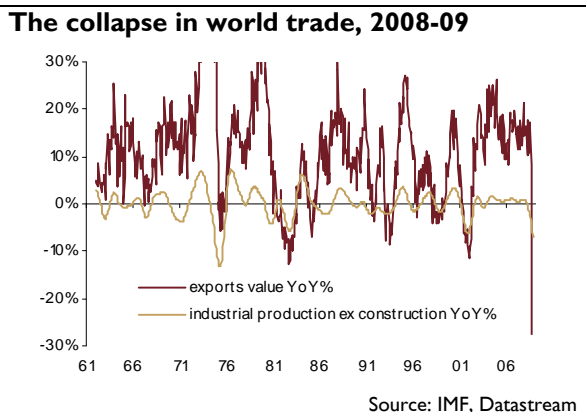


De-globalisation?

One impact of the sharp restriction in credit growth that started in 2007 has been to throw many recent economic trends into reverse. Buoyant growth has been replaced by a fear of depression; price deflation is now more of a threat to economic stability than rapidly rising commodity prices. Over recent months, a picture has also emerged of a global trading environment that has suffered little short of a heart attack and has gone from expanding much faster than overall growth (globalisation) to shrinking at a far quicker pace. This ‘de-globalisation’ will have far-reaching implications for investors.

In the year to October 2008, global exports fell by 28%, and more recent inventory figures from the US suggest that this sharp decline of trade relative to production continued to the end of 2008. This represents the largest annual decline in trade since the IMF data series began in 1960.

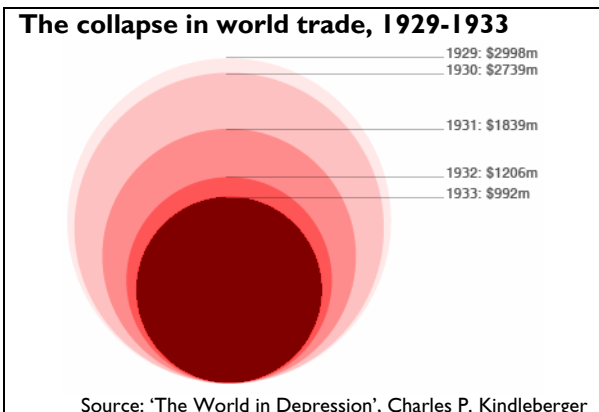


This dramatic move is the result of three main factors. First, rapidly slowing demand growth has caused a reassessment of the volumes required to flow through global supply chains. Second, this is a value measure and so will be partly the result of falling prices rather than lower volumes – though, to exporting countries, the distinction is largely irrelevant. Finally, trade is a particularly finance-

intensive activity and so will be disproportionately affected by credit restrictions. While moves towards economic nationalism in several countries over the past month have caused alarm, these sentiments post-dated the collapse in trade.

The pace of decline in global trade is comparable with the early years of the Great Depression, but the dynamics are different. At the time the US passed the infamous Smoot-Hawley Tariff Act in 1930 – starting a period of tit-for-tat tariffs and competitive devaluation – global trade had fallen by 9%, which was significant but hardly ‘Great’. Over the next three years, global trade fell persistently, at an average annual rate of 17%.

Global trade has already become dislocated, hitting countries and sectors that rely on external demand growth hardest. The resultant inventory build-up will take some time to unwind. Deliberate political attempts to disrupt trade further would be pushing on an open door and could be devastating.



In our changed, more volatile world, de-globalisation is a key risk for investors.

In tomorrow’s *Daily Themes*, we will examine this topic in more detail, looking at the immediate risks from the eventual unwinding of inventories left over from the trade heart attack of the second half of 2008.

Carl Astorri
+ 44 20 7753 1612

Richard Batley
+ 44 20 7753 1576

Jean-Maurice Ladure
+ 44 20 7753 1469

Henry Lancaster
+ 44 20 7957 2426

Issued by Coutts & Co, which is authorised and regulated by the Financial Services Authority. Coutts & Co is registered in England No. 36695. Registered office: 440 Strand, London WC2R 0QS.

The value of investments, and the income from them, can go down as well as up, and you may not recover the amount of your original investment. Past performance should not be taken as a guide to future performance. Where an investment involves exposure to a foreign currency, changes in rates of exchange may cause the value of the investment, and the income from it, to go up or down.

The information in this document is not intended as an offer or solicitation to buy or sell securities or any other investment or banking product, nor does it constitute a personal recommendation. The information is believed to be correct but cannot be guaranteed. Any opinion or forecast constitutes our judgement as at the date of issue and is subject to change without notice. Any Coutts company, or a connected company, its clients and officers may have a position or engage in transactions in any of the securities mentioned.

The analysis contained in this document has been procured, and may have been acted upon, by Coutts & Co and connected companies for their own purposes, and the results are being made available to you on this understanding. To the extent permitted by law and without being inconsistent with any applicable regulation, neither Coutts & Co nor any connected company accepts responsibility for any direct or indirect or consequential loss suffered by you or any other person as a result of your acting, or deciding not to act, in reliance upon such analysis.

Not all products and services offered by the individual Coutts companies are available in all jurisdictions, and some products and services may be available only through particular Coutts companies.

None of the overseas Coutts companies or offices is an Authorised Person subject to the rules and regulations made under the Financial Services and Markets Act 2000 for the protection of investors and depositors, and compensation under the Financial Services Compensation Scheme will not be available in respect of business transacted with them.