

Ten Outrageous Predictions - 2010

Chief Economist – David Karsbøl

Strategy & Research



1. Bunds yields to 2.25% (@ 122.6, up to 133.3)

- Deflationary forces and need to place private savings.
- Traders refuse to buy into stock markets current "growth story"
- Look for negative macro economic triggers towards year-end.

2. VIX to 14 (@ 22.32)

- Volatility has decreased steadily since late October 2008
- We sense similar risk characteristics as in 2005-2006
- Look for tighter trading ranges → implied options volatility declines

3. CNY to be devalued by 5% vs. USD (@ 6.8250)

- Chinese credit growth stimulus fades – succeeded in creating several investment bubbles
- Has the Chinese economy been swimming naked?
 - 2010 growth rates will tell us
- Keep track of the (increasing) spare capacity

4. Gold falls to \$870 (@ 1130)

- Bullish long-term (~1500 within 2014)
 - Too widespread and easy trade in the shorter term
- High speculating activity
- Look for a stronger USD in second half of 2010.

5. USDJPY to 110 (@ 89.30)

- The USD carry trade will vanish in 2010
 - Simply been too obvious for too long
- We believe in a stronger USD (irrespective of fiscal and monetary problems)
vs. JPY (huge debt burden and ageing population)

6. Angry American public to form third party in the US

- Anti-incumbent mood is approaching 1994 and 2006 levels, when control of Congress changed hands
- American public is dissatisfied especially with the managing of the crisis
 - Applicable to both parties
- Opening for a third-party challenge as strong as Ross Perot's in 1992 (...which could become a factor already in the 2010 mid-terms)
- Voters may disregard the current electoral system in spite of the possibility of losing their vote

7. US Social Security Trust Fund to go bust

(in need of a bail-out from the General Fund or higher FICA taxes)

- "Theoretical certainty"
- Parts of the Trust Fund payments must be financed from the General Fund
 - In effect, the budget tricks will finally become observable
- Ultimately, all outlays are financed by increasing taxes, even more debt or by the money printer.

8. Sugar to drop one third (@ 23.33)

- The current spike in the price of sugar was caused by rare weather conditions
 - Extreme drought in India & unusual large amounts of rain in Brazil
- High ethanol price → lowers demand for sugar
- The ethanol share of gasoline has been dropping in both the US and Brazil

9. TSE Small Index to rise by 50% (@ 888.88)

- Small cap firms have underperformed the Nikkei
- What we would call a "bargain index"
 - Price-to-book ratio: 0.77
- Financials only represents 12% of the index

10. US trade balance to turn positive

- The last time US reported a positive trade balance - we have to go back and visit the aftermath of the oil crisis (~34 years ago)
- Lately, the USD has lost ground against other currencies, like in the 1970's
 - Exports become more attractive and vice versa for imports

Questions?