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Emerging Markets and the BRICs: Sustainability after the Crisis

Rabobank: North American Agribusiness
Advisory Board Meeting

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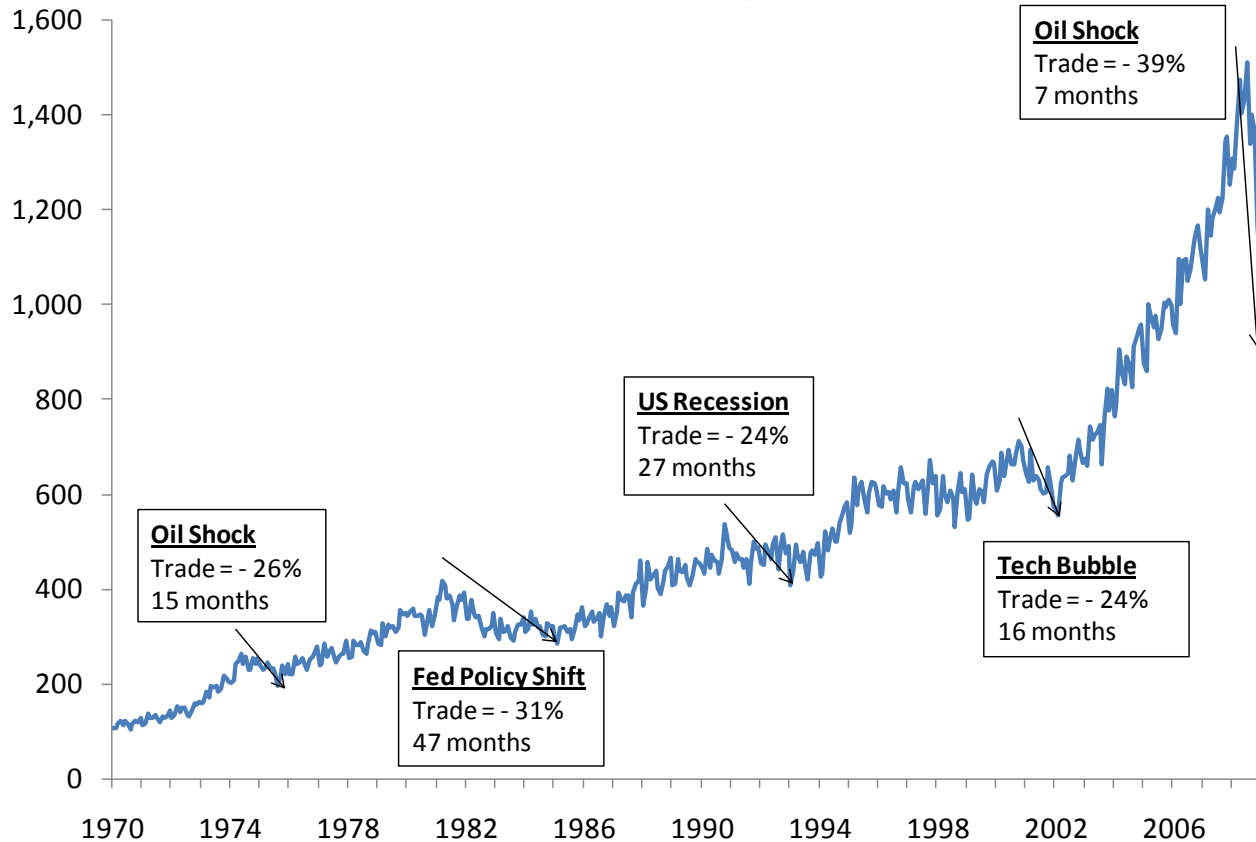
Emerging Markets and the BRICs: Sustainability after the Crisis

- Remarkable performance by Emerging Markets during the crisis...not decoupling.
- Lax policies in EM and G-3 will prompt volatility.
- Substantial - yet variable - monetary and fiscal ease in EM will lead to variable results ahead.
- Country Views: China, Brazil, Mexico, India, and Russia.

Major Market and Economic Drivers

- Freeze in Financial Markets – VIX, Libor-OIS, NDFs.
- Collapse in World Trade.

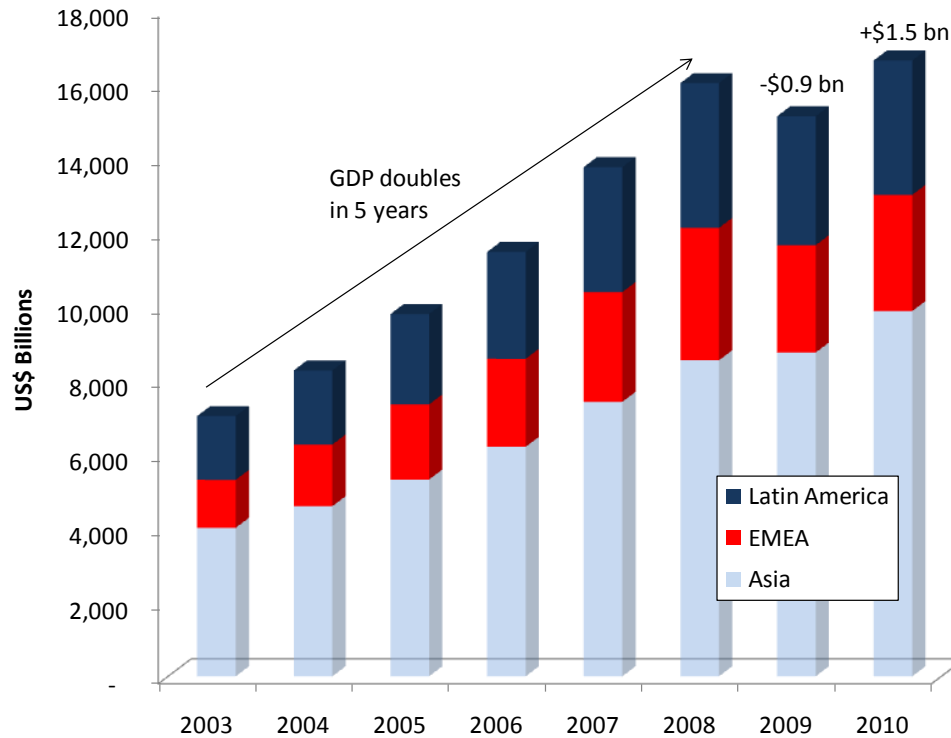
Most Substantial Plunge in World Trade



Note: Data represent monthly trade in real April 2009 USD.

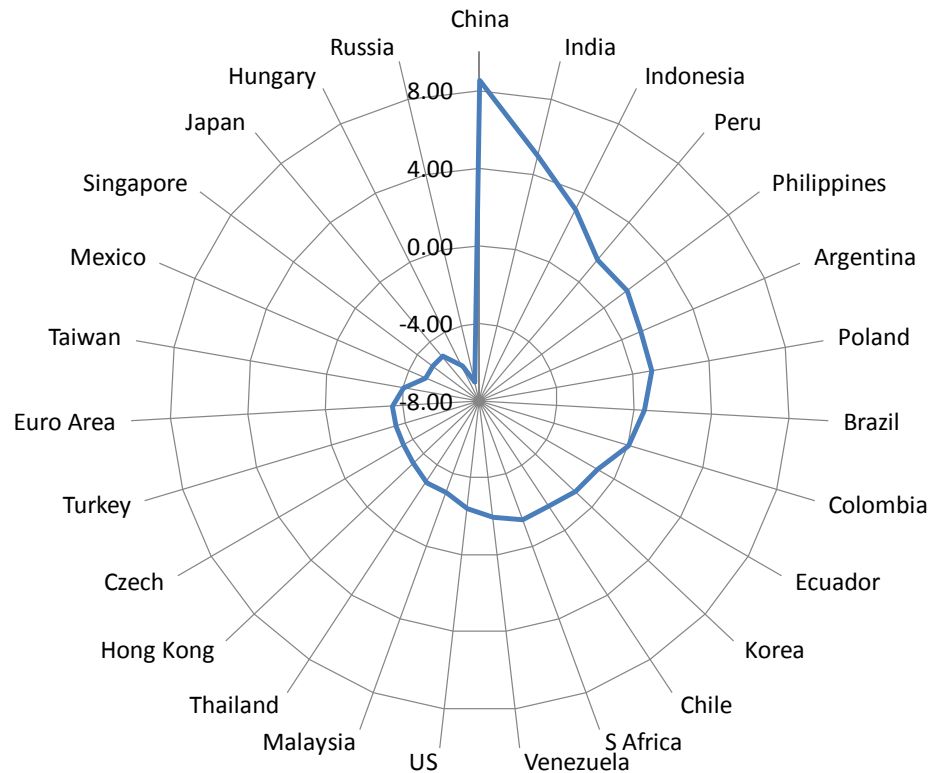
Source: International Financial Statistics (IFS) and GlobalEcon LLC.

A Development Success Story: GDP for 24 Large Emerging Economies



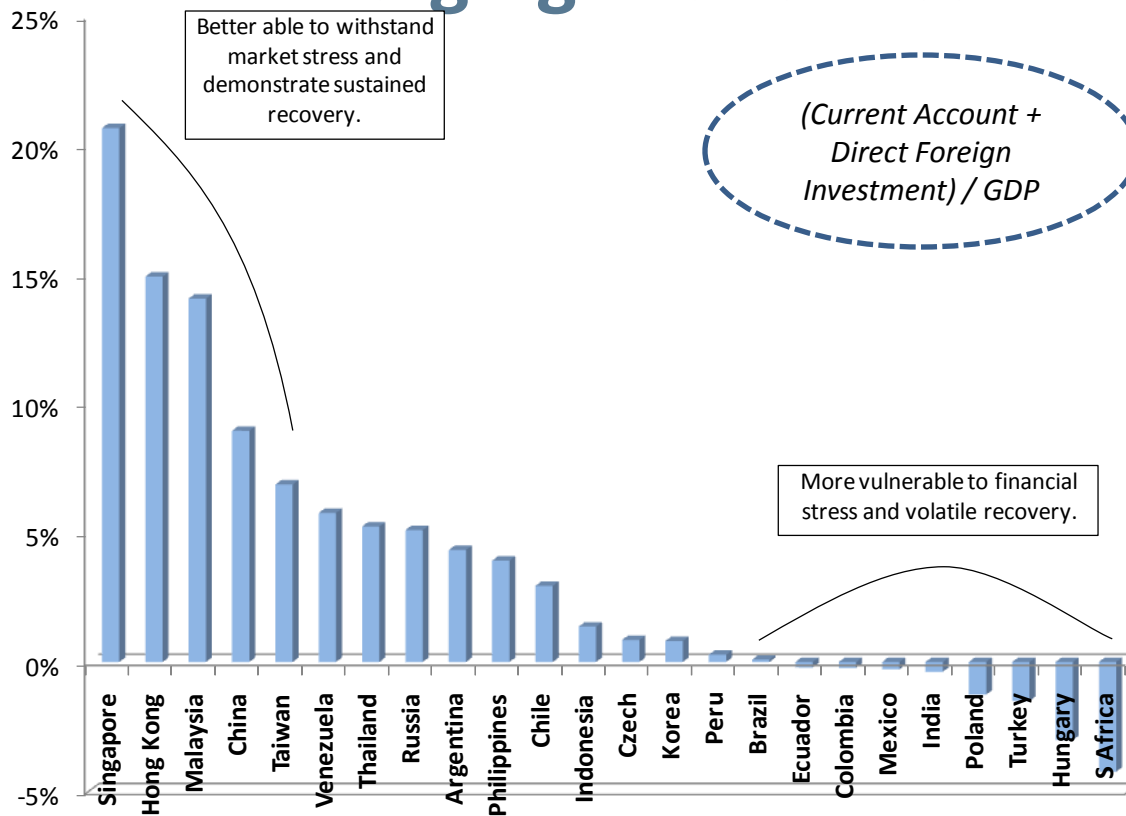
Source: IFS, Datastream, and GlobalEcon LLC.

Highly Uneven Output and Response to the Financial Crisis...GDP in 2009



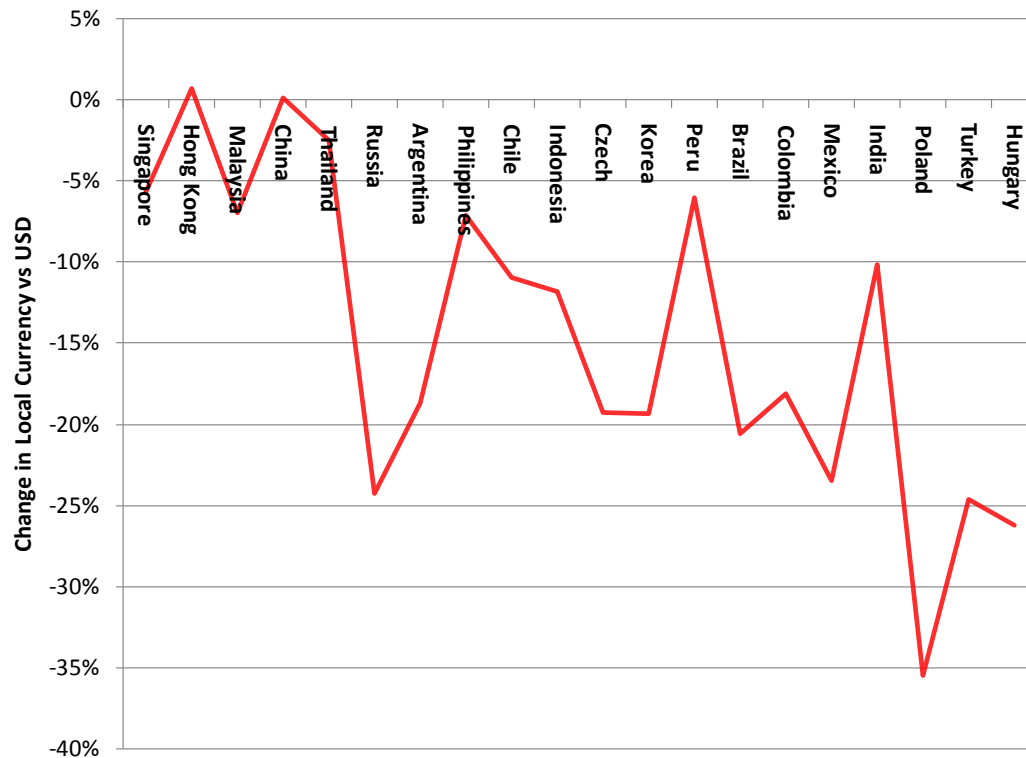
Source: IFS, Datastream, and GlobalEcon LLC.

Widely Divergent Fundamentals in Emerging Economies



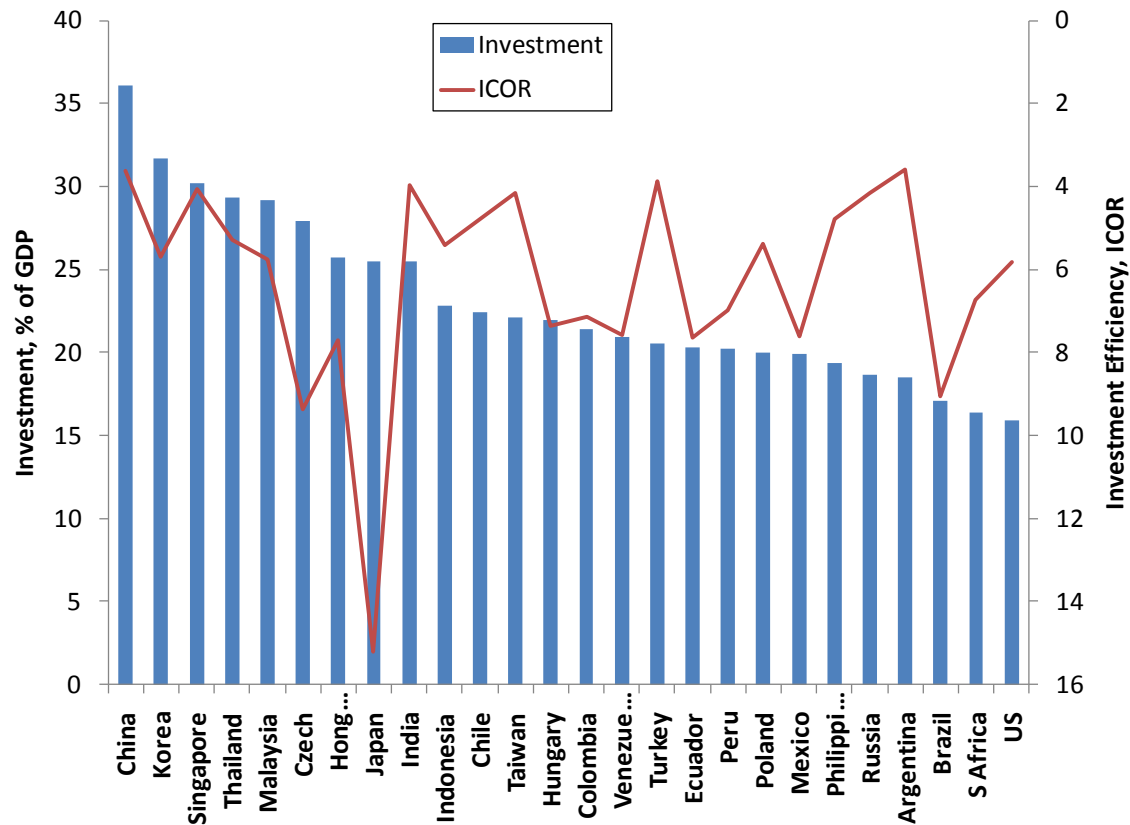
Source: IFS, Datastream, and GlobalEcon LLC.

Currency Fluctuations Order by Fundamentals: Future Volatility



Note: Currency fluctuations follow the recent high (July 2008) and low (May 2009) in EM.
Source: IFS and GlobalEcon LLC.

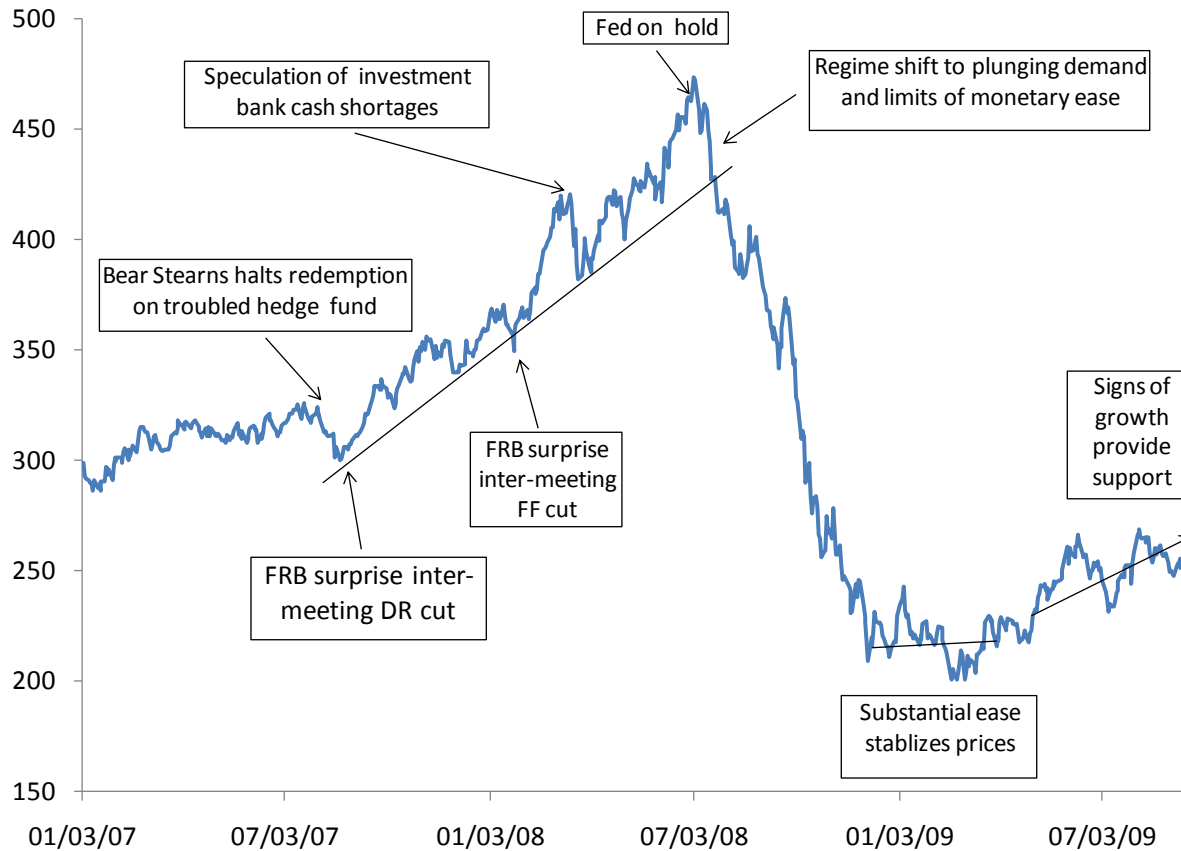
Investment Boom in Select Emerging Markets



Note: Calculations 1993 – 2007.

Source: IFS, Datastream, and GlobalEcon LLC.

Commodity Prices and EM: Driven by the Fed



Source: IFC, Datastream, and GlobalVest LLC.

Personality Types and the Markets



China: Economic and Financial Projections

				<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
National Accounts, %								
Real GDP				11.6	13.0	9.0	8.5	10.0
GDP, US\$ billions				2780	3460	4416	4868	5570
GDP per capita, US\$				2,115	2,619	3,325	3,651	4,159
Population, millions				1,314	1,321	1,328	1,334	1,339
Monetary and Fiscal Policy, %								
Inflation, ye				2.8	6.7	1.2	-1.0	2.7
US\$ exchange rate, ye				7.81	7.31	6.84	6.80	6.50
Fiscal balance, % of GDP				-0.8	0.6	-0.4	-4.2	-3.2
Balance of Payments and Debt, US\$ billions								
Merchandise exports				969.7	1,220.0	1,434.6	1,155.3	1,187.8
Merchandise imports				751.9	904.6	1,073.9	877.1	951.5
• Trade balance				217.7	315.4	360.7	278.3	236.3
• Current account				253.3	371.8	426.1	296.6	237.1
• Current account, % of GDP				9.1%	10.7%	9.6%	6.1%	4.3%
Foreign direct investment				78.1	138.4	147.8	101.2	93.8
International reserves ex. Gold				1072.6	1534.4	1954.8	2143.6	2315.3
• Reserves, Months of imports of G&S				14.4	16.9	18.1	23.1	22.7
Total external debt				325.1	373.6	400.6	345.5	365.7
• % of exports (G&S)				29%	26%	24%	25%	26%
• % of GDP				12%	11%	9%	7%	7%

Source: IFS, Datastream, and GlobalEcon LLC.

Brazil: Economic and Financial Projections

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
National Accounts, %					
Real GDP	3.9	5.6	5.1	0.5	3.0
GDP, US\$ billions	1089	1334	1575	1436	1553
GDP per capita, US\$	5,831	7,043	8,209	7,390	7,889
Population, millions	187	189	192	194	197
Monetary and Fiscal Policy, %					
Inflation, ye	3.1	4.5	5.9	4.7	5.0
US\$ exchange rate, ye	2.14	1.77	2.34	1.75	1.90
Fiscal balance, % of GDP	-2.9	-2.2	-1.5	-2.8	-3.0
Balance of Payments and Debt, US\$ billions					
Merchandise exports	137.8	160.6	197.9	159.4	174.4
Merchandise imports	91.4	120.6	173.1	138.9	154.1
• Trade balance	46.5	40.0	24.8	20.5	20.2
• Current account	13.6	1.6	-28.2	-18.8	-23.6
• Current account, % of GDP	1.3%	0.1%	-1.8%	-1.3%	-1.5%
Foreign direct investment	18.8	34.6	45.1	26.2	28.0
International reserves ex. Gold	85.8	180.3	193.8	212.5	222.8
• Reserves, Months of imports of G&S	6.7	10.9	8.5	11.6	11.0
Total external debt	193.5	237.5	242.1	231.1	239.8
• % of exports (G&S)	118%	121%	101%	117%	112%
• % of GDP	18%	18%	15%	16%	15%

Source: IFS, Datastream, and GlobalEcon LLC.

Mexico: Econ and Financial Projections

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
National Accounts, %					
Real GDP	5.1	3.3	1.4	-6.0	3.0
GDP, US\$ billions	952	1025	1088	857	886
GDP per capita, US\$	8,863	9,434	9,896	7,708	7,880
Population, millions	107	109	110	111	112
Monetary and Fiscal Policy, %					
Inflation, ye	4.1	3.8	6.5	5.5	4.0
US\$ exchange rate, ye	10.9	10.9	13.5	13.9	13.5
Fiscal balance, % of GDP	0.1	0.0	-0.1	-4.0	-2.0
Balance of Payments and Debt, US\$ billions					
Merchandise exports	249.9	271.9	291.3	223.0	260.2
Merchandise imports	256.1	281.9	308.6	243.2	284.4
• Trade balance	-6.1	-10.1	-17.3	-20.2	-24.2
• Current account	-4.4	-8.3	-15.7	-20.2	-26.9
• Current account, % of GDP	-0.5%	-0.8%	-1.4%	-2.4%	-3.0%
Foreign direct investment	19.3	27.3	22.0	12.0	18.0
International reserves ex. Gold	76.3	87.2	95.3	85.1	82.5
• Reserves, Months of imports of G&S	3.0	3.2	3.2	3.6	3.0
Total external debt	160.5	178.1	182.6	175.7	178.5
• % of exports (G&S)	59%	60%	58%	73%	63%
• % of GDP	17%	17%	17%	20%	20%

Source: IFS, Datastream, and GlobalEcon LLC.

India: Economic and Financial Projections

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
National Accounts, %					
Real GDP	9.7	9.1	6.1	5.0	6.3
GDP, US\$ billions	923	1133	1225	1242	1435
GDP per capita, US\$	831	1,003	1,067	1,065	1,212
Population, millions	1,112	1,130	1,148	1,166	1,184
Monetary and Fiscal Policy, %					
Inflation, ye	6.9	6.7	8.0	1.0	5.4
US\$ exchange rate, ye	44.2	39.4	48.5	46.0	47.1
Fiscal balance, % of GDP	-3.5	-2.7	-6.1	-10.0	-7.1
Balance of Payments and Debt, US\$ billions					
Merchandise exports	123.0	149.3	187.9	158.3	171.6
Merchandise imports	185.0	231.5	315.1	250.9	293.1
• Trade balance	-62.1	-82.2	-127.2	-92.6	-121.5
• Current account	-7.9	-11.2	-34.0	-14.1	-29.5
• Current account, % of GDP	-0.9%	-1.0%	-2.8%	-1.1%	-2.1%
Foreign direct investment	19.7	25.1	41.2	33.0	36.0
International reserves ex. Gold	176.1	273.9	254.0	272.8	282.3
• Reserves, Months of imports of G&S	8.8	11.0	7.8	10.2	9.1
Total external debt	175.5	221.0	237.3	232.0	243.9
• % of exports (G&S)	87%	88%	77%	87%	82%
• % of GDP	19%	19%	19%	19%	17%

Source: IFS, Datastream, and GlobalEcon LLC.

Russia: Econ and Financial Projections

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
National Accounts, %					
Real GDP	7.7	8.1	5.6	-7.0	2.5
GDP, US\$ billions	989	1294	1671	1282	1410
GDP per capita, US\$	6,939	9,094	11,785	9,067	10,001
Population, millions	143	142	142	141	141
Monetary and Fiscal Policy, %					
Inflation, ye	9.7	9.0	14.1	10.0	9.4
US\$ exchange rate, ye	26.3	24.5	29.4	31.0	32.0
Fiscal balance, % of GDP	7.4	5.4	3.6	-8.0	-5.5
Balance of Payments and Debt, US\$ billions					
Merchandise exports	303.6	354.4	471.6	314.1	351.9
Merchandise imports	164.3	223.5	291.9	219.5	238.4
• Trade balance	139.3	130.9	179.7	94.6	113.5
• Current account	94.7	77.0	102.3	23.7	42.4
• Current account, % of GDP	9.6%	5.9%	6.1%	1.9%	3.0%
Foreign direct investment	29.7	55.1	70.3	35.0	50.0
International reserves ex. Gold	303.7	476.4	427.1	382.1	406.8
• Reserves, Months of imports of G&S	13.6	15.8	10.8	12.0	12.0
Total external debt	250.5	370.2	407.8	376.1	394.9
• % of exports (G&S)	69%	84%	70%	93%	88%
• % of GDP	25%	29%	24%	29%	28%

Source: IFS, Datastream, and GlobalEcon LLC.

The Watchlist

- China emerges stronger after the crisis, so watch internationalization of CNY and deepening trade tension.
- Election cycle in Brazil into 2010.
- Budget in Mexico on November 15, 2009 and potential response by rating agencies.
- Public spending in India.
- Reserve balances and potential capital flight in Russia.
- FRB and other official policy reversals.

Conclusions

- Economic recoveries are sustainable.
- Yet, markets will be volatile and performance by country will prove variable.