2008 Credit Risk Conference

An Overview for Hong Kong Exporters

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Europe :
The risk of a US downdraft

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The US crisis

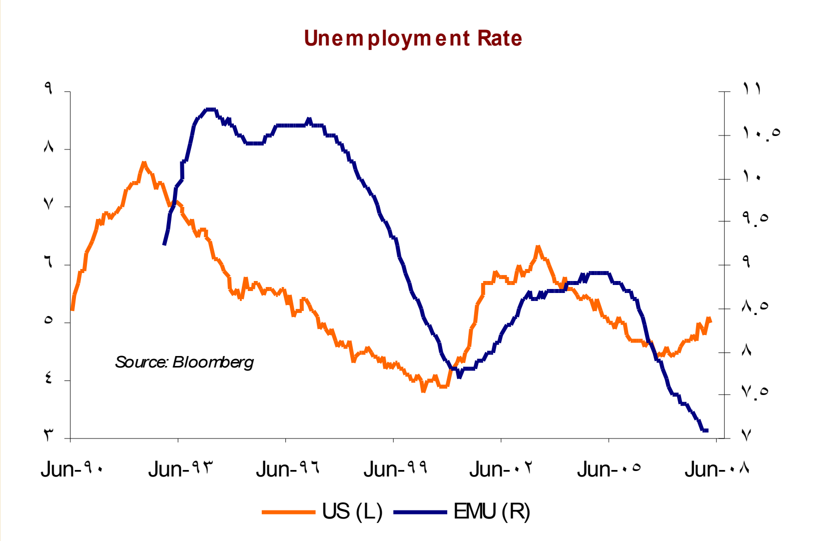
A crisis in real estate…

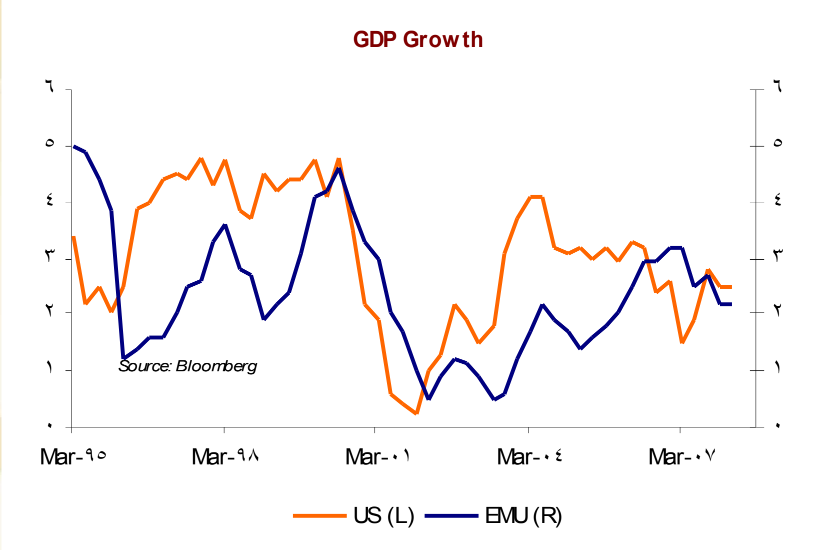
- Stocks of unsold homes reached absurd levels
- Neglect by banks also reached absurd levels
- Supply crisis triggered a demand crisis

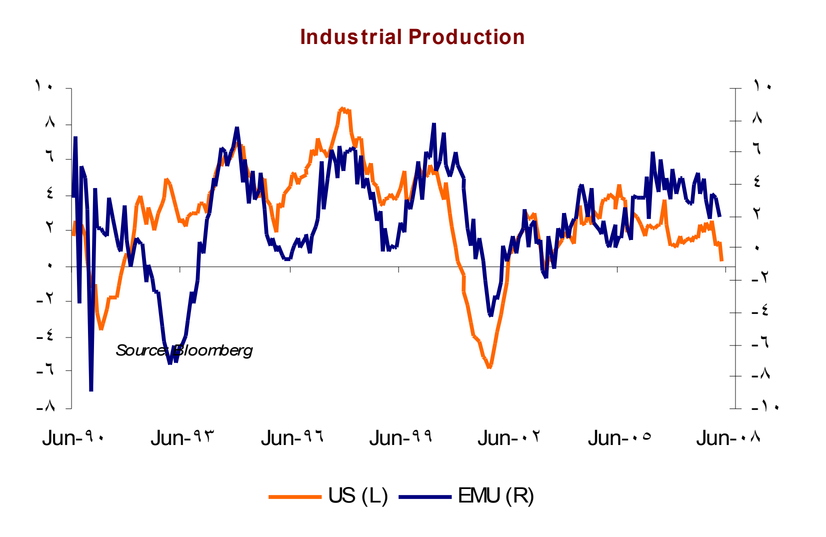
… that turned out to level off consumption

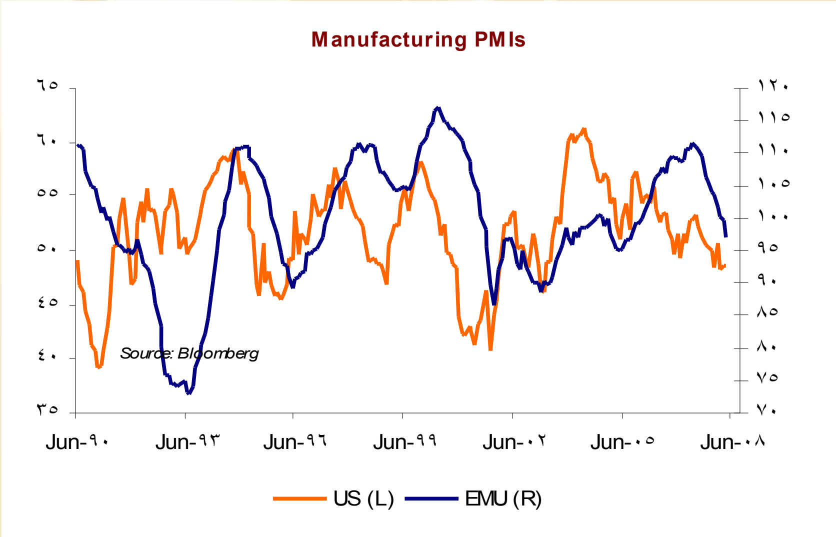
- Mortgage Equity Withdrawal significantly affected
- High level of indebtedness spurring a first increase in savings rates

History of Spillovers



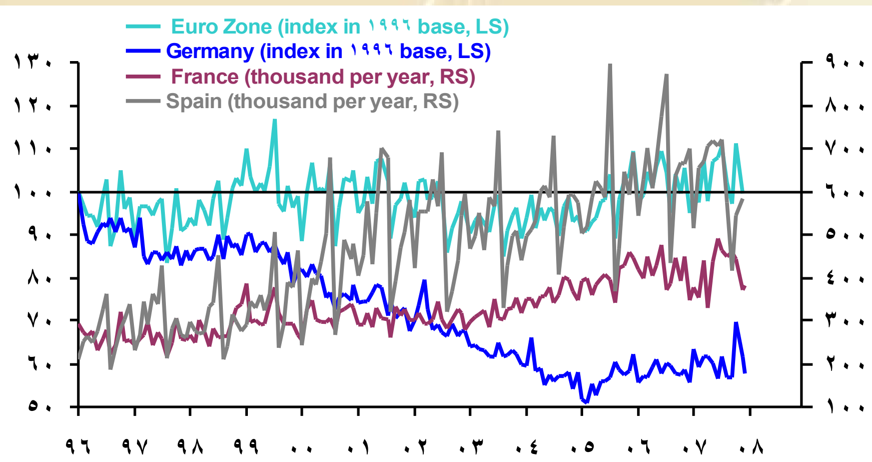






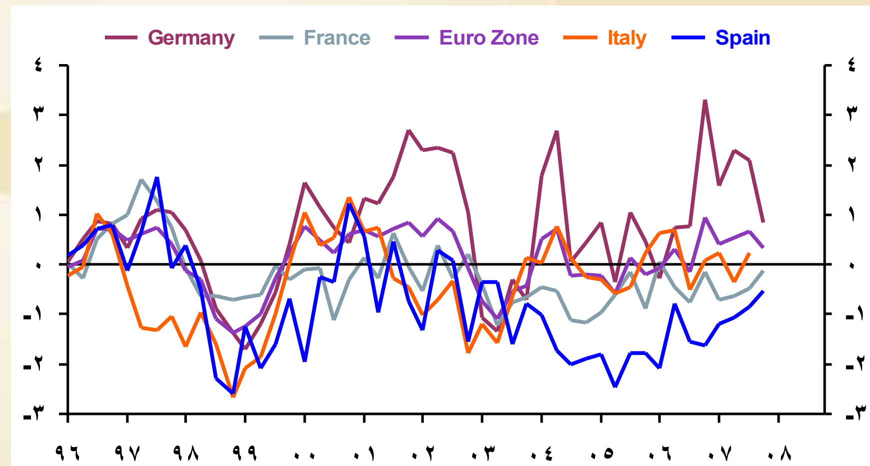
What can be different this time around
1. Anatomy of the Crisis (+)

Housing Starts



Source: Datastream

Contribution of net trade to GDP growth



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What can be different this time around
2. EUR

Significant difference with respect to 2000-2001 is the strength of the EUR

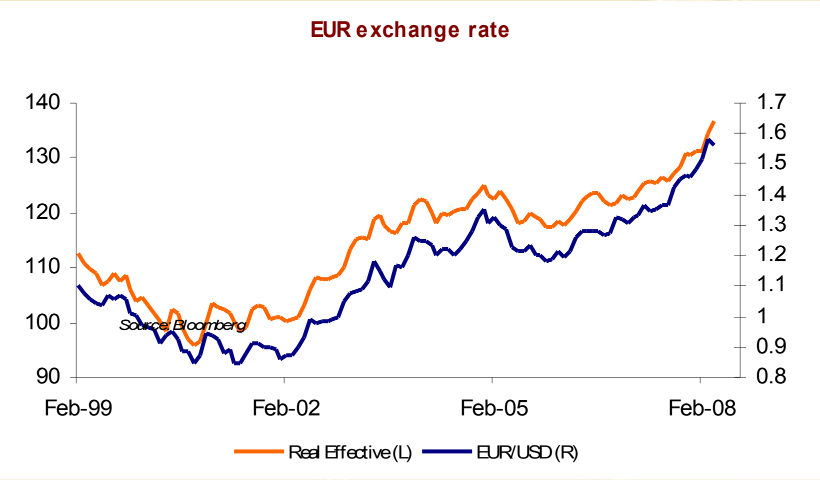
The strength of the EUR is not cyclical but rather reflects structural weakness of the USD (current and forthcoming)

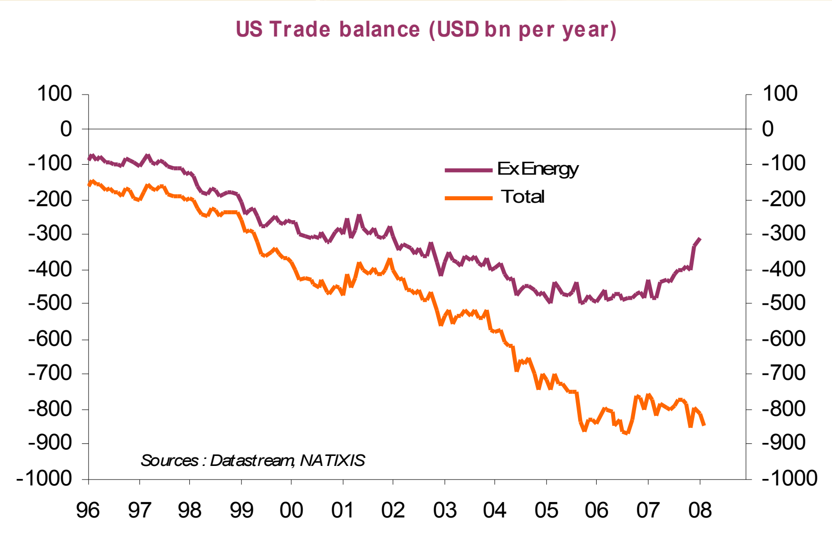
- US trade deficit not corrected
- « Private » basic balance deteriorating

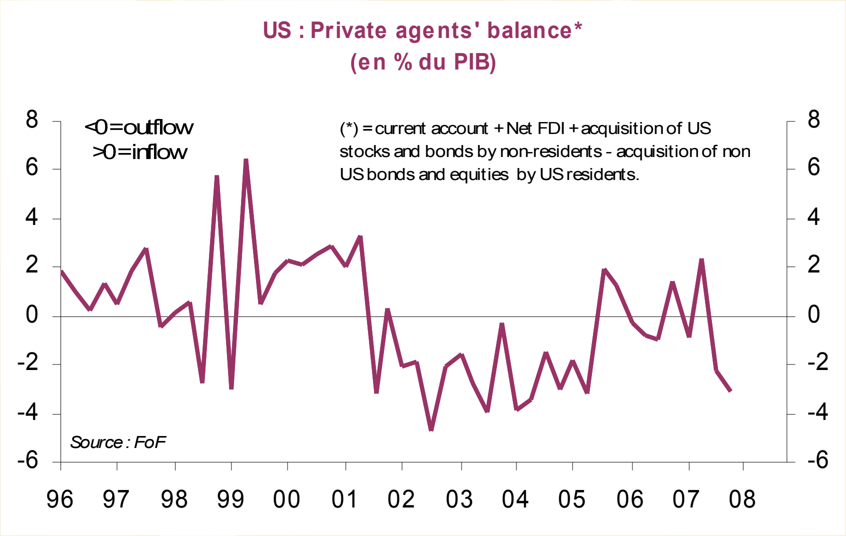
Currency hedging widespread among large companies but…

- … SME penalized
- … more costly today because of increased volatility

What can be different this time around
2. EUR (-)







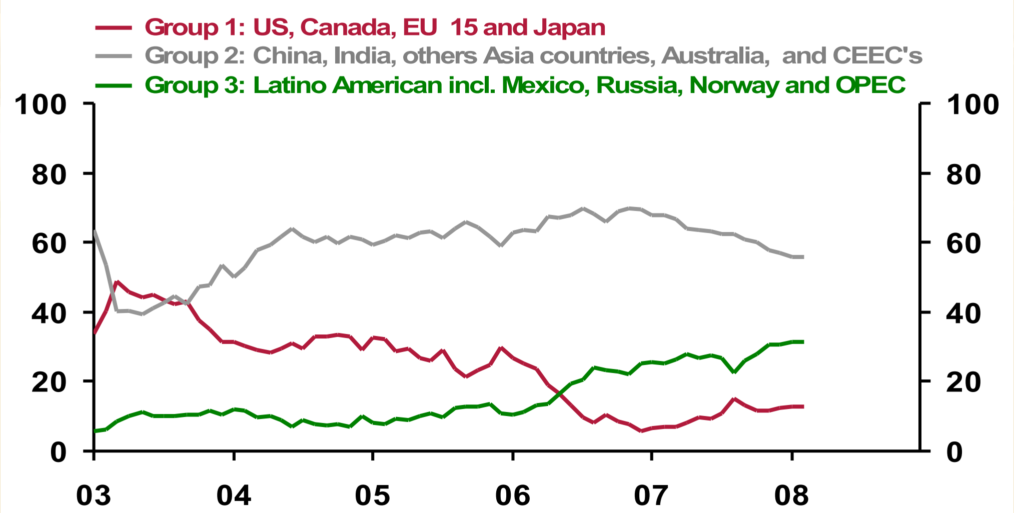
What can be different this time around
3. World Liquidity (+)

Robust Growth in Global Liquidity

- Significantly slacker monetary policies in the US, to a lesser extent in the UK
- Extremely rapid growth in official reserves (increasing problems in stabilizing the exchange rates

Investors seeking high returns

Contribution to growth of world money base (%)

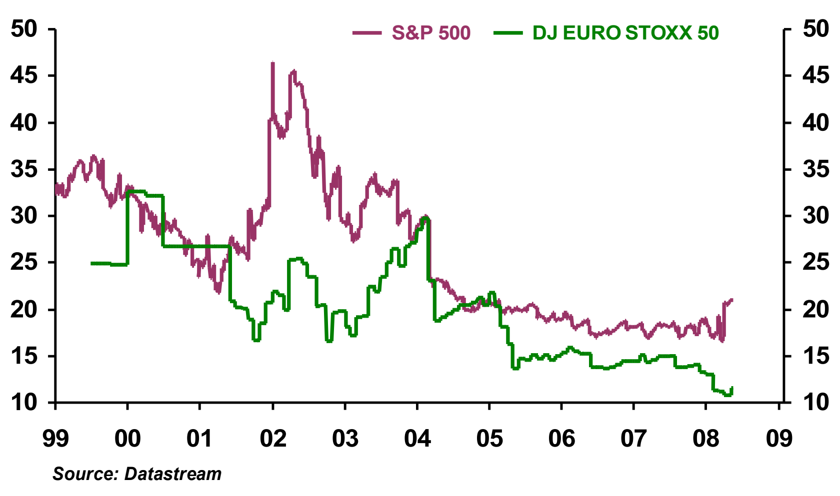


Source: Datastream

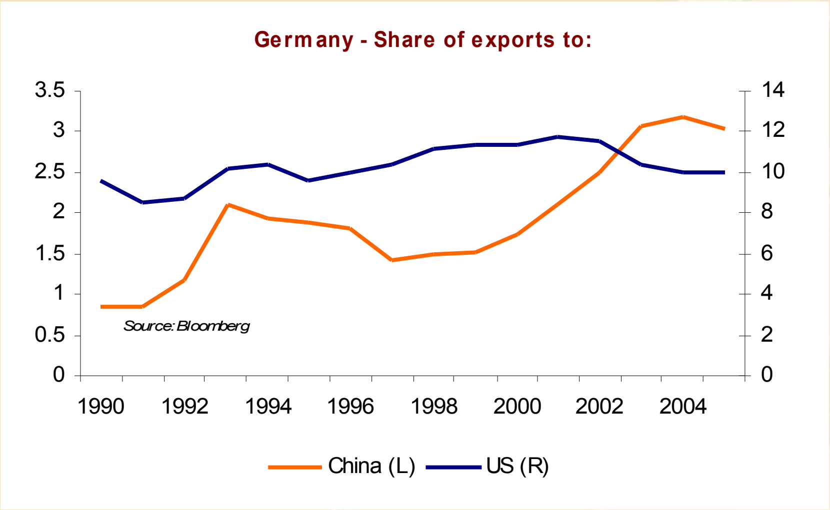
What can be different this time around
4. Stock Markets reaction (+)

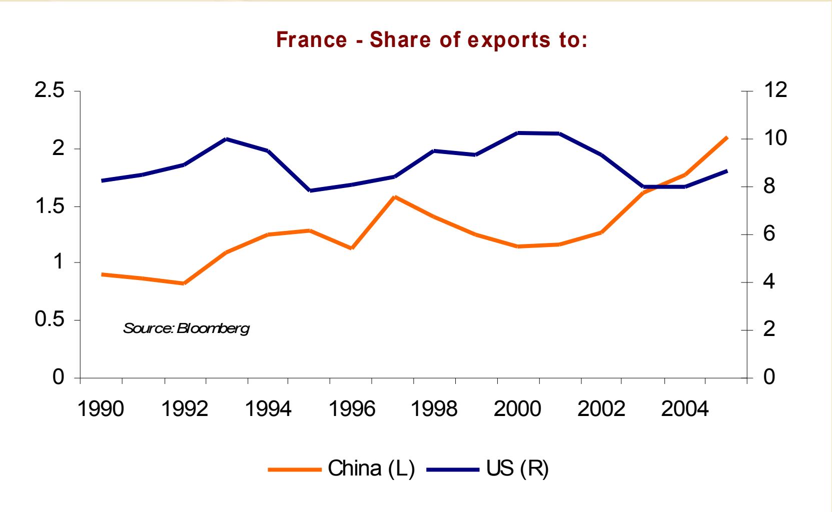
Stock Markets are going to react in a different way than in the past in Europe

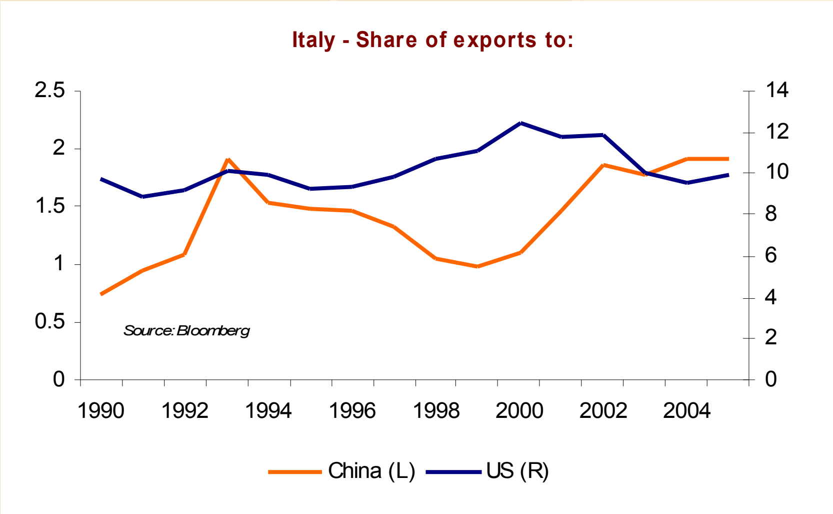
- Central Banks targeting stock market growth and fabricating a bubble
- Internationalization of European companies increase the capacity of profitability to be sheltered in the event of demand shortfall
- Valuations lower than in 2001

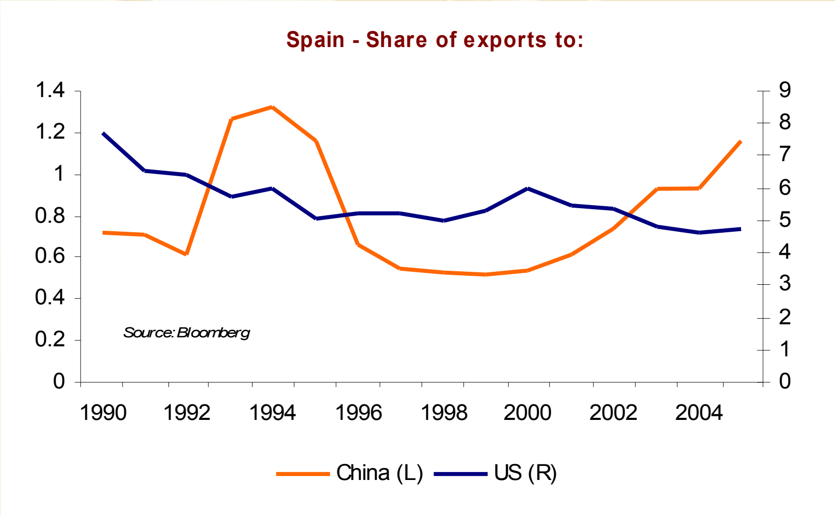


What can be different this time around
5. Exposure to Asia (+)



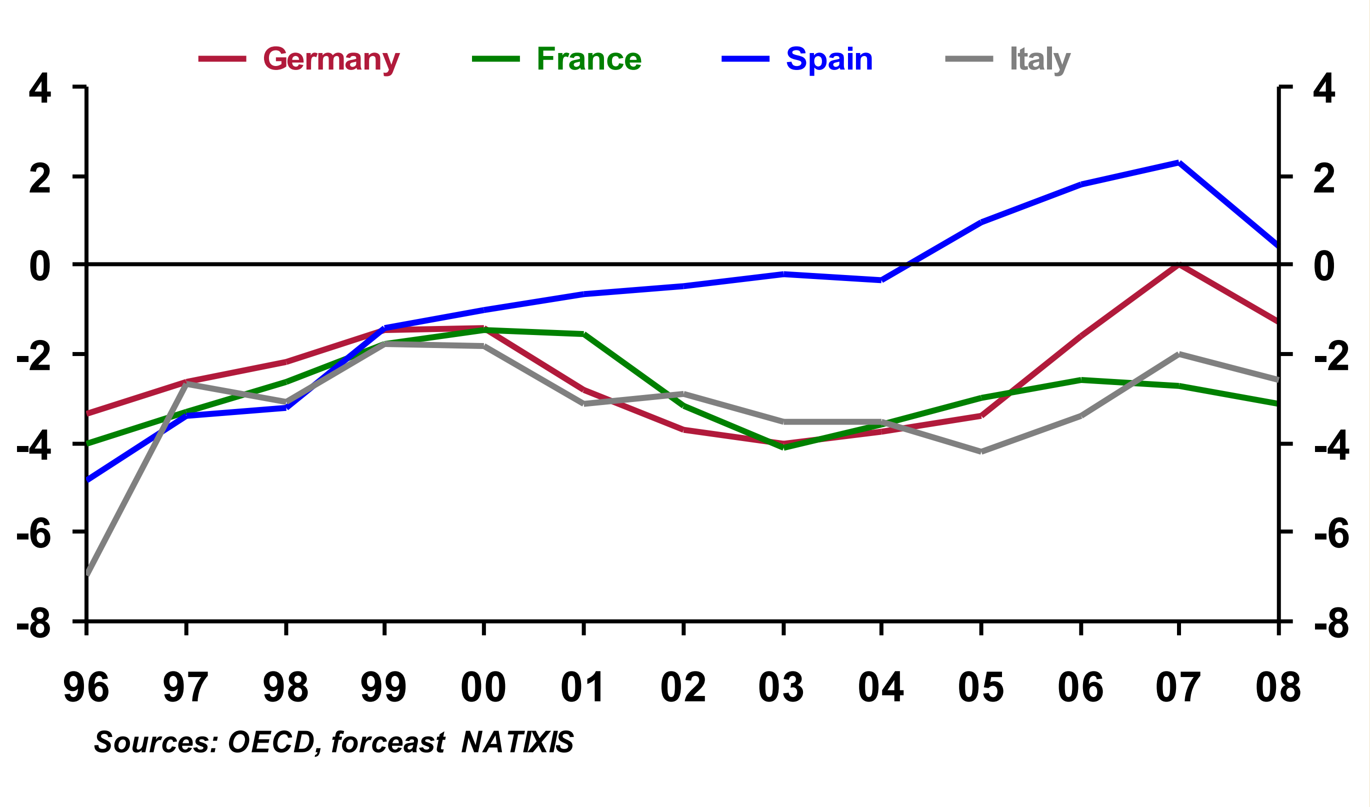






What can be different this time around
6. Fiscal Policy (+)

Public Deficit (% of GDP)



Overall

Historically a US downturn, especially if driven by domestic demand has always triggered a deceleration/recession in Europe

This time around it won't be different

However an analysis of the peculiarities of the current slowdown shows that:

- The crisis will be felt in some countries more than others (Spain: the worst, Germany: the best)
- The EMU economies will react more swiftly than in the past to the slowdown (due to better profitability and less inelastic supply curves)
- Exposure to Asia might also help to reduce the depth of the slowdown…
- Fiscal policy will help