

Market Volatility: Maintaining Perspective for Asia

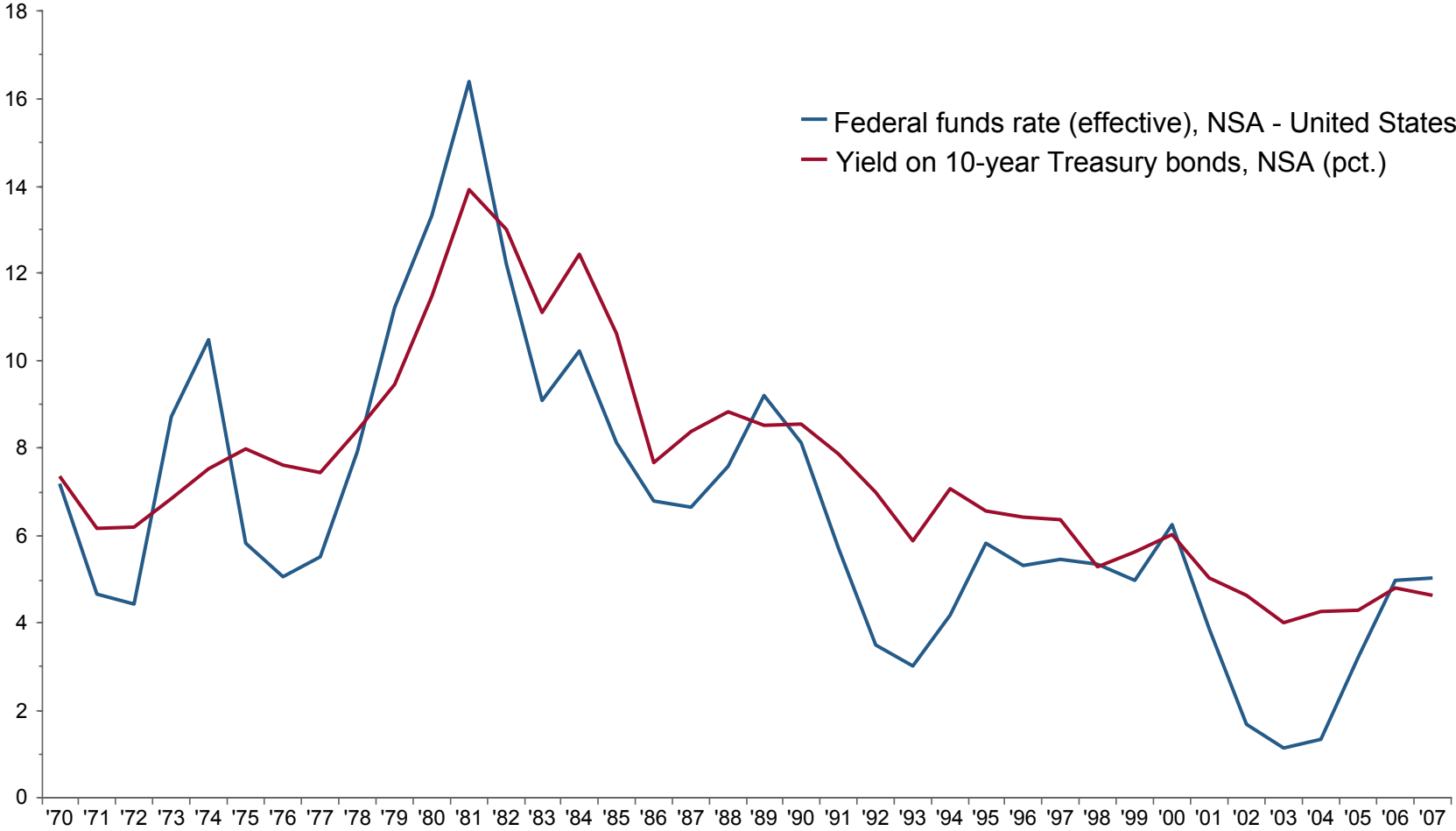
Lito Camacho
Vice Chairman; Credit Suisse Asia-Pacific
November 2008

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DISCLOSURE APPENDIX. FOR OTHER IMPORTANT DISCLOSURES, PLEASE REFER
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Agenda

- **How did we get here?**
 - Factors creating the bubble
 - Game over
 - Contagion effects
- **Global Responses**
- **Impact on Asia**
 - China
 - Japan
 - India
 - South East Asia
- **Conclusion**

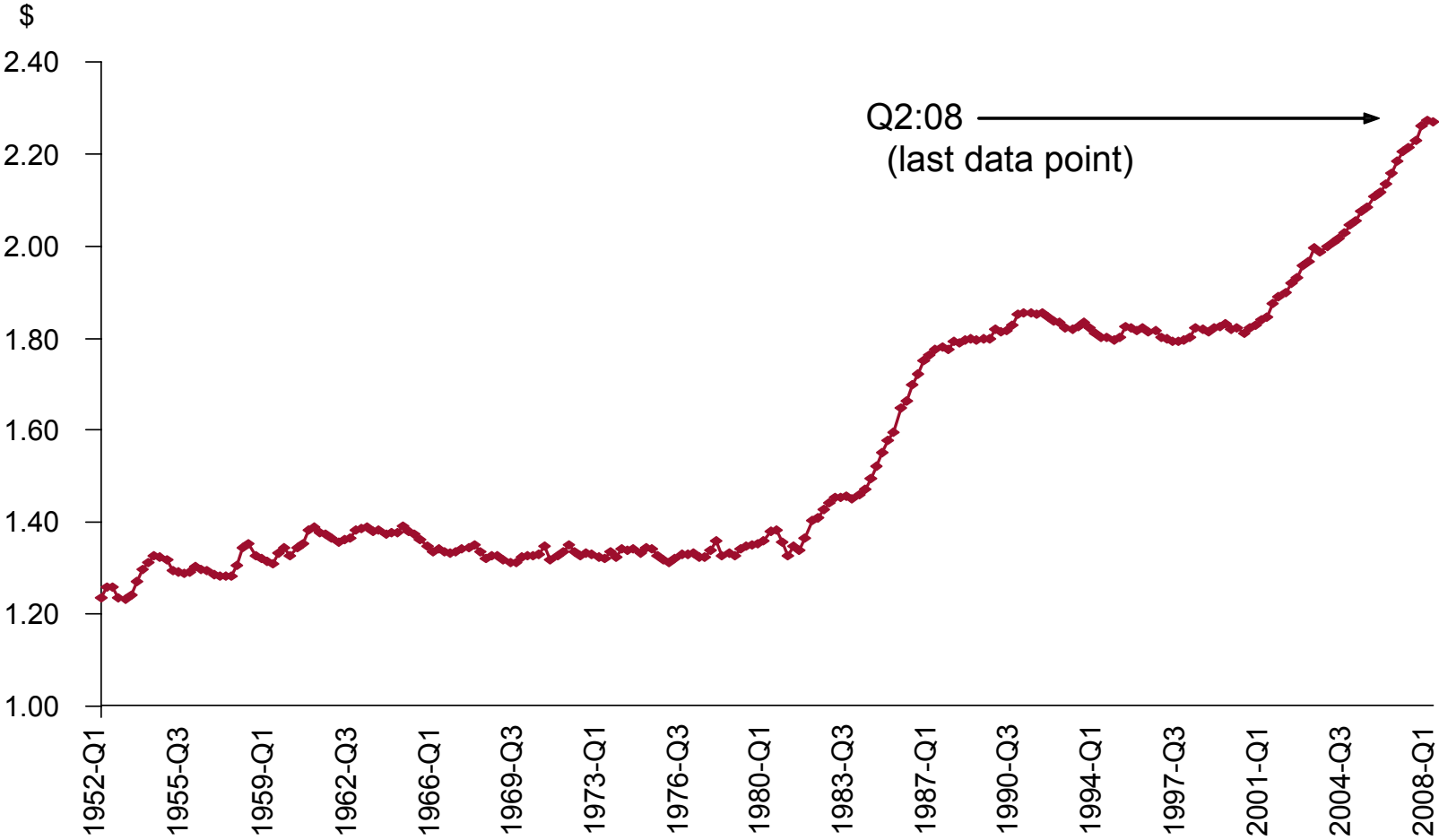
Period of low interest rate environment



Source: US Federal Reserve System; Factset

All forms of debt exploded

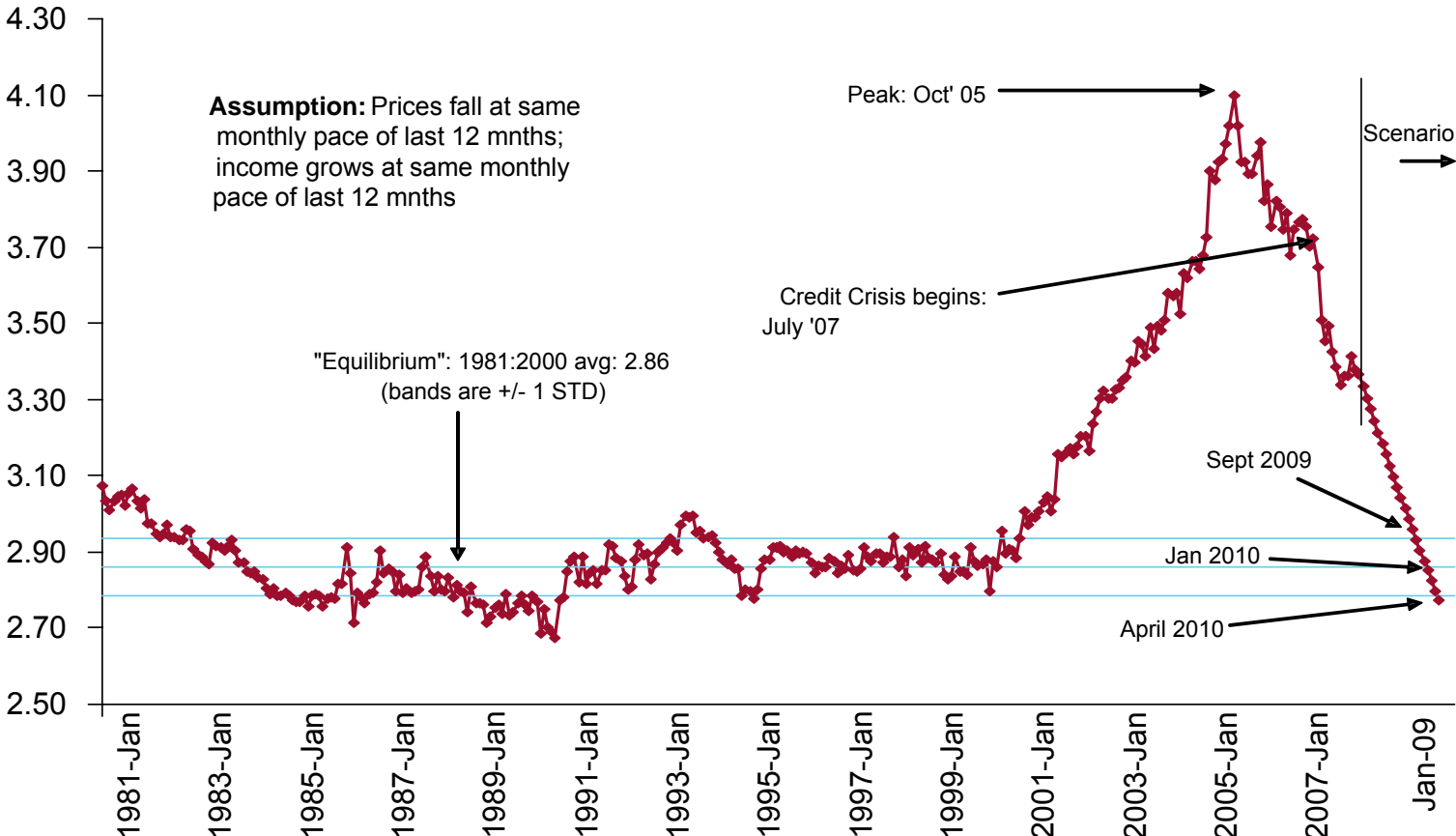
Ratio of Non-Financial Debt to GDP



Sources: Federal Reserve, Credit Suisse

...led to easy credit and inflated housing prices until the crisis...

Ratio of median existing single-family home prices/median family income



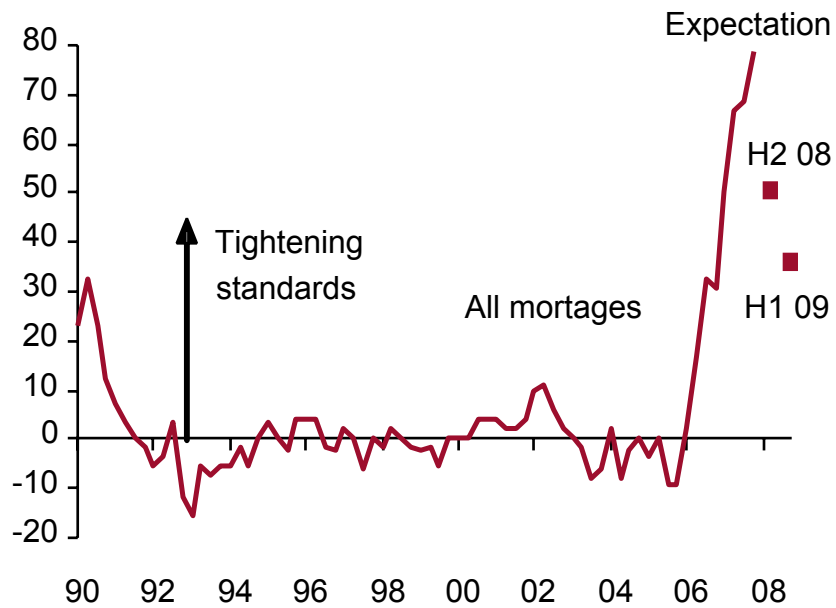
Sources: NAR, Census, Credit Suisse

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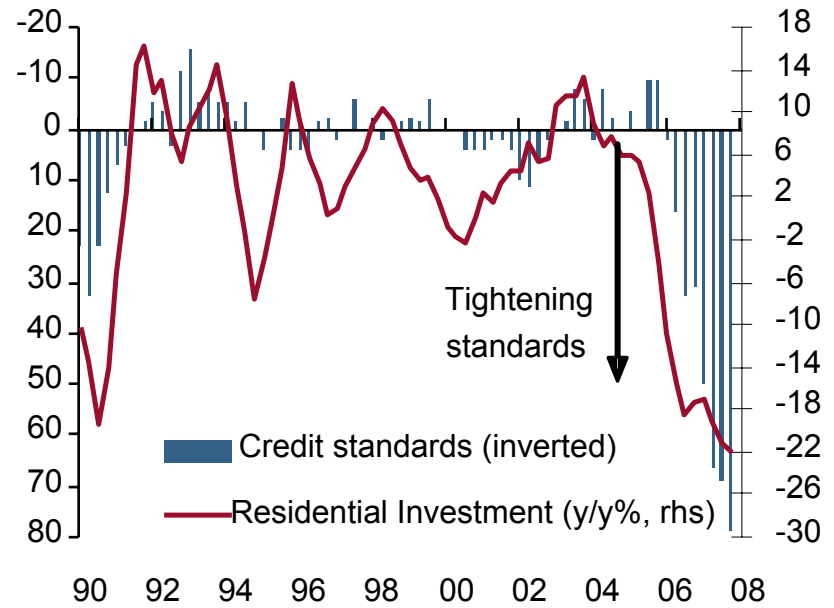
... the credit crunch: tighter mortgage lending...

- Net percentage of domestic respondents tightening credit standards on mortgages to individuals

Lending survey: Credit standards on mortgages



Credit Standards on Mortgages vs. Residential Investment

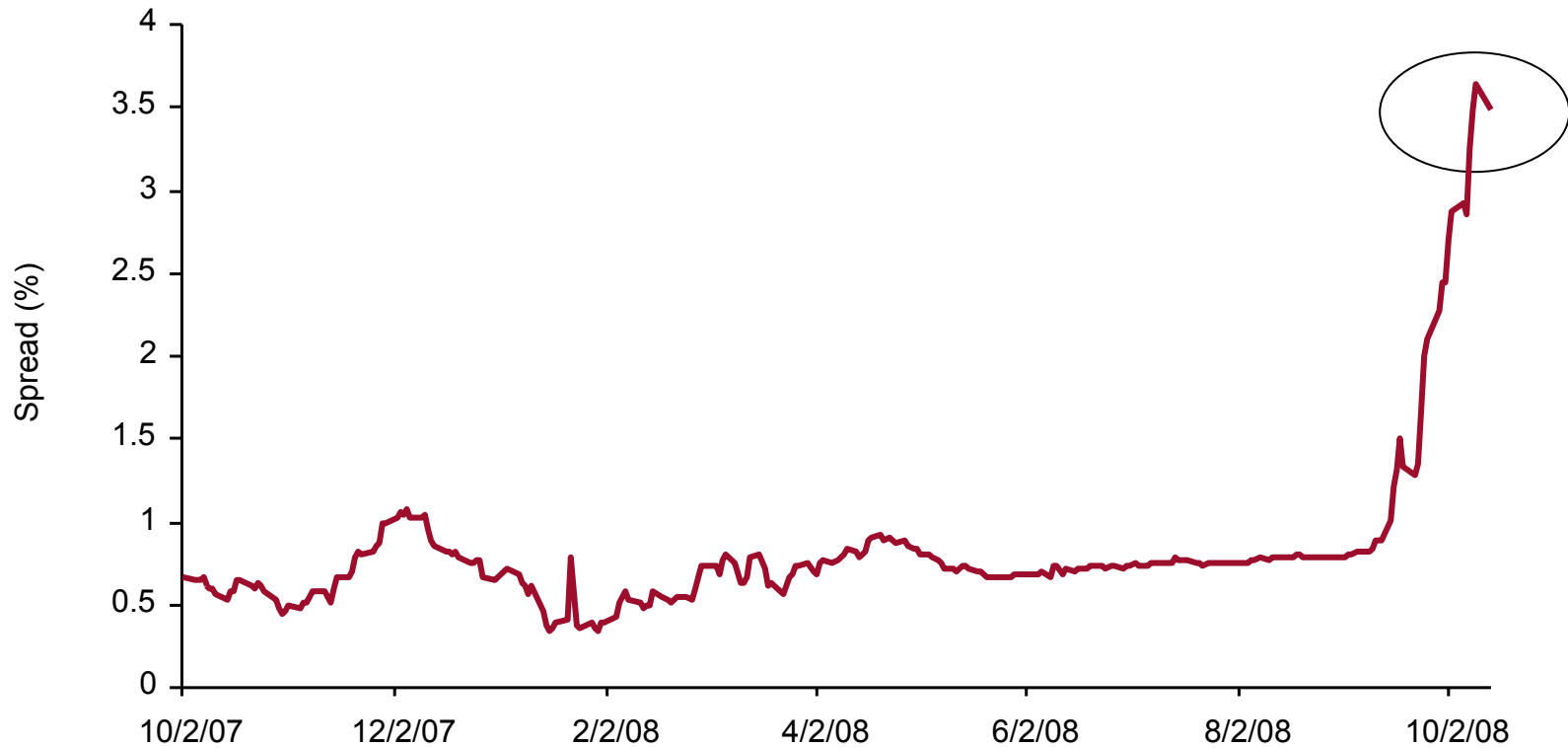


Sources: Federal Reserve; BEA; Haver Analytics; Credit Suisse

...markets became jittery and counterparty risks ratcheted up

3M LIBOR-OIS Spread

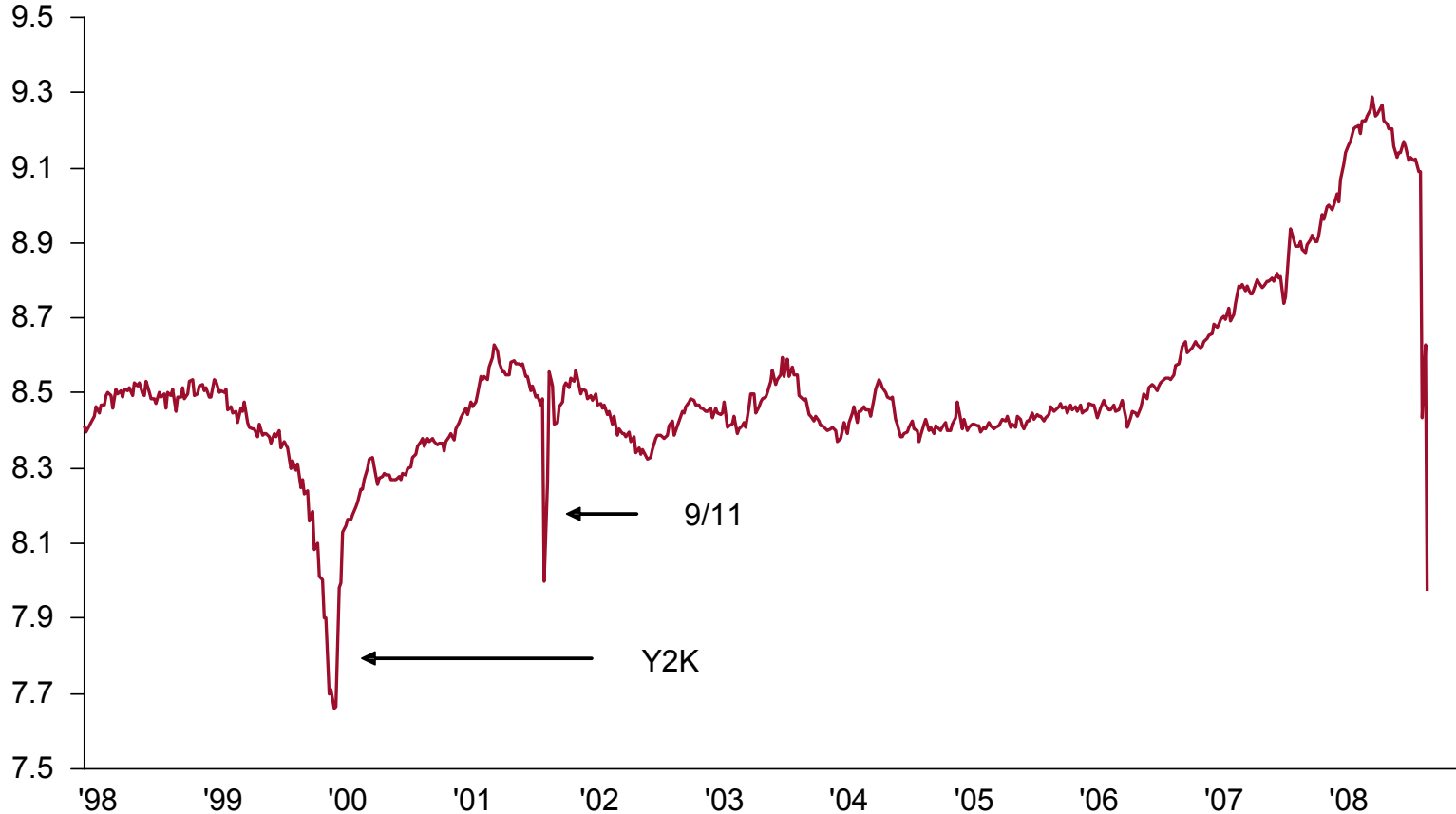
Libor rates as of 10-14-08



Sources: Bloomberg, Credit Suisse

Money multiplier collapses

Ratio of M2 to Monetary Base



Sources: Federal Reserve, Credit Suisse



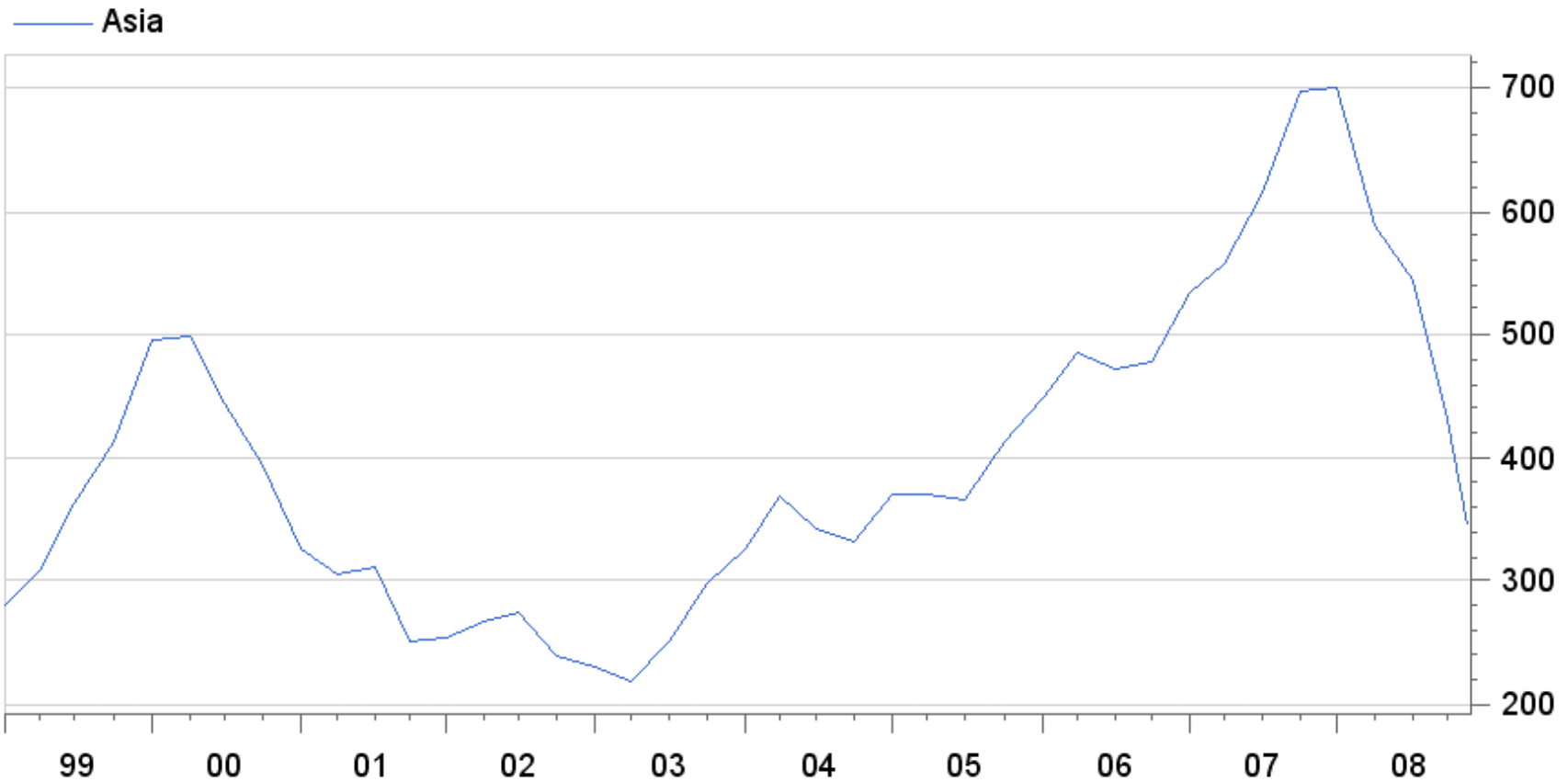
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Asia stock markets reflecting contagion

FactSet Aggregates - Asia
Price Index (U.S. Dollar) - Quarterly
Dec 31, 1998 - Nov 7, 2008

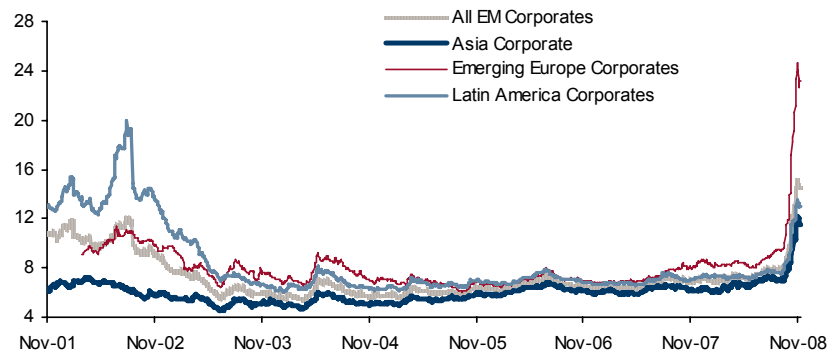
High: 699.03
Low: 218.69
Last: 345.30



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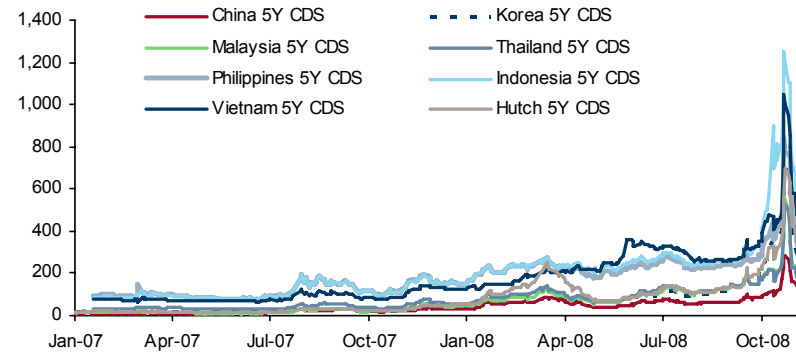
Spreads and credit protection rates widened considerably

Emerging Market Dollar Bond Spreads



Source: Credit Suisse Emerging Markets Corporate Index

Credit Default Swap Rates



Source: Credit Suisse

Global Responses

- **Interest rate reductions**
 - US Fed cuts interest rates three times since Aug 2007
- **Open Market Operations**
 - Government intervention in currency markets e.g. South Korea, Japan, etc.
 - Term Auction Facility (“TAF”) program
 - Primary Dealer Credit Facility
 - Commercial Paper Funding Facility
 - Central banks widening the band of acceptable collaterals
- **Bailouts and nationalization of banks**
 - Fannie Mae, Freddie Mac, AIG, Northern Rock, etc.
 - TARP program
 - Injection of funds by US Fed into banks e.g. JP Morgan, Citibank, etc.
 - Europe: UBS, ING, Fortis, Dexia, Hypo, etc.

Global Responses

■ Fiscal Stimulus

- USA: US\$150BN (second stimulus package proposed to Congress)
- South Korea: US\$11BN
- Australia: US\$7.4BN
- China : US\$586BN

■ Deposit guarantees by governments

- Asia and Europe
- Temporary increase in FDIC coverage in the US

■ Market interventions

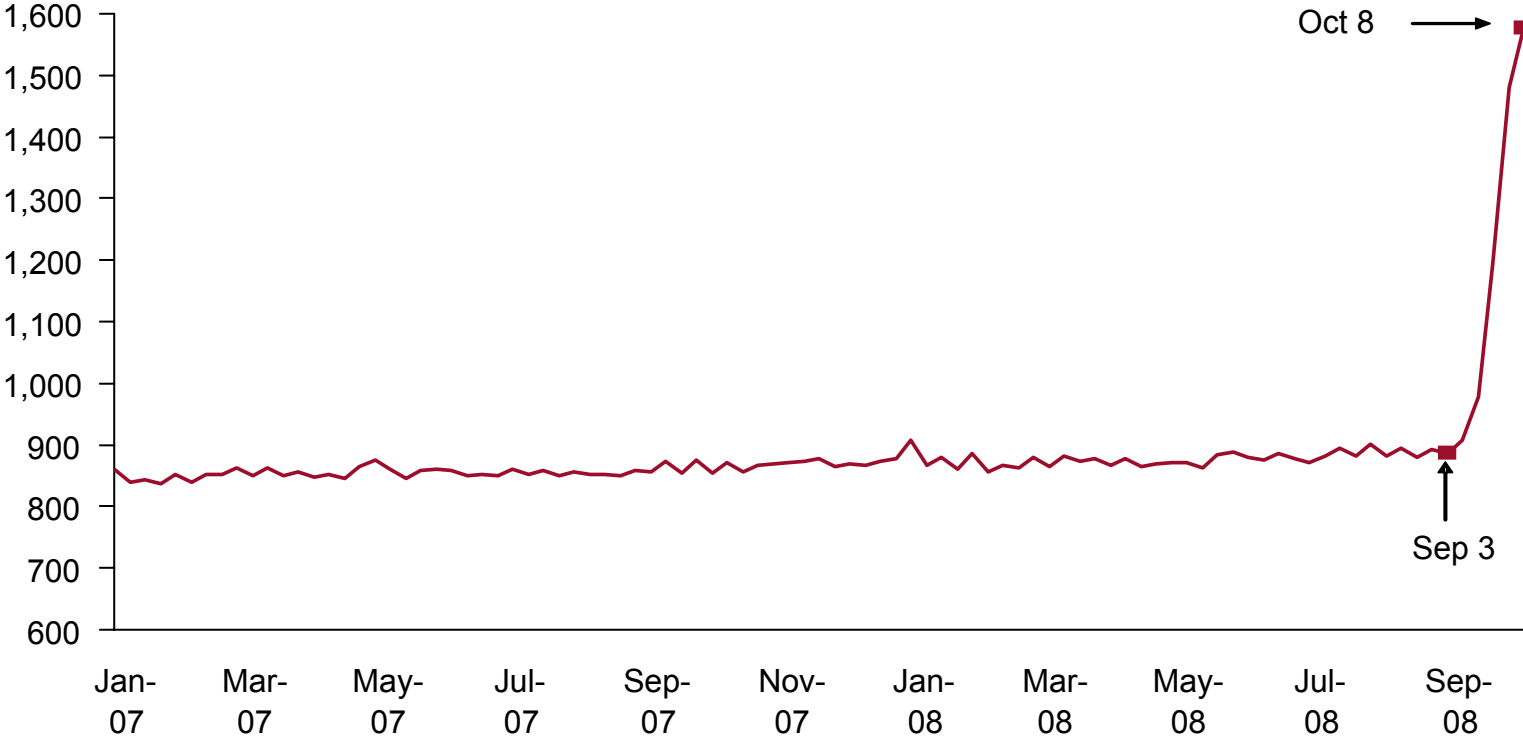
- Short selling bans
- Shut down of stock exchanges e.g. Indonesia
- Suspension of mark-to-market accounting rules

■ Inter-government and multi-lateral facilities

- ASEAN + 3 swap agreement
- Swap lines between the US with Singapore, Brazil, Mexico and South Korea
- IMF program for Ukraine to Hungary and Iceland

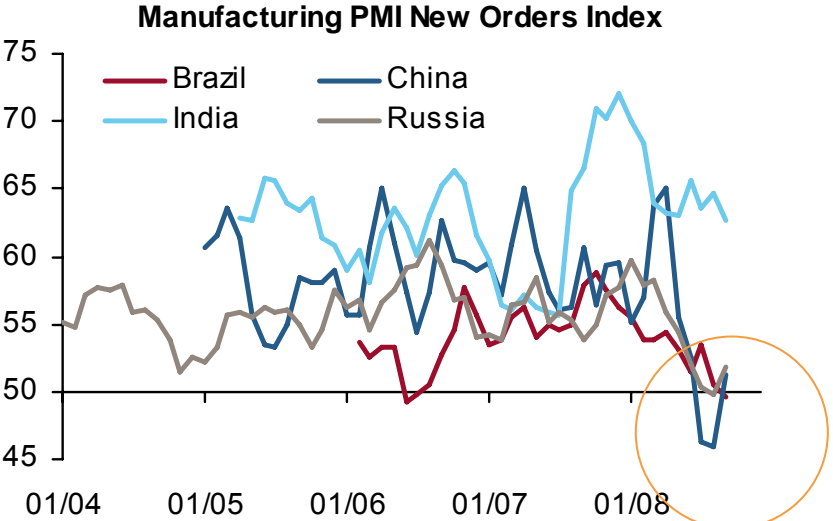
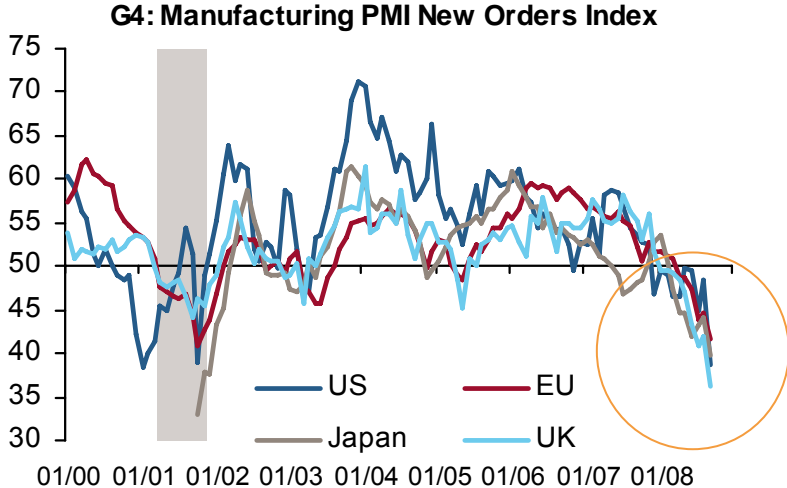
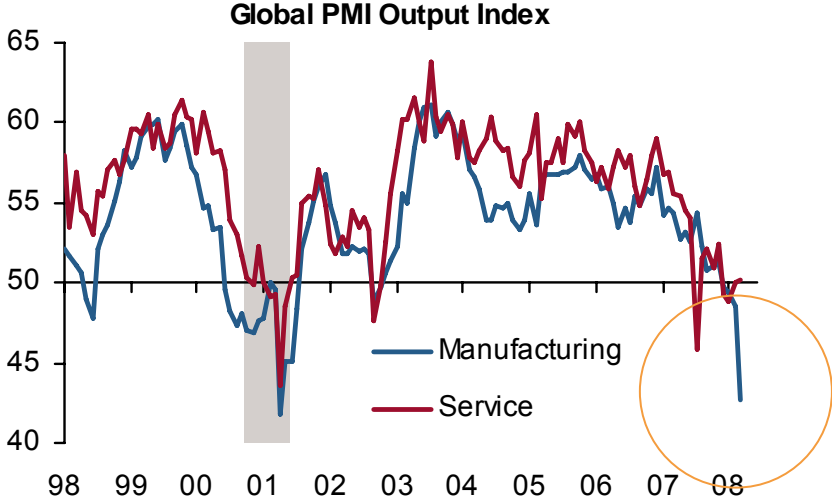
Conventional monetary easing remains inadequate

Reserve Bank Credit: \$ billions



Sources: Federal Reserve, H.4.1; Credit Suisse

Recent lead indicators point to a global retrenchment

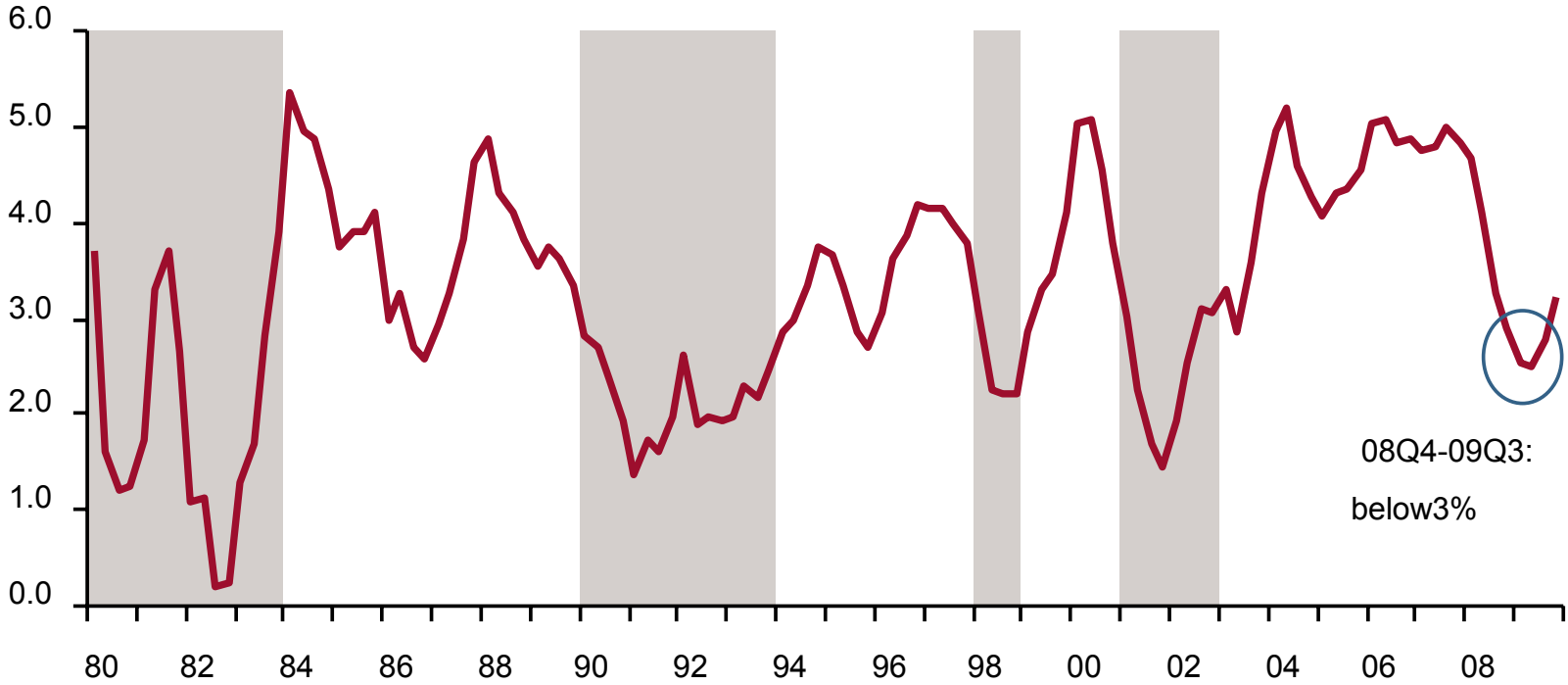


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... and a global recession

Global GDP (y/y%)



Note: We use the IMF's definition of global recession being global growth dropping to 3% or below

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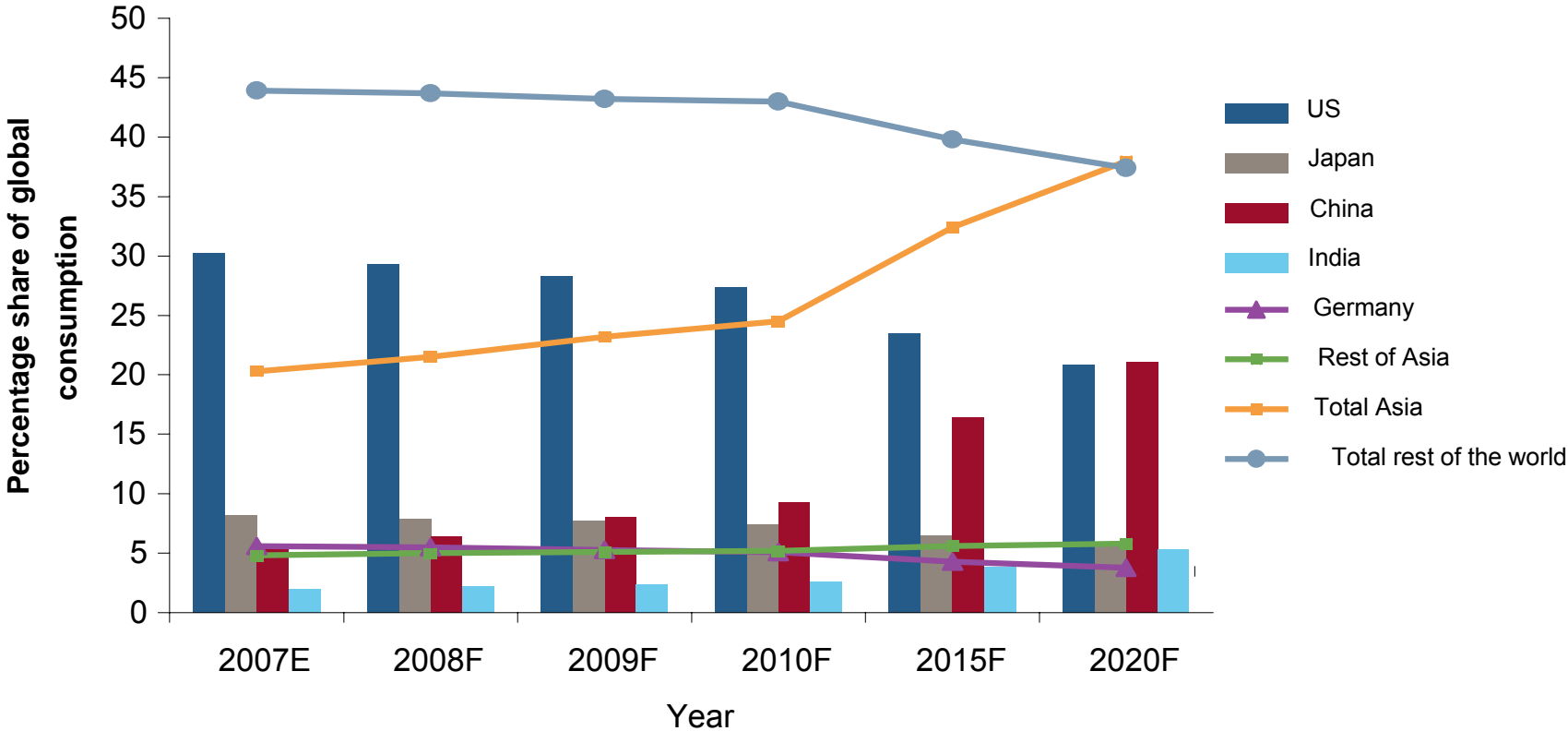
Impact on Asia

APAC to remain resilient

- **Asian Financial Crisis**
 - Corporate balance sheets are stronger
 - Asian governments better prepared
- **Banking system more robust and better capitalized**
 - Consolidation of the banking sector
 - NPLs substantially reduced
 - High liquidity: Loan to Deposit ratio below 100%
- **Stronger fiscal position**
- **Robust FX reserves**
- **Strong domestic consumption**
- **Lower commodity prices**

Percentage share of Asian regional consumption will continue to grow

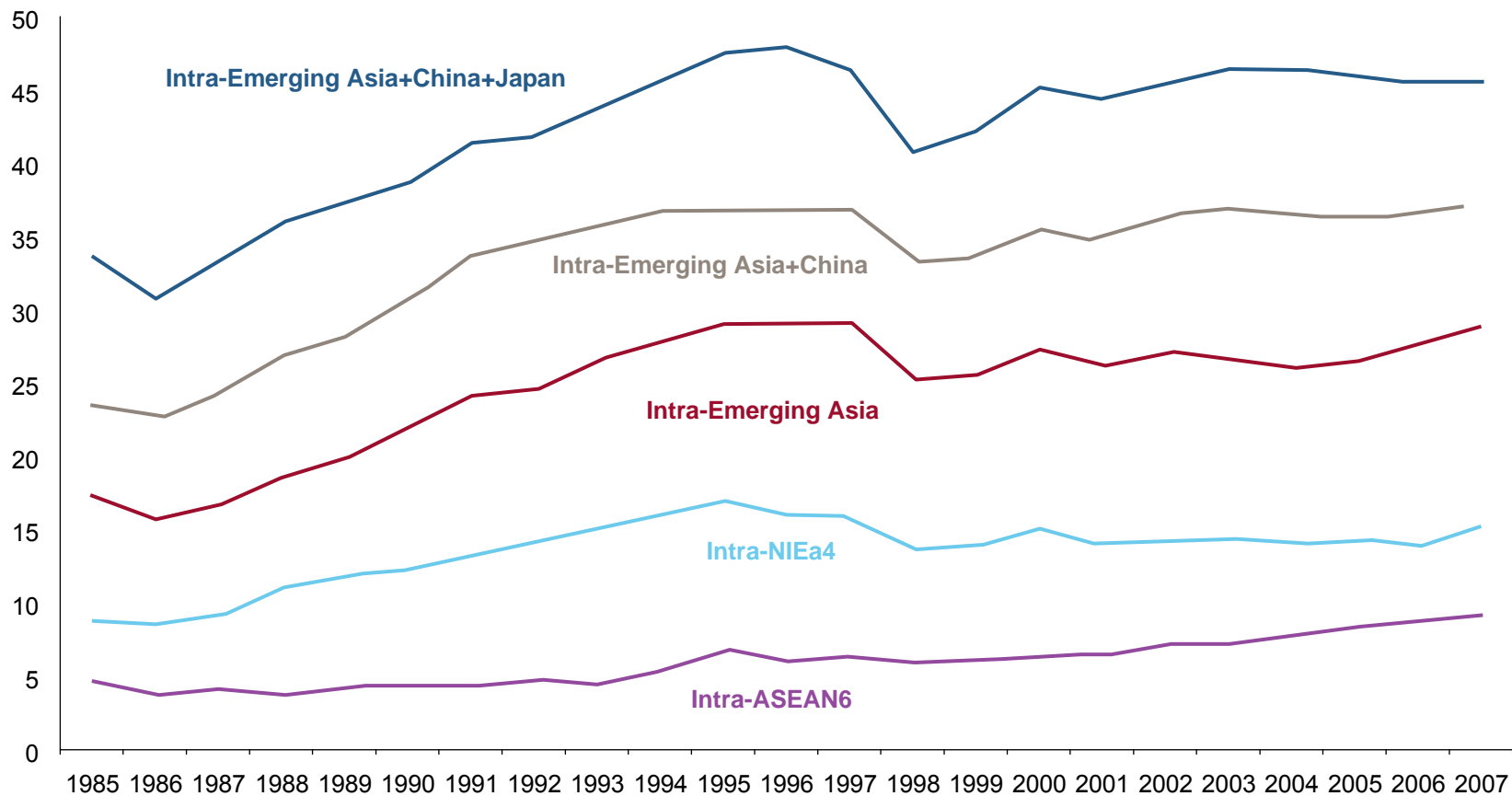
Global Consumption



Source: CEIC, IMF, Credit Suisse Estimates

Healthy intra-Asian trade provides some cushion from anemic growth in the US and Europe

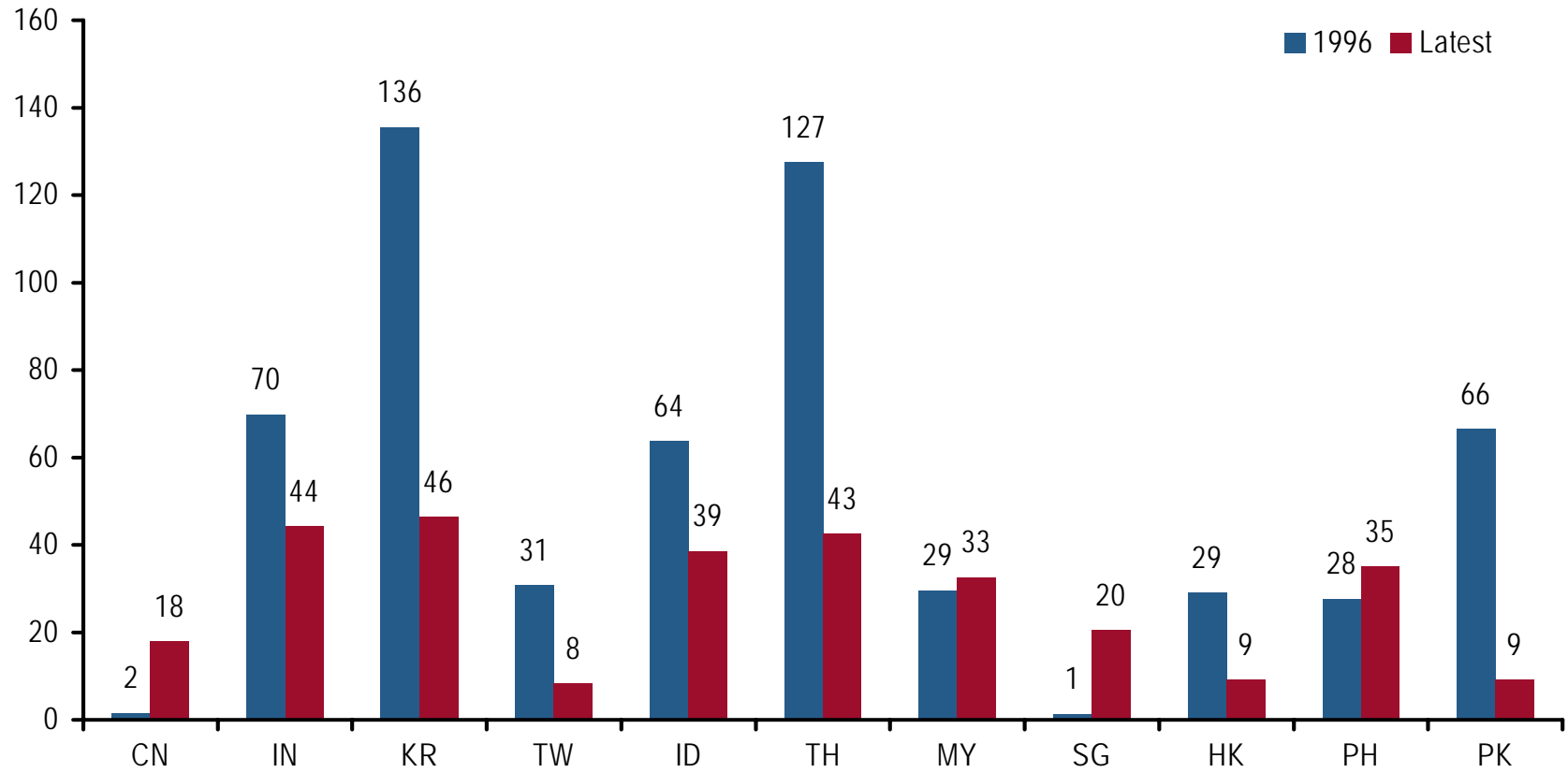
Intra-East Asian Trade (Percent of Total Trade)



Source: IMF, Direction of Trade Statistics National Statistics

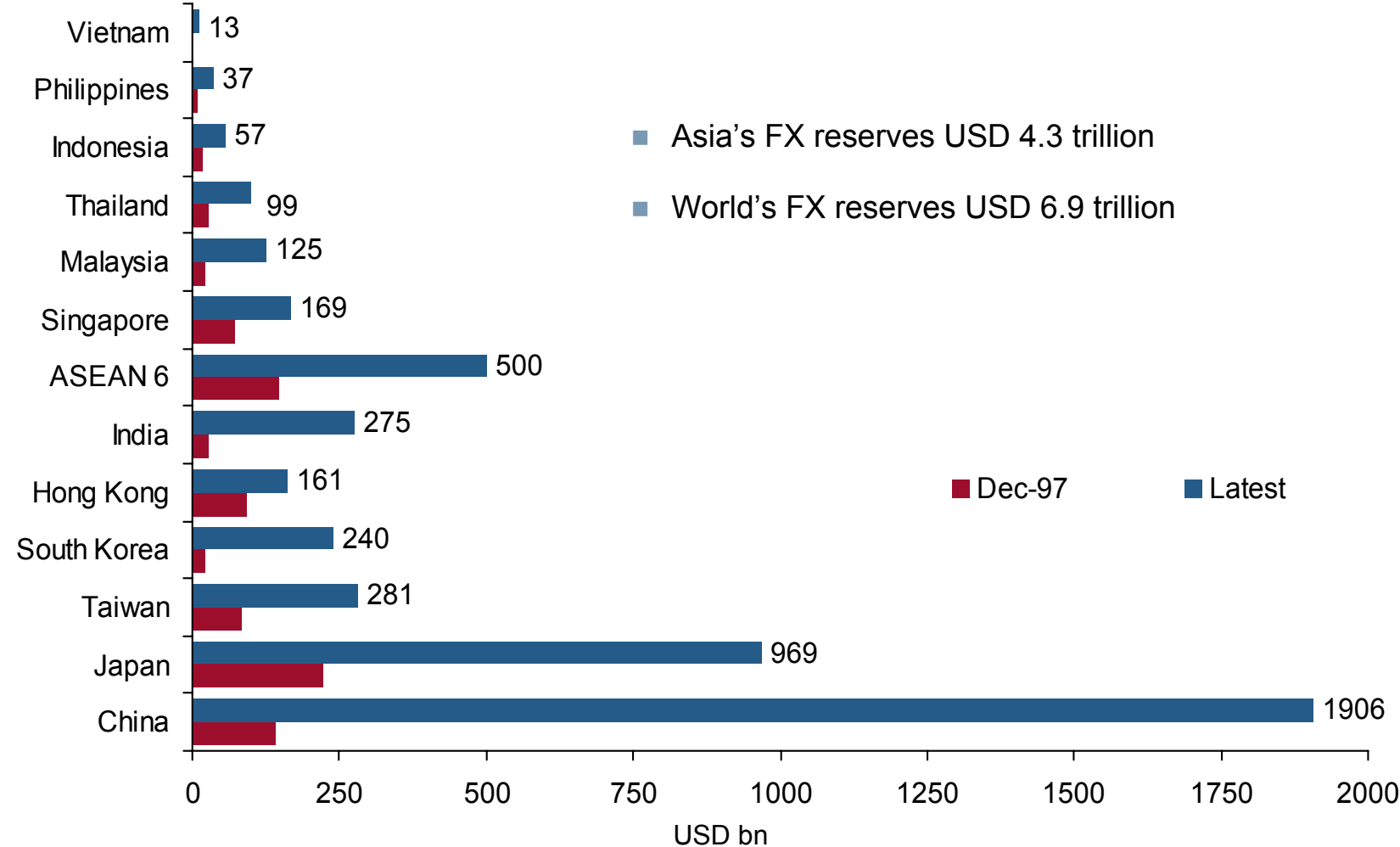
Asian corporations are not over-leveraged

Asian corporates (ex. financials): net debt-to-equity (%)



Source: Credit Suisse estimates

Asian FX reserves are robust



Source: Bloomberg , Credit Suisse

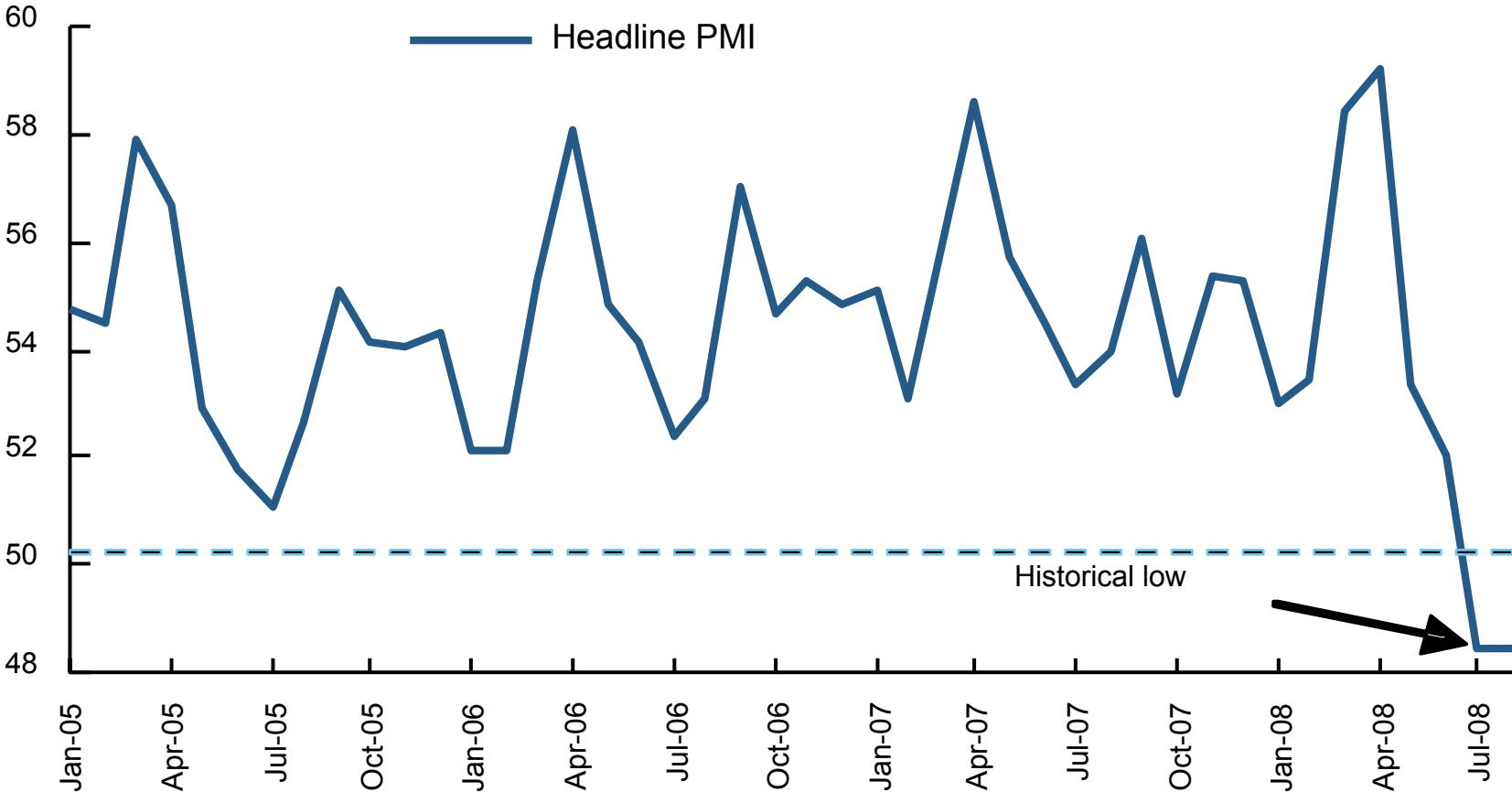
Forecasted GDP growth rates for Asia

(% real)	Overall GDP			Private consumption			Investment		
	2007A	2008E	2009E	2007A	2008E	2009E	2007A	2008E	2009E
China	11.9	8.7	7.2	8.2	9.3	8.3	10.7	8.8	6.4
India	9.0	7.3	5.8	8.2	5.4	5.2	13.9	11.2	11.0
Korea	5.0	4.0	1.5	4.5	2.0	1.0	4.0	0.5	-1.5
Taiwan	5.7	3.9	1.3	2.6	1.5	0.8	2.4	-0.9	-2.5
Indonesia	6.3	5.7	4.0	5.0	5.0	4.5	9.2	11.7	5.0
Thailand	4.8	5.0	4.5	1.4	2.3	2.5	1.4	2.7	4.1
Malaysia	6.3	5.0	2.0	11.7	7.4	4.3	10.2	5.1	2.5
Singapore	7.7	3.9	2.8	4.6	4.7	4.2	20.2	23.1	13.0
Hong Kong	6.4	3.2	-0.5	7.8	3.2	0.0	4.2	5.8	2.2
Philippines	7.2	4.6	4.5	5.8	3.5	3.5	11.8	4.5	4.7

Source: Credit Suisse estimates

Impact on China

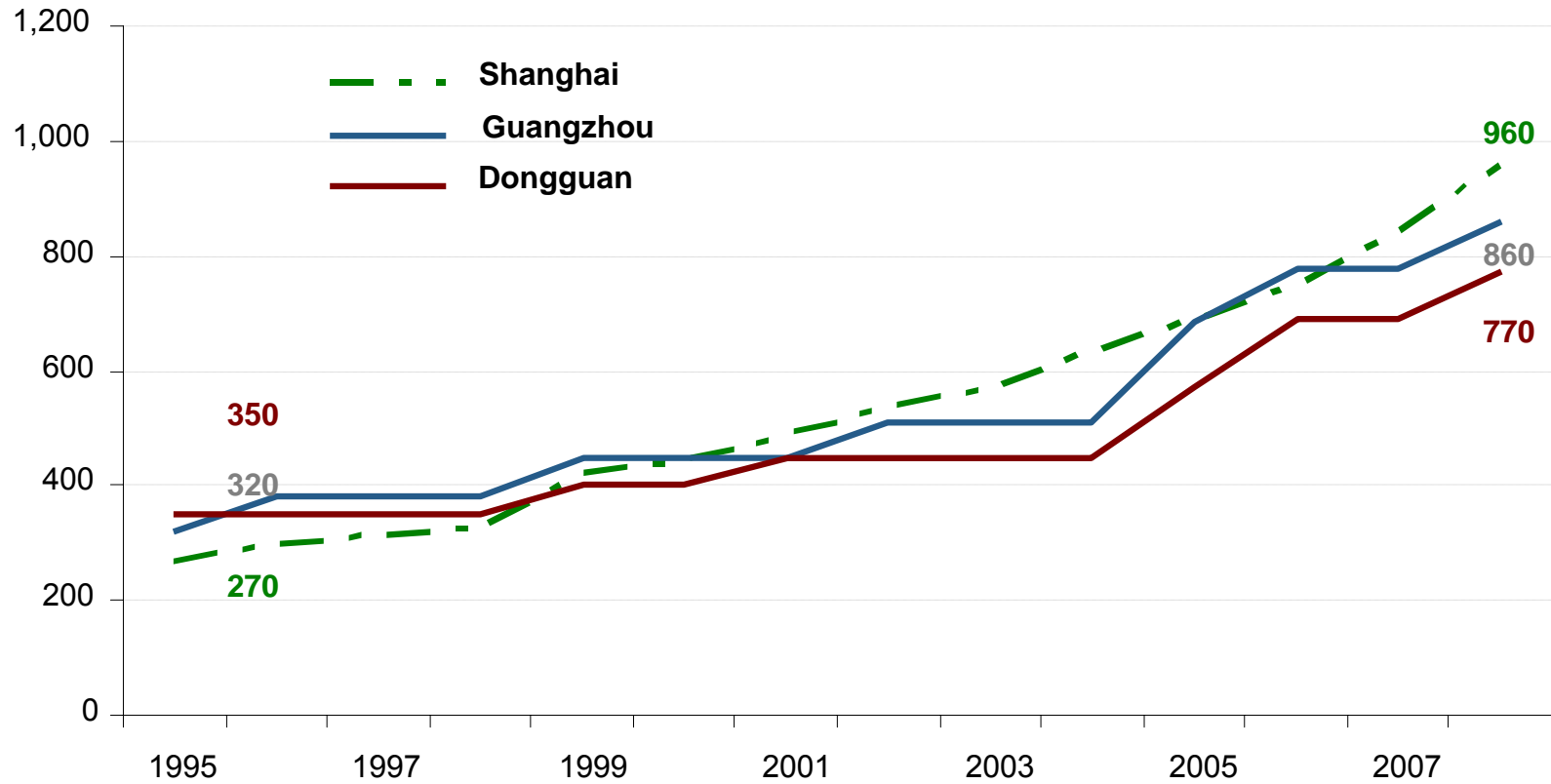
China is slowing down sharply....



Sources: CLIC, Credit Suisse

A switch from exports ...

Minimum wages (RMB/month)



Sources: Ministry of Labor and Social security, Credit Suisse

... towards consumption

Change in average monthly personal income in the past three years

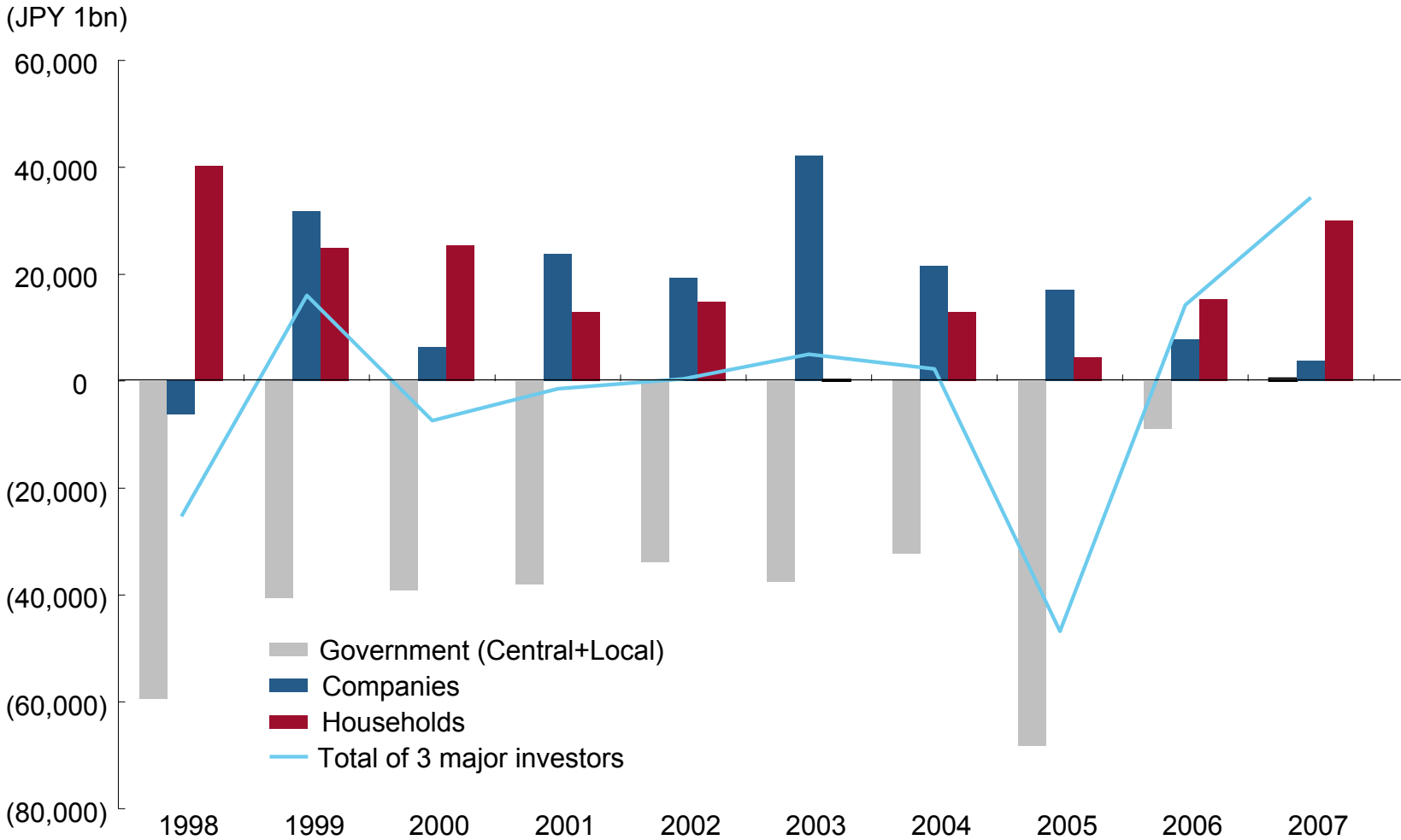
		Mean (%)		
		2007	2006	2005
<i>The only-child generation</i> →	Total	+20.5	+18.4	+25.1
	20-29	+29.3	+33.6	+61.7
	30-39	+26.9	+21.6	+18.6
	40-49	+16.9	+14.0	+13.4
	50-59	+9.6	+8.9	+18.2

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Sources: Credit Suisse

Impact on Japan

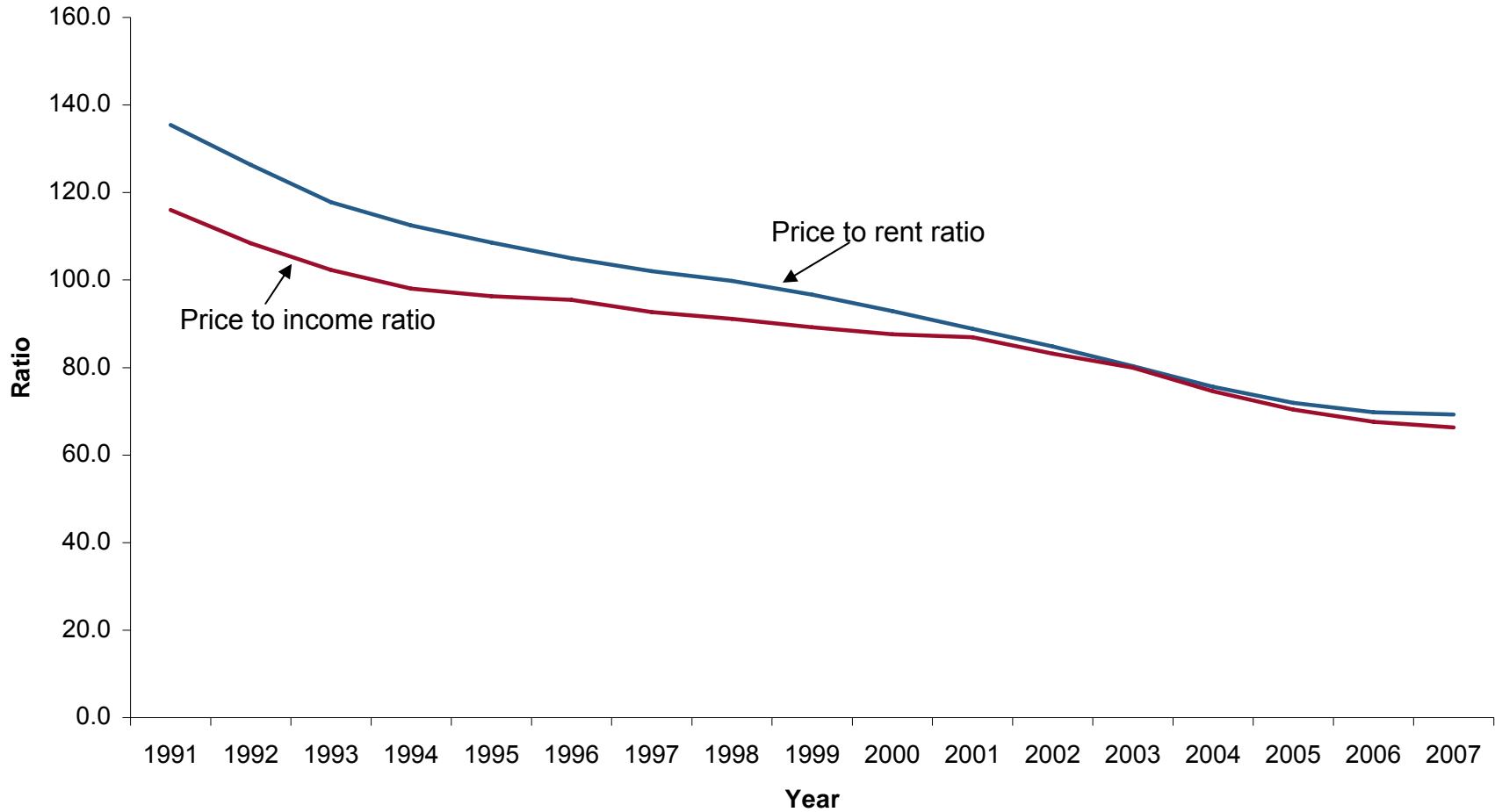
On-going funding surplus in the economy



Source: BoJ, Credit Suisse

Japan's housing market is least vulnerable to downturn

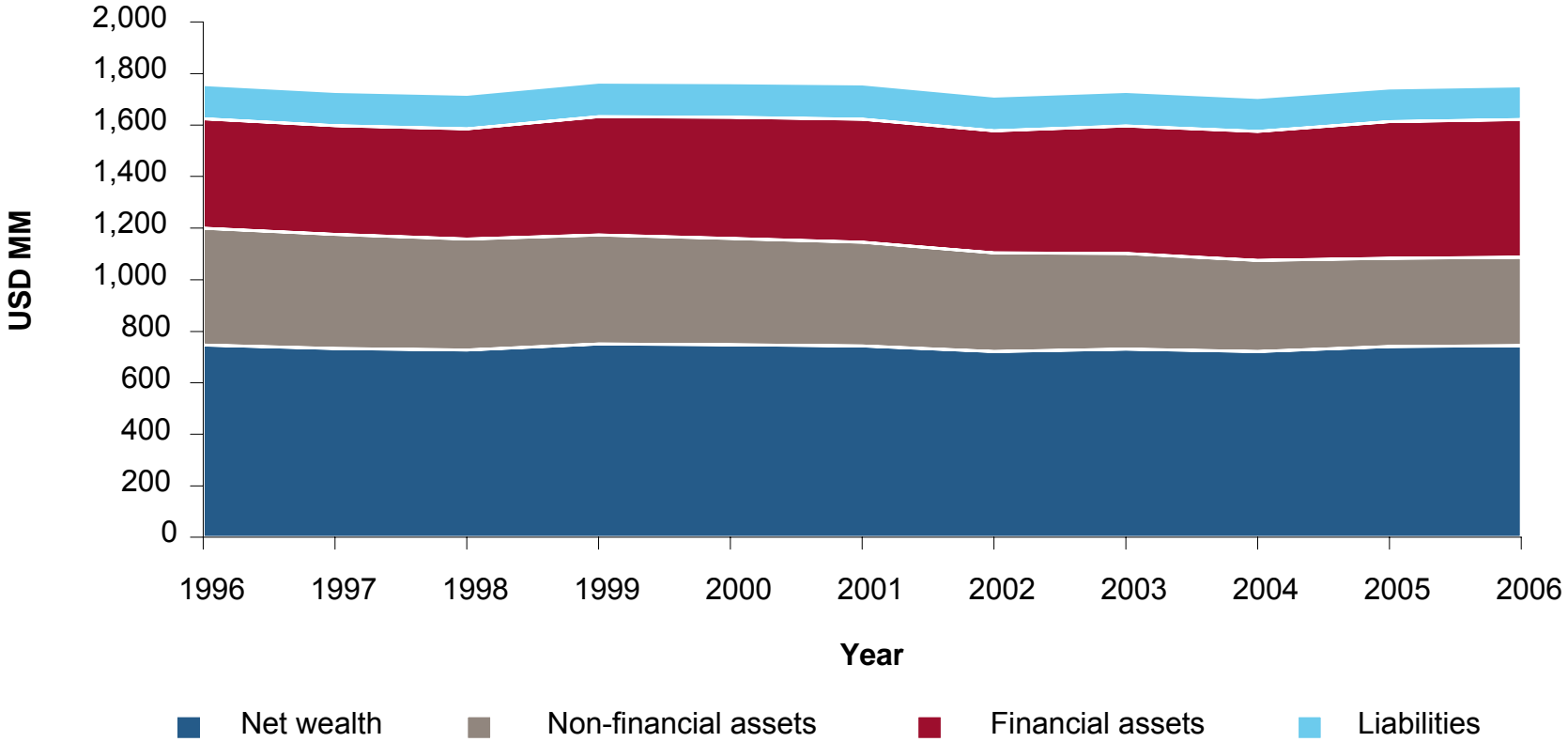
Japan's House Price Ratio



Source: OECD Economic Outlook: June No. 83 - Volume 2008 Issue 1

High net wealth and low levels of liabilities result in less impact on Japanese households

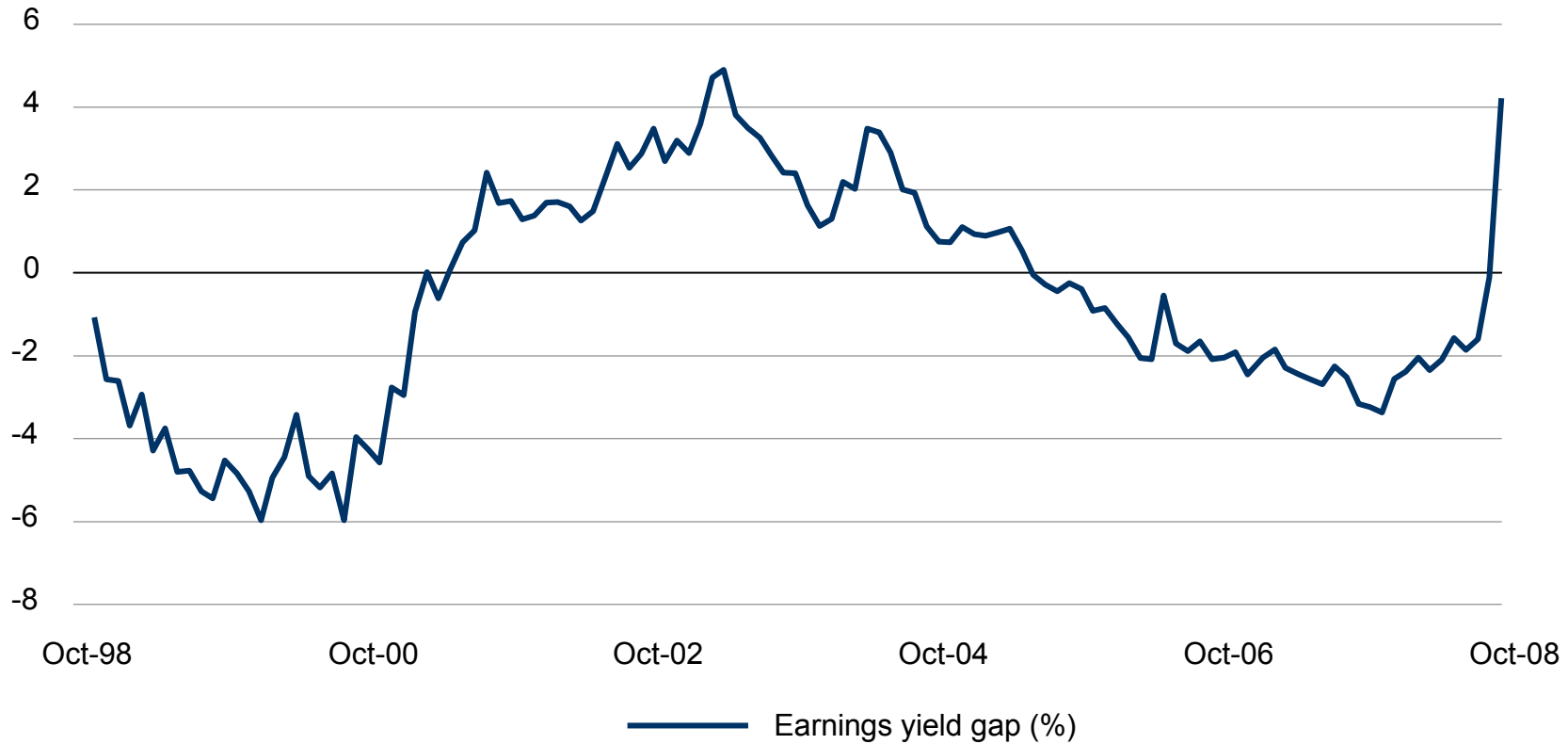
Japanese Household Wealth and Indebtness



Source: OECD Economic Outlook: June No. 83 - Volume 2008 Issue 1 - OECD © 2008

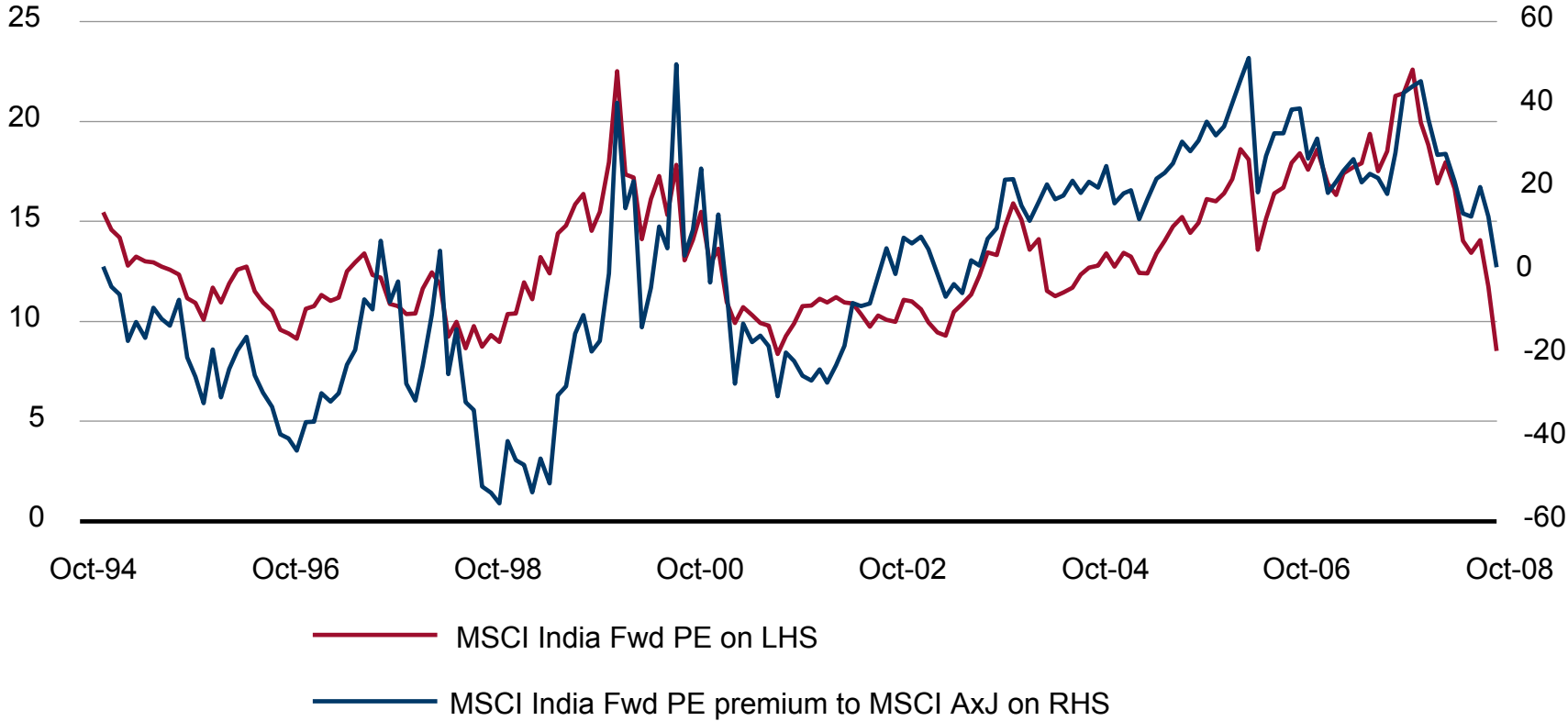
Impact on India

Interest rate reductions is a positive development for Indian corporate earnings



Source: I/B/E/S, MSCI, Bloomberg, Credit Suisse estimates

Indian stock prices are competitively priced



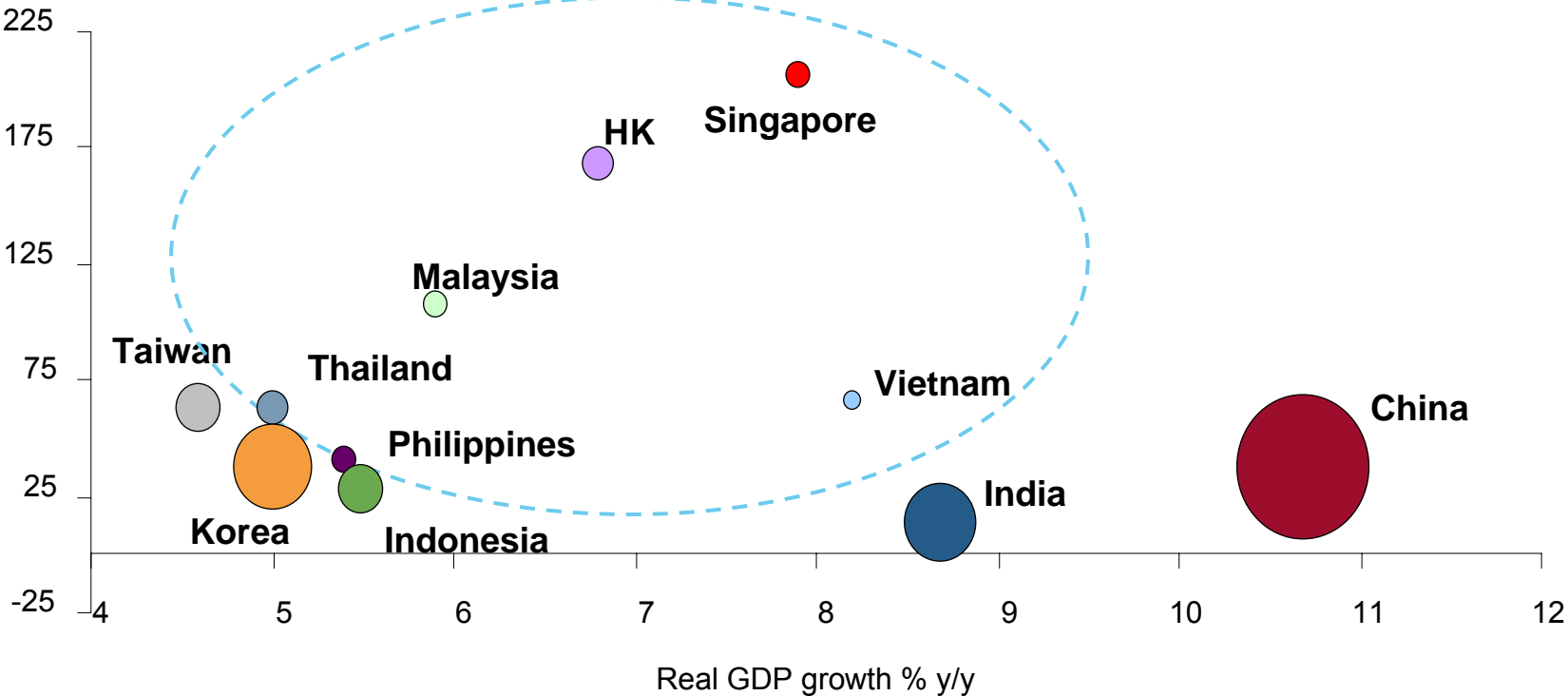
Source: I/B/E/S, Credit Suisse estimates

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Impact on Smaller APAC Economies

Which Asian countries are most vulnerable?

Exports as % of GDP



Source: CEIC, Credit Suisse

Conclusion

A historical perspective

Share of World GDP 1820-2007 (% of World Total GDP)

	1820	1870	1913	1950	1973	1997	2007
Total Western Europe	23.6	33.6	33.5	26.3	25.7	22.3	19.8
France	5.5	6.5	5.3	4.1	4.3	3.4	2.8
Germany	3.8	6.5	8.8	5.0	5.9	4.8	3.8
Italy	3.2	3.8	3.5	3.1	3.6	3.4	2.6
United Kingdom	5.2	9.1	8.3	6.5	4.2	3.5	3.1
Eastern Europe	3.3	4.1	4.5	3.5	3.4	3.4	3.5
Total Latin America	2.0	2.5	4.5	7.9	8.7	8.4	7.5
US	1.8	8.9	19.1	27.3	22.0	21.1	18.7
Mexico	0.7	0.6	1.0	1.3	1.7	1.9	1.7
Total Asia (excl. Japan)	56.2	36.0	21.9	15.5	16.4	23.7	31.6
Japan	3.0	2.3	2.6	3.0	7.7	8.0	6.0
China	32.9	17.2	8.9	4.5	4.6	9.7	16.0
India	16.0	12.2	7.6	4.2	3.1	5.0	6.5
Africa	4.5	3.6	2.7	3.6	3.3	3.3	3.4

Sources: 1820-1973: A. Maddison, "The World Economy – A Millennial Perspective",
1997-2007: IMF World Economic Outlook Database.

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