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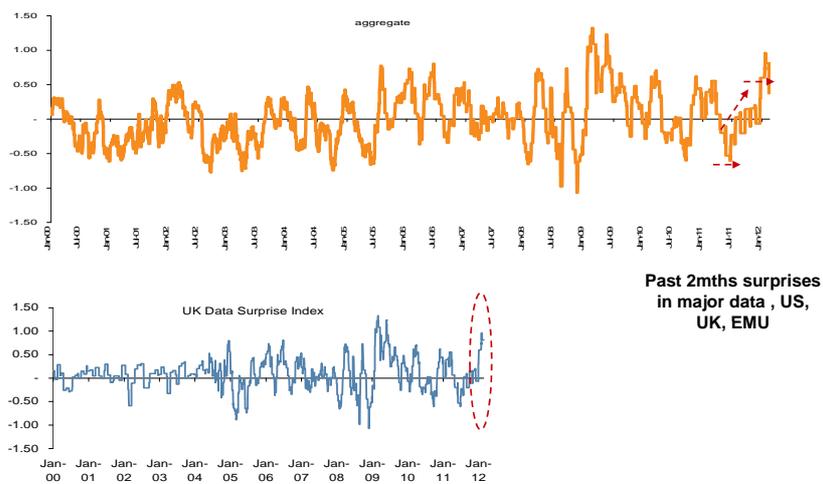
Highlights of Life Conference 2011
 Andrew Roberts, Head of European Rates Strategy, RBS



Interest rate strategy

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Some good economy news . . . in the price now?



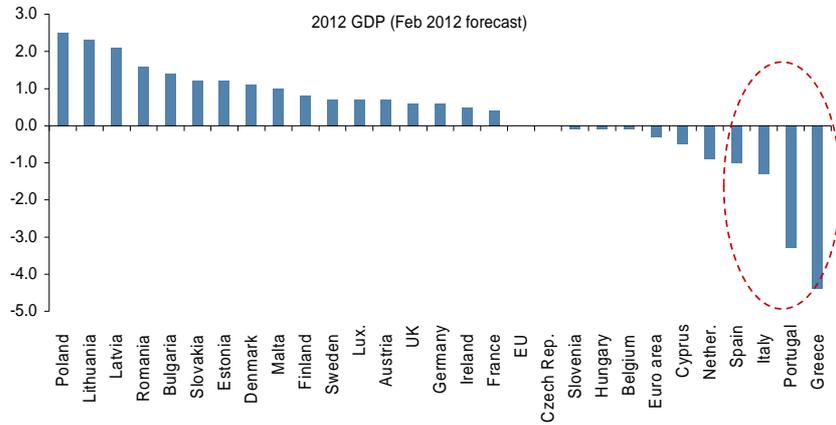
Short-term, the world is going through a liquidity flood. Central bank balance sheets



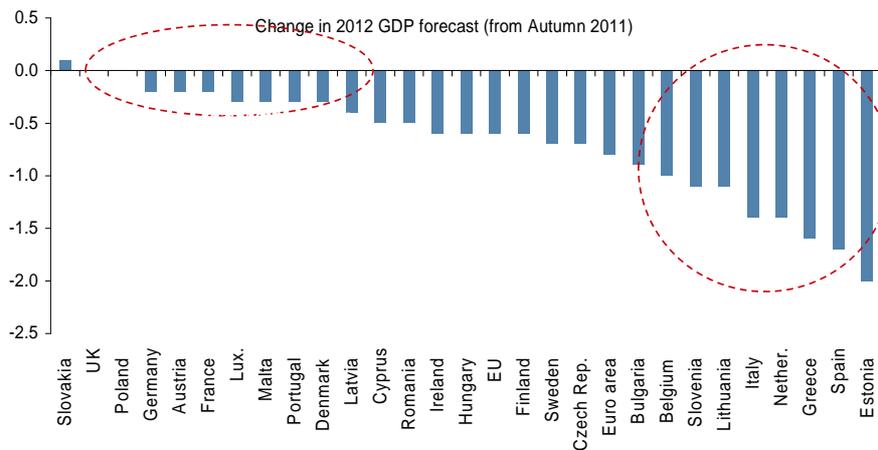
Perhaps we have reached 'enough' already?



Real GDP: countries in the sweet-spot survive, some look exposed

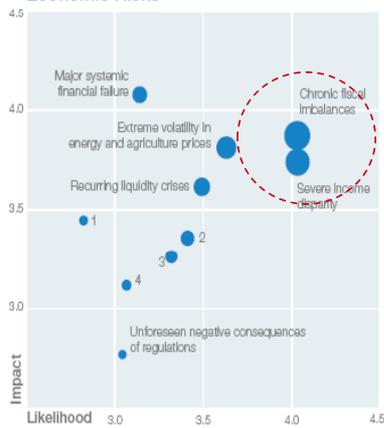


Real GDP rate counts, but so does momentum

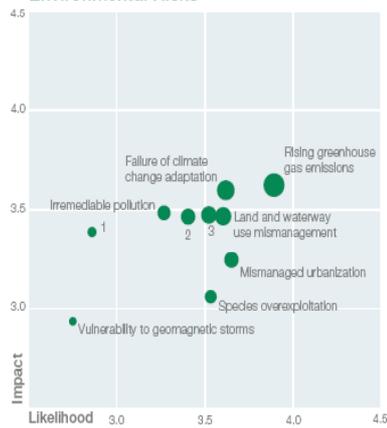


World economic forum: fiscal policy no.1 world risk

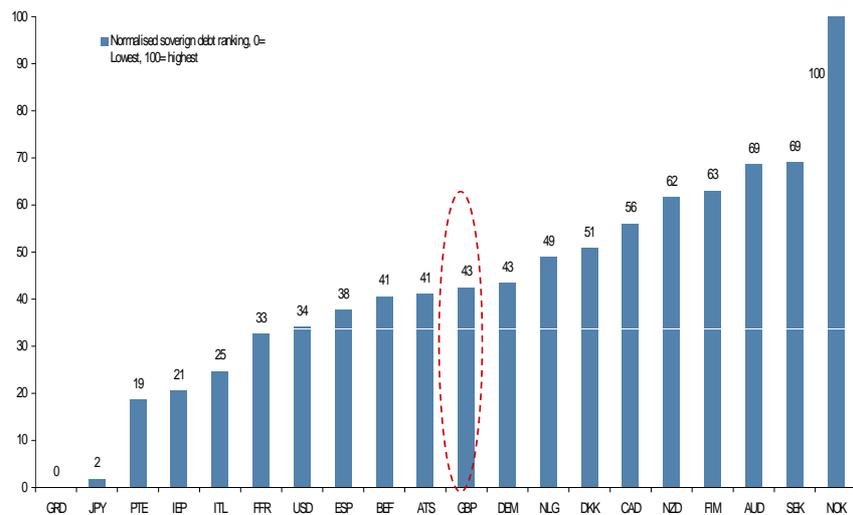
Economic Risks



Environmental Risks



RBS sovereign risk: periphery scores badly

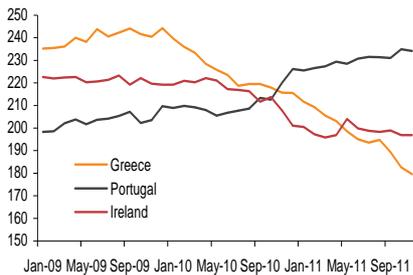


The danger: EMU banks seeing capital flight

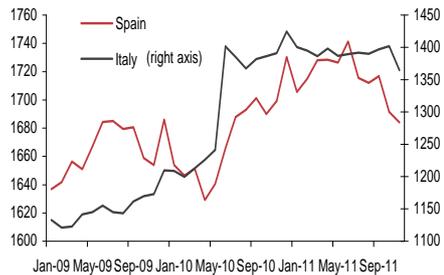
Deposit flight is a trend in Greece and now the risk across a number of countries

- Greece is seeing systematic deposit flight and we do not expect this to stop.
- Euro exit risks.
- Contagion risks to other countries is prominent and is likely to only be beginning in Italy on talk wealth taxes and general risk aversion.

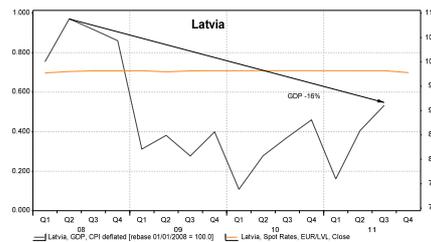
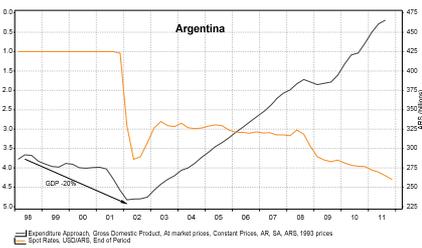
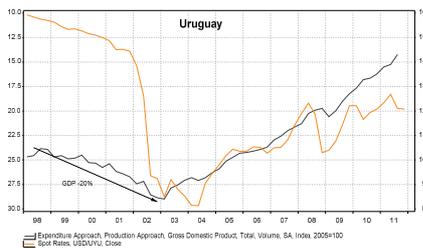
Trend in Greek deposits is worrying



Deposits only now moderating



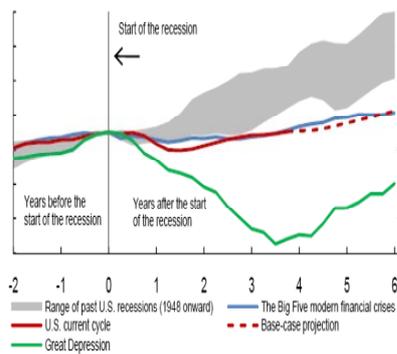
Exiting EMU is NOT necessarily a catastrophe



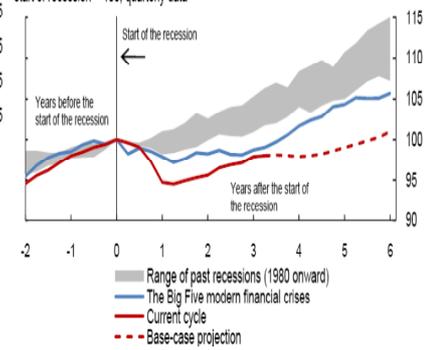
Which is why Europe is diverging from USA . . .

- EMU GDP not set to recover to pre crisis level until 2016
- Well behind other DM regions

U.S. real GDP across economic cycles; start of recession = 100, quarterly data



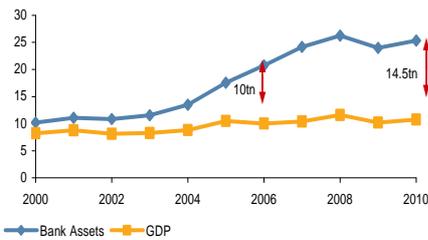
Euro-area real GDP across economic cycles; start of recession = 100, quarterly data



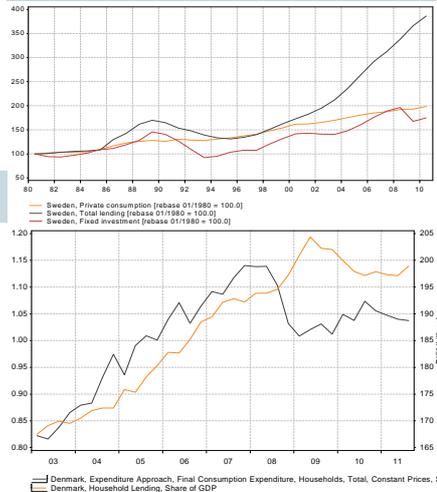
Sadly, the news is a lot worse in Europe

- Structural headwinds for growth
- More leveraged banking system, cutting E5trn

EMU+UK bank assets, shrinking back to 2006 levels is worth about E5trn deleveraging



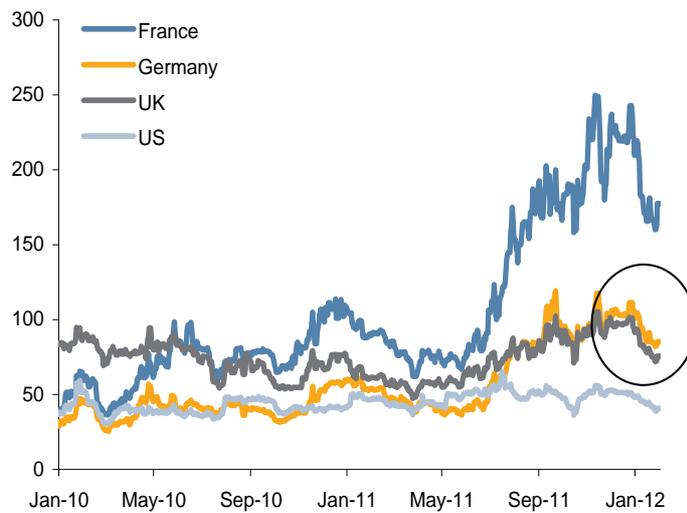
Nordics: SEK 6y to deleverage; DKK in 5th year of consumption recession



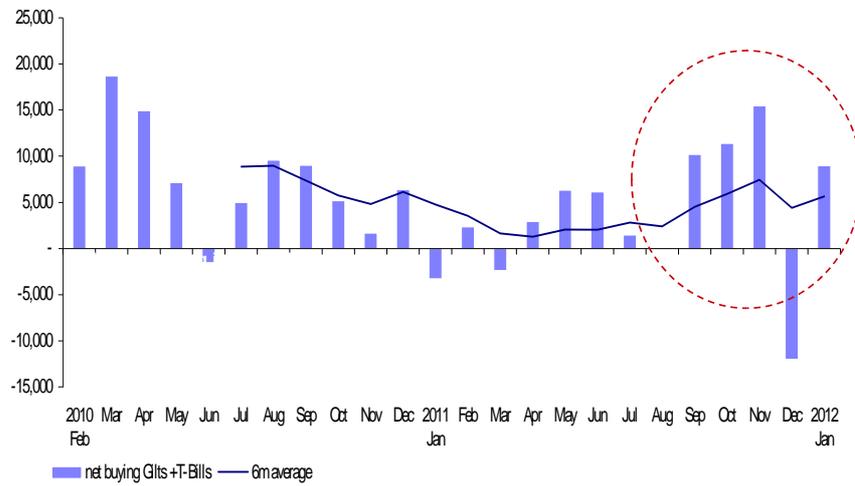
Long-term, lower trend GDPs due to deleveraging = more equity underperformance



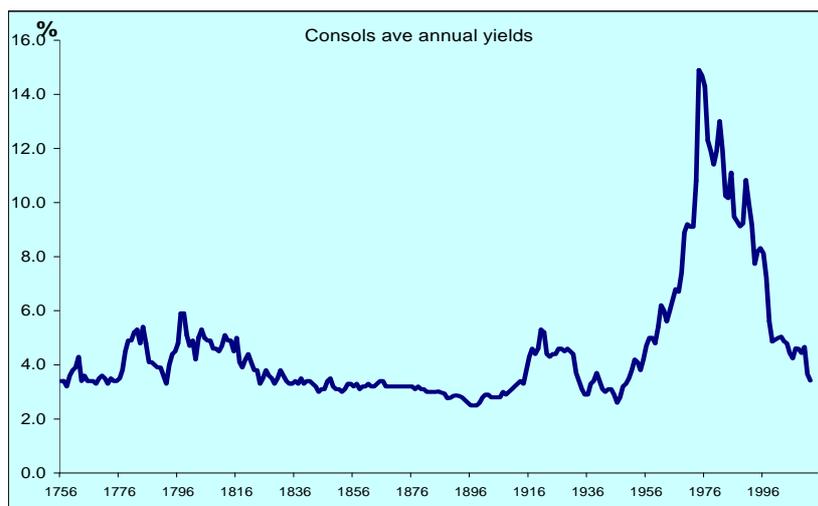
Who has a credible fiscal plan – the UK



This is not just about BoE buying. Foreigners rightly sponsor the 'UK fix-it' story



So . . . UK Gilt yields will not be rising



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