

Bear Market, CB Liquidity and Deteriorating Fundamentals

Seoul, February, 2016
Hung Tran

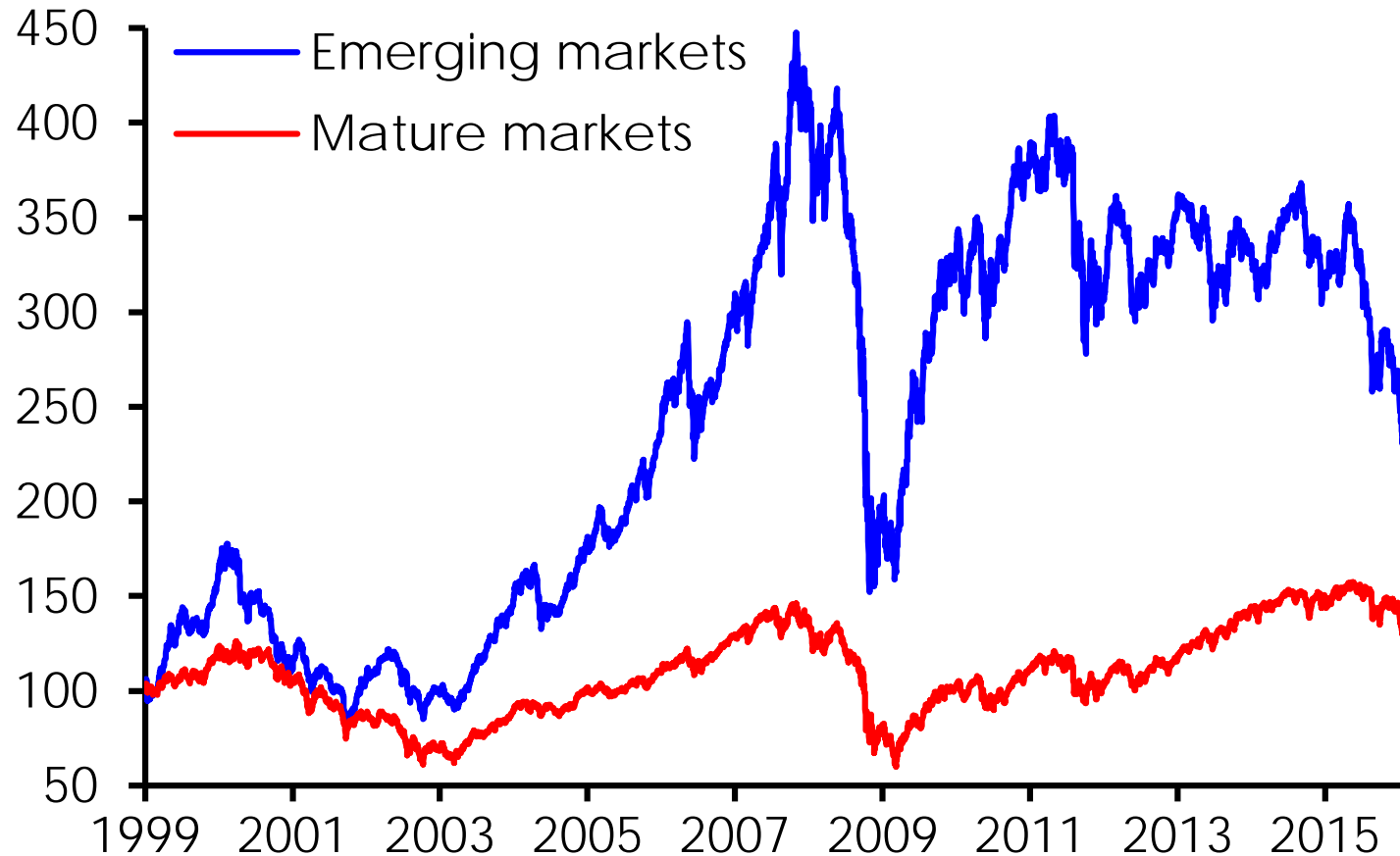


INSTITUTE OF
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FINANCE

BEAR MARKET IN PERSPECTIVE

Equity Market Performance: EM vs. DM

index, 1999=100

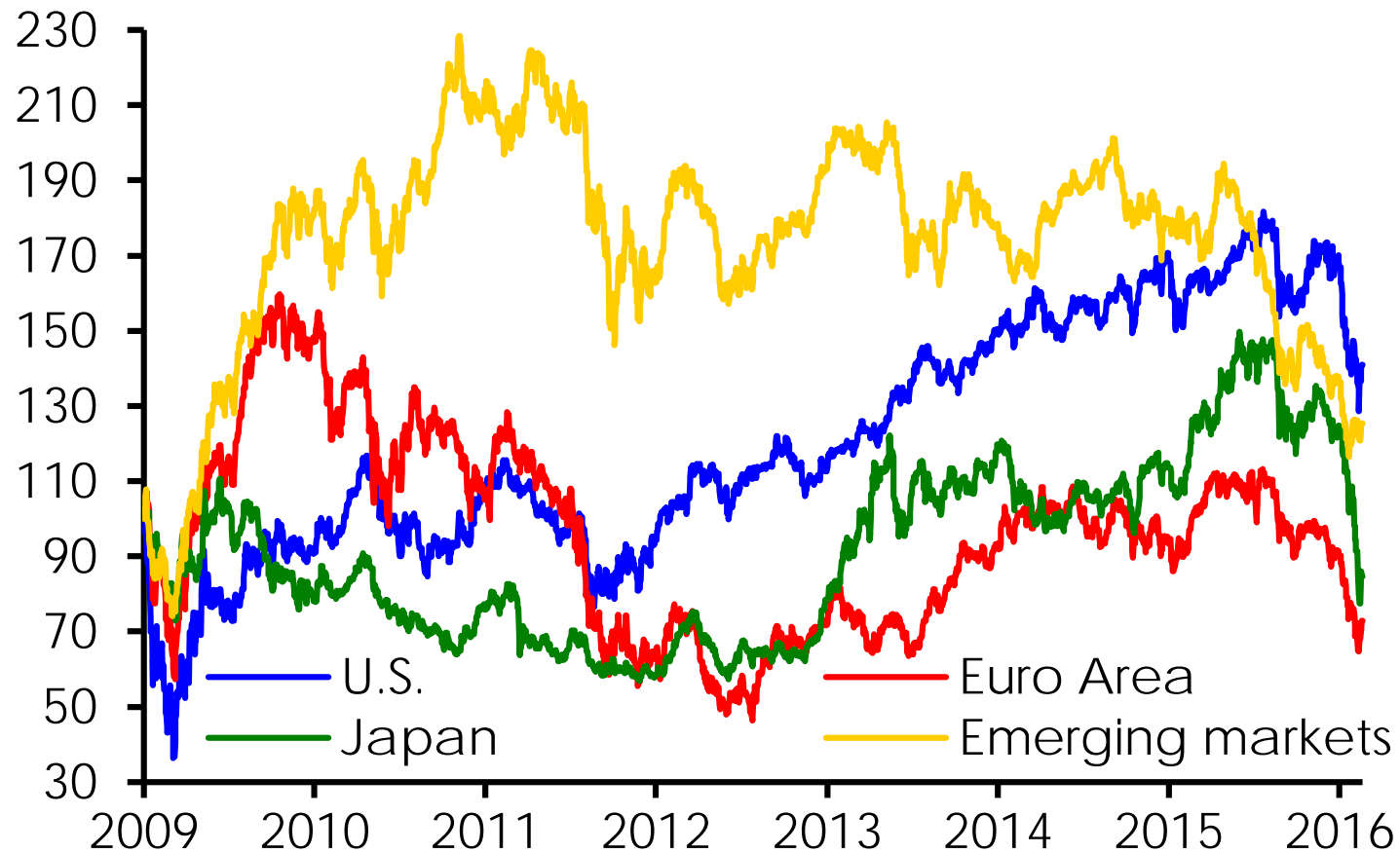


Source: Bloomberg, MSCI, IIF.

BANKS BEAR THE BRUNT OF SELLOFF

Bank Equity Market Performance Since End-2008

MSCI, indices, rebased, end-2008= 100

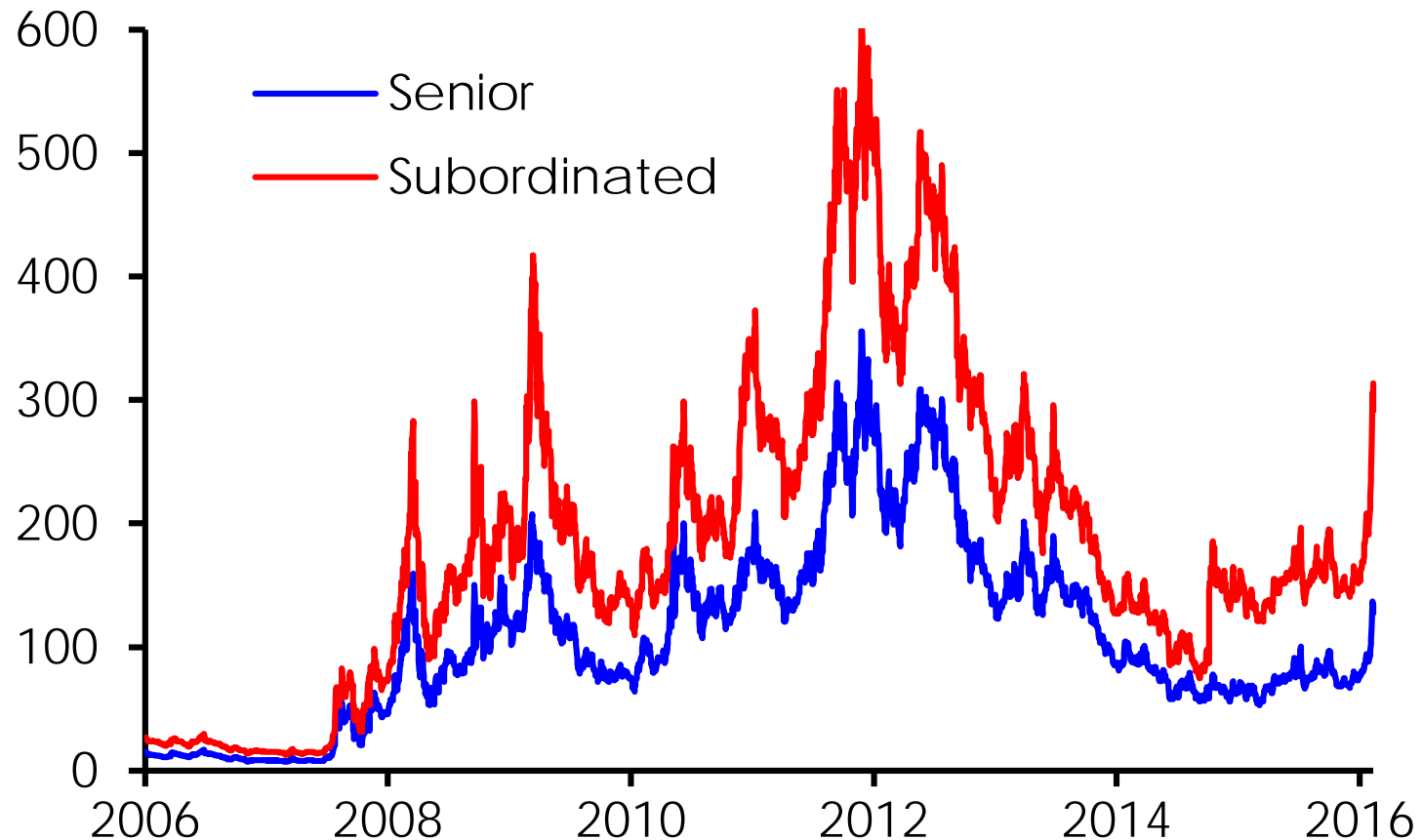


Source: MSCI, IIF.

PRESSURE ON SUBORDINATED BANK DEBT

European Financials: CDS Spreads

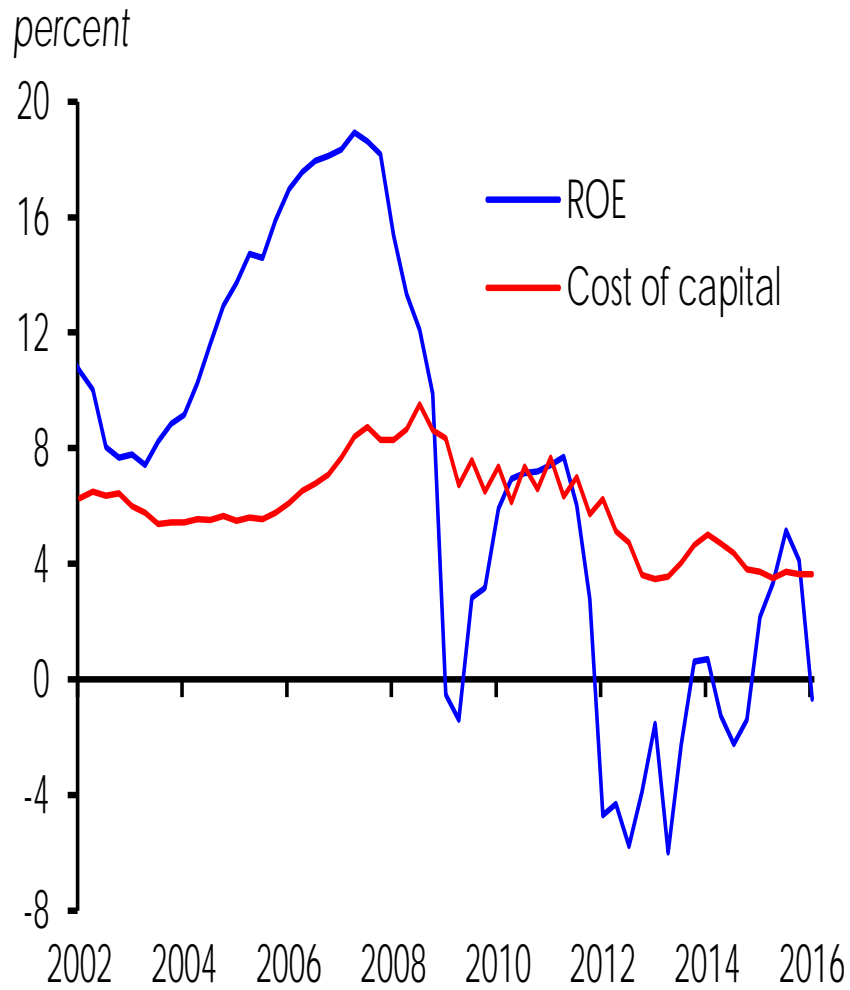
basis points



Source: iTraxx, Bloomberg, IIF.

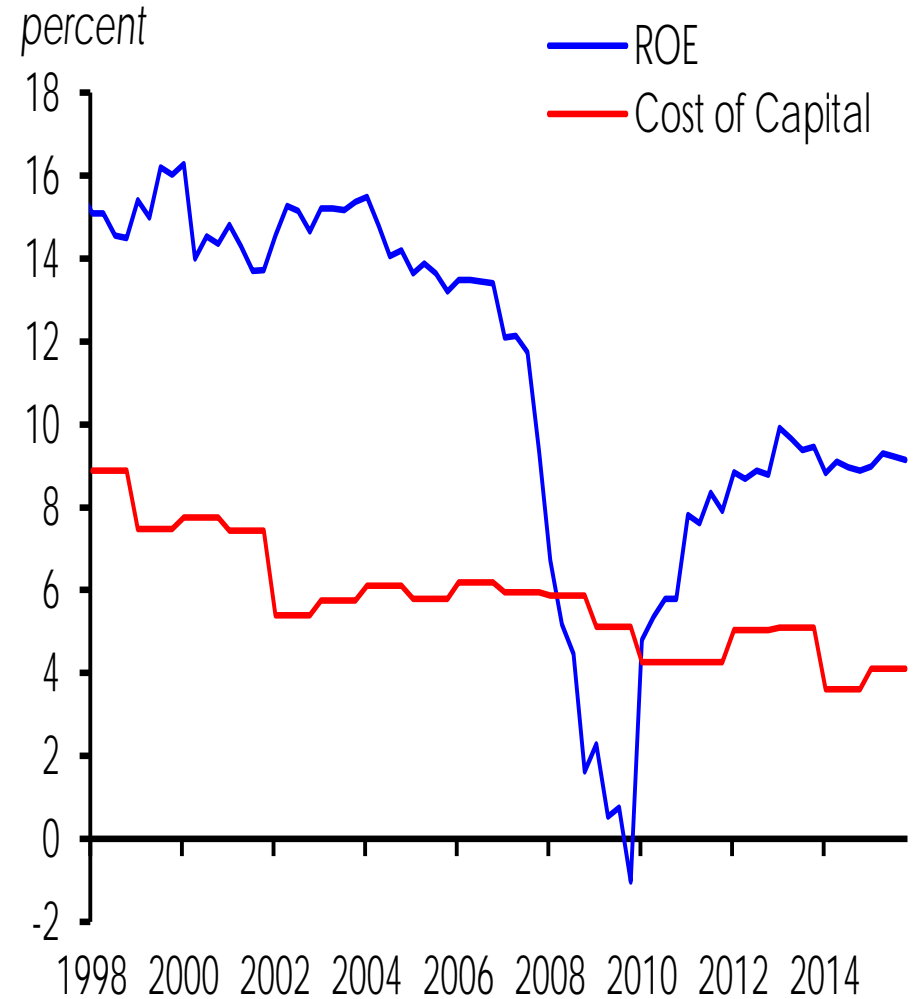
LOW ROE BUT UNCERTAIN EARNINGS

Euro Area Banks: Return on Equity vs. Cost of Capital



Source: Bloomberg, IIF.

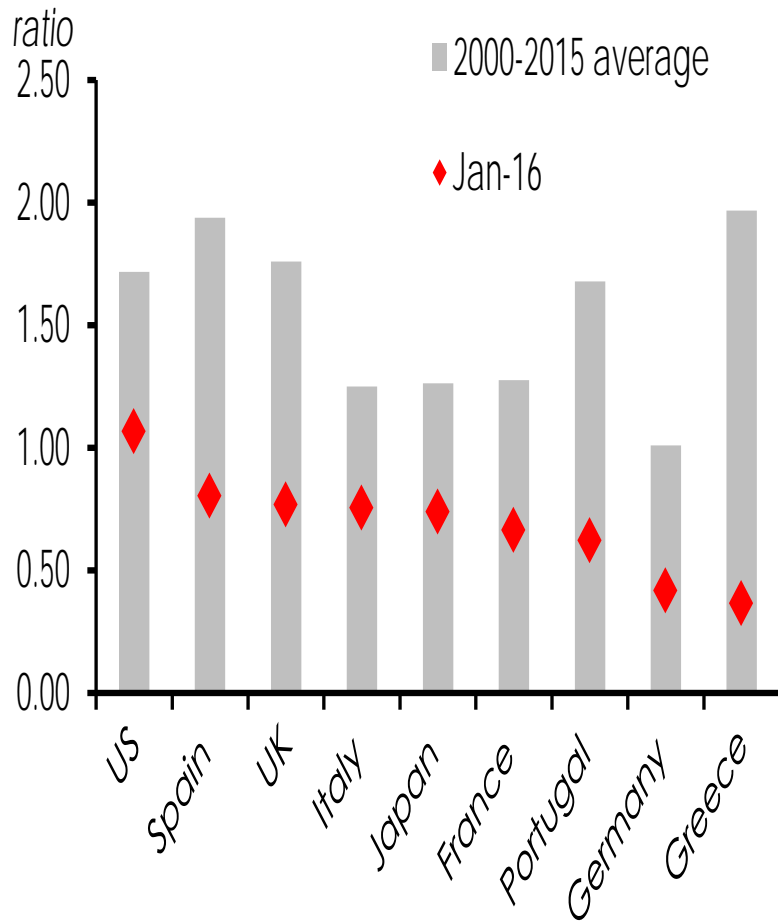
U.S. Banks: Return on Equity vs. Cost of Capital



Source: Fed, IIF.

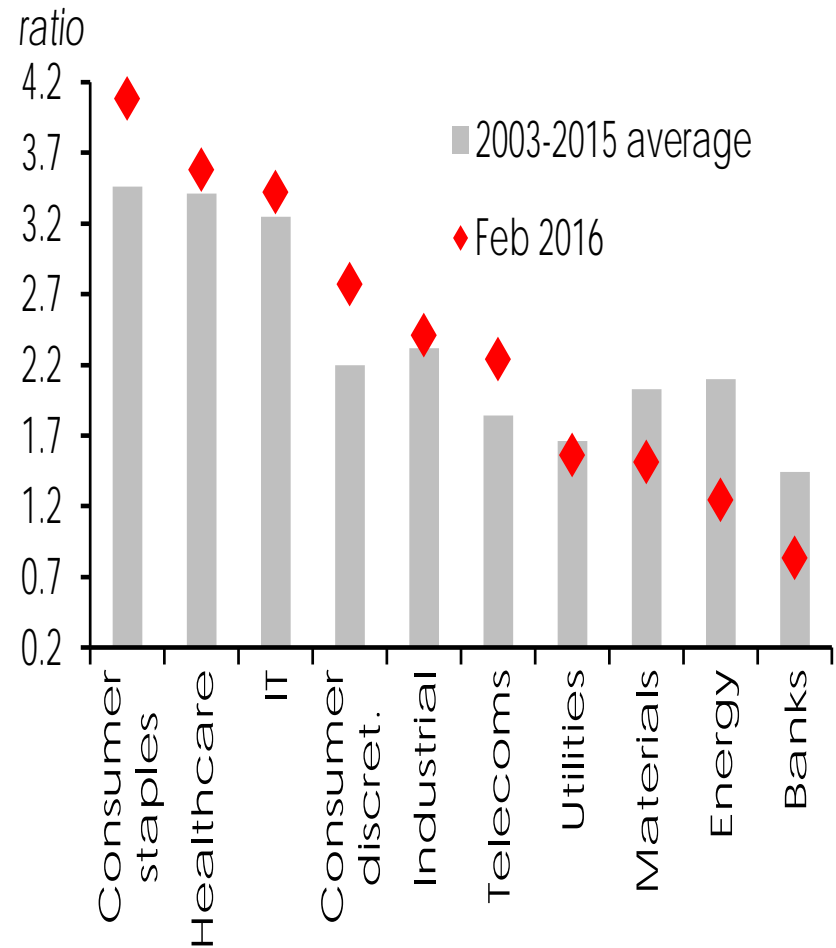
LOW P/B VALUATION

Banking Price-to-Book Ratios by Country



Source: Bloomberg, IIF.

Price-to-Book Ratios by Sector, Mature Market Equities

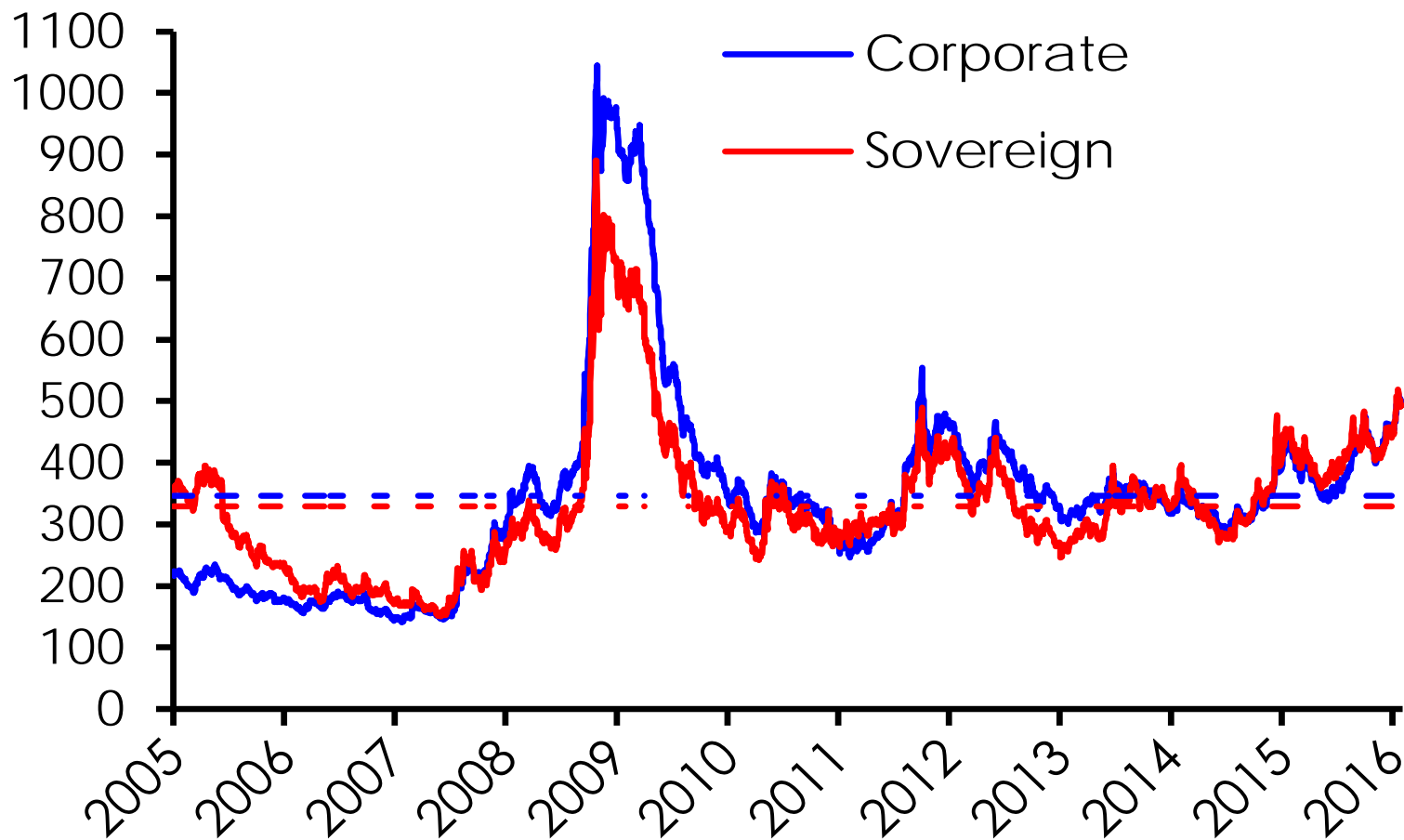


Source: Bloomberg, IIF.

EM SOVEREIGN/CORPORATE SPREADS

Emerging Markets: Sovereign & Corporate Bond Spreads

basis points, dotted lines=2005-15 averages

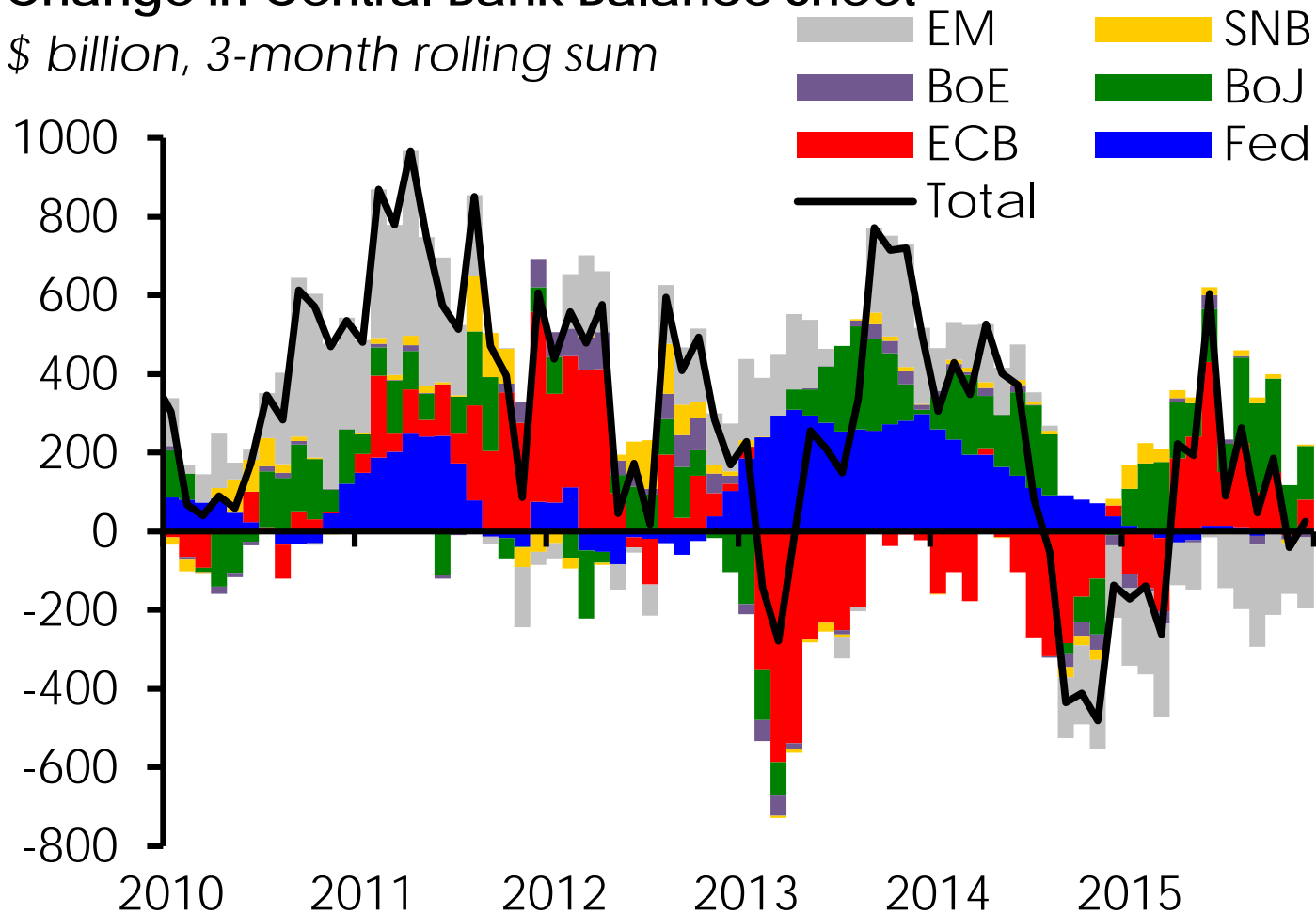


Source: Bloomberg.

CB LIQUIDITY PROVISION

Change in Central Bank Balance Sheet

\$ billion, 3-month rolling sum

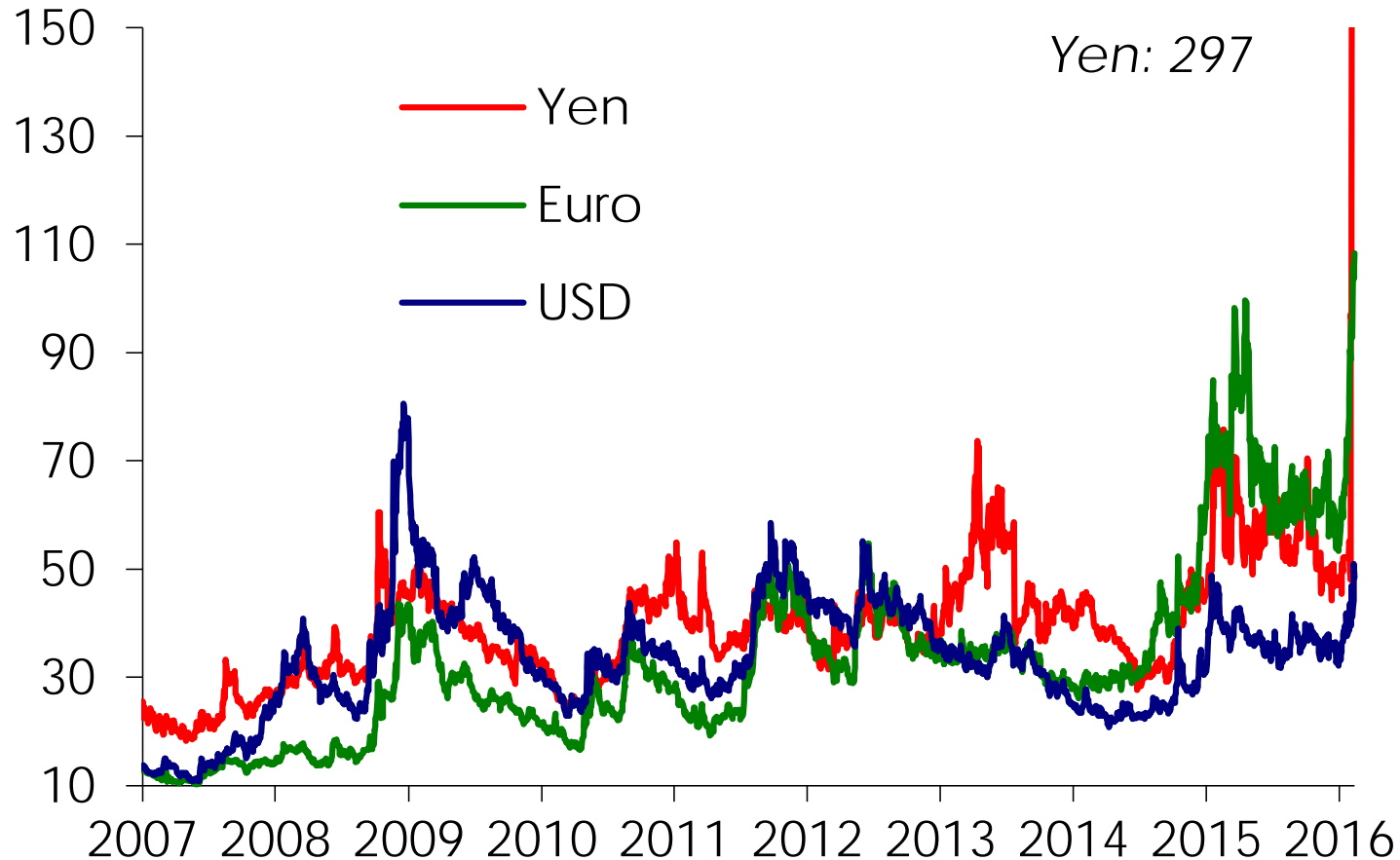


Source: Bloomberg, Haver, IIF.

HUGE INTEREST RATE VOLATILITY

Interest Rate Volatility

percent, implied from 3m x 10yr ATM swaptions

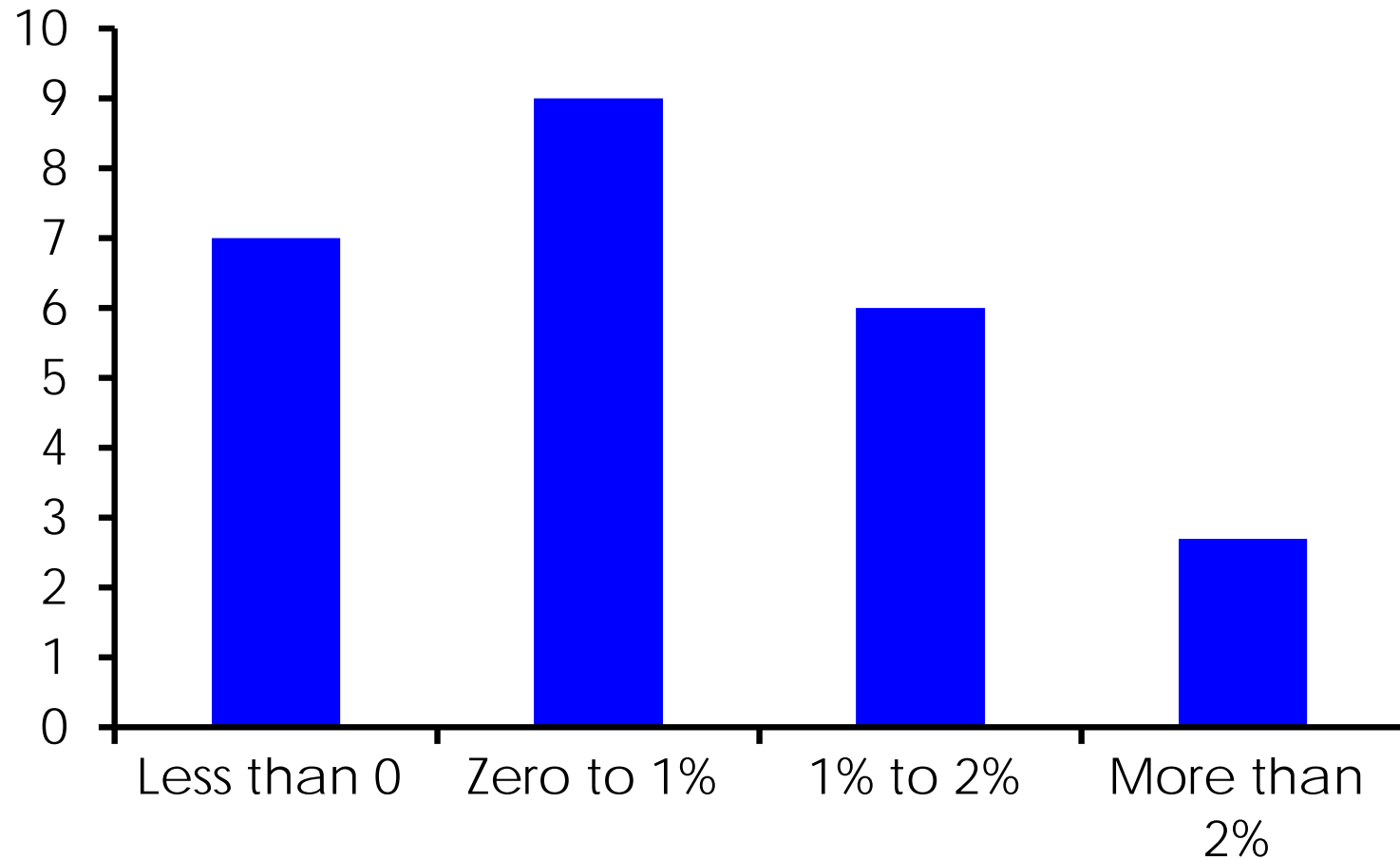


Source: Bloomberg, IIF.

NEGATIVE YIELDS

Negative Yielding Government Bonds

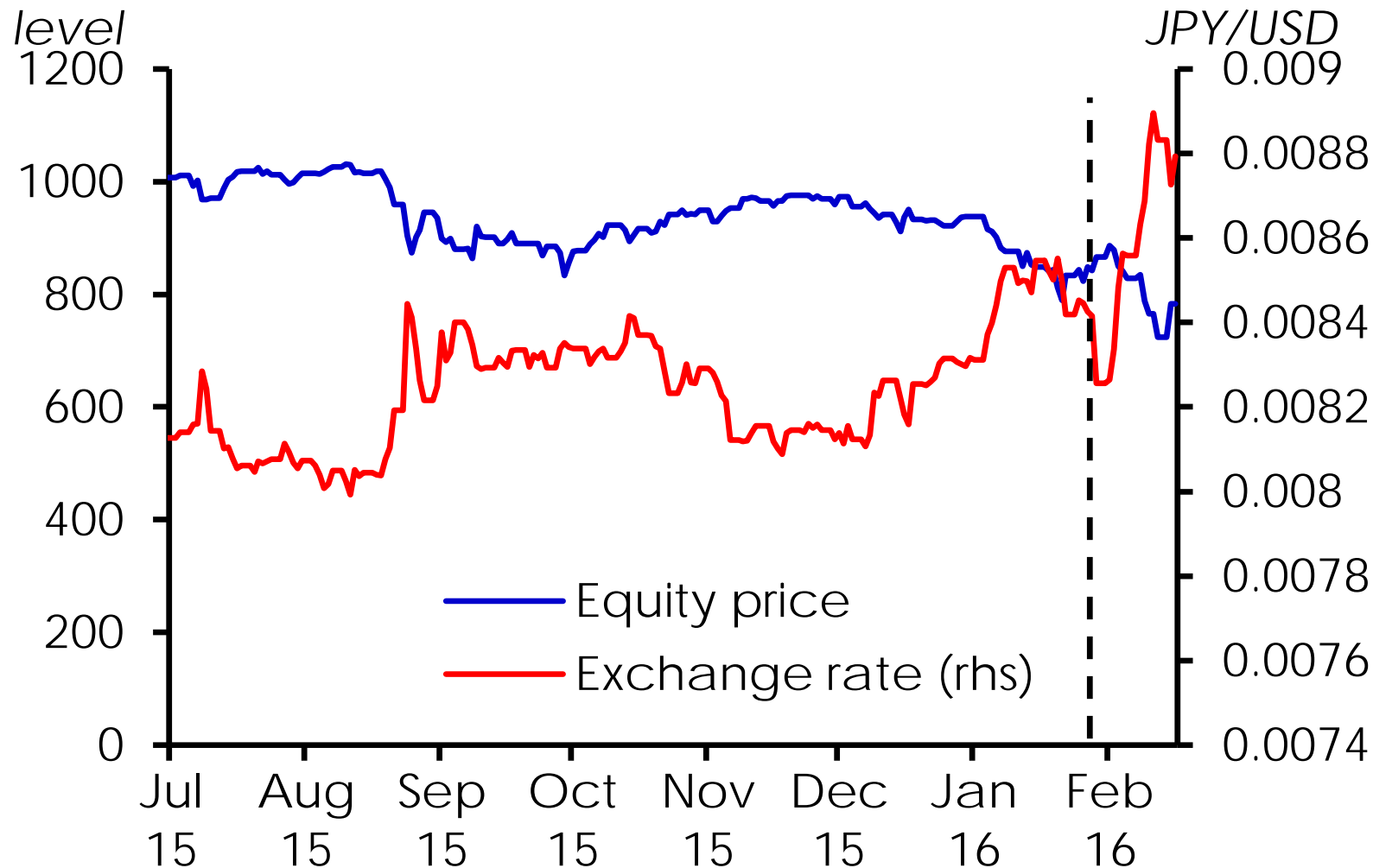
\$ trillions



Source: Bloomberg Global Developed Sovereign Bond Index

JAPAN: EQUITY PRICES AND YEN/USD

Japan: Equity Prices and FX rate

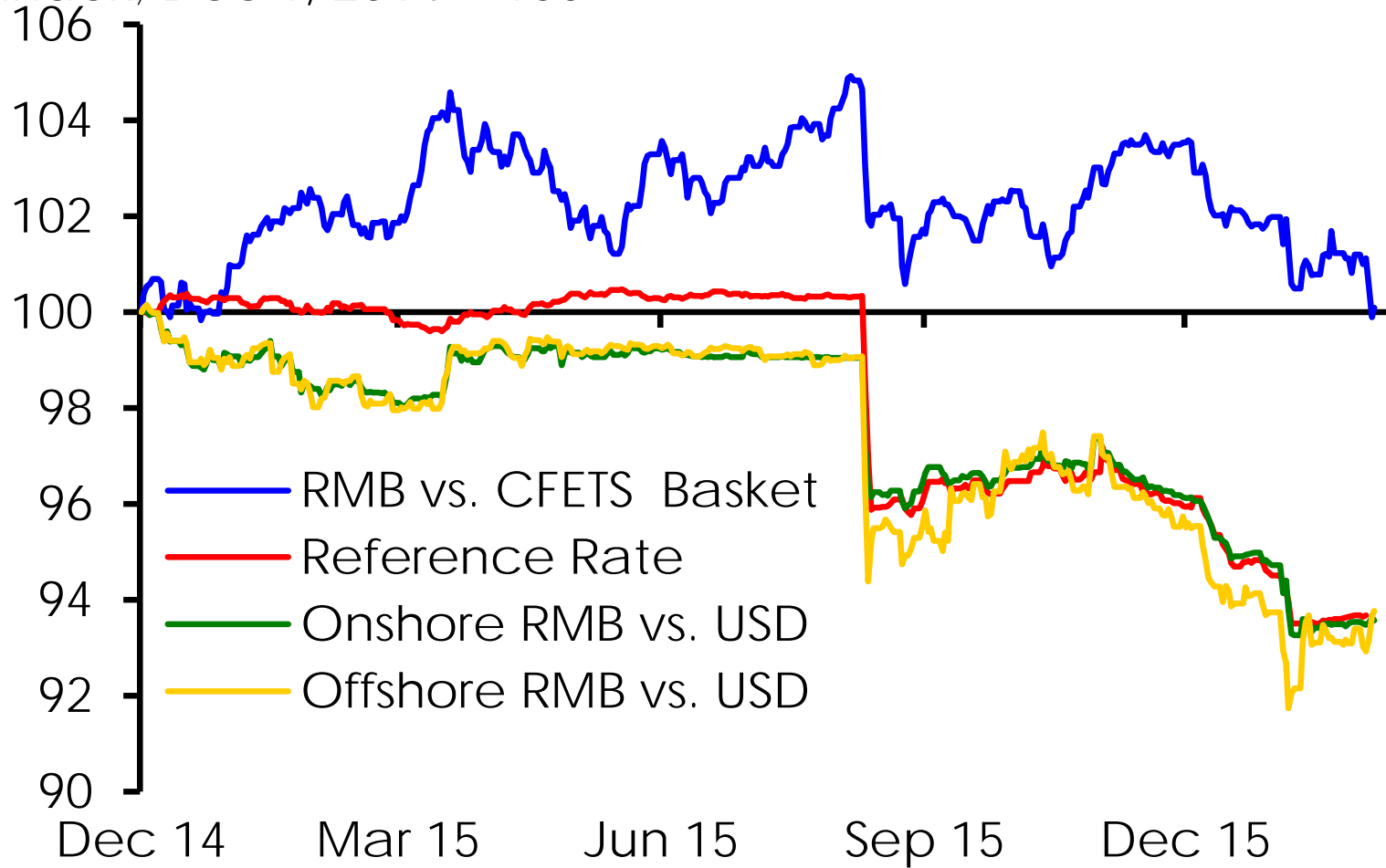


Source: Bloomberg, IIF.

CHINA'S IMPOSSIBLE TRINITY

RMB Exchange Rates

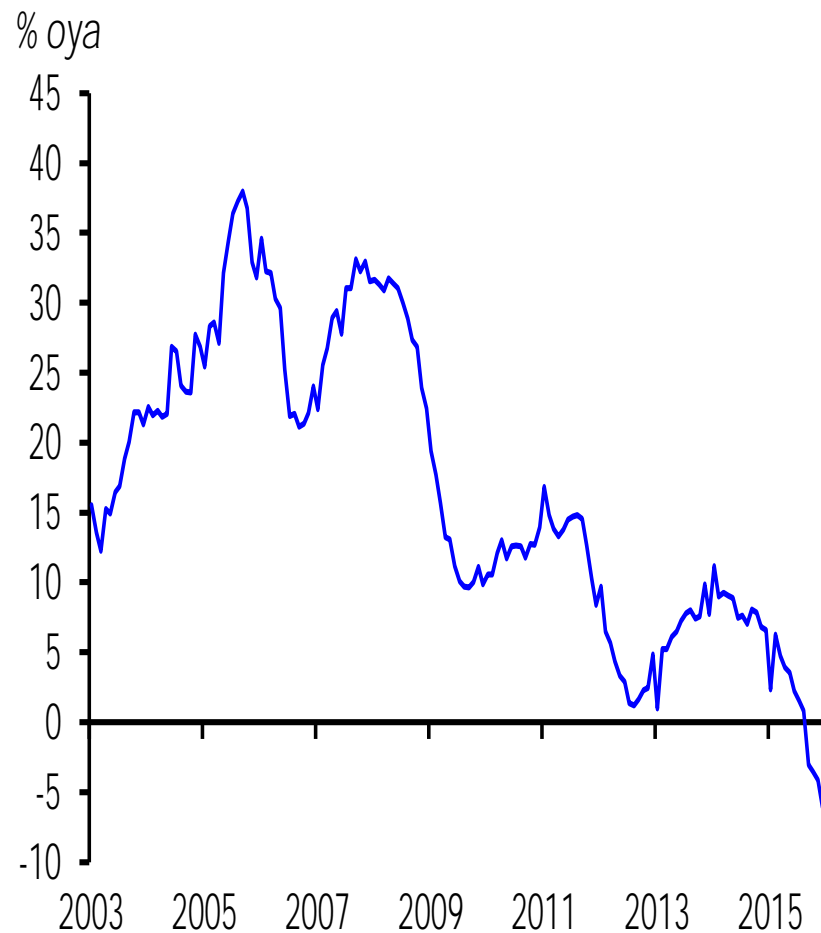
index; Dec 1, 2014 = 100



Source: CFETS, Bloomberg, IIF.

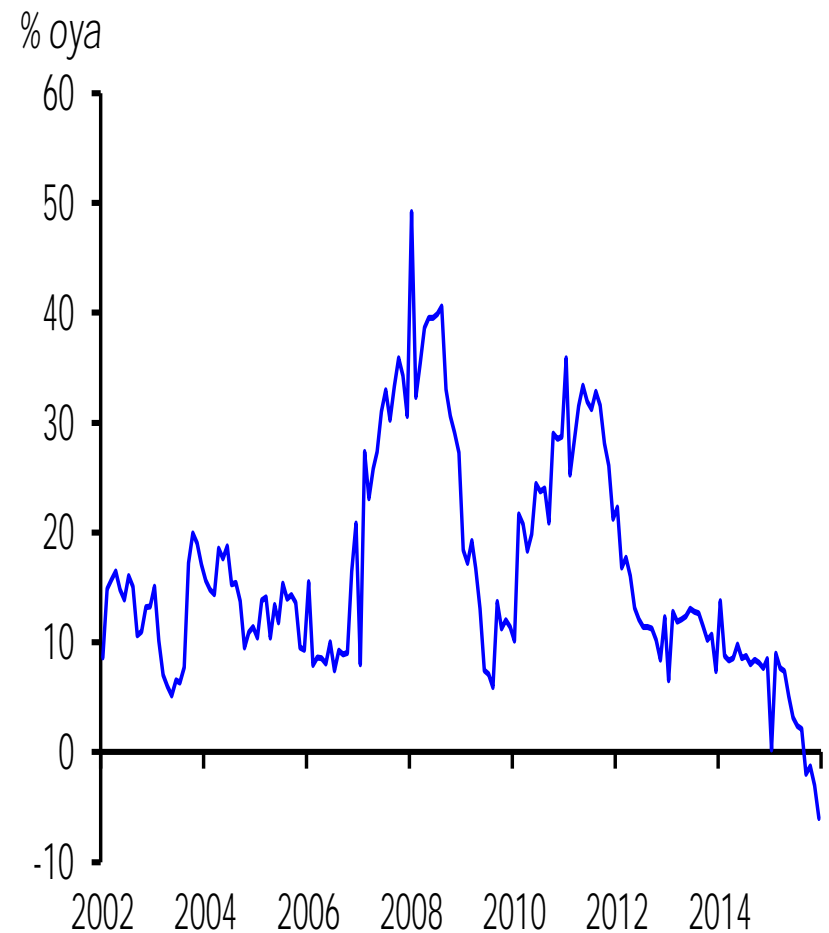
CHINA: PBOC BALANCE SHEET AND MONETARY BASE

China Central Bank Balance Sheet: Total Assets



Source: Haver, IIF.

China: Monetary Base

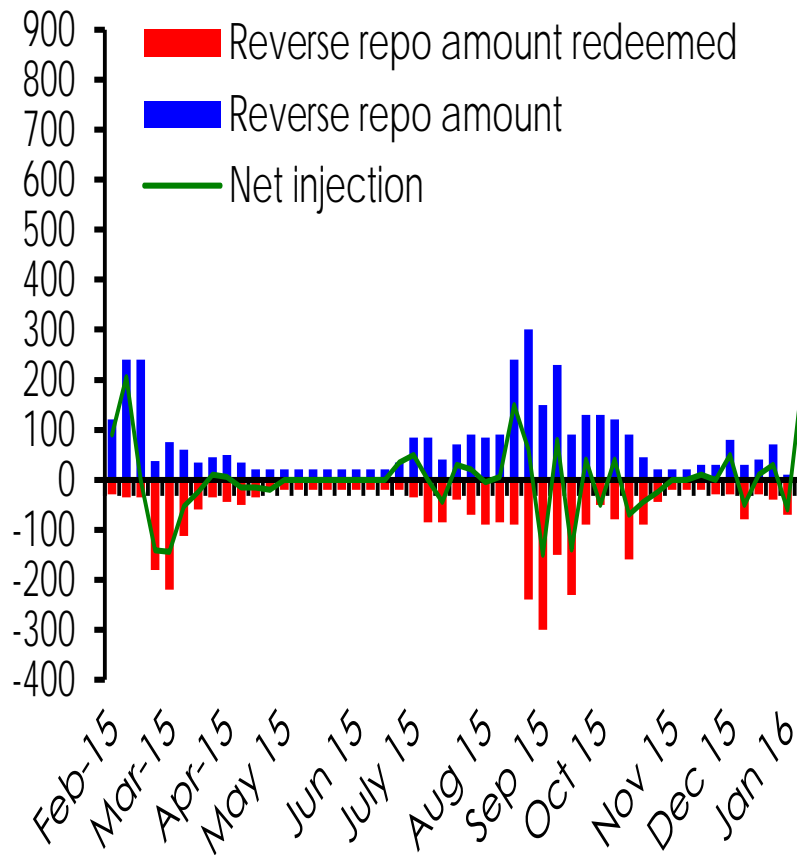


Source: Haver, IIF.

CHINA: OPEN MARKET OPERATIONS AND O/N SHIBOR

PBOC Open Market Operation

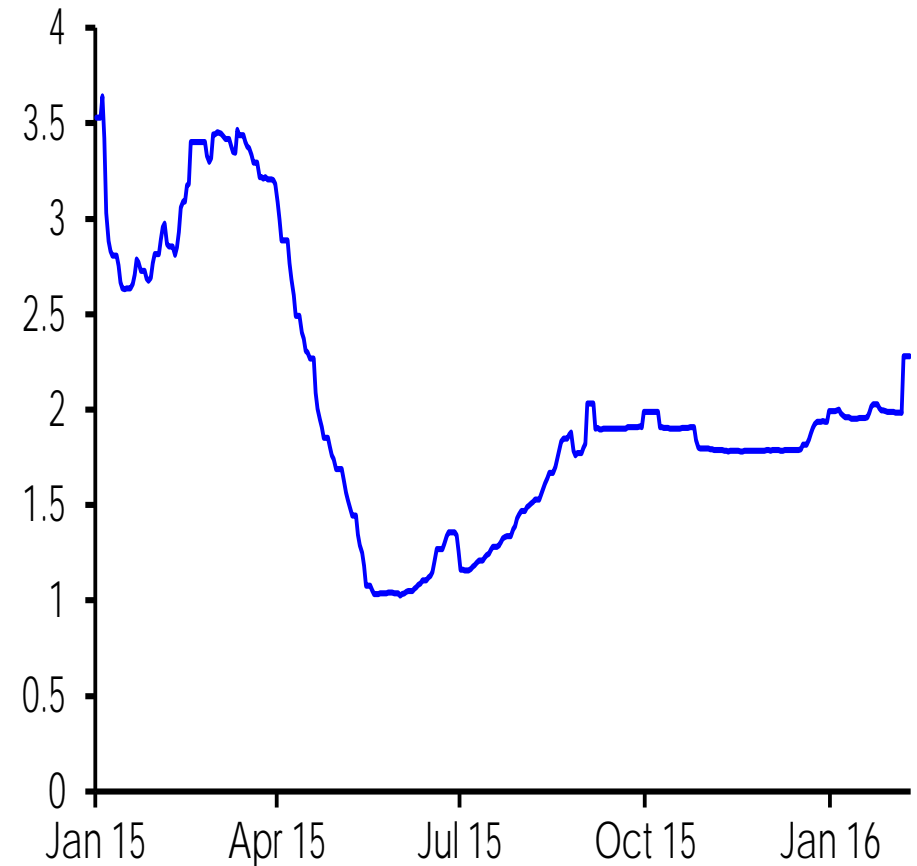
CNY, billion, weekly as of end-Jan 2016



Source: Bloomberg, IIF.

China: Interbank Rates

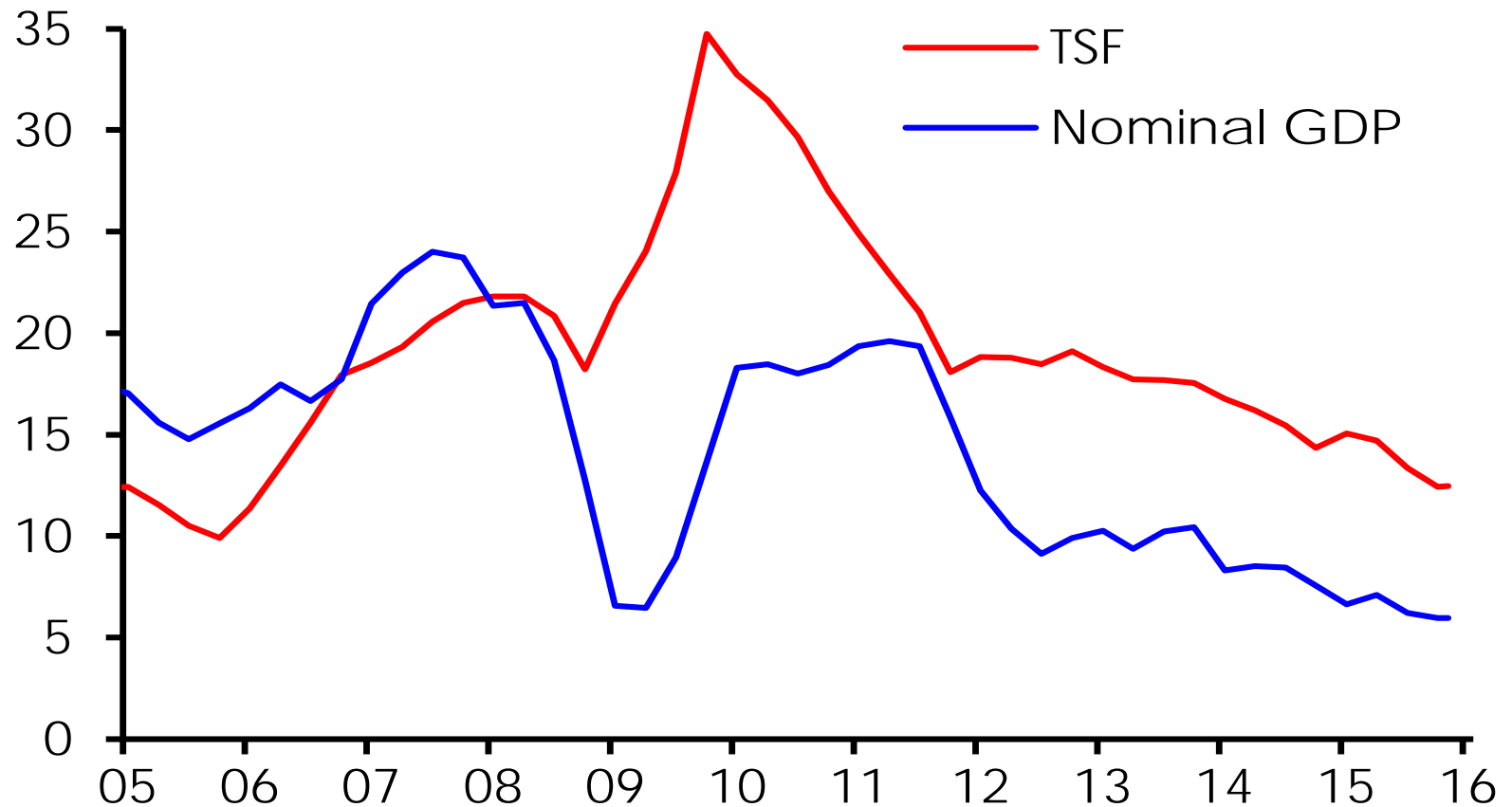
percent



Source: Bloomberg, IIF.

CHINA: TSF EXCEEDS NOMINAL GDP GROWTH

China: Total Social Financing and Nominal GDP Growth percent change over a year ago

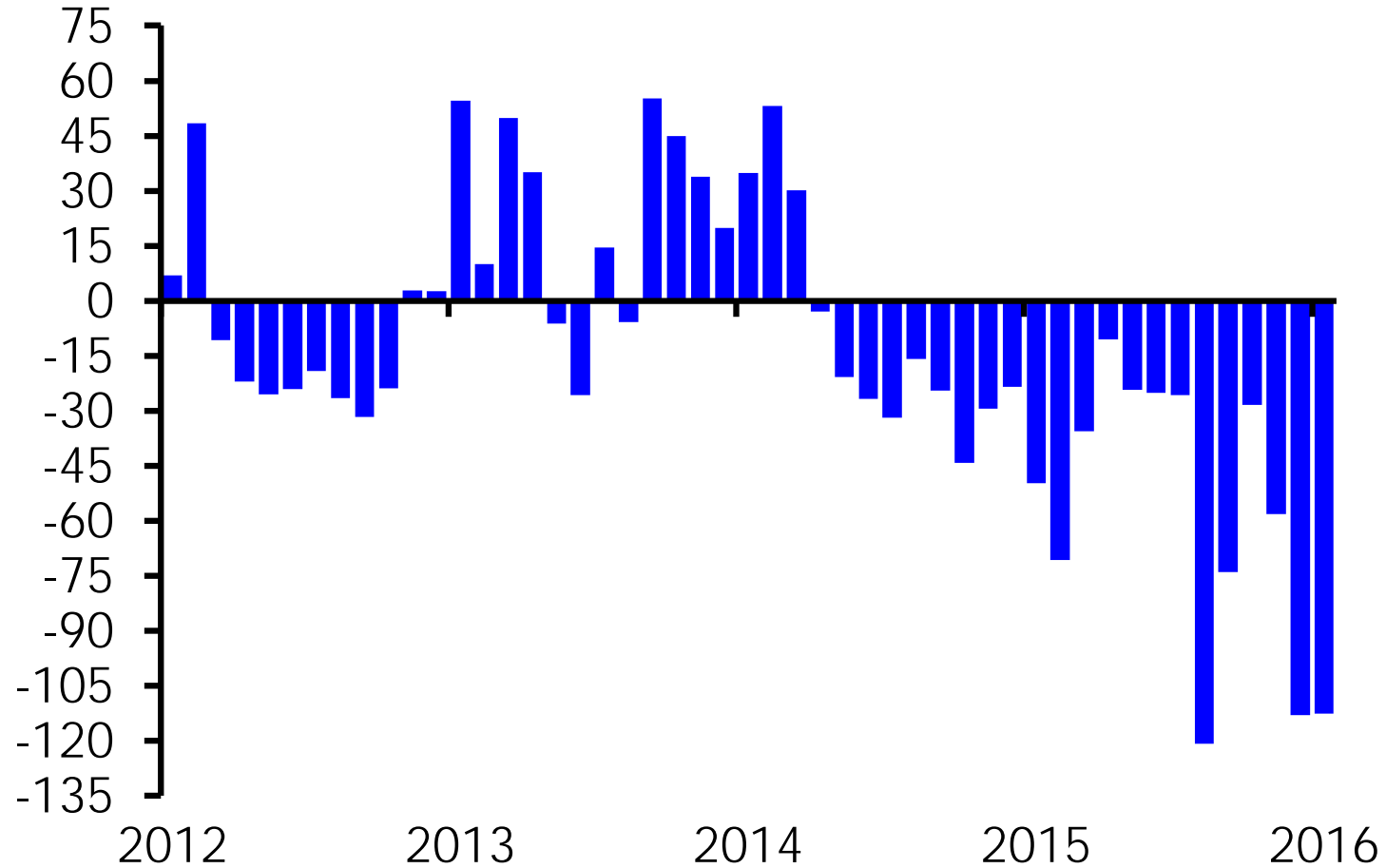


Source: Haver, IIF.

CHINA: NET CAPITAL FLOW

IIF China Net Capital Flows Tracker

\$ billion, monthly, financial account balance plus E&O



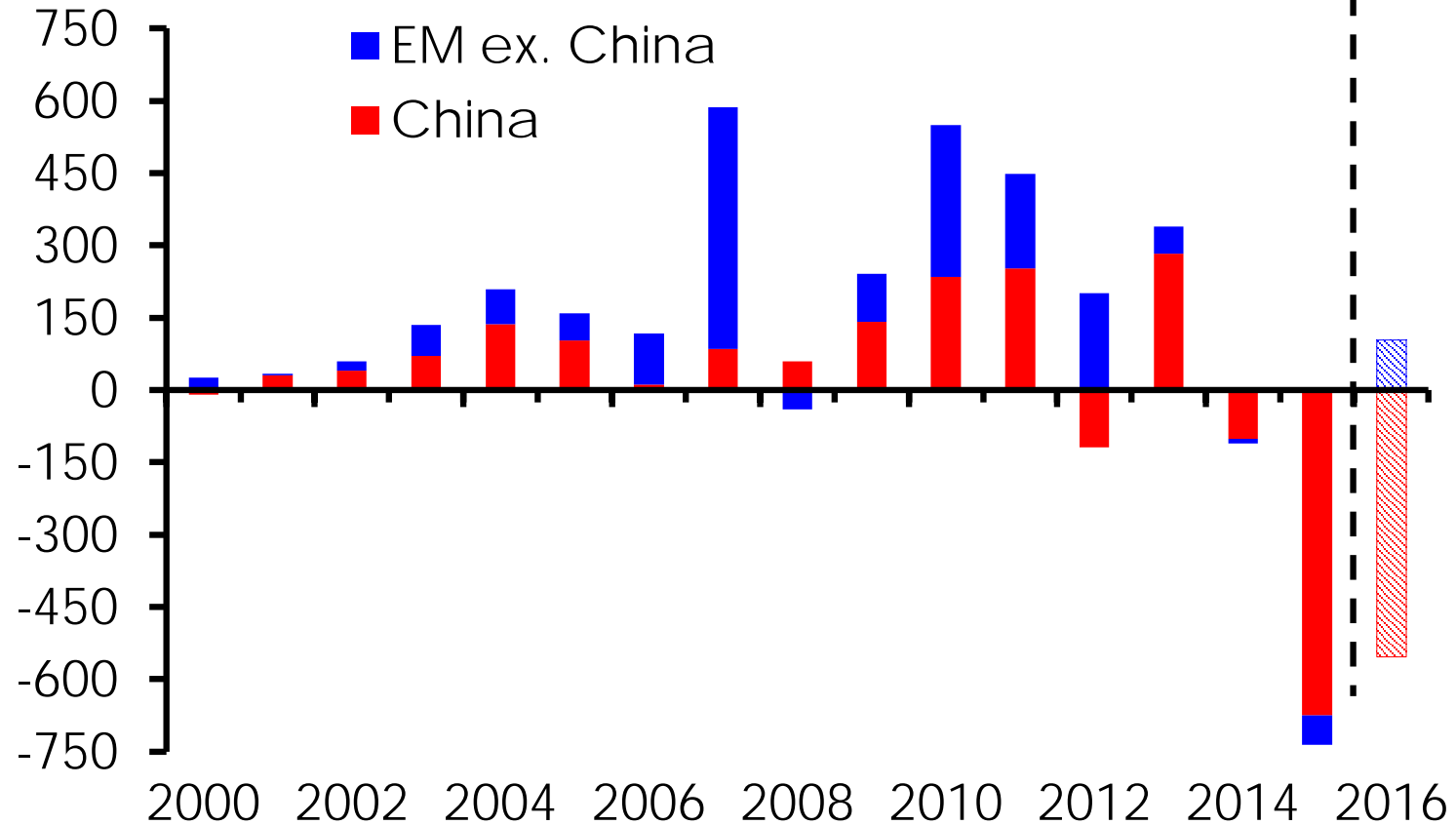
Source: IIF.

EM NET CAPITAL FLOW

Net Capital Flows (Financial Account Balance) Plus Errors and Omissions

\$ billion

IIF Forecast

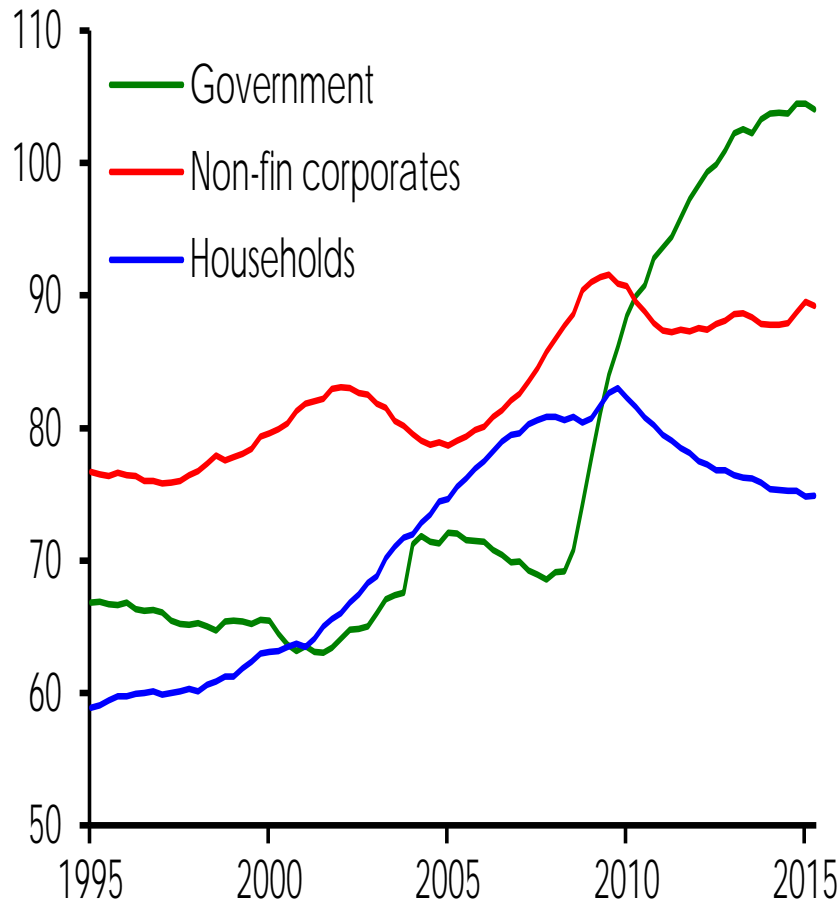


Source: IIF.

DEBT OVERHANG

Mature Markets: Sectoral Indebtedness

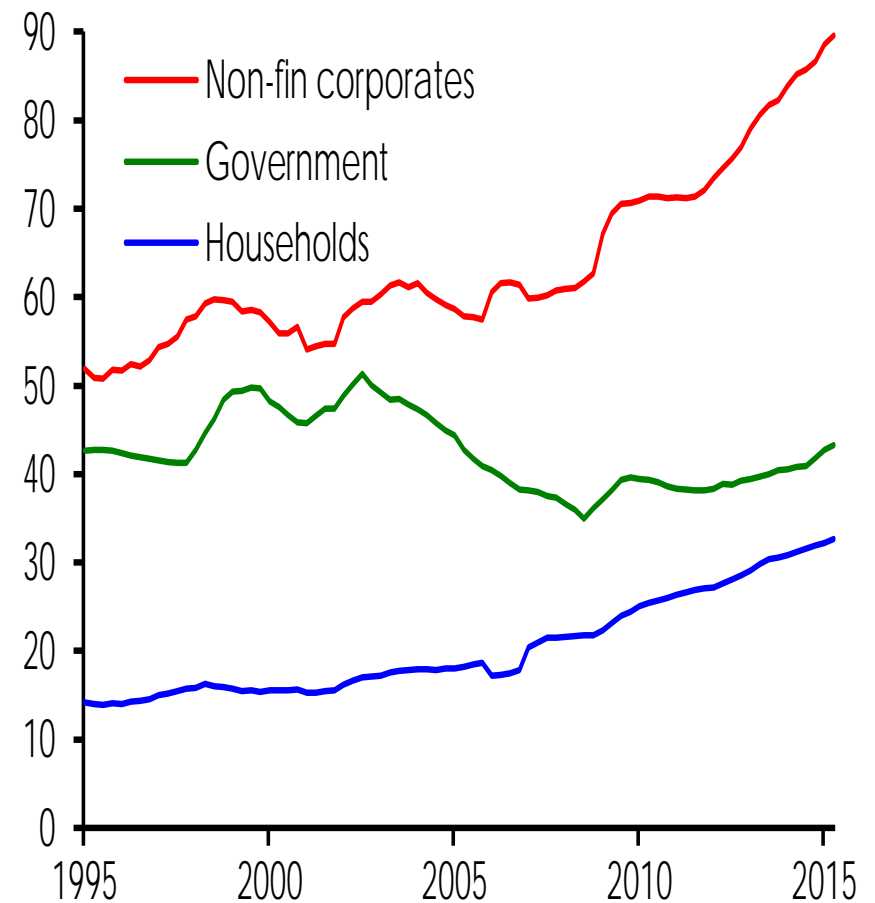
percent of GDP



Source: BIS, Haver, IIF.

Emerging Markets: Sectoral Indebtedness

percent of GDP

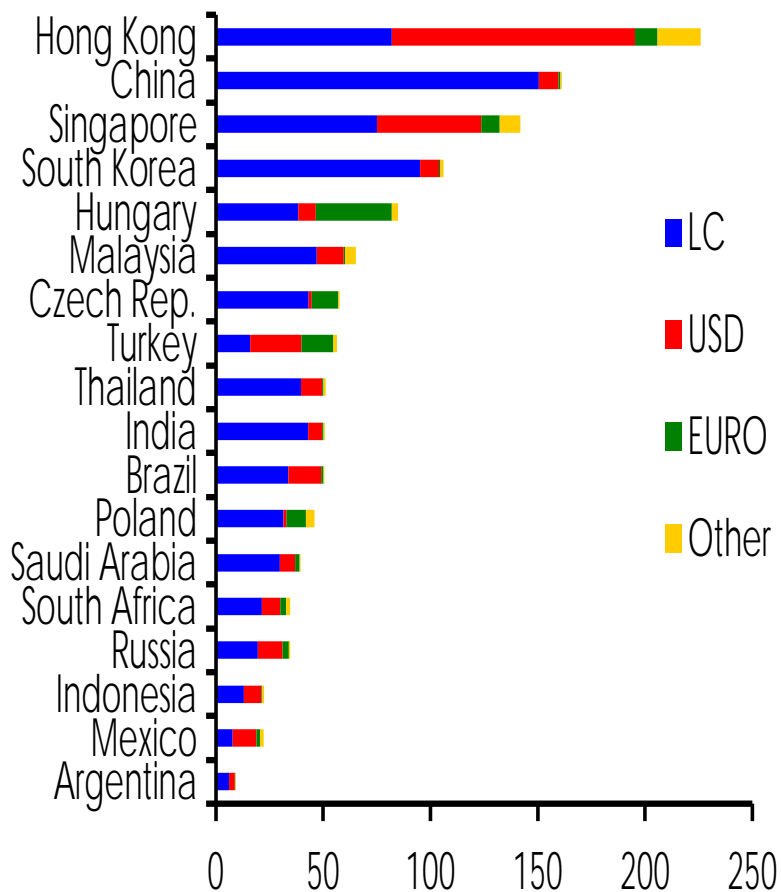


Source: BIS, IIF.

NFC AND HH DEBT

Non-Financial Corporate Debt, Q1 2015

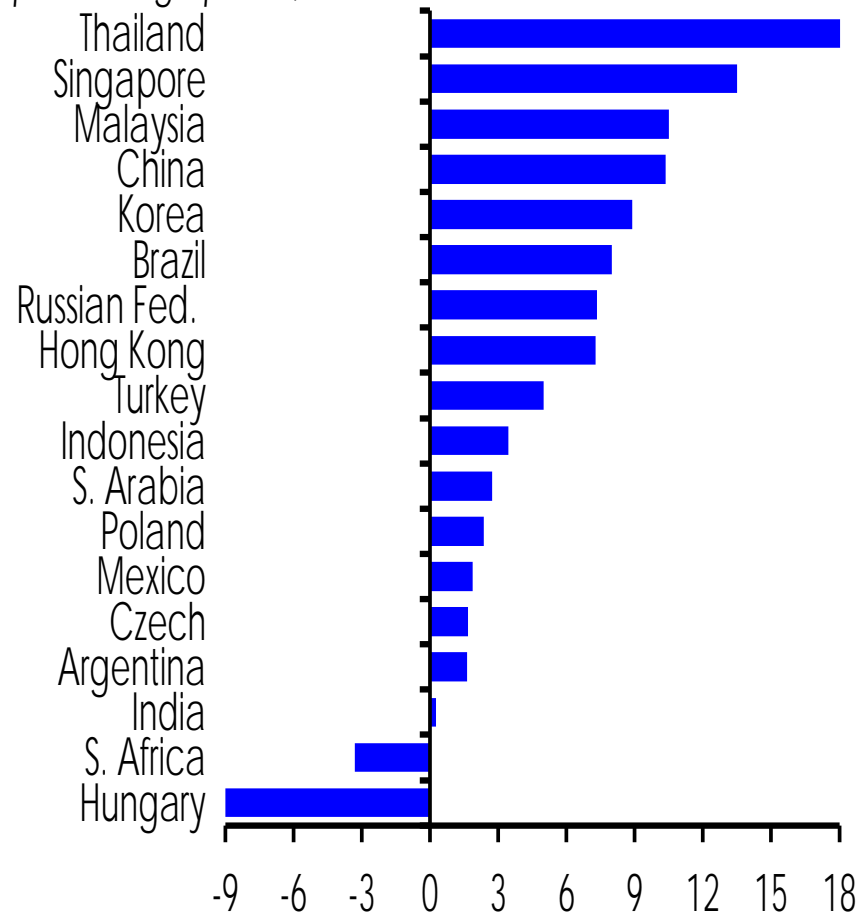
percent of GDP



Source: BIS, IIF.

Emerging Markets: Change in Household-Debt-to-GDP

percentage points, since 2010Q4

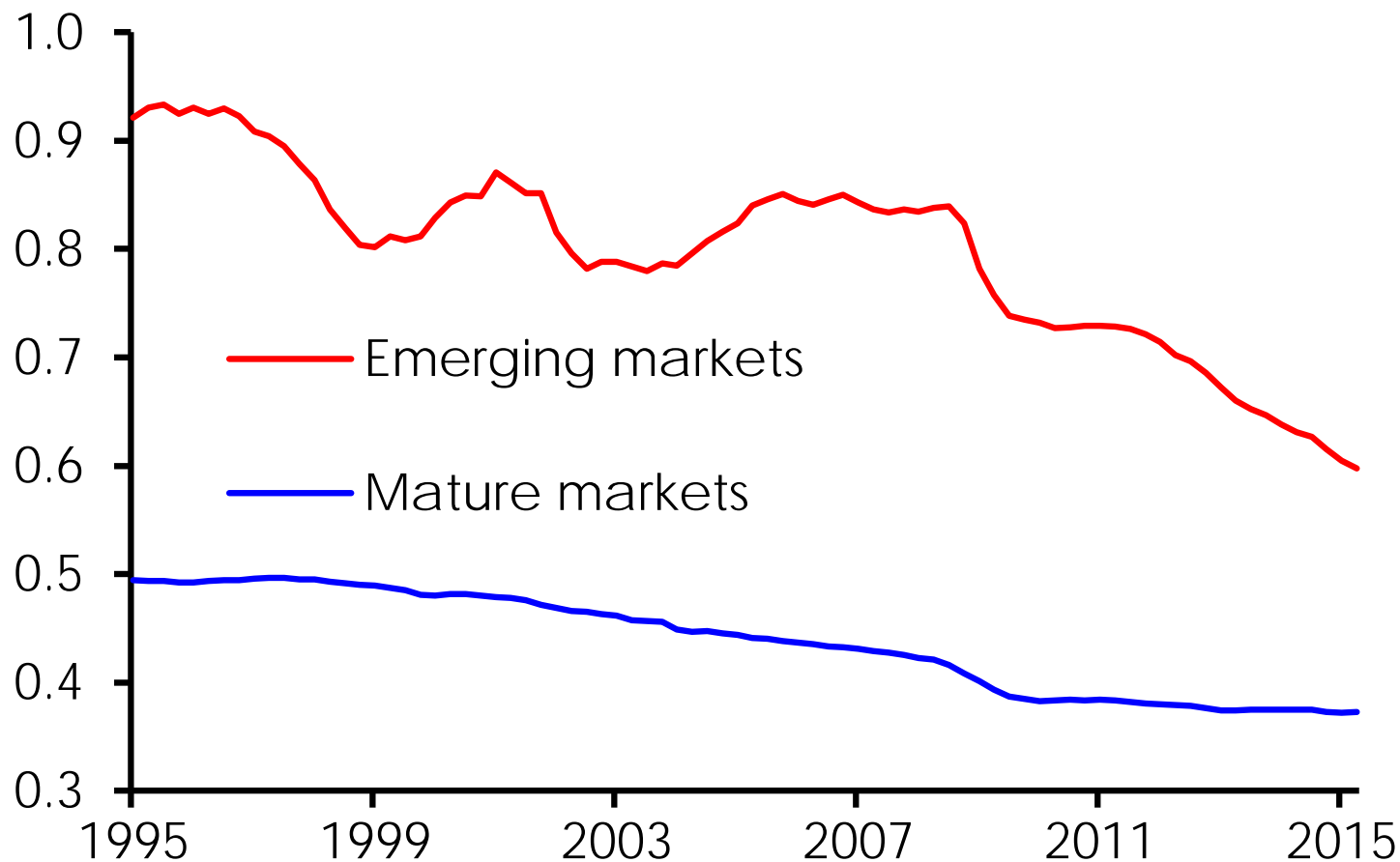


Source: BIS, Haver, IIF.

DIMINISHING PRODUCTIVITY OF DEBT

Diminishing Returns on Debt

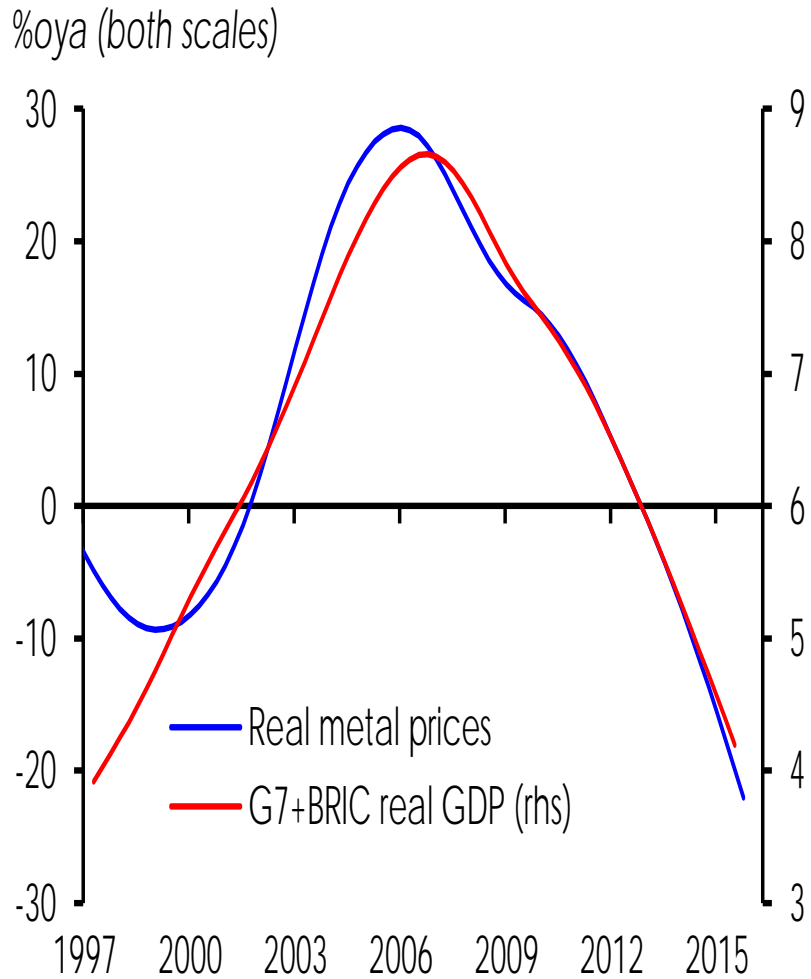
GDP over non-financial sector debt



Source: Haver, BIS, IIF.

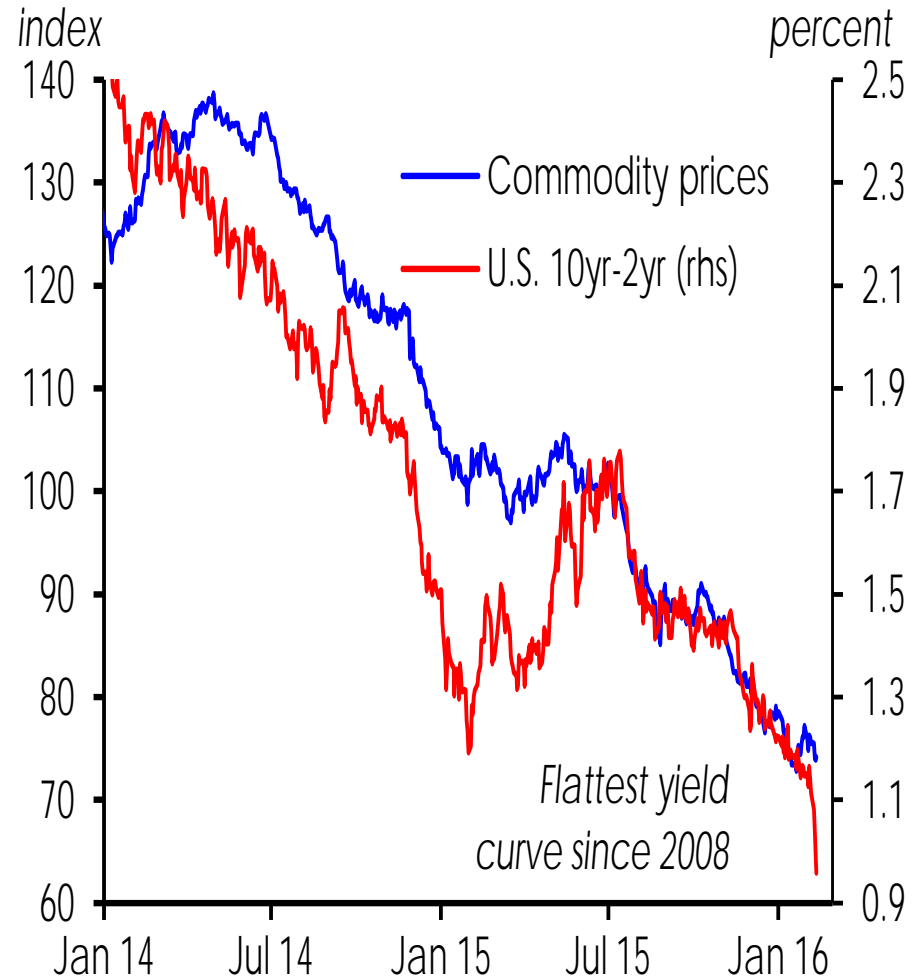
COMMODITIES UNDER PRESSURE

Trend Growth in Real Metal Prices and Global Demand



Source: Haver, IIF.

U.S. Yield Curve vs. Commodity Prices

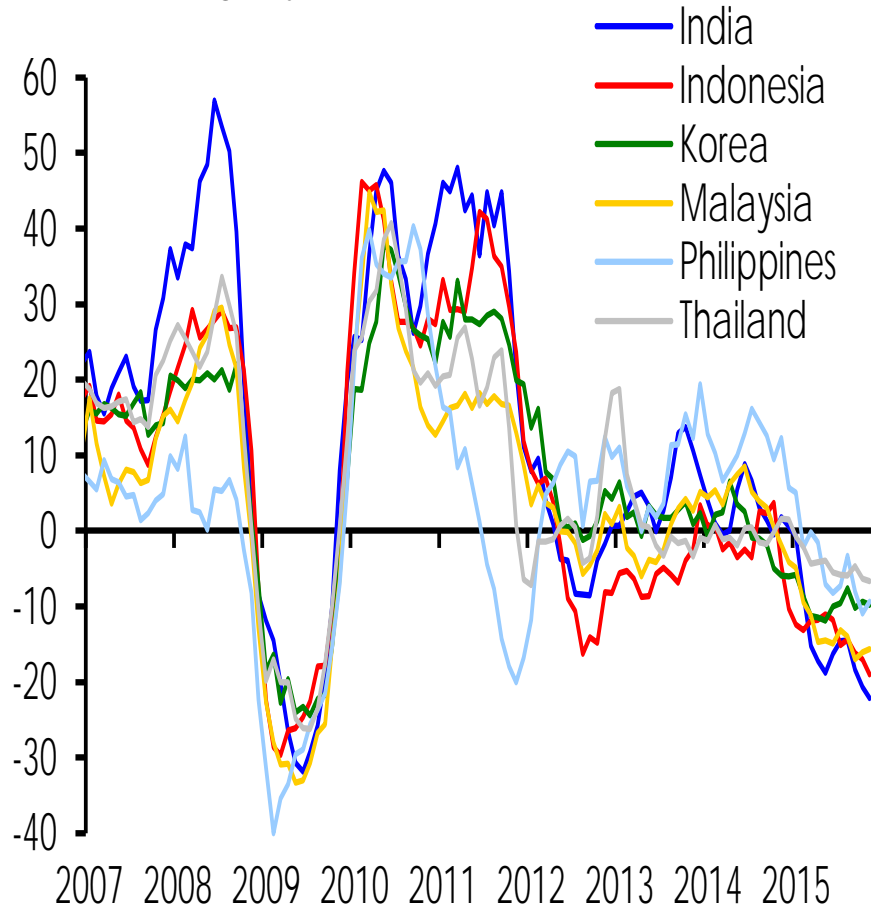


Source: Bloomberg, IIF.

WORLD TRADE DOWN

Merchandise Exports

percent change oya, 3mma

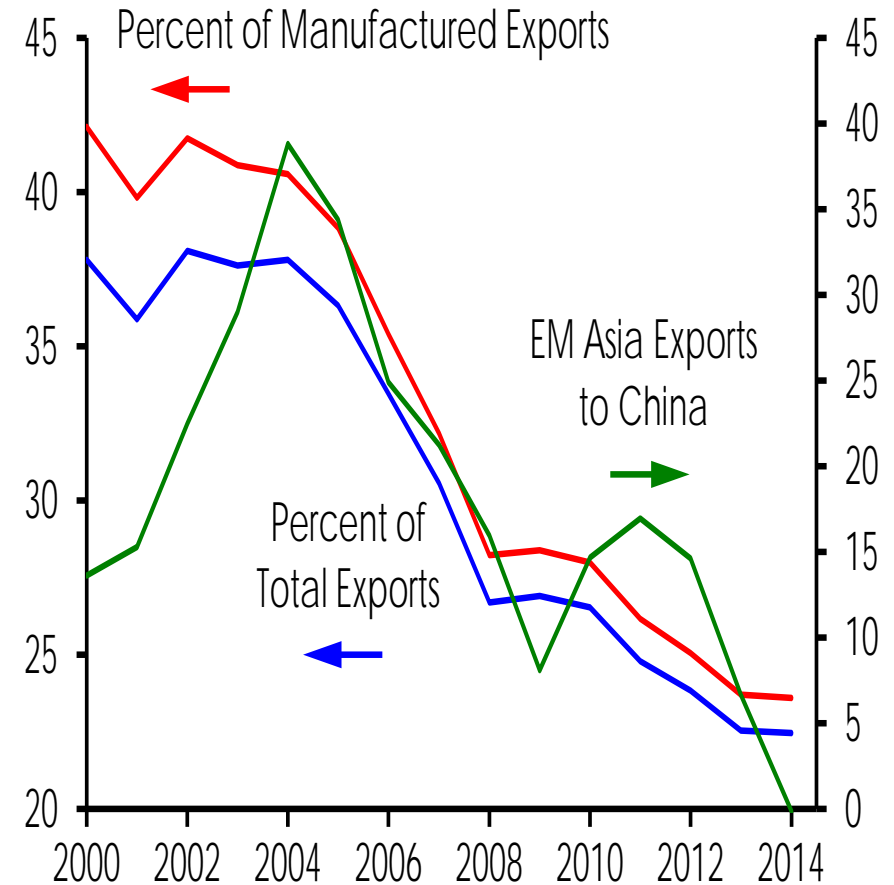


Source: National sources, IIF.

China Processed Imports and EM Asia Exports to China

percent

percent change oya, 3yma

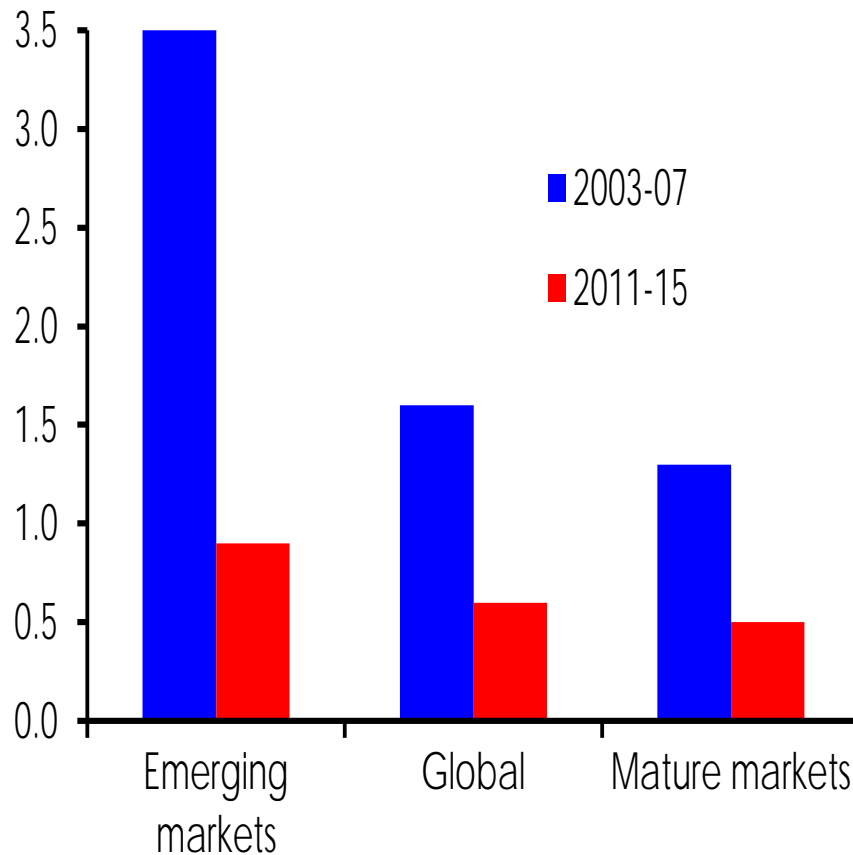


Source: CEIC, IIF.

PRODUCTIVITY AND LABOR FORCE GROWTH

Productivity

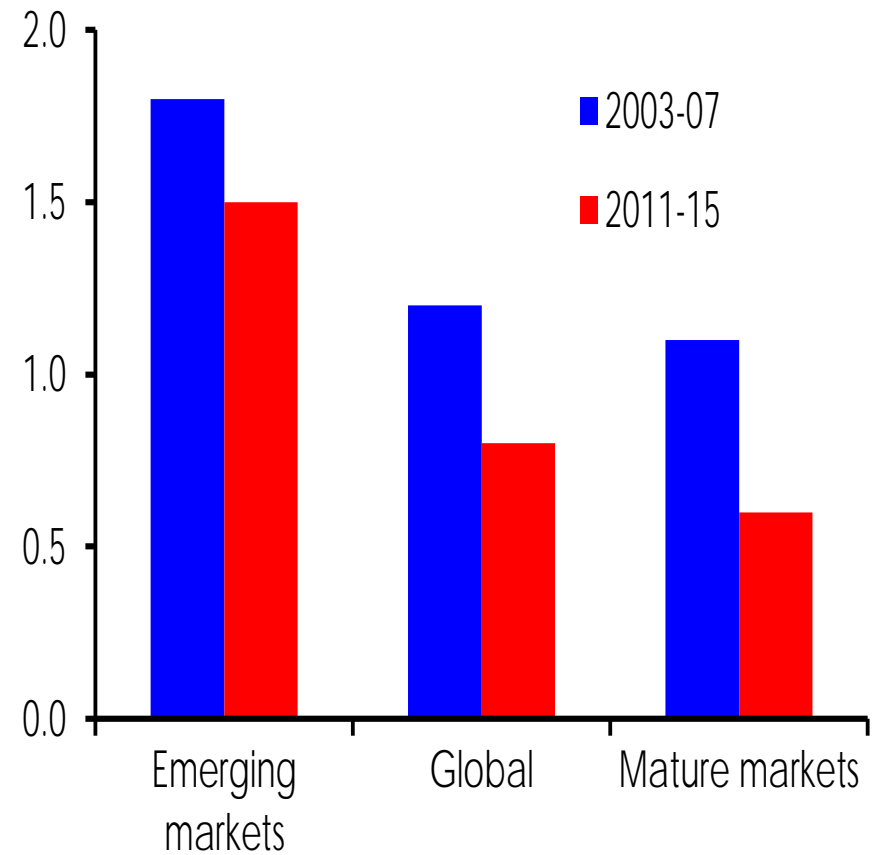
% annualized growth, excludes China and India



Source: JP Morgan, IIF.

Labor Force

% annualized growth, excludes China and India

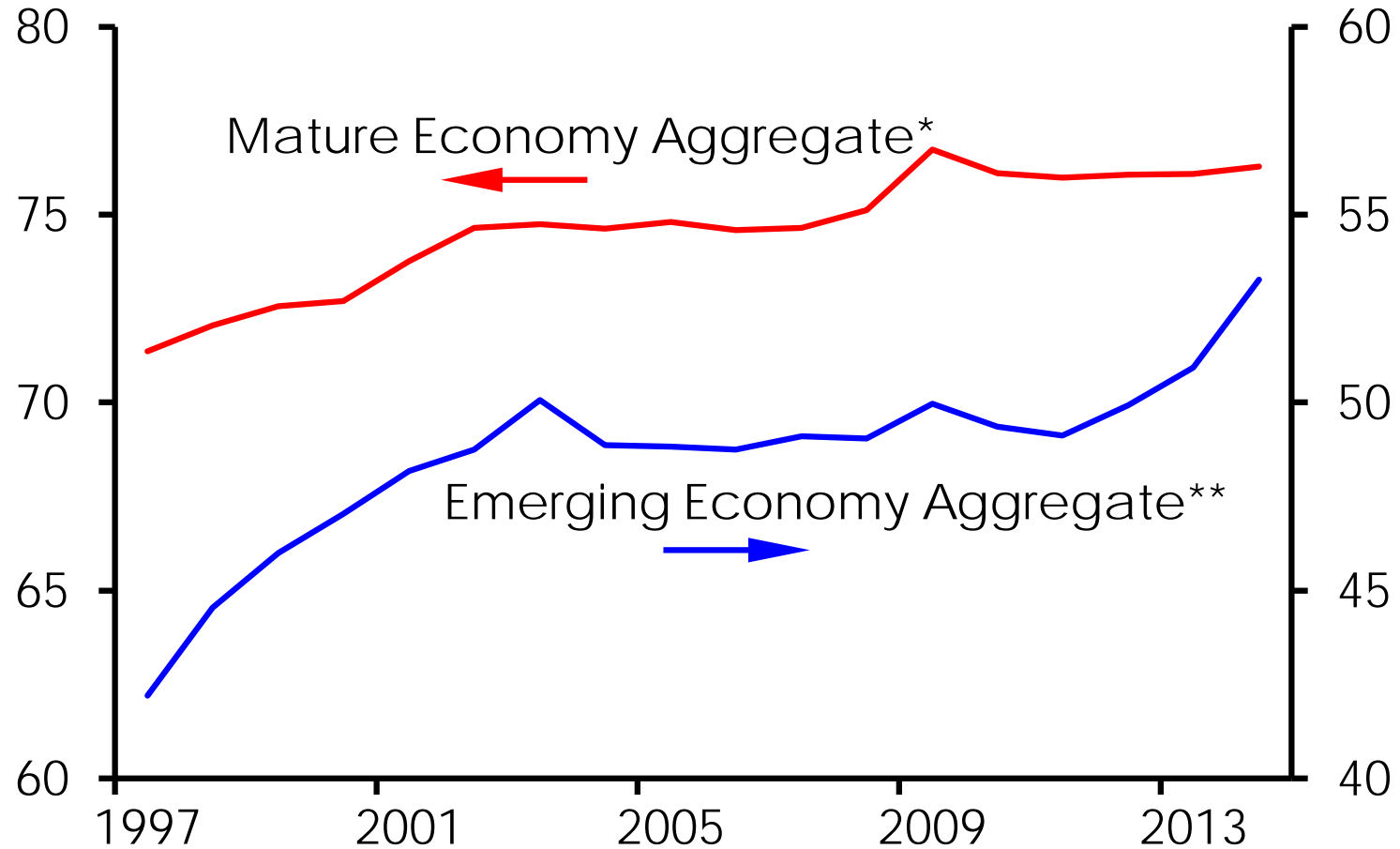


Source: JP Morgan, IIF.

SERVICES GAINING

Services Gross Value Added

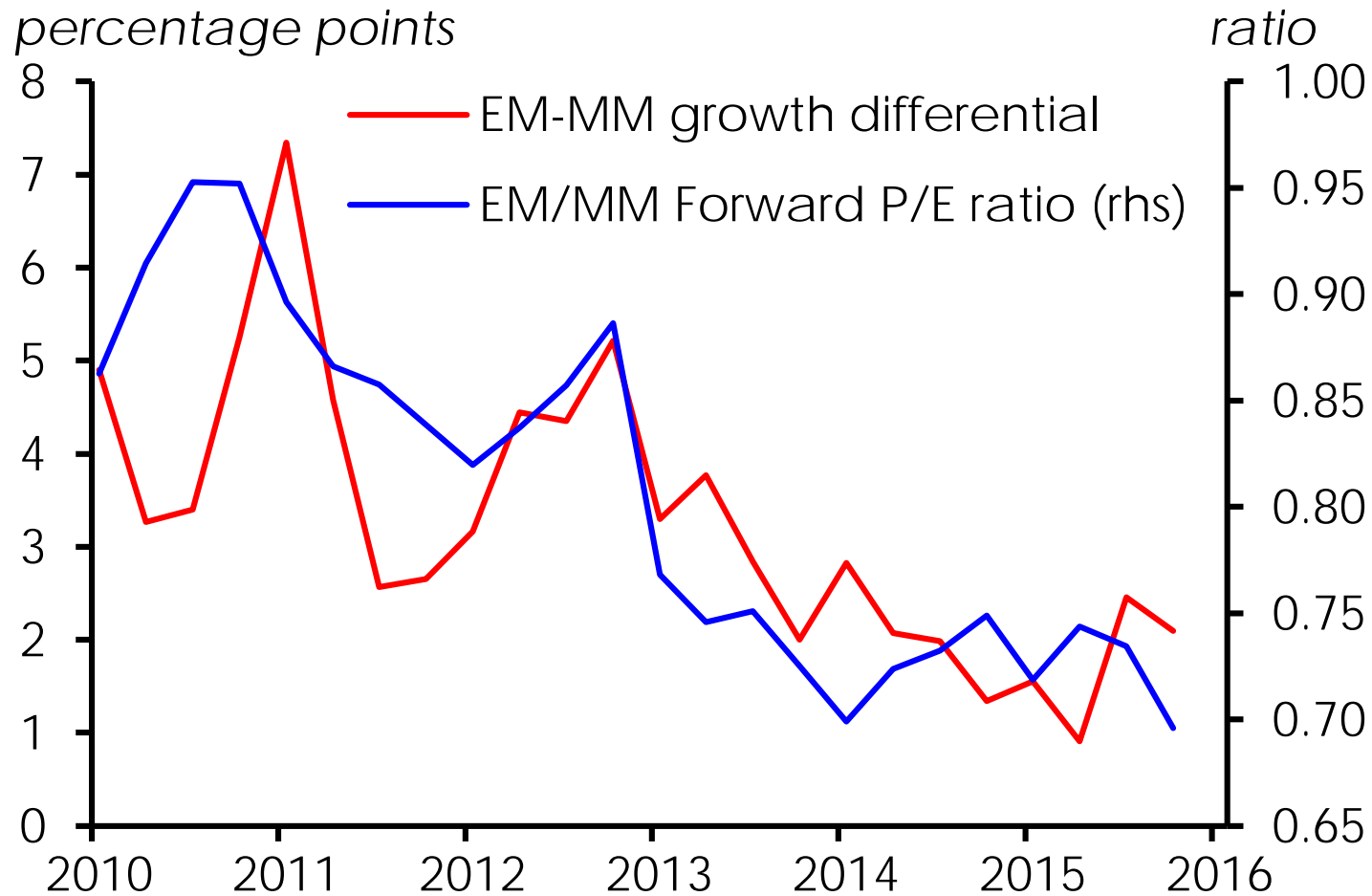
percentage of total activity, both scales



Source: OECD, IIF.

MM/EM: GROWTH AND VALUATION DIFFERENTIAL

Emerging vs. Mature Markets: Growth and Valuations

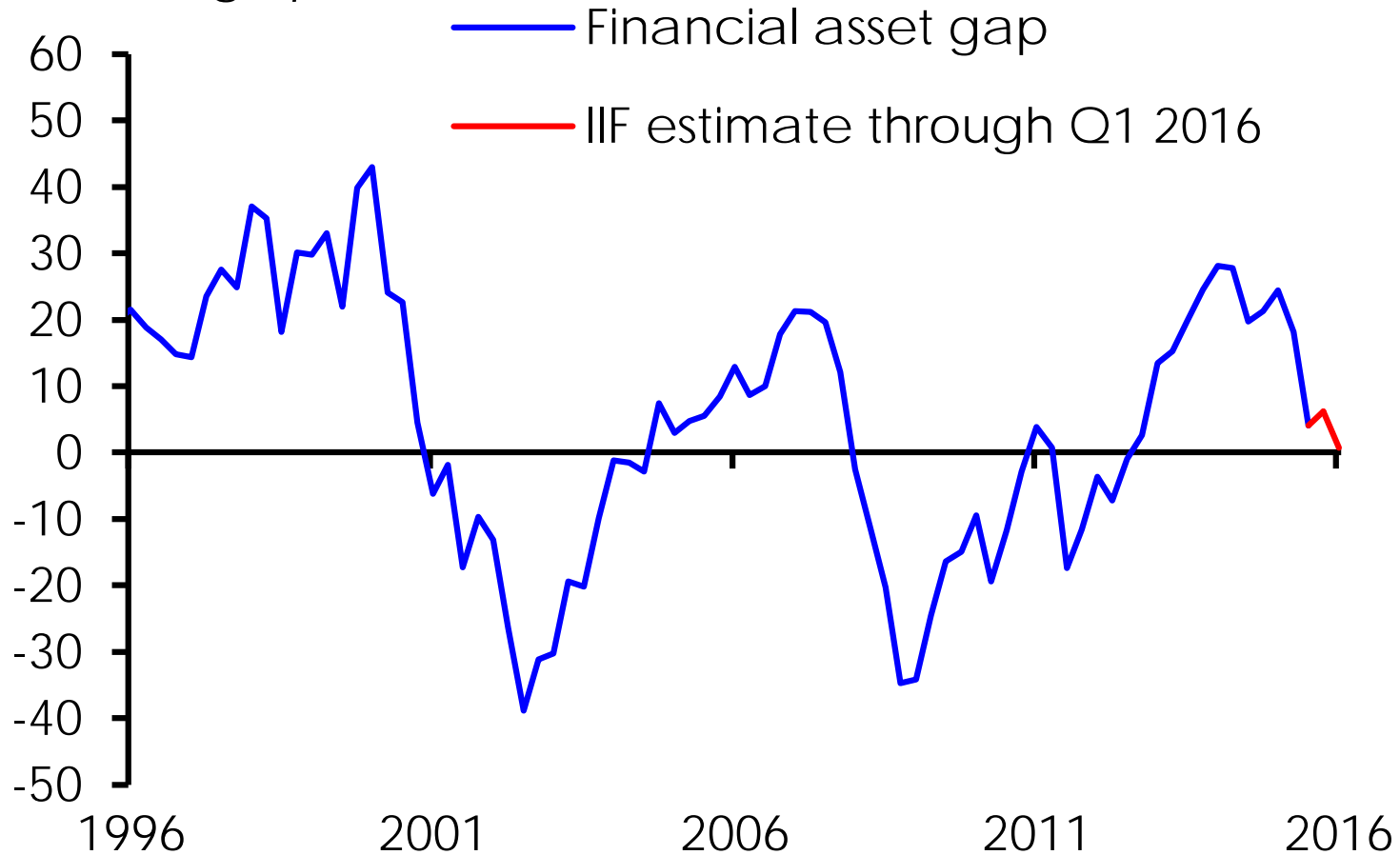


Source: Bloomberg, IIF.

U.S. HH FINANCIAL ASSET GAP: OVERSHOOTING?

U.S.: Household Financial Asset Gap

percentage points



Source: Fed, IIF.