

Welcome!

IDB London Private Banking is delighted to announce that **Eyal Davidov** has joined us as **Head of Private Banking**.

Eyal has worked over 13 years in the financial sector, both in multi-national and Israeli financial organizations, and he brings with him a wealth of experience covering financial markets and dealing with the investment needs of Private Clients.

As an ongoing commitment to provide our clients with the highest level of banking experience, we have recently introduced enhanced services and products, which we would be delighted to discuss with you.

We warmly invite you to contact us with your enquiries.

Testing times for the Eurozone

(with thanks to IDB Financial Div. (macroeconomic dep.)

The PIGS (Portugal, Ireland, Greece and Spain) are suffering from large government deficits and rising debt/product ratios. These factors are fuelling concern about national defaults, which, if they come to pass, will take a toll on Eurozone resilience, drive equity markets sharply down, and spur USD appreciation against the euro around the globe.

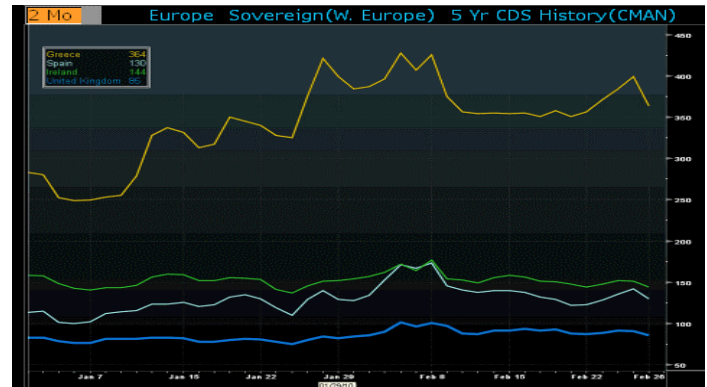
The lack of control over monetary policy and the inability to depreciate their currency are sapping these countries' competitiveness and making significant fiscal cutbacks more and more necessary.

The weakest link among Eurozone countries is Greece, which generates approximately 3% of Eurozone product. Before the global crisis broke out, Greece enjoyed brisk economic growth - 4.5% in 2006 and 2007 - but suffered from chronic high unemployment rates and large budget and current account deficits. The global crisis had a minor effect on the Greek economy by Eurozone standards, GDP contracting by only 1.1% in 2009. However, the government's inability to adjust its budget to the economic conditions caused its deficit to soar from 4% of GDP in 2007 to 12.7% in 2009 and hiked the debt/GDP ratio to 112.6%. The Greek economy is expected to continue contracting in 2010 and to resume growth only in 2011. The greatest threat is that the loss of confidence in the Greek government's ability to maintain a tight fiscal policy will wreck its ability to roll over EUR 20 bn in bonds that are due for redemption in April-May. The current discussions in the Eurozone revolve around the two alternatives facing Greece: a rescue programme or a declaration of default.

For the time being, default looks least likely. However, in response to fears of such an event, which triggered doubts about the stability of other Eurozone countries such as Spain and Portugal, the markets have raised the sovereign

credit default swap (CDS) spreads (the insurance premium in the event of bond default).

Rumours of a German bail-out, possibly with the assistance of Netherlands and France, have so far been hotly denied. But time is running out and that may well be the only solution.



Greece (Yellow) 364 bps  
Ireland (Green) 144 bps

Spain (White) 130 bps  
UK (Blue) 85 bps

Sterling – A hopeless cause?

Rosalind Koppang – Treasury

Sterling has fallen since the 19<sup>th</sup> January this year from \$1.6457 to a low today – so far - of \$1.4979. Even the weakened euro has risen from 88p to 90p in the same period.

Sterling is suffering massively from increasing uncertainty surrounding the outcome of the election, mixed economic data and the enormous debt cloud hanging over the UK. The first problem (the election) looks just too close to call, so corporate investment plans will most certainly be put on hold for the time being.

Next, the UK economy dipped even lower than originally feared last year, but there are now some signs of a very slow recovery. It is crucial that this is not impaired by moving too firmly to resolve the next problem - debt.

The UK is expected to have a budget deficit/GDP ratio of 12.9% this year and a debt/GDP ratio of 80%. The average maturity for this debt is about twice as long as Greece (14 yrs versus 7 yrs).

Whilst the UK infrastructure for debt management is superior to the Greek, tax revenues are severely depleted. The loss of the prestigious AAA credit rating is a real possibility. This would be very bad news for gilts and could push sterling down to \$1.40 / €0.95.

The next 6 months are fairly crucial. If the rating agencies are prepared to see what the new government plans to do, a crash in sterling is avoidable and by that time the country may be on firmer economic ground.

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