

**To: Oakmont Corporation**

**From: Damon de Laszlo**

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**June 2009**

**Global Economic Indicators**

<b>World Economic Growth (IMF Figures + Projection)</b>	<b>2009</b>	<b>0.50%</b>	<b>2008</b>	<b>3.40%</b>	<b>2007</b>	<b>5.20%</b>
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<b>Base rates: 30 June 2009</b>	<b>USD</b>	<b>0.25%</b>	<b>EUR</b>	<b>1.00%</b>	<b>GBP</b>	<b>0.50%</b>
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<b>MSCI World Equity Index</b>	<b>30/06/2009</b>	<b>190.833</b>	<b>31/12/2008</b>	<b>181.894</b>	<b>YTD %</b>	<b>4.91%</b>
<b>Gold (PM London Fix \$ per ounce)</b>	<b>30/06/2009</b>	<b>934.50</b>	<b>30/12/2008</b>	<b>869.75</b>	<b>YTD %</b>	<b>7.44%</b>
<b>Oil (WTI Crude \$ per barrel)</b>	<b>30/06/2009</b>	<b>69.89</b>	<b>31/12/2008</b>	<b>44.60</b>	<b>YTD %</b>	<b>56.70%</b>

At the half year it's worth having a quick look back and then forward. Last June we had seen the collapse of Northern Rock, a very uncomplicated Building Society/Bank, which we now know the FSA had 'thought' might happen three years before, but they had totally failed to draw any conclusion from the models they had been running.

A year ago I had anticipated "a major downturn" but had not anticipated the economic heart attack caused by the collapse of Lehman Brothers. We had anticipated that forecasters would be "extrapolating endless gloom and disaster" in 2009.

Today the gloom and disaster scenario continues and most predictions do not include the idea of a continuing recovery. The reality, however, seems to be that things are certainly not getting worse at the rate predicted and in many areas are showing considerable signs of life. Asia and the US have Governments that have put in place massive global fiscal stimulus. According to the IMF, China's stimulus package is estimated to be equivalent to 12.1% of GDP in 2009, with the US at 5.6% and with Germany trailing at 3.4%. Britain, with an exchequer that run out of money before the crisis, and in spite of all the hyperbolic announcements, is implementing a package of only 1.8% of GDP.

US motorcar production is likely to restart in July and house prices seem to be stabilising. Inventories in the US are at rock bottom and most interestingly, US corporate productivity is running very much higher than anticipated as companies dramatically cut into payrolls and inventory going into the recession. As we go from a declining GDP in the US to flat and the likelihood of a rise in the 3<sup>rd</sup> or 4<sup>th</sup> quarter, corporate profitability will produce a lot of upside surprises. Couple this with the banking industry in the US which has basically unloaded pretty much all of its dirty washing and has had to massively write down a lot of its assets under the banking regulation that exacerbated the crisis and you have a scenario where bank profitability will also be dramatically improving in the second half year.

For many different reasons China is also rapidly turning round and will bring with it the rest of Asia, including Japan. Europe remains the black hole in the global economy. Germany, the key economic driver in Europe, is in serious trouble. German elections in September have meant an unwillingness of the government to address the banking crisis and the subsidy to German industry to avoid unemployment rising has meant that German industrial productivity has collapsed, producing a massive drop in gross profits and a draining of liquidity. By the same token, it is not at all clear that the banking system has been cleaned up to the same extent as the US.

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The UK, on the edge of Europe, could be on another planet. Again the prospect of elections means that fiscal imprudence is now the order of the day. None of the political parties dare address the truly extraordinary state of government finance. It is virtually impossible to comprehend the real size of the government deficit. As Martin Wolf pointed out so succinctly a week ago in the FT, "The British government is forecast to spend £4 for every £3 it receives." Next year the government is forecasting spending over 48% of GDP, an economically suffocating number for the whole economy, and this ignores the fact that for the government to fund its own employees pension schemes, it would need to take 85% of the country's GDP. For the time being no political party can address these problems and it is difficult to see, under a democratic system, how it can be addressed as 25% of the UK work force is in the public sector and they are unlikely to vote for a curtailment of their own special privileges. It's difficult to comprehend how the special problems of the UK are going to work out without another crisis.

On a global basis, however, it would seem the green shoots of a late Spring are coming on nicely. We just need to pray for a little rain!

Damon de Laszlo  
29 June 2009