Will the recovery be robust enough?

An Asian outlook

BBVA Economic Research

http://serviciodeestudios.bbva.com/KETD/ketd/ing/index.jsp

Outline

1. Global outlook
2. Asia outlook
3. China issues in 2010
    a. Domestic asset bubbles
    b. RMB vs USD
    c. NPL risk
4. Summary of forecasts

Appendix: BBVA strength thru generation of earnings and capital

1. Main ideas for global outlook

- **Subdued growth in the US and EMU in 2010 and better performance of emerging countries**

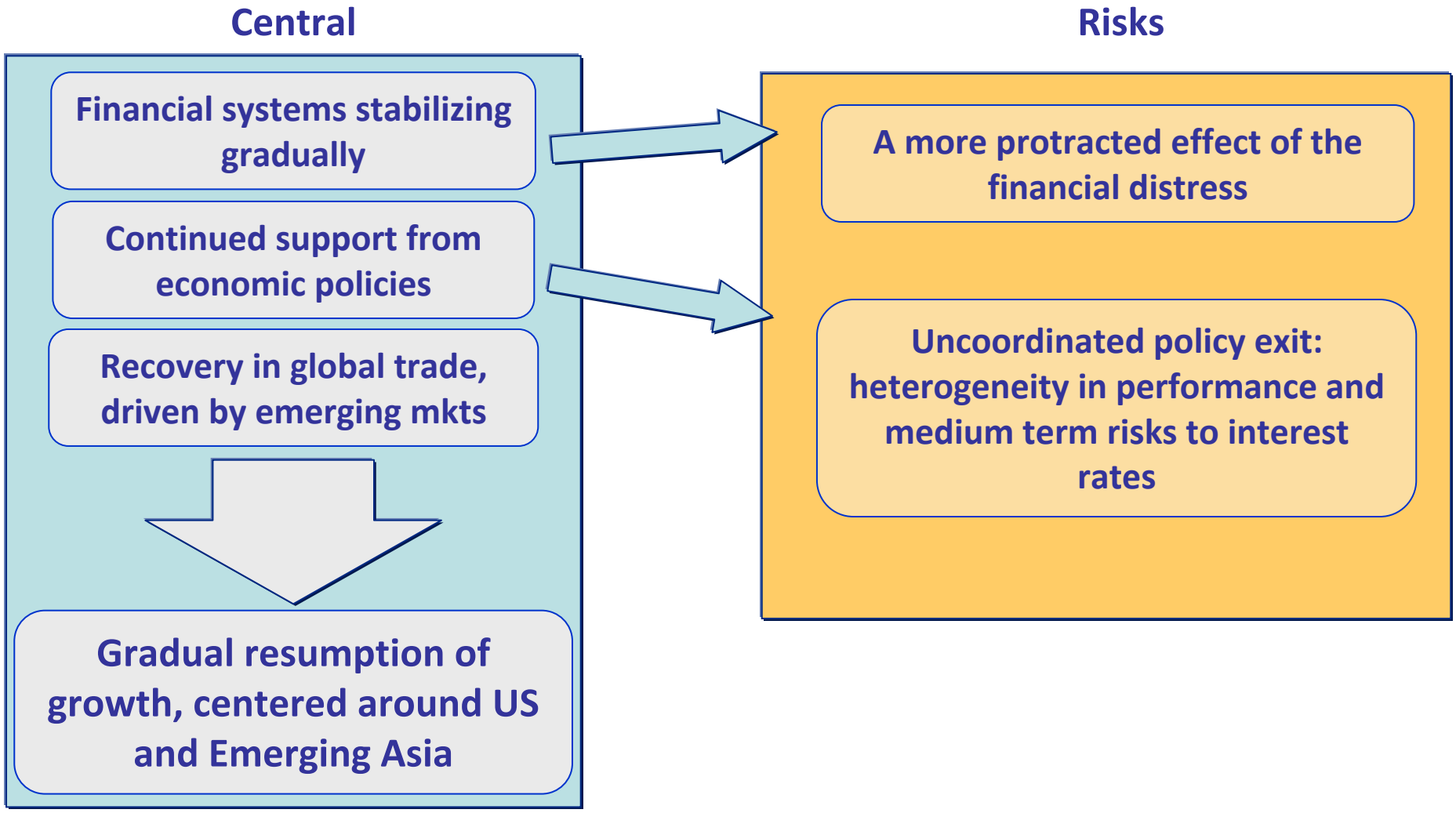
- **Private sources of growth in developed economies will remain subdued in the coming years:** increased savings and de-leveraging will sway consumption developments while investment will be dragged by excess capacity and industrial restructuring

- **Upward review of 2010 growth in emerging market** due to a more solid domestic demand but also strengthening of the global economic environment and larger impacts of stimulus policies than expected. This, however, will not be enough to fully offset subdued demand in developed economies

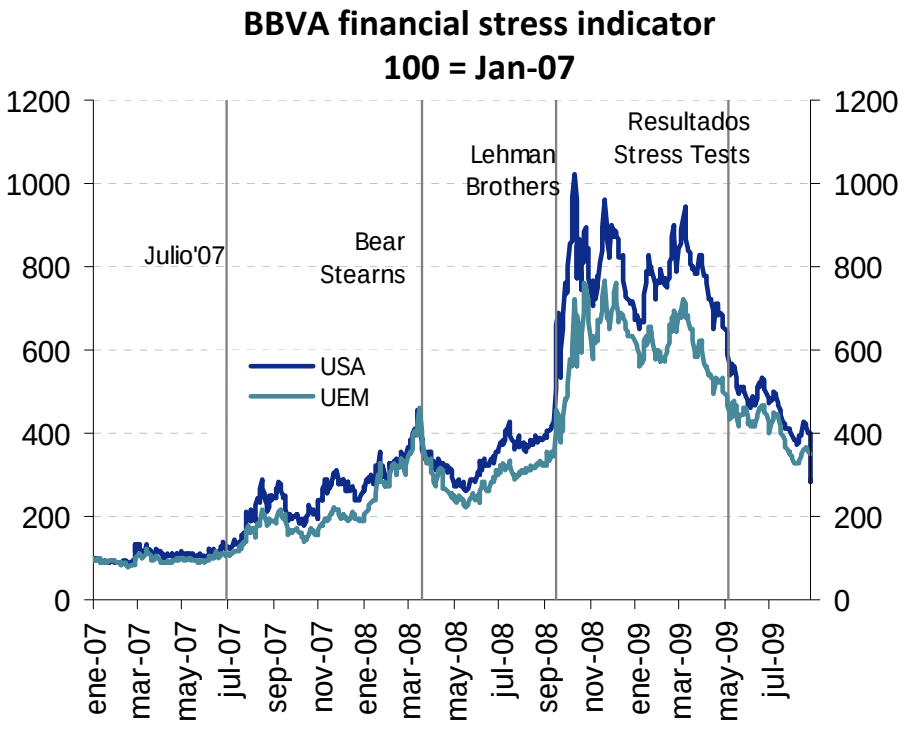
- **Risks to growth in developed economies remain on the downside.** Historical experience shows that financial crisis can weigh on potential growth, albeit the US long-term growth will still be higher than in EMU

- **Going forward, a more protracted effect of the financial distress is the main downward risk for the global economy**

A gradual recovery, but still many weak links



1 Partial progress in the financial situation



Fuente: Servicio de Estudios

Primer componente principal normalizado de las series de diferencial OIS, volatilidad implícita de la bolsa americana, CDS bancarios y CDS corporativos

The stabilization of financial conditions was very fast in the first half of the year, returning to pre-crisis levels of Lehman, but has entered on a more gradual phase during the summer

However, we are still 4 times above the financial stress levels in early 2007

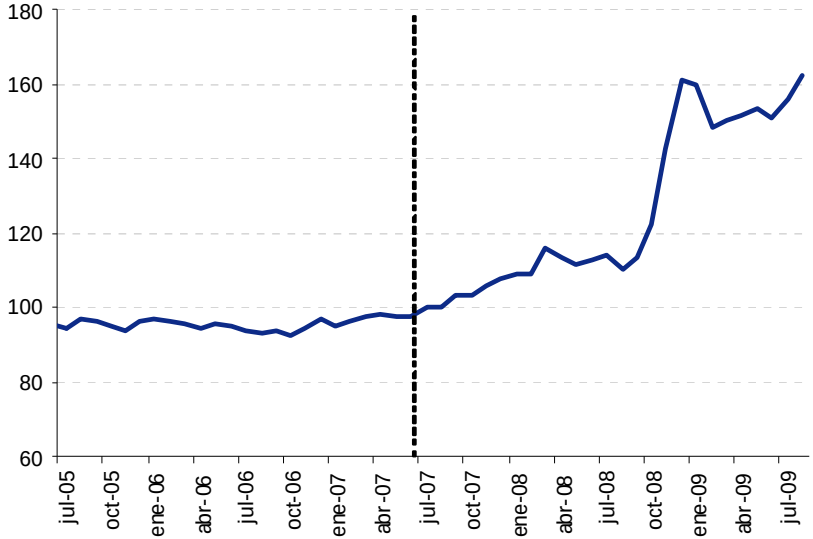
1

Partial progress in the financial situation

Increased global liquidity

Base monetaria global

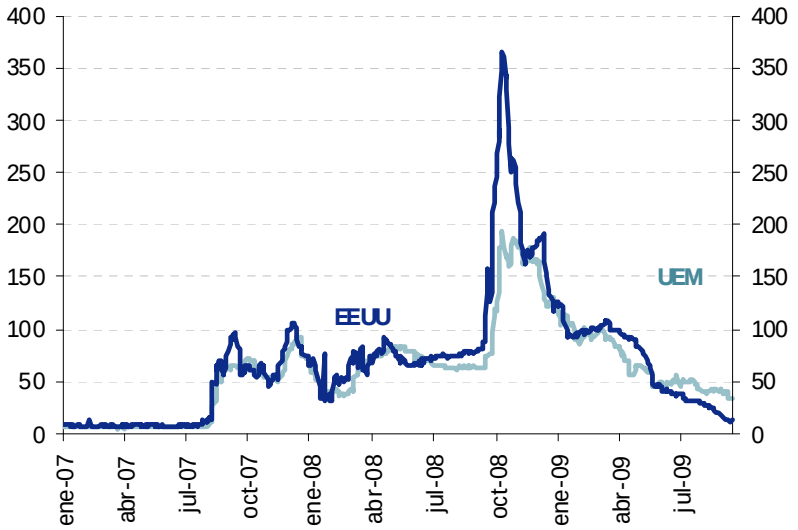
Indice100= inicio de la crisis (jul-07)



* Suma de las siguientes bases monetarias: EEUU,Japón y UEM

Interbank liquidity stress indicator

Diferencial (LIBOR 3M -Expectativas Política Monetaria 3M)



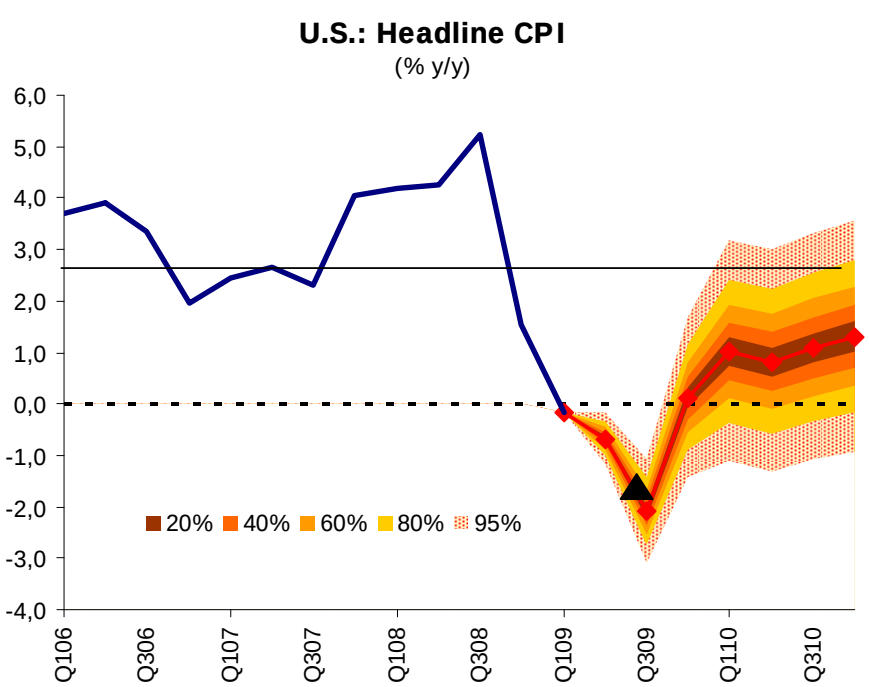
Fuente: Bloomberg

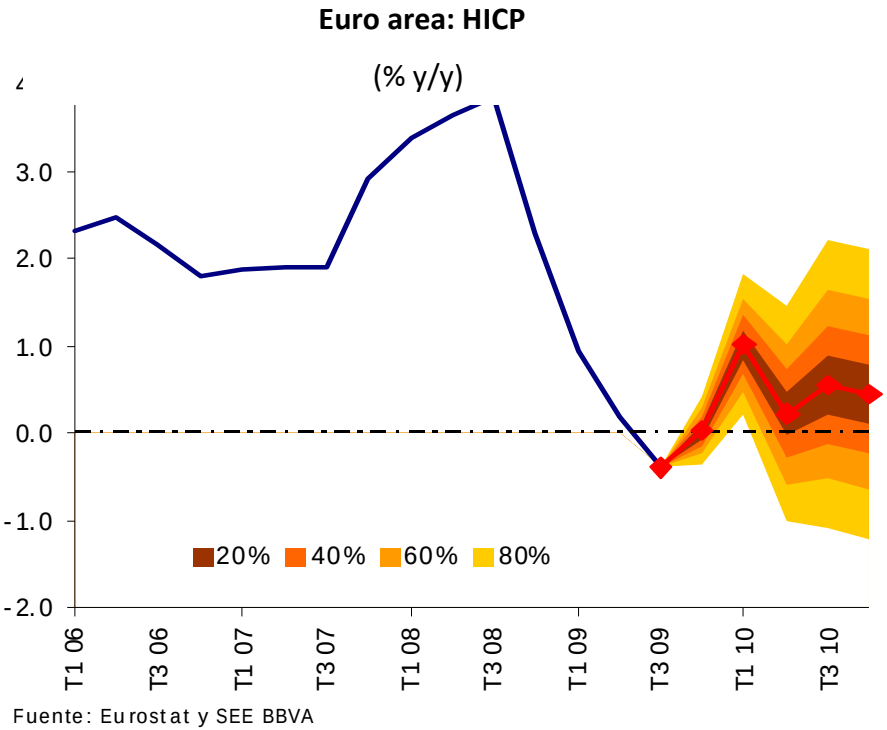
Liquidity massive injections by central banks pose a very fast global liquidity growth

... And represent significant improvements interbank spreads, although still limited to very short term

1 **Partial progress in the financial situation**

Increased global liquidity





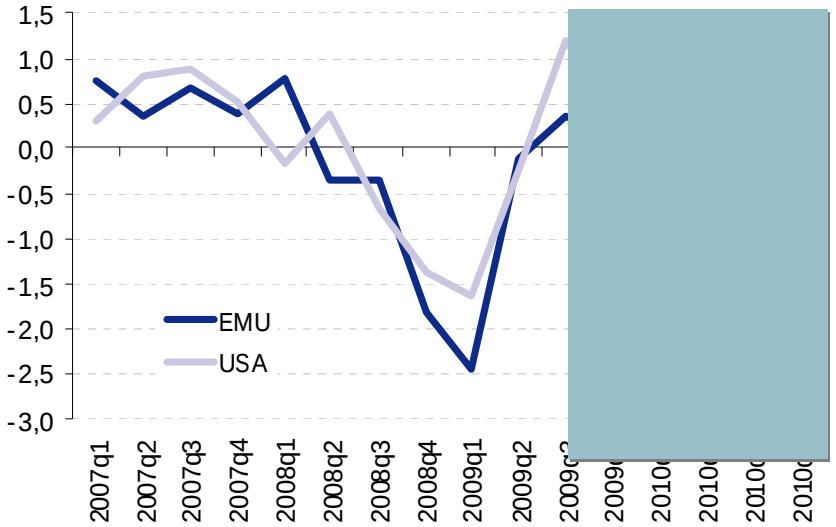
Fuente: Eurostat y SEE BBVA

Available data for CPI are just about the median of our forecasts, suggesting that risks of inflation overshooting for the next two years remains low

2 Economies growing in 2Q09

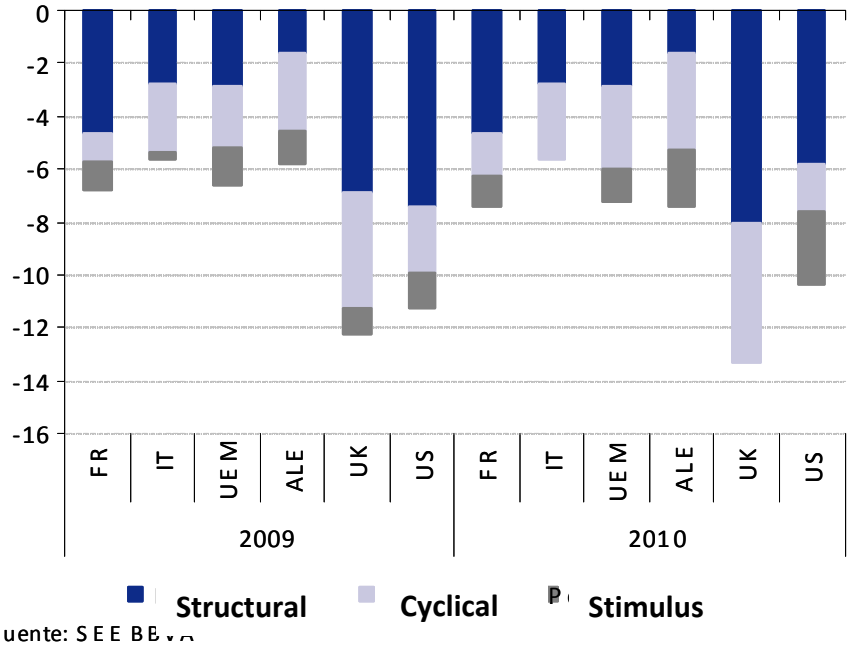
A Fiscal policies in developed

USA and EU: GDP growth (% QoQ)



Fuente: SEE BBVA

Fiscal deficit 2009-2010



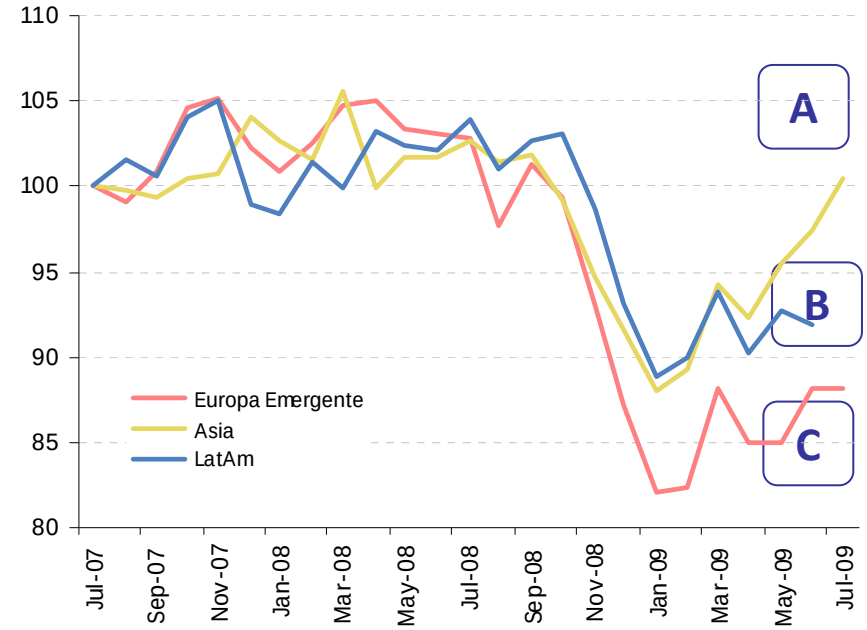
Fuente: SEE BBVA

Both the U.S. as the EMU growth rates are very close to zero in the second quarter

2 Economies growing in 2Q09

B Resumption of growth in emerging

Industrial production
Index 100 = Jul-07



Fuente: Bloomberg

A Asia is now close to pre-crisis levels

B Latin America is stable, initial stages of growth

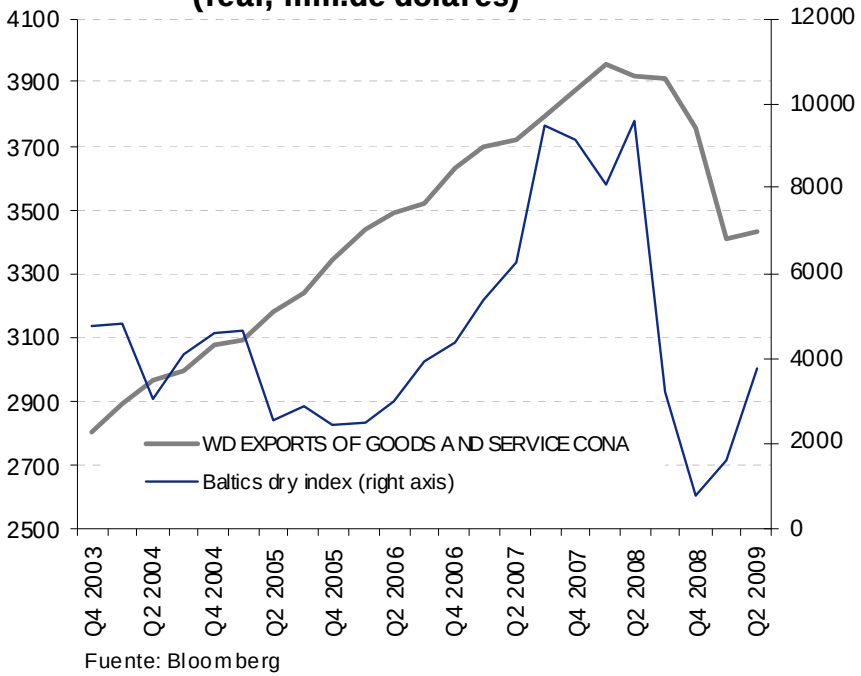
C Eastern Europe picks up, albeit from very depressed levels

2 Economies growing in 2Q09

C Trade stabilization

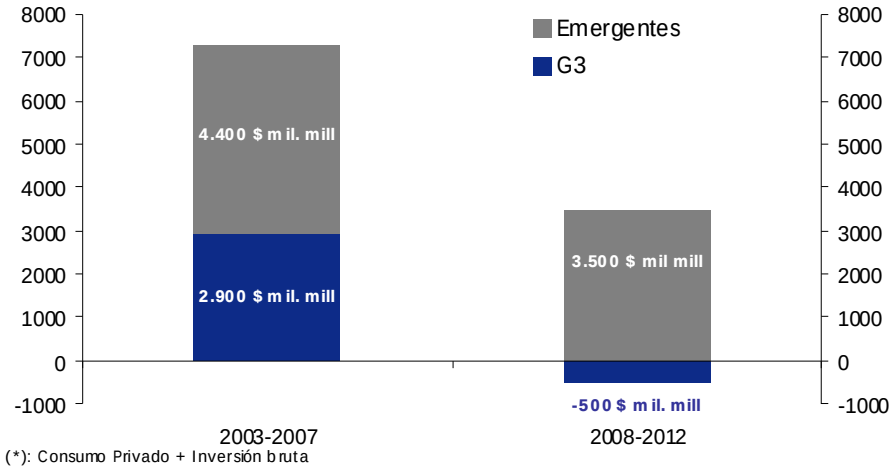
Sustainable, but insufficient

Global trade
(real, mm.de dólares)



Fuente: Bloomberg

Change on demand
(Miles de millones de dólares, precios 2008)



(*): Consumo Privado + Inversión bruta
Fuente: SEE BBVA

World trade begins to stabilize, albeit very slowly

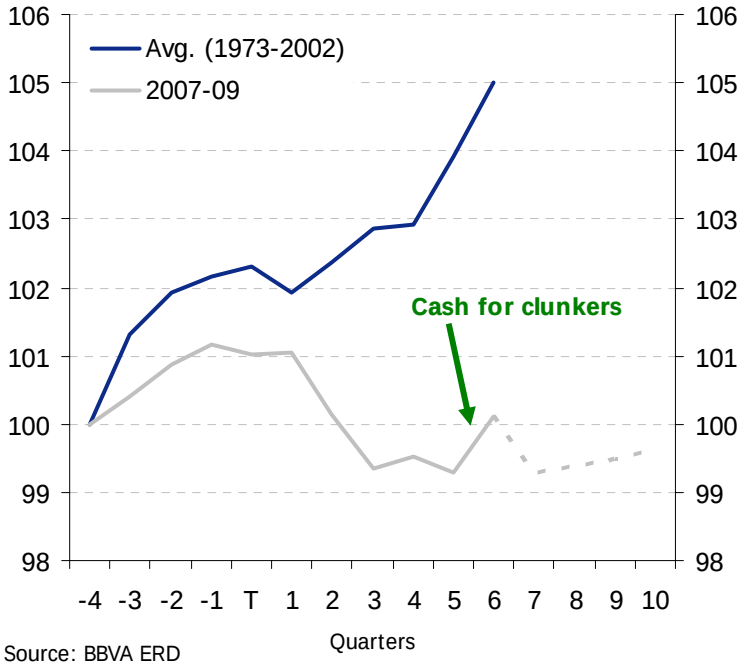
The growth of emerging economies will not be enough to offset lower demand from developed

2 Economies growing in 2Q09

D Private Consumption

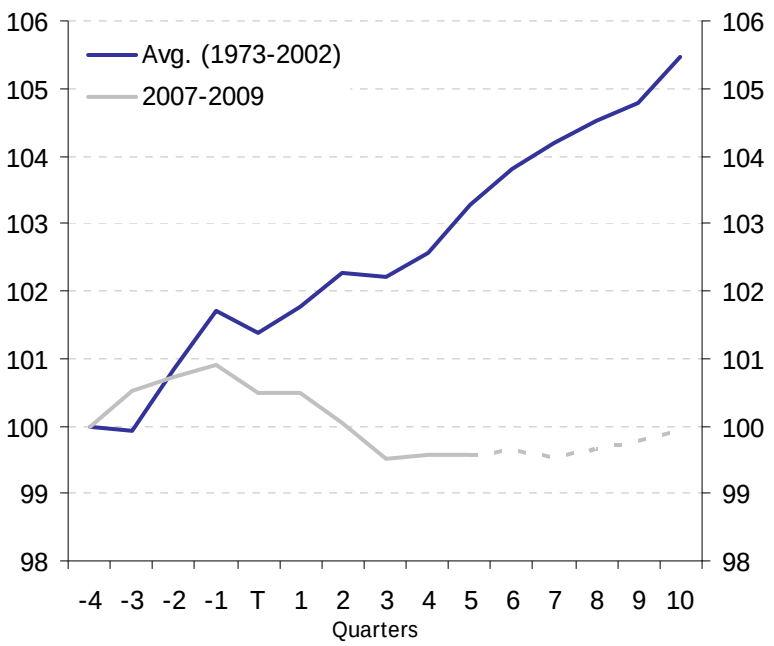
Recovery weak, growth subdued

USA: Private consumption cycles
(Index, T-4 quarters=100; T= start of recession)



Source: BBVA ERD

Euro area: Private consumption cycles
(Index, T-4 quarters=100; T=start of recession)

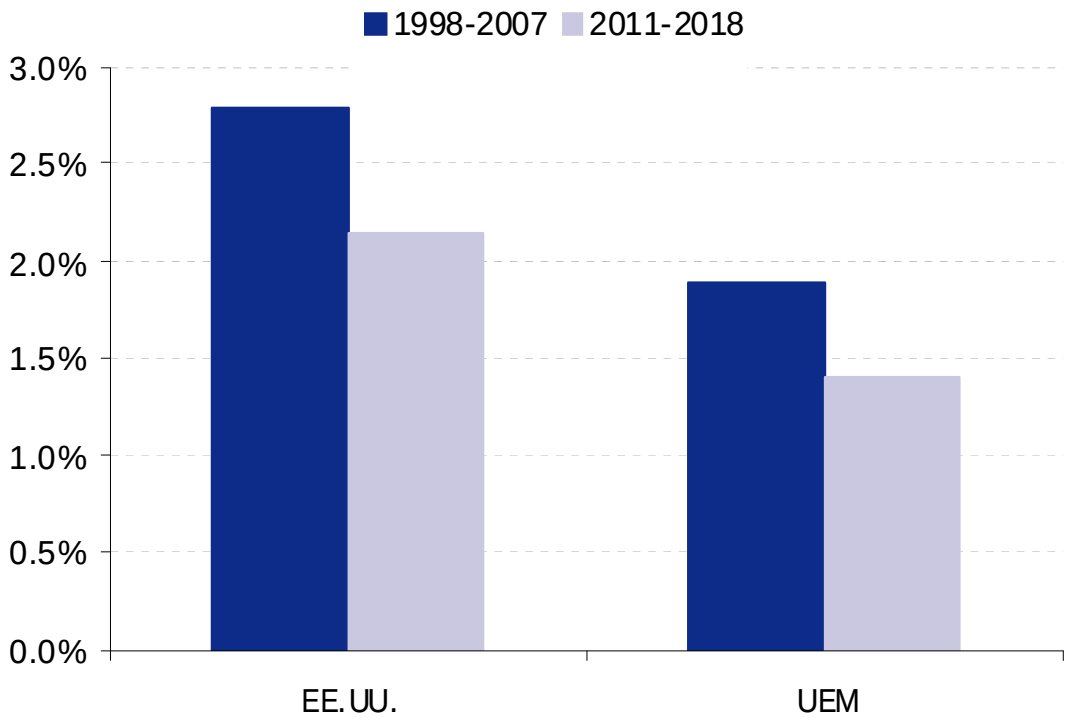


Source: BBVA ERD

Accordingly, there is very little evidence that private demand is effectively beginning to gain traction after the fiscal policy impact

3 US – EMU

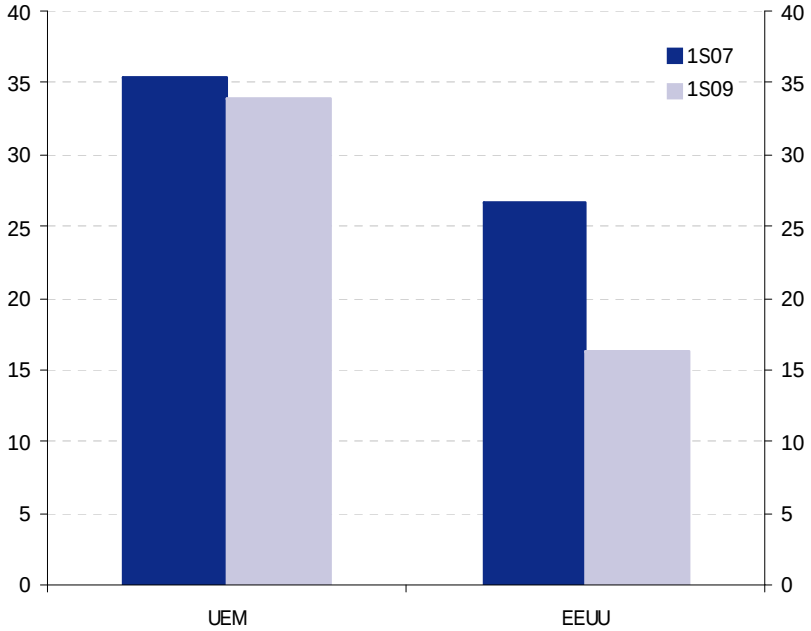
GDP potential growth (average var. % annual)



In both areas there will be a reduction in long-term growth, but the U.S. will grow more than EMU

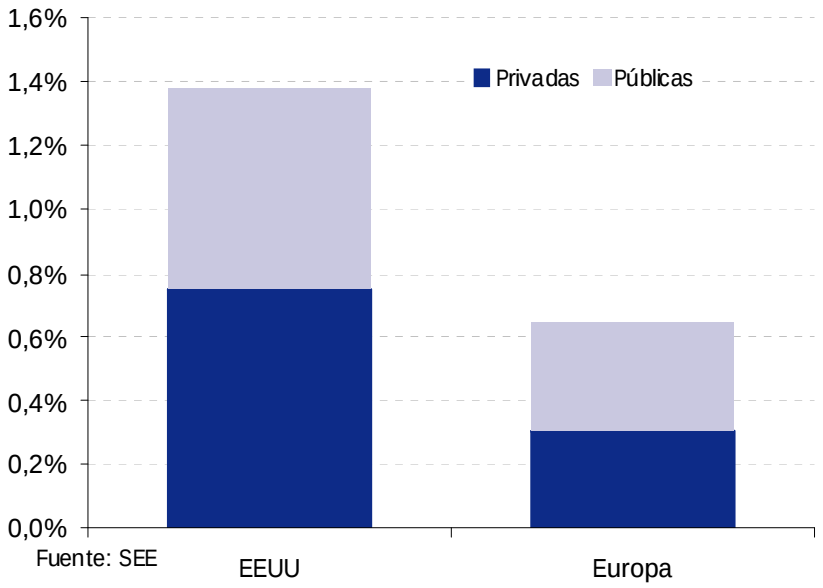
3 US – EMU

Financial leverage: Total assets on tangible equity



Fuente: SEE

Capital injections since 2008 (on total bank assets)



Fuente: SEE

EMU starts in a more dangerous position due to the weight of their banking systems and greater leverage

Capital injections (especially private) have been substantially lower in EMU

1.Global outlook

2.Asia outlook

3.China issues in 2010

a. Domestic asset bubbles

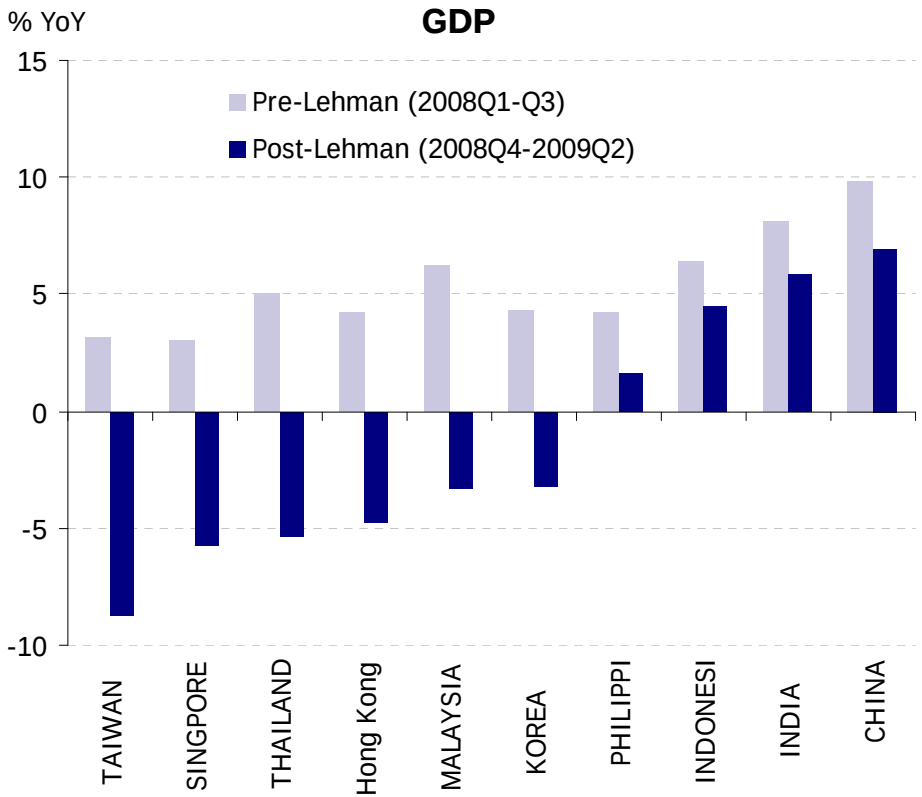
b. RMB vs USD

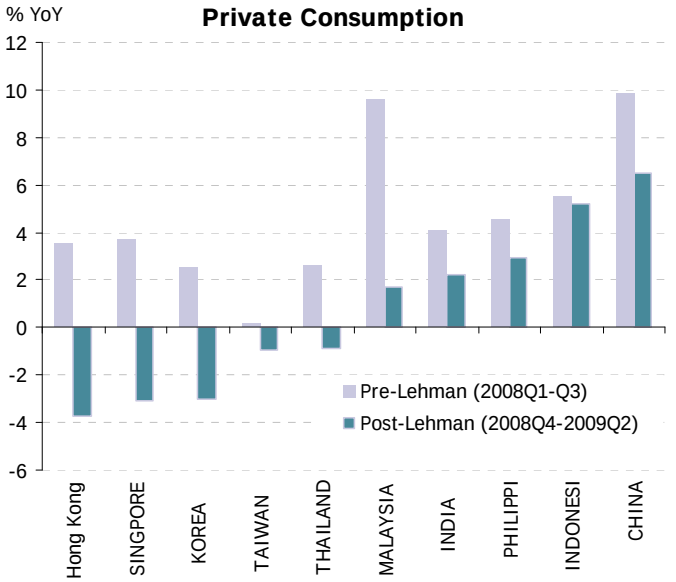
c. NPL risk

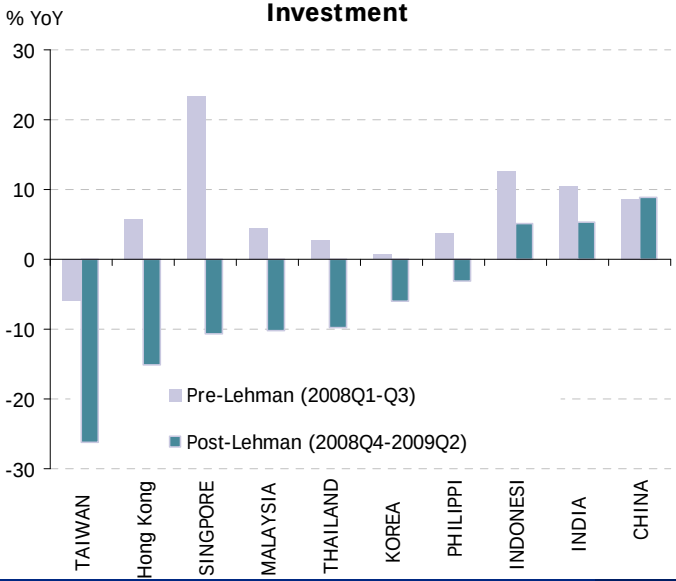
4. Summary of forecasts

Appendix: BBVA strength thru generation of earnings and capital

Emerging Asia's largest economies outgrow the rest in 2009

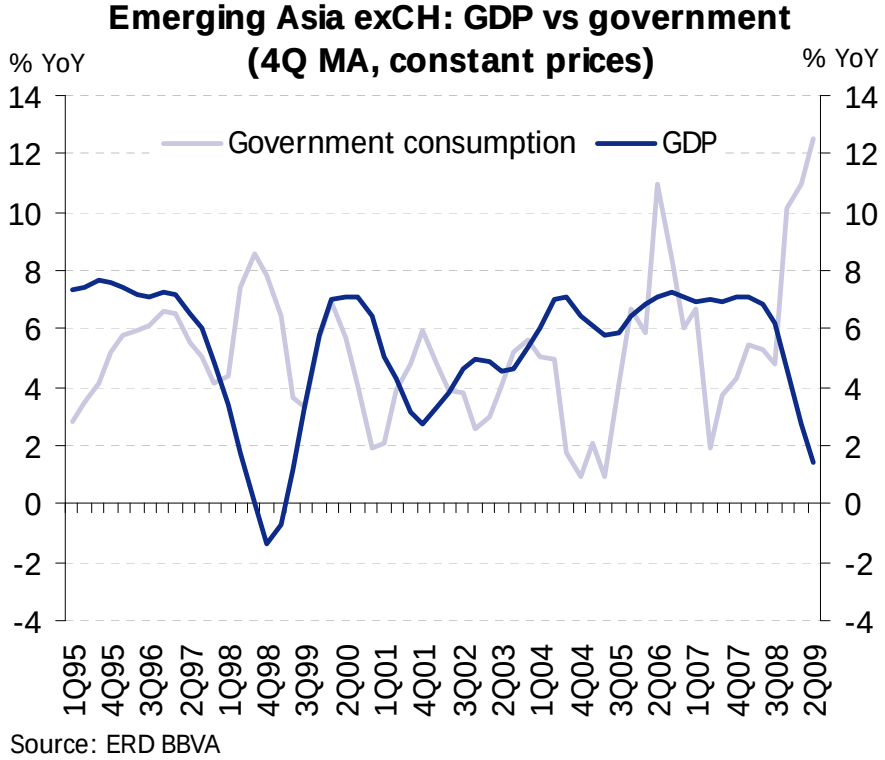






Aggressive and timely counter-cyclical fiscal measures across the region provided a stronger impulse to growth than anticipated

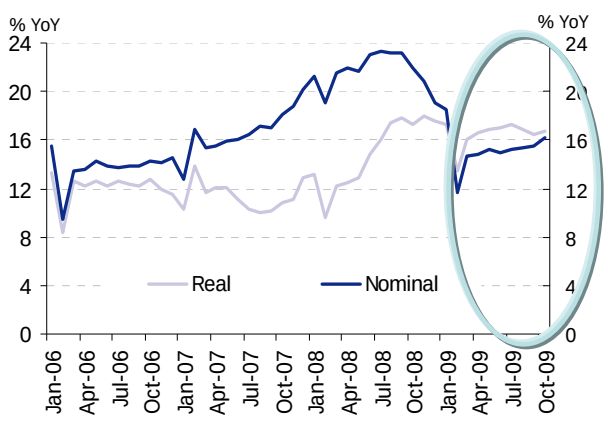
Source: ERD BBVA



Source: ERD BBVA

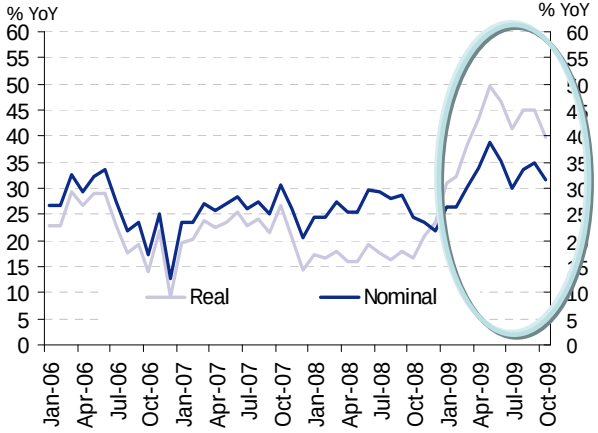
…creating a stronger recovery in China

Consumption Resilience



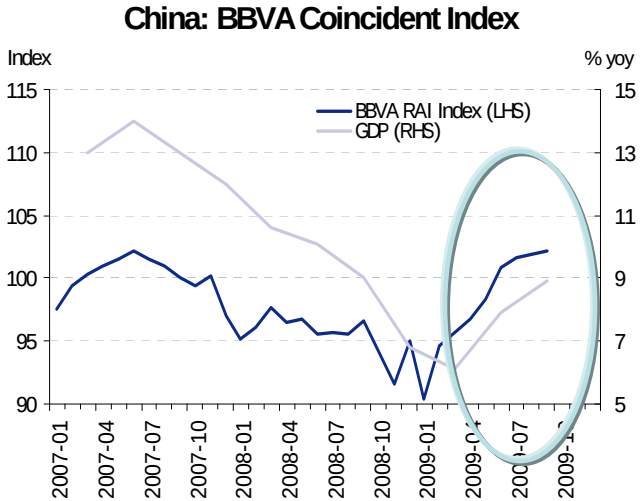
Source: CEIC, ERD BBVA

Investment Strength



Source: CEIC, ERD BBVA

BBVA real activity index



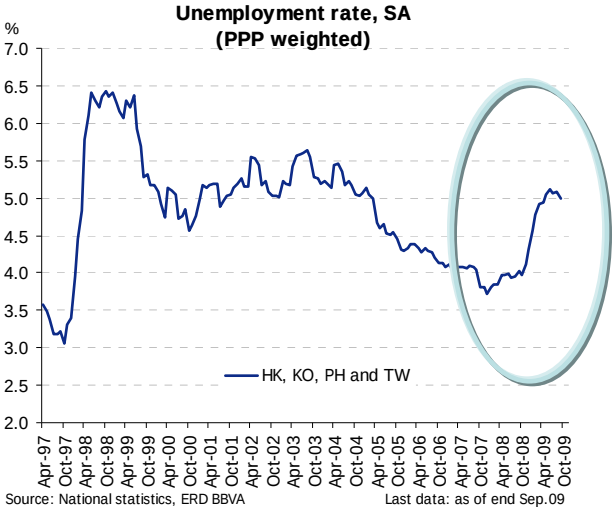
Source: ERD BBVA

…and creating a stronger recovery in the rest of the region

Domestic Resilience

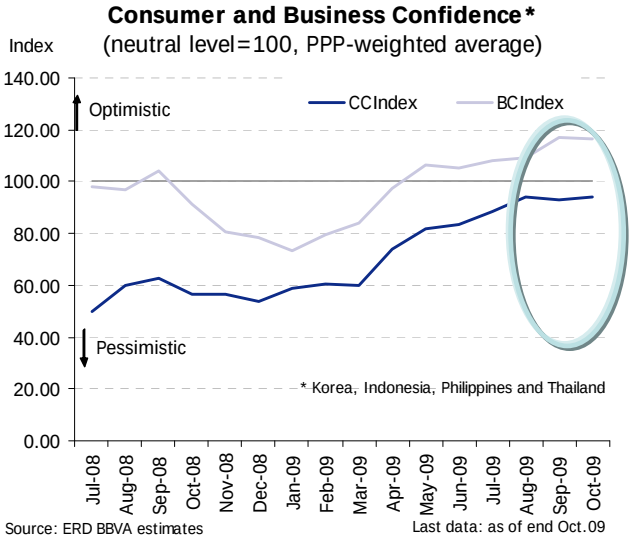
Recovery based on private consumption strength

Labor Market Strength



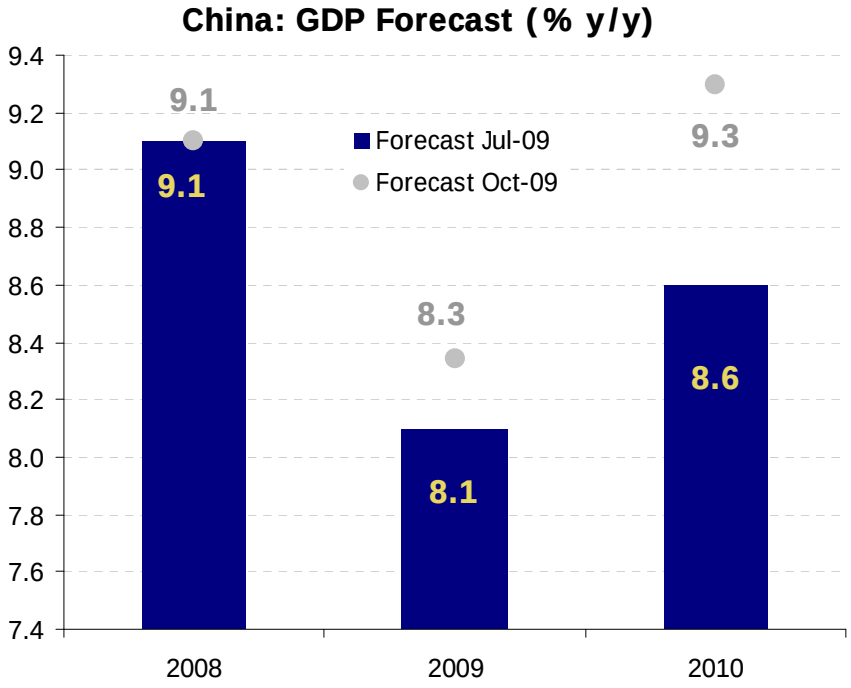
Labor market deteriorated less than anticipated

Confidence Rebounding



Virtuous cycle on confidence

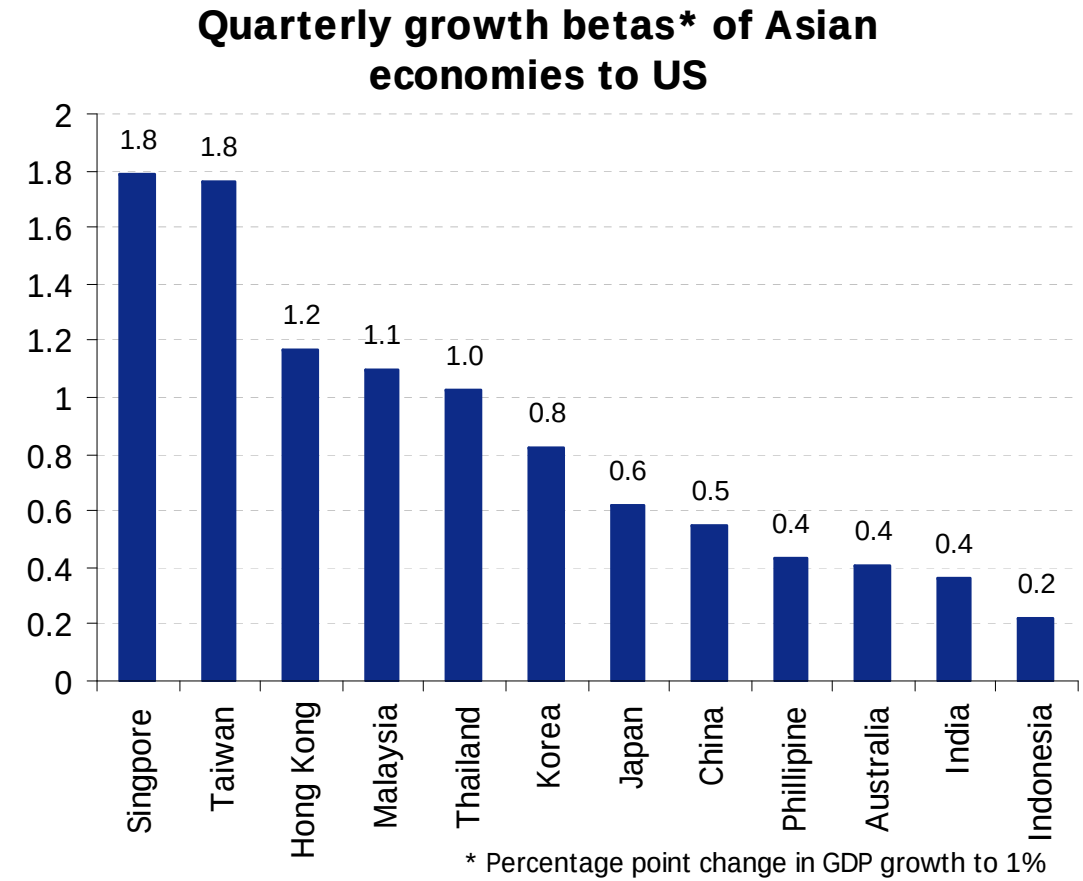
A substantial upgrade to our China forecasts, and also for the rest of the region



Source: ERD BBVA

Source: ERD

Going forward, smaller and more export-driven economies in Asia have more potential to benefit from the recovery in the US

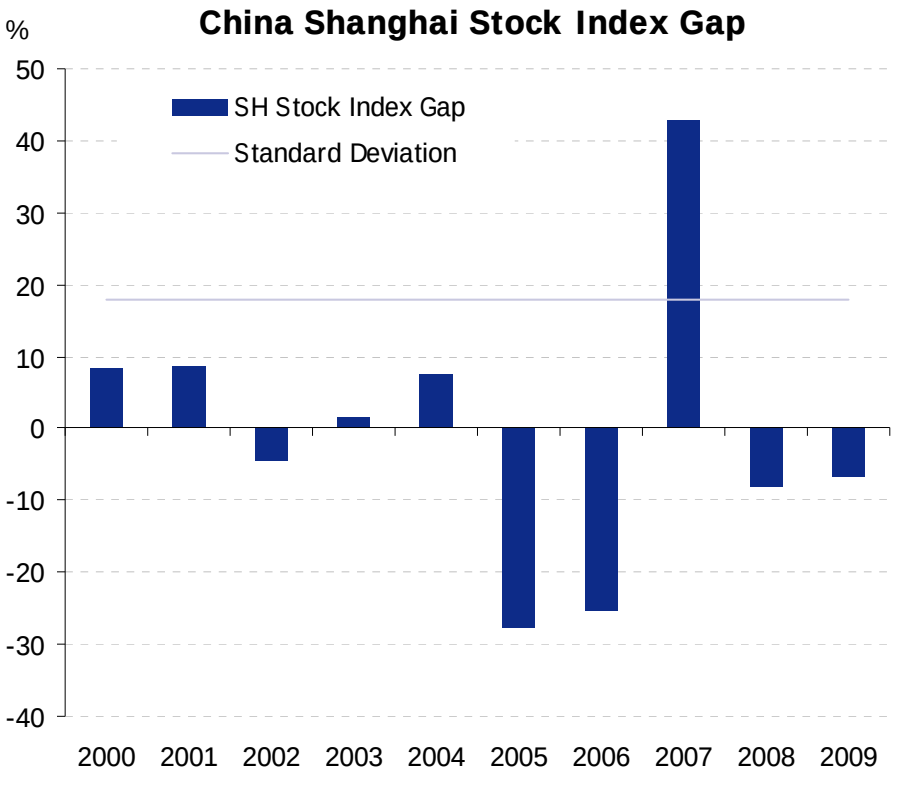


Source: BBVA ERD estimates

1. Global outlook
2. Asia outlook
3. China issues in 2010
    a. Domestic asset bubbles
    b. RMB vs USD
    c. NPL risk
4. Summary of forecasts

Appendix: BBVA strength thru generation of earnings and capital

"Asset bubbles" with qualifications



Source: BBVA ERD estimates

Gap: actual level minus trend (HP filtered)

Strong domestic liquidity and credit growth in China has spurred the latest recovery in asset prices

For the time being, stocks prices are still below historical trend levels but nationwide property prices have rapidly surged above trend, and likely to trigger sector specific measures in the near term.

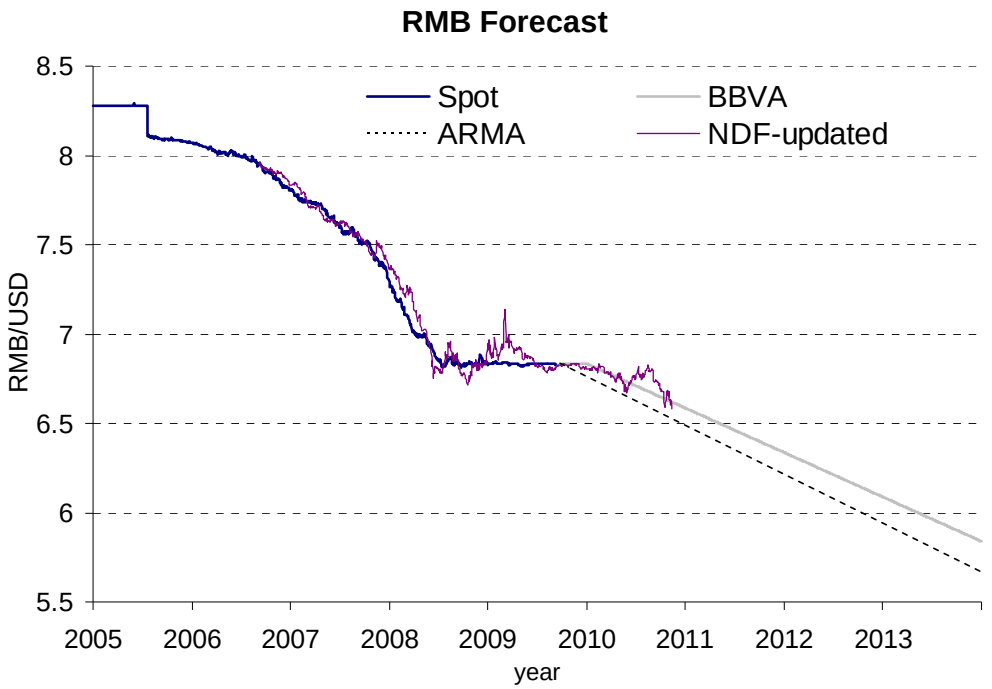
Chinese exchange rate outlook

Our outlook on the RMB:

- Looking ahead, China is likely to repeat a situation similar to that during 2005-08, featuring strong expectations of RMB appreciation, 'hot money' inflows, abundant external-surplus-driven liquidity (trade surplus is rising), and upward pressures on asset prices

- We maintain our exchange rate projections for the time being: RMB is expected to resume a moderate appreciation trend vs USD from early 2010. Our projection is to reach 6.59/USD at the end of 2010, representing 3.3% appreciation in the year

- The coming Central economic work conference in December should set the tone for the economy and the policy outline for RMB in 2010



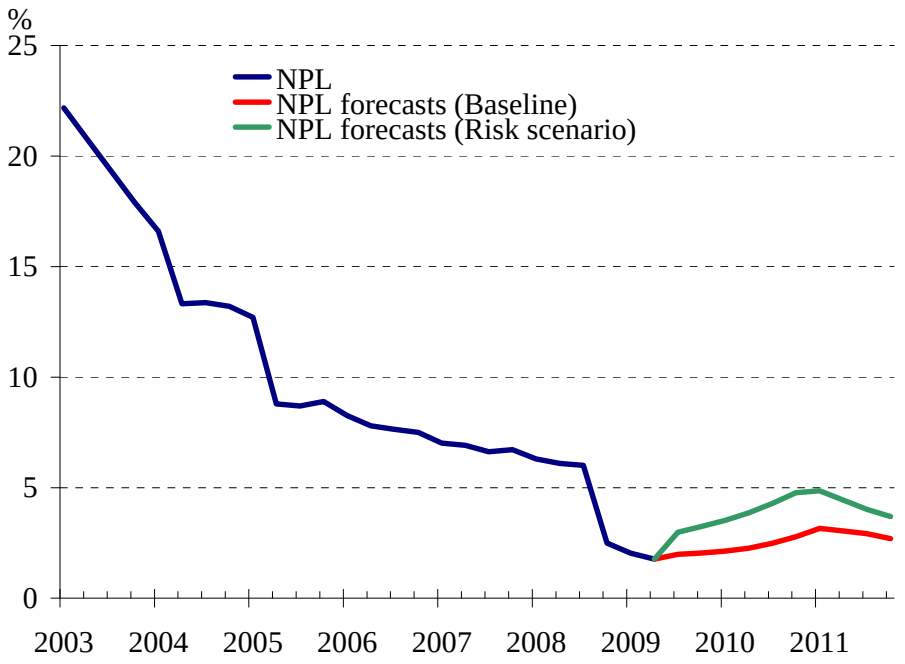
NPL risk

NPL remains low, but some deterioration should be expected in 2010. Assuming high growth in China, this risk should be moderate in the short-term.

Risk factors affect NPLs

- A second dip in China's economic recovery would deteriorate enterprises repayment environment.
-
- Tight fiscal condition after aggressive stimulus package might impair the repayment ability backed by the government. Interest rate tightening currently expected in 2H2010.
- NPLs would surge sharply should property prices collapse.
- PBOC's significant curbs to the loan size and increases of interest rate before 2H09 would lead to rising defaults.

NPL forecasts



Source:BBVA ERD estimates

1. Global outlook
2. Asia outlook
3. China issues in 2010
    a. Domestic asset bubbles
    b. RMB vs USD
    c. NPL risk
4. Summary of forecasts

Appendix: BBVA strength thru generation of earnings and capital

Global real GDP growth forecasts

	October 2009 GDP growth scenarios			
	Central			
	2009	2010	2011	2012
US	-2.5	1.5	2.2	2.5
EMU	-3.8	0.2	1.2	1.5
Spain	-3.8	-1.2	1.2	2.4
Mexico	-7.2	3.1	4.0	4.2
Brazil	-0.1	4.7	4.4	5.0
LatAm 5	-1.0	2.3	3.0	3.4
China	8.3	9.3	8.9	9.0
Non-China Asia	1.1	4.4	5.7	5.9

Source: BBVA ERD

a. China Forecasts

China forecasts (as of October 2009)						
		2008	2009F	2010F	2011F	2012F
GDP		9.0	8.3	9.3	8.9	9.0
CPI, headline	average	5.9	-0.3	2.7	3.3	3.6
	eop	1.2	1.4	3.1	3.4	3.7
RMB/USD	average	6.9	6.8	6.7	6.5	6.2
	eop	6.9	6.8	6.6	6.3	6.1
Interest rate	eop	5.3	5.3	5.6	6.1	6.4

Source: BBVA ERD

b. Forecasts rest of Asia

Asia real GDP growth forecasts 2009-2012

(as of October 2009)

Country	2009		2010		2011	2012
	Jun-09	Sep-09	Jun-09	Sep-09	Sep-09	Sep-09
Australia	0.0	0.8	1.1	1.9	2.9	2.9
Hong Kong	-3.3	-3.4	4.0	3.8	4.8	5.0
India	5.0	5.8	5.7	6.4	7.8	7.7
Indonesia	2.6	3.9	4.1	4.7	5.4	5.6
Japan	-6.0	-5.3	0.5	1.1	1.6	2.0
Korea	-2.5	-0.7	2.4	3.4	4.1	4.8
Malaysia	-4.2	-3.6	2.7	2.5	4.9	5.0
Philippines	0.3	1.0	2.5	2.8	4.5	4.6
Singapore	-7.5	-5.6	3.0	2.9	4.6	5.0
Taiwan	-4.3	-5.1	2.9	3.1	4.2	4.4
Thailand	-5.1	-4.4	2.0	1.8	3.7	4.0
Emerging Asia exCh (PPP weighted)	0.7	1.1	4.3	4.4	5.7	5.9

Source: BBVA ERD

1. Global outlook
2. Asia outlook
3. China issues in 2010
    a. Domestic asset bubbles
    b. RMB vs USD
    c. NPL risk
4. Summary of forecasts

Appendix: BBVA strength thru generation of earnings and capital

BBVA, a business model focused on client-based retail banking

Client-based retail banking model

- Our retail franchises generate 88% of earnings
- 48 million clients
- 7,787 branches

Q1 BBVA Group Highlights

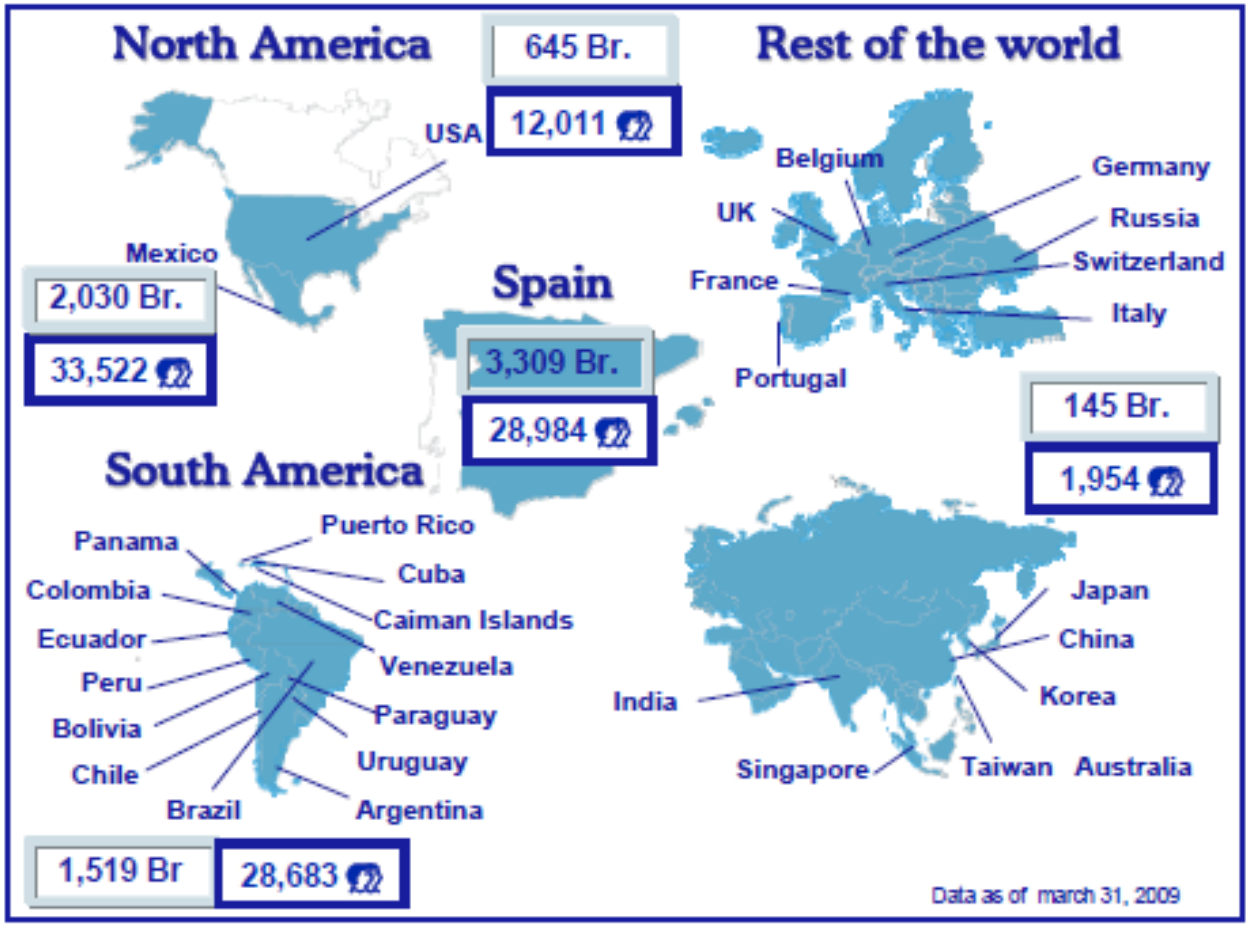
Total assets	€ 543 bn
Customer funds	€ 493 bn
# countries	32
# customers	48 m
# shareholders	919,195
Mkt.Cap. (May 15th)	€ 31 bn

Q3 results available in our website:

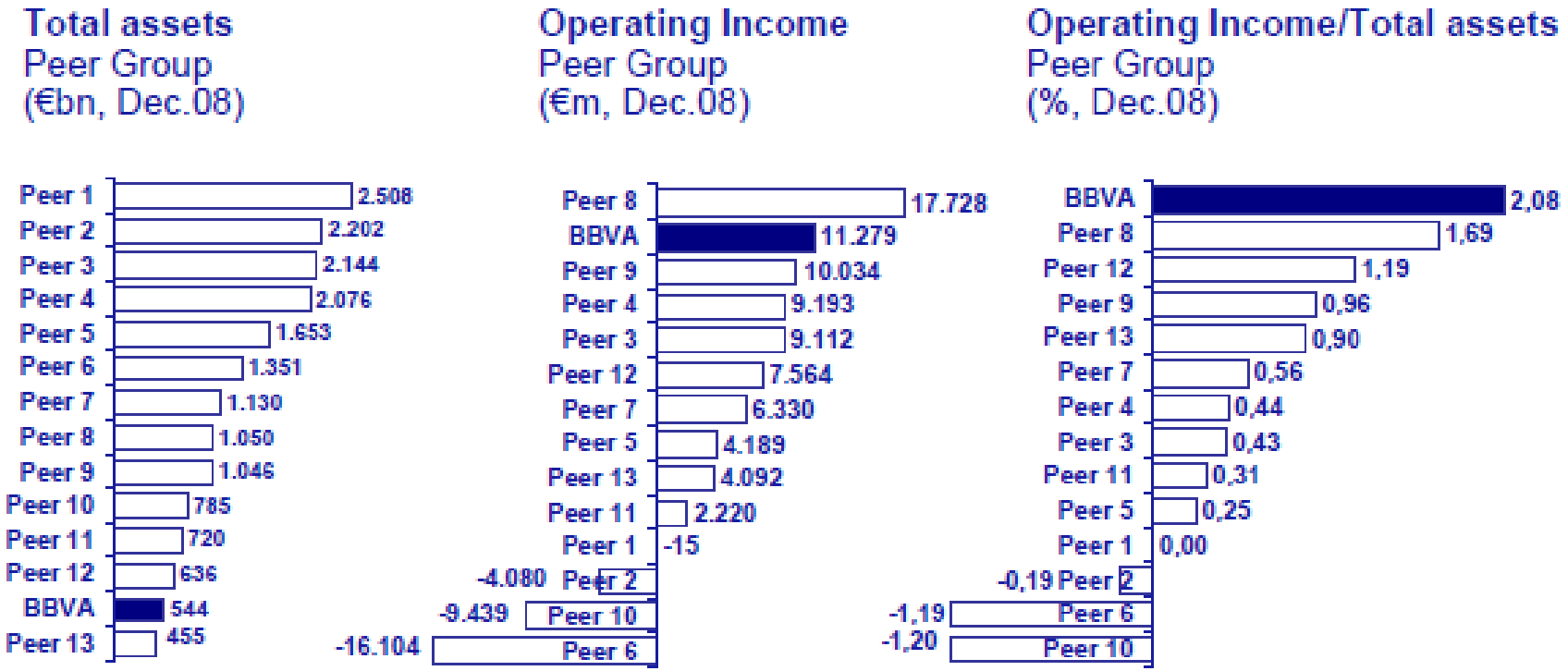
http://www.bbva.com/TLBB/tlbb/jsp/ing/home/index.jsp

BBVA, a diversified international presence

# countries	# branches	# employees
32	7,648	105,154



BBVA started 2009 on a strong footing



Strong operating income is a distinct feature of the BBVA Group

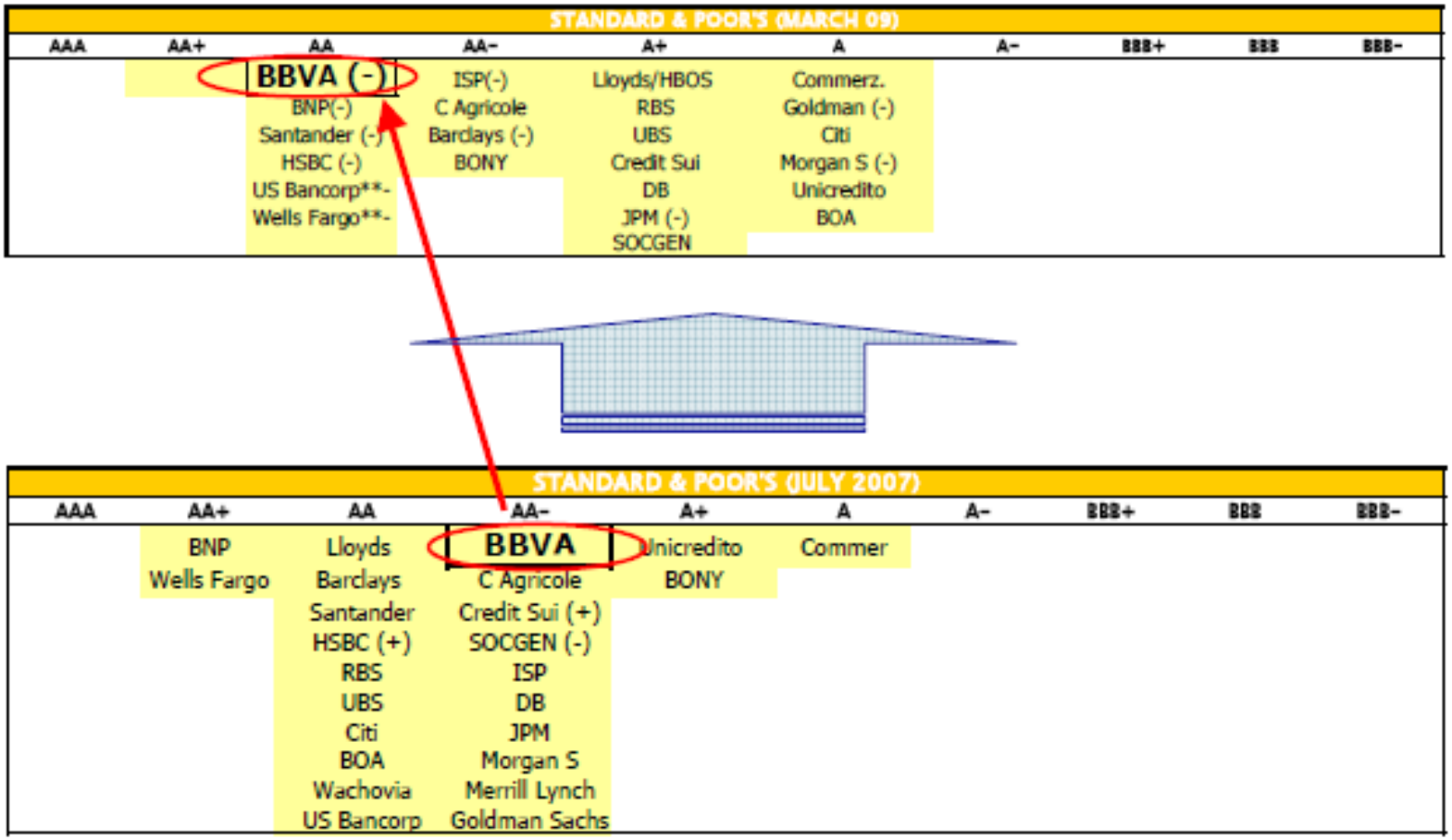
Peers: Barclays, BNPP, Crédit Agricole S.A., Credit Suisse, Deutsche Bank, HBOS, Intesa Sanpaolo, Lloyds, RBS, Santander, Société Générale, UBS y Unicredit

BBVA's balance sheet position is solid

BBVA's strength is based on ...

- **A** Comfortable liquidity
- **B** Recognized solvency

BBVA one of the bank with strongest ratings in the current environment



Disclaimer

"The information contained in this document is set out for illustrative purposes only and does not constitute any form of offer from BBVA to trade on such terms or constitute an indication that it is possible to trade on those precise terms. It is also understood that the information contained in this document shall not be considered investment advice nor a recommendation to enter into a transaction and shall not form the basis of a decision of any kind. BBVA and its clients shall not be bound until they have both agreed to enter into a transaction and have agreed to its material terms. Actual prices will depend on market conditions at the time the transaction is concluded.

No representations or warranties are given or implied as to the information contained herein. All terms, information and pricing herein is indicative and subject to change without notice.
You acknowledge that the products to which this document refers may not be appropriate for you due to your specific investment goals, financial positions or risk profiles, as these have not been taken into account to prepare this document. Therefore, before entering into a transaction, you should independently evaluate the financial, market, legal, regulatory, credit, tax and accounting risks and consequences involved and should not rely on BBVA for this.

Financial transactions involve high risks and are not appropriate for every investor. Indeed, in some cases, the potential losses may exceed the amount of initial investment. You should also be aware that secondary markets for the said products may be limited or even not exist. BBVA S.A. shall not assume any liability nor responsibility of any kind for any cost or direct or indirect losses arising from the use of this document or its contents.

The information contained herein is provided to you by BBVA on a strictly confidential basis. No part of this document may be (i) copied, photocopied or duplicated by any other form or means (ii) redistributed or (iii) quoted, without the prior written consent of BBVA."

Will the recovery be robust enough?

An Asian outlook

BBVA Economic Research

http://serviciodeestudios.bbva.com/KETD/ketd/ing/index.jsp