

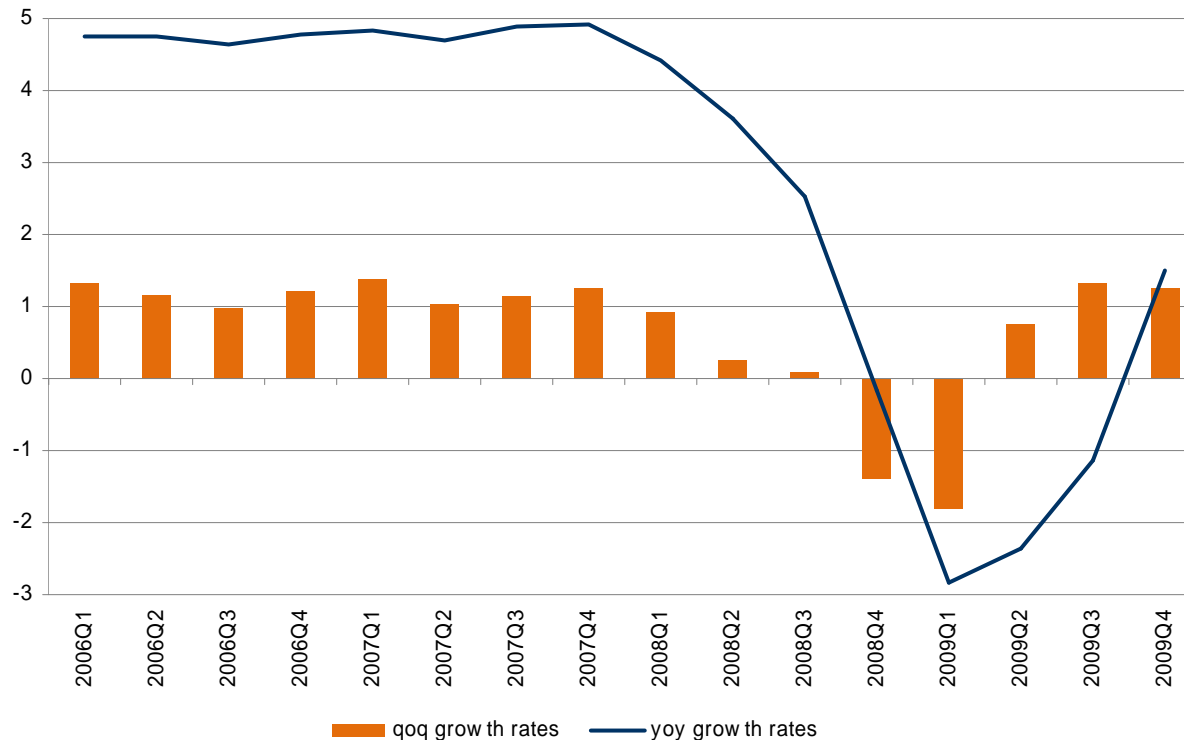
World Trade in 2010 and 2011
AIECE General Meeting
May 6, 2010
Milan

Bart De Ketelbutter

plan.be

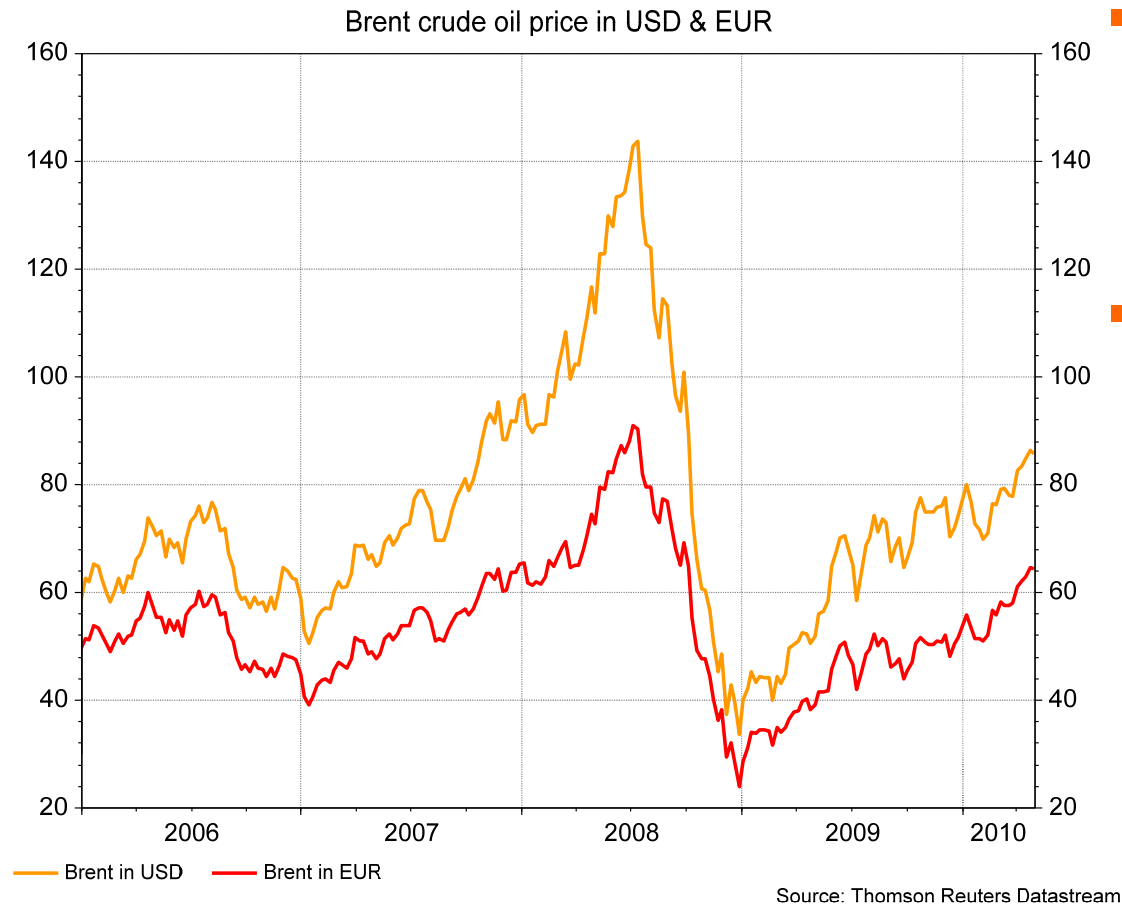
World trade in 2010-2011

World economy



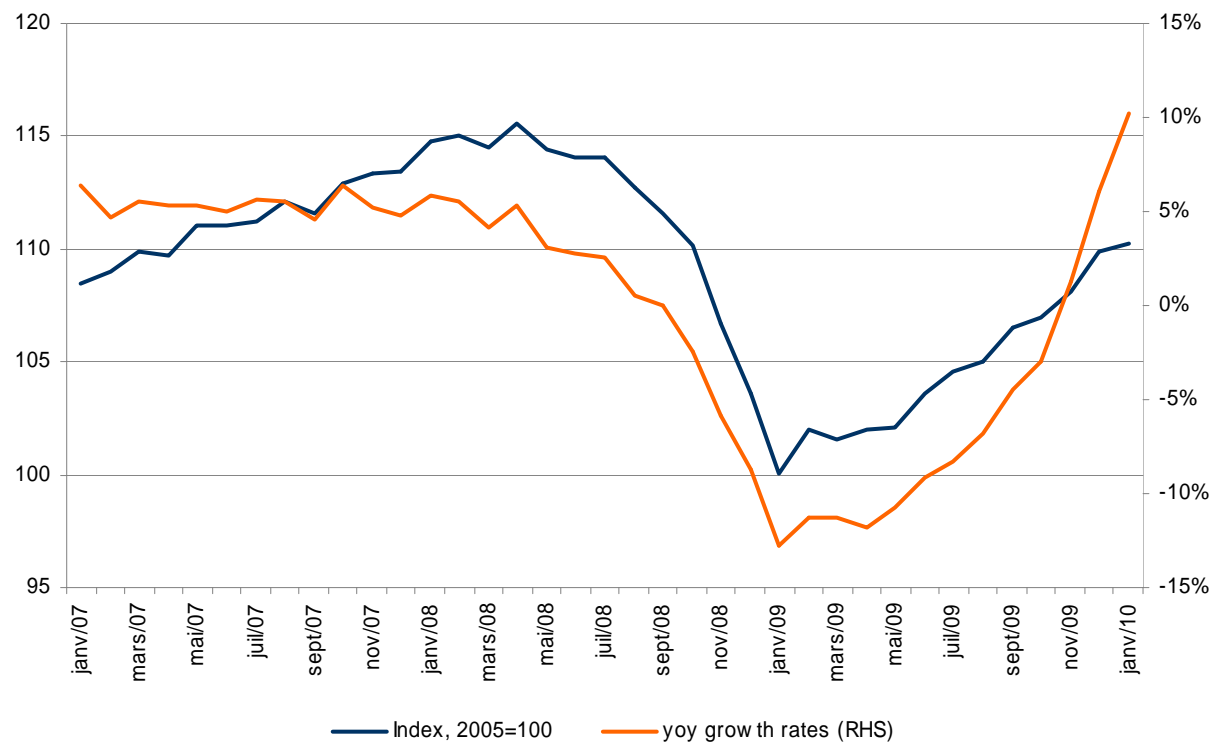
- Remarkably quick & vigorous recovery
- Owing to extraordinary fiscal & monetary stimulus
- ... and the wearing off of the initial shock effect
- China, Asia and EM are leading the way
 - Size stimulus
 - Largely insulated from fin.crisis

Commodities and financial markets



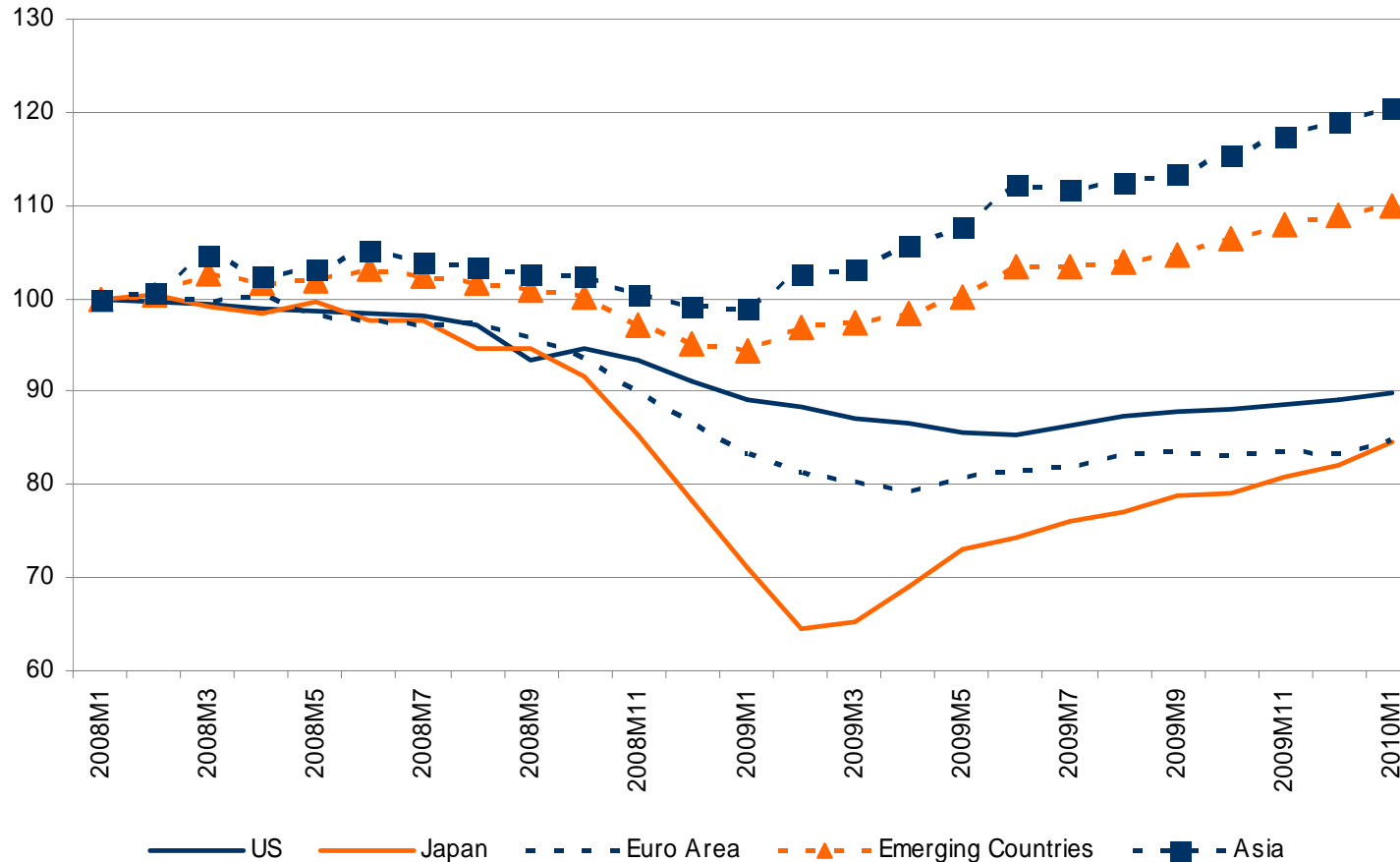
- Oil & commodity prices risen unabatedly since start of 2009
- Financial markets rebounded (equity, corporate debt, interbank market), but not a normalisation yet as authorities have been major player + fueled by liquidity surge

World industrial production



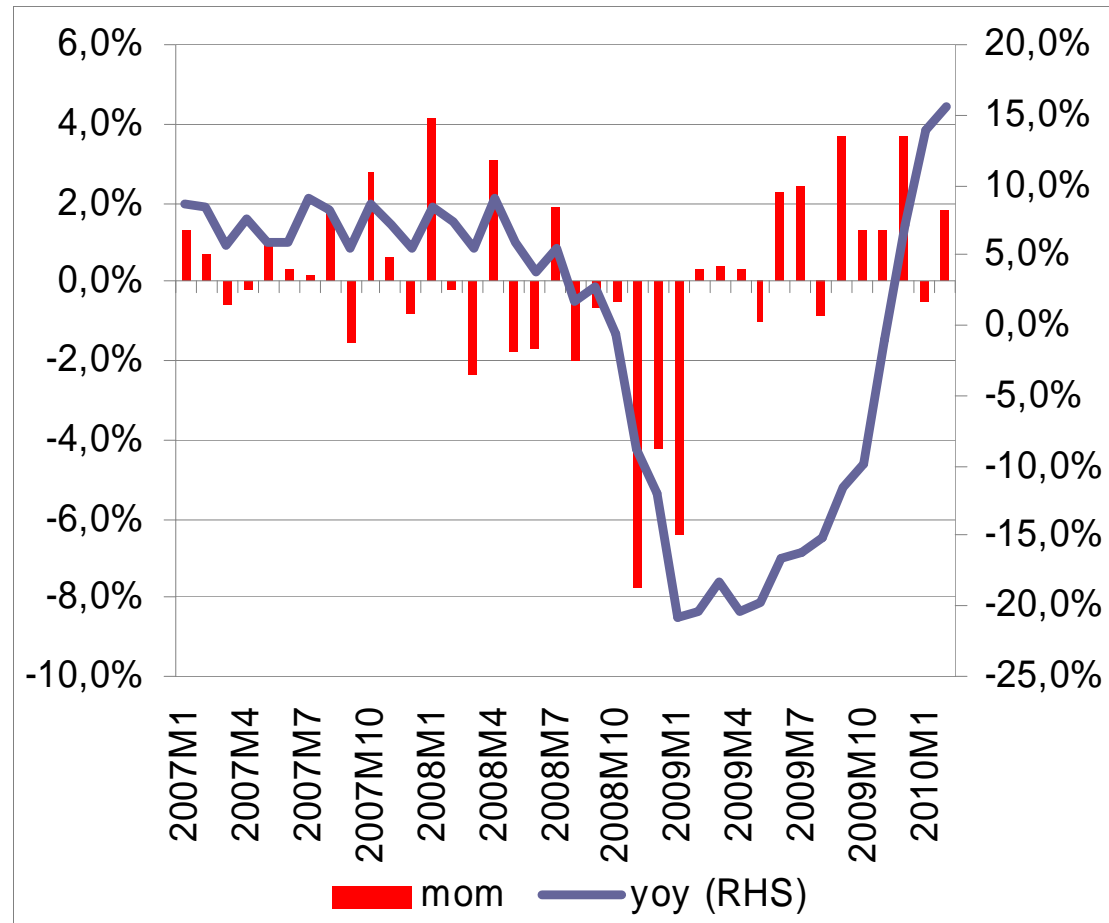
- IP bounced back strongly
- Currently at 10% yoy
- But still not back to pre-crisis level (blue line, LHS)

Industrial production, region by region



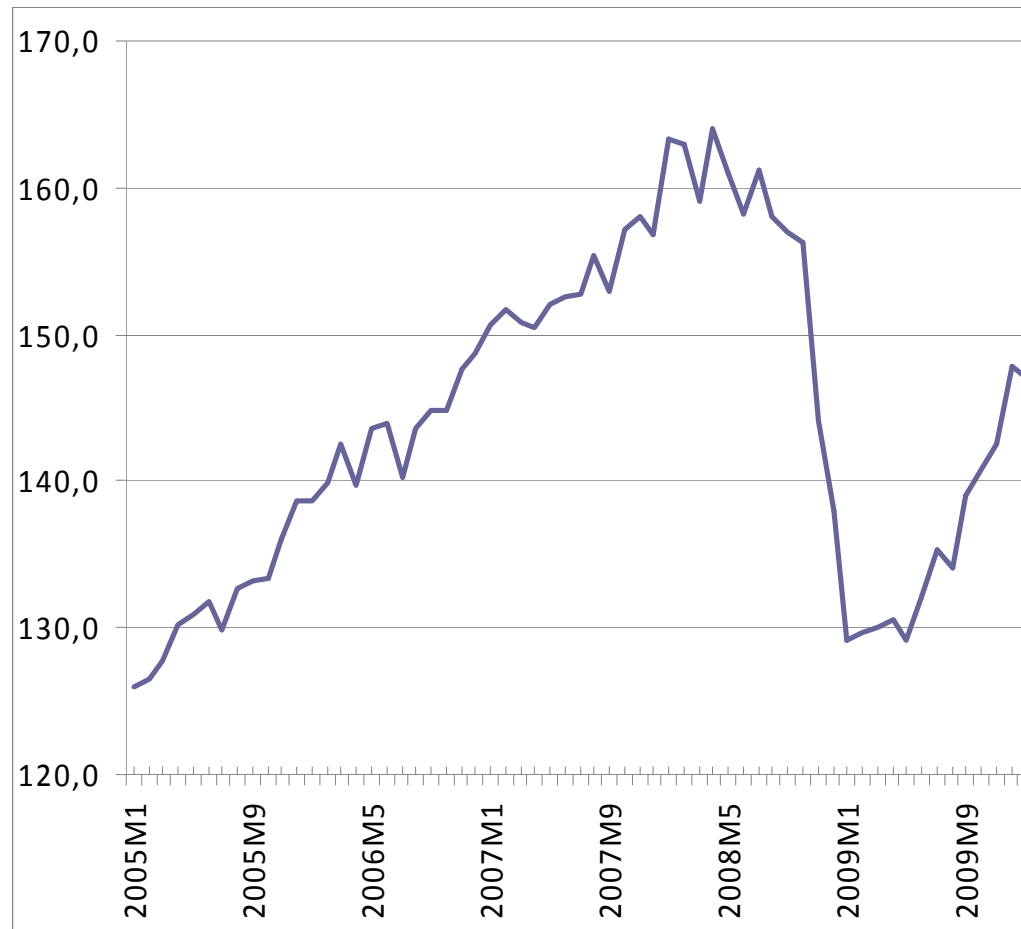
- Asian and EM lead and already above pre-crisis level (not only because of faster recovery, higher trend growth)

World trade, growth rate



- -16% in Oct08-Jan09, -20% in 6M to Jan09
- Reasons:
 - US downturn, commodity prices
 - Consumer durables & investment gds
 - Synchronized downturn
 - Credit conditions
- Stabilisation in H1 09
- Strong recovery in H2 09 and start of 2010

World trade, level



- But world trade not back to pre-crisis level yet
- Emerging countries are leading → Asia → China
- Among developed economies EA lags (US & Japan benefit from proximity China, size of stimulus)
- Among emerging countries CEE lag (proximity lagging EA)

World trade, region by region

	Yoy growth rate February 2010	Jan/Feb 10 Carry- over for 2010
World trade	15,5	9,9
Advanced Economies	10,0	5,6
United States	12,1	9,1
Japan	32,0	13,2
Euro Area	5,7	2,5
Emerging & Developing	21,9	14,6
Asia	29,4	19,3
Central & Eastern Europe	8,5	7,2
Latin America	21,2	13,3
Africa and Middle East	8,9	4,8



The outlook and the risks

Outlook 1

- Many economists expect some decrease in economic growth after a remarkably quick recovery (esp. in Asia & US) from the depths of the recession
- Reasons for this relative pessimism are numerous

Outlook 2

- Ending of large fiscal stimulus
- Ending of extra-ordinary monetary stimulus
 - Depart from near 0% interest rates
 - Stop in provisioning of almost limitless liquidity
 - Quantitative easing
- Ending of decreased destocking/restocking
- Reduced level of credit supply by banks, esp. in Europe
- Rising commodity prices (oil!)
- Sovereign debt crisis

Outlook 3

- But other economists (a growing number) are more optimistic about the future
- Reasons:
 - World trade and industrial production is surging
 - Indicators are often at levels that signal strong growth ahead

Key Assumptions & World trade forecast

	Autumn 2009		Spring 2010		
	2009	2010	2009	2010	2011
GDP volume (yoy)					
United States	-2,7	2,0	-2,4	3,0	2,5
Japan	-5,4	2,0	-5,2	1,8	1,4
Euro Area	-3,7	1,5	-4,0	1,2	1,5
China	8,2	8,5	8,6	10,0	8,7
Exchange Rates (levels)					
USD/EUR	1,38	1,45	1,39	1,38	1,38
JPY/USD	95	90	93,6	92,0	92,0
World trade prices (USD)					
Crude oil (Brent, level, \$/b)	60,1	75,2	61,5	80	80
Non-energy prim. Commodities, yoy	-23	12	-22,4	20	2
Manufactured goods, yoy	-6,3	0,4	-7,5	-0,4	1,3
World trade volume (goods, yoy)	-13,5	7,4	-12,1	10,7	7,6

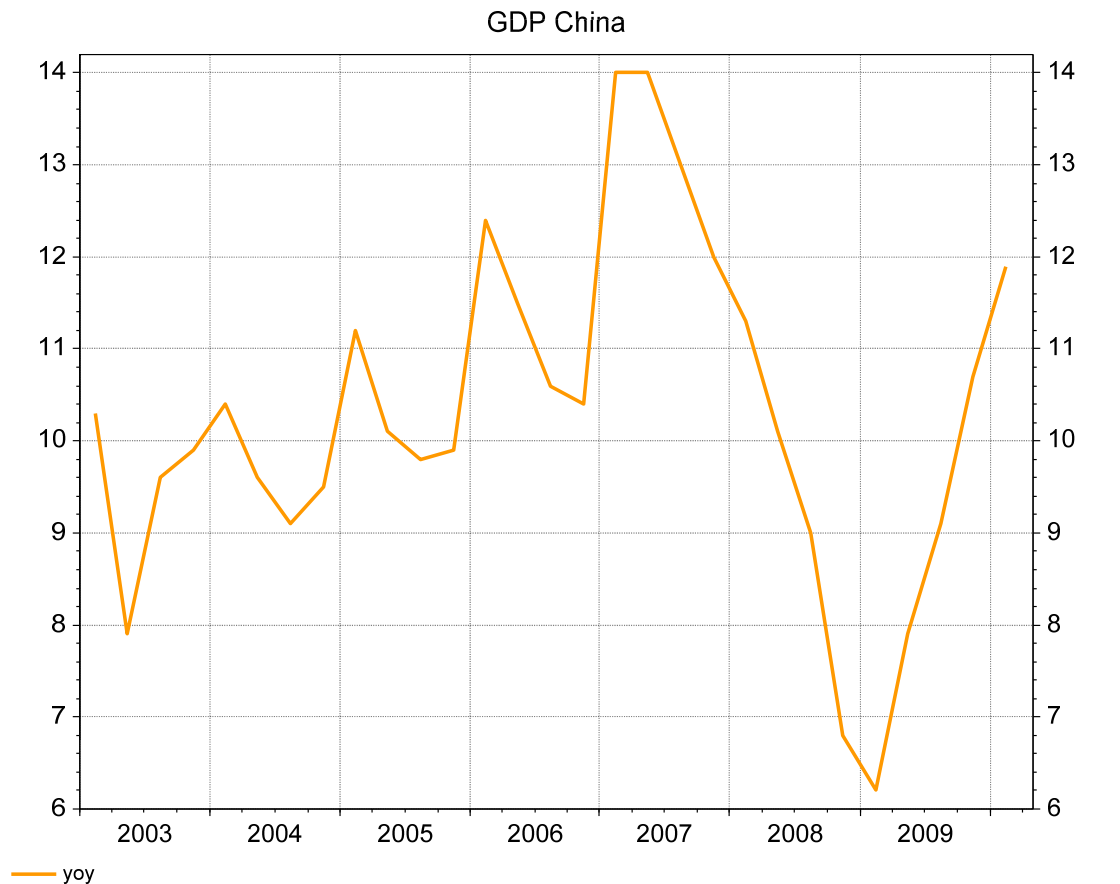
World trade forecast, quarterly profile

	Level, 2000=100	qoq	yoy
2009Q1	131,7	-9,9%	-18,6%
2009Q2	131,8	0,1%	-18,2%
2009Q3	137,0	3,9%	-13,7%
2009Q4	144,1	5,1%	-1,4%
2010Q1	147,7	2,5%	12,2%
2010Q2	149,5	1,2%	13,4%
2010Q3	151,4	1,3%	10,5%
2010Q4	154,0	1,7%	6,9%
2011Q1	157,0	2,0%	6,3%
2011Q2	160,3	2,1%	7,3%
2011Q3	163,7	2,1%	8,1%
2011Q4	167,2	2,1%	8,6%

China

- Ever more a driver for the world economy and financial markets (cf. Market reaction when authorities signalled monetary tightening)
- Ever more important in our forecasts, but statistics not abundant & of doubtful quality
- Concerns about Chinese credit expansion, asset prices and rising inflation
- Bank reserve requirements raised and lending restrictions imposed
- China needs a new growth model relying more on internal consumer demand rather than on external demand
- Yuan/USD: Revaluation soon or US protectionist measures will be taken

China GDP growth



Source: Thomson Reuters Datastream

- Fiscal stimulus plan
- Incredible surge in bank lending
- Pushed yoy GDP growth from 6% to 12% in the course of just one year

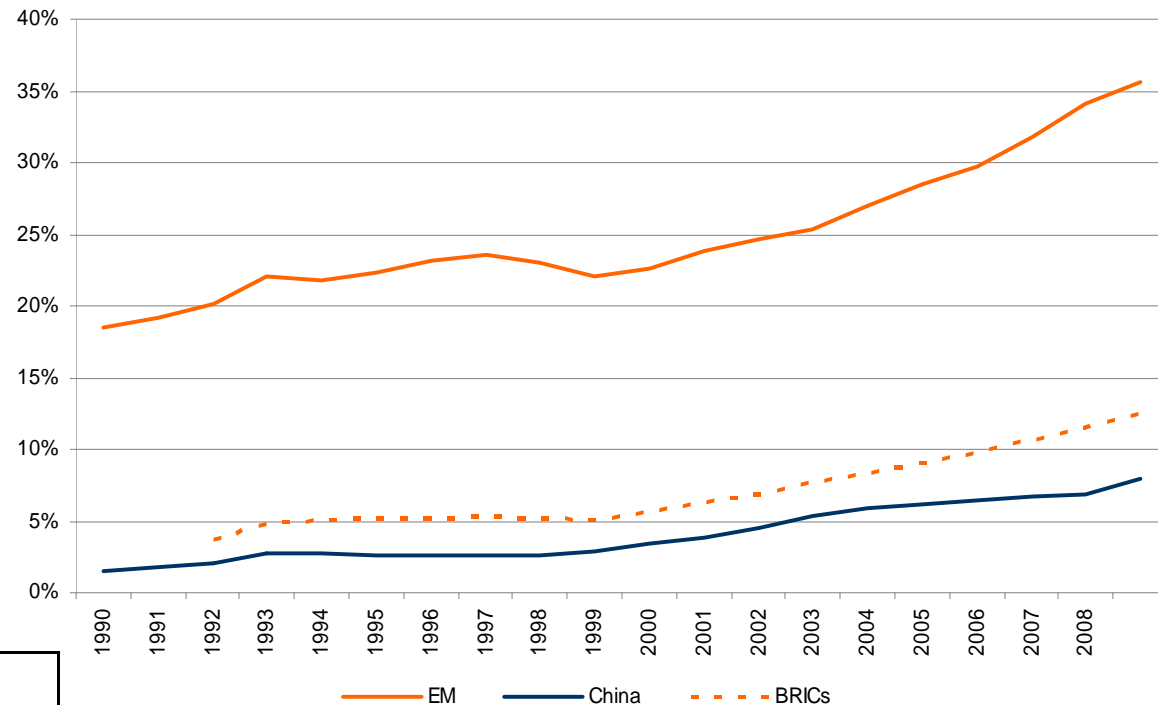


The rising importance of emerging markets in world trade

Source: DOTS IMF (values)

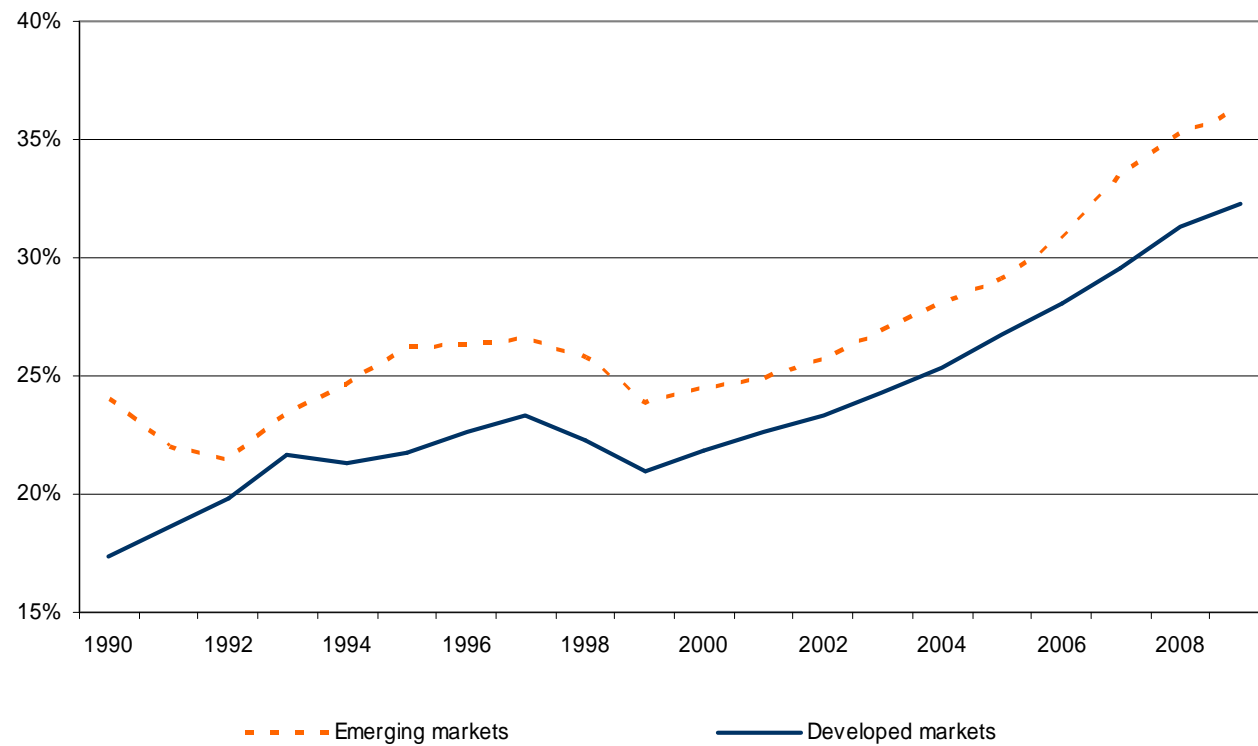
World import market shares EM, BRICs, China

- EM M growth surging
- High domestic demand growth
- Opening up economies
- Shift toward intra-EM & intra-BRICs trade



	Av M gr 00-08
DM	9,8
EM	19,1
BRICs	21,7
China	25,1

EM & DM export share going to EM



World trade becoming more diversified-Top 10 M

	1990		2000		2008	
1	US	14,6%	US	18,8%	US	13,1%
2	Germany	9,8%	Germany	7,6%	Germany	7,2%
3	Japan	6,7%	Japan	5,8%	China	6,8%
4	France	6,6%	UK	5,1%	Japan	4,6%
5	UK	6,3%	France	5,0%	France	4,3%
6	Asia	5,7%	Canada	4,0%	UK	3,8%
7	Italy	5,2%	Italy	3,6%	Netherlands	3,5%
8	Canada	3,7%	China	3,4%	Italy	3,4%
9	Netherlands	3,5%	Netherlands	3,3%	Belgium	2,8%
10	Spain	2,5%	Hong Kong	3,2%	Canada	2,7%
	Top 10 Total	64,6%	Top 10 Total	59,7%	Top 10 Total	52,2%

World trade becoming more diversified-Next 10 M

	1990		2000		2008	
11	Hong Kong	2,3%	Mexico	3,0%	South Korea	2,6%
12	South Korea	2,0%	Belgium	2,7%	Spain	2,6%
13	Switzerland	2,0%	South Korea	2,4%	Hong Kong	2,3%
14	Singapore	1,7%	Spain	2,2%	Mexico	2,1%
15	Sweden	1,5%	Singapore	2,0%	Singapore	1,9%
16	China	1,5%	Switzerland	1,3%	India	1,7%
17	Austria	1,4%	Malaysia	1,2%	Russia	1,6%
18	Australia	1,2%	Australia	1,1%	Brazil	1,4%
19	Thailand	0,9%	Sweden	1,1%	Australia	1,3%
20	Mexico	0,9%	Austria	1,1%	Poland	1,3%
	Next 10 Total	15,5%	Next 10 Total	18,1%	Next 10 Total	18,8%
	Top 20 Total	80,2%	Top 20 Total	77,8%	Top 20 Total	71,0%



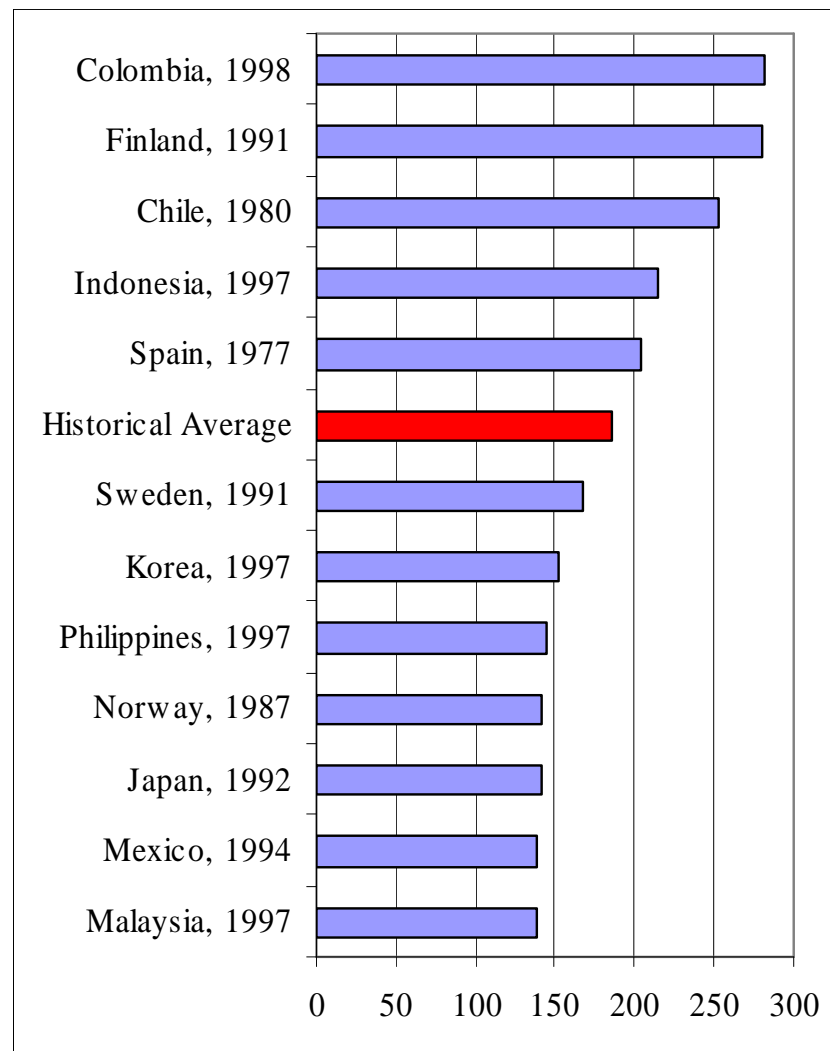
European sovereign debt crisis

Next big phase in the financial crisis

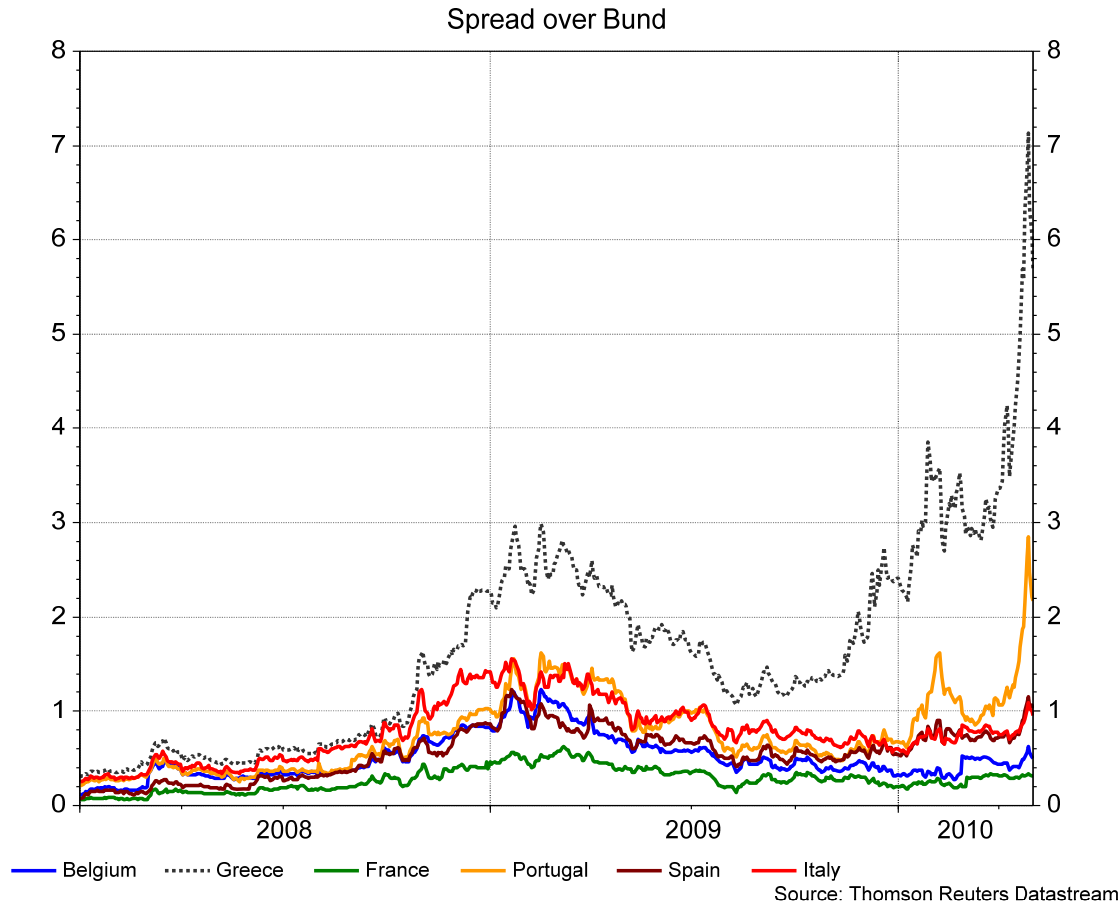
- Let us not be overly optimistic because of buoyant world trade, IP & GDP growth
- Financial crisis still among us (all our risks relate to it)
- Next big phase in the financial crisis (after subprime, banking & economic crisis)
- Reinhart & Rogoff: Public debt soars in wake of fin.crisis & defaults often follow

Cumulative rise in real debt in the 3Y following the banking/financial crisis

Index= 100 in year of crisis



Bond yield spreads against German Bunds



- It started with Greece (statistics falsified) & 2009 deficit estimate suddenly doubled
- Credit downgrades
- Spreads of ES, PT, IR also on the rise
- Last week even small rises in other countries
- Reasons behind crisis?

GR	714	IT	110
PT	286	BE	62
IR	225	FR	33
ES	115	NL	29

Spreads on 28/04:

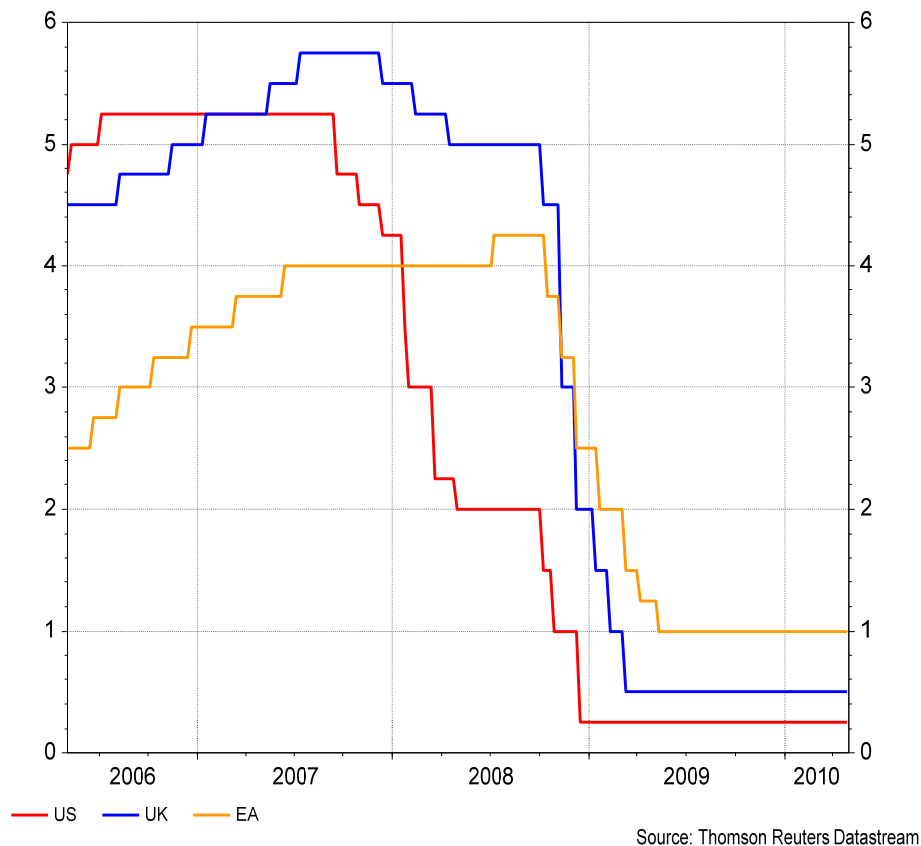
1.State of public finances

	Deficit	Debt
Greece	-12,7	112,6
Spain	-11,2	54,3
Portugal	-8,0	77,4
Ireland	-12,5	65,8
Italy	-5,3	114,6
France	-8,3	76,1
Belgium	-5,9	97,2
Germany	-3,4	73,1
NL	-4,7	59,8
Austria	-4,3	69,1
Finland	-2,8	41,3
EA12	-6,4	78,7
UK	-12,1	68,6
US	-11,3	65,2

- Deteriorated strongly due to recession, stimulus & capital injections in banks
- In some countries : Over-reliance on above-trend receipts from bubbly sectors (e.g. construction in ES, financ.sector in UK)
- LT cost of ageing

Ameco Autumn 09 fc for 2009

2. Phasing out of exceptional monetary stimulus



- Departure from near 0% IRs
- Fade out almost limitless provisioning of liquidity
- End QE
- Has powered financial assets
- Carry-trade on gov.bnds, popular strategy
- Removal of subsidy to public debt
- Mainly hurts most indebted countries (higher ylds ,made them main beneficiaries carry-trade)

3. Competitiveness, CA deficits and foreign debt

Country	ULC Ch 08-99	CA/GDP change 08-99
Greece	40.4	-8.6
Ireland	37.5	-5.3
Portugal	35.5	-3.2
Spain	33.3	-6.8
Italy	16.7	-4.0
Belgium	17.8	-4.7
Austria	8.6	5.1
France	19.7	-5.8
NL	24.9	0.0
Finland	19.8	-5.4
Germany	3.4	7.8
EA12	17.9	-1.2
UK	24.3	0.7
US	17.2	-1.8

- Entrance in euro area lowered interest rates & unleashed credit boom
- Higher wage growth and inflation
- Deterioration of competitiveness
- Strongest rise over last 10Y seen in the four problem countries
- Related: The level of foreign debt and the dependence on foreign capital (PT)

4. The functioning of the euro area: more integration?

- Lack of means to address these imbalances
- Lack to reach consensus rapidly in times of crisis
- Initial plan for Greece was vague and incredible & markets did not buy it
- The EA is no optimal currency area
- US neither, but regional imbalances are attenuated by the federal budget (bulk of taxing & spending) and stronger labour mobility
- Euro area needs to integrate more and go towards a fiscal & political union or else ...

What next? – The new plan for Greece

- More inflation to erode debt overhang, defaults, general loss of confidence in sovereign debt?
- The new plan for Greece:
 - 110bn EUR loan package from EA & IMF
 - Condition of spending cuts & tax hikes
 - Effort needed not entirely unprecedented, but ... (cf. Belgian case)
 - 10 bn EUR to stabilise banking system
 - ECB suspends collateral rule for Greek bonds
 - Plus: No need to turn to bond market next 3Y
 - Enough to restore confidence?
 - Insolvency remains a problem, some kind of debt restructuring still likely

Questions remain

- Amounts lent to Greece still need to be approved in national parliaments
- Will Greece really be able to achieve these draconian measures
- Contagion risk not addressed (ES, PT): Will they be saved too?
- Markets risk testing this & see if countries are really prepared to restore health in public finances
- Not only in Europe (US, UK, Japan)
- Policymakers need to find way to convince markets they'll do whatever necessary to get ahead of the crisis

Effects of full-blown sovereign debt crisis

- Loss of confidence could still spread
- Effects of a full-blown sovereign debt crisis:
 - Higher interest rates
 - Premature and severe tightening of fiscal policy
 - Hit to bank assets (writedowns on sovereign debt) and financial panic: The sovereign version of Lehman?
→ Would imperil the still fragile economic recovery

Foreign banks' exposure to problem countries

- Bulk with European banks
- Includes debt of public and private sector

	in bn EUR
Greece	163,9
Portugal	198,3
Ireland	601,8
Spain	795,4
Italy	984,2

Source: BIS



Thank you for your attention.