

Ray of light in the darkest hour

The outlook for Emerging Markets

Flemming J. Nielsen

Senior Analyst,

Danske Research, Danske Bank

+ 45 45 12 85 35 (Direct)

farch@danskebank.dk

Lars Tranberg Rasmussen

Analyst

+ 45 45 12 85 34 (direct)

+ 45 20 55 27 98 (mobile)

laras@danskebank.dk

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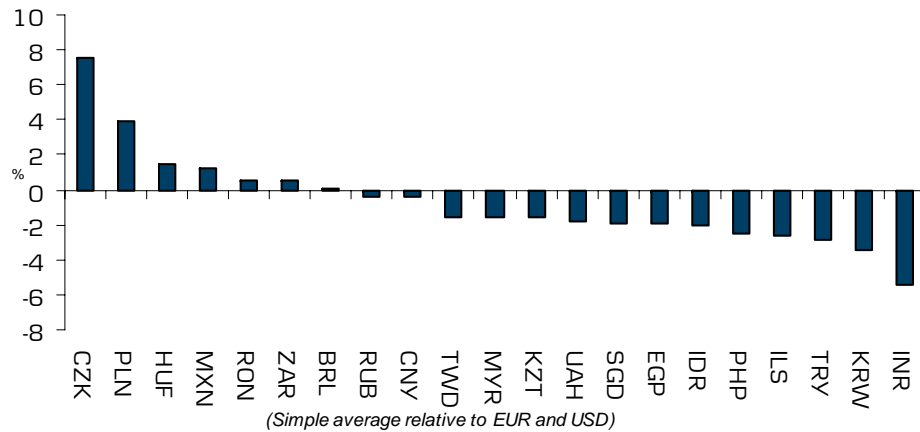
Investment Research

Agenda

- Market overview
 - Higher EUR/USD has been a driver
 - CEE FX-rates have stabilised compared to previous months
- Macro overview
 - Further signs of stabilisation in manufacturing PMIs
 - However, comparisons with earlier crisis indicate that industrial production and investments will not rebound rapidly
- Special focus: Asia provides a ray of light in the darkest hour

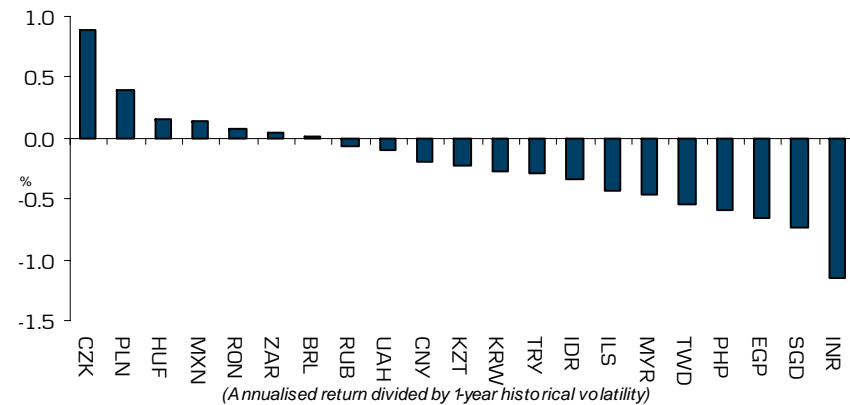
Market overview I: Higher EUR/USD has been a driver

FX change against EUR and USD



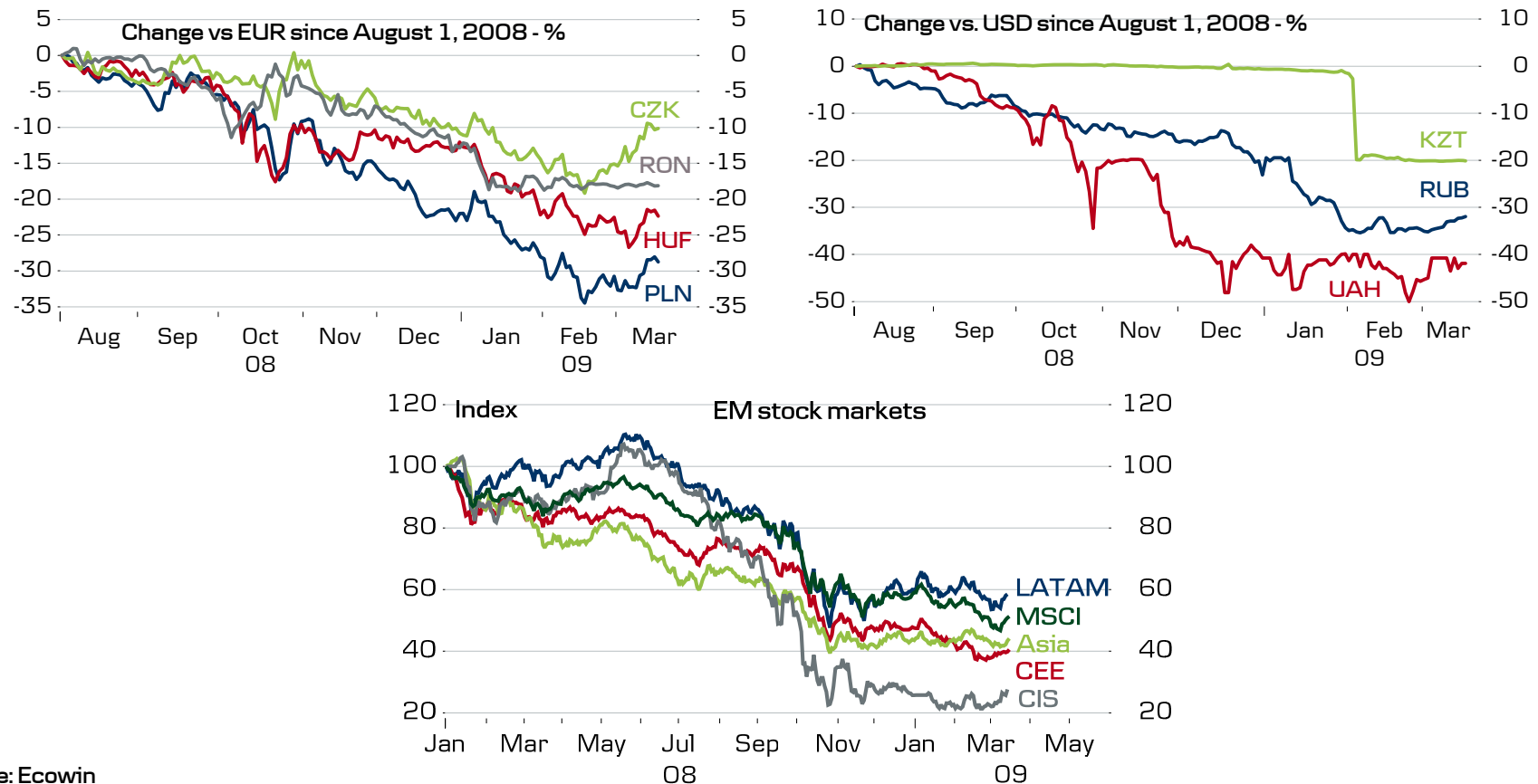
Source: Ecwin

Risk-adjusted FX change against EUR and USD



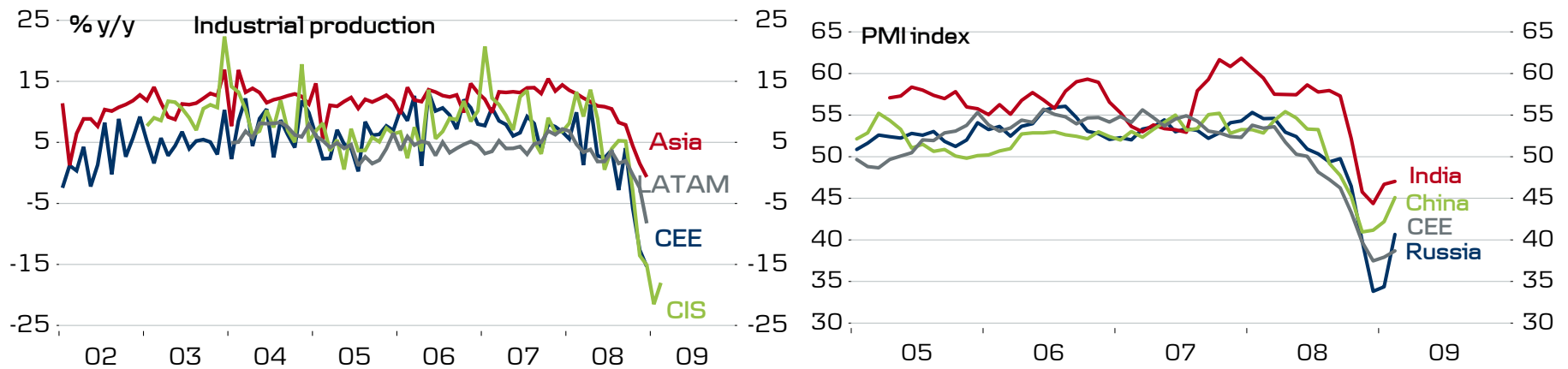
Source: Ecwin

Market overview II: CEE under pressure



Source: Ecowin

PMIs recovering a little Industrial production still in free fall!

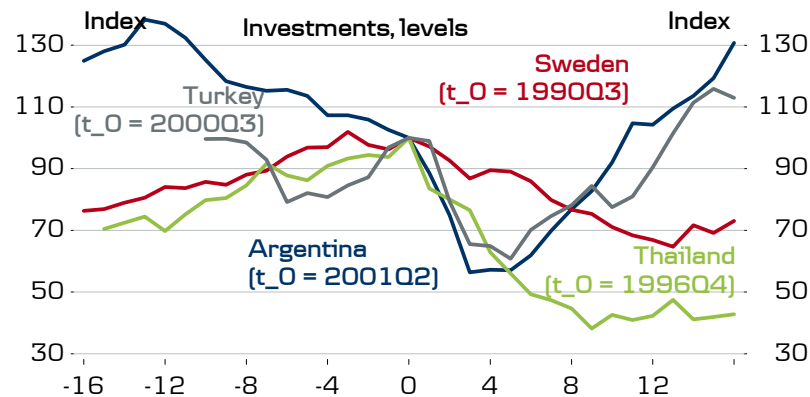


Source: Ecwin

But taking a look at earlier crises, data show that we should not expect a rapid recovery

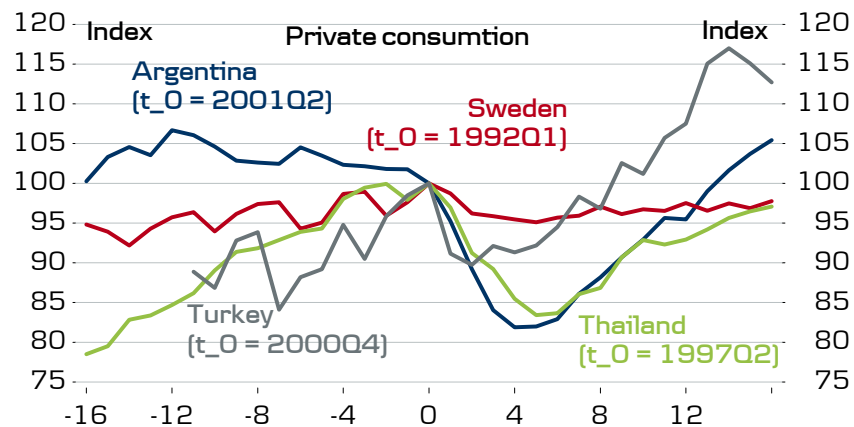
- Sweden in the early 90s
- Asian crisis - Thailand 1997-98
- Turkey 2001-2
- Argentina 2001-2

Investment – recovery after crisis



- Investments drop by 30-60% during the crisis
- For Sweden and Thailand the drop in investment is very protracted
- The recovery in investments starts after 5-6 quarters in Argentina and Thailand
- Given the present crisis started in Q308 we should expect investments in CEE/CIS to start to recover in the first half of 2010, but not before (if things play out as in Turkey/Argentina - and this is probably a "optimistic" scenario).

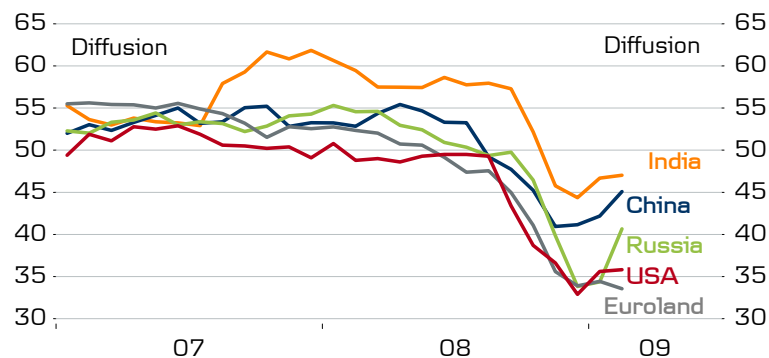
Private consumption – recovery after crisis



- The drop in private consumption is smaller than in investments – but the drop is still significant (15-20% for Argentina and Thailand)
- But the recovery a bit later – after 7-8 quarters (for Thailand and Argentina)
- Hence, one should not expect recovery in CEE/CIS private consumption to start before mid-2010.

Ray of light in EM Asia – last in, first out?

Manufacturing PMI



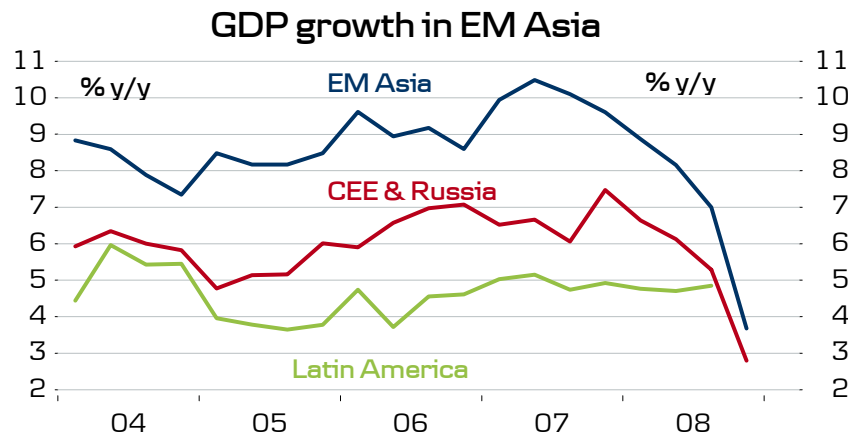
Source: Ecwin

Why will Asia start to outperform?

1. Strong current account and FX reserve positions mean policy flexibility
2. Massive fiscal stimuli in most countries
3. Aggressive monetary easing
4. Healthier banking sector - monetary transmission is still working
5. Strong terms of trade gains from lower commodity prices
6. Asia usually outperforms in recoveries
7. Japan remains the weakest link in Asia

Main risk for the export dependent Asian economies is continued contraction in global demand

Asia underperformed in the downturn



Export and domestic demand in EM Asia. Excl



Source: Ecwin

Collapse in external demand is the main problem for Asia

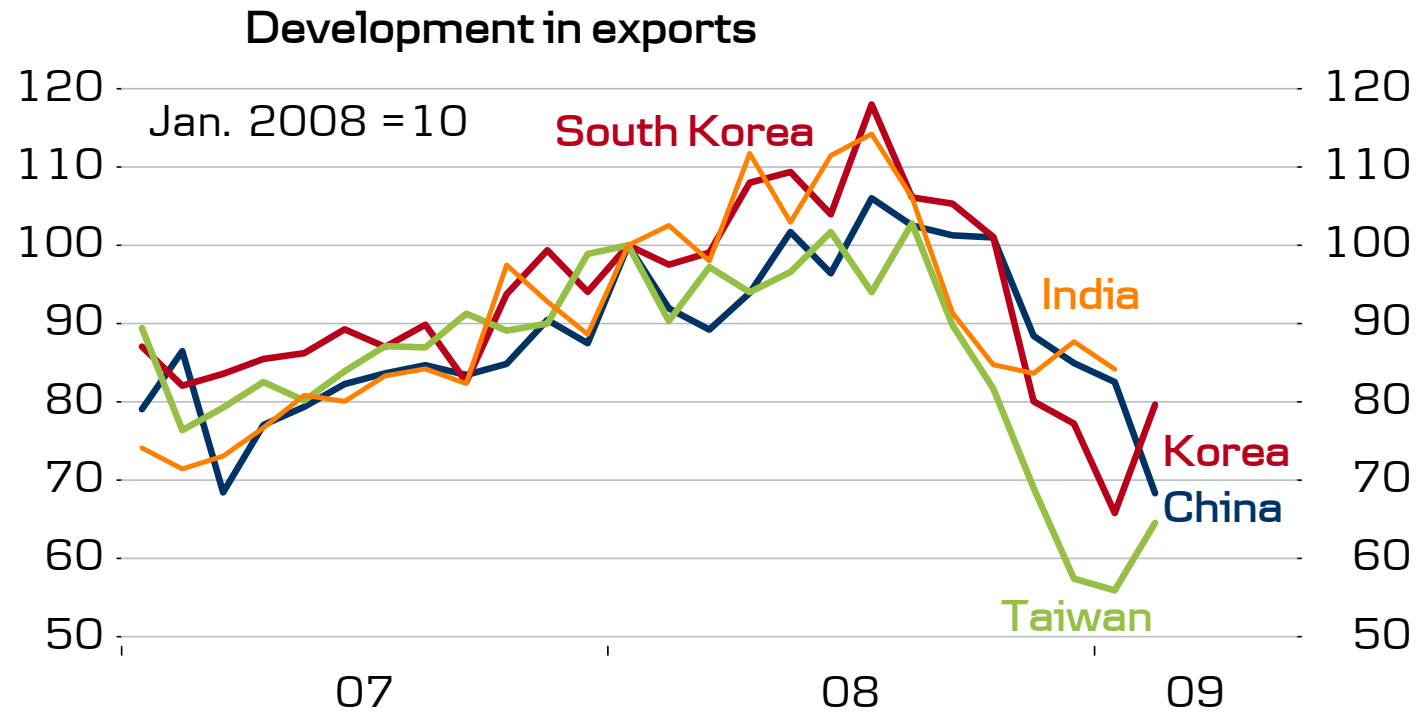
...not a domestic credit crunch

Domestic demand in late 2008 hurt by higher inflation and monetary tightening

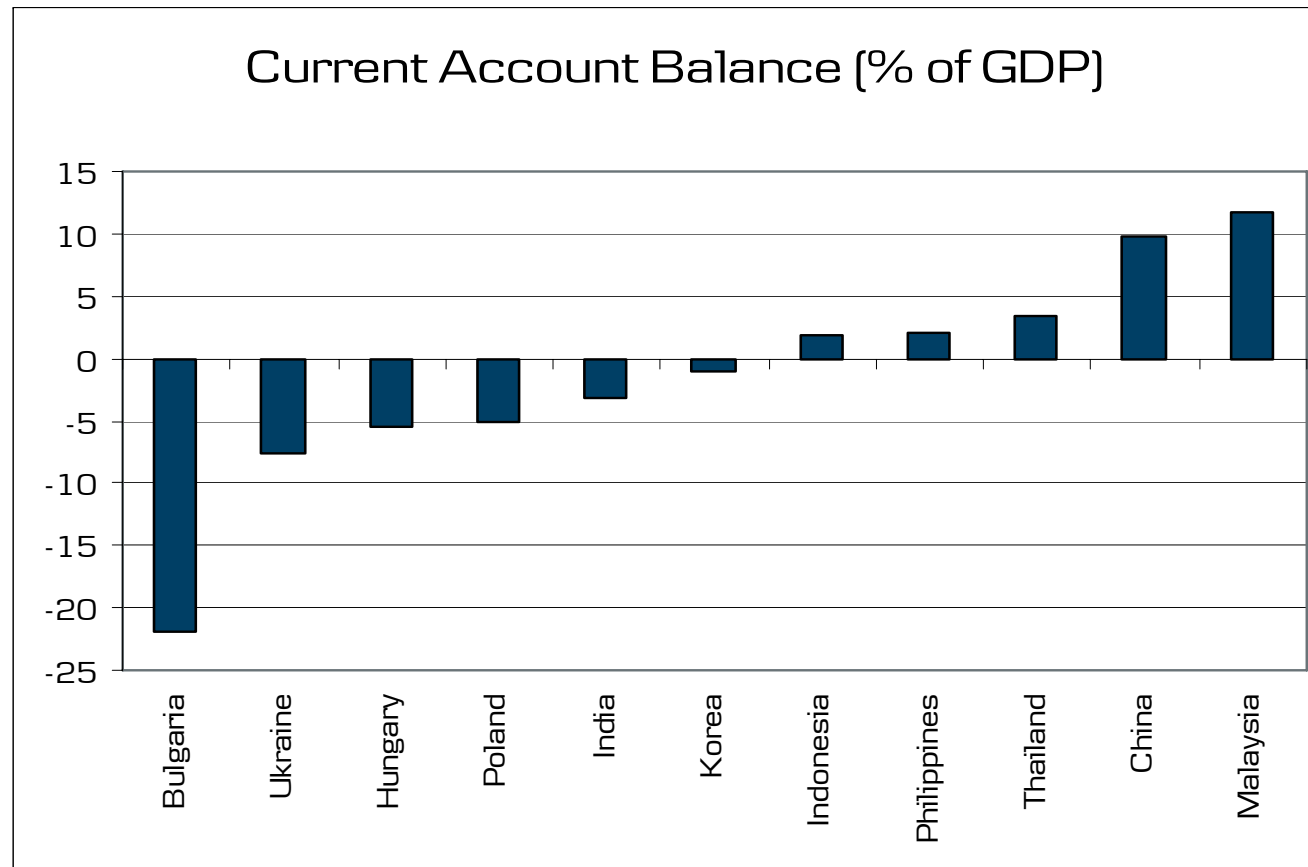
China, India and Indonesia strongest performers

NIC and Thailand are the worst performers

Signs that exports are stabilising

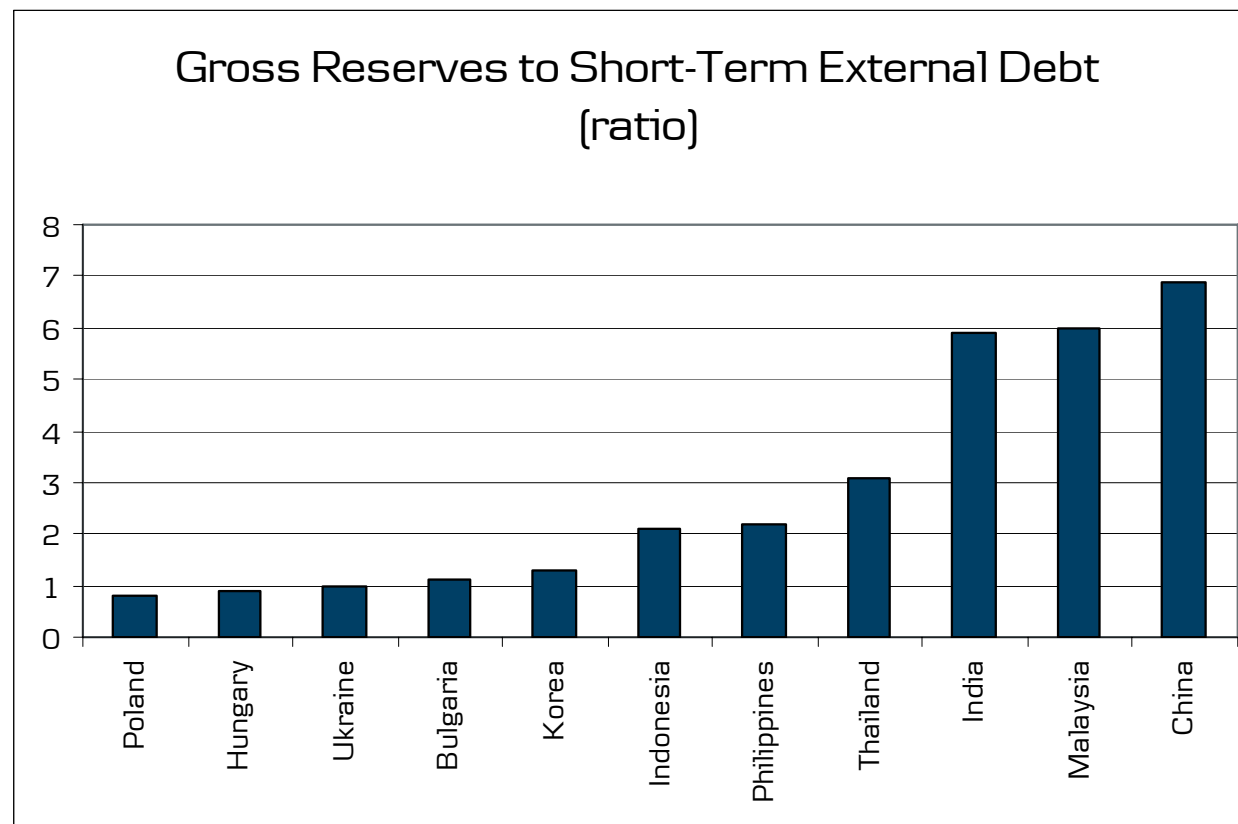


Asia is less sensitive to deleveraging



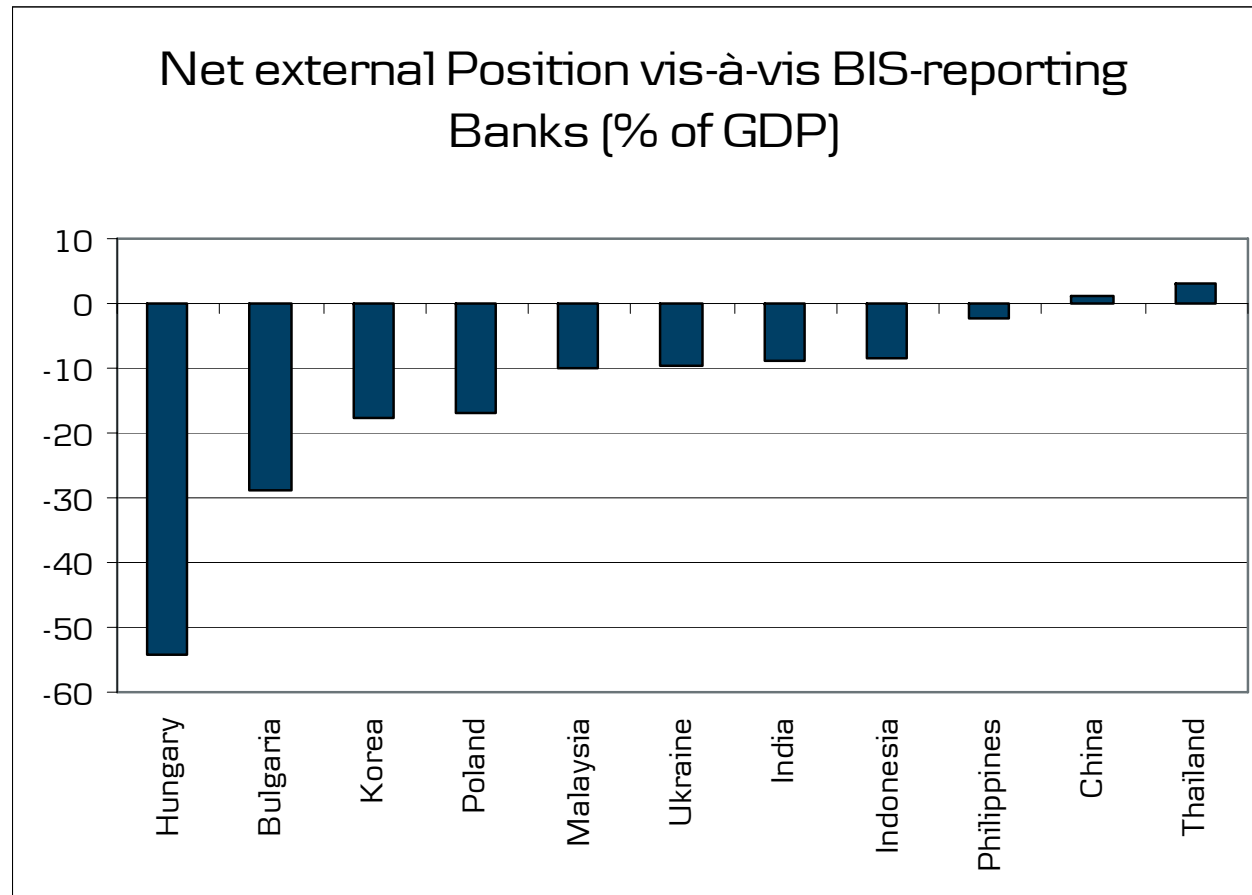
Source: Ecwin

Short-term external liquidity is strong



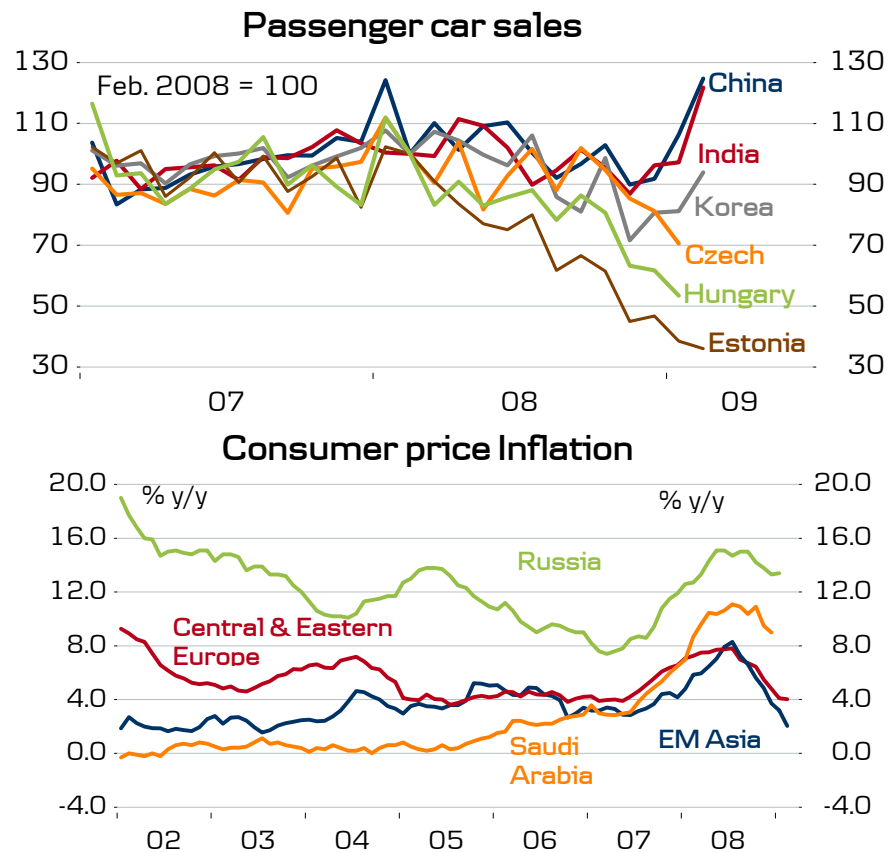
Source: Ecwin

Less dependent on foreign bank funding



Source: Ecwin

Signs that private consumption is improving



Source: Ecwin

Monetary transmission is still working

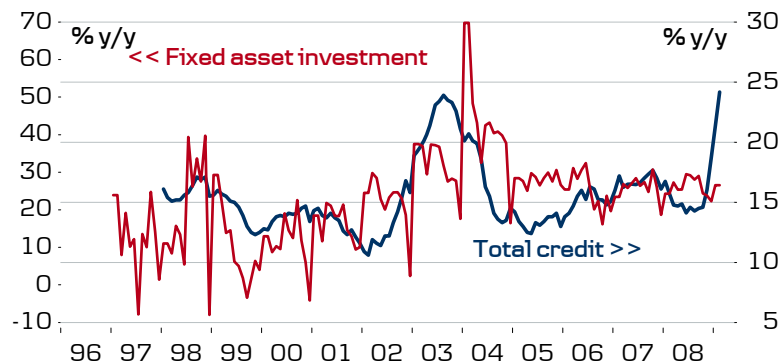
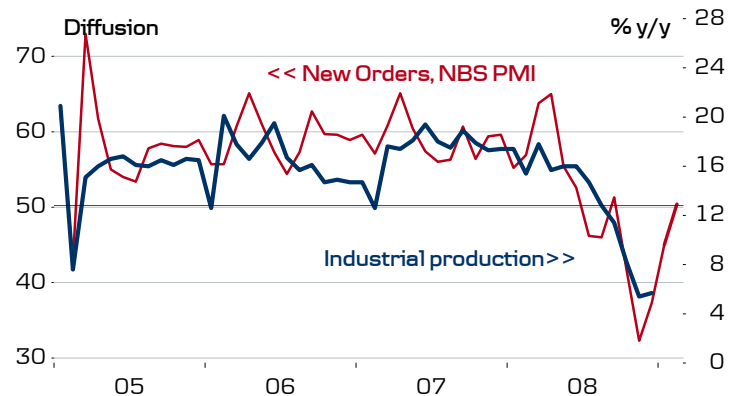
Policy flexibility - aggressive monetary and fiscal easing

Big terms of trade gains - lower inflation

Weak financial sector and need for longer term adjustments in savings will not weigh on strength of the recovery

Most vulnerable currencies are KRW, IDR, THB and to some extent TWD

China is bottoming out



Source: Ecwin

Chinese growth hit by double whammy

Monetary tightening and higher inflation

Collapse in global demand

Very strong policy response

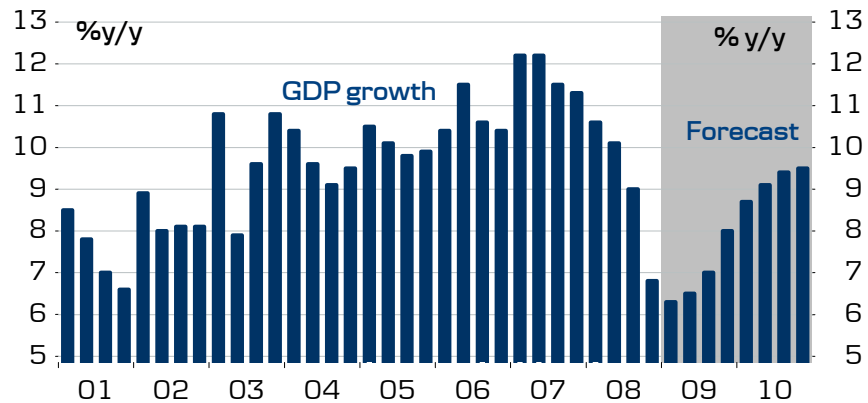
Fiscal easing (GDP impact 3pp)

Monetary easing, loan growth soaring

Lower inflation (from 8% to -1%!!)

..but we are not out of the woods yet

Danske Bank forecast for China's GDP

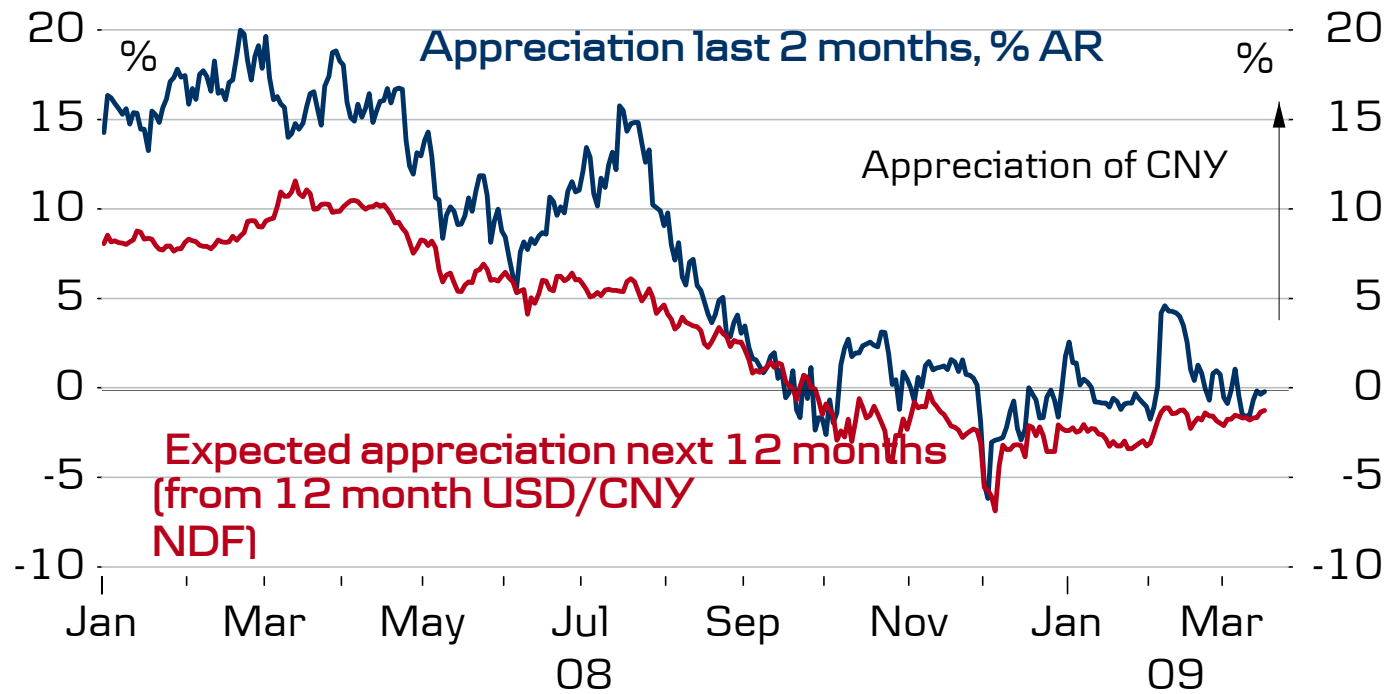


What do we need to see

Fiscal and monetary easing working (it is)

Stabilisation of the domestic real estate market (not yet)

Stabilisation in exports (possible)



Source: Ecwin

- Q&A session
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