



Global Investment Trends and Impact on regional FX

October 25, 2007

Philippe GERNEZ

Plan of the presentation

1. The current Forex situation
2. Impact of the recent liquidity/credit crisis on emerging Asia FX
3. What is behind the resilience of Asian currencies
4. Fundamentals and FX trends
5. Concluding remarks

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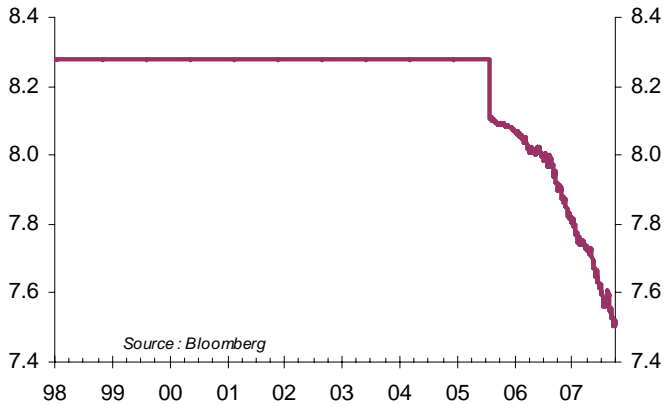
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Asian Forex 1



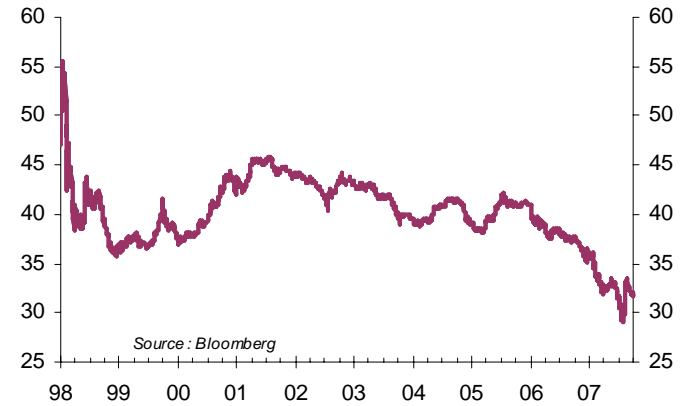
Yuan vs USD exchange rate

— CNY-USD



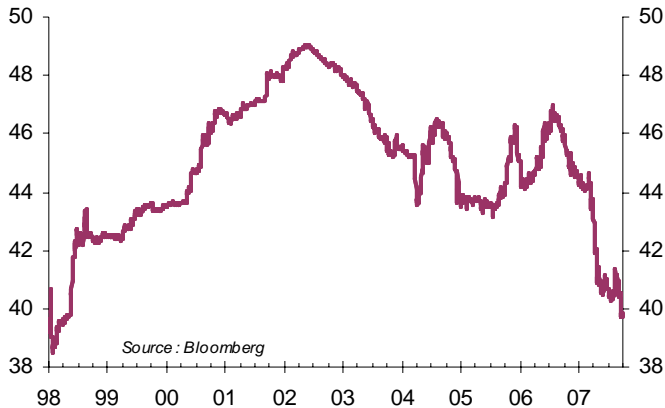
Baht vs USD exchange rate

— THB-USD



Rupee vs USD exchange rate

— INR-USD



Philippine Peso vs USD exchange rate

— PHP-USD

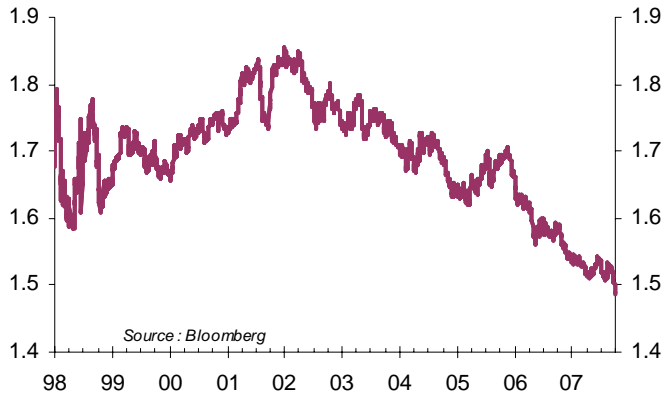


Asian Forex 2



Singaporean Dollar vs USD exchange rate

— SGD-USD



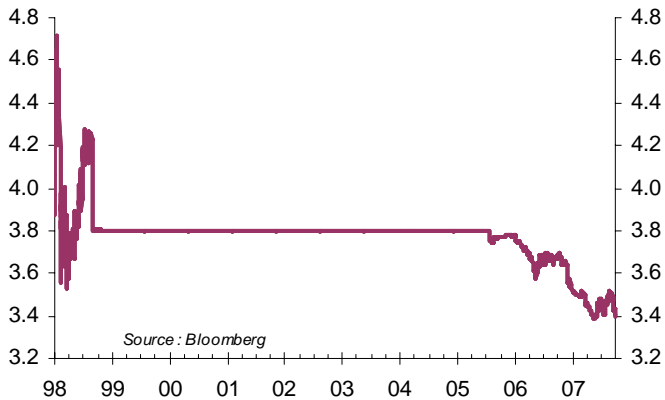
Won vs USD exchange rate

— KRW-USD



Ringgit vs USD exchange rate

— MYR-USD



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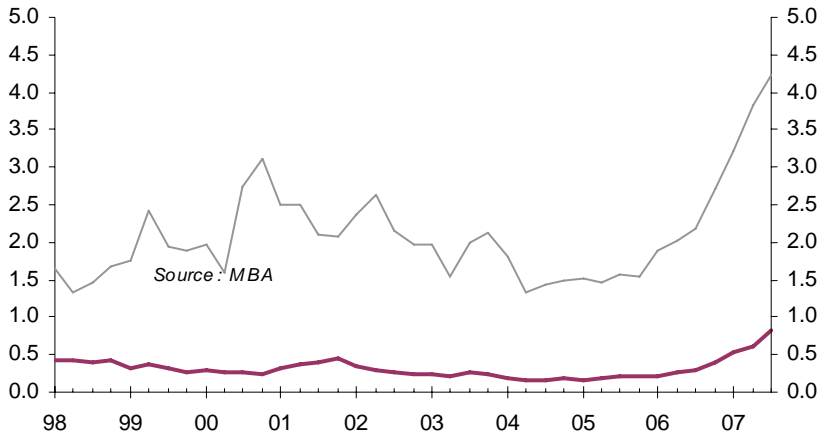
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What was/is the crisis about



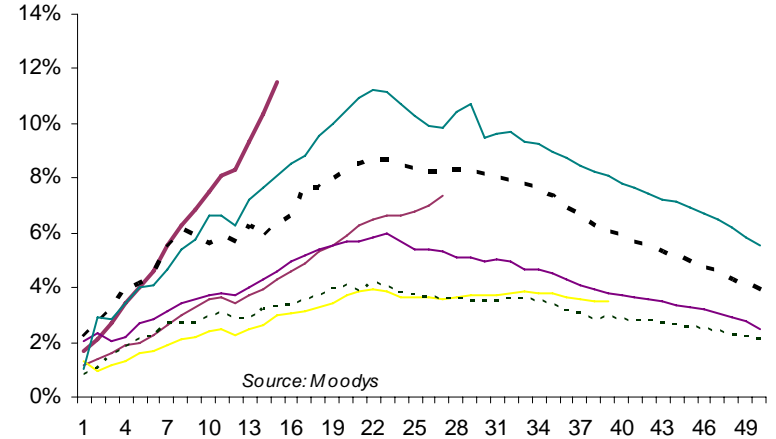
- Crisis started in the US, well before the summer, initially due to excess supply in the housing market
- Crisis precipitated as prices started to fall and foreclosure to accelerate significantly
- Crisis far from over...

Foreclosures



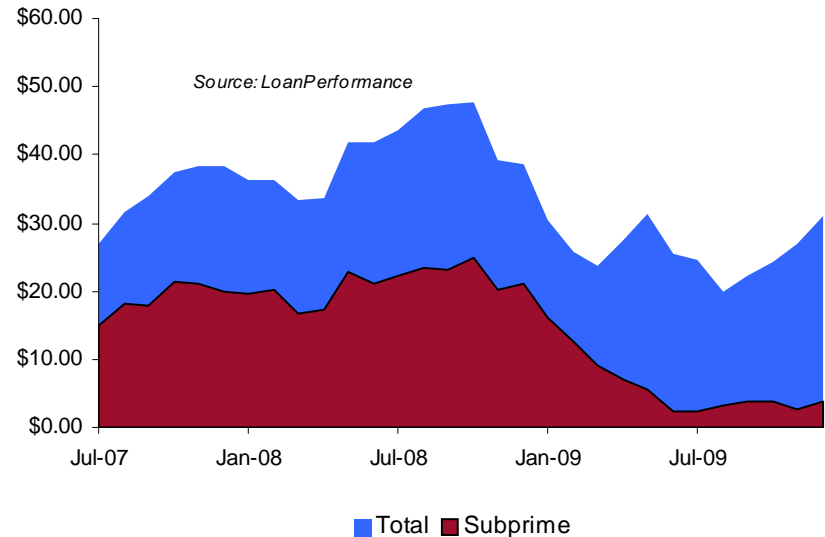
— Mortgage Delinquencies, Prime ARM, Loans in Foreclosure, Started During Quarter - United States, Units:Percent SA
 — Mortgage Delinquencies, Conventional Subprime ARM s: Foreclosures Started - U.S., Units:Percent SA

Delinquency rates (ARM subprime by vintage)



Source: Moodys

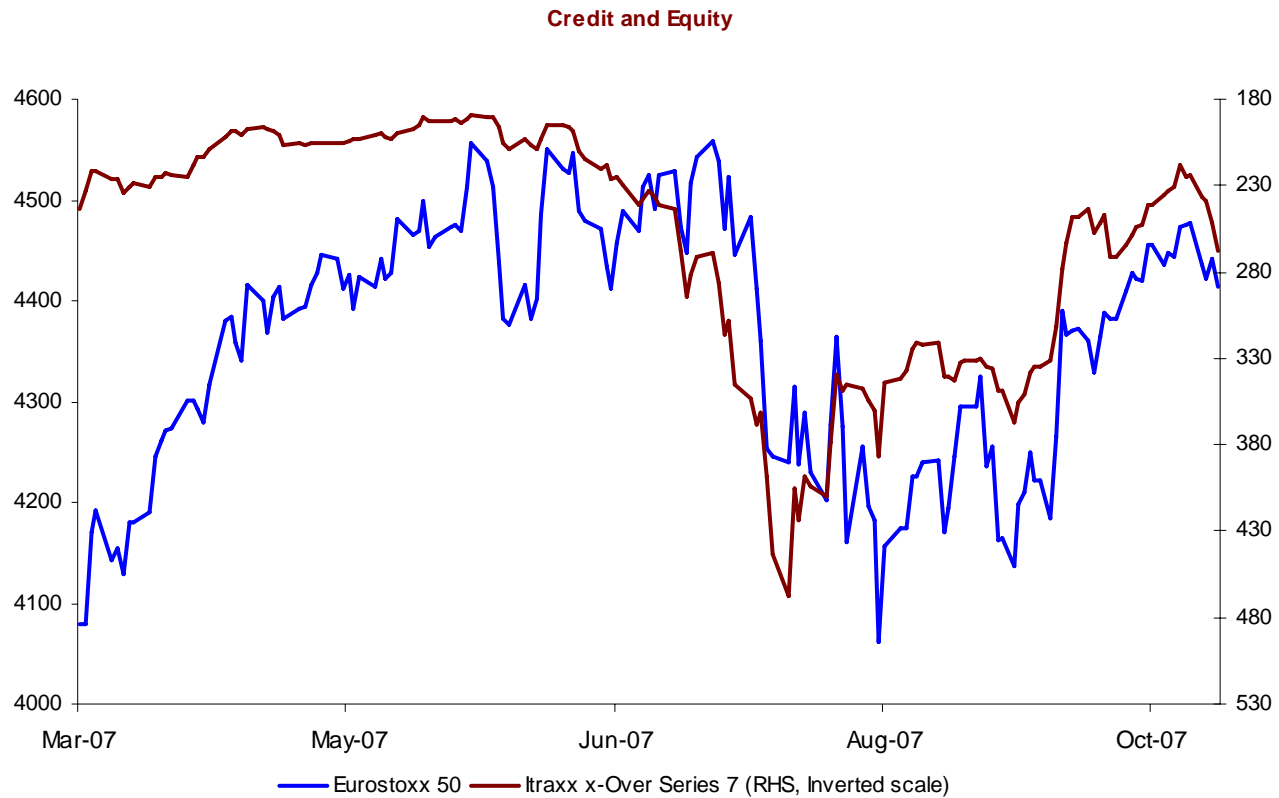
Reset (\$ m)



Source: LoanPerformance

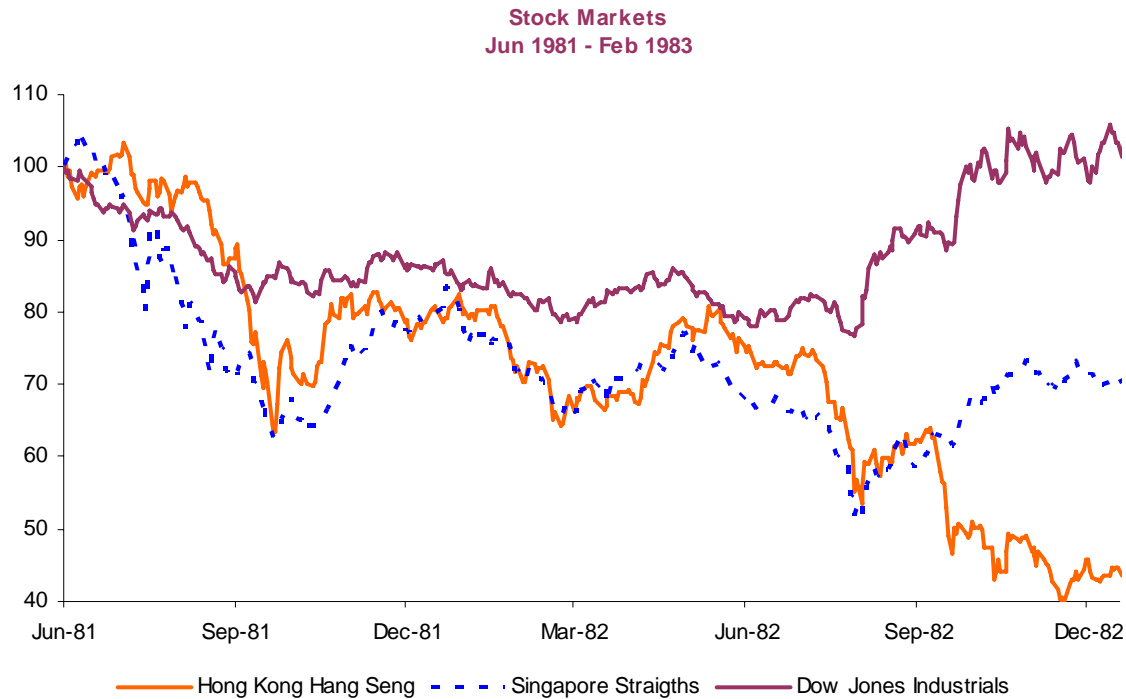
■ Total ■ Subprime

Contagion to Europe: perfect



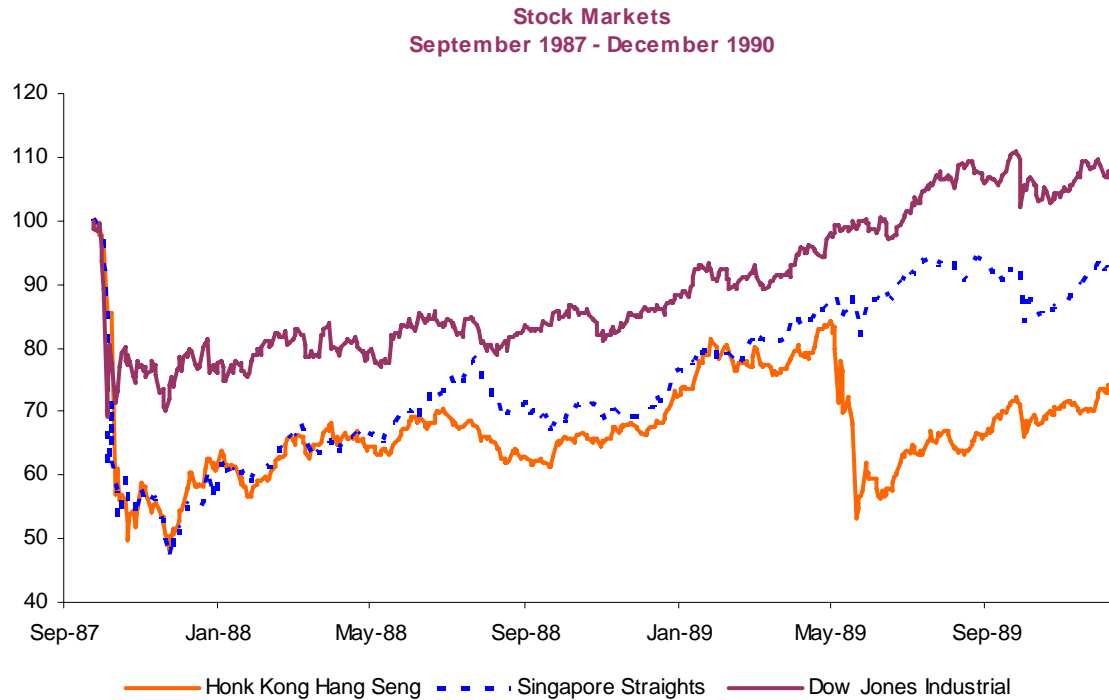
Reaction to external crisis

Evidence n.1: Savings and Loans Crisis



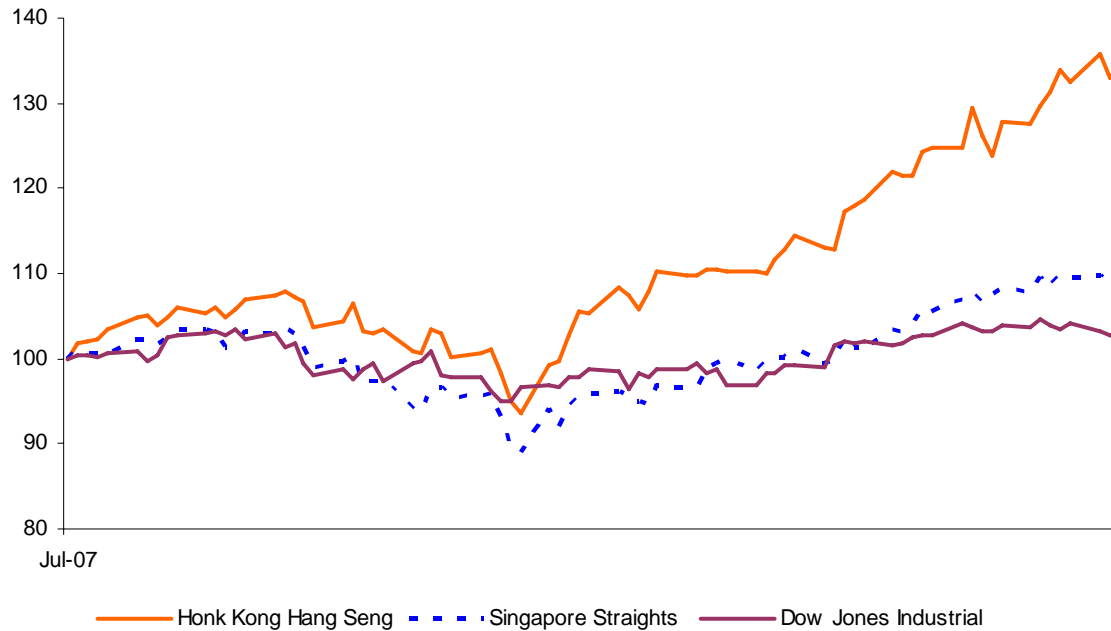
Reaction to external crisis

Evidence n.2: Stock Market Crash Oct 87

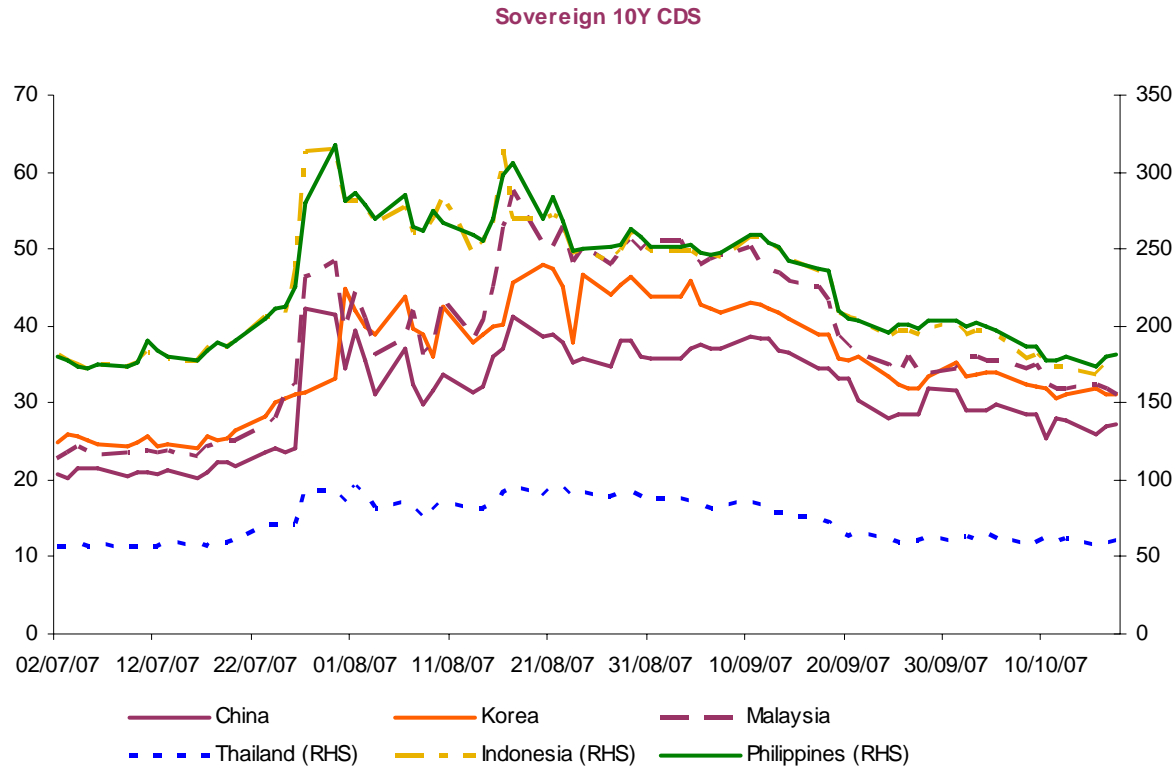


Reaction to external crisis Today

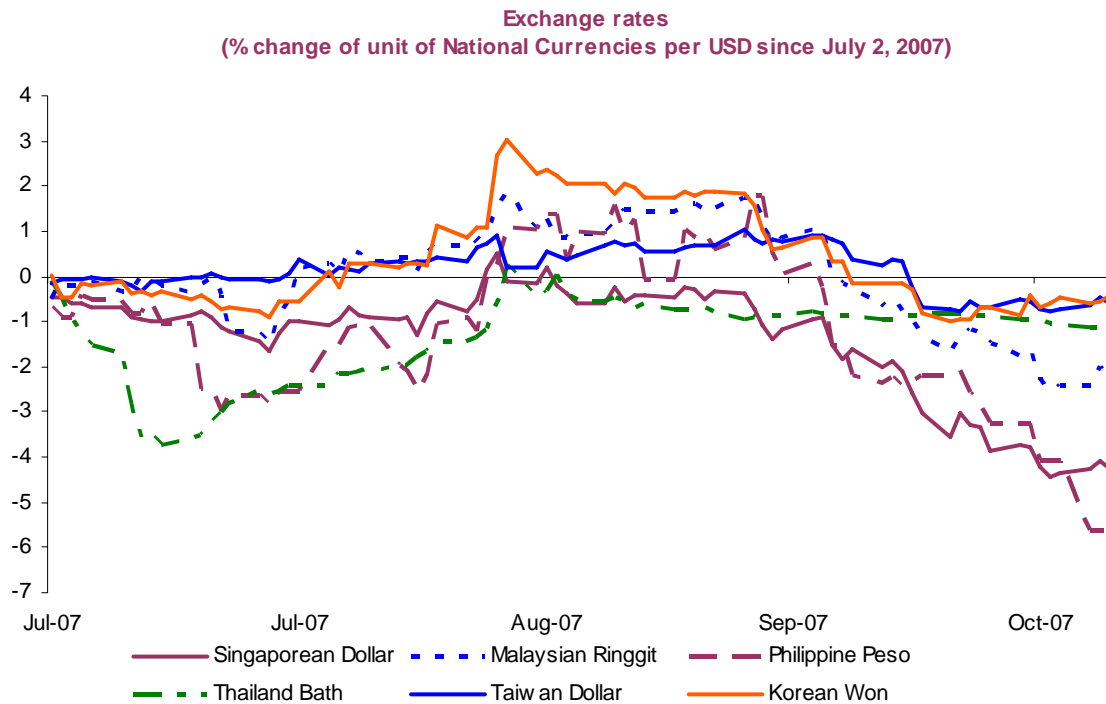
Stock Markets
July 2007 - October 2007



Other assets proved robust as well



Exchange rate barely affected

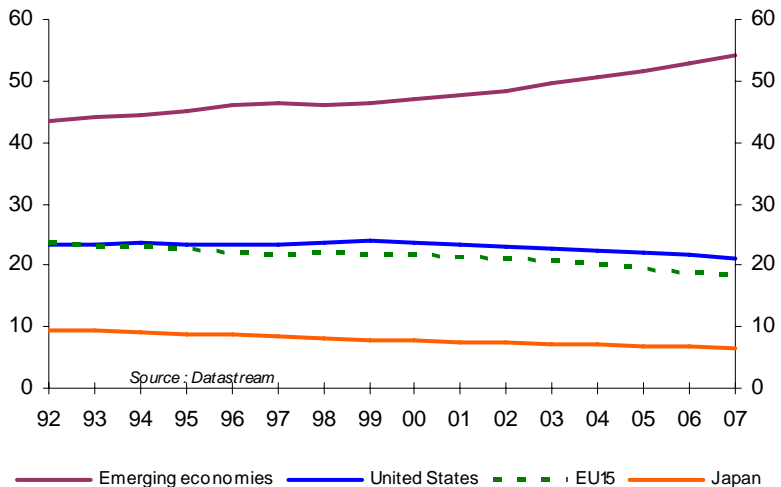


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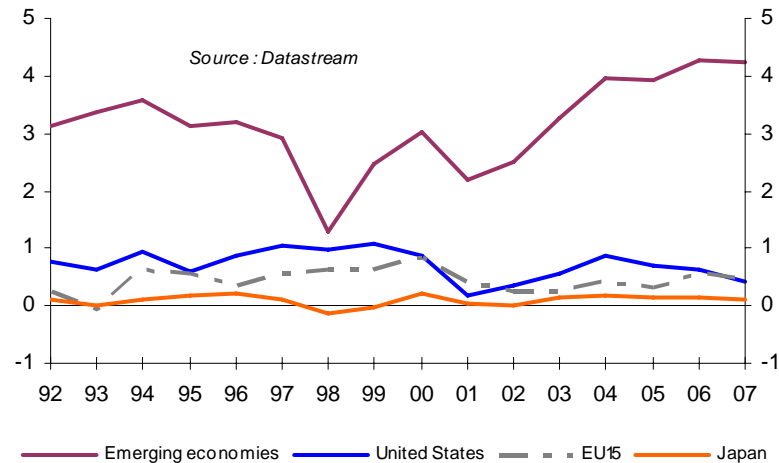
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1) Weight of Emerging Economies

Share of World GDP (in USD PPP, %)

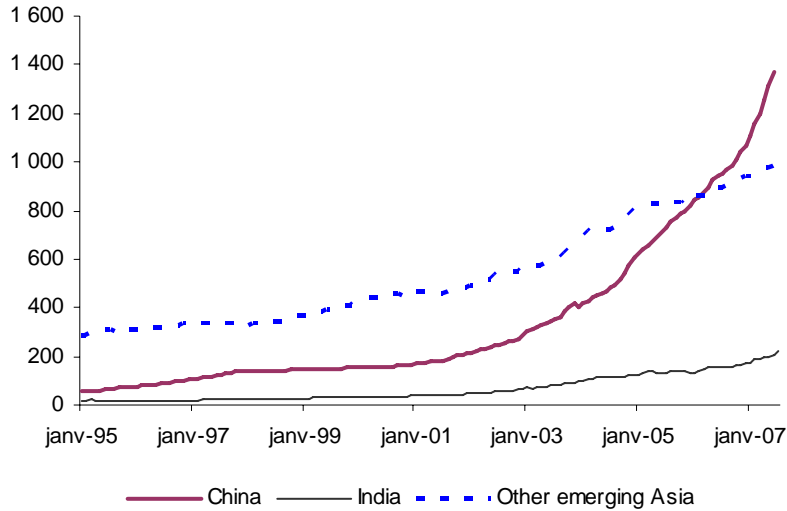


World GDP Growth Contribution to yearly % growth

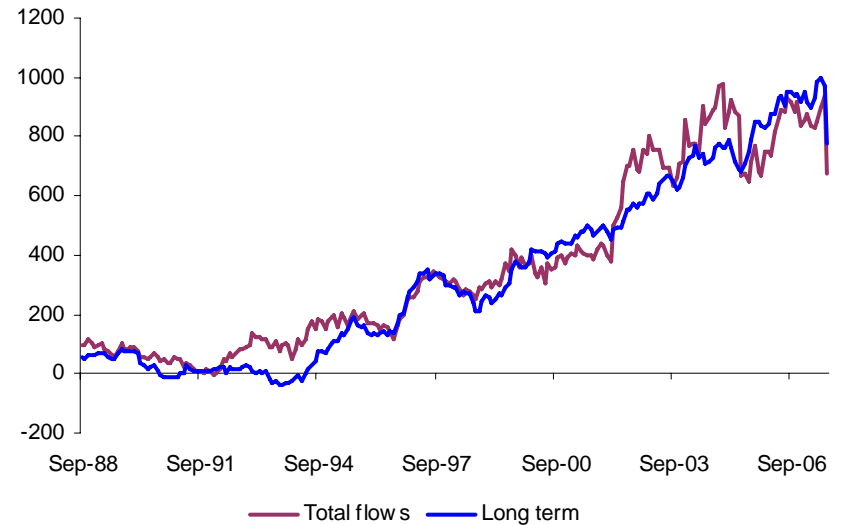


2) Foreign Exchange Interventions

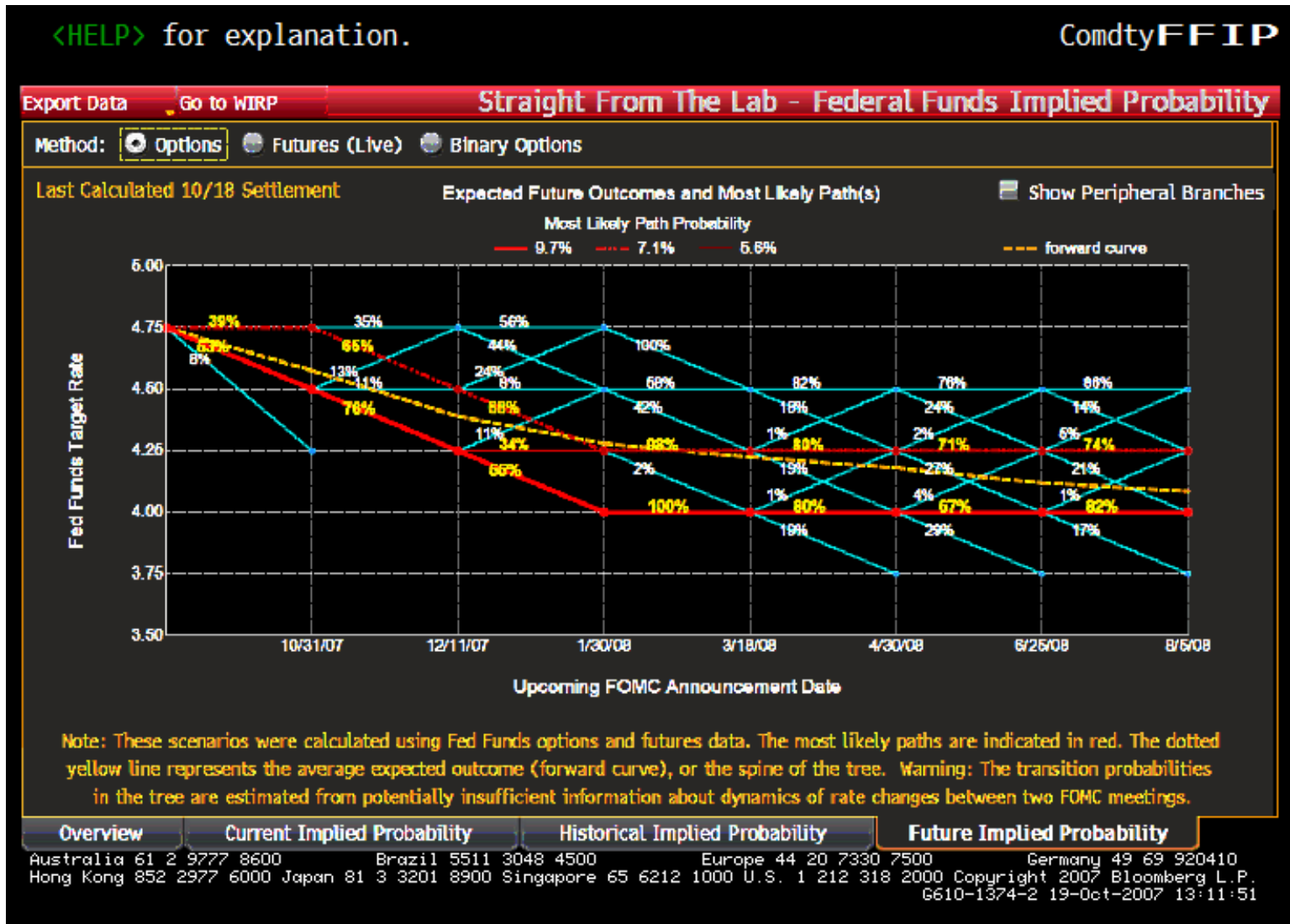
International Reserves



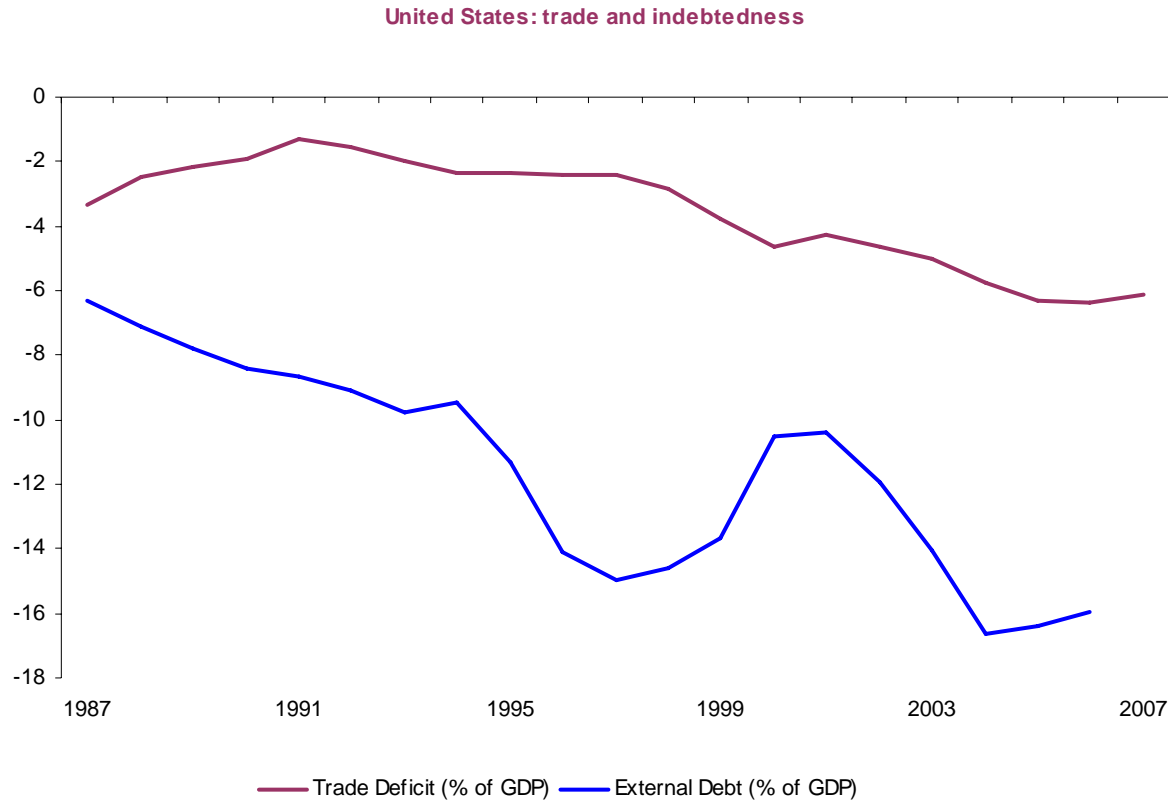
Net purchases of US securities by non-residents (moving sum over 12 months, USD bn)



3) USD weakness: a new easing monetary policy cycle



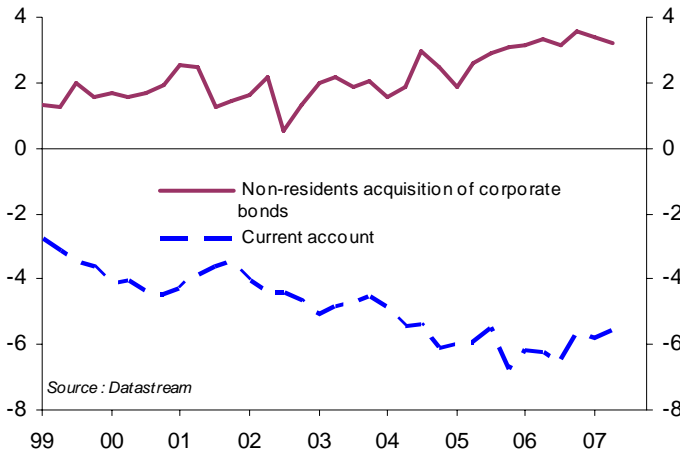
3) USD weakness: unbalances adjustments



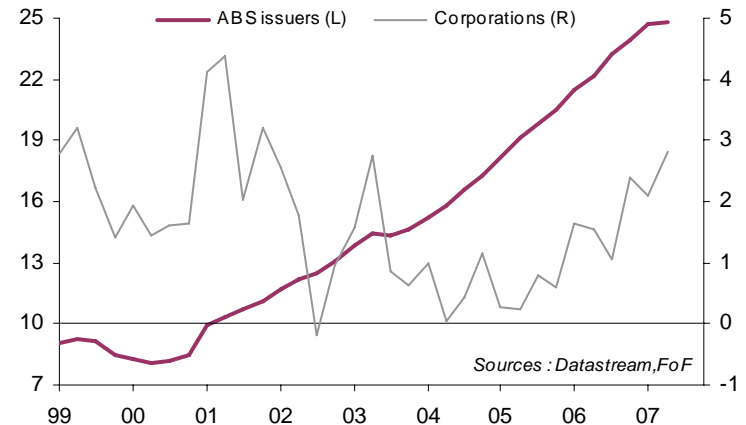
3) USD weakness: credit crunch



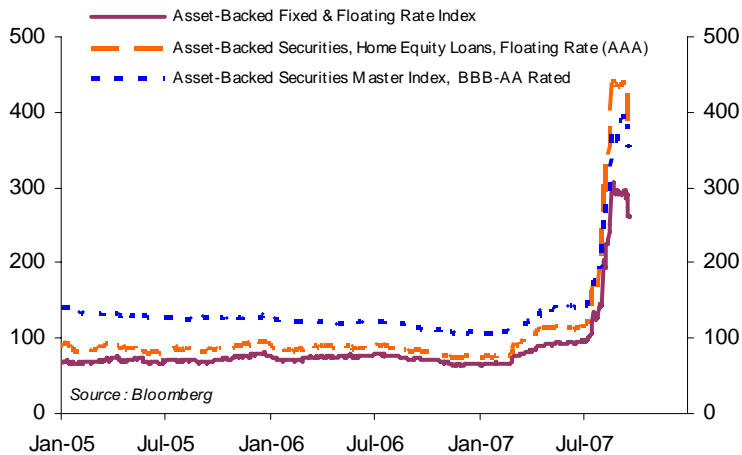
US: Current account and non-residents acquisition of corporate bonds (% of GDP)



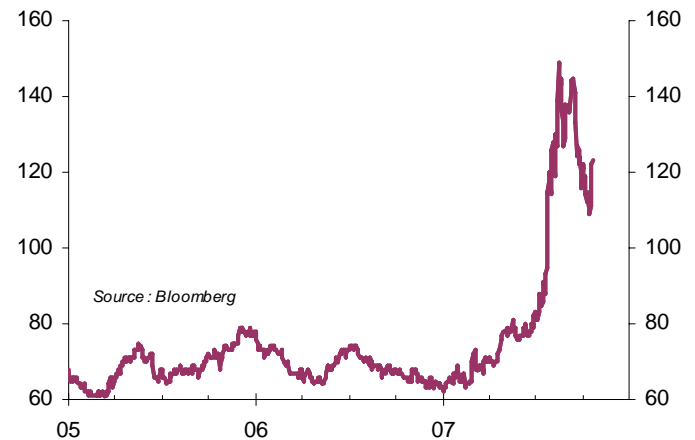
United States Net Issuance of corporate bonds (% of GDP)



United States ABS Indices (OAS spreads, bps)



United States: Spread CMBS (OAS, bp)



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THE question

The most important questions to ask are:

- Whether the appreciation of the emerging economies' currencies is going to continue
- Whether only some of them will continue to appreciate (and which one of them are dangerously overpriced)

Is the appreciation going to continue

YES

Rationale for further appreciation

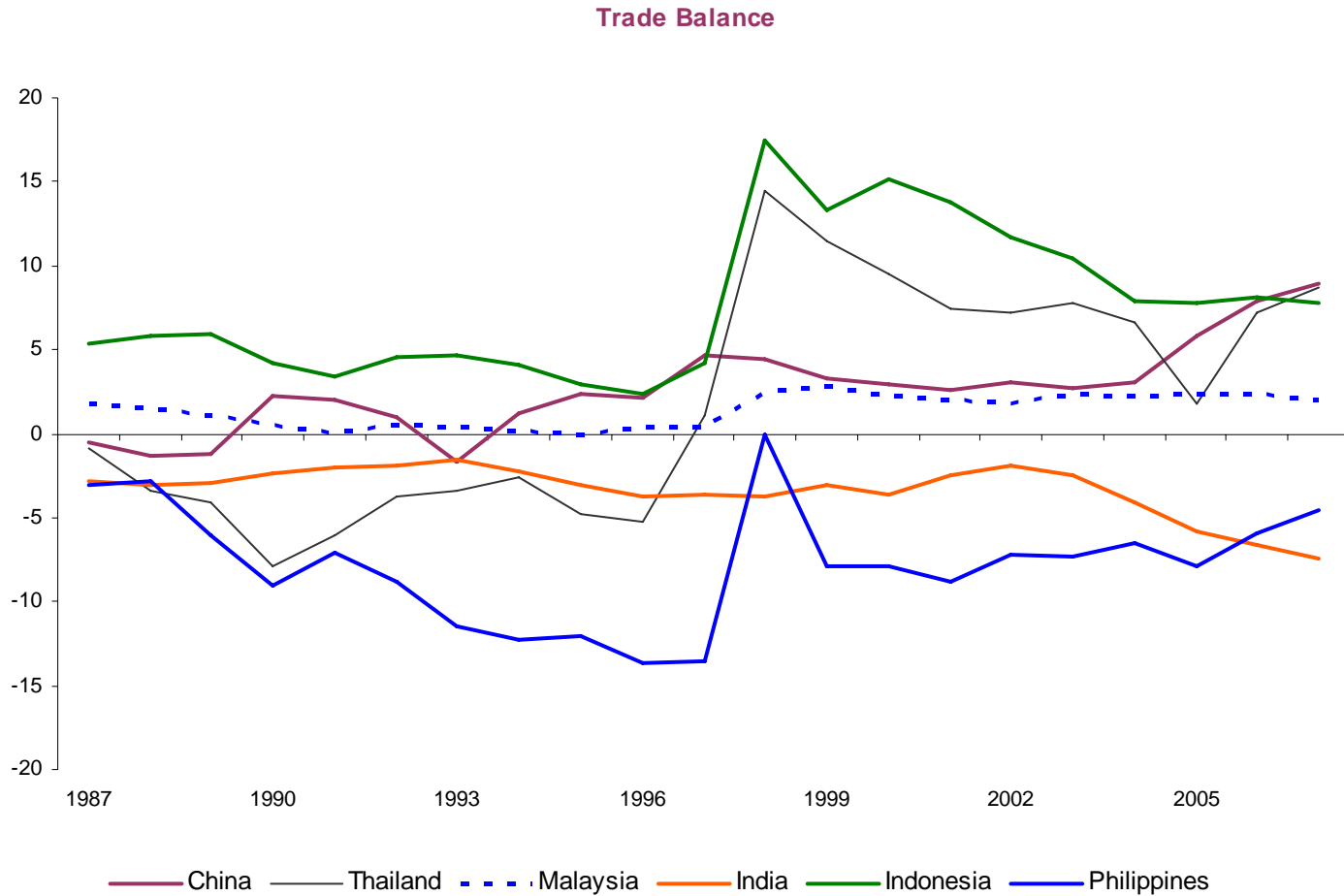
- Widening growth gap between emerging economies and OECD
 - Construction and Real Estate crisis in the US
 - Construction weakness in EMU
 - Slower growth in Japan (export slowdown, inexistent private consumption)
- Willingness by some countries to see their currency (steadily) appreciating to cool down excessive growth
- Growing activity gap is likely to make investments (both direct and portfolio) by non-residents in emerging economies even more attractive

Is there growing room for discrimination?

YES

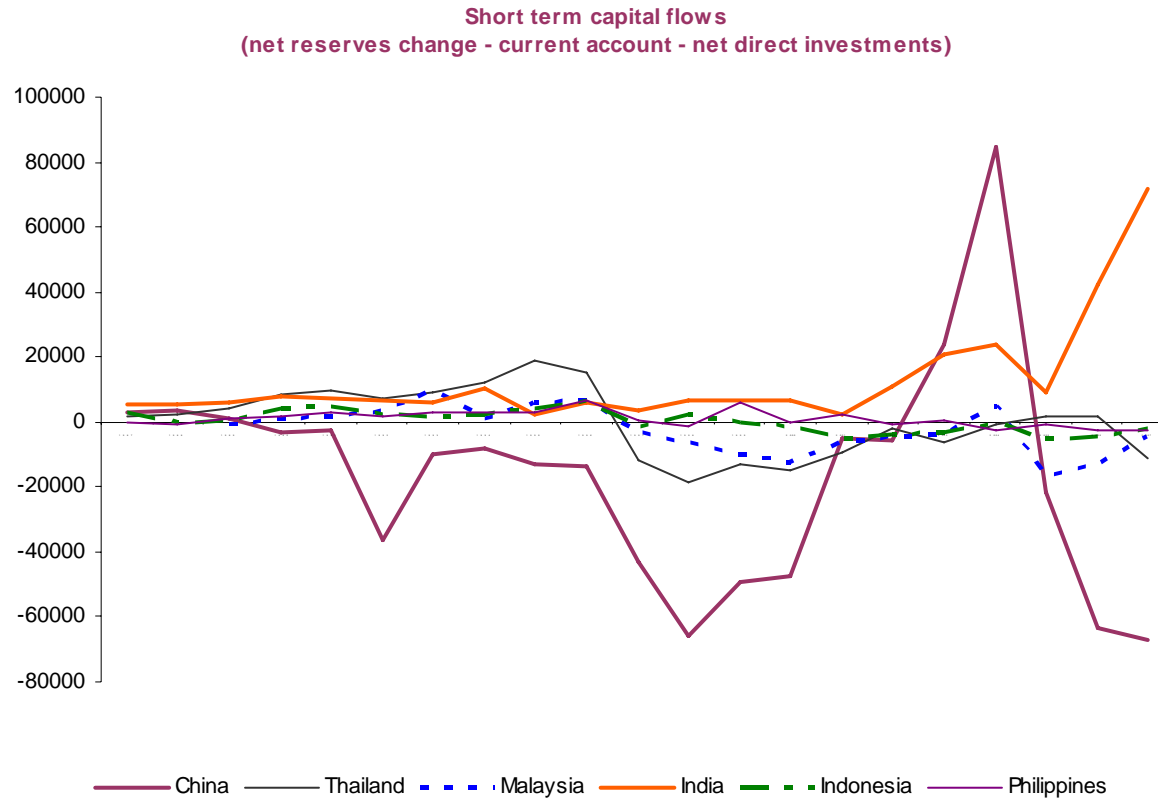
Elements of discrimination

Trade Balances



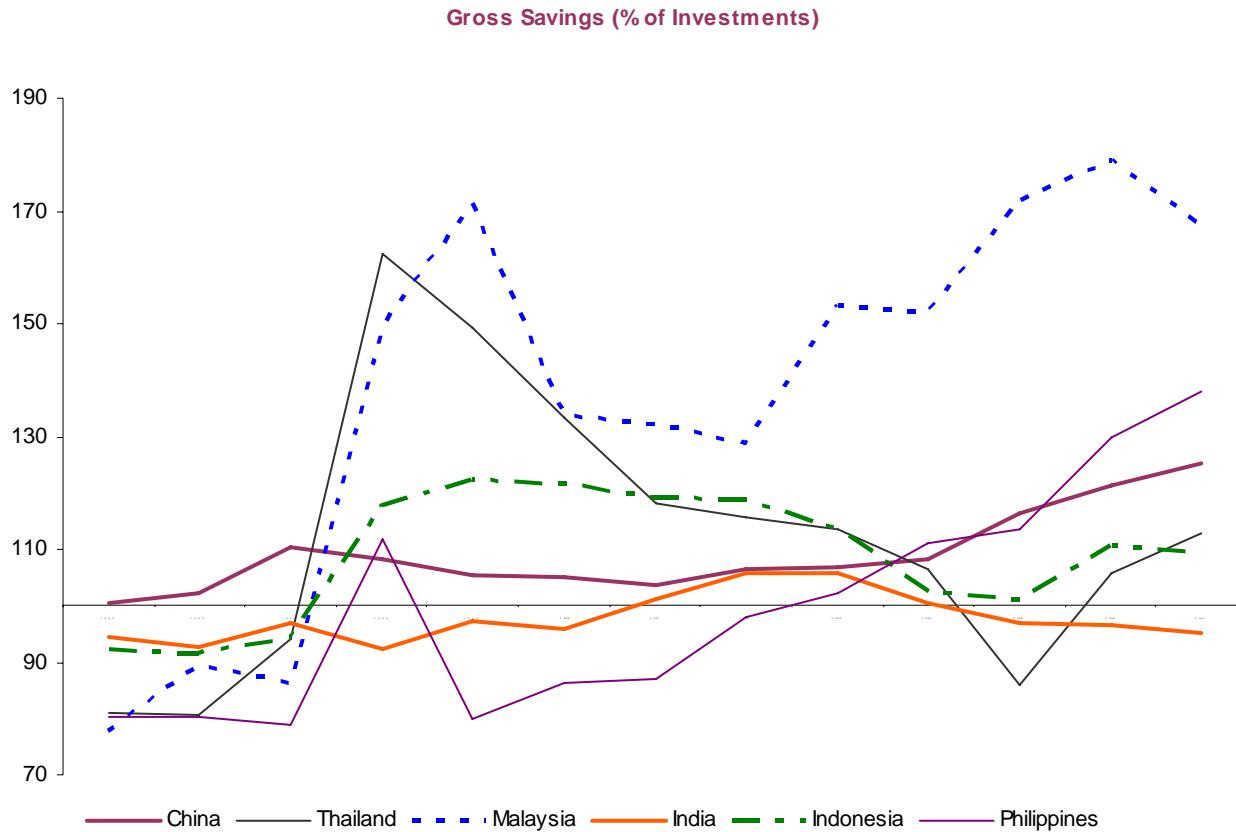
Elements of discrimination

Short term capital flows



Elements of discrimination

Gross savings



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Concluding Remarks

1. **Asian currencies are exhibiting, more than other emerging economies' currencies strong and persistent appreciation, especially against the USD**
2. **Exchange rates are less volatile and more controlled than in the past**
3. **During the recent liquidity crisis:**
 1. *Currencies of emerging economies were more resilient than in past crisis*
 2. *Among emerging some discrimination surfaced (Asia better than Latin America and Europe, some in Asia better than others)*
4. **Resilience can be explained by a stronger specific weight of Asian emerging countries in global economy, central bank action and USD global weakness**
5. **Although, in general, the appreciation of Asian currencies is well backed by fundamentals, for the near future misalignments with economic and financial fundamentals pose a risk for some countries (India above all, Philippines....)**