

EU-Asia contagion 2011: routes and risks

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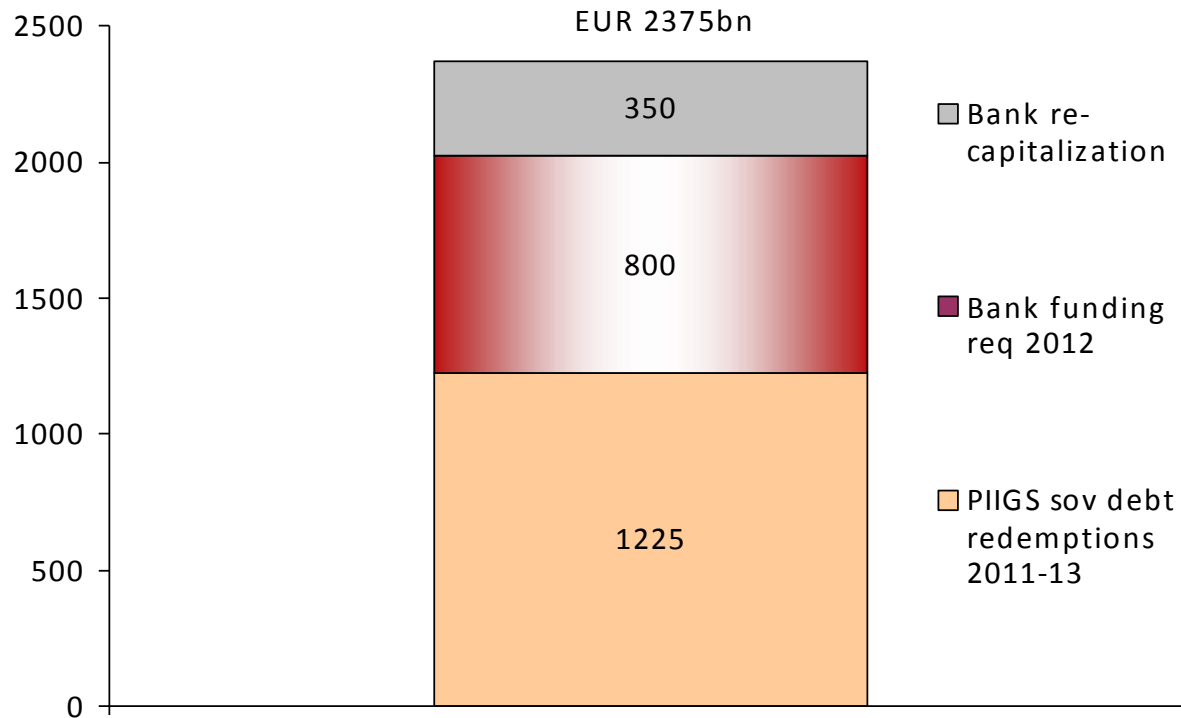


EU bailout update

- “Old plan” – €440bn, 21% haircut – already moot
- “New plan” – €2000bn, 50% haircut – being discussed, seemingly led by GE, NL
- Old plan finally ratified last week
- The devil’s in the details

Why new plan? €440bn not enough

What might EUR2000bn cover?



3-prongs

- **€2,000bn in size, approx**
- **50% to 60% haircut for Greek creditors (vs 21% before)**
- **Bank recapitalization**
 - €200bn – 400bn
- **Other points**
 - Greece remains in euro and EU
 - Bank recap handshakes with debt restructuring – default process is “orderly”

Short-term hurdles

- Old plan only just yet ratified
- Opposition to 50% haircut from banks
- Opposition from public for “bailouts”
- Opposition from ECB for “bailouts”
- How to grow the fund?
- Takes time – but just having an “agreement” should arrest panic

Long-term hurdles

- **Still doesn't address competitiveness issues**
 - But so long as Greece stays in the euro, that will only be resolved by inflation in GE/FR or deflation in the periphery
- **Still doesn't address the “fiscal union” issue**
 - How to prevent moral hazard going forward?
 - How to change the present “transfer state” setup?
- **Still need regulatory / resolution bodies**

Three Contagion Routes to Asia

- **1. Generalized sell-off in sovereign debt**
 - Low risk for Asia; it has spent 10 years paying down debt
 - Who is vulnerable? ID, PH, KR
- **2. The real economy (exports)**
 - Low risk – Europe did not contribute to Asia's recovery
 - Who is vulnerable?
 - The most export dependent countries (SG, HK, MY)
 - The most dependent on Europe X markets (CH, IN)
- **3. Credit crunch**
 - This is the key risk but should be much smaller than 08

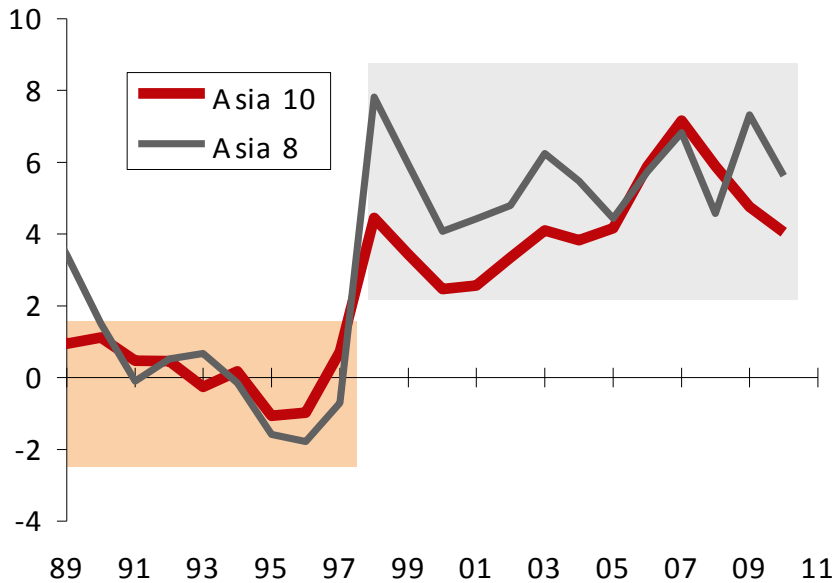
Route 1: Sovereign debt sell-off

- **Asia is much better positioned than in the past. Why?**
 - **Asia has spend the last ten years paying back the debt it built up in the decade ending with the 97 financial crisis**
 - **Korea is a minor exception**
 - **How has Asia done this? By running current account deficits for 10 years**
 - **Most countries in Asia are now net creditors, not net debtors**

Asia's current account balances

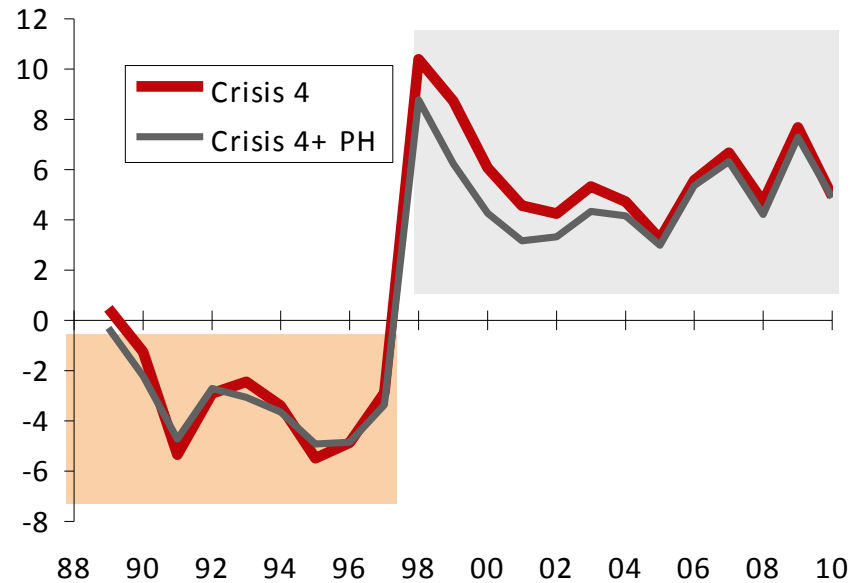
Asia – current account balance

% of GDP



Asia crisis-4 – current account balance

% of GDP



Asia 10: CH, HK, TW, KR, SG, TH, MY, ID, PH, IN

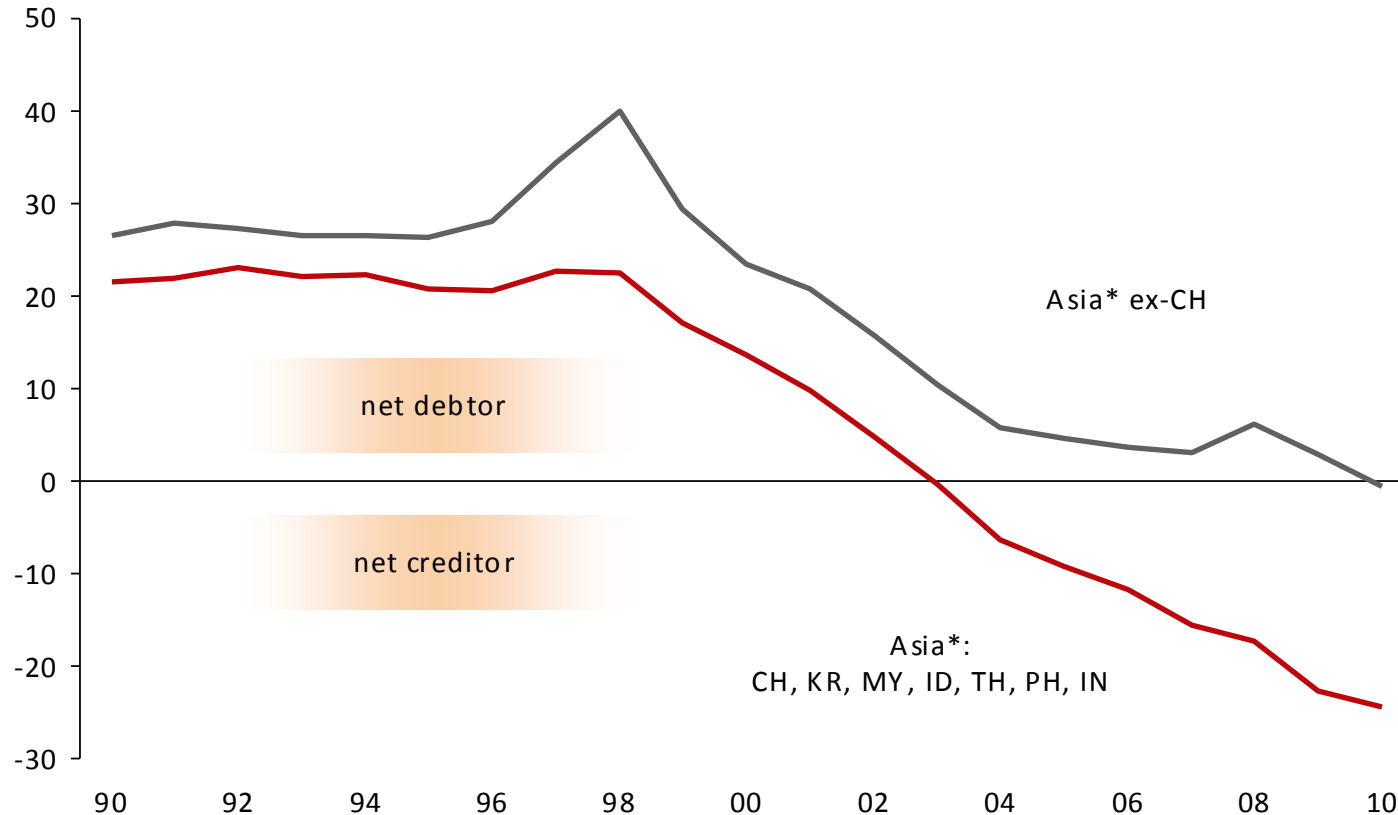
Asia 8: Asia 10 less CH, IN

Crisis-4: TH, MY, ID, KR

Asia's falling debt burden

Asia – net foreign debt as % of GDP

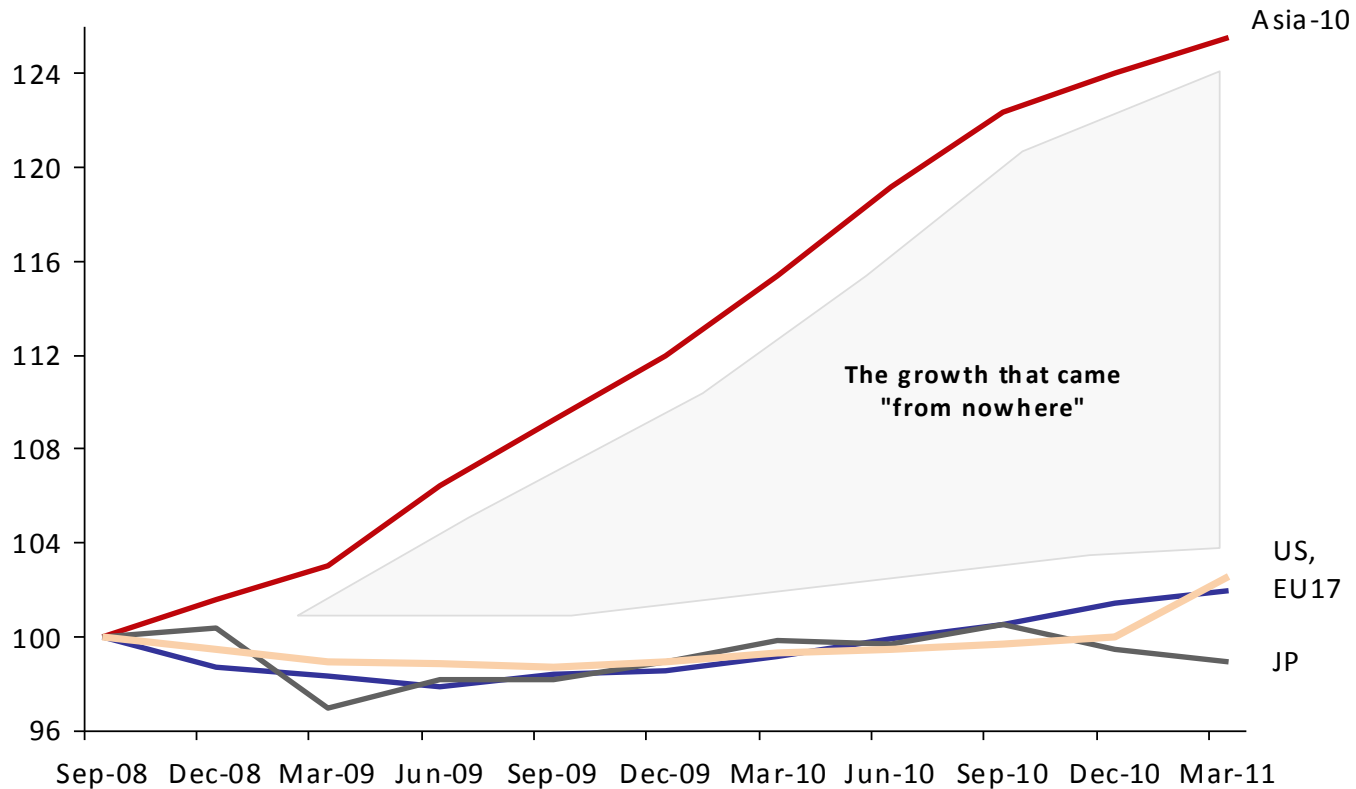
ext debt (public + private) less reserves as % of GDP



Route 2: recession

Real global consumption

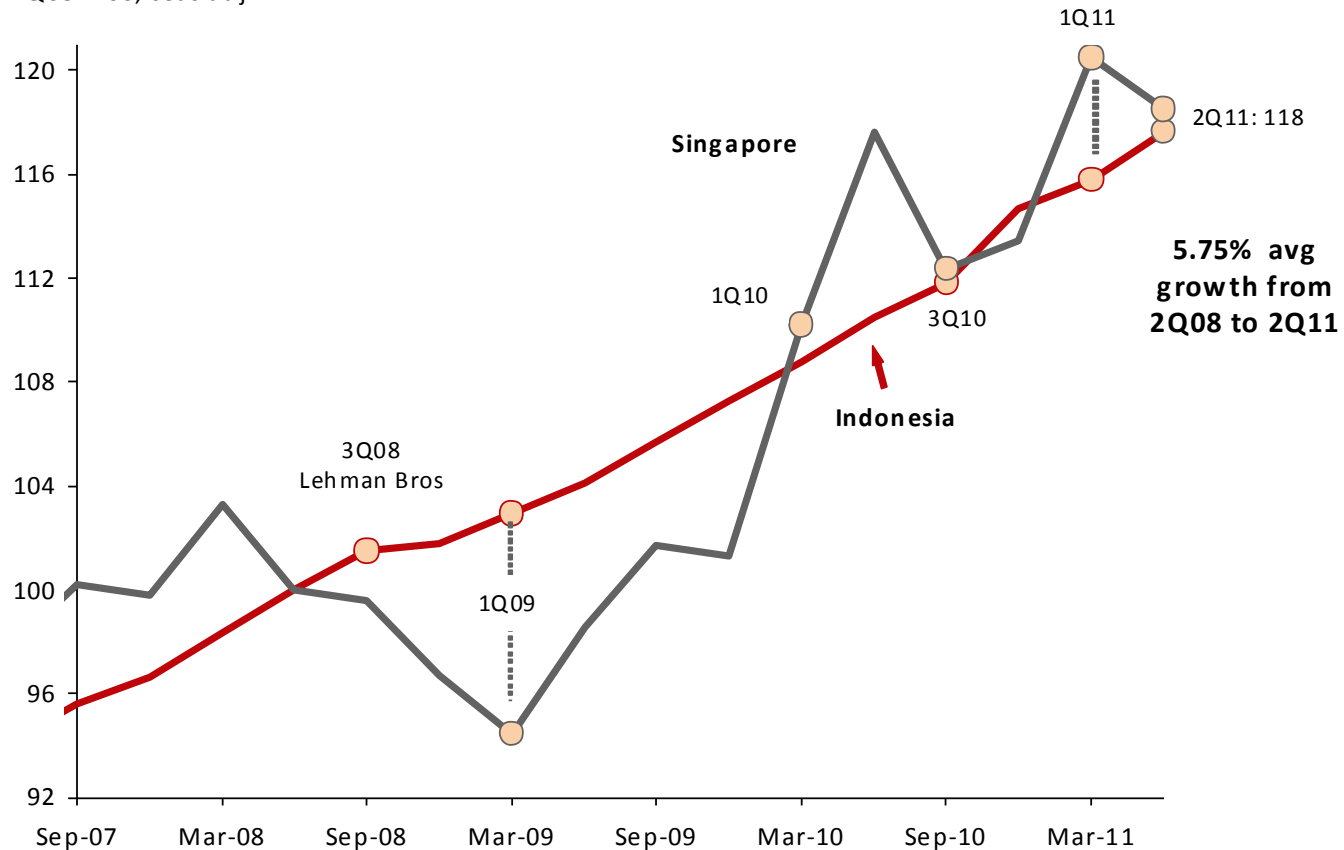
3Q08=100, seas adj



Asia: two groups of countries

Asia – real GDP levels

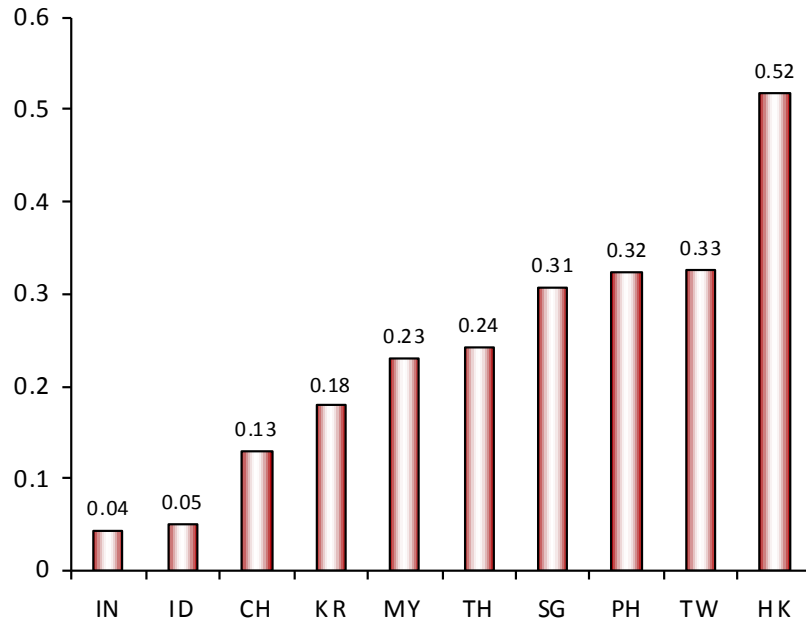
2Q08=100, seas adj



Who's vulnerable?

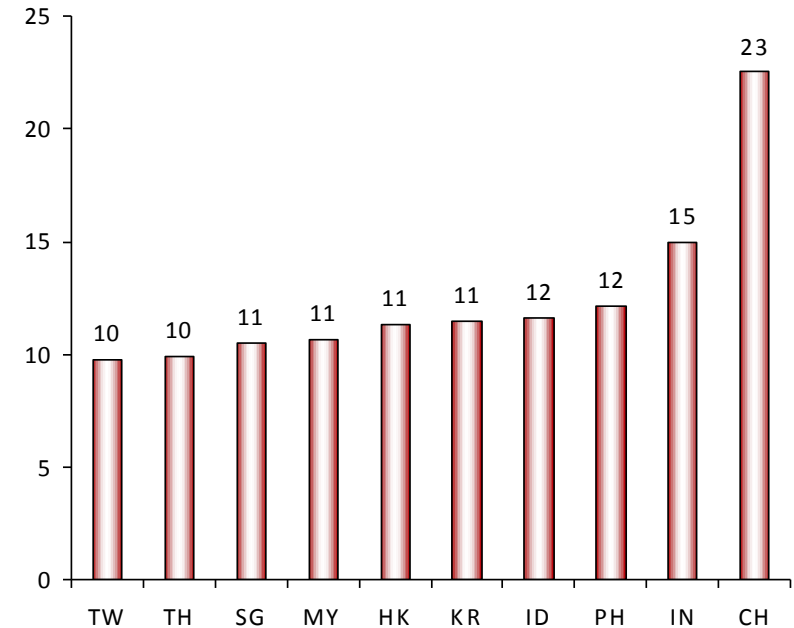
The export dependent

Asia – sensitivity to export swings in 2000-2001 downturn
ppt swing in GDP growth per ppt swing in X growth, 2008-09



The EU export dependent

Asia – exports to EU as % of total
%, avg 2009-10



Route 3: a credit crunch. This is where the risks lie, but risks are far lower than in 2008. Why?

- **When Lehman Brothers collapsed, everybody woke up on a Monday morning and nobody knew they could trust. It was “shell shock”**
 - **Markets have had a year to figure who’s in trouble (EU banks)**
- **Transparency**
 - **You can see sovereign debt, can’t see CDS**
- **World trade and payments depend far less on EUR than USD**
- **Central banks already providing unlimited liquidity**

- **In sum: a credit crunch punch to Asia is unlikely**

Euribor – EONIA spreads today and post-Lehman

EZ: three month euribor-EONIA spreads

bps, latest 17Oct11



EZ: three month euribor-EONIA spreads

bps, latest 17Oct11



Appendix

GDP and inflation forecasts

	GDP growth, % YoY				CPI inflation, % YoY			
	2009	2010	2011f	2012f	2009	2010	2011f	2012f
US	-3.5	3.0	1.7	2.3	-0.3	1.6	2.6	2.2
Japan	-6.3	4.0	-0.5	2.7	-1.4	-0.4	0.0	0.3
Eurozone	-4.0	1.7	1.7	1.0	0.3	1.6	2.6	1.7
Indonesia	4.6	6.1	6.4	6.1	4.8	5.1	5.7	5.5
Malaysia	-1.7	7.2	5.0	5.2	0.6	1.7	3.3	2.6
Philippines	1.0	7.3	4.6	5.2	4.2	3.8	4.9	4.7
Singapore	-1.3	14.5	5.2	3.5	0.6	2.8	4.8	3.0
Thailand	-2.2	7.8	4.6	5.0	-0.8	3.3	4.0	4.0
Vietnam	5.3	6.8	6.1	6.5	7.0	9.2	18.2	8.0
China	8.7	10.3	9.5	9.0	-0.7	3.3	4.5	4.0
Hong Kong	-2.7	6.8	5.0	4.5	0.5	2.4	5.0	4.5
Taiwan	-1.9	10.9	4.7	4.3	-0.9	1.0	1.5	1.6
Korea	0.2	6.2	3.8	4.1	2.8	3.0	4.4	3.2
India*	8.0	8.5	7.2	7.2	3.6	9.6	8.7	7.0
Asean 5	0.1	8.6	5.2	5.0	1.9	3.3	4.5	4.0
Asia 10	1.3	8.6	5.6	5.4	1.5	3.6	4.7	4.0
Asia 9	0.4	8.4	5.2	5.0	1.7	3.6	4.7	4.0
Asia 8	-0.5	8.4	4.9	4.7	1.5	2.9	4.2	3.6
G3	-4.6	2.9	1.0	2.0	-0.5	0.9	1.7	1.4

Interest rate and FX forecasts

	Policy interest rates, eop					Exchange rates, eop				
	current*	4Q11	1Q12	2Q12	3Q12	current*	4Q11	1Q12	2Q12	3Q12
US	0.25	0.25	0.25	0.25	0.25
Japan	0.10	0.10	0.10	0.10	0.10	77.3	78	77	76	74
Eurozone	1.50	1.25	1.00	1.00	1.00	1.385	1.33	1.37	1.41	1.45
Indonesia	6.50	6.25	6.25	6.25	6.25	8,850	8,700	8,600	8,500	8,400
Malaysia	3.00	3.00	3.00	3.00	3.00	3.12	3.09	3.00	2.91	2.82
Philippines	4.50	4.50	4.50	4.50	4.50	43.2	43.4	42.5	41.8	41.3
Singapore	n.a.	n.a.	n.a.	n.a.	n.a.	1.27	1.24	1.22	1.19	1.17
Thailand	3.50	3.50	3.50	3.50	3.50	30.7	31.0	30.0	29.2	28.5
Vietnam [^]	15.00	14.00	12.00	10.00	10.00	20,913	20,900	20,900	20,900	20,900
China ["]	6.56	6.81	7.06	7.06	7.31	6.37	6.30	6.24	6.18	6.12
Hong Kong	n.a.	n.a.	n.a.	n.a.	n.a.	7.78	7.80	7.78	7.77	7.75
Taiwan	1.88	2.00	2.13	2.25	2.50	30.2	29.5	29.0	28.5	28.0
Korea	3.25	3.50	3.75	4.00	4.00	1147	1090	1060	1030	990
India	8.25	8.25	8.25	8.25	8.25	49.0	47.2	46.3	45.4	44.5

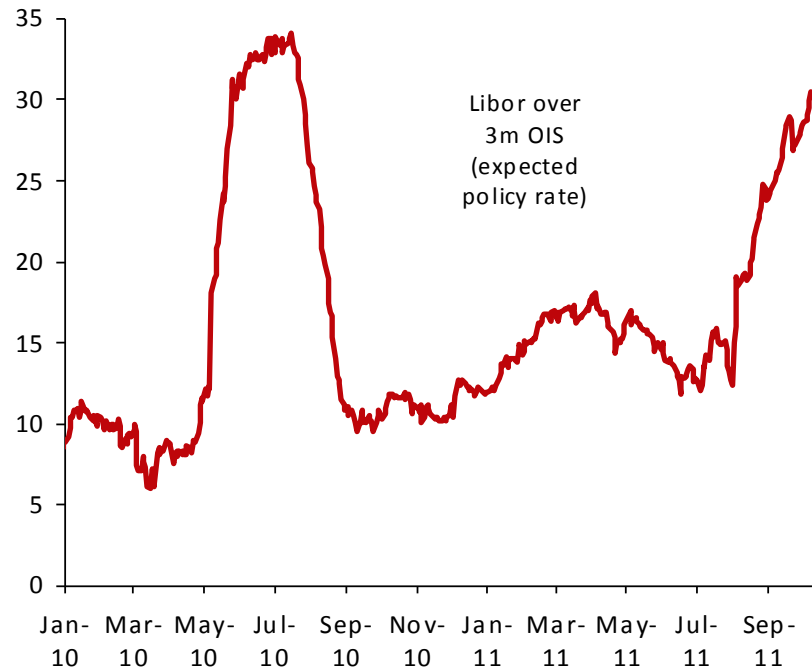
[^] prime rate; ["] 1-yr lending rate

* 17Oct11

Libor – OIS spreads today and post-Lehman

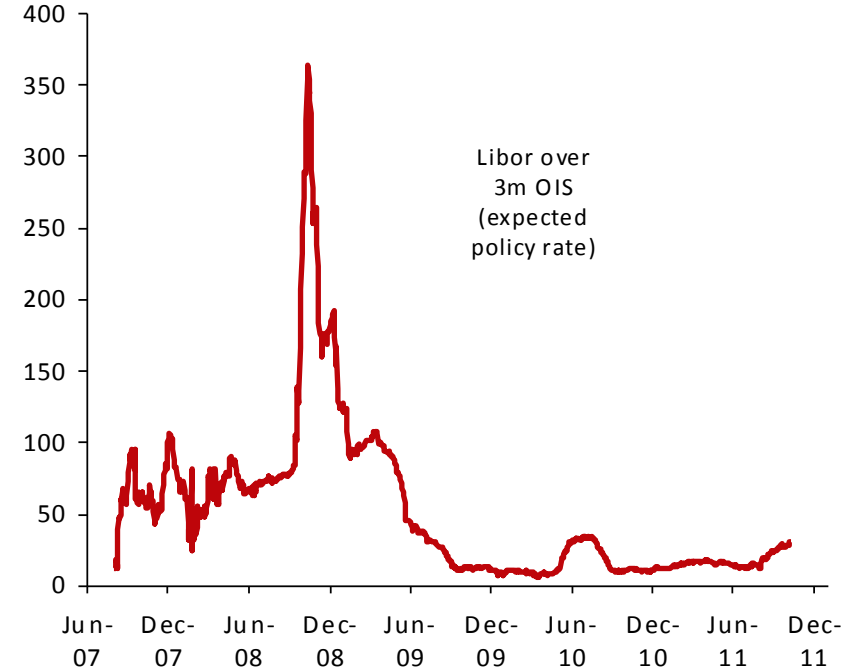
US – three month libor-OIS spreads

basis points



US – three month libor-OIS spreads

basis points



Bank exposure to Eurozone

Cross border bank exposure to Eurozone

EUR bn, Aug11

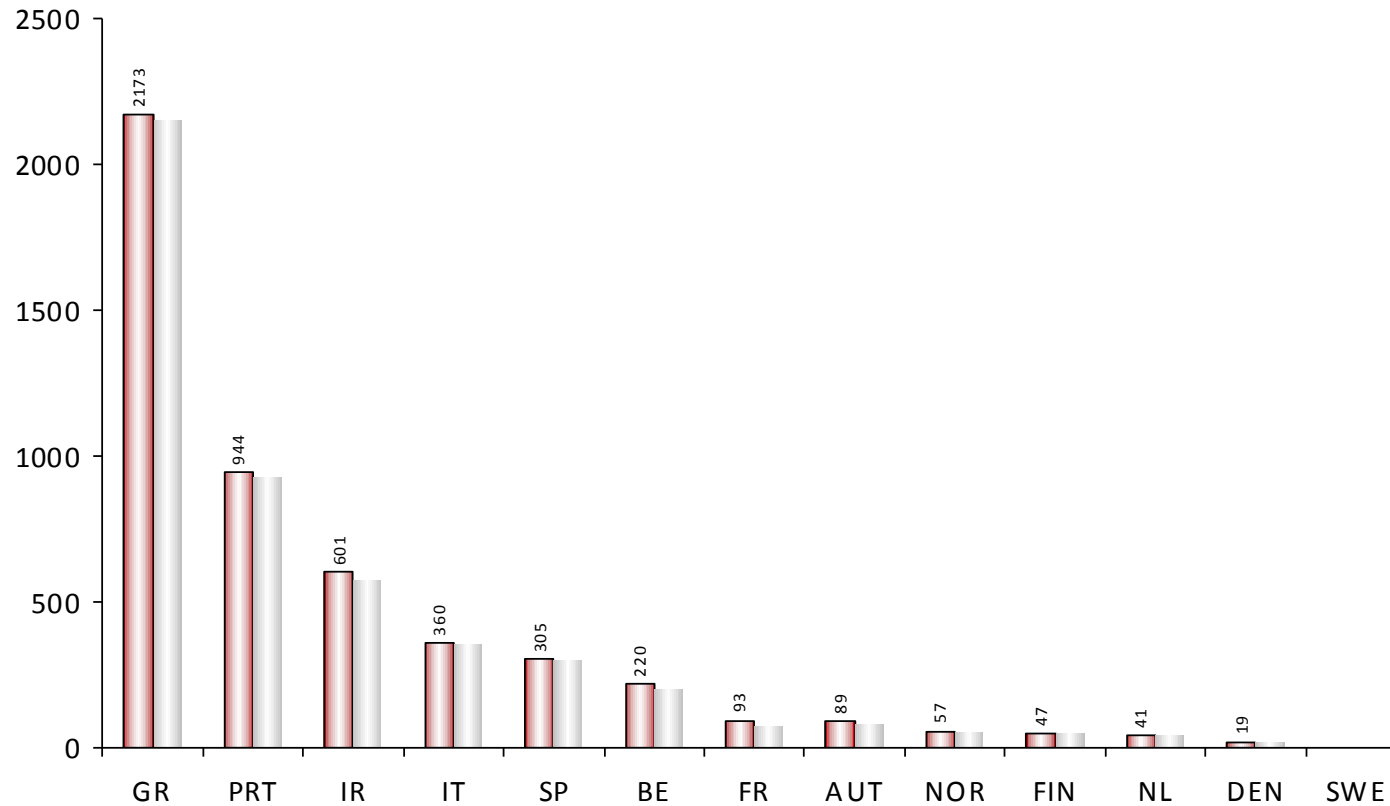
	Total	To GR, IR, PT, SP	To IT	To PIIGS	To GE, FR
US banks	1,800	260	220	480	1,000
FR banks	1,300	250	350	600	0
UK banks	1,270	250	100	350	800
GE banks	1,240	250	165	415	0
Total	5,610	1,010	835	1,845	1,800

Source: BIS

EU bond spreads

EU – 10Y govt bond spreads over Germany

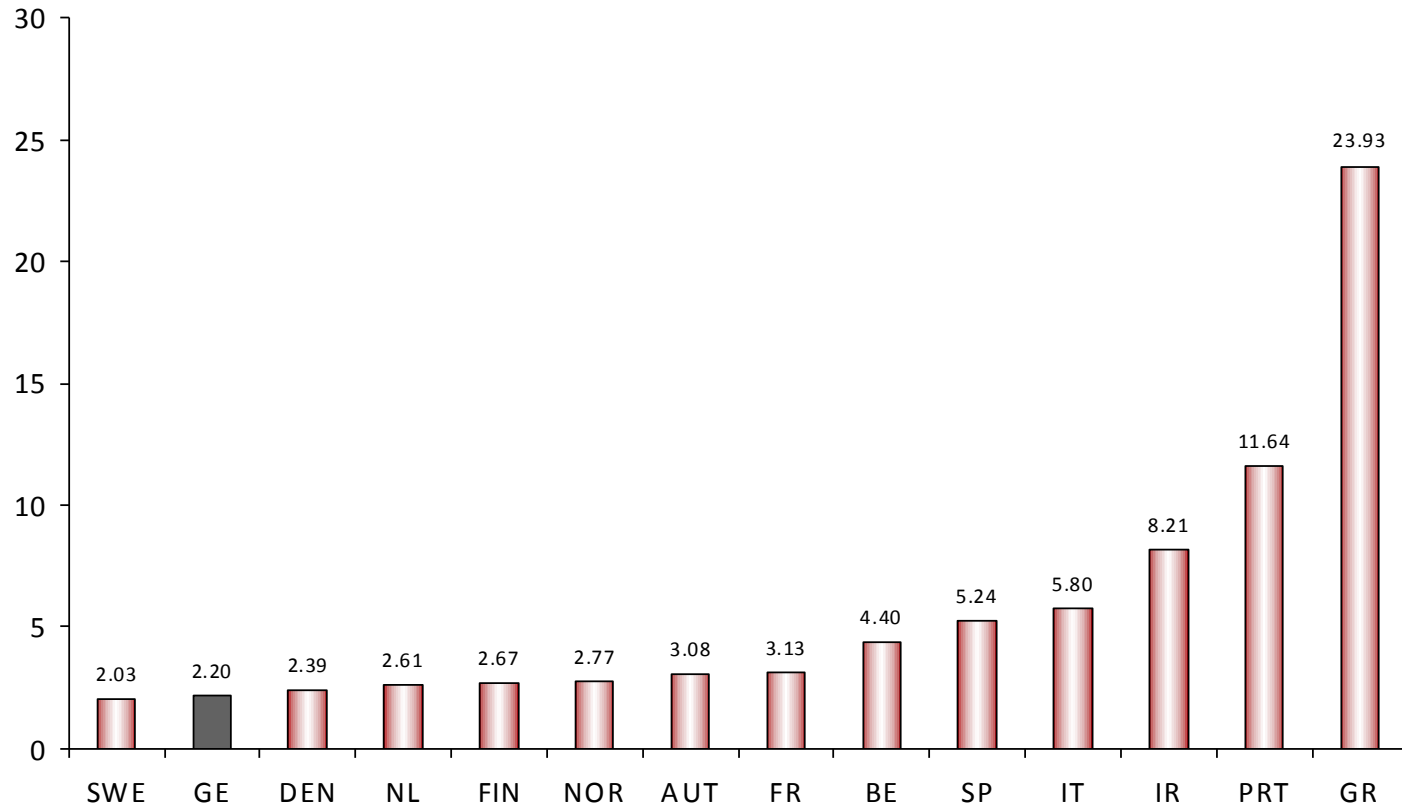
bps, 17Oct11



EU bond yields

EU – 10Y govt bond spreads over Germany

bps, 17Oct11



EU sov bond redemption schedule

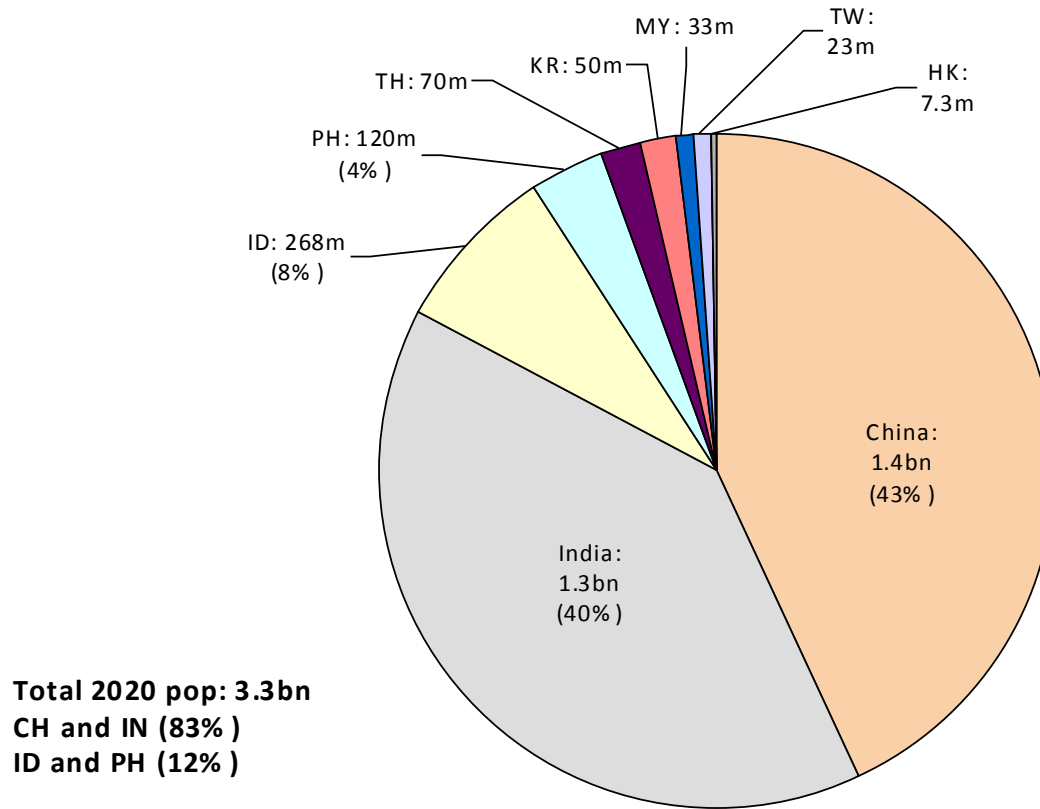
Sovereign debt redemptions

EUR bn

Year	Italy	Greece	Spain	Port	Ireland	GR, SP, PT, IR	GIIPS
2011	202	39	97	18	6	160	362
2012	302	47	128	23	10	208	510
2013	191	41	95	15	10	161	352
2011-13	695	127	320	57	25	529	1224
2014	147	41	85	20	15	161	308
2015	177	28	57	15	3	103	280
2011-15	1020	196	461	91	44	792	1812

Asia 2020 population

Asia 2020 population



Jan-06

Jan-07

Jan-08

Jan-09

Jan-10

Jan-11

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