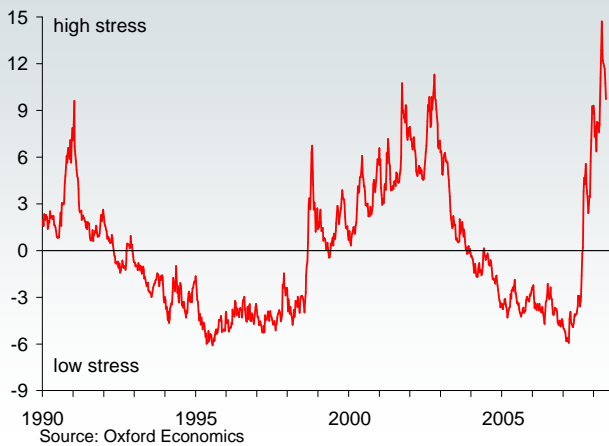


Credit Crunch Watch

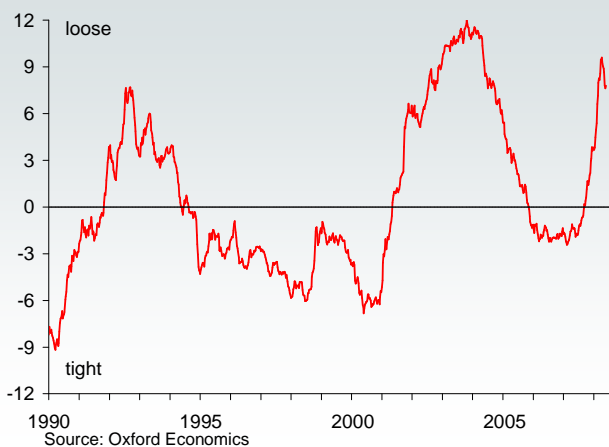
US: Financial stress indicator



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 indicator edged down again over the last week, to the lowest level since late February. The main factors behind this were a notable drop in the LIBOR-T-Bill spread – indicating easing liquidity conditions. Risk aversion also seems to have edged lower over the last week as shown by the drop in VIX equity volatility and the slight narrowing of corporate spreads. On the other hand, the rate of decline of commercial paper and loans rose and floating rate mortgage spreads widened. The overall indicator also remains close to historical peaks – stress levels are still very high.

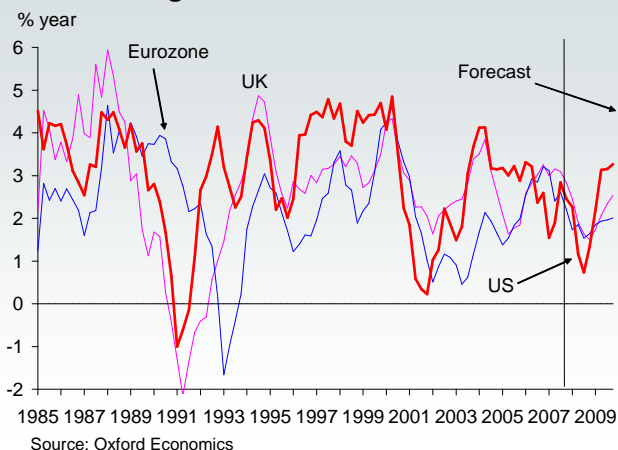
US: Monetary conditions indicator



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 marginally over the last week for the first time in seven weeks in the wake of the Fed rate cut, and as a result of a steepening of the yield curve. However, this was partially offset by a slower rate of dollar depreciation as the dollar continued to recover from its recent lows. And with the Fed now apparently set to keep rates on hold in the near term, monetary conditions may well tighten again in the weeks to come, especially if the stronger dollar tone persists.

World: GDP growth

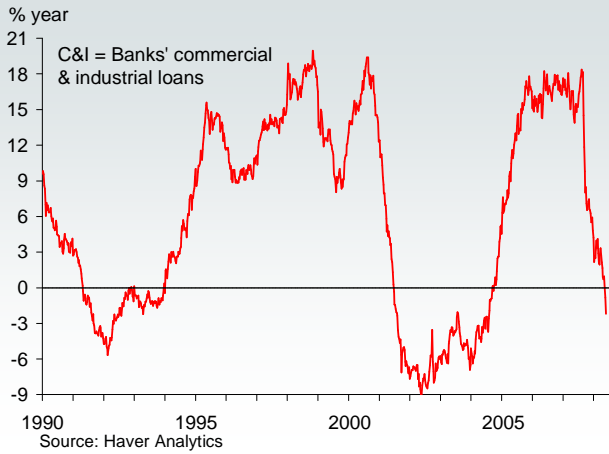


Growth forecasts – US, UK & Eurozone

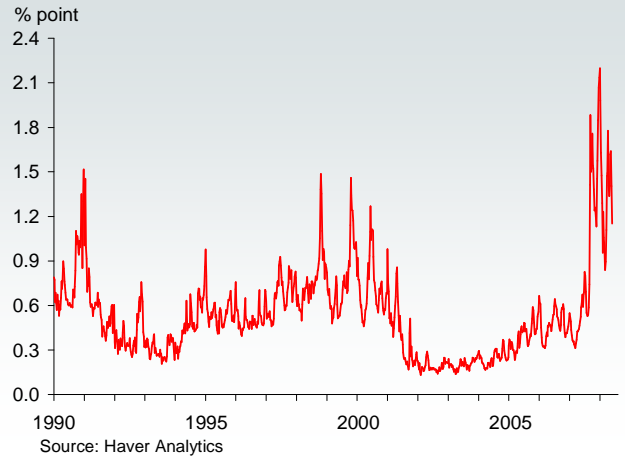
- Our latest GDP forecasts for the US suggest a marginally stronger picture for 2008 but a weaker outlook for 2009, due to the conflicting impacts of a faster than expected distribution of tax rebates (positive) and higher energy prices (negative). This week also saw some slightly more positive news in the form of a modest improvement in the non-manufacturing ISM index. In the Eurozone and the UK, however, the latest data have been mostly on the softer side, with the UK services PMI and the latest German industrial orders numbers especially noteworthy. It may be the case that the slowdown in the US is now starting to spread to the UK and Eurozone, although we continue to expect the real economy in both to prove more resilient than in the US over the next few quarters.

US financial stress measures

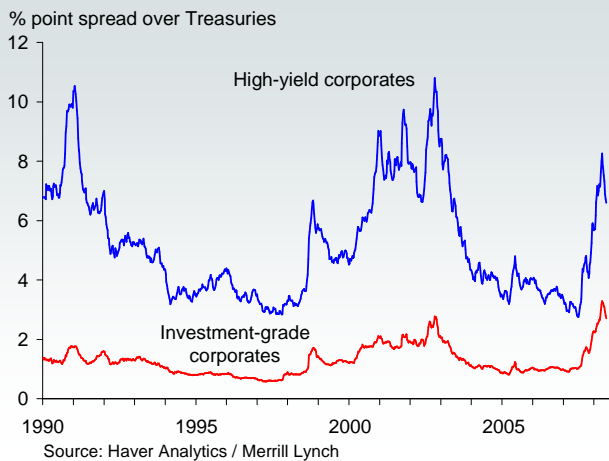
US: C&I loans & CP outstanding



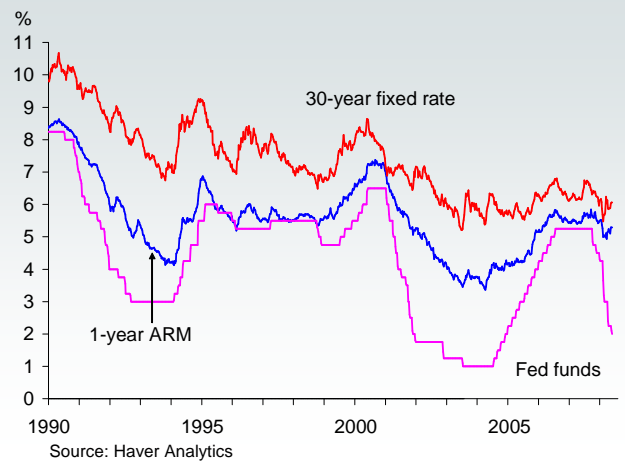
US: 3 month libor spread over 3 month T-bill



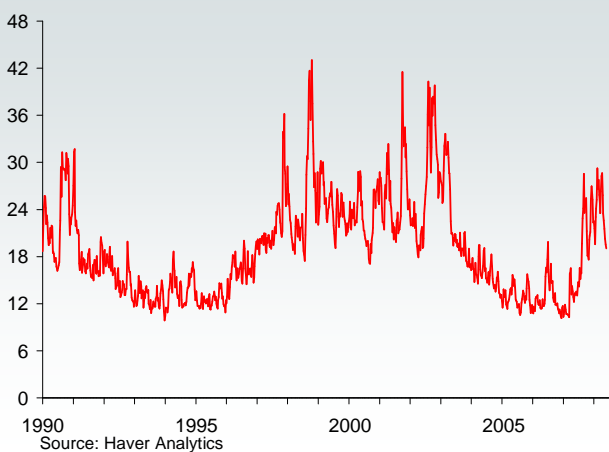
US: Risk spreads



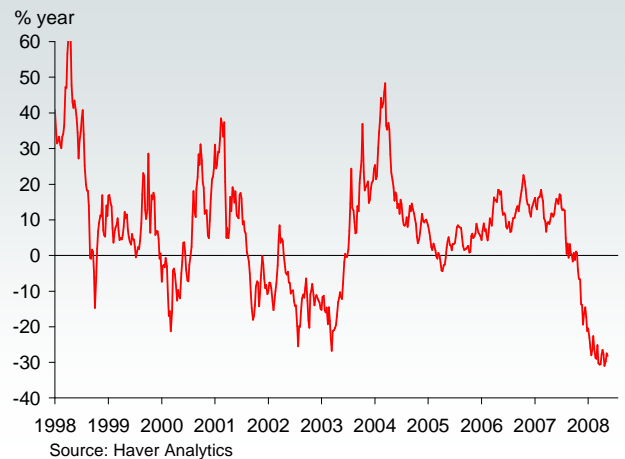
US: Mortgage rates (Freddie Mac)



US: CBOE market volatility index (VIX)



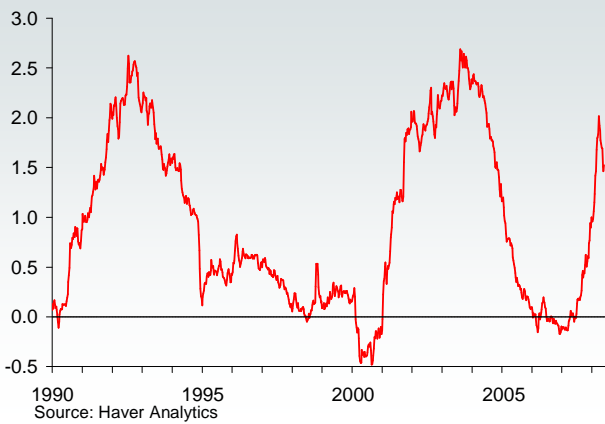
US: Stockmarket - Financials index



US monetary conditions & other indicators

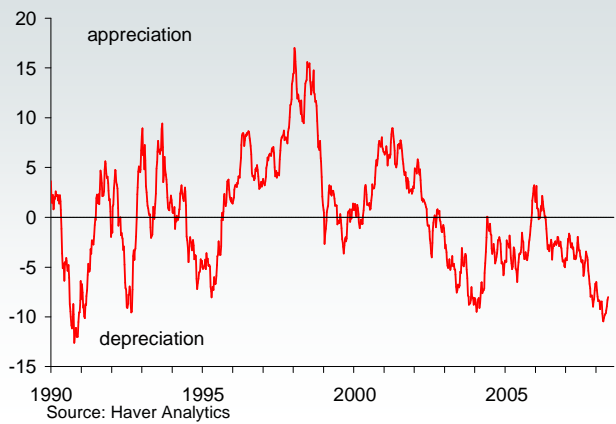
US: Yield curve slope

10 year - 2 year



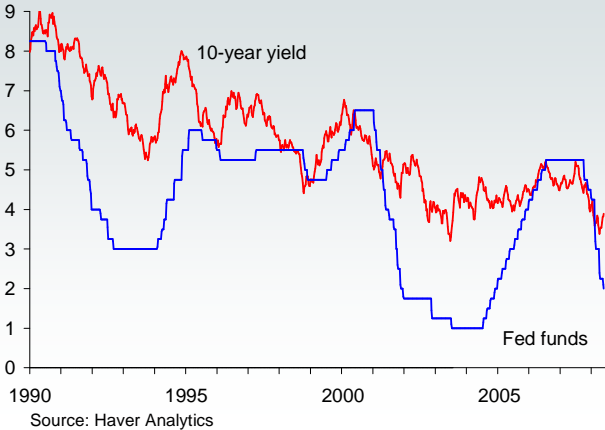
US: Exchange rate (trade weighted index)

% year



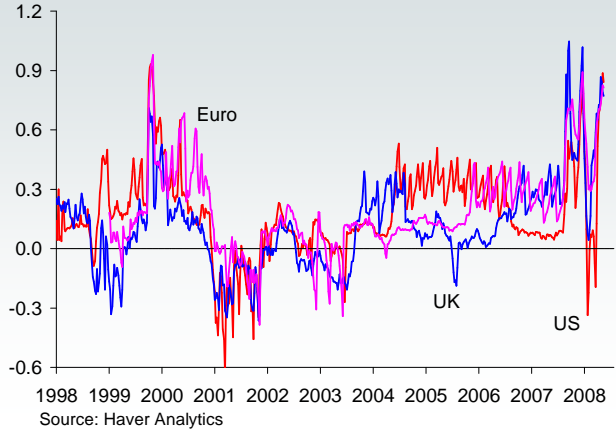
US: Fed funds rate & 10-year Treasury yield

%



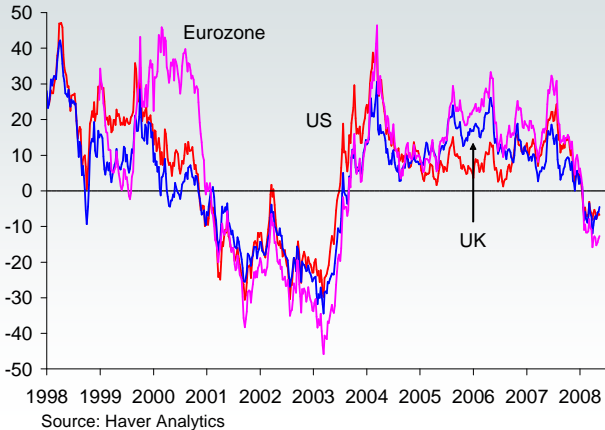
US, UK & Euro: 3 month rates - policy rates

% point



US, UK & Euro: Stockmarkets

% year



US private payrolls and consumption

000s

