



EUCLID WORKING PAPERS

WP200911GEOU | November 2009

Global Economic Outlook 2009 Q4 Update

Press Release

EUCLID working papers are prepared by EUCLID faculty members and are published by the organization. The views expressed in them are those of the authors and do not necessarily reflect the views of EUCLID as an institution. These documents are intended to provide information and guidance; they do not reflect the views of the Participating States and do not engage their name or responsibility. The information and opinions published by EUCLID do not constitute an advertisement or a recommendation, solicitation, offer or invitation to submit an offer to (i) purchase or sell any investment instruments, (ii) perform any other transactions, or (iii) conclude any other legal transactions. They are merely for information purposes.

© EUCLID (Euclid University)
Email: info@euclid.int



EUCLID – US OFFICE
1 250 24TH ST. NW #300
WASHINGTON DC 20037
USA

TEL.: 1 (202) 263-3628 | FAX: 1 (202) 466-0502

EUCLID Global Economic Outlook Webcast Update #2 and Assessment

Good afternoon.

EUCLID's Secretary General has formalized a cycle of 4 annual releases of the Global Economic Outlook which will coincide with the 4 quarters.

This revised webcast corresponds to the 2009/Q4 release and will present EUCLID's outlook and risk assessment for the end of 2009 and 2010.

GLOBAL ECONOMIC ACTIVITY

We confirm the IMF's assessment that economic activity has returned to grown in most regions, notably Asia and Brazil. However, a number of countries or sub-regions remain impacted by the continuing unwinding of the credit and real estate bubbles. Spain, the United Kingdom and Iceland come to mind. Moreover, there are structural problems affecting such as countries as Italy, Greece or Russia which remain unaddressed. Overall, it can be said that the center of gravity of economic growth has shifted from the United States to China and emerging economies.

RISK FACTORS

We express concern with the following risk factors:

(1) The structural imbalances which were a factor in the 2008 crisis have not been addressed. As a result, there are significant risk factors in the area of fiscal stability, notably in the United States, which are connected with a risk of currency crisis. EUCLID forecasts ongoing fluctuations among the world's currencies with a gradual decline of the US dollar. It is our conclusion that US authorities have opted for a policy of inflation and currency devaluation as the preferred means to handle the burden of debt and unfunded liabilities. We observe that holders of US dollars reserves seem eager to progressively offload this currency in order to acquire assets. This is a quiet trend which will remain controlled with the option of 'plausible denial' – notably by the Chinese government - in order to prevent a globally undesirable collapse of the US currency.

This inflationary policy does not mean, however, that deflationary forces are not powerful. Asset deflation will remain a long term factor, and in the United States, the government's efforts to re-inflate are difficult to sustain. Overall, we forecast depressed asset prices, notably real estate, and inflationary trends in energy and essential goods. We remain convinced that gold is on a long-term uptrend above the \$1000 mark and express concern over the transparency and sustainability of the paper gold market.

(2) In spite of many governments' desire to maintain low interest rates, the upward trend is confirmed for the long term. This constraint will impact economic recovery and affect the relative burden of debt.

(3) Especially in the United States, commercial real estate has passed a threshold of concerning vacancy and decline. This represents a significant risk factor, especially during the first half of 2010.

(4) We are concerned that 80% of all derivative contracts are connected to interest rates, and we forecast that interests are now on a mid to long term increase pattern. This situation creates the potential for further instability in this highly unregulated and leveraged area of global finances.

(5) As of early November 2009, there are multiple indications that the H1N1 epidemic is likely to affect economic activity. Even though the mortality rate is low, this outbreak represents a significant risk in terms of retail sales, travel, and other fragile activities which could return a number of OECD economies to negative growth during Q4 and Q1 2010.

(6) EUCLID confirms last year's forecast that oil is on a long term trend to return to \$100+ levels. However, it is likely that there will be a temporary retreat during Q4, followed by a fluctuating uptrend reaching \$150 in 2011. Our assessment is that

geopolitical factors will continue to affect the price of oil, and that an open conflict in the Middle East would have dramatic consequences.

The state of the global economy will remain fragile as long as several key participants, notably the United States, remain in a state of unsustainable disequilibrium. There remains a crisis window which requires close monitoring by governmental and intergovernmental authorities, notably between 2010 and 2012.

For further information, please visit www.euclid.int.

Thank you.