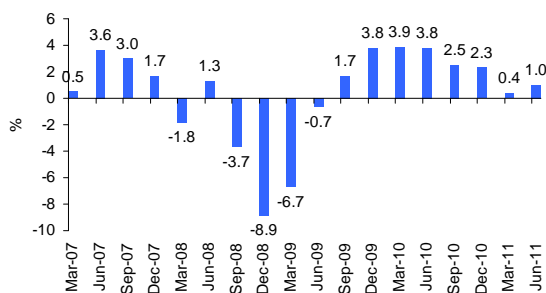


Market Watch

29 August 2011

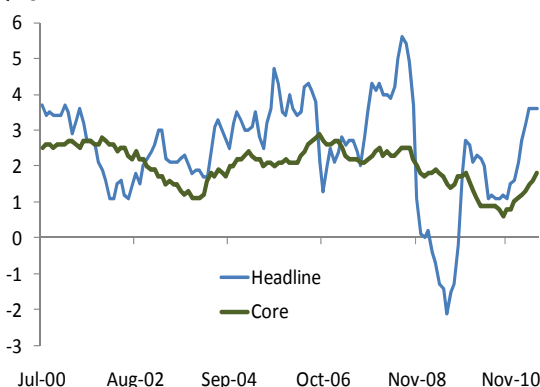
Economy falters in H1

Quarterly GDP growth chart



Source: Bloomberg, Standard Chartered

Rising core inflation remains an impediment to QE3



Source: Bloomberg, Standard Chartered

Steve Brice
Chief Investment Strategist

Rob Aspin
Senior Investment Strategist

Suren Chelliah
Investment Strategist

Bernanke targets united front

SUMMARY

- S&P500 rose 1.5% on Friday, despite Bernanke deciding not to offer any indications of further policy measures to aid the economy
- Bernanke appears to be more focused on building consensus at the Fed in case further action is required
- In his speech, he stressed the two concerns held by the three FOMC members that dissented from the decision to virtually promise to keep interest rates at current levels for two years
- First, while the economic outlook has softened (on Friday, Q2 GDP was revised to 1.0% annualized from 1.3% initially reported), it is still consistent with a recovery in H2 and thus a stimulus is not required
- Second, the government's deadlock over the debt ceiling is largely responsible for the recent slump in confidence. Therefore, the burden is on the US government to plot a path towards fiscal sustainability while not ignoring the current fragility of the economy
- By focusing on the dissenters' concerns, and by making the next FOMC meeting a two-day meeting, it is clear that he is unhappy at the recent lack of Fed unity
- Bernanke understands that QE3 would be extremely unpopular in many political circles, at home and abroad, and thus is keen for the Fed to be united if and when such action becomes necessary
- He also continued to reiterate that the Fed has additional policy tools should the situation warrant it but fell short of outlining the details
- We continue to believe rising core inflation remains an impediment to QE3 and we expect core inflation to peak in late Q4
- We retain the view that QE3 will only take place in Q1 2012
- The next indication of the Fed's thinking will be released on August 30th when the FOMC minutes from the August meeting are released

Disclosure Appendix

This document is not research material and it has not been prepared in accordance with legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research. This document does not represent the views of Standard Chartered Bank, particularly those of the Global Research function.

Standard Chartered Bank is incorporated in England and Wales with limited liability by Royal Charter 1853, Reference number ZC 18. The Principal Office of the Company is situated in England at 1 Aldermanbury Square London EC2V 7SB. Standard Chartered Bank is authorised and regulated by the Financial Services Authority under FSA register number 114276.

In Dubai International Financial Centre (“DIFC”), the attached material is circulated by Standard Chartered Bank DIFC on behalf of the product and/or Issuer. Standard Chartered Bank DIFC is regulated by the Dubai Financial Services Authority (DFSA) and is authorised to provide financial products and services to persons who meet the qualifying criteria of a Professional Client under the DFSA rules. The protection and compensation rights that may generally be available to retail customers in the DIFC or other jurisdictions will not be afforded to Professional Clients in the DIFC.

Banking activities may be carried out internationally by different Standard Chartered Bank branches, subsidiaries and affiliates (collectively “SCB”) according to local regulatory requirements. With respect to any jurisdiction in which there is a SCB entity, this document is distributed in such jurisdiction by, and is attributable to, such local SCB entity. Recipients in any jurisdiction should contact the local SCB entity in relation to any matters arising from, or in connection with, this document. Not all products and services are provided by all SCB entities.

This document is being distributed for general information only and it does not constitute an offer, recommendation, solicitation to enter into any transaction or adopt any hedging, trading or investment strategy, in relation to any securities or other financial instruments. This document is for general evaluation only, it does not take into account the specific investment objectives, financial situation, particular needs of any particular person or class of persons and it has not been prepared for any particular person or class of persons.

Opinions, projections and estimates are solely those of SCB at the date of this document and subject to change without notice. Past performance is not indicative of future results and no representation or warranty is made regarding future performance. Any forecast contained herein as to likely future movements in rates or prices or likely future events or occurrences constitutes an opinion only and is not indicative of actual future movements in rates or prices or actual future events or occurrences (as the case may be).

This document has not and will not be registered as a prospectus in any jurisdiction and it is not authorised by any regulatory authority under any regulations.

SCB makes no representation or warranty of any kind, express, implied or statutory regarding, but not limited to, the accuracy of this document or the completeness of any information contained or referred to in this document. This document is distributed on the express understanding that, whilst the information in it is believed to be reliable, it has not been independently verified by us. SCB accepts no liability and will not be liable for any loss or damage arising directly or indirectly (including special, incidental or consequential loss or damage) from your use of this document, howsoever arising, and including any loss, damage or expense arising from, but not limited to, any defect, error, imperfection, fault, mistake or inaccuracy with this document, its contents or associated services, or due to any unavailability of the document or any part thereof or any contents.

SCB, and/or a connected company, may at any time, to the extent permitted by applicable law and/or regulation, be long or short any securities, currencies or financial instruments referred to on this document or have a material interest in any such securities or related investment, or may be the only market maker in relation to such investments, or provide, or have provided advice, investment banking or other services, to issuers of such investments. Accordingly, SCB, its affiliates and/or subsidiaries may have a conflict of interest that could affect the objectivity of this document.

This document must not be forwarded or otherwise made available to any other person without the express written consent of SCB.

Copyright: Standard Chartered Bank 2011. Copyright in all materials, text, articles and information contained herein is the property of, and may only be reproduced with permission of an authorised signatory of, Standard Chartered Bank. Copyright in materials created by third parties and the rights under copyright of such parties are hereby acknowledged. Copyright in all other materials not belonging to third parties and copyright in these materials as a compilation vests and shall remain at all times copyright of Standard Chartered Bank and should not be reproduced or used except for business purposes on behalf of Standard Chartered Bank or save with the express prior written consent of an authorised signatory of Standard Chartered Bank. All rights reserved. © Standard Chartered Bank 2011.

THIS IS NOT A RESEARCH REPORT AND HAS NOT BEEN PRODUCED BY A RESEARCH UNIT