Global Economy and Trade

Past the nadir?

Nick Kounis
Head Macro Research

New York, 19 March 2012
Global economy looks to be bottoming out

Source: Markit

Manufacturing PMIs

Eurozone  US  World

Source: Markit
Emerging markets as well as advanced economies

Manufacturing PMIs

Source: Markit
The Return of Global Easing

Central bank balance sheet, January 2008 = 100

Source: Thomson Reuters Datastream
Emerging markets going from rate hikes to cuts

Central bank policy rates, %

China, India, Russia, Brazil (rhs)

Source: Thomson Reuters Datastream
ECB has averted a credit crunch

ECB lending to commercial banks, EUR bn
Bank funding markets starting to thaw

Eurozone bank CDS index

Source: Thomson Reuters Datastream
Italian and Spanish banks went shopping

Source: ECB, national central banks

Change in ECB loans
Change in government bond holdings

Source: ECB, national central banks
Sovereign bond market stress easing

2-Y government bond yield, %

Source: Thomson Reuters Datastream
Oil prices could spoil the mood…

A $10 rise transfers 0.5% GDP from oil consumers to producers

Source: Thomson Reuters Datastream
...and the debt crisis could re-escalate

Greek government debt, % GDP

Source: ABN AMRO GE, IMF
Safety net is just not big enough

Source: ABN AMRO Group Economics
Large Eurozone bank exposures to periphery

Eurozone big bank exposure to sovereign debt (% tier 1 capital)

Source: EBA, ABN AMRO Group Economics
Threat of a vicious circle, euro break-up

Indebted governments

Banks
Markets

Tighter financing conditions

Budget cuts

Weakening economy

Rising bond yields

Source: ABN AMRO Group Economics
Who is going to save the euro?
Costs of super crisis outweigh costs of bail-out

Costs of bail-out: 25% GDP

Costs of euro break-up: 50 - 100% GDP over 3-yrs

Defaults
Bank failures
Financial panic
Uncertainty
Deep recession
Wealth losses

EFSF to be increased to 1.3 trillion euros

Road map to eurobonds

Source: ABN AMRO Group Economics
European banks tightening lending standards again

Balance net tightening

Tighter lending standards

Source: ECB
The new fiscal fundamentalism in Europe

Source: EC, ABN AMRO Group Economics

% GDP

budget cuts 2011-2013

Source: EC, ABN AMRO Group Economics
Eurozone in recession – divergence remains

Source: ABN AMRO Group Economics

GDP in 2012
US labour market starting to come to life

Source: Thomson Reuters Datastream
US private sector deleveraging advanced

Debt, % GDP

Source: Thomson Reuters Datastream
US fiscal policy getting tighter

Source: CBO, ABN AMRO Group Economics
Asia still relies on the West for its exports

Share of total exports to US and Eurozone

Source: Thomson Reuters Datastream
China’s great transformation
Productivity catch-up has a long way to go

Per capita GDP relative to the US

Source: Angus Maddison, ABN AMRO GE
## Economic outlook

<table>
<thead>
<tr>
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<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
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<tbody>
<tr>
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<td>5.1</td>
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<td>World trade</td>
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<tr>
<td>Global CPI</td>
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<tr>
<td>China</td>
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<td>5.4</td>
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## Rates and FX (end of period)

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<tr>
<td>3-M Euribor rate</td>
<td>0.85</td>
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<td>3-M Libor rate</td>
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<td>German 10-Y yield</td>
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<td>US 10-Y yield</td>
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<td>EUR/USD</td>
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