Global Economy Report

January 2013

Global Economy Report

The Global Economy Report is prepared in cooperation by the Macroeconomic Research Division of Banca Aletti and the Global Governance Programme of the Robert Schuman Center for Advanced Studies of the European University Institute.

The objective of the Report is to provide an analysis of the current and expected macroeconomic and financial conditions at the global level, with also a focus on key economic areas such as Europe, the USA and ASIA.

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Report closed on January 11 2013

EXECUTIVE SUMMARY

❖ The OECD forecasts, published in December, indicate lower global growth rates in 2012/2013 compared to the IMF October forecasts. However, according to the OECD, in 2013 global growth should still accelerate to 3.4% from 2.9% in 2012, reaching over 4% in 2014.

❖ Expected growth for the more advanced industrialized economies remains very bland this year (+1.4%, as in 2012) due to the influence of a still mainly restrictive fiscal policy. There should be an improvement in 2014, when Gross Domestic Product (GDP) growth should reach 2.3%.

❖ For emerging economies, the expected growth of GDP this year is 6.1% (up from 5% in 2012), further increasing to 6.6% next year, with the BRIC leading the way.

EXECUTIVE SUMMARY

❖ In terms of main economic areas, we foresee a slowdown for the USA. Consumer Confidence is affected by the uncertainty still surrounding fiscal policy, and the mood in the business sector is also negative, according to the Capex. In the second half of 2013 we forecast a gradual acceleration, with the new Congress beginning credible fiscal reforms, yielding a return of confidence. Furthermore, the real estate recovery will support growth more and more. Overall, our forecasts for GDP growth are 2.3% for 2012, 1.6% for 2013 and 2.7% for 2014.

❖ For the USA, we also expect a modest acceleration of inflation in December, followed by a slowdown till the third quarter of 2013, thanks to the output gap accumulated during the Great Recession and these three years of very slow recovery. Towards the end of 2014 we could witness a new acceleration of inflation. Overall, we expect the average CPI headline at 2.1% in 2012 and 1.5% in 2013, the average core CPI at 2.1% in 2012 and at 1.7% in 2013.

EXECUTIVE SUMMARY

❖ The Eurozone is in recession. Early data on production and consumption for the fourth quarter of 2012 suggest a worsening of the economic situation, with an expected total reduction of GDP growth of about 0.5% for 2012. This negative result is largely due to the deep recession in Italy and Spain, only partly balanced by mild expansion in Germany.

❖The leading indicators provide some hope for 2013, when we expect a growth rate of GDP close to zero, and a better situation in 2014, when Eurozone GDP growth should be about 1-1.2%. Related with these rather negative results for growth,the unemployment rate will remain well above 11% at least until 2014.

❖ The low growth scenario is associated with forecasts for CPI headline of about 2.5% for 2012, decreasing to 1.8% for 2013 and 1.7% for 2014.

EXECUTIVE SUMMARY

- The economic conditions are rather bad in Japan. A severe shrinkage of GDP in the third quarter and a negative revision of the value for the previous period make the economy formally enter a recession. The leading indicators point to persistent weakness, though the third quarter started with an unexpected positive trend. Annual GDP growth will be anyway positive for 2012, about 2%, mostly thanks to the post-earthquake reconstruction efforts. There is substantial uncertainty about 2013 and 2014, but we expect growth to be around 0.3% and 0.8%, respectively, in a context of very moderate inflation.

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EXECUTIVE SUMMARY

- For China, though in the midst of political transition, we expect the economic cycle to pick up. Income, production and sales accelerated between September and November, associated with a rebound of the leading indicators, announcing the end of the slowdown. Growth rates above 8% are expected for both 2013 and 2014, while inflation should remain below 3% in 2013.

- As to the other principal emerging economies, according to the December OECD report, 2012 should represent the trough in the transition after the 2010 recovery. Between 2012 and 2013 growth in Brasil should pass from 1.5% to 4.0%, in Russia it should increase from 3.4% to 3.8%, while India supposedly will grow from 4.5% to 5.9%. In 2014, Brasil and Russia should have GDP growing over 4%, while India's growth should reach 7%.

BANCA ALETTI

EXECUTIVE SUMMARY

GENERAL MACRO SUMMARY

	2009	2010	2011	2012E	2013E	2014E
GDP (%YOY)						
US	-3.1	2.4	1.8	2.3	1.6	2.7
EUROZONE	-4.4	2.0	1.4	-0.4	-0.2	1.0
GERMANY	-5.1	4.2	3.0	0.9	0.4	1.4
FRANCE	-3.1	1.7	1.7	0.0	-0.1	1.0
ITALY	-5.5	1.8	0.4	-2.1	-1.0	0.5
JAPAN	-5.5	4.7	-0.6	2.1	0.3	0.8
BRASIL	-0.3	7.6	2.8	1.0	3.5	4.0
RUSSIA	-7.8	4.3	4.3	3.6	3.3	3.8
INDIA	6.4	8.9	7.5	5.3	5.5	6.5
CHINA	9.2	10.4	9.3	7.7	8.1	8.0
INFLATION (%YOY)						
US	-0.4	1.6	3.2	2.1	1.5	2.1
EUROZONE	0.3	1.6	2.7	2.5	1.8	1.7
GERMANY	0.2	1.2	2.5	2.0	1.9	1.9
FRANCE	0.1	1.7	2.3	2.2	1.7	1.8
ITALY	0.8	1.6	2.9	3.3	2.0	1.8
JAPAN	-1.3	-0.7	-0.3	0.0	0.0	1.7
BRASIL	4.9	5.0	6.6	5.4	5.6	5.6
RUSSIA	11.7	6.9	8.5	5.1	6.5	5.8
INDIA	10.8	12.1	8.9	7.5	8.5	7.6
CHINA	-0.7	3.3	5.4	2.7	3.1	3.5

Our Forecast

Cons. Bloomberg (Jan 13)

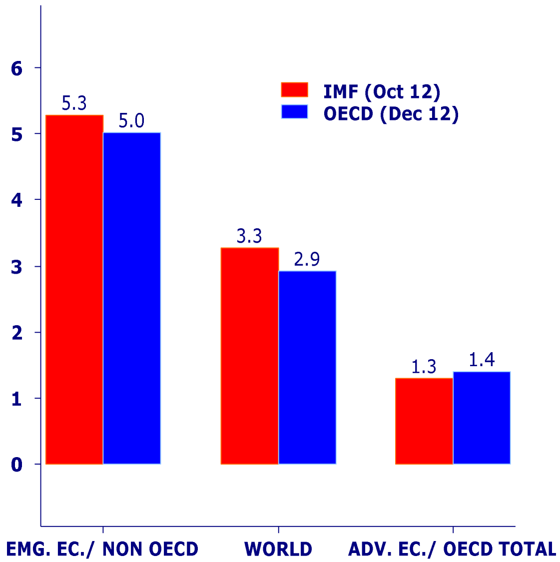
OECD/IMF - ECONOMIC GROWTH FORECASTS

The OECD forecasts pubblished in December differ from the October IMF forecasts. According to the OECD, world growth will be at 3.4% in 2013, lower than that proposed by the IMF (3.6%), and will accelerate to 4.2% in 2014, a bit higher than forecasted by the IMF (4.1%).

For 2012, the IMF is more optimistic than the OECD, with global growth expected at 3.3% rather than 2.9%. According to the OECD study, the leading economies should have grown only by 1.4% in 2012, with low growth foreseen also in 2013. As to the non-OECD economies, in 2012 growth is expected to be disappointing, though at 5%, increasing at 6.1% in 2013.

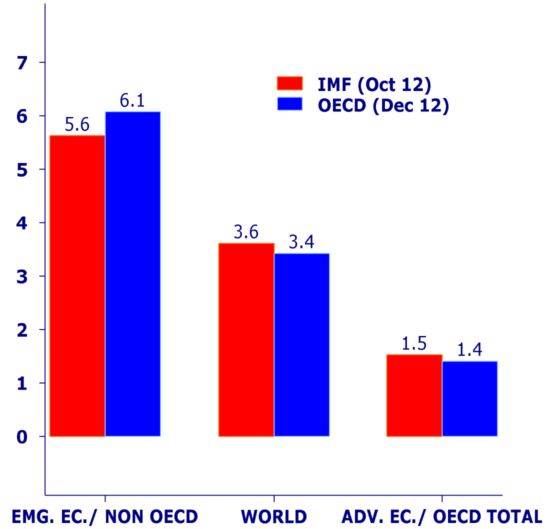
IMF-OECD FORECASTS 2012

Annual average variations–fixed prices



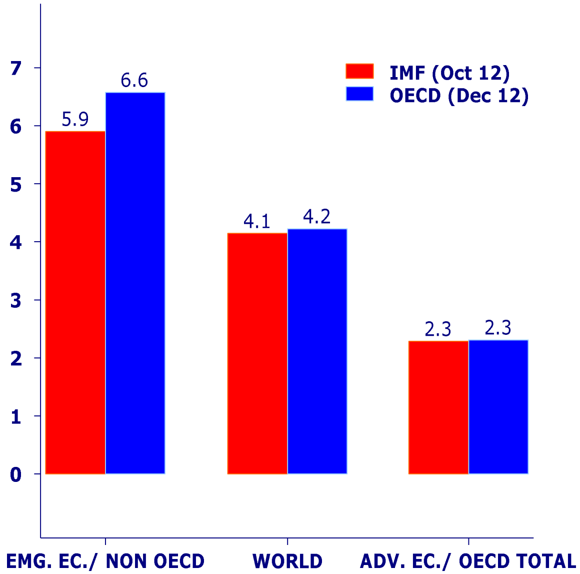
IMF-OECD FORECASTS 2013

Annual average variations-fixed prices



IMF-OECD FORECASTS 2014

Annual average variations- fixed prices



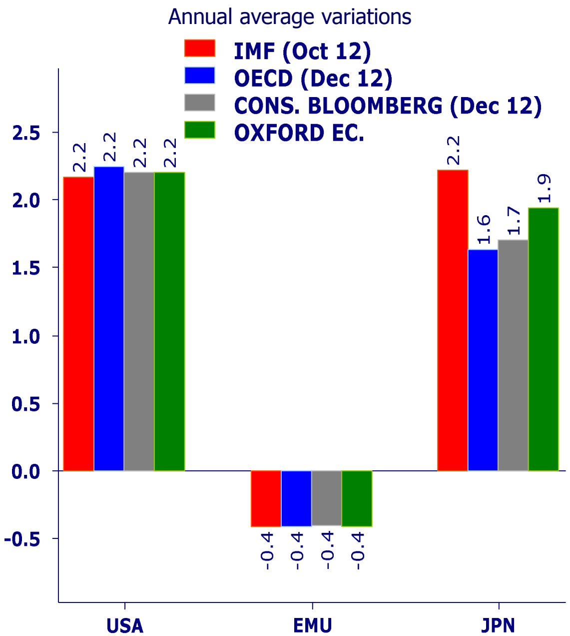
IMF Outlook Oct.2012 ; OECD Outlook Dec. 2013

OECD ECONOMIC GROWTH FORECASTS

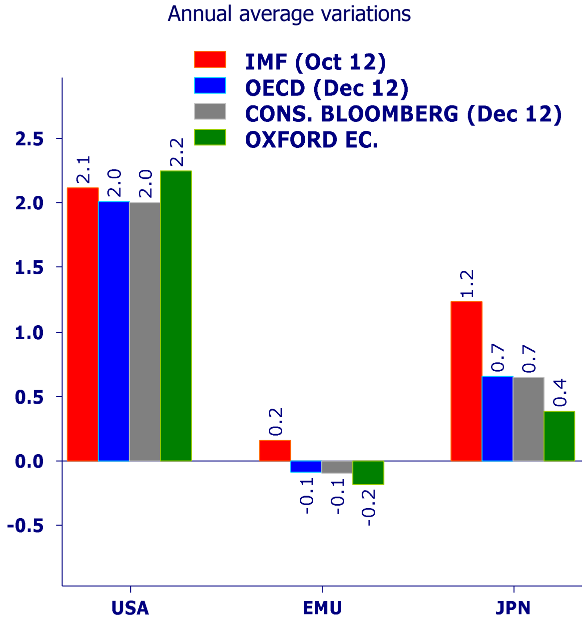
Low growth in advanced economies is partly due to restrictive fiscal policy. Despite great efforts, public budget problems remain common, due to the fall in income and the great uncertainty in financial markets. Fiscal policy will remain restrictive also in 2013, limiting growth potential even more.

For the US, OECD economists assume a 2012-2013 period with growth around 2-2.2% and an acceleration in 2014 at 2.9%. For Eurozone the period is dominated by recesive dynamics, with contraction around 0.4% in 2012 and 0.1% in 2013. In 2014 a mild recovery should take place, with growth limited to 1.3%.

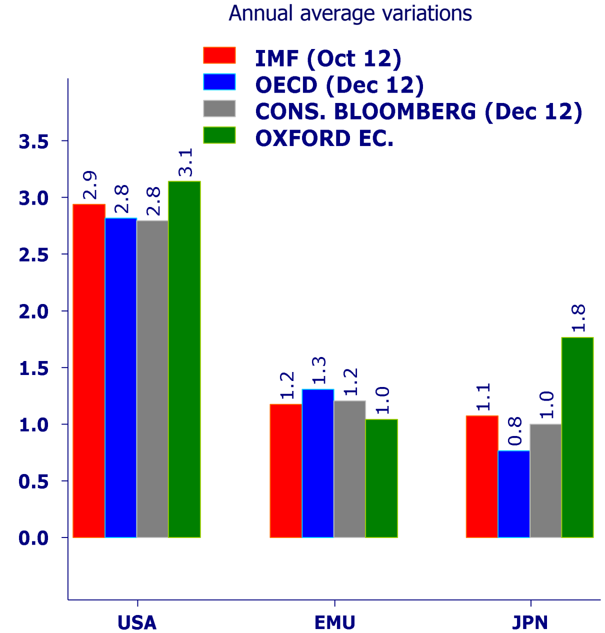
FORECASTS 2012



FORECASTS 2013



FORECASTS 2014



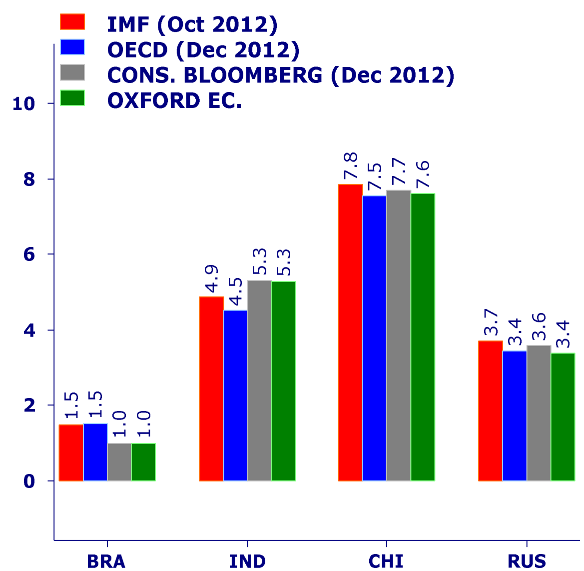
IMF Outlook Oct.2012
OECD Outlook Dec. 2013
Consensus Bloomberg December 2012, mean values
Oxford Economics last available data

OECD – ECONOMIC GROWTH FORECASTS

As to the principal emerging economies, according to the December OECD report, 2012 should represent the trough in the transition after the 2010 recovery. Between 2012 and 2013 growth in Brasil should pass from 1.5% to 4.0%, Russia should increase from 3.4% to 3.8%, while India supposedly will grow from 4.5% to 5.9%. In 2014, Brasil and Russia should have GDP growing over 4%, while India should reach 7%. As to the Chinese economy, OECD forecasts an increase to 8.5% in 2013 compared to 7.5% in 2012, while 2014 growth rate is presumed at 8.9%.

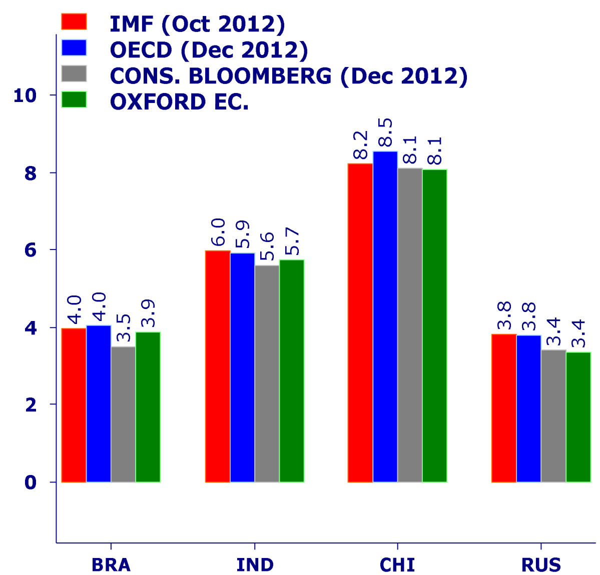
FORECASTS 2012

Annual average variations



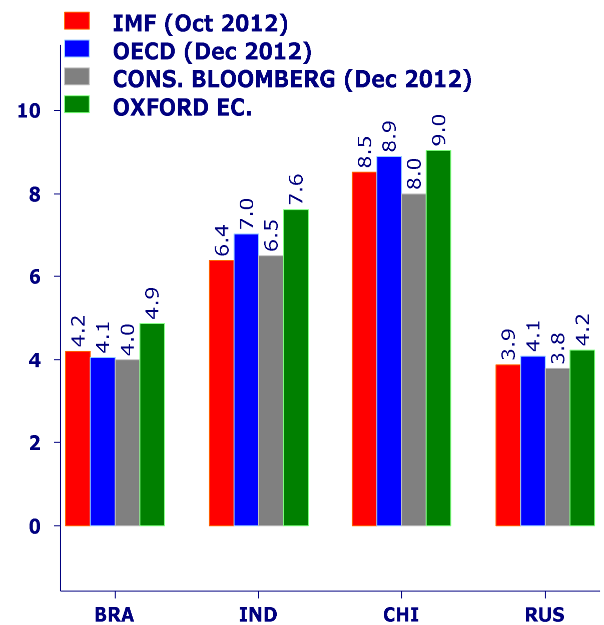
FORECASTS 2013

Variazioni medie annue



FORECASTS 2014

Variazioni medie annue



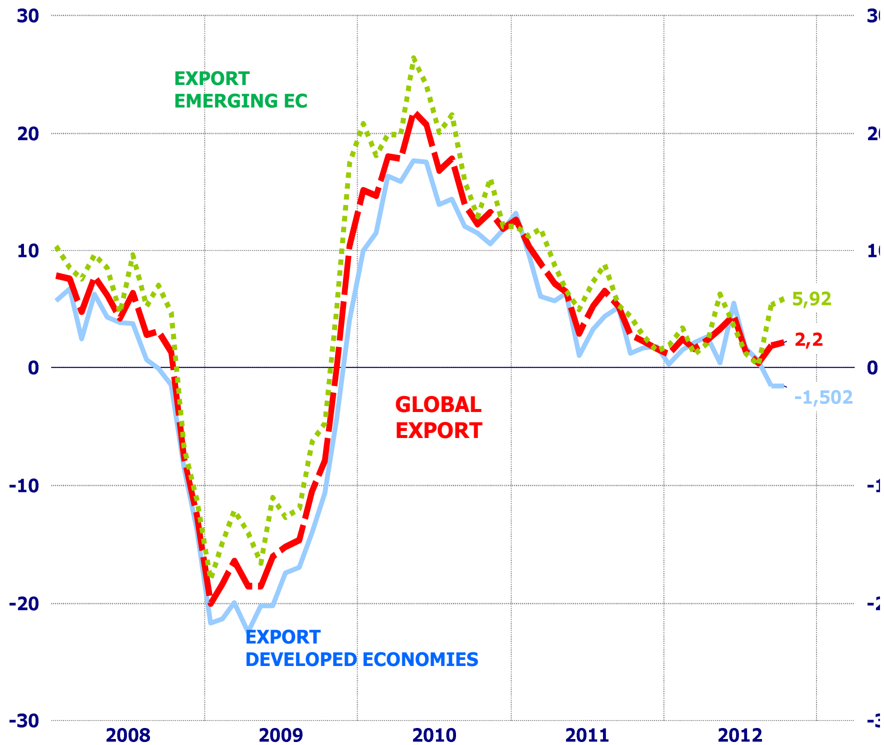
IMF Outlook Oct.2012
OECD Outlook Dec. 2013
Consensus Bloomberg Dec. 2012, mean values
Oxford Economics last available data

INTERNATIONAL TRADE

With the new data, the international economic scenario shows the first signs of stabilization in a context characterized by still conflicting dynamics. World export on annual basis indicates a 2.2% growth in October, up from the Spring stagnation. The increase is surely led by emerging markets (+6%), but slowed down by international trade of industrialized countries (-1.5% exports in October over previous year). For the coming months the indications are more favourable than 2012.

INTERNATIONAL TRADE- EXPORT

Year on year change in CPB index volume Export



INT. TRADE AND LEADING INDICATOR

World trade index (6m av)– Global PMI new orders export (3m av)

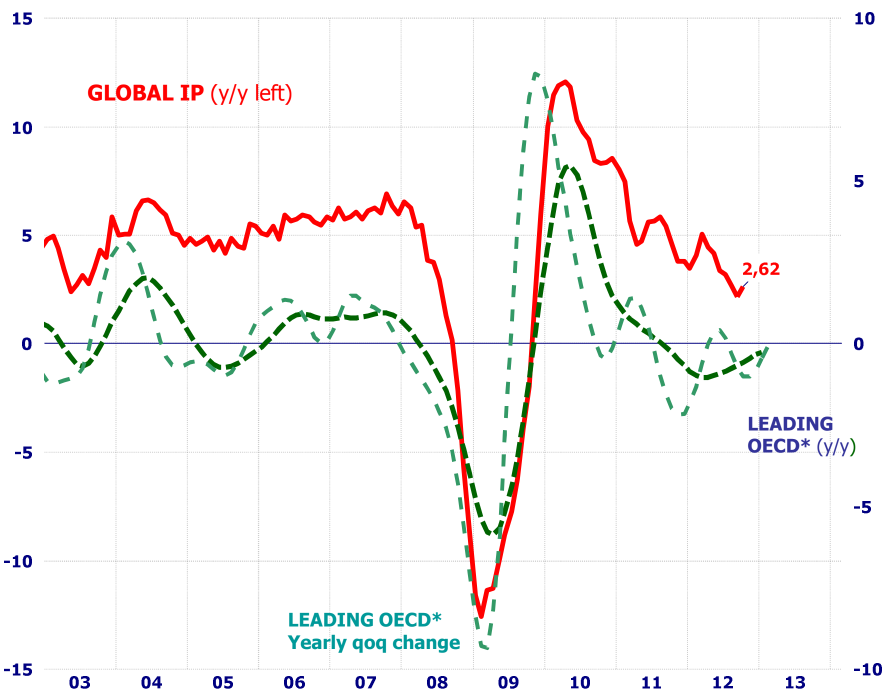
GLOBAL INDUSTRIAL ACTIVITY

Global industrial activity has slowed down for five months in a row with an over 50% reduction, reaching a +2% growth in September. In October, a rebound brought the growth rate over 2.6%, led by emerging markets where industrial activity has grown over 6.5%, but still weighed down by leading economies, whose reduction is over 2% yoy.

The forecasts continue to be moderately positive, with some extra signals of optimisms.

GLOBAL INDUSTRIAL PRODUCTION AND LEADING

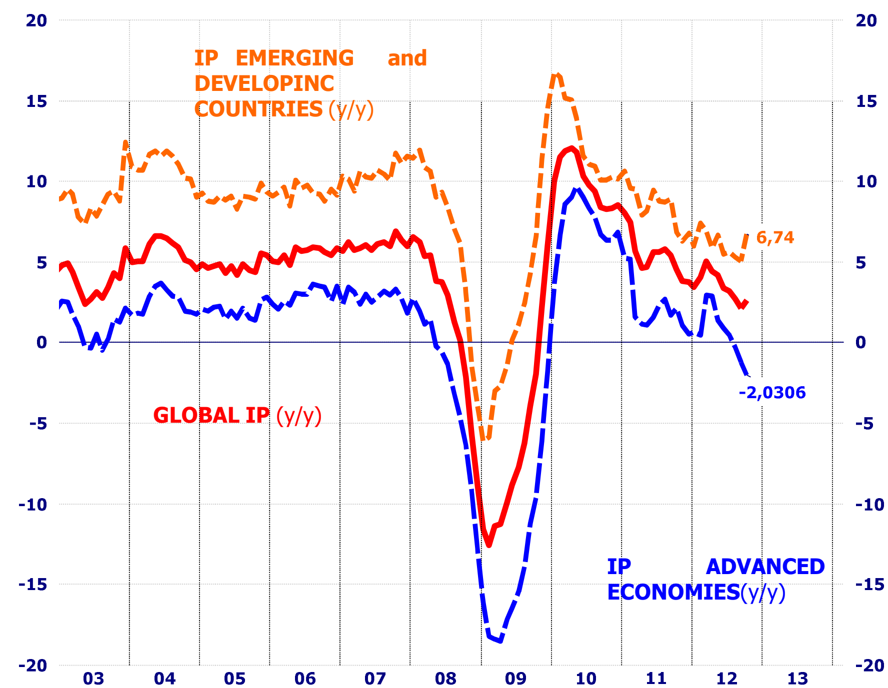
CPB IP index - OECD Leading index



LEADING OECD*: DEVELOPED ECONOMIES+ BRIC + South Africa + Indonesia

INDUSTRIAL PODUCTION

CPB IP index

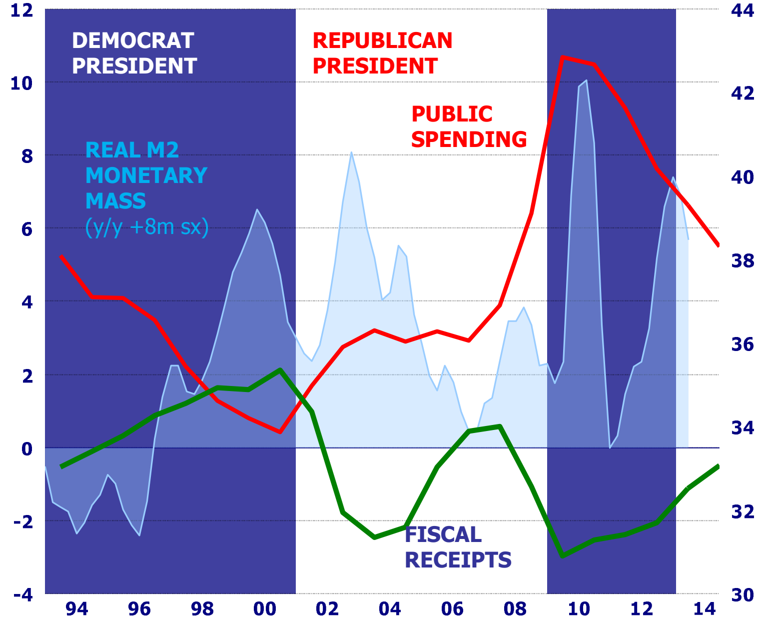


ECONOMIC ACTIVITY

At the beginning of 2013, the US have avoided the “Fiscal Cliff”: executive and legislative (democratic presidency against repubblican house majority) have found an agreement for the part that relates to tax increases, but by the end of February the risk of excessive fiscal pressure will represent itself, as the two month extension of the spending cuts’ deadline is due and the extraordinary measures adopted by the Treasury to contain debt cease and therefore the limit on debt will have to be raised.
In Europe, the recessive dynamic is present in many countries with risk of further worsening, due to the strongly restrictive fiscal policy, which is compressing internal demand, the drop in trade exports, and political uncertainty, all aspects that lenghthen the terms of this negative economic situation.

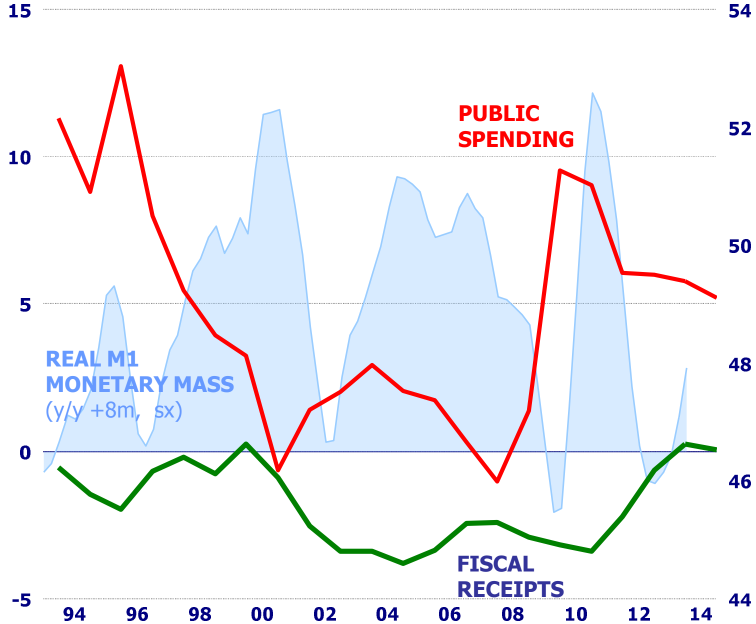
USA – FISCAL DYNAMICS AND MONEY

OECD fiscal data on GDP



EMU – FISCAL DYNAMICS AND MONEY

OECD fiscal data on GDP



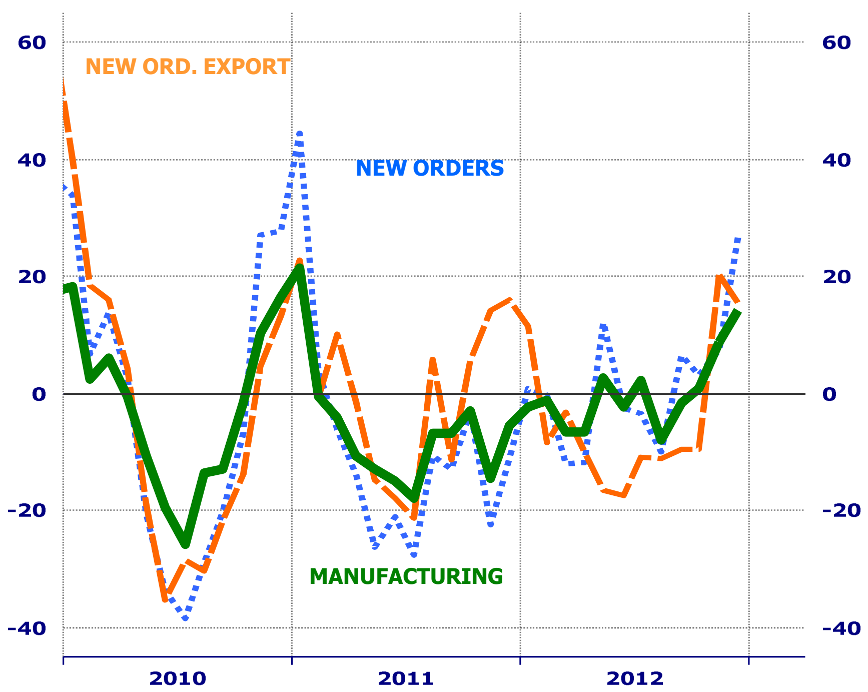
ECONOMIC ACTIVITY

In China, almost at the same moment that the 18° Congress elected the new leadership-Xi Jinping, Secretary of the Communist Party and Li Keqiang premier starting in March- data and statistics have signalled a reacceleration of economic activity, thus confining the previous slowdown as a transitory event.

On a yearly basis the indicators show increases in the order of 15-20%, trends that coupled with growth in the monetary mass are coherent with an acceleration of the economic system.

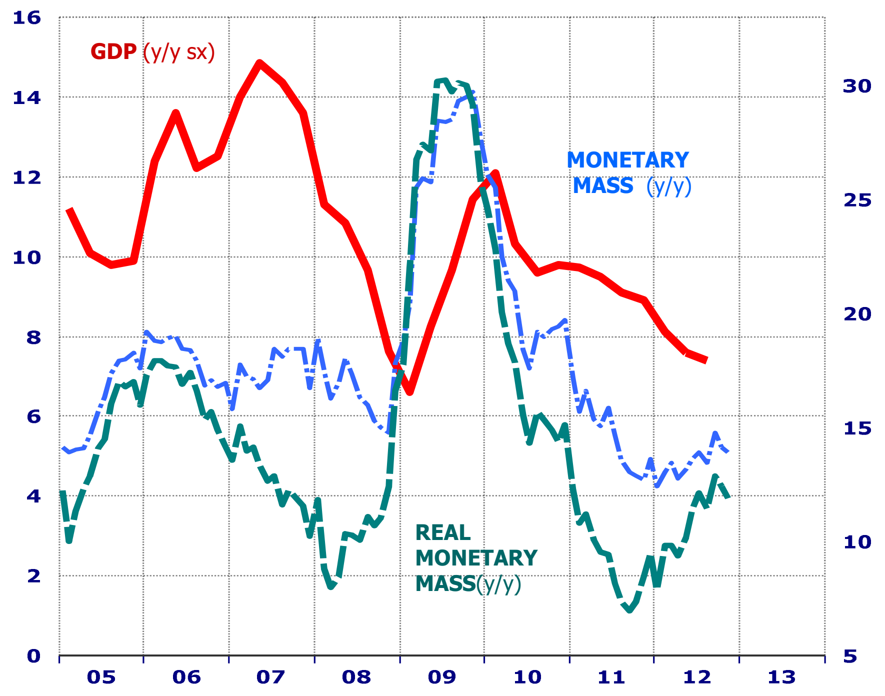
CHINA – SURVEYS, PMI INDEXES

HSBC Purchasing Managers Indexes – annualized six-month variations



CHINA – GDP AND MONETARY MASS

Real and nominal M2 (cpi)



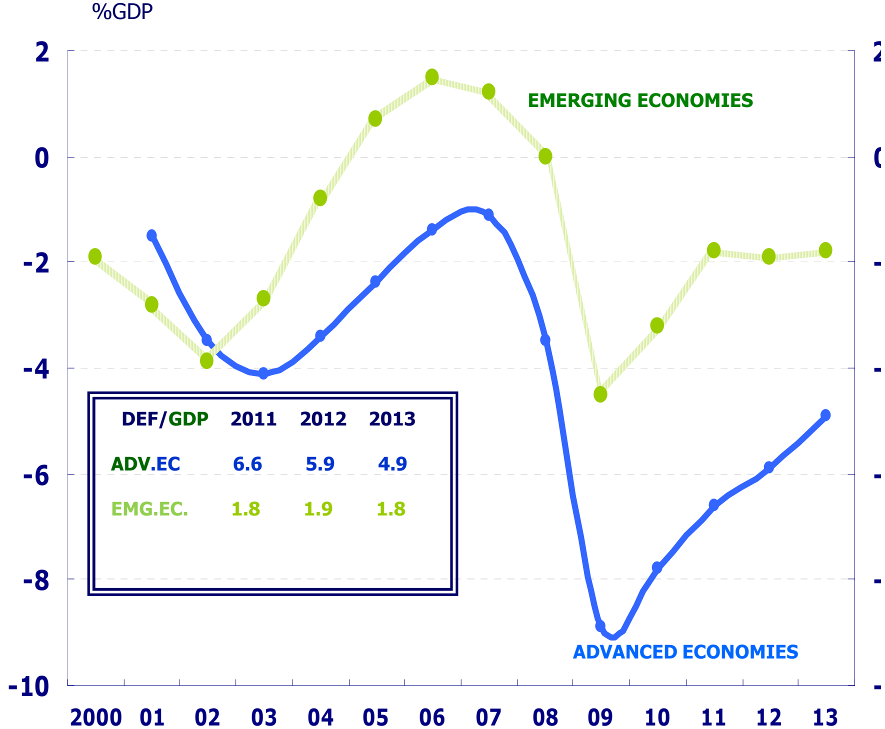
PUBLIC FINANCE

Considering the aggregate data of leading economies, thanks to the tight fiscal policy, the budget deficits continue to decrease at an annual rate of 1% of GDP, despite low growth.

Public debt on GDP continues instead to increase, sometimes due to the lack of a clear reduction policy (USA, Japan) and in other cases due to higher real interest rates than economic growth rates (periphery of Eurozone).

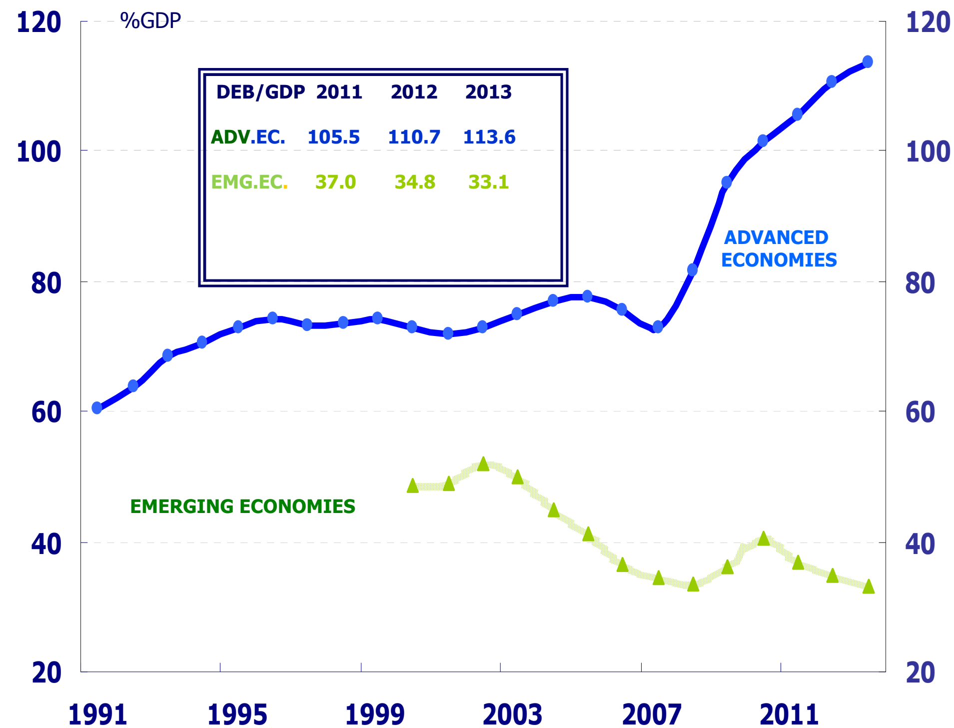
DEFICIT/GDP – IMF ESTIMATES

Fiscal Monitor – OCT. 2012



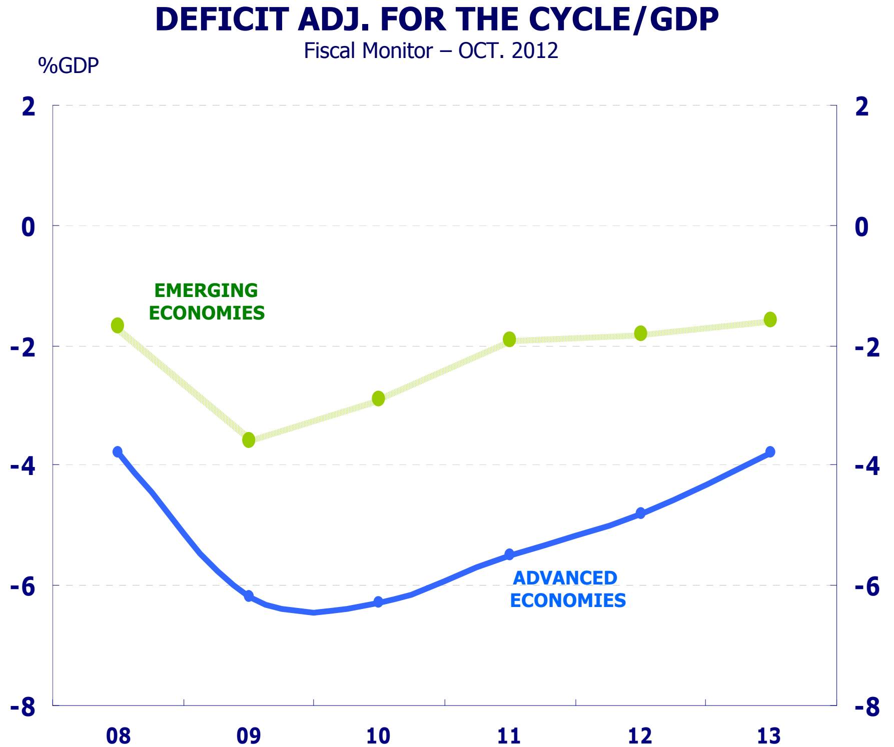
DEBT/GDP – IMF ESTIMATES

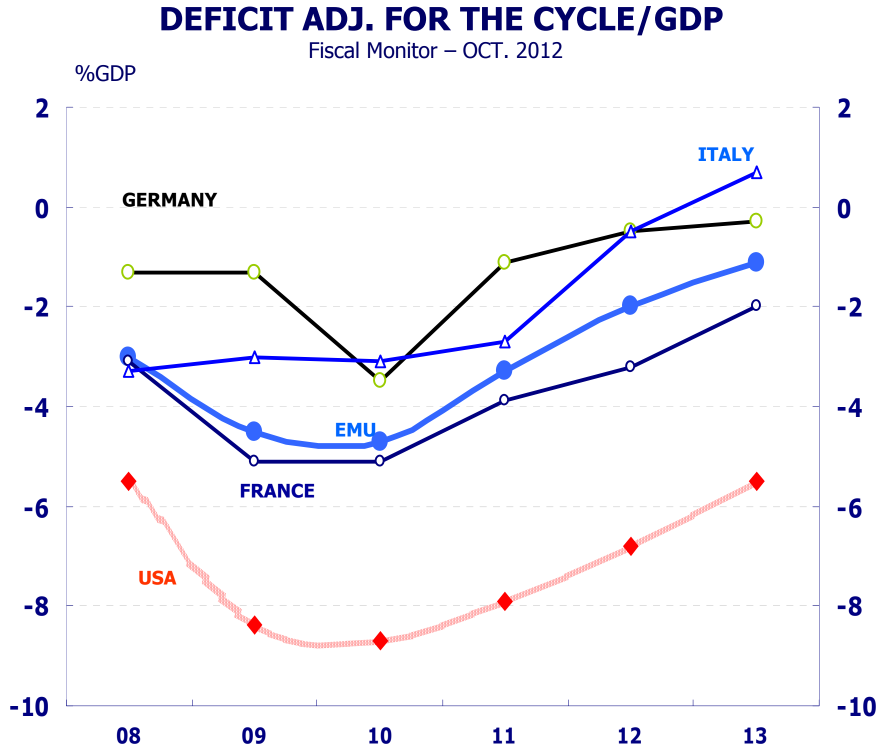
Fiscal Monitor – OCT. 2012



PUBLIC FINANCE

… for advanced economies the cycle adjusted public deficit is getting better on a more constant rythm, slightly less than 1% per year.



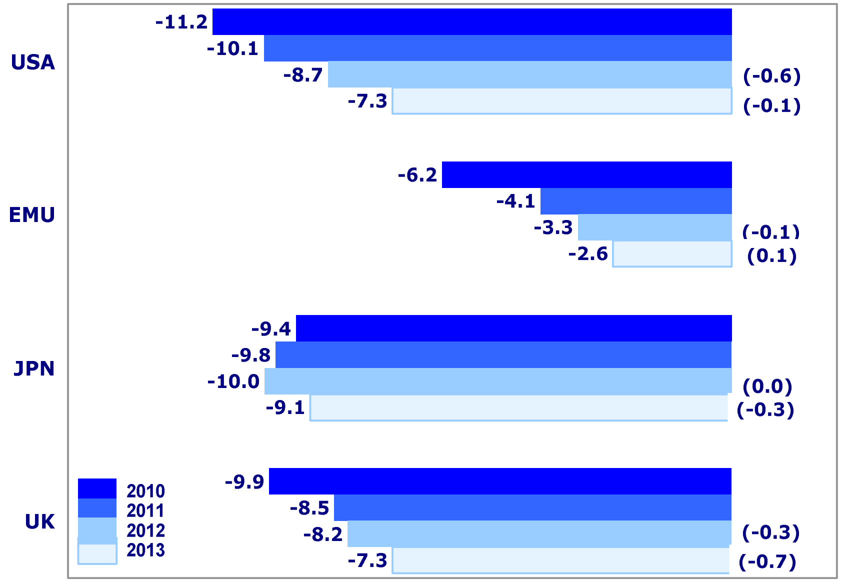


PUBLIC FINANCE

As to the principal leading economies, the deficit decrease in the two year period should bring Eurozone below 3%, while for US and UK the 7% target is out of reach. The Japanese deficit trend is less dinamic and this year will remain above 10% also due to the reconstruction post tsunami/earthquake. In the two-year period, the Eurozone debt follows a stabilizing trend (91.4% this year, 92.4% in 2013) while it is still growing in other countries. For the IMF the risk scenario doesn't include only Europe. The US (over 110% next year) and Japan (240% next year from 234%) also carry risks due to lack of strategy in structural stabilization.

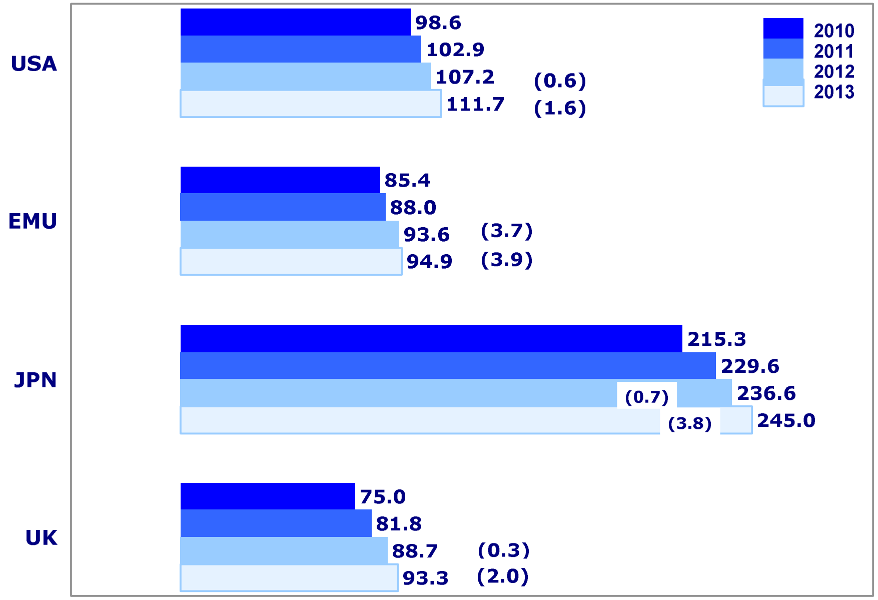
DEFICIT /GDP DATA AND ESTIMATES – 2010-2013

IMF – Fiscal Monitor Oct. 2012



DEBT/ GDP DATA AND ESTIMATES – 2010-2013

IMF – Fiscal Monitor Oct. 2012



Note: in parenthesis the variation since the april 2012 report.

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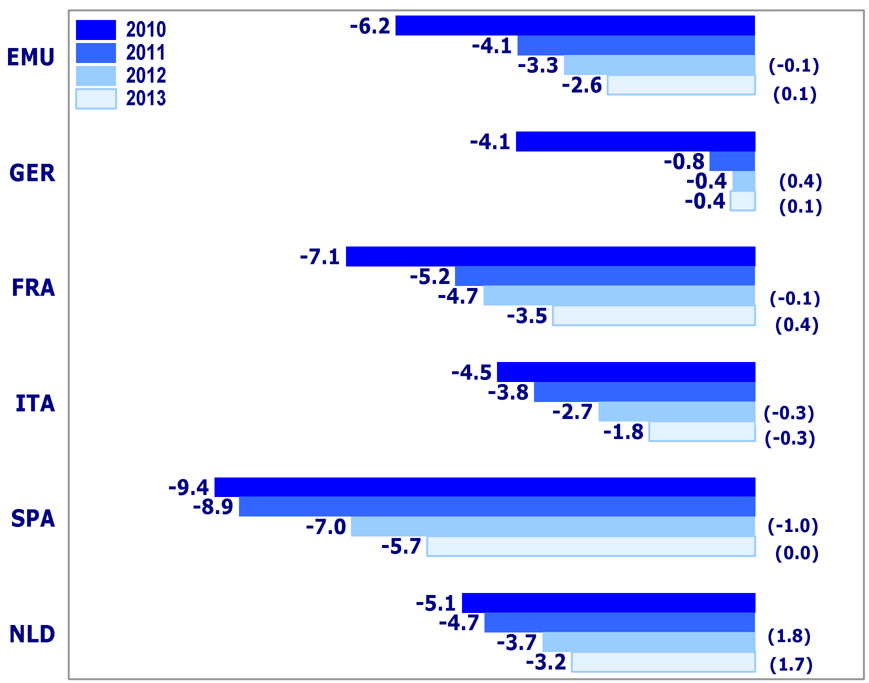
PUBLIC FINANCE

Among Eurozone countries, the negative cycle and the increase in interest rates have negatively impacted Italy and Spain’s deficit. Among the five major countries, debt grows in all between 2012 and 2013 except for Germany, whose deficit decreases beginning 2013. The negative effects of the crisis of public debt associated to the economic crisis and that of the Euro are evident in Spain’s data, whose debt this year will increase over 20 points of GDP, with a further increase of 6% next year.

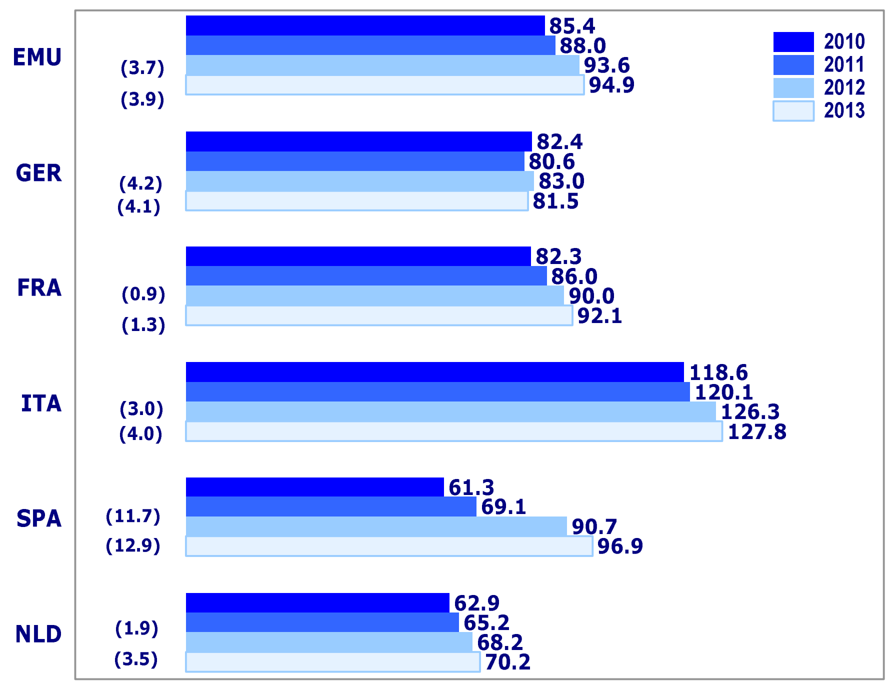
DEFICIT /GDP DATA AND ESTIMATES– 2010-2013

IMF– Fiscal Monitor OCt. 2012



DEBT/ GDP DATA AND ESTIMATES– 2010-2013

IMF – Fiscal Monitor OCt. 2012



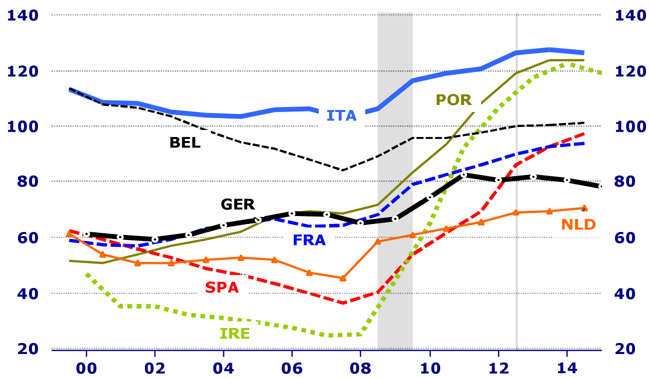
Nota: tra parentesi la variazione rispetto al rapporto di aprile 2012.

BANCA ALETTI

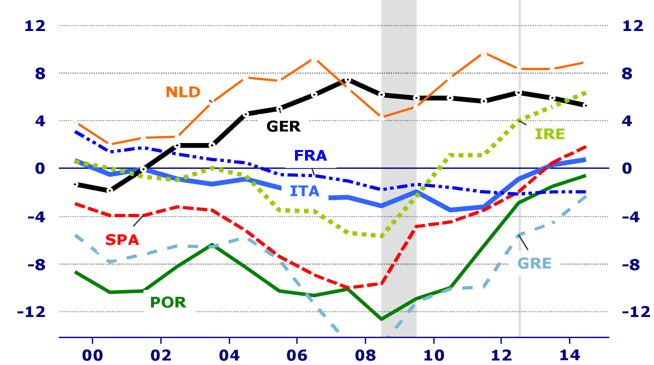
EUROZONE CRISIS

The launch of OMT (anti-spread plan) on the part of the ECB, connected to the salvage has virtually interrupted the vicious spiral: *manouvres to re-stabilize public finances>depression of GDP>-increase in spread and interest rates>worsening of public finance trends.*

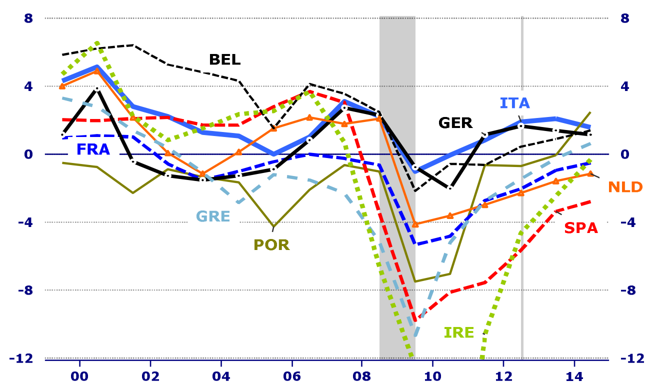
DEBT/GDP
OECD data



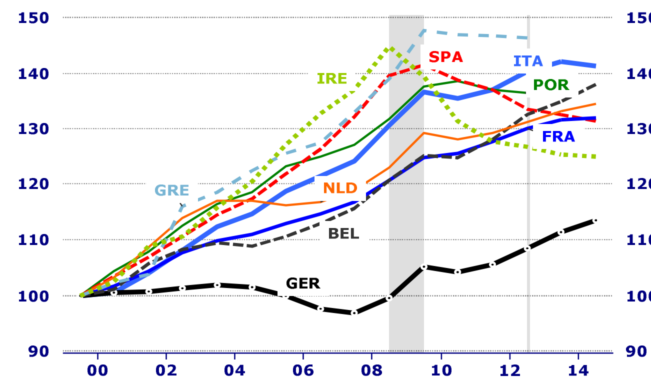
CURRENT ACCOUNTS/GDP
OECD data



ADJUSTED PRIMARY BALANCE PER CYCLE
OECD data



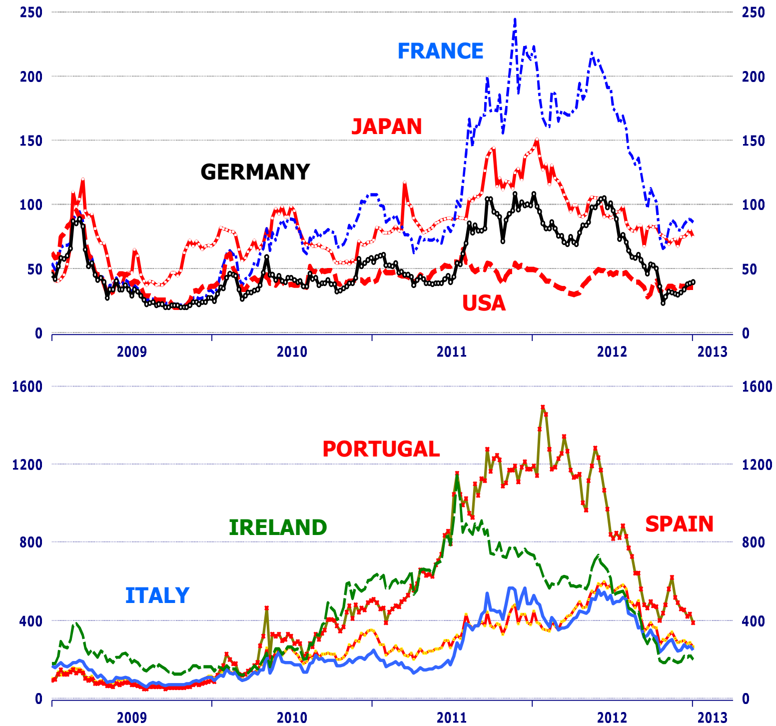
COST OF LABOR
indici base 100- OECD data



BANKING SUPERVISION

The December Eurogroup has fixed parameters for the program of centralizing credit surveillance under ECB, which will immediately concern 200 institutions (out of 6000), i.e. those with over 30 bln in assets. The completion of the project is fundamental as it is the intermediate step to the banking unification and to the constitution of an institute for the protection of european saving accounts (which together with the Fiscal Compact would complete a first modification of the European architecture). It is also able to split the perverse relationship between public debt and bank balance sheets, thus contributing to a more solid program of integration, and to a reduction in country risk, as measured for example by the Credit Default Seaps.

COUNTRY RISK,
5 YEAR CDS
5 year credit default swap

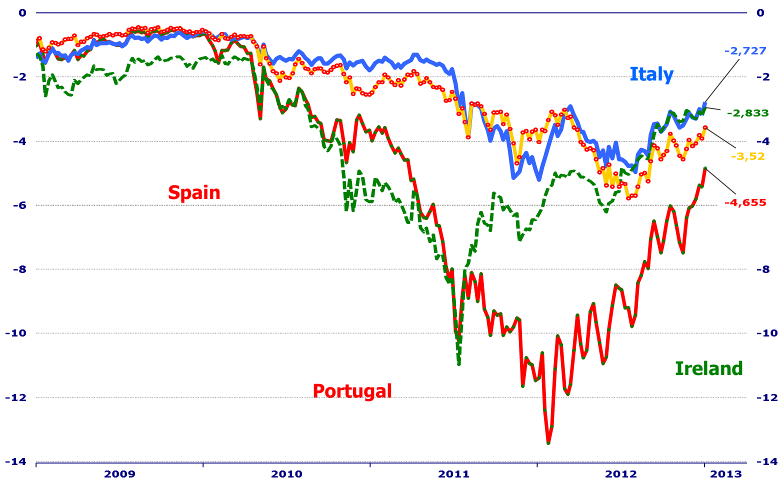


COUNTRY RISK AND RATINGS

The European crisis is still full of uncertainty and continues to have a negative impact on the system. After S&P even Moody's downgraded France (Aa1 from Aaa), causing a similar downgrading on the EFSF-ESM funds. Portugal, who is already under international supervision (EFSF and IMF), asked IMF and World Bank for advice on public spending cuts.

COUNTRY RISK AND RATING

Spread on 10 year German bonds



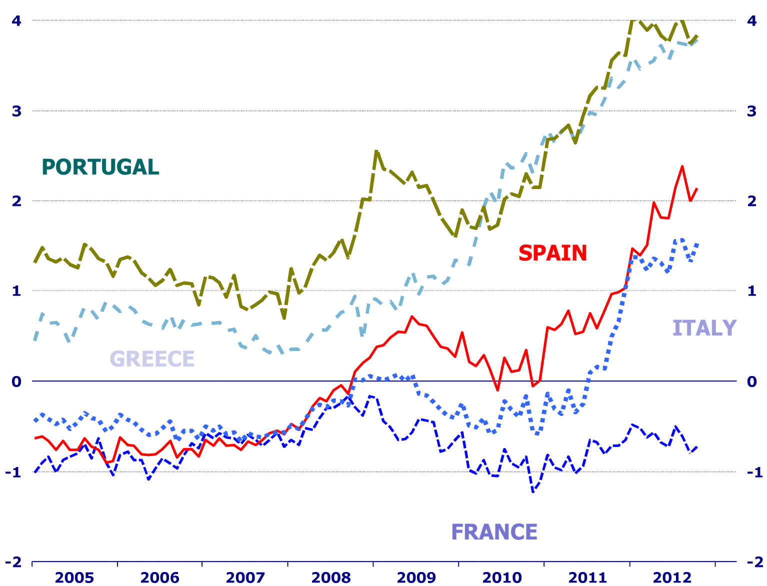
	Moody's	S&P	Fitch
Italy	Baa2	BBB+	A-
Spain	Baa3	BBB-	BBB
Ireland	Ba1	BBB+	BBB+
Portugal	Ba3	BB	BB+
Greece	C	SD	CCC
France	Aa1	AA+	AAA
Germany	Aaa	AAA	AAA
Japan	Aa3	AA-	AA-
USA	Aaa	AA+	AAA

4/1/2013 data

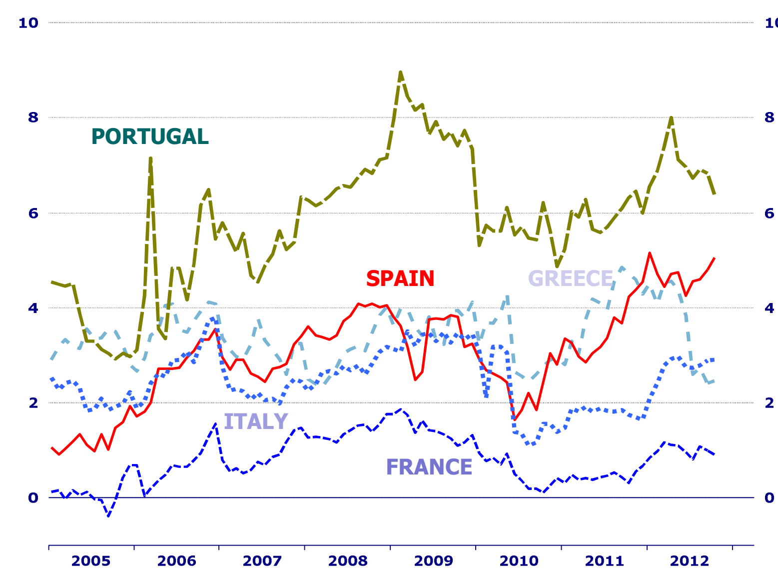
COUNTRY RISK AND RATINGS

After approving a new package of restrictive measures, Greece agreed with Europe and the IMF that it has exceeded the already programmed loan. The Greek Government has obtained a 100bp lightening of interest rate on EFSF and other bilateral loans and a reduction of 10 bp on commissions for warrantees on EFSF credits, a 15 year extra on EFSF terms, a 10 year moratorium for interest on EFSF, the transfer of earnings from Greek bonds into a SMP portfolio. All included, it’s receiving 43.7 bln euro: over 34 bln in December (of which 23.8 to recap banks) and 9.3 bln in the first quarter of next year, conditional on keeping up with the program. The target Debt/GDP for 2020 was raised 4 points to 124%, coupled with a Greek buy back (almost 32 bln) which should reduce debt by 11-12%. The agreement also includes that Greece transfers in the dedicated deposit account capital from privatization, targeted primary surpluses and the possible eccess on the primary surplus up to 30%.

INTEREST RATE SPREADS vs GERMANY
Business credit up to 1mln euro



INTEREST RATE SPREADS vs GERMANY
Consumer credit variable rate 1-5 years



COUNTRY RISK AND RATINGS

Starting 2014, the positive outcome of the Greek plan could include a new debt cut (the first-PSI-was over 100 bln privately detained), considering the present unsustainability. This new operation would involve official institutions, who are at present the exclusive holders of Greek debt (OSI official sector involvement).

As for Spain, Eurogroup confirmed the issuing of 39.5 bln euro FROB (out of 100 bln total agreed), intended to recapitalize the four banks (Bankia, Novagalicia, Catalunya Caixa and Banco de Valencia) and to back SAREB (the bad bank that will receive their assets). Considering public finance still out of control, Spain remains the first candidate for OMT activation, while elections in Italy (at end of February) and in Germany cast a spectre of uncertainty.

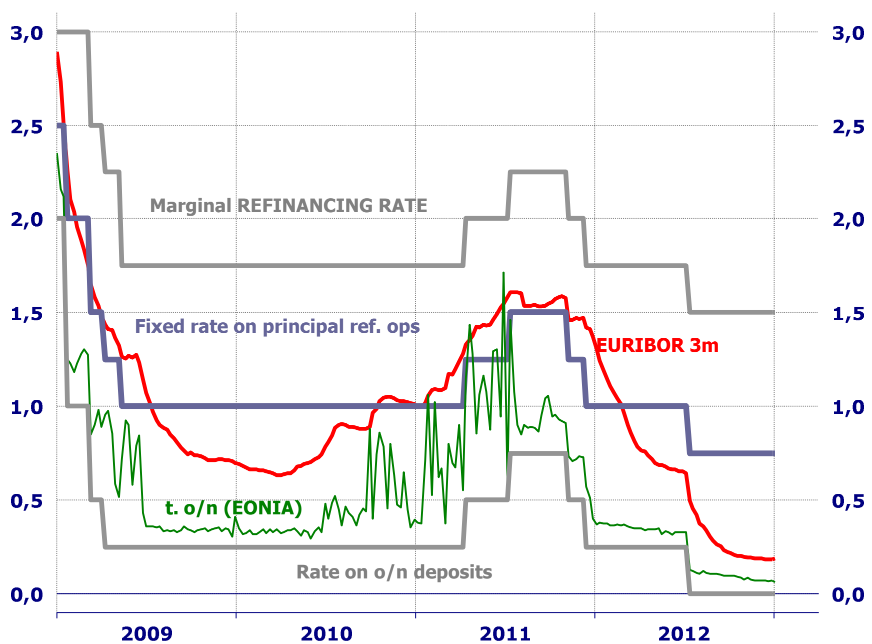
The banking sector remains strongly supported by ECB's policy, thus eliminating liquidity risk in the short term. In the three months up to November, banks of the major European countries have bought national public bonds. The financing of the private sector (families and businesses), decreased in Spain, Portugal, Ireland and Greece, confirming forecasts.

The Italian scenario is more complex, with a 1% drop in loans to families and a 4.5% decrease in loans to businesses. Spain, Portugal and Greece suffered a strong hemorrhage of deposits.

MONETARY POLICY

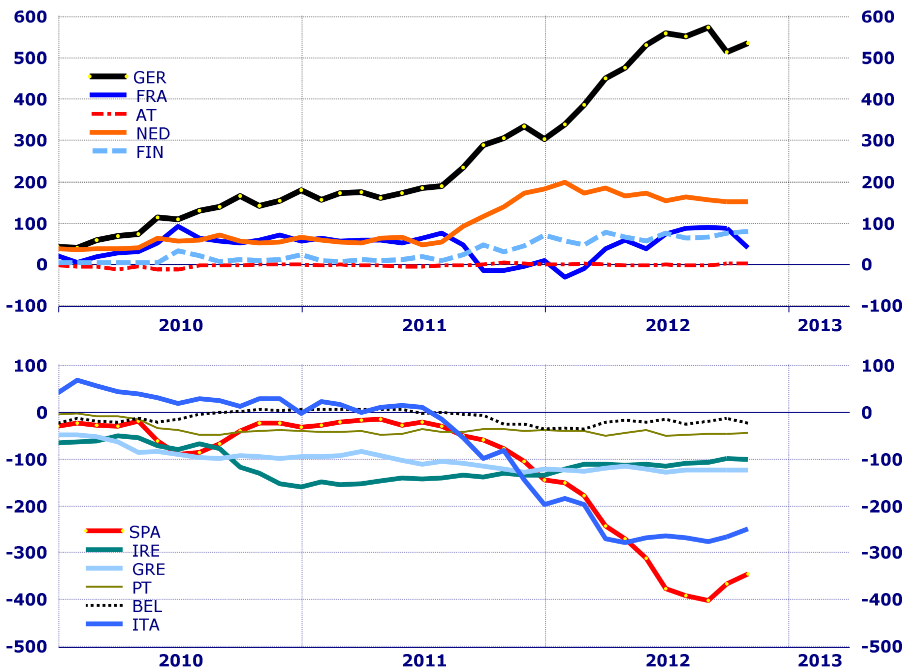
The ECB Board kept the official interest rate in December at 0.75%, signalling that the extraordinary regime will continue till 9 July 2013, in the form of fixed-rate Main Refinancing Operations (MROs) and until all requests will be satisfied. The first part of the year will probably see the continuing of these operations without any new ones. Banks should return part of the long term liquidity injected last year, leaving the system with a still eccessive liquidity. The new growth estimates (with downside risk) have been trimmed consistently in the course of the two year period, with a range between -0.6% and -0.4% on average for 2012 and between -0.9% and 0.3% for 2013. The new 2014 forecasts, have a very wide range, between 0.2% and 2.2%. OMT is in store.

ECB-OFFICIAL INTEREST RATE RANGE



EUROZONE-TARGET BALANCE 2

CREDITORS vs. DEBTORS (€ bln)



MONETARY POLICY

In the USA, the FOMC has agreed at the end of December on a program of Treasury bond acquisitions worth \$45 bln per month that summed up with QE3 (\$40 bln MBS per month), results in a \$85 bln per month injection on the Fed's part, for a non specified time period, thus an indefinite cost. The Board will keep the current interest rate close to 0 at least until the unemployment rate will be below 6.5% (7.8% last data) with inflation no more than 0.5% over the target of 2%.

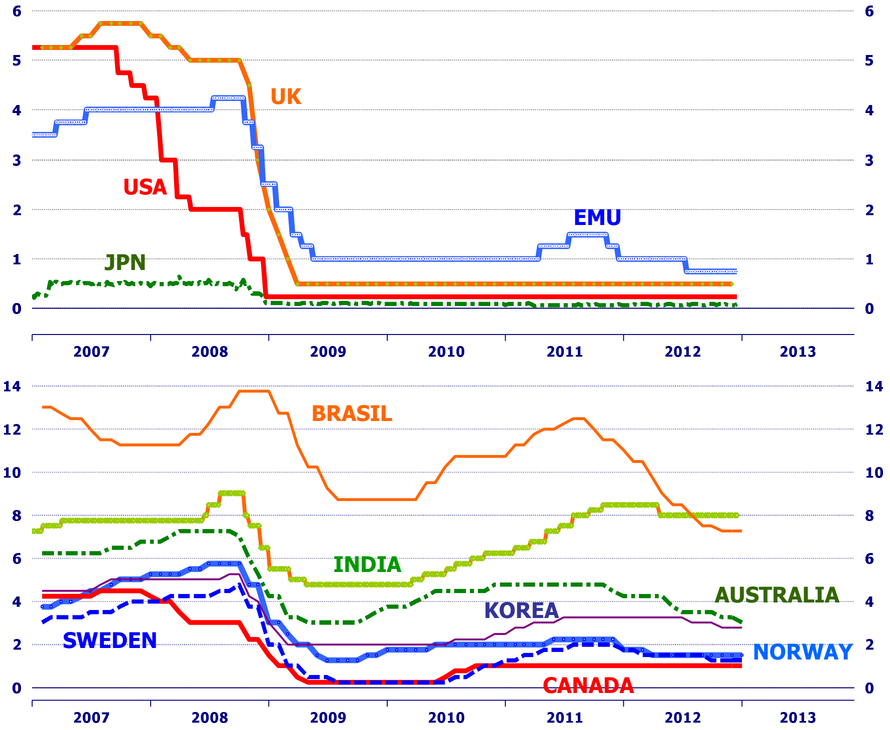
After the success of the Liberal-Democrats in the elections, there are growing expectations that the Japanese central bank will intervene again more decidedly after the December 101 trillion yen investment in financial activities (over \$1100 bln) and the three year financing of the banking sector at minimum rates, until deflation lifts.

4/1/2013 data

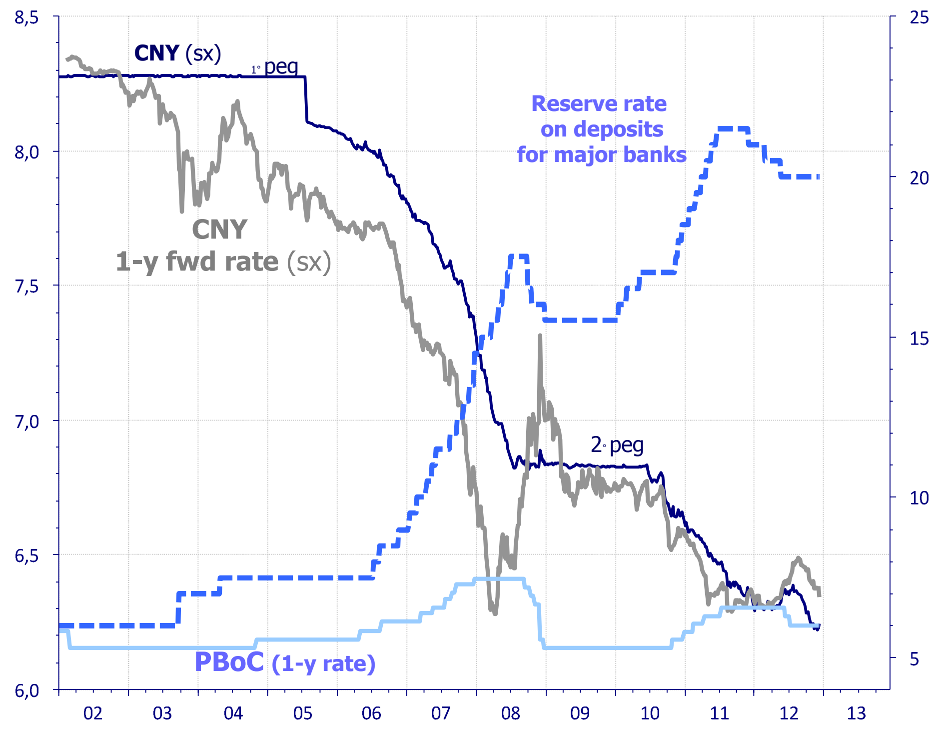
MONETARY POLICY

Among the other main central banks, RBA lowered the official Australian rate to 3%; the Sweedish rate is at 1.25%, while Korea's is at 2.75%; the Brasilian Copom has confirmed expected stability at 7.25%. In China, the PBoC maintained rates unaltered, following an expansive liquidity policy.

OFFICIAL BASE RATES



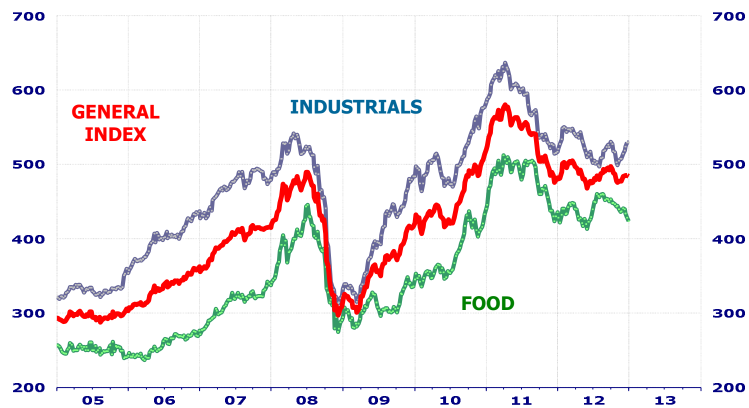
CHINA - RATES AND EXCHANGE



INFLATION

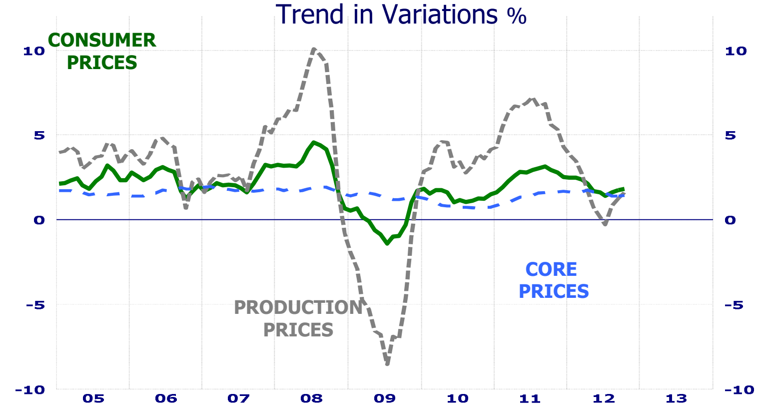
The principal indexes of goods' prices are affected by the slowdown of international trade and recessive dynamics, especially in Europe. In the first world, the raise in raw materials' prices is influencing retail prices. Globally the indicator of inflationary pressure has an downward trend.

RAW MATERIALS- CRB INDEX

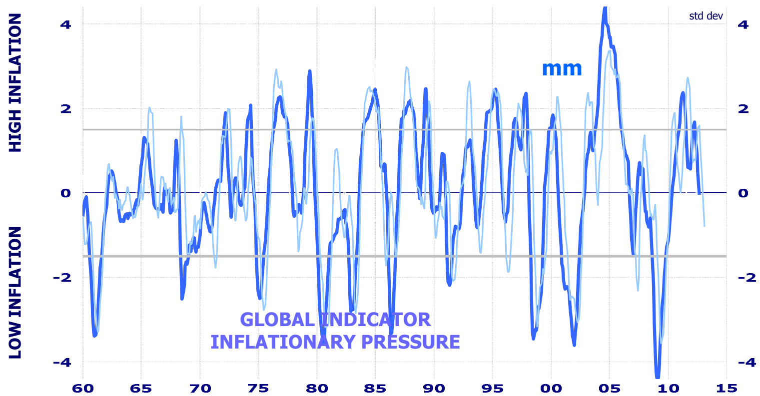


G7 – PRICE TRENDS

Trend in Variations %

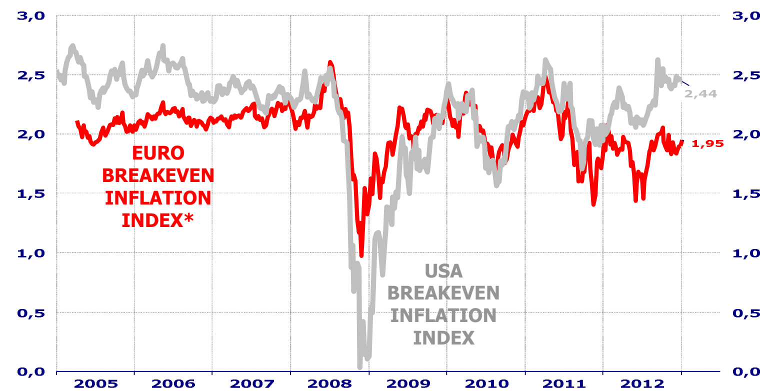


INFLATIONARY PRESSURE



PROPRIETARY INDICATOR

EURO&USA 10y BREAKEVEN INFLATION



*EURO INDEX BASED ON FRENCH TREASURY BONDS

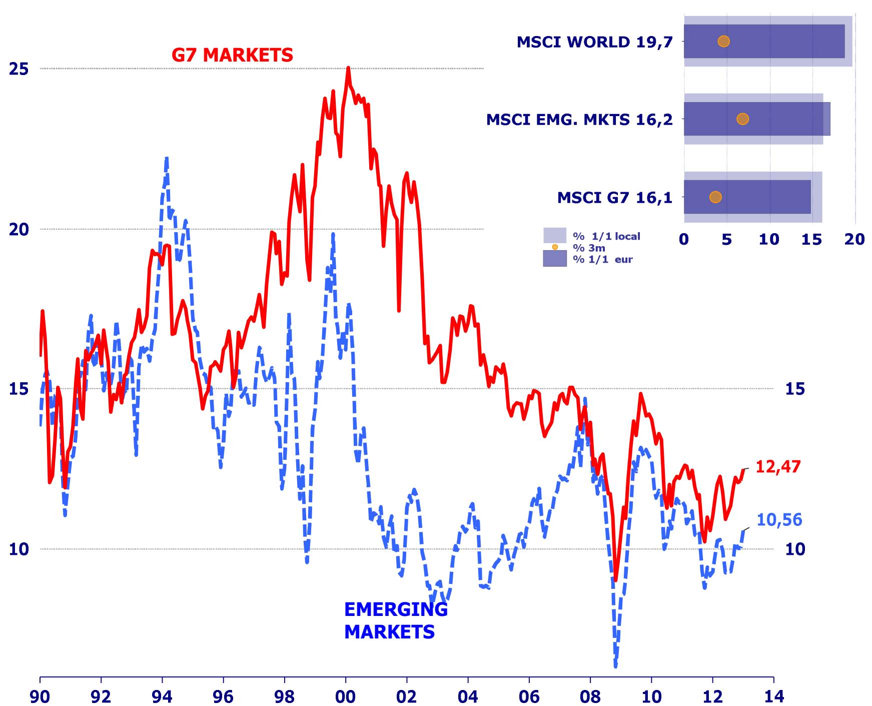
EQUITY MARKET-VALUATIONS

Over the past twelve months the equity market has had a great performance in terms of total return. The MSCI WORLD index grew over 19% and the MSCI EM. MARKETS index grew over 16%. The increase in the last part of the year was coupled with a good growth in profits so the expansion in ratios seems acceptable, although in the short term there's some exaggeration that carries risk (the greatest fragility in this case regards emerging markets). The G7 MSCI index has a 12.5 earnings ratio, while the MSCI EM. MARKETS is at 10.6, values that don't pose stability risk in the medium term.

PE RATIO FORWARD EARNINGS 12M

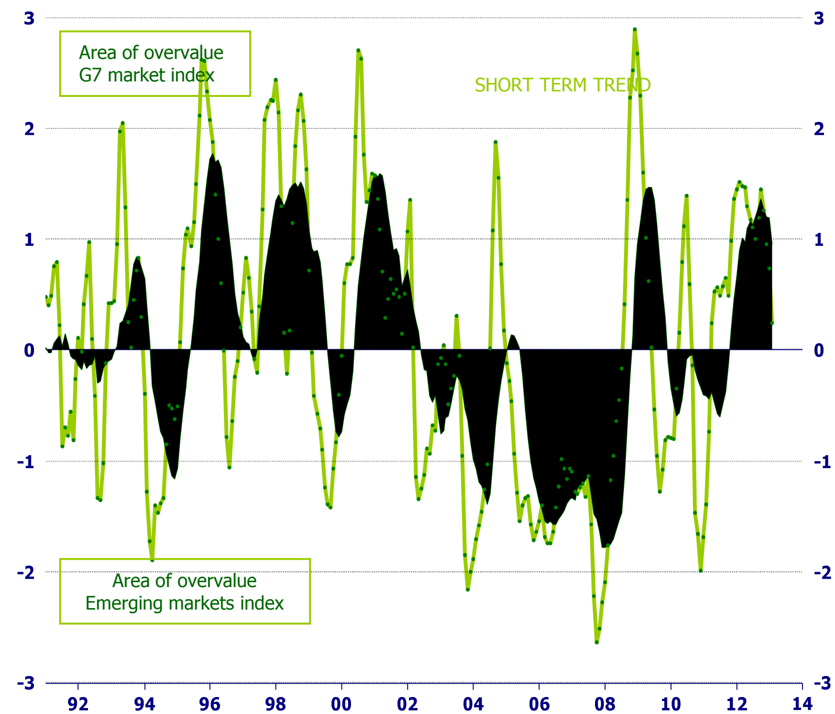
Real values

Performance on 1/4/13



G7 VALUES/EMERGING MARKETS

normalized values



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