

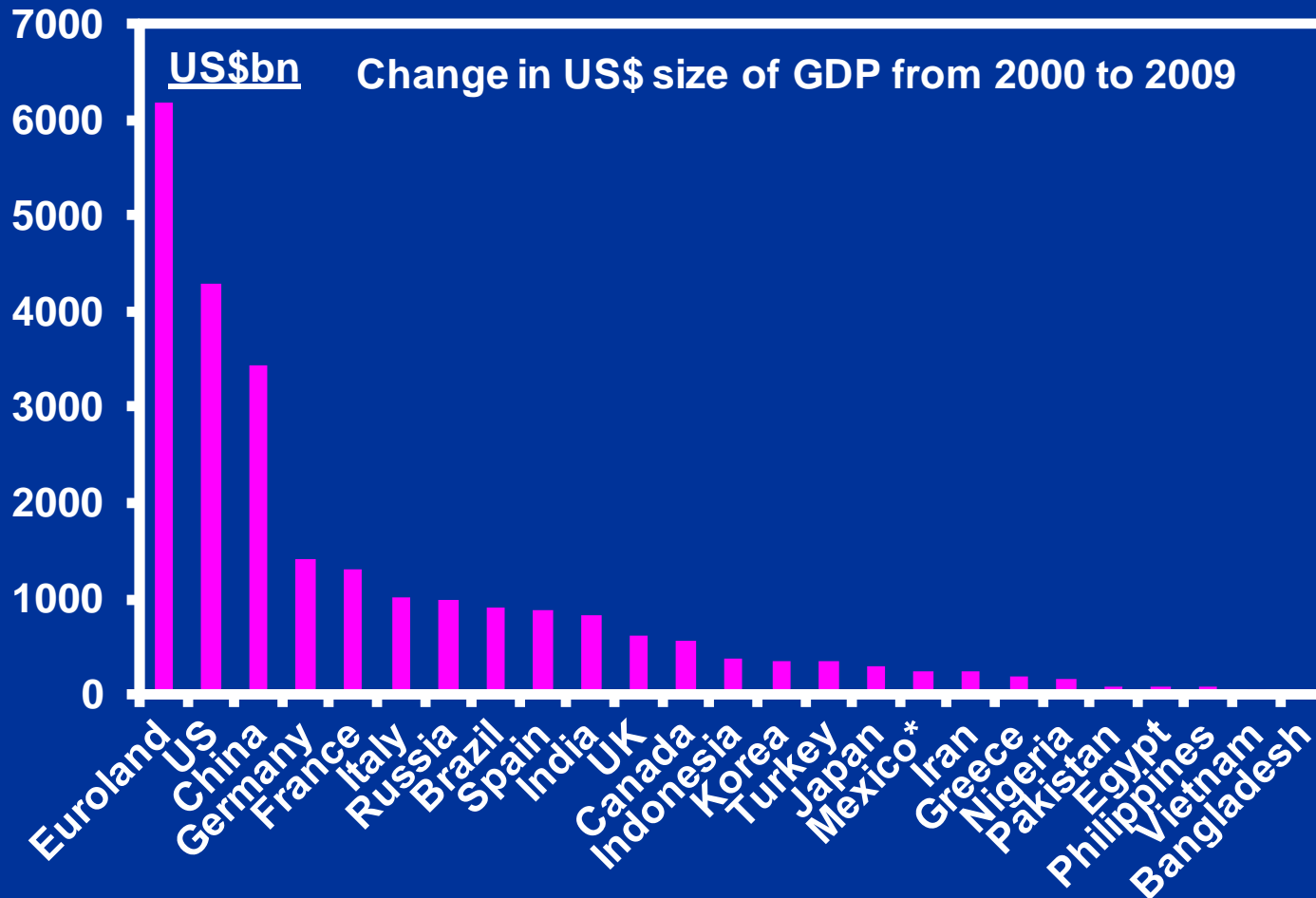
The World and its Challenges

Jim O'Neill

Managing Director Head of Global Economics, Commodities
and Strategy Research

July 2010

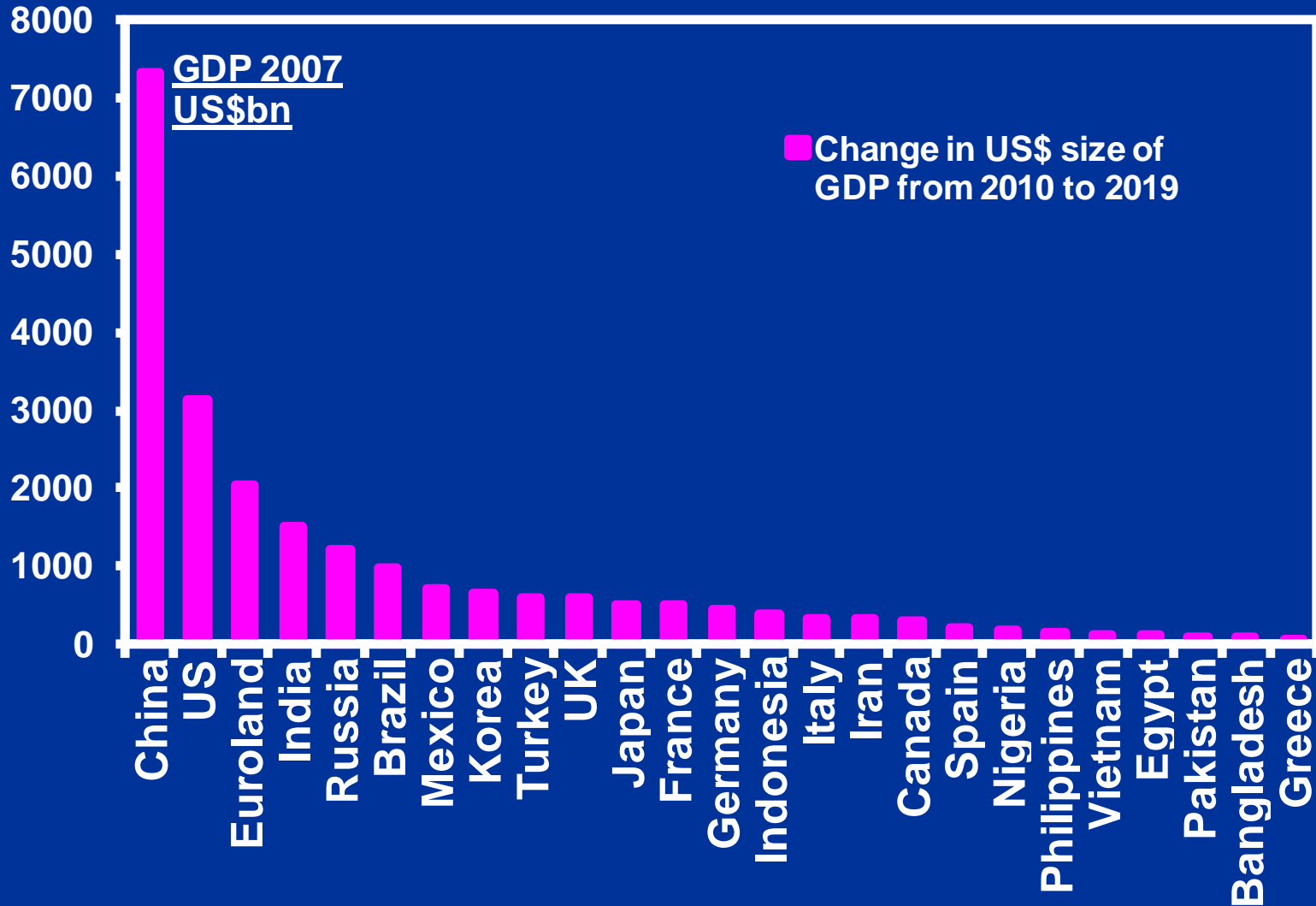
Change in US\$ Size of GDP from 2000 to 2009



*2000 GDP was adjusted for the updated 2003 re-base of the series.

Source: IMF, GS Global ECS Research

Change in US\$ Size of GDP from 2010 to 2019



GDP Forecasts

%yoy	2008	2009	2010		2011	
			GS	Consensus*	GS	Consensus*
USA	0.4	-2.4	2.6	3.1	2.4	3.0
Japan	-1.2	-5.2	3.4	3.2	1.7	1.6
Euroland	0.5	-4.0	1.4	1.1	2.2	1.4
UK	0.5	-4.9	1.3	1.3	3.2	2.1
Europe	0.7	-3.9	1.5	1.3	2.5	1.7
China	9.6	8.7	10.1	10.1	10.0	9.1
India	6.7	7.4	8.2	8.3	8.7	8.3
Brazil	5.1	-0.2	7.8	7.1	4.5	4.4
Russia	5.6	-7.9	5.8	5.1	6.1	4.7
BRICs	7.9	5.3	8.9	8.8	8.7	8.0
Advanced Economies	0.5	-3.1	2.6	2.7	2.6	2.5
World	2.8	-0.6	4.7	4.6	4.8	4.3

* Consensus Economics July 2010

Source: GS Global ECS Research

Domestic Demand Forecasts (%)

%yoy	2008	2009 (f)	2010 (f)	2011 (f)
USA	-0.7	-3.4	2.9	2.3
Japan	-1.3	-4.0	1.5	1.2
Euroland	0.5	-3.4	0.9	1.4
UK	0.1	-5.3	1.6	2.4
China	9.7	14.2	10.4	9.9
India	4.8	5.9	7.4	9.7
BRICs	8.4	7.1	9.3	9.1
Advanced Economies	0.1	-3.3	2.4	2.2
World	2.7	-0.4	4.8	4.6

Source: GS Global ECS Research

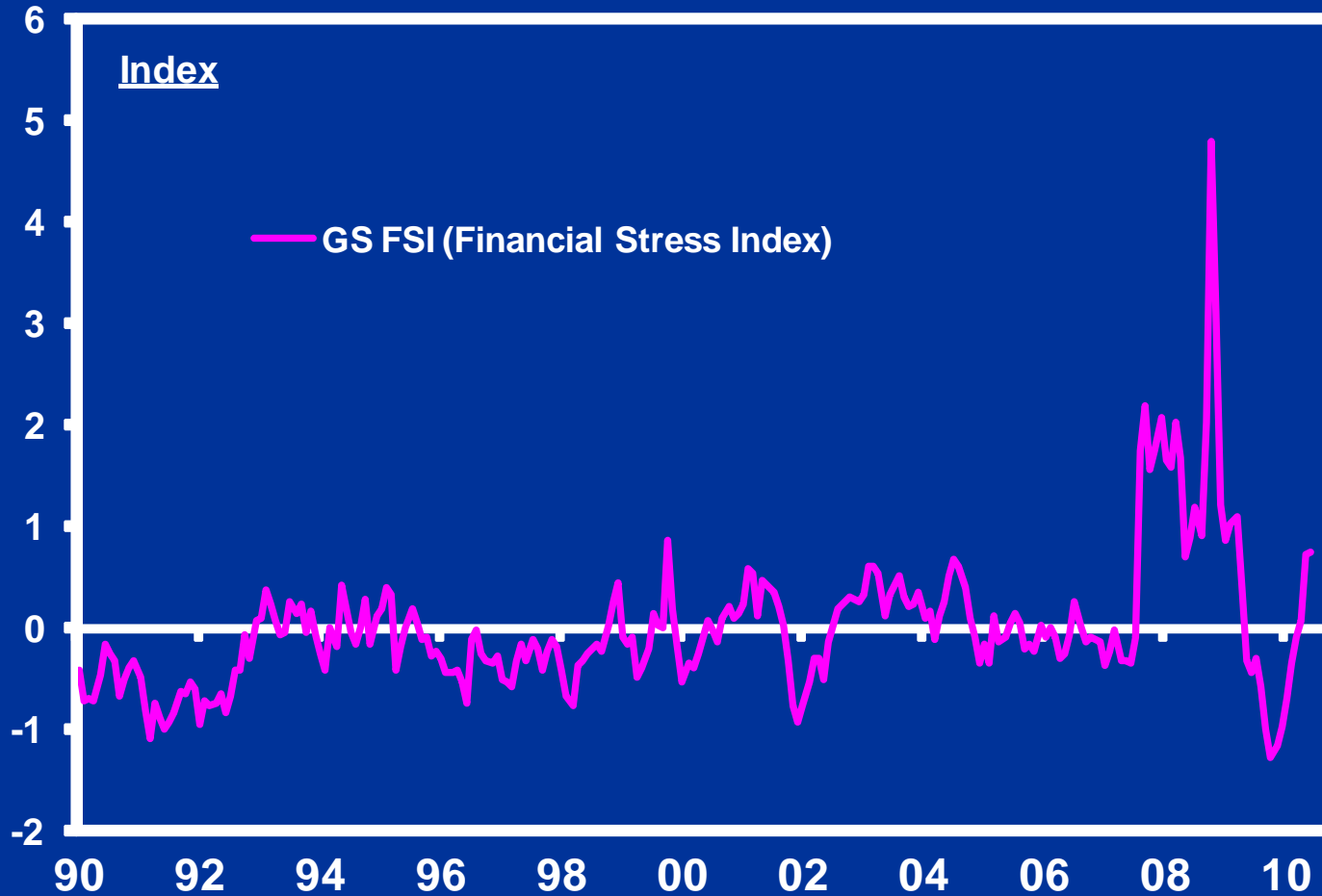
Inflation Forecasts

%yoy	2008	2009	2010		2011	
			GS	Consensus*	GS	Consensus*
USA	3.8	-0.3	1.4	1.7	0.3	1.5
Japan	1.4	-1.4	-1.4	-1.0	-0.4	-0.2
Euroland	3.3	0.3	1.6	1.5	1.7	1.5
UK	3.6	2.2	3.0	3.0	2.8	2.3
Europe	3.5	0.8	1.8	1.8	1.9	1.7
China	5.9	-0.7	2.4	3.2	1.3	3.4
India	8.4	3.8	7.5	7.8	6.0	5.8
Brazil	5.7	4.9	5.3	5.6	6.1	4.8
Russia	14.1	11.7	6.4	6.7	7.7	6.9
BRICs	7.5	2.5	4.3	4.9	3.5	4.4
Advanced Economies	3.4	0.2	1.4	1.5	1.2	1.6
World	5.4	1.6	2.9	3.2	2.6	3.1

* Consensus Economics July 2010

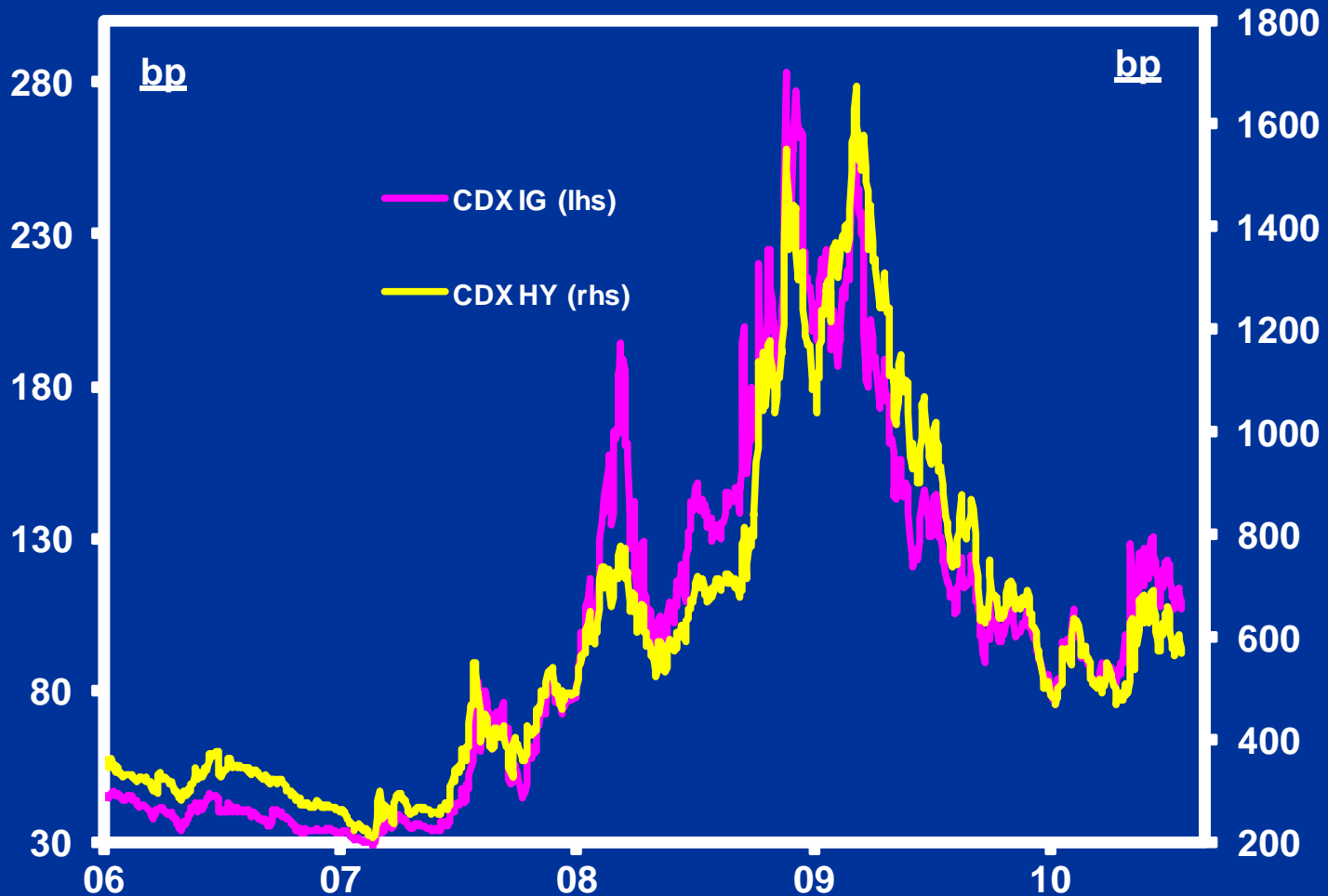
Source: GS Global ECS Research

'Crisis' Indicator



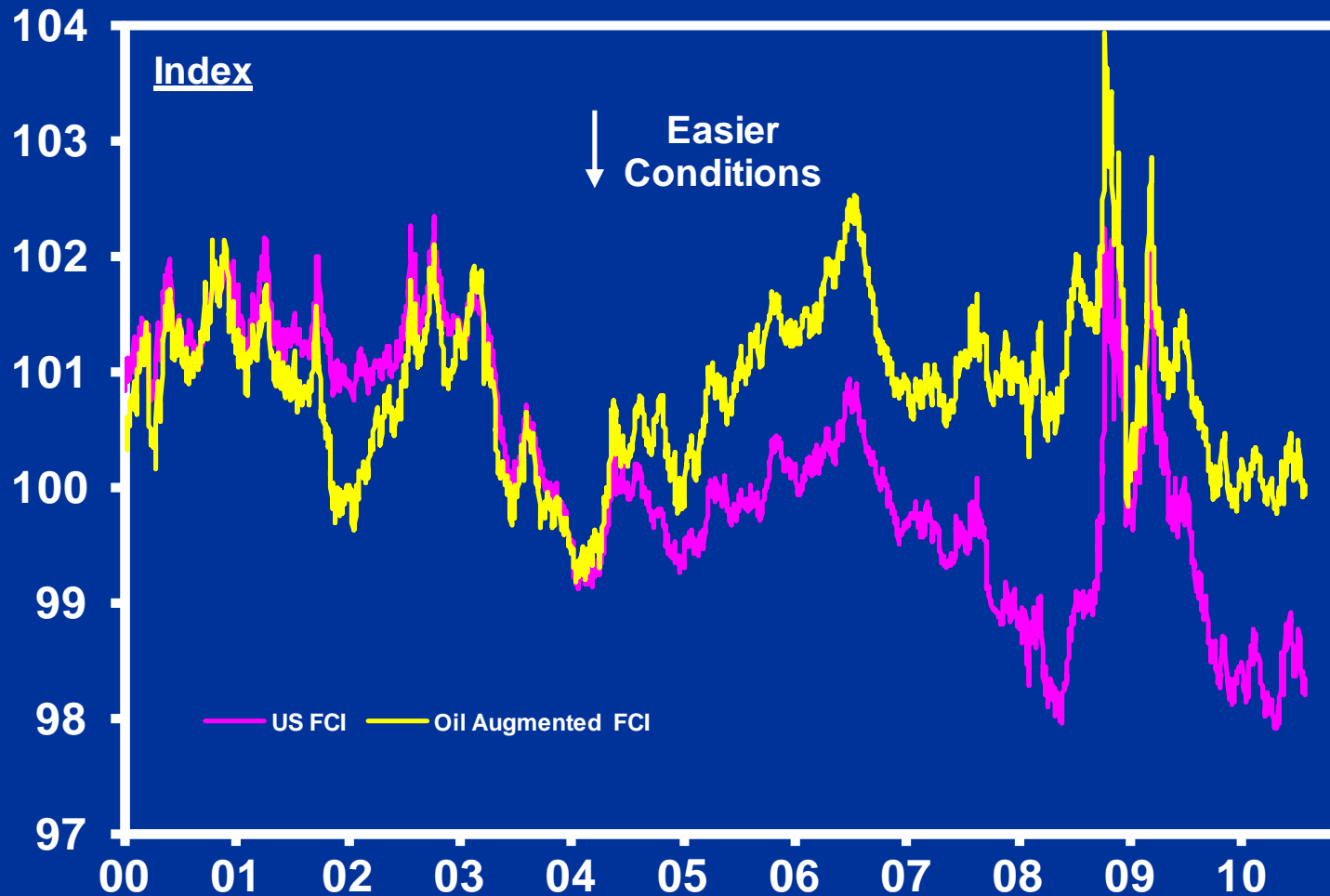
Source: GS Global ECS Research

Credit Spreads



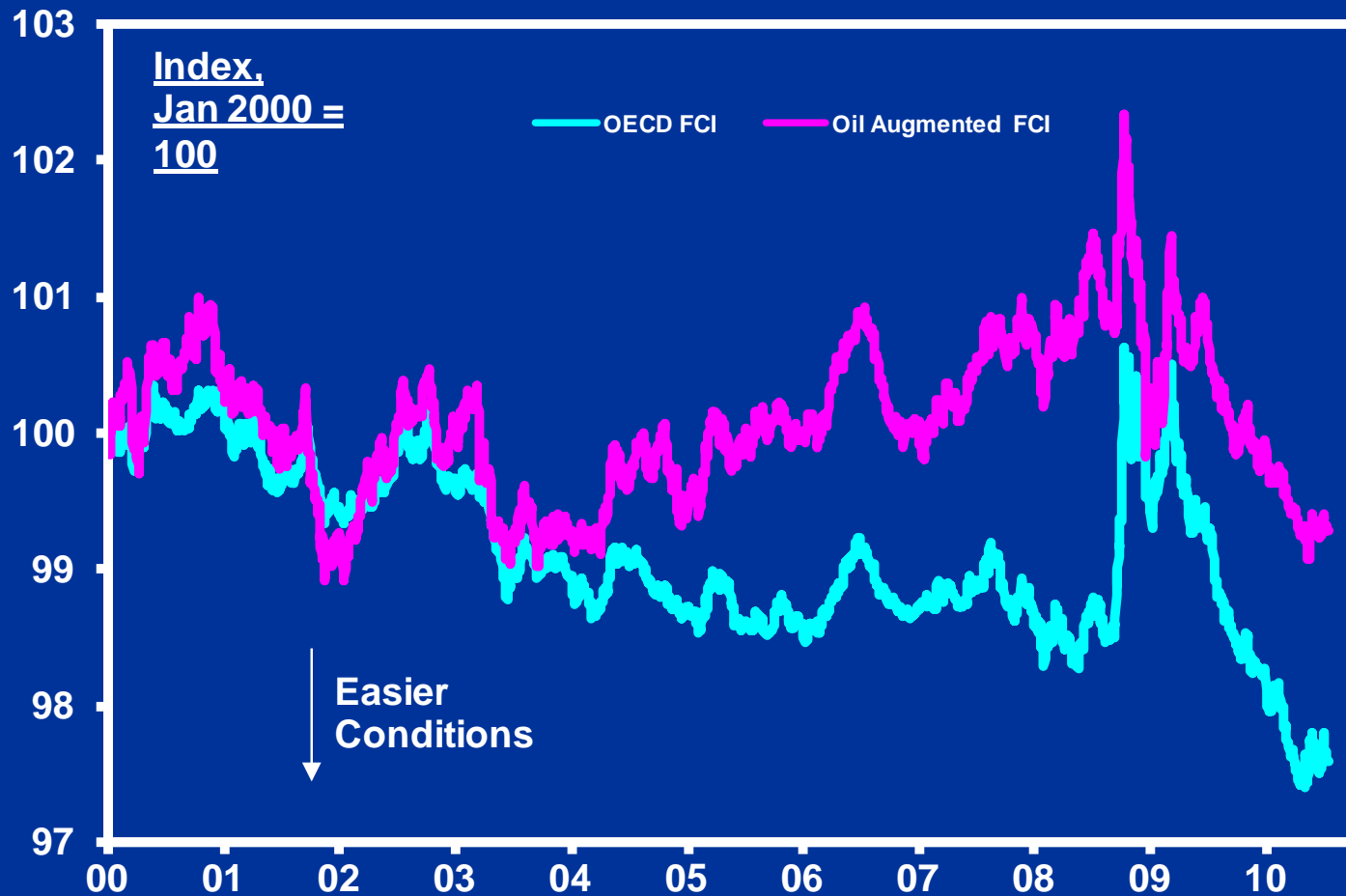
Source: GS Global ECS Research

US Financial Conditions Index



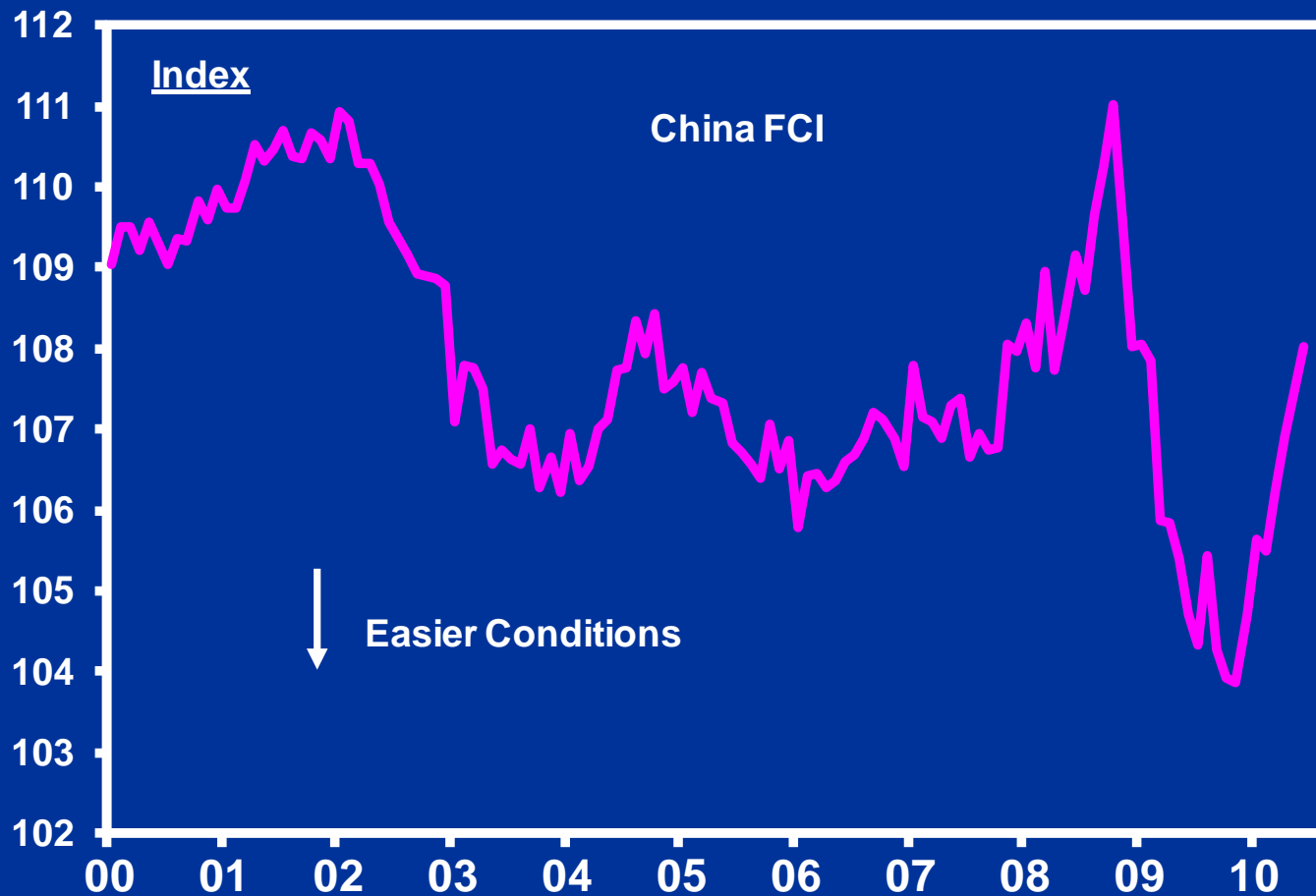
Source: GS Global ECS Research

OECD Financial Conditions



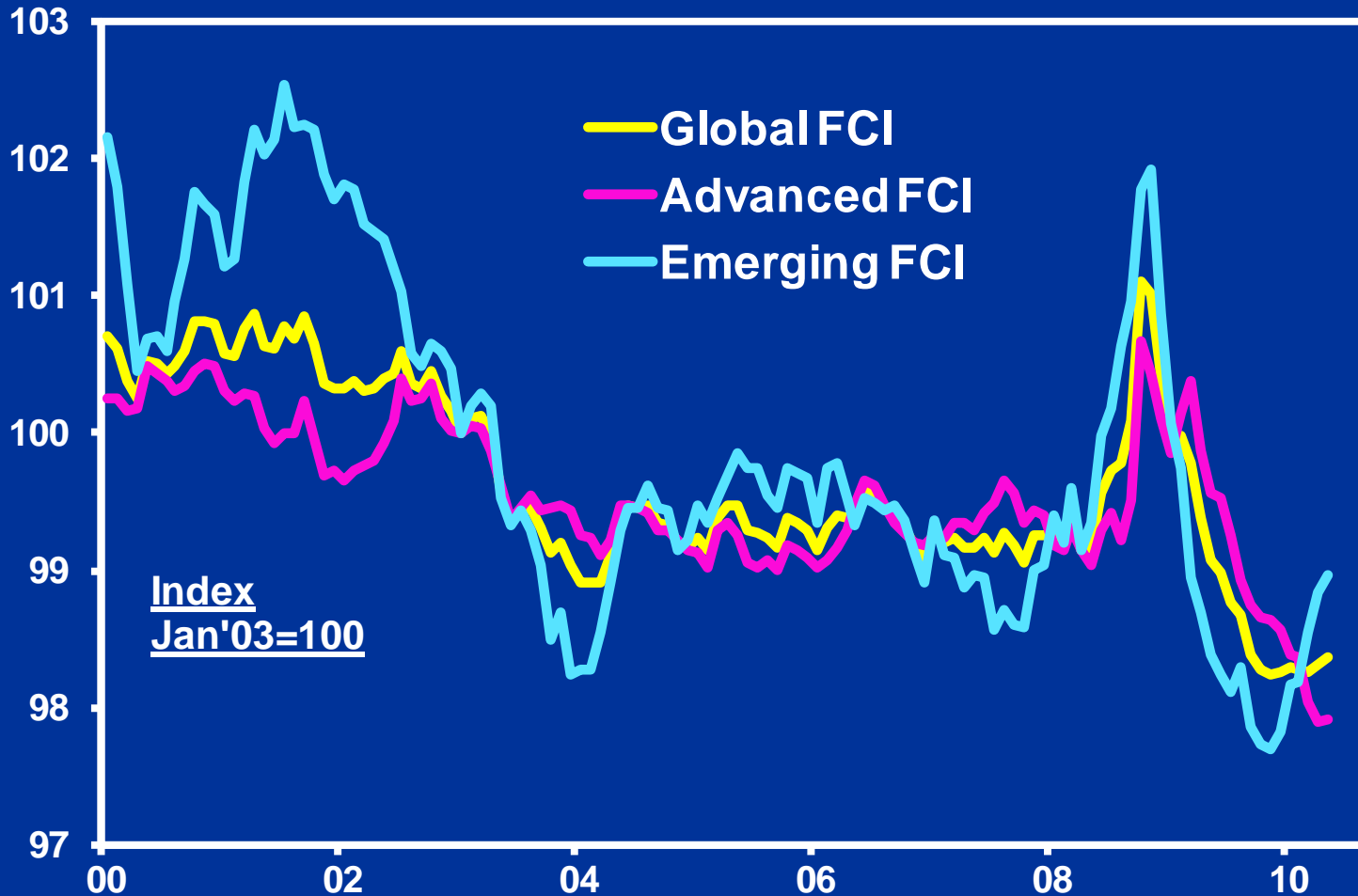
Source: GS Global ECS Research

China FCI



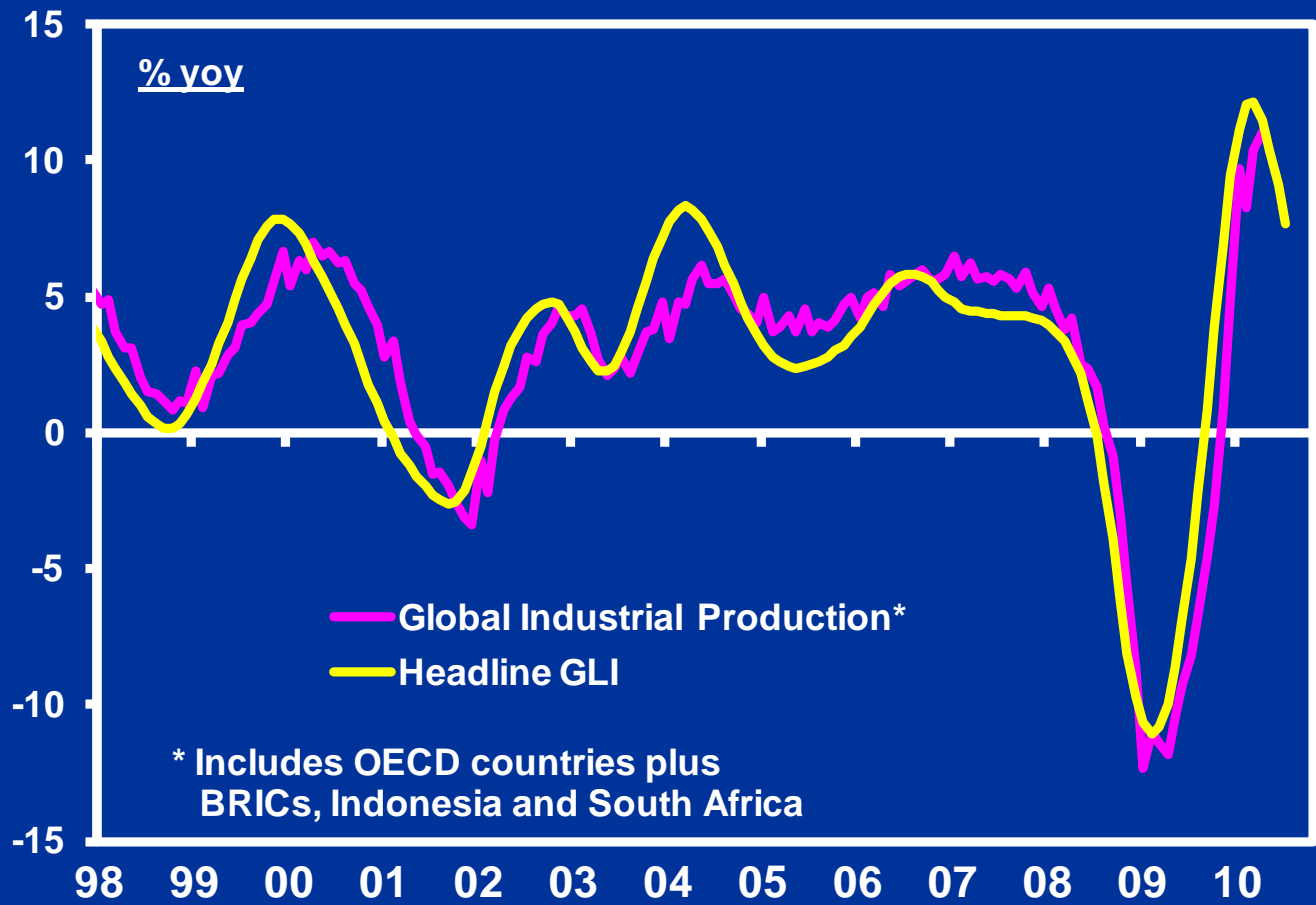
Source: GS Global ECS Research

Global Financial Conditions



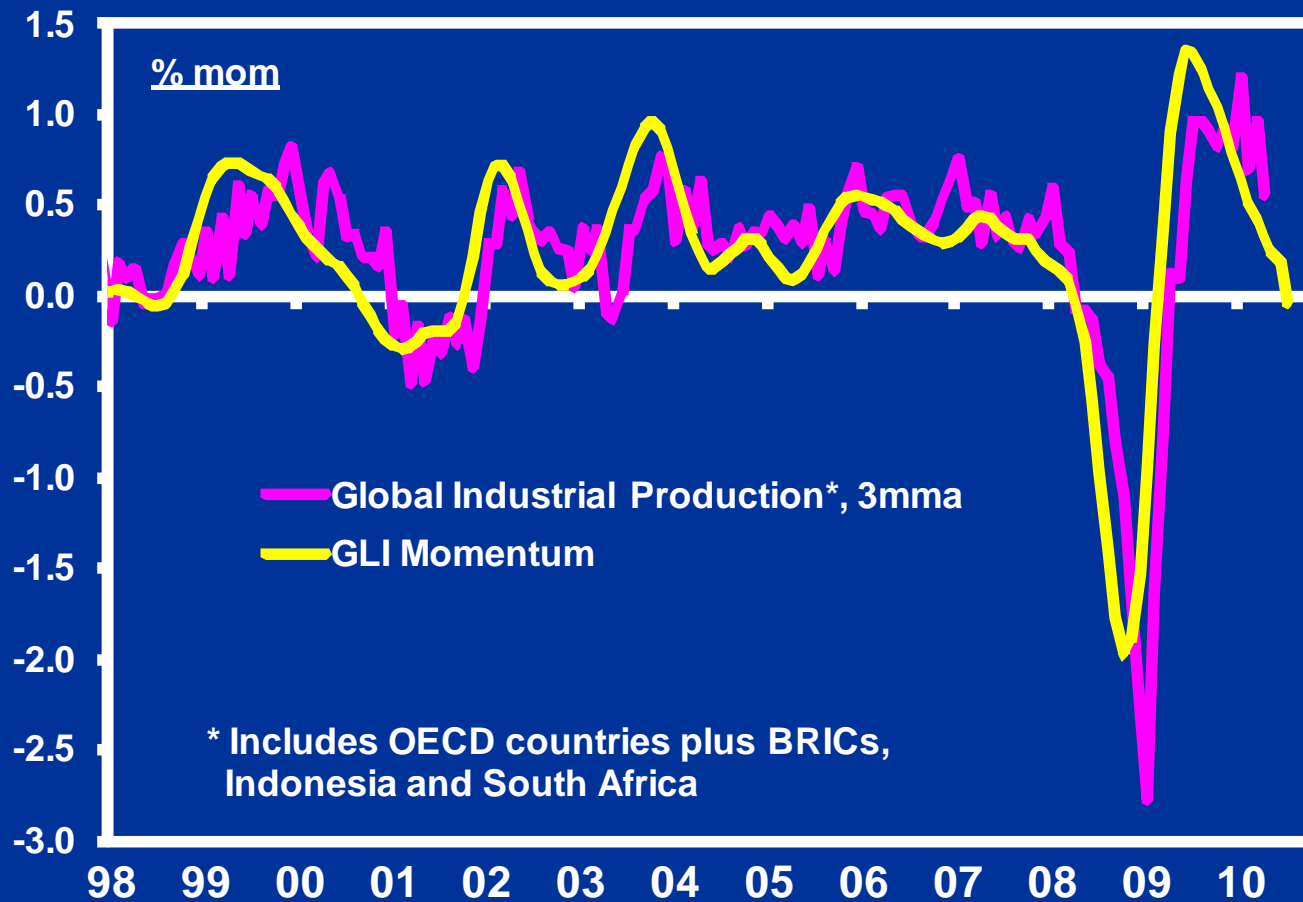
Source: GS Global ECS Research

GLI vs IP



Source: GS Global ECS Research

Momentum of the GLI



Source: GS Global ECS Research

Monthly Direction of GLI Components*

Up

S&P GS Industrial Metals Index

US Initial Jobless Claims

Down

Baltic Dry Index

Consumer Confidence Aggregate

Global PMI

Global New Orders Less Inventories

GS Australian and Canadian Dollar Trade Weighted Index

Excluded (No New Data Until Final Reading)

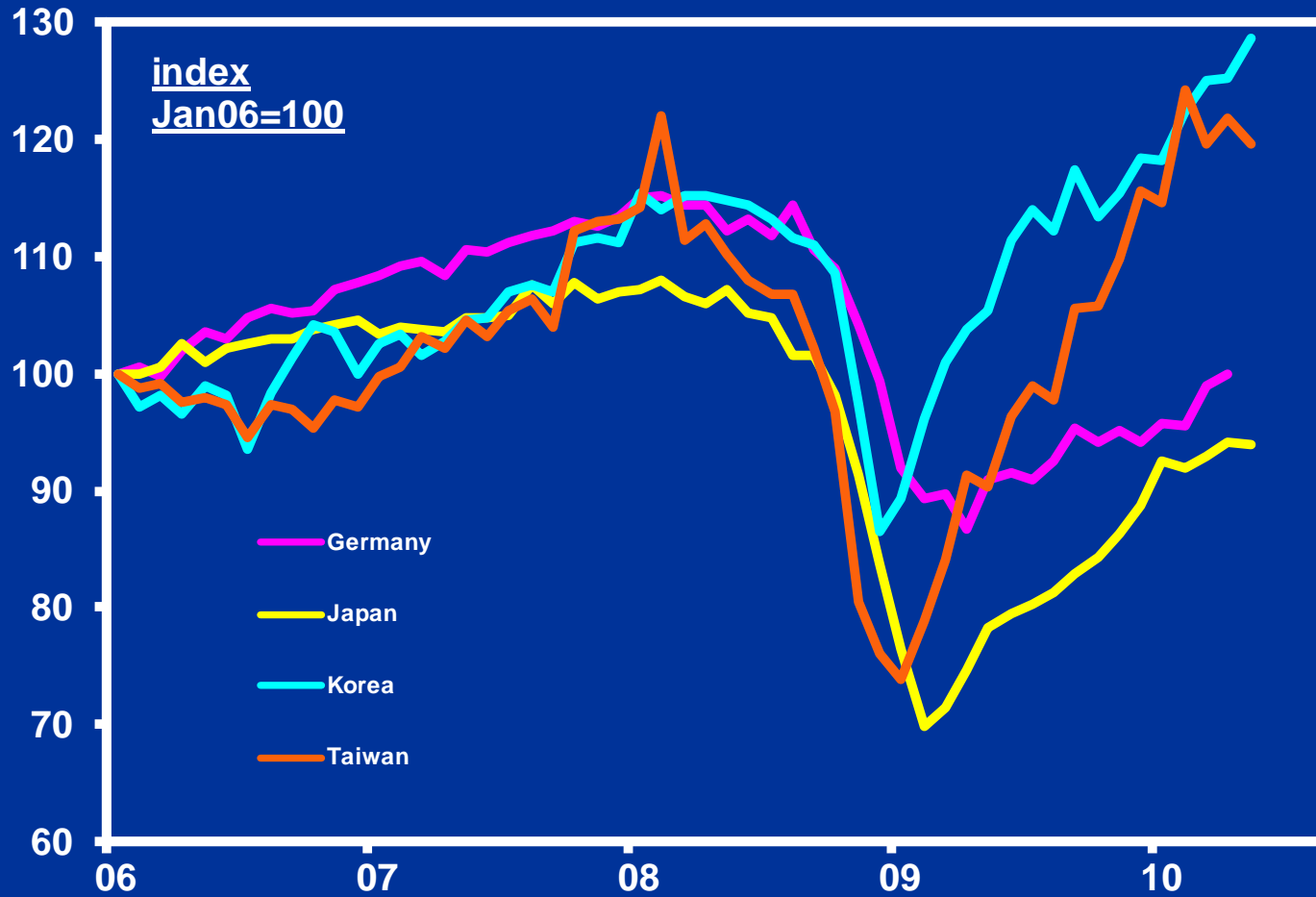
Korean Exports

Belgian and Netherlands Manufacturing Survey

Japan IP Inventory/Sales Ratio

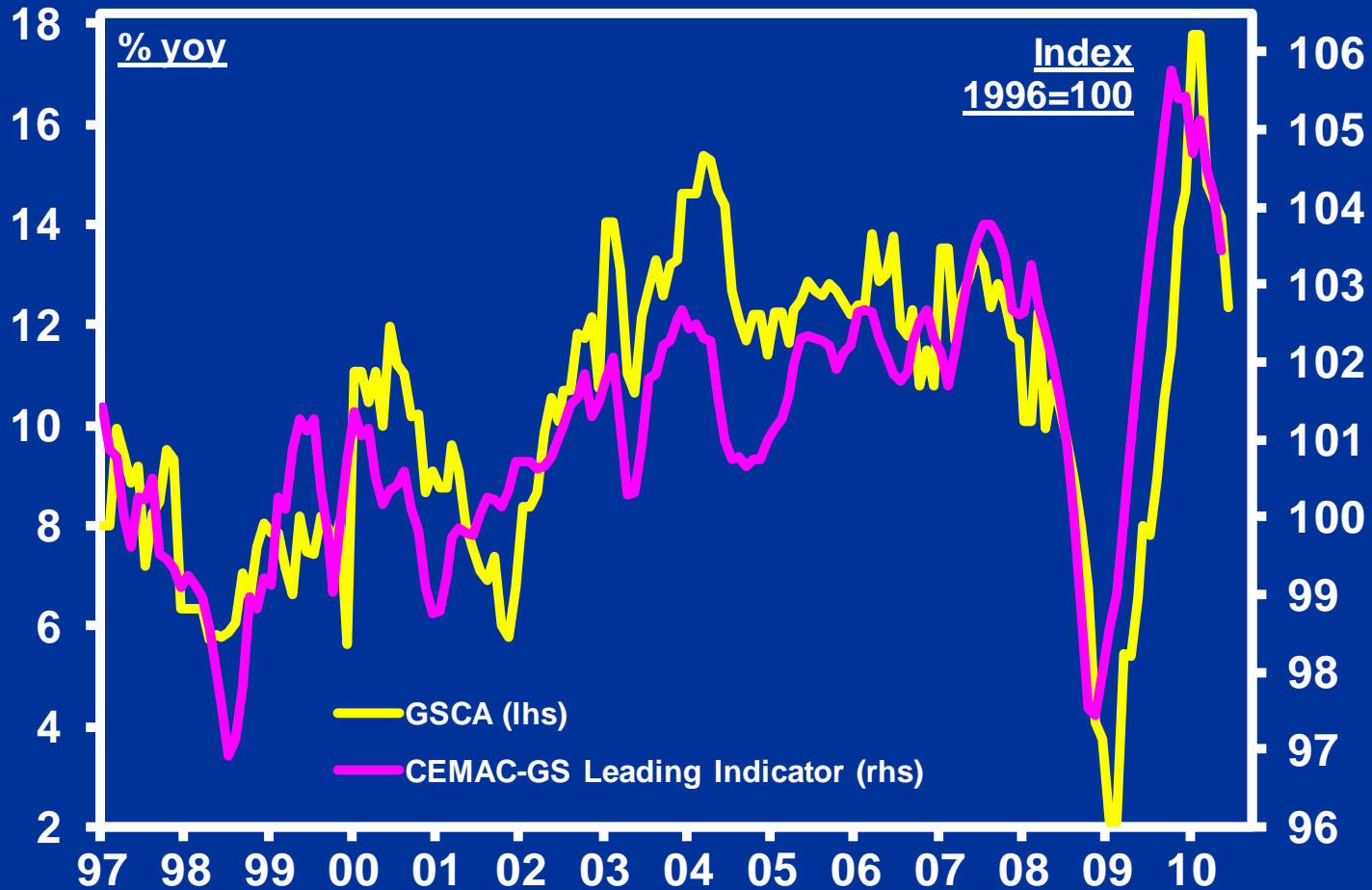
*month over month change. Source: GS Global ECS Research

Relative Manufacturing Production



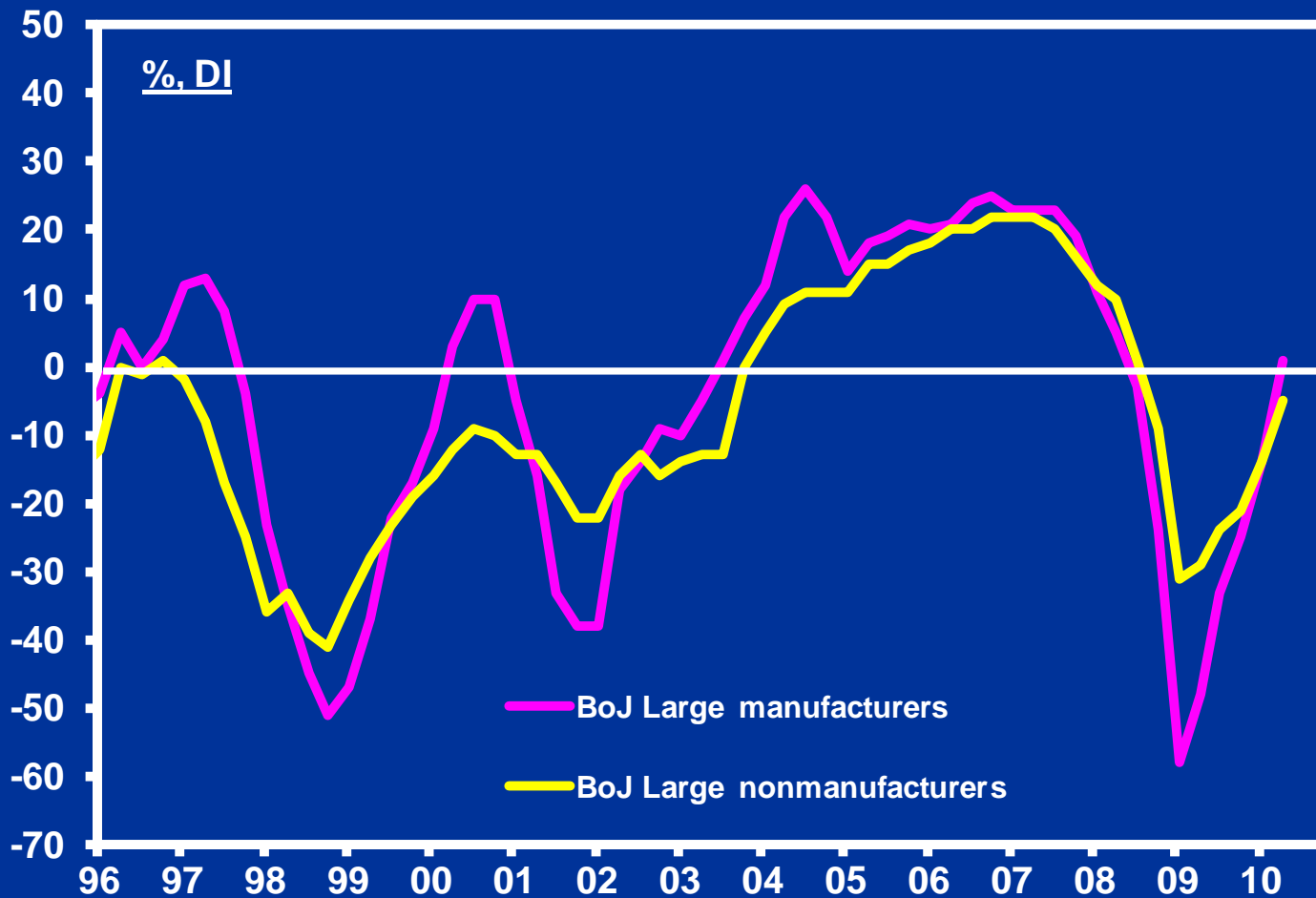
Source: GS Global ECS Research

China Lead Indicators



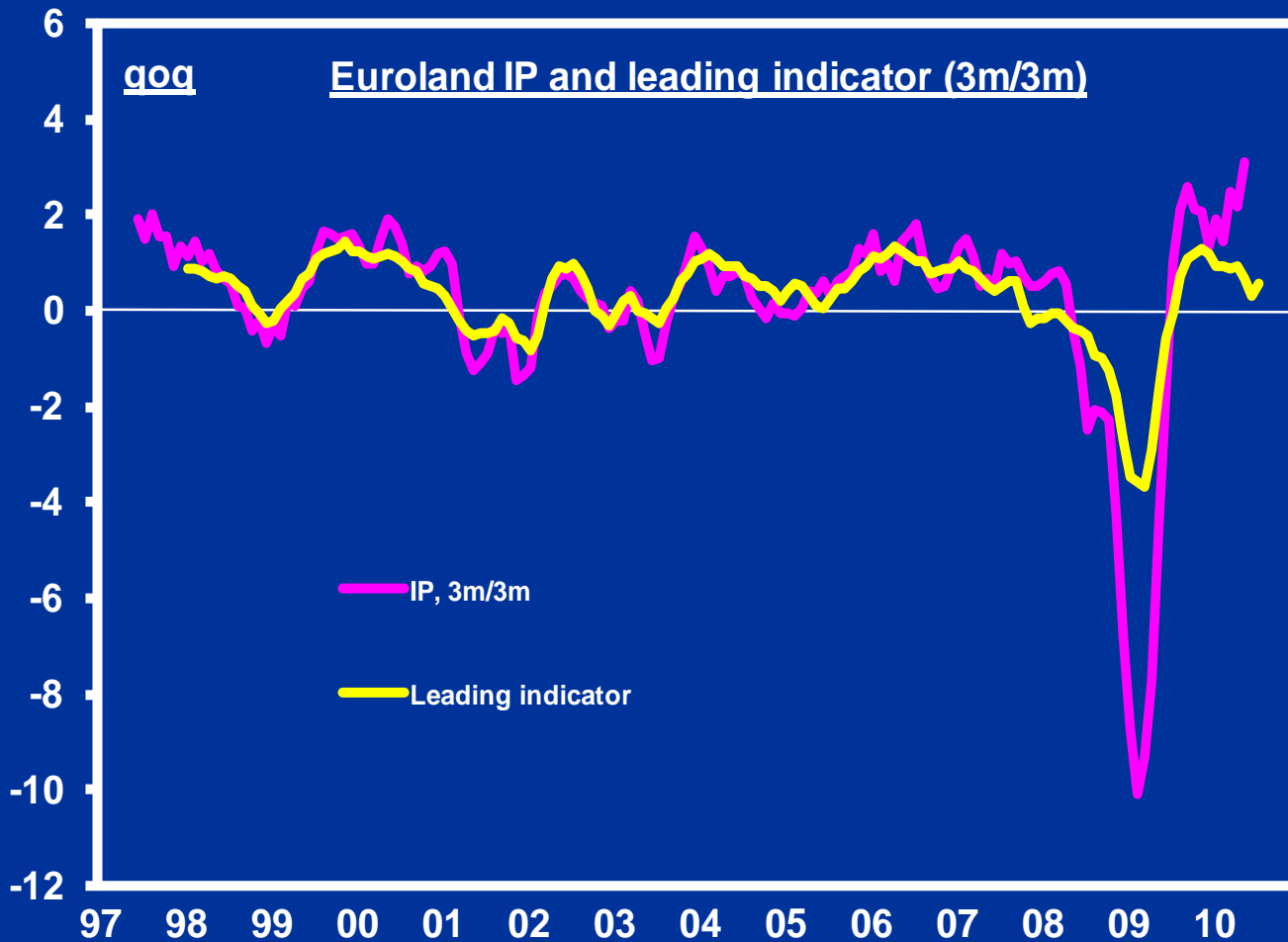
Source: GS Global ECS Research

BoJ Tankan



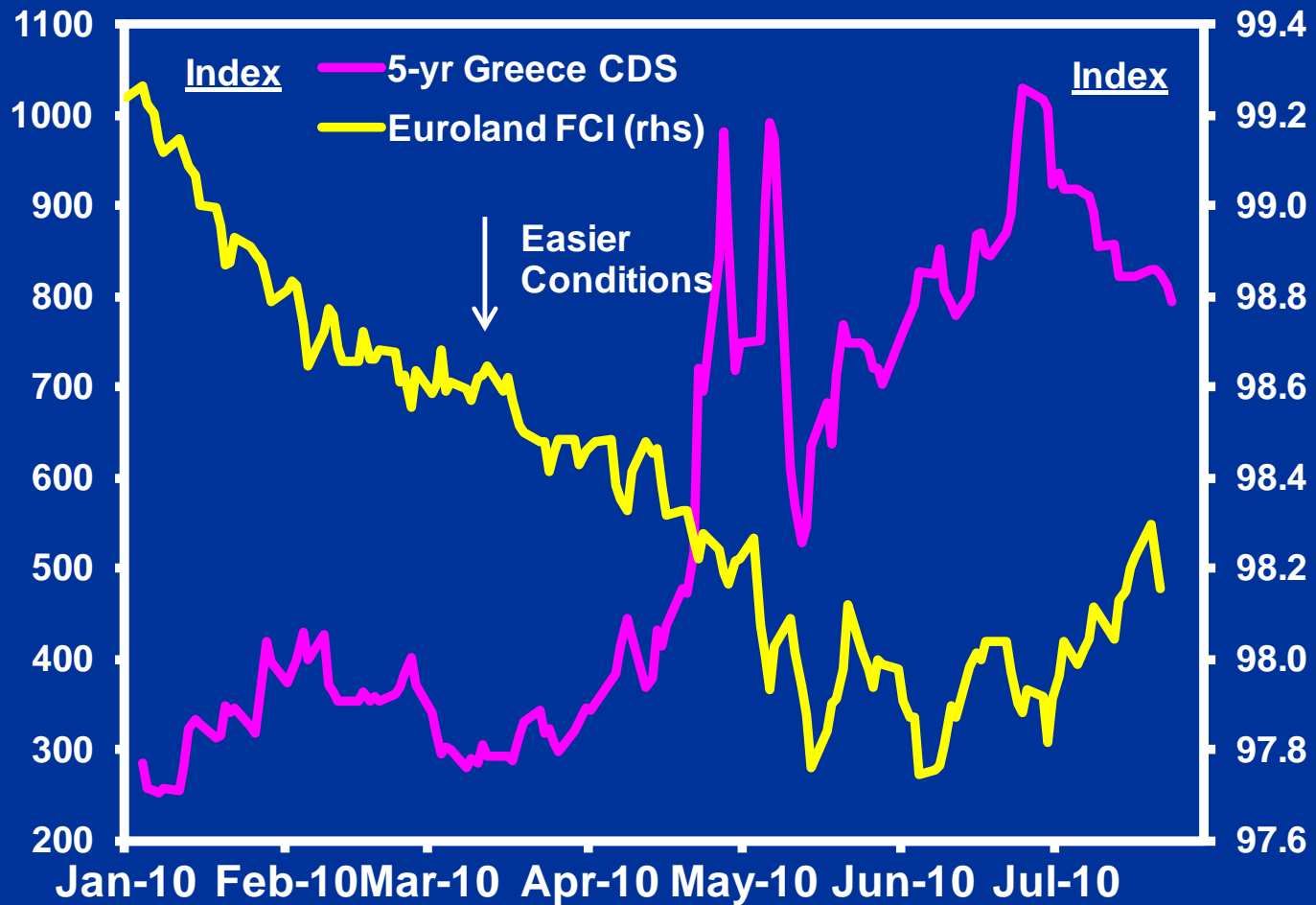
Source: GS Global ECS Research

Euroland Leading Indicator vs Industrial Production

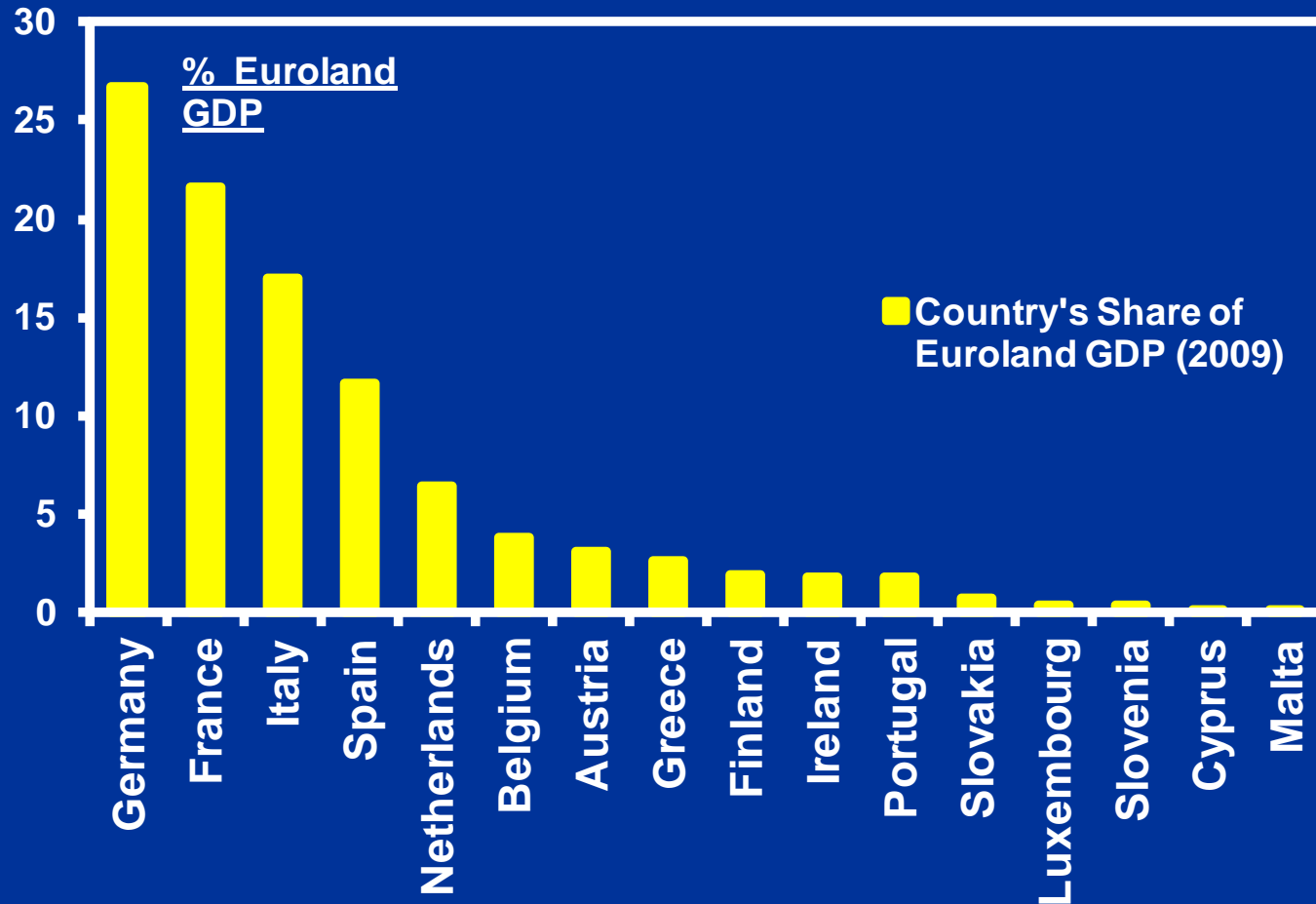


Source: GS Global ECS Research

Greece CDS Spread Vs Euro FCI



Each Country's Share of Euroland GDP



Euroland Budget Deficit and Government Debt

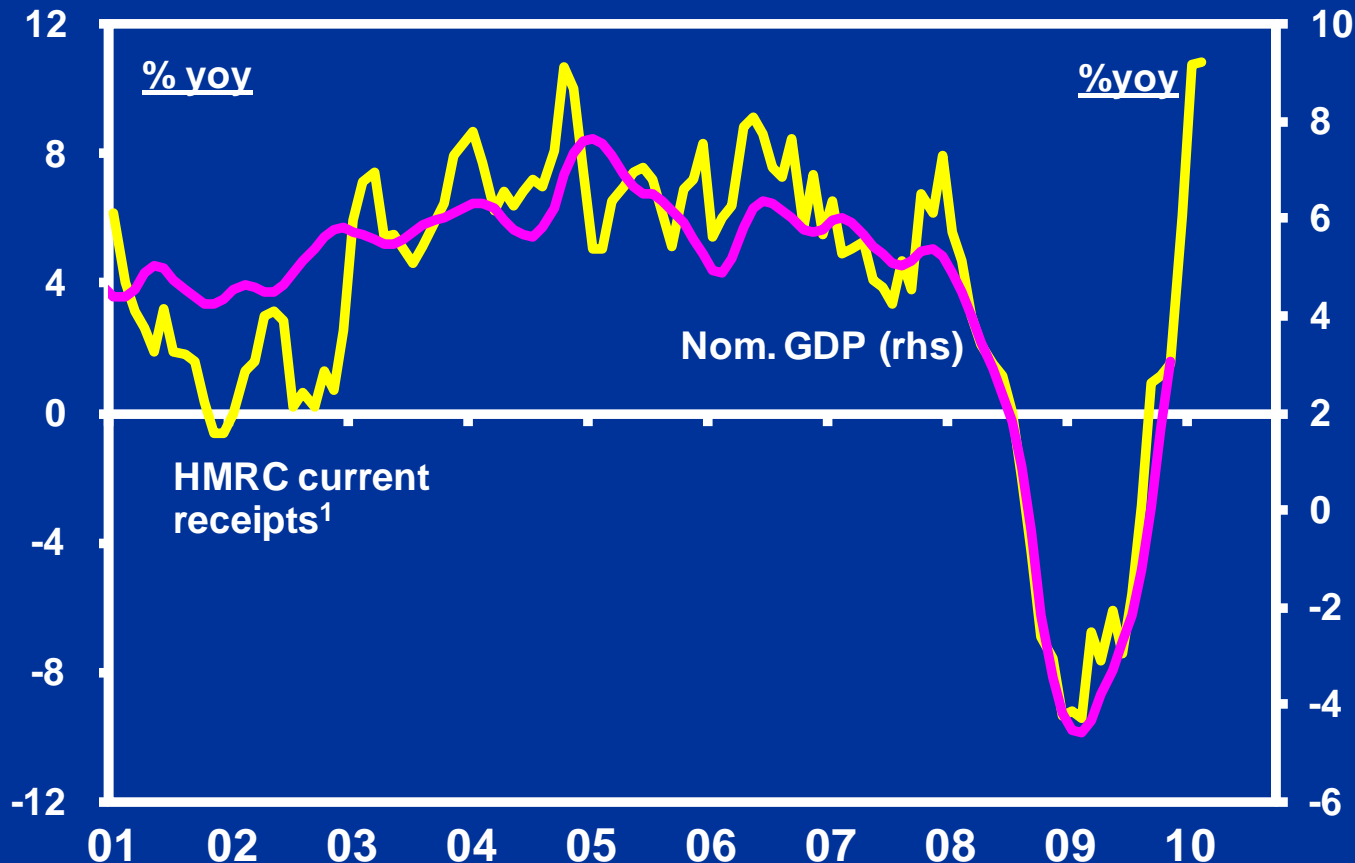
	Cyclically Adjusted Budget Deficit (%GDP)**	Gross General Government Debt (% of GDP)***
Germany*	-1.8	73.2
France	-6.2	77.6
Italy	-3.3	115.8
Spain	-9.6	53.2
Netherlands	-3.6	60.9
Belgium	-4.5	96.7
Austria	-2.4	66.5
Greece	-14.1	115.1
Finland	0.3	44
Ireland	-11.4	64
Portugal	-8.3	76.8
Slovakia	-6.4	35.7
EMU-average (PPP Weighted)	-4.9	78.9
UK	-8.4	68.1
USA	-8.0	83.9
Japan	-5.5	218

*Countries listed according to their share of Euroland GDP.

**Source: European Commission, CBO, OECD, HM Treasuries.

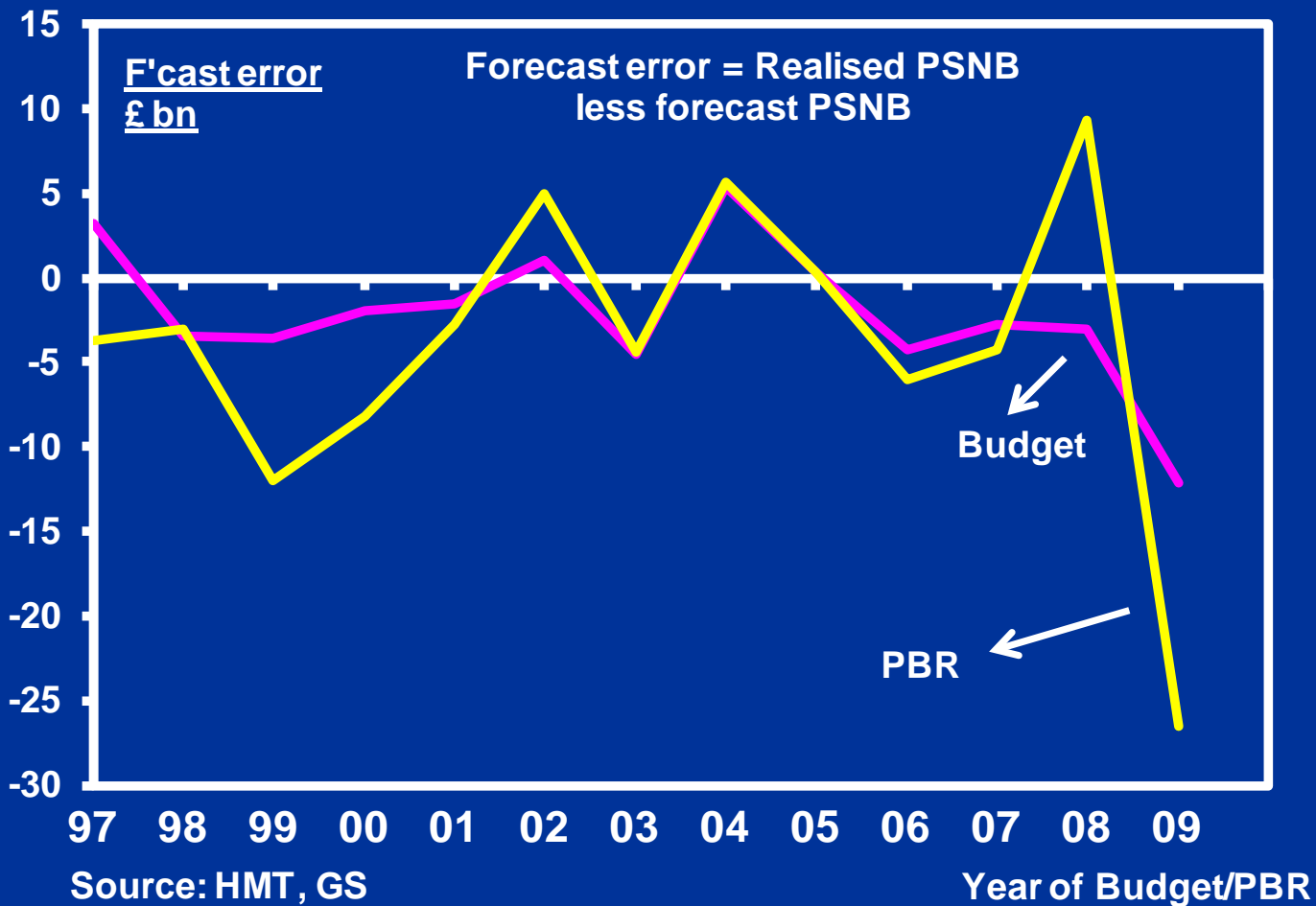
***Source: Eurostat, GS Estimates.

Surge in UK Tax Revenues Consistent with Much Stronger Nominal GDP Growth



Source: ONS. ¹ Receipts adjusted to reflect cut and restoration of VAT and 50% income tax rate

UK Government Borrowing Has Come in Considerably Lower than Expected

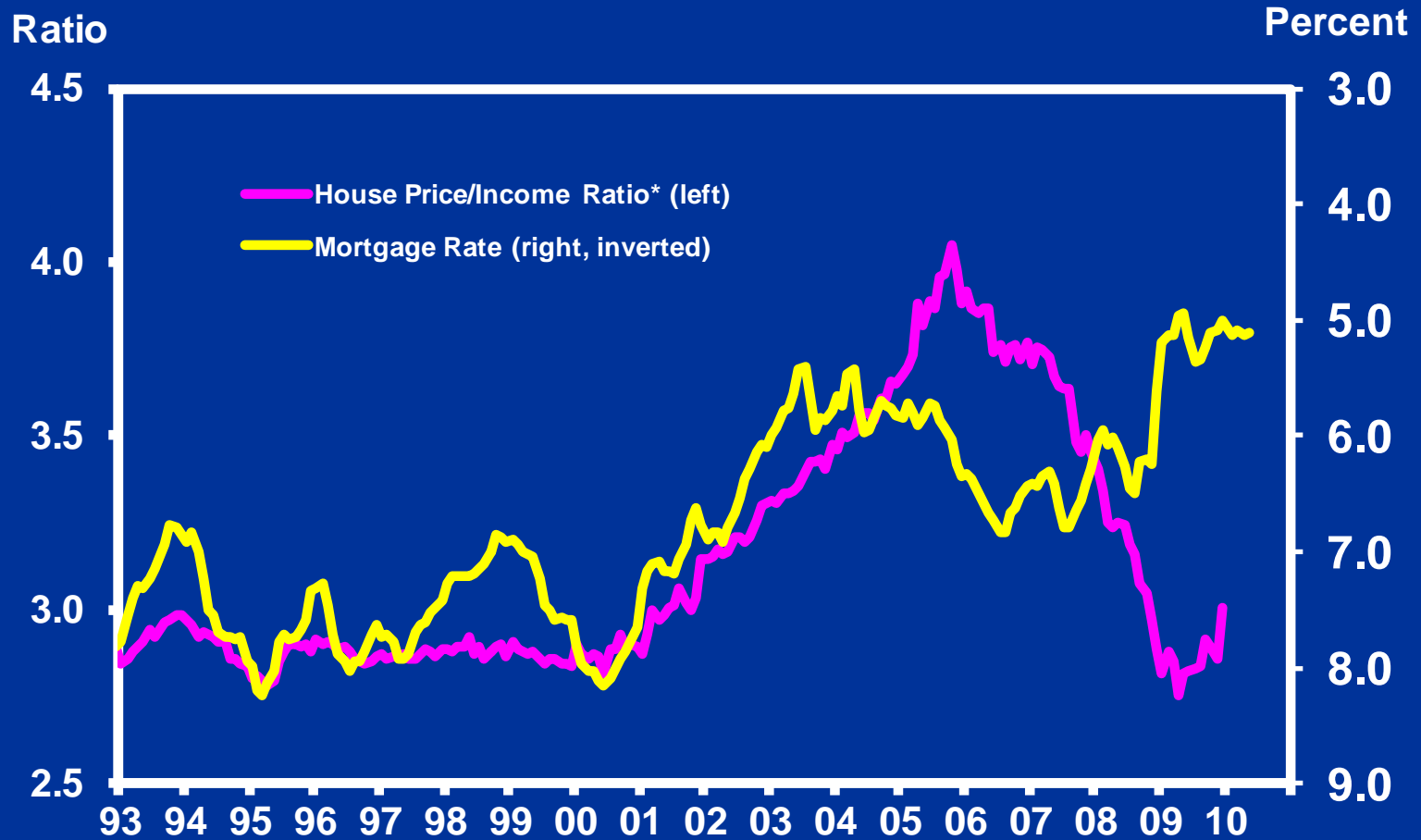


UK Services PMI



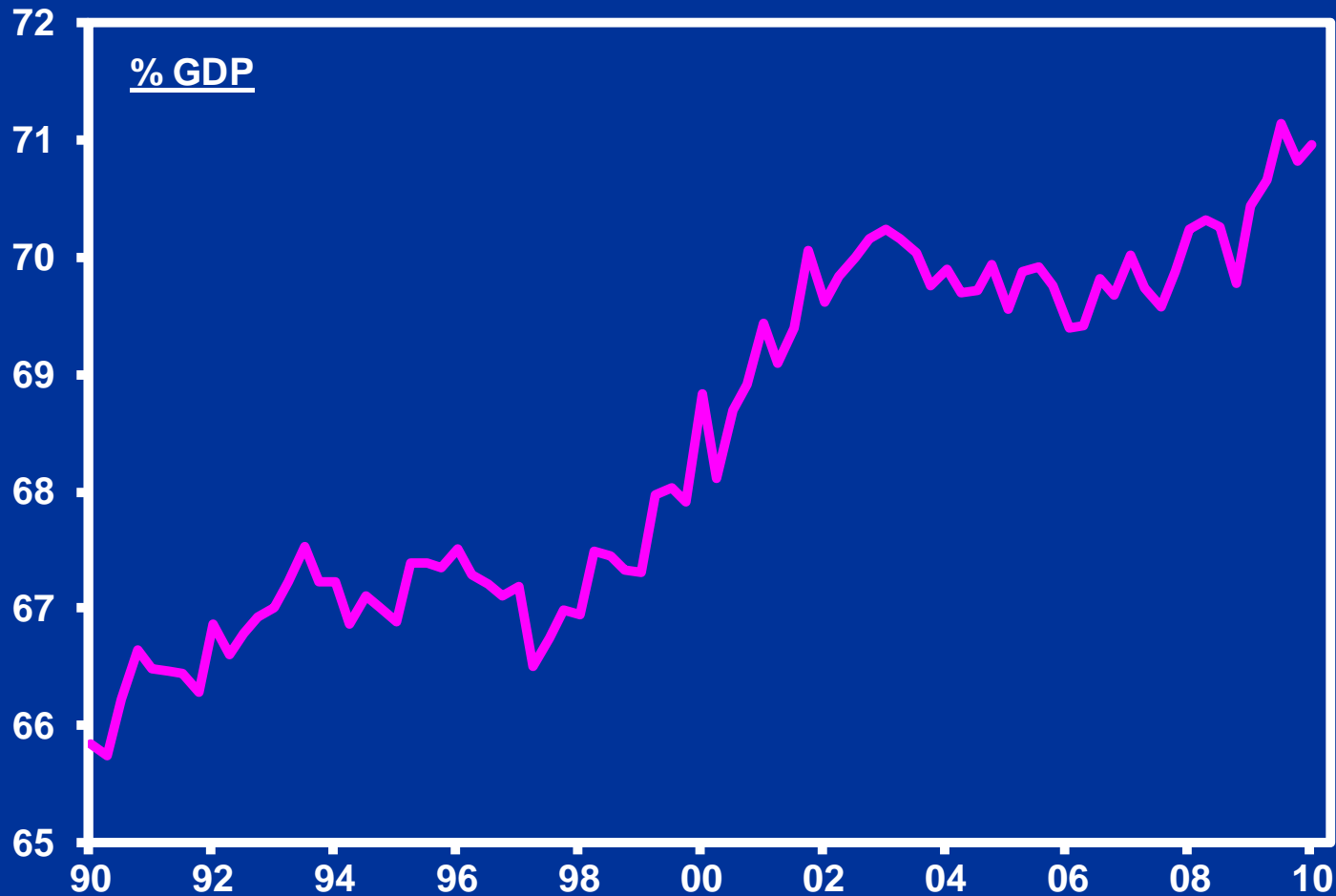
Source: GS Global ECS Research

US House Prices vs Income



* S.a. median home price divided by median family income.
 Source: Department of Commerce. FRB. NAR.

Share of Private Consumption in US GDP



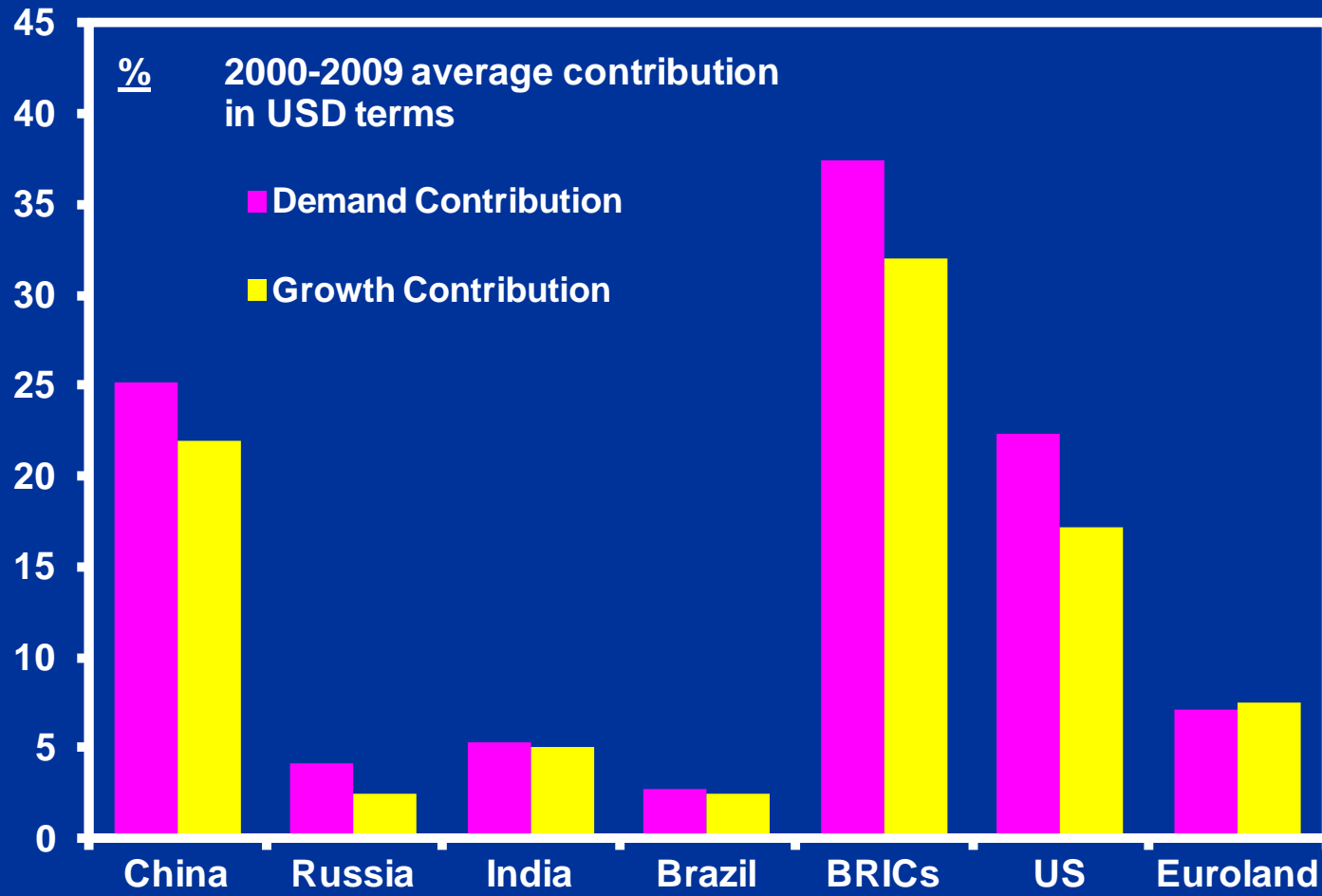
Source: GS Global ECS Research

US Export and Import Growth



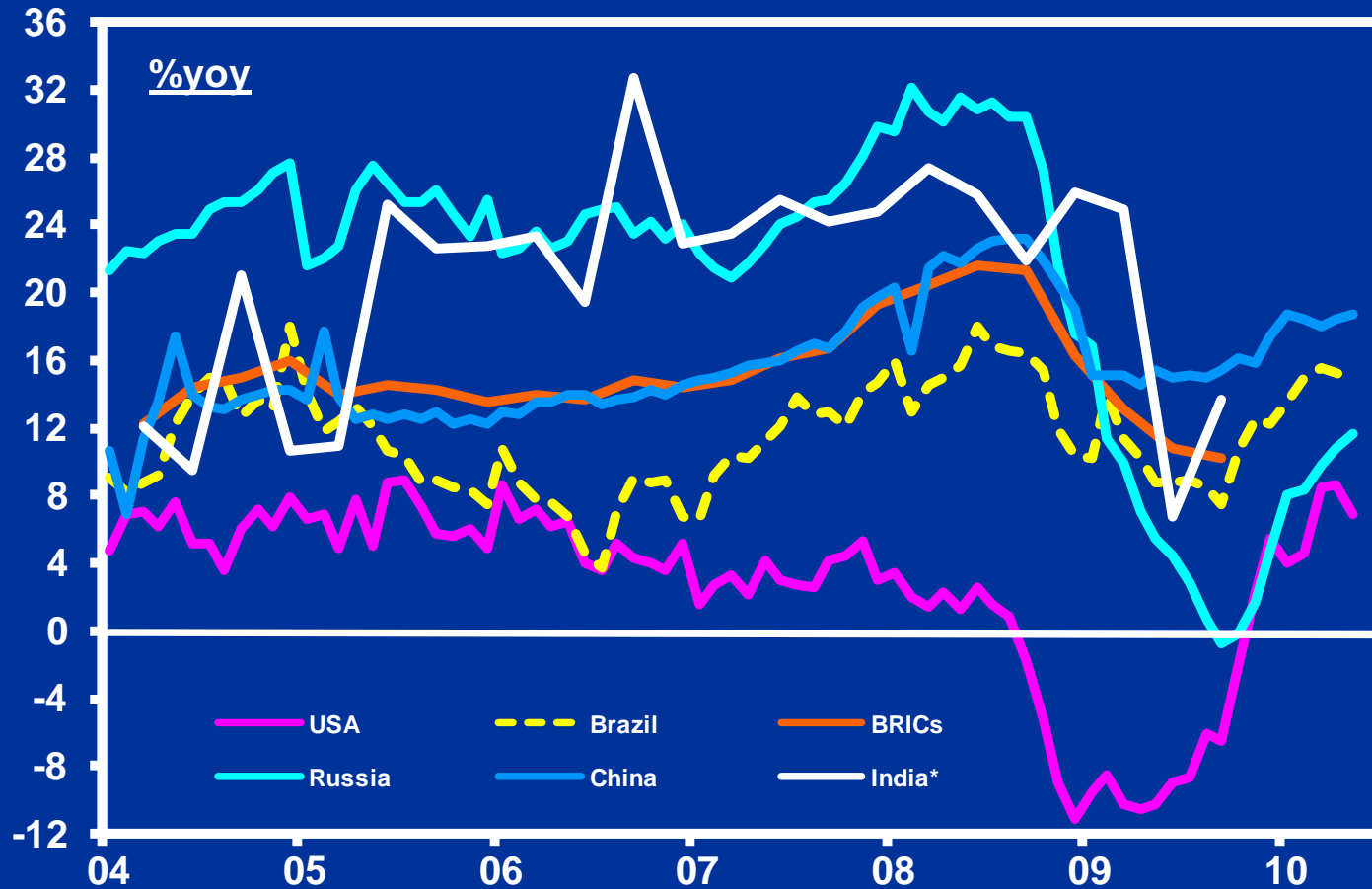
Source: GS Global ECS Research

Domestic Demand and Growth Contributions, Last Decade



Source: GS Global ECS Research

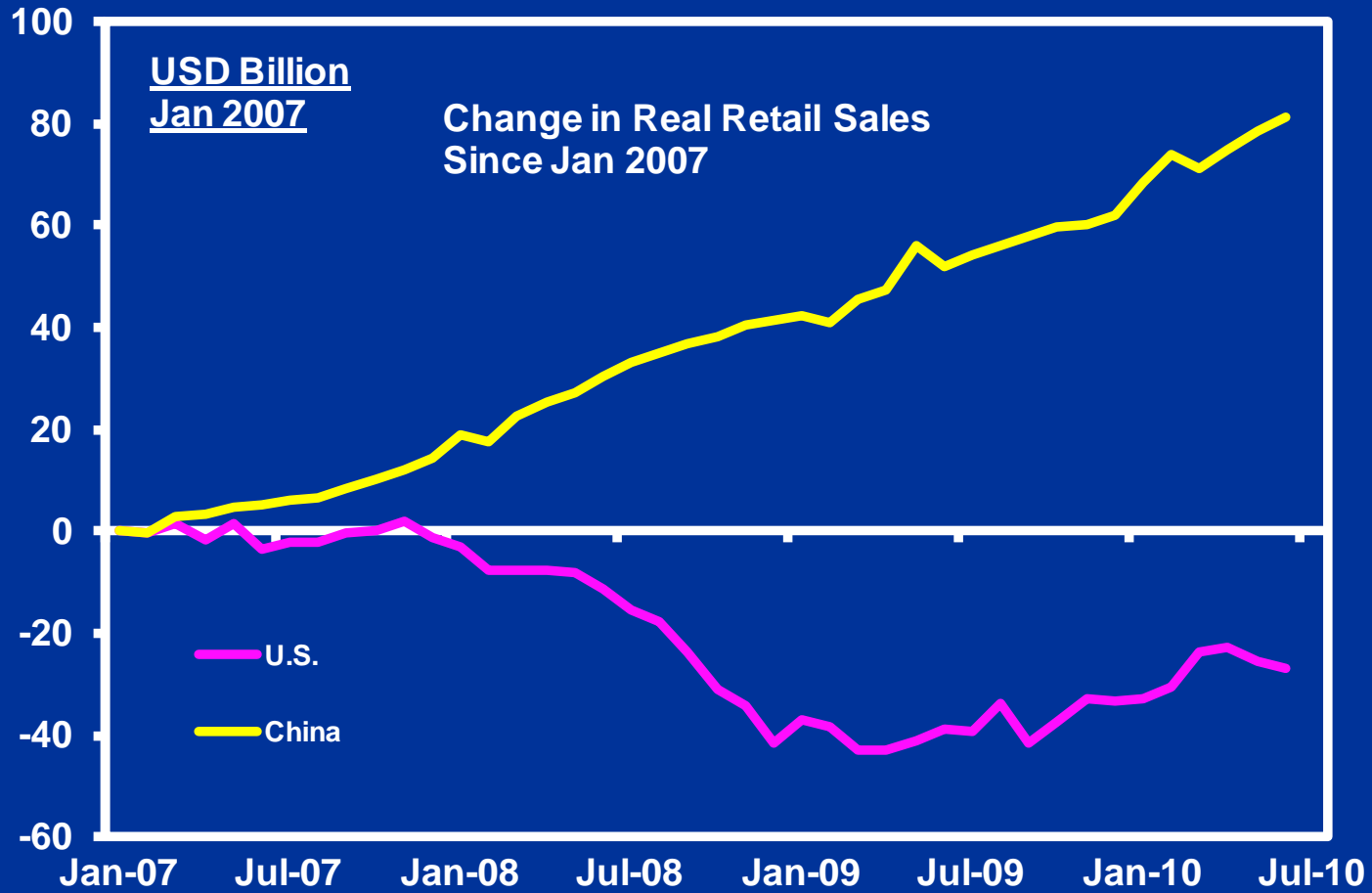
Retail Sales US and BRICs



* Private final consumption

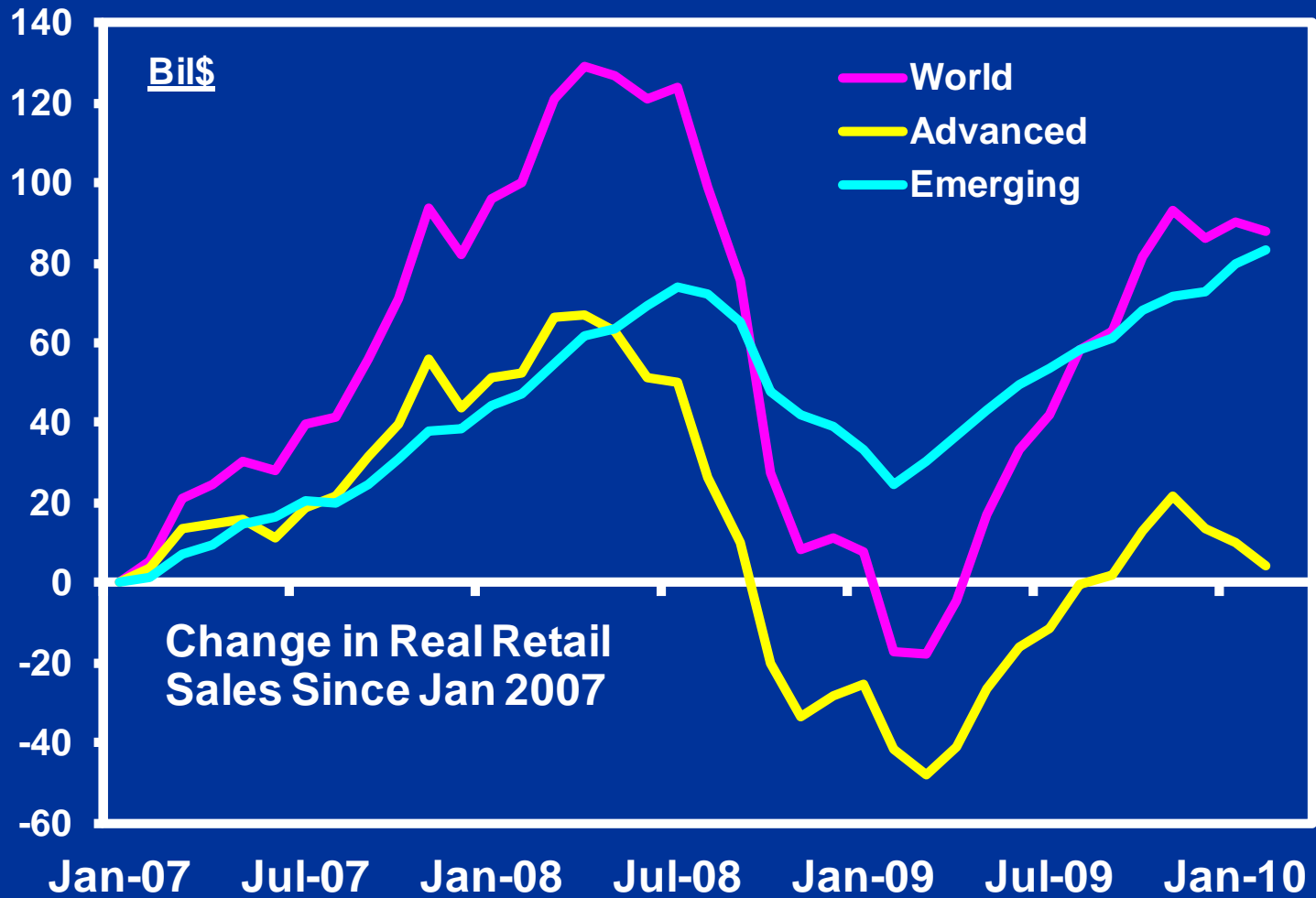
Source: GS Global ECS Research

Recent Trend in Real Retail Sales

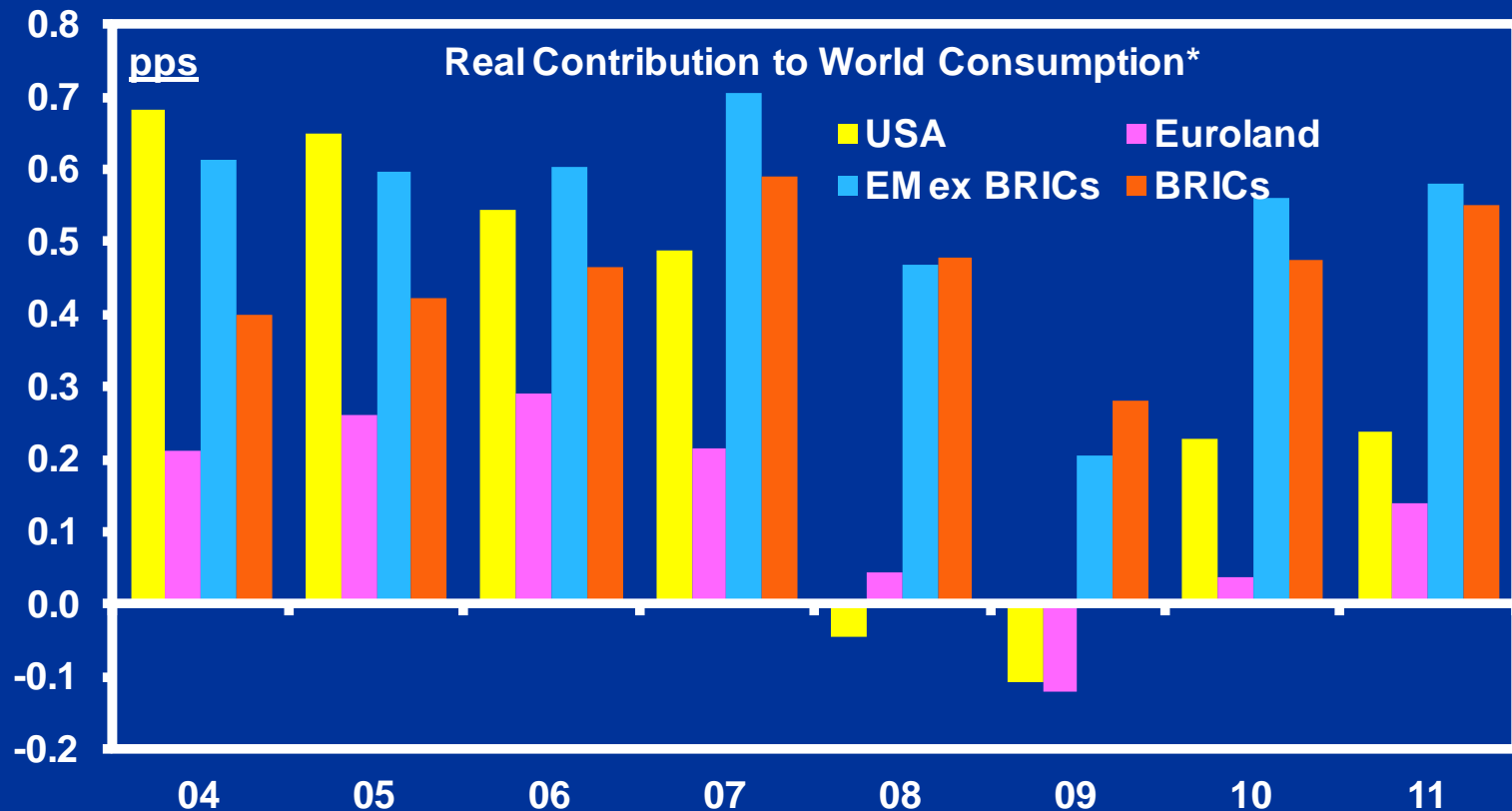


Source: GS Global ECS Research

Real Retail Sales in Developed vs EM



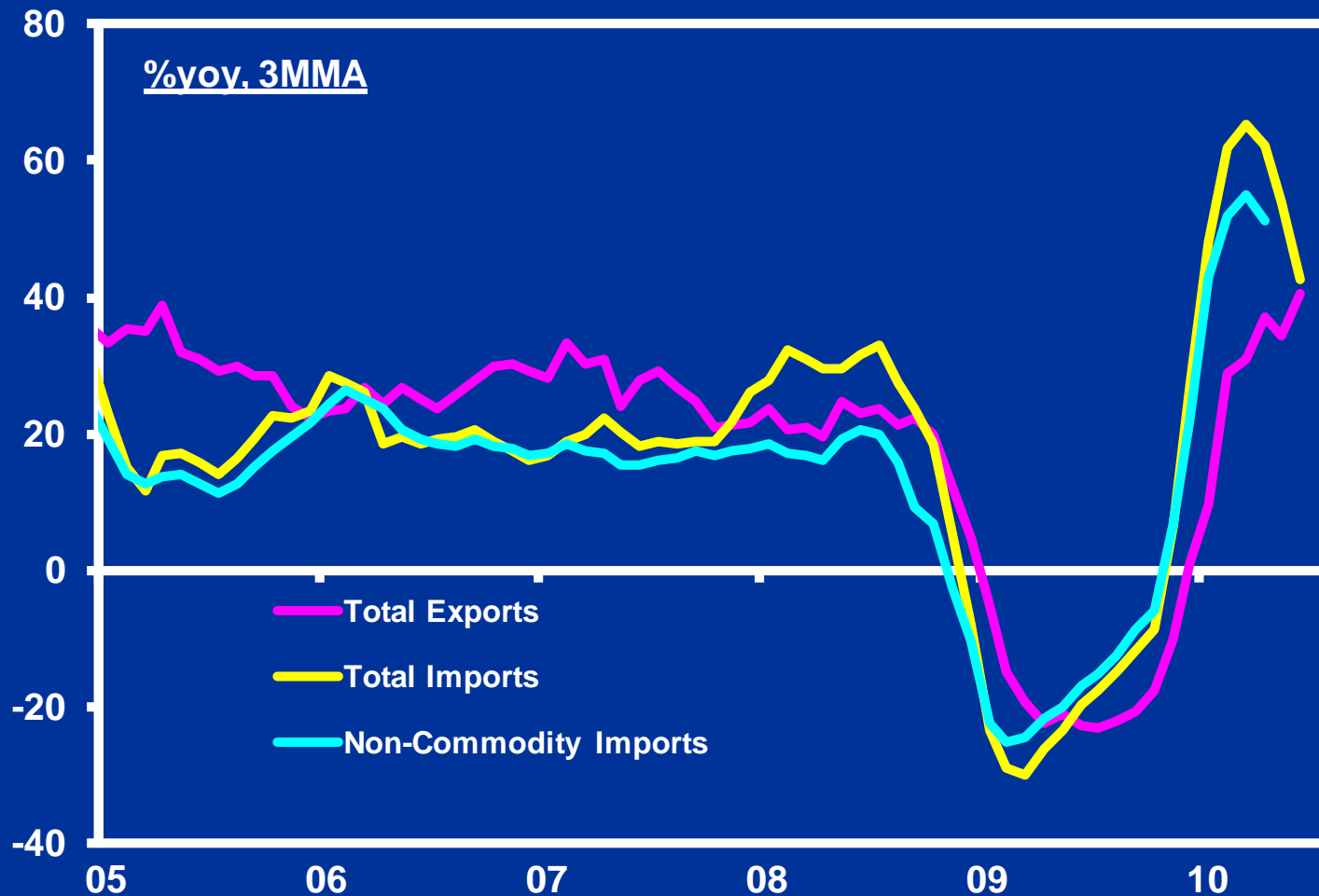
Consumption Contribution



*Calculated from consumer expenditure for India, US, Japan, Euroland, and other Emerging Markets. Brazil and Russia use private consumption and China uses household consumption. Annual averages 2004-2008, GS forecasts 2009-2010.

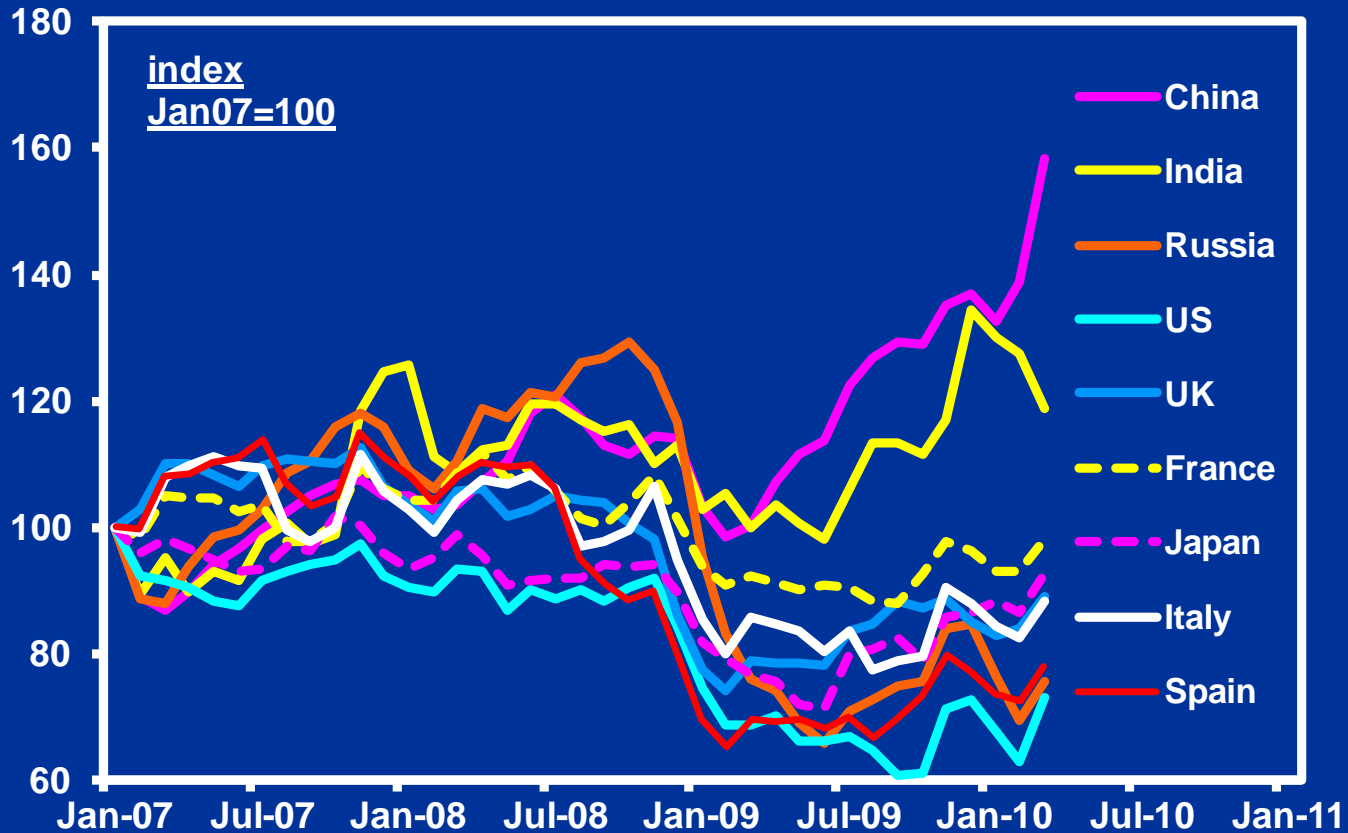
Source: GS Global ECS Research

Chinese Export and Import Growth



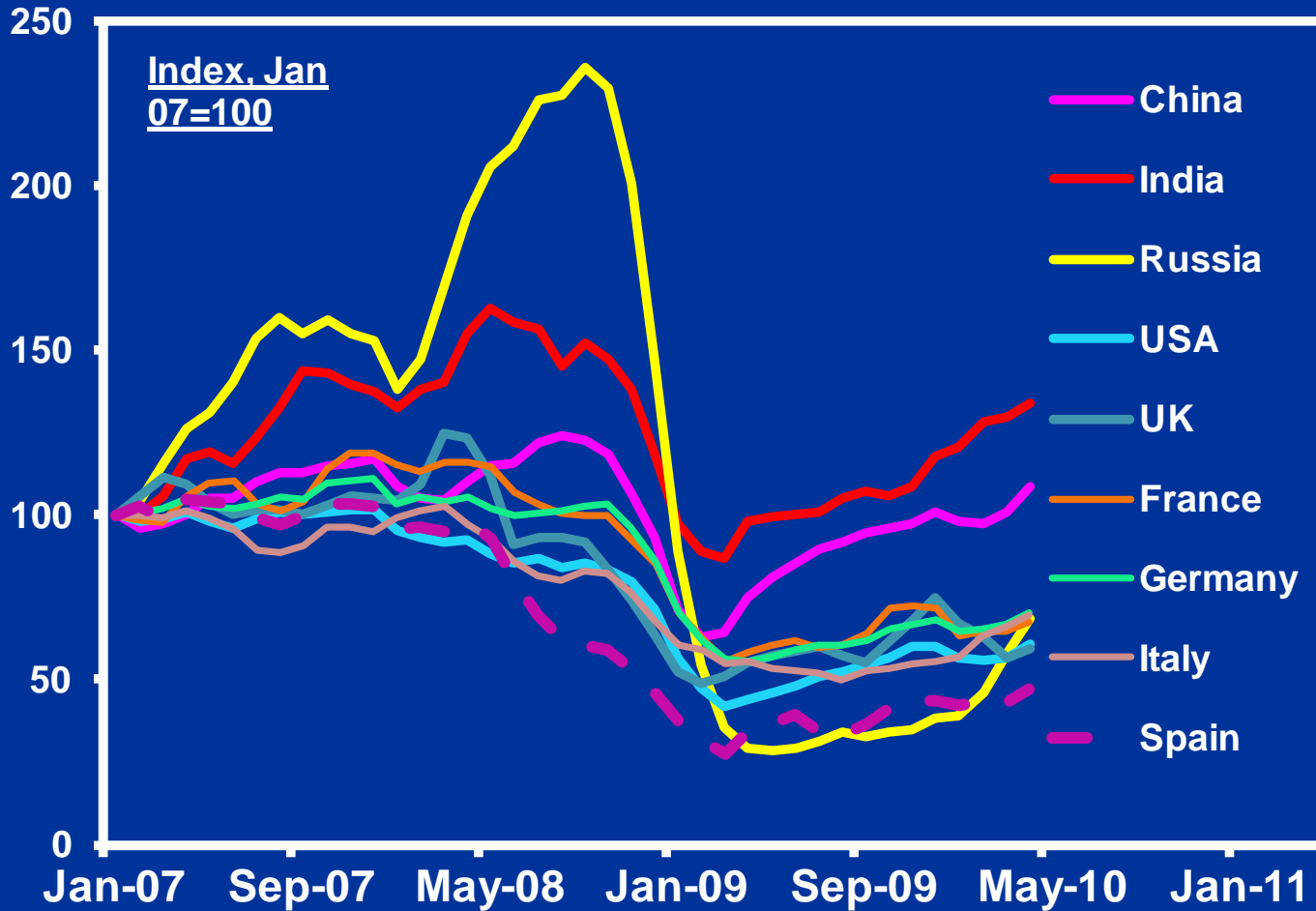
Source: GS Global ECS Research

Germany's Exports to Asia rising - stabilisation elsewhere

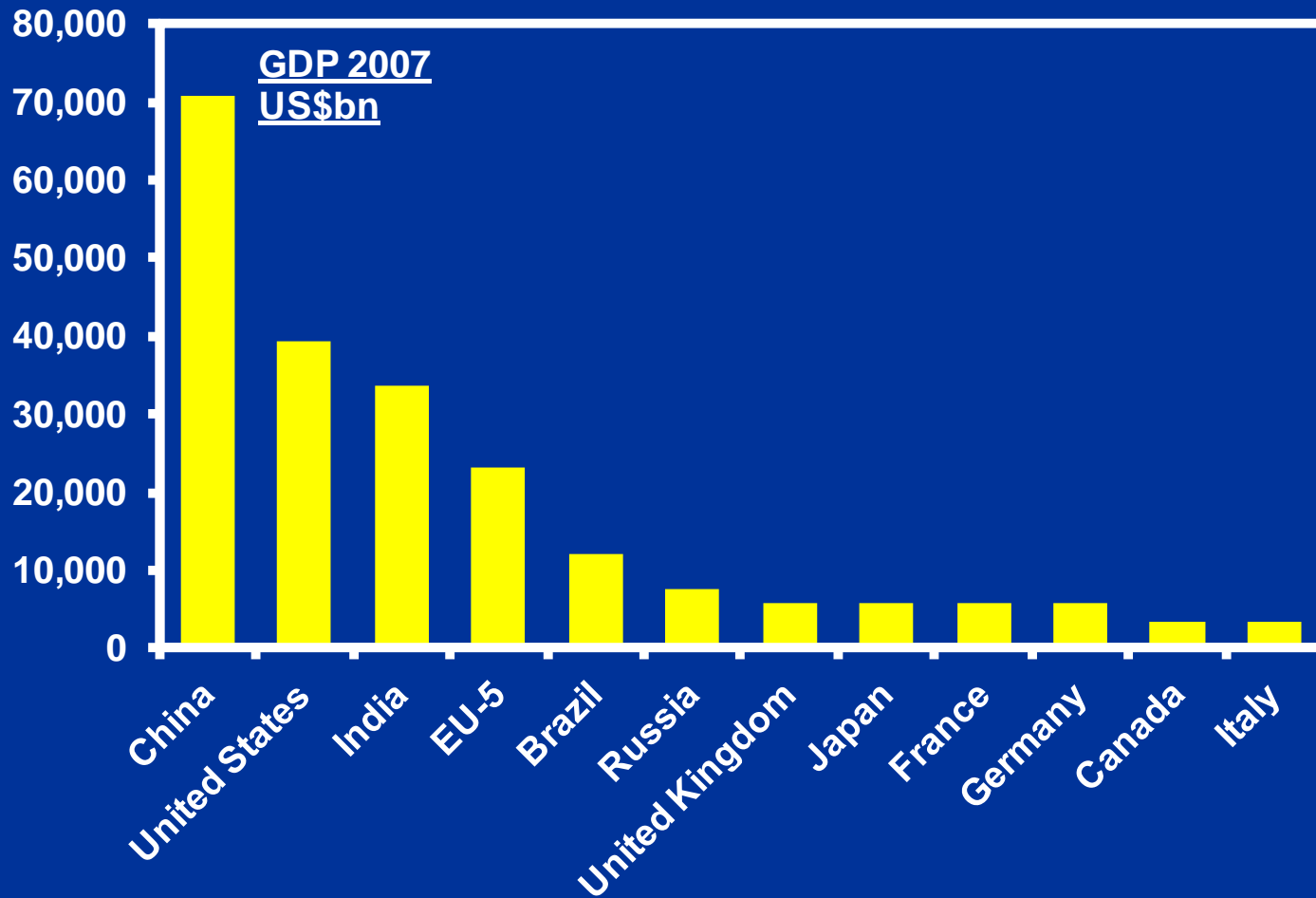


Source: Haver Analytics, GS calculations

Japanese Exports to Asia Stabilising

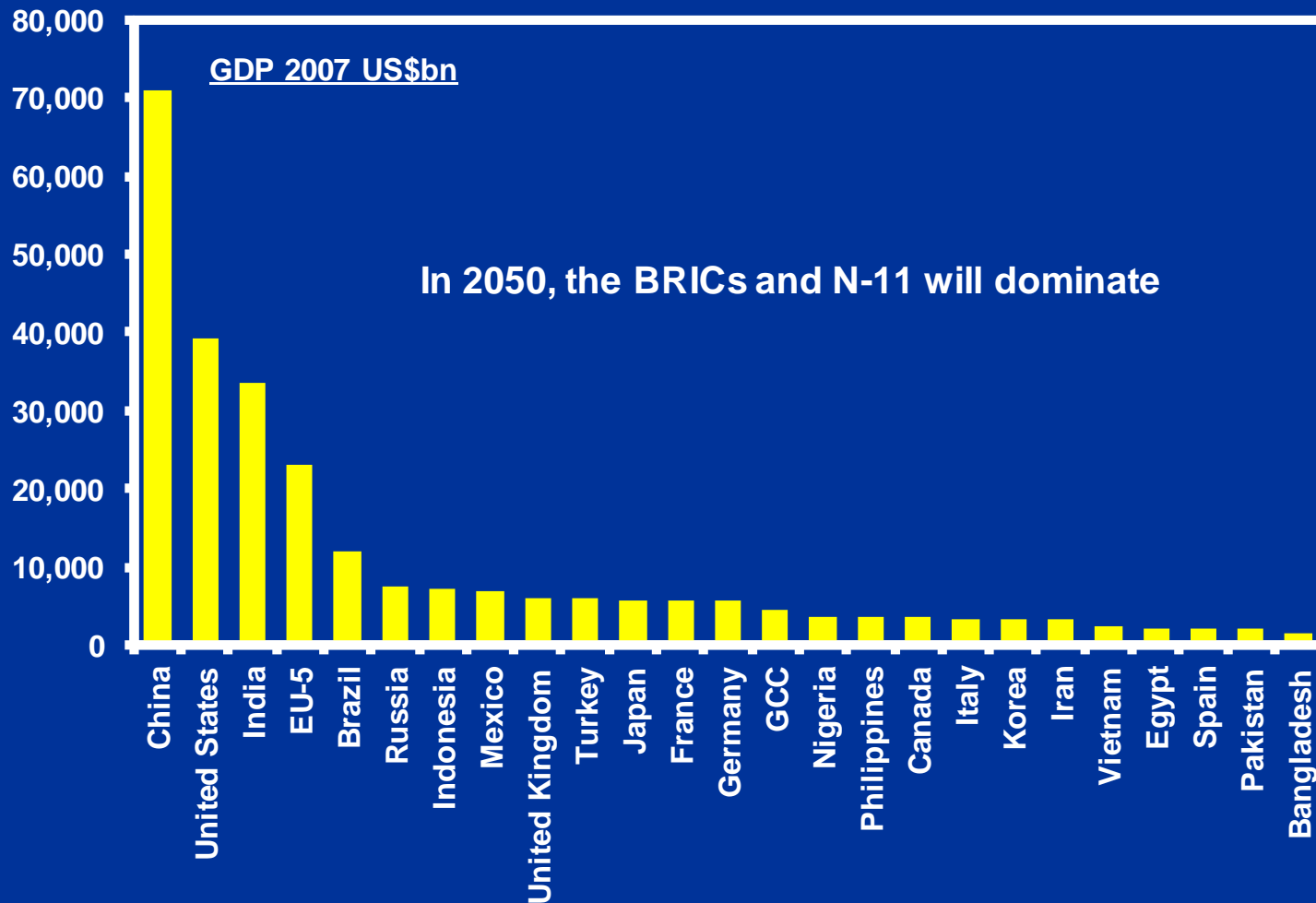


The Largest Economies in 2050



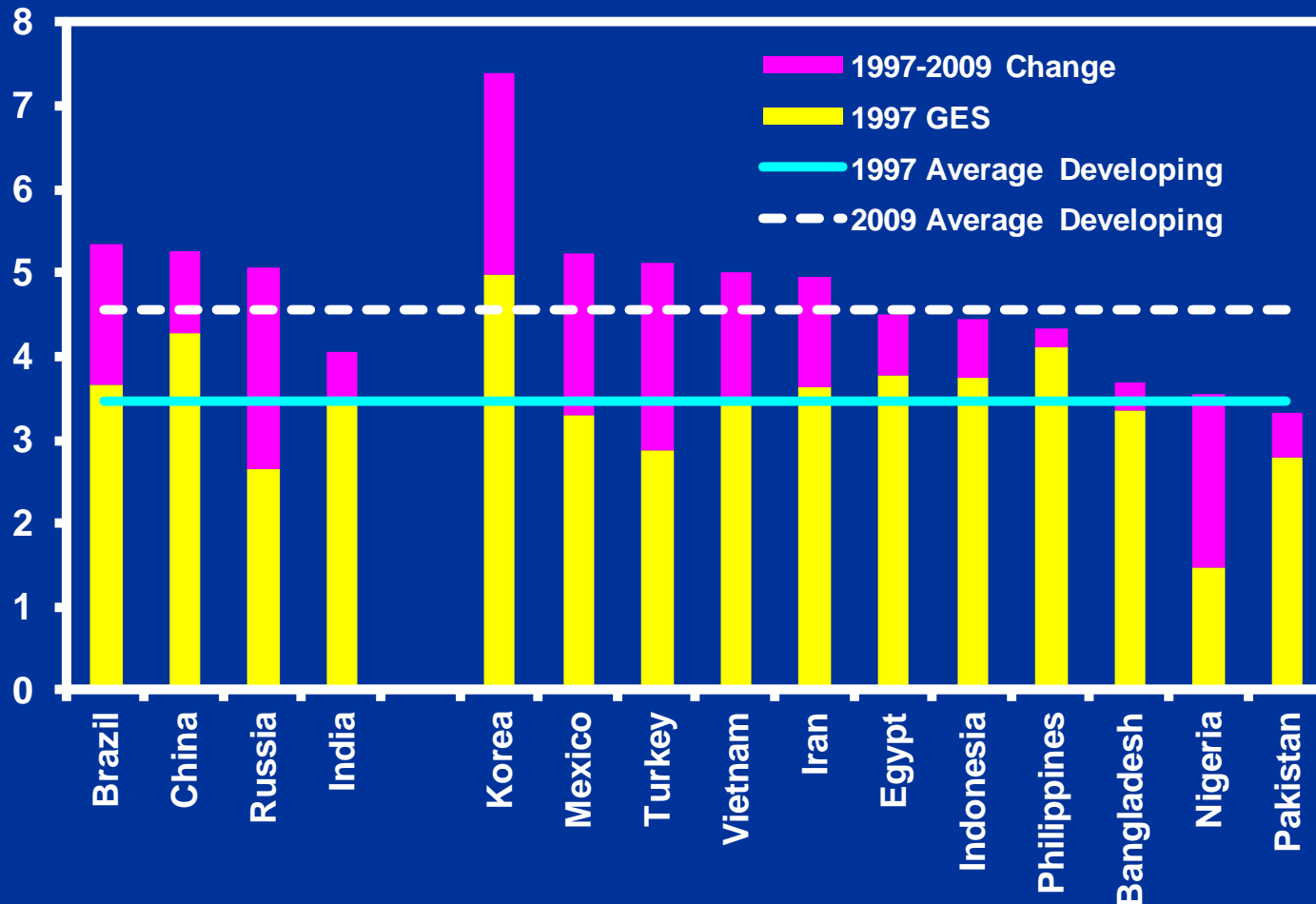
Source: GS Global ECS Research

The Largest Economies in 2050



Source: GS Global ECS Research

BRICs & N11. 2009 Growth Environment Score (GES)



Source: GS Global ECS Research

GES Scores for BRICs vs Korea

	Brazil	China	India	Russia	Korea
Total	5.3	5.2	4.0	5.1	7.4
Rule of Law	4.4	4.3	5.2	3.2	6.6
Corruption	4.9	4.1	4.3	3.0	5.9
Political Stability	4.8	4.4	3.0	3.8	5.8
Lifeexp	7.5	7.6	5.9	6.5	8.8
Inflation	8.6	8.5	7.9	6.5	8.8
External Debt	8.5	9.1	8.4	7.6	..
GovtDebt	4.0	4.8	0.0	7.1	5.6
GFCF	3.8	8.0	6.9	4.4	5.9
Schooling	7.4	6.2	4.2	6.9	9.7
Openness	2.2	4.0	3.1	2.2	5.0
Computers	2.1	0.8	0.4	1.8	7.7
Mobiles	6.4	4.2	2.1	10.0	9.0
Internet	4.7	2.2	1.0	2.8	10.0

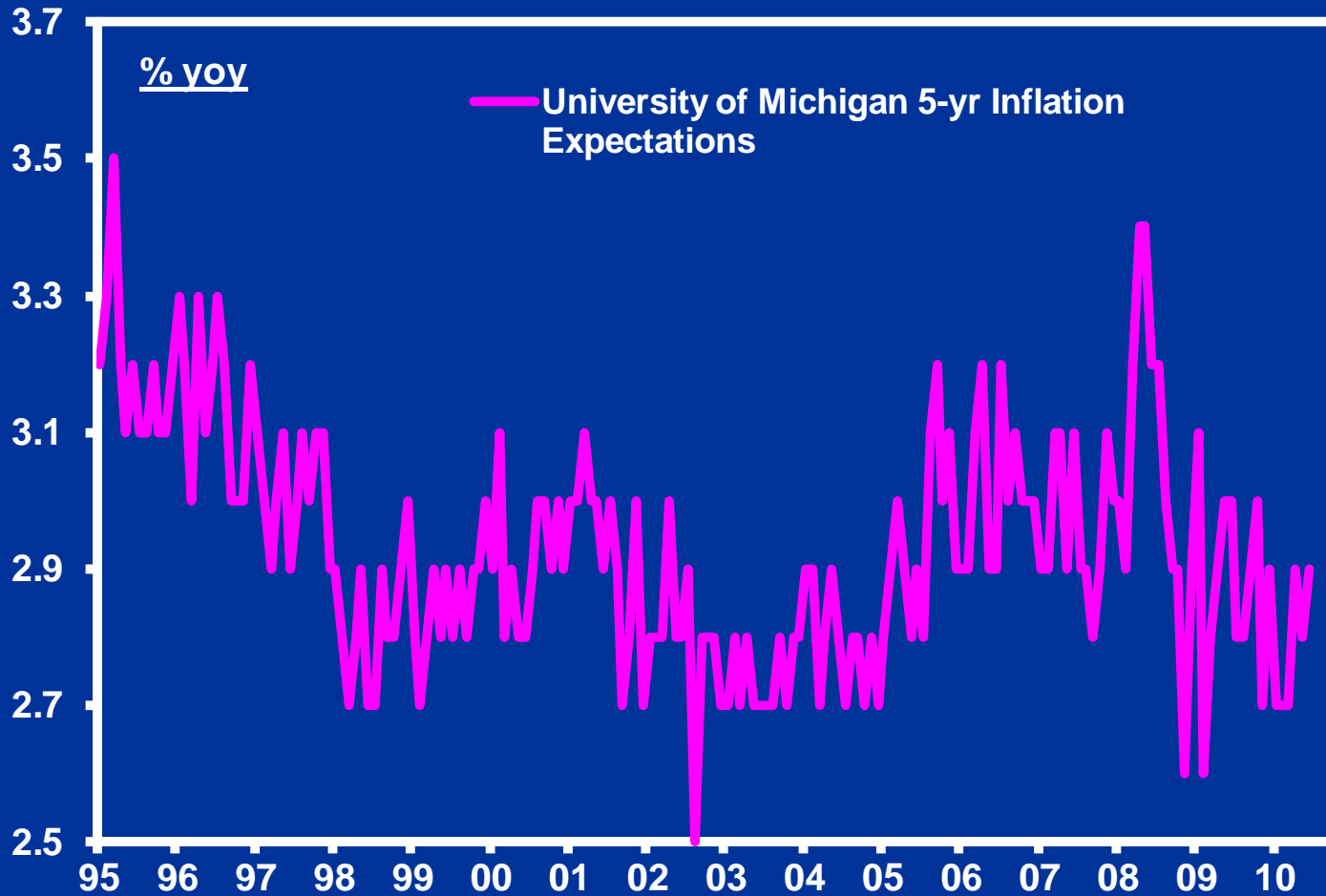
Source: GS Global ECS Research

Maplecroft Risk Indices

	Dynamic	Structural
BRICs		
Brazil	6.2	6.0
Russia	2.5	5.8
India	3.9	3.1
China	5.4	3.5
N11		
Bangladesh	3.1	1.7
Egypt	4.9	4.3
Indonesia	4.1	3.6
Iran	1.9	4.0
Mexico	6.5	6.1
Nigeria	2.4	2.1
Pakistan	2.2	1.3
Philippines	3.8	4.3
South Korea	8.3	8.9
Turkey	6.0	5.9
Vietnam	5.5	3.9
USA	8.9	8.9
Germany	9.2	9.2
Luxembourg	9.7	9.5

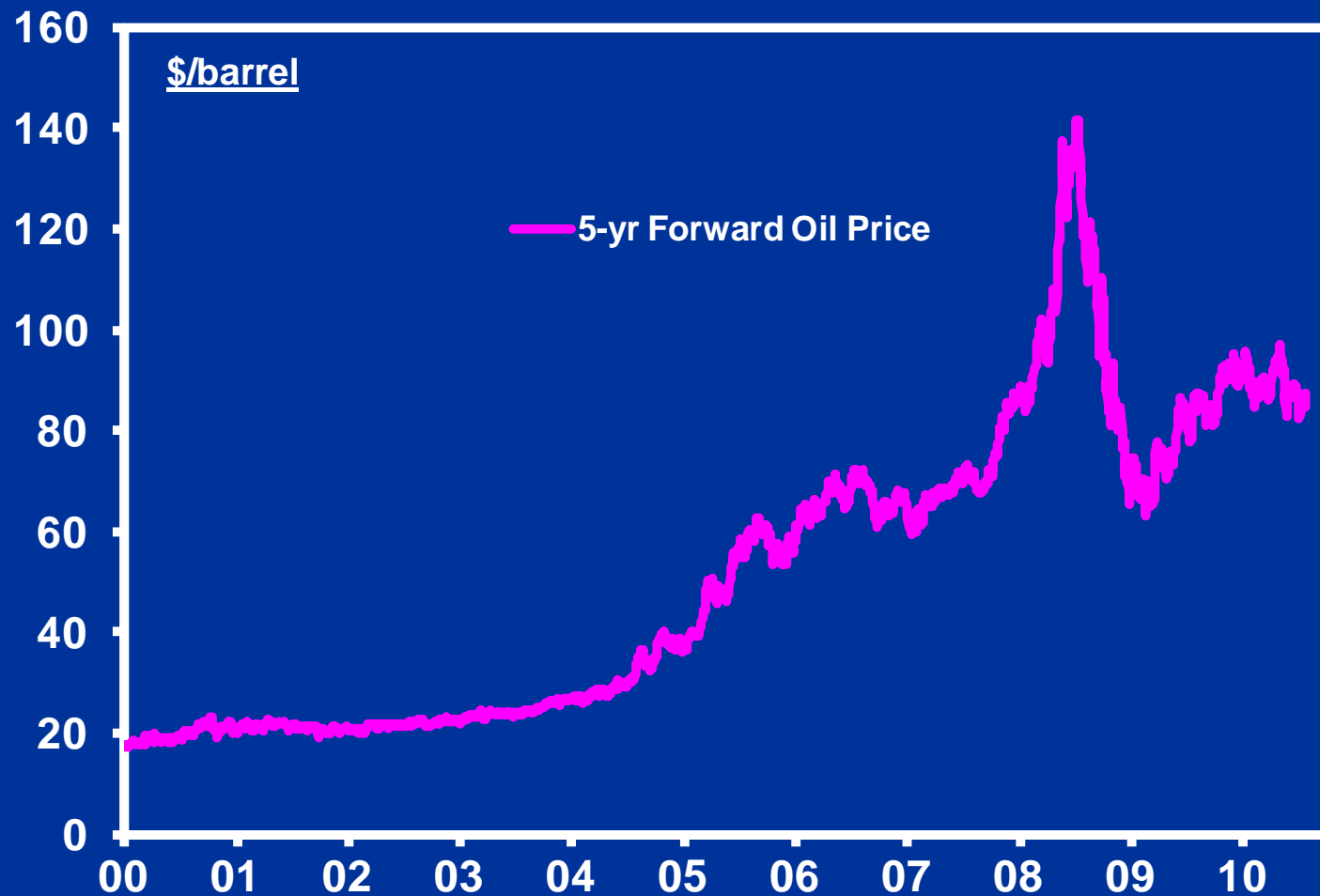
Source: Maplecroft

Inflation Expectations in US



Source: GS Global ECS Research

Five Year Forward Oil Price



Source: GS Global ECS Research

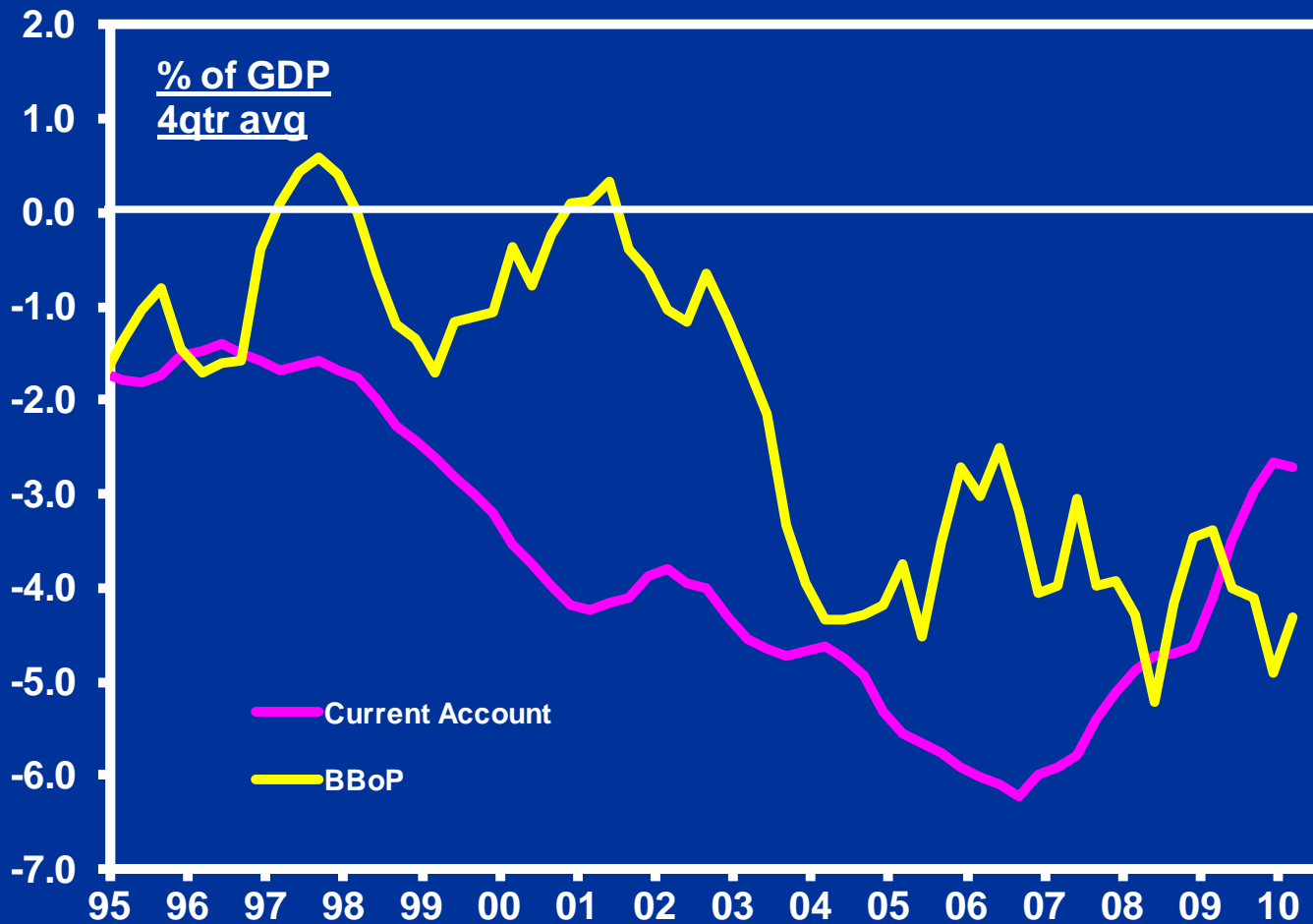
GSDEER Estimates for Major Countries

EUR/\$	Spot*	GSDEER Q3-2010	% Deviation from GSDEER	5-Yr Forecast
EUR/\$	1.29	1.20	8	1.20
\$/Yen	87.34	104.17	19	108.12
£/\$	1.54	1.56	-0.9	1.55
\$/CNY	6.78	6.88	1.6	5.85
\$/CAD	1.04	1.15	10.9	1.16
AUD/\$	0.90	0.77	16.7	0.79
\$/KRW	1199	1297	8.2	975
\$ TWI	211.8	233.3	-10.1	-

*as of 23 July 2010

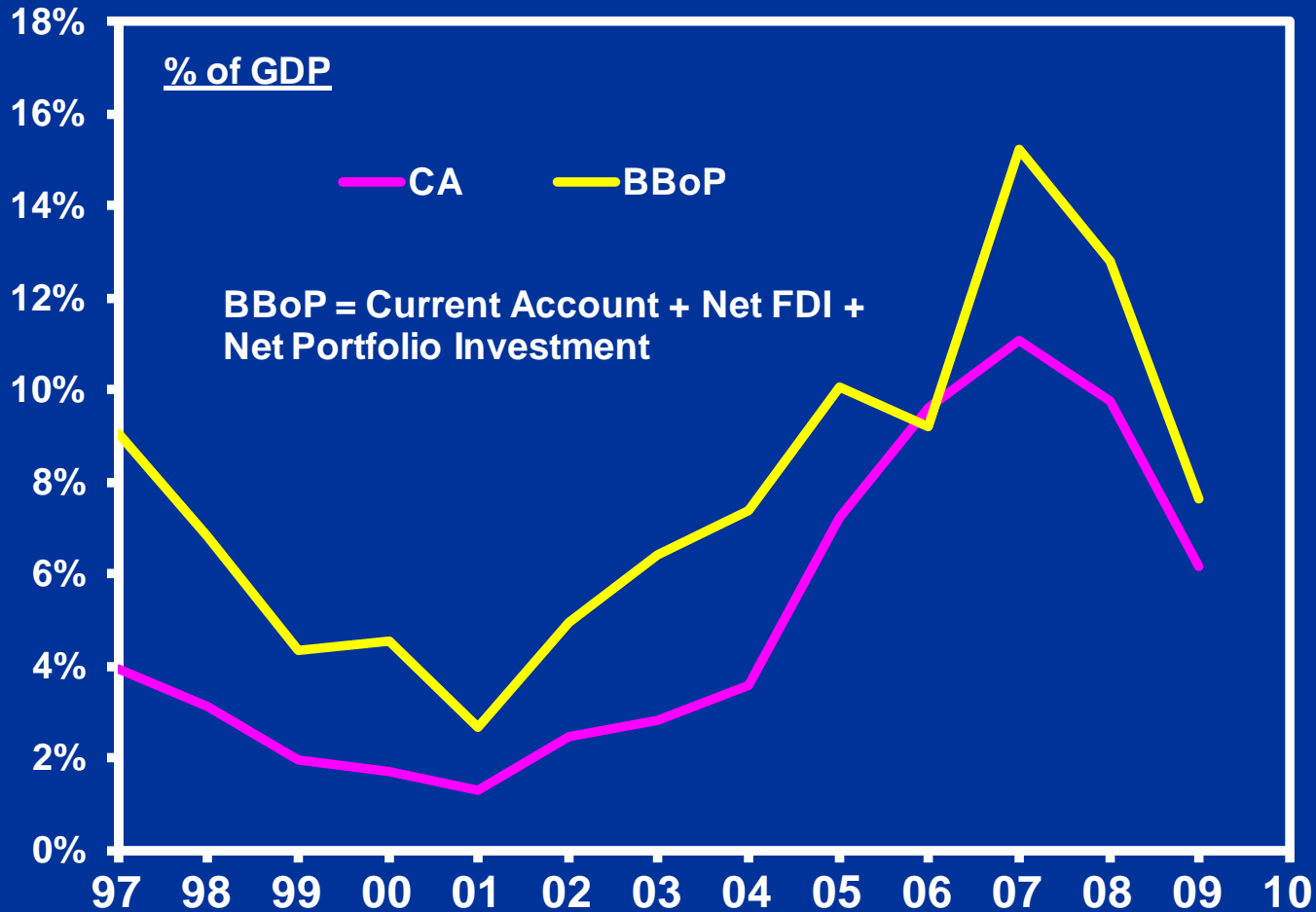
Source: GS Global ECS Research

US BBoP vs Current Account

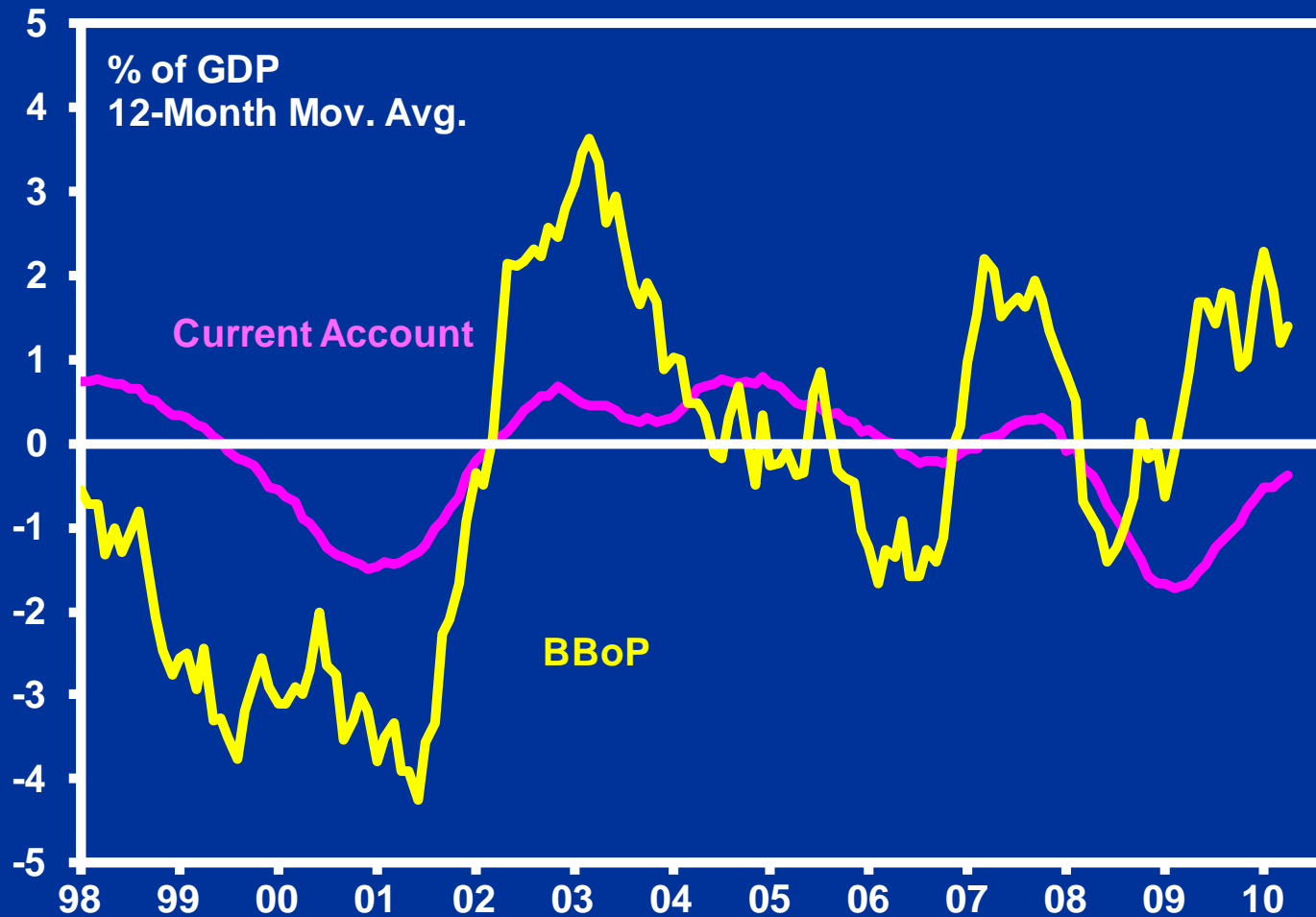


Source: GS Global ECS Research

China BBoP vs Current Account



Euroland: BBoP vs Current Account



Source: GS Global ECS Research

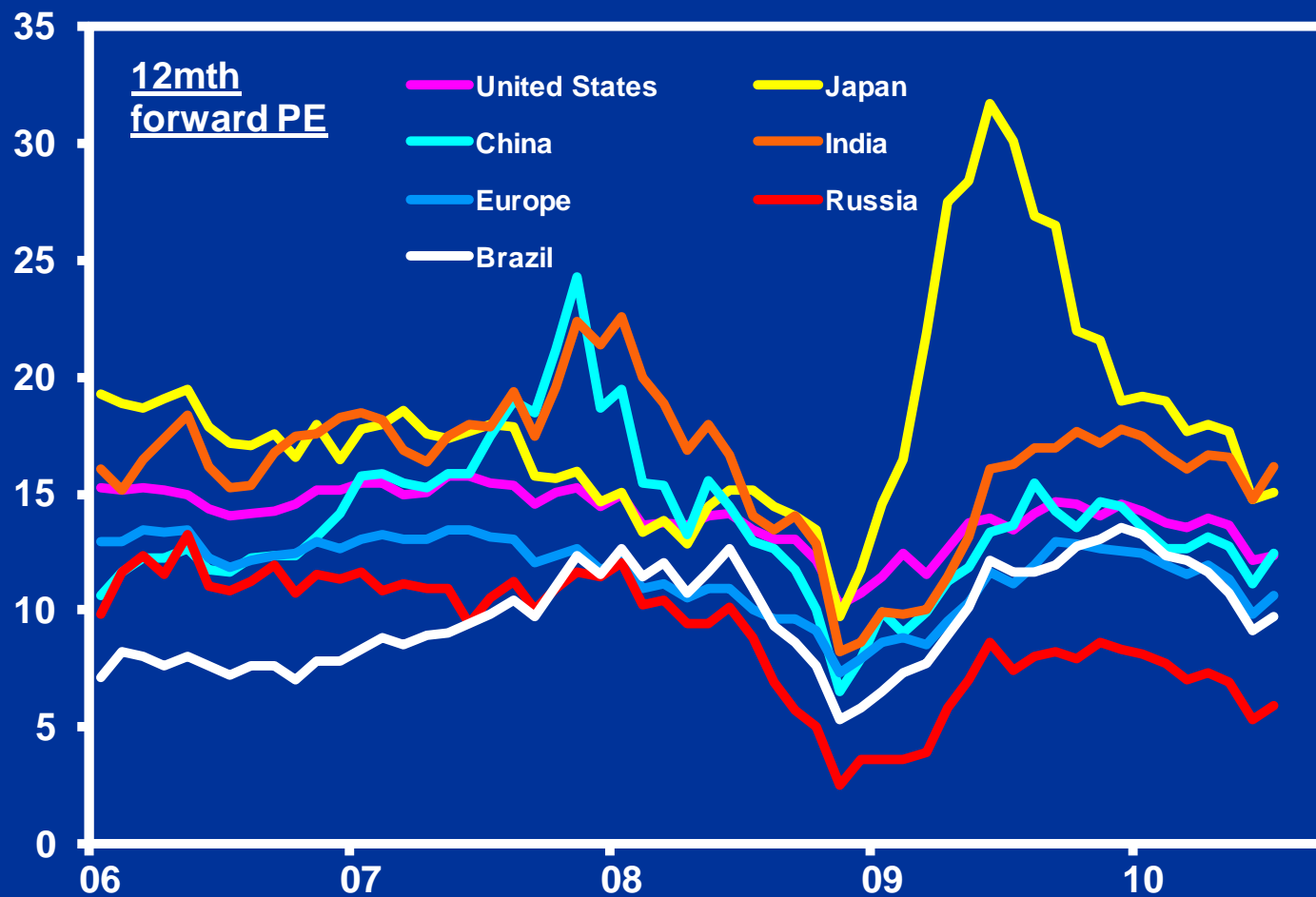
Current Estimates for the Equity Risk Premium*

	Real GDP Growth	Real Earnings Growth	Dividend Yield	Expected Real Return	Real Bond Yield	Implied ERP	Expected Inflation	Expected Nominal Return
US	3.0	3.0	2.1	5.1	1.2	3.9	2.0	7.1
Japan	1.5	1.5	1.9	3.4	0.6	2.9	0.5	3.9
UK	2.8	2.8	3.2	6.0	-0.5	6.6	2.0	8.0
Europe ex UK	2.3	2.3	3.2	5.4	-0.5	5.9	2.0	7.4
Slow World	2.5	2.5	2.5	5.0	0.4	4.6	1.8	6.8
Optimistic World	4.0	4.0	2.5	6.5	0.4	6.1	1.8	8.3

*Calculated as of 23 July 2010

Source: GS Global ECS Research

Trend in Forward P/Es



Source: GS Global ECS Research

Interest Rate Forecasts

		3-month horizon			6-month horizon		12-month horizon	
		Current*	Forward	Forecast	Forward	Forecast	Forward	Forecast
US	3M	0.5	0.5	0.7	0.5	0.8	0.7	0.8
	10Y	3.0	3.1	3.3	3.2	3.3	3.5	3.5
Canada	3M	0.9	1.2	1.2	1.4	1.7	1.7	2.5
	10Y	3.2	3.3	3.5	3.4	3.5	3.6	3.8
Australia	3M	4.8	5.0	4.9	5.0	5.1	5.1	5.6
	10Y	5.2	5.3	5.5	5.3	5.8	5.4	6.0
Japan	3M	0.4	0.3	0.4	0.3	0.4	0.6	0.4
	10Y	1.1	1.1	1.5	1.2	1.6	1.3	2.0
Euroland	3M	0.9	1.0	0.8	1.0	0.9	1.1	1.5
	10Y	2.7	2.8	3.3	2.8	3.3	2.9	3.5
UK	3M	0.8	0.8	0.9	0.8	1.6	1.1	2.4
	10Y	3.5	3.7	4.0	3.8	4.0	4.0	4.5
Sweden	3M	0.9	1.1	1.2	1.3	1.4	1.7	2.3
	10Y	2.6	2.7	3.4	2.7	3.5	2.9	4.0
Switzerland	3M	0.2	0.2	0.3	0.3	0.5	1.3	1.3
	10Y	1.4	1.5	2.1	1.6	2.2	1.7	2.3

Close 23 July 10

Source: GS Global ECS Research

Foreign Exchange Forecasts

	Current*	3-months		6-months		12-months	
		Forward	Forecast	Forward	Forecast	Forward	Forecast
EUR/\$	1.29	1.29	1.22	1.29	1.35	1.29	1.38
\$/¥	87.4	87.3	85.0	87.2	83.0	86.9	90.0
EUR/¥	112.9	112.8	103.7	112.6	112.1	112.1	124.2
EUR/CHF	1.36	1.36	1.27	1.35	1.30	1.35	1.33
CHF/¥	83.11	83.12	81.65	83.11	86.19	83.04	93.38
\$/CHF	1.05	1.05	1.04	1.05	0.96	1.05	0.96
EUR/£	0.84	0.84	0.84	0.84	0.84	0.84	0.84
£/\$	1.54	1.54	1.45	1.54	1.61	1.54	1.64
£/¥	134.8	134.6	123.5	134.3	133.4	133.7	147.9
£/CHF	1.62	1.62	1.51	1.62	1.55	1.61	1.58
EUR/NOK	7.97	8.01	7.70	8.04	7.70	8.10	7.60
EUR/SEK	9.43	9.44	9.60	9.45	9.40	9.48	9.00
A\$/	0.90	0.89	0.88	0.88	0.88	0.86	0.86
NZ\$/	0.73	0.72	0.74	0.72	0.74	0.70	0.70
\$/C\$	1.04	1.04	1.03	1.04	1.03	1.04	1.00
\$/CNY	6.78	6.77	6.74	6.76	6.66	6.70	6.49

* Close 23 July 10

Source: GS Global ECS Research

Disclaimer

I, Jim O'Neill hereby certify that all of the views expressed in this report accurately reflect personal views, which have not been influenced by considerations of the firm's business or client relationships.

Global product; distributing entities

The Global Investment Research Division of Goldman Sachs produces and distributes research products for clients of Goldman Sachs, and pursuant to certain contractual arrangements, on a global basis. Analysts based in Goldman Sachs offices around the world produce equity research on industries and companies, and research on macroeconomics, currencies, commodities and portfolio strategy. This research is disseminated in Australia by Goldman Sachs JBWere Pty Ltd (ABN 21 006 797 897) on behalf of Goldman Sachs; in Canada by Goldman Sachs & Co. regarding Canadian equities and by Goldman Sachs & Co. (all other research); in Hong Kong by Goldman Sachs (Asia) L.L.C.; in India by Goldman Sachs (India) Securities Private Ltd.; in Japan by Goldman Sachs Japan Co., Ltd.; in the Republic of Korea by Goldman Sachs (Asia) L.L.C., Seoul Branch; in New Zealand by Goldman Sachs JBWere (NZ) Limited on behalf of Goldman Sachs; in Russia by OOO Goldman Sachs; in Singapore by Goldman Sachs (Singapore) Pte. (Company Number: 198602165W); and in the United States of America by Goldman Sachs & Co. Goldman Sachs International has approved this research in connection with its distribution in the United Kingdom and European Union.

European Union: Goldman Sachs International, authorised and regulated by the Financial Services Authority, has approved this research in connection with its distribution in the European Union and United Kingdom; Goldman, Sachs & Co. oHG, regulated by the Bundesanstalt für Finanzdienstleistungsaufsicht, may also distribute research in Germany.

General disclosures

This research is for our clients only. Other than disclosures relating to Goldman Sachs, this research is based on current public information that we consider reliable, but we do not represent it is accurate or complete, and it should not be relied on as such. We seek to update our research as appropriate, but various regulations may prevent us from doing so. Other than certain industry reports published on a periodic basis, the large majority of reports are published at irregular intervals as appropriate in the analyst's judgment.

Goldman Sachs conducts a global full-service, integrated investment banking, investment management, and brokerage business. We have investment banking and other business relationships with a substantial percentage of the companies covered by our Global Investment Research Division. SIPC: Goldman, Sachs & Co., the United States broker dealer, is a member of **SIPC** (<http://www.sipc.org>).

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients and our proprietary trading desks that reflect opinions that are contrary to the opinions expressed in this research. Our asset management area, our proprietary trading desks and investing businesses may make investment decisions that are inconsistent with the recommendations or views expressed in this research.

We and our affiliates, officers, directors, and employees, excluding equity and credit analysts, will from time to time have long or short positions in, act as principal in, and buy or sell, the securities or derivatives, if any, referred to in this research.

This research is not an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Clients should consider whether any advice or recommendation in this research is suitable for their particular circumstances and, if appropriate, seek professional advice, including tax advice. The price and value of investments referred to in this research and the income from them may fluctuate. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. Fluctuations in exchange rates could have adverse effects on the value or price of, or income derived from, certain investments.

Certain transactions, including those involving futures, options, and other derivatives, give rise to substantial risk and are not suitable for all investors. Investors should review current options disclosure documents which are available from Goldman Sachs sales representatives or at <http://www.theocc.com/publications/risks/riskchap1.jsp>. Transactions cost may be significant in option strategies calling for multiple purchase and sales of options such as spreads. Supporting documentation will be supplied upon request.

All research reports are disseminated and available to all clients simultaneously through electronic publication to our internal client websites. Not all research content is redistributed to our clients or available to third-party aggregators, nor is Goldman Sachs responsible for the redistribution of our research by third party aggregators. For all research available on a particular stock, please contact your sales representative or go to www.360.gs.com

Disclosure information is also available at <http://www.gs.com/research/hedge.html> or from Research Compliance, 200 West Street, New York, NY 10282.

No part of this material may be (i) copied, photocopied or duplicated in any form by any means or (ii) redistributed without the prior written consent of The Goldman Sachs Group, Inc.

© Copyright 2010, The Goldman Sachs Group, Inc. All Rights Reserved.