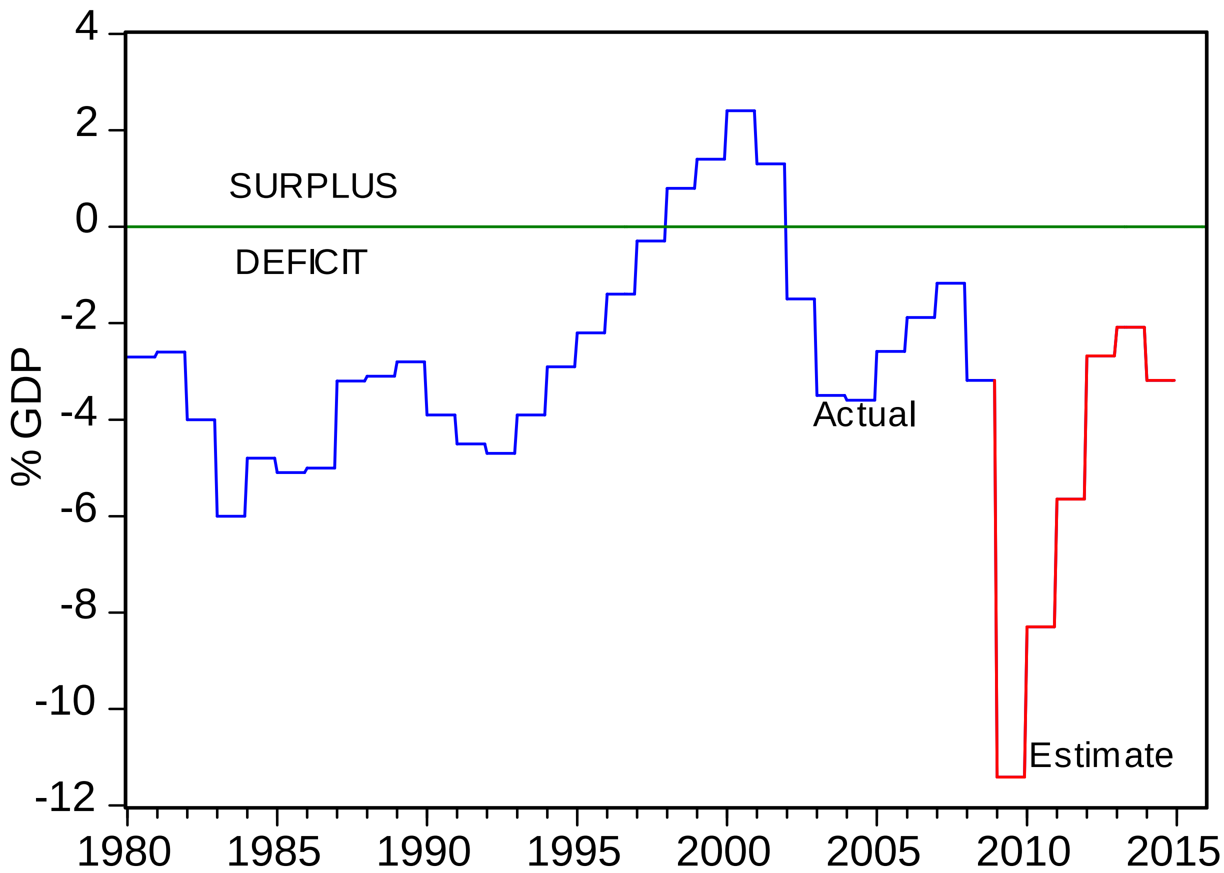
The US Budget Balance

Since 2000 the US Budget Balance has moved from Substantial Surplus to Substantial Deficit.

The budget deficit for 2009 which we estimate at 11.41% of GDP is the largest budget deficit since World War II.

Apart from the period of World War II, 2009 will see the largest budget deficit since the US National Accounts began to be prepared in the 1920’s.

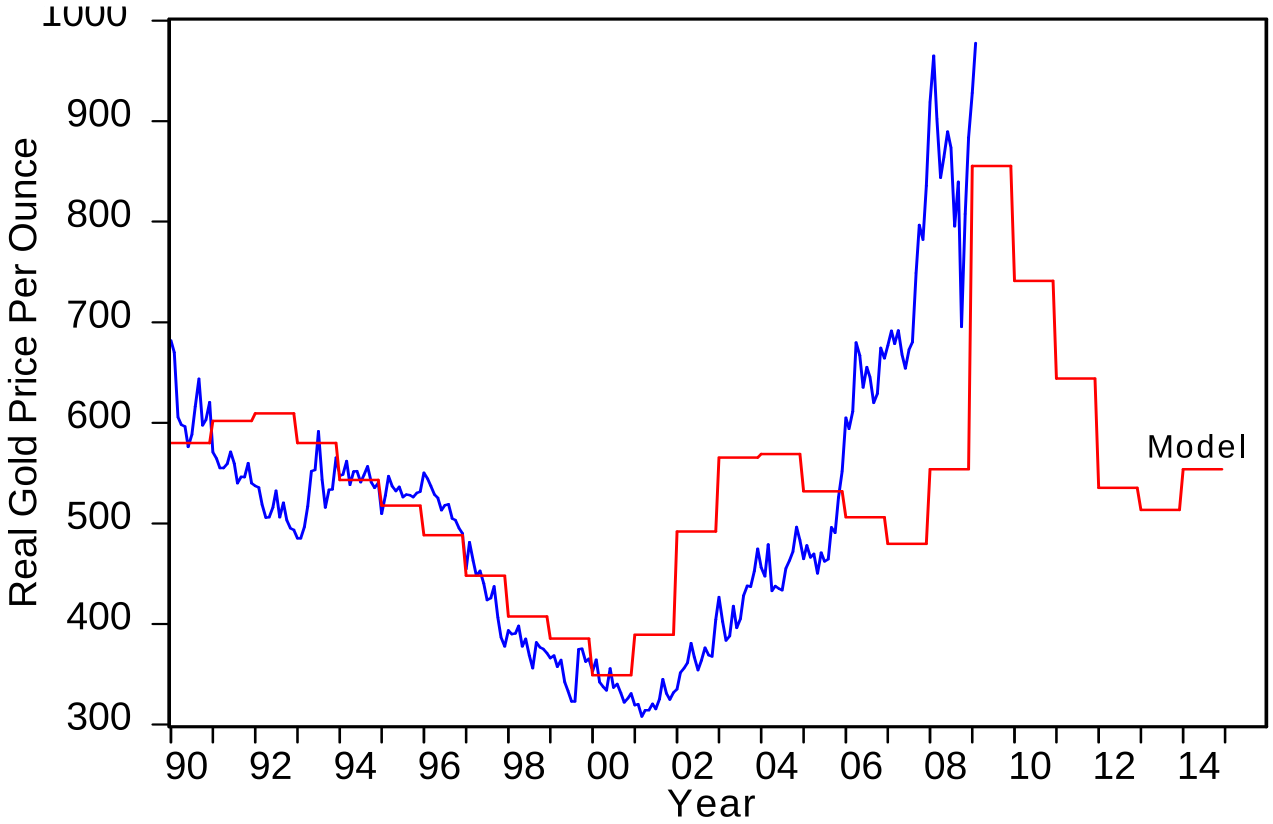
US Federal Budget Balance – 1980 to 2015



Source: Whitehouse Office of Management and Budget, Global Insight

In 2009 the US Budget deficits worsens to 11.41% of GDP. This is almost twice the deficit in the 1982 recession of 6.0% of GDP.

The Real Gold Price (Base 2009) and the US Budget Deficit



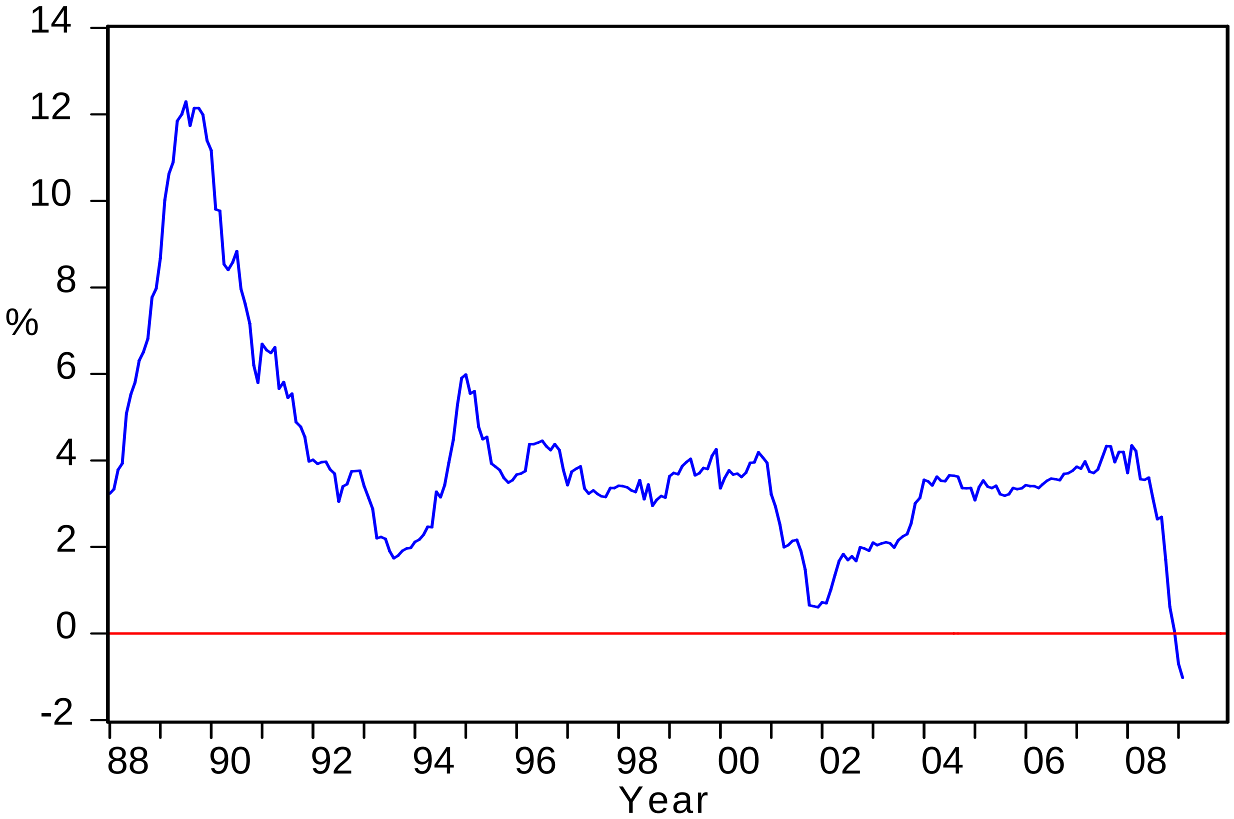
The budget deficit in 2009 is the biggest coinciding with a free gold market since the civil war.

Australian Short Rates

Our model suggests that neutral monetary policy for the Australian cash rate is 3.55%.

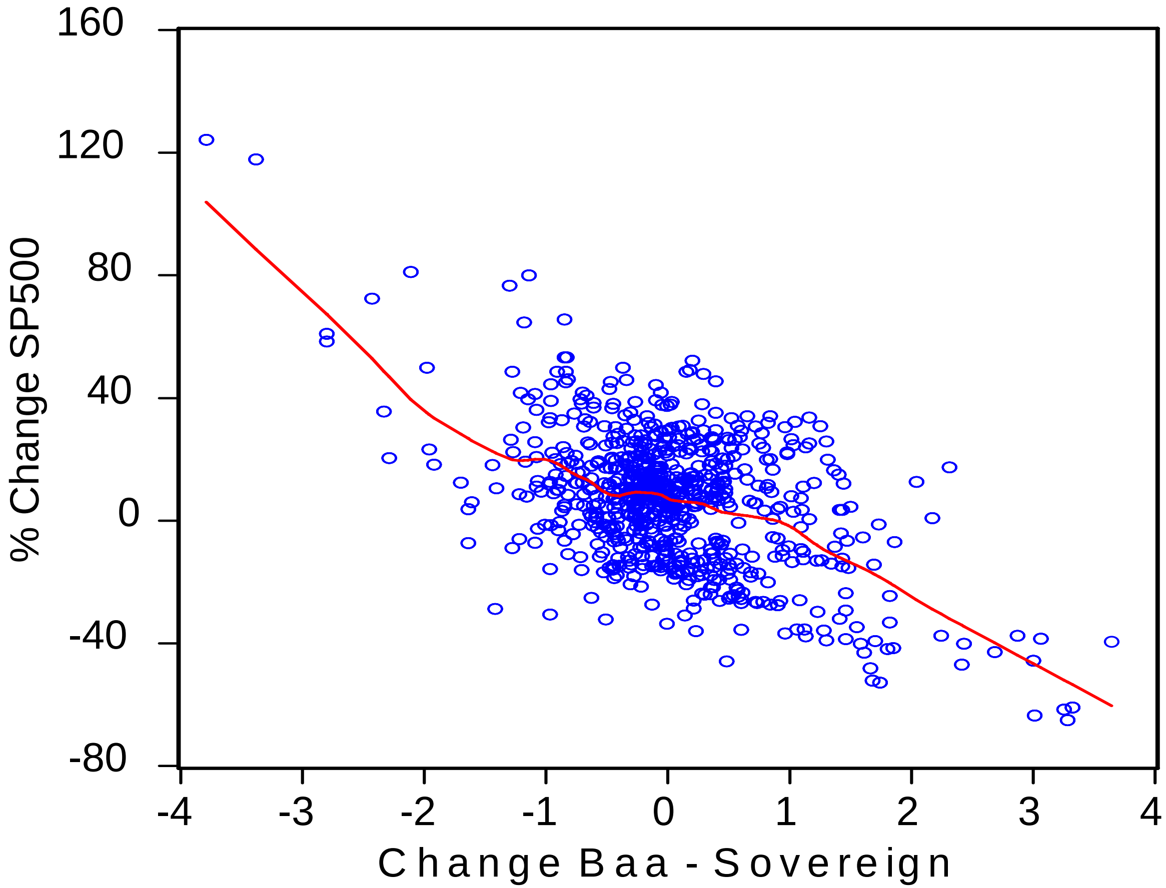
In the recession of 1990, the short rate fell to 1.19% below neutral in December 1990. This would give us a maximum potential low of 2.36% (say 2.25%).

Real 90 Day Bank Bill Yields – 1988 to 2009



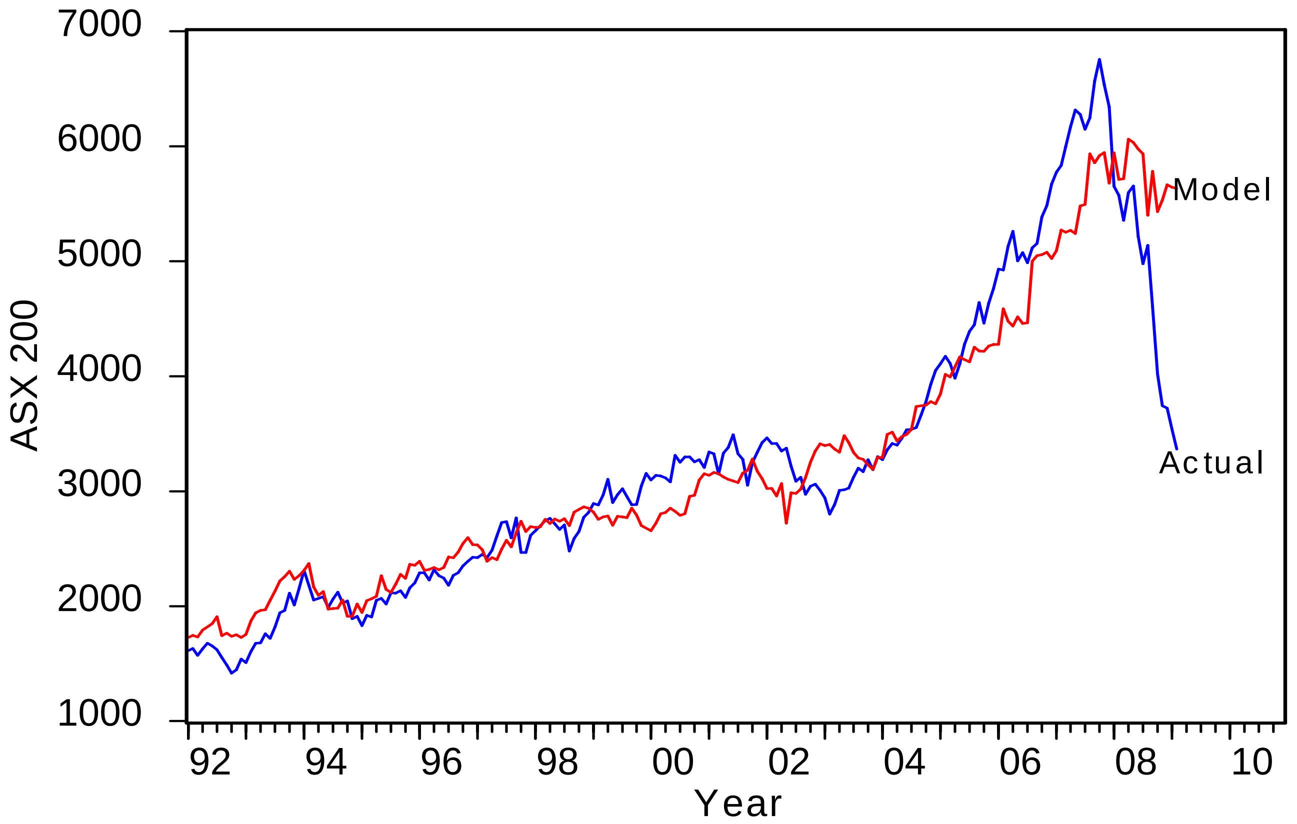
Bank bill yields are now below core inflation providing the strongest monetary stimulus in a generation.

Change in BAA-Sovereign and S&P500 – 1929 to 2009



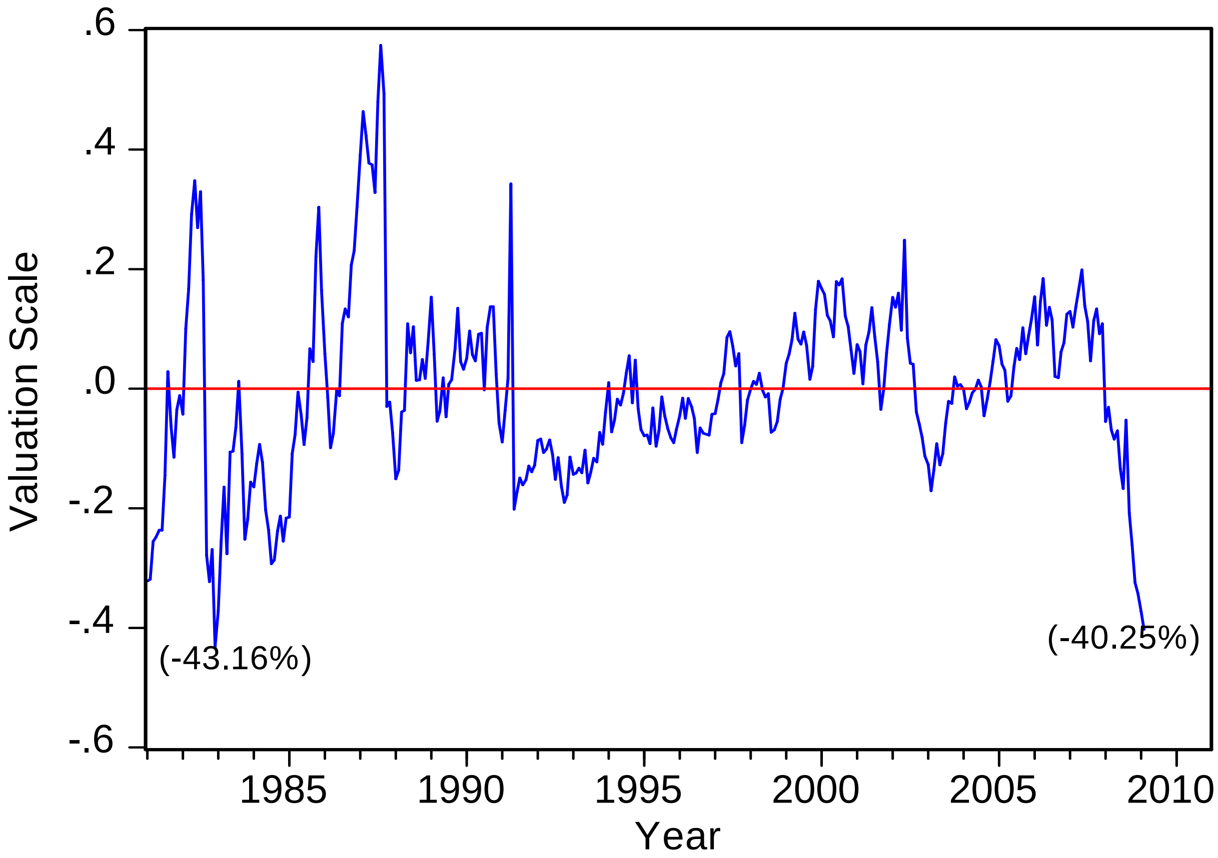
The rise in corporate risk spreads appear to be coincident with the current stockmarket collapse.

Earnings Per Share and Bond Yield Model of the ASX200



On 23 February the ASX200 at 3365 points was 2268 points below fair value of 5633 points.

ASX200 Premium / Discount to Fair Value



This discount is the greatest since December 1982 during the previous deep recession of that year.

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