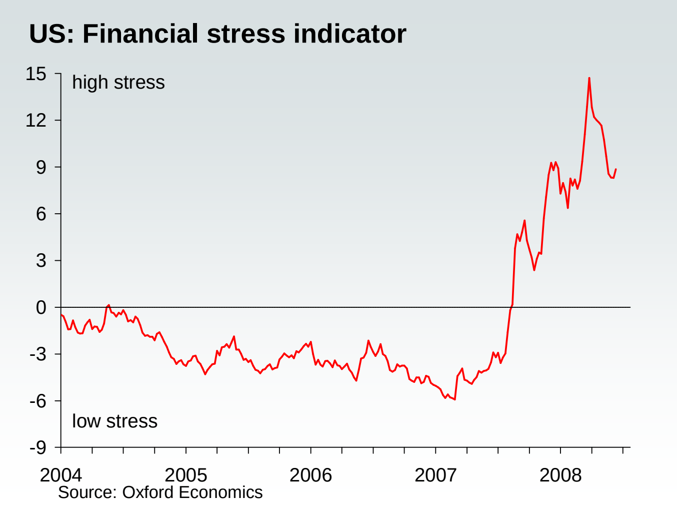
Credit Crunch Watch

Financial stress indicator

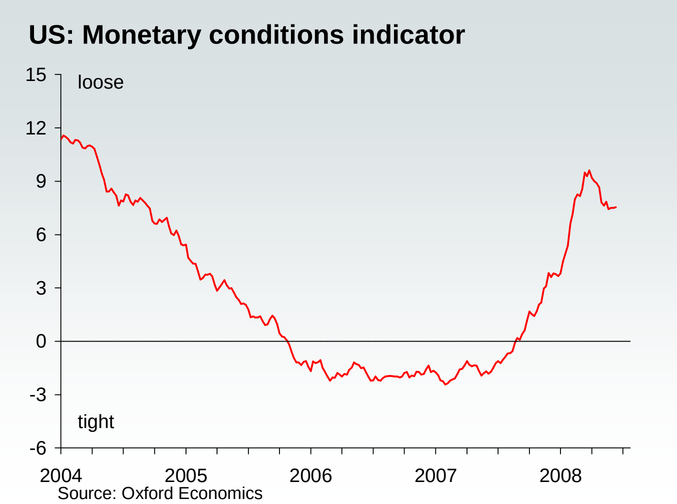
- The financial stress indicator is a composite index of a number of indicators including risk spreads, mortgage spreads, equity volatility, commercial paper and commercial loans outstanding and the spread of LIBOR rates over T-Bill rates. The index reached an all-time high in mid-March on the back of the Bear Stearns collapse, but has pulled back significantly since. There are signs that this easing in stress may be coming to an end, however – in the latest week, weaker stocks have pushed equity volatility back up and risk spreads have also widened. The LIBOR - T-Bill spread also rose, suggesting liquidity conditions may be starting to deteriorate again after significant improvements in recent weeks.



Source: Oxford Economics

Monetary conditions indicator

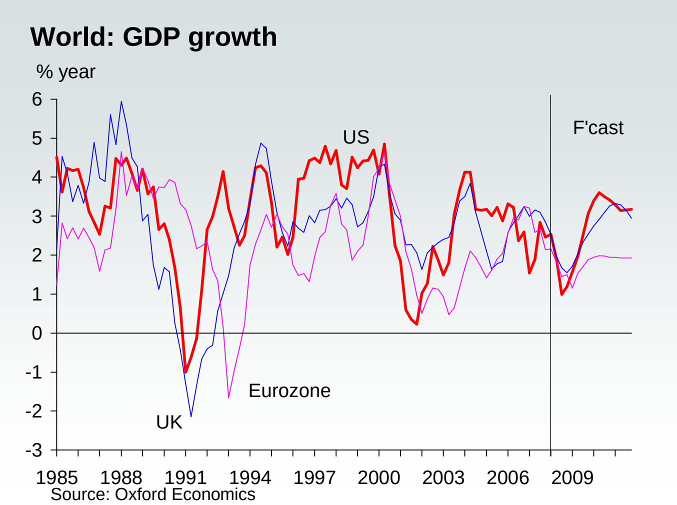
- The monetary conditions indicator is a composite index based on the Fed funds rate, the 10-year bond yield, the yield curve slope and the effective or trade-weighted dollar exchange rate. Monetary conditions loosened rapidly from the third quarter of 2007 as the Fed began to cut rates, and the dollar weakened, reaching their peak 'looseness' in March. Since then, conditions have tightened as a result of a dollar recovery and rising bond yields. The latter appear to reflect rising inflation fears, and concerns that the Fed may increase rates later this year, despite the weakness of the real economy, in order to prevent current high headline CPI inflation rates becoming 'entrenched'.



Source: Oxford Economics

Growth forecasts – US, UK & Eurozone

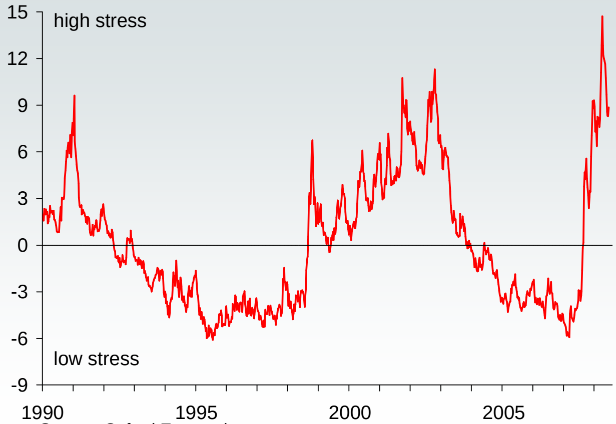
- Easing financial stress ought to translate into brighter growth prospects. But tighter monetary conditions point in the opposite direction, and global growth also faces strengthening headwinds from the squeeze on real incomes resulting from higher inflation and weakening house prices. In the UK, the decline in house prices has accelerated to around 2.5% per month and the service sector appears to have stalled based on the latest PMI survey. We look for growth of 1.8% in 2008 and 2009. In the Eurozone, weaker real income growth and moderating export growth point to growth at just 1.5% in 2009 and there is an added threat to growth in the form of a rising risk of an ECB rate rise. In the US, unemployment rose sharply in May, underlining the continued pressure on consumer spending. Even with large tax cuts, we only see growth recovering to 2.3% next year from 1.6% in 2008.



Source: Oxford Economics

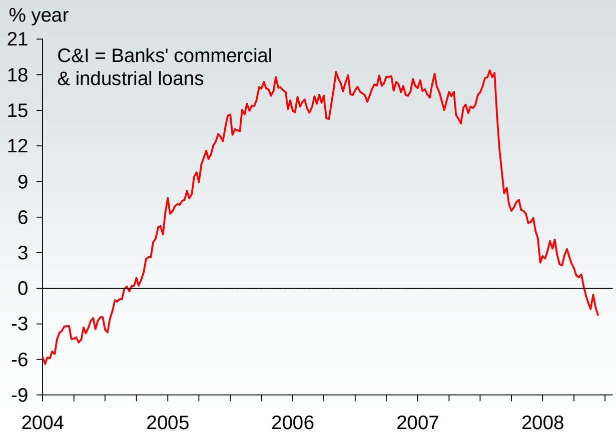
US financial stress measures

US: Financial stress indicator



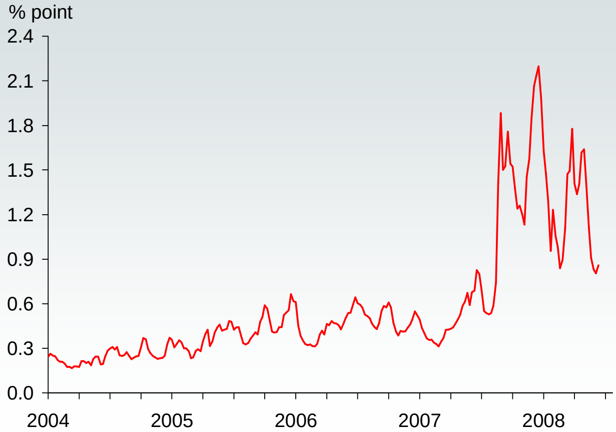
Source: Oxford Economics

US: C&I loans & CP outstanding



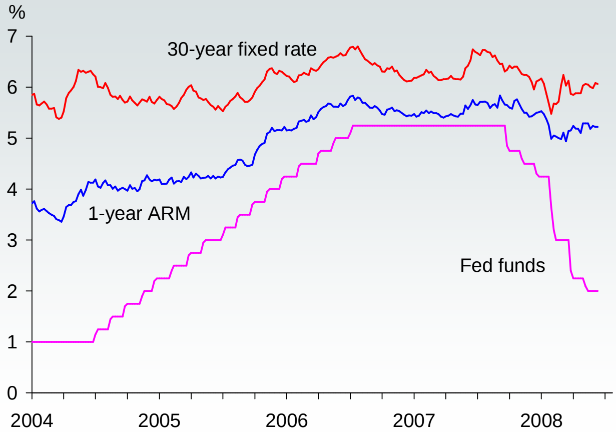
Source: Haver Analytics

US: 3 month libor spread over 3 month T-bill



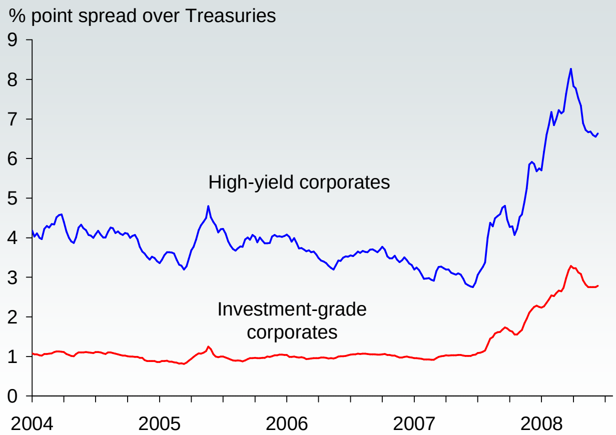
Source: Haver Analytics

US: Mortgage rates (Freddie Mac)



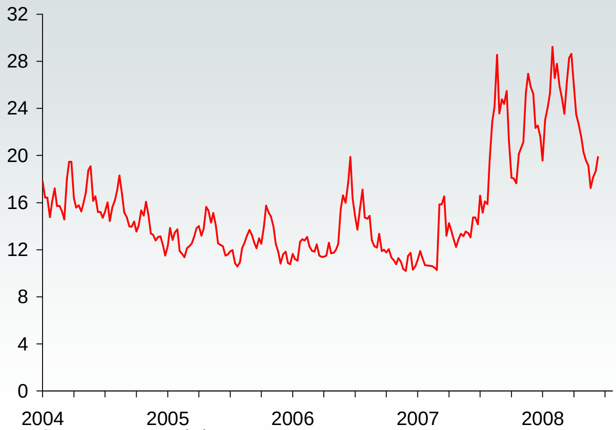
Source: Haver Analytics

US: Risk spreads



Source: Haver Analytics / Merrill Lynch

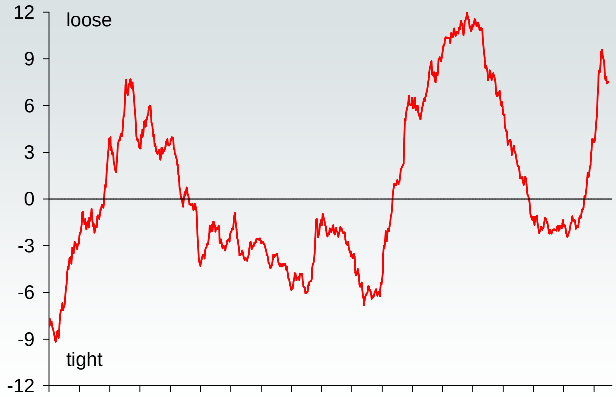
US: CBOE market volatility index (VIX)



Source: Haver Analytics

US monetary conditions & other indicators

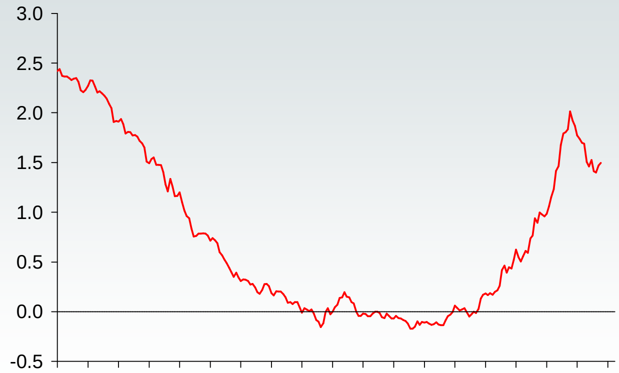
US: Monetary conditions indicator



Source: Oxford Economics

US: Yield curve slope

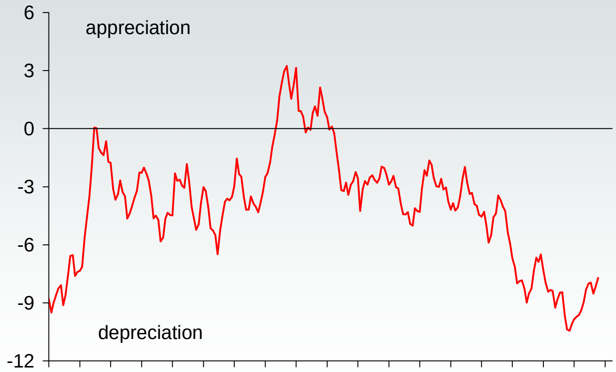
10 year - 2 year



Source: Haver Analytics

US: Exchange rate (trade weighted index)

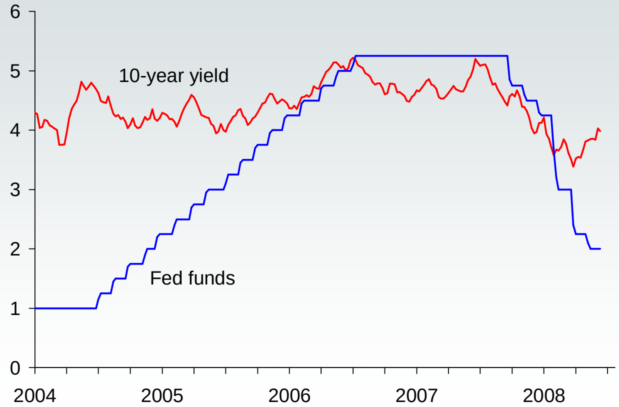
% year



Source: Haver Analytics

US: Fed funds rate & 10-year Treasury yield

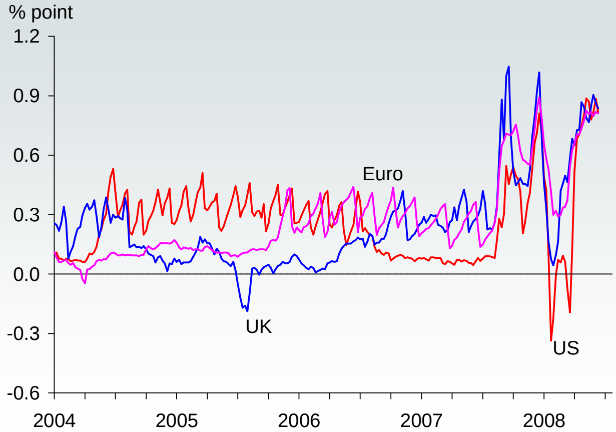
%



Source: Haver Analytics

US, UK & Euro: 3 month rates - policy rates

% point

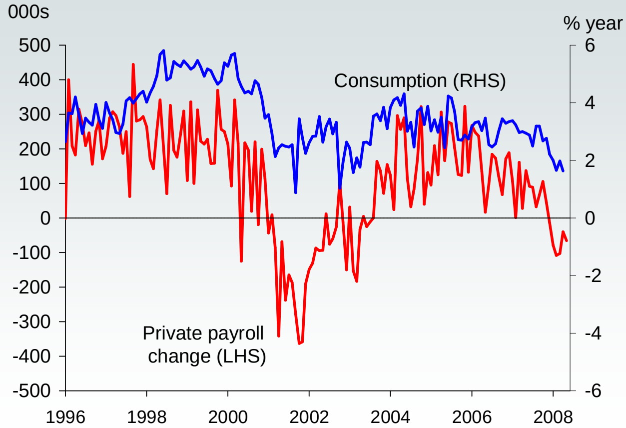


Source: Haver Analytics

US private payrolls and consumption

000s

% year



Source : Oxford Economics / Haver Analytics