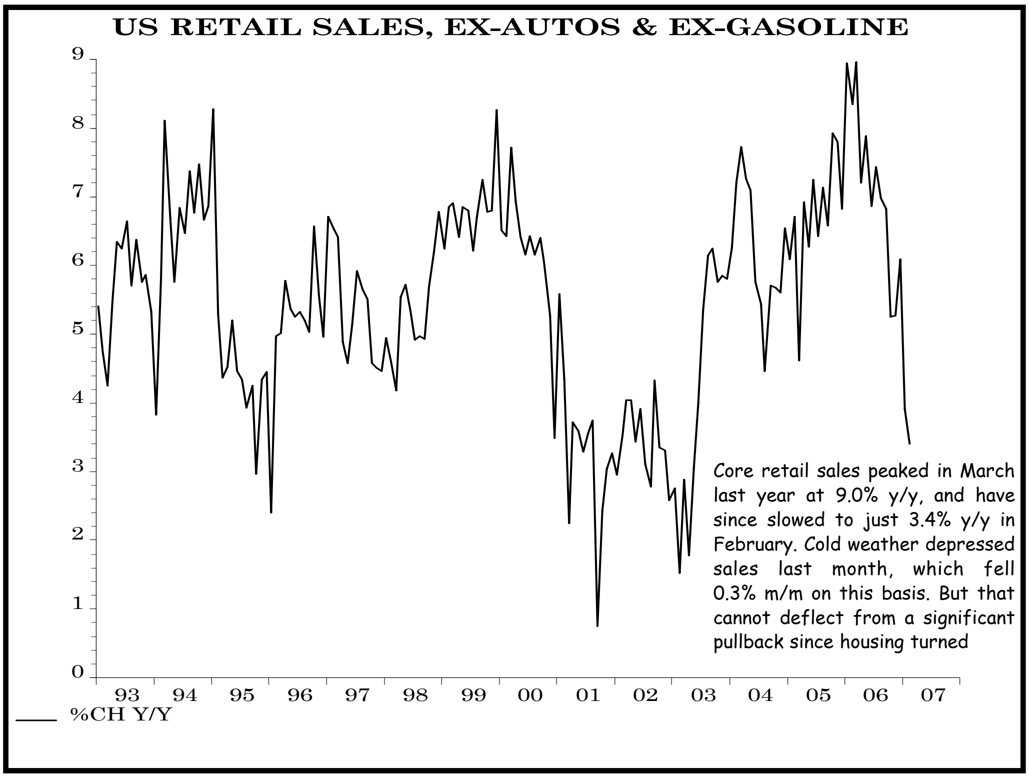
March 16th 2007

GFC ECONOMICS

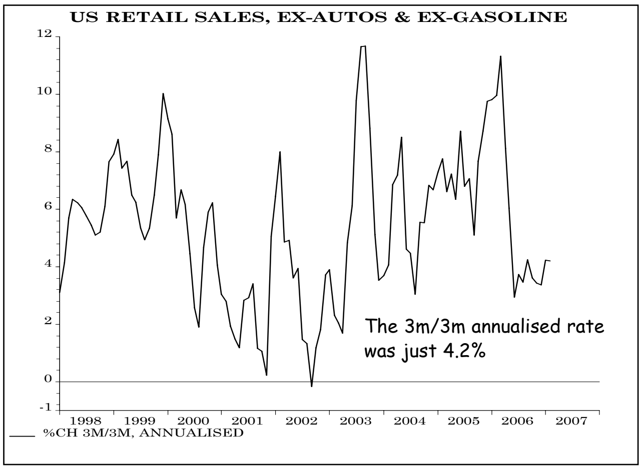
WEEKLY CHARTBOOK

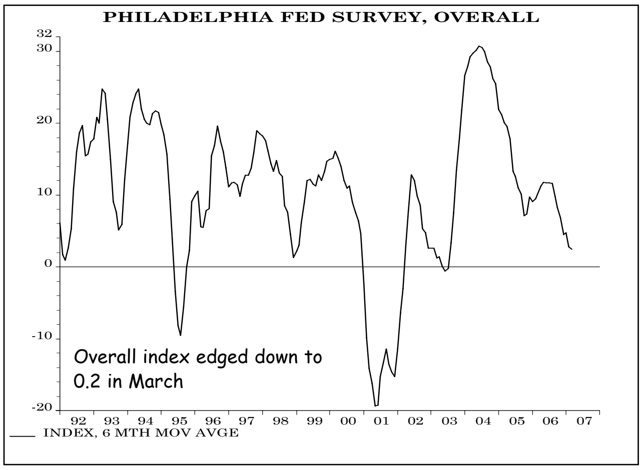
CHART OF THE WEEK

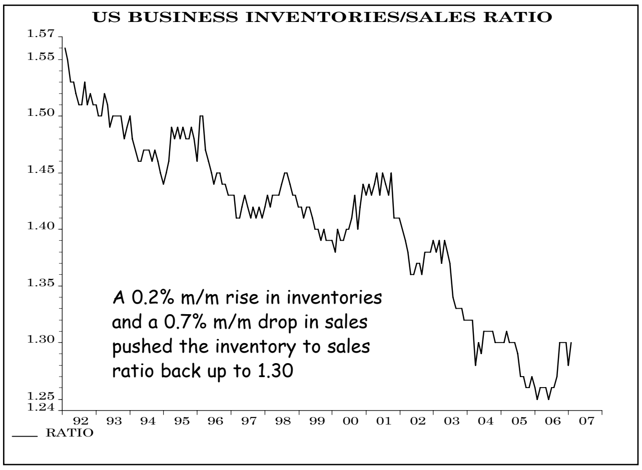


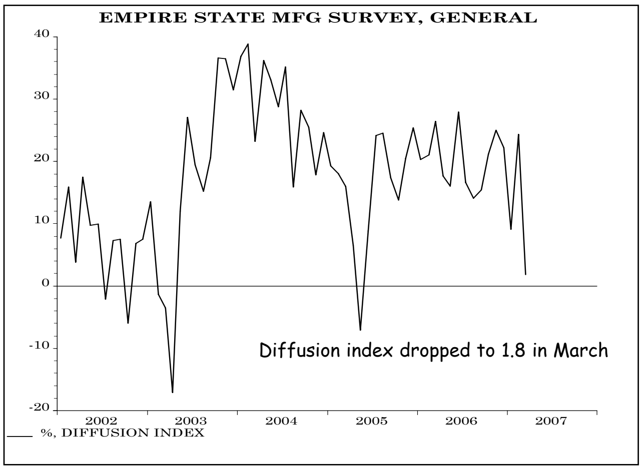
US - 1

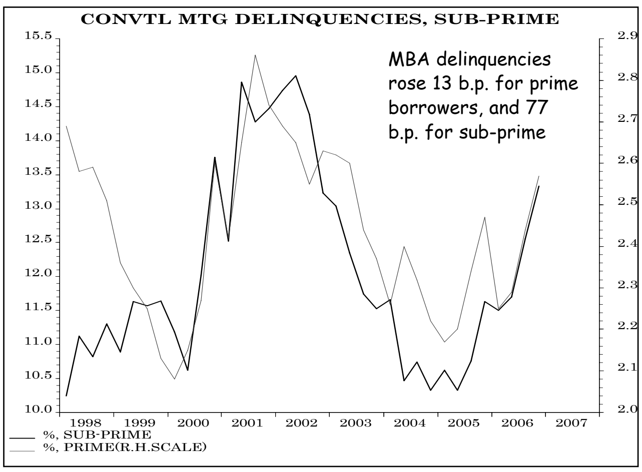
A slew of soft economic numbers combined with more defaults in the sub-prime sector and poor MBA numbers to suggest the Fed should be cutting sooner rather than later. The 0.3% m/m drop in core retail sales (ex-gasoline/autos) may well have been impacted by the poor weather in February. But smoothing the data out shows that the 3m/3m annualised rate is trending sideways, and is still well down from the April 2006 peak of 11.3%. The Philly Fed survey was lacklustre, with the 6-month trend slipping again, while the diffusion index in the Empire State survey fell sharply. However, all this was overshadowed by the MBA report detailing a significant rise in delinquencies at both the sub-prime and prime level.

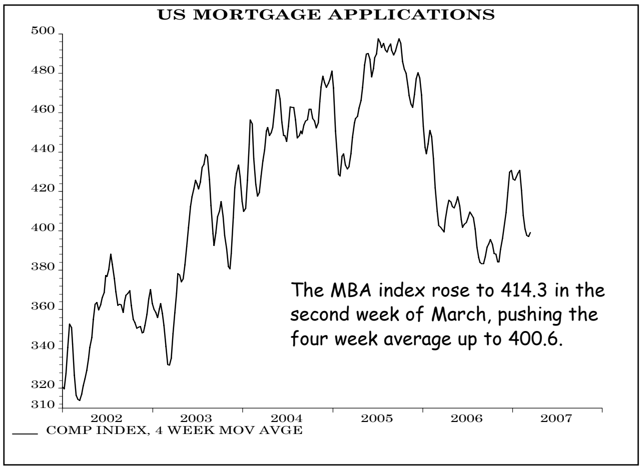












Source: Datastream

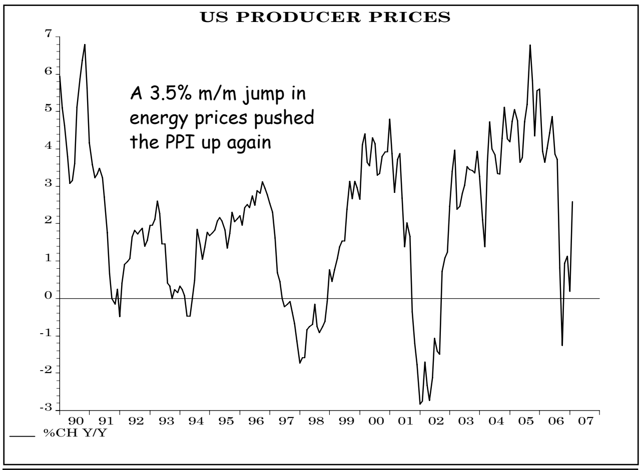
March 16th 2007

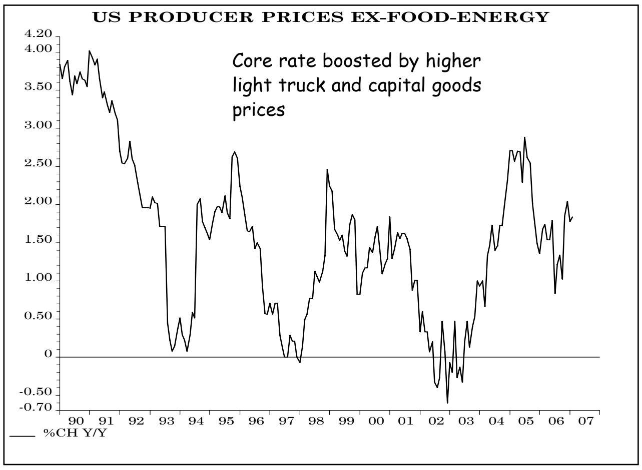
GFC ECONOMICS

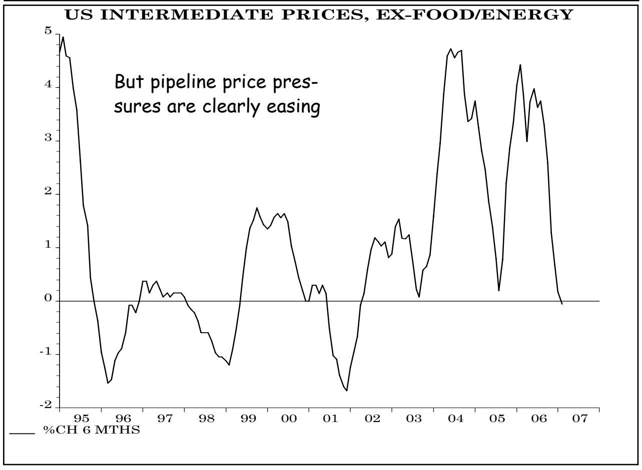
WEEKLY CHARTBOOK

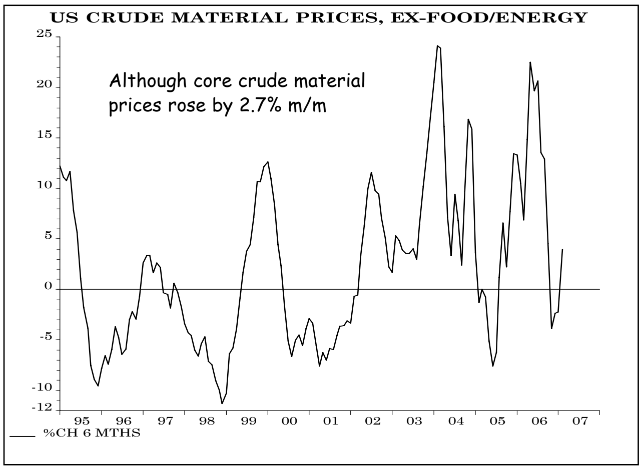
US - 2

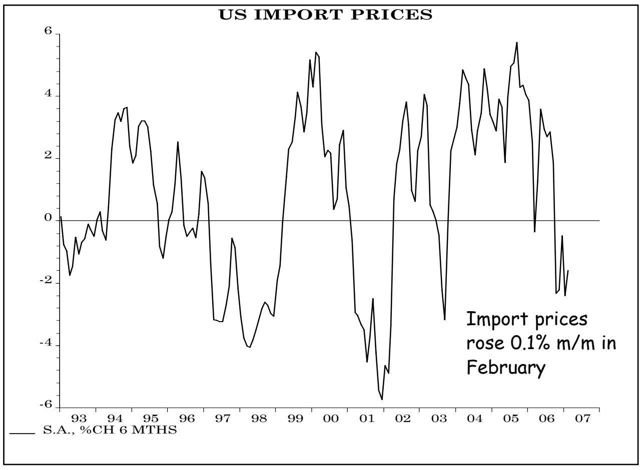
Producer prices climbed by 0.9% m/m in February, pushing the annual rate up from 0.2% to 2.6%. The core rate also rose by 0.4% m/m, but the annual rate was unchanged after rounding, at 1.8%. The sharp rise in raw material costs witnessed in 2005 and the early months of 2006 is, nevertheless, slowly but surely unwinding. Although core intermediate producer prices rose by 0.2% m/m, the 6-month trend has dipped sharply, hitting zero. And core import prices, excluding fuel have softened notably on the same basis. The m/m decline of 0.2% was the biggest since July 2005, and the 6-month rate has dropped from a September high of 2.3% to just 0.4%.

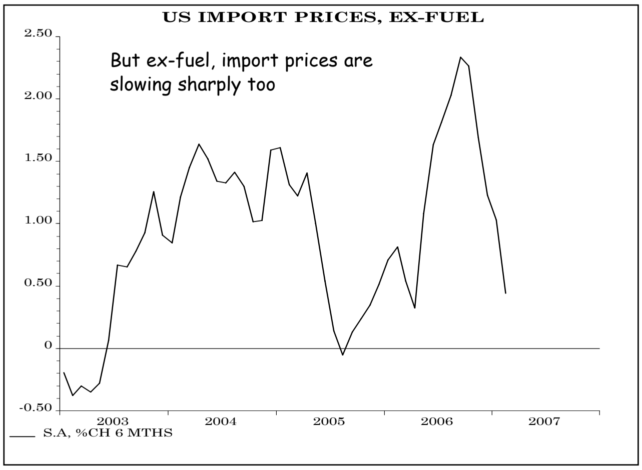








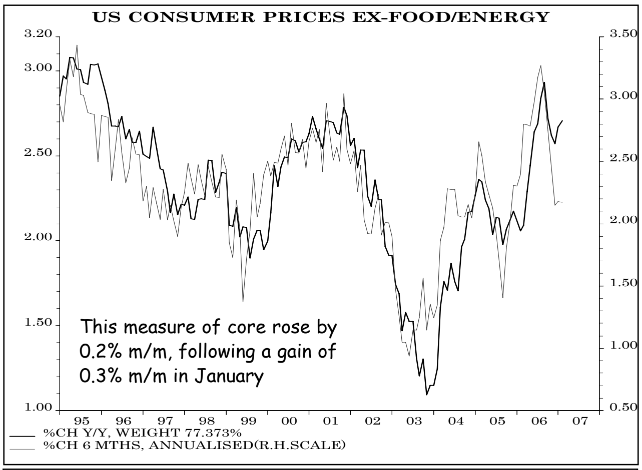


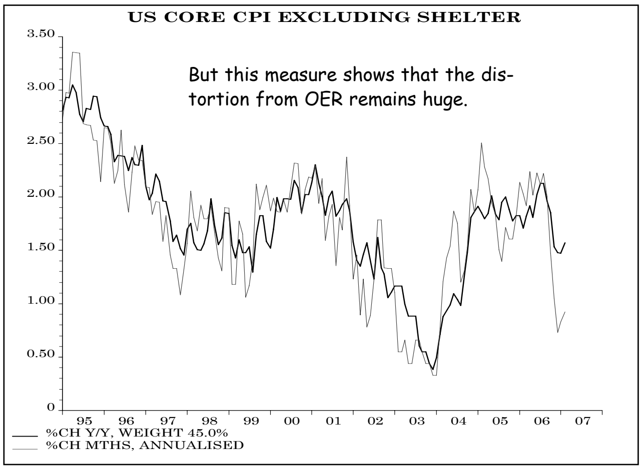


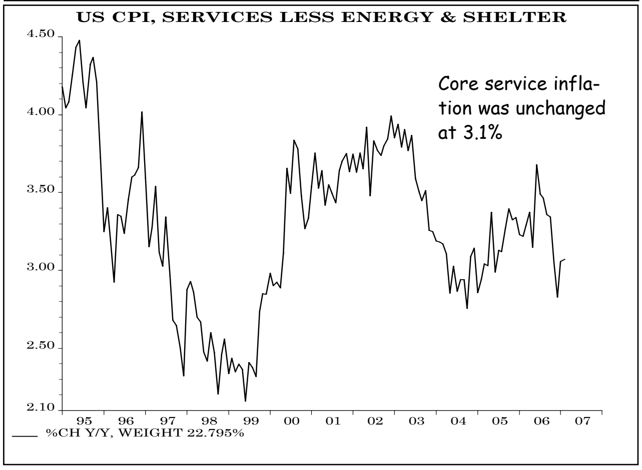
Source: Datastream

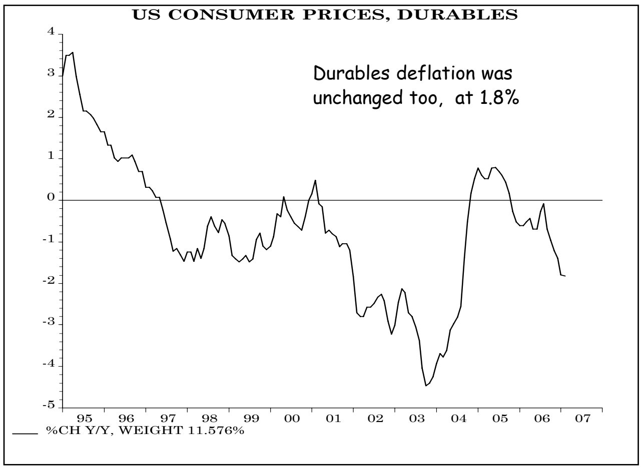
US - 3

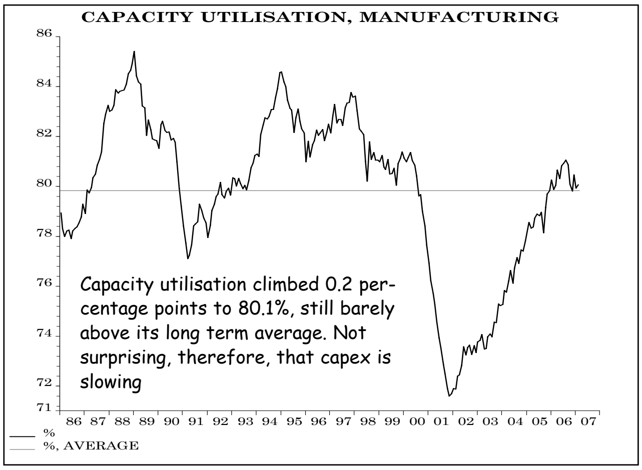
The core CPI excluding shelter rose by 0.2% m/m for the second month running. The average for January/February has been a touch stronger than the very benign run of numbers witnessed in the final months of 2006, which pushed the annual rate down so quickly. The y/y rate has popped back up to 1.6%, but remains well below any notional 2% threshold that is supposed to demark the tolerance limit for the Fed. But unfortunately, the Fed continues to ‘target’ the wrong measure of core inflation. For the record, the ex-food/energy CPI was up 2.7% y/y, with shelter responsible for a hefty 1.1 percentage points. Elsewhere, manufacturing production rebounded again in February, although capacity utilisation remains comparatively low.











Source: Datastream

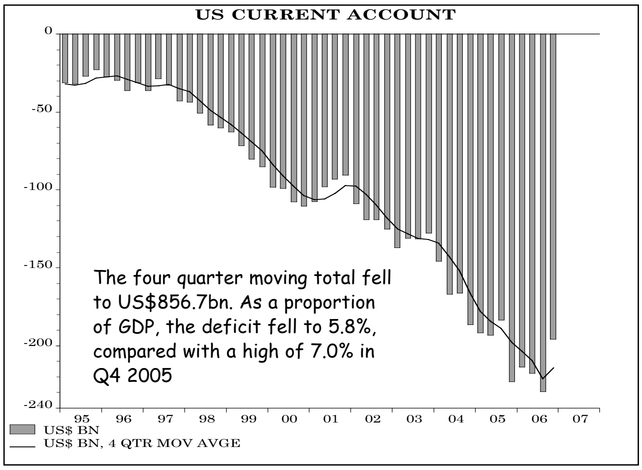
March 16th 2007

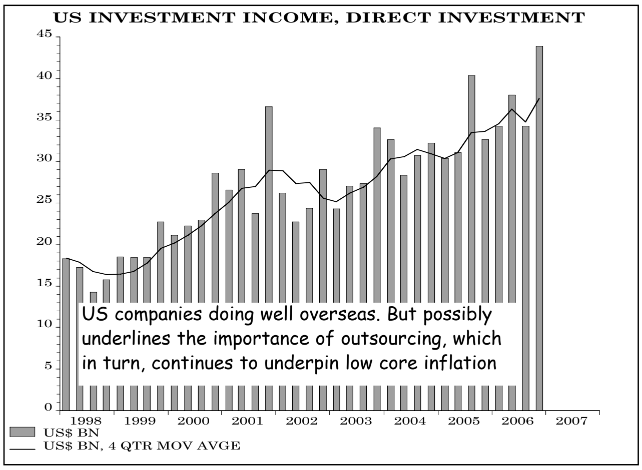
GFC ECONOMICS

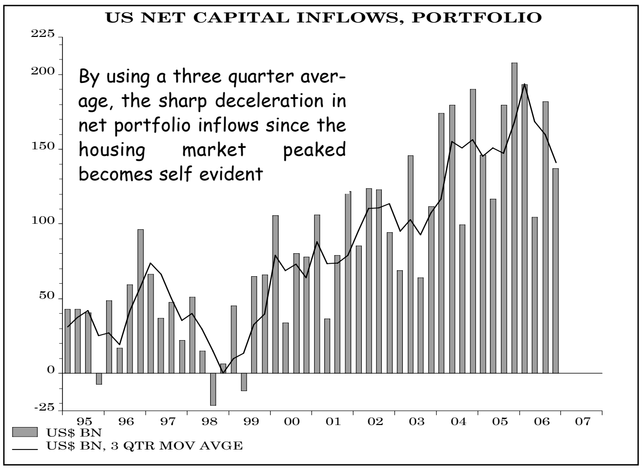
WEEKLY CHARTBOOK

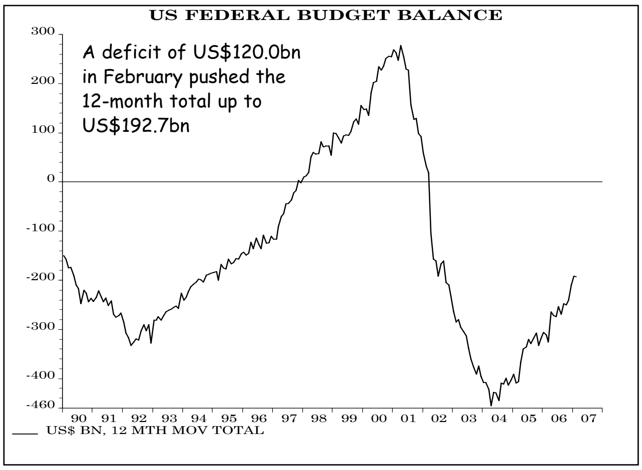
US - 4

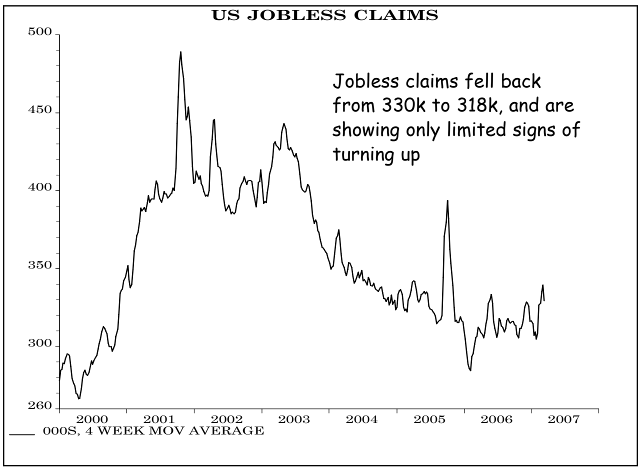
If nothing else, the slowdown in the US housing market has succeeded in turning the current account deficit around, with the Q4 data showing a decisive improvement. The deficit fell from US$229.4bn to US$195.8bn, its lowest level since Q3 2005. The invisibles deficit shrank from US$15.3bn to US$3.2bn. The key was an improvement in the net balance on direct investment income, which jumped from US$34.2bn to a record US$43.8bn. That helped offset a further rise in the deficit on government net investment income, which also hit a new high of US$40.4bn, reflecting overseas accumulation of Treasuries. The threat of a prolonged downturn in the housing market should also mean that the current account deficit will shrink further .

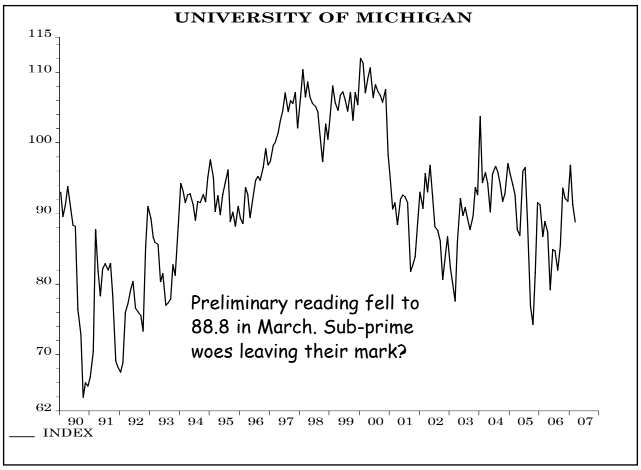








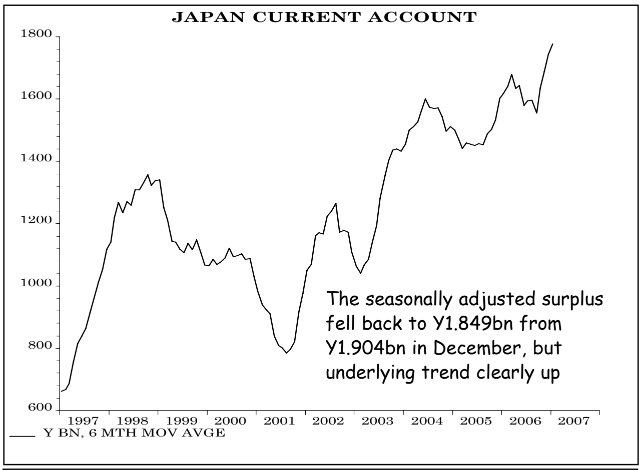


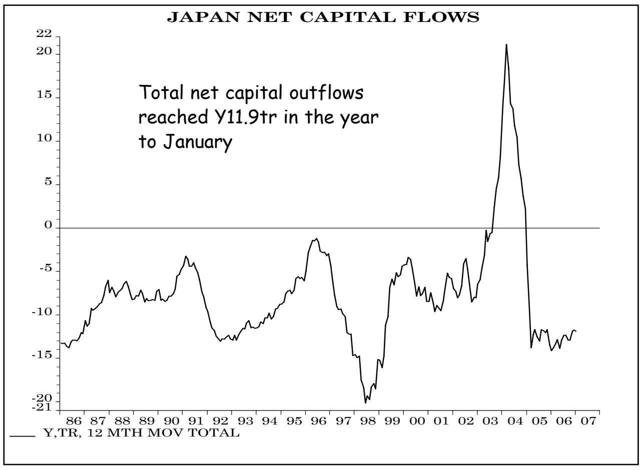


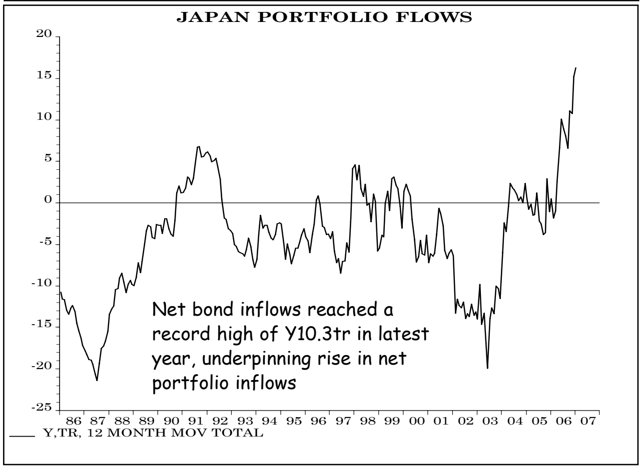
Source: Datastream

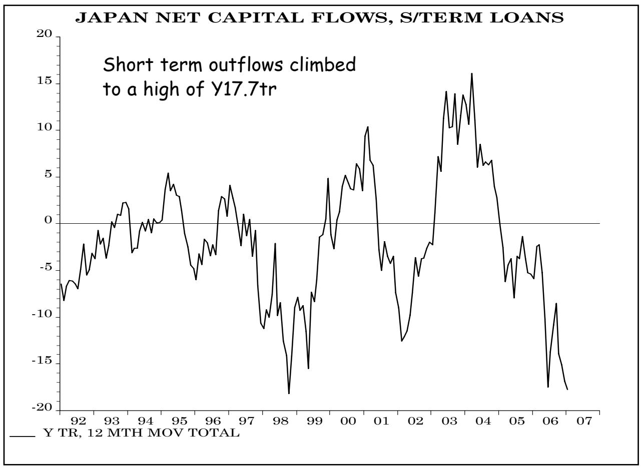
Japan - 1

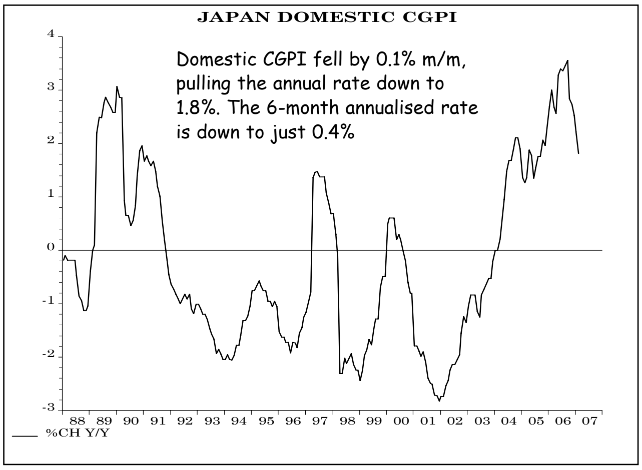
Japan's current account surplus is marching steadily higher, with the January data showing a rise of 49.8% over a year earlier. The 6-month average is running at Y1.777tr in seasonally adjusted terms, equivalent to an annualised rate of Y21.3tr, or 4.2% of GDP. While that suggests the yen will have to rise at some point, the more immediate focus remains on the split between record short term borrowing from overseas, and record portfolio inflows. The net short term borrowing reached a new high of -Y17.3tr in the year to January. Net portfolio inflows climbed to a high of Y16.3tr over the corresponding period. The yen remains highly vulnerable to the fallout from a prolonged credit squeeze in the US.

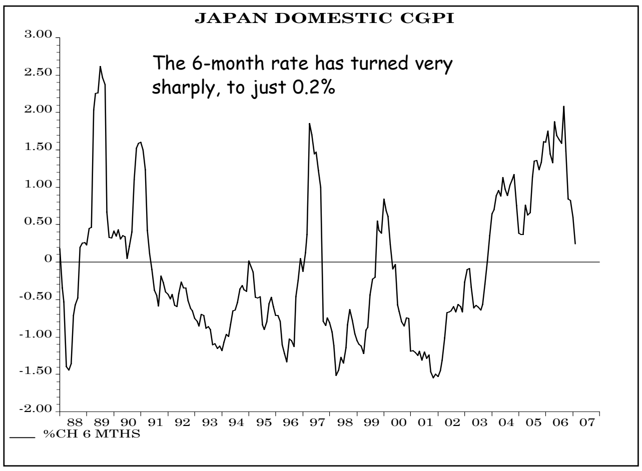








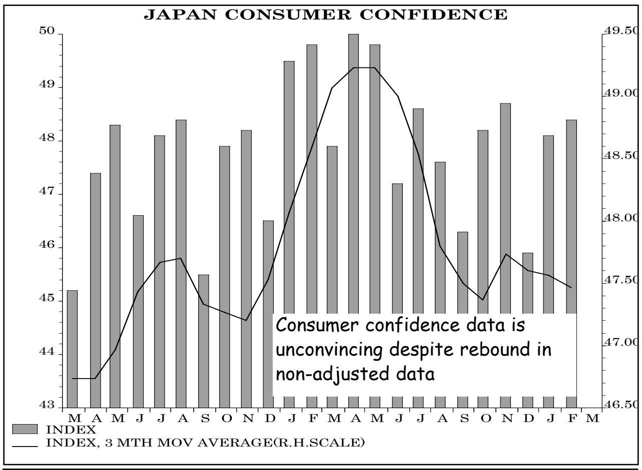


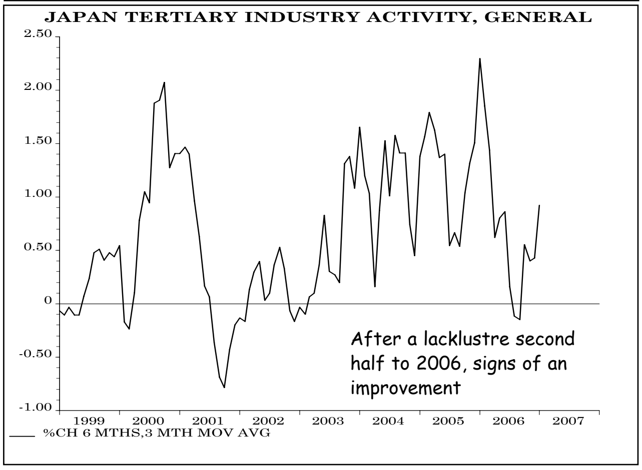


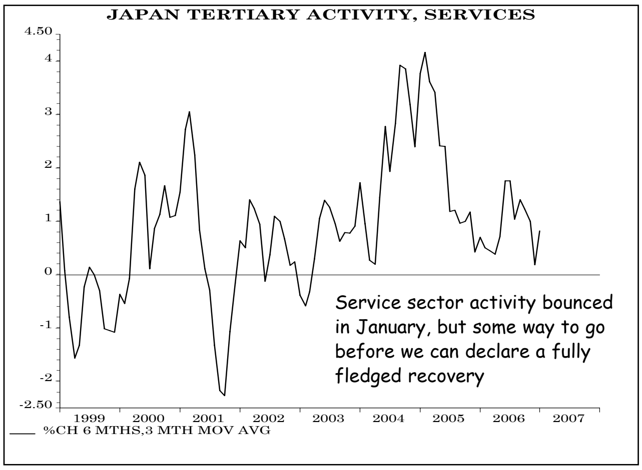
Source: Datastream

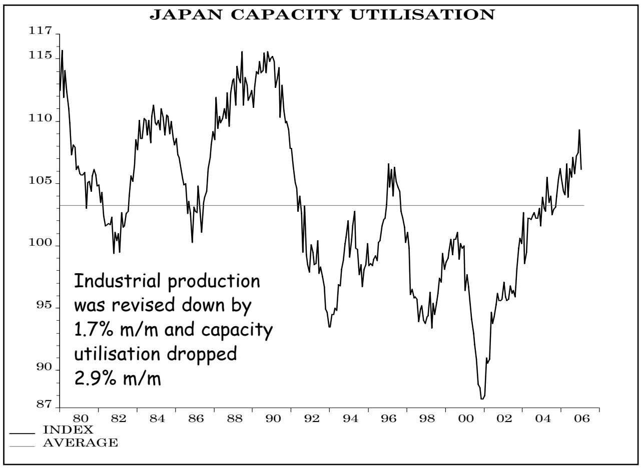
Japan - 2

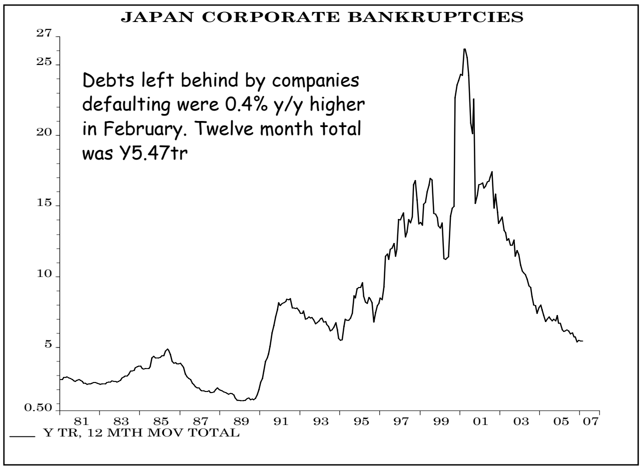
GDP growth was revised up to an impressive annualised rate of 5.5% in the fourth quarter, compared with an initial estimate of 4.8%. Capital spending was revised up from 2.2% q/q to 3.1% q/q, an annualised rate of 13.2%, while public sector investment was nudged up from 2.7% q/q to 3.7%, or an annualised rate of 15.7%. However, these upward revisions were tempered by another disappointing report on consumer confidence. The non-adjusted index rose from 48.1 to 48.4, but the three-month trend slipped again, from 47.6 to 47.5. On a more positive note, the tertiary industry index rebounded by 1.6% m/m in January, fuelled by a strong bounce in the service sector components, which leapt 2.8% m/m.









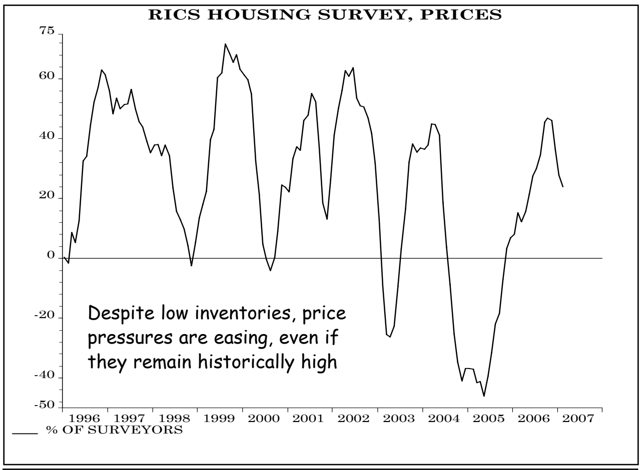


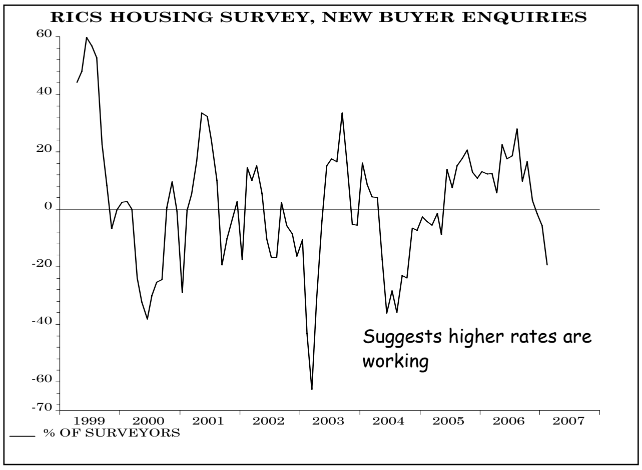
Source: Datastream

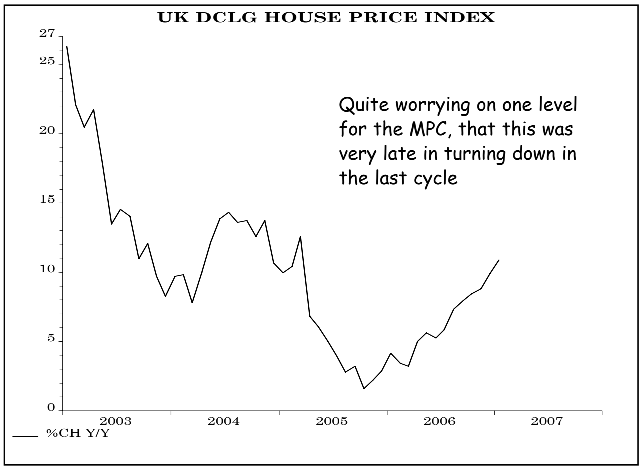
WEEKLY CHARTBOOK

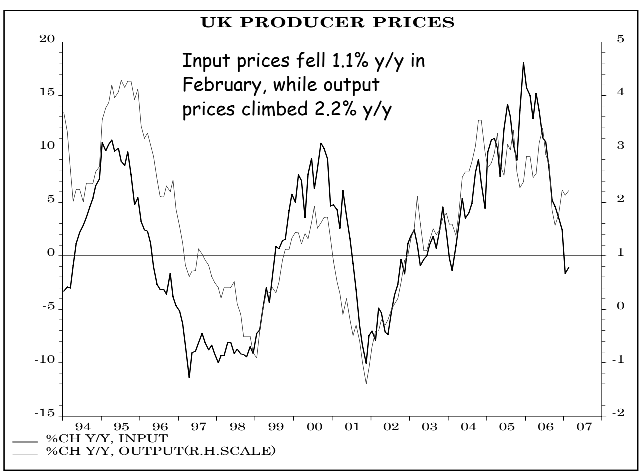
UK - 1

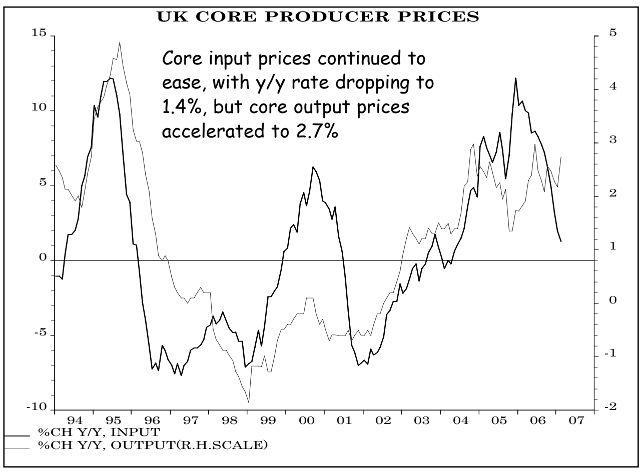
A significant drop in the number of new buyer enquiries does suggest that 5.25% base rates are leaving their mark, although there were some conflicting signals. The net number of surveyors reporting a rise in prices has dropped again, from 28% to 24% in February, but the balance for sales expectations climbed from 15.2% to 20.0%. Sales expectations does tend to lead new buyer enquiries, but the decline in the latter was quite pronounced, with the net balance falling from -5.8% to -19.5%. By contrast, the DCLG index was strong in January, with the annual rate rising to 10.9%, but that does tend to be a lagging indicator, compared with the more forward looking RICS survey.







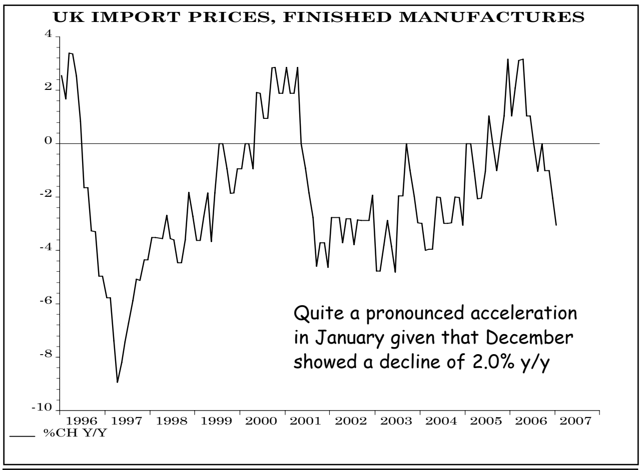


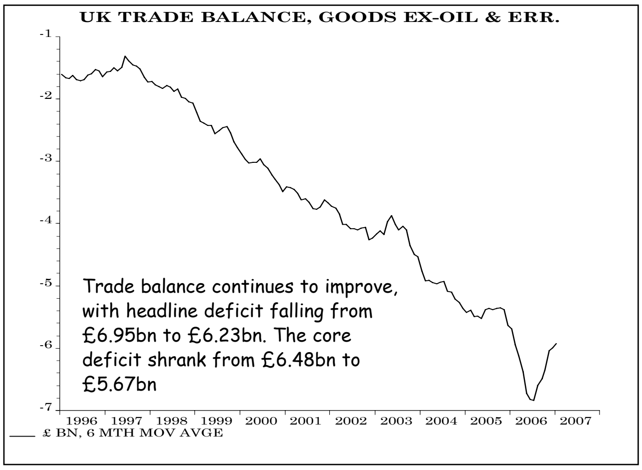


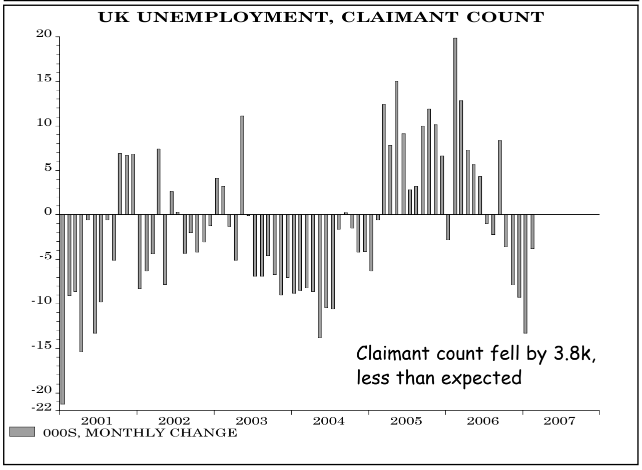
Source: Datastream

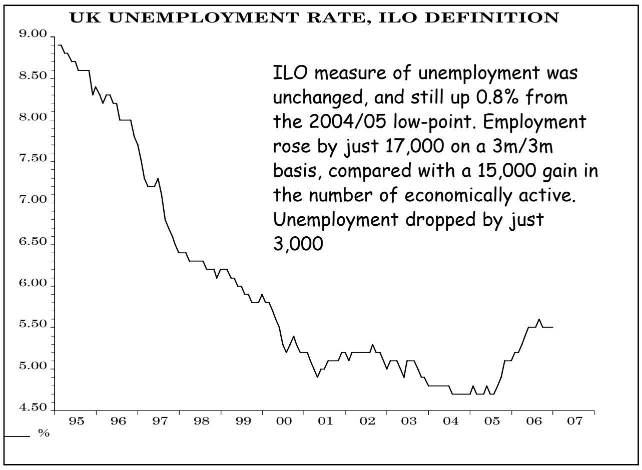
UK - 2

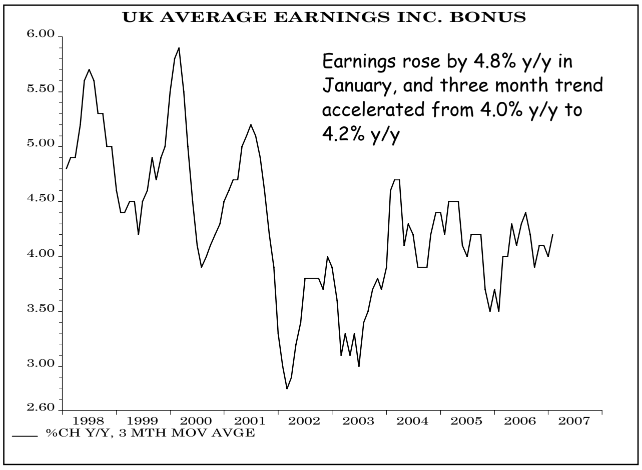
Import prices for finished manufactures fell sharply in January by 3.1% y/y continuing a swift turnaround since the early months of 2006, and suggesting that durable prices at the CPI level will ease in the coming months. The latest drop in average earnings excluding bonuses also shows that wage pressures are well behaved, and that should underpin a subdued trend in the service sector CPI. Taking these two together implies that the core inflation rate, which dipped on the wider measure from 1.8% to 1.6% in January, will ease further in the coming months. The labour market is certainly not tightening, with the ILO unemployment rate unchanged at 5.5% despite a modest slowing in the number of economically active.

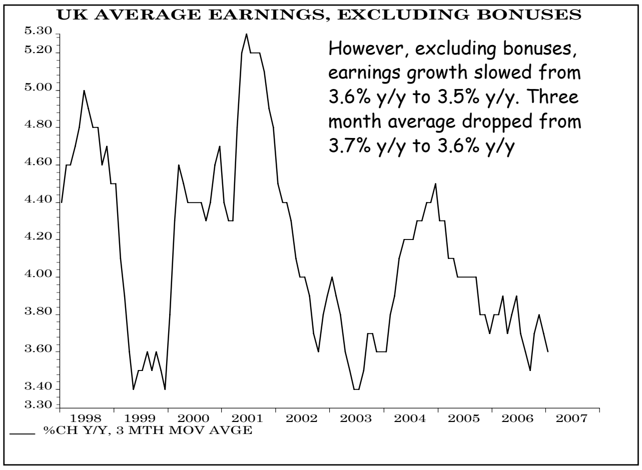








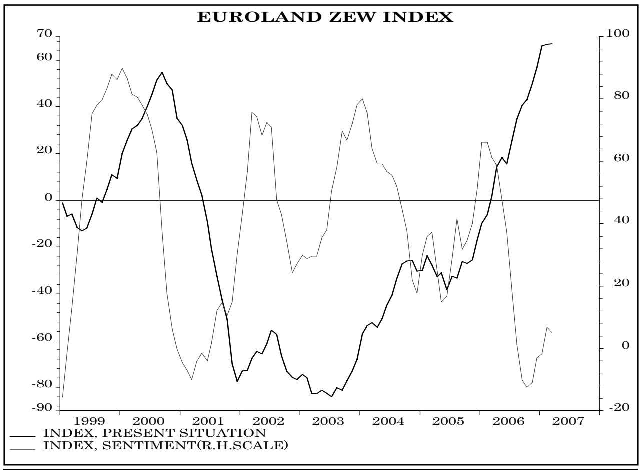


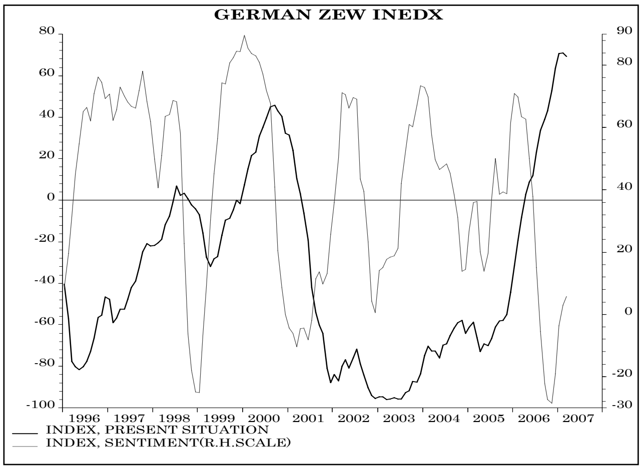


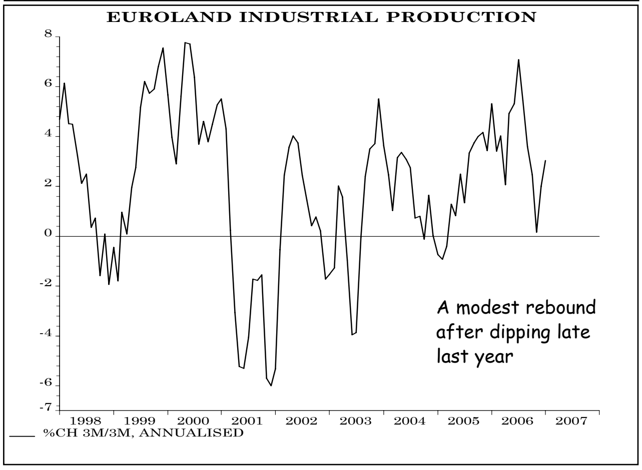
Source: Datastream

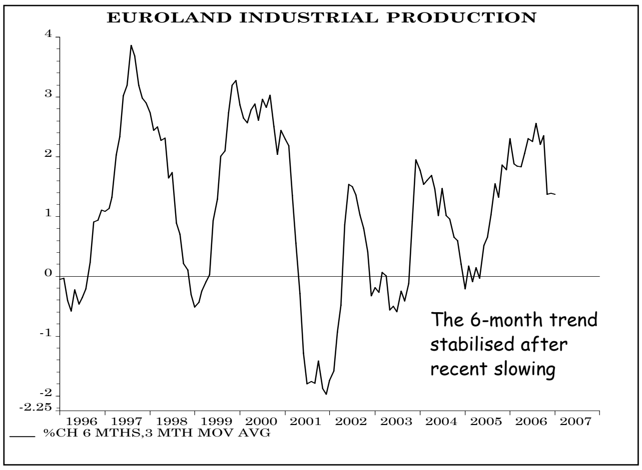
Euroland - 1

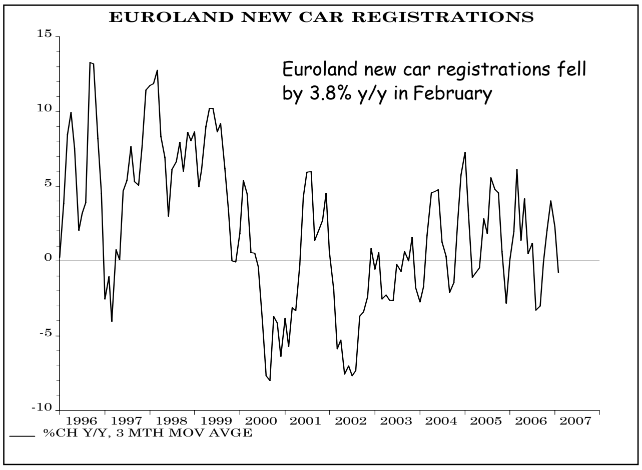
The ZEW numbers were mixed in Euroland and Germany in March, with signs of a possible peak in the present situation indices in Germany at least. The present situation index slipped from 70.9 to 69.2 in Germany, but the sentiment improved from 2.9 to 5.8. In Euroland, the present situation index rose from 66.7 to 66.9, whereas the sentiment component slipped back from 6.8 to 5.1. The industrial output numbers certainly showed signs of rebounding after slipping towards the end of last year. Although output fell 0.1% m/m, the 3m/3m annualised rate climbed to 3.2%, led by a strong showing in Germany, where output was up 7.0% on a comparable basis.

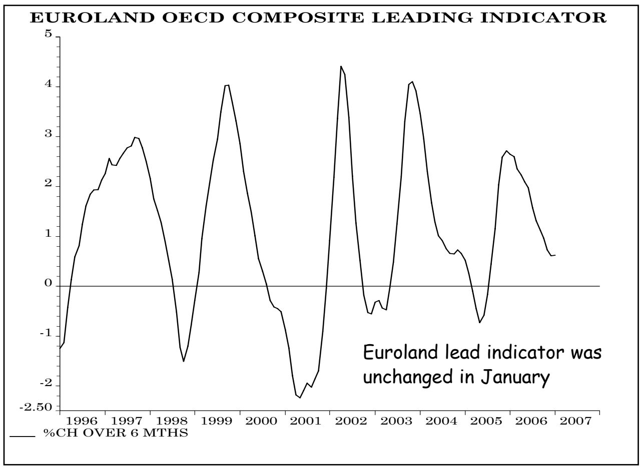








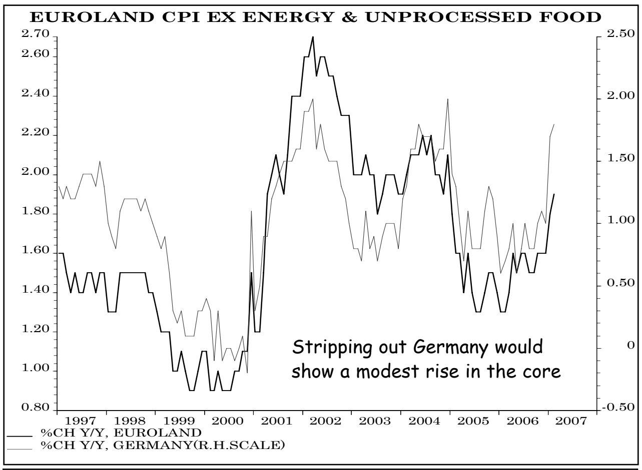


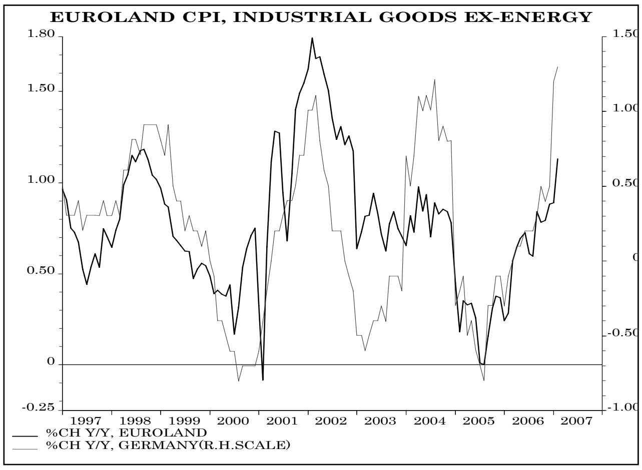


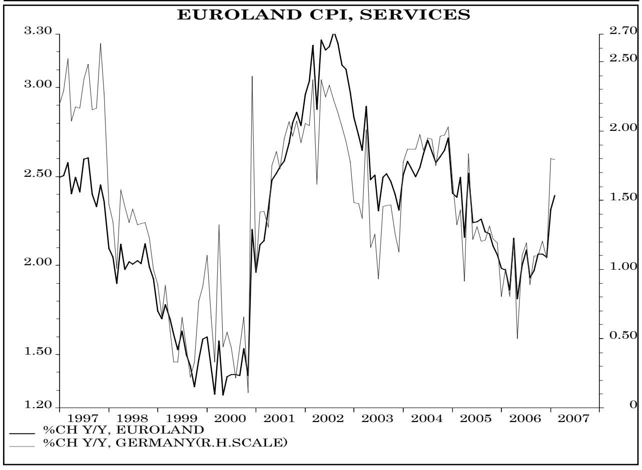
Source: Datastream

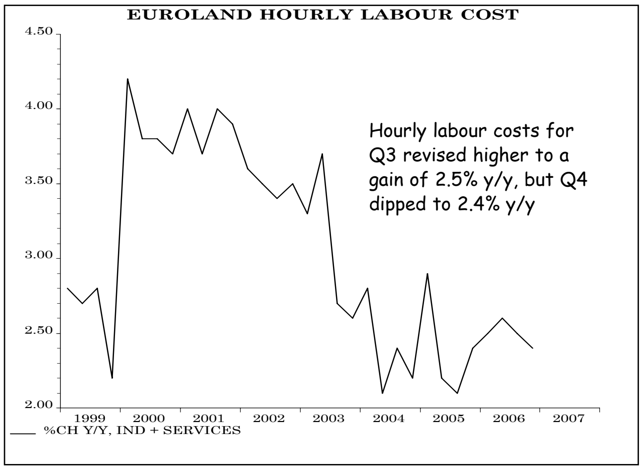
Euroland - 2

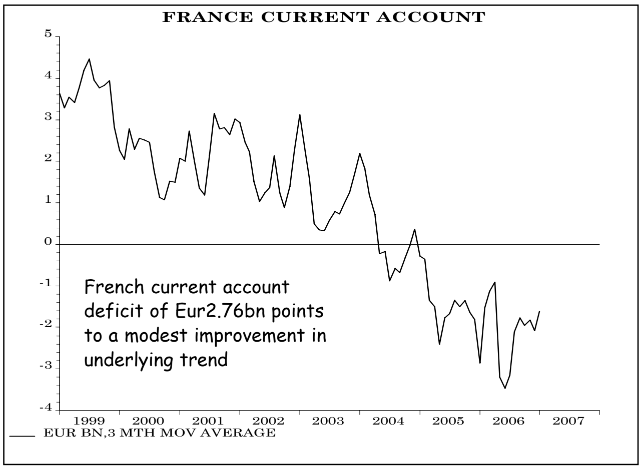
The breakdown of the CPI confirmed an acceleration in the core rate during the first two months of this year, with the ex-energy/unprocessed food measure climbing from 1.6% in December to 1.9% in February. The core goods index was up from 0.9% y/y in January to 1.1% y/y, led by a strong rise in the semi-durables component, up from 0.6% y/y to 1.2% y/y. That was partly down to higher clothing prices. Service sector inflation also rose, from 2.3% to 2.4%. However, much of the pick-up in these price pressures can be traced to Germany, where the core rate rose from 1.0% in December to 1.8% last month. That contributed to 0.2% out of the 0.3% increase in the core CPI witnessed over the two month period.







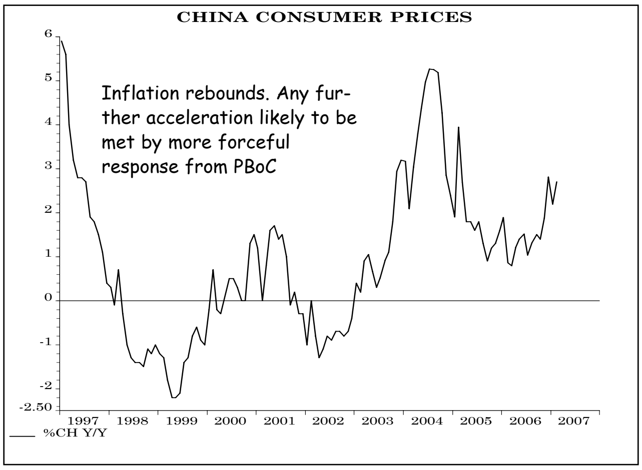


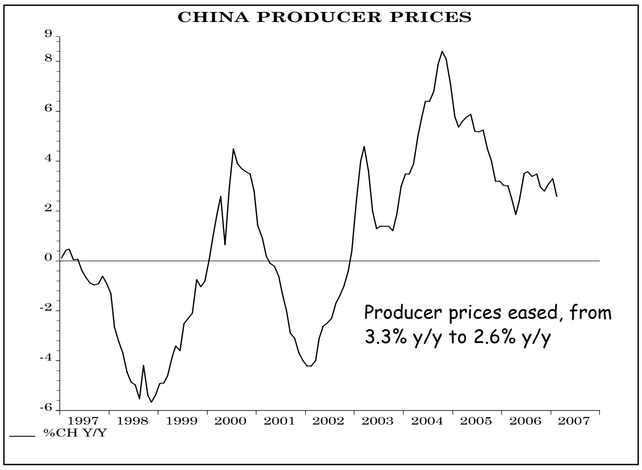


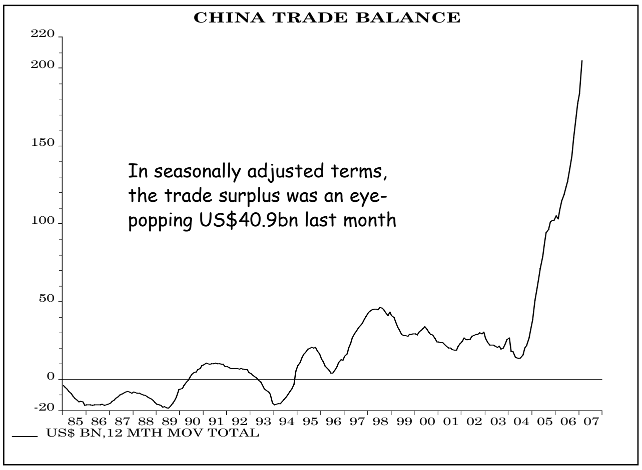
Source: Datastream

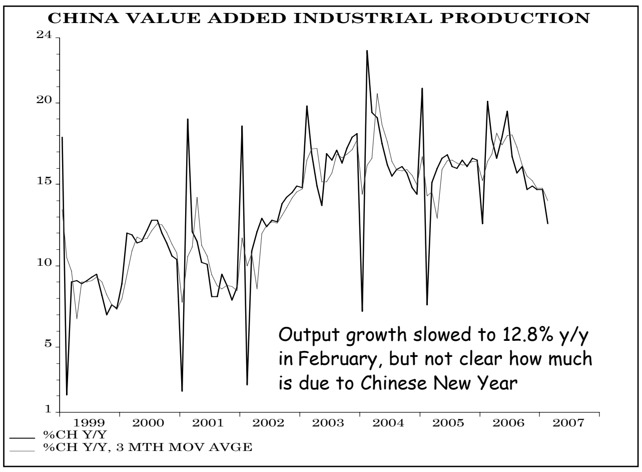
China

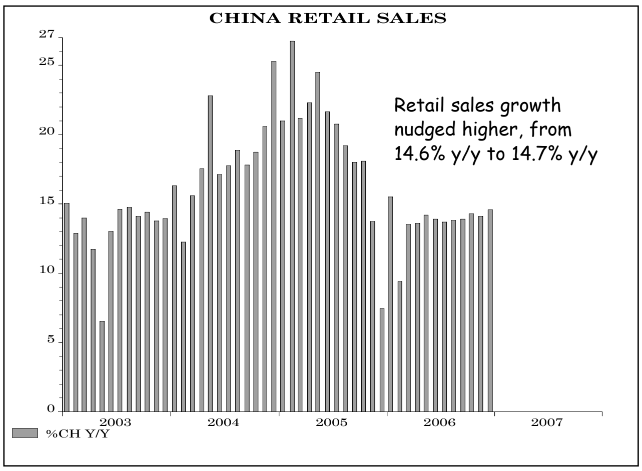
Headline inflation in China rebounded during February from 2.2% to 2.7%, while money supply growth jumped, heightening fears of a further tightening from the PBoC. However, that will do little to ease the relentless build-up in the country's mammoth trade surplus, which soared last month. February is usually a quiet month for Chinese exporters, but not this year. The non-adjusted trade balance rose to US$23.8bn, matching last October's record, and well above last February's outcome of US$4.6bn. Exports accelerated, while imports dipped. The 12-month total is now running at a record US$232.5bn, and the current account surplus could well rise far beyond 10.0% of GDP this year. That is unlikely to please Congress.











Source: Datastream