

United States

UOB Economics Projections	2008	2009	2010F	2011F
GDP	0.4	-2.4	3.1	2.7
CPI, (average, y/y)	3.8	-0.3	1.7	1.1
Unemployment rate (%)	5.8	9.2	9.6	9.1
Current account (% of GDP)	-4.9	-2.9	-3.3	-3.4
Fiscal balance (% of GDP)	-4.7	-10.2	-9.3	-7.8

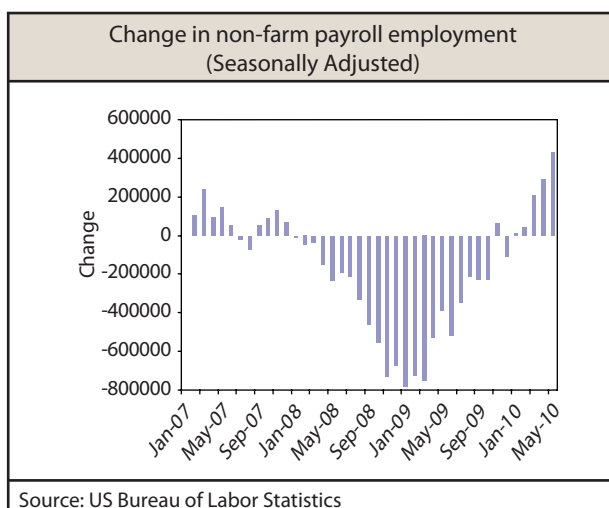
- We expect a moderate US economic growth in 2010 and 2011. Overall the US is expected to grow 3.1% this year and 2.7% in 2011.
- Given the low inflation numbers, slow pace of recovery in the US economy coupled with high levels of unemployment driven by small businesses, as well as euro-zone spillover risks, the Fed may delay its normalization process to 1Q 2011. We are factoring in a 25 bps Fed hike towards the end of 1Q11, followed by subsequent 50bps hikes over the next few quarters to end 2011 at 2.00%.
- Given, the prolonged eurozone sovereign risk situation and jittery markets responding to any negative newsflows out of the eurozone, there should be some upside in the near-term trajectory of the USD.

Not a 'fast and furious' US recovery

The US recovery has continued to proceed albeit at a slower rate. GDP registered a third consecutive quarter of strong GDP growth in 1Q10. GDP expanded by 3.0% QoQ saar in Q1 2010, compared to 5.6% in the previous quarter. The expansion was largely driven by growth in personal consumption of goods and services. Household spending rose by a robust 3.5% QoQ saar due to fiscal support, an improving labour market, and a rise in household net worth. Businesses also appeared to be more confident in their outlook. As a result, non-residential fixed investment rose 3.1% amidst a turnaround in IT spending. At the same time, firms grew their inventories for the first time in two years.

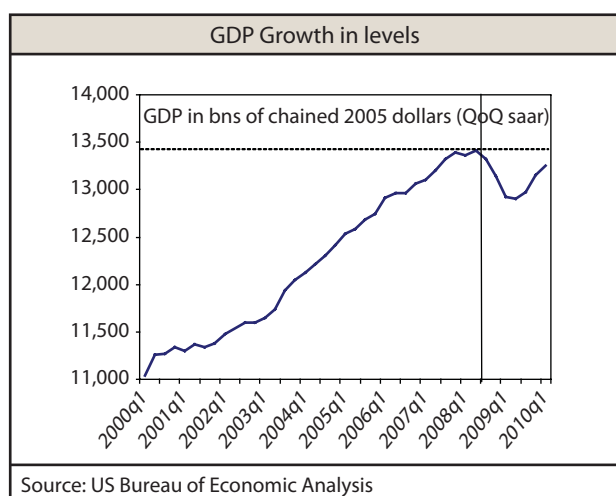
Thus far in Q2, the economic and financial conditions in the US have continued to improve, while consumer spending appears to be recovering. This was partly due to the recent turnaround in the US labour market: in April 2010, the economy added 290,000 jobs of which 230,000 were in the private sector. Indeed, consumer confidence has improved markedly, reaching its highest level in April since the collapse of Lehman in September 2008. Credit conditions across corporate and household loan segments have also improved sufficiently such that the Fed was able to end parts of its asset purchase programme that were targeted at easing lending conditions.

Despite these positives, we expect only moderate US economic growth in 2010 and 2011. Recent employment data showed that total nonfarm payroll employment grew by a lower than expected 431,000 in May, and this largely reflected the hiring of 411,000 temporary employees to work on Census 2010. Private-sector employment changed little (+41,000). This reflects to some extent the negative factors weighing down on the US economy. First, deleveraging by households and small medium enterprises is ongoing. Second, given the terrible state the housing sector is experiencing, it will take some time for it to help contribute to a sharp US recovery. Third, the impact of the fiscal stimulus may be diminishing. Fourth, there could be negative spillovers from the eurozone sovereign debt and recent US financial market volatility into the real economy.



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Notably, US growth has not been 'fast and furious' enough to reach its pre-crisis levels. Given current trajectory, it may be attained by Q4 10 on the back of improved consumer spending and credit conditions. There have also been concerns about a double dip scenario given the eurozone crisis and the impact of a possible contagion effect on the economy. However, the probability of that happening is low at this juncture barring any tail risk event coming out of the euro zone. **Overall the US is expected to grow 3.1% this year and 2.7% the year after.**



Inflationary pressures remain low

Core CPI and PCE deflator are at 1% and 1.2% respectively. The excess capacity evident in the high unemployment rate of 9.7% will likely exert persistent downward pressure on wages and prices. Under current conditions of persistent excess capacity, core inflation is expected to continue its cyclical slide, reaching just 0.8% by end of 2010, and edging lower during 2011. However, inflation expectations appear to be well anchored, which should help prevent a deflation scenario.

Speed of normalization may be predicated on labour market developments, SME recovery and developments in eurozone

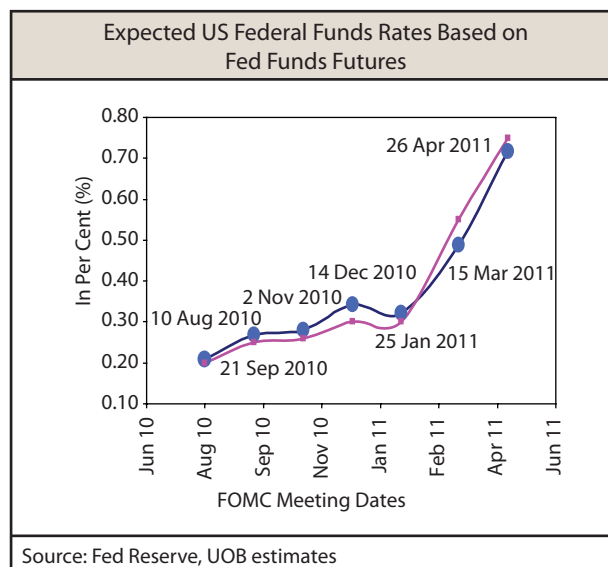
Given the lower inflation numbers, slow pace of recovery in the US economy coupled with high levels of unemployment driven by small businesses, as well as euro-zone spillover risks, the Fed may delay its normalization process even longer. The Fed must balance the competing influences on US activity and domestic inflationary pressures amidst an increasingly uneven global recovery. The Fed will probably closely monitor labour market conditions and medium term inflationary risks within a global environment of prolonged fiscal deficits and ultra aggressive liquidity conditions. It will also be useful to monitor the growth of

monetary aggregates going forward as an indication of medium term inflation risk.

In the recent 23 June meeting, the Fed kept its target rate unchanged at a range of 0.00% to 0.25% and the extended period language was maintained. The 23 June FOMC seemed slightly more dovish than expected, signaling greater caution on the growth outlook amid eurozone developments and downtrend in inflation. Looking ahead, the Fed will likely remain cautiously optimistic with respect to the growth outlook.

So what are the Fed funds futures telling us about future policy moves...

Indeed, our estimates using the Fed Funds futures contracts up until April maturity, does provide some evidence of higher probability of a rate increase in the 15 March 2011 FOMC meeting onwards. Given, the rather weak US employment situation, low medium term inflation risk and slow pace of economic activity coupled with risk of a weaker European economic recovery, the delay in hiking the rates to 1Q 2011 or 2Q 2011 seem plausible.



We are now factoring-in a 25 bps Fed hike towards the end of 1Q11, followed by subsequent 50bps hikes over the next few quarters to end 2011 at 2.00%.

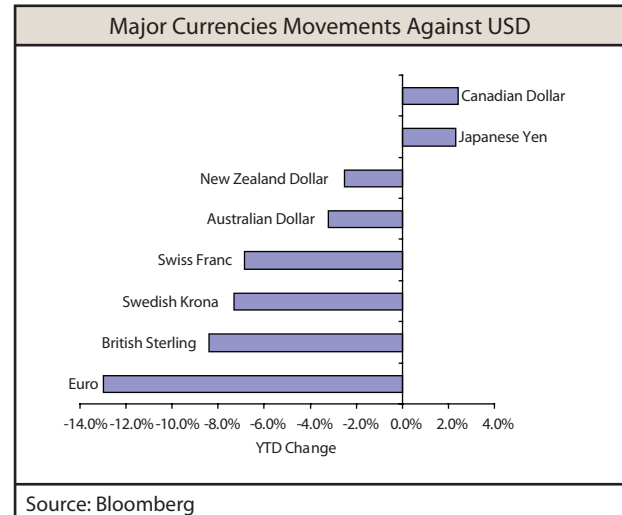
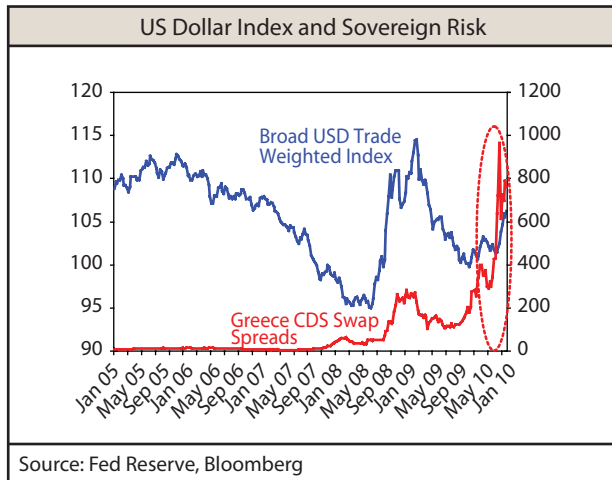
US Dollar – Inflows from Sovereign Risk Aversion

The recent weakness in the Euro and global economic uncertainty – along with the US dollar's status as a reserve currency – has sent the US dollar index surging in the last six months. On a nominal level, the appreciation of the greenback relative to its major trading partners (i.e. Eurozone (13.5%), UK (8.4%), Sweden (7.3%), Switzerland (6.9%)

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and Australia (3.2%)) was more significant than its decline against other trading partners. While the major currencies weakened broadly against the US dollar, the lower yielding currencies such as the JPY and Canadian dollar remained resilient due to risk aversion flows. For the latter, it could possibly be a result of the eurozone debt worries and signs of a stronger economic recovery in Canada. Notably, the yen and Canadian dollar strengthened against the greenback by 2.35% and 2.50% respectively over the last six months. However, over the last quarter, the US dollar has strengthened against yen and Canadian dollar on the back of worsening risk aversion emanating from the eurozone. The US dollar was up 1.41% against the Canadian dollar and 1.11% against the yen.

Given, the prolonged eurozone sovereign risk situation and jittery markets responding to any negative newsflows out of the eurozone, the near-term trajectory of the USD should be upwards. However, without a worsening risk appetite, there is no reason for the USD to be fundamentally stronger - other than the possibility that the USD will continue to be a funding currency against most global currencies until 2011. Our forecast still anticipates greater preference for higher yielding major currencies such as the AUD and NZD over the lower yielding JPY. However the USD/CHF looks quite promising going forward given the turnaround in the economy, continued safe haven flows into Swiss assets as well as the SNB's recent stance of being more accommodative to a CHF appreciation.



%	US Macro Forecast							2009	2010F	2011F
	4Q09	1Q10	2Q10F	3Q10F	4Q10F	1Q11F	2Q11F			
Real GDP (y/y)	5.60	3.00	3.50	2.70	2.80	2.20	2.80	-2.40	3.10	2.70
Real PCE (y/y)	1.60	3.50	3.40	2.80	2.70	1.40	2.70	-0.60	2.60	2.40
Unemployment Rate (%)	10.00	9.70	9.80	9.50	9.20	9.00	8.90	9.20	9.60	9.10
Total CPI (y/y)	1.50	2.40	1.90	1.40	1.00	1.00	1.30	-0.30	1.70	1.10
Core PCE Price Index (y/y)	1.70	1.30	1.00	0.80	0.70	0.90	0.90	1.70	1.00	0.90
End of Period (%)	4Q09	1Q10	2Q10F	3Q10F	4Q10F	1Q11F	2Q11F	2009	2010F	2011F
Target Fed Funds Rate	0-0.25	0-0.25	0-0.25	0-0.25	0-0.25	0.50	1.00	0-0.25	0-0.25	2.00
3-month USD LIBOR	0.25	0.30	0.54	0.60	0.75	1.05	1.55	0.25	0.75	2.30