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**Post Crisis Financial Regulation and
Macro Stability in Asia**

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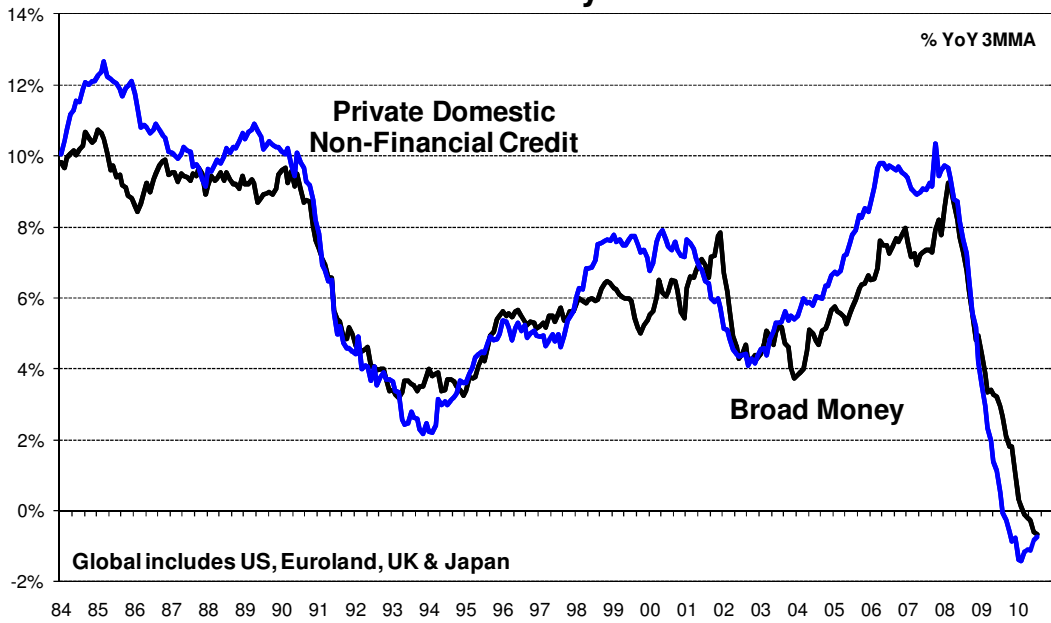


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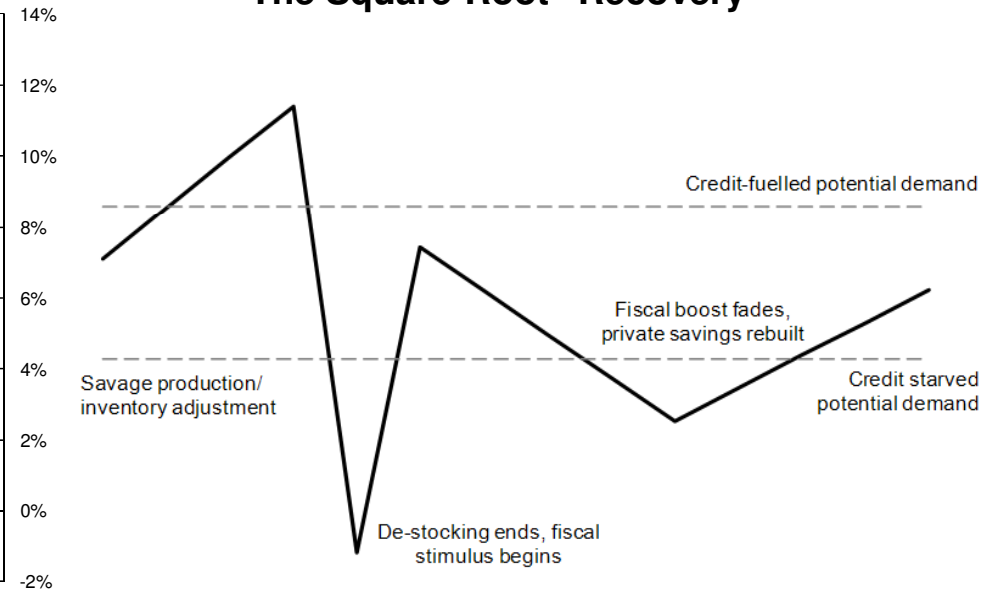
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Deleveraging in the West is a multi-year process and there is scant evidence as yet of credit multipliers re-starting. A square-root “recovery” seems likely

Global Nominal Money and Credit Growth

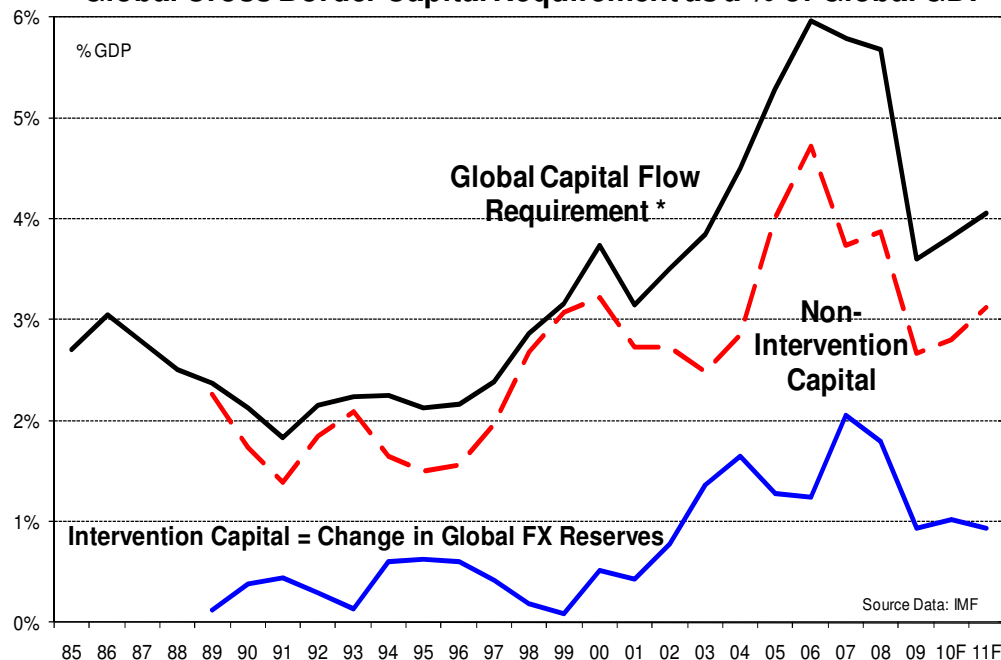


The Square-Root “Recovery”



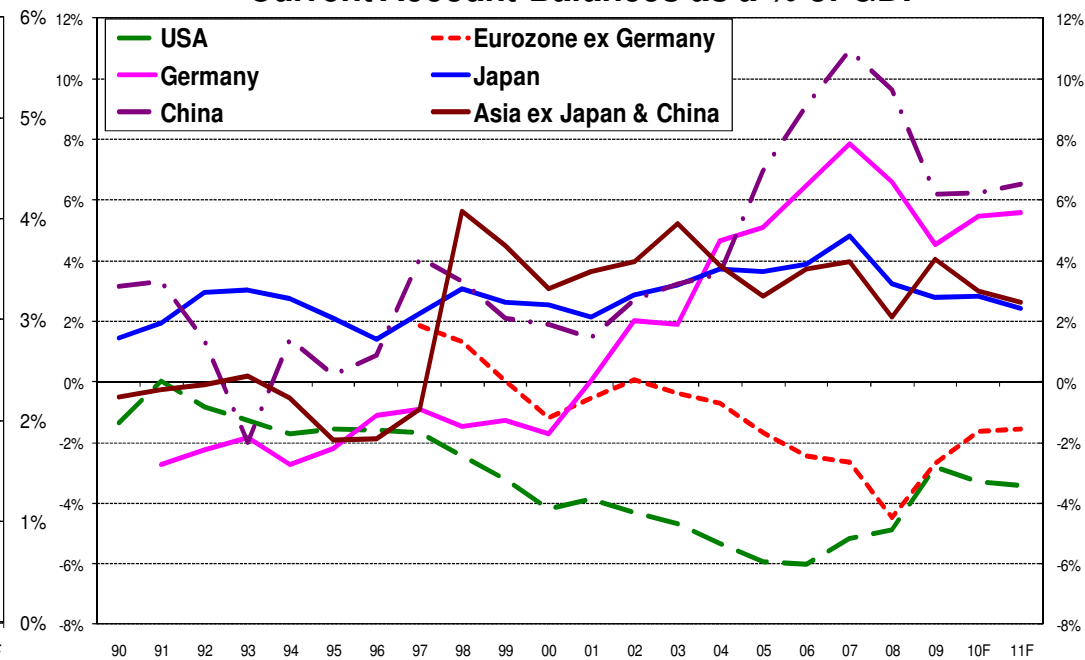
Rebalancing has been only partial. Current account dispersion remains historically wide in the context of a deleveraging (?) world

Global Cross Border Capital Requirement as a % of Global GDP



* Sum of the absolute size of global current account balances

Current Account Balances as a % of GDP

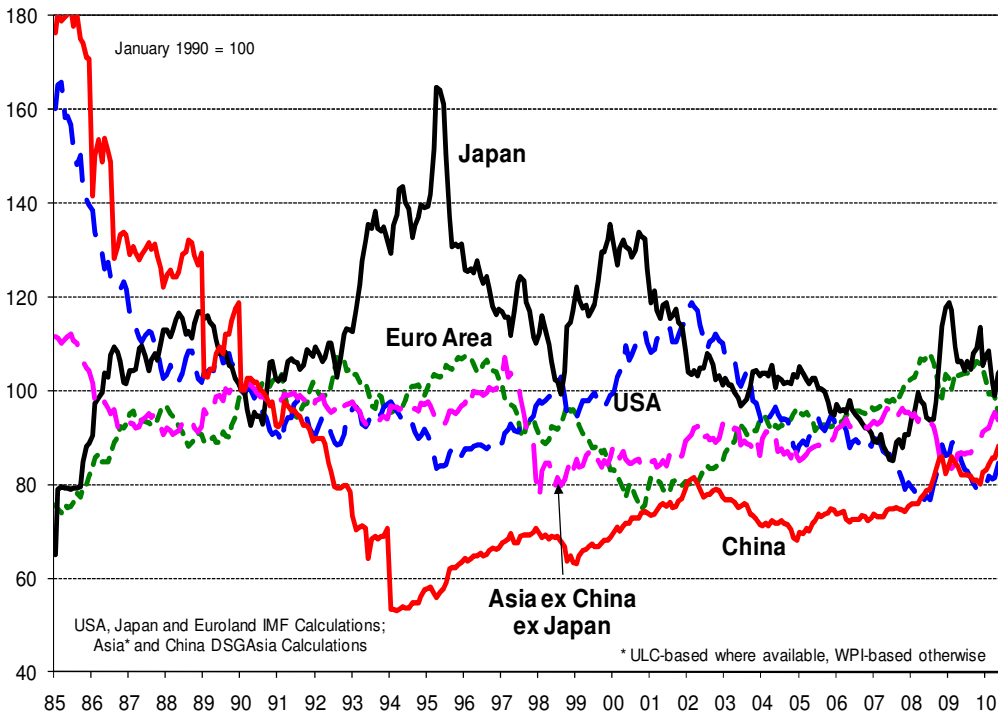


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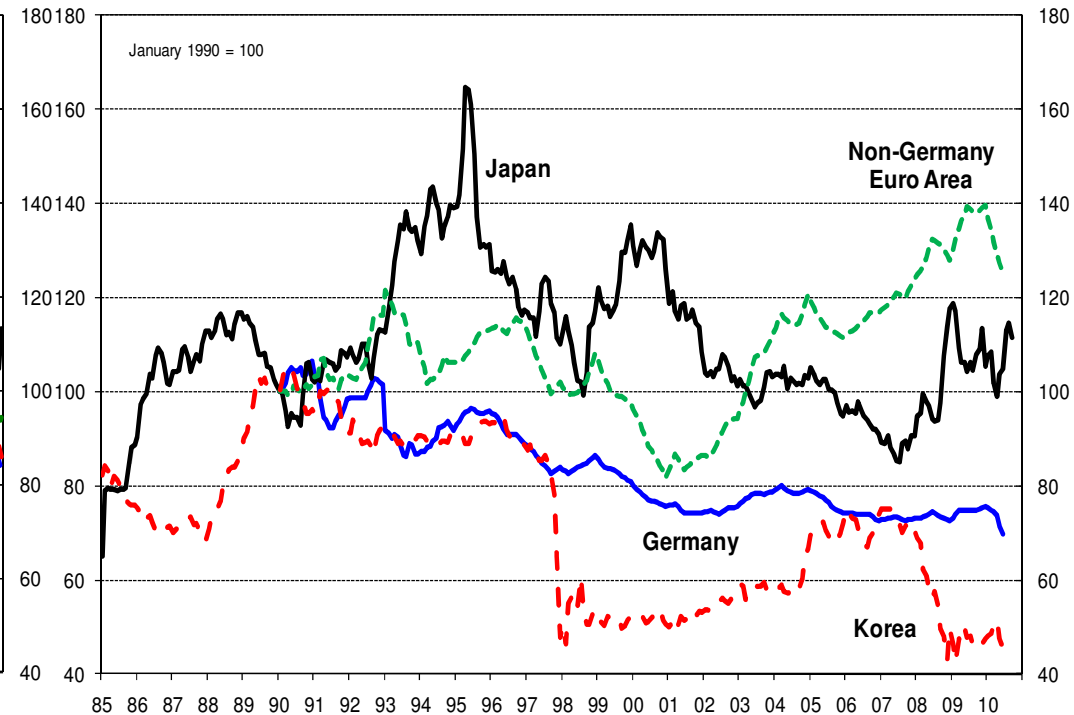
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This is partly thanks to unreconstructed mercantilism. The dollar is cheap against the majors and in line with Asia, but the real divergences remain within continents

Real Unit Labour Cost-Based Trade-Weighted Exchange Rates

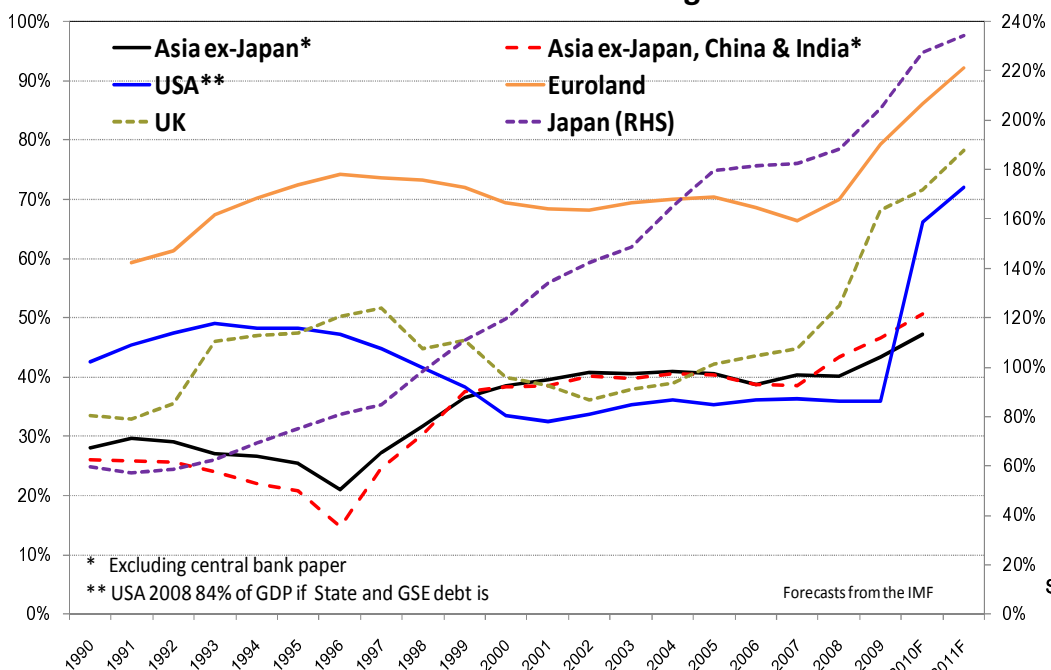


Real Unit Labour Cost-Based Trade-Weighted Exchange Rates

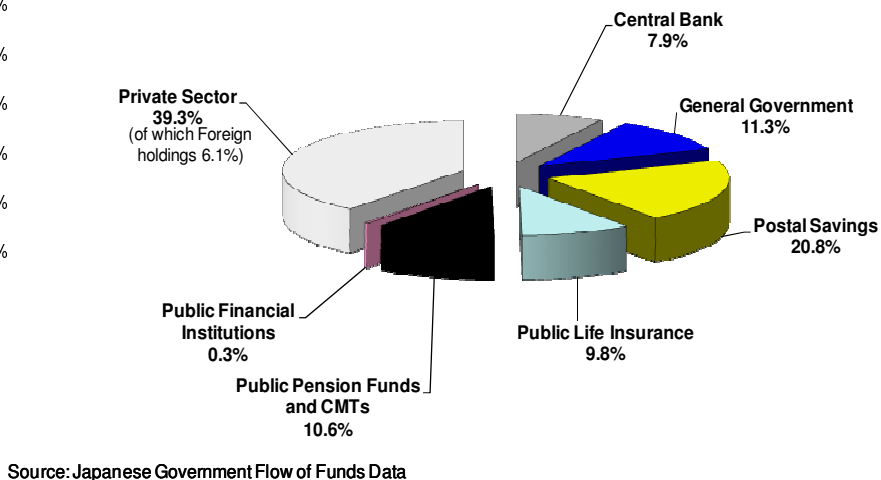


Japan is the champion government debtor but a unique ownership pattern suggests that Europe is the likelier catalyst for bond market mayhem

Government Debt as a Percentage of GDP



Sectoral Holdings of Central Government Debt (June 2010)

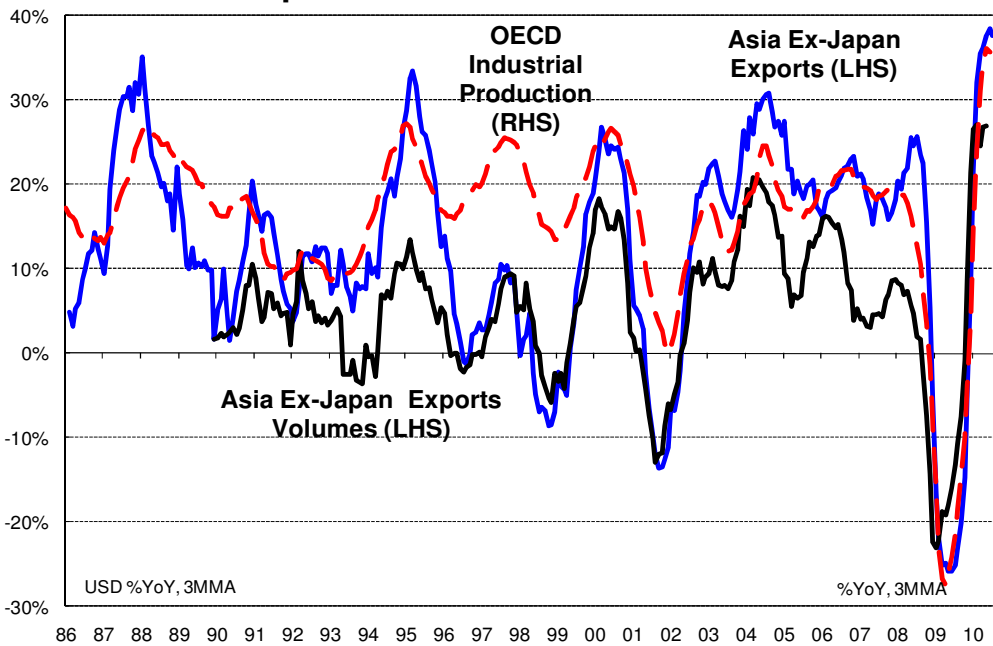


A 2009 Rogoff-Reinhart study notes that if public debt exceeds 90%, median growth rates fall by 1% and average growth rates by more

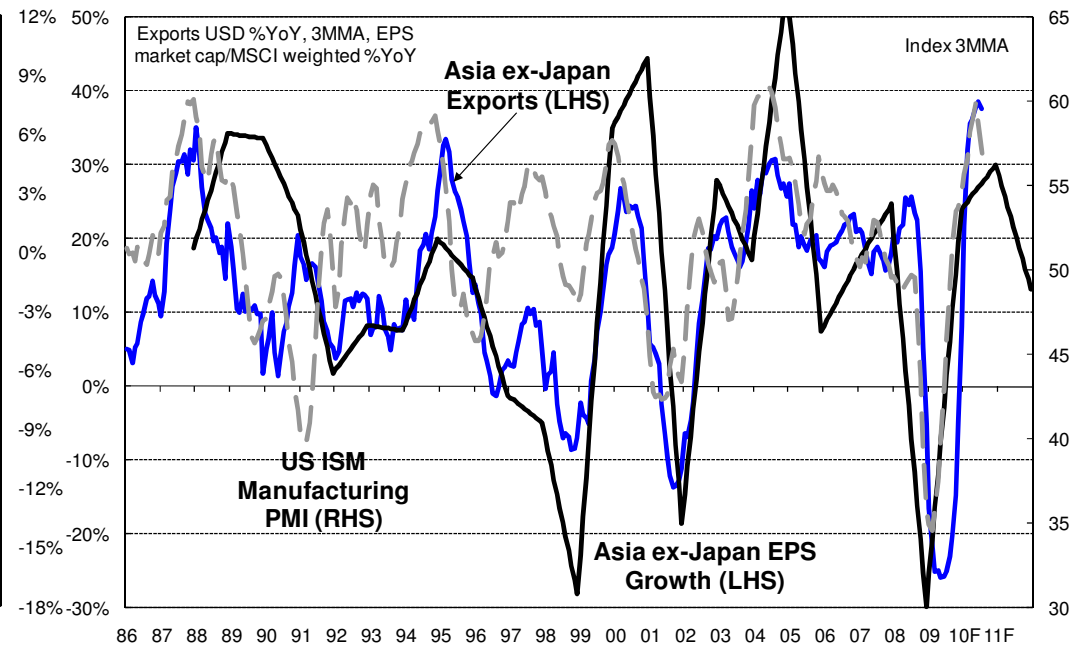


Where was the decoupling? An early 1990s earnings trajectory seems likely though this may not preclude market re-ratings at times of global calm

Asia Exports and OECD Industrial Production

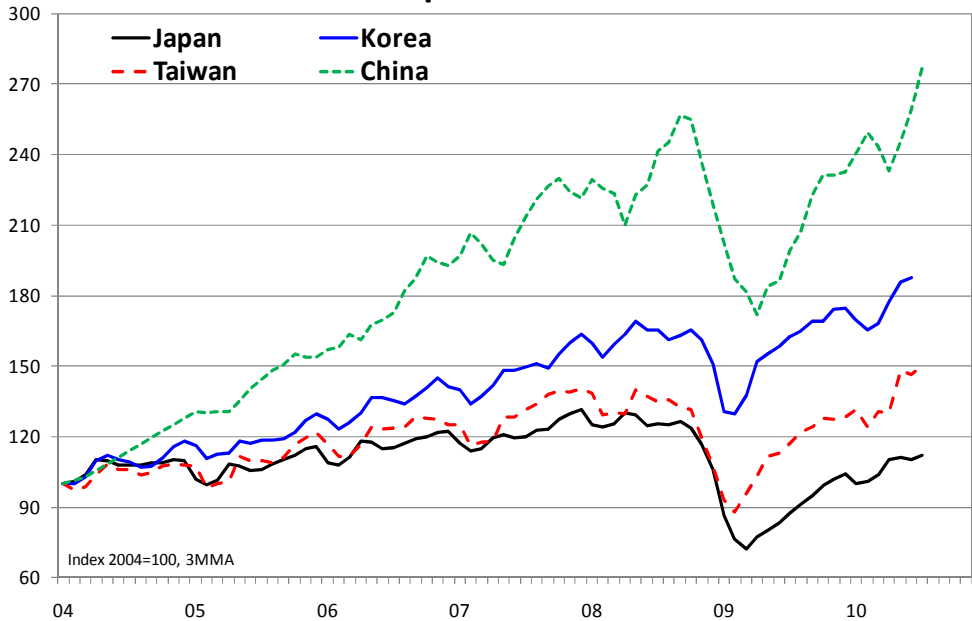


Asia ex Japan Exports & EPS Growth and the US ISM Manufacturing PMI

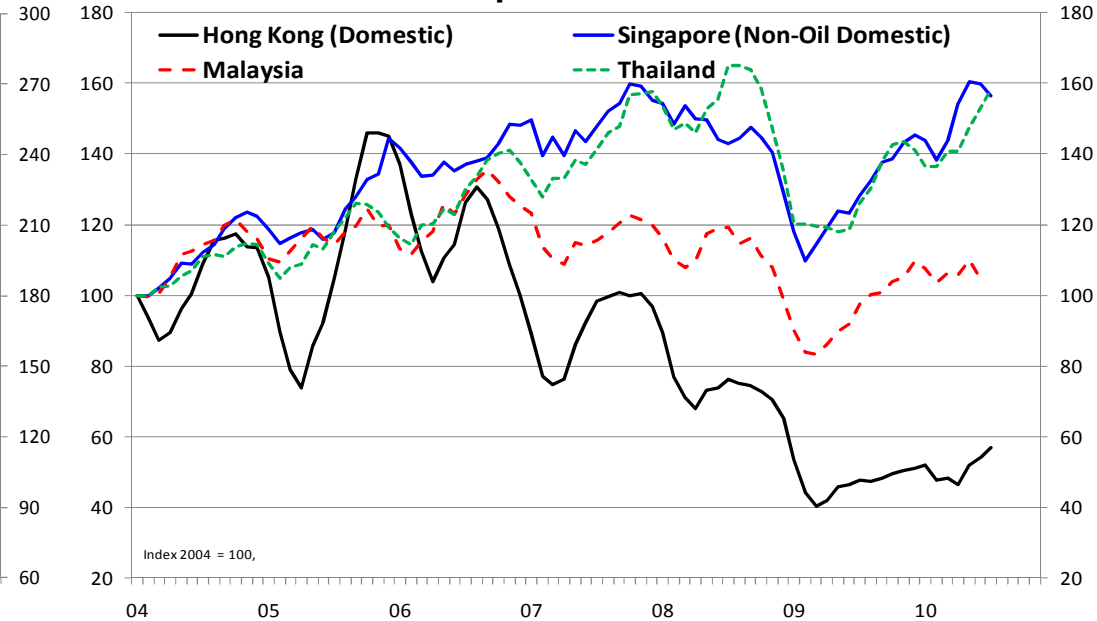


Year-on-year export comparisons are easy but volume levels will tell us whether sustainable final demand is really returning

Export Volumes

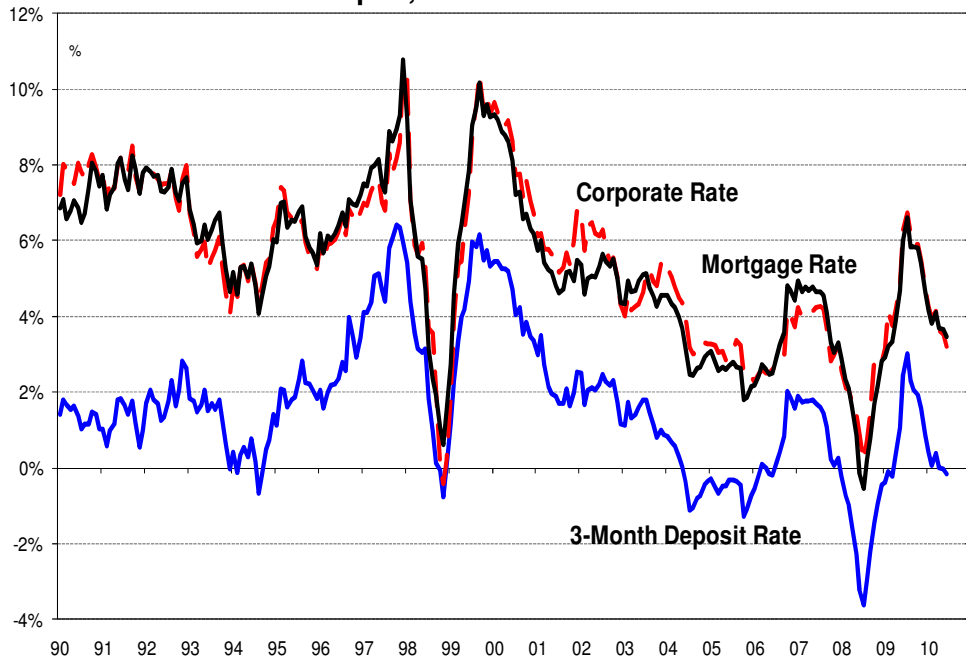


Export Volumes

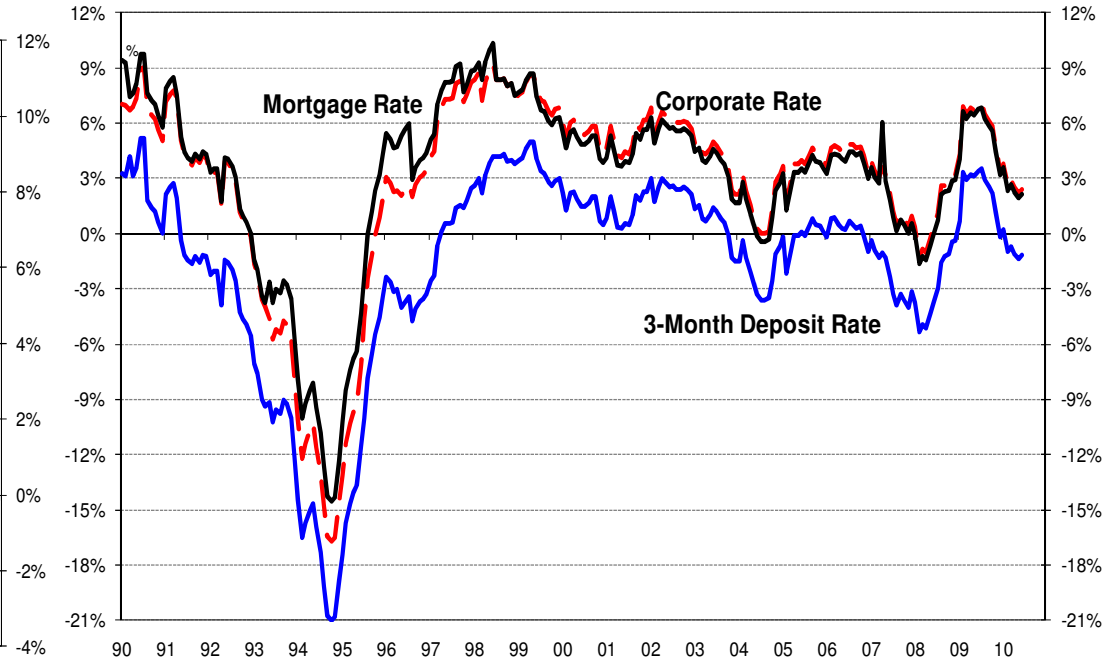


Real interest rates have been structurally declining and in China's case especially, are well below the real expected return on capital

Asia ex-Japan, China & India Real Interest Rates



China Real Interest Rates

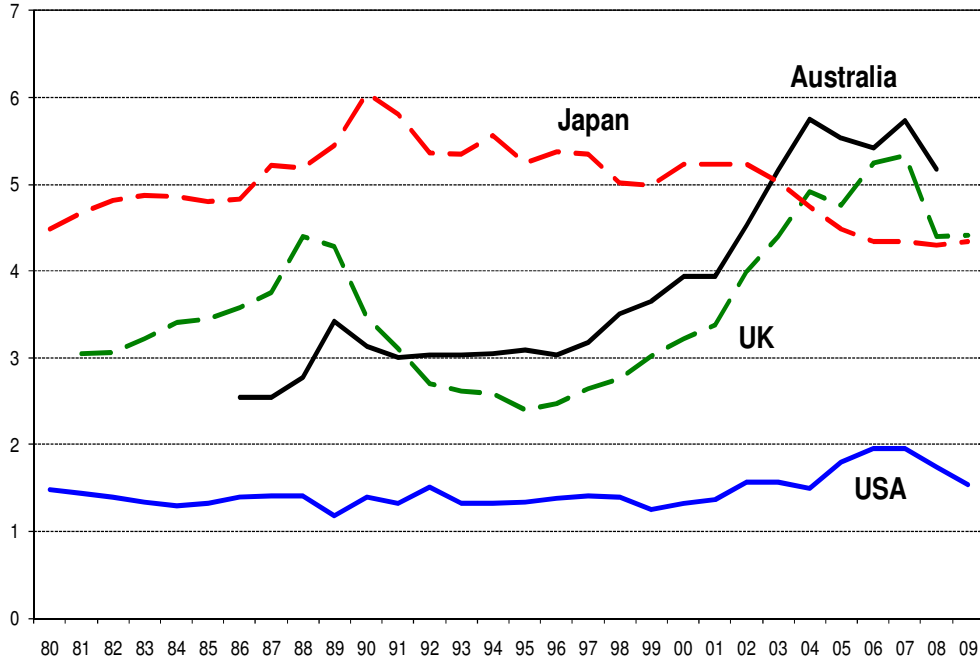


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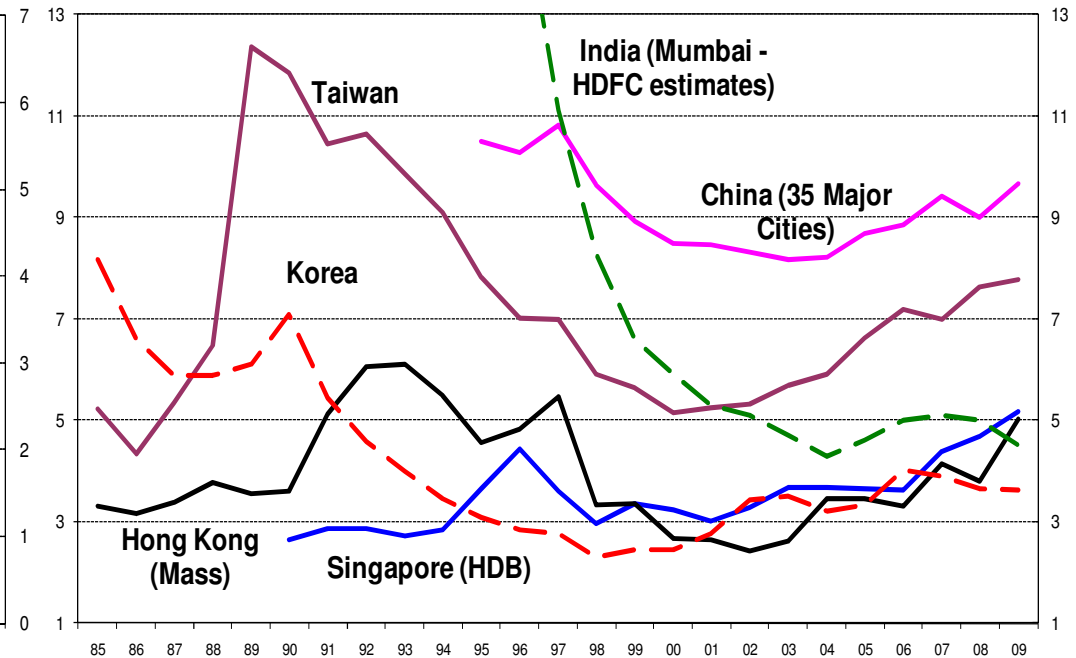
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This all suggests that Asian property can still get a whole lot more bubbly

Ratio of House Prices to Household Disposable Income

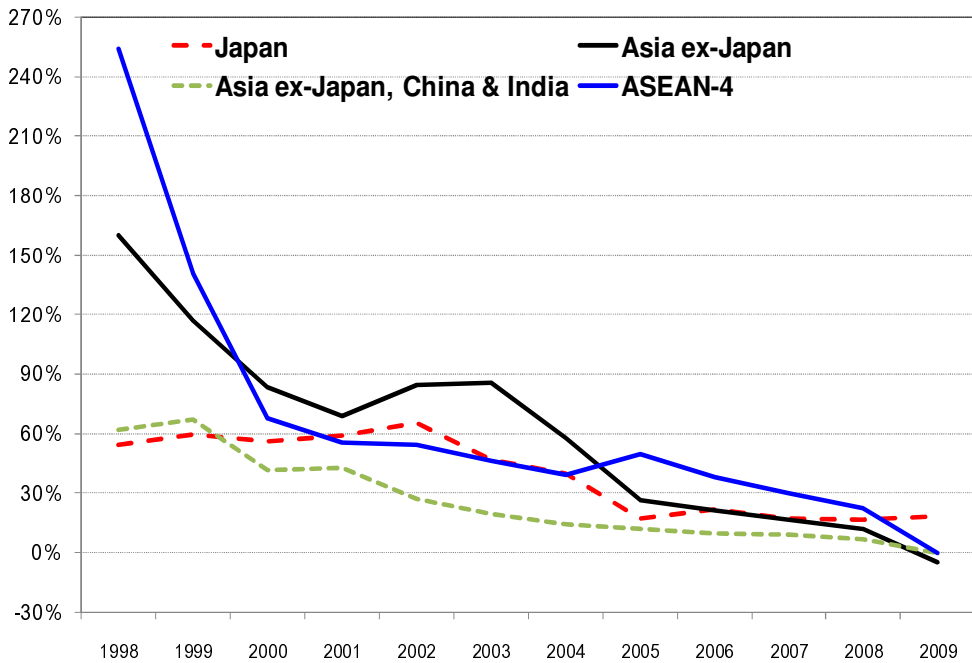


Ratio of House Prices to Household Disposable Income

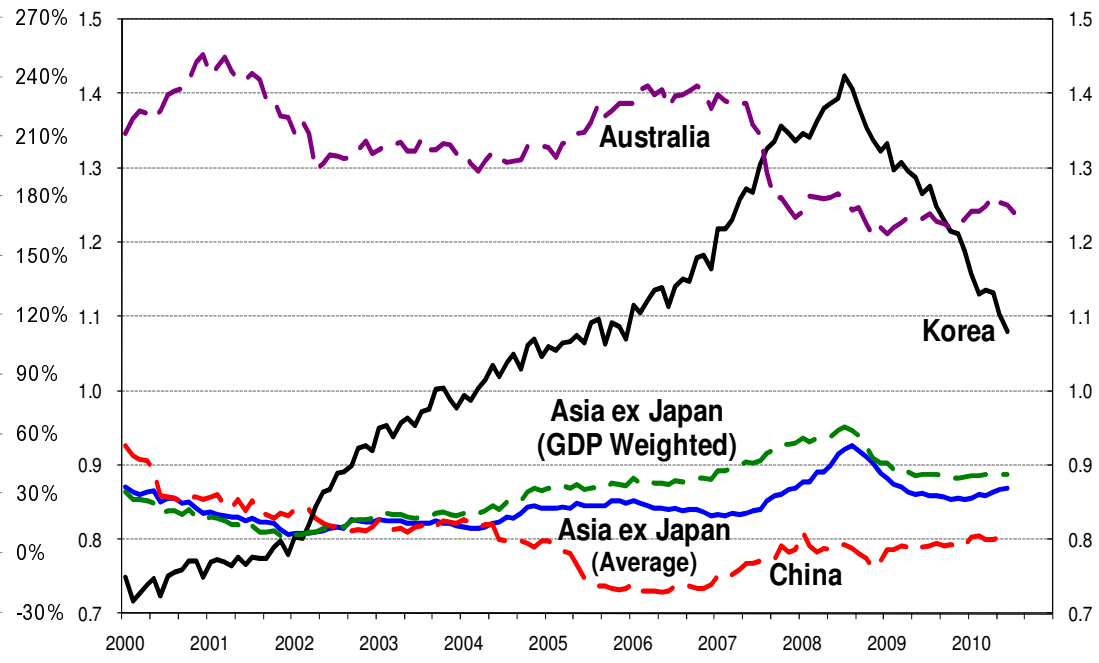


NPLs will eventually rise across the region but this should not for the most part hinder the ability of banking systems to lend. Multipliers work out here

Net Non-Performing Loans as a Percentage of Total Bank Capital



Loan Deposit Ratios Adjusted for Reserve and Statutory Liquidity Requirements



Conclusions

- **Real interest rates in the developed world are both too low and too high at the same time. Too high to allow deleveraging economies to fully recover, yet too low to encourage capital to exit and/or transfer from weak to strong hands**
- **In Asia, real interest rates are unequivocally too low and way below expected rates of return on capital. Healthy financial systems are intermediating credit to generally underleveraged consumers and corporates. Bubbles threaten**
- **Interest rate normalisation is being constrained by atavistic exchange rate targeting tendencies and a valid fear of excessive capital inflows. Trade wars and capital controls loom**
- **Nevertheless, with external demand likely to remain relatively constrained, such Mercantilist tendencies need to be junked once and for all. Exchange rate manipulation is a hard habit to break for all too many though....**
- **China is more able to achieve the holy trinity than most and thus it can perhaps afford to believe that the RMB is everyone else's problem. In the words of Spiderman, "with great power comes great responsibility"**

