

Current Issues

... in Global Financial Market

Prepared by: TMB Analytics

Date: October 9, 2013

Current Issue I.

The U.S. Policy Mess

Current Issue II.

Unconventional Monetary Policy

Current Issue III.

European Banking Union

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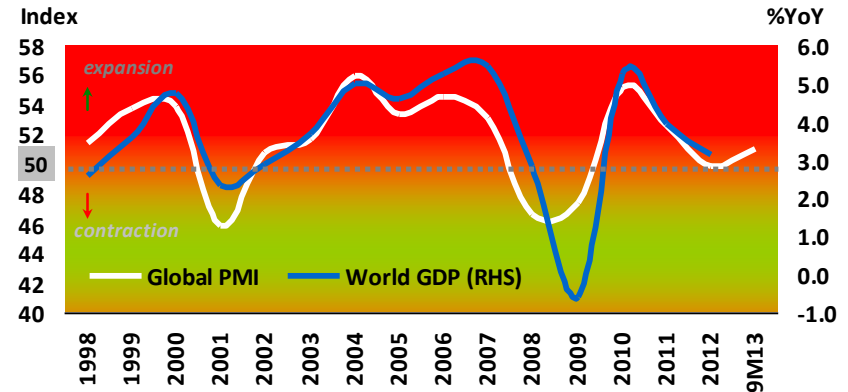
'Some pains, some gains' in the global prospects

Economic projections comparing to early 2013.

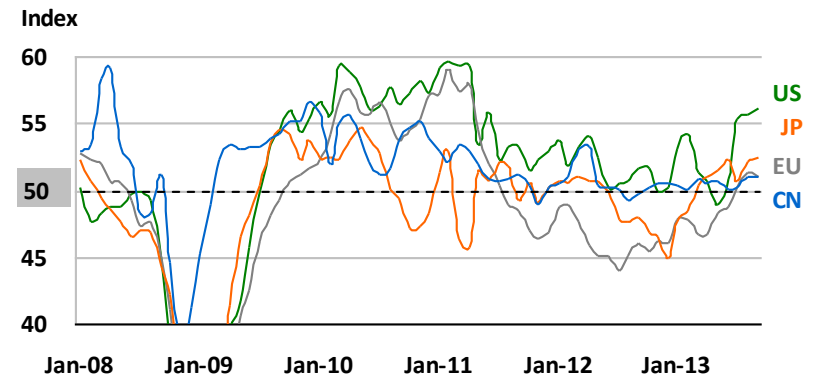
	2012	2013	%chg.	2014	%chg.
World	3.1	3.1	-0.2	3.8	-0.2
Advanced econ.	1.2	1.2	-0.1	2.1	-0.2
US	2.2	1.7	-0.2	2.7	-0.2
Euro area	-0.6	-0.6	-0.2	0.9	-0.1
- Germany	0.9	0.3	-0.3	1.3	-0.1
- France	0.0	-0.2	-0.1	0.8	0.0
UK	0.3	0.9	0.3	1.5	0.0
Japan	1.9	2.0	0.5	1.2	-0.3
Developing & EMG econ.	4.9	5.0	-0.3	5.4	-0.3
China	7.8	7.8	-0.3	7.7	-0.6
India	3.2	5.6	-0.2	6.3	-0.1
ASEAN5	6.1	5.6	-0.3	5.7	0.2

Thailand 2013 : 3.1%, 2014 : 4.9%

Global Manufacturing PMI



PMI in selected major economies



Key Economic Projections by the Federal Reserve (as of Sep '13)

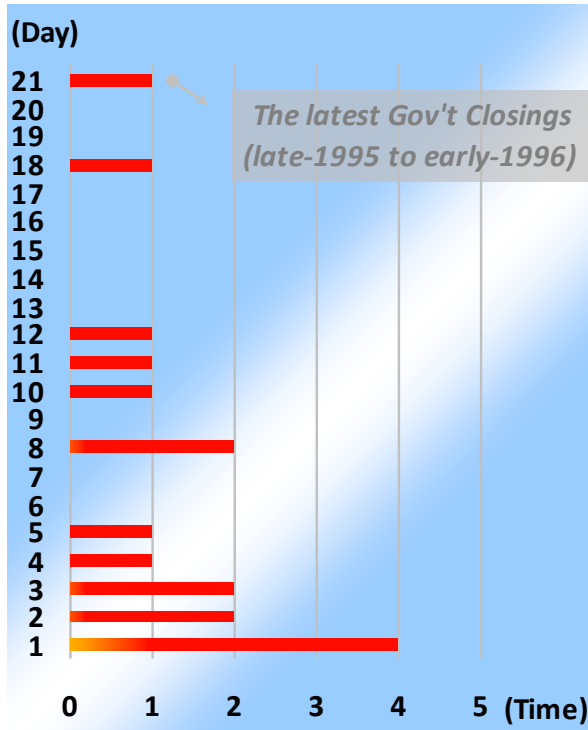
	2013		2014		2015		2016
Change in real GDP (%)	2.0 to 2.3 (2.3 to 2.6)	↓	2.9 to 3.1 (3.0 to 3.5)	↓	3.0 to 3.5 (2.9 to 3.6)	↑	2.5 to 3.3 (n.a.)
Jobless rate (%)	7.1 to 7.3 (7.2 to 7.3)	↓	6.4 to 6.8 (6.5 to 7.8)	↓	5.9 to 6.2 (5.8 to 6.2)	↑	5.4 to 5.9 (n.a.)
Inflation rate (%)	1.1 to 1.2 (0.8 to 1.2)	↑	1.3 to 1.8 (1.4 to 2.0)	↓	1.6 to 2.0 (1.6 to 2.0)	—	1.7 to 2.0 (n.a.)

* Figures in parenthesis are June's projections.

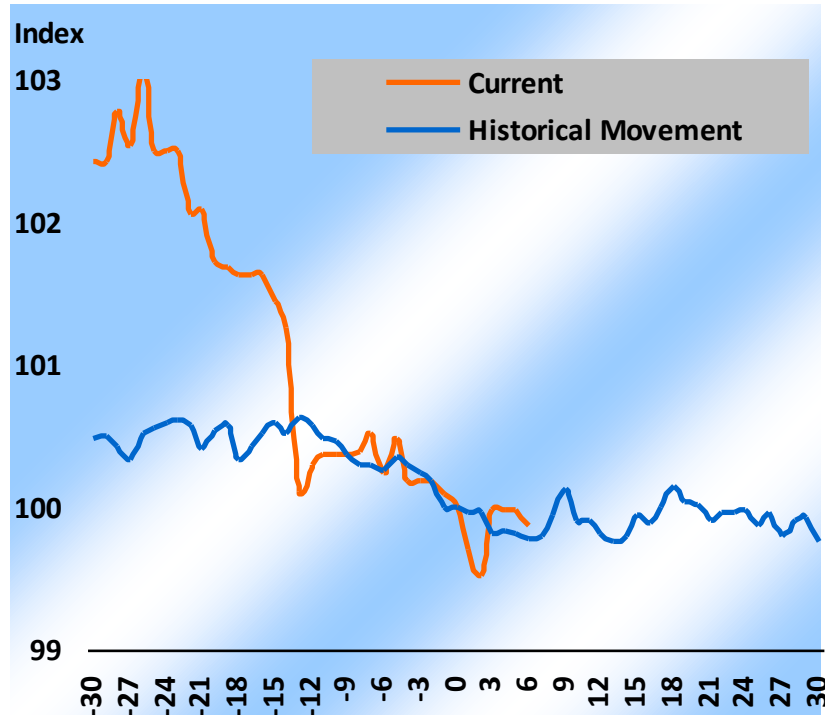
- The FOMC deemed that although economic activities have expanded at a moderate pace, the jobless rate remains elevated.
- TMB Analytics shares this concern as the fall in unemployment rate to 7.3% in August was coupled with a fall in participation rate, and hence the figure might be *'distorted'*.
- In addition to fears of disinflation, a recent rise in mortgage rates and tougher fiscal policy may be another reason against this backdrop.
- Policy makers thus decided *'to await more evidence that progress will be sustained before adjusting the pace of its purchases'*.



US Gov't Shutdown since 1976

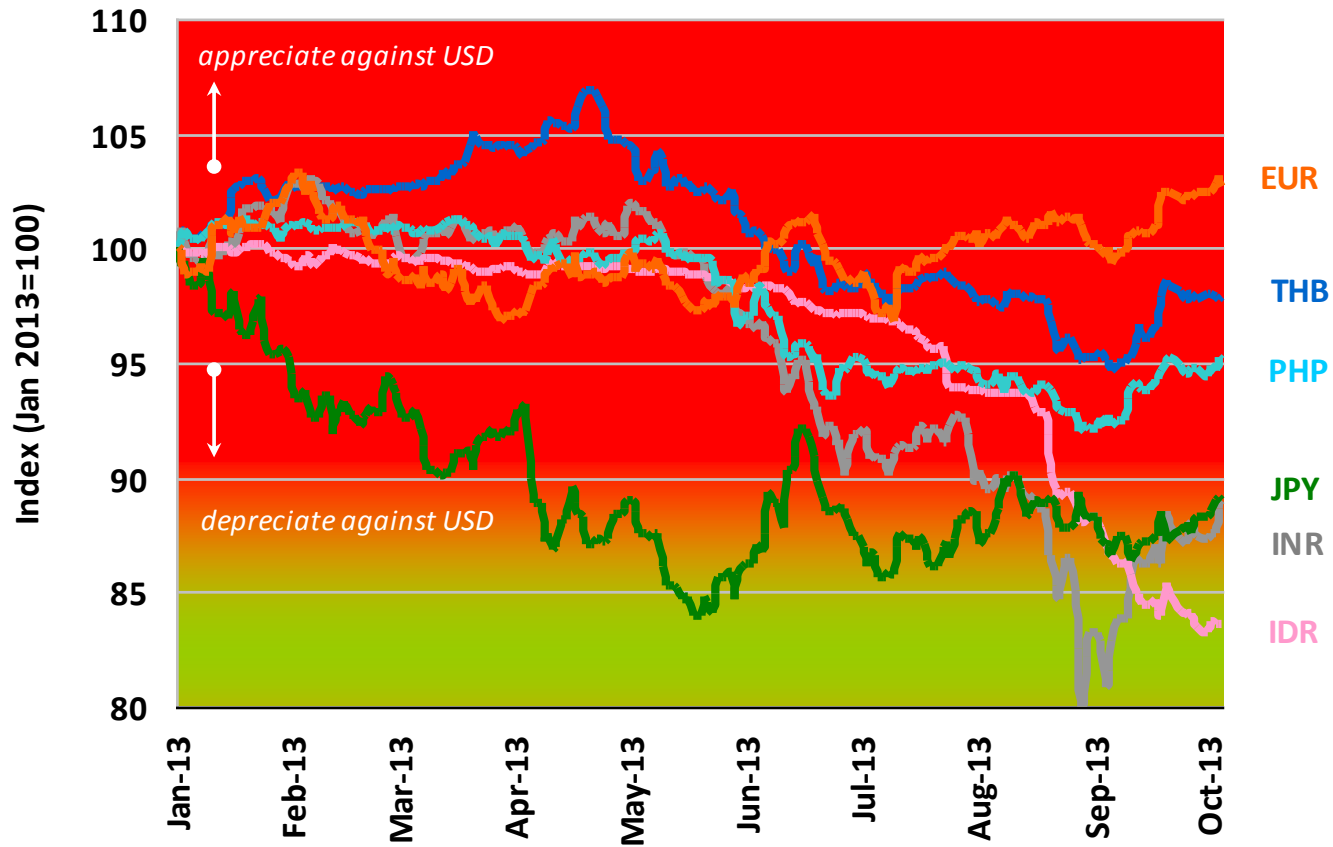


How does USD respond to Shutdown

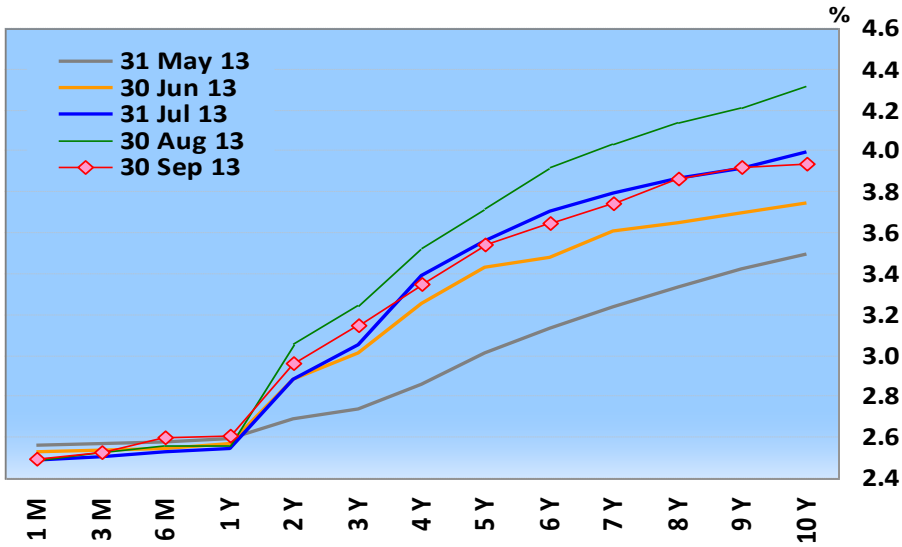


- The US Federal Government has shut down on 18 occasions since 1976. The longest of which lasted 21 full days, from 16 December 1995, and on average, the shutdown was close to a week (6.5 days)
- The impact of the partial government shutdown on the economy may not be particularly damaging in the short term, with the loss accelerating if the shutdown persists. A historical range of closing 6.5 to 21 days implies an output loss approximately 0.1-0.4%.
- A history suggests us that the US dollar fell modestly before the official shutdown announcement, and moved in a very tight trading range after that.

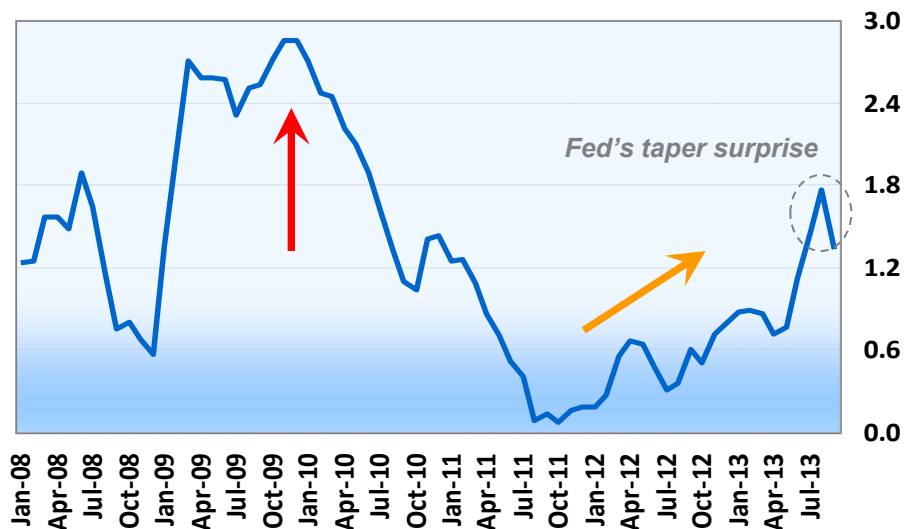
Regional Currencies Movement



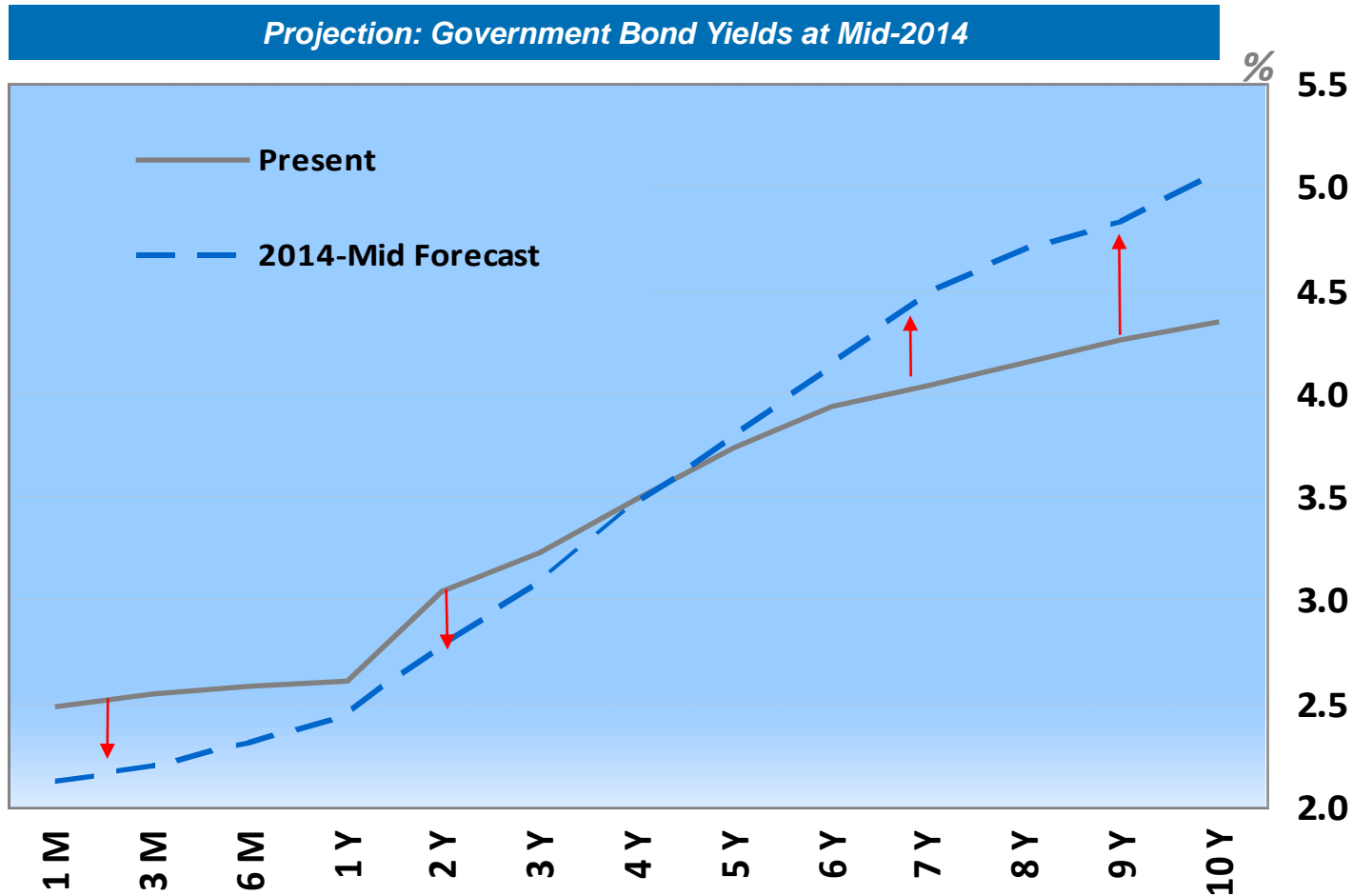
Government Bond Yields



Govt. Yield Slope: Spread 10y to 1y



- FOMC statement led to panic sale in Thai bond market in the past months.
- Panic sale came from domestic players, while foreign players just stopped buying.
- Yields in longer tenors jumped around 60-80 bps since April.
- Steepening will likely continue, given slowing economy and imminent foreign outflows.
- However, comparing with past steepness, yield curve steepening is still far from previous historical peaks.



- Yield curve will steepen further in 1H14, due to 1) significant new issuances from govt 2) Foreign flight from Thai bond market and 3) downside risk to policy rate (meetings on Oct 16 and Nov 27)
- Current 10Y-1M spread stood around 180bps.
- Forecast at mid-2014 for 10Y-1M spread stood around 290bps.

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• The European Central Bank defines **global imbalances** as ‘ *external positions of systematically important economies that reflect distortions or entail risks for the global economy* ’

➤ **External positions.**

This refers not only to current account balances but also financial positions.

➤ **Systematically important economies.**

These are economies whose macroeconomic and financial developments may have a significant impact on the global economy.

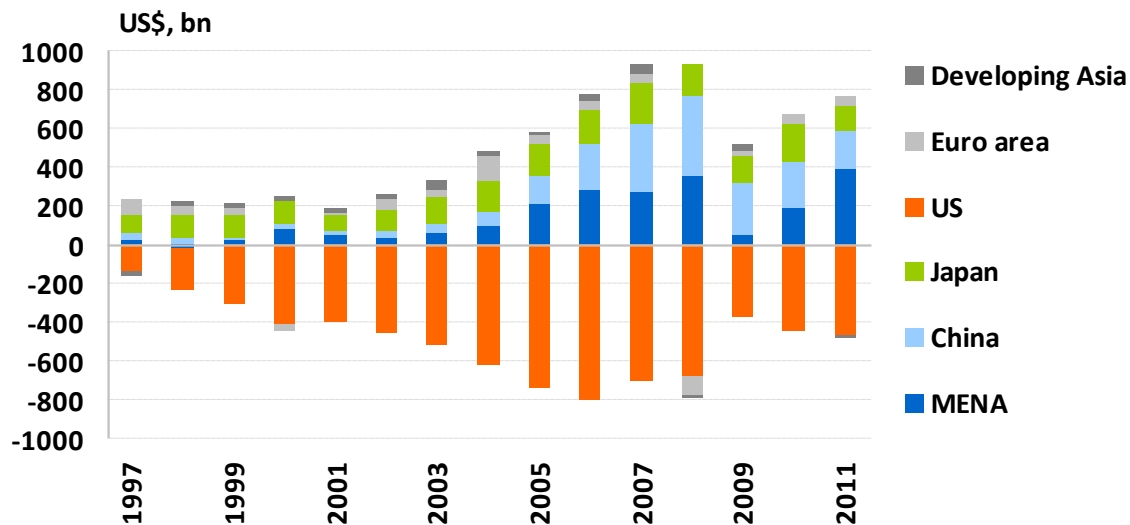
➤ **Reflect distortions.**

The build-up of external positions may (partly) reflect distortions, i.e. deviations from the equilibrium that would prevail in an environment of full price flexibility and perfect competition.

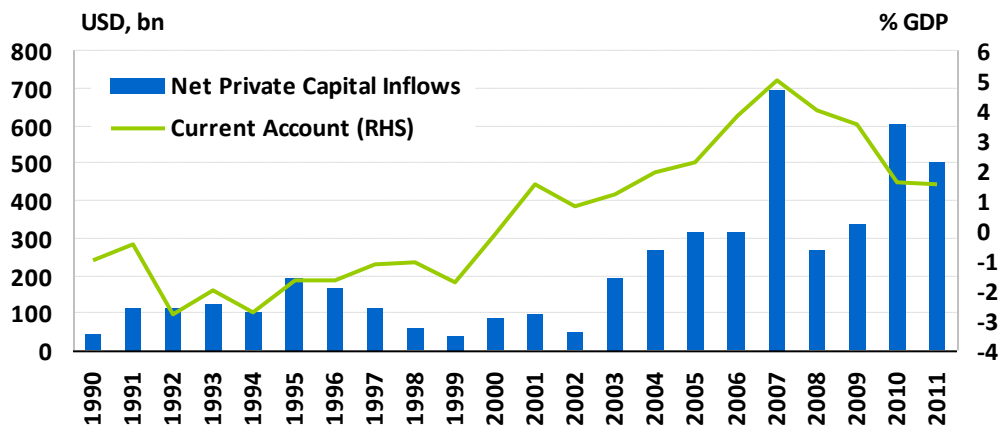
➤ **Entail risks for the global economy.**

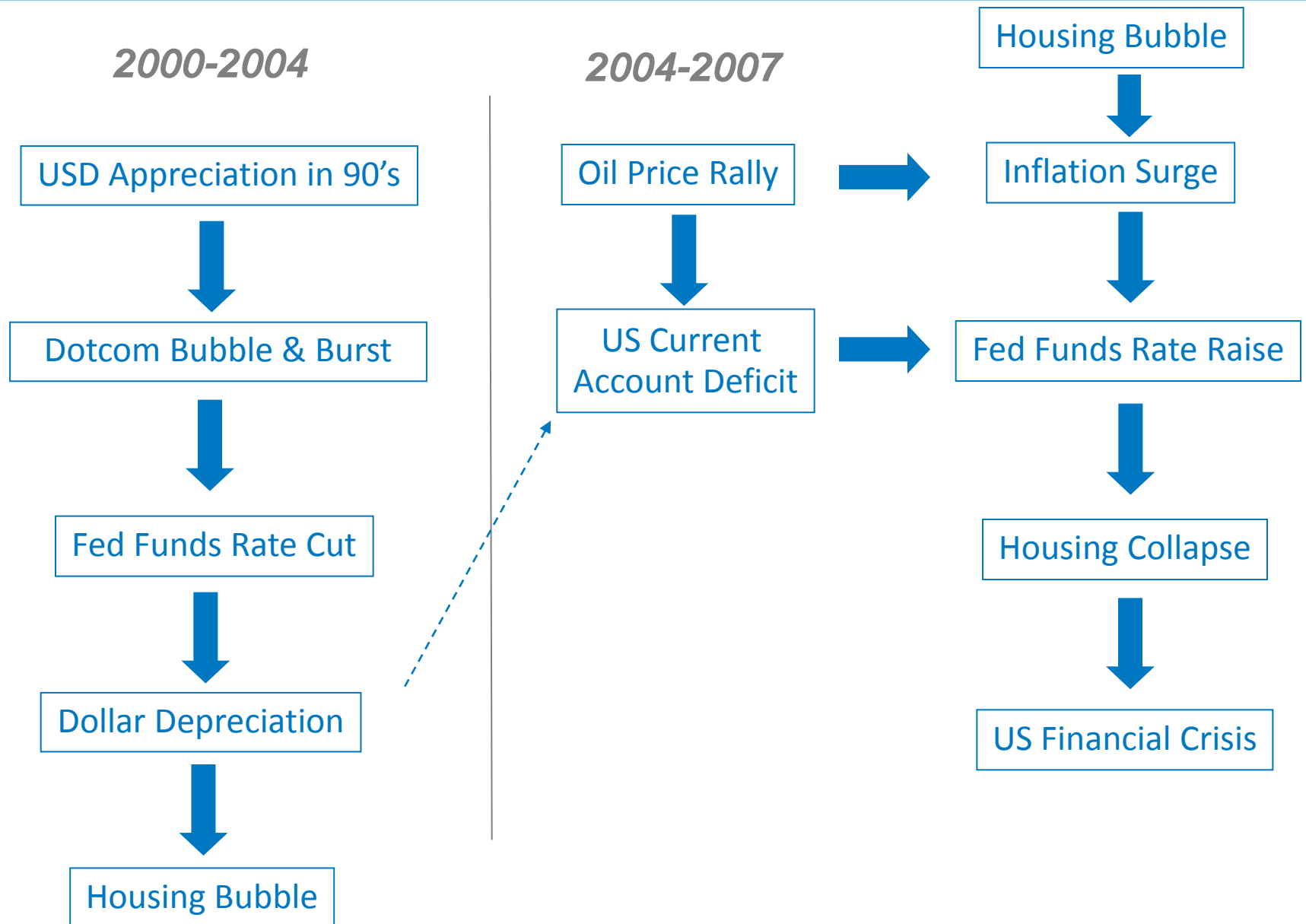
The existence of external positions may pose risks for the global economy, both under a scenario unwinding (risk of disorderly unfolding with disruptions to macroeconomic and financial stability) and a scenario of further increasing imbalances (risk of a protectionist backlash).

Current account balance

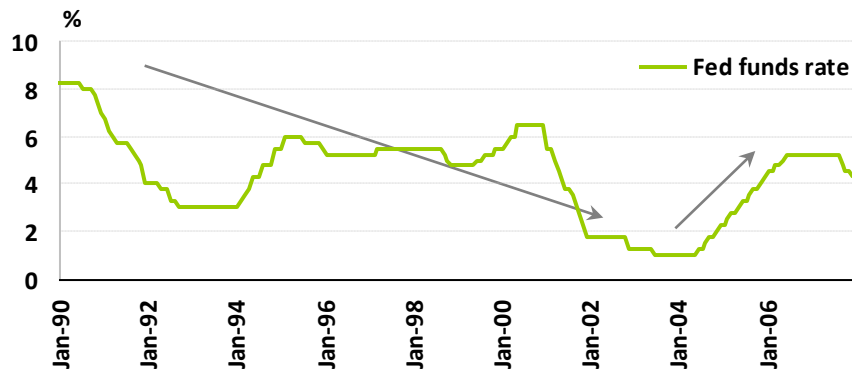


Net capital flows to emerging & developing economies

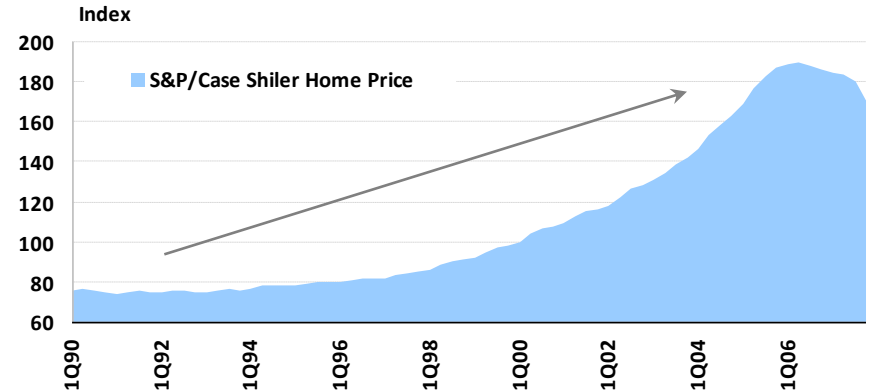




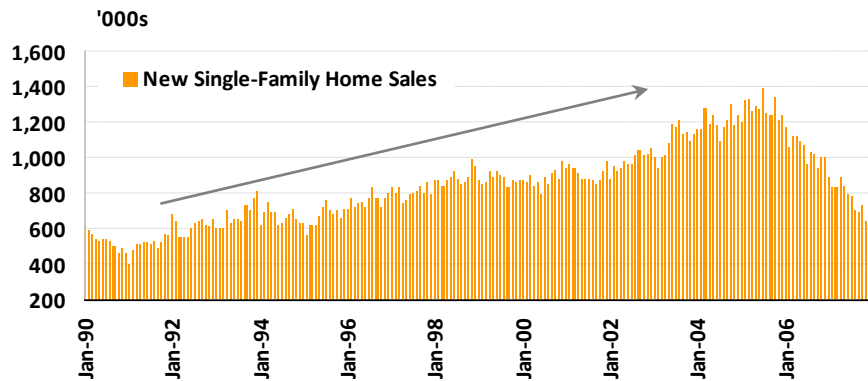
Fed funds rate



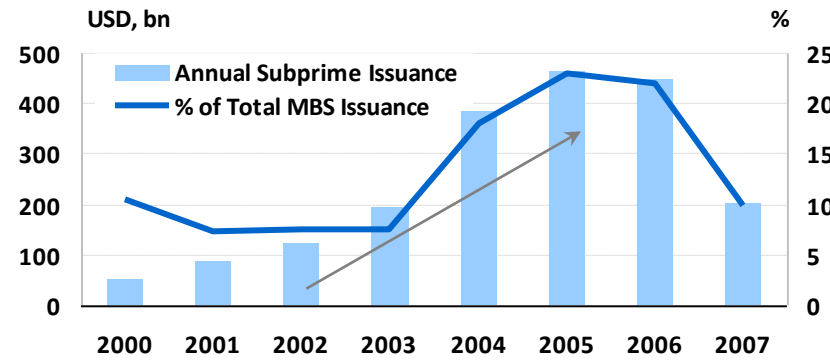
Housing price



Home sale



Mortgage-backed securities issuance



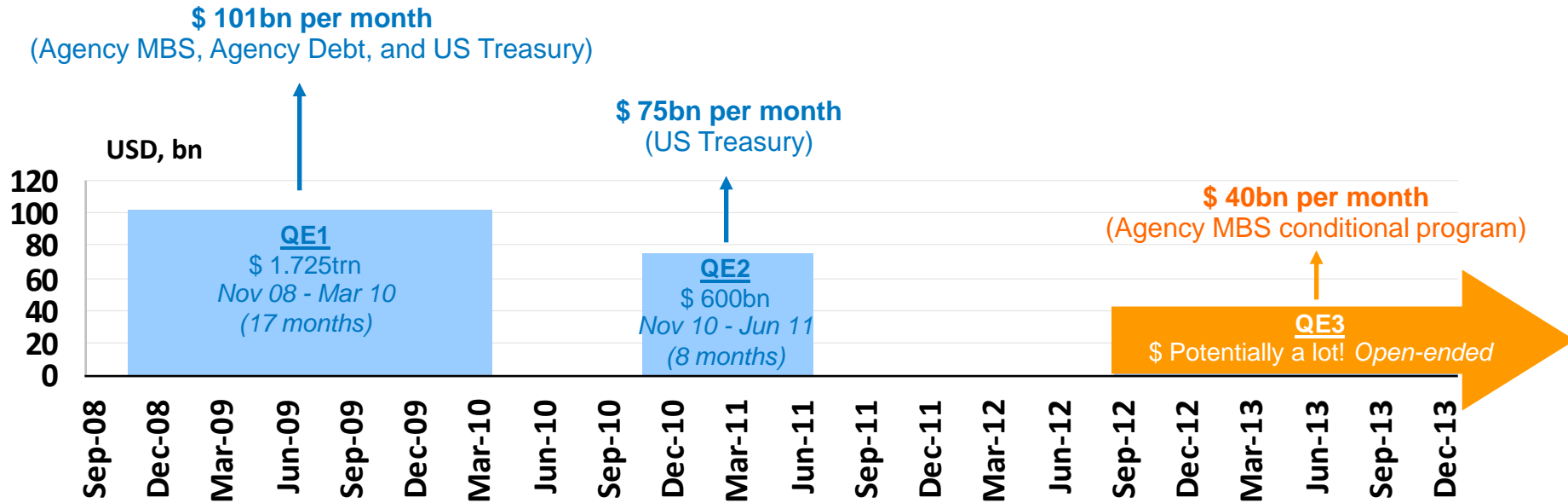
- **Conventional monetary policy; e.g.**

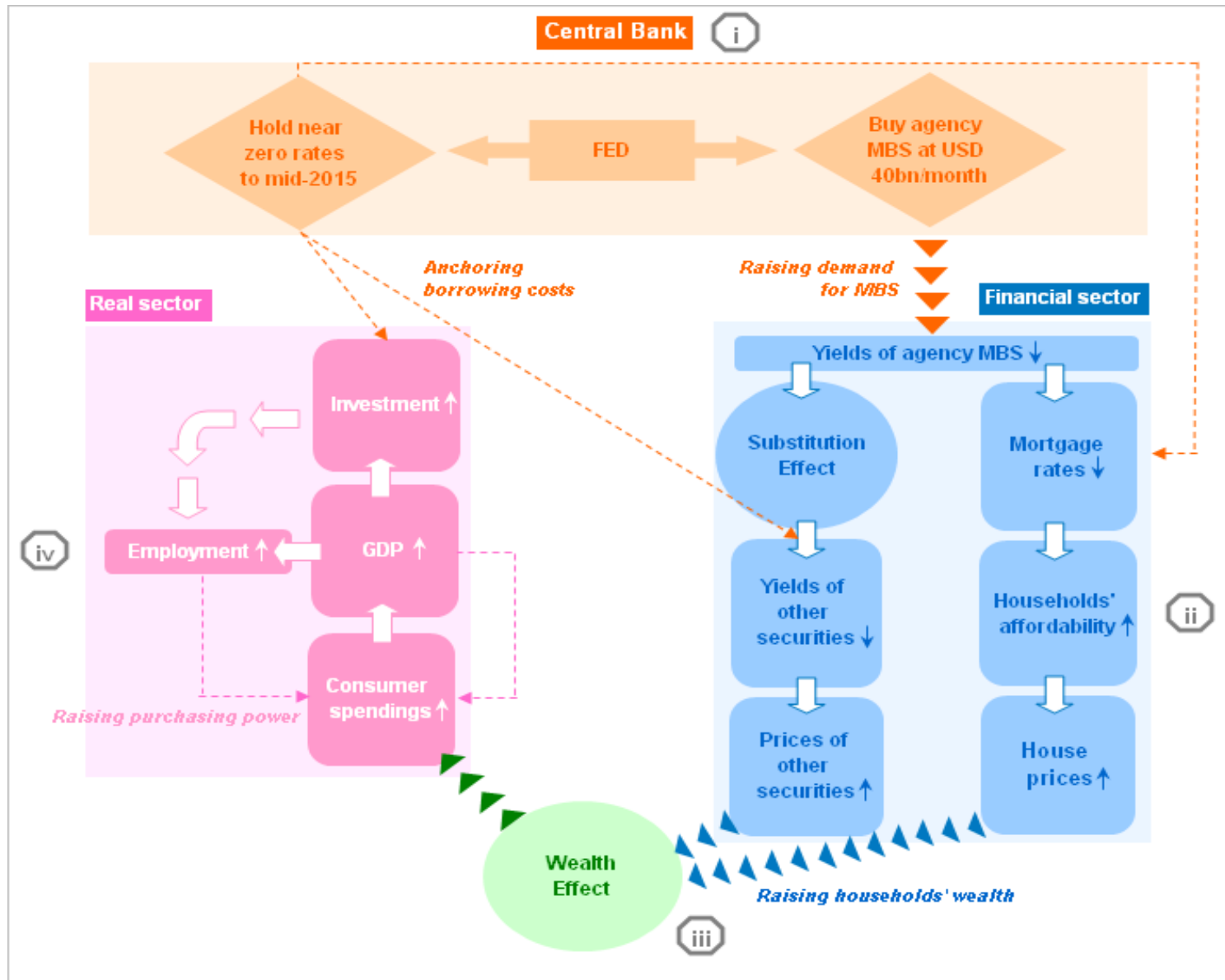
- Interest rates
- Monetary base
- Reserve requirements
- Discount window lending

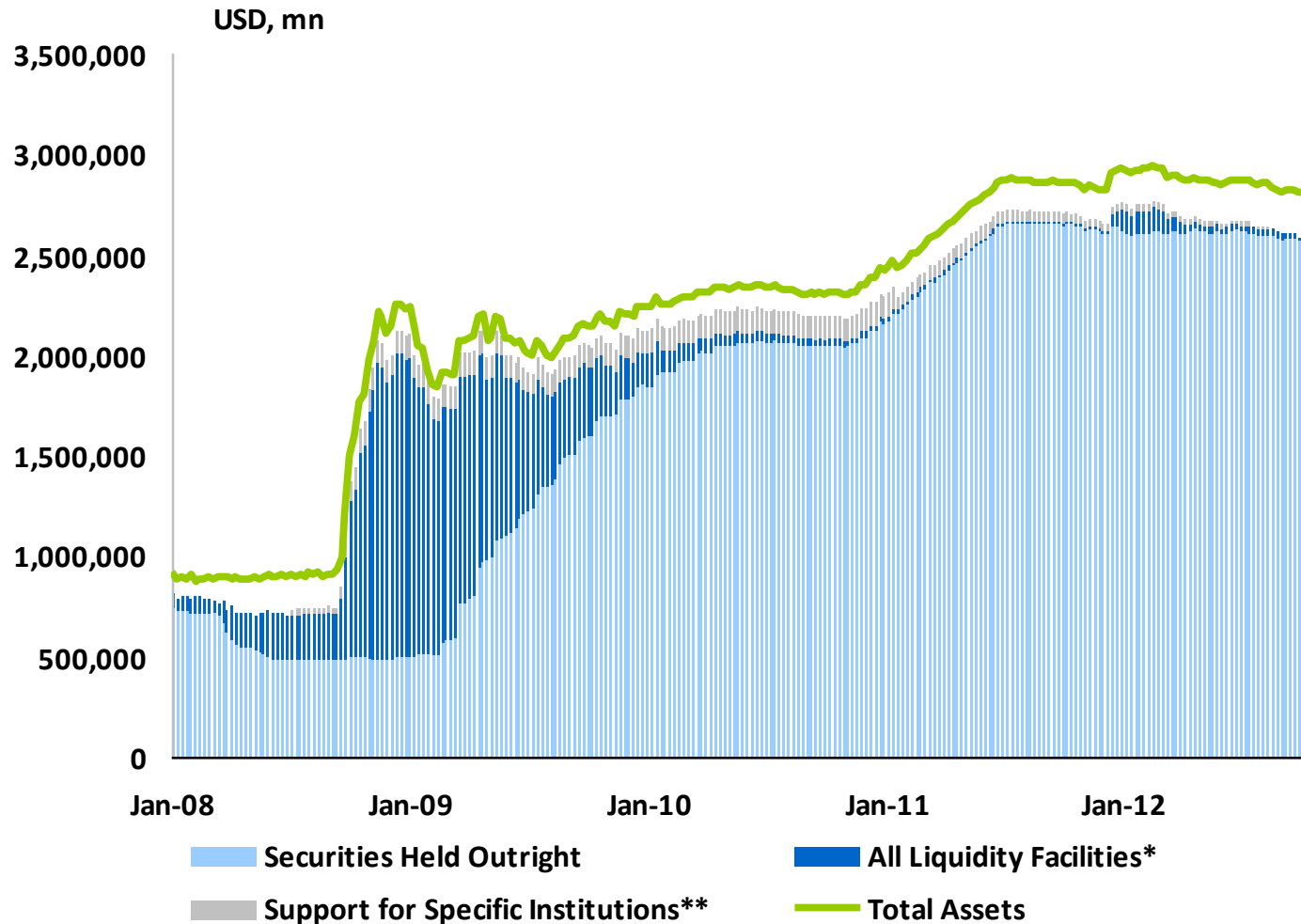
- **Unconventional monetary policy; e.g.**

- Quantitative/Credit easing

Timeline of FED's securities purchase





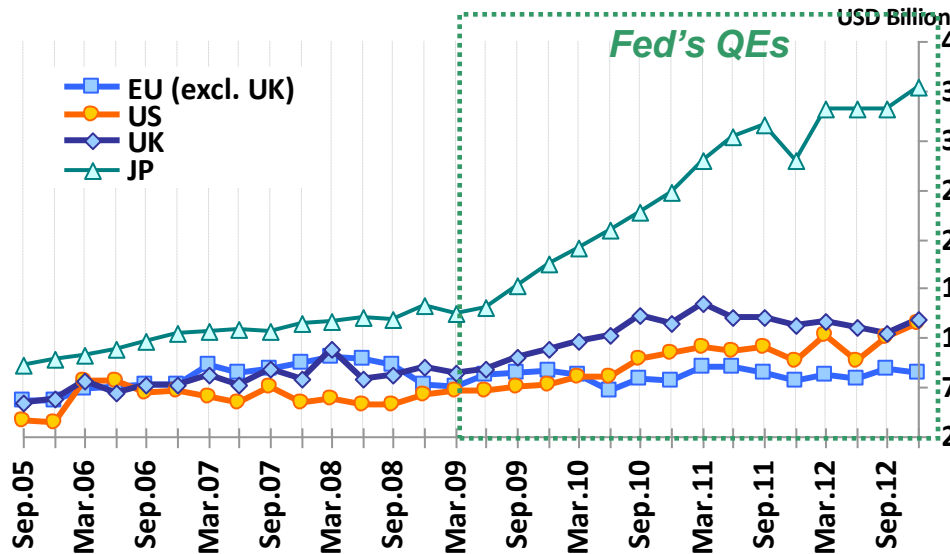


Note : *All Liquidity Facilities includes: Term Auction credit; primary credit; secondary credit; seasonal credit; Primary Dealer Credit Facility; Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility; Term Asset-Backed Securities Loan Facility; Commercial Paper Funding Facility; and central bank liquidity swaps. **Support to Specific Institutions includes: Maiden Lane LLC; Maiden Lane II LLC; Maiden Lane III LLC; and support to AIG.

- During abnormal times, conventional monetary policy tools may prove insufficient to achieve the central bank's objective.
- For example, the economic shock is so powerful that the nominal interest rate needs to be brought down to zero. At that level, cutting policy rates further is not possible, so any additional monetary stimulus can be undertaken only resorting to unconventional monetary policy tools.
- When the central bank's objective can no longer be achieved by conventional measures, policy makers are confronted with a number of issues (European Central Bank; April 2009):
 - **First**, the unconventional tools include a broad range of measures aimed at easing financing conditions. Having this menu of possible measures at their disposal – which are not mutually exclusive ones – monetary policy-makers have to clearly define the intermediate objectives of their unconventional policies. These may range from providing additional central bank liquidity to banks to directly targeting liquidity shortages and credit spreads in certain market segments. The policy-makers then have to select measures that best suit those objectives.
 - **Second**, they should be wary of the possible side-effects of unconventional measures and, in particular, of any impact on the financial soundness of the central bank's balance sheet and of preventing a return to a normal market functioning.

USD liquidity: How much was supplied to Thai banks? **TMB** | a.n.a.l.y.t.i.c.s

Global Banks' USD Supply to Thai Financial Sector



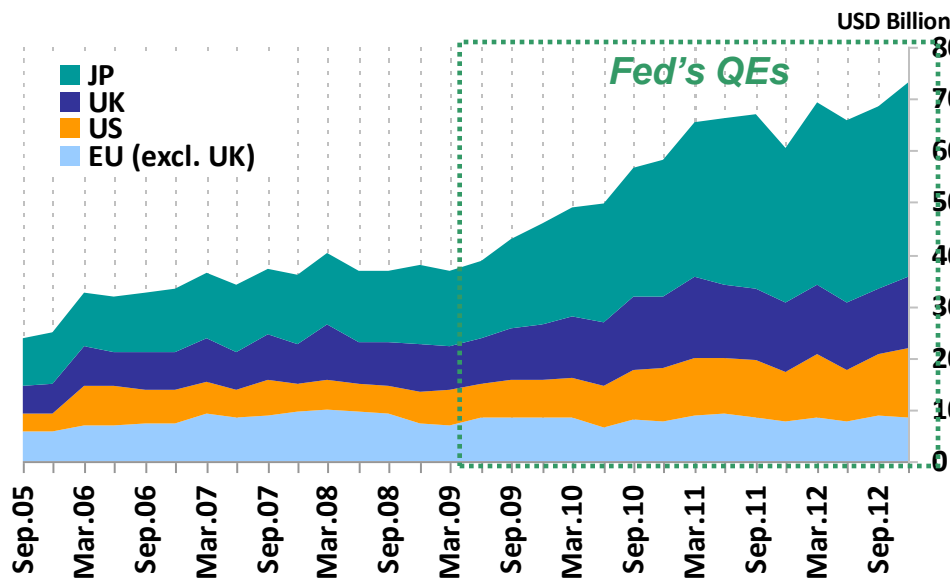
Increase in USD liquidity since Mar 2009

JP: +\$22.9 bil (157%)

UK: +\$5.32 bil (61%)

US: +\$6.75 bil (102%)

EU: +\$1.42 bil (21%)

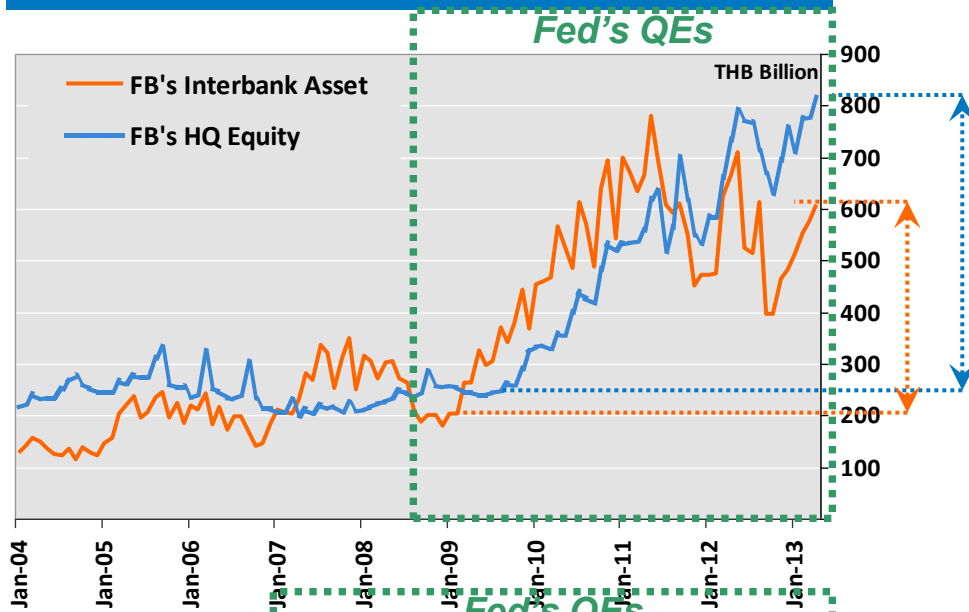


All 4: +\$36.4 bil (99%)

Or: ~THB 1.1 tril

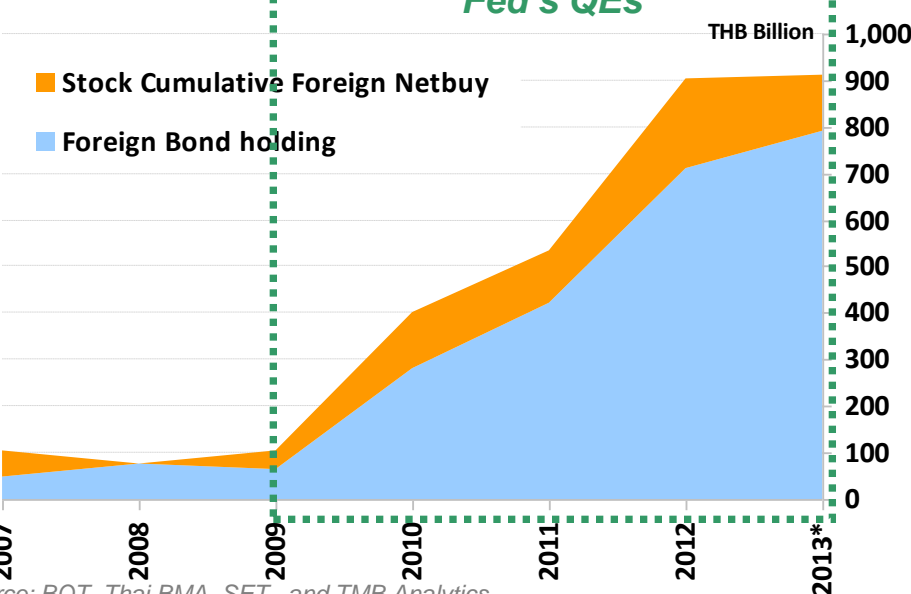
- USD liquidity into Thailand came surprising via Japanese banks.
- Nonetheless, the growth rates of USD supplies from the UK and the US are also noteworthy, while EU banks show little growth as banks hoarded USD liquidity during the time of European Crisis.
- Thai financial sector has absorbed around \$36.4 billion since QEs.

Foreign Banks: HQ Financing & Interbank Asset



HQ supplied THB569.7 billion (+232%) since Mar 09

FB supplied via interbank THB427.9 billion (+163%) since Dec 08



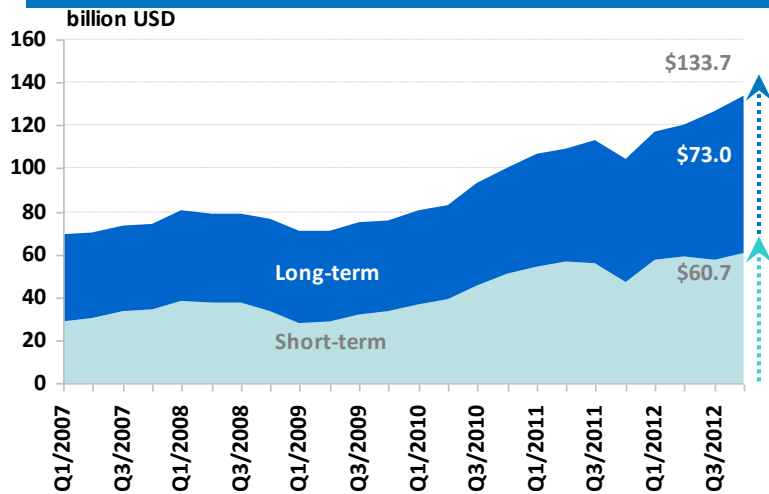
Foreign netbuys from 2009-13 in SET is cuml. THB 122 billion

Foreign bond holding outstanding increased THB713 billion since Dec 08

- Foreign CBs have shrunk lending, moving towards more short-term assets.
- They have also reduced deposit liabilities, relying more on funding from headquarters.
- Foreign banks have hoarded sizeable amount of liquidity. Mostly in terms of cash and interbank, almost as large as Thai banks.
- Since QEs, Thai financial markets have absorbed around THB 1.4 trillion in baht liquidity via various channels, with the largest in the bond market.

USD liquidity in Thailand: Who needs it?

Thailand's External Debt

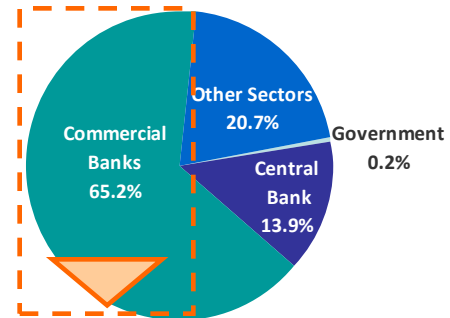
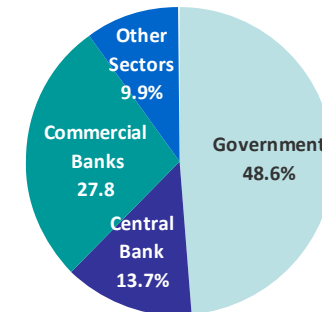


LT external debt increased \$30.5 bil (72%) since Dec 08

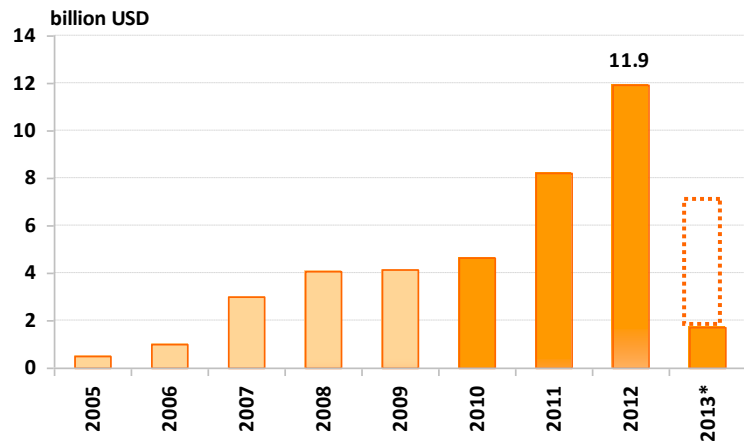
ST external debt increased \$27.0 bil (80%) since Dec 08

LT Debt

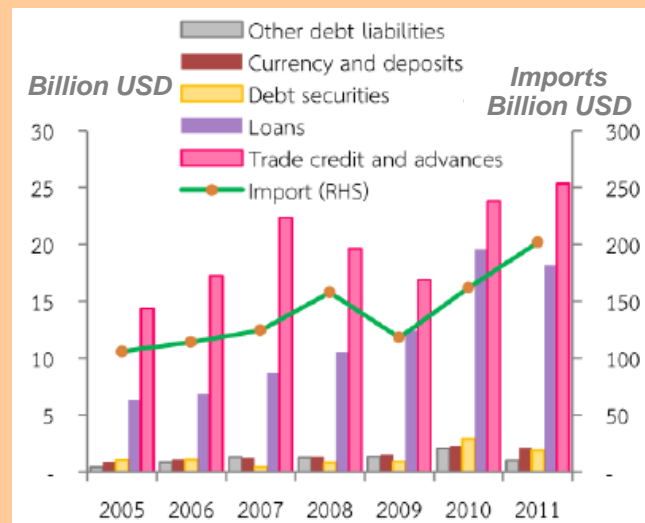
ST Debt



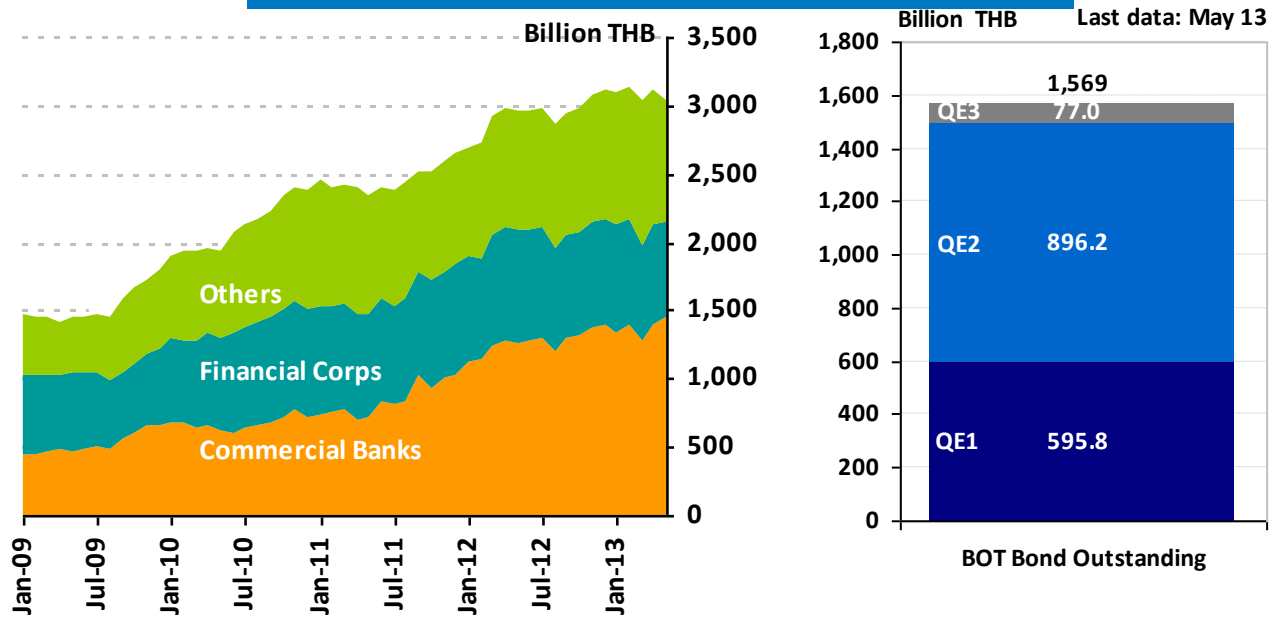
Loans for Thai investors going abroad (TDI)



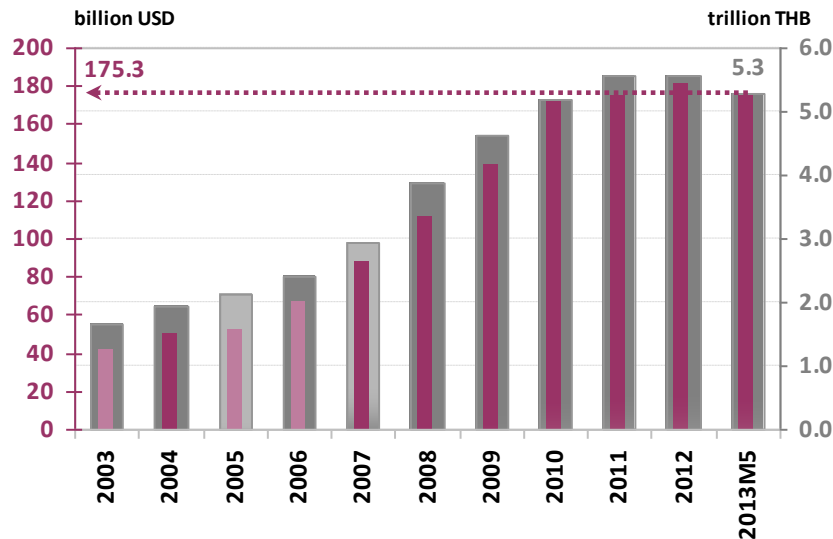
Types of Short-term External Debts



BOT's Bond Absorption

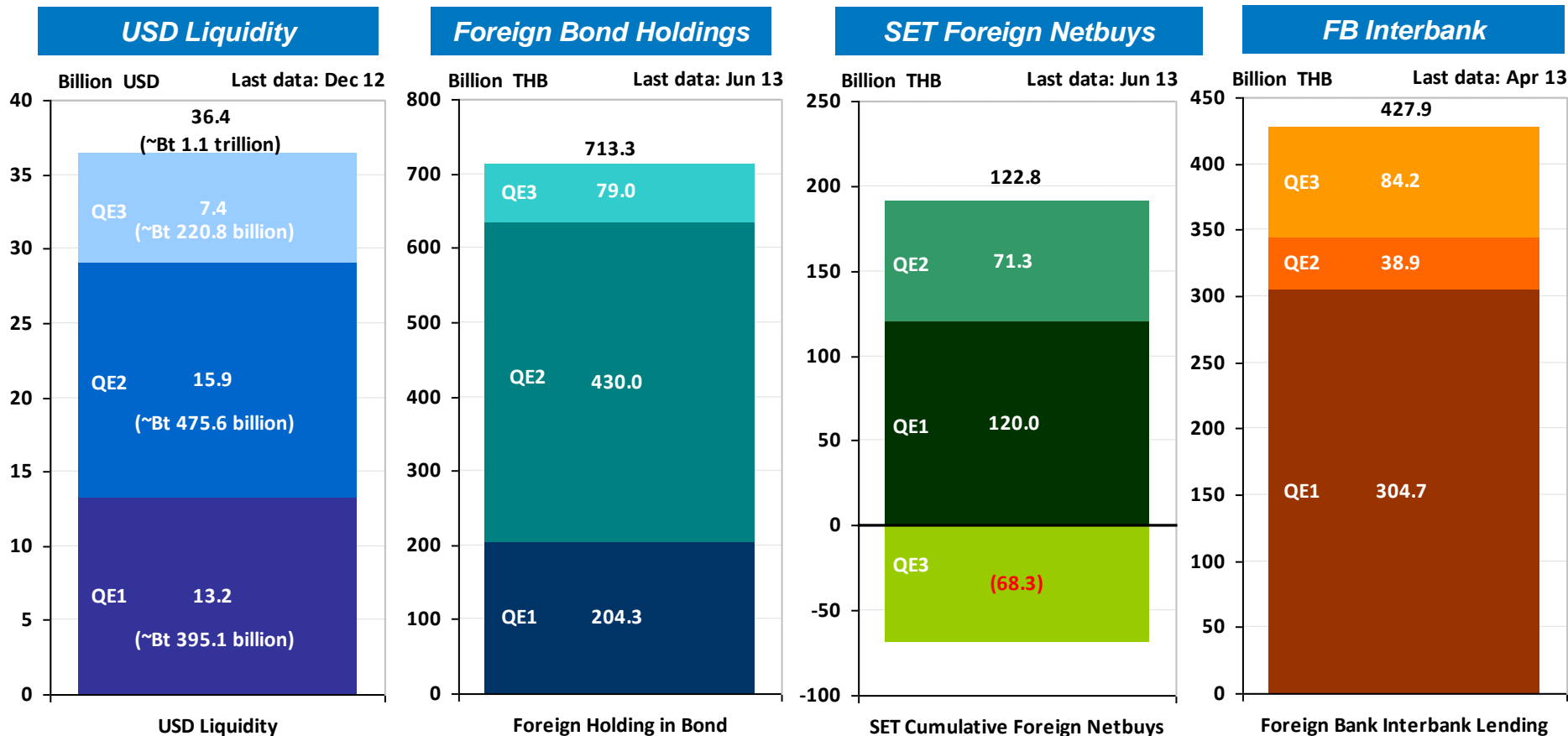


International Reserves at BOT



How much foreign liquidity flown in since QEs?

- **QE1: Jan 2009 to June 2010** (Implementation period is from November 2008 to June 2010)
- **QE2: June 2010 to June 2012** (Implementation period is from November 2010 to June 2011)
- **QE3: June 2012 to available present data** (Implemented from Sep 2012 and increased in Dec 2012).



Importers and Thai firms going abroad.

Government, commercial banks, large corporate.

Large corporate, institutional and retail investors, AMCs

Selected medium and small banks (e.g. TBANK, UOBT, SCBT, ICBC)

Source: BOT, ThaiBMA, SET, BIS, and TMB Analytics

Current Issue I.

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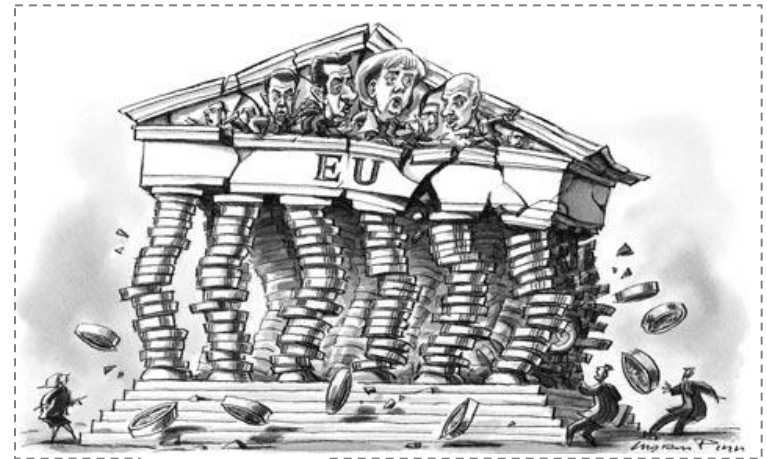
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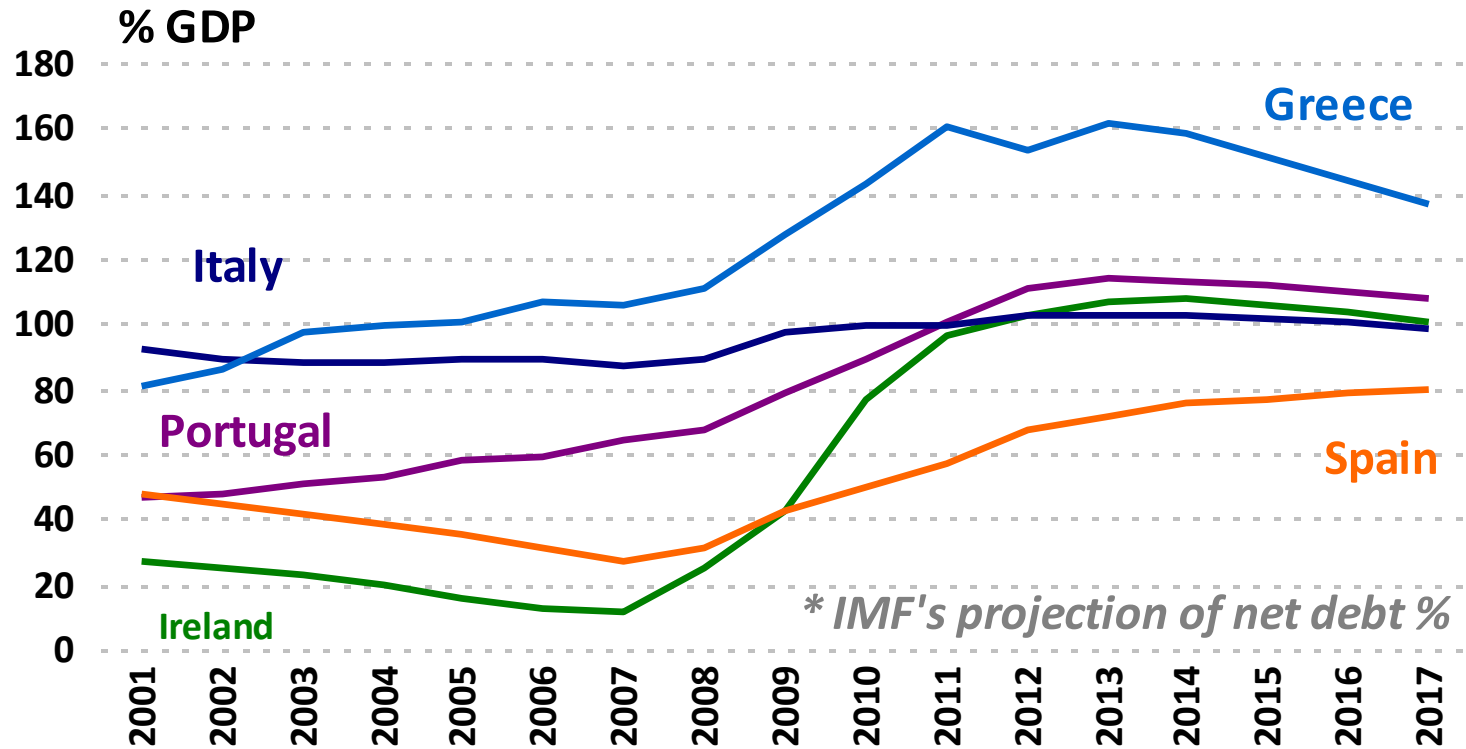
European Banking Union

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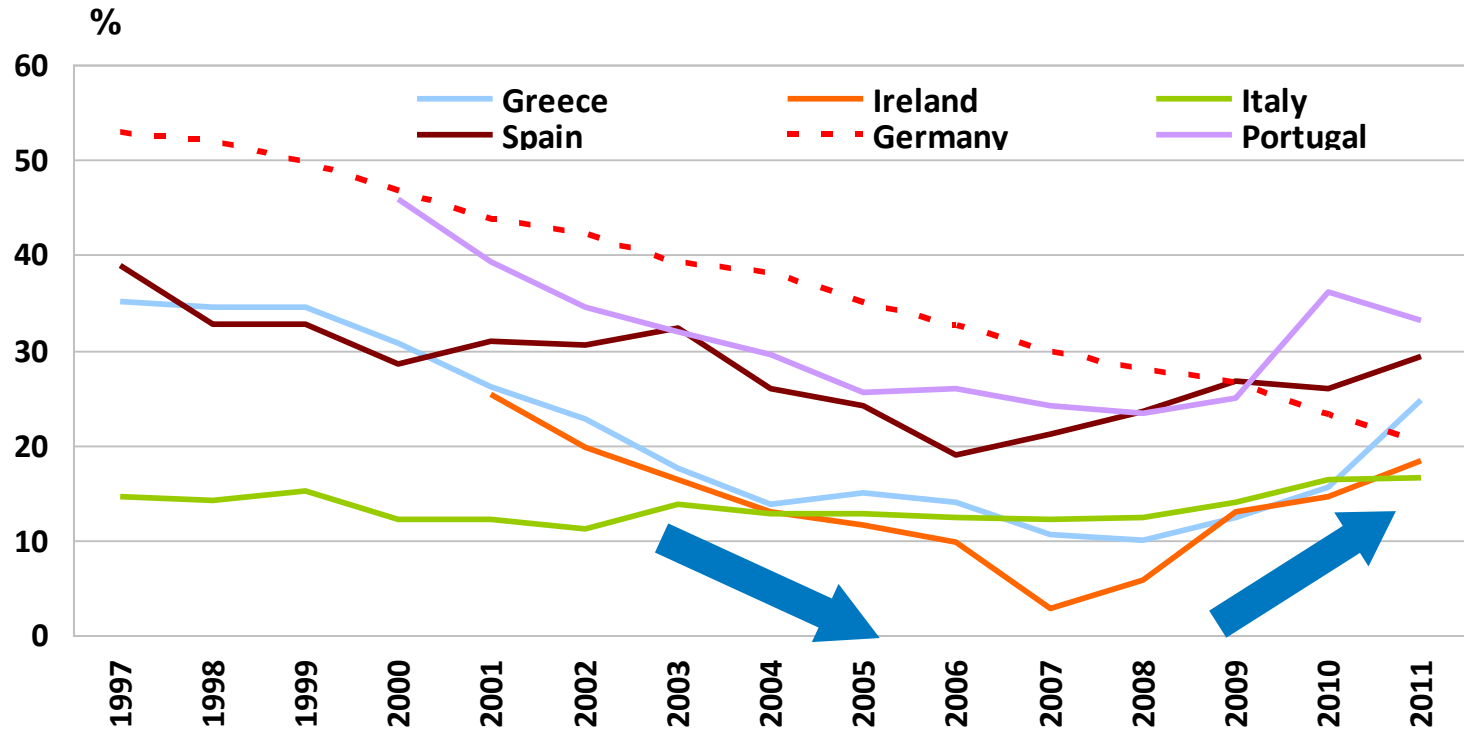


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PIIGS' sovereign debt

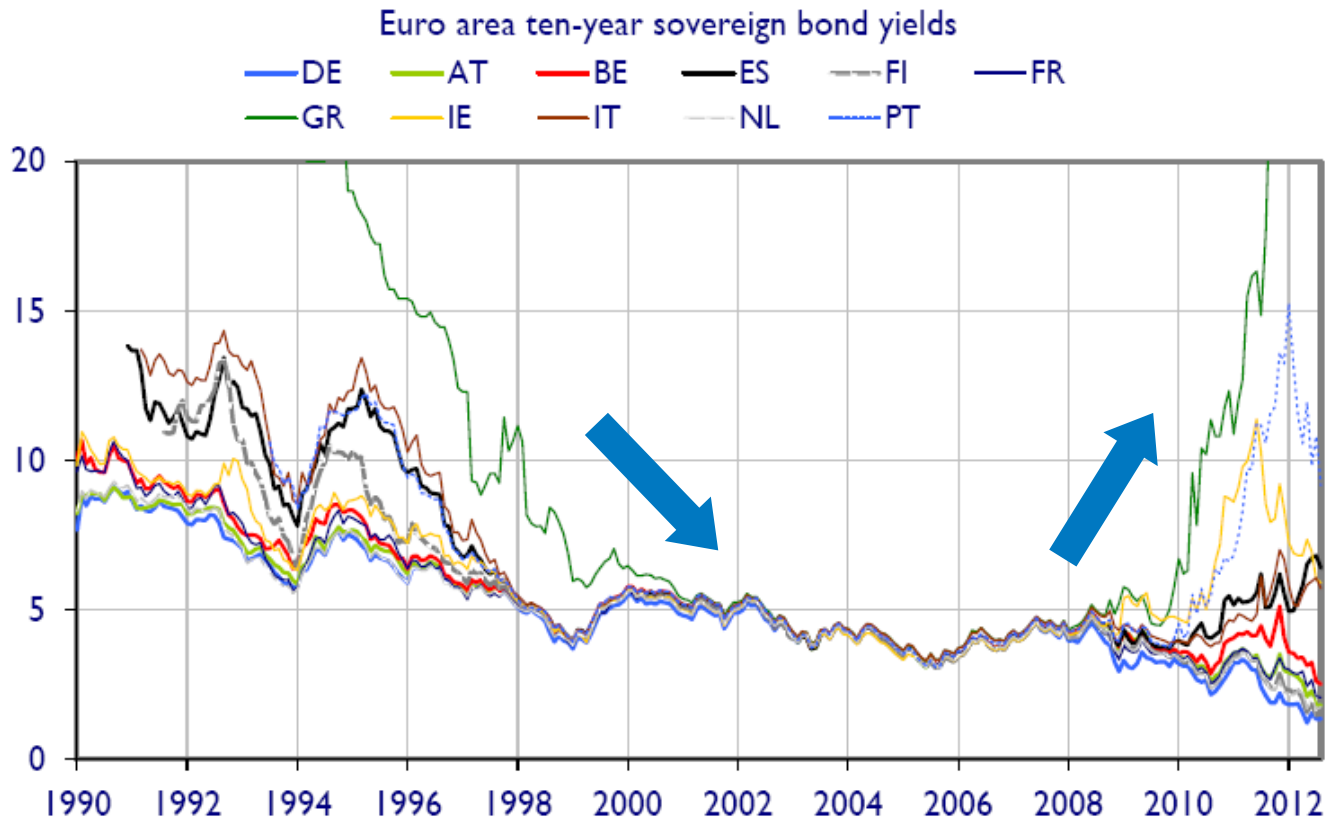


Domestic sovereign debt held by resident banking sector (% of total)



- The large macro imbalances in euro area are caused by the natural bias of national supervision (both in lender and borrowing countries).

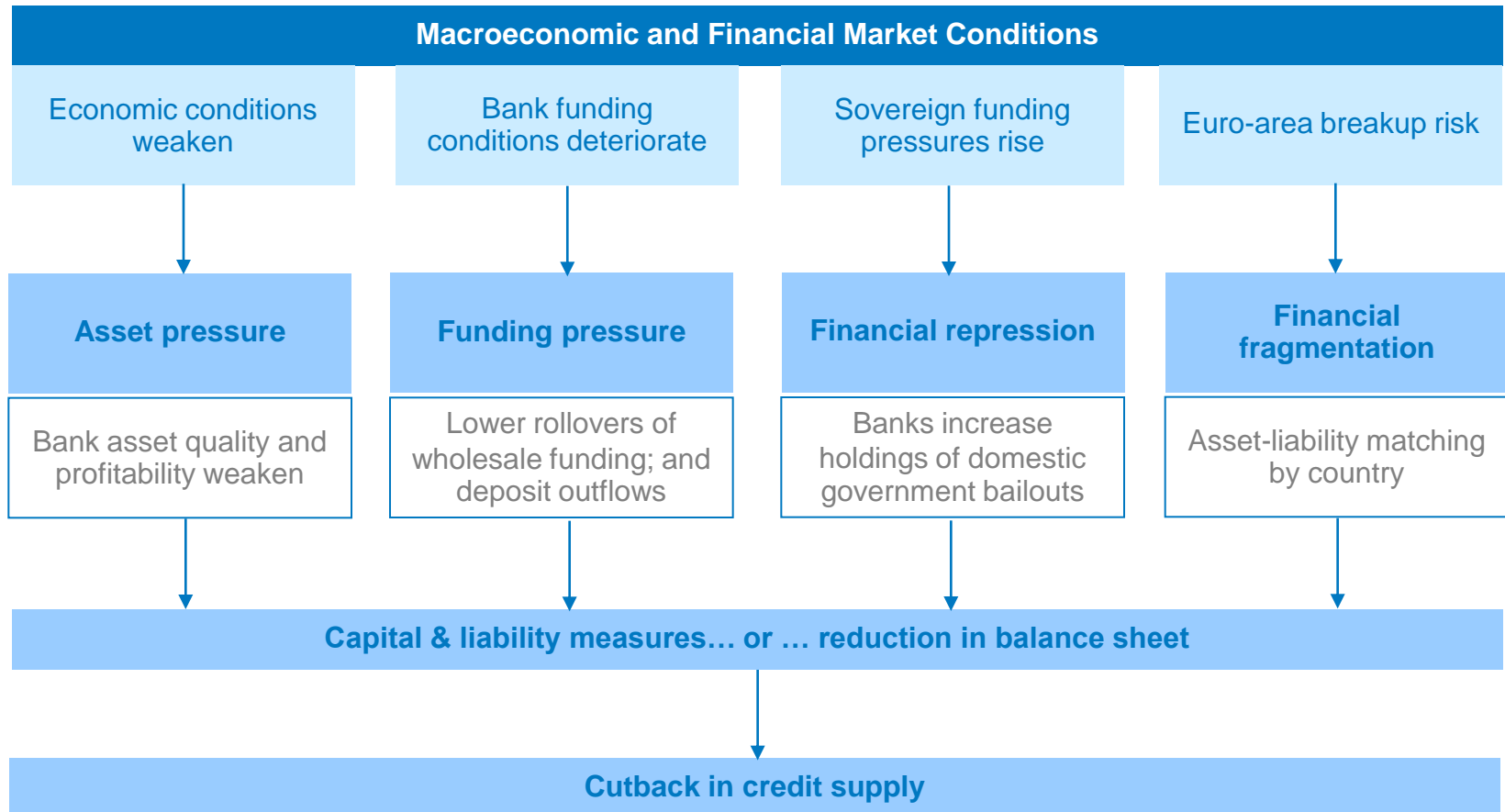
Convergence of sovereign debt rates (monthly; percentage points)



- A Banking Union will foster the financial integration, after more disintegration due to the crisis.

Indebtedness and leverage in selected advanced economies

	General Government			Households		Nonfinancial firms		Financial Institutions			External Liabilities			
	Gross debt	Net debt	Primary balance	Gross debt	Net debt	Gross debt	Debt over equity	Gross debt	Bank leverage	Bank claims on public sector	Gross	Net	Government debt held abroad	
Euro area	Greece	171	n.a.	-1.7	69	-58	73	235	40	n.a.	13	204	96	95
	Ireland	118	103	-4.4	117	-74	289	109	706	8.3	28	1750	99	71
	Italy	126	103	2.6	51	-174	114	138	105	5.2	38	146	24	46
	Portugal	119	113	-0.7	104	-125	158	154	59	4.5	24	285	108	64
	Spain	91	79	-4.5	87	-74	186	143	115	4.9	35	225	92	25
	Belguim	99	83	0.1	55	-202	186	52	123	n.a.	24	404	-65	57
	France	90	84	-2.2	67	-134	134	68	172	2.5	18	296	16	58
	Germany	83	58	1.4	58	-122	64	96	97	2.2	23	219	-38	51
	Euro area	94	73	-0.5	71	-130	138	107	145	n.a.	n.a.	194	12	26
Rest of the world	United Kingdom	89	84	-5.6	99	-185	116	85	232	4.2	8	692	9	28
	United States	107	84	-6.5	86	-235	89	83	88	7.1	8	161	26	32
	Canda	88	36	-3.2	91	-154	54	44	59	3.3	15	103	12	18
	Japan	237	135	-9.0	76	-241	145	176	188	2.8	83	73	-57	18



Definition

‘ In my view it involves a transfer to the European level of the regulatory and institutional framework responsible for safeguarding the robustness and stability of the banking sector ’

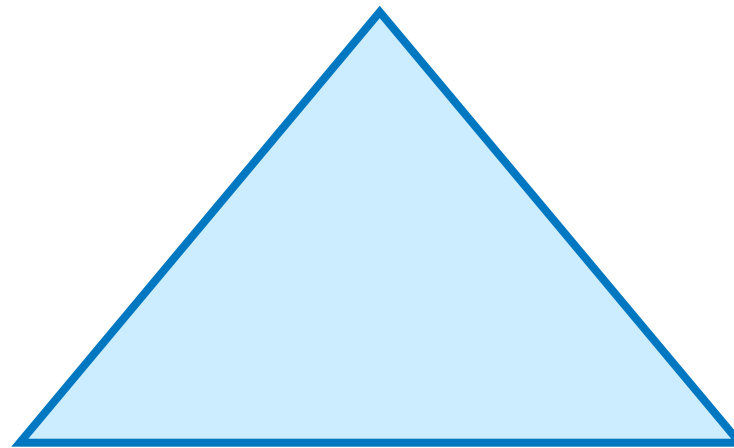
Vítor Constâncio, Vice-President of the ECB

Main components

- The Single Supervisory Mechanism
- The Single Resolution Mechanism
- Deposit Guarantee Schemes

Financial Trilemma

Financial Stability



Financial Integration

National Financial Policies

- With increasing financial integration, pursuing national financial policies will generally not lead to financial stability because ***national policies (e.g., whether to refund or to liquidate a bank in financial distress)*** seek to benefit national welfare, **not taking into account externalities on other countries** (under-provision of financial stability as a public good).

Thank you.