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Can Central Banks Float Their Economies?

August 17, 2010

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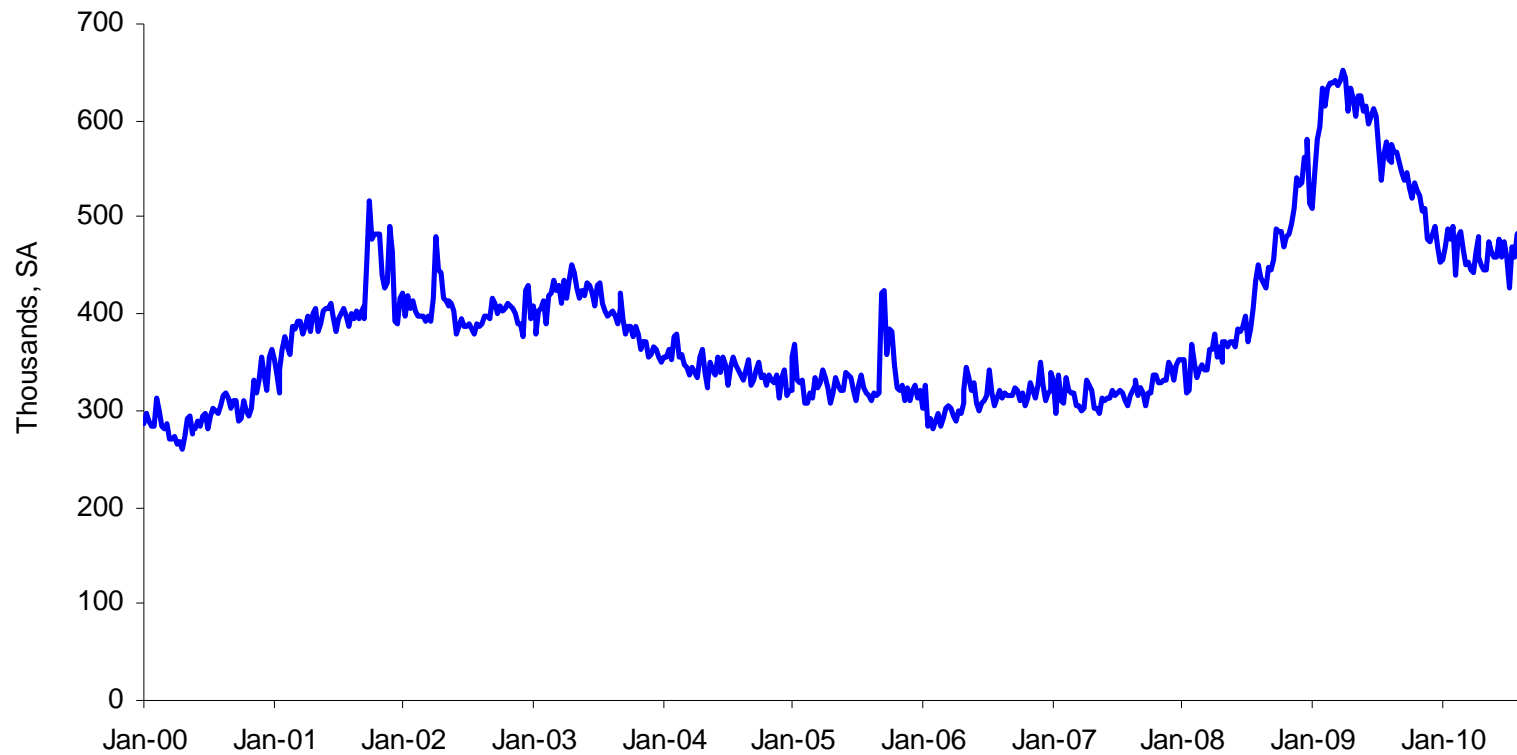
Please read the important disclosure information in the Addendum section of this presentation.

Global Recovery; Maxed Out Monetary Policy

- **We expect the global recovery to gradually pick up speed in coming quarters, helped by strong growth in most of Asia, low interest rates and pent-up demand from the recession.**
- **We recognize a fundamental restructuring of global capital flows toward Asia and other developing countries that are making structural improvements, with a parallel shift in innovation and R&D. China's monetary and regulatory policy worked better in the 2008 crisis than those in the U.S., supporting China's stronger recovery. In the U.S., capital allocation is increasingly being determined by governments, regulators and big corporations, a distinct new negative.**
- **We think the European Central Bank's ability to purchase low-rated sovereign debt is a powerful stabilizing mechanism for the debt malaise that struck early in 2010. It does not resolve the growth and debt problems, but is a successful response to the crisis.**
- **In the U.S., leverage is shifting rapidly from the private sector to the federal government where borrowing costs are low. In the short-run, this has been stabilizing. The latest \$26 billion federal transfer is an example.**
- **We have been expecting 3% real growth for the U.S. (moderate growth from a low base) due to pent-up demand. However, current macro policy and recent jobless claims argue for a "new norm" -- 2% real, 3% nominal. With many companies and states still underwater, we think the new norm can't be sustained due to the negative implications for unemployment, profits and debt defaults.**

Initial Unemployment Claims Remain High

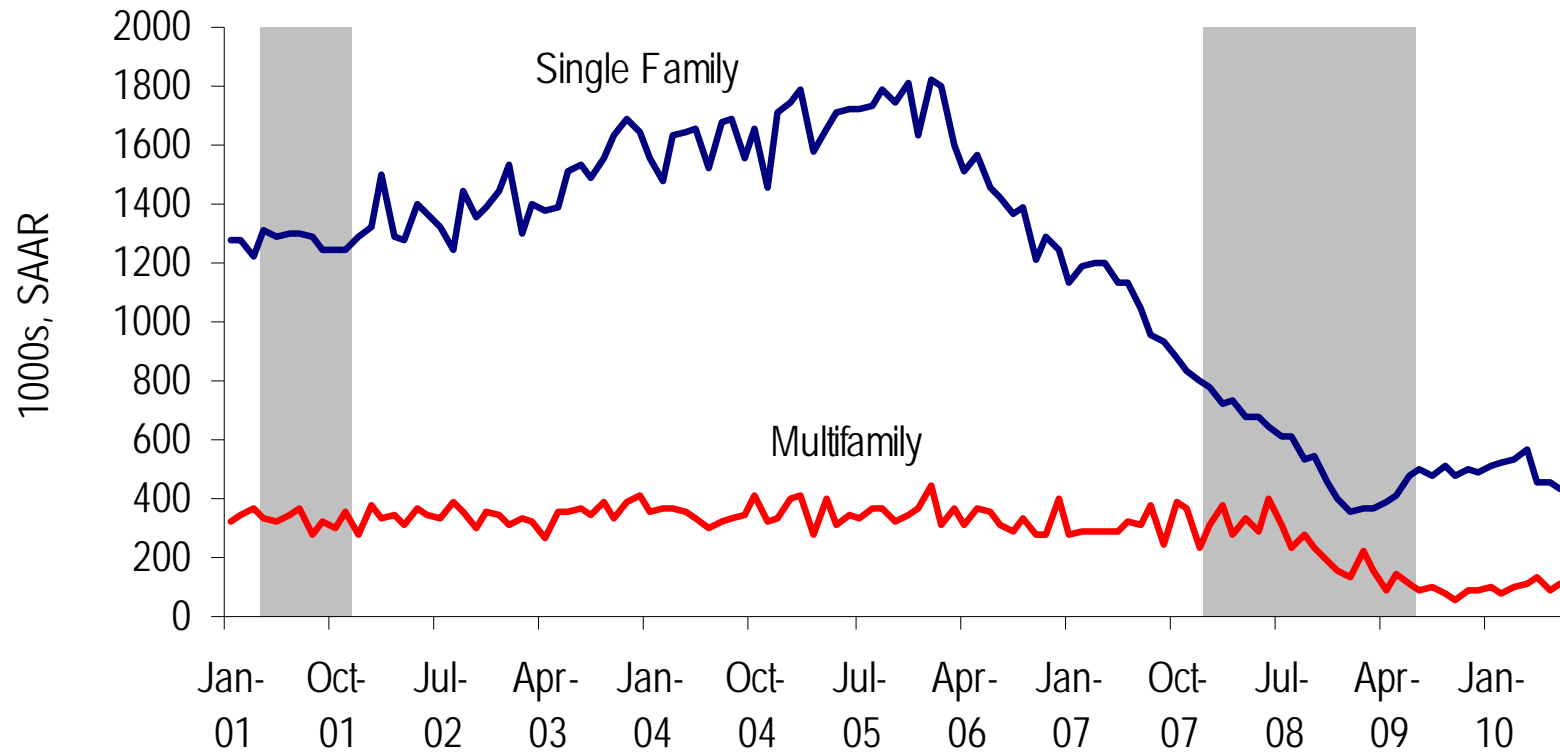
(last obs. August 7, 2010)



Source: Bureau of Labor Statistics; Encima Global

Housing Starts

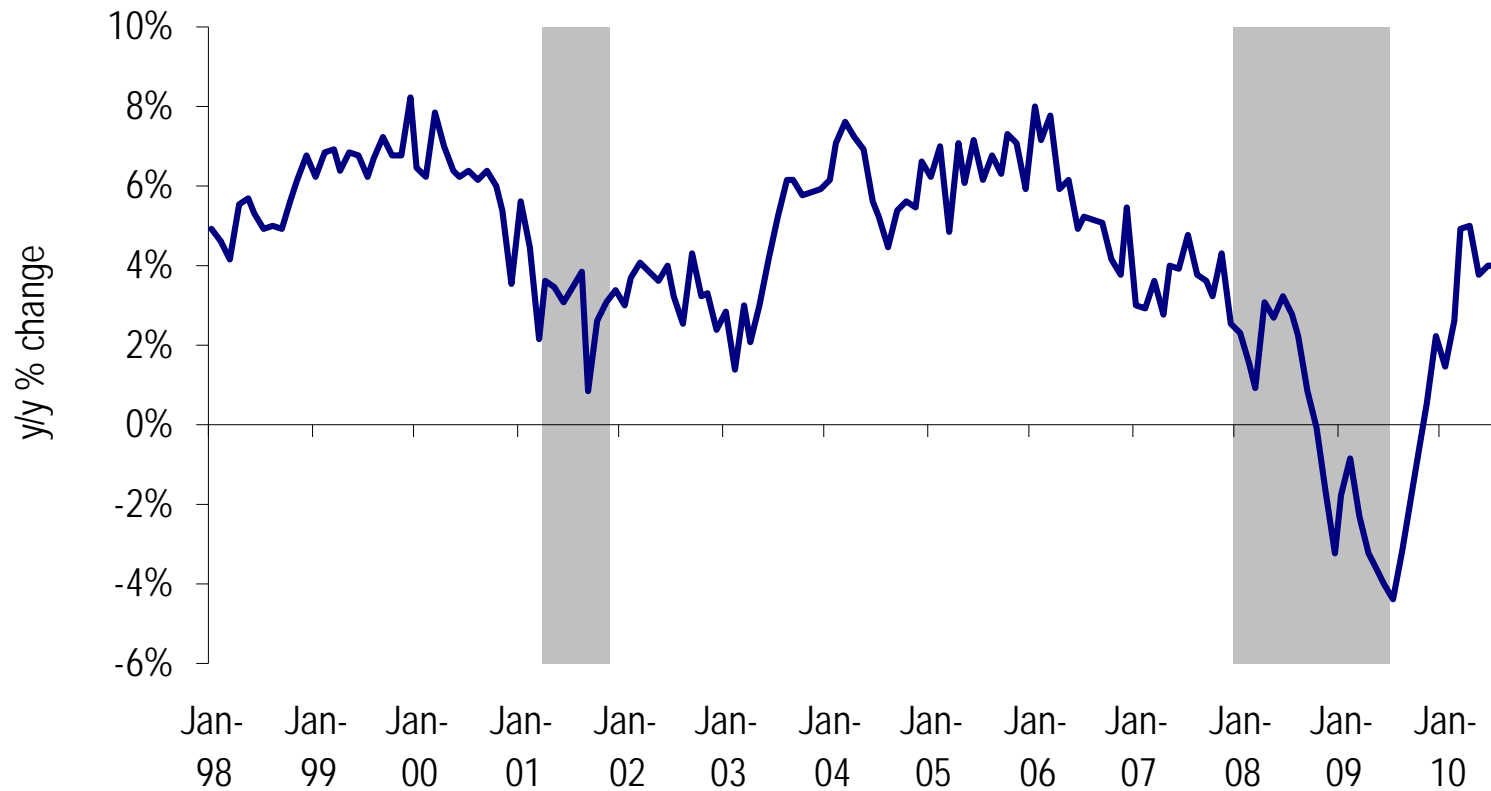
(last obs. July 2010)



Source: Census Bureau; Encima Global

Retail Sales ex Autos and Gas

(last obs. July 2010)

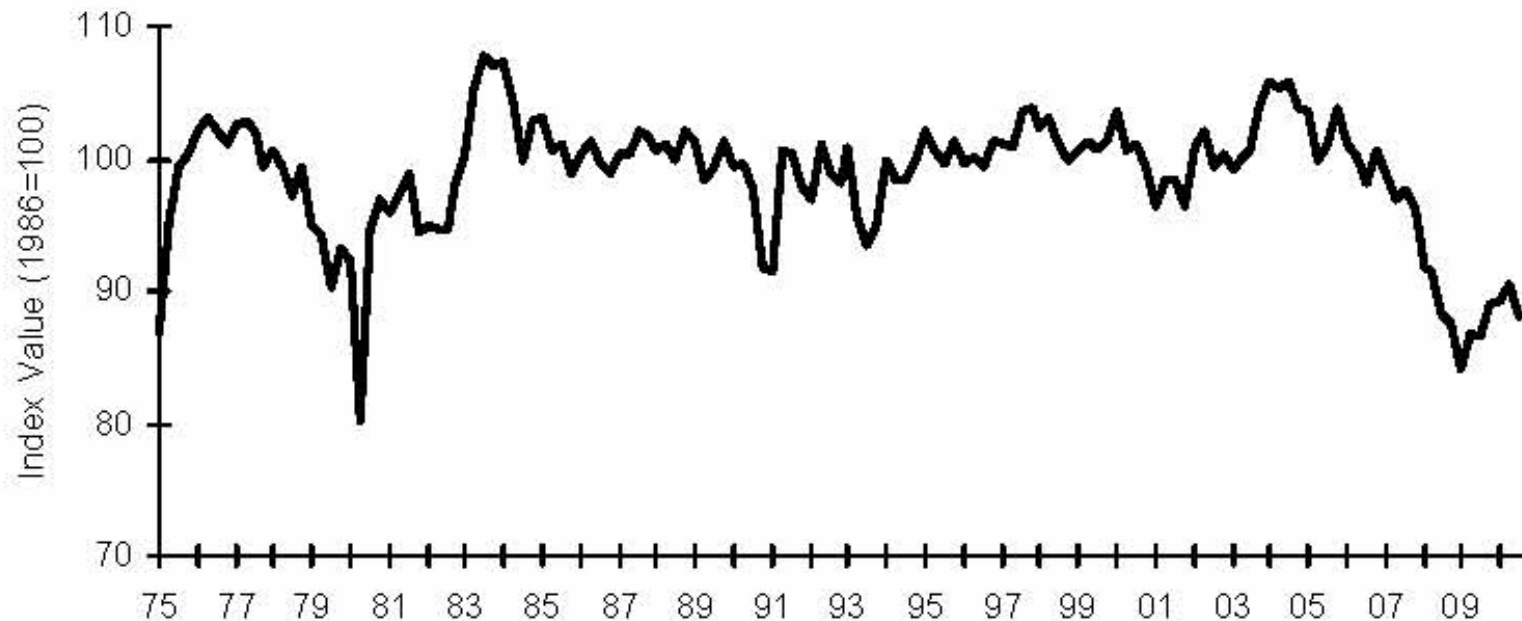


Source: Census Bureau; Encima Global

Small Business Optimism Index

(last obs. July 2010)

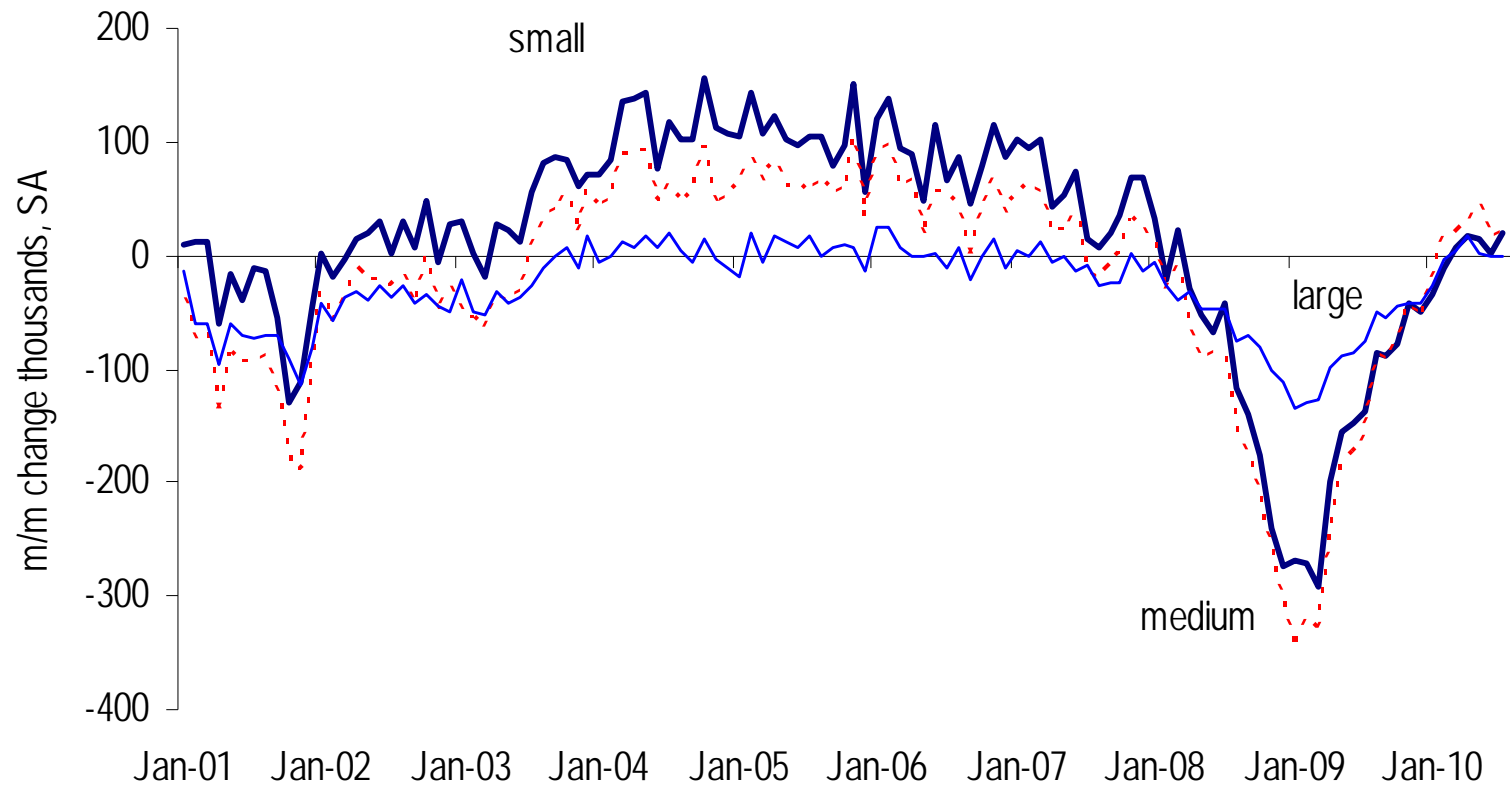
Based on Ten Survey Indicators
(Seasonally Adjusted 1986=100)



Source: National Federation of Independent Businesses; Encima Global

ADP Payroll Employment by Company Size

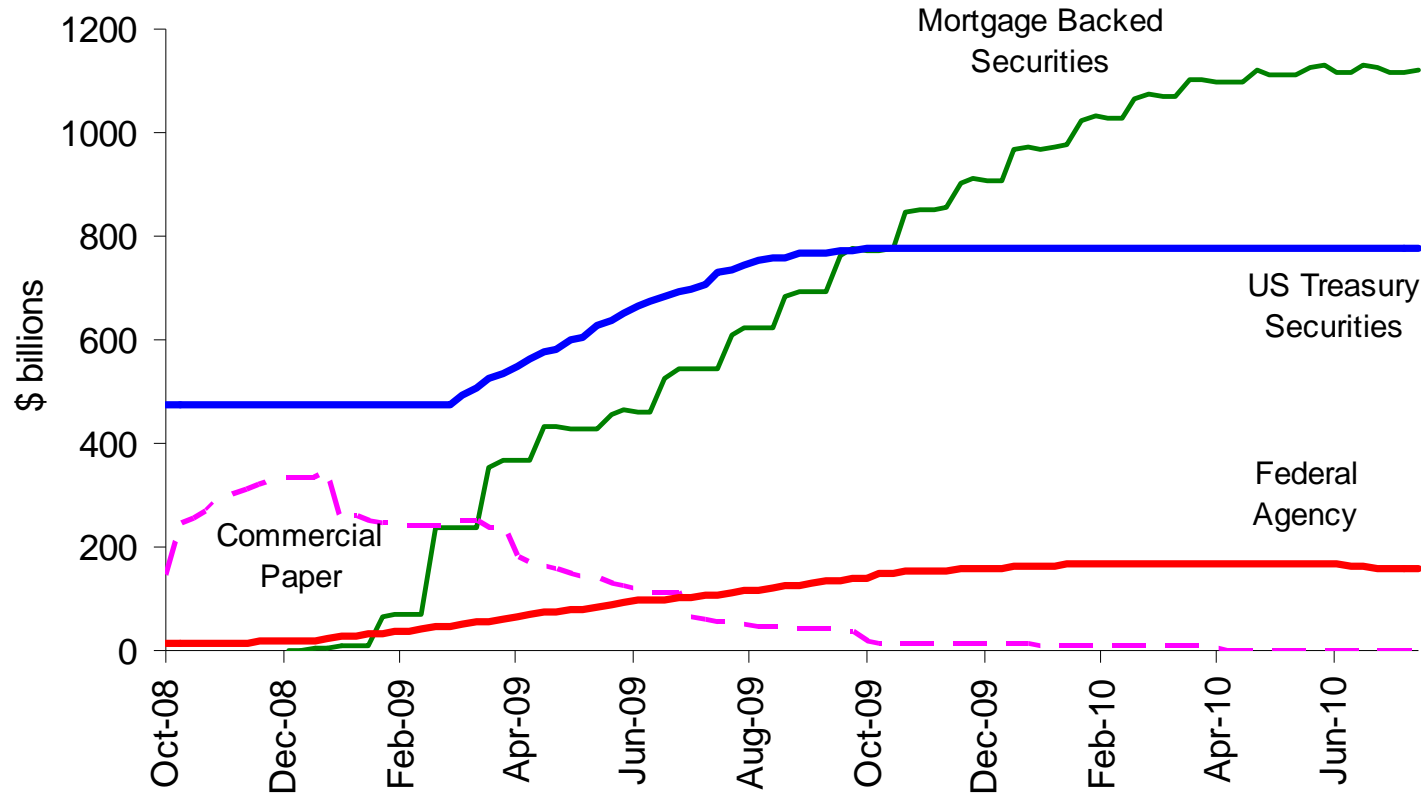
(m/m change, last obs. July 2010)



Source: ADP; Encima Global

Fed Assets

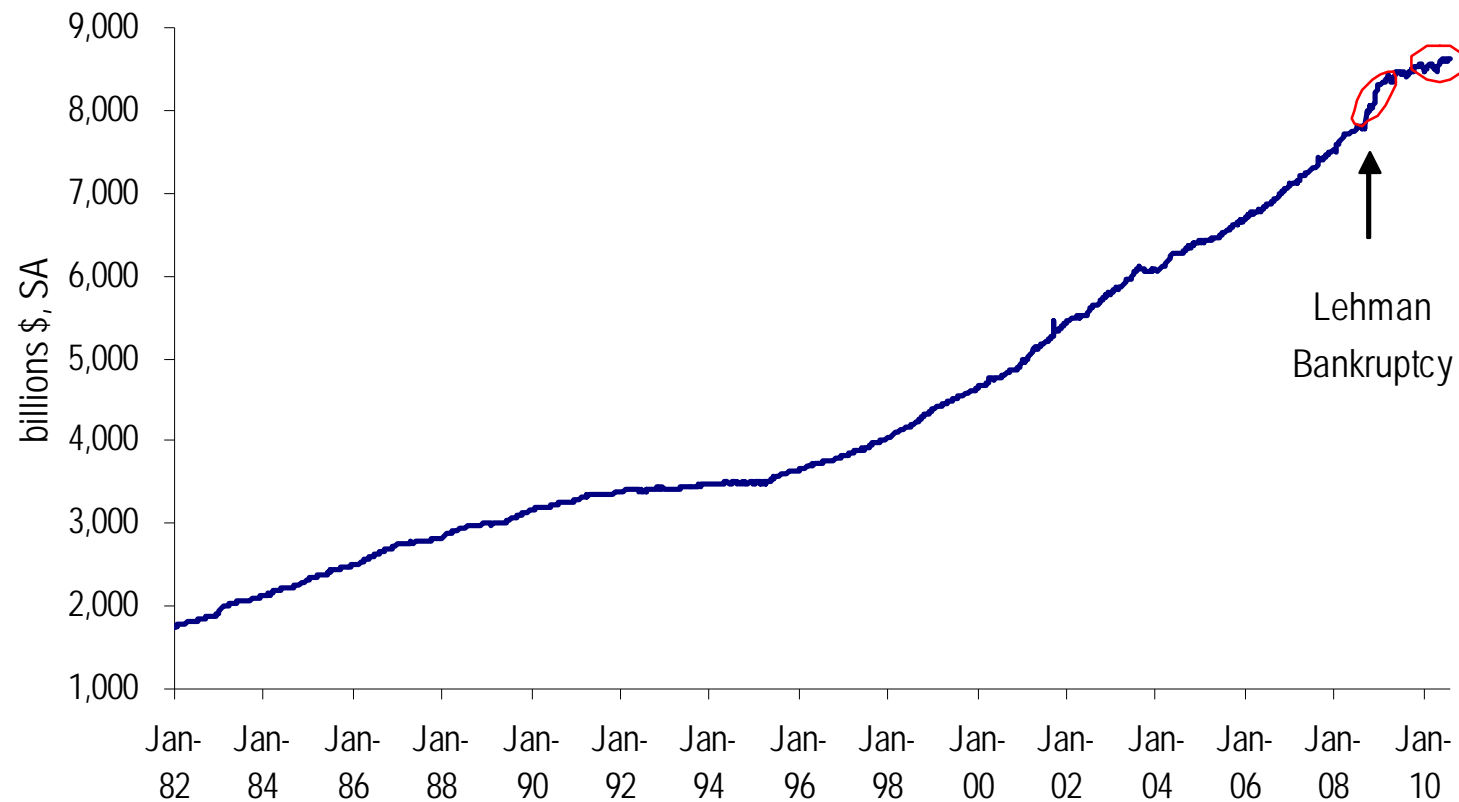
(last obs. August 11, 2010)



Source: Federal Reserve; Encima Global

M2 – Money Supply

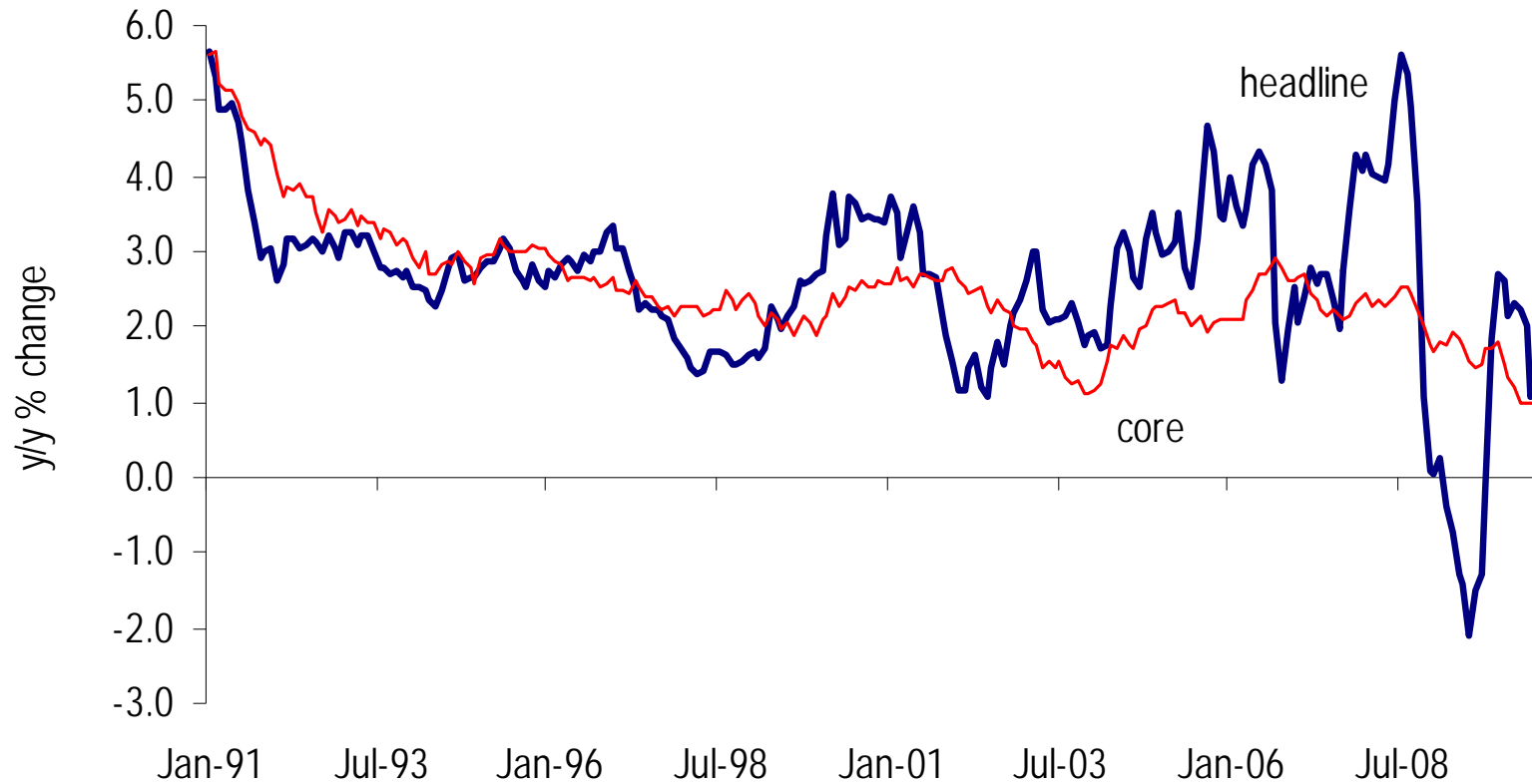
(last obs. August 2, 2010)



Source: Federal Reserve; Encima Global

Consumer Price Index

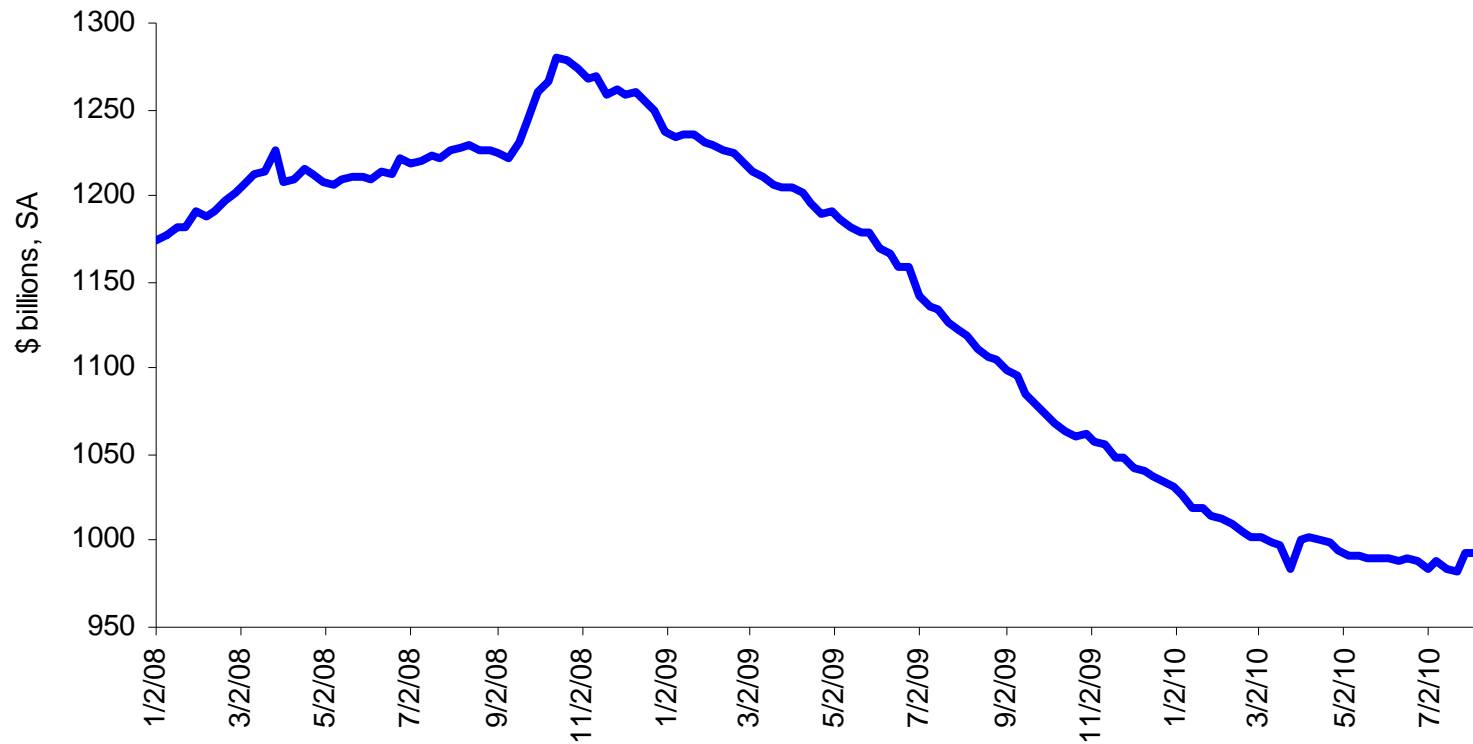
(last obs. July 2010)



Source: Bureau of Labor Statistics; Encima Global

Domestic Banks Commercial & Industrial Loans

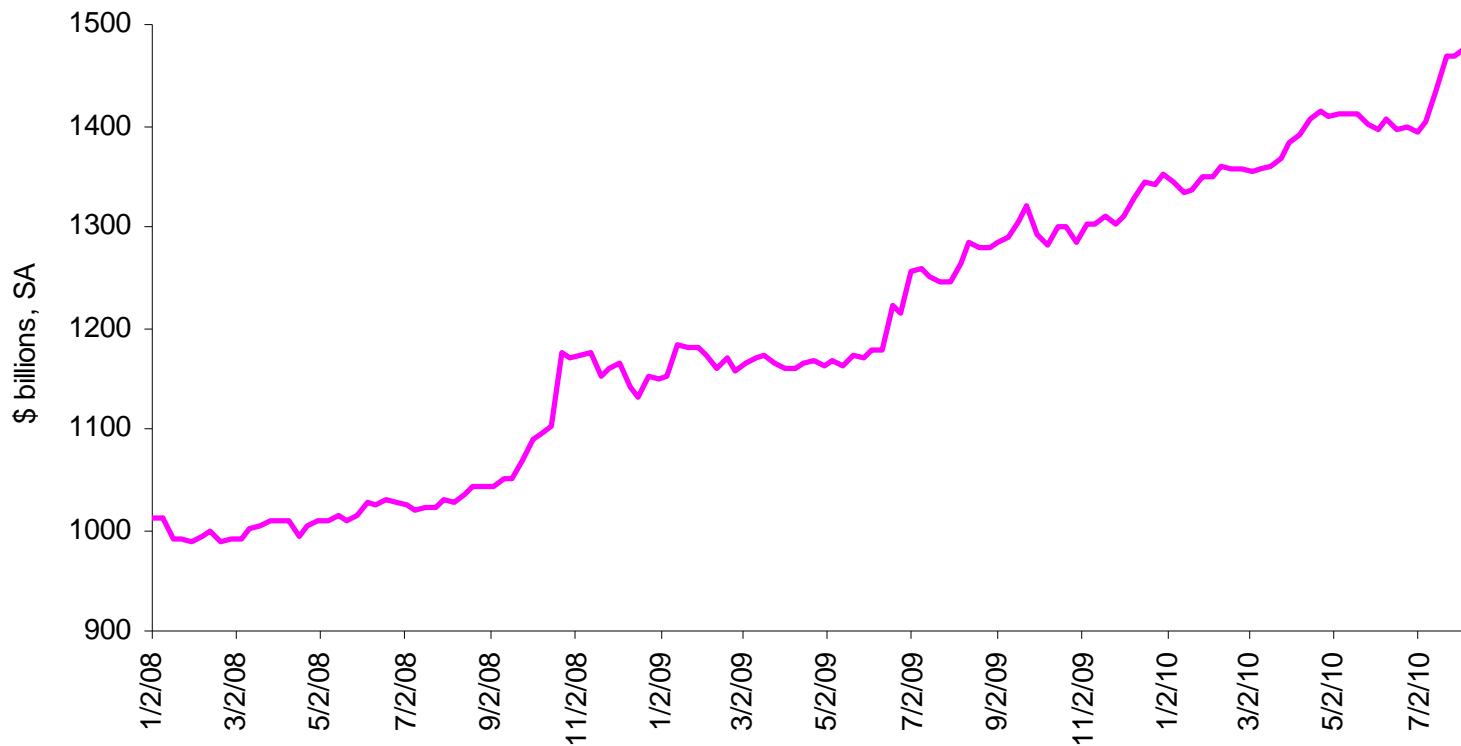
(last obs. August 4, 2010)



Source: Federal Reserve; Encima Global

Domestic Banks Holdings of Govt Securities

(last obs. August 4, 2010)



Source: Federal Reserve; Encima Global

Deflation Fear: 10 Year Treasury Yield Low

(last obs. August 16, 2010)



Source: Federal Reserve Board; Encima Global

Inflation Fear: Gold Prices High

(last obs. August 16, 2010)



Source: Federal Reserve Board; Encima Global

Most Tax Rates Heading Higher

	<u>Current Rate</u>	<u>Current Law after 2010</u>	<u>Possible Rate</u>	<u>Possible Effective Date</u>
Tax rates on dividends	15%	up to 39.6%	24%	January 1, 2011
Tax rates on capital gains	15%	20%	24%	January 1, 2011
Tax on priv equity carried interest	15%	15%	35%	January 1, 2011
Individual income tax rates	10%	N/A	10%	January 1, 2011
	15%	15%	15%	
	25%	28%	25%	
	28%	31%	28%	
	33%	36%	35%	
	35%	39.6%	>39.6%	
Estate taxes	0%	55%	45%	January 1, 2011
		\$1 million exemption	with \$3.5 million exemption	

Source: various congressional sources; Encima Global

Loans and Leases y/y

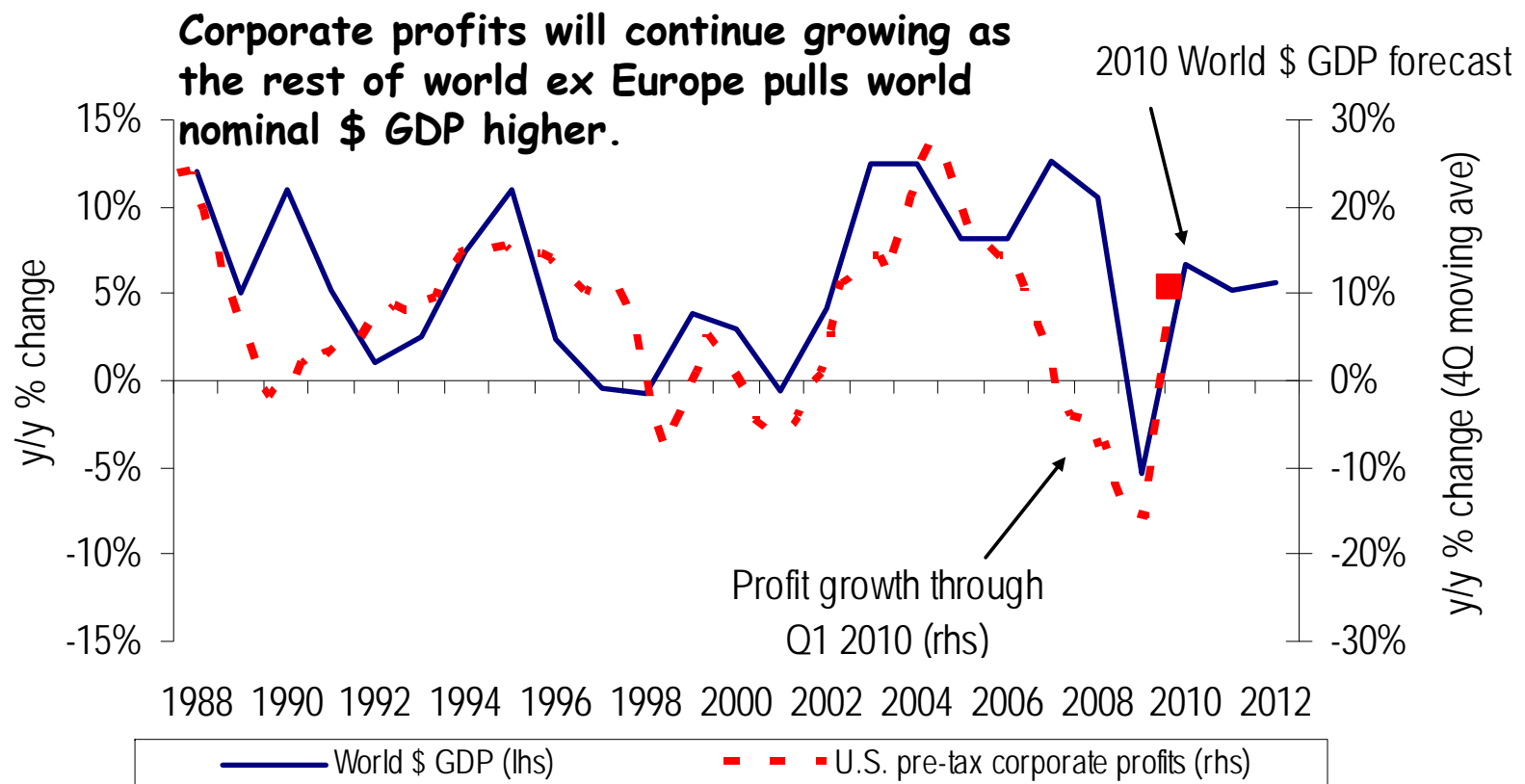
(last obs. August 4, 2010)



Source: Federal Reserve; Encima Global

World Nominal \$ GDP and US NIPA Corporate Profits

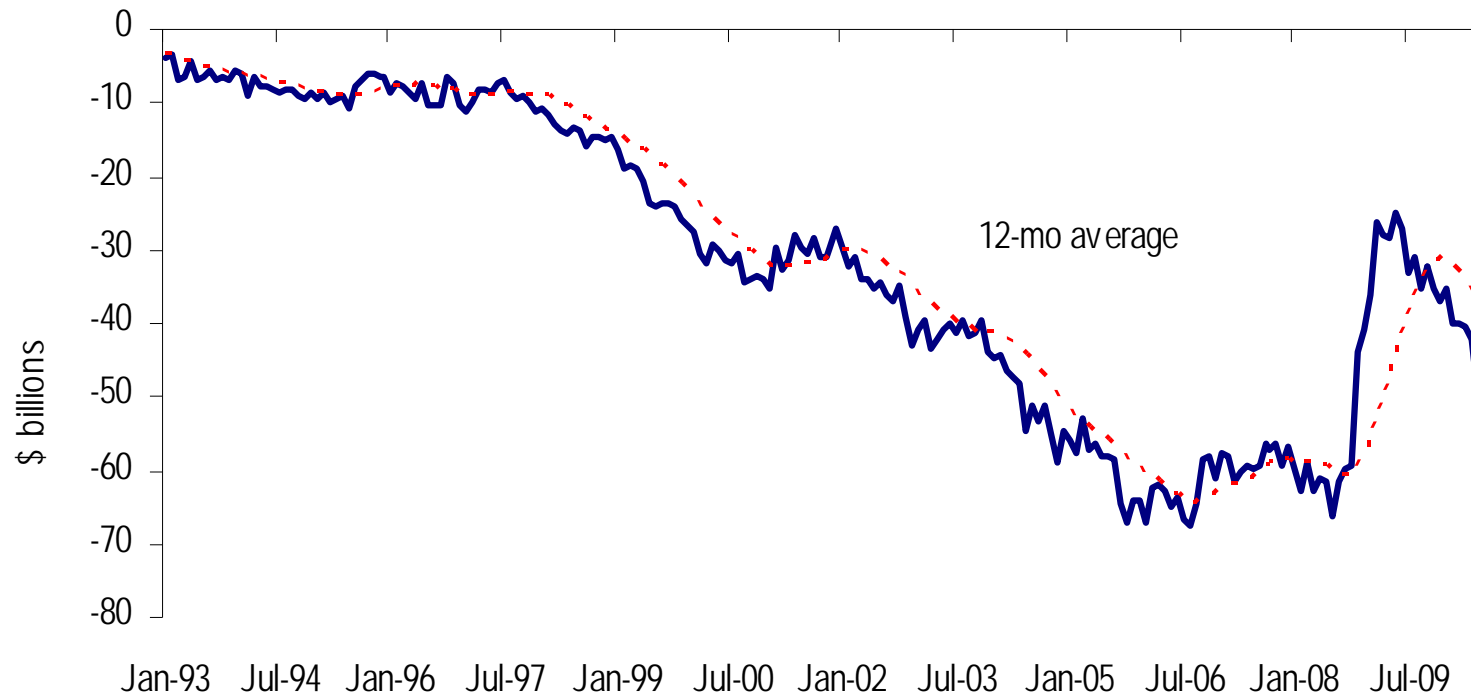
(last obs. Q1 2010)



Source: IMF; Bureau of Economic Analysis; Encima Global

Trade Balance for Goods and Services

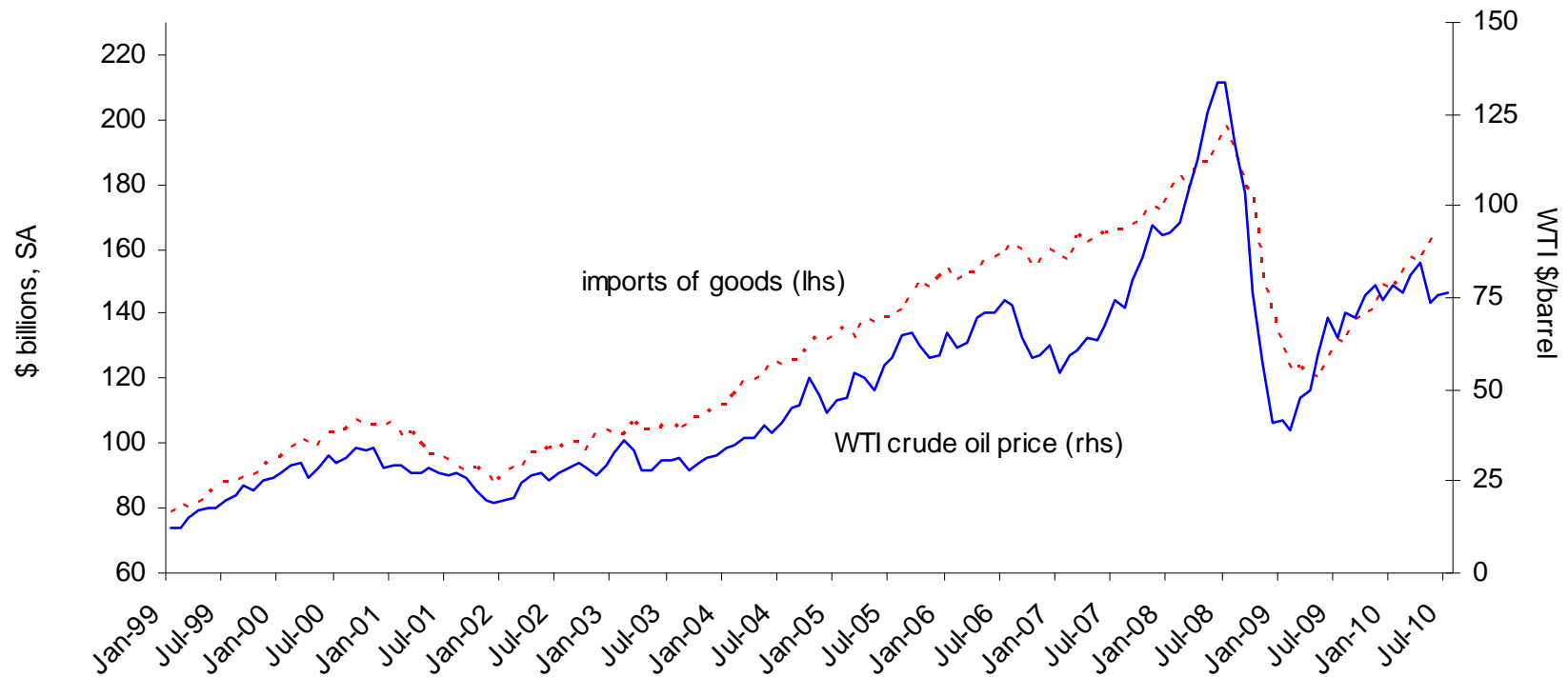
(last obs. June 2010)



Source: Census Bureau; Encima Global

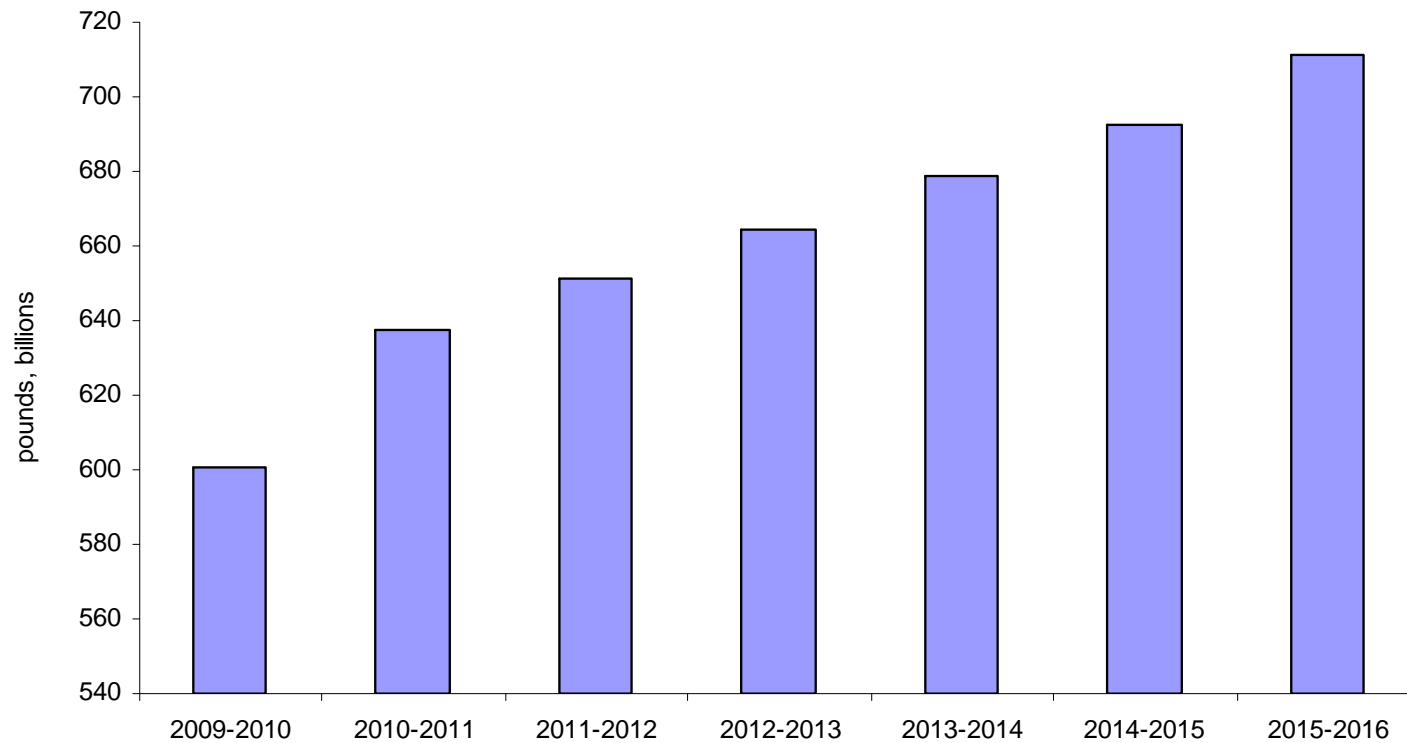
Imports of Goods and WTI Price

(last obs. June 2010)



Source: Census Bureau; Encima Global

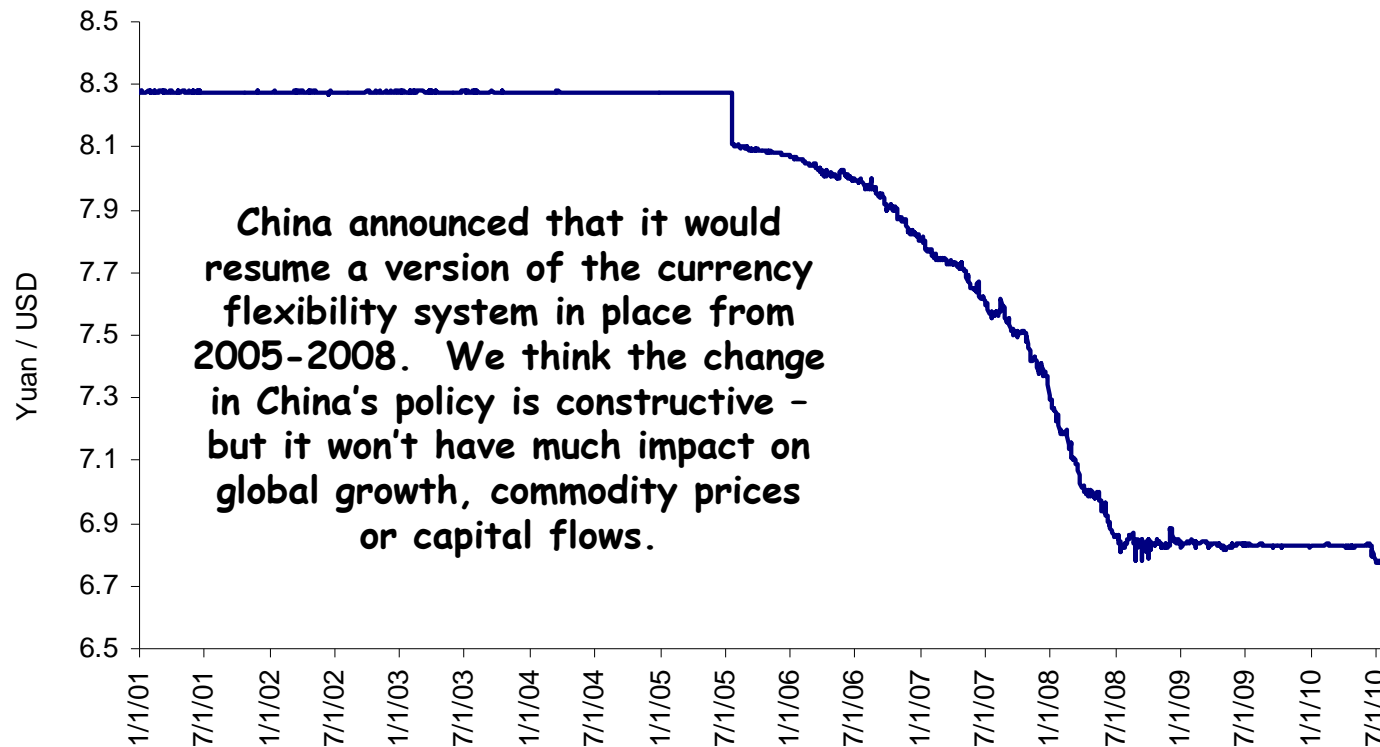
UK “Austerity” Public Sector Expenditures



Source: HM Treasury; Encima Global

Yuan Strengthening Again

(last obs. August 17, 2010)



Source: Federal Reserve; Encima Global



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