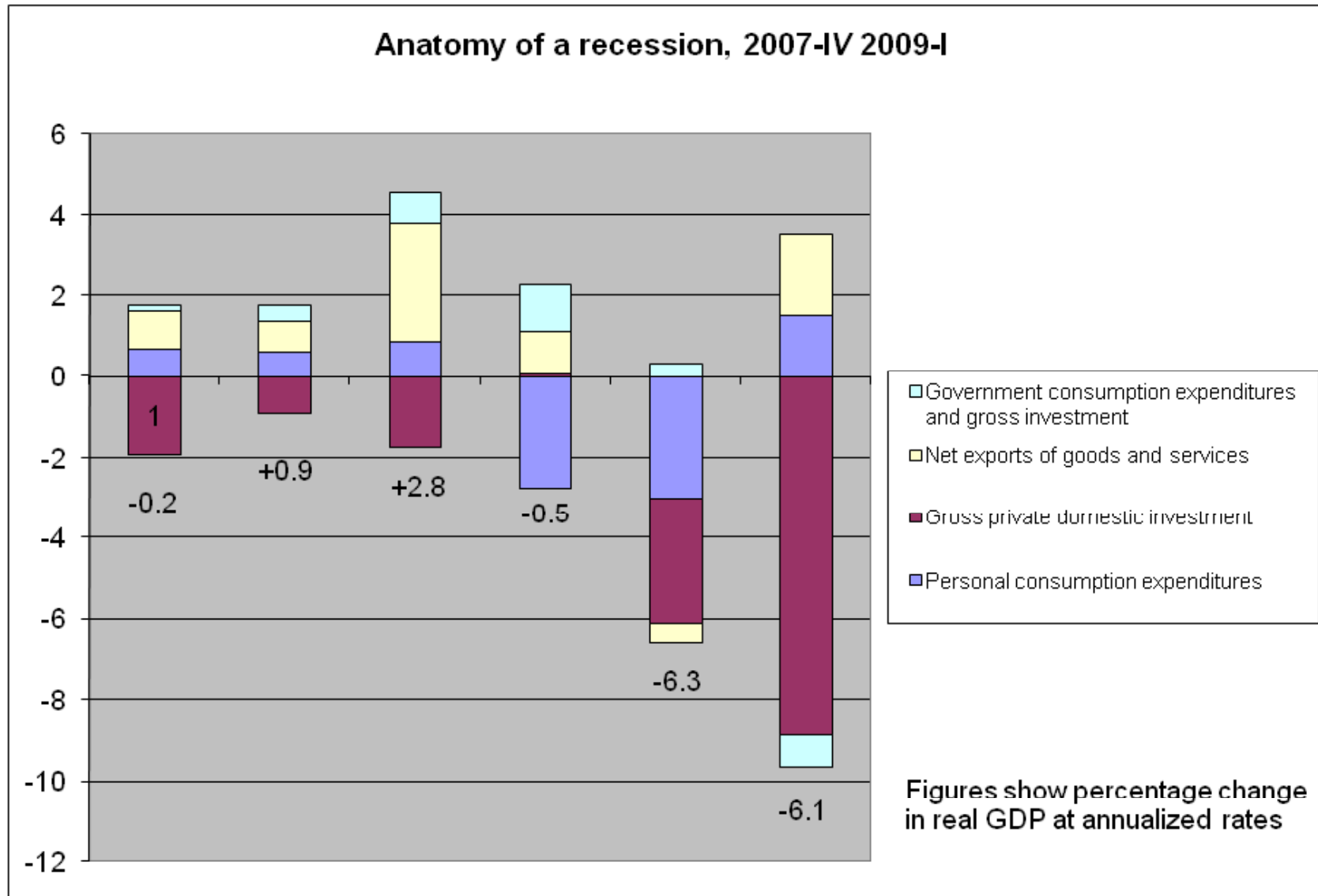


The Ascent and Descent of Money

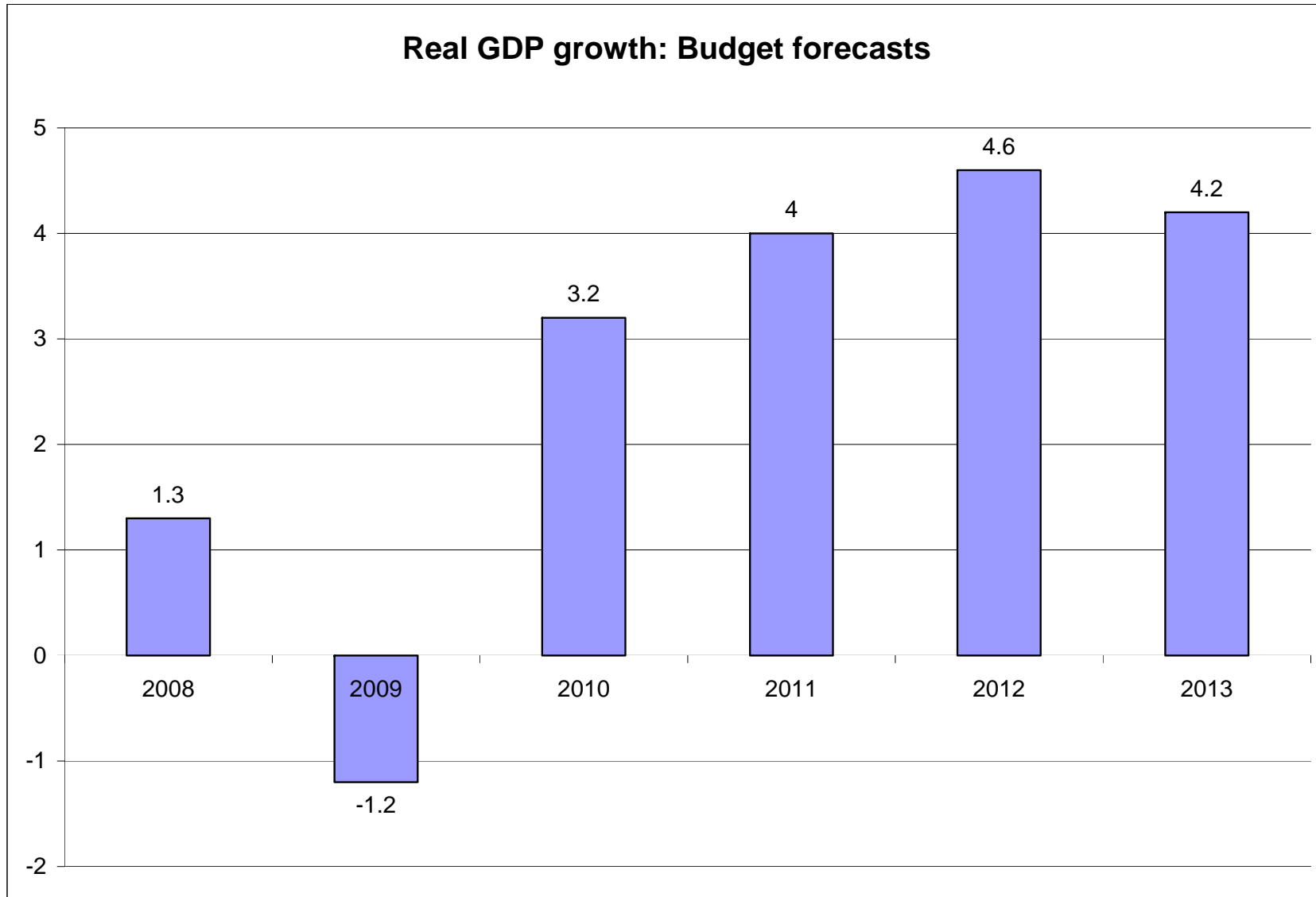


Nomura, June 2, 2009

We're in a very big U.S. recession



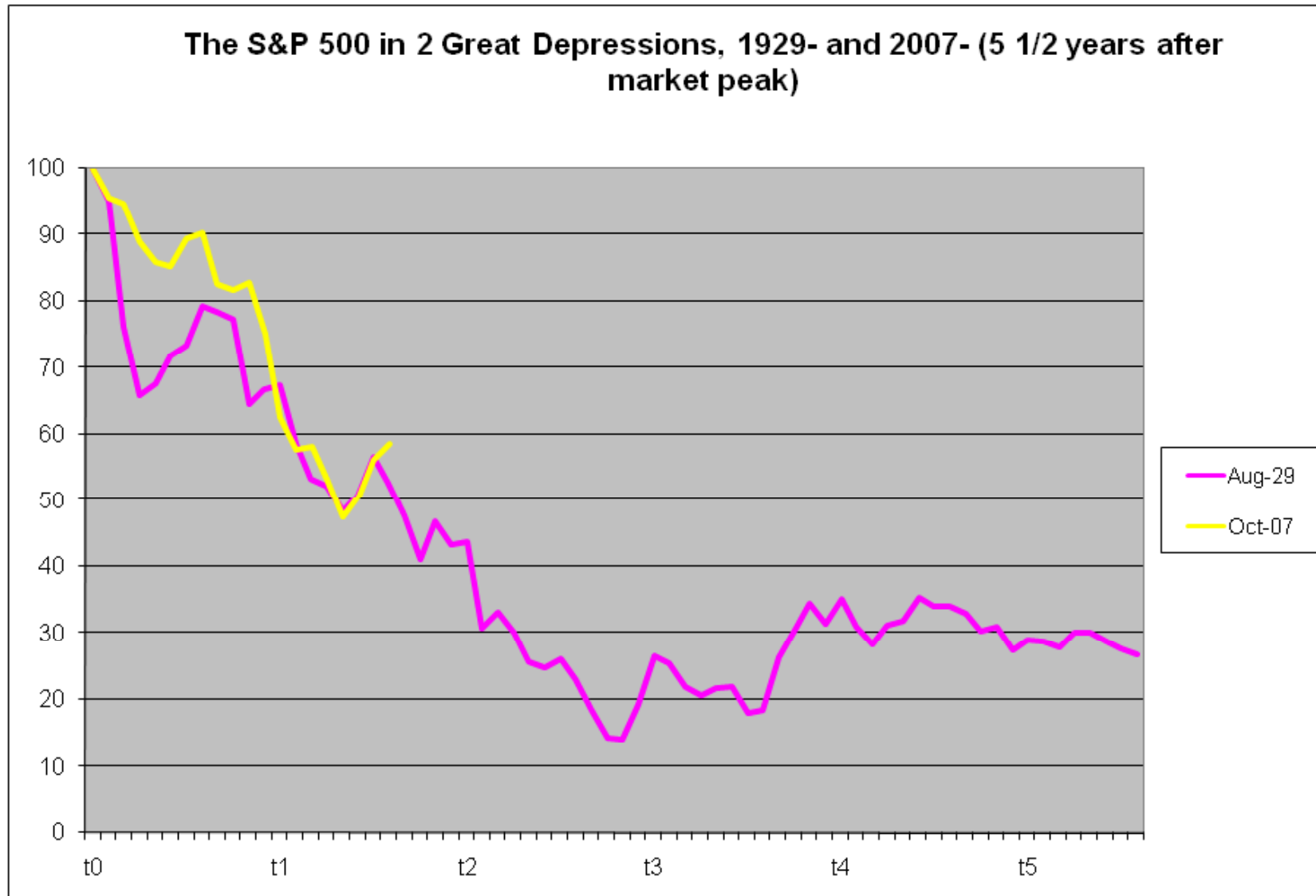
So will the future be this?



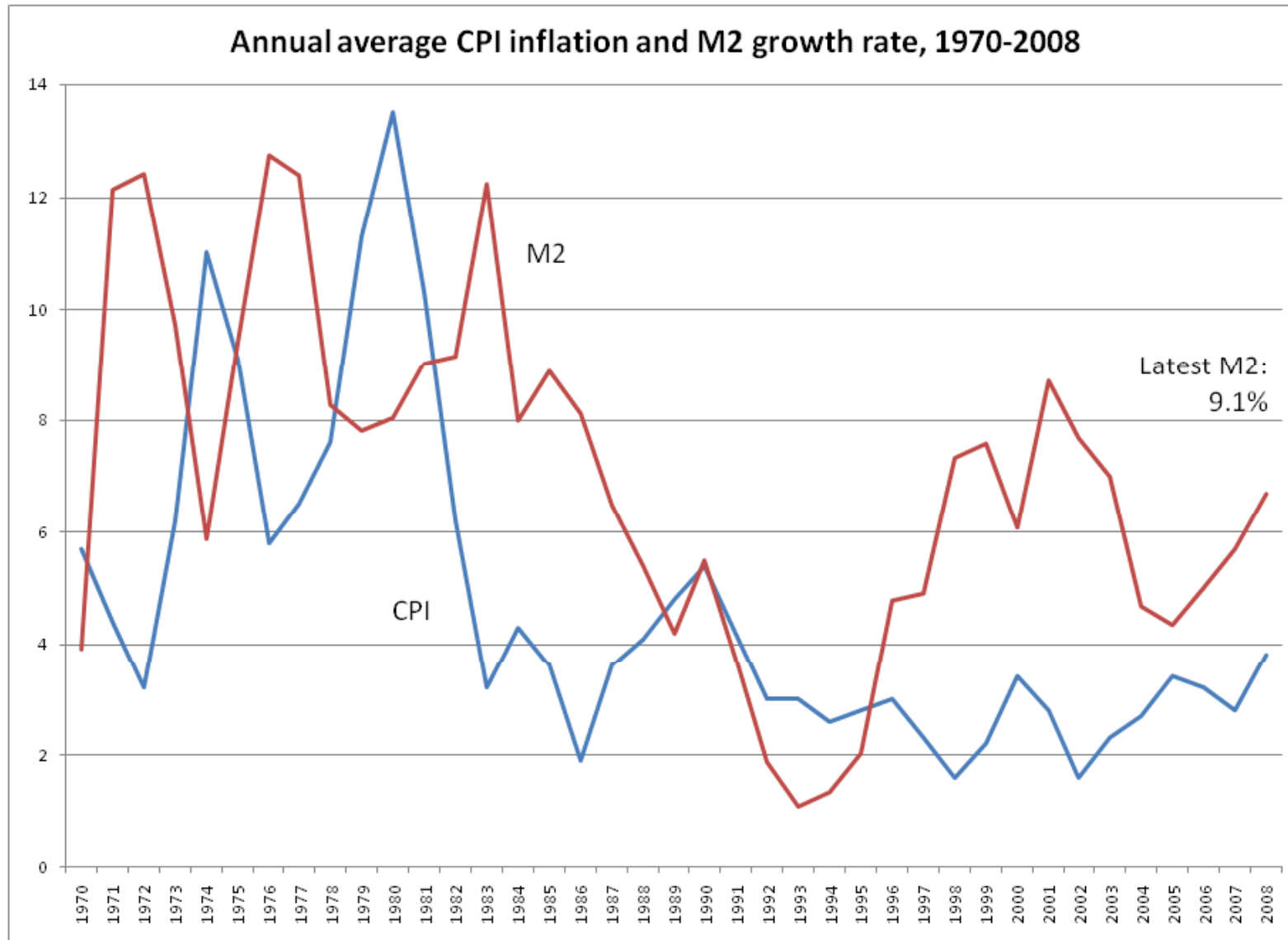
Or this?



Is Great Depression 2.0 possible?



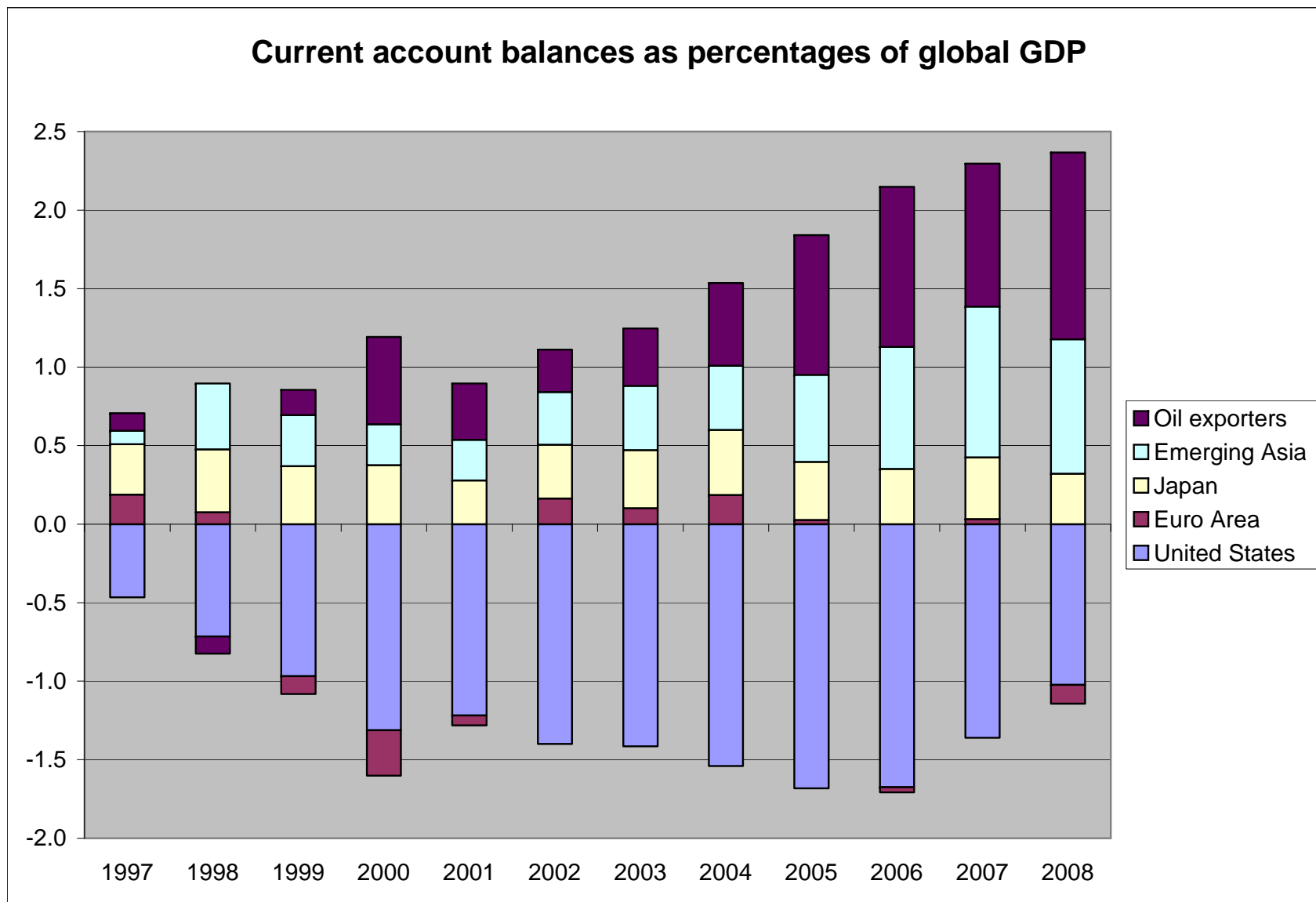
Or are we heading back to the 1970s?



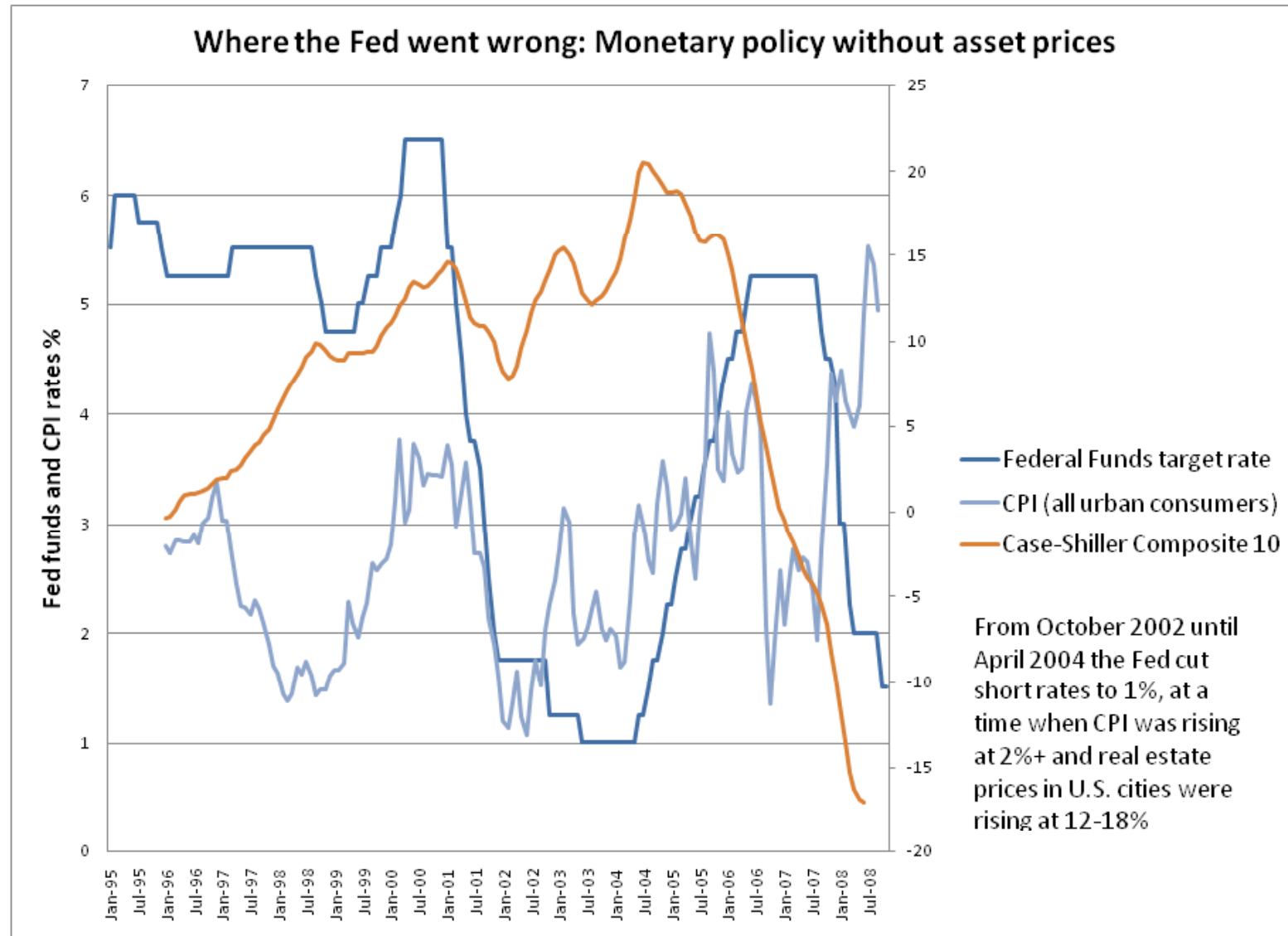
What went wrong?



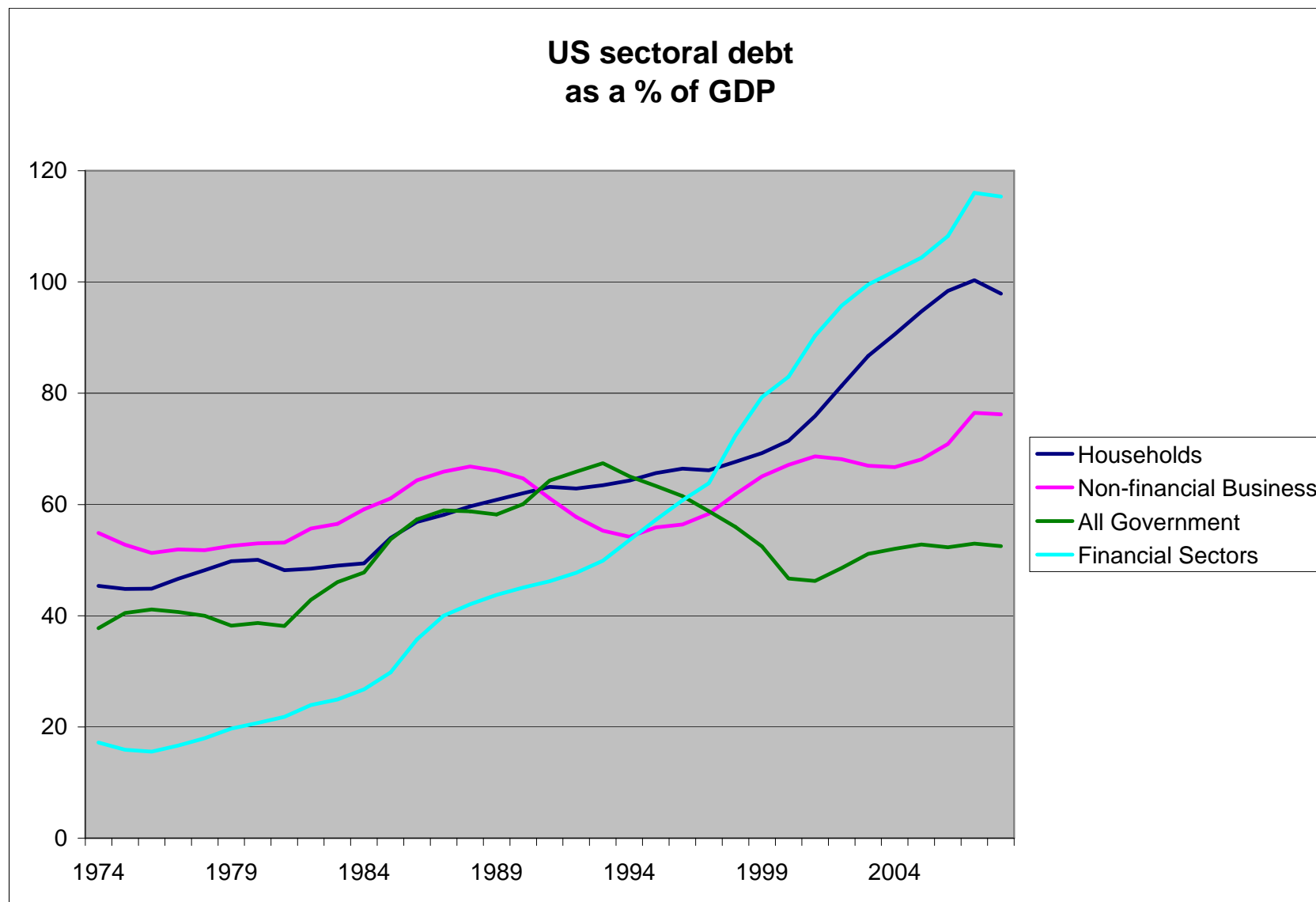
Global imbalances ...



... and monetary policy errors ...



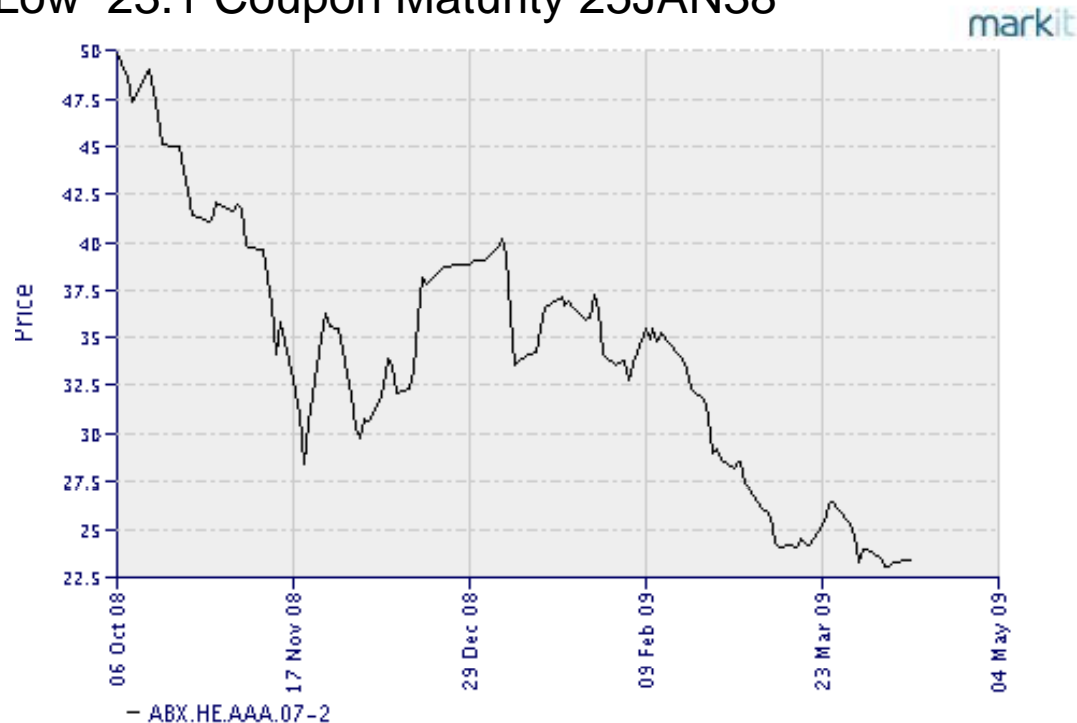
... and excessive leverage ...



... and financial engineering ...

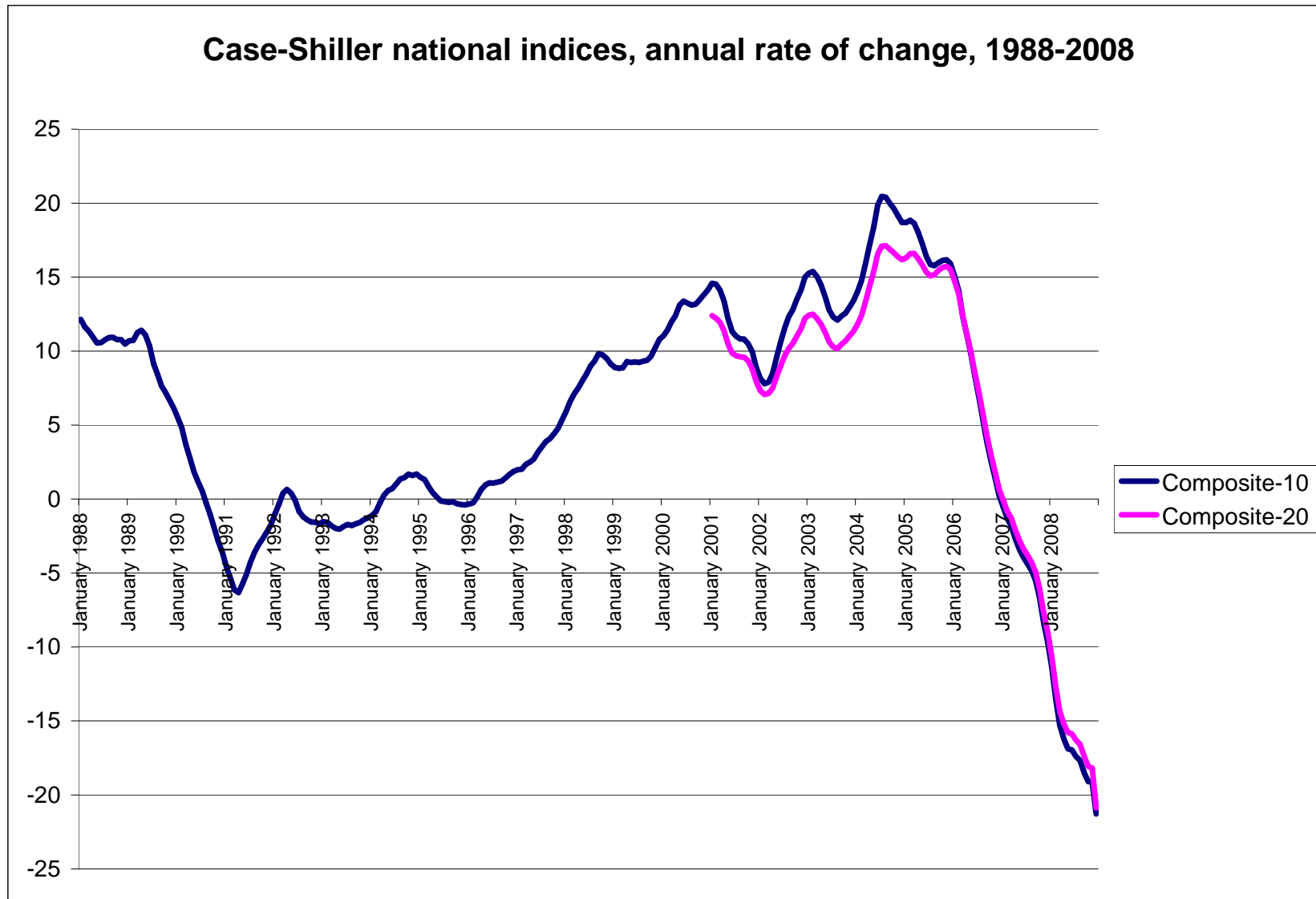
ABX.HE.AAA.07-2 (20 MBS)

High 99.33 Low 23.1 Coupon Maturity 25JAN38



“In January 2008, there were 12 triple A-rated companies in the world. At the same time, there were 64,000 structured finance instruments, such as collateralised debt obligations, rated triple A.”

... caused a property bubble



... rendering some big banks insolvent

US commercial banks

Market value (\$bn)

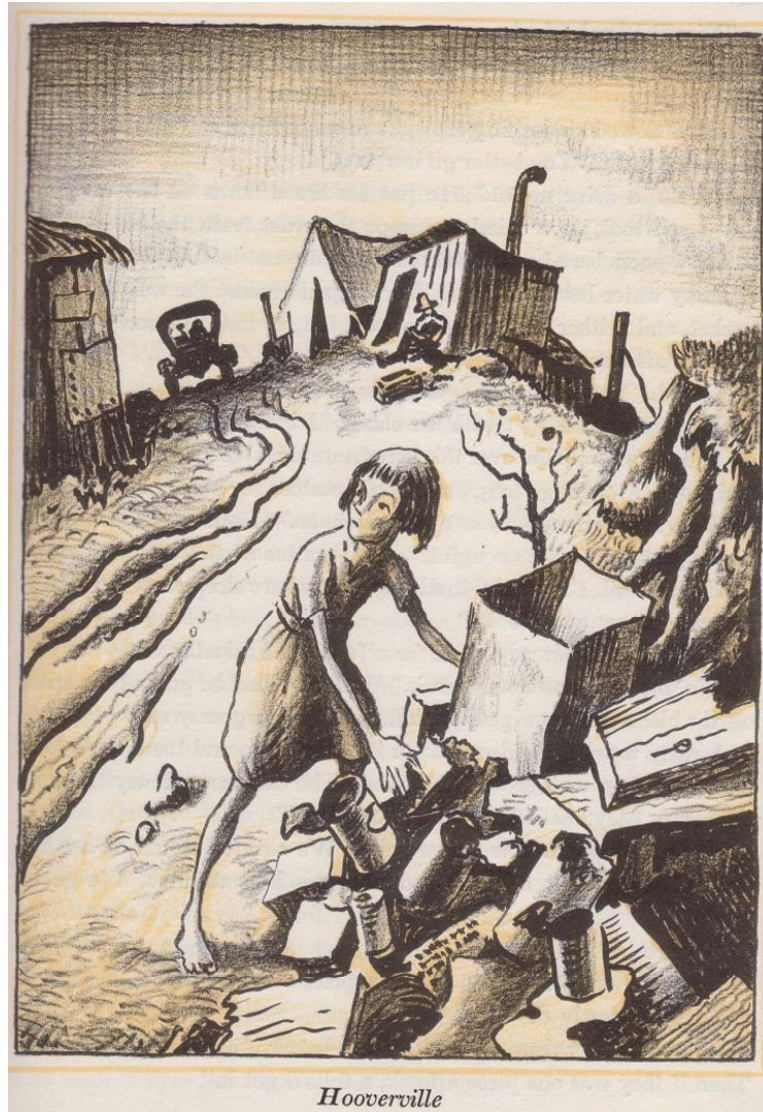


US investment banks

Market value (\$bn)

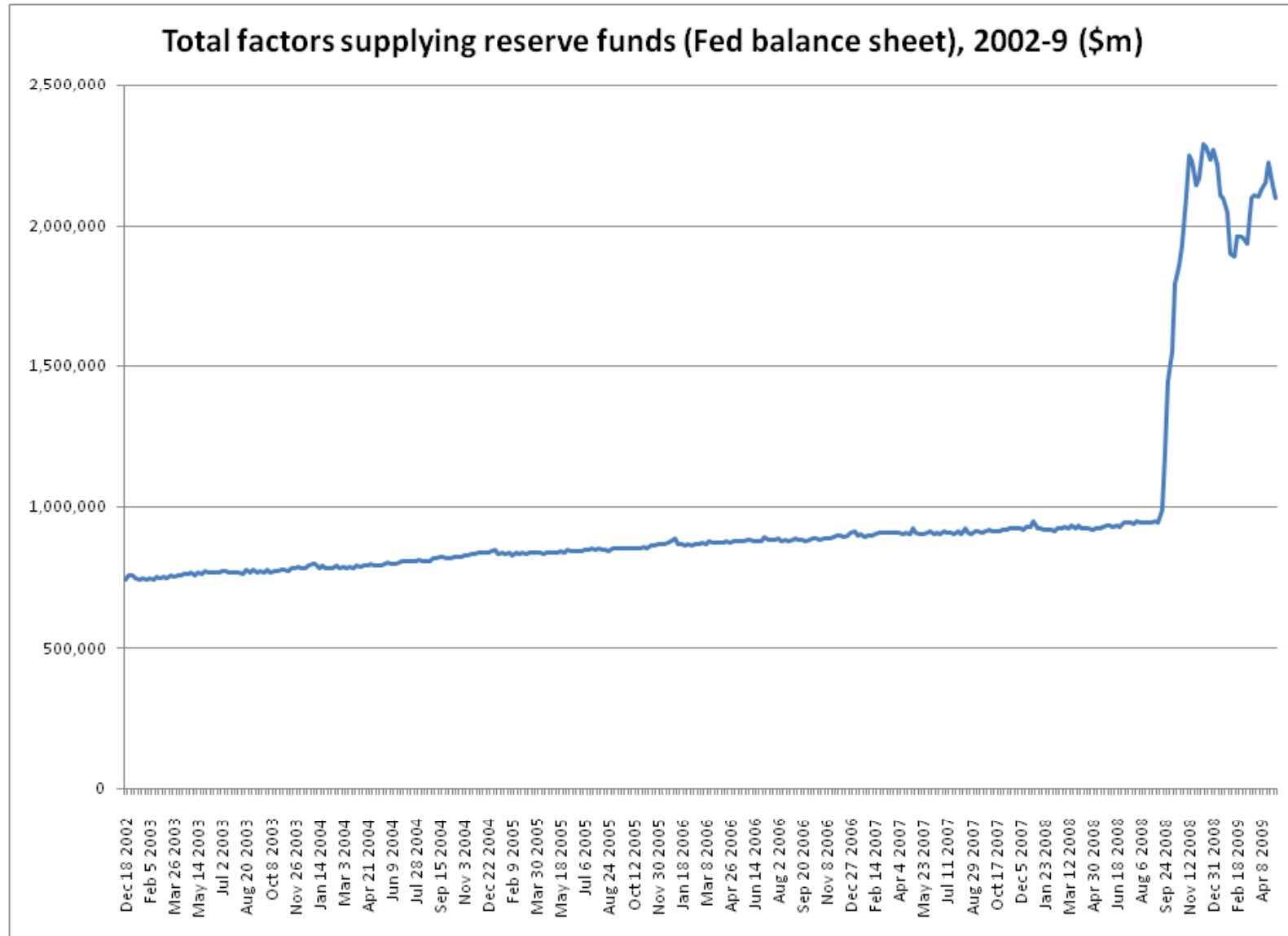


We're avoiding the 1930s ...

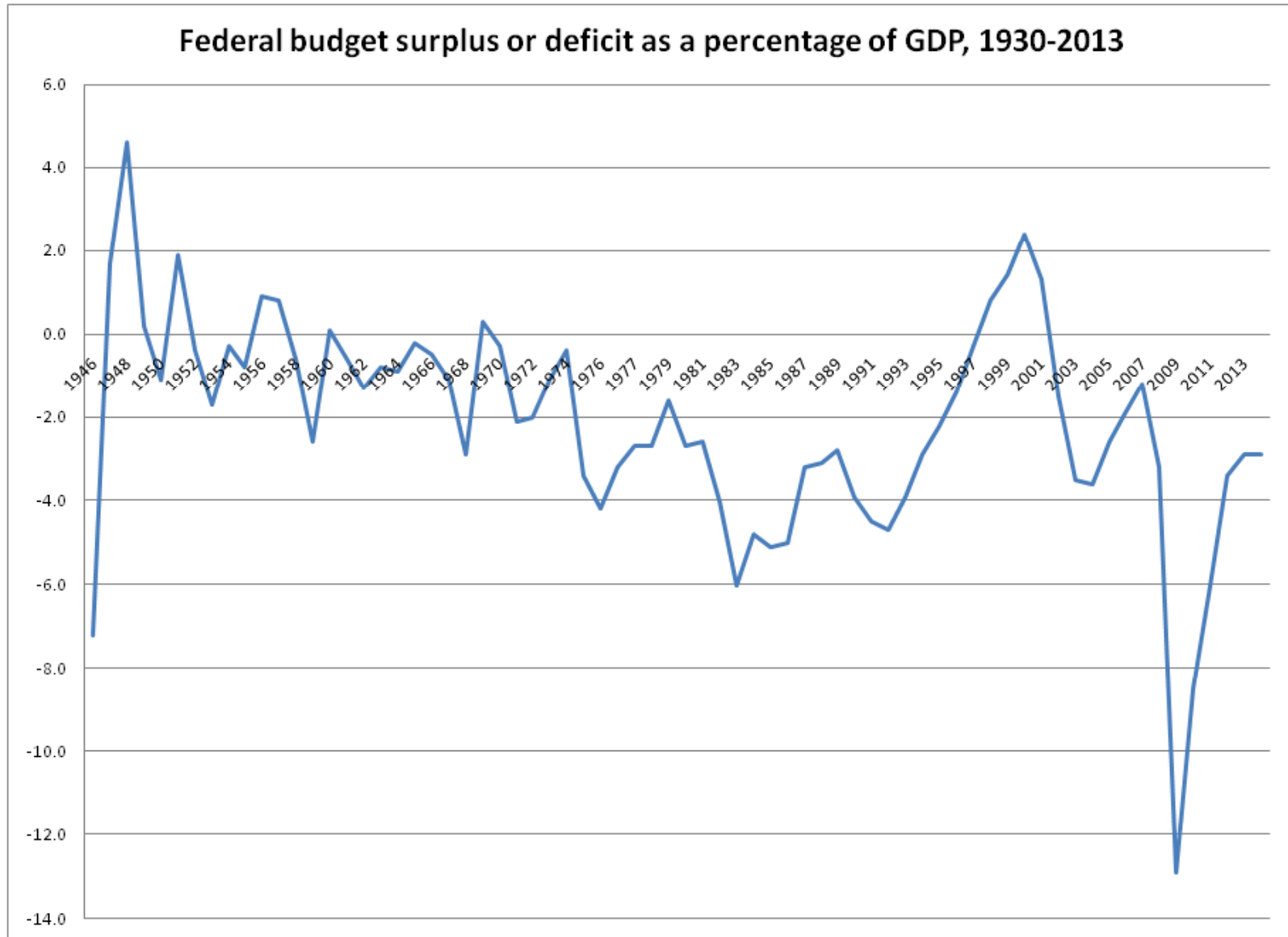


Hooverville

... with monetary expansion ...



... and fiscal stimulus

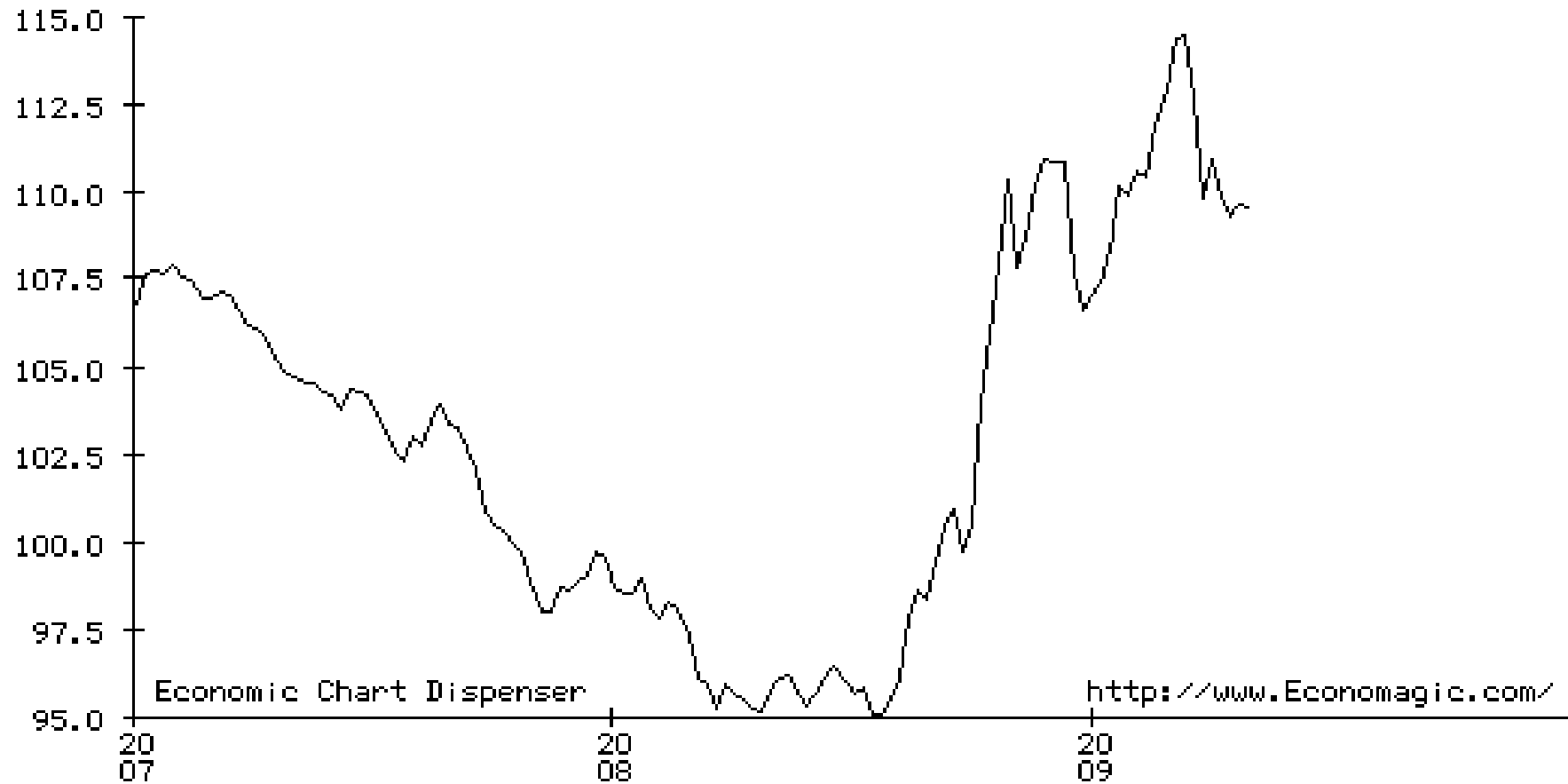


But ... it's a fiscal nightmare

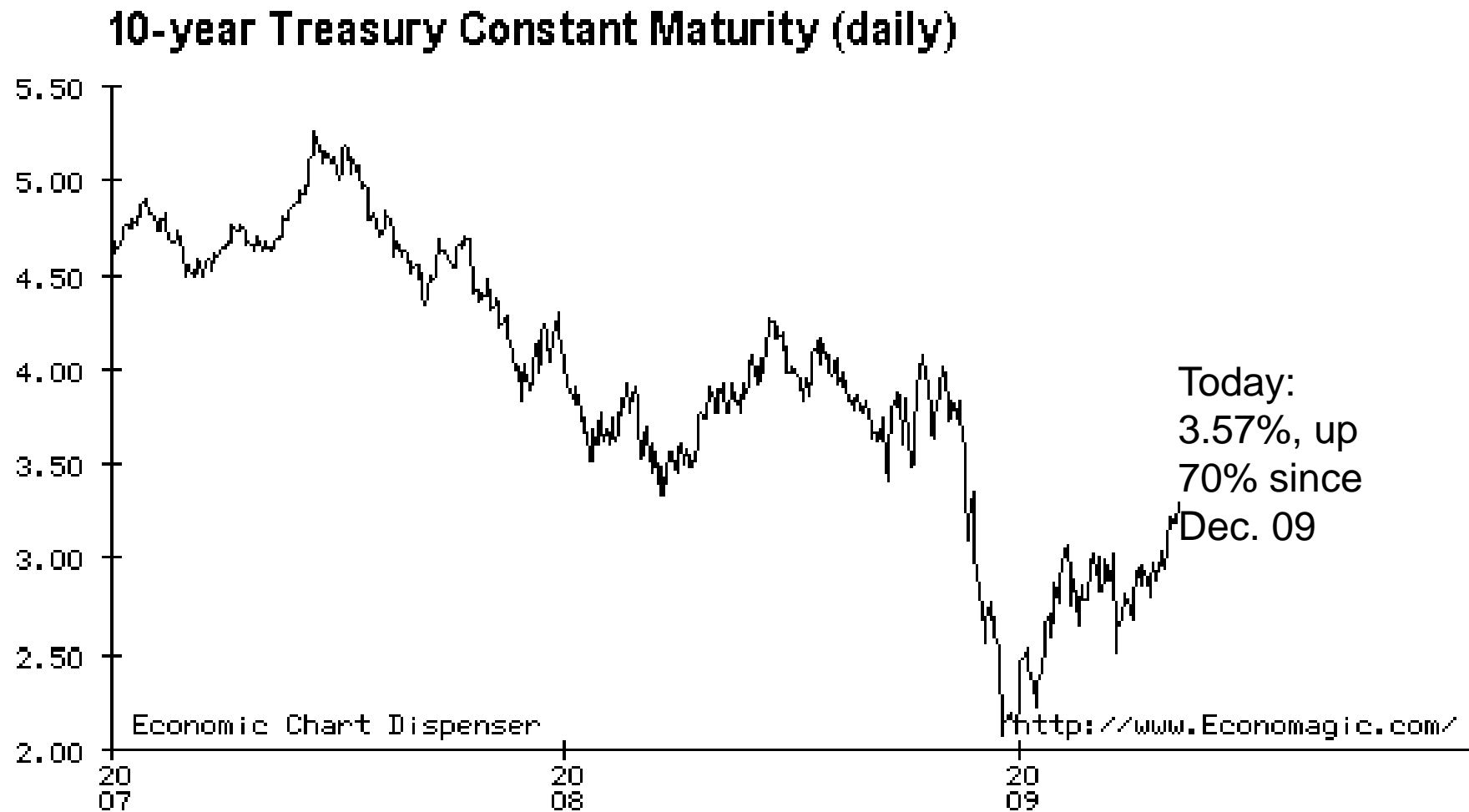
- Budget 09: \$1.841trn of borrowing (deficit = ~50% of spending, 12.9% of GDP) FY10: \$1.258trn (8.5%) c/w 1942 14.2%
 - YoY change in “Treasury Gross Public Debt”: \$1.912trn
- Additional \$10trn by 2010-2019 (CBO)
- U.S. government debt now \$11.3trn
- Medicare is expected to run out of money in 2017, 2 years sooner than projected last year.

End of the dollar rally?

Trade Weighted Exchange Index Broad: Index January 1997=100



End of the Treasury rally?



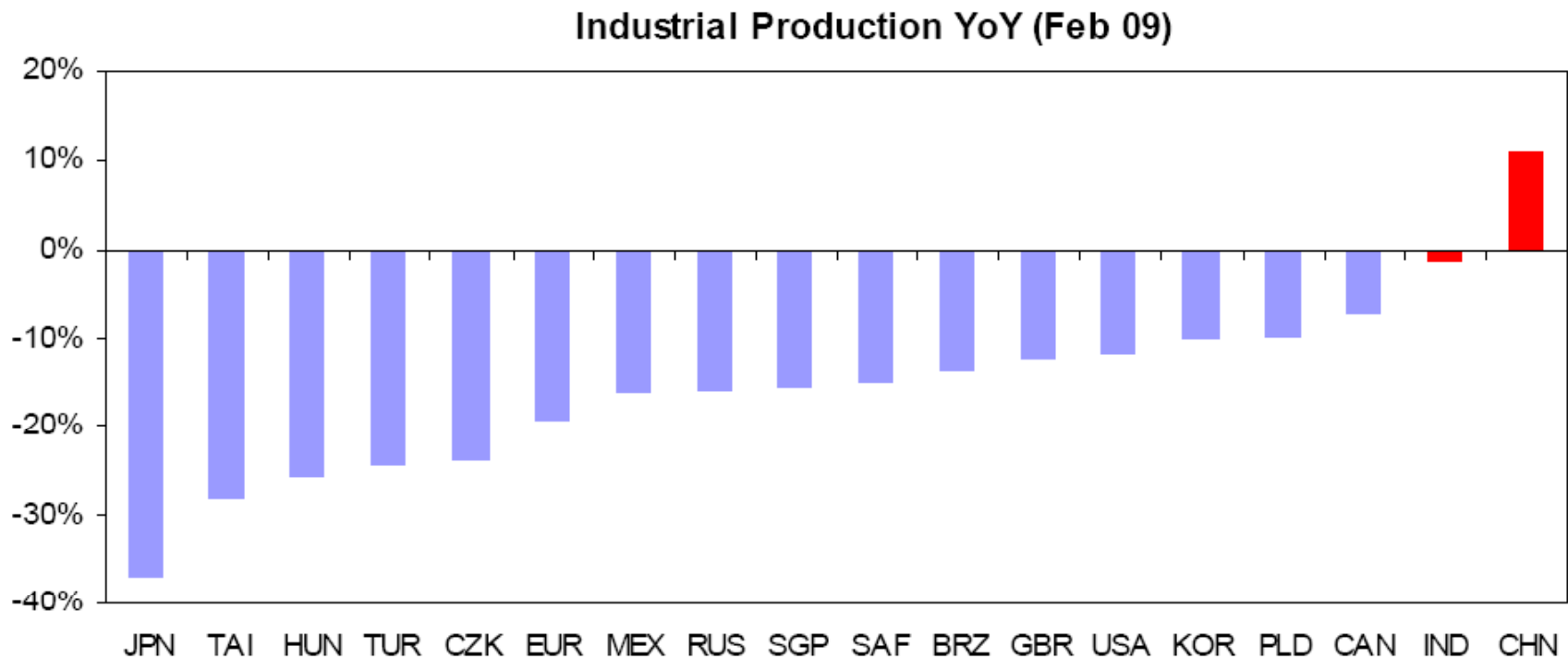
Bill Gross of PIMCO warned on Thursday that U.S. could lose its AAA credit rating in “at least three to four years ...”

The world crisis (contd.)

- U.S. -2.8
- UK -4.1
- Eurozone -4.2
- Germany -5.6
- Japan -6.2
- Taiwan -7.5
- Russia -6.0
- C E Europe -3.7
- CIS ex Russia -2.9
- Latin America -1.5

(Figures are projections for 2009 real GDP change from April IMF WEO)

Where the pain is worst



In the first quarter, the UK economy fell by 8%, Germany 14%, Japan by 15%, Mexico by 21%. Spain's unemployment rate reached over 17% last month.

Asia's heart attack: Year to Feb 09

	Exports	GDP
Taiwan	-42%	-32%
South Korea	-33%	-21%
Singapore	-21%	-17%
Japan	-49%	-31%*

* Industrial production

Europe's banking crisis

- Average bank leverage much higher in most European countries than in U.S.
 - Germany 52:1, Belgium 33, Switzerland 29, France 28, Denmark 28, Sweden 26, UK 24 ... USA 12
 - European banks have assets of about 330% of their GDP, compared to US banking assets, which are about 50%.
- IMF: European banks have 75% as much exposure to U.S. toxic assets as American banks
 - Yet write-downs have been \$738bn in the U.S., just \$294bn in Europe
 - German toxic assets €800bn = \$1.08trn

Can China buck the trend?

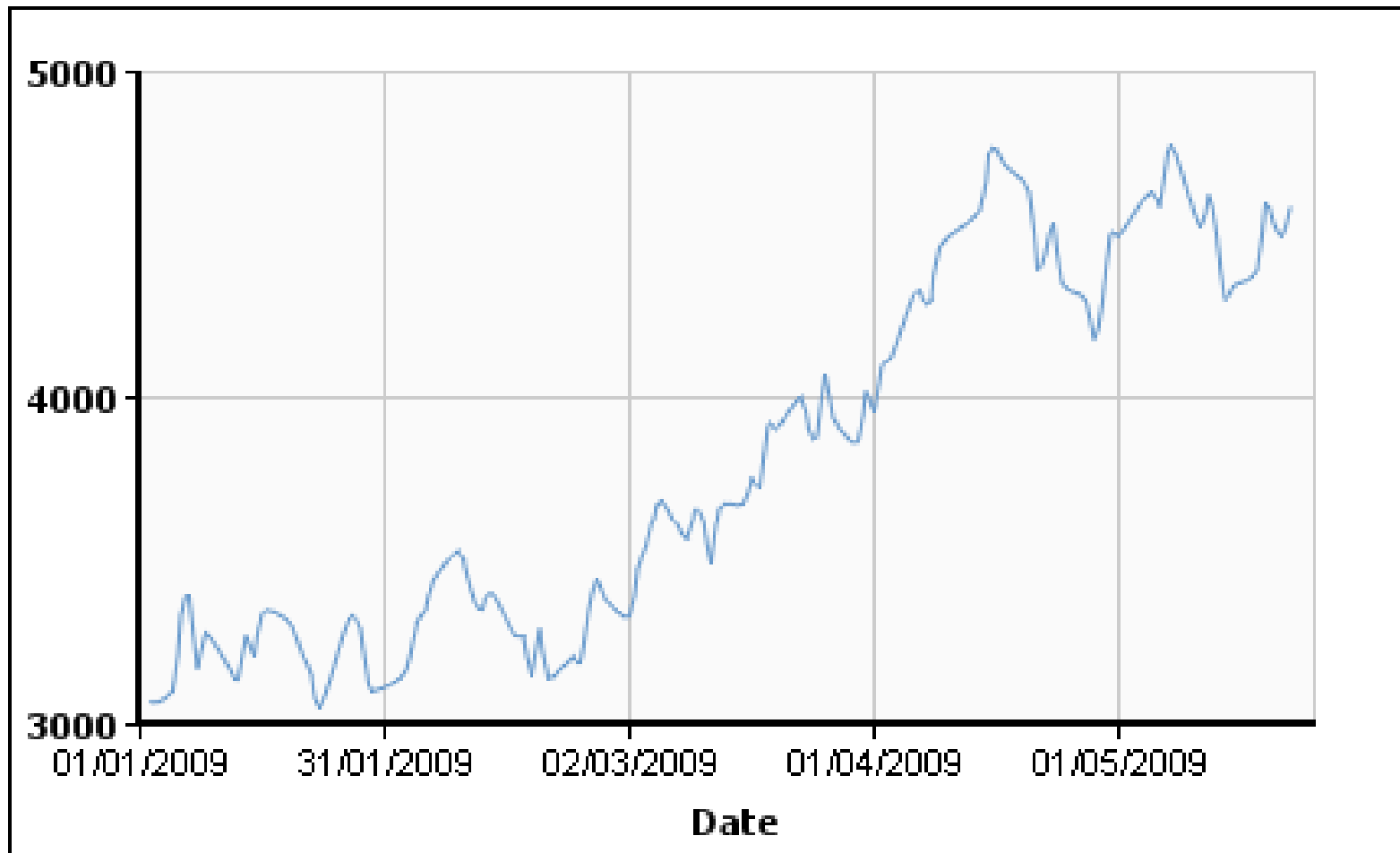
- Growth likely down to 6.1% in 2009-I c/w 10.6% in 2008-I
- Deflationary threat: CPI -1.2% WPI -4.5%
- Exports down -22.6% YoY in April
- BUT fixed investment +33.9% in April
- \$4trn yuan (\$585bn) stimulus package
 - infrastructure spending plus aid to poor farmers, cuts in export taxes, overhaul of healthcare
- ~12% of China's GDP, and 1% of world GDP
- Net imports of iron ore +33% oil +13.7% in April

Oil back up ...

Crude oil dollars per barrel



... and metals too



Copper Grade A price

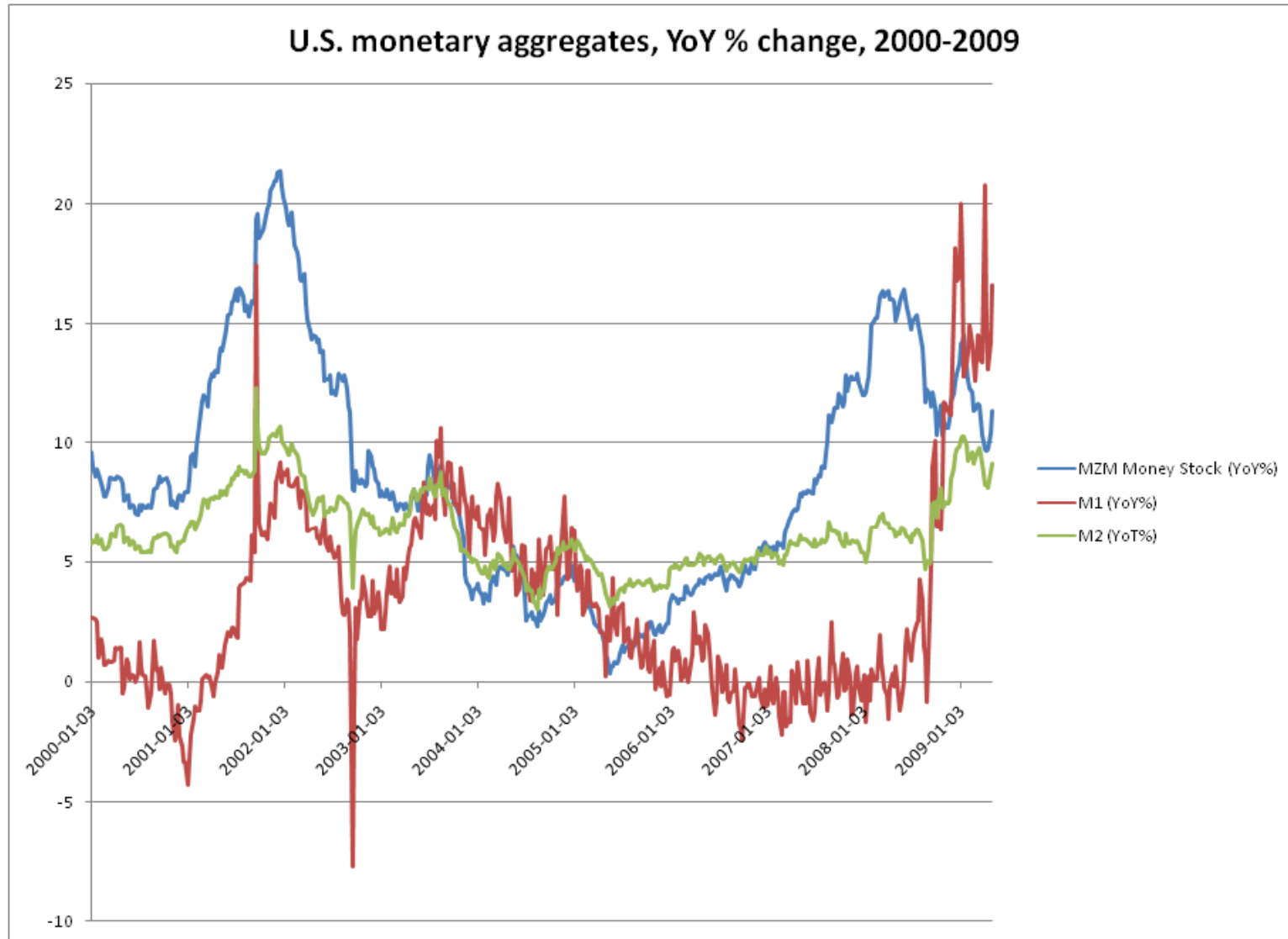
Inflation v. deflation

- “A policy mistake made by some major central bank may bring inflation risks to the whole world ... As more and more economies are adopting unconventional monetary policies, such as quantitative easing (QE), major currencies’ devaluation risks may rise.” (Chinese Central Bank, quarterly report)

Output gaps (IMF) for

- Japan -8.0%
- Germany -5.8%
- UK -5.5%
- Italy -5.1%
- France -4.5%
- Canada -4.3%
- U.S. -4.1%

Bet on inflation (in 2010)



It's Godzilla v. King Kong



Guess who gets trampled?



The political fallout (1) Populism

- Characteristics of populism
 - Anti-political establishments and incumbents (Westminster)
 - Anti-finance
 - Anti-immigration
 - Anti-globalization
 - Pro-inflation

(2) A new “Axis of Upheaval”?

Governments fallen

- Latvia
- Hungary
- Czech Republic
- Estonia

Riots and demos

- Moldova
- Georgia
- Thailand

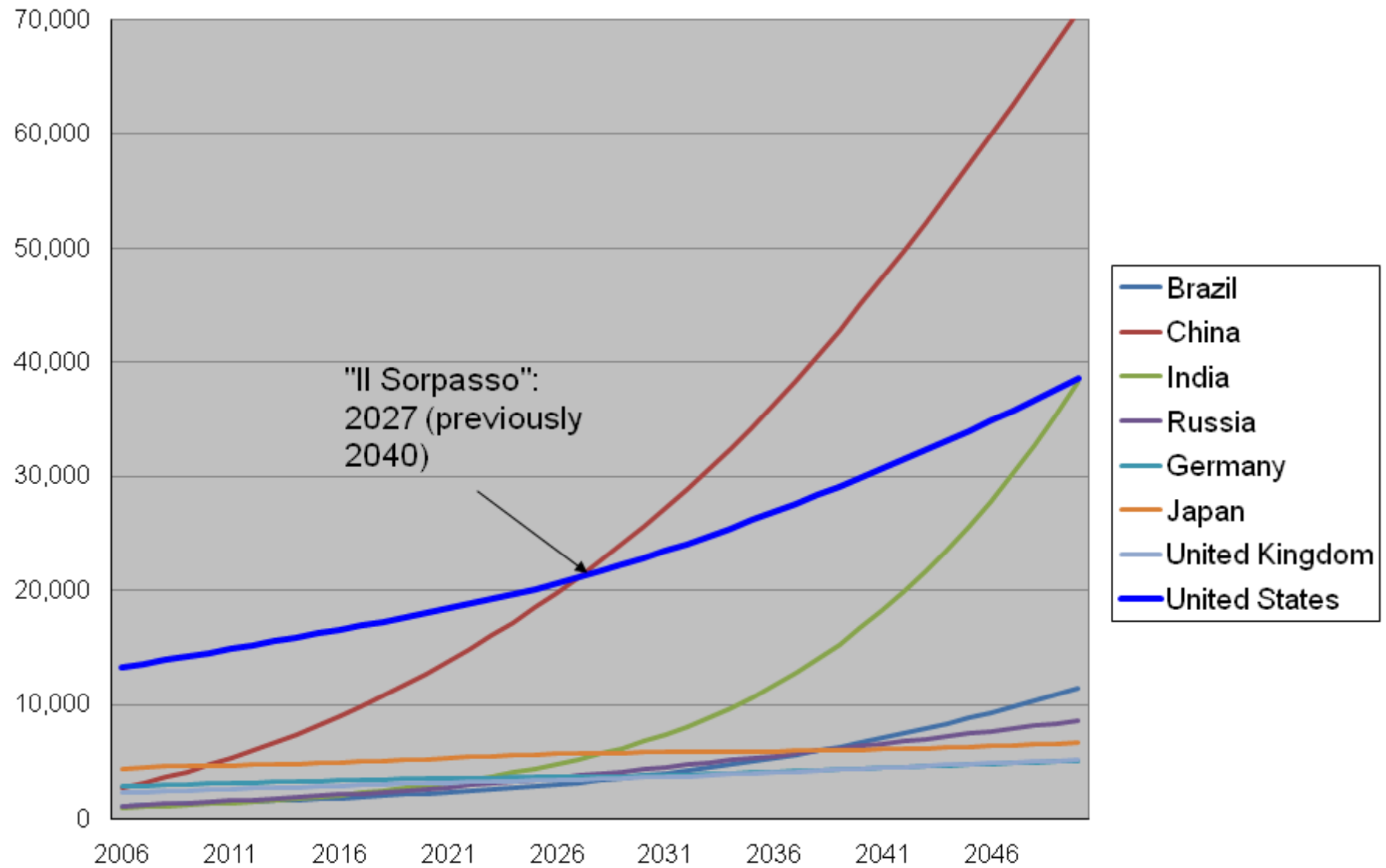
(3) The Western crisis

- The fiscal conflict between U.S. domestic and foreign policies grows
- The E.U. goes centrifugal as the limits of Eastern enlargement emerge
- The energy-weaponry endgame approaches in the Greater Middle East
 - Will Iran get its nukes or will Israel strike?
 - Will Af-Pak stabilize or crash?
 - Will Russia's gas gambit pay off?

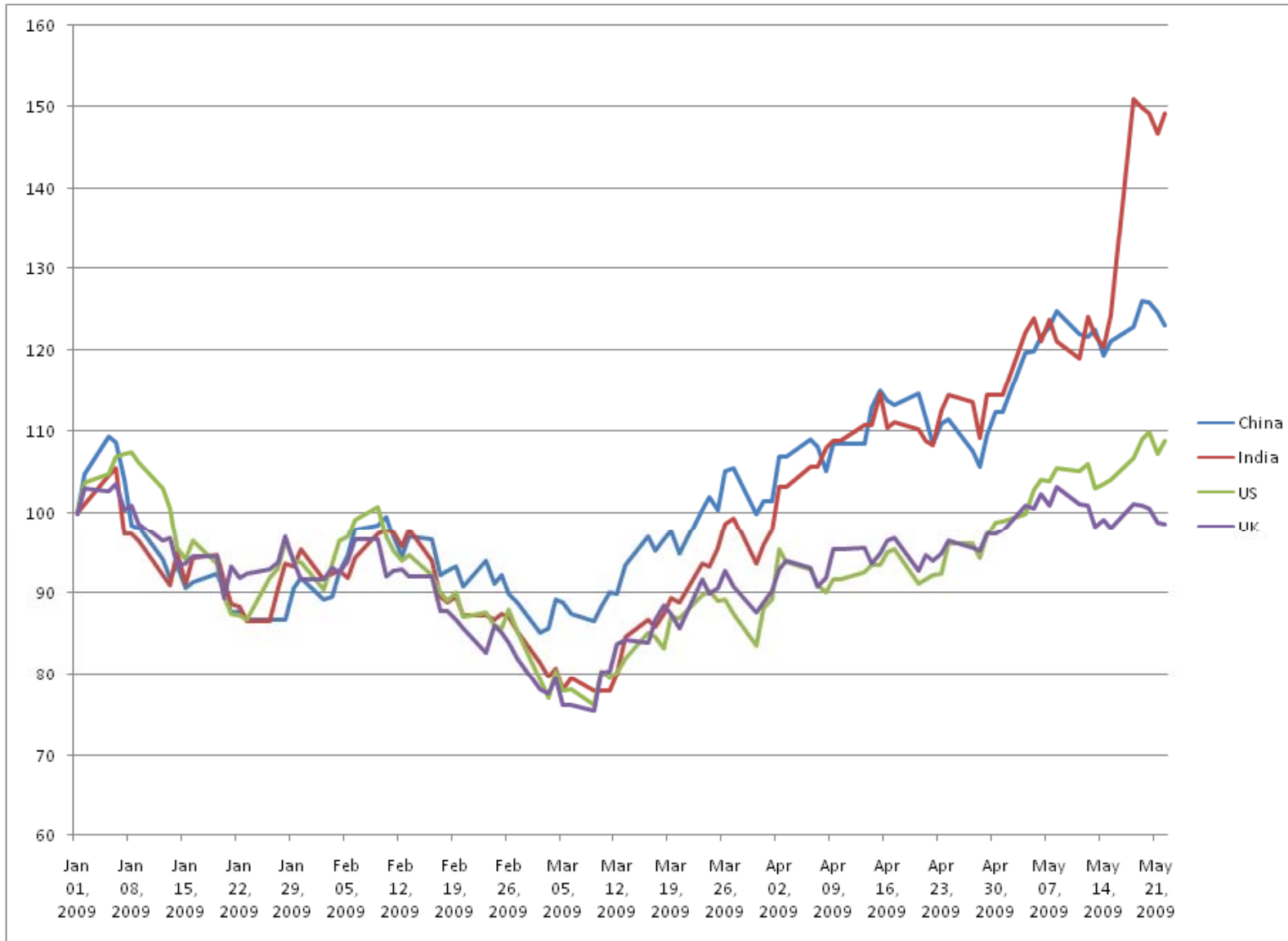
(4) From “Chimerica” to Empire

- The marriage between China and America is unraveling
 - China now holds $\frac{1}{4}$ of U.S. debt held by foreigners
 - U.S. bonds = 70% of China’s \$1,953bn total reserves
 - But Deutsche Bank predicts Chinese reserves will rise only \$100bn this year c/w \$418bn 2008
- “We can keep buying U.S. debt but we have to attach some conditions.”
 - Zhang Ming, an economist at the Chinese Academy of Social Sciences
- China’s future depends on quasi-imperial relations with commodity suppliers
 - Watch China’s informal empire in Africa ...

Goldman GDP projections (bn 2006 \$) BRICs v the "G4", 2006-2050



The ascent of (Asian) money



NIALL
FERGUSON

Author of
THE WAR OF THE WORLD

THE ASCENT
OF MONEY

A FINANCIAL HISTORY *of* THE WORLD



NIALL
FERGUSON

Author of
THE WAR OF THE WORLD

THE ASCENT
OF MONEY

A FINANCIAL HISTORY *of* THE WORLD

