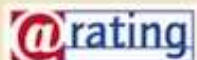




2008 Credit Risk Conference

An Overview for Hong Kong Exporters

Hong Kong, 27 May 2008



Will Japan return to recession?

HSBC 

The world's local bank

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Japan economy outlook

Y-o-Y%	Calendar year				Fiscal Year			
	2006	2007	2008(F)	2009(F)	2006	2007(F)	2008(F)	2009(F)
Real GDP	2.4	2.1	1.2	1.4	2.4	1.6	1.3	1.3
Consumption	2.0	1.4	0.8	1.0	1.7	1.3	0.7	0.9
Private capital investment	4.3	2.4	1.8	3.6	5.7	0.6	2.5	3.3
Residential investment	0.9	-9.5	-0.8	7.2	0.2	-13.6	8.3	3.3
Public capital formation	-8.1	-2.2	-5.9	-3.9	-9.1	-3.1	-4.8	-3.8
Exports	9.7	8.8	5.0	2.3	8.4	8.7	3.8	3.1
Imports	4.2	1.7	1.5	2.5	3.1	1.5	1.8	2.7
Nominal GDP	1.4	1.3	-0.2	1.3	1.6	0.6	0.3	1.3

source: HSBC

Calendar year	2006	2007	2008 (F)	2009 (F)
Current account (trillion yen)	19.9	25.1	29.2	29.1
Industrial Production (Y-o-y%)	4.8	2.8	0.4	0.6
Consumer price (Y-o-y%)	0.2	0	1	0.6
Yen/Dallor rate (term end)	119	112	115	115
Yen/Eurorate (term end)	155	163	155	156
CD 3-month rate (term end %)	0.34	0.55	0.55	0.55
10yr JGB yield (simple interest, term end %)	1.68	1.5	1.5	1.7

source: HSBC

World economy outlook

Global GDP forecast Calendar year, Y-o-y%	2006	2007	2008 (F)	2009 (F)
Global	3.8	3.5	2.6	2.5
US	2.9	2.2	1.5	1.2
EU	2.9	2.7	1.5	1.3
Emerging nations	6.3	6.1	5.7	5.5
Latin America	4.7	4.8	4.1	3.1
Japan	2.4	2.1	1.2	1.4
Asia Excl. Japan	8.9	9	7.7	7.5
China	11.1	11.4	9.7	9.5
Other Asia	7	6.8	5.8	5.7

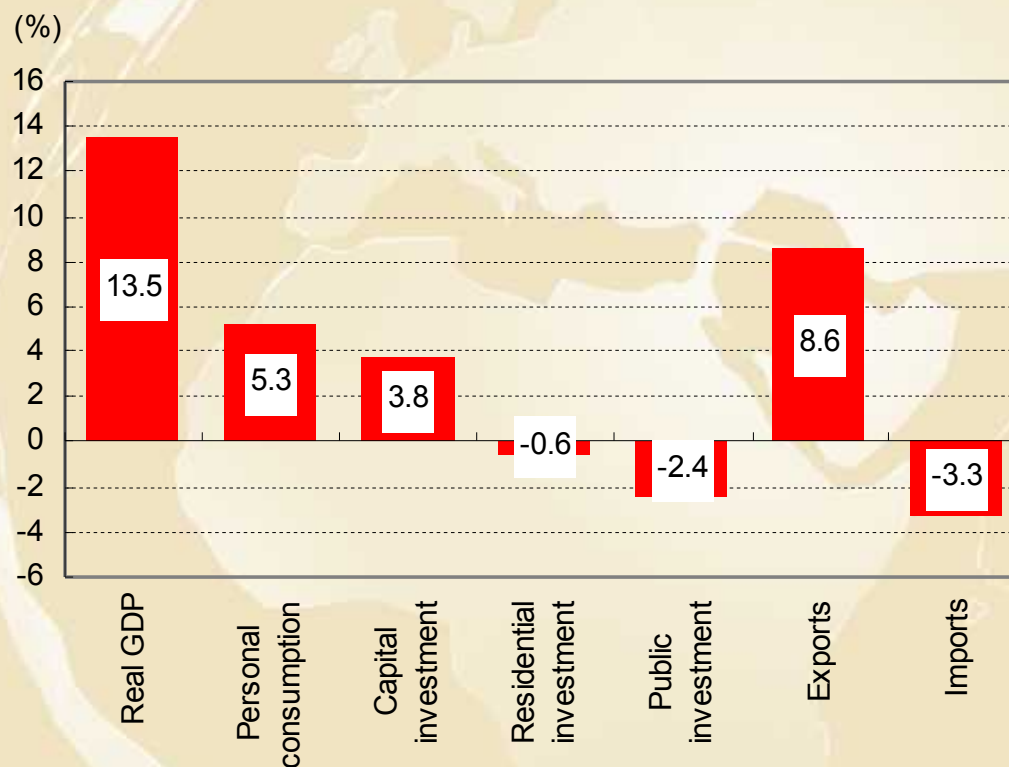
source: HSBC

Focal points of the outlook and our standpoints

1. Sustainability of export led recovery
 - Emerging market countries are taking off, which could limit the negative impact from the U.S. somewhat.
 - Still, U.S. stagnation will impair Japan's export led recovery.
 - High possibility of a slight recession through autumn.
2. Strength of domestic demand
 - The pace of transfer of corporate profit to household income has been very slow.
 - Corporate earnings likely to decline y-o-y in FY2008.
 - Accelerating inflation of necessities should exert deflationary pressure on the economy.

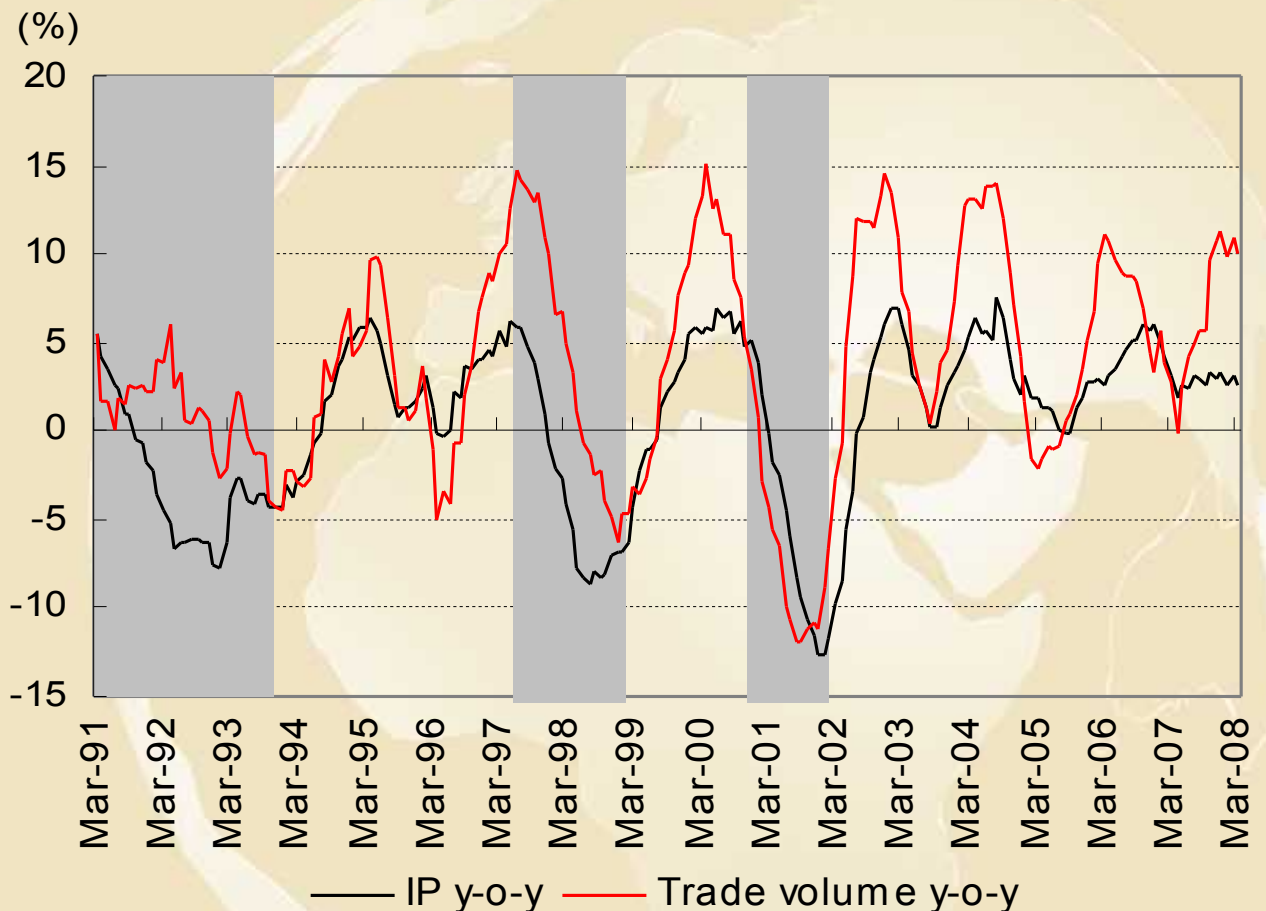
Export led recovery

Contributions to real GDP growth during current recovery since 2002



Source: Cabinet Office

Manufacturers' activity and economic cycle

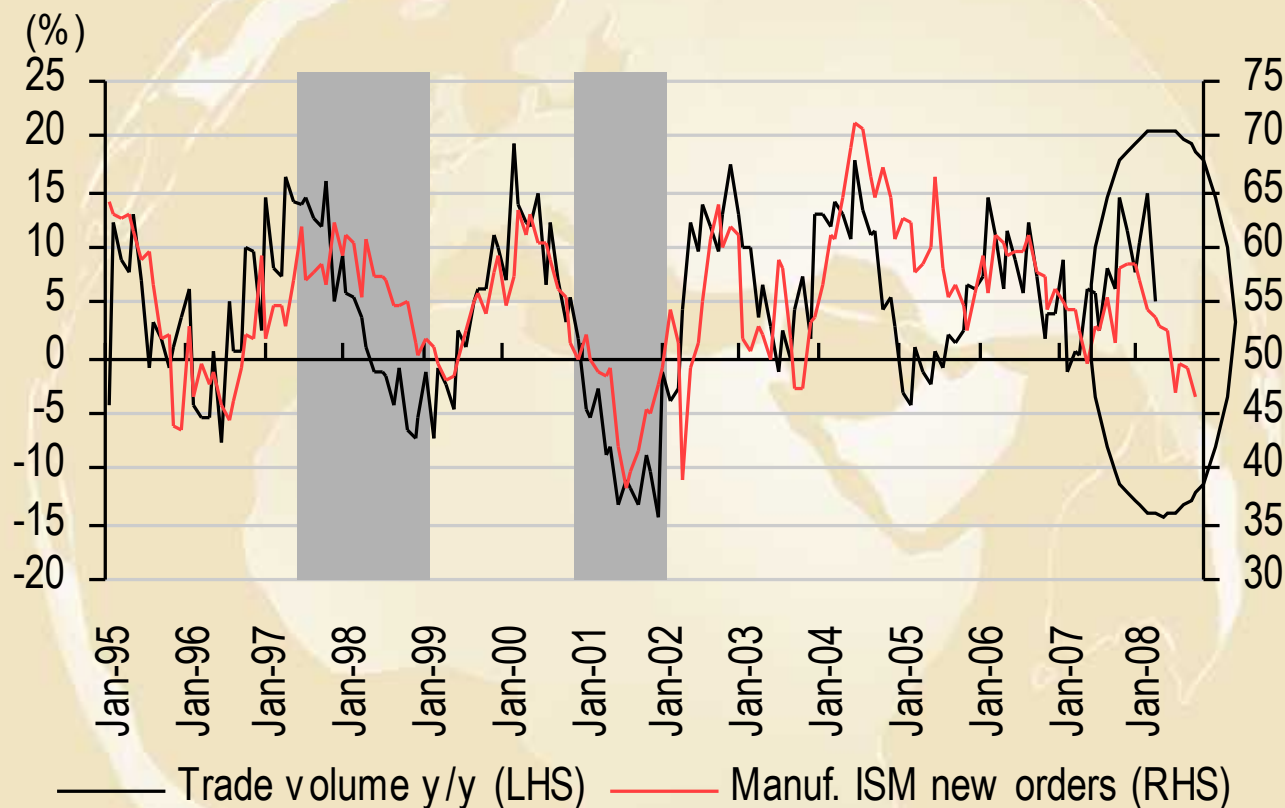


Sources: MoF, METI

※3mma

Trade volume should decline y-o-y around summer

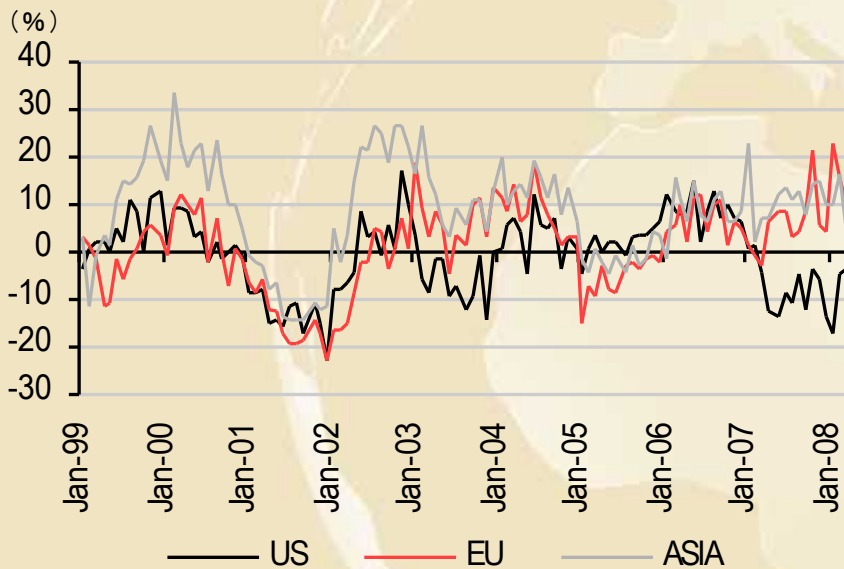
Trade volume y-o-y and ISM index



Sources: MoF, ISM ※ISM new order index leads by 6 months

Signs of re-coupling

Export volume y-o-y by region



Source: MoF

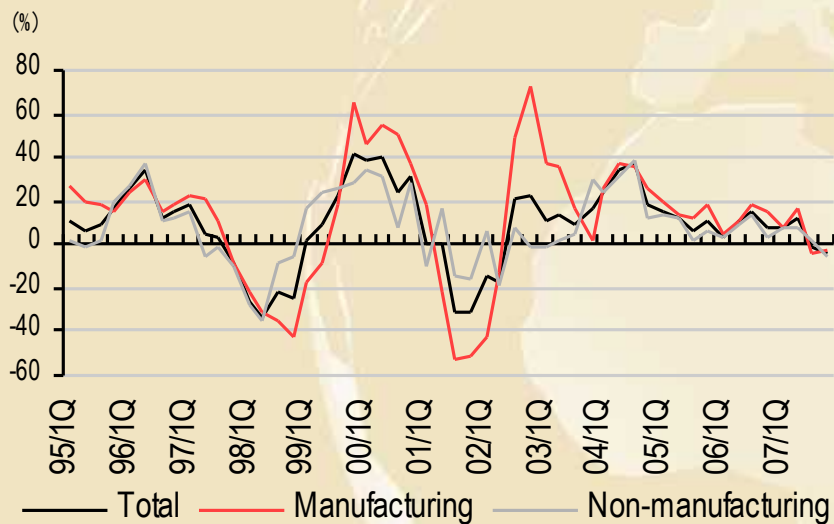
US final demand is the key



Sources: MoF, Datastream

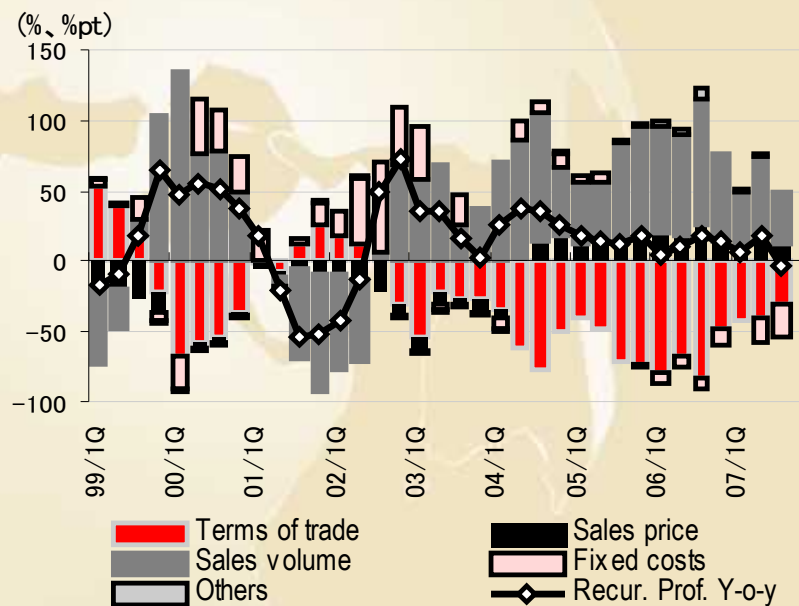
Profits declining y-o-y

Recurring profit y-o-y



Source: MoF

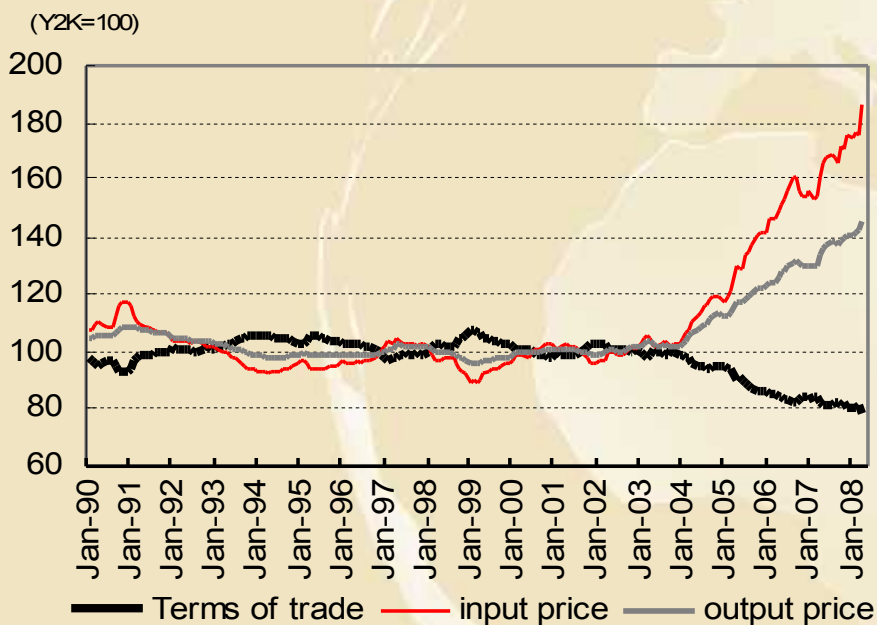
Factor analysis of manufacturers' recurring profit



Source: MoF

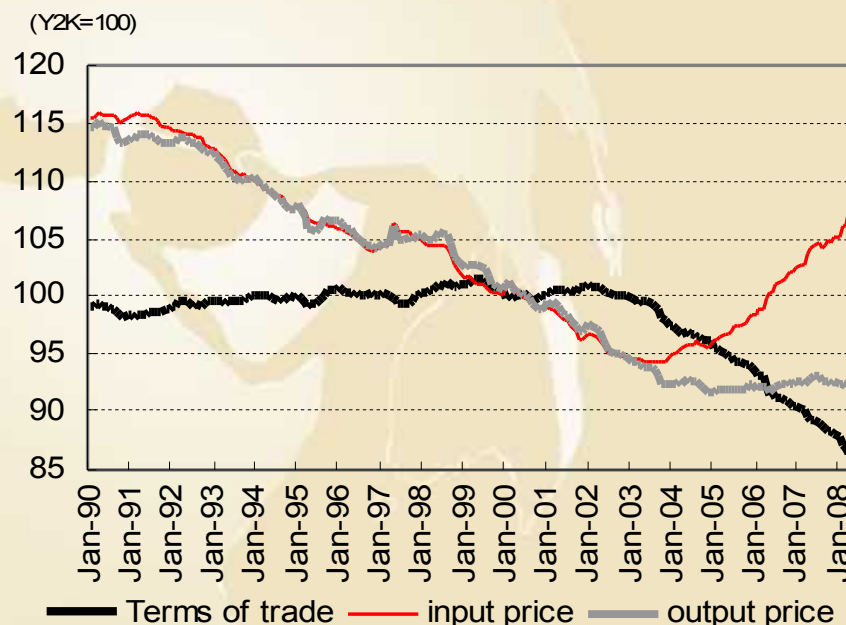
Deterioration of terms of trade

Basic materials



Source: BoJ

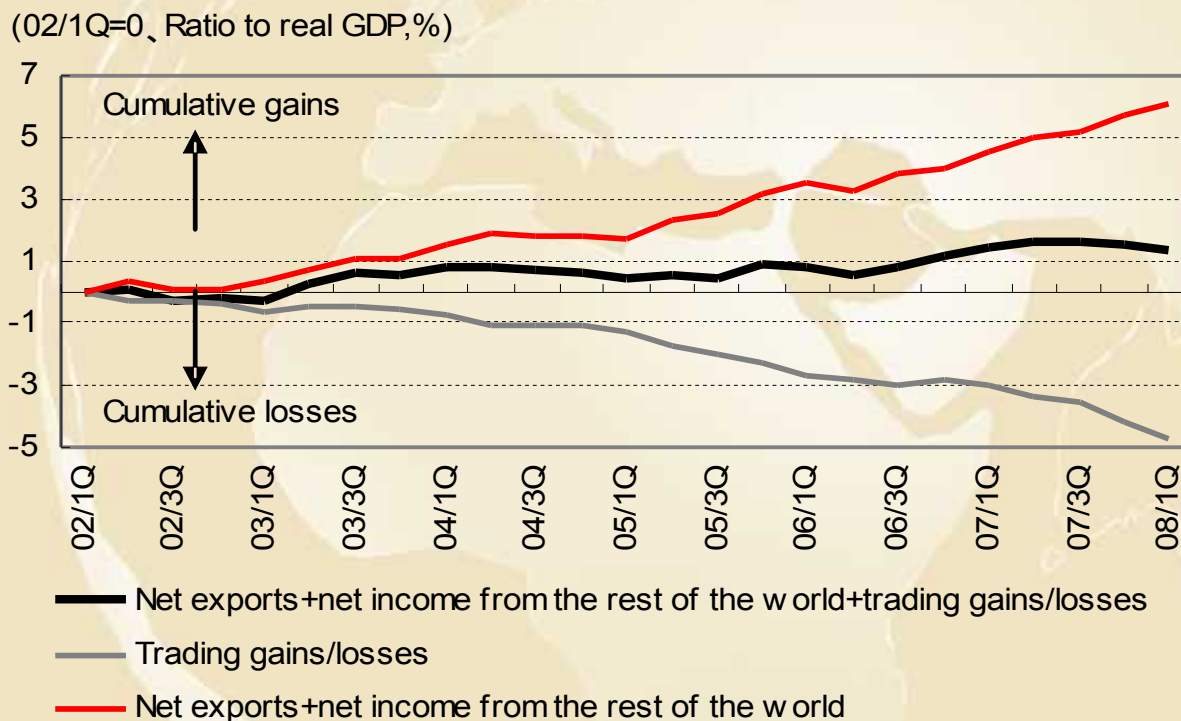
Processing



Source: BoJ

Negative impact limited so far

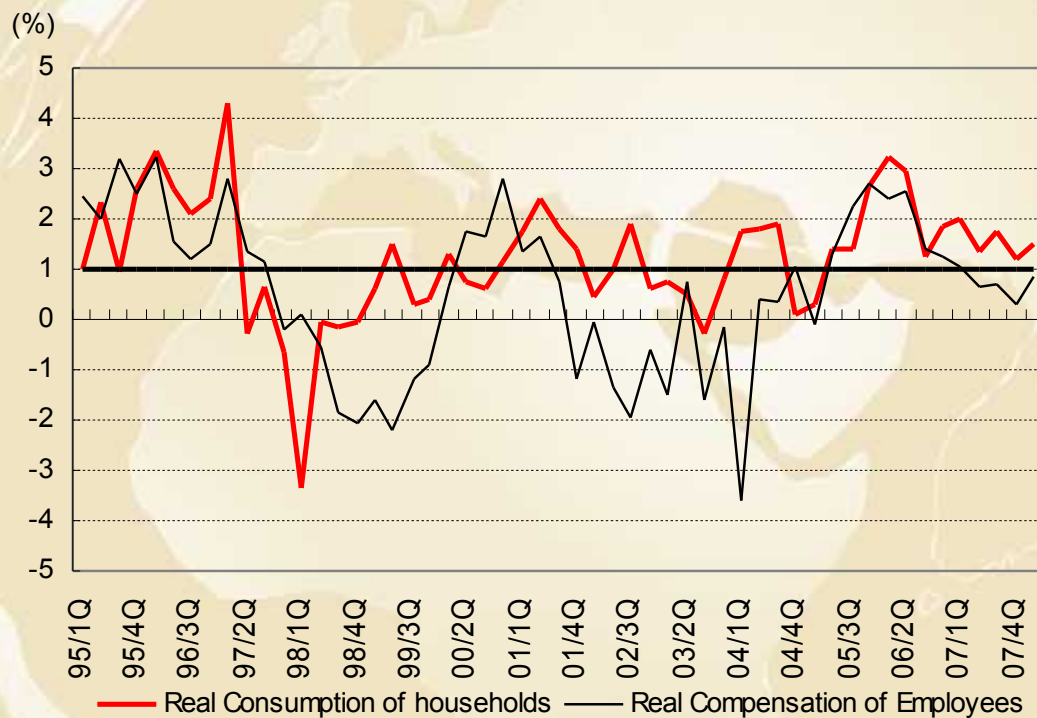
Trading gains/losses in terms of trade and income from the rest of the world



Source: Cabinet Office

Private consumption trend is slightly above 1%.

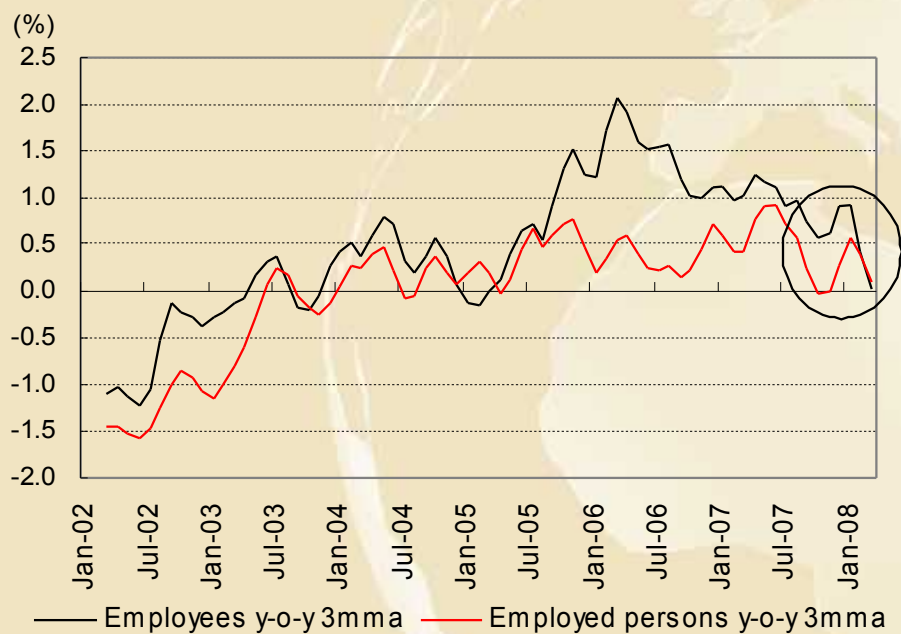
Ratchet effect evident



Source: Cabinet Office

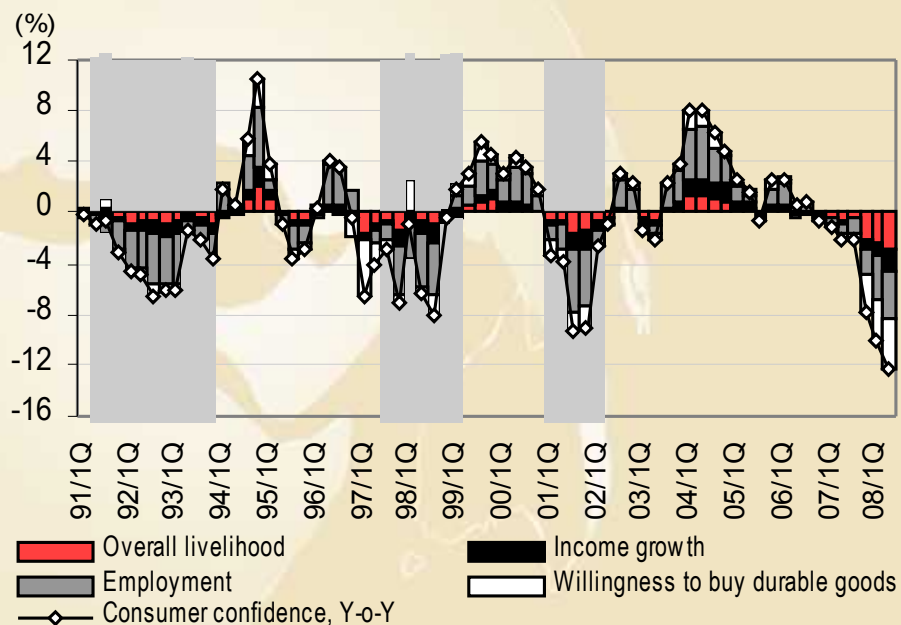
Downside risks to private consumption

Soft labor market



Source: MIC

Deterioration of sentiment

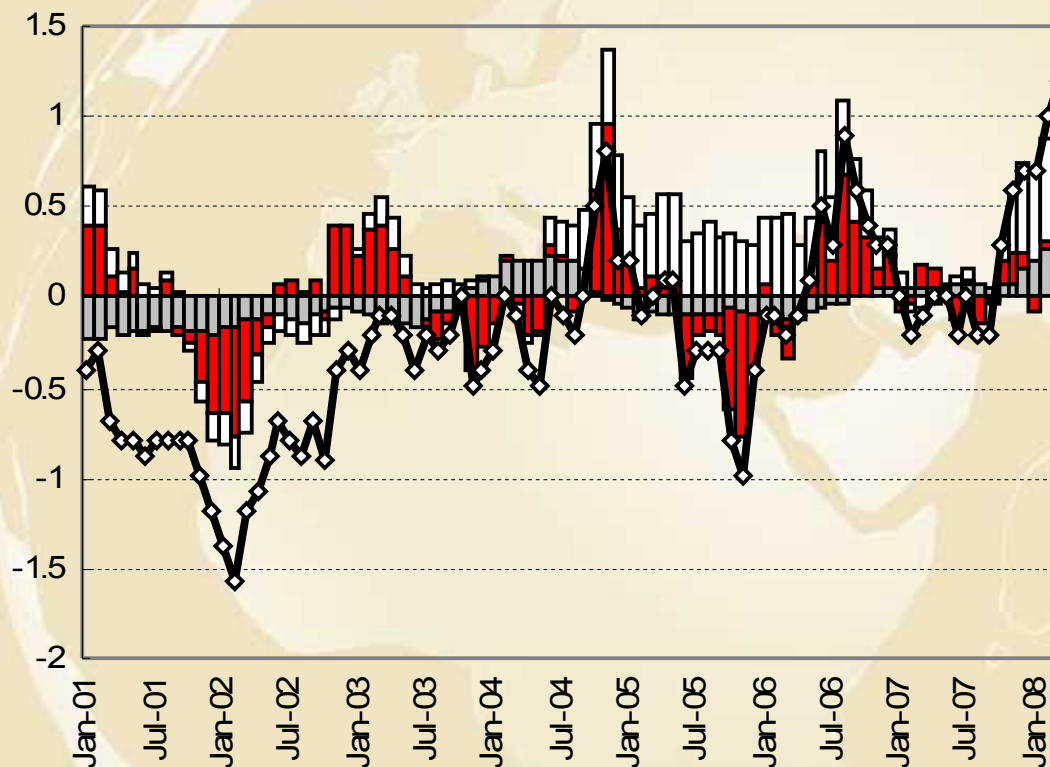


Source: MIC

CPI inflation accelerating

CPI y-o-y and contributions of foods and oil products

(%)



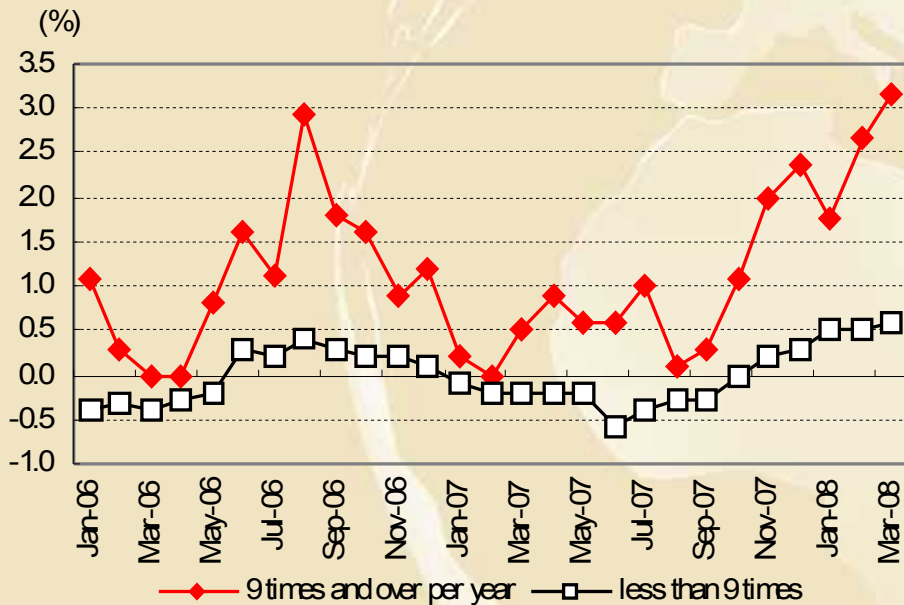
- Contribution of oil products
- Contribution of fresh foods
- Contribution of foods exc. fresh foods
- CPI y-o-y

Source: MIC

CPI y-o-y

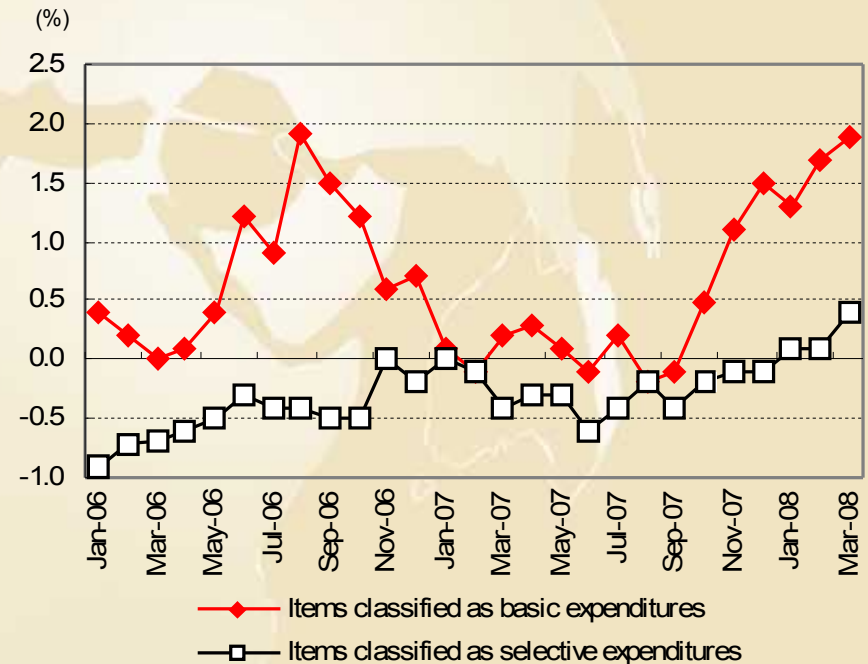
Inflation of necessities of life

Index by Annual Purchase Frequency Classes



Source: MIC

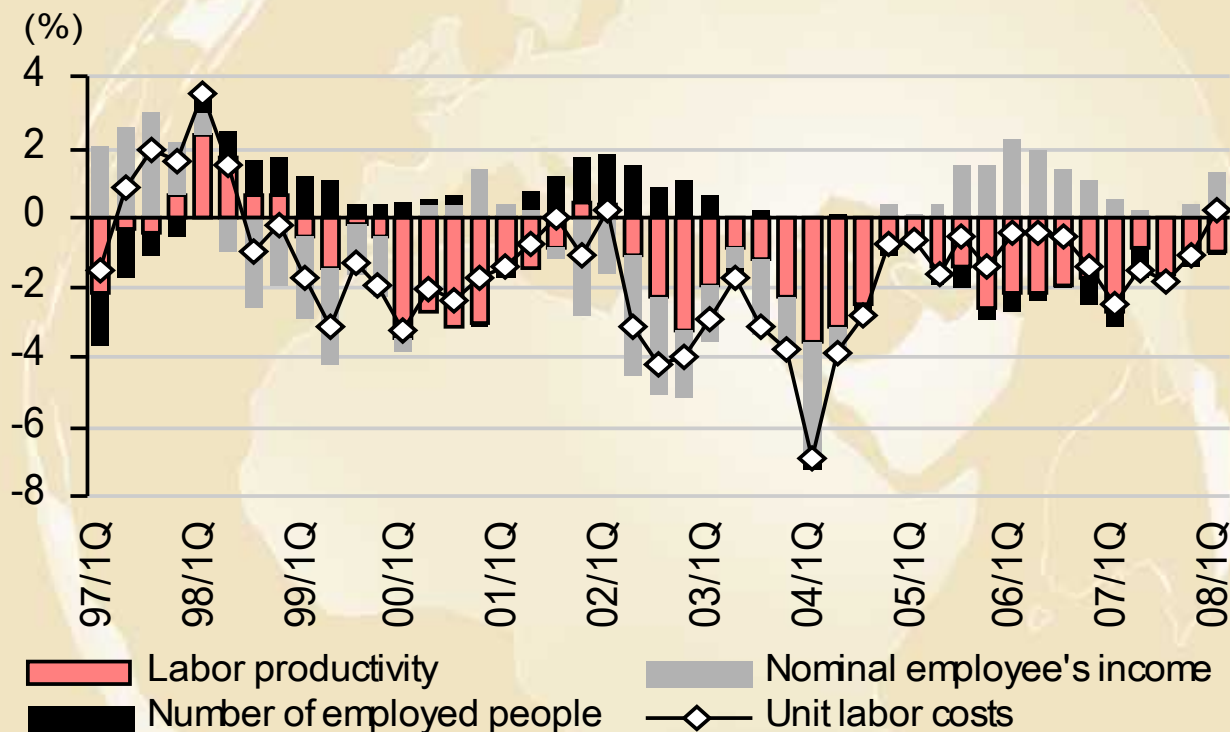
Index by Goods Groups Classified by Elasticity to Living Expenditure



Source: MIC

No inflationary pressure from wage front

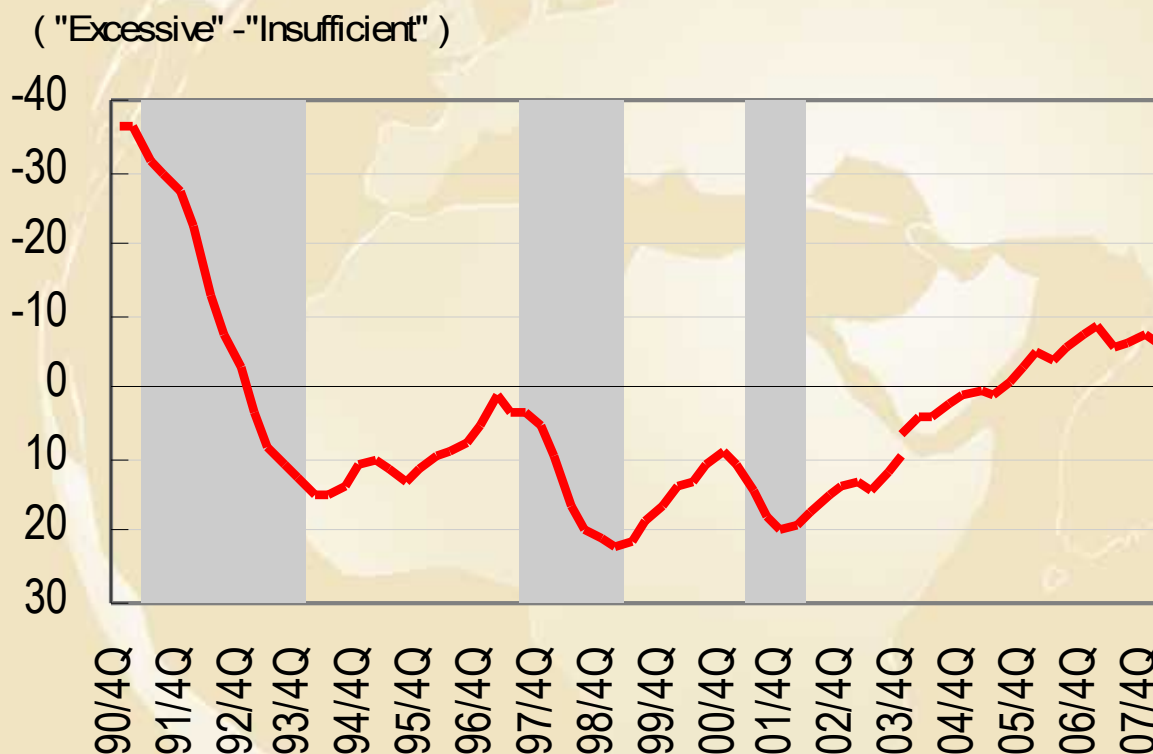
Unit labor costs y-o-y



Source: MIC, Cabinet Office

Little inflationary pressure from GDP gap

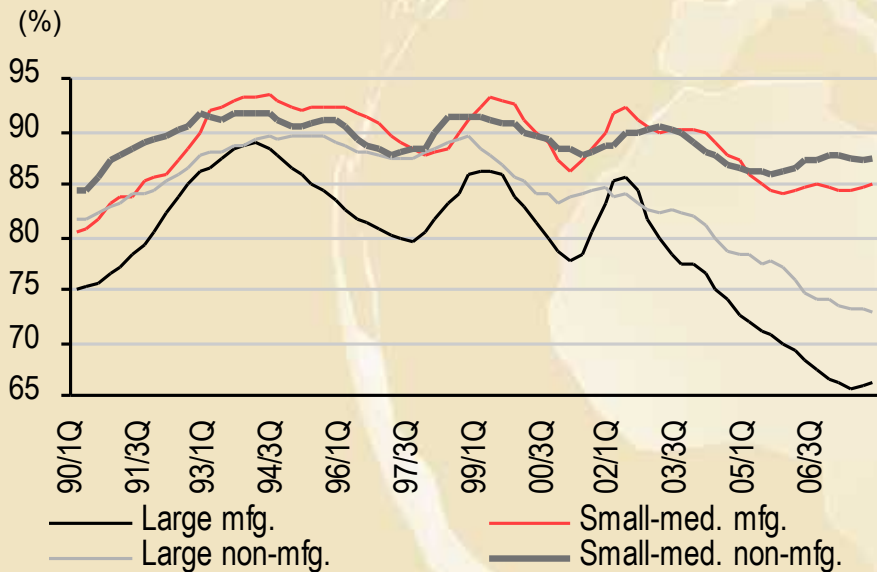
Weighted average DI of production capacity and employment



Source: BoJ

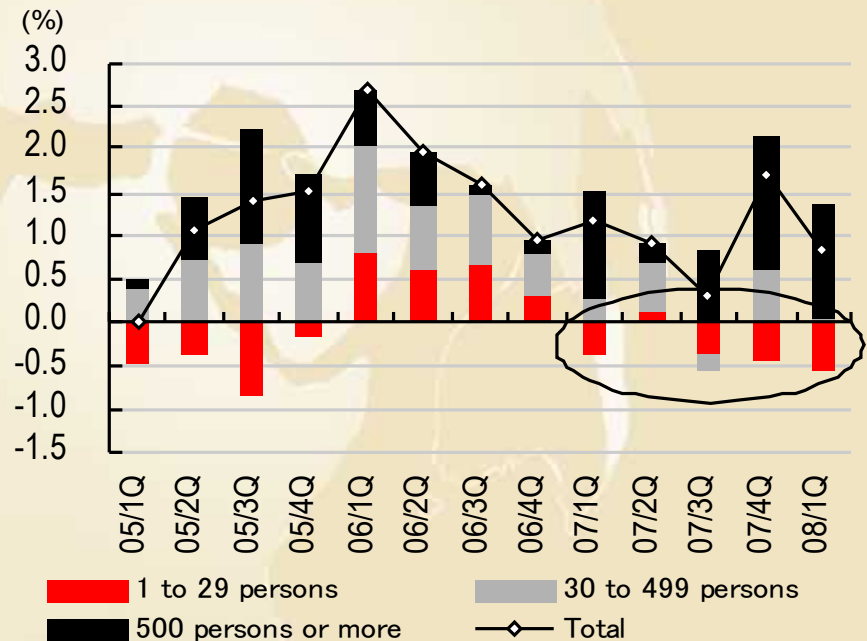
Downside risk from SMEs

Breakeven points by sector and company size



Source: MoF

SME employees declining y-o-y

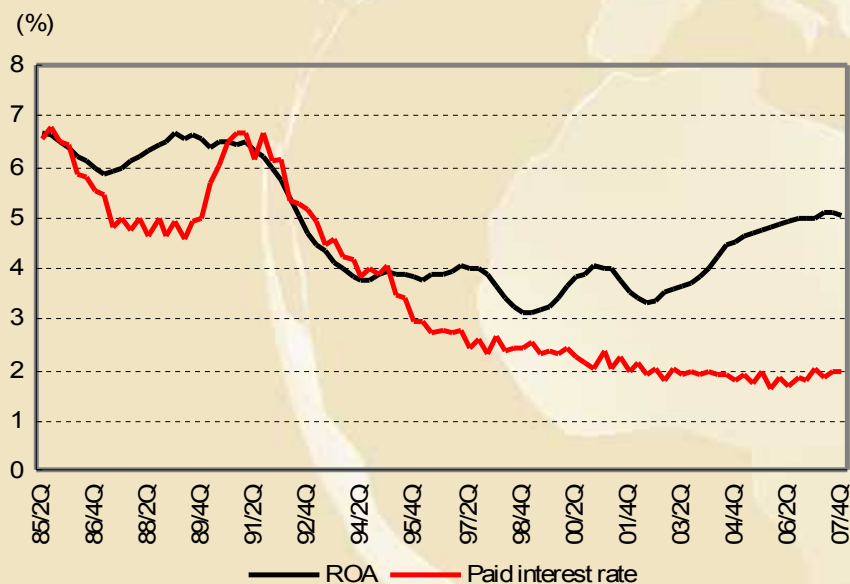


Source: MIC

Buffer against deeper recession

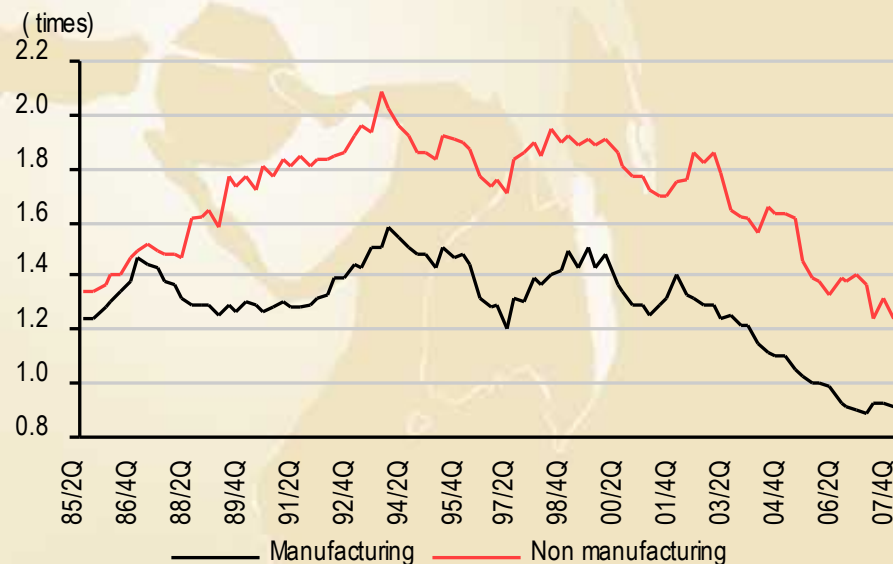
Balance sheet adjustment pressure has disappeared

ROA and paid interest rates



Source: MoF

Interest bearing debt/sales ratio



Source: MoF

BoJ adopts neutral stance amid strong uncertainty

Current policy stance

- The Bank will carefully assess the future outlook for economic activity and prices, closely considering the likelihood of its projections, as well as factors posing upside or downside risks, and will implement its policies in an accordingly flexible manner.

Forecasts of majority of policy board members

	Real GDP	Domestic CGPI	CPI (ex fresh foods)
FY 2008	+1.4 ~ +1.6 <+1.5>	+2.4 ~ +2.8 <+2.5>	+0.9 ~ +1.1 <+1.1>
Forecasts made in October 2007	+1.9 ~ +2.3 <+2.1>	+0.9 ~ +1.2 <+1.0>	+0.2 ~ +0.4 <+0.4>
FY 2009	+1.6 ~ +1.8 <+1.7>	+1.3 ~ +1.8 <+1.5>	+0.8 ~ +1.0 <+1.0>

Source: BoJ

Disclosure appendix

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