Global Economics

When Worlds Collide

Stephen King
Tel: (44) 20 7991 6700
stephen.king@hsbcib.com

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HSBC
The world's local bar

1. Who's driving the world economy?

- It used to be the US…
- …but now emerging markets are pivotal…
- …in a re-run of the European and Japanese-dominated 1950s and 1960s

2. The most important contributors to US export growth in 2006

Source: Thomson Financial Datastream, HSBC

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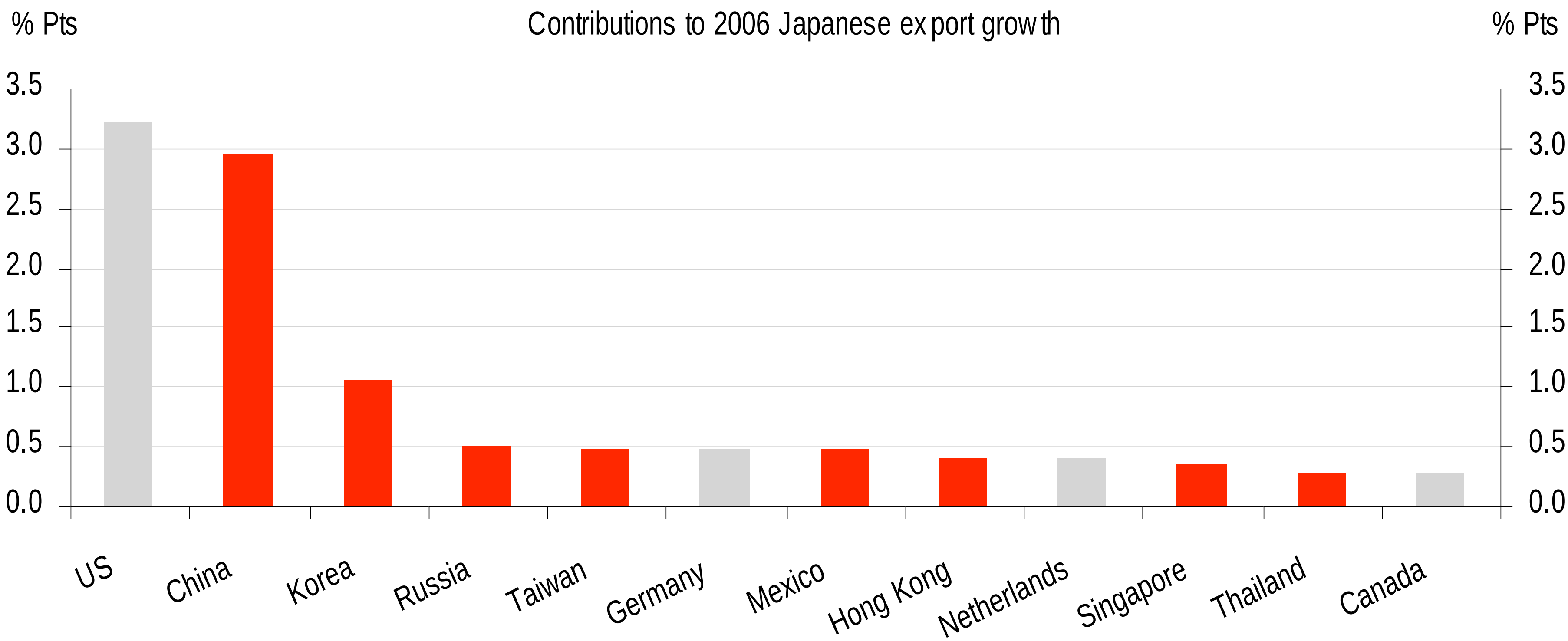
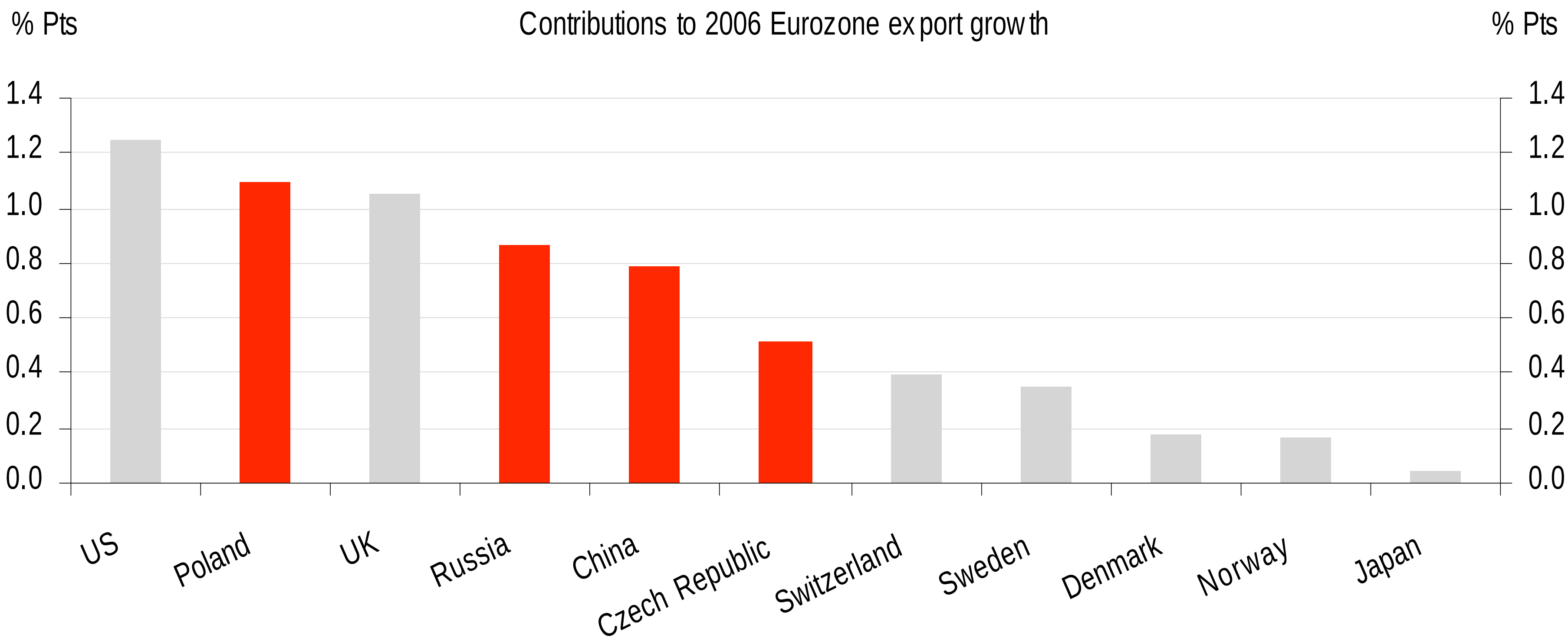
3. Japan's exports are heavily influenced by emerging markets



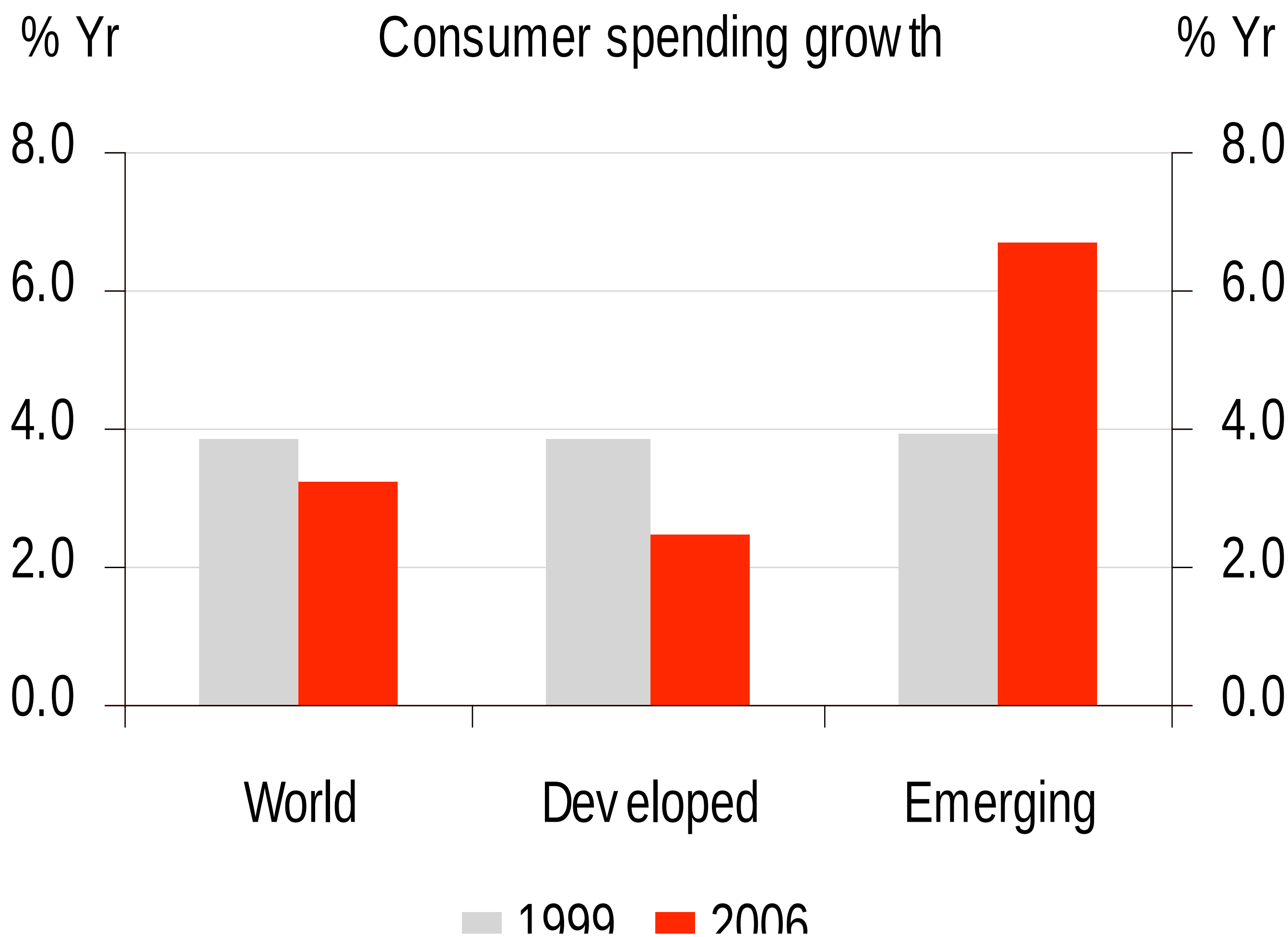
Source: Thomson Financial Datastream, HSBC

4. The Eurozone is increasingly influenced by China and Eastern Europe



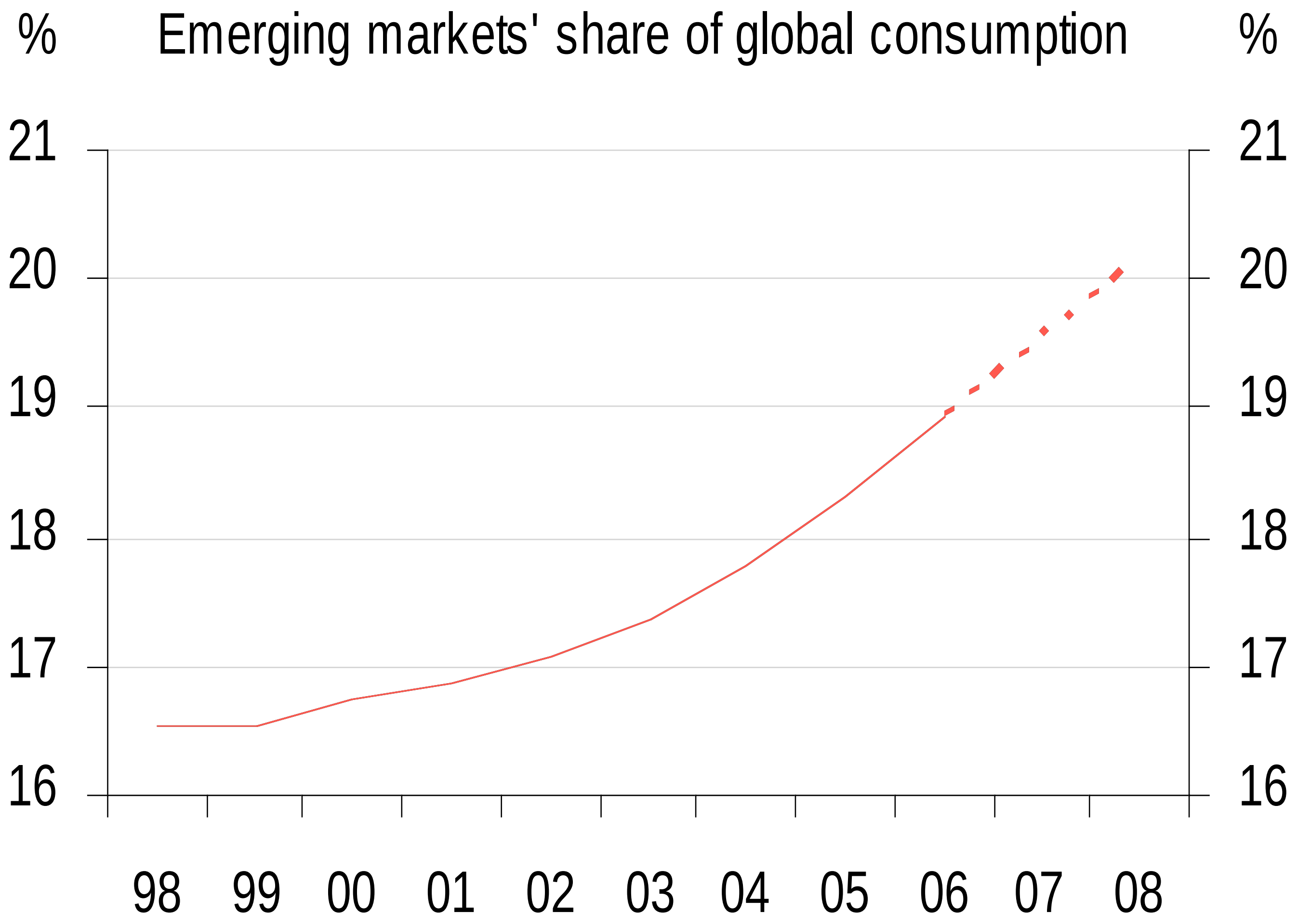
Source: Thomson Financial Datastream, HSBC

5. Consumer spending: the rise of emerging markets



Note: The various aggregate growth rates are calculated using weights derived from nominal dollar consumption values in 2003 together with individual country growth rates: in effect, the aggregate data are chain-weighted
Source: World Bank Development Indicators and HSBC

6. Emerging consumers are becoming more important



Note: The shares were calculated from consumption data based upon nominal 2003 USD values
Source: World Bank World Development Indicators and HSBC

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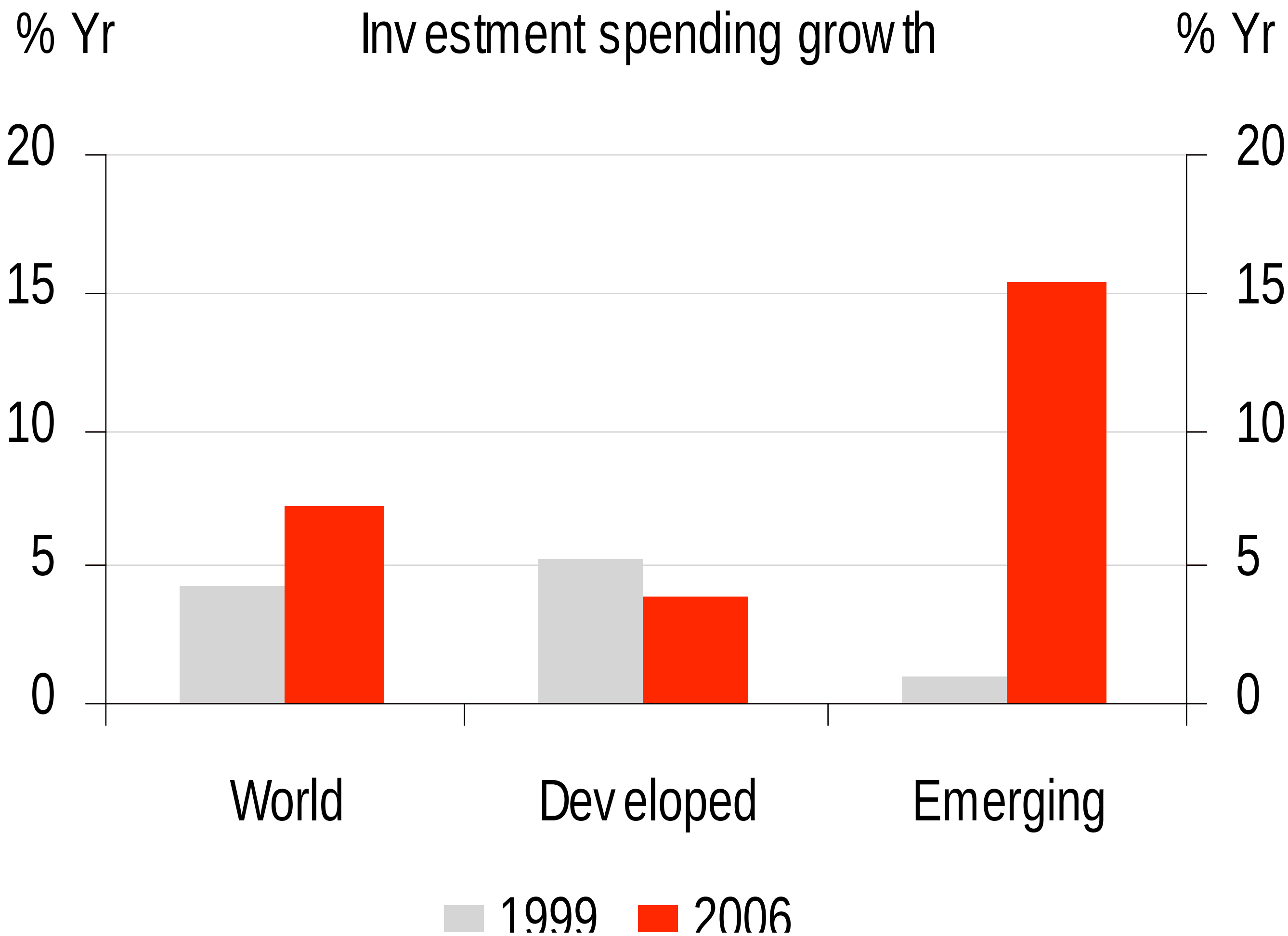
7. Boom time for emerging market investment



Note: The growth rates have been calculated from investment data based upon nominal 2003 USD values
Source: World Bank Development Indicators and HSBC

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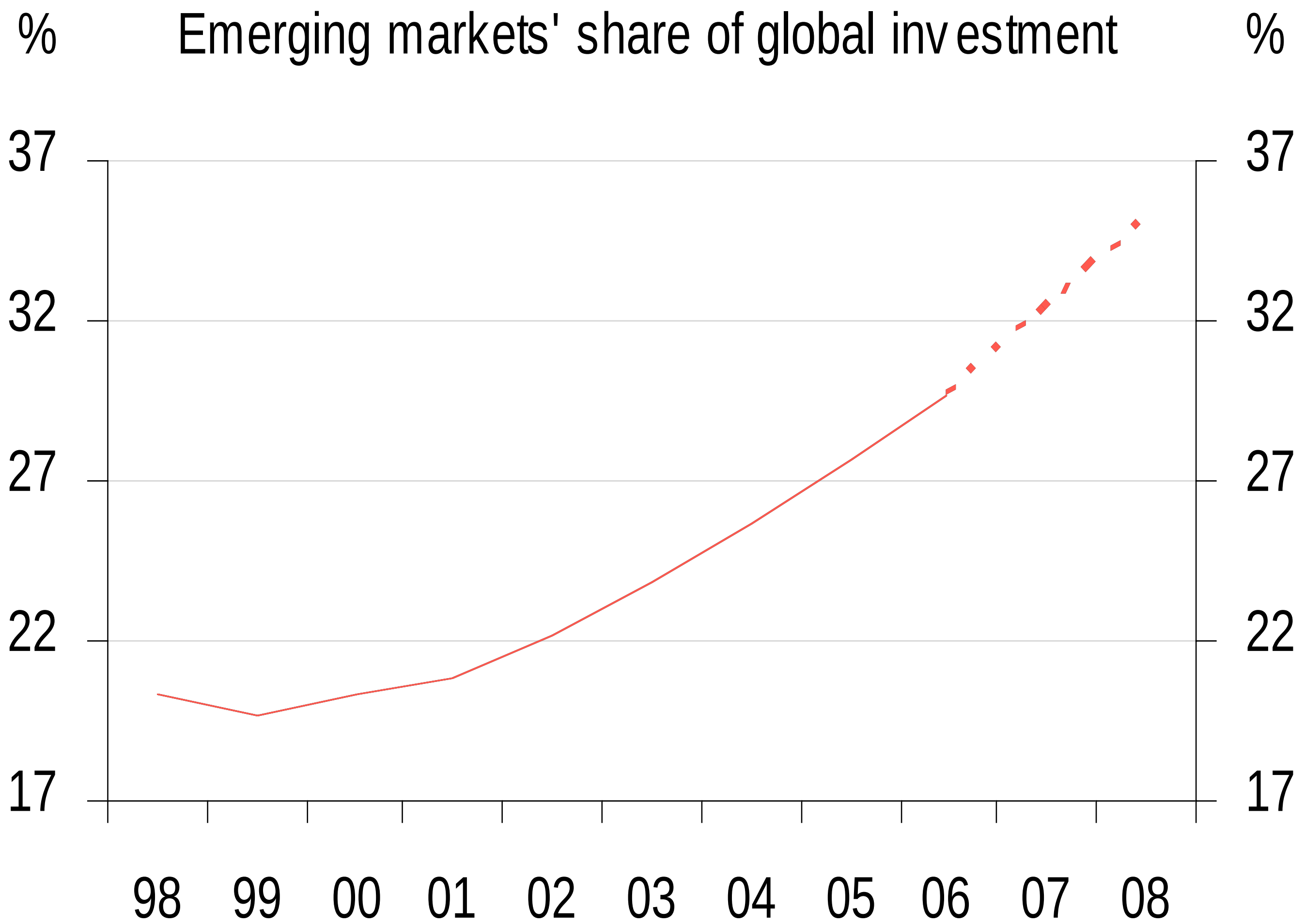
8. Emerging nations experience a huge increase in their share of global capital spending



Note: The shares were calculated from investment data based upon nominal 2003 USD values
Source: World Bank World Development Indicators and HSBC

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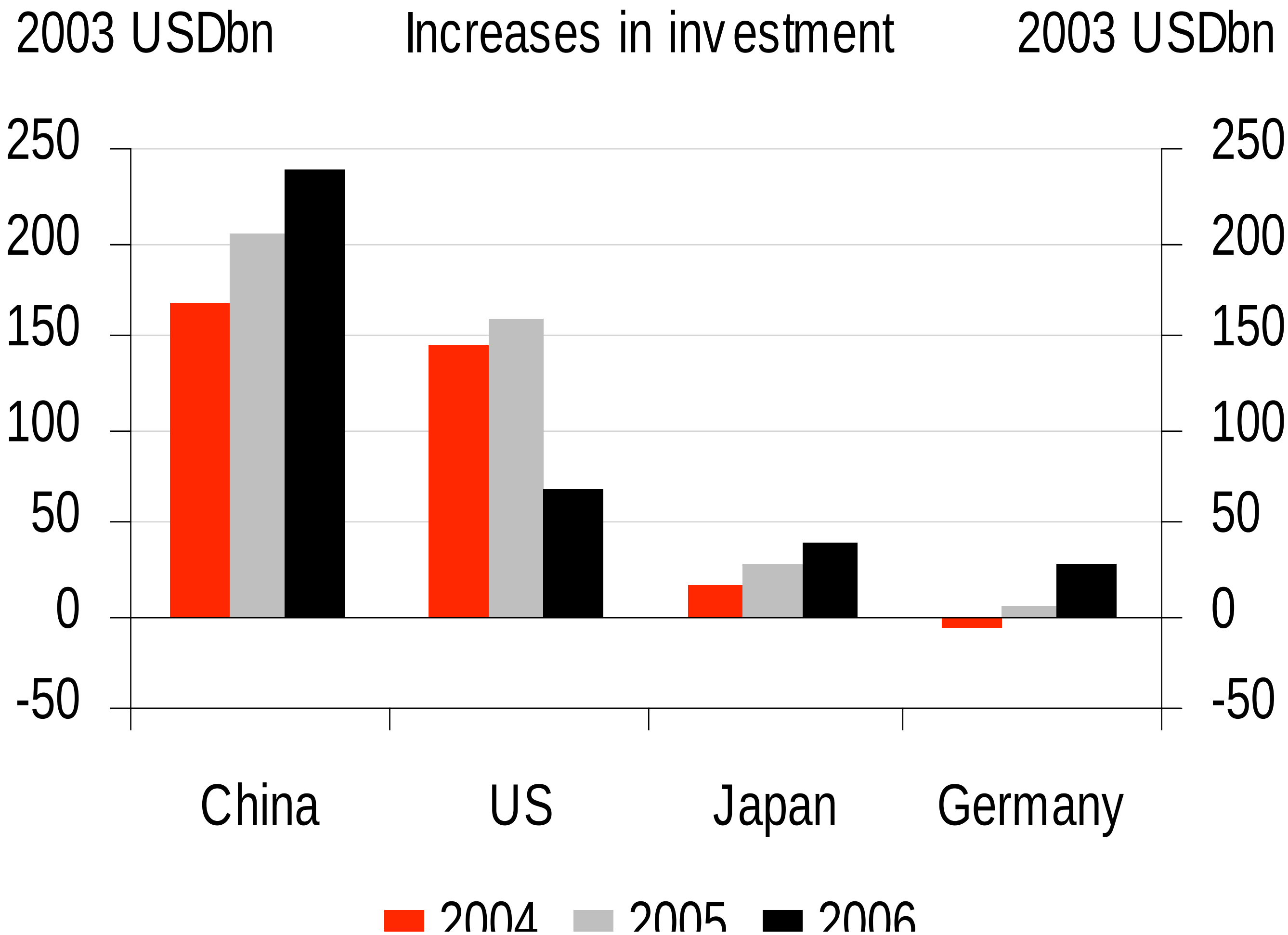
9. Absolute increases in investment (2003 constant USDbn)



Note: The data above has been calculated using weights derived from nominal dollar investment values in 2003 together with individual country growth rates
Source: World bank Development Indicators and HSBC

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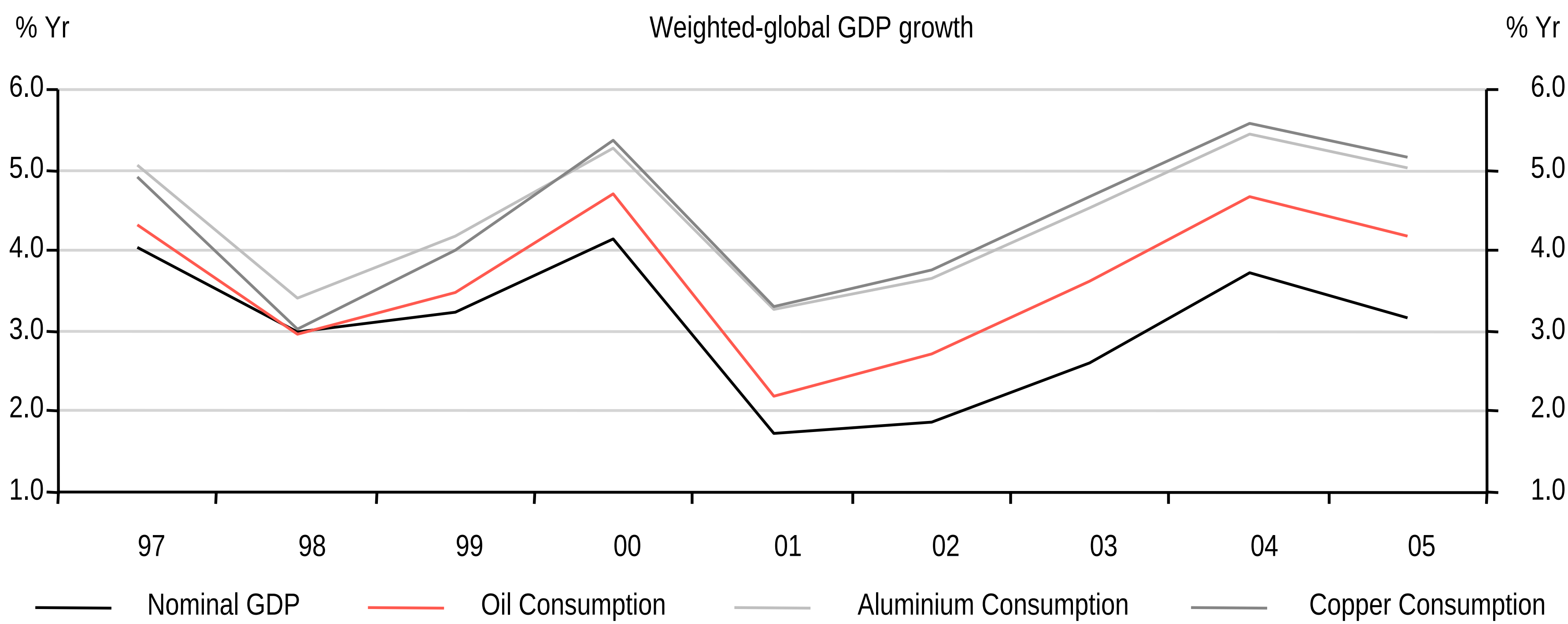
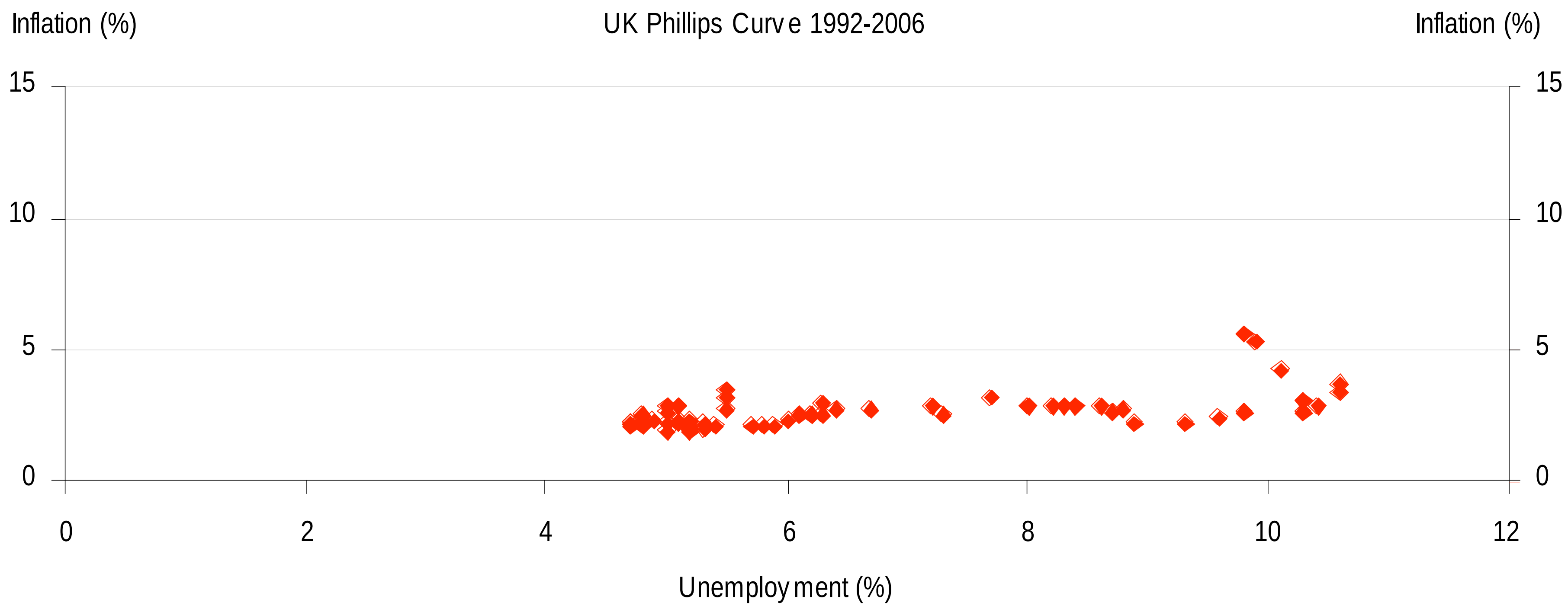
10. Global growth through varying prisms



Source: HSBC

11. The UK trade-off between unemployment and inflation



Source: Thomson Financial Datastream

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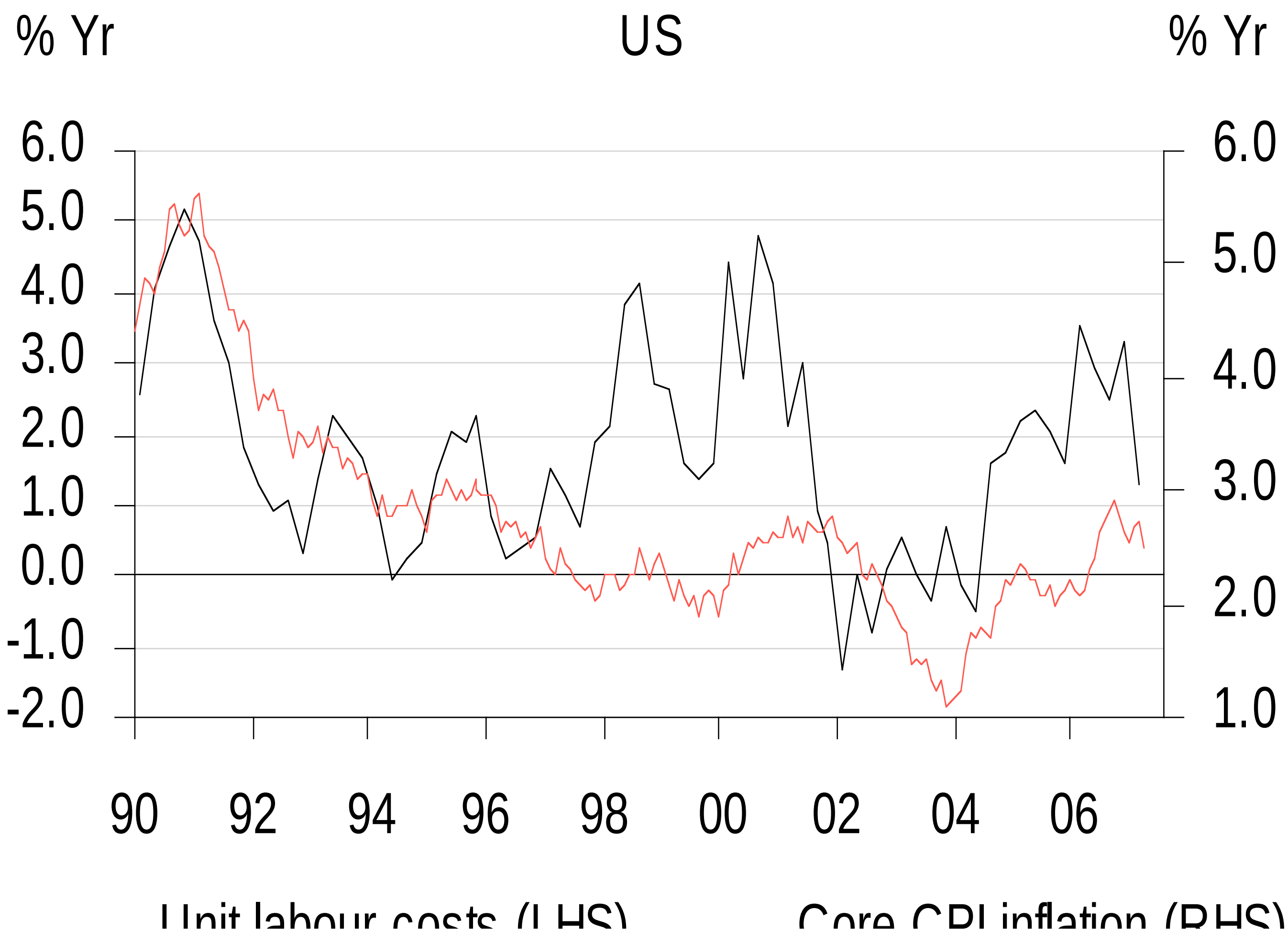
12. Rapid acceleration in labour costs threatens profits more than inflation



Source: Thomson Financial Datastream

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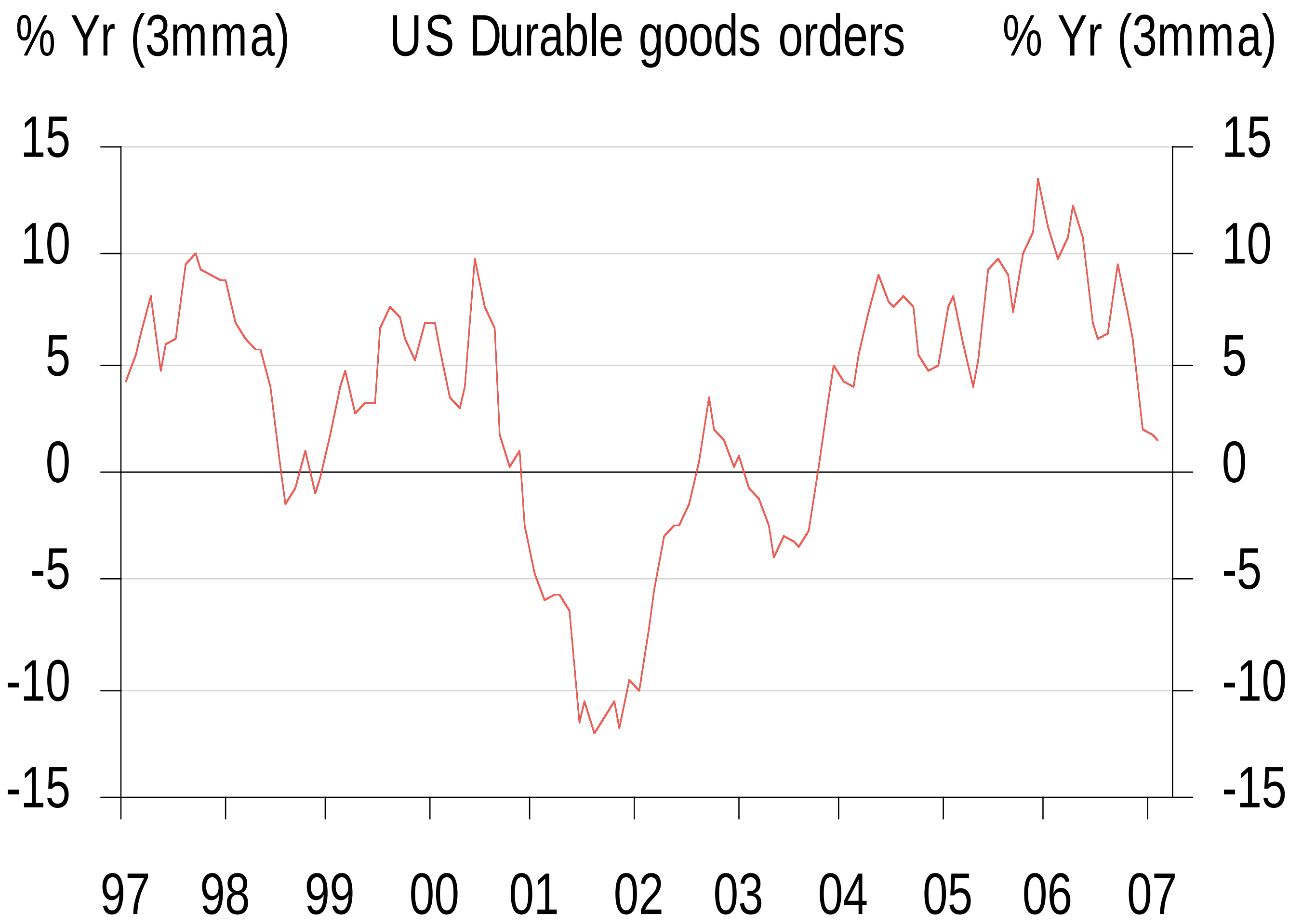
13. US investment still weakening



Source: Thomson Financial Datastream

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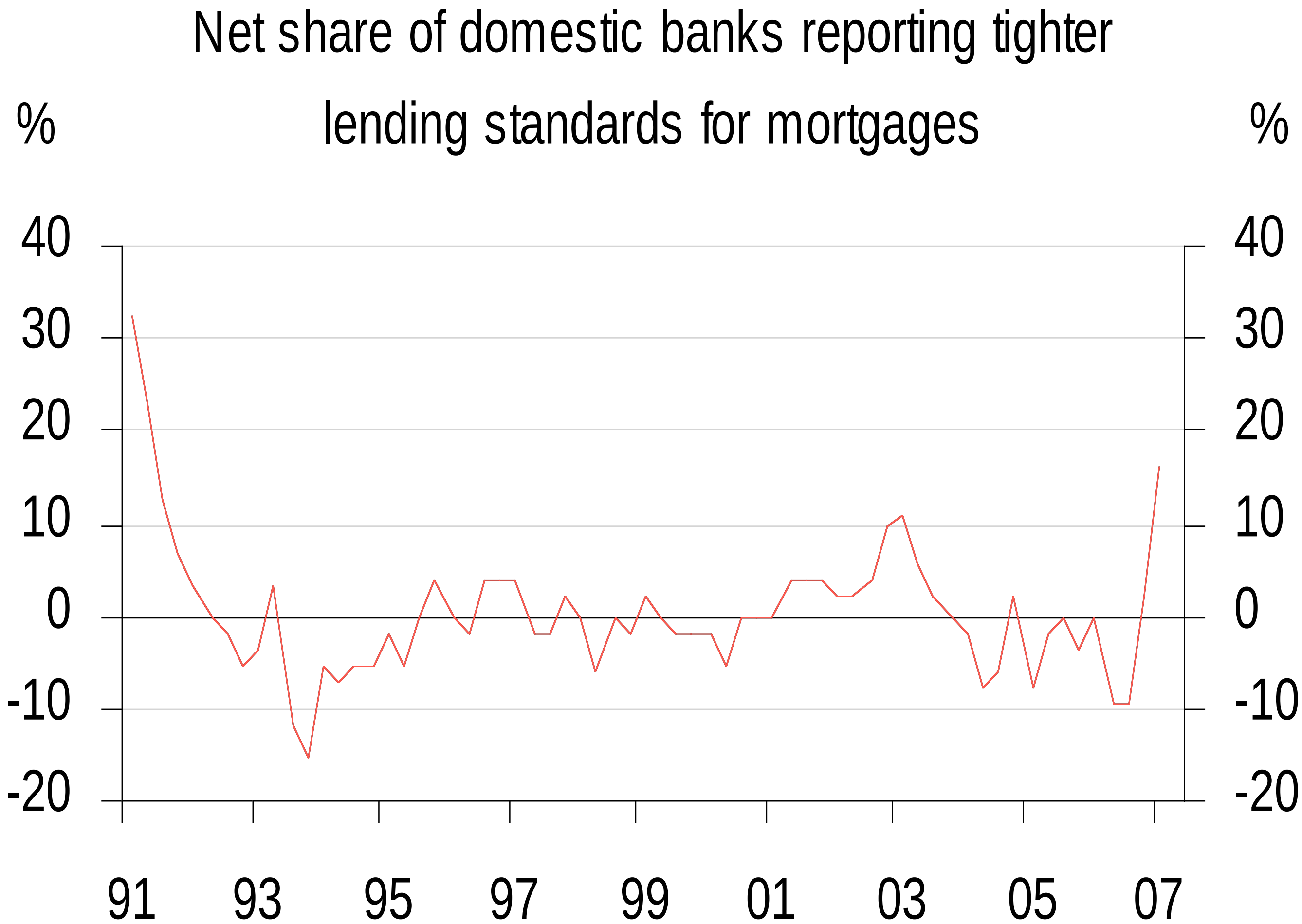
14. Could we be seeing the first signs of a household credit crunch in the US?



Source: Federal Reserve Senior Loan Officer Opinion Survey on Bank Lending Practices

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15. Domestic versus global imperatives

- The US is the anchor to the world's monetary system…
- …but US domestic requirements may differ from global requirements
- The "big three" linked to the US (still) are China, Russia and Middle East

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16. Examples of imperative inconsistencies

- Late-1960s pressure on the Bretton Woods exchange rate system, culminating in collapse in early-1970s

- Early-1990s Bundesbank action to reduce German reunification inflation pressures, throwing other ERM countries into recession

- Early-1990s US credit crunch led to emerging markets boom, even though US economy was weak

17. Nine implications

- As US rates fall, dollar-linked currencies will be dragged down against the “floaters” (the euro, sterling, A$ and others)
- As a result, emerging markets will experience “easier” monetary conditions
- Commodity prices will rise and global capital spending will remain strong
- “Floaters” who export capital goods or commodities will perform well
- Either emerging markets allow their currencies to rise or they build up more foreign exchange reserves
- If the latter, global monetary conditions end up too loose
- Global imbalances will narrow through inflationary demand in emerging markets
- Emerging markets may export inflationary pressures to other parts of the world
- For Europe and the UK, currency strength will be matched by money supply strength

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HSBC Bank plc
8 Canada Square
London
E14 5HQ
United Kingdom
Telephone: +44 20 7991 888
Fax: +44 20 7992 4880
Website: www.research.hsbc.c
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