

How is Asia weathering the subprime storm?

BBVA Economic Research

Hong Kong, 8th April, 2008

ASIA IN THE WORLD

ASIA*

Share in the world	1982	1990	2000	2007
World PPP based GDP	20.1%	24.2%	30.4%	35.3%
World GDP (current prices)	18.0%	21.7%	24.8%	21.2%
World Official reserves	20.7%	32.7%	52.5%	61.7%
World Exports				
Merchandise	15.9%	20.9%	26.5%	30.6%
Services	14.7%	14.5%	17.8%	20.2%
World Imports				
Merchandise	10.9%	12.3%	14.3%	18.9%
Services	11.8%	13.4%	14.3%	16.0%
World Population	51.8%	49.9%	47.9%	47.0%
PPP based GDP Growth (yoy)	10.8%	9.5%	8.5%	10.8%

* Includes Asian 11 major economies: China, Hong Kong, India, Indonesia, Japan, Korea, Malaysia, Philippines, Singapore, Thailand and Taiwan

Source: BBVA

ROADMAP TO THE PRESENTATION

1. Latest developments

2. Impact of the US sub-prime crisis in Asia

3. Some sectoral issues

4. Conclusions

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BETTER IN 2007 BUT FORECASTS TRIMMED

ASIAN 4Q07 GDP SURPRISED UP (% yoy)

	Expected	Actual	Surprise
China	11.3	11.2	-
Hong Kong	6.1	6.7	+
India	8.4	8.4	=
Indonesia	6.4	6.3	-
Japan	0.4	0.9	+
Korea	5.3	5.7	+
Malaysia	6.5	7.3	+
Philippines	6.6	7.4	+
Singapore	7.7	5.4	-
Taiwan	5.7	6.4	+
Thailand	5.3	5.8	+

Note: Japan is q-o-q; all other figures are y-o-y.
Preliminary figure for Singapore

GROWTH FORECASTS LOWER IN 2008 (% yoy)

	Actual	Consensus forecast*		Change
	2007	2008	2009	08 vs 07
China	11.4	10.3	9.7	↓
Hong Kong	6.3	4.9	5.1	↓
India	9.6	7.9	8.4	↓
Indonesia	6.3	6.1	6	↓
Korea	5	4.6	4.9	↓
Malaysia	6.3	4.3	4.6	↓
Philippines	7.3	n.a.	n.a.	
Singapore	7.7	5.6	5.9	↓
Taiwan	5.7	4.3	4.6	↓
Thailand	4.8	4.6	5	↓
Japan	2.1	1.4	1.9	↓

* February survey

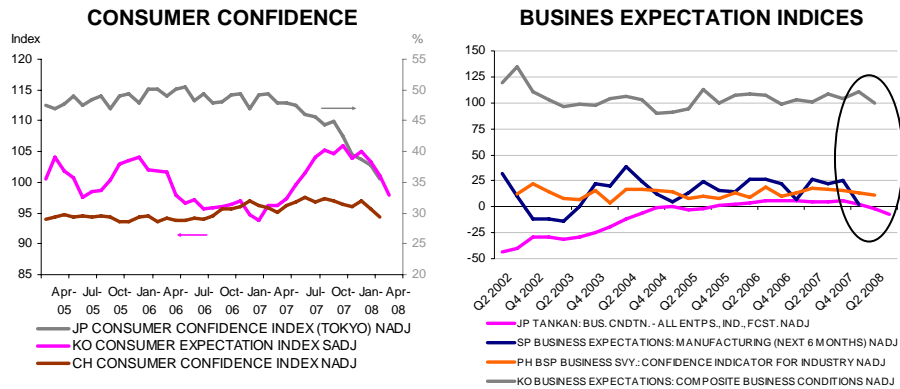
Source: BBVA, Consensus forecast

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EXPECTATIONS AND CONFIDENCE INDICATORS HEADING LOWER

LOOKING FORWARD EXPECTATIONS ARE DETERIORATING ON HEIGHTENED
UNCERTAINTY ABOUT THE GLOBAL ECONOMY AND INFLATION CONCERNS

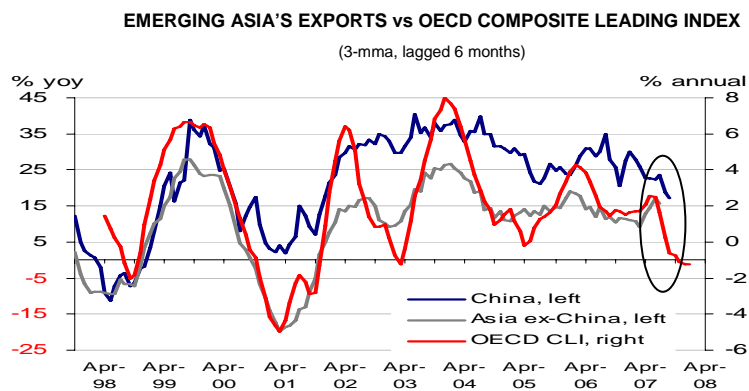


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EXPORTS RESILIENT

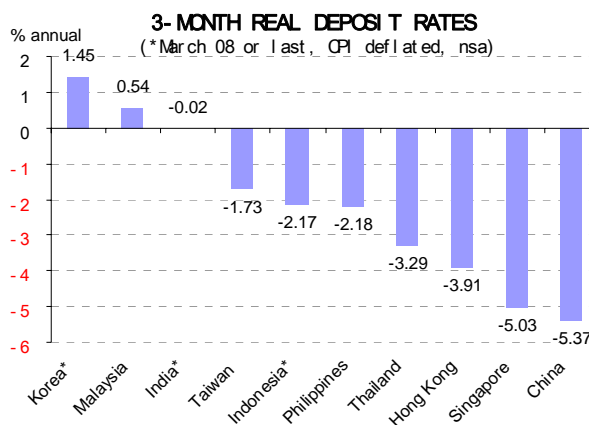
SOUTHEAST ASIA'S REBOUNDED AND NIE'S REMAINED ROBUST BUT
LEADING INDICATORS IN OECD COUNTRIES POINT TO A SLOWDOWN



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MONETARY CONDITIONS SUPPORTIVE TO GROWTH

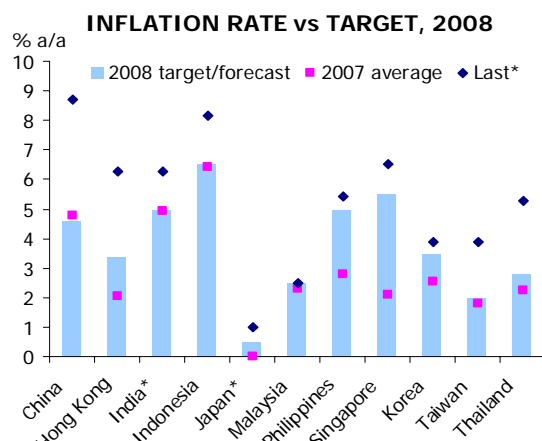


Source: BBVA, Thomson Datastream

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THE RISE IN HEADLINE INFLATION POSES ADDITIONAL RISKS...



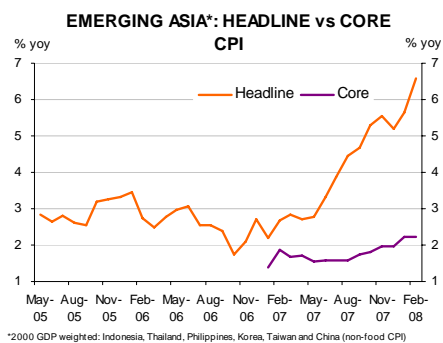
* India: wholesale price index; Japan: CPI ex-fresh food

Source: BBVA, Central Banks, Thomson Datastream

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...ELICITING A RANGE OF POLICY RESPONSES TO STABILIZING PRICES



Source: BBVA, Thomson Datastream, press

RECENT MEASURES ANNOUNCED

COUNTRY	ADMINISTRATIVE MEASURES	FOOD PRICE ADJUSTMENTS
TAIWAN	Freezing of fuel prices	
MALAYSIA	Price ceilings on certain products	
CHINA	Export ban on number of staple foods and quotas for food grains. Large producers/wholesales to seek prior approval to raising prices of basic necessities	Increase of 9% minimum price paid to farmers in 3 provinces
KOREA	To monitor the prices of 52 daily necessities, lower the temporary tariff on petroleum imports and control utility rates	
VIETNAM	To reduce rice exports by 22%	
INDIA		Set a new minimum price for rice exports of US\$1,000 per ton, well above the current price for most grades of rice
CAMBODIA	Halted all private sector exports of rice	
INDONESIA	Tariff adjustments and direct subsidies to poor households	Increase supply of rice from government stocks

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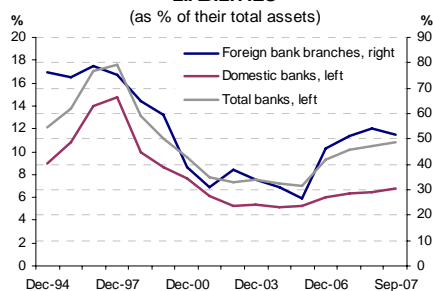
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BALANCE SHEET RISKS OF BANKS

RISK OF LIQUIDITY OR FUNDING PROBLEMS IF INTERNATIONAL BANKS BEGIN LIQUIDATING THEIR LOANS TO EMERGING MARKET BANKS

KOREAN BANKS EXTERNAL LIABILITIES



EXPOSURE TO US SUB-PRIME RELATED ASSETS (estimates based on bank's announcements as of Aug.2007)			
Country	Institution	US\$ mm*	% of Equity
Japan	Sumitomo Mitsui Financial Group	857.3	< 2%
	Mitsubishi UFJ Financial Group	2400.3	3.0%
	Mizuho Financial Group	not significant	0%
	Aozora	180	< 3%
	Shinsei	<500	6%
	Sumitomo Trust	120	1.0%
Singapore	Nomura	608.7	8.0%
	Development Bank of Singapore (DBS)	188	1.5%
	Overseas-Chinese Banking Corp. (OCBC)	181	2.0%
	United Overseas Bank (UOB)	60	0.5%
China	Bank of China	9540	1.2% of assets
	Bank of China (Hong Kong)	1600	1.3% of assets
	Industrial and Commercial Bank (ICBC)	1220	0.1% of assets
	China CITIC Bank	3	0.003% of assets
	China Construction Bank	1060	0.1% of assets
Thailand	BankThai	53	21%
Taiwan	Banks (16)	1300	> 2%
	Insurance companies	n.a.	6% (e)
Hong Kong	Bancos	not significant	0%
Philippines	Total banking system	180.0	2%
Malaysia	Banks	not significant	0%
Indonesia	Banks	not significant	0%
India	Banks	not significant	n.a.

* estimates at JPY/USD 116.65, THB/USD 32.1, TWD/USD 32.85, CNY/USD 7.56 and HKD/USD 7.81

Impact on bank balance sheets seems limited so far but needs monitoring. Initial assessments by regulators and credit agencies suggest that financial sector exposure to US sub-prime related assets was relatively limited.

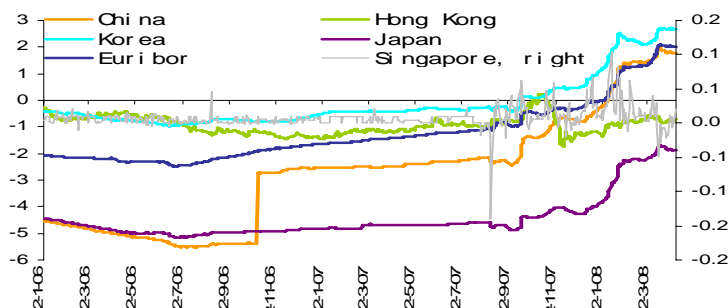
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INTERBANK RATES RELATIVELY LESS AFFECTED

Unlike the Euro, interbank rates in the region are trending lower except for Korea and China (mostly for domestic factors). 3-month gap with the US Libor is closing rapidly after remaining in negative (lower) territory for most of 2007.

3M RATE DIFFERENTIAL WITH LIBOR (%)



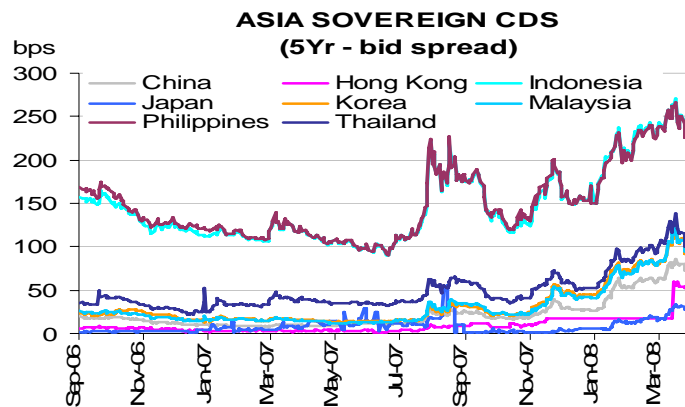
Source: BBVA, Thomson Datastream

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ASIA IS NOT IMMUNE TO GLOBAL CREDIT WOES

SPREADS FOR OFFSHORE BORROWING WIDENED SIGNIFICANTLY FOR BOTH SOVEREIGN AND OTHER BORROWERS



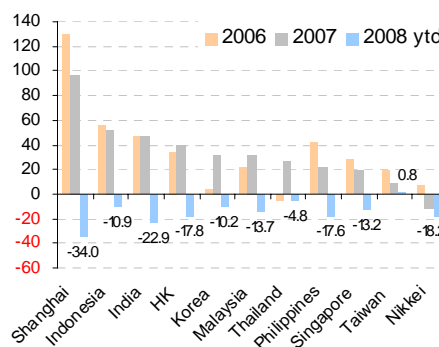
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... AND THE SELL OFF IN ASIAN EQUITY MARKETS

- Equity prices in the major Asian indices have fallen a median 14% between their peak (generally October 2007) and end of March 2008
- The steepest falls were in China and India, and the smallest declines in Thailand and Japan
- In most cases, the recent price declines are a partial reversal of previous large increases since the end of 2006.

MAJOR EQUITY INDICES PERFORMANCE (% year-to-date return)



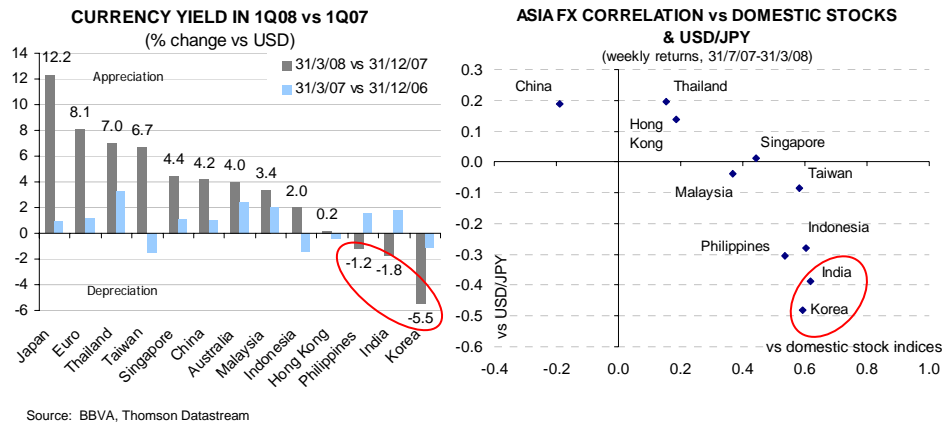
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ASIAN FX CONTINUED STRENGTHENING DESPITE THE DECLINE IN EQUITIES

MOST ASIAN CURRENCIES APPRECIATED AGAINST WEAK DOLLAR

KOREAN WON AND INDIAN RUPEE DEPRECIATED ON PORTFOLIO EQUITY OUTFLOWS AND THE UNWINDING OF YEN CARRY TRADES

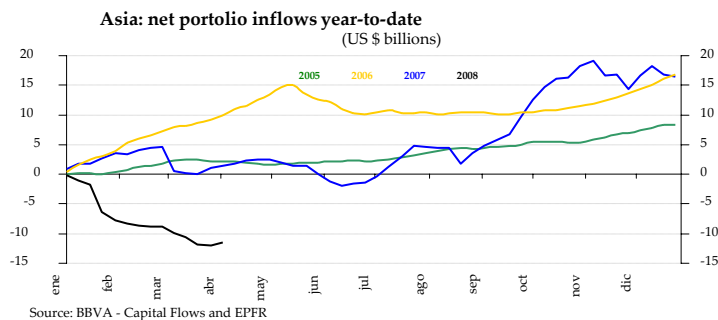


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MOST IMMEDIATE RESULT IN A PULLBACK OF PORTFOLIO INFLOWS ...

DUE TO A REVALUATION OF RISK IN GLOBAL FINANCIAL MARKETS AND THE LIQUIDATION OF PORTFOLIO HOLDINGS BY FOREIGN INVESTORS

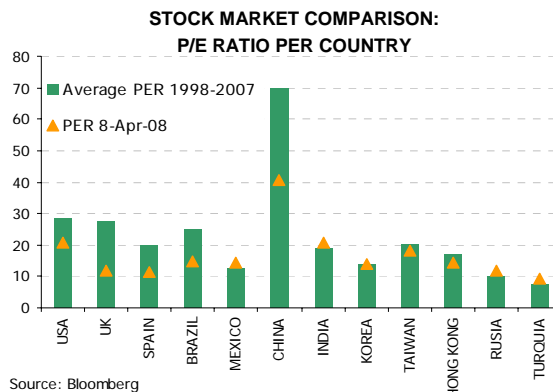


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BALANCE SHEET RISKS OF CORPORATIONS

VALUATIONS IN THE REGION ARE RICH RELATIVE TO OTHER COUNTRIES
AND SURPRISES IN CORPORATE EARNINGS A RISK



The risk is deteriorating earnings of Asian corporates triggered by a sharp decline of exports, which depresses profitability and eventually hinders private investment expenditure.

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SECTORAL OPPORTUNITIES AMIDST UNCERTAINTY

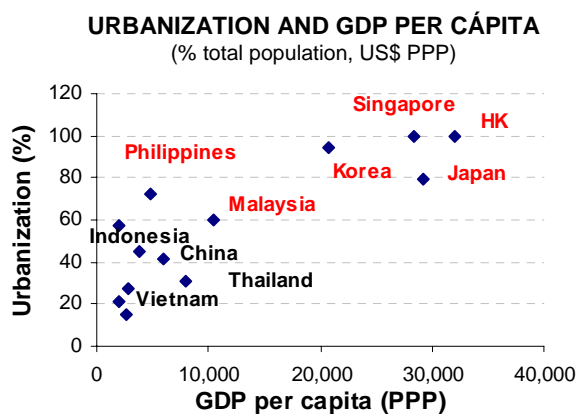
1. Secular themes

- **The energy and materials sector:**
 - China's urbanization is not a new story but it's far from over
 - Also true for India and Southeast Asian economies
 - Recovery of investment expenditure should add further support in these countries
- **Healthcare and insurance sector:**
 - Particularly relevant in Asia, given projections on dependency ratios
- **Fertilizers and agriculture related sectors:**
 - Supply disruptions partly due to global warming effects and stronger demand of agricultural commodities for biodiesel
 - Asia needs to increase crop yield at a much faster pace

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ENERGY, MATERIALS AND INFRASTRUCTURE SECTORS



The Indian government plans a total infrastructure spending of over US\$500bn over the next five years, a threefold rise over the previous five years.

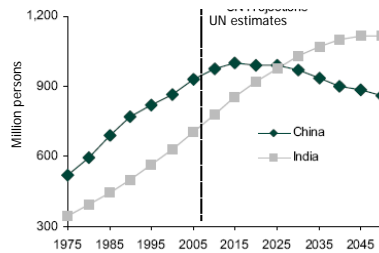
Source: BBVA, UN, World Bank estimates

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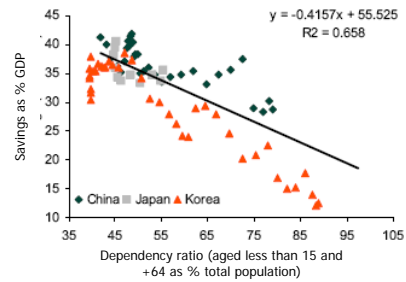
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HEALTHCARE AND INSURANCE SECTORS

CHINA AND INDIA: ACTIVE POPULATION (aged 15-64)



RATE OF SAVINGS vs DEPENDENCY RATIO 1960-2006



Source: Lehman Brothers

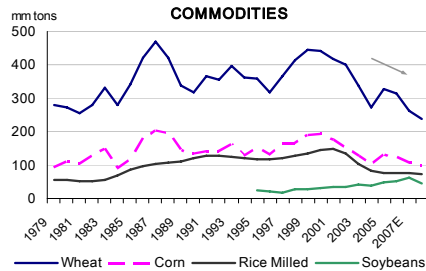
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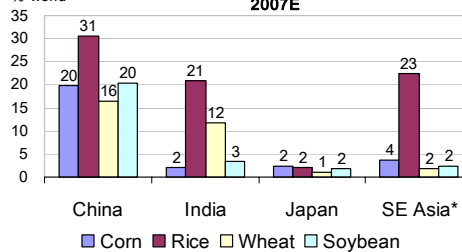
FERTILIZERS AND AGRIBUSINESS SECTORS

Systemic demand-supply mismatch of food

WORLD STOCKS OF AGRICULTURAL COMMODITIES



DOMESTIC CONSUMPTION AS % WORLD, 2007E



Source: USDA, FAO, BBVA

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SECTORAL OPPORTUNITIES AMIDST UNCERTAINTY (cont'd)

2. Cyclical sectors

- **Telecom**

Subscriber and earnings growth should remain strong and regulatory changes in China and India could be on the margin favorable to telecom operators.

- **Automotive, airlines and tourism**

Domestic-oriented companies should do better than export-oriented manufacturing, metals, electronics, shipping and IT.

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In sum: a challenging year with opportunities

- There is room for Asia to **outperform** on a global basis as the macro backdrop remains supportive and domestic demand diverges from the US business cycle.
- impact from the global slowdown unavoidable. Still, significant differences may appear across Asian economies.
 - China and India in better position.
- Sectors related with secular themes and domestic-oriented should do better than labour-intensive and export-oriented industries.
- Paradoxically, if the global slowdown does not materialize, Asia could even have a larger problem: **inflation and overheating**.
 - It will be easier for Asian governments to cool the economy through an external shock. Let's hope it is a **soft-landing in all cases!**

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