

To: Oakmont Corporation

From: Damon de Laszlo

DABERIAM XL

June 2008

Global Economic Indicators

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| World Economic Growth | 2007 (IMF Estimate) | 4.90% | 2006 (World Bank) | 4.00% | 2005 (World Bank) | 3.60% |
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| Base rates: 30 May 2008 | USD | 2.00% | EUR | 4.00% | GBP | 5.00% |
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| MSCI World Equity Index | 30/05/2008 | 323.824 | 31/12/2007 | 299.916 | YTD % | 7.97% |
| Gold (PM London Fix \$ per ounce) | 30/05/2008 | 885.75 | 28/12/2007 | 833.75 | YTD % | 6.24% |
| Oil (WTI Crude \$ per barrel) | 30/05/2008 | 127.36 | 28/12/2007 | 96.01 | YTD % | 32.65% |

The Chairman of the British Financial Services Authority made a stunning statement to the Annual Conference of the British Bankers Association:

The FSA will press ahead with plans to overhaul the regulation of banks' liquidity requirements even if international efforts to co-ordinate a response to the credit crisis are delayed –from the Financial Times, 12th June.

Bearing in mind it is the FSA's lack of attention or comprehension of bank regulation which allowed the Northern Rock situation to develop and the inadequacy of the Basle 2 Rules to create an international liquidity standard for banks that has allowed the rapid spread of the banking crisis around the Western world, one can only be amazed at the hubris of the regulators.

Political pressure is tending to give Regulators the power to introduce national standards in a global world. It is also giving politicians the misplaced confidence that comes with 20:20 hindsight to add to the confusion of regulation.

The last ten years, with its ups and downs, have been basically benign from an inflation point of view. This environment has been largely due to the growth of global trade and the impact of Chinese industrial development, which has kept down the price of manufactured goods. This low inflationary period has ended as the supply of raw materials, i.e. oil and other energy sources, copper, iron, etc. has been overrun by demand, dramatically pushing up their prices, with its knock on effect on food and other basics. During the year domestic inflation in China has started to rise sharply. To the rising raw material prices must be added rapidly rising wage rates as labour shortages start to appear in the areas where the earlier industrialisation took place. To the rising domestic prices must be added the currency appreciation of the

RMB being caused by the huge balance of trade surpluses. Chinese goods are now adding to western inflation rather than restraining it.

The conventional Central Banking response to inflation is to push up interest rates to dampen down the economy, but this will have little effect on imported inflation. Coincidentally, there is a massive restriction in liquidity arising from the banking crisis as well as being imposed by the Regulators.

The combined effect of these policies is likely to drive the economies of Europe and the UK into a major downturn as national Governments in these areas consume some 50% of their respective countries' GDP, the ability of the rest of the economy to react to the changes is limited. So we can expect recession and inflation.

The good news for Asia is that the slowdown is from fast to not quite so fast economic development as domestic demand is somewhat perversely replacing export demand as national wages rise. The beneficiary of development apart from Asia is primarily the USA, which is becoming the new supplier to the world as US industry takes advantage of the dollar depreciation.

While the US banking and property crisis will cause considerable economic disruption, the industrial revival will create a considerable cushion to the general downturn. It is particularly important to remember that the US Government represents the cost of only some 25% of the country's GDP compared with Europe.

Commodity prices in general will probably reduce as the world economy slows but oil and other energy sources are constrained by political action in the producer countries with surplus capacity. While wind and solar are nice but minor sources of energy, the other source, Nuclear, again is constrained by politics.

It is unlikely, therefore, that we will head into a major global recession and maybe the fact that Europe suffers most in the global context will show people that the overarching European bureaucracy is the problem, not the solution to our prosperity. However, my thought for the summer – this is more of a hope than a likelihood – is that the politicians can't fool all of the people all of the time. We will see what the summer brings.

Damon de Laszlo
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