



Facing the Global Crisis in EM

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Passion to Perform

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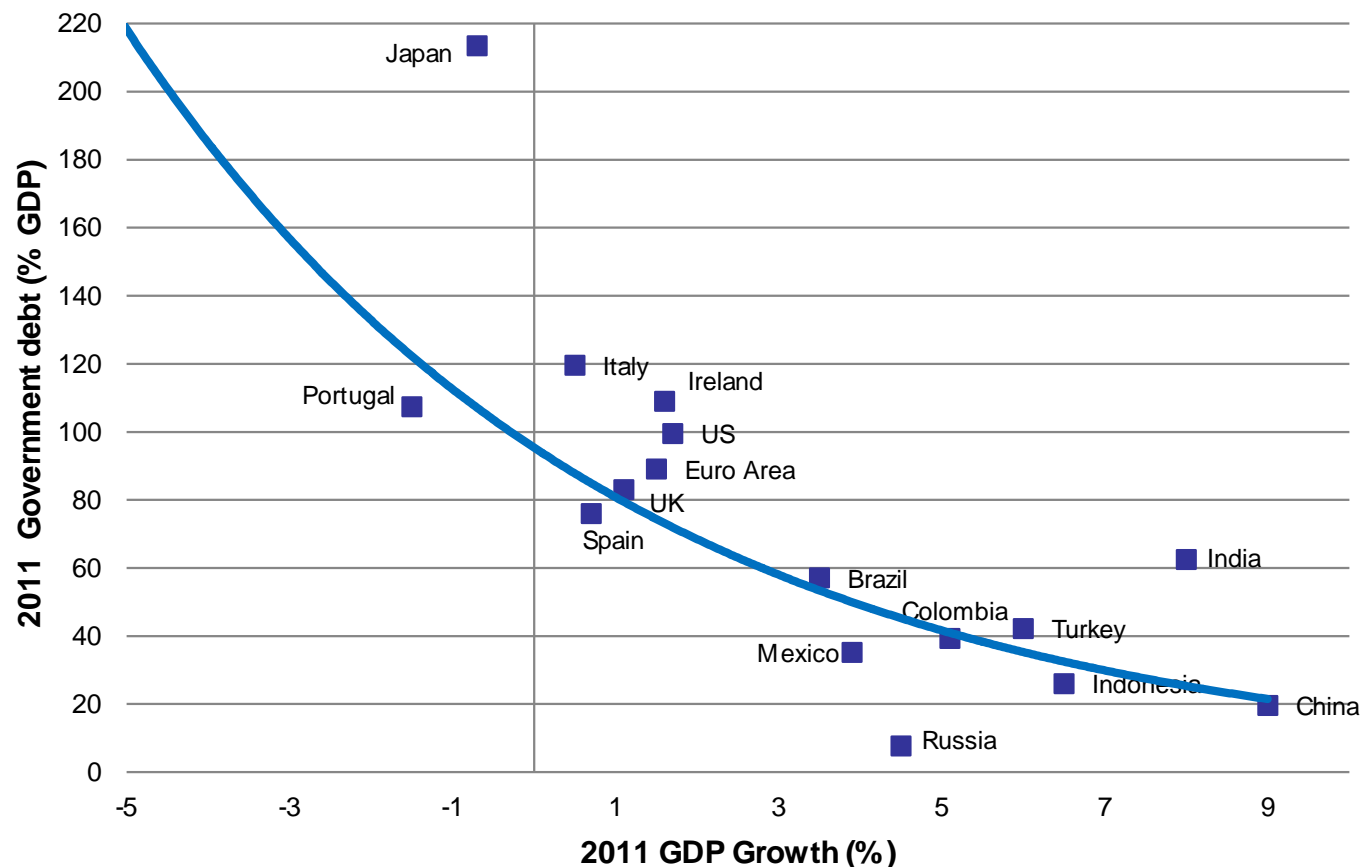
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A tricky relationship but a powerful chart: government debt and economic growth



- Deleveraging (over-savings)

- Debt overhang

- Ricardian equivalence

- etc



- Countercyclical policies

- Consumer/business depression...

Source: IMF, Haver, DB Global Markets Research



I. Europe Unconvincing Policy Approach

Preview

1. We believe the EU has the internal resources to resolve this crisis:

- External demand support from decent global growth and a soft euro
- Structural reforms to support medium term growth

2. But vulnerabilities remain high:

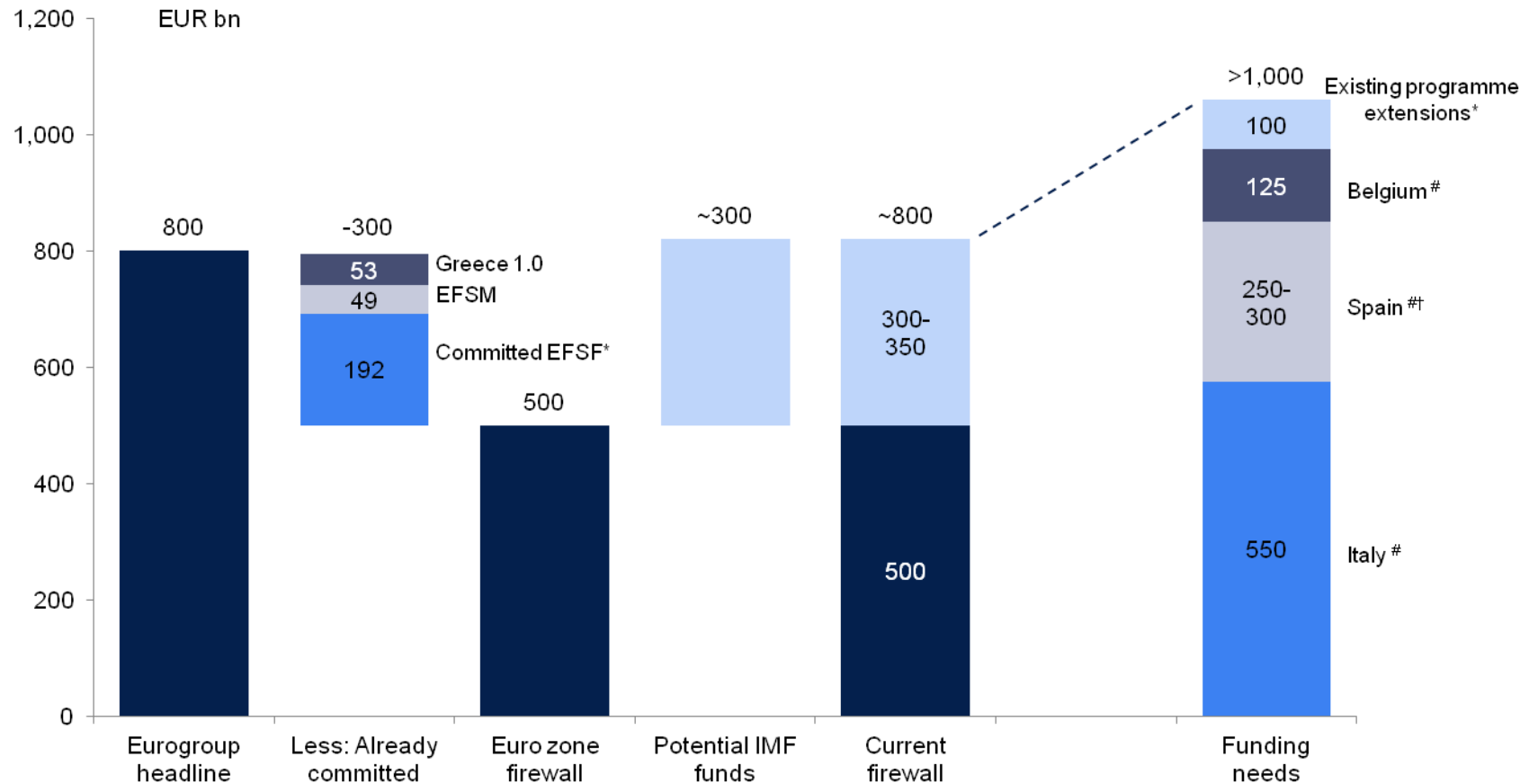
- Crisis of confidence has gone very deep
- 2012 was always going to be a recession, complicating public and private deleveraging. Worsening economic outlook intensify the challenges
- But is more a political than economic crisis: euro-area leaders fell 'behind the curve', again

3. Hence, crucial:

1. Individual countries: structural reforms & fiscal consolidation
2. EA: roadmap to greater integration; banking sector and common issuance
3. ECB: (i) helping bridge, not THE solution (ii) delicate balance

Crisis management: firewall size and ESM “seniority”

Crisis fighting firewall: the current rescue firewall is insufficient to reassure markets



Note: (*) Ireland (45) and Portugal (40) through 2015. Greece (12) through 2016 (#) Includes bond redemptions and deficits through 2014 and ESM paid-in capital portion. (†) Includes EUR 75bn for banks recapitalisation
Source: Deutsche Bank CIB Research

How much does it cost to finance Europe sovereigns?

EURbn	Italy	Spain	Belgium	France	MEMO: Total
Sovereign redemptions (ex bills, incl coupons)					
2012	241.8	69.3	40.9	150.9	
2013	184.5	79.2	40.2	155.4	
2014	141.7	66.3	34.4	93.2	
Total	568.1	214.8	115.6	399.5	1,297.9
Primary budget deficits (surpluses are negative)					
2012	-48.2	25.1	0.5	52.0	
2013	-60.1	2.0	-1.4	30.8	
2014	-75.1	-10.4	-3.1	22.2	
Total	-183.5	16.7	-4.0	105.0	-65.8
Total sovereign funding					
2012	193.6	94.4	41.4	202.9	
2013	124.5	81.2	38.8	186.2	
2014	66.6	56.0	31.3	115.4	
Total	384.6	231.5	111.6	504.5	1,232.2

E616bn to finance Italy & Spain 2012-2014

E728bn to finance Belgium also

E1.2tr if France to be financed at the same time

Source: Deutsche Bank

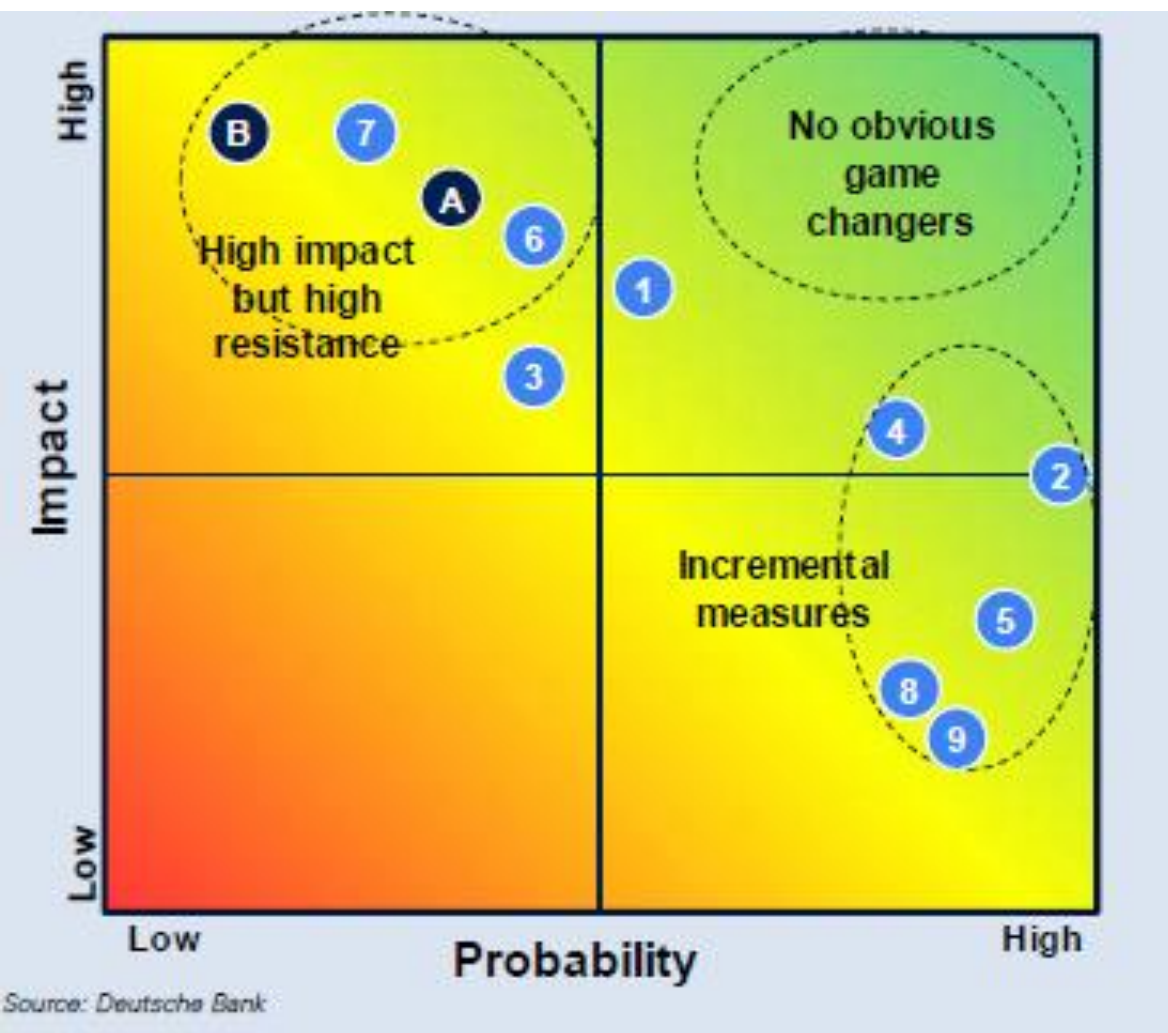
A massive bank debt redemption wall in 2012

Country	2012				2013				2012-2013
	Senior	Covered	Gov GTD	Total	Senior	Covered	Gov GTD	Total	Total
Germany	35.6	83.6	18.1	137.2	42.6	83.6	0.0	126.2	263.5
Spain	45.5	58.8	38.5	142.8	26.6	58.8	5.5	90.9	233.6
Italy	65.5	18.9	0.0	84.5	52.1	18.9	0.0	71.1	155.5
France	51.1	27.6	0.0	78.7	40.9	27.6	0.0	68.5	147.2
Netherlands	33.3	1.1	13.6	47.9	33.5	1.1	0.5	35.0	82.9
Belgium	7.8	12.0	3.8	23.6	7.2	12.0	9.4	28.6	52.2
Greece	8.2	7.8	1.0	17.0	7.0	7.8	13.3	28.1	45.1
Austria	9.2	3.0	6.0	18.2	9.1	3.0	3.0	15.1	33.3
Ireland	6.9	3.4	5.4	15.7	1.3	3.4	7.0	11.7	27.5
Portugal	5.9	3.8	3.0	12.6	5.6	3.8	0.0	9.3	22.0
Total	269.0	219.8	89.3	578.2	226.1	219.8	38.7	484.6	1062.7

Source: Bloomberg, DB Global Markets Research

Most needed euro-area architecture

What to expect?



- 1 Roadmap to fiscal union, long-term vision for euro to present / explain to markets the path to crisis resolution
 - 2 Strengthen banks to protect financial system, maintain credit to the real economy
 - 3 ECB liquidity to ease bank funding
 - 4 Direct recapitalisation of banks (ESM / EFSF)
 - 5 EU wide deposit guarantee / banking union
 - 6 Support countries with difficulties accessing markets
 - 7 ECB bond buying, liquidity for banks to buy sov. bonds
 - 8 Extension of existing bailout programmes
 - 9 Eurobonds / redemption funds
- End game, not short-term measures
- Increase firepower to reassure markets that we can credibly deal with deeper crisis (e.g., Spain, Italy)
 - 6 - Larger ESM
 - 7 - Banking license to ESM at ECB (increases lending capacity)
 - Support growth in short-term to mitigate negative impact from austerity
 - 8 - EU structural funds / EIB capital increase / project bonds
 - 9 - Policy rate cut by the ECB

Three potential scenarios could play out in Greece over the coming months

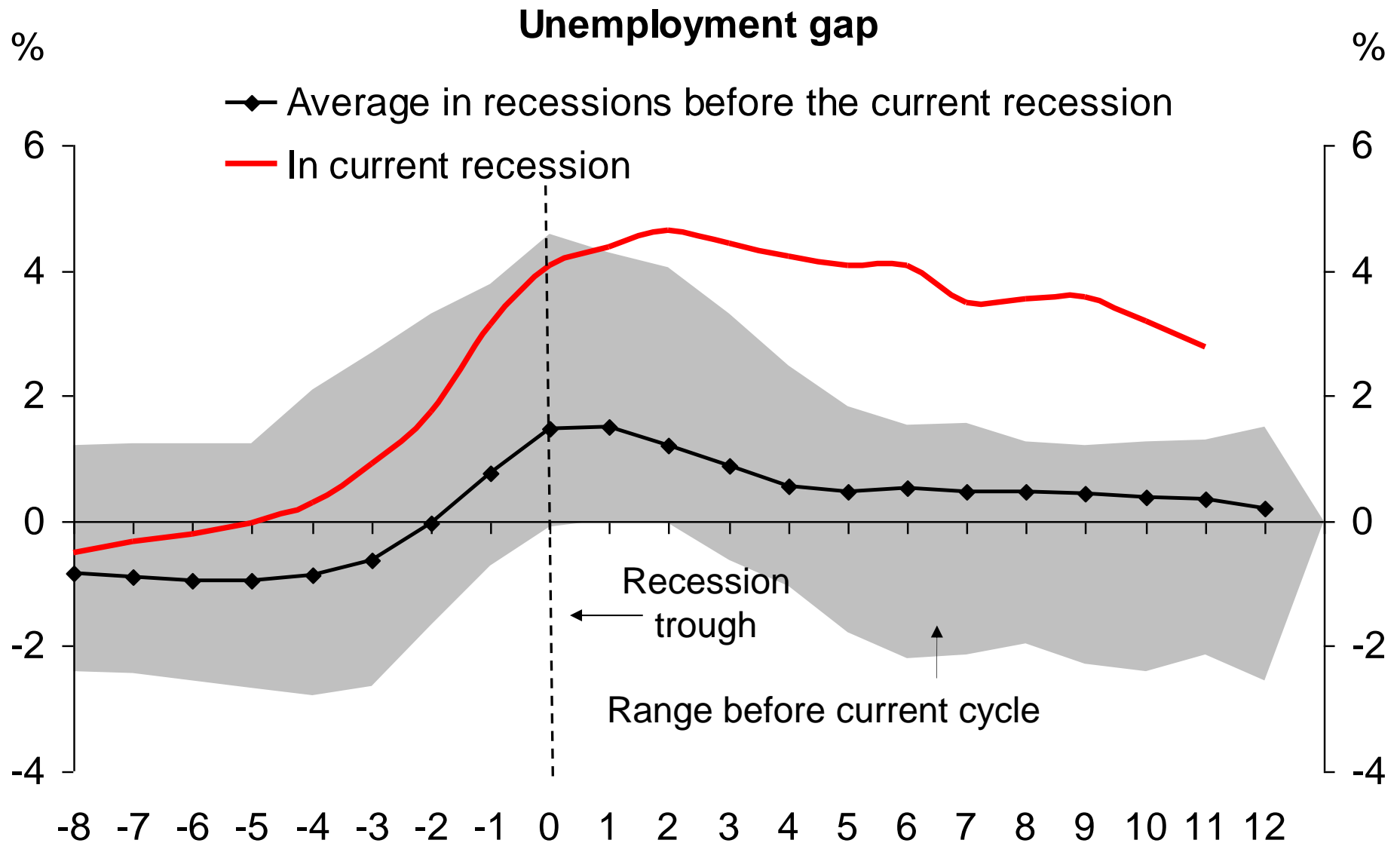


- 1) **Greece stays in the euro zone and “continue to muddle through”.**
Compromise reached between Athens and the Troika that sees Greece remain in the euro zone
 - 2) **Greece exits the euro zone.** Exit could emerge as the unwanted conclusion of a series of micro-decisions on the bailout, bank recapitalisation and ECB involvement
 - a) **Managed exit:** Greece exits the euro zone with ECB / EU / IMF support to facilitate an orderly transition
 - b) **Disorderly exit:** Greece exits the euro zone without ECB / EU / IMF support.
- ❑ Of the exit scenarios, a managed exit would be the more desirable and likely outcome.
 - ❑ The official sector would bear most of direct losses in the event of a Greek exit. Losses would be significant, but manageable.



II. US Slowdown and Fiscal Cliff

Current recovery unusually sluggish

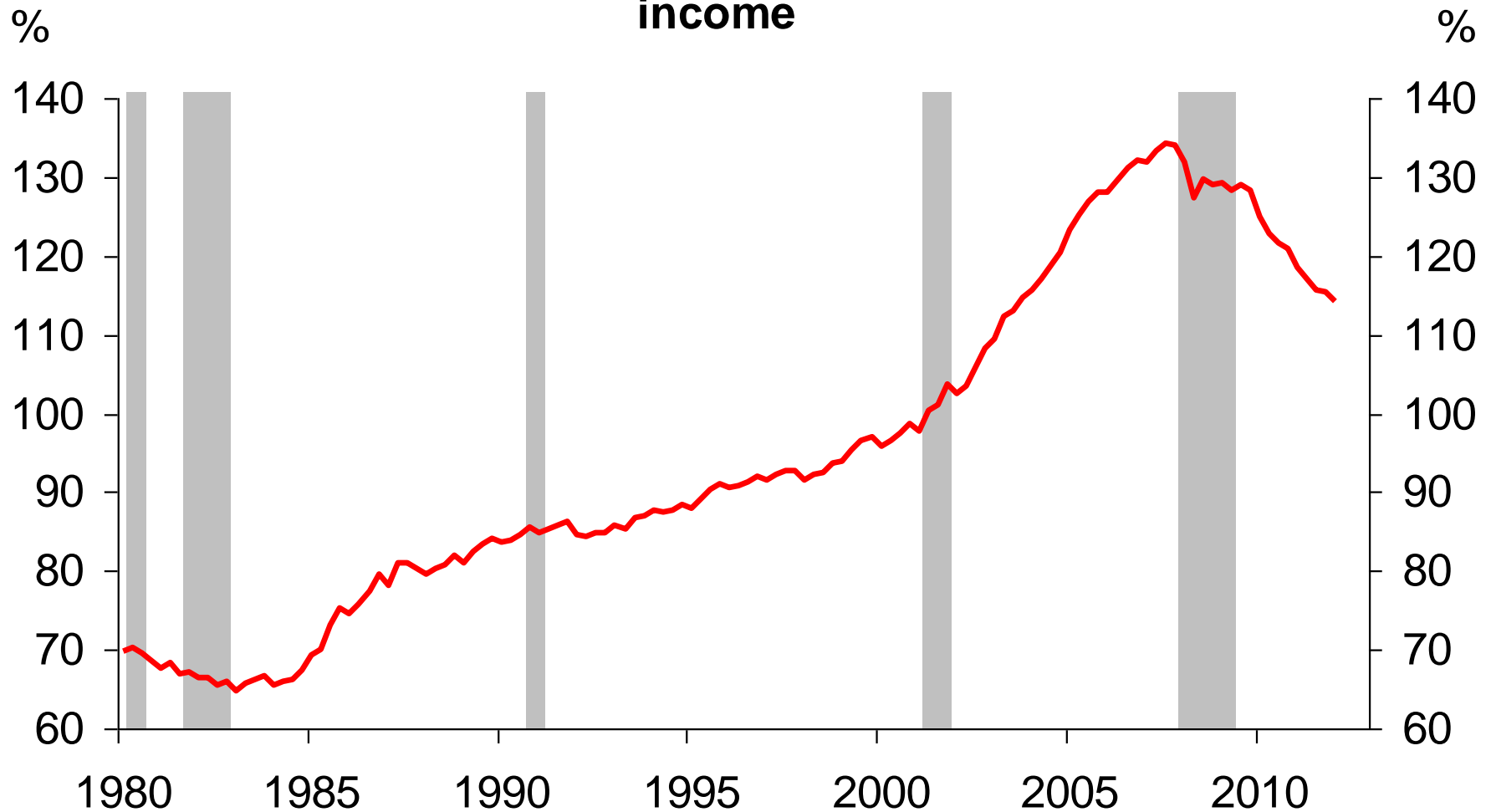


Source: CBO, BLS, Haver Analytics, DB Global Markets Research

Household deleveraging seems almost done

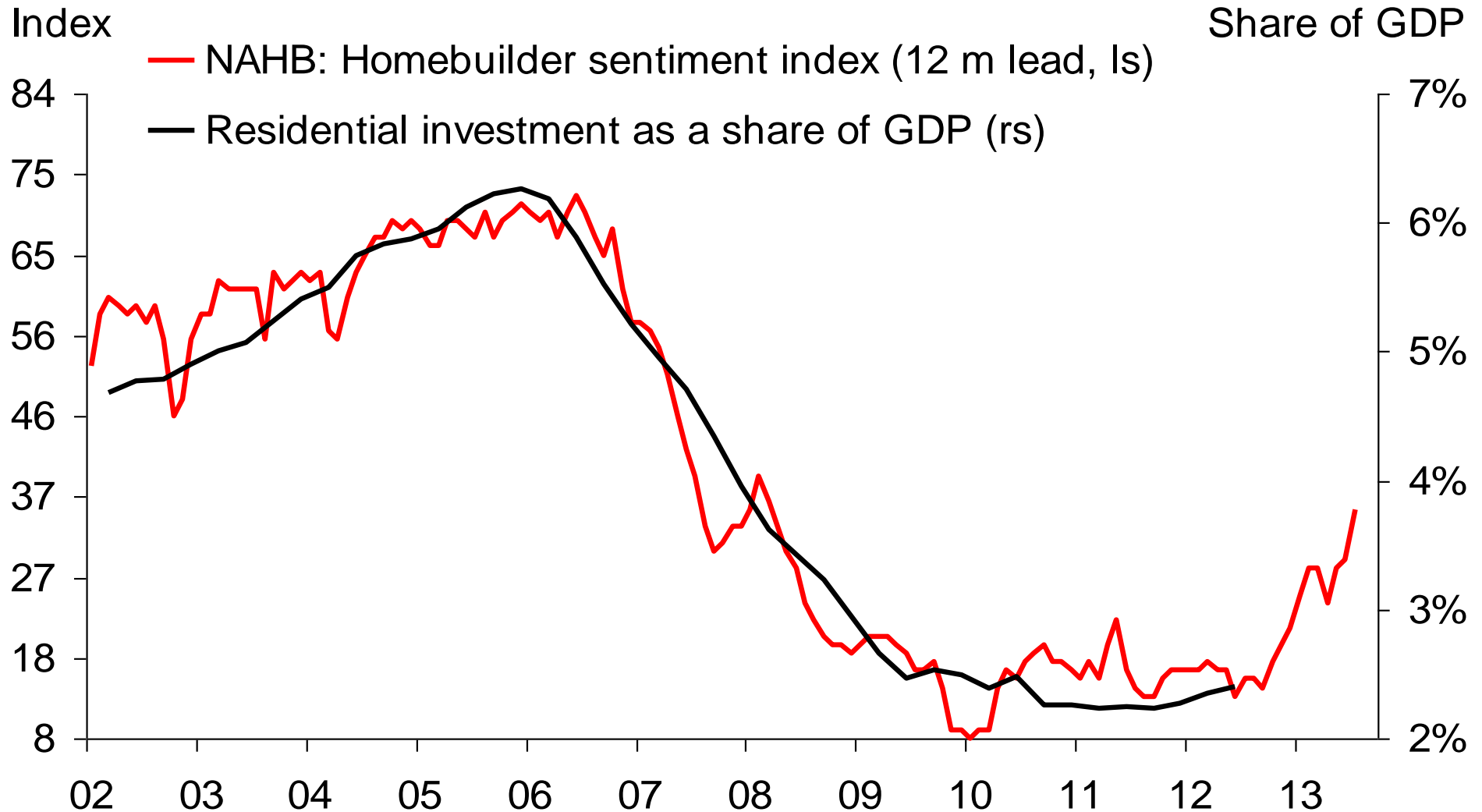


Household debt as percent of disposable personal income



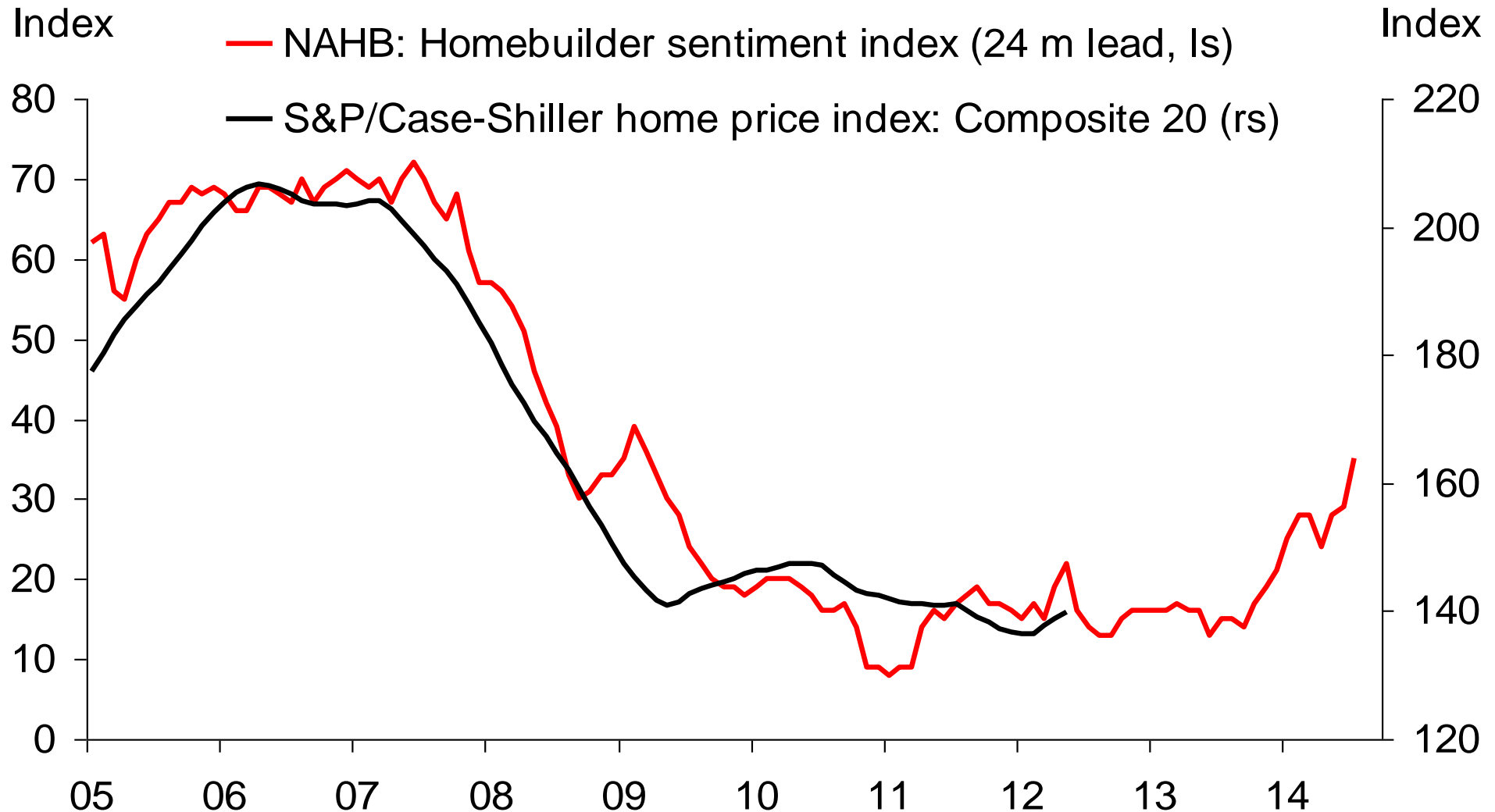
Source: FRB, BEA, Haver Analytics, DB Global Markets Research

Homebuilder sentiment index suggests that housing could add 1½ percent to GDP over the next 12 months



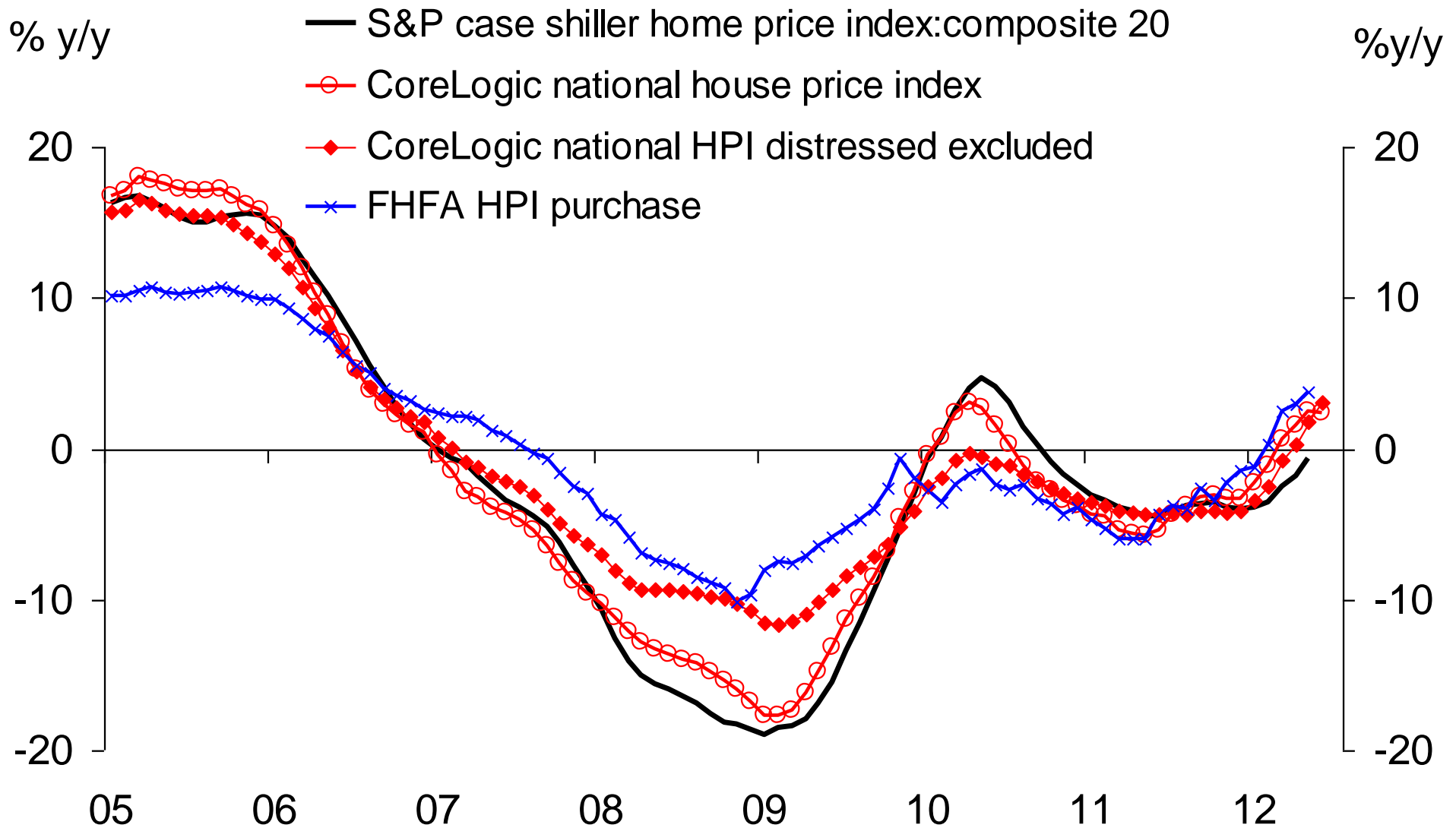
Source: NAHB, BEA , Haver Analytics, DB Global Markets Research

The homebuilder sentiment index suggests that home prices will be flat until mid-2013



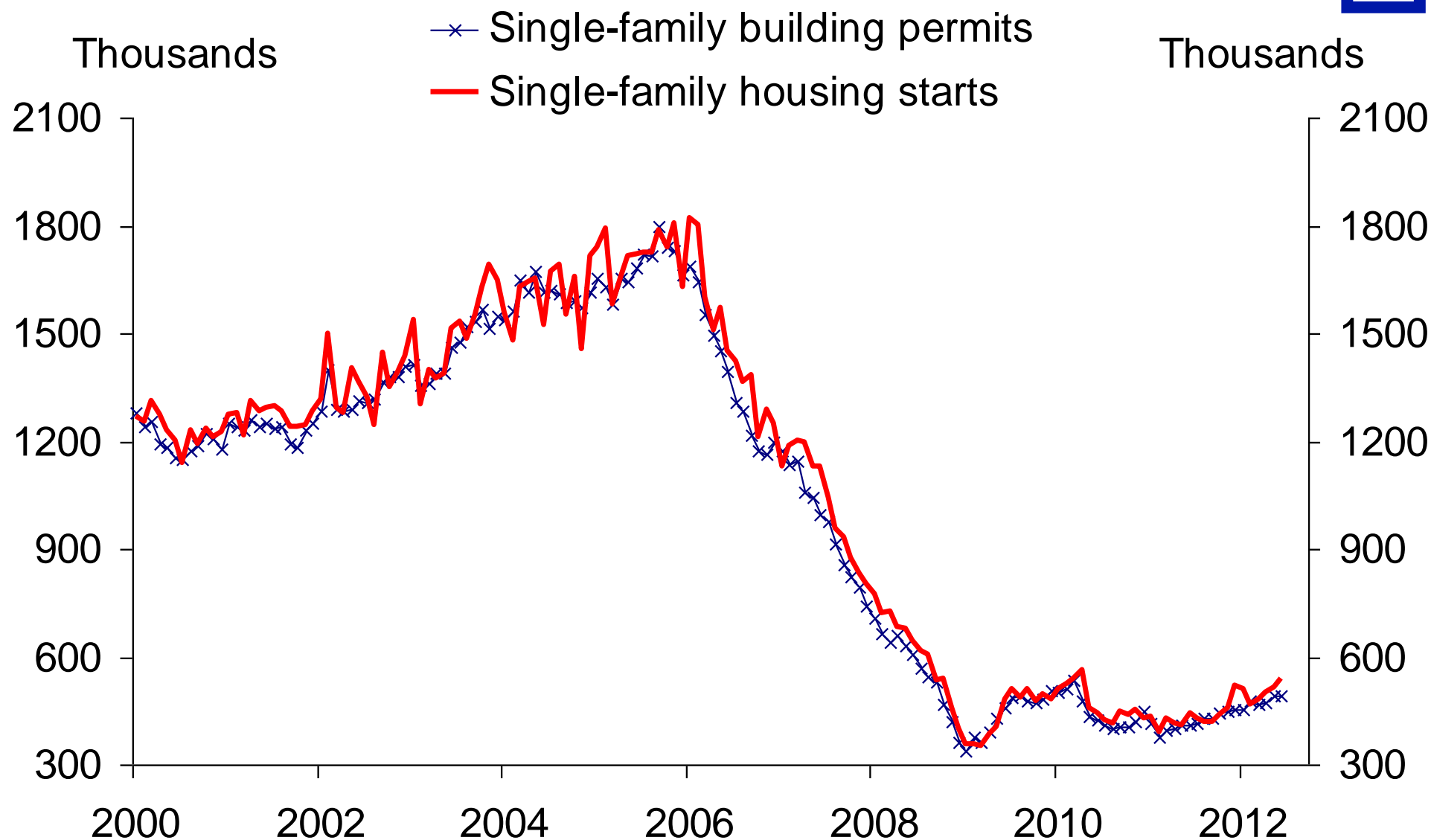
Source: NAHB, Fiserv, Macro Markets LLC, Haver Analytics, DB Global Markets Research

US home prices starting to turn up



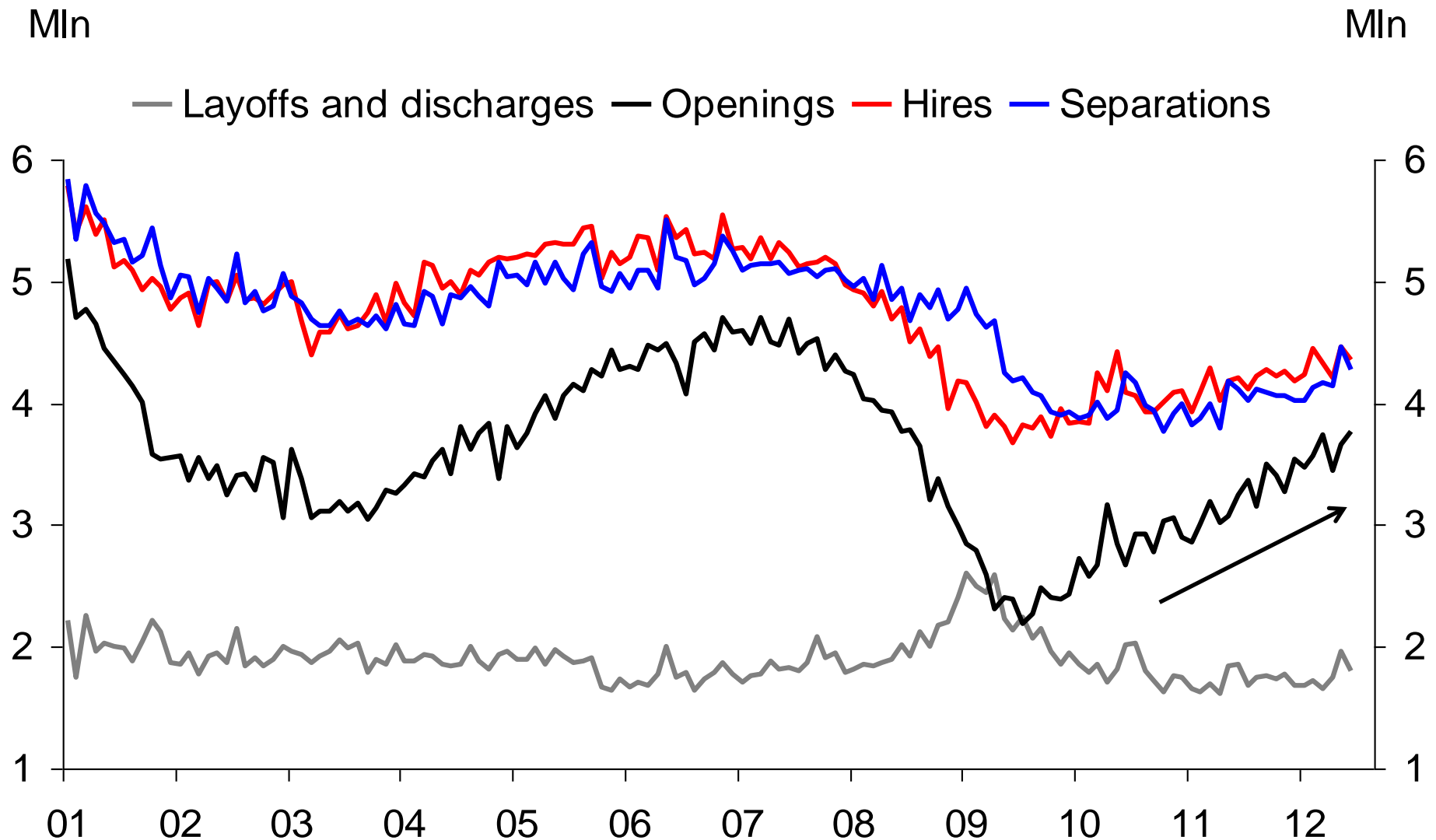
Source: S&P, CoreLogic, FHFA, Haver Analytics, DB Global Markets Research

But the speed of the housing recovery remains very slow



Source: Census, Haver Analytics, DB Global Markets Research

But job openings are trending up



Source: BLS, JOLTS, Haver Analytics, DB Global Markets Research

US Fiscal risk is a serious one but not immediate



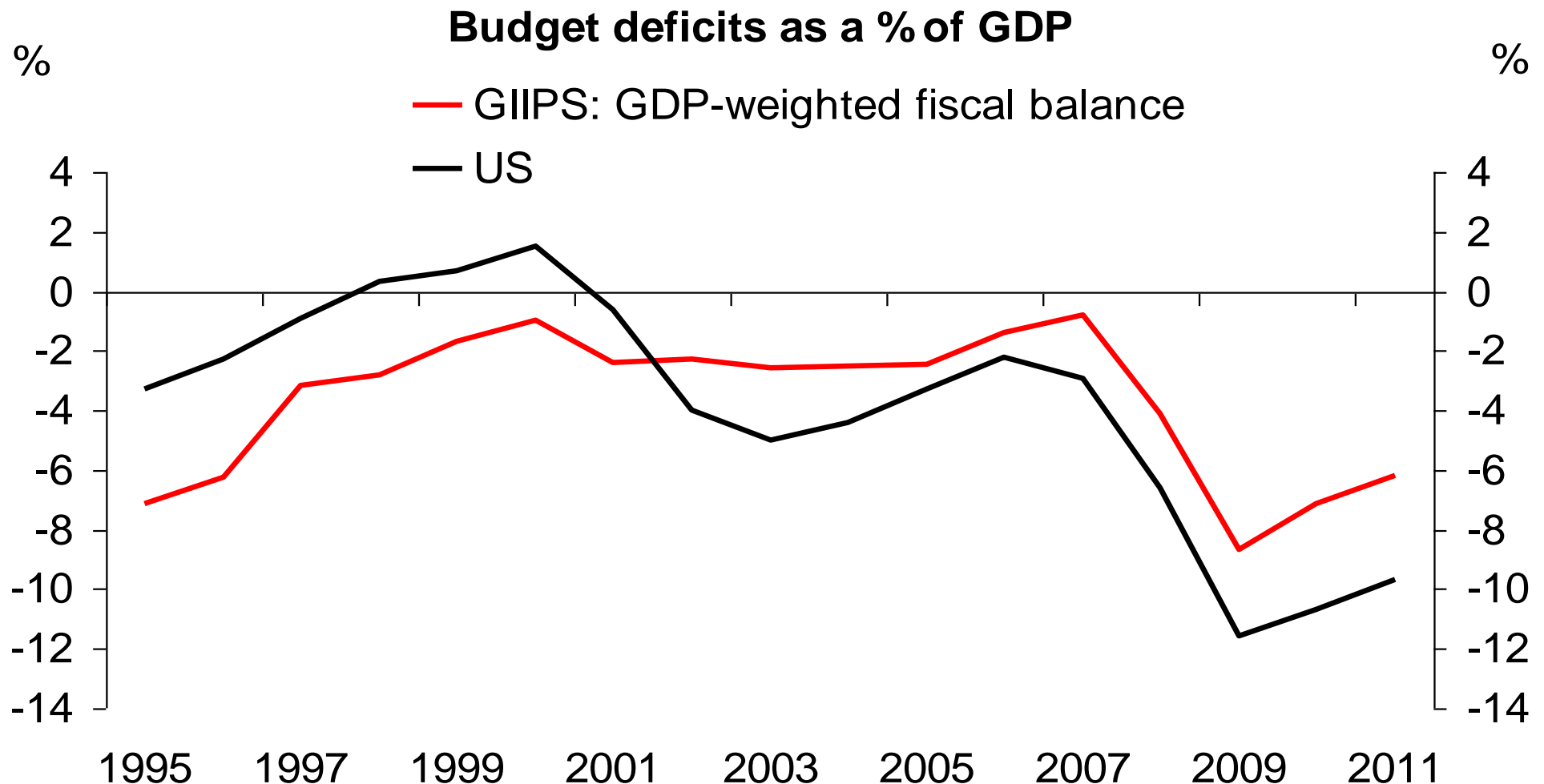
US faces steep fiscal cliff (under current law) and debt ceiling showdown around end of 2012 .

Consensus expectation: Fiscal cliff will be delayed and debt ceiling raised after the election, risking downgrade.

Optimistic view: 2nd term Obama Admin (or 1st term Romney Admin) and fully Republican Congress agree to address fundamental problem via entitlement reform and tax reform.

Pessimistic view: Gridlock debt-ceiling standoff and lots of pressure from markets

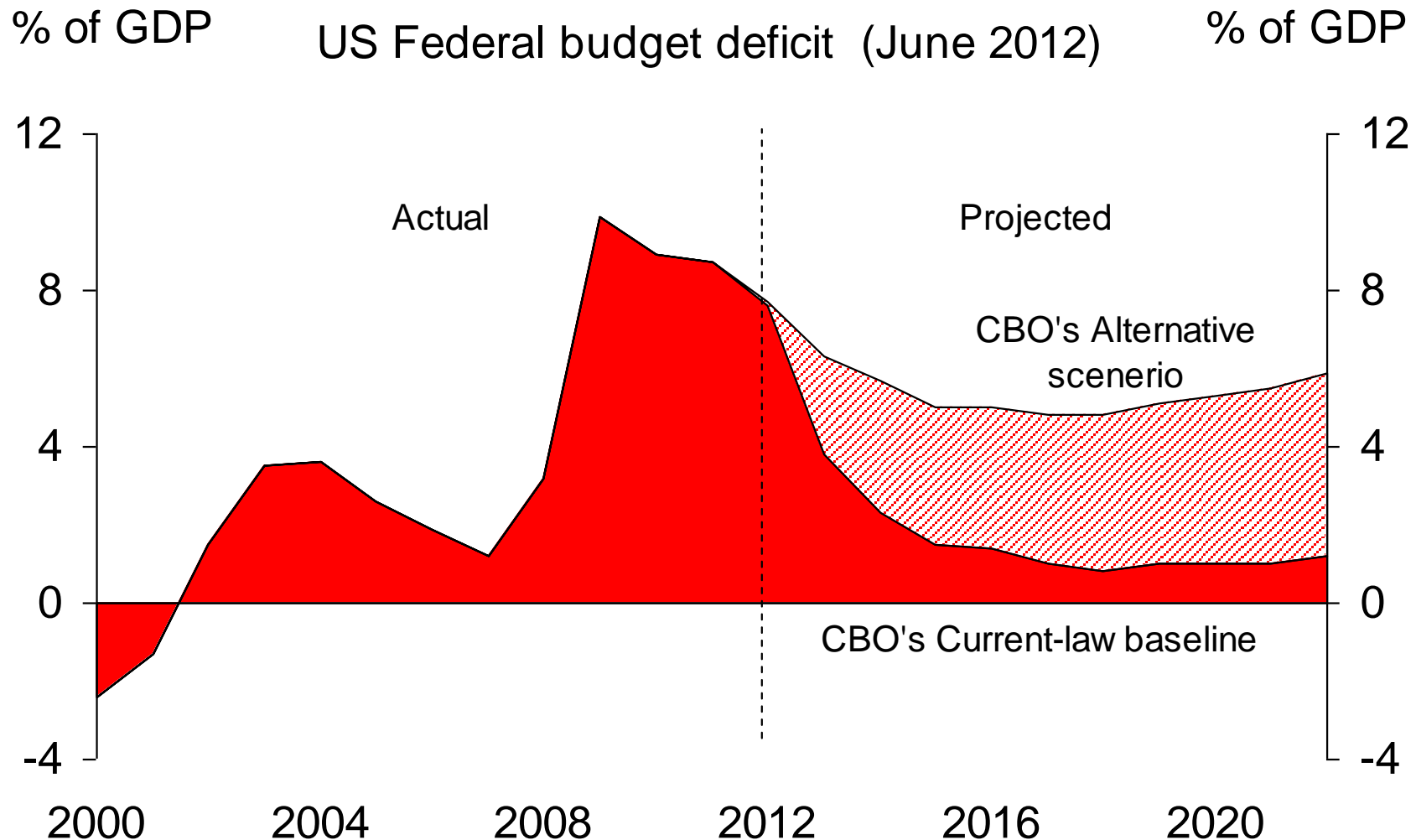
Budget deficits a bigger problem in the US than in peripheral Europe



Note: GIIPS = Greece, Ireland, Italy, Portugal, and Spain

Source: OECD, Statistical Office of the European Communities, Haver Analytics, DB Global Markets Research

The fiscal cliff



Note: The budget deficit denoted in positive sign whereas surplus in negative

Source: CBO, DB Global Markets Research

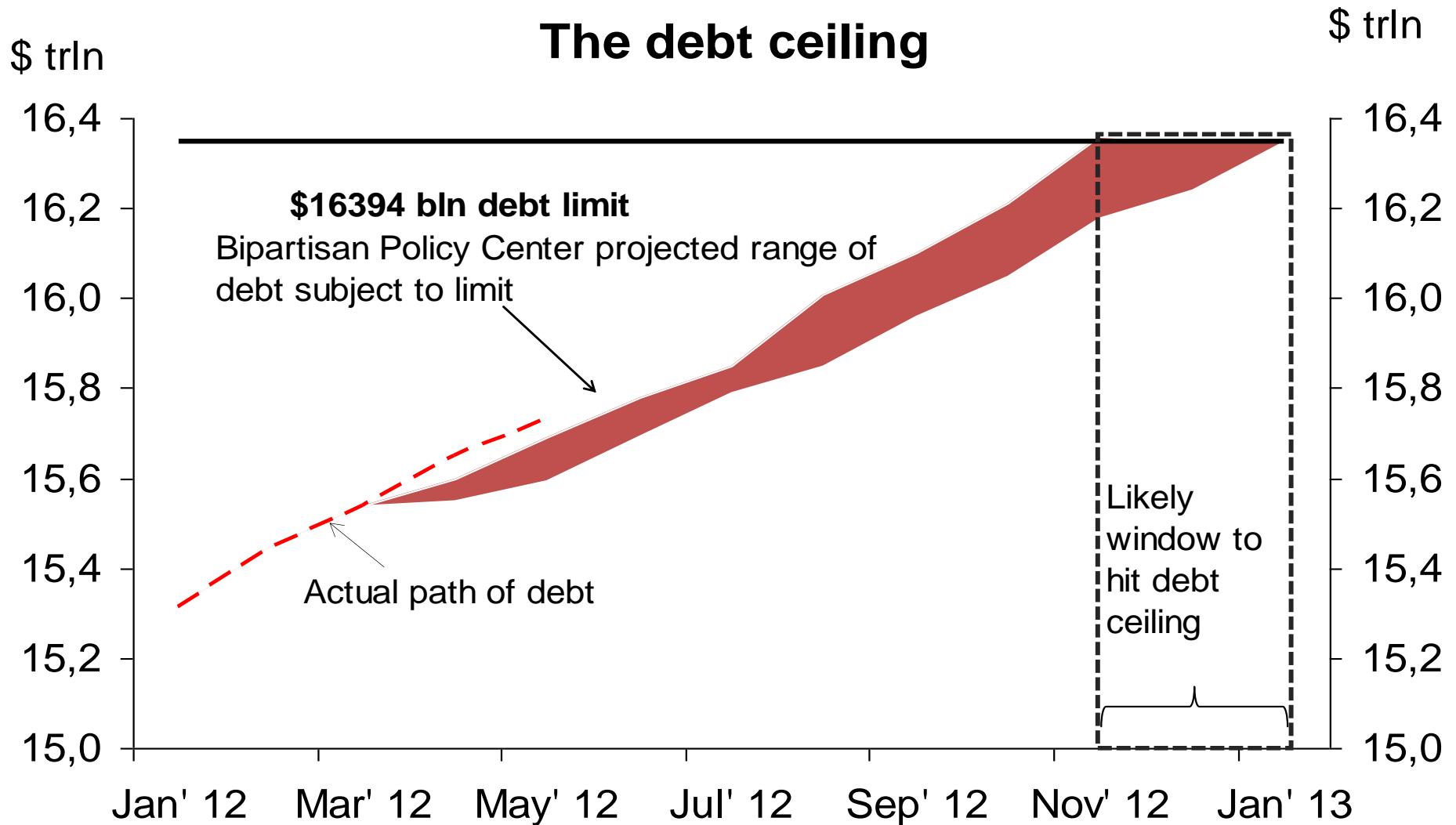
Components of the Fiscal Cliff



<u>Fiscal drag in 2013</u>	<u>Likely?</u>	<u>Max Amount (Current law)</u>	<u>Likely amount (Alternative sn.)</u>
Bush tax cuts (high income) expire	Maybe	120	60
Bush tax cuts (all other) expire	No	180	0
AMT & Doc Fixes expire	No	120	0
BCA discretionary spending cuts	Yes	45	45
BCA sequester	Maybe	70	35
<u>Total fiscal Drag 2013</u>		<u>535</u>	<u>140</u>
<u>% of GDP</u>		<u>3.6</u>	<u>0.9</u>

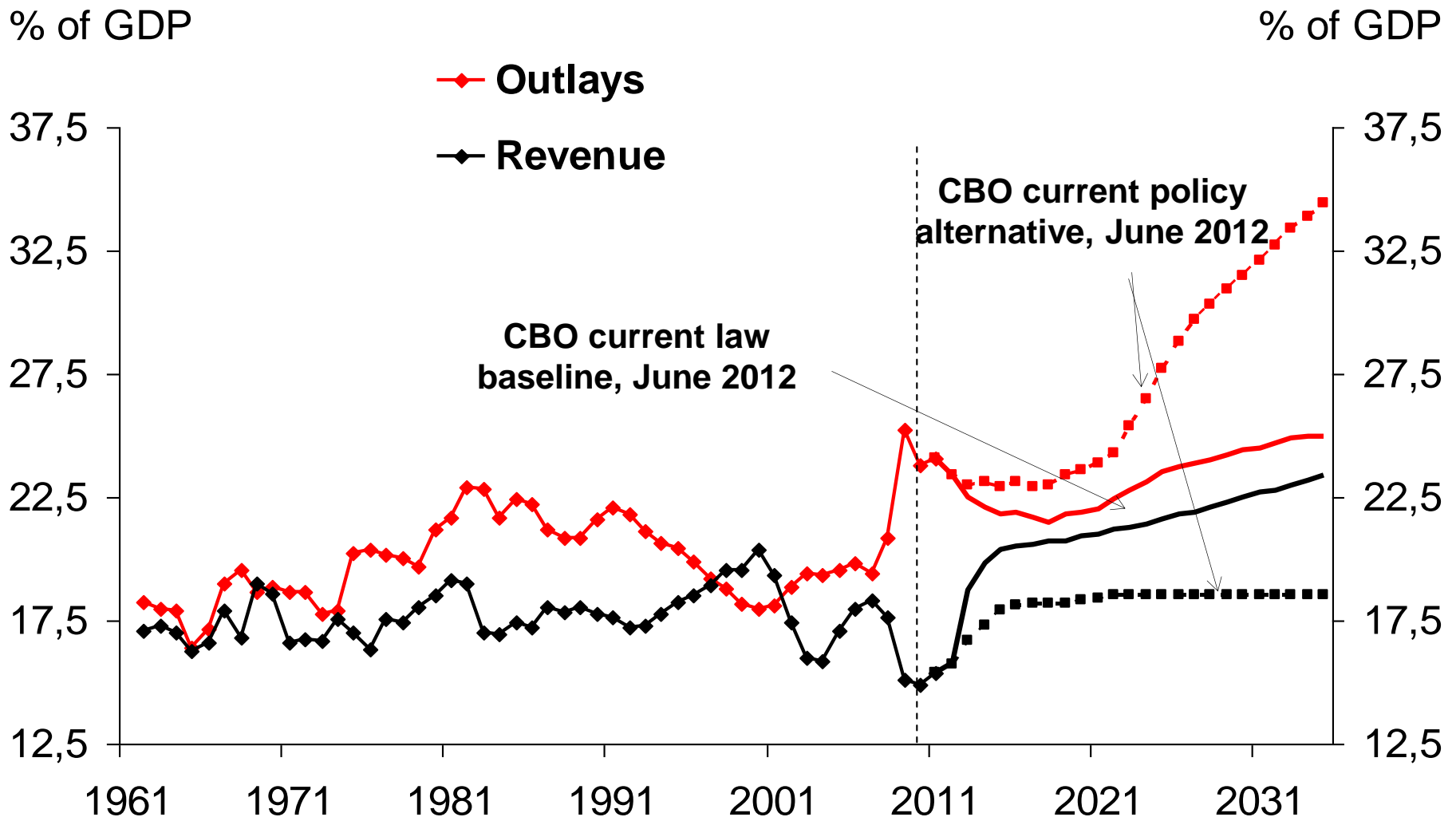
Source: CBO, DB Global Markets Research

Another debt ceiling crisis is waiting



Source: Bipartisan Policy Center, DB Global Markets Research

Closing the Revenue-Spending gap is a major challenge



Source: CBO, Fiscal Commission, DB Global Markets Research



III. Global Projections

Growth is slowing down and a global recession should not be ruled out, but not our base case scenario 

	GDP growth, YoY			CPI Inflation, YoY		
	2011	2012	2013	2011	2012	2013
G7	1.4	1.7	1.8	2.6	2.0	1.8
-US	1.8	2.4	2.5	3.1	2.1	2.4
-Japan	-0.7	3.1	1.2	-0.3	0.5	-0.1
-Euroland	1.5	-0.5	0.3	2.7	2.3	1.7
EM Asia (ex-Japan)	7.3	6.4	6.9	6.0	4.0	4.3
-China	9.2	7.9	8.4	5.4	2.8	3.5
-India	7.0	6.3	6.5	9.5	7.5	7.0
EMEA	4.7	3.2	3.6	6.5	5.5	6.1
-Russia	4.3	4.0	4.1	8.4	5.5	7.8
LatAm	4.3	2.9	3.9	8.4	7.6	7.6
-Argentina	7.7	1.6	2.3	24.4	22.3	23.4
-Brazil	2.7	1.5	4.2	6.6	5.1	5.0
-Chile	6.2	4.7	4.3	3.3	3.1	3.0
-Colombia	5.9	4.8	4.8	3.4	3.4	3.1
-Mexico	3.9	3.7	3.5	3.4	3.7	3.6
-Peru	6.9	6.0	6.0	3.4	3.8	2.8
Industrial countries	1.4	1.3	1.7	2.6	2.0	1.9
EM countries	6.2	5.1	5.6	6.6	5.0	5.3
Global	3.6	3.2	3.5	4.5	3.4	3.5

Source: DB Global Markets Research

(Still) stable commodities, dollar (?), and monetary easing



Commodities (USD, Annual Average)

	2009	2010	2011	2012F	2013F
WTI (barrel)	62	79	95	94	96
Brent Blend (barrel)	62	80	111	106	104
Gold (oz.)	974	1226	1571	1726	2050
Copper (lb)	2.36	3.43	4.00	3.57	3.63

Exchange Rates

	Current	3M	6M	12M	end 2012
USD/EUR	1.23	1.28	1.30	1.25	1.30
JPY/USD	78	80	82	86	82

Interest Rates

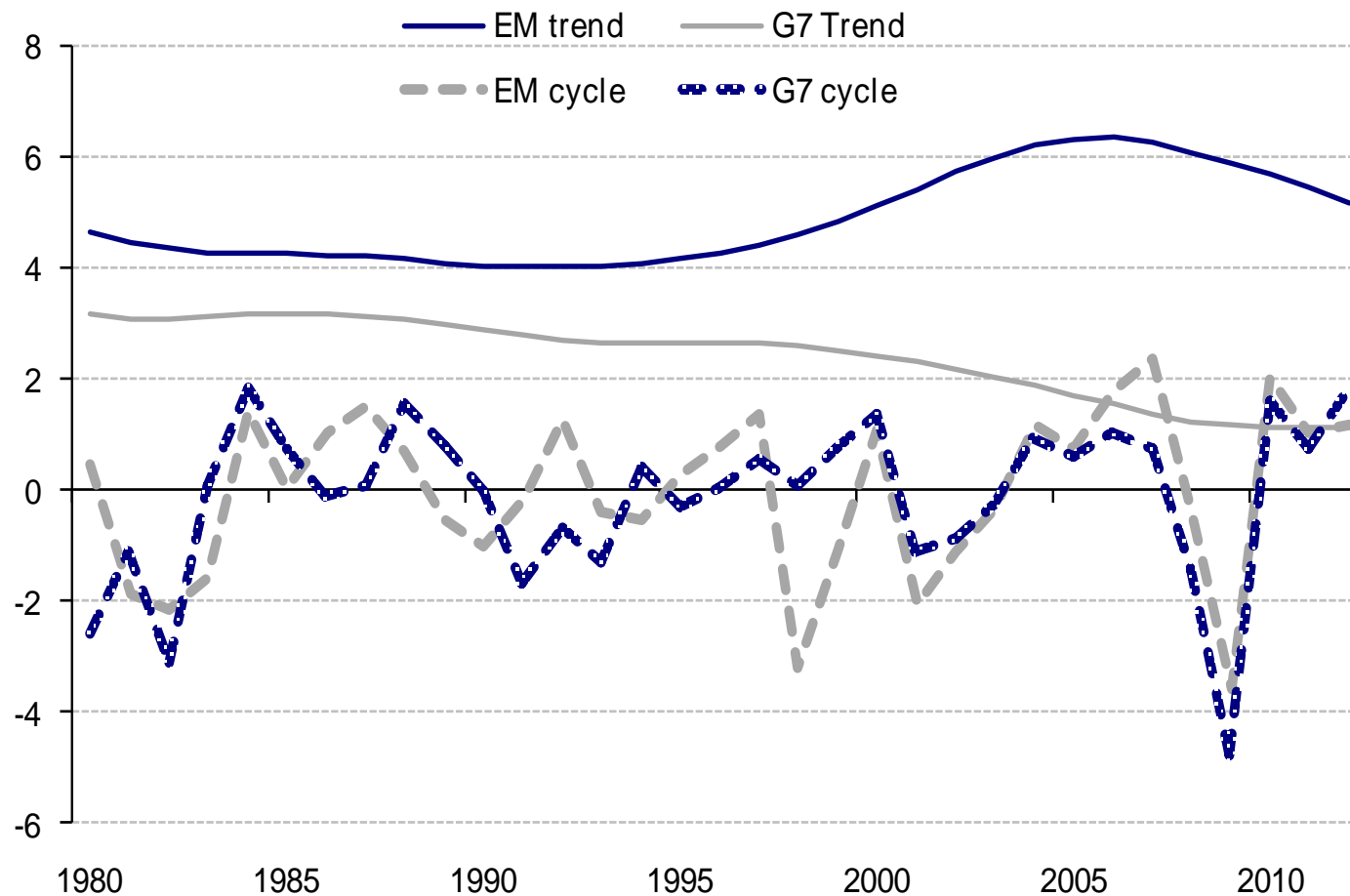
	Current	3M	6M	12M	end 2012
Fed Funds	0 - 0.25	0 - 0.25	0 - 0.25	0 - 0.25	0 - 0.25
10-Y Treasuries	1.65	1.50	1.50	2.50	1.50
ECB rate	0.75	0.50	0.50	0.50	0.50
ODR rate	0.05 - 0.1	0.10	0.10	0.10	0.10

Source: DB Global Markets Research



IV. EM Decoupling test

EM has decoupled in trend growth but has coupled in the business cycle

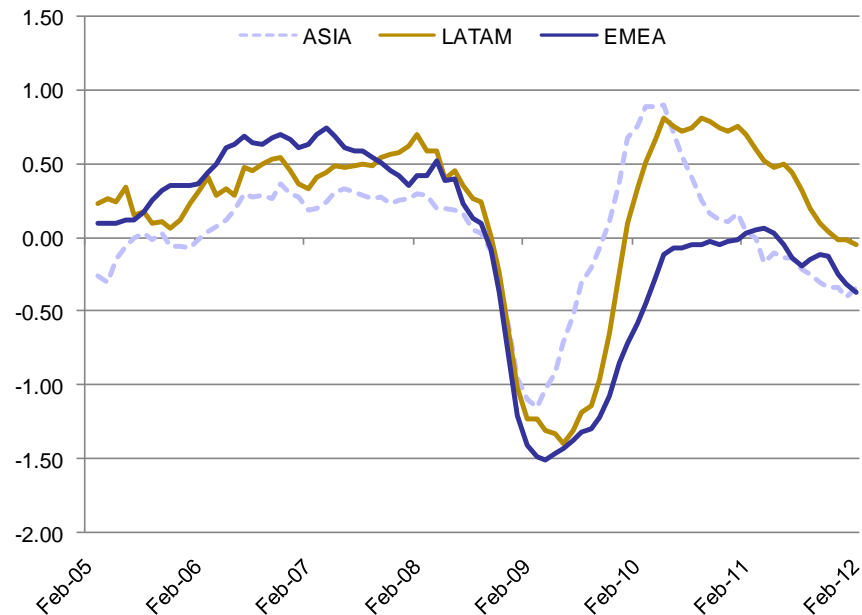


Source: IMF, Haver, DB Global Markets Research

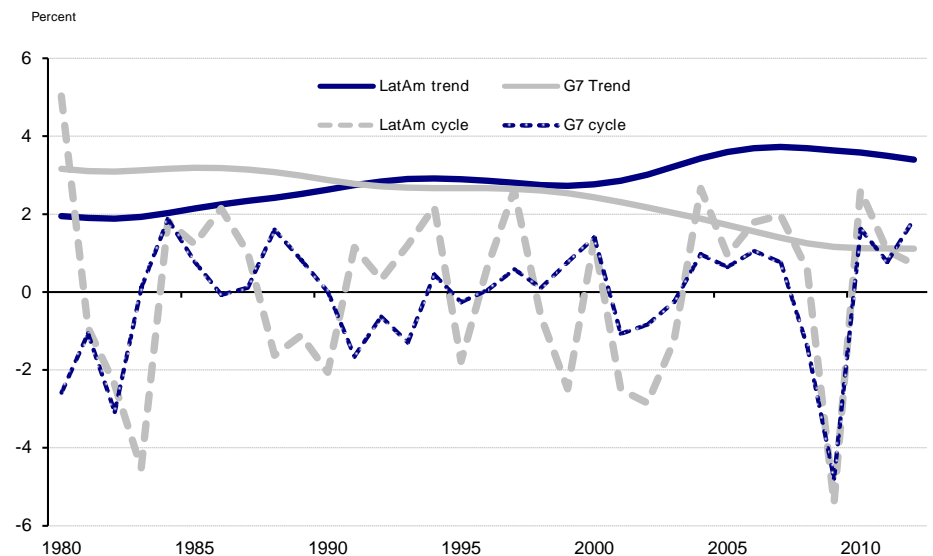
LatAm has also decoupled, but most recently, with cyclical coupling as well



Macroeconomic momentum indicators in EM



EM cyclical coupling and trend decoupling (%YoY)

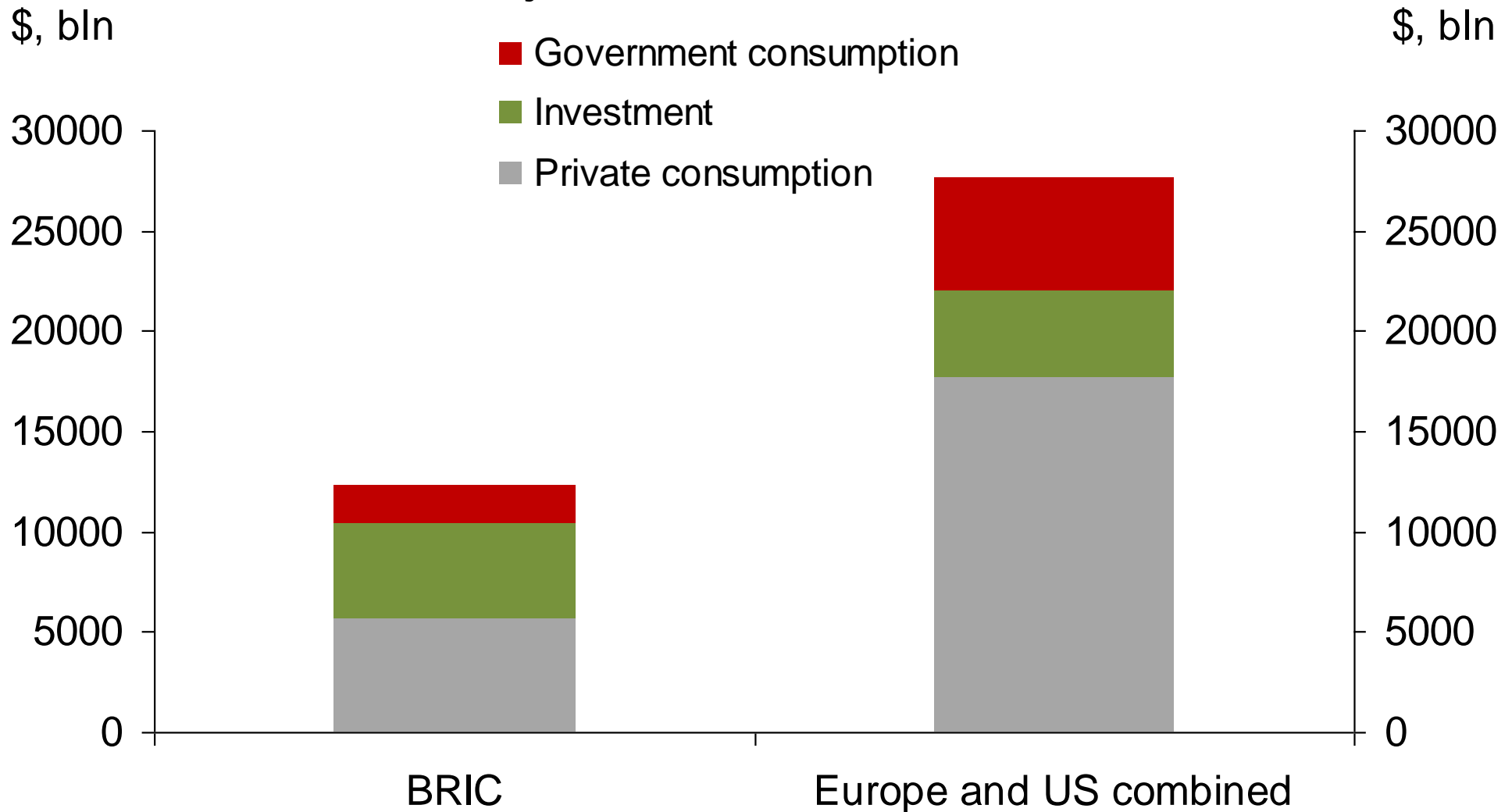


Source: IMF, Haver, DB Global Markets Research

But EM cannot replace US and Europe



Projected new demand in 2012

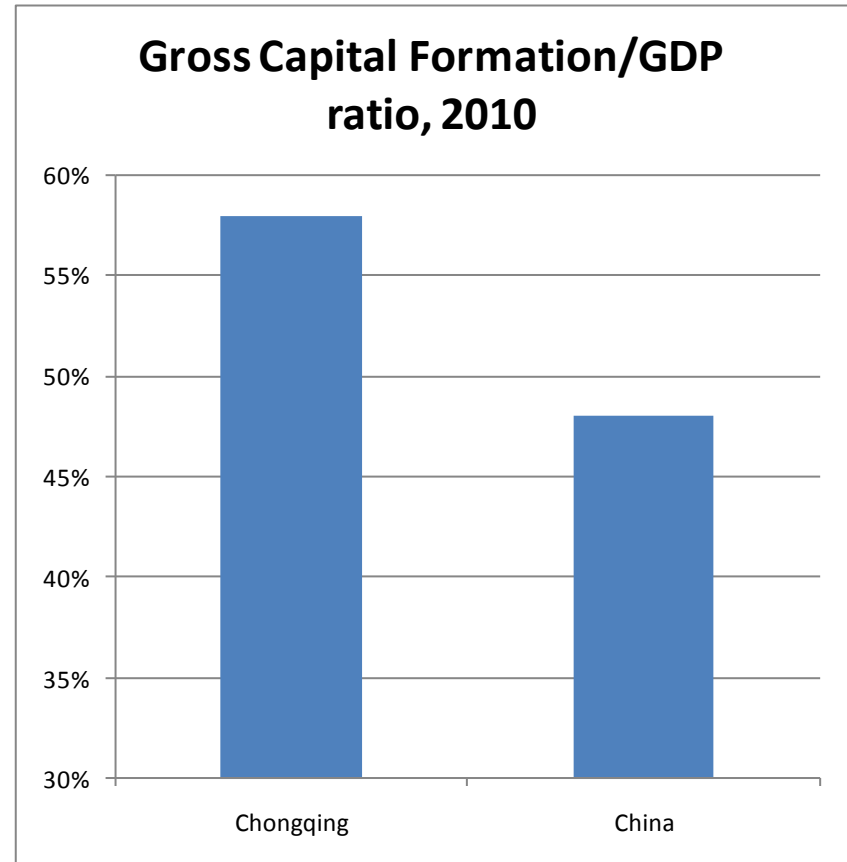
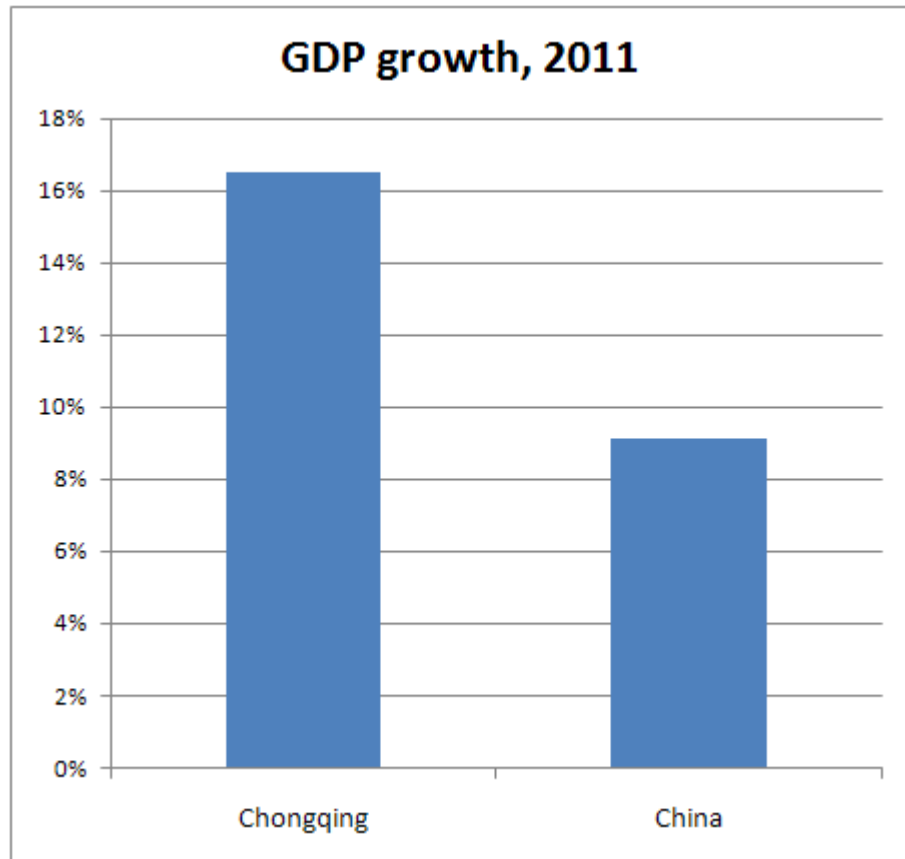


Source: CBO, DB Global Markets Research

Diminishing Returns in EM? Capital Accumulation Version

Reassessing Chongqing's growth model (A)

Investment-driven growth model

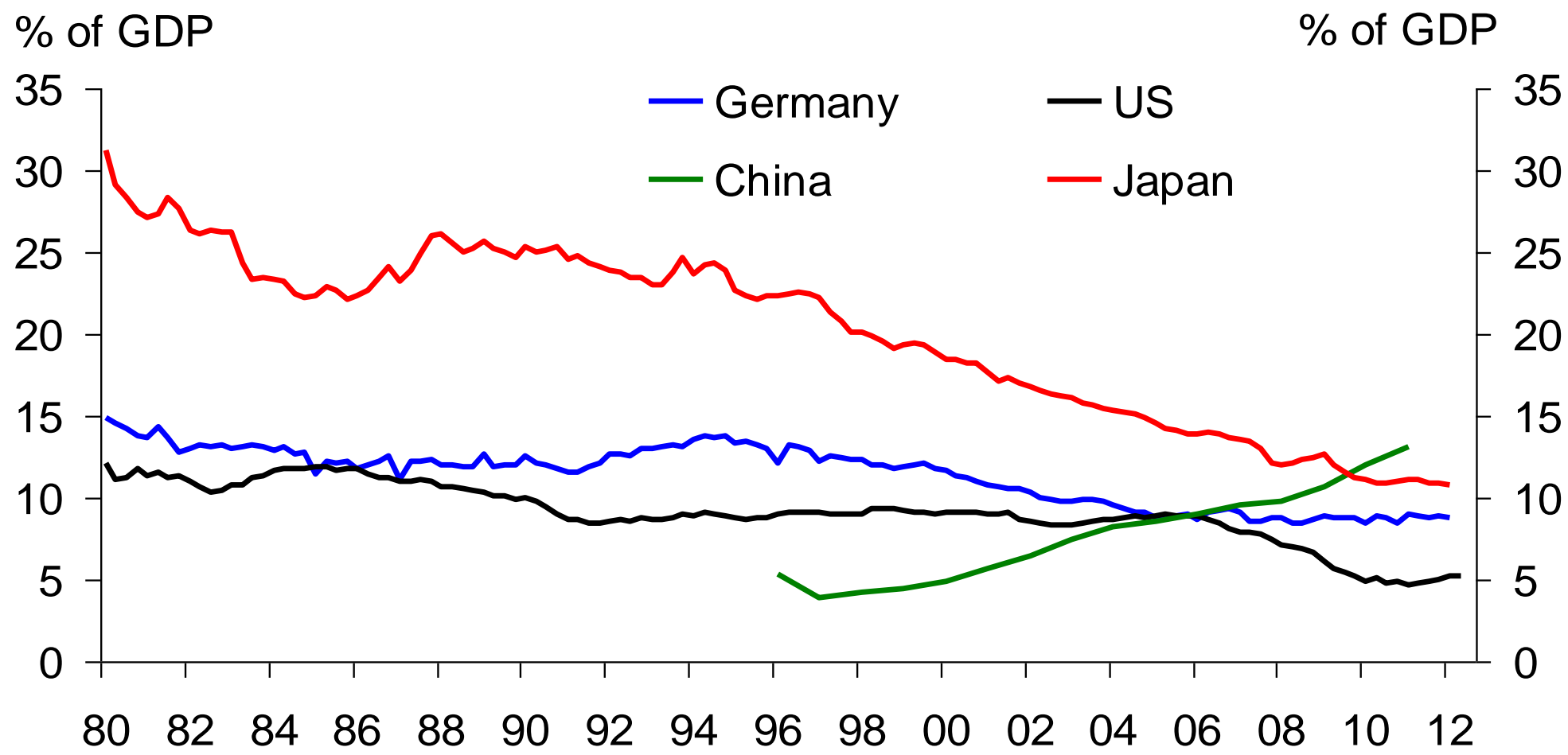


Source: CEIC.



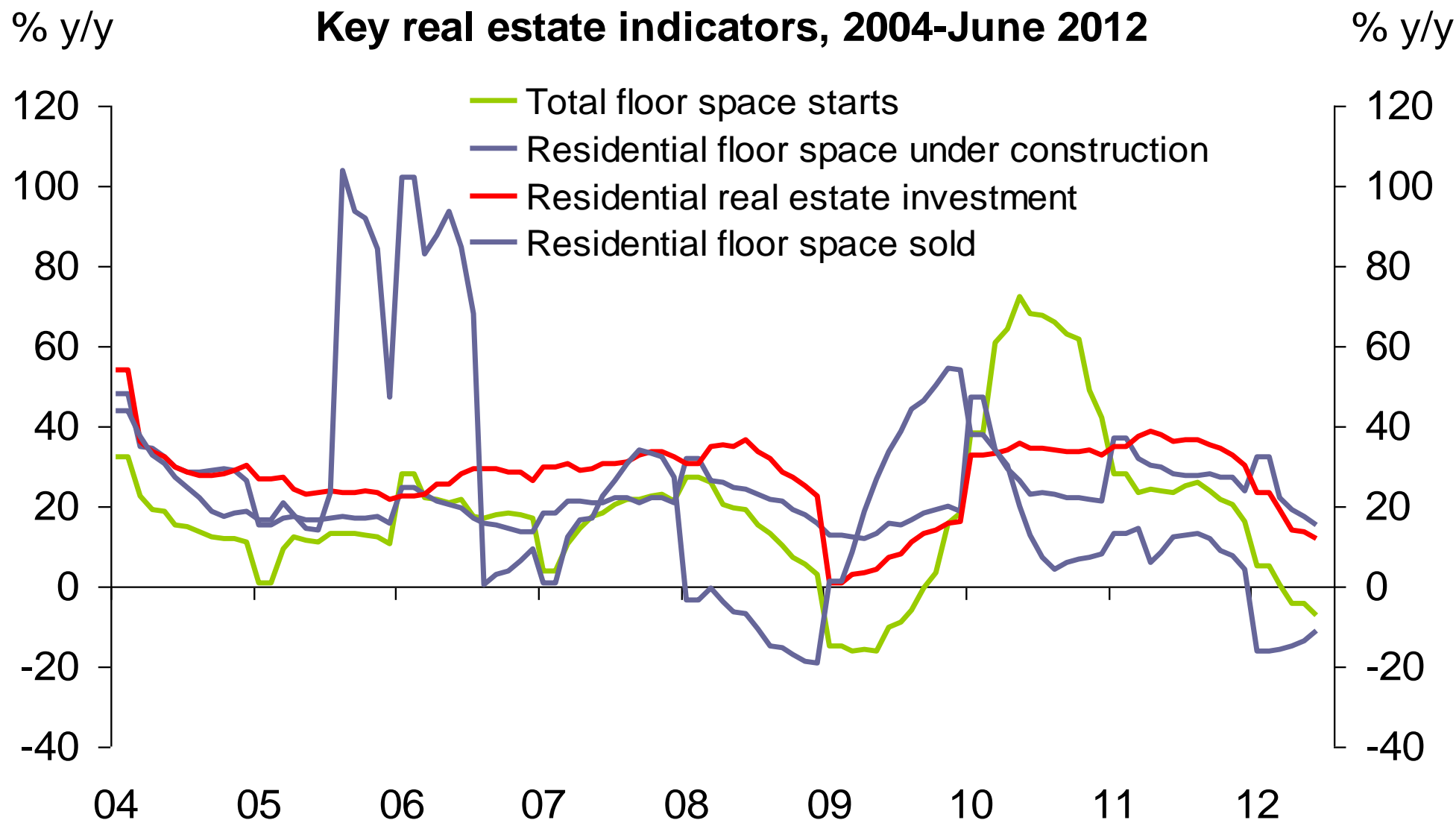
Real estate investment in China now around 13% of GDP. What will the composition of Chinese GDP look like going forward?

Real estate investment (residential and commercial) as share of GDP



Source: BEA, CAO, National Bureau of statistics of China, CEIC, Haver Analytics, DB Global Markets Research

Slowdown underway in Chinese housing



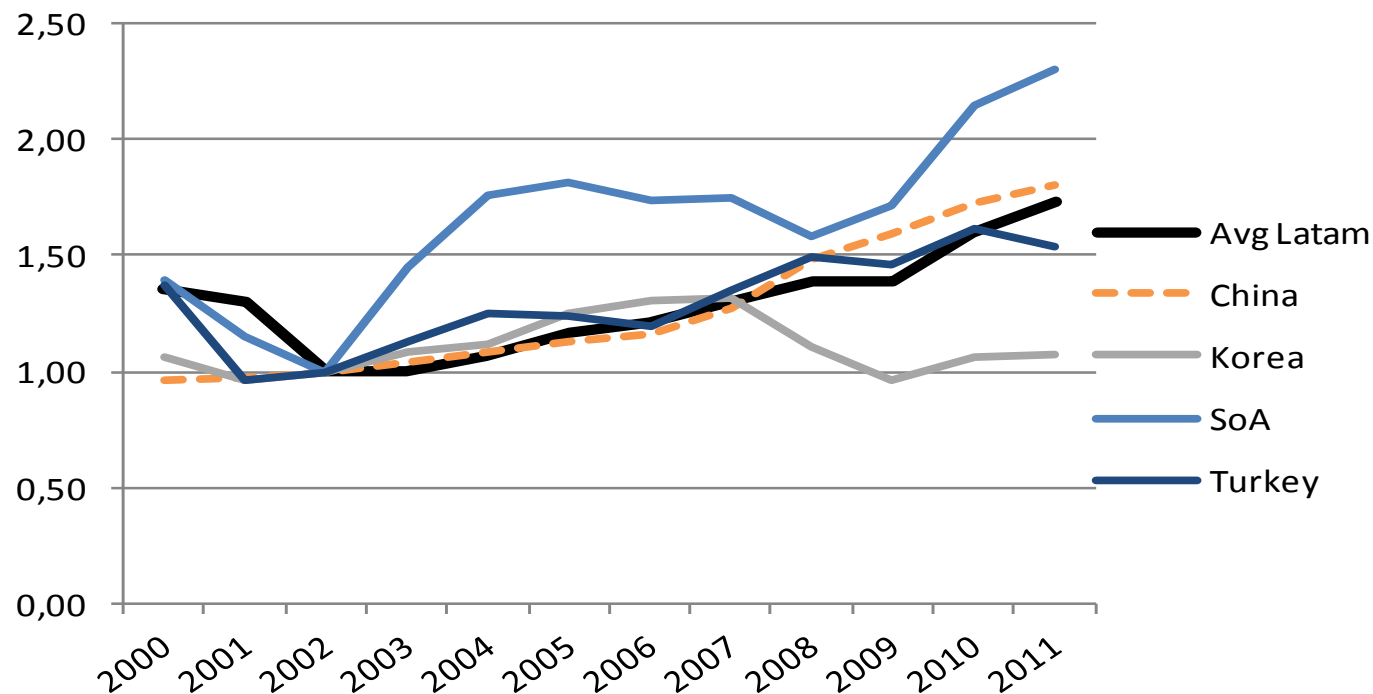
Source: CEIC, DB Global Markets Research

Diminishing Returns in EM? Consumption Drive Version



Steady real exchange rate appreciation on the back of wage increases and relatively low labor productivity growth is raising the costs of doing business in EM.

Relative unit labor costs vs USA (USD, 2001=1)

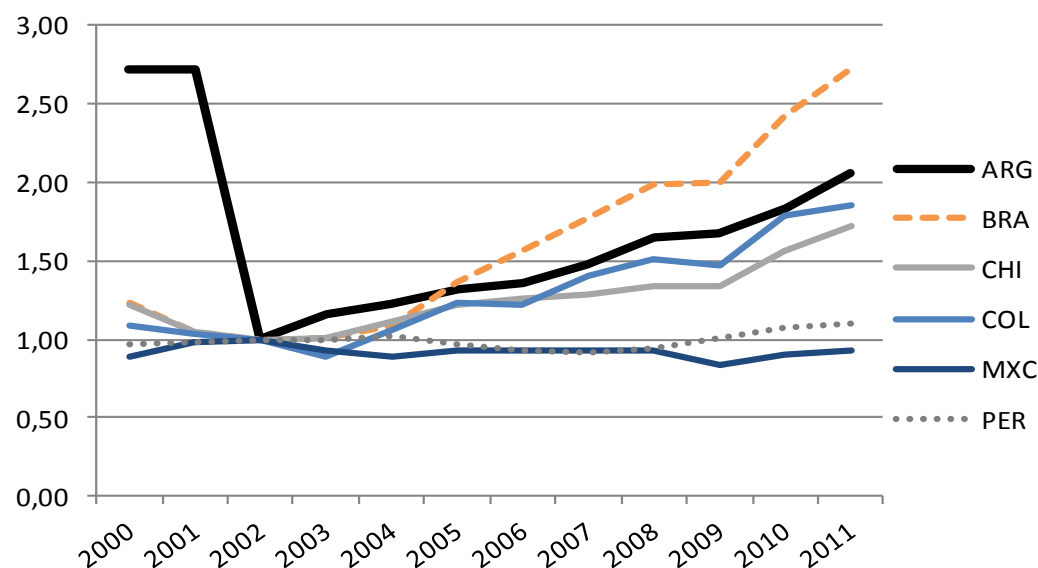


Source: OECD, ILO, Official Statistical Agencies, and Deutsche Bank

The average relative increase observed in the large Latin American countries is at 73%, although the calculation includes the extreme 170% relative increase in Brazil and a small decline in Mexico.



Relative unit labor costs vs USA (USD, 2001=1)



Source: OECD, ILO, Official Statistical Agencies, and Deutsche Bank

Recent increases in ULC and its effect on growth.



Estimated effect on growth from rising ULC in 2000s (steady state)

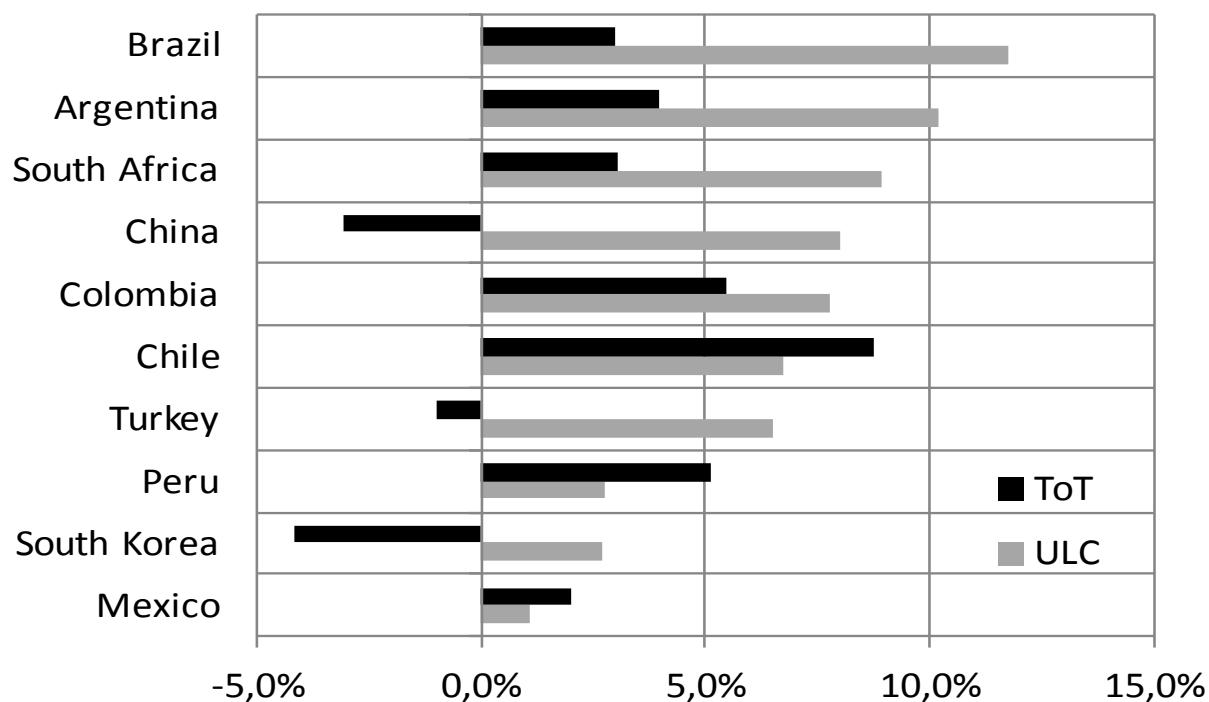
	<u>ULC (current USD) average annual increase</u>	<u>Estimated effect on annual growth</u>
Brazil	11,8%	-0,82%
Argentina	10,2%	-0,71%
South Africa	8,9%	-0,62%
China	8,0%	-0,56%
Colombia	7,8%	-0,54%
Chile	6,8%	-0,47%
Turkey	6,5%	-0,46%
Peru	2,8%	-0,19%
South Korea	2,7%	-0,19%
Mexico	1,1%	-0,08%

Source: Deutsche Bank

Once qualified by ToT shocks, the critical aspect of ULC increases becomes even more worrisome for some countries.



Average annual increases of ULC and ToT (2001-2011)

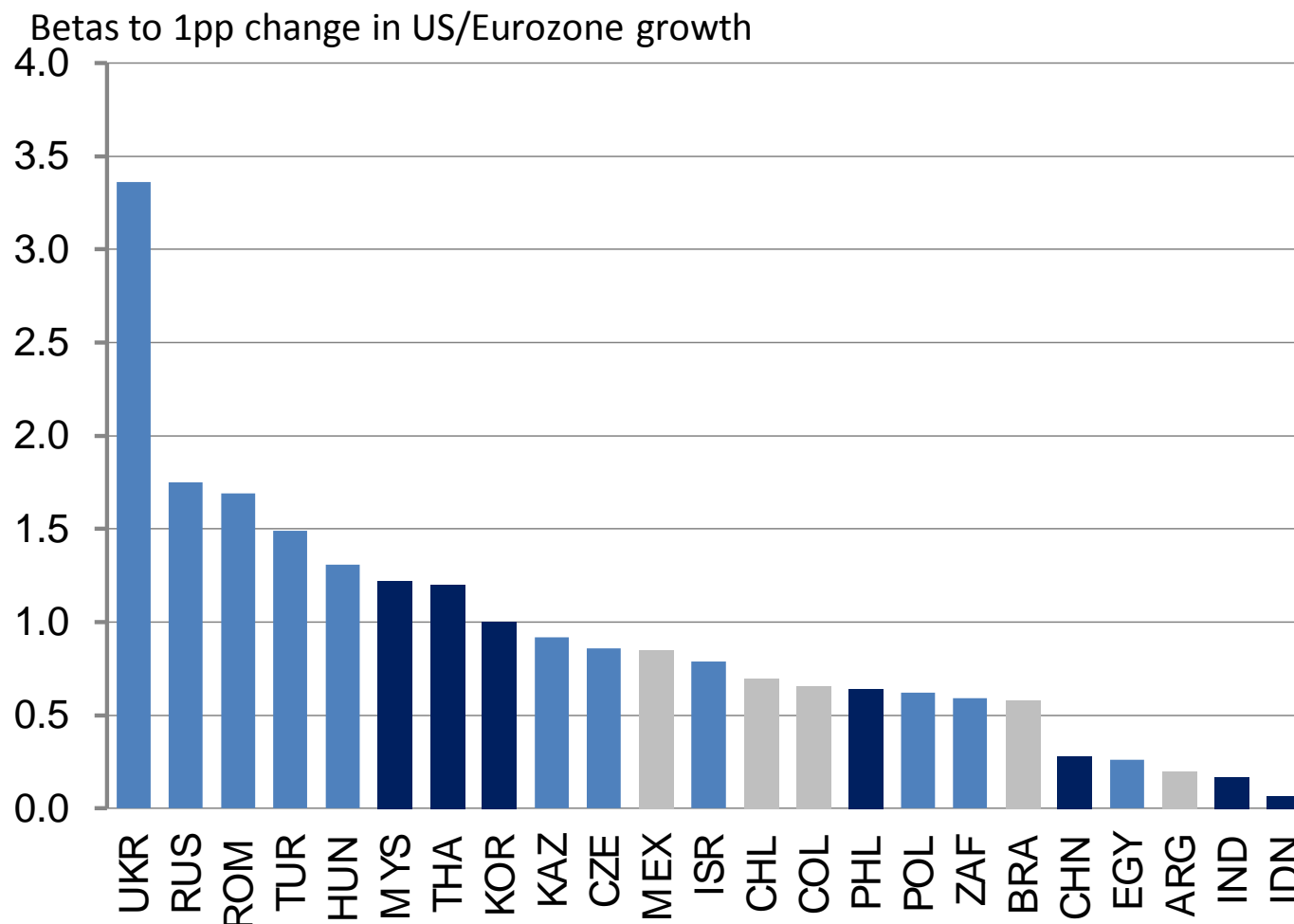


Source: Deutsche Bank

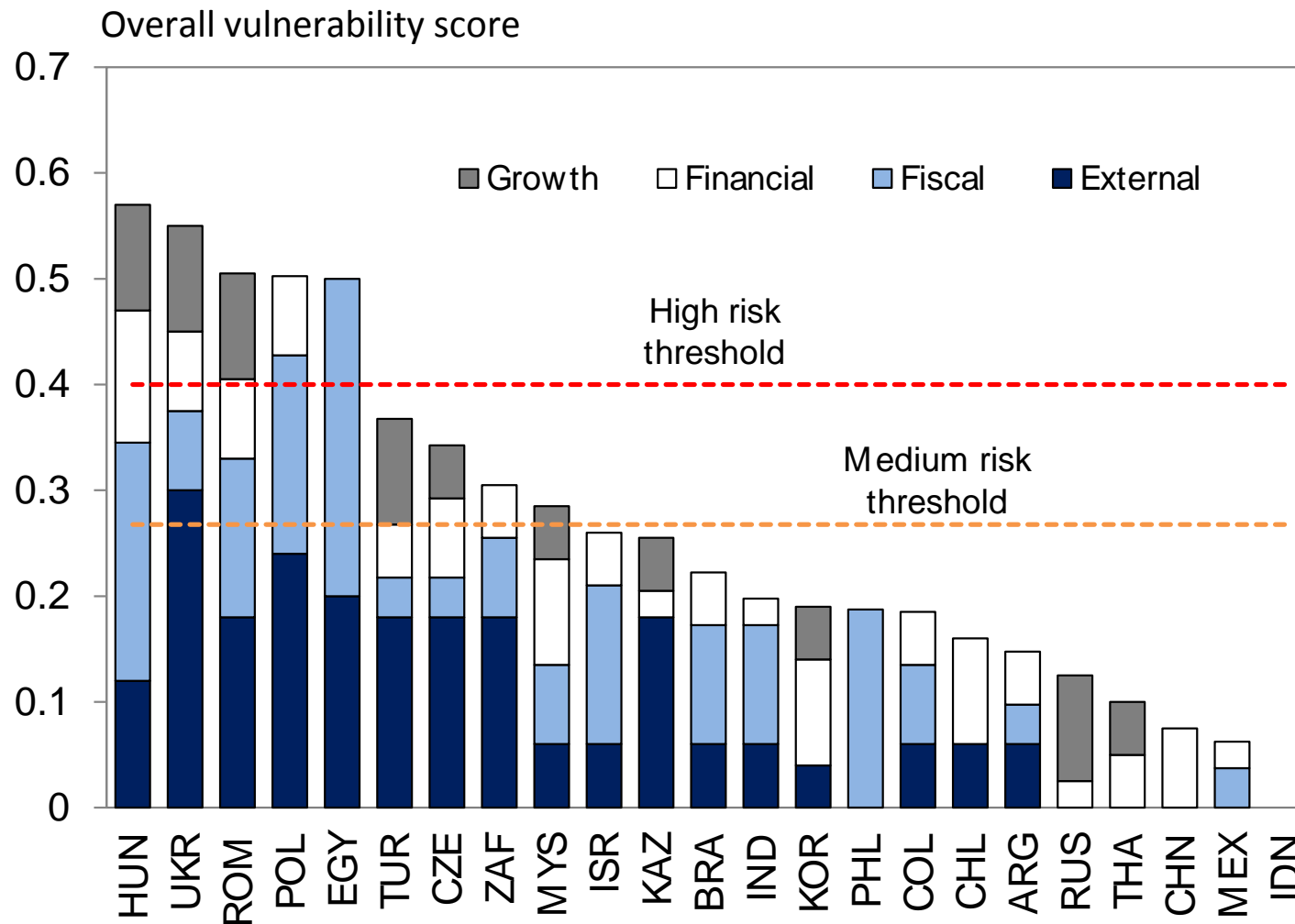


V. EM Strengths and Vulnerabilities

The EM universe is populated by different stars: with ample growth sensitivity to US/EU



EM countries do show significant differences regarding macro vulnerabilities



EM vulnerabilities



EMEA

	External					Fiscal					Financial					
	Current account	FX reserves	External debt	FX valuation	Overall	Overall balance	Public debt	Maturing debt	FX Debt	Overall	Loan:deposits	Credit growth	Credit level	Foreign claims	Overall	Growth beta
Czech Rep	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Egypt	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Hungary	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Israel	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Kazakhstan	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Poland	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Romania	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Russia	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
South Africa	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Turkey	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Ukraine	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●

Asia

China	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
India	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Indonesia	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Korea	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Malaysia	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Philippines	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Thailand	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●

LatAm

Argentina	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Brazil	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Chile	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Colombia	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Mexico	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●

EM vulnerabilities over time



	External					Fiscal					Financial					Overall				
	2007	2008	2009	2010	2011	2007	2008	2009	2010	2011	2007	2008	2009	2010	2011	2007	2008	2009	2010	2011
EMEA																				
Czech Rep	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Egypt	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Hungary	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Israel	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Kazakhstan	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Poland	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Romania	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Russia	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
South Africa	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Turkey	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Ukraine	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Asia																				
China	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
India	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Indonesia	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Korea	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Malaysia	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Philippines	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Thailand	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
LatAm																				
Argentina	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Brazil	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Chile	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Colombia	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Mexico	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●



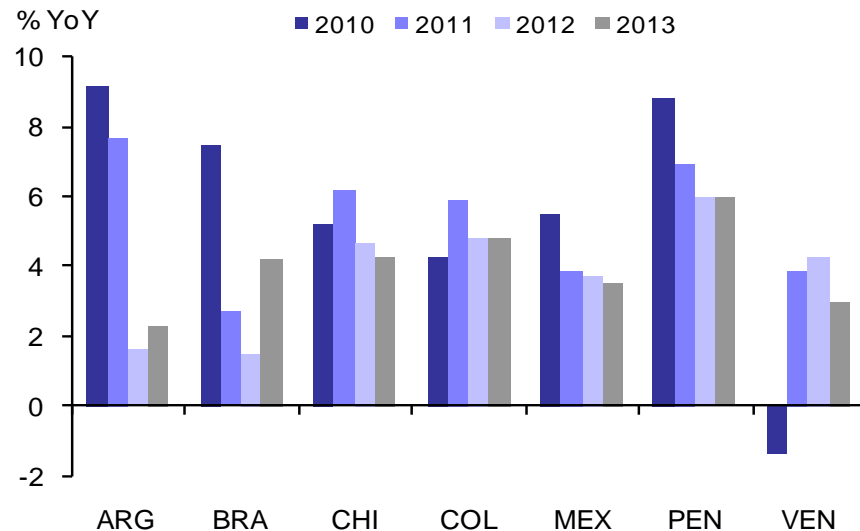
VI. Latin America Regional Outlook

**Growth is still resilient but the risks are
to the downside**

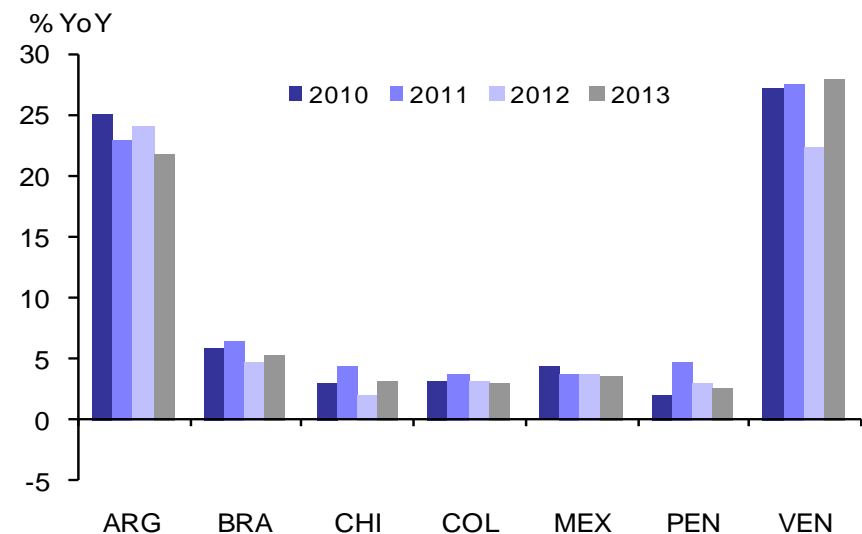
Growth is slowing down but remaining at elevated level



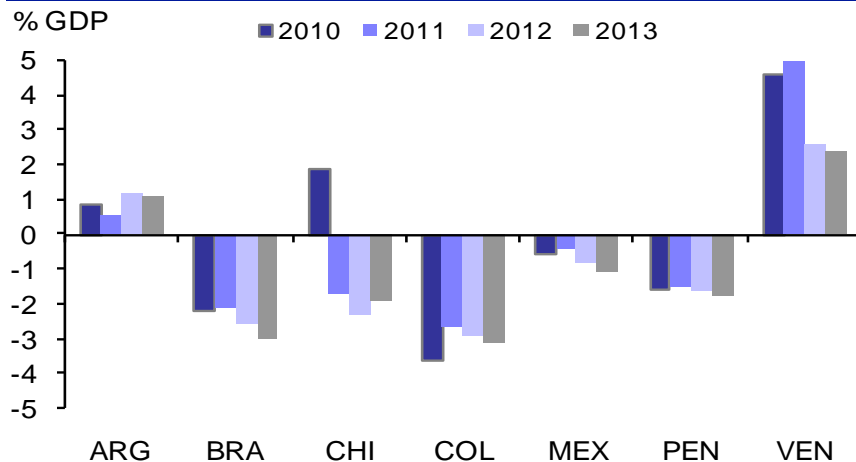
GDP growth



Inflation



Current account balances



LATAM forecasts

(% yoy unless stated)	2010	2011F	2012F	2013F
Real GDP growth	6.3	4.3	2.9	3.9
Priv. consumption	5.8	5.0	3.5	3.9
Investment	12.8	6.7	2.4	5.9
Inflation (eop)	8.5	8.5	7.4	7.7
Exports, USD bn	779.2	966.6	970.0	1032.8
Imports, USD bn	701.6	858.3	906.4	975.0
Industrial production	7.5	2.9	1.8	4.5
Unemployment (%)	6.9	6.6	6.5	6.4
Fiscal bal. (% of GDP)	-2.2	-2.2	-2.0	-1.8
CA bal. (% of GDP)	-0.9	-0.8	-1.3	-1.6

Source: Global Market Research

Solid fundamentals should remain



	<u>2010</u>	<u>2011F</u>	<u>2012F</u>	<u>2013F</u>
<i>GDP Growth (%)</i>				
Argentina	9.2	7.7	1.6	2.3
Brazil	7.5	2.7	1.5	4.2
Chile	5.2	6.2	4.7	4.3
Colombia	4.3	5.9	4.8	4.8
Mexico	5.5	3.9	3.7	3.5
Peru	8.8	6.9	6.0	6.0
Venezuela	-1.4	3.9	4.3	3.0

	<u>2010</u>	<u>2011F</u>	<u>2012F</u>	<u>2013F</u>
<i>Inflation (eop,%)</i>				
Argentina	25.2	23.1	24.1	21.9
Brazil	5.9	6.5	4.8	5.4
Chile	3.0	4.4	2.1	3.2
Colombia	3.2	3.7	3.2	3.0
Mexico	4.4	3.8	3.7	3.5
Peru	2.1	4.7	3.0	2.6
Venezuela	27.2	27.6	22.5	28.0

	<u>2010</u>	<u>2011F</u>	<u>2012F</u>	<u>2013F</u>
<i>Current Account (%GDP)</i>				
Argentina	0.8	0.6	1.2	1.1
Brazil	-2.2	-2.1	-2.6	-3.0
Chile	1.9	-1.7	-2.3	-1.9
Colombia	-3.7	-2.6	-3.0	-3.2
Mexico	-0.6	-0.4	-0.8	-1.1
Peru	-1.6	-1.5	-1.6	-1.7
Venezuela	4.6	6.9	2.6	2.4

	<u>2010</u>	<u>2011F</u>	<u>2012F</u>	<u>2013F</u>
<i>Fx (eop)</i>				
Argentina	3.98	4.31	5.10	6.11
Brazil	1.67	1.88	1.95	1.90
Chile	468	520	510	515
Colombia	1908	1939	1790	1770
Mexico	12.34	13.00	13.00	12.80
Peru	2.80	2.70	2.70	2.73
Venezuela	4.30	4.30	5.20	6.50

Source: Global Market Research



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