

Where is the world heading? Risks and opportunities for China

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Main messages

- 1 **Global growth will progressively recover supported by policy makers:**
- 2 **The tail-risk scenarios are today less likely** but important challenges remain in the Euro Area and in the US
- 3 **China continues to face a difficult external situation, which could even become hostile**
- 4 **More opening-up from China and the rest of the world is the only way forward.** Services is the buzz word. China should not be scared of opening up. Much to learn and benefit as it already happened with goods

MORE OF AN OPPORTUNITY THAN A RISK

Europe is moving

ECB announces the new bond purchase program (OMT): “a very European” lender of last resort that will work under conditionality

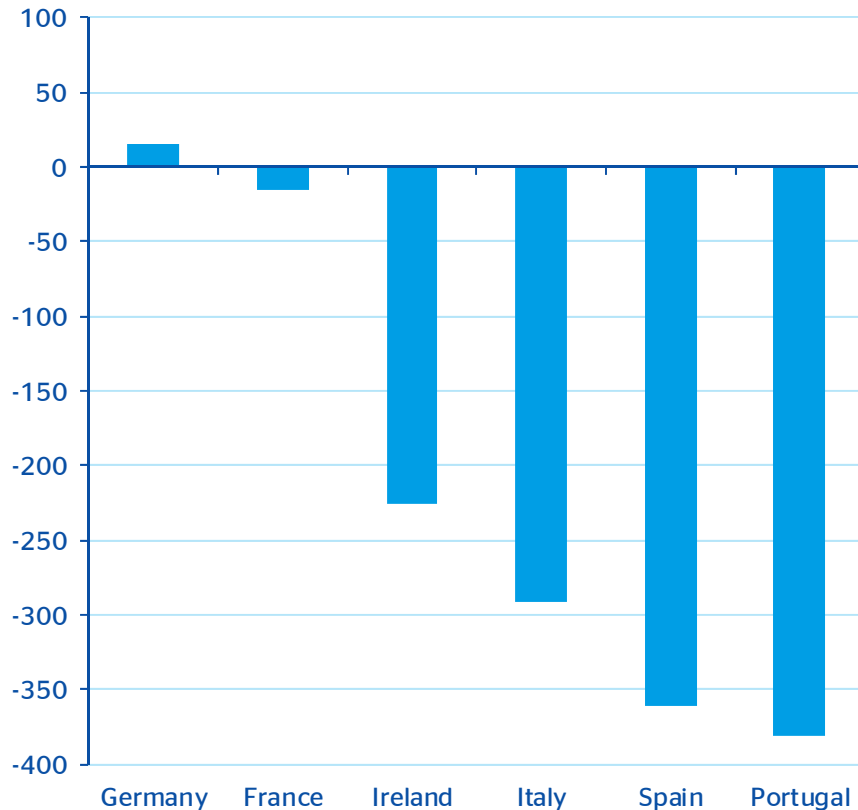
ESM is already running and ready to intervene

Single banking supervision not derailing only mutating (but could become a “credit event” for rating agencies)

Eurozone financial environment has changed for the better

Change in 2-yr yields since Draghi announcement

(bp)(Last data: 18 Oct 2012)
Source: Bloomberg and BBVA Research



Capital inflows to the eurozone, both equity and Bond

Lower risk aversion has encouraged some debt issuance in the eurozone

Non-residents demand for Spanish public debt in secondary market is coming back

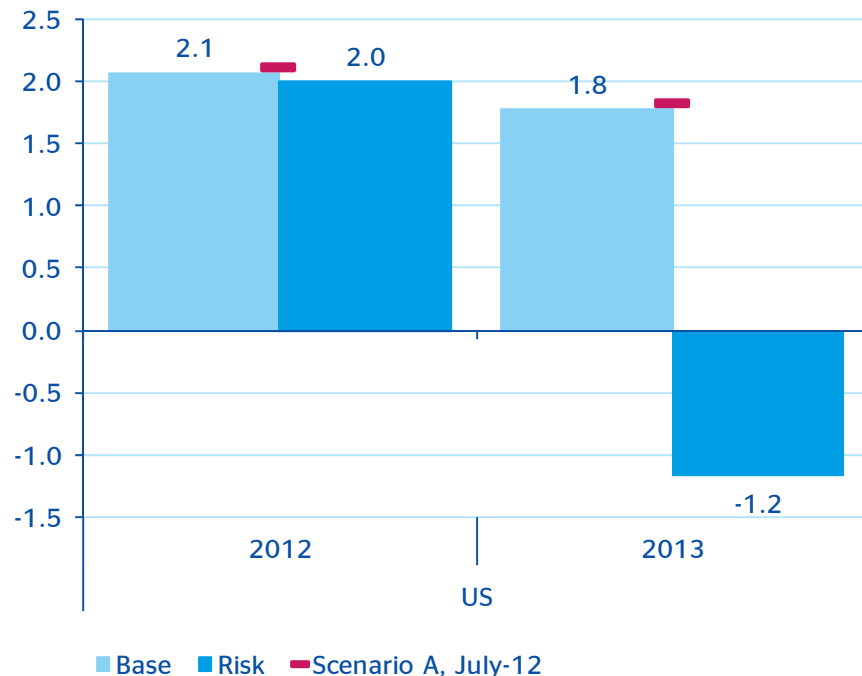
Spanish banks and non-financial corporations are issuing debt

US: nothing exiting except for the risk of the fiscal cliff

The US economy has to tackle downward risks, such as the impact from political and fiscal uncertainty

US: GDP growth (y/y)

Source: BBVA Research, BEA



Economic activity will remain expanding at around 2%

Improving conditions in the real estate sector does not compensate for weak external demand

Moderate fiscal adjustment

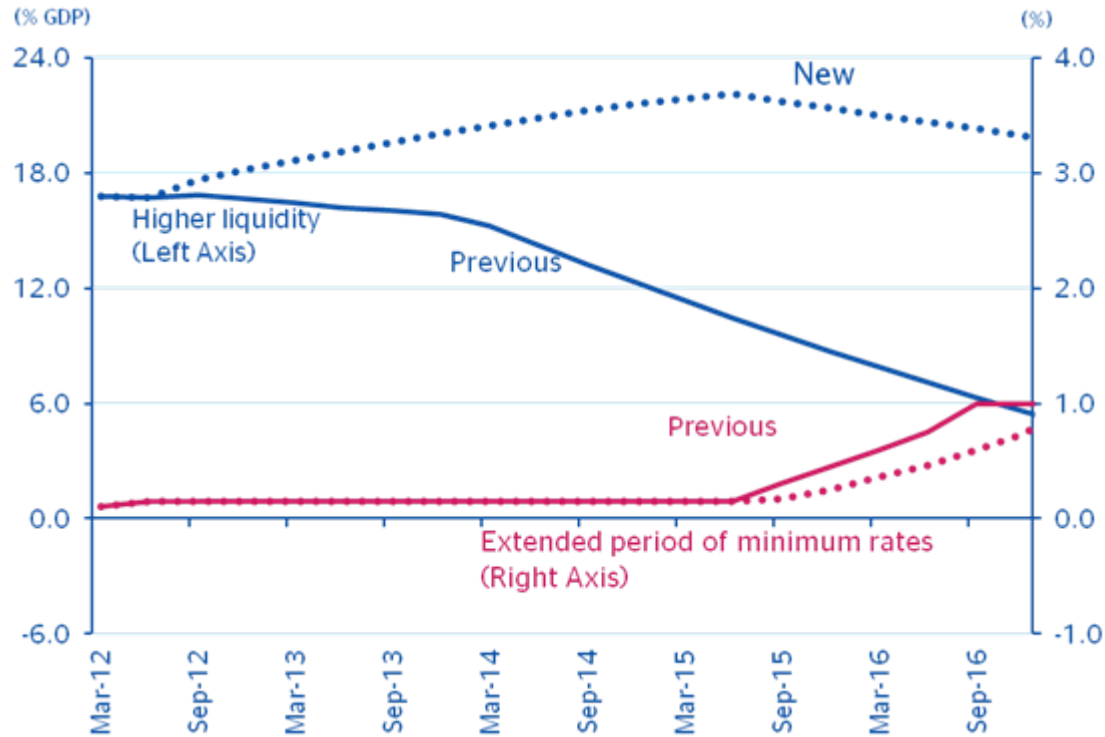
“Fiscal cliff” and European crisis continue being the major threats; if materialized a sharp recession would certainly occur

The monetary binge in the West...

US FED Actions (QE3 + Extension minimum FFunds

(Announced increase in liquidity (% GDP) and announcement on prolonged extension of interest rate

Source: BBVA Research by

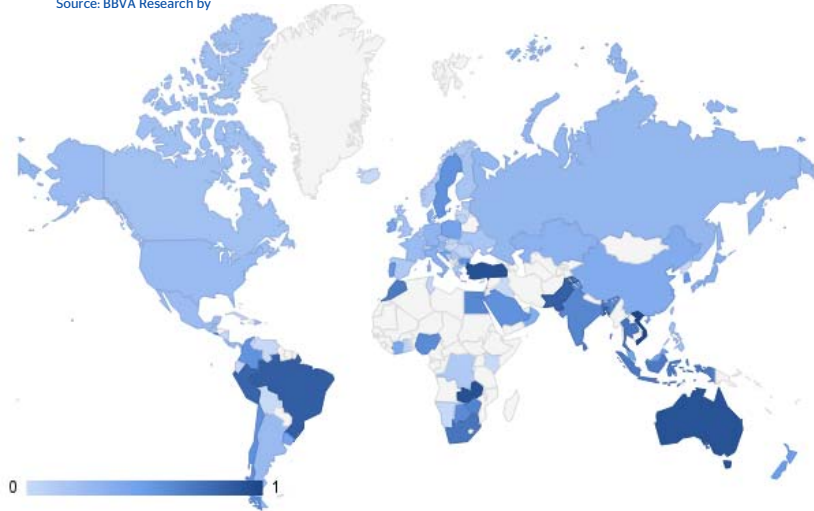


...has triggered large amount of inflows in the emerging world

Portfolio Flows Reversal during QE2

(Quarterly standardized Bond and Equity flows changes quarter after and before QE announcements)

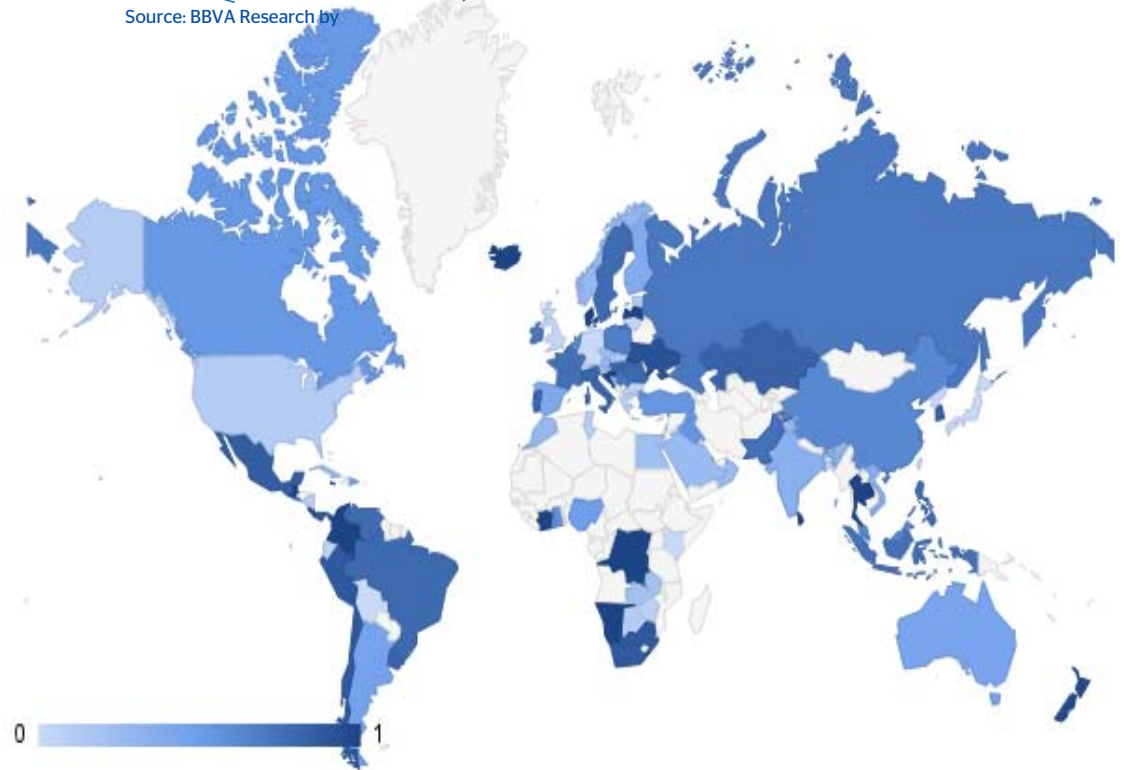
Source: BBVA Research by



Portfolio Flows Reversal during QE3+ECB

(Quarterly standardized Bond and Equity flows changes quarter after and before QE announcements)

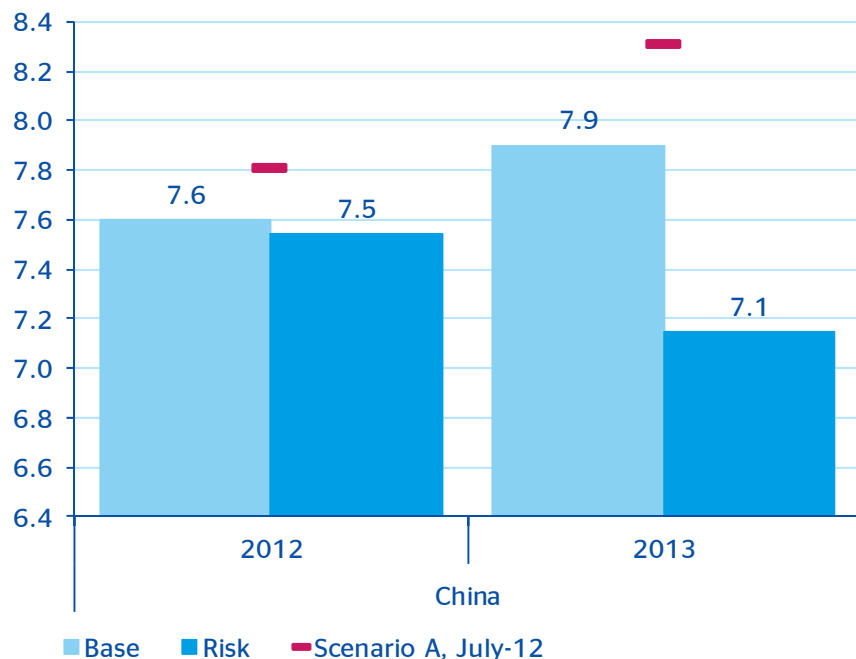
Source: BBVA Research by



China: some turnaround insight... but still moderate growth

China: GDP Growth (% , y-o-y)

Source: BBVA Research



While fiscal policy is already growth-supportive, there is room for additional stimulus, which we expect after the forthcoming leadership transition in November

Monetary policy has been on hold since July, we expect further easing in the months ahead

Inflation outlook remains soft due to moderating demand pressures and falling food and energy prices

Risks are to the downside due to global uncertainties and domestic financial fragilities

Thank you...