Goldman Sachs

Investment Strategy Group

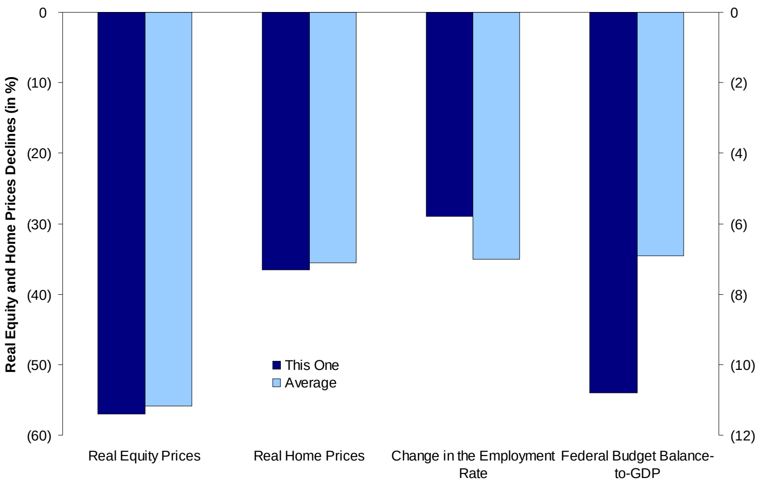
The Traders' Forum
Interest Rates, Currencies, and Commodities

January 14, 2010

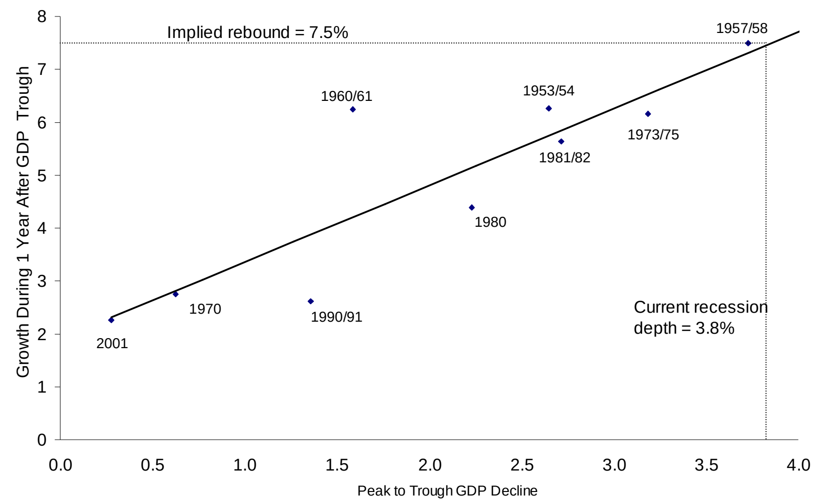
ISG's Outlook for the US Economy in 2010

Both the Crisis and the Recent Pickup Have Resembled Historical Precedent

1. Financial Crisis Severity: Today's vs. Historical Episodes Cumulative Declines from the Peak; This One and the Averages for Fourteen Precedents[1] 1929 Through November 2009



2. Growth in First Year of Recovery vs. Peak to Trough GDP Decline, 1950-2009 Business Cycles



- The truly unique aspect of this crisis has been the magnitude of the government's response. In contrast, the decline in equity prices, home prices and the employment rate has been quite consistent with previous banking crises.
- Each of the three GDP components that have driven US recoveries historically is <u>within</u> the range of historical outcomes.
- **<u>Conclusion:</u>** We expect US real GDP growth of 2.5-3% in 2010, higher than the growth rates generally seen in the early stages of other financial crisis recoveries of about 2%[2], but less than the 8% recovery suggested by the depth of the downturn.

Source: Investment Strategy Group, Empirical Research Partners Analysis, Reinhart, C.M. and Kenneth S. Rogoff, 2008. "The Aftermath of Financial Crises," Working Paper, Bureau of Labor Statistics, Standard & Poor's, International Monetary Fund, Department of Commerce (Bureau of Economic Analysis).

[1]Precedents include: Argentina (2001), Colombia (1998), Finland (1991), Hong Kong (1997), Indonesia (1997), Japan (1992), Korea (1997), Malaysia (1997), Norway (1987), Philippines (1997), Spain (1977), Sweden (1991), Thailand (1997) and U.S. (1929).

[2]OECD Recessions based on 21 OECD countries during 1960-2008; Source: World Economic Outlook, April 2009, Chapter 3. OECD countries consist of developed economies. A list of member countries is available at the following website: http://www.oecd.org/countrieslist/0,3351,en_33873108_33844430_1_1_1_1_1,00.html

ISG’s Outlook for the US Economy in 2010

This Recovery is Likely to Resemble Past Recoveries More Than People Expect

The outlook for the three key drivers of previous recoveries:

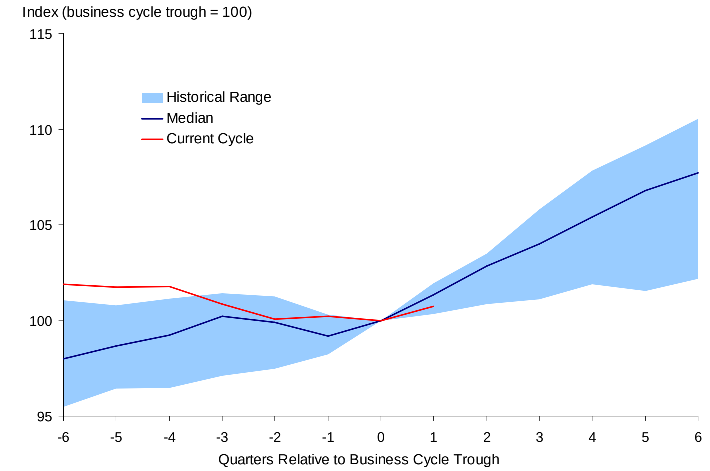
1. Consumption (the lynchpin):

- Consumption growth is key for a solid recovery.
- Our forecast of 2% growth is consistent with recoveries following financial crises.
- Durable goods and rising equity prices could surprise to the upside.

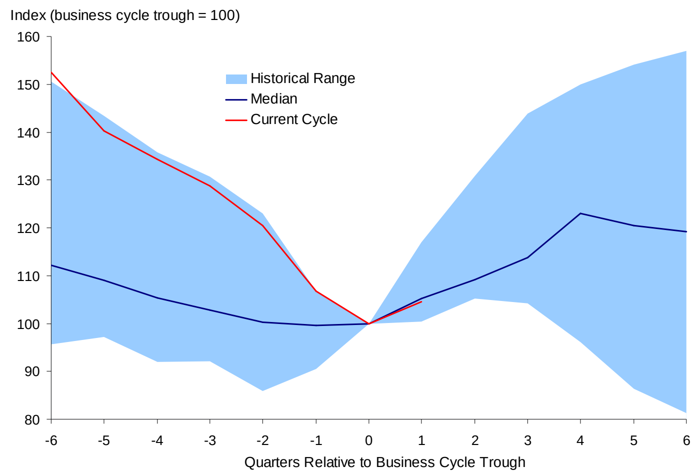
2. Residential investment: We expect to grow by 10-15% and this estimate could be low.

3. Inventories: We expect a stronger than typical inventory rebound.

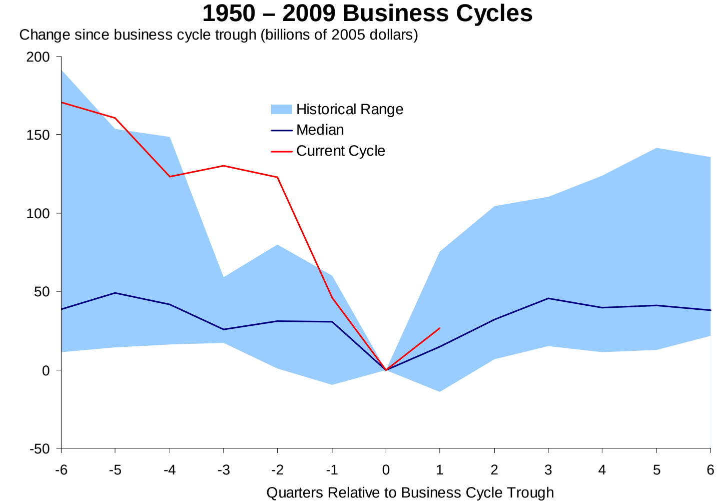
1. Real Personal Consumption Expenditures 1950 – 2009 Business Cycles



2. Real Residential Investment 1950-2009 Business Cycles



3. Real Inventories 1950 – 2009 Business Cycles



Source: Investment Strategy Group This material represents the views of the Investment Strategy Group of the Investment Management Division of Goldman Sachs and is not a product of the Goldman Sachs Global Investment Research Department.

ISG's Outlook for the US Economy in 2010

Contributions to GDP Growth

Component	Share of GDP[1]	2007	2008	ISG Central Case: 2009	ISG Central Case: 2010
Consumption	70%	1.9%	-0.2%	-0.4%	1.4%
Residential Investment	4%	-1.0%	-1.0%	-0.7%	0.3%
Non-Residential Investment	12%	0.7%	0.2%	-2.2%	-0.4%
Change in Inventories		-0.3%	-0.3%	-0.8%	0.9%
Government	19%	0.3%	0.6%	0.4%	0.4%
Net Trade	-4%	0.6%	1.2%	1.1%	0.1%
Total	100%	2.1%	0.4%	-2.5%	2.5-3.0%

[1] Average share of GDP in 2007 and 2008. May not add up to 100% due to rounding.

Source: Investment Strategy Group

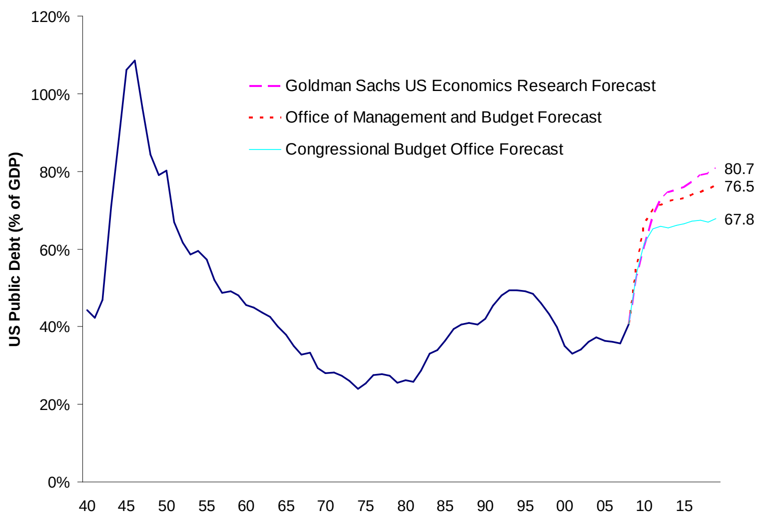
ISG’s Outlook for the US Economy in 2010

	Good Case (25%)	***Central Case (60%)***	***Bad Case (15%)***
Real GDP Growth	> 3.0%	2.5 – 3.0%	< 2.5%
Monetary Policy – End 10	0.5 – 1.0%	0.25 – 0.5%	0 – 0.25%
10Y Treasury Yield – End 10	> 4.75%	4.25 – 4.75%	< 4.25%
Inflation (Core CPI)	> 1.5%	1 – 1.5%	0.25 – 1%
Inflation (Headline CPI)	> 2.25%	1.75 – 2.25%	< 1.75%

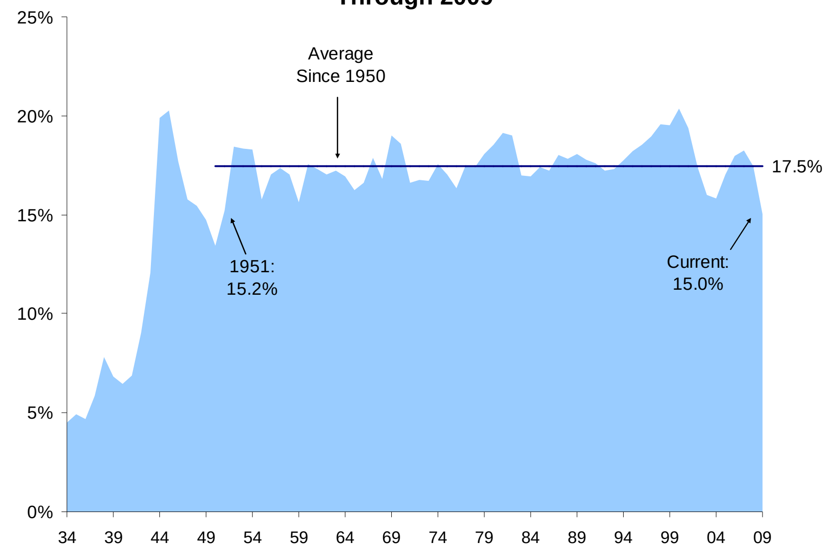
Source: Investment Strategy Group

Key Concerns: High Fiscal Deficit and Debt

1. US Public Debt (% of GDP)
Actual Data Through 2008; Forecast Data as of December 22, 2009



2. Federal Receipts as % of GDP
Through 2009

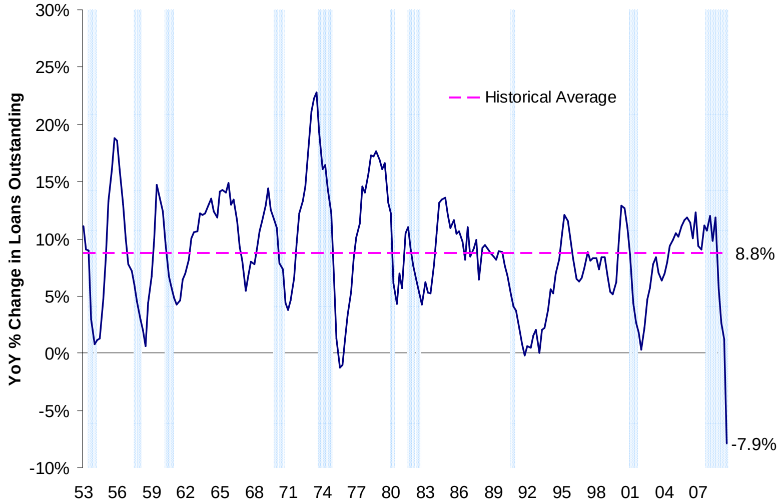


Concern	ISG View
High Fiscal Deficit and Debt	• Deficits tend to be cyclical, so renewed US economic growth will help decrease the deficit via high tax receipts and decrease the need for further fiscal stimulus. • The growing structural deficit is worrisome, but there is scope for the tax base and tax rates to rise, and we expect both to be raised in coming years. • US policymakers have a track record of taking remedial action to reduce high fiscal deficits and we expect such action in the foreseeable future. • **The budget deficit should gradually decline over the next several years.**

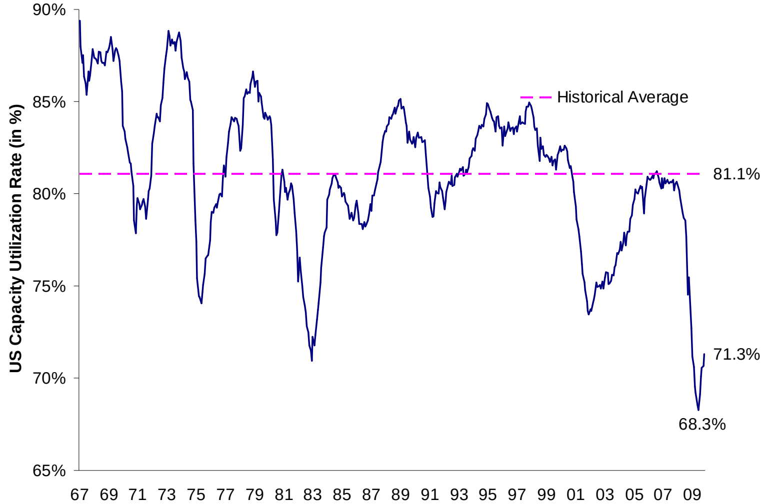
Source: Investment Strategy Group, Goldman Sachs US Economics Research, Congressional Budget Office, Office of Management and Budget

Key Concerns: Runaway Inflation

1. Commercial and Bank Holding Company Loans Outstanding (% YoY) Through Q3 2009



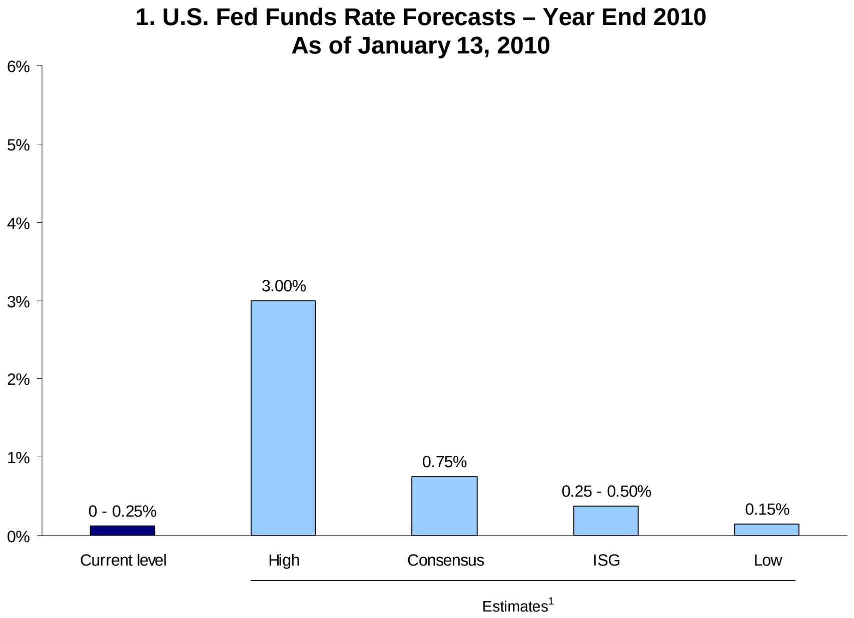
2. US Capacity Utilization Rate (in %) Through November 2009

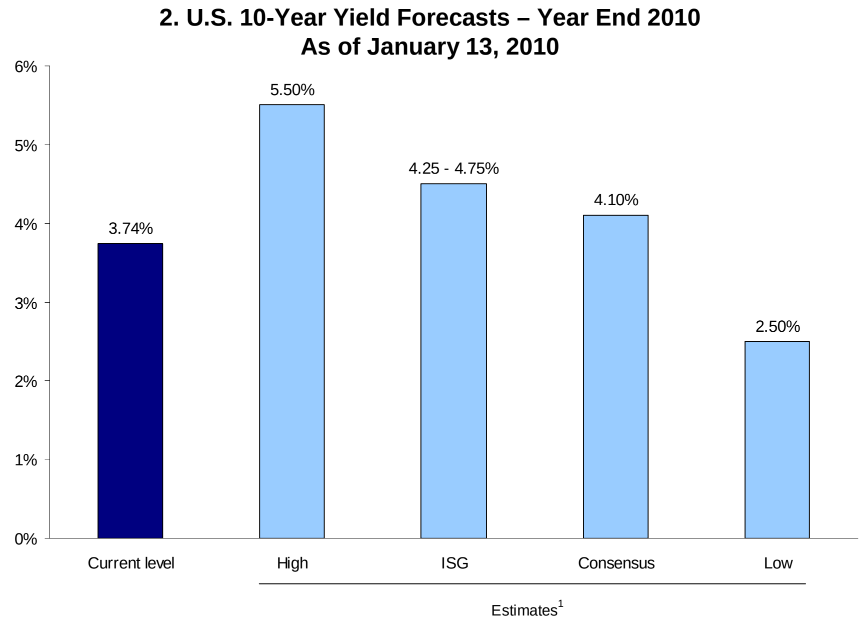


Concern	ISG View
Runaway Inflation	• With an economic recovery underway, the budget deficit can be addressed without policy makers having to resort to inflation to reduce the debt burden. • Very little of the rapid growth in the Fed's balance sheet has actually filtered into currency in circulation. • Also, the Fed has many tools at its disposal to tighten policy and is conscious about the repercussions of loose policy for too long. • Capacity utilization and the unemployment rate suggest that there is substantial slack in the economy. • Given the amount of slack, the Fed has sufficient time to formulate an exit strategy. • **High inflation is very unlikely over the next few years.**

Source: Investment Strategy Group, Federal Reserve

Current Interest Rate Forecasts for the US





- Both ISG and the current consensus forecasts have both the short and long end of the treasury yield curve rising in 2010.
- However, the ranges of underlying estimates of both the Fed Funds rate and 10 year yield are very wide.
  - Forecasts for the Fed Funds rate range from remaining on hold to raising rates to 3.0% by year end.
  - Likewise, 10 year treasury yield estimates range from 2.5% to 5.5%.

[1] High, low, and consensus estimates are based on Bloomberg survey.

Source: Investment Strategy Group, Bloomberg

ISG's Outlook for the Developed Markets in 2010

	United Kingdom		Euroland		Japan	
	Current	2010 Forecast	Current	2010 Forecast	Current	2010 Forecast
Real GDP*	-4.5%	1.5 - 2.0%	-3.8%	1.25 - 1.75%	-5.4%	1.25% - 1.75%
Headline CPI**	1.9%	2.25 - 2.75%	0.9%	1 - 1.5%	-1.9%	(0.75) - (1.25)%
10-Year Rate	4.01%	4.5 - 5.0%	3.39%	3.75 - 4.25%	1.29%	1.25 - 1.75%
Policy Rate	0.50%	0.5 - 1.0%	1.00%	1 - 1.25%	0.10%	0.10%

Topic	ISG Viewpoint
Euroland (21% of World GDP)	• Euroland will likely grow 1.25-1.75%. Exports and investment drove the recession. Exports rebounding will likely drive the recovery. Global demand recovering and trade financing firming up should benefit European exports.
Japan (9%)	• Japan will likely grow 1.25-1.75%, a weak recovery given that GDP contracted 8.6% during the recession. Exports help growth, but a low household savings rate and large budget deficits dampen it.
UK (4%)	• The UK economy will likely grow 1.5-2.0%. Global growth and a weak Pound should boost exports. High debt levels, persistent unemployment, and low current savings rates will likely temper consumption growth, however.

Source: Investment Strategy Group

We Have Been Here Before

Fears Over Demise of the US Dollar Seem to Resurface Every 10-15 Years!

"…US faces the loss of its most precious asset, Western democracy, because its citizens are lazy, cynical and unwilling to demand the kind of leadership democracy requires. [Felix Rohatyn] urges Pres Carter to … protect the US dollar."

The New York Times
December 7, 1978

"Widespread distrust of US is traced by bankers to the cumulative effect of political and economic policy-making over last 10 years, marked by high inflation and huge US deficit in international dealings."

The New York Times
February 15, 1979

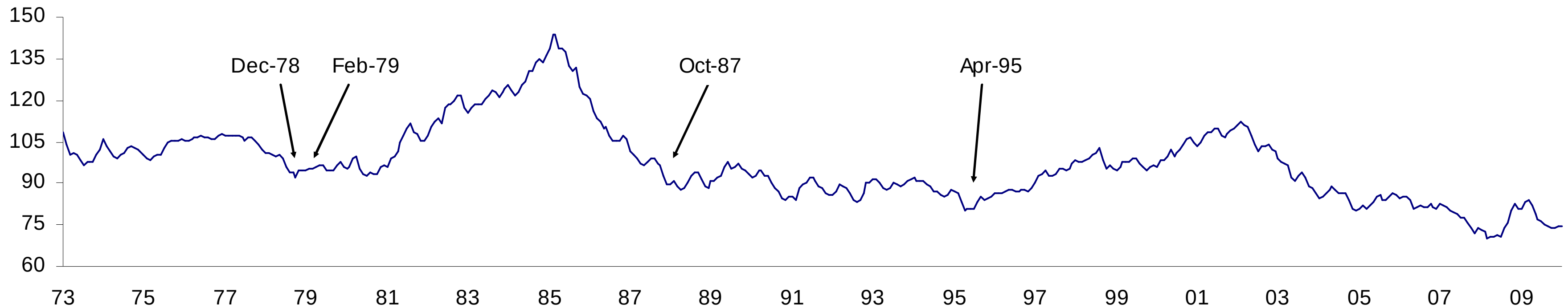
"The era of free-floating exchange rates may be drawing to a close...Finance ministers endorsed last February's Louvre Accord on exchange rate targets because they feared a dollar collapse."

Sydney Morning Herald
October 5, 1987

"Suddenly, no one wants to hold dollars. In the last fortnight, the dollar has dropped to … below or near the greenback's lowest levels since World War II. Even second-tier currencies such as the British pound, French franc, and Italian lira have strengthened against the dollar."

National Review
April 3, 1995

1. US Dollar Nominal Trade Weighted Index vs. Major Currencies (March 1973 = 100)



Source: Investment Strategy Group, Federal Reserve

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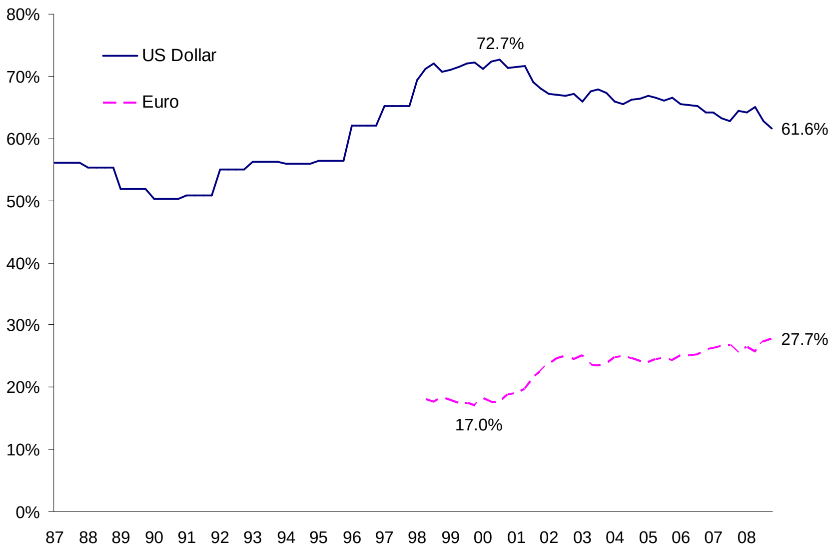
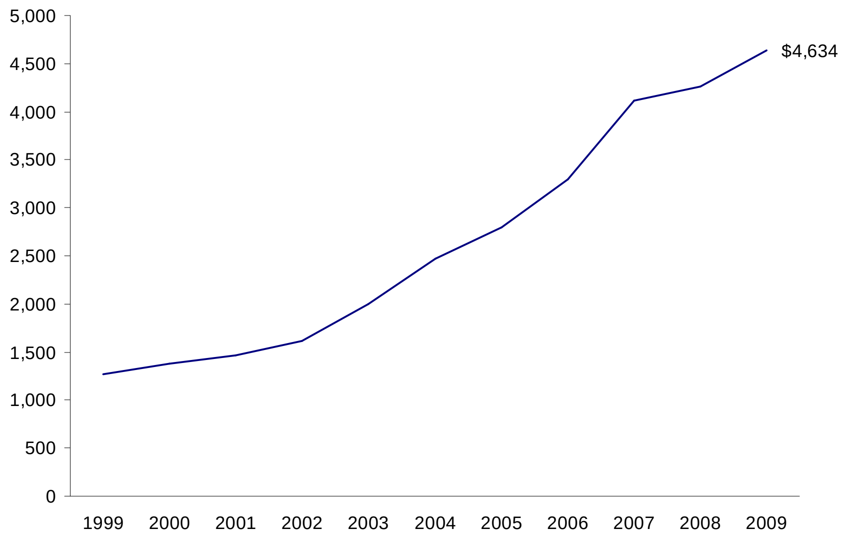
Key Concern Regarding US Dollar

Loss of Reserve Currency Status

1. Share of Total FX Reserves Allocated by Currency
As of June 2009



2. Total FX Reserves in US Dollars[1] ($ Billion)
As of September 2009



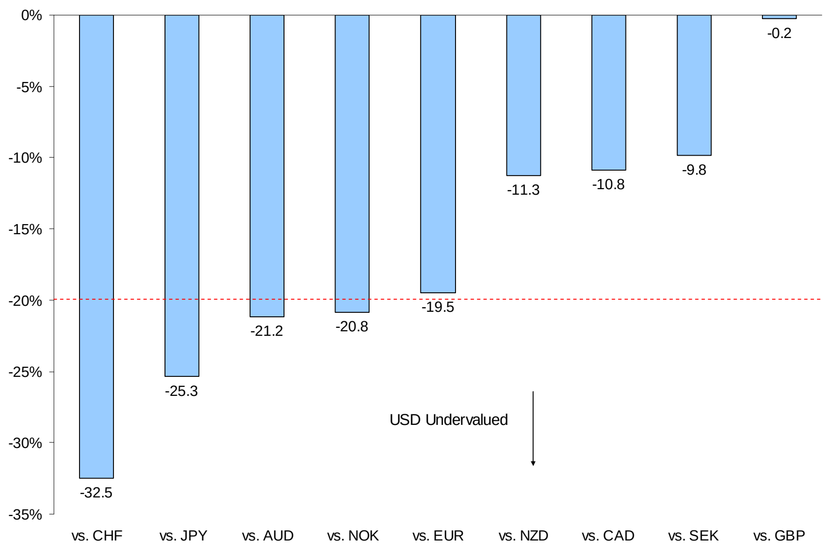
Concern	ISG View
Loss of Reserve Currency Status	• Slow diversification into the euro has been happening for a decade without threatening the US dollar's role as a reserve currency. • There is no credible alternative to the US dollar as the dominant reserve currency for the foreseeable future. • Demand for US dollar as a reserve currency is still strong. • **The dollar is unlikely to lose its reserve currency status in the foreseeable future.**

[1] Total FX reserves assumes that the composition of FX reserves that have not been allocated by country resembles the composition of the reserves that have been allocated.

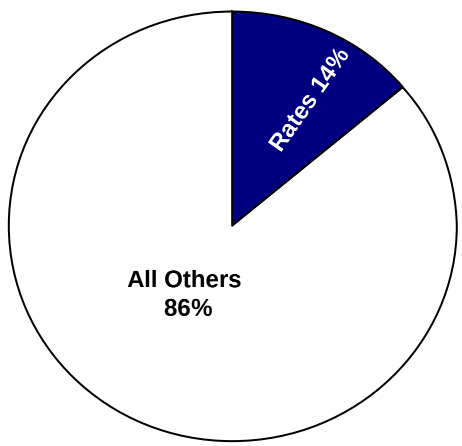
Source: Investment Strategy Group, IMF

Key Drivers of the Outlook for the US Dollar

1. USD Undervaluation[1]
As of December 2009



2. US Dollar Return Attribution[2]
Based USD 1970 through 2009



- The US dollar is undervalued relative to all developed market currencies. The signal is particularly strong relative to the Swiss Franc (CHF), Japanese Yen (JPY), Australian Dollar (AUD), Norwegian Krone (NOK), and Euro.

[1] Average of GSDEER, PPP and five year moving average foreign exchange misalignments.

[2] US dollar return based on trade-weighted exchange rate with major trading partners. Interest rate based on real fed funds rate (fed funds rate minus trailing 12-month CPI inflation).

Source: Investment Strategy Group, OECD, Goldman Sachs Global Investment Research

Outlook for Developed Market Currencies in 2010

1. Goldman Sachs Research Forecasts for the USD
As of December 2009

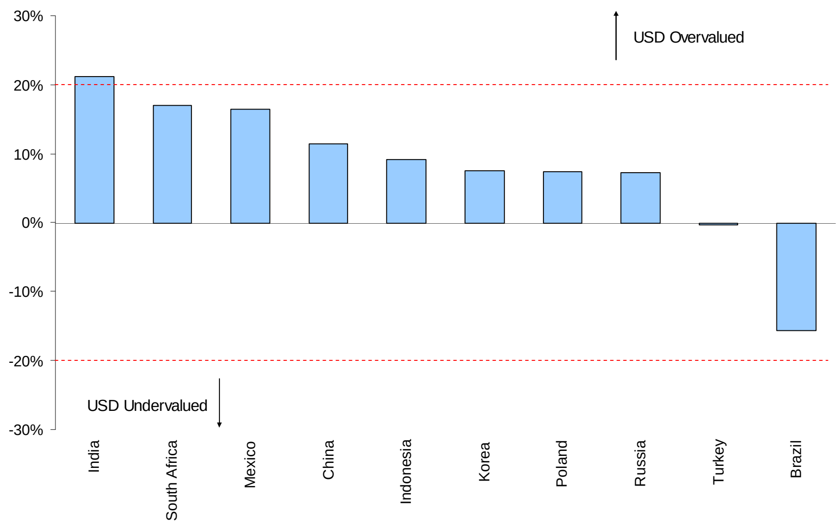
	Current Exchange Rate	GS Research End 2010 Forecasts: Forecast	GS Research End 2010 Forecasts: Implied USD Direction
EUR	1.44	1.35	USD +6.7%
CHF	1.02	1.16	USD +13.7%
GBP	1.60	1.61	USD -0.5%
JPY	92.5	105.0	USD +13.5%
CAD	1.03	1.08	USD +4.9%

Topic	ISG Viewpoint
Euroland	• The Euro is likely to depreciate. The Euro is about 20% over-valued against the dollar and 10-15% against Sterling. Fiscal problems in some member countries such as Greece are also a negative for the currency.
UK	• Sterling is likely to remain range-bound against the dollar and to appreciate against the Euro.
Japan	• The Yen is likely to depreciate. The Yen is over-valued, especially against the US dollar. Moreover, persistent deflation implies that the Bank of Japan is likely to tighten policy later than other central banks.

Source: Investment Strategy Group, Goldman Sachs Global Investment Research

Outlook for Emerging Market Currencies in 2010

1. USD Over (+) / Under (-) Valuation[1]
As of December 2009



2. Goldman Sachs Research Forecasts for the USD
As of January 13, 2010

	Current Exchange Rate	GS Research End 2010 Forecasts: Forecast	GS Research End 2010 Forecasts: Implied USD Direction
Korean Won	1123	1050	USD -6.5%
Indian Rupee	45.69	43.00	USD -5.9%
Russian Ruble	29.48	28.00	USD -5.0%
Chinese Yuan	6.83	6.49	USD -5.0%
Indonesian Rupiah	9185	9000	USD -2.0%
Brazilian Real	1.75	1.75	USD +0.0%
Polish Zloty	2.81	2.81	USD +0.0%
South African Rand	7.43	7.50	USD +0.9%
Mexican Peso	12.77	13.00	USD +1.8%
Turkish Lira	1.45	1.50	USD +3.4%

[1] Average of GSDEER, PPP and five year moving average foreign exchange misalignments.

Source: Investment Strategy Group, Datastream

A Gold Mania?

"It gets dug out of the ground in Africa or someplace. Then we melt it down, dig another hole, bury it again and pay people to stand around guarding it. It has no utility. Anyone watching from Mars would be scratching their head."

Warren Buffett
Speech at Harvard University, 1998

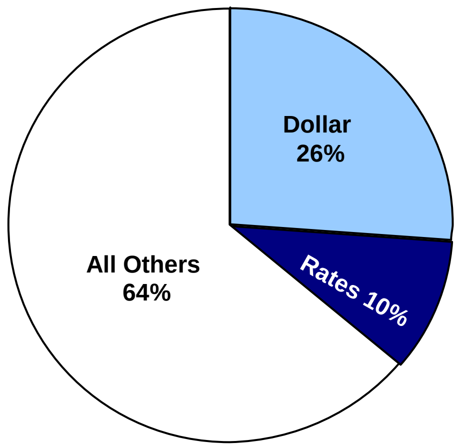
"At the end of the 19th Century, John Ruskin told the story of a man who boarded a ship carrying his entire wealth in a large bag of gold coins. A terrible storm came up a few days into the voyage and the alarm went off to abandon ship. Strapping the bag around his waist, the man went up on deck, jumped overboard, and promptly sank to the bottom of the sea. Asks Ruskin: 'Now, as he was sinking, had he the gold? Or had the gold him?'"

Peter Bernstein
The Power Of Gold: The History of an Obsession, 2000

Source: Investment Strategy Group

Interest Rates and US Dollar Help Explain Gold Price

1. Gold Return Attribution[1]
Based on 1970 through 2009

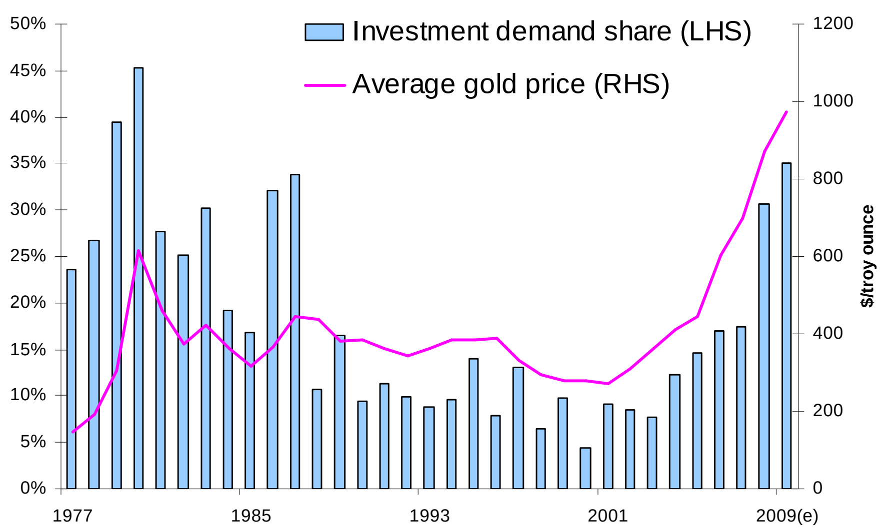


- Taken together, changes in real rates and the US dollar explain 36% of the changes in gold prices since 1970.

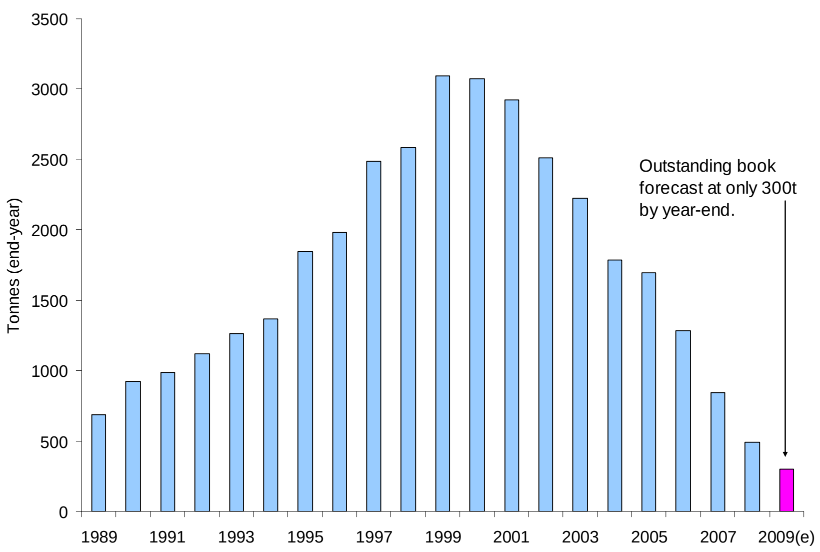
[1] US dollar return based on trade-weighted exchange rate with major trading partners. Interest rate based on real fed funds rate (fed funds rate minus trailing 12-month CPI inflation). Gold return based on S&P/GSCI Gold Excess Return Index.

Outlook for Gold

1. Gold Investment Demand Share



2. Producers' Outstanding Hedge Book

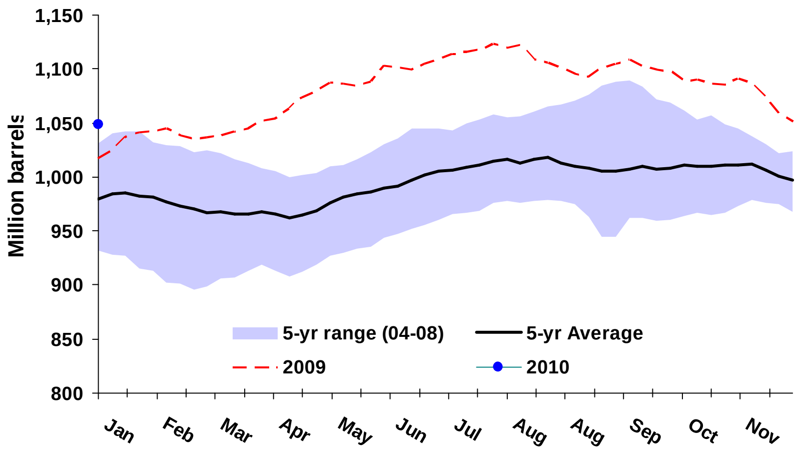


- ISG's views on the dollar and inflation are negative for gold, but are partially counterbalanced by low real interest rates.
- Gold's rally has been fueled by strong investment demand, primarily motivated by fears of inflation and of dollar decline, and facilitated by ETFs. However, the share of investment demand (vs. jewelry and industrial usage) is getting close to the 1980 peak.
- While the official sector could become a net buyer in 2010, corporate gold producers are near the end of their hedge buy-back programs. Reduced producer short-covering demand should offset any moderate increase in central bank demand.
- **Conclusion**: While gold could have more upside, ISG's view on the dollar, today's valuation and extended investor interest all imply meaningful potential downside as well. Clients who have a bearish view on the dollar are better off diversifying some equity exposure away from US assets. For clients seeking direct exposure to gold, we recommend structured notes and public or private equity that can manage the downside.

Source: CPM Gold Yearbook, World Gold Council, Bloomberg, Investment Strategy Group

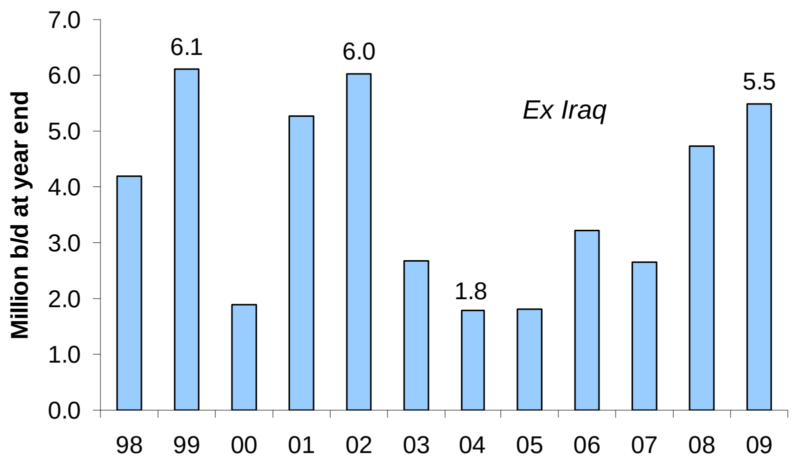
Oil Inventories and Spare Capacity are Plentiful

1. US Commercial Petroleum Inventories



Data through 01/01/2010

2. OPEC Year-End Spare Capacity



- 2009 returns on WTI (7%) were impaired by strong contango, which is expected to remain a key negative for oil in 2010 thanks to high inventories.
- Inventories remain above the 5-year range, with an even larger surplus of diesel.
- In the US, demand is still 8-9% below the seasonal average, explaining part of the surplus.
- Production is plentiful too, as underscored by OPEC spare capacity, now at a multi-year high.

Source: Energy Information Administration, Bloomberg, Investment Strategy Group

2010 Supply/Demand Balance

1. Oil Supply and Demand from the International Energy Agency

Million b/d	**2008**	**2009e**	**2010e**
Demand			
Total OECD	47.6	45.5	45.5
US	19.5	18.8	18.9
Europe	15.3	14.6	14.6
Japan	4.8	4.3	4.1
Other	8.0	7.8	7.9
Total non-OECD	38.7	39.3	40.8
China	7.9	8.3	8.7
Middle East	7.1	7.3	7.6
Other	23.7	23.8	24.5
Total Demand	**86.2**	**84.9**	**86.3**
Supply			
OPEC NGLs	4.5	4.9	5.7
Non-OPEC	50.7	51.3	51.7
Call on OPEC	**31.0**	**28.7**	**29.0**

- Expected supply and demand trends in 2010 include relatively flat OECD demand, and moderate demand growth in EM. The IEA expects non-OPEC production to increase by almost as much as demand.
- As a result, the “call on OPEC” to balance the market should not change meaningfully. In the context of high (5.5 million b/d) and rising OPEC spare capacity, as well as ample stocks, ISG does not envision any shortage risk in the foreseeable future (barring a major supply disruption).

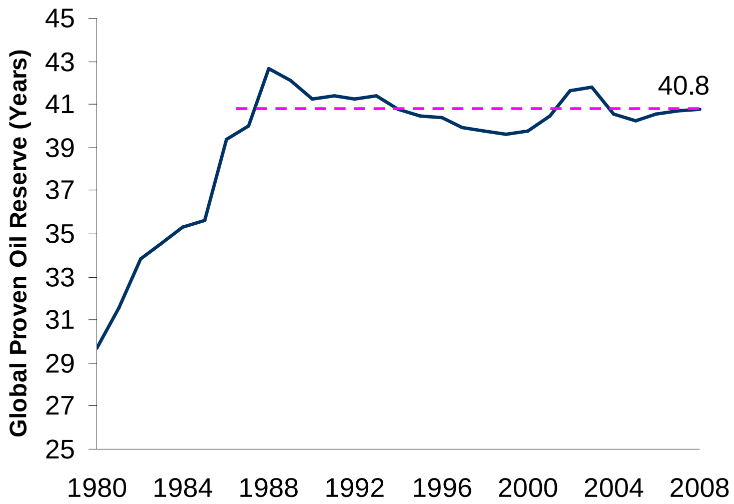
Source: International Energy Agency (IEA), Investment Strategy Group

Peak Oil is Not a Concern

1. Major Oil Discoveries of the Past 10 Years

Field	Country	Discovered	Recoverable Reserves (Billion Barrels)	Estimated Production Cost
Jubilee	Ghana	2007	1.2	$29
Miran West	Iraq	2009	1.1-2.5	$30
Jidong Nanpu	China	2007	1.7	$35
Blocks 1, 2 & 3	Uganda	2009	1	$35
Santos Basin	Brazil			$38-50
Vesuvio		2009	1	
Guará		2009	1.25	
Iara		2008	3-4	
Tupi		2007	5-8	
Bakken formation	US	2008	3.7	$60
Block 31	Angola	2006	1.8	$60-70
Block 32	Angola	2005	1.6	$65
Korchagina & Filanovskogo	Russia	2006	2	$85
Kashagan	Kazakhstan	2000	10-15	$100-110
Ferdows/Mound/Zagheh	Iran	2003	7-9	n/a
Azadegan	Iran	2003	5-9	n/a

2. Ratio of Proven Global Oil Reserves to Annual Consumption



- Longer term, fears of peak oil production are also unwarranted in light of technological progress and the major discoveries of the past decade.
- In fact, proven oil reserves continue to represent over 40 years of current demand, similar to the past two decades.
- **Conclusion**: we expect WTI oil to continue trading in a $60-85 per barrel price range, with contango and volatility also reducing the risk/expected return profile of oil. For clients who have a strong bullish view, we recommend investing through the public or private equity market, where an effective operator can provide more downside protection.

Source: Goldman Sachs Global Economics, Commodities and Strategy Research, company reports, BP Statistical Review of World Energy 2009, Investment Strategy Group. This material represents the views of the Investment Strategy Group of the Investment Management Division of Goldman Sachs and is not a product of the Goldman Sachs Global Investment Research Department.

Appendix

Important Information

IRS Circular 230

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Appendix
Important Information

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Appendix
Important Information

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Appendix
Important Information

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