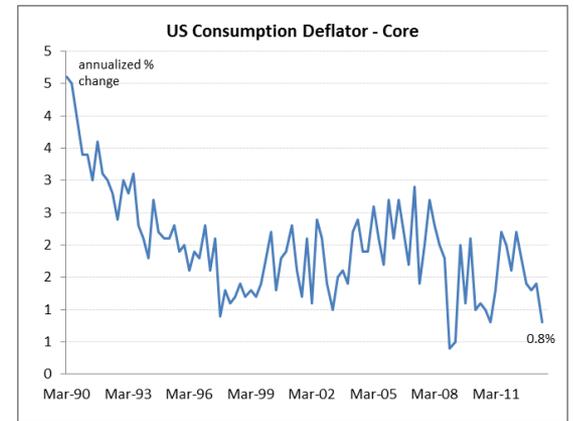
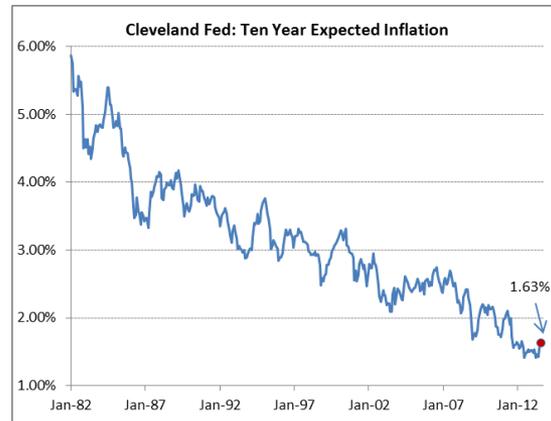
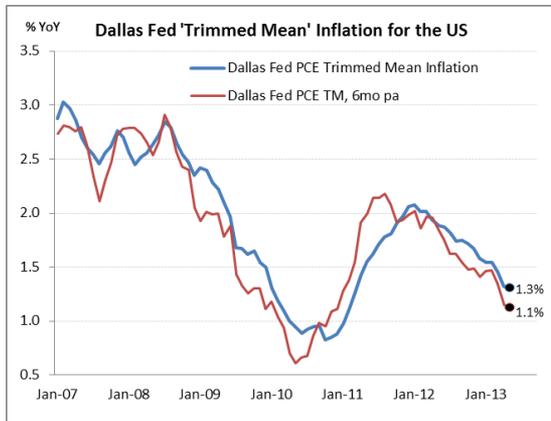
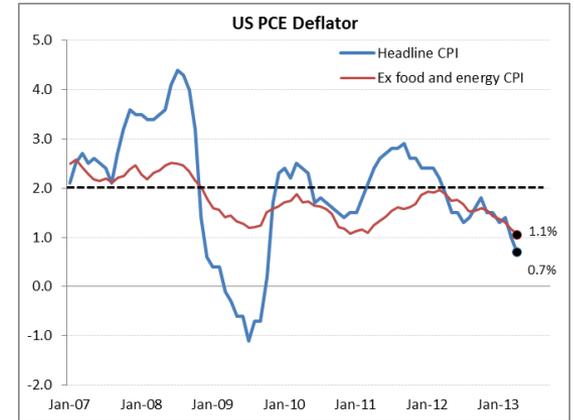
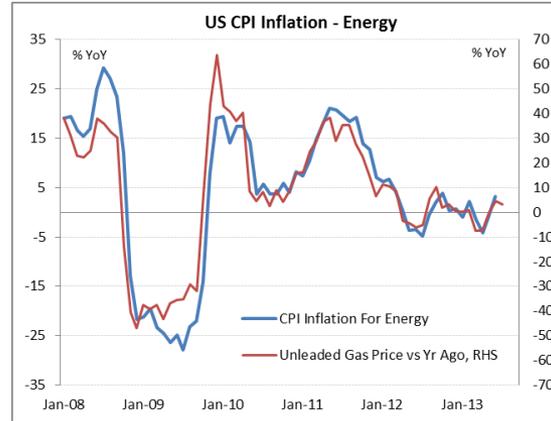
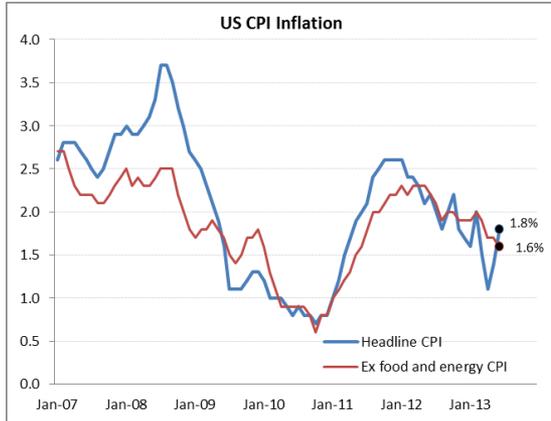
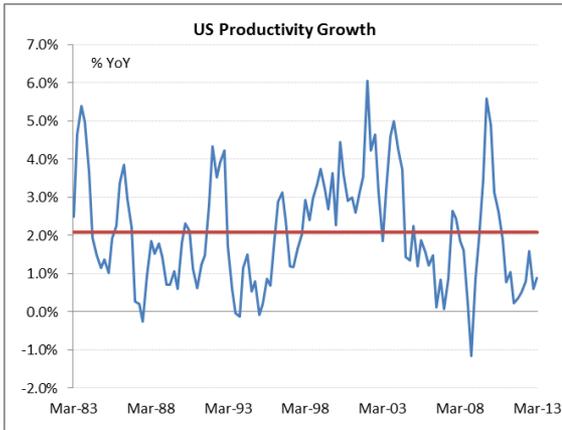


vii. Inflation, money and credit

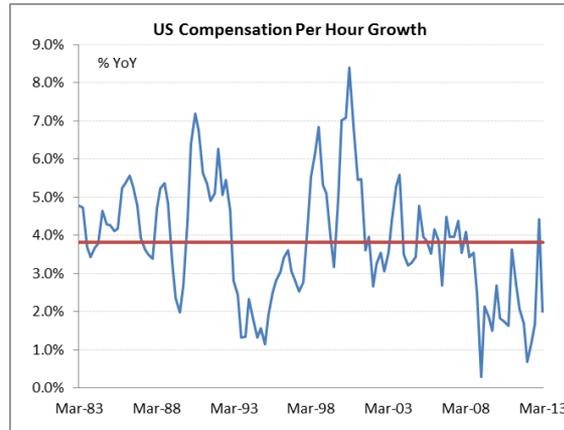
- Inflation headline and core/underlying measures remain well below Fed 'target' of 2% and, importantly, are falling.



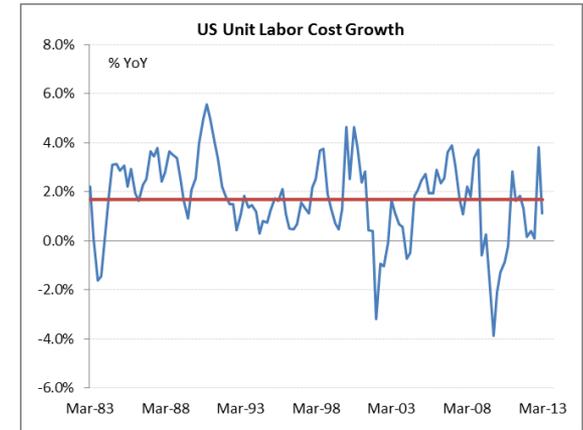
- US business sector productivity growth remains below average.



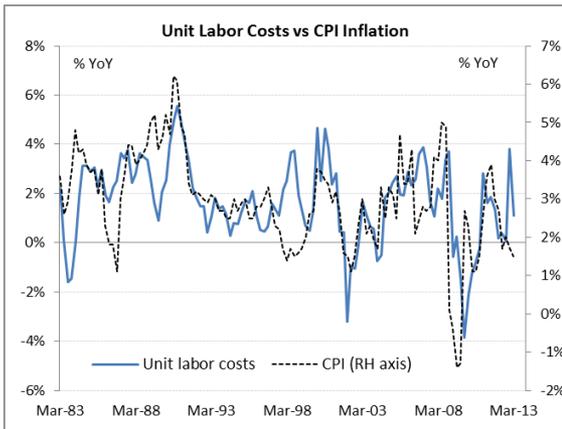
- As does labor compensation.



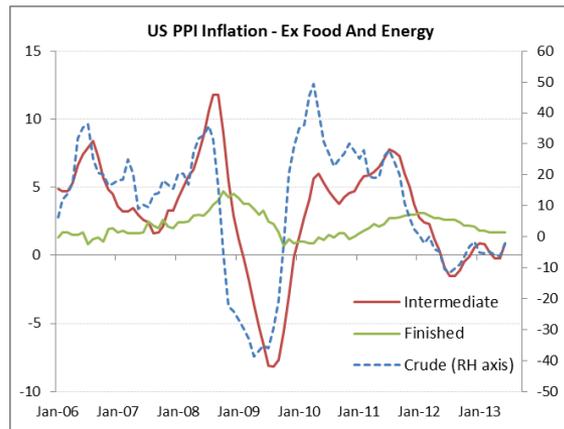
- The net result is trend-like growth in unit labor costs of a little under 2% per annum.



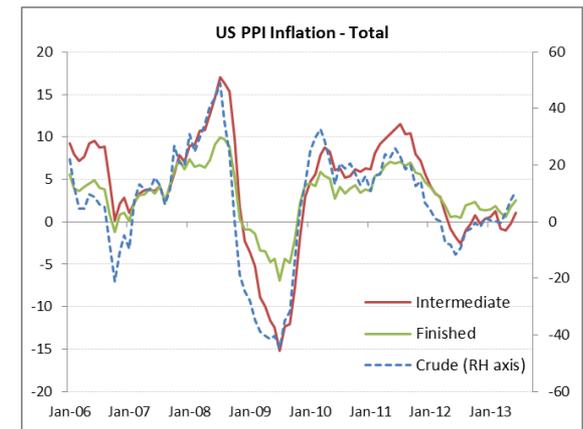
- CPI inflation running lower than predicted by unit labor costs alone.



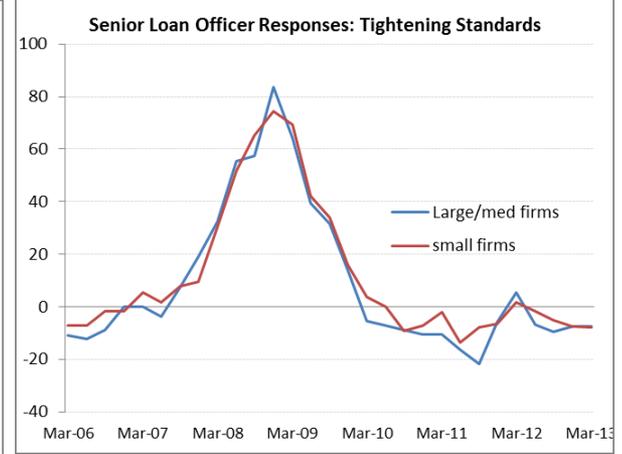
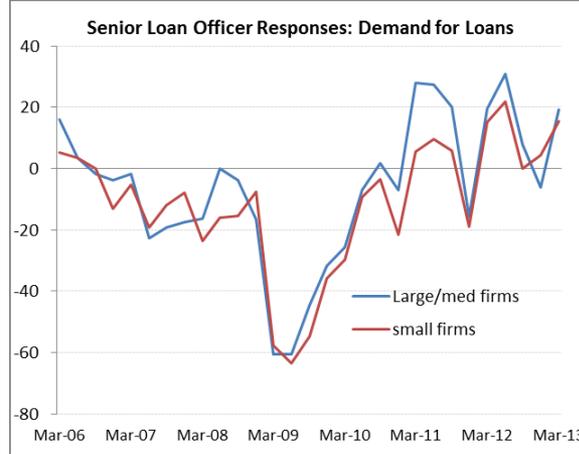
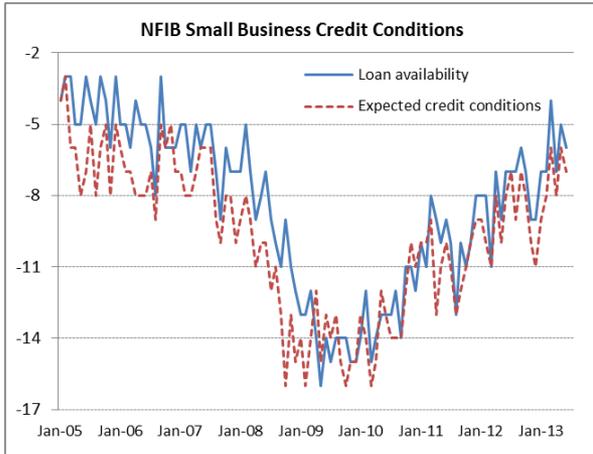
- Modest pick-up in early stage producer price inflation ex food and energy.



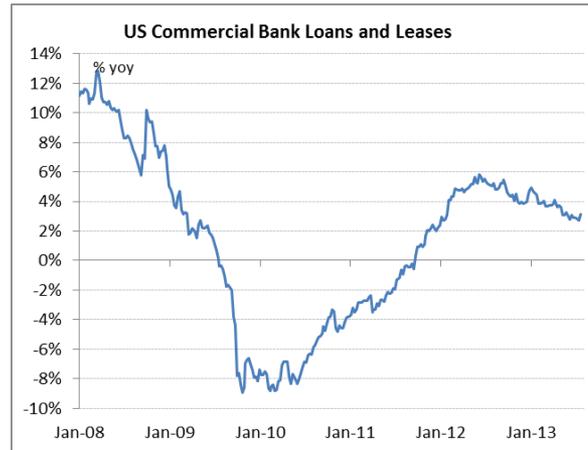
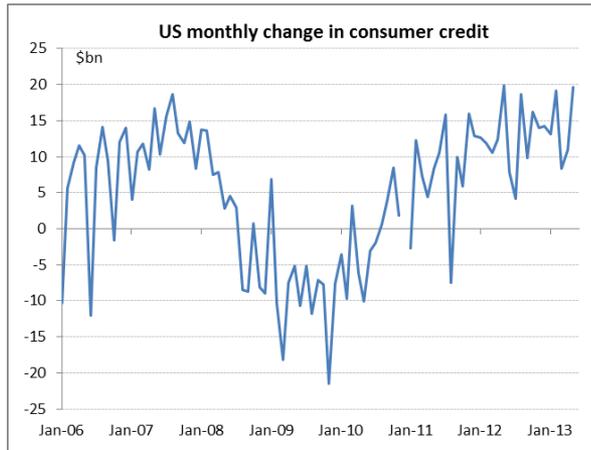
- More so when energy and food are included.



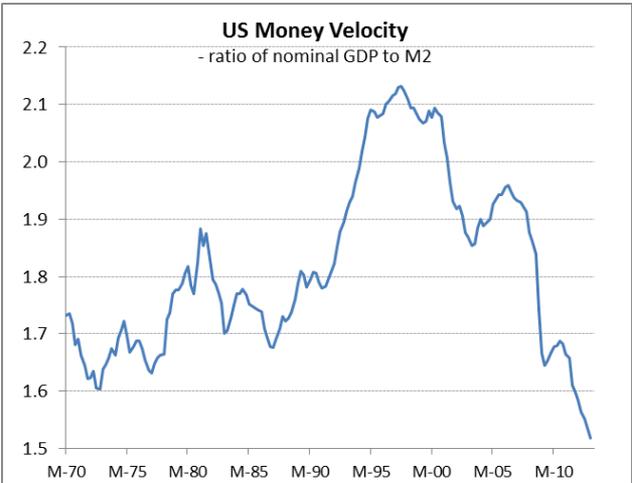
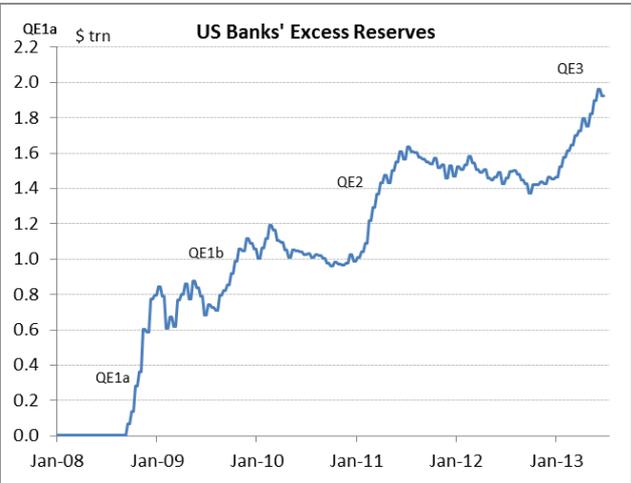
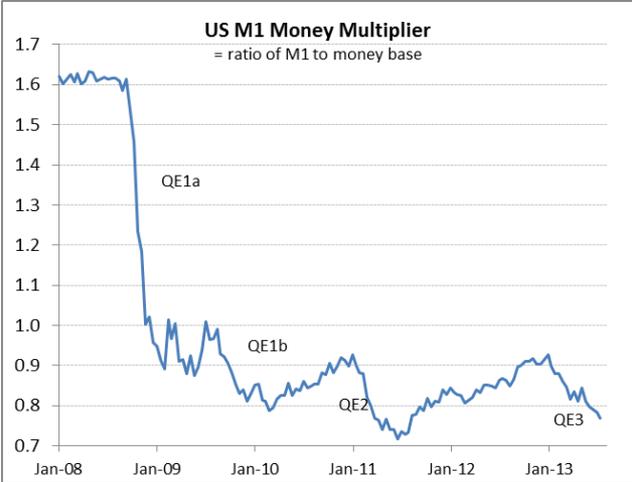
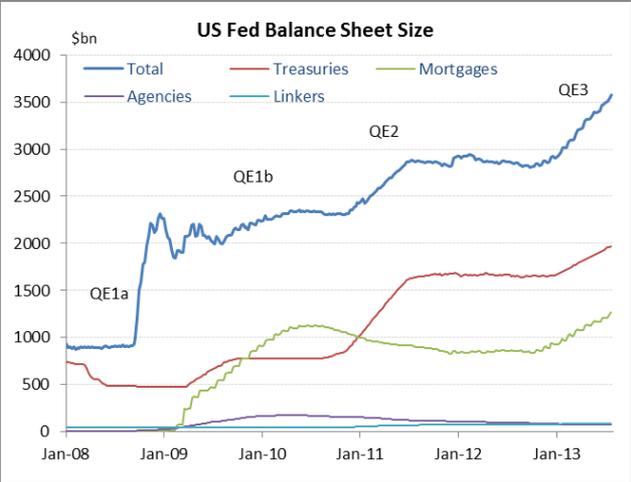
- Credit channels have unclogged



- Consumer credit growing at a 5 ½-6% YoY rate, about the same as household spending on durables. Commercial bank loan growth has slowed, though, to 3% YoY.



- Trends in money multipliers and money velocity suggest that there is to date little inflation risk from Feb balance sheet expansion/base money creation.



viii. International

- OECD: “Composite leading indicators point to diverging growth patterns in major economies ... The CLIs for the United States and Japan continue to point to economic growth firming ... the CLIs for Russia and Brazil point to slowing momentum.”

	Ratio to trend, amplitude adjusted					Month on Month change					Year on Year change	Growth cycle outlook
	(long term average =100)					(%)					(%)	
	2013					2013					Latest month	
	Jan	Feb	Mar	Apr	May	Jan	Feb	Mar	Apr	May		
OECD Area	100.2	100.3	100.5	100.5	100.6	0.12	0.12	0.11	0.09	0.08	0.61	growth gaining momentum
Euro Area	99.7	99.8	100.0	100.1	100.3	0.17	0.17	0.15	0.13	0.13	0.64	growth gaining momentum
Major Five Asia*	99.5	99.5	99.5	99.5	99.6	0.04	0.01	0.01	0.02	0.04	-0.22	growth around trend
Major Seven	100.3	100.5	100.6	100.7	100.8	0.13	0.13	0.11	0.09	0.09	0.75	growth firming
Canada	99.5	99.5	99.5	99.4	99.4	-0.04	-0.03	-0.04	-0.05	-0.04	-0.59	growth around trend
France	99.6	99.6	99.6	99.5	99.5	0.01	0.00	-0.03	-0.05	-0.05	-0.50	no change in momentum
Japan	100.3	100.6	100.8	101.1	101.3	0.24	0.28	0.28	0.26	0.23	1.22	growth firming
Germany	99.5	99.7	99.9	100.0	100.1	0.25	0.23	0.17	0.13	0.13	0.58	growth returning to trend
Italy	99.4	99.6	99.8	100.1	100.3	0.18	0.20	0.23	0.25	0.27	1.24	positive change in momentum
United Kingdom	100.7	100.8	100.8	100.7	100.7	0.06	0.03	0.00	-0.03	-0.07	1.25	growth around trend
United States	100.7	100.8	100.9	101.0	101.0	0.12	0.11	0.08	0.07	0.07	0.82	growth firming
Brazil	99.6	99.5	99.4	99.3	99.1	-0.10	-0.09	-0.11	-0.14	-0.17	-0.37	growth losing momentum
China	99.8	99.8	99.7	99.6	99.5	0.01	-0.07	-0.10	-0.10	-0.07	-0.59	growth around trend
India	97.7	97.5	97.5	97.5	97.6	-0.14	-0.13	-0.05	0.05	0.09	-1.51	tentative upward change in momentum
Russia	99.7	99.7	99.5	99.2	98.9	0.02	-0.08	-0.22	-0.27	-0.26	-1.95	growth losing momentum

* China, India, Indonesia, Japan and Korea.

- JPM Global Economics:
 - Global manufacturing PMI steady in June, but “the rate of growth signaled ... remained only moderate and weaker (on average) over the 2nd quarter than during the opening quarter ... Job losses were reported for the first time in seven months.”
 - “Global GDP growth dipped well below trend in June, judged by the all-industry global PMI.”
 - Weakness in service sector concentrated in the US.

Global Manufacturing PMI™ Summary

50 = no change on previous month.

	May	Jun	Change	Summary, rate of change
Global PMI	50.6	50.6	=	Expanding, unchanged rate
Output	51.3	51.4	+	Expanding, faster rate
New Orders	51.3	51.5	+	Expanding, faster rate
Input Prices	50.2	50.4	+	Expanding, faster rate
Employment	50.3	49.6	-	Declining, from increasing

Global Services PMI™ Summary

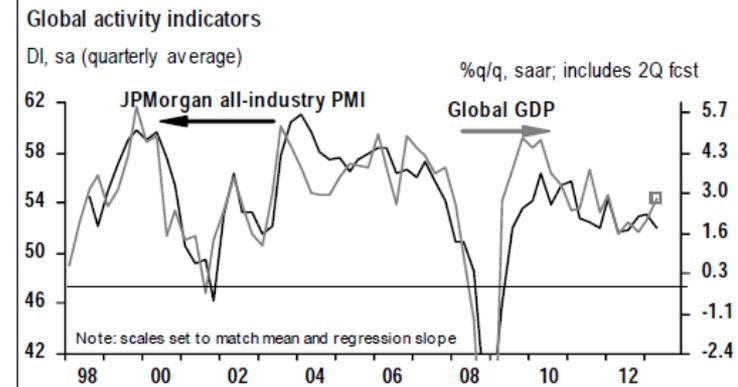
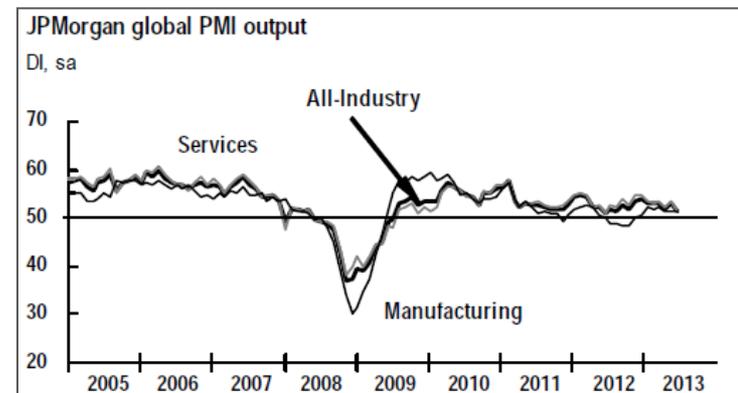
50 = no change on previous month.

	May	Jun	+/-	Summary
Output/activity	53.4	51.3	-	Growth, slower rate
New business	53.1	50.8	-	Growth, slower rate
Backlogs of work	50.2	50.1	-	Rising, slower rate
Input prices	52.4	52.8	+	Rising, faster rate
Employment	50.3	52.3	+	Rising, faster rate

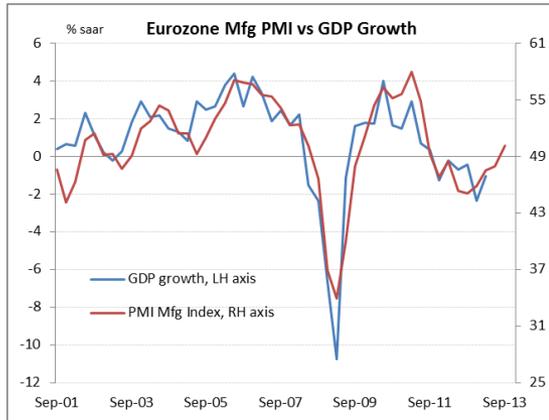
Global Manufacturing & Services PMI™ Summary

50 = no change on previous month.

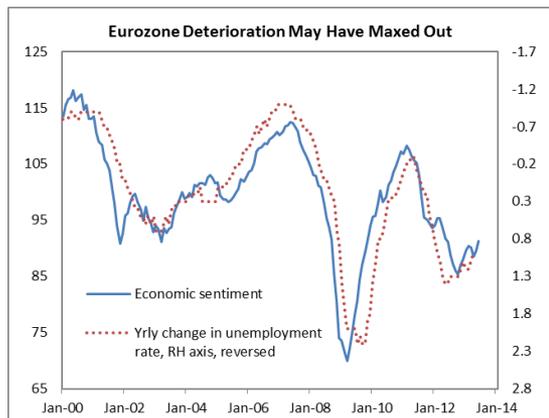
	May	Jun	+/-	Change Summary
Output	52.9	51.4	-	Expanding, slower rate
New Orders	52.7	51.0	-	Expanding, slower rate
Input Prices	51.9	52.2	+	Rising, faster rate
Employment	50.3	51.7	+	Rising, faster rate



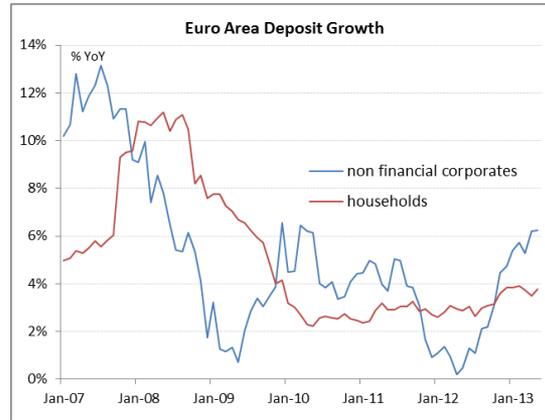
- EZ PMIs point to GDP at least leveling out.



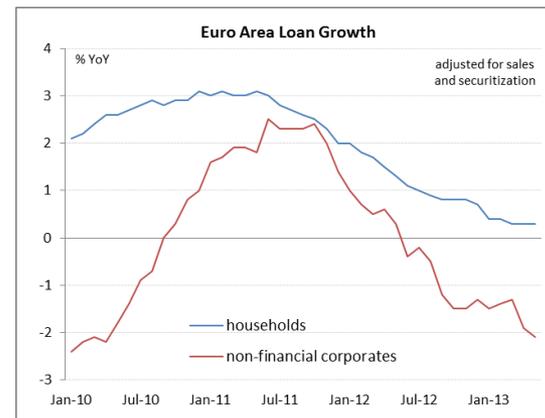
- Sentiment bottoms, u-rate rise has slowed.



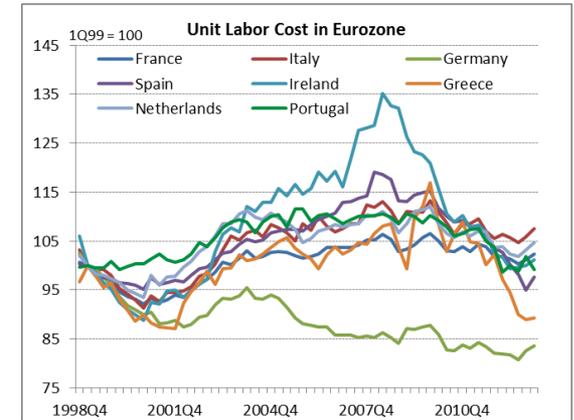
- Deposit growth ~6% corps, 4% households.



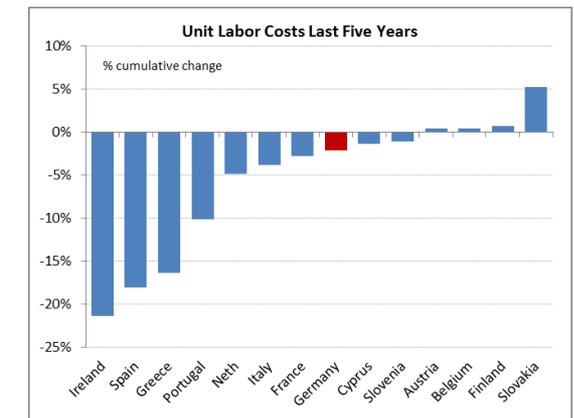
- ... but not translating into stronger loans.



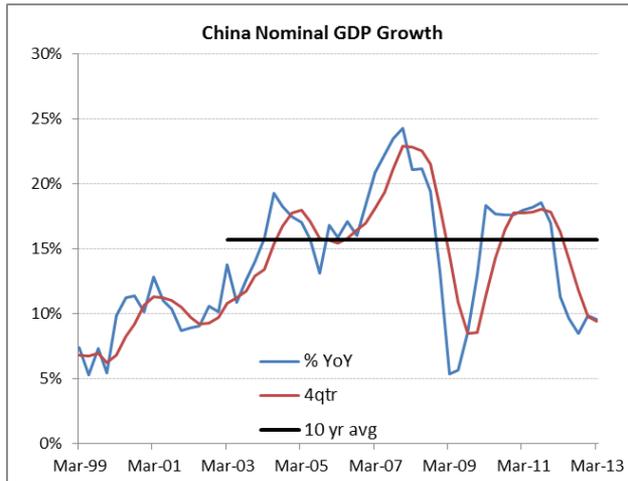
- Euro strength unwound some competitive gains.



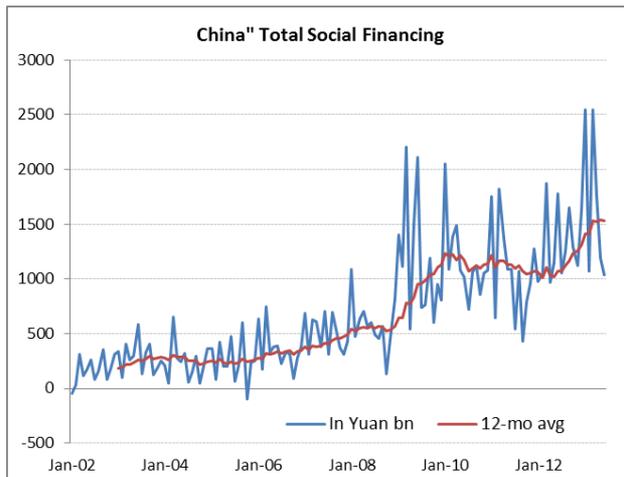
- But periphery improves vs core.



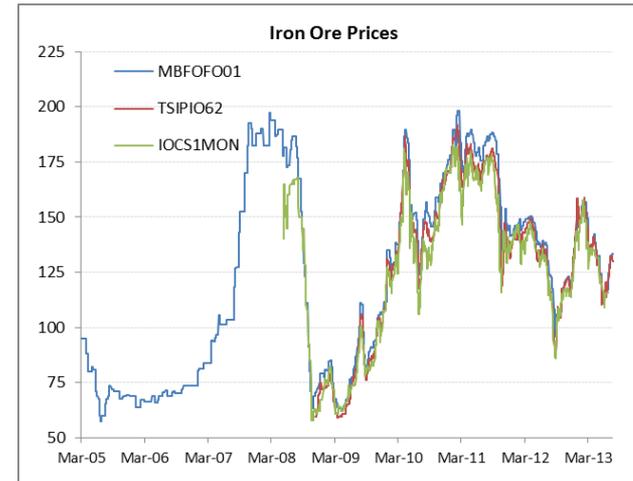
- Nominal GDP growing 6pts below its 10yr avg.



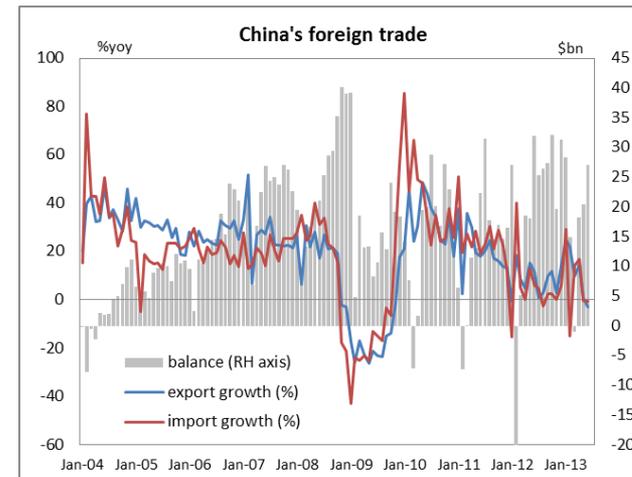
- The Chinese authorities are seeking to downshift the growth of credit in China.



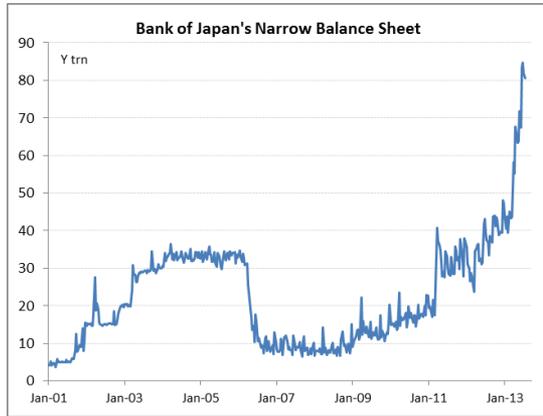
- ... Demand for iron ore has rebounded a bit though.



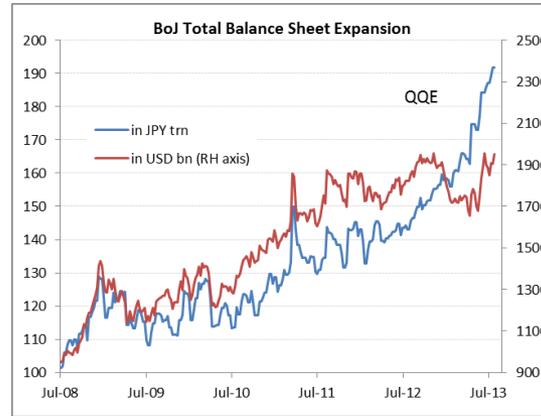
- ... and relying more on domestic sources of demand
Exports -3% YoY, incl EU -8%, Japan -5%, US -5%.



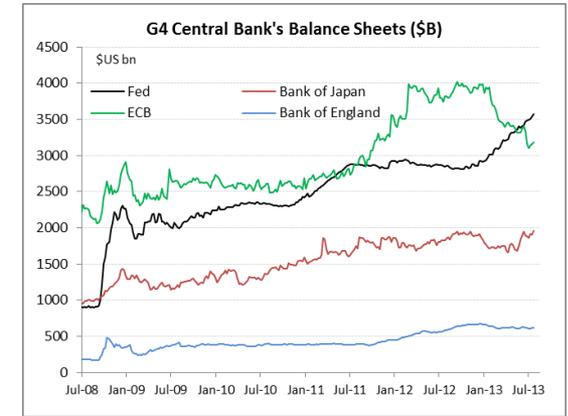
- Rapid expansion of Japan's CB balance sheet has been the main story in 2013.



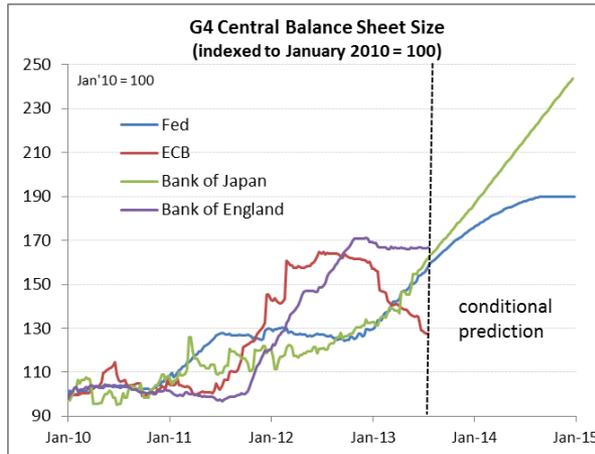
- But BoJ QQE less aggressive in dollars because of the lower Japanese yen.



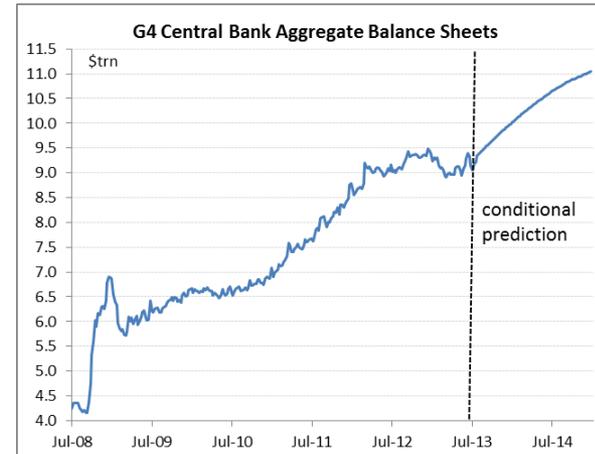
- And offset by lower ECB balance sheet size, no additional QE from the UK.



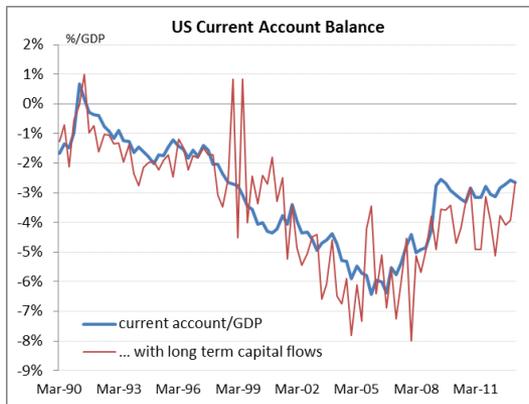
- In this chart we project BoJ QQE trough end 2014 at constant FX rate + Fed tapering.



- Conditional prediction is for G4 balance sheets to be \$11 ¼ trn at end 2014.



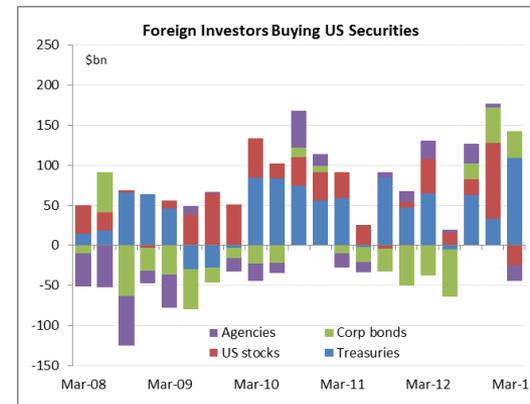
- The US broad external deficit has stabilized at about -3%/GDP.



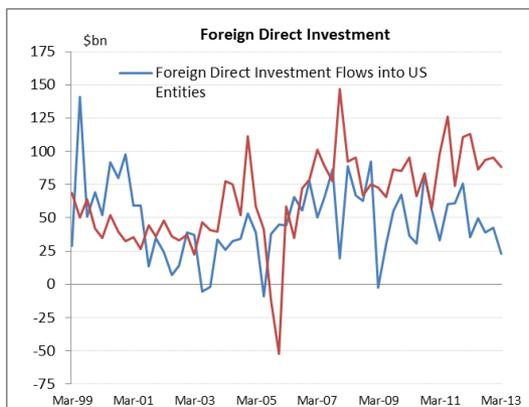
- Accelerated US purchases of foreign securities, esp. stocks.



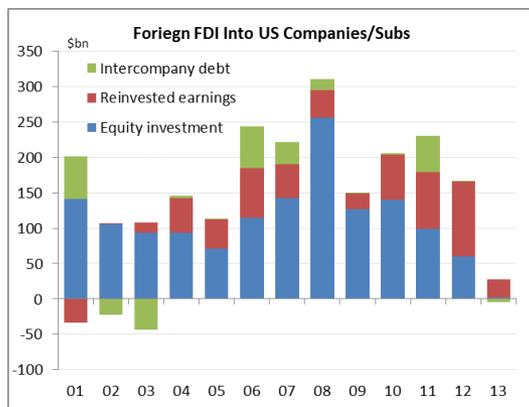
- 1Q13 foreign purchases concentrated in Treasuries (and corporates)



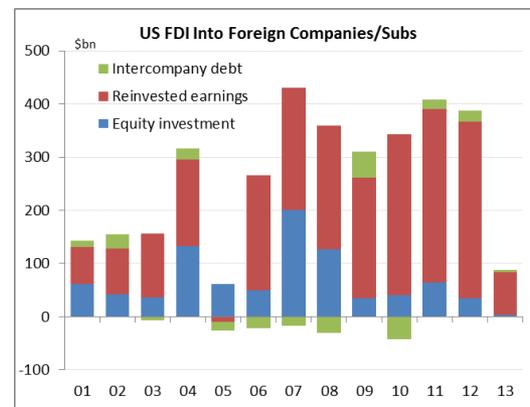
- The US FDI balance has deteriorated ... less inward flow.



- Foreign direct investment into US entities and subs has actually receded.

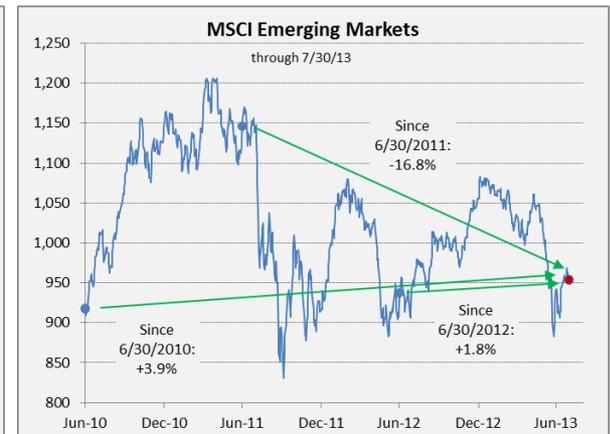


- US firms continue to leave their foreign earnings reinvested abroad.

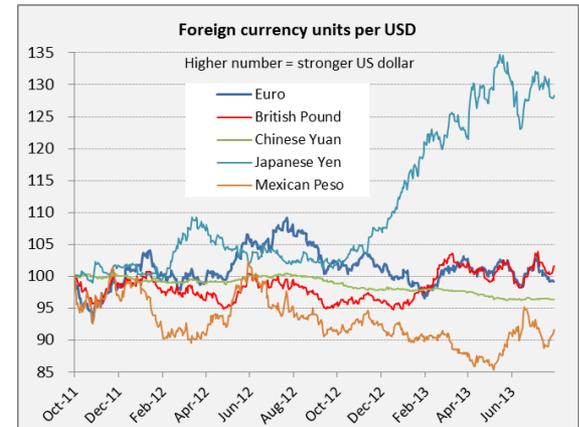
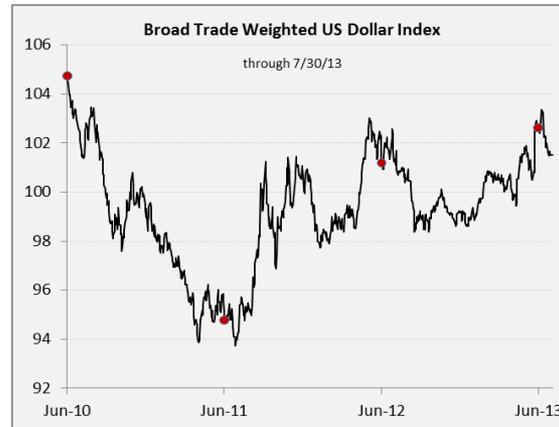
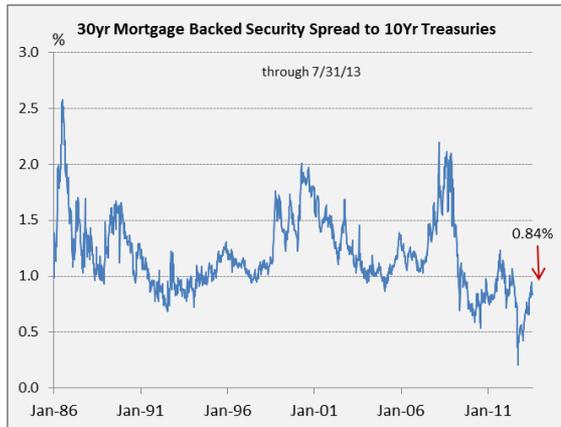
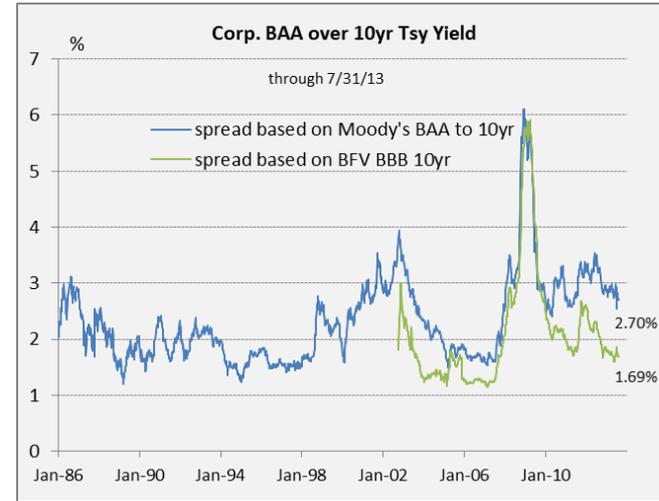
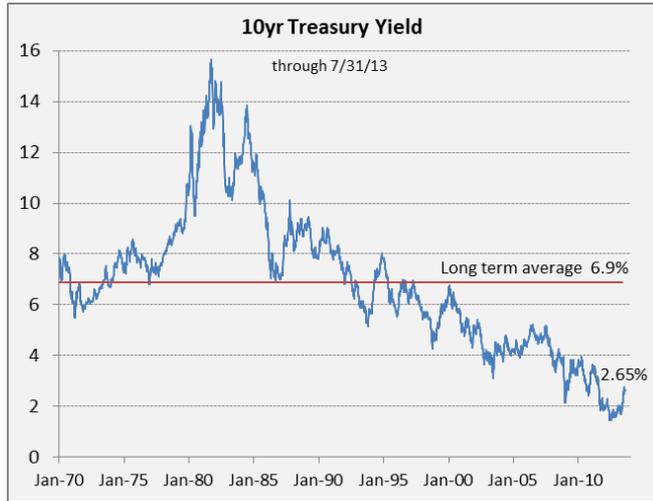


ix. Financial markets

- US equity markets continue to outperform rest of world, even with the threat that the Federal Reserve will eventually taper its support to the economy.



- The US 10yr Treasury yield has re-priced modestly for expectations of economic improvement and Fed tapering.
- Spread product underperformance has so far been limited.
- The broad value of the US dollar been volatile recently but still near the top of the 2010-2013 range.



- Softer dollar in July helps some commodity prices to rally.
- Corn (bumper crop) and copper (slow China growth) are exceptions.

