

Financial crisis and Asia

Date: December 2008

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Macro-economic Asian outlook

➤ **Sub-prime crisis and the US economy**

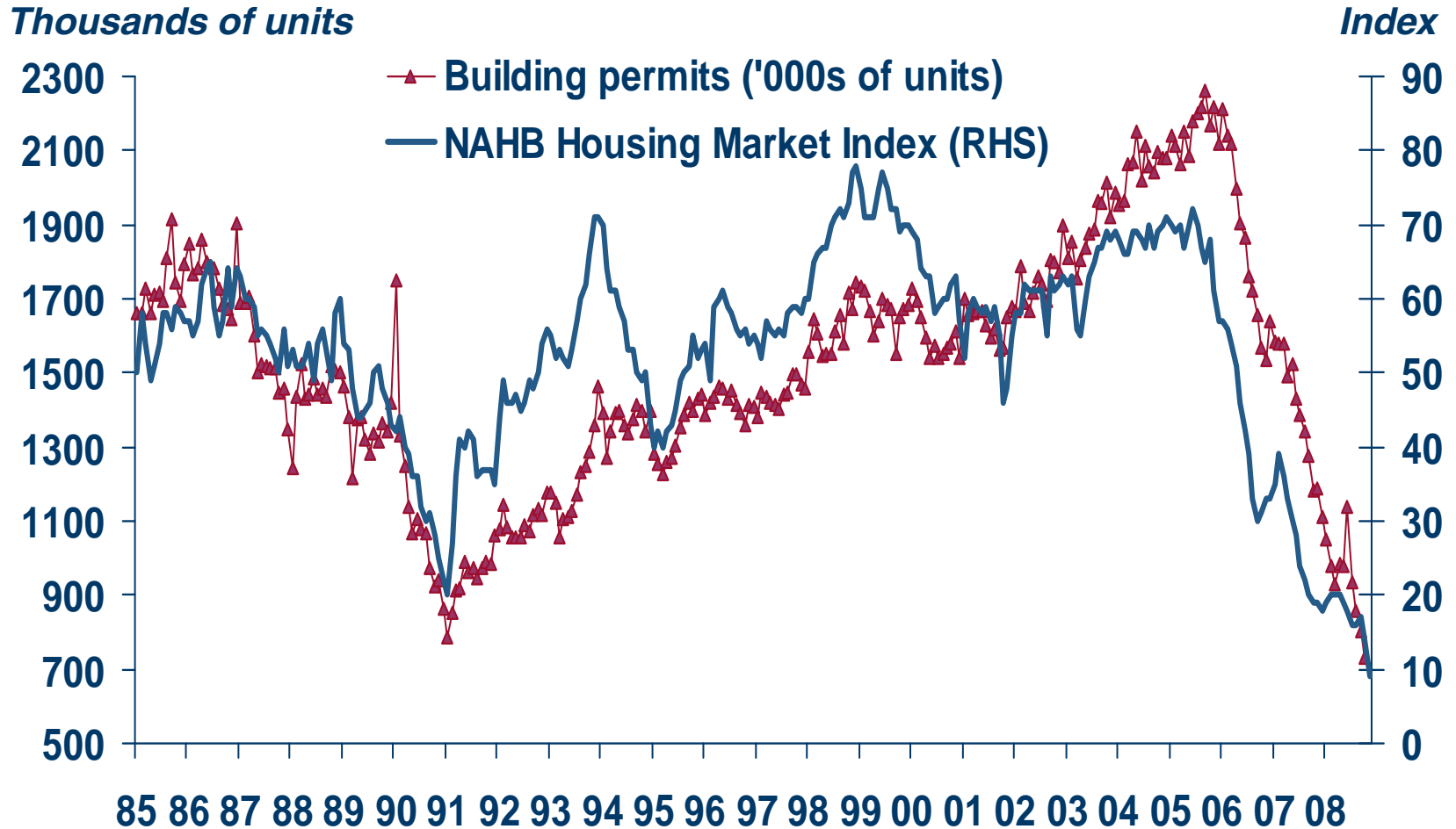
- Consumer still faced with falling house prices and rising unemployment
- Markets still jittery. Counterparty risks are driving interest rates up
- Fall in oil prices gives elbow room to the US Federal Reserve
- Three stage USD adjustment process – what's next?

➤ **What does this mean for Asia?**

- Small and open economies are more vulnerable to a global slowdown
- Economies with big domestic bases like China and India to outperform
- Asian central banks have shifted their focus from inflation to growth
- Asian currencies are weak in the short-term but positive in the long-term

US housing market, worst since 1991

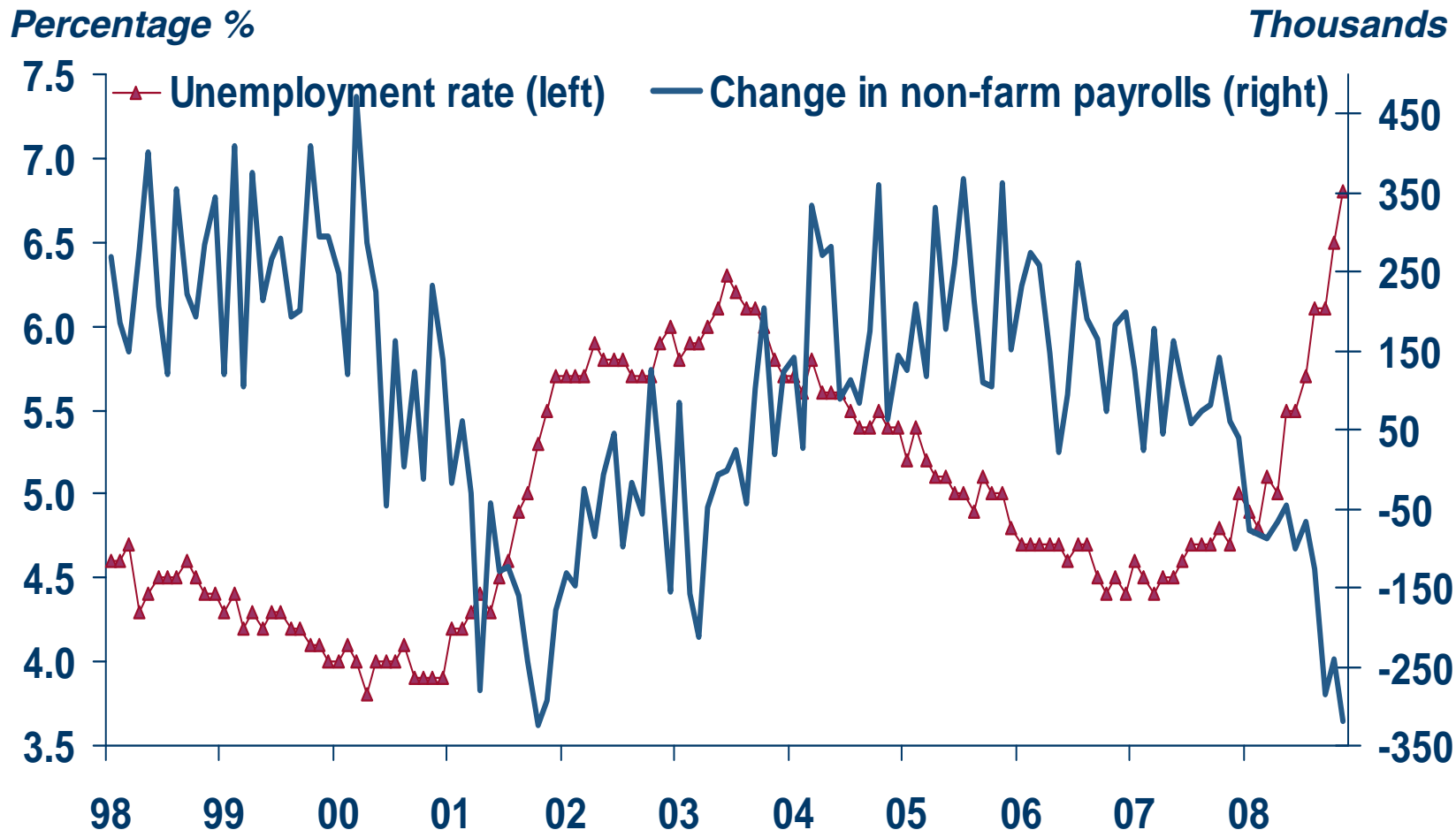
National Association of Home Builders Housing Market Index and Building Permits



Source: Bloomberg, Credit Suisse

Labour market is slowly deteriorating

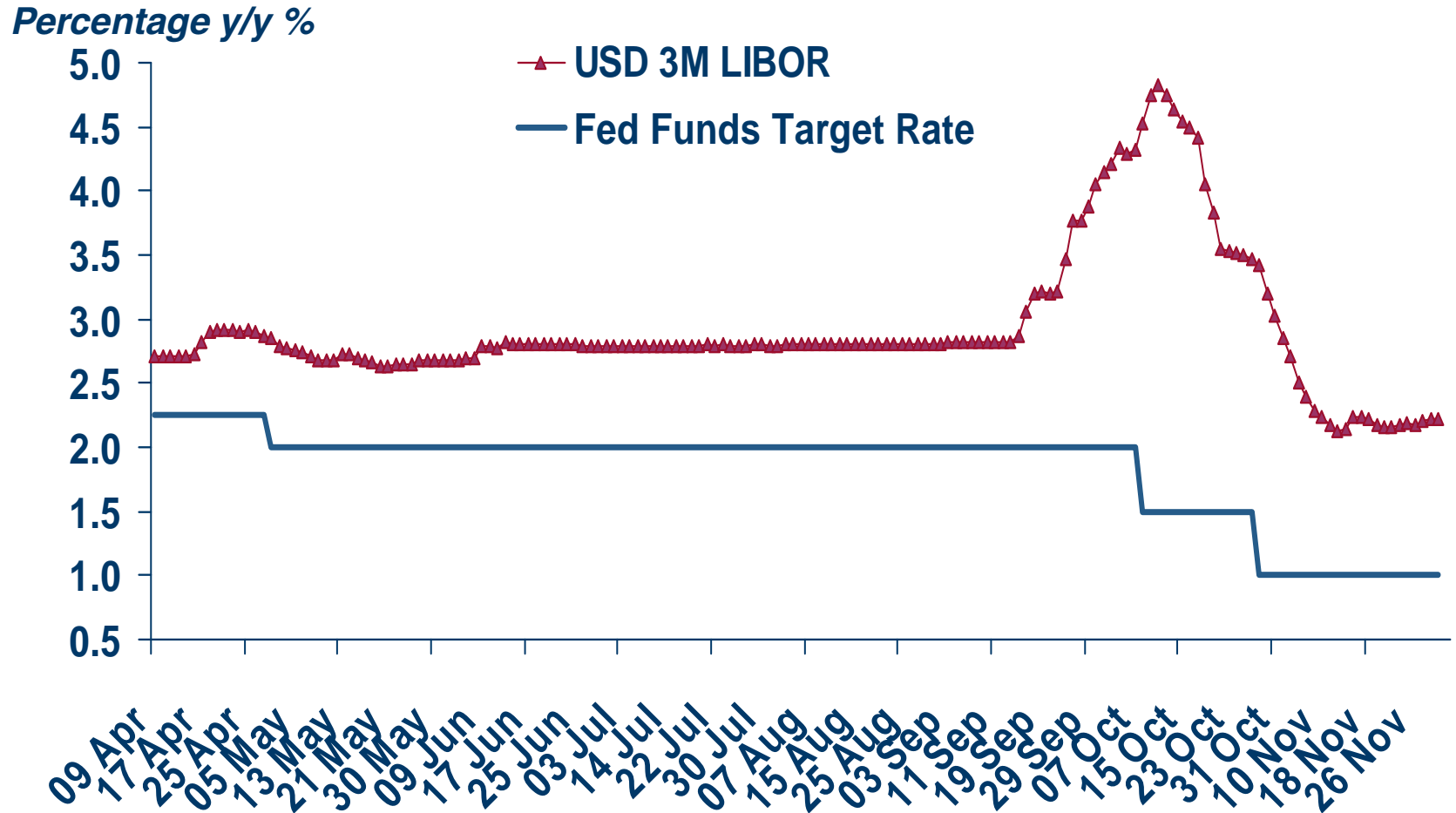
Unemployment is rising as companies and banks increase layoffs



Source: Bloomberg. Credit Suisse

Markets still jittery and counterparty risks are high

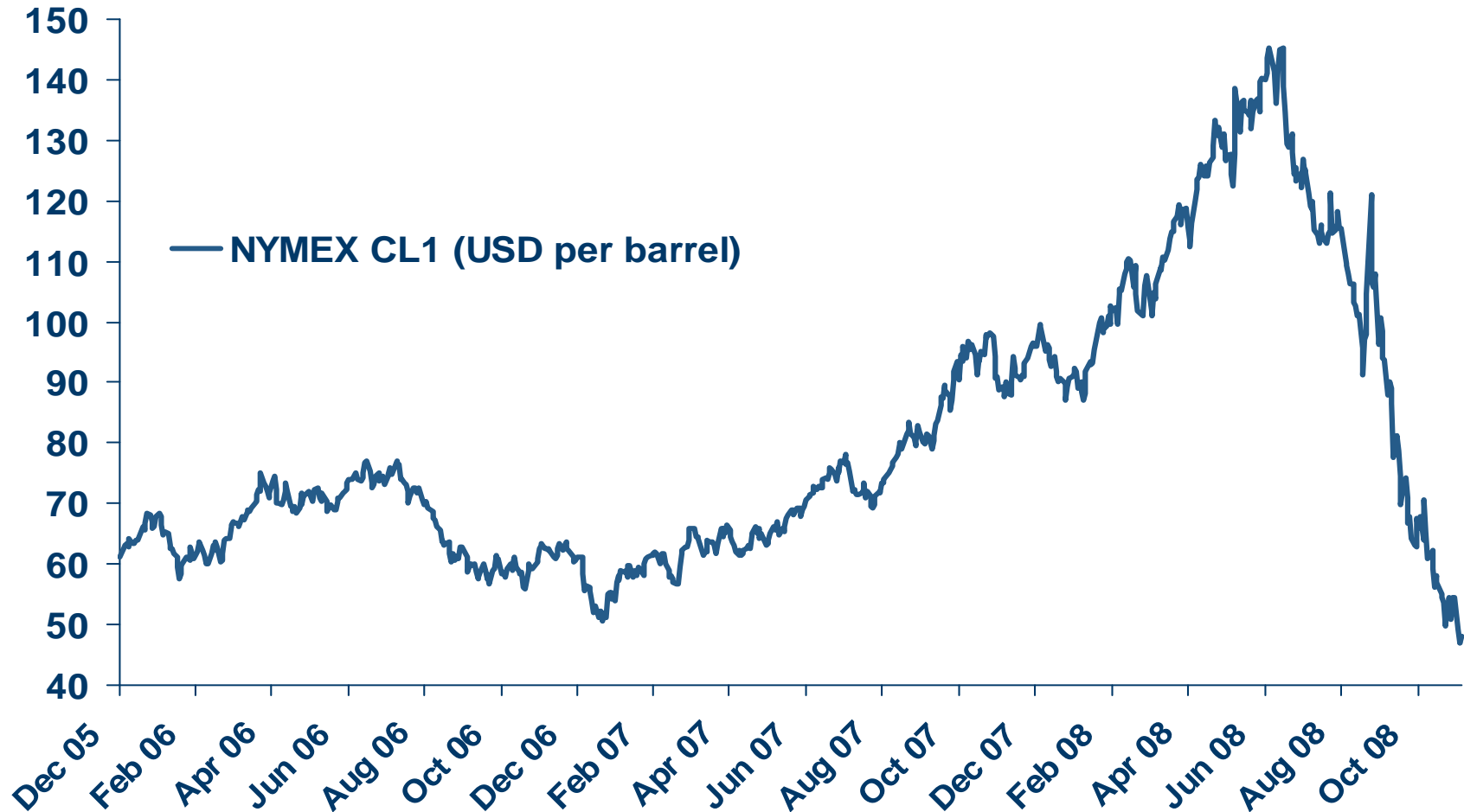
Capital adequacy an issue in some banks, pushing up borrowing costs for firms



Source: Bloomberg, Credit Suisse

Sharp drop in food and fuel prices give flexibility

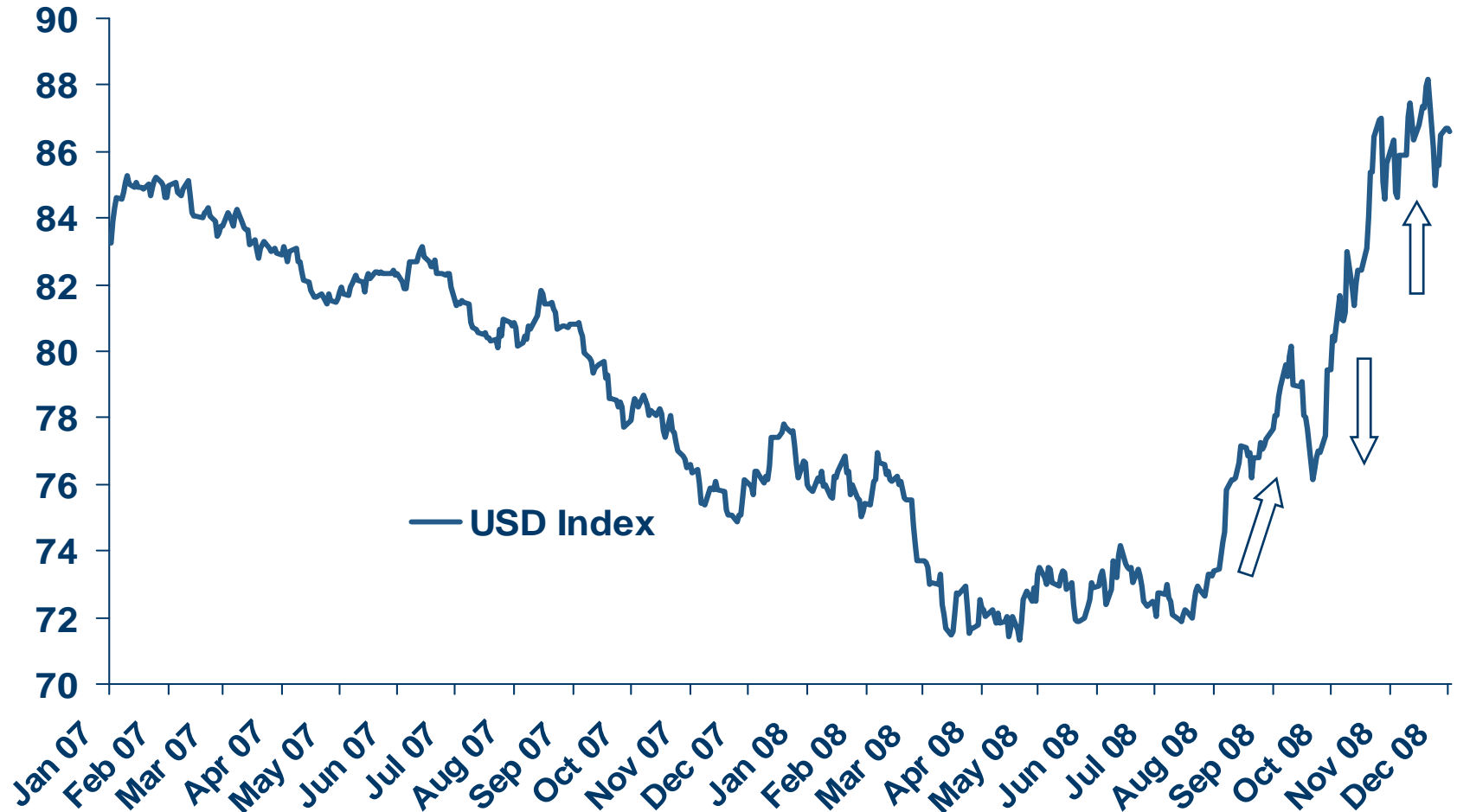
Global central banks now reflating their economies via rate cuts and quantitative easing



Source: Bloomberg , Credit Suisse

Phase 1 & 2 of USD adjustment over. Phase 3 in play

Phase 3 occurs as markets shift to focus on recession. BoE & ECB to cut rates more



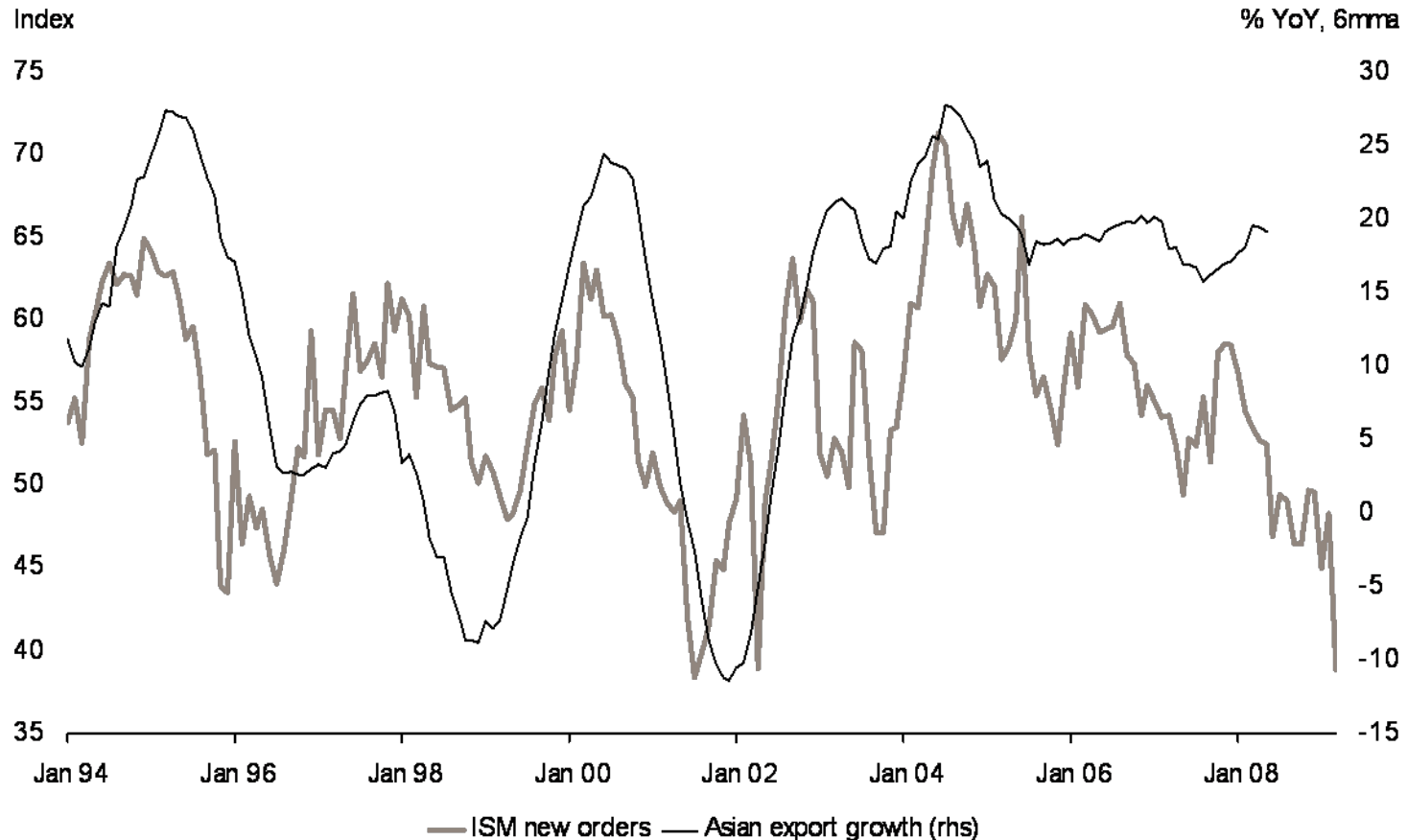
Source: Bloomberg , Credit Suisse

What does this mean for Asia?



Asian exports set to slow as global growth shrinks

Domestic demand becomes a more important driver of growth for Asia

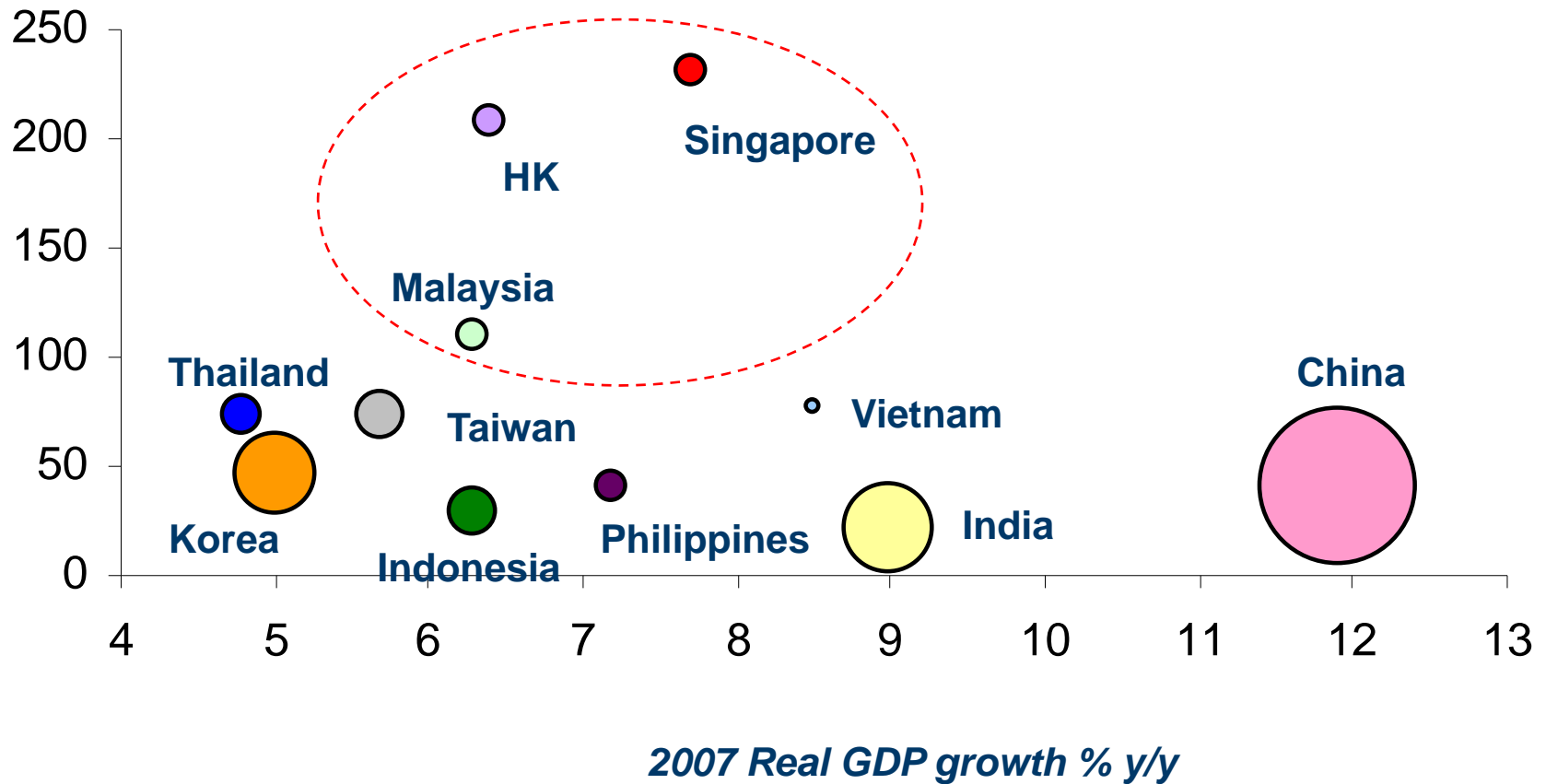


Last data point: 28 Aug 08

Source: Bloomberg, Credit Suisse

Which countries are most vulnerable?

Exports as % of GDP

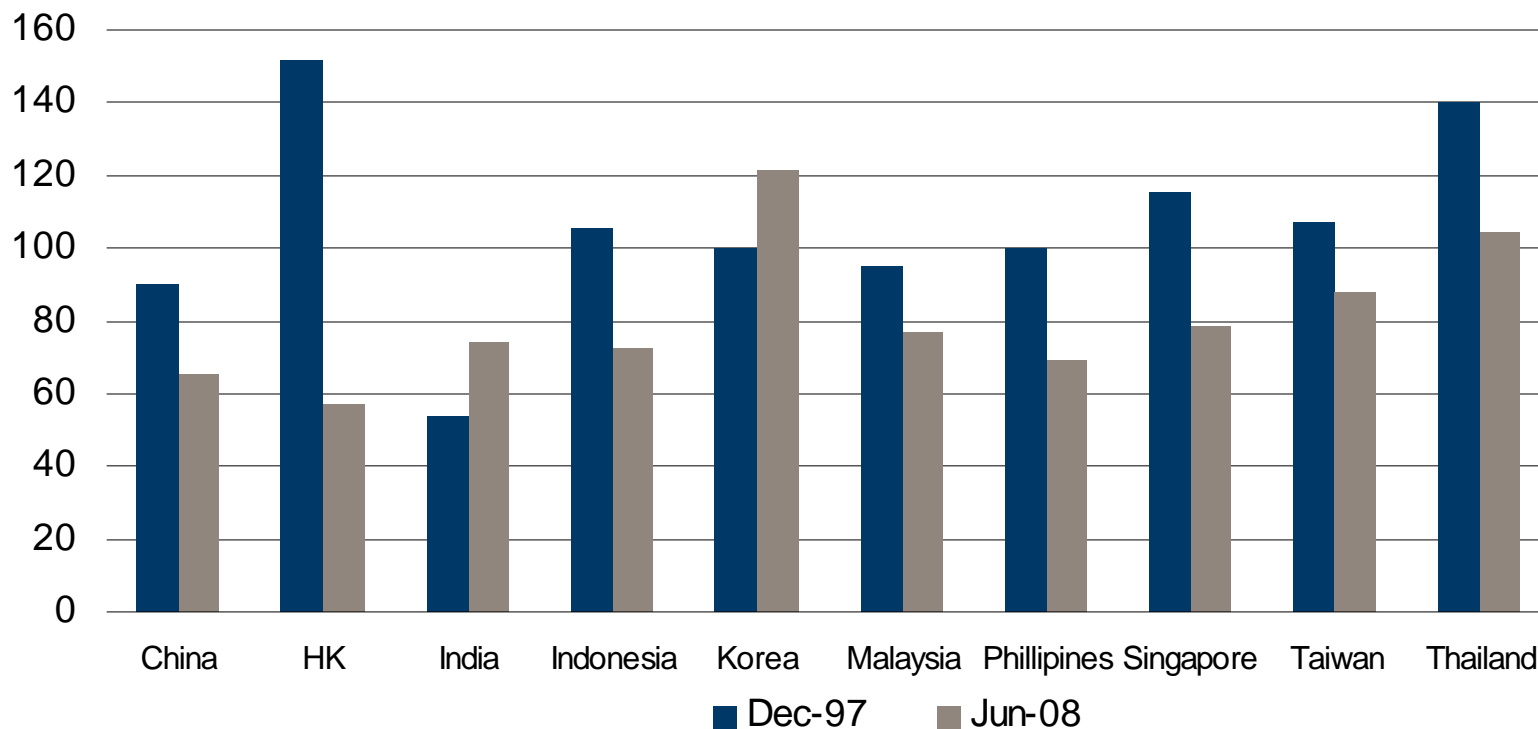


Source: CEIC, Credit Suisse

Low loan-to-deposit ratios positive for Asian banks

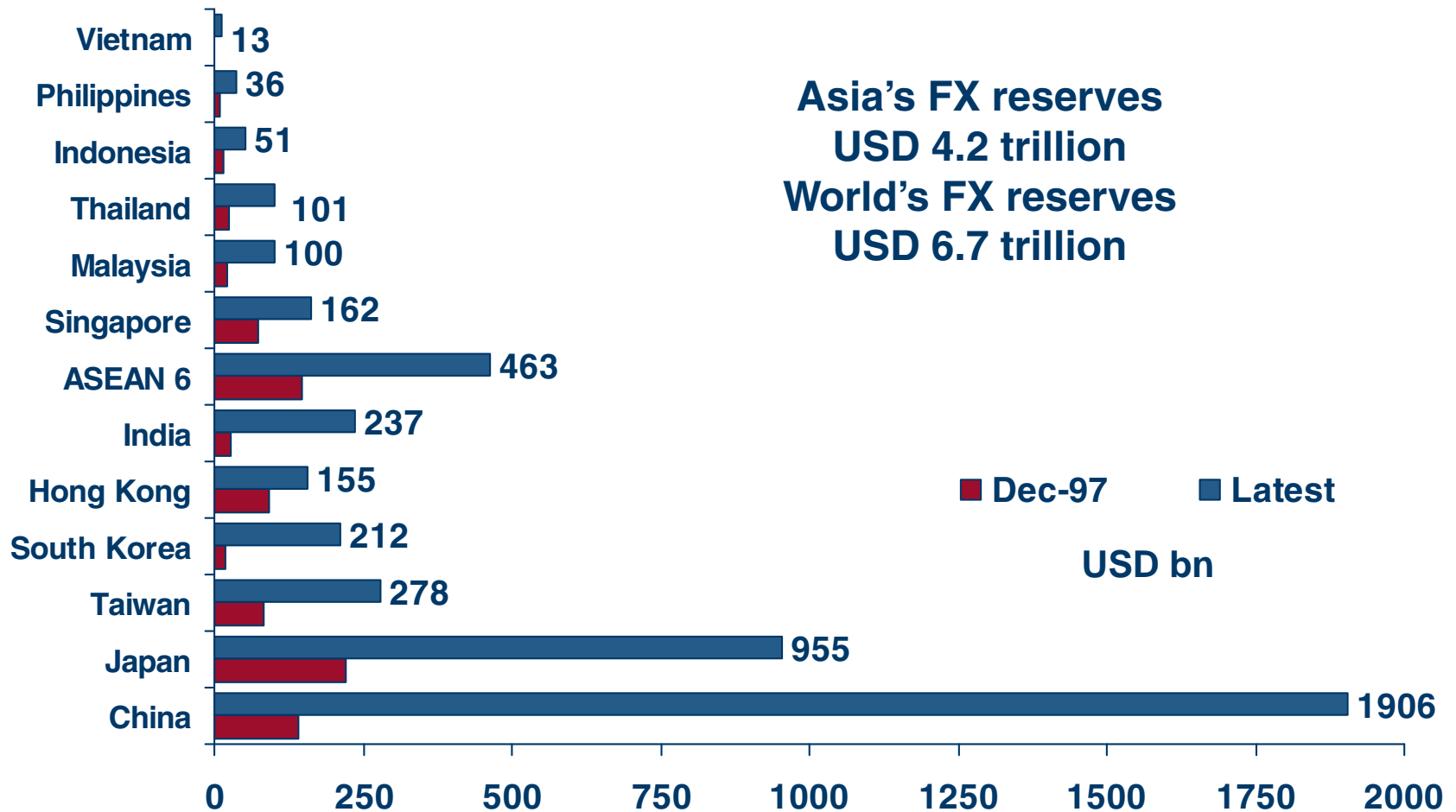
Large depositor bases make Asian banks less vulnerable to credit crunch

Loan-to deposit ratio (%)

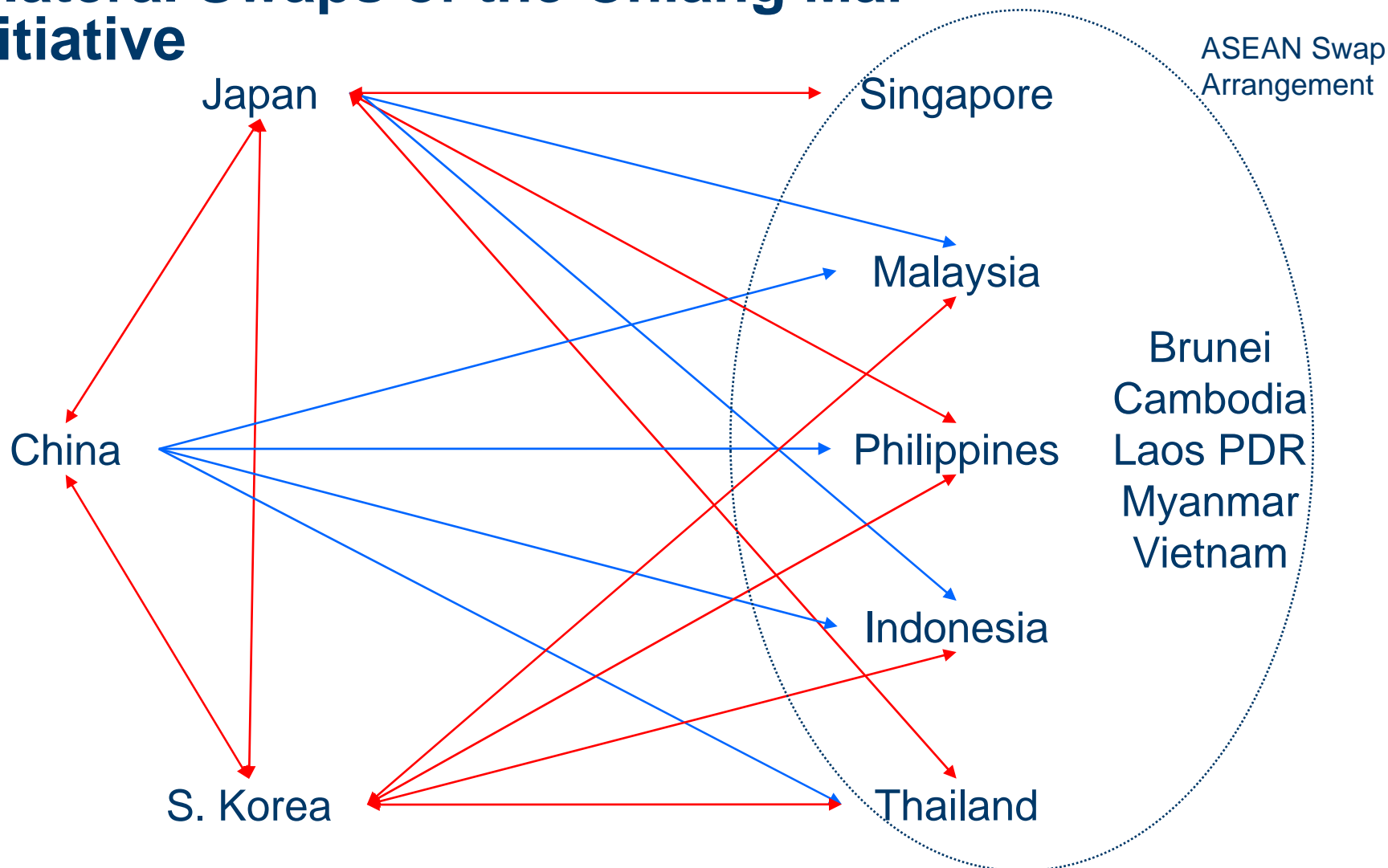


Currency reserves increased six-fold since 1997

Asia are serial accumulators holding 2/3 of global FX reserves



Bilateral Swaps of the Chiang Mai Initiative



Two way arrangement, One way arrangement – Total USD 36.5 bln (April 2004), USD 83.0 bln (April 2007)

Asian countries least vulnerable among regions to currency crisis and contagion

EU members (not using EUR)	FX reserves/imports
Denmark	3
Estonia	3
Lithuania	NA
Latvia	5
UK	2
Sweden	2
Czech Rep	3
Hungary	3
Poland	4
Slovakia	3
Bulgaria	NA
Romania	6

ERM II members

Outside ERM II

Asia	FX reserves/imports
China	18
Singapore	6
Malaysia	9
Thailand	6
Indonesia	6
Philippines	7
Korea	6
HK	5
India	10
Taiwan	12

Asian currencies will resume long term trend appreciation

Asian currencies only lost 8% in recent rout (EUR 17%, GBP 17%, AUD 36%)



Asian FX outlook

- Recent weakness in KRW and IDR has triggered fears of imposition of capital controls
- Asia has a long standing tradition of high savings and this has resulted in high deposit bases for Asian banks
- Amongst the various regions in the World, Asia is the strongest in terms of FX reserves
- Asian FX reserves is a total USD 4.2 trillion and import covers average 8.5 months
- Chiang Mai Initiative (CMI) provides an additional buffer to allow Asian central banks to tap into each other's reserves via swap agreements
- Nearer term outlook hinges on the USD
- CNY appreciation, increasingly a key anchor currency in Asia, likely to slow to 0-2% for 2009 from the 7% per annum pace seen in 2007 and 2008
- Still positive balance of payments surpluses is exerting upward pressure on Asian currencies. Longer-term outperformance

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