

Will the recovery be
robust enough?

An Asian outlook

BBVA Economic Research

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

November 17, 2009

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

- **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**

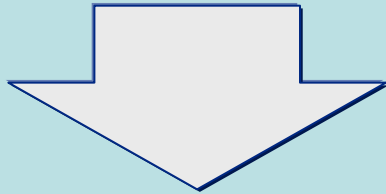
A gradual recovery, but still many weak links

Central

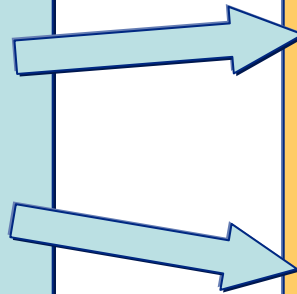
Financial systems stabilizing gradually

Continued support from economic policies

Recovery in global trade, driven by emerging mkts



Gradual resumption of growth, centered around US and Emerging Asia



Risks

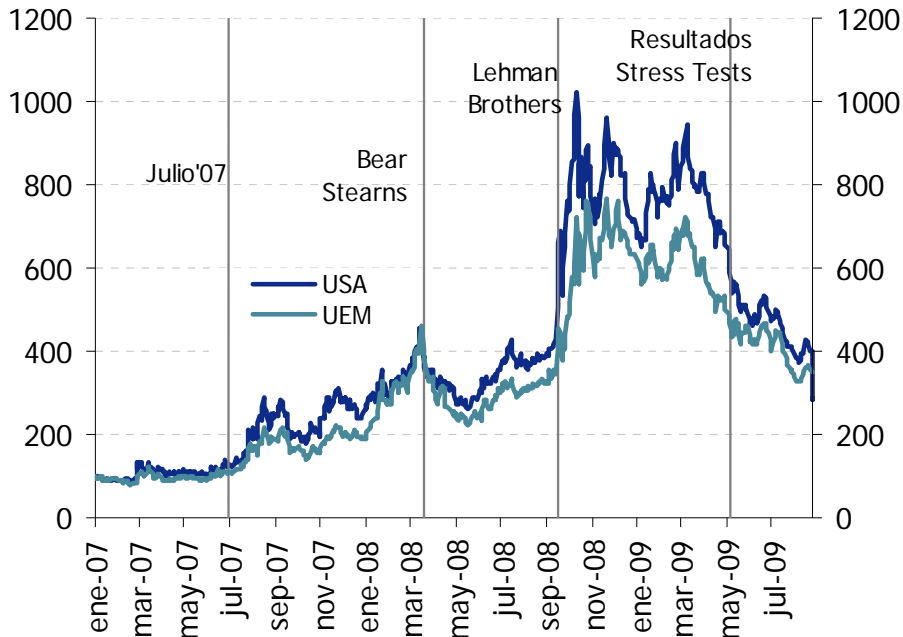
A more protracted effect of the financial distress

Uncoordinated policy exit: heterogeneity in performance and medium term risks to interest rates

1

Partial progress in the financial situation

BBVA financial stress indicator
100 = Jan-07



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

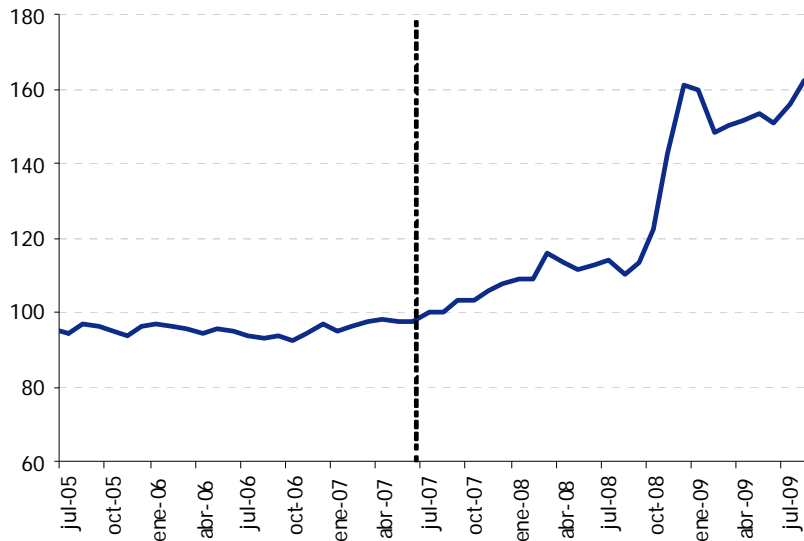
1

Partial progress in the financial situation

Increased global liquidity

Base monetaria global

Indice100= inicio de la crisis (jul-07)

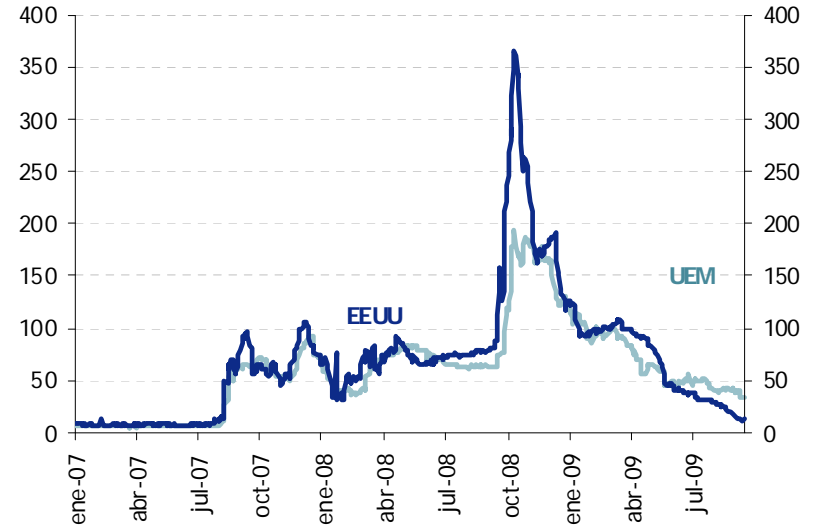


* Suma de las siguientes bases monetarias: EEUU, Japón y UEM

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

Interbank liquidity stress indicator

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



Fuente: Bloomberg

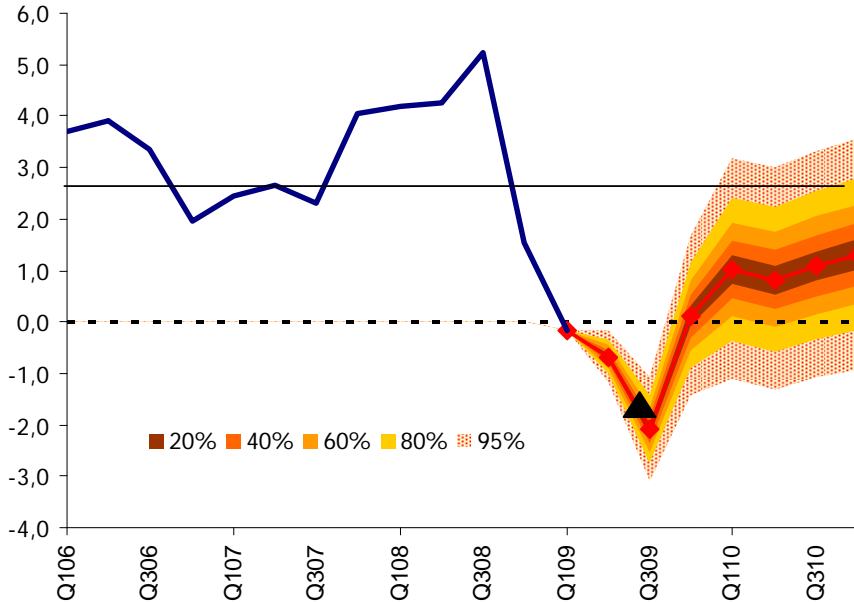
... And represent significant improvements interbank spreads, although still limited to very short term

1

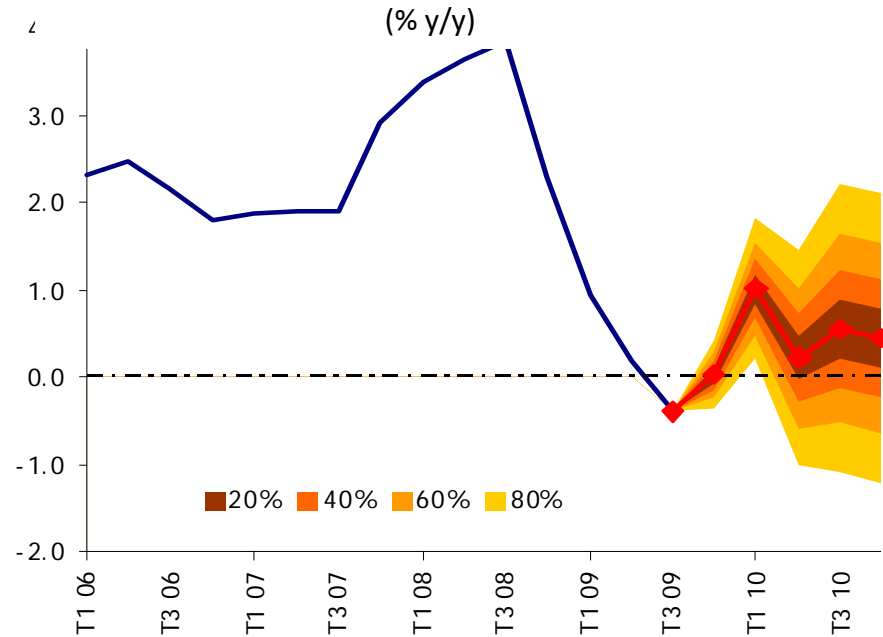
Partial progress in the financial situation

Increased global liquidity

U.S.: Headline CPI
(% y/y)



Euro area: HICP



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

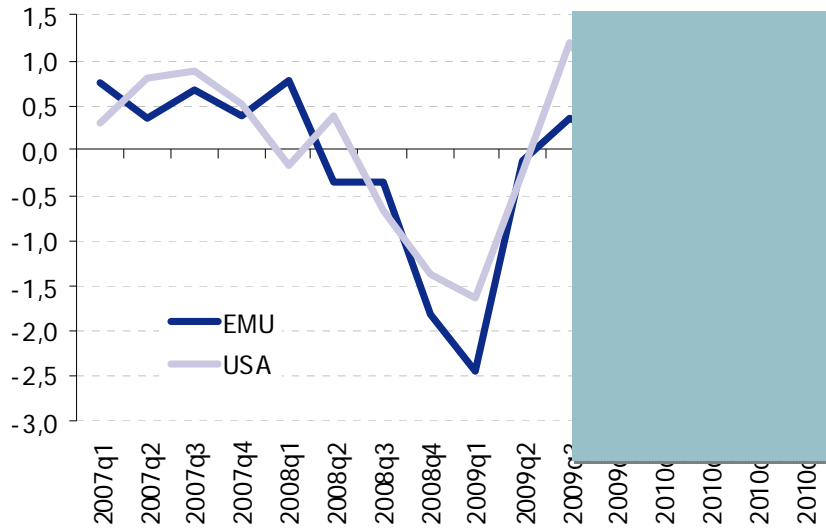
2

Economies growing in 2Q09

A

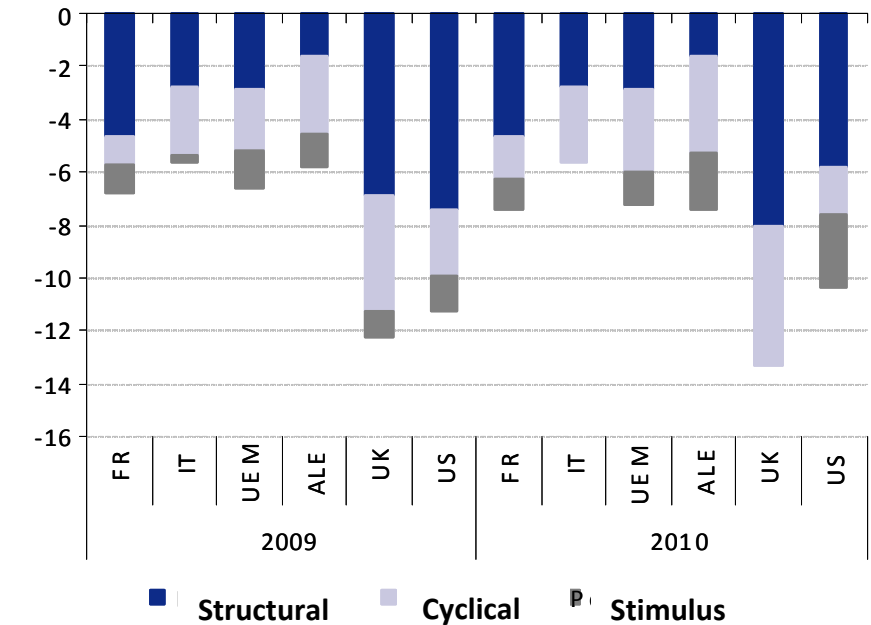
Fiscal policies in developed

USA and EU: GDP growth (% QoQ)



Fuente: SEEBBVA

Fiscal deficit 2009-2010



Fuente: SEEBBVA

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

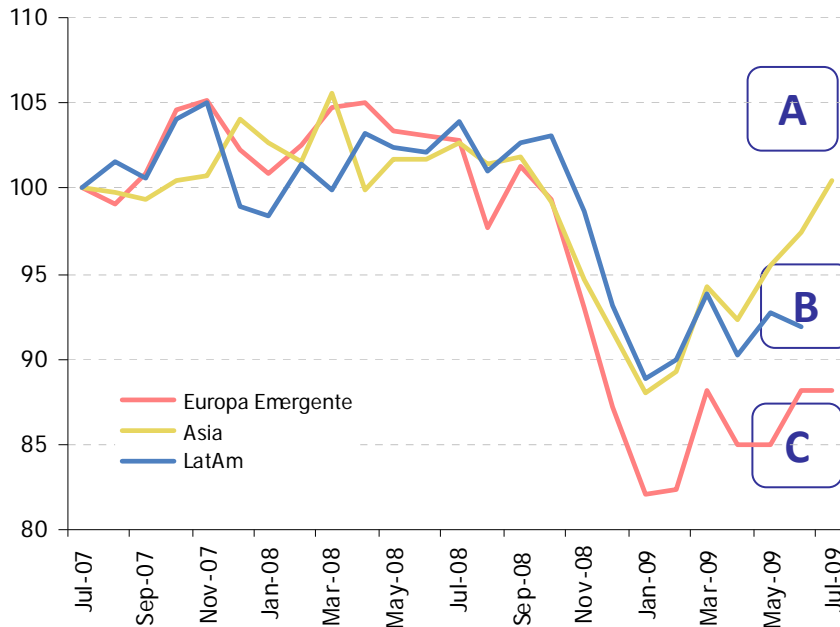
2

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

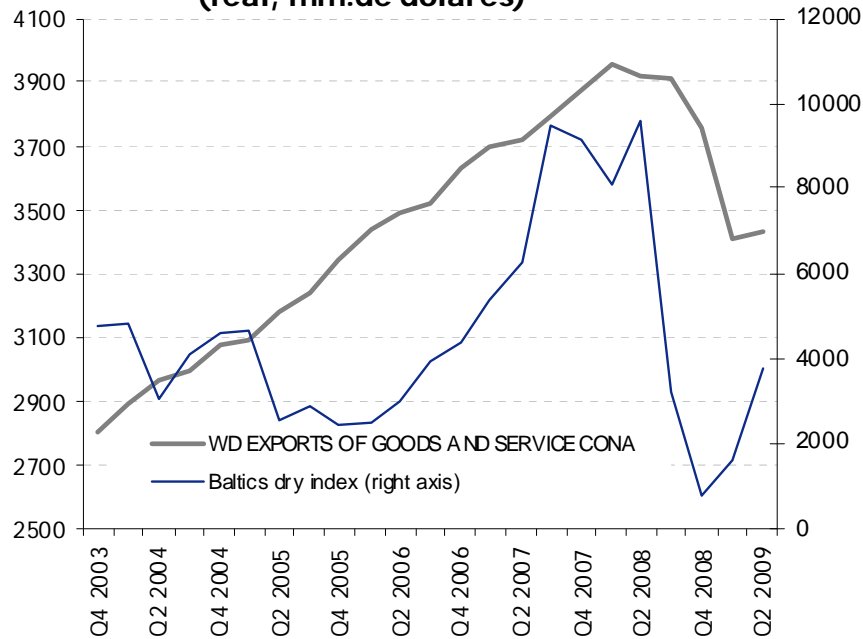
Economies growing in 2Q09

C

Trade stabilization

Sustainable, but insufficient

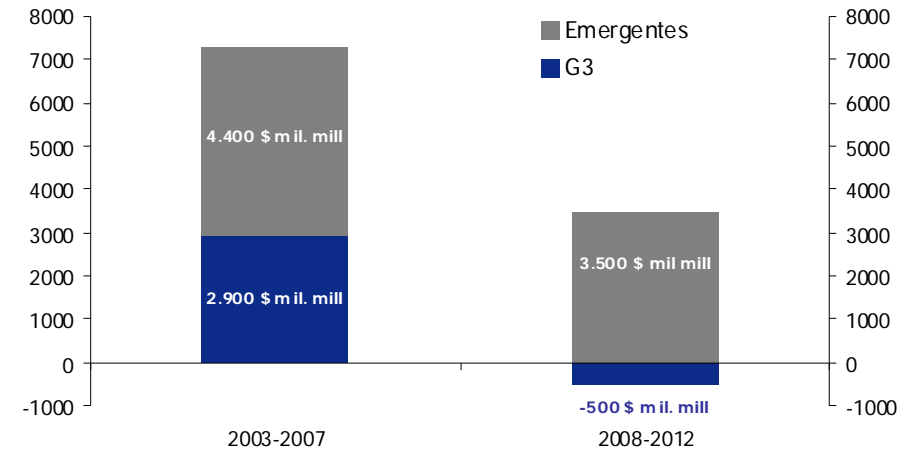
**Global trade
(real, mm.de dólares)**



Fuente: Bloomberg

World trade begins to stabilize, albeit very slowly

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



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

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

2

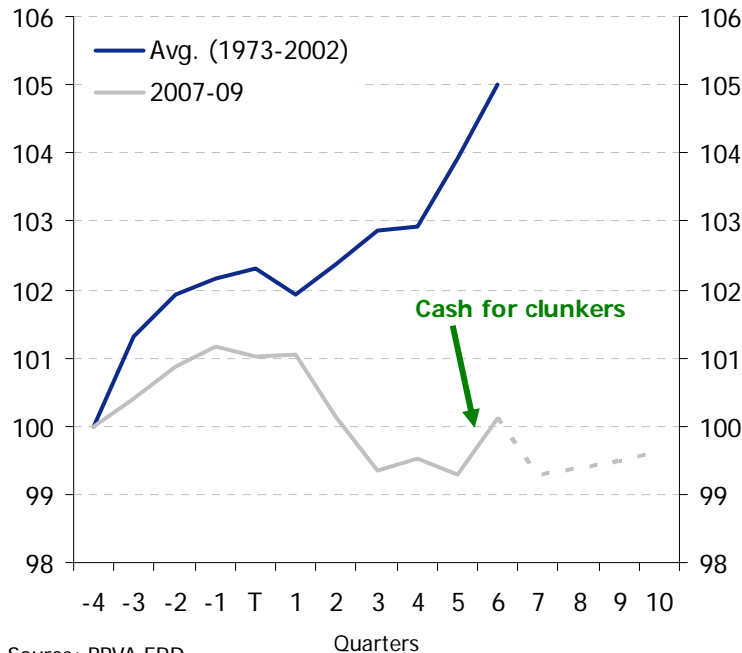
Economies growing in 2Q09

D

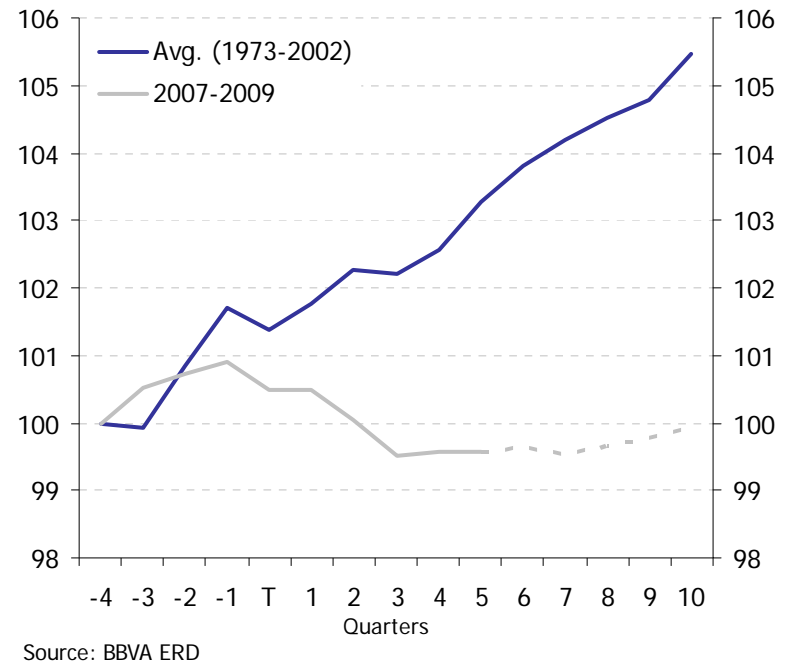
Private Consumption

Recovery weak, growth subdued

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



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

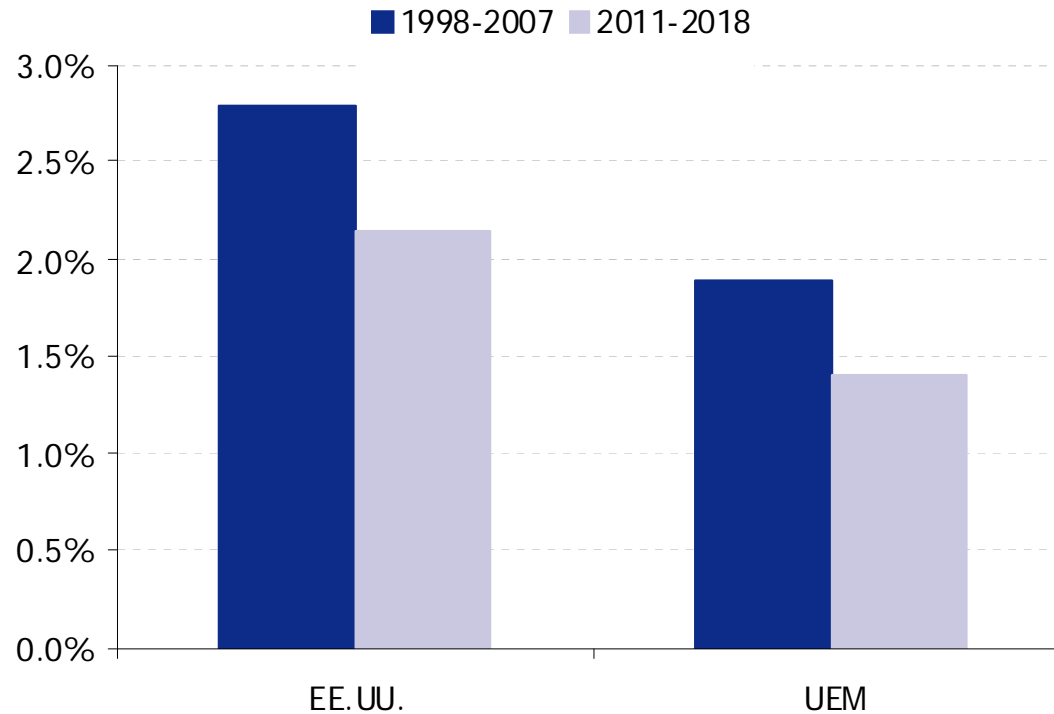


Accordingly, there is very little evidence that private demand is effectively beginning to gain traction after the fiscal policy impact

3

US – EMU

GDP potential growth (average var. % annual)

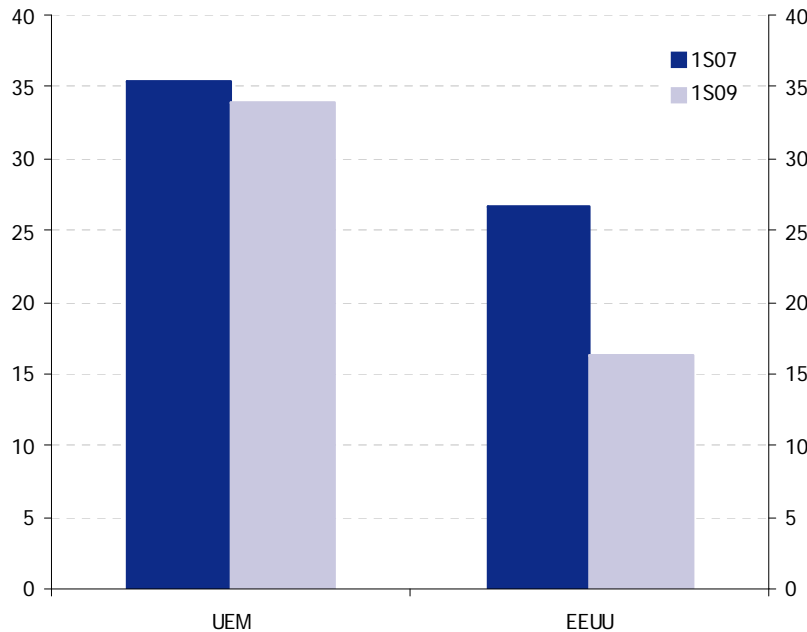


In both areas there will be a reduction in long-term growth, but the U.S. will grow more than EMU

3

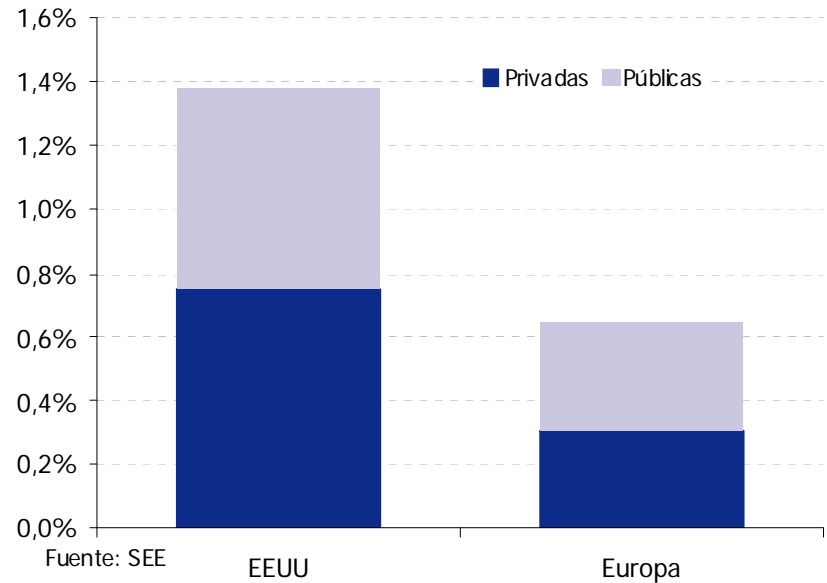
US – EMU

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

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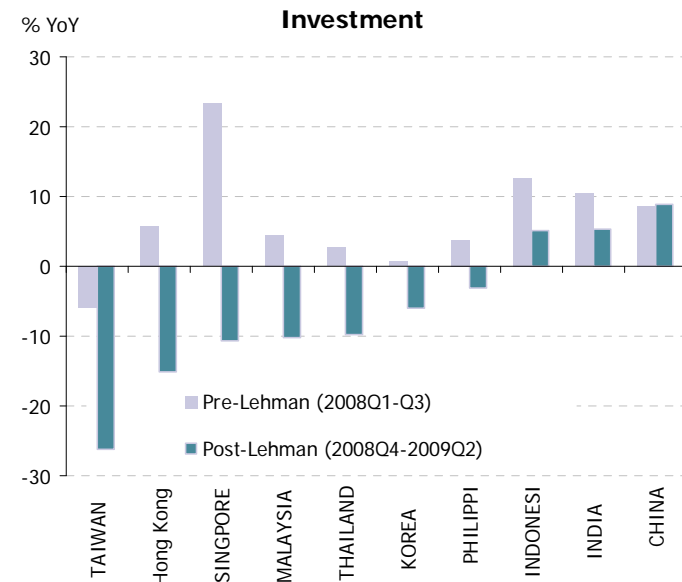
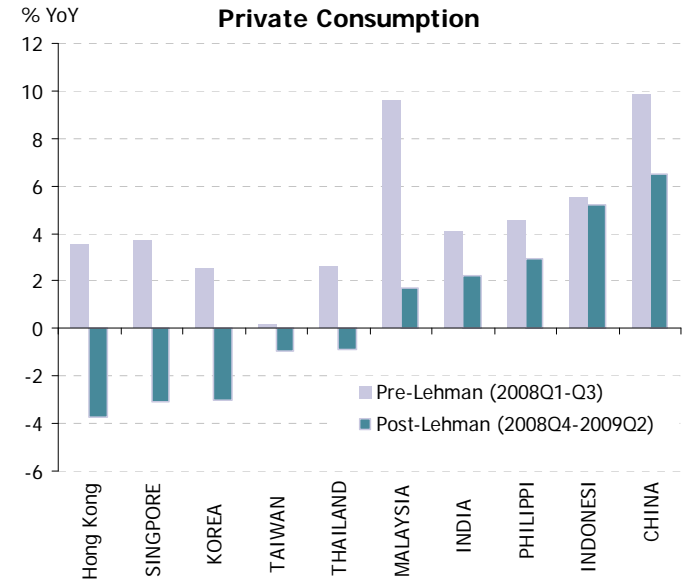
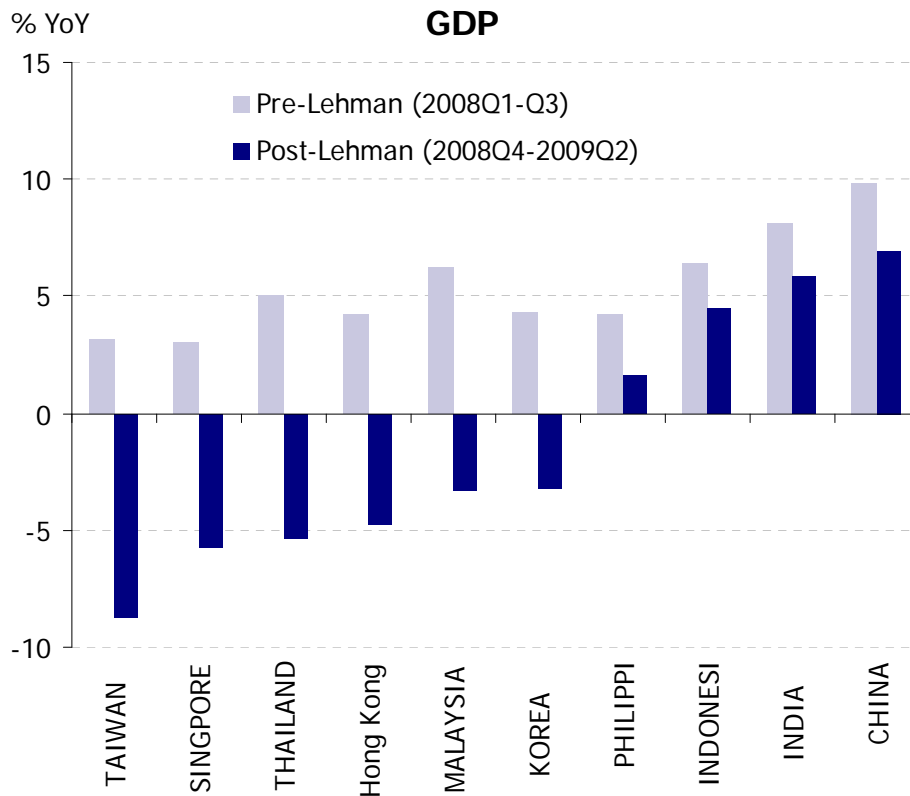
b. RMB vs USD

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Appendix: BBVA strength thru generation of earnings and capital

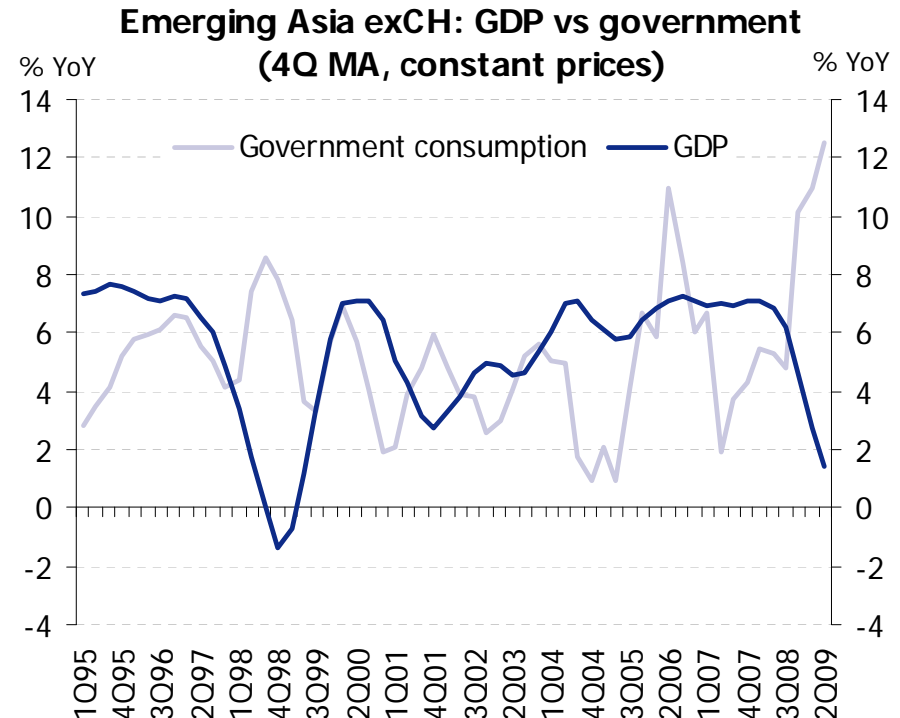
Emerging Asia's largest economies outgrow the rest in 2009



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



Source: ERD BBVA

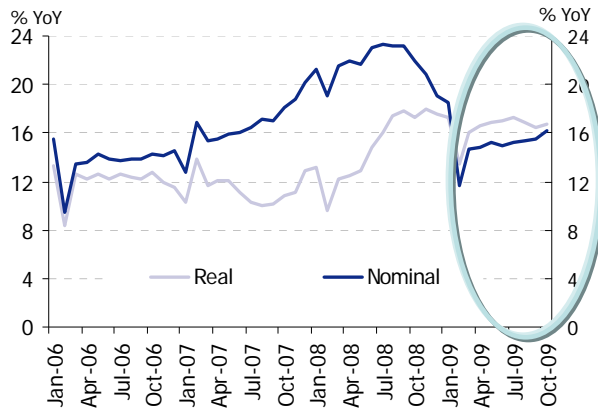


Source: ERD BBVA

...creating a stronger recovery in China

Consumption Resilience

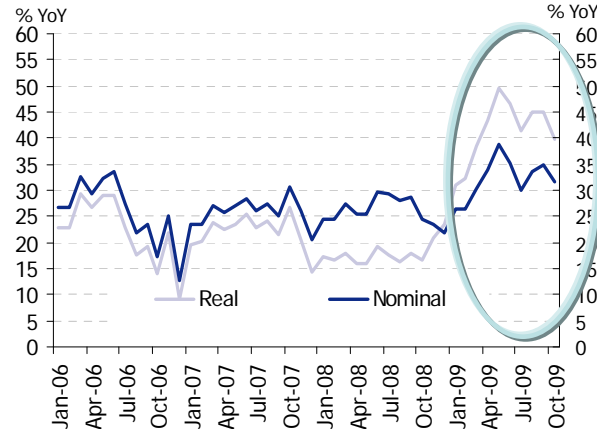
China: Retail Sales of Consumer goods



Source: CEIC, ERD BBVA

Investment Strength

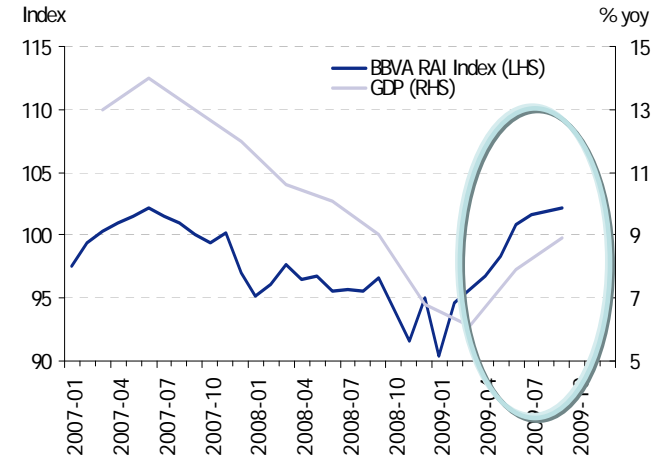
China: Fixed Assets Investment



Source: CEIC, ERD BBVA

BBVA real activity index

China: BBVA Coincident Index

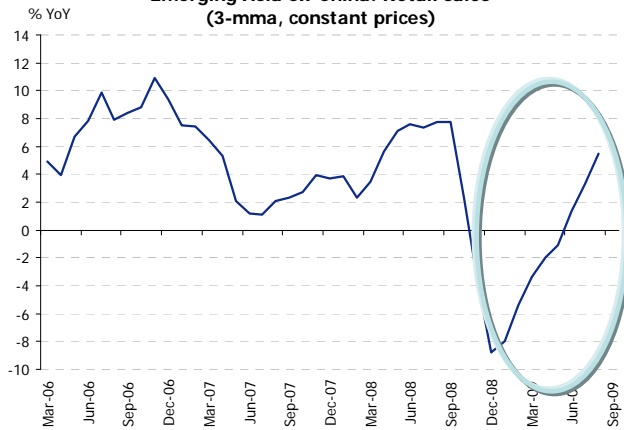


Source: ERD BBVA

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

Domestic Resilience

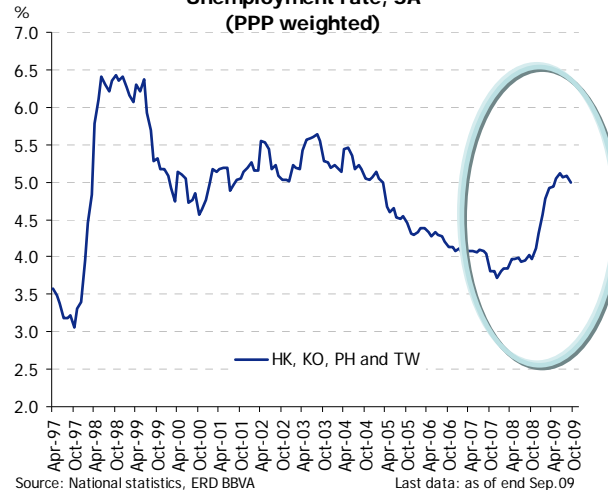
Emerging Asia ex-China: Retail sales (3-mma, constant prices)



Recovery based on private consumption strength

Labor Market Strength

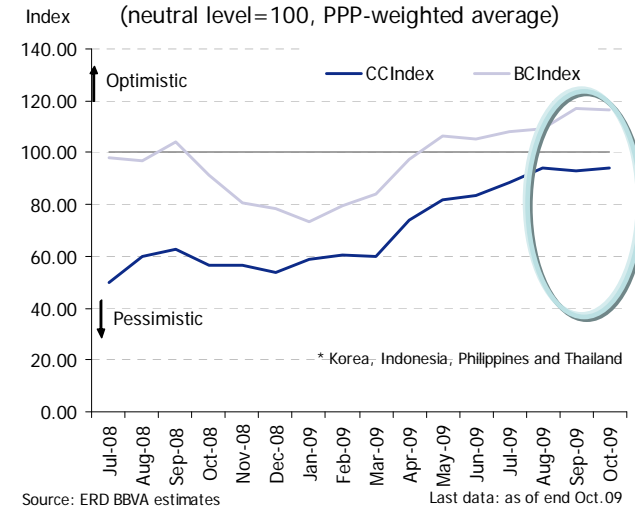
Unemployment rate, SA (PPP weighted)



Labor market deteriorated less than anticipated

Confidence Rebounding

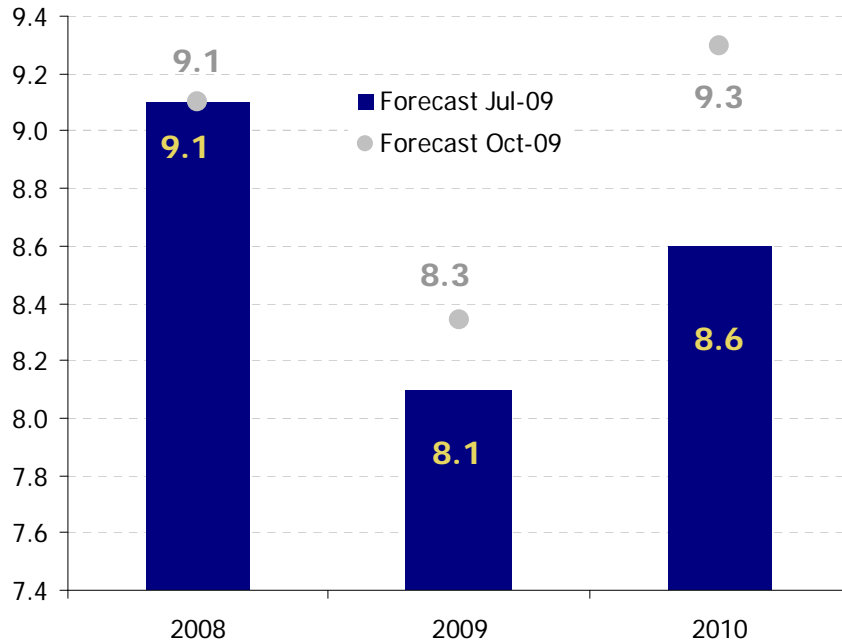
Consumer and Business Confidence* (neutral level=100, PPP-weighted average)



Virtuous cycle on confidence

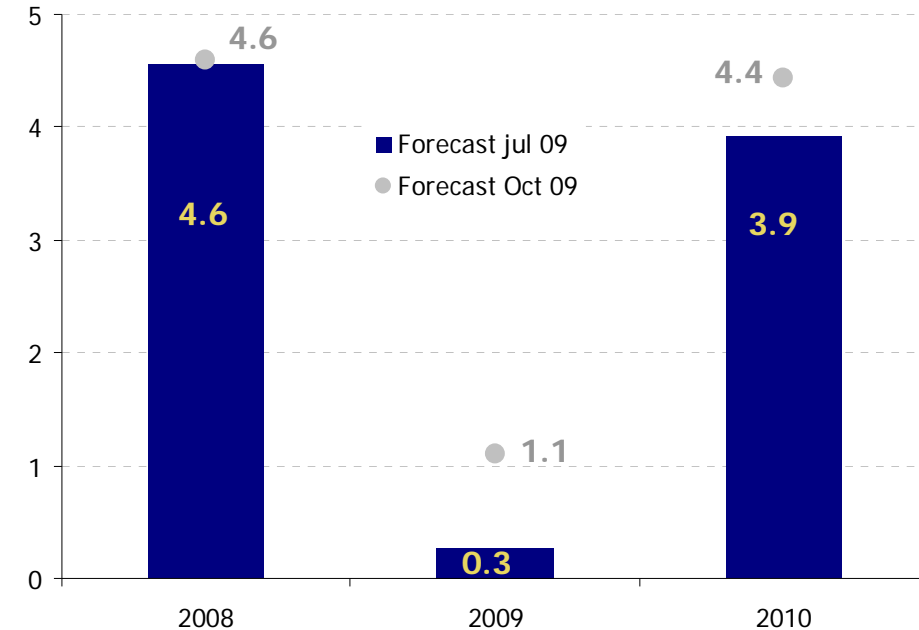
A substantial upgrade to our China forecasts, and also for the rest of the region

China: GDP Forecast (% y/y)



Source: ERD BBVA

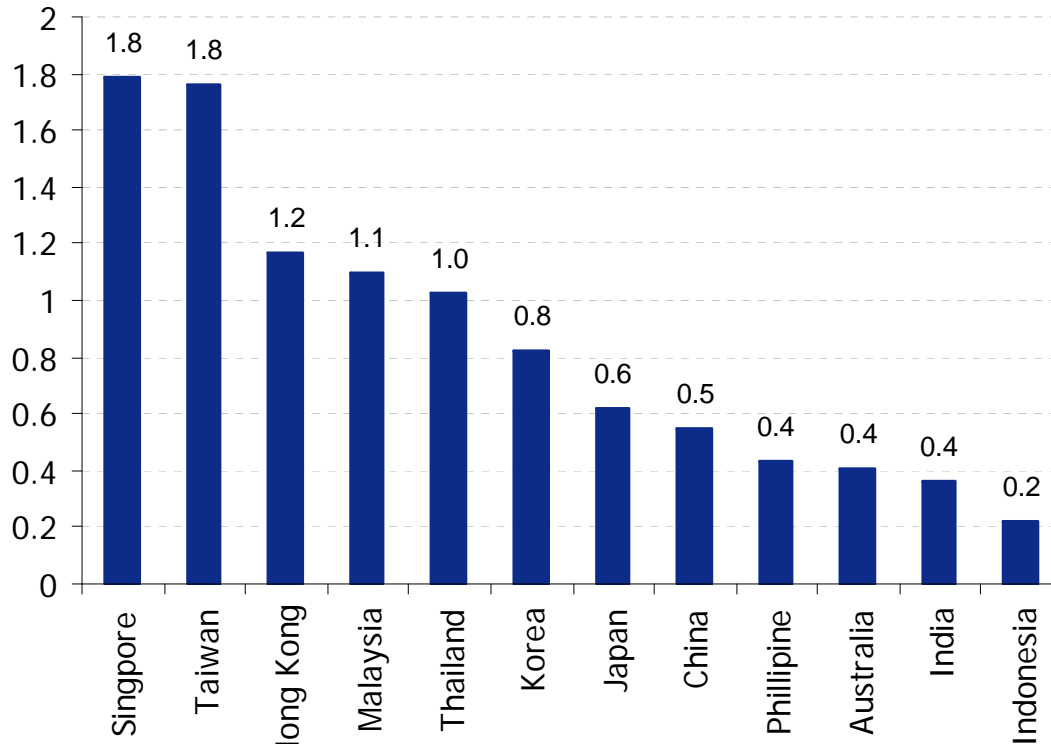
Asia ex-China: GDP Forecast (% y/y)



Source: ERD

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

Quarterly growth betas* of Asian economies to US



* Percentage point change in GDP growth to 1% point change in US growth

Source: BBVA ERD estimates

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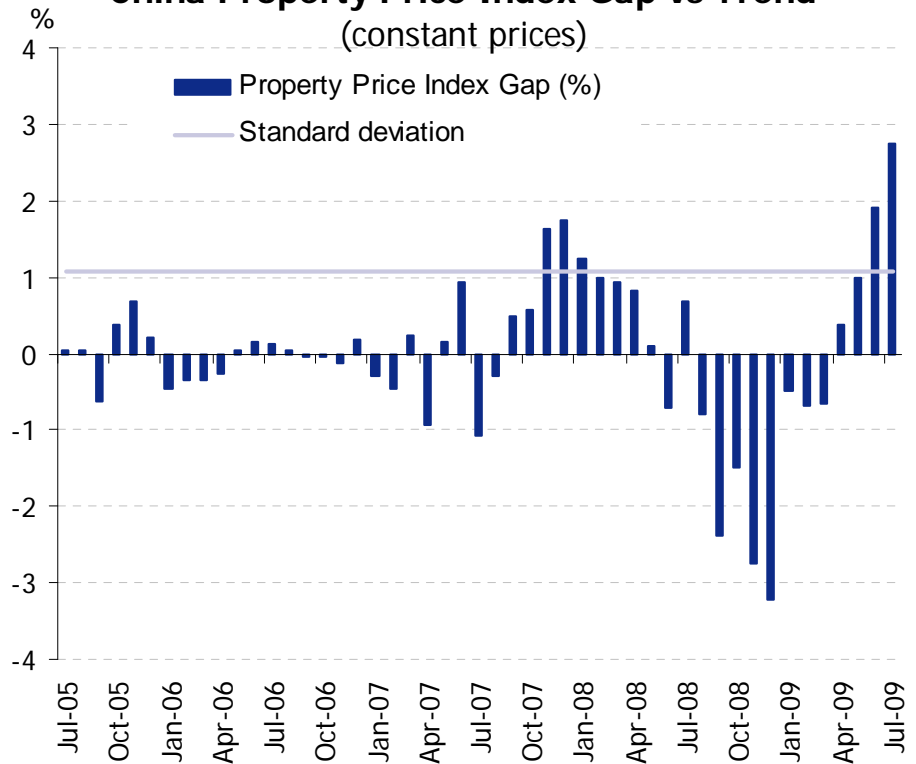
“Asset bubbles” with qualifications

China Shanghai Stock Index Gap



Source: BBVA ERD estimates

China Property Price Index Gap vs Trend (constant prices)



Gap: actual level minus trend (HP filtered)

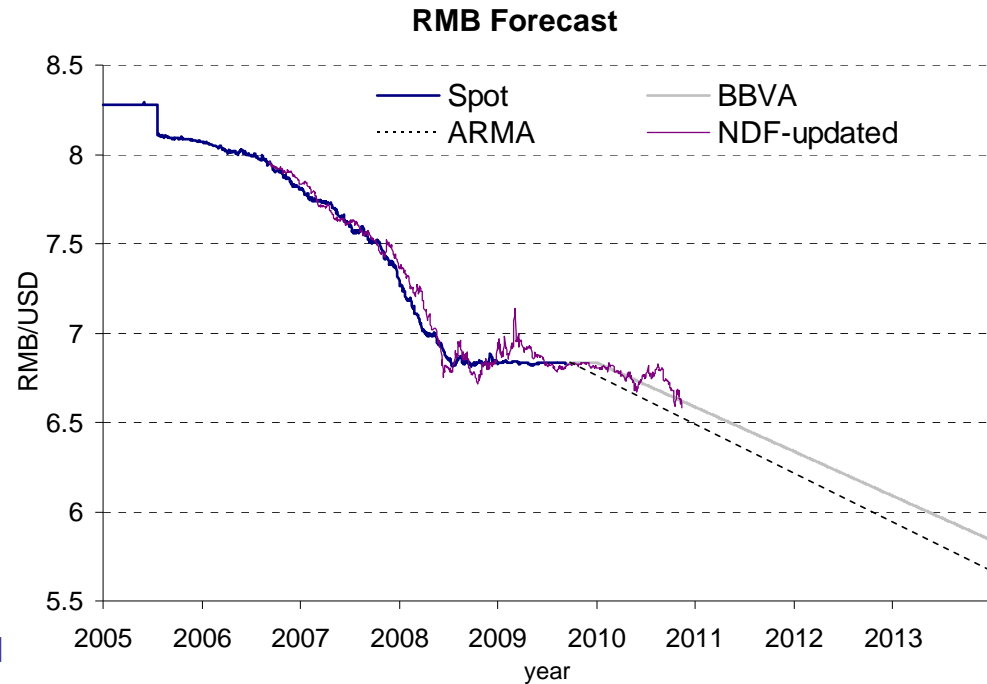
Strong domestic liquidity and credit growth in China has spurred the latest recovery in asset prices

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



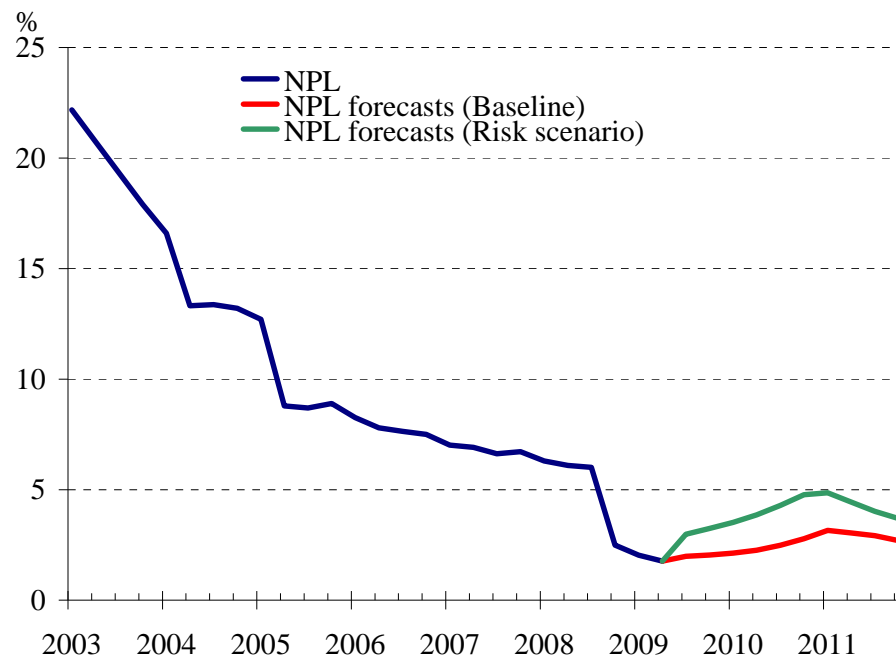
NPL risk

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

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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

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

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

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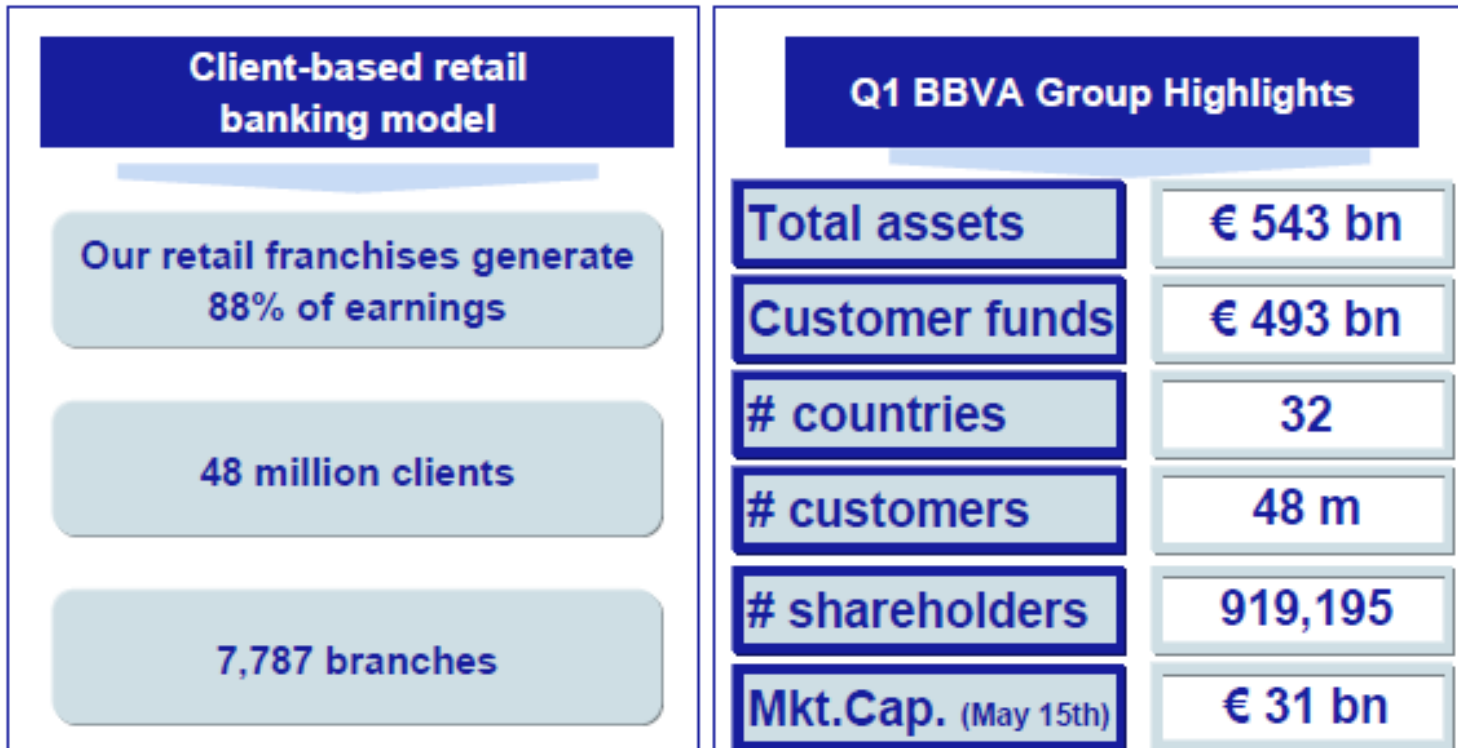
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BBVA, a business model focused on client-based retail banking

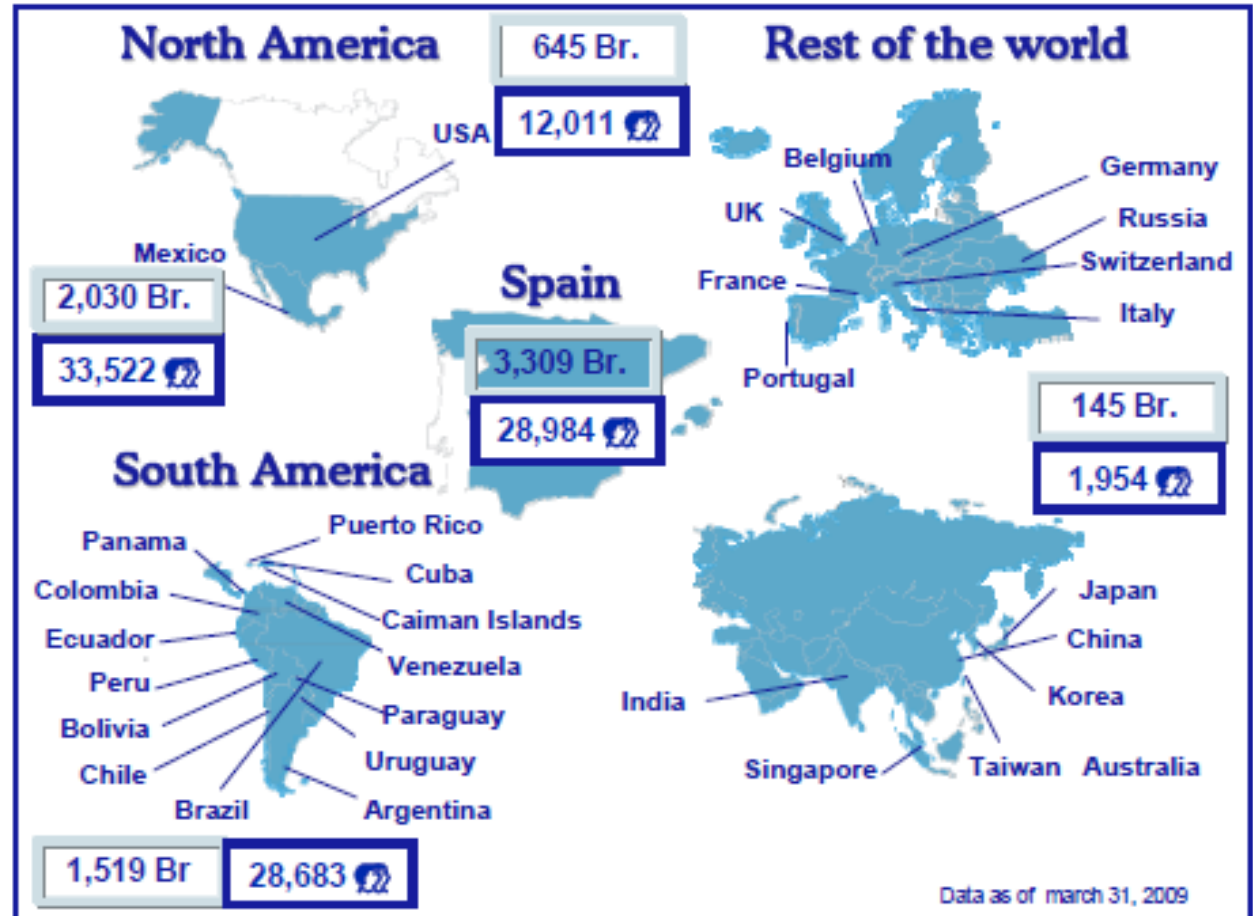


Q3 results available in our website:

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

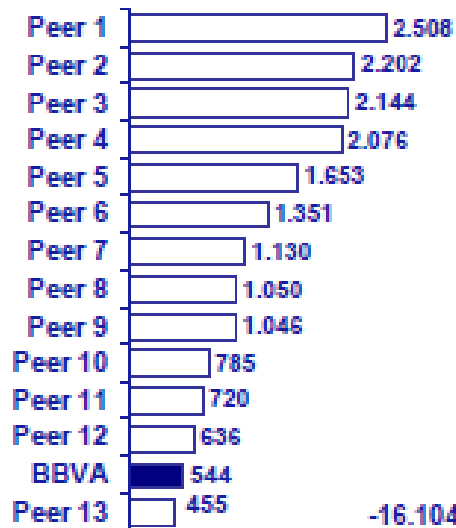
BBVA, a diversified international presence

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

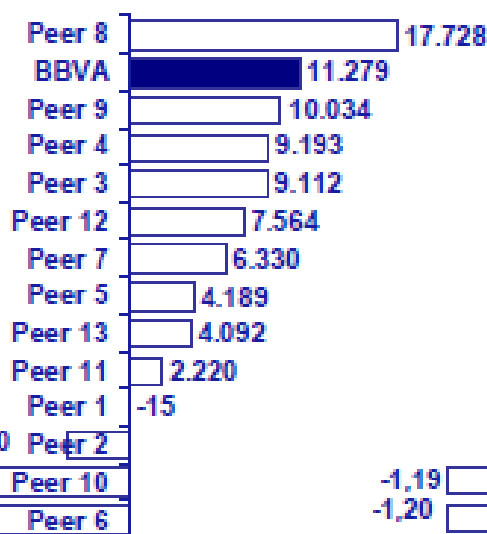


BBVA started 2009 on a strong footing

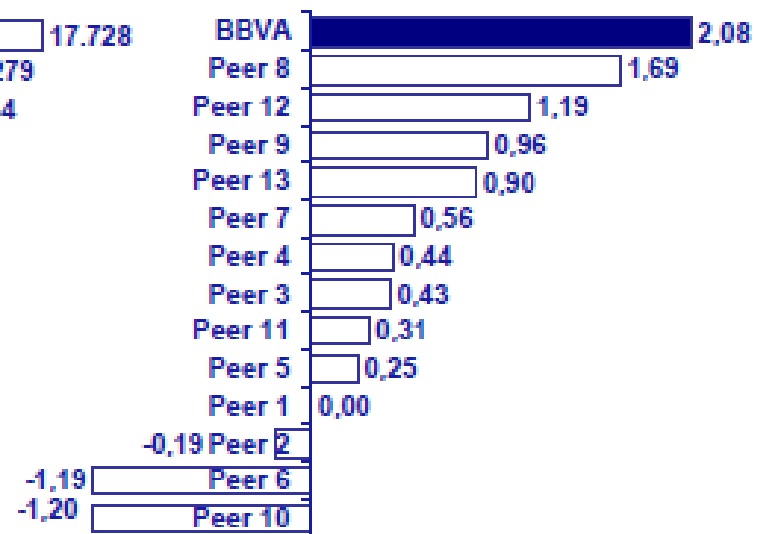
Total assets
Peer Group
(€bn, Dec.08)



Operating Income
Peer Group
(€m, Dec.08)



Operating Income/Total assets
Peer Group
(%, Dec.08)



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**

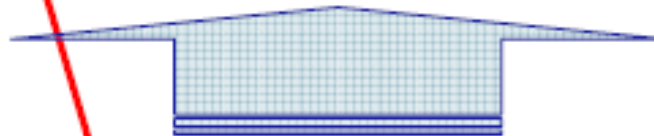
Comfortable liquidity

B

Recognized solvency

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

STANDARD & POOR'S (MARCH 09)									
AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-
		BBVA (-)	ISP(-)	Lloyds/HBOS	Commerz.				
		BNP(-)	C Agricole	RBS	Goldman (-)				
		Santander (-)	Barclays (-)	UBS	Citi				
		HSBC (-)	BONY	Credit Sui	Morgan S (-)				
		US Bancorp**-		DB	Unicredito				
		Wells Fargo**-		JPM (-)	BOA				
				SOCGEN					



STANDARD & POOR'S (JULY 2007)									
AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-
	BNP	Lloyds	BBVA	Unicredito	Commer				
	Wells Fargo	Barclays	C Agricole	BONY					
		Santander	Credit Sui (+)						
		HSBC (+)	SOCGEN (-)						
		RBS	ISP						
		UBS	DB						
		Citi	JPM						
		BOA	Morgan S						
		Wachovia	Merrill Lynch						
		US Bancorp	Goldman Sachs						

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