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The Sustenance of Lazarus

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Khazanah Megatrends Forum

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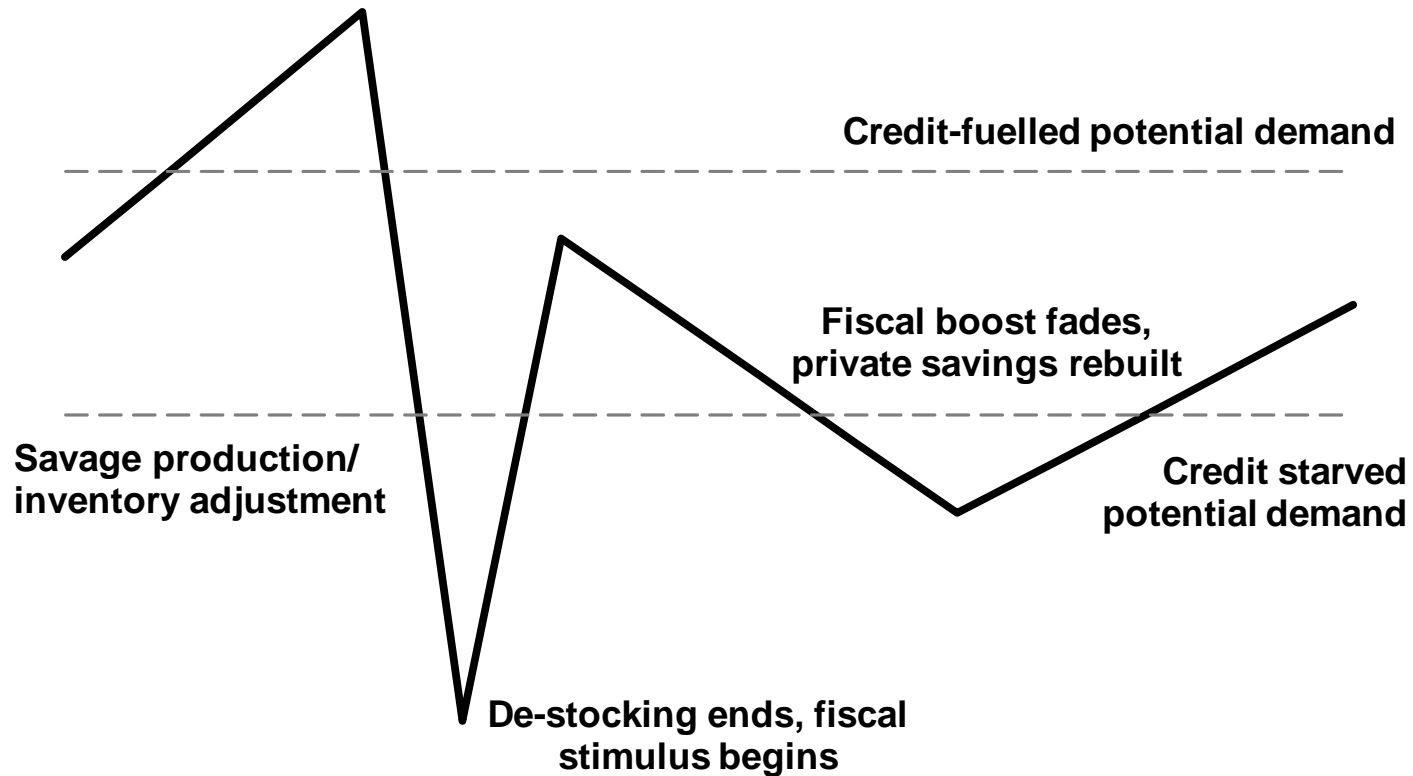
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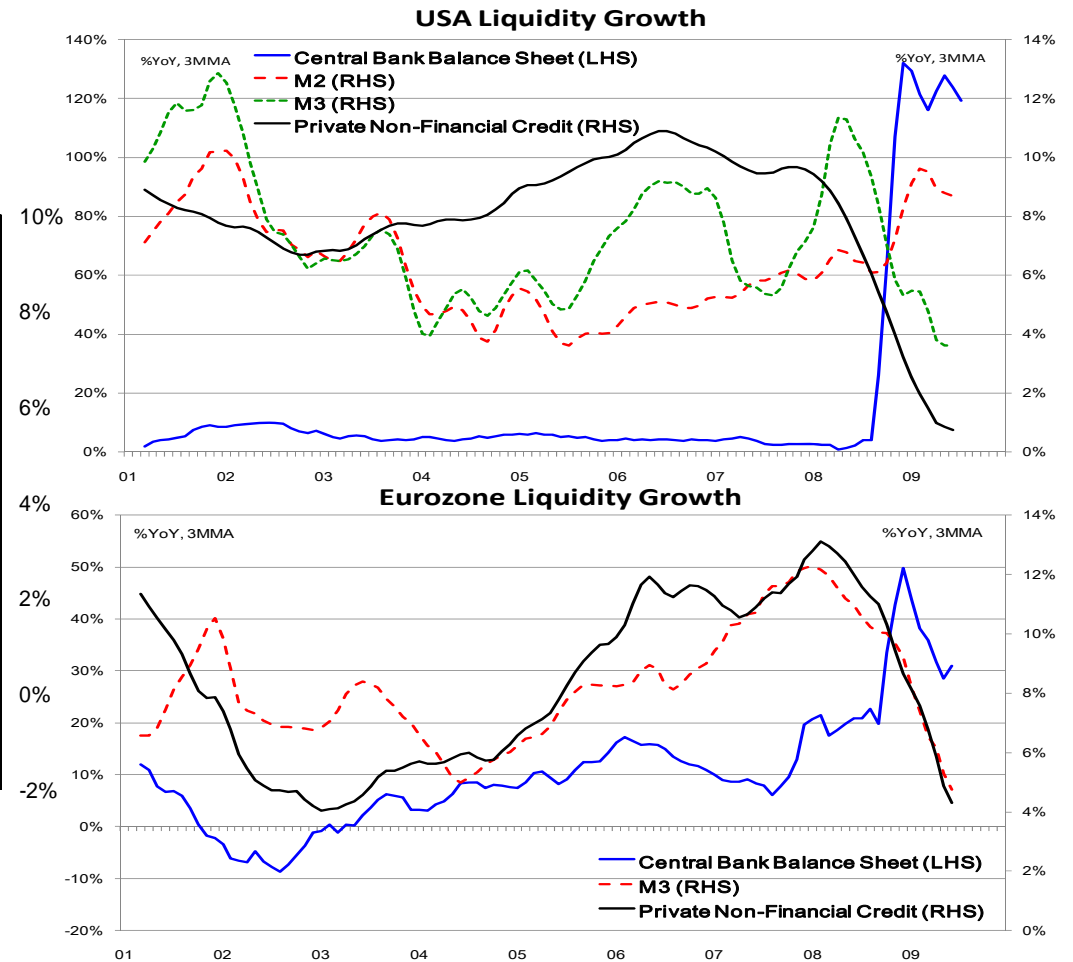
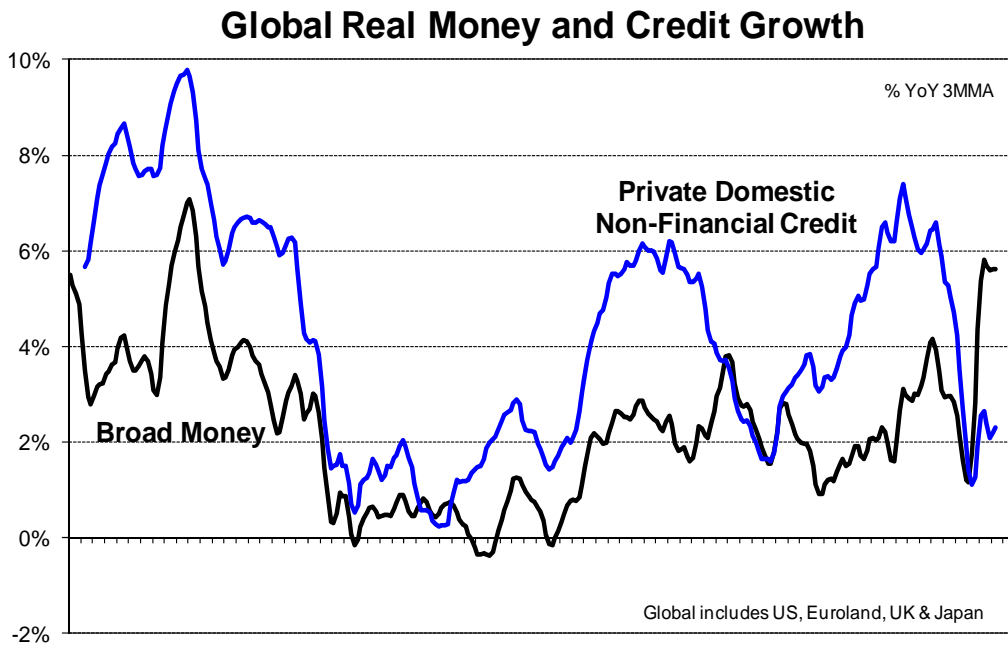
The Square Root “Recovery”



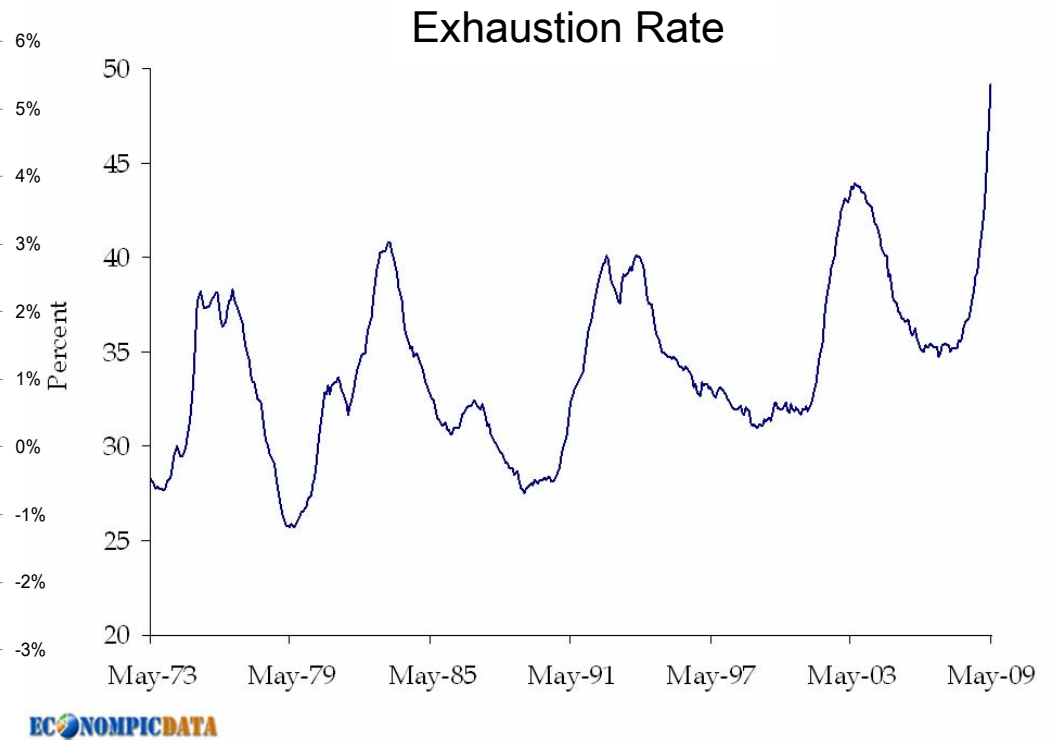
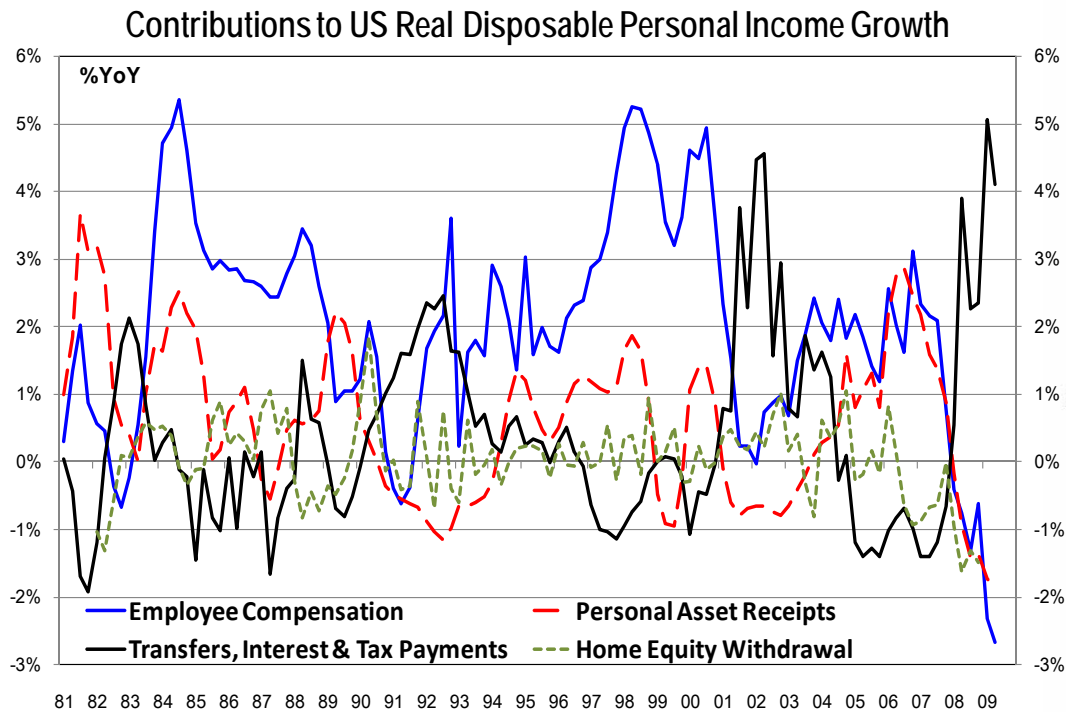
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The global credit Ponzi soufflé is collapsing at a much faster rate than the central bankers can pump in air at the base



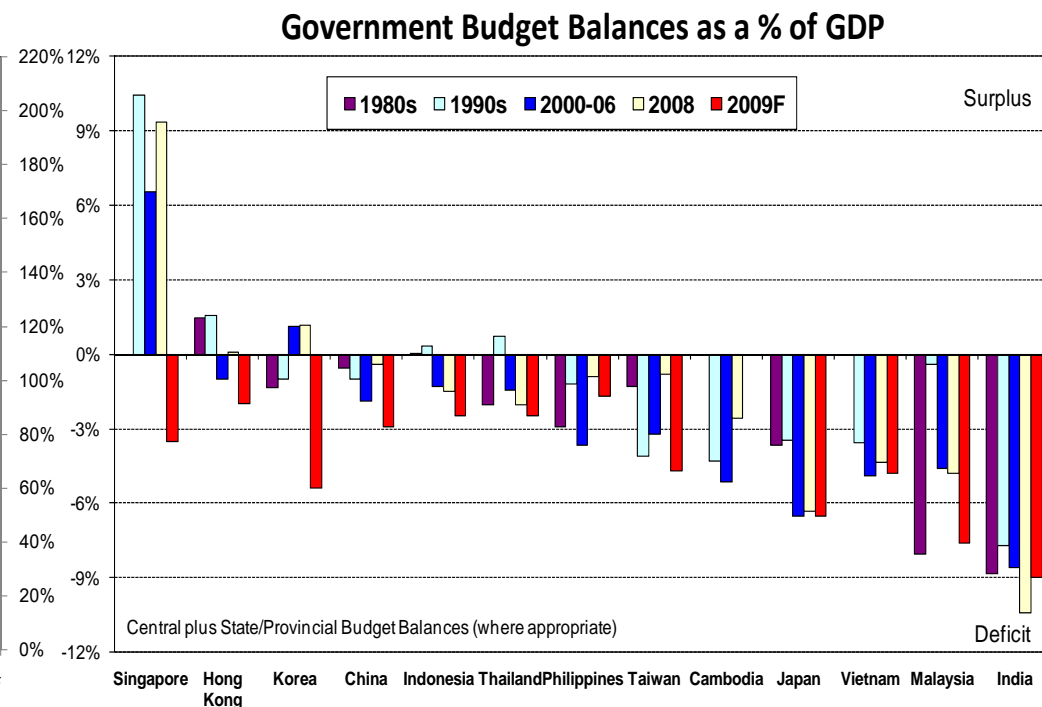
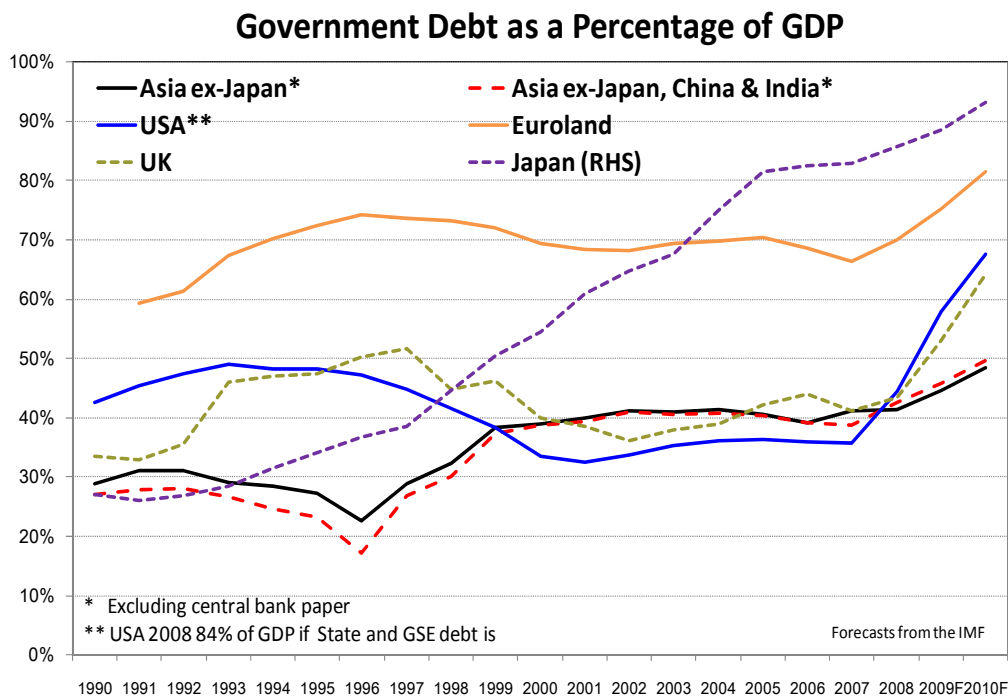
Unless governments have open-ended cheque-books, it is difficult to see why personal savings rates have peaked



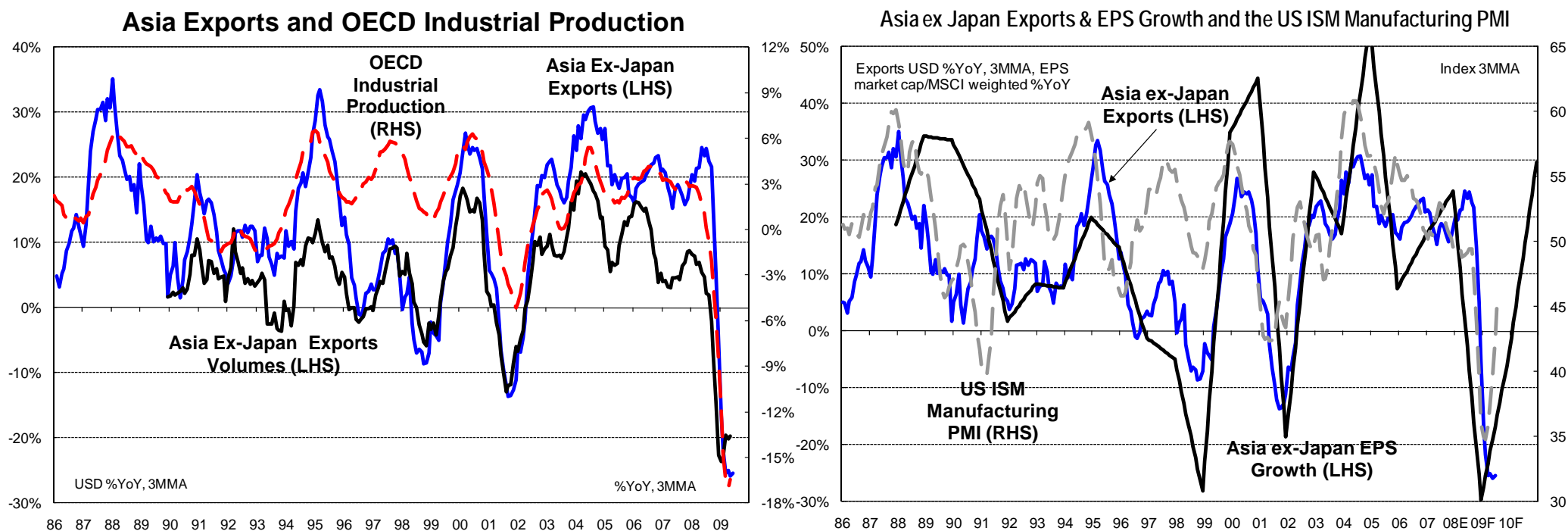
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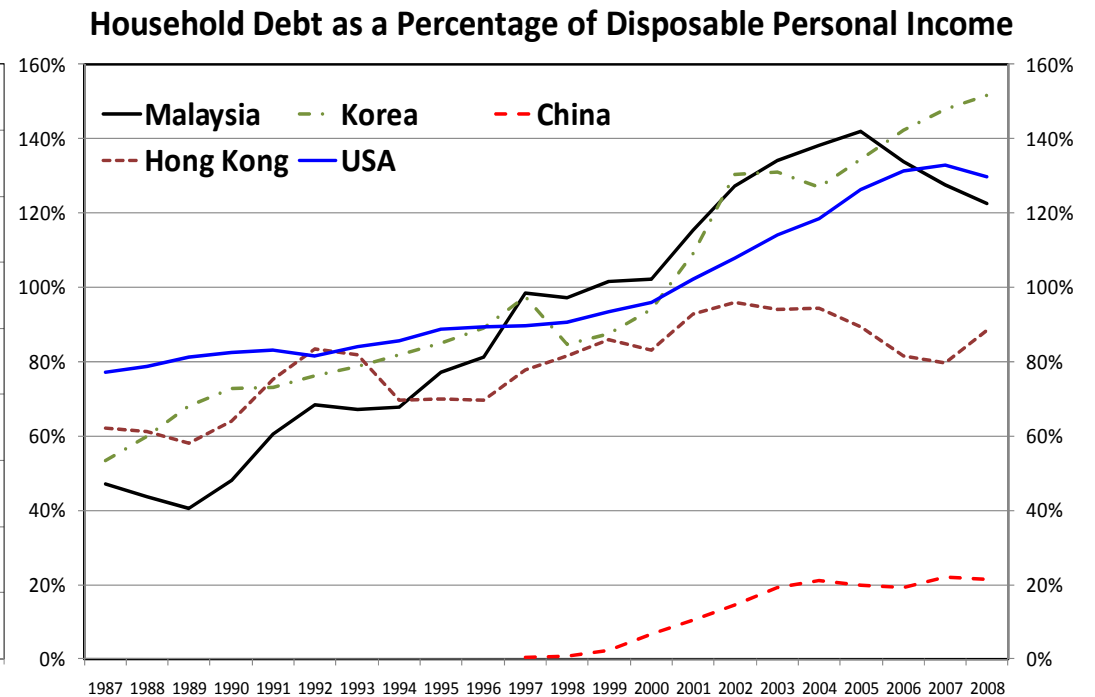
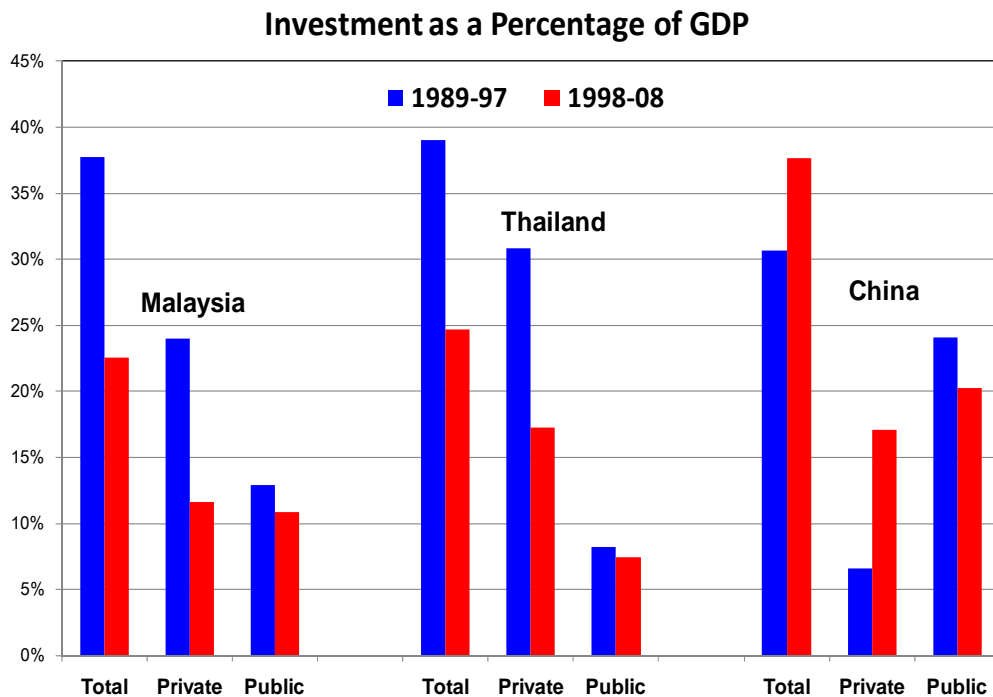
Asia's budgetary and debt positions are generally stronger than in the developed world. But is the capability there to deploy resources effectively?



Where was the decoupling? Asia's micro analysts seem to be pricing in a V-shaped return to normal next year

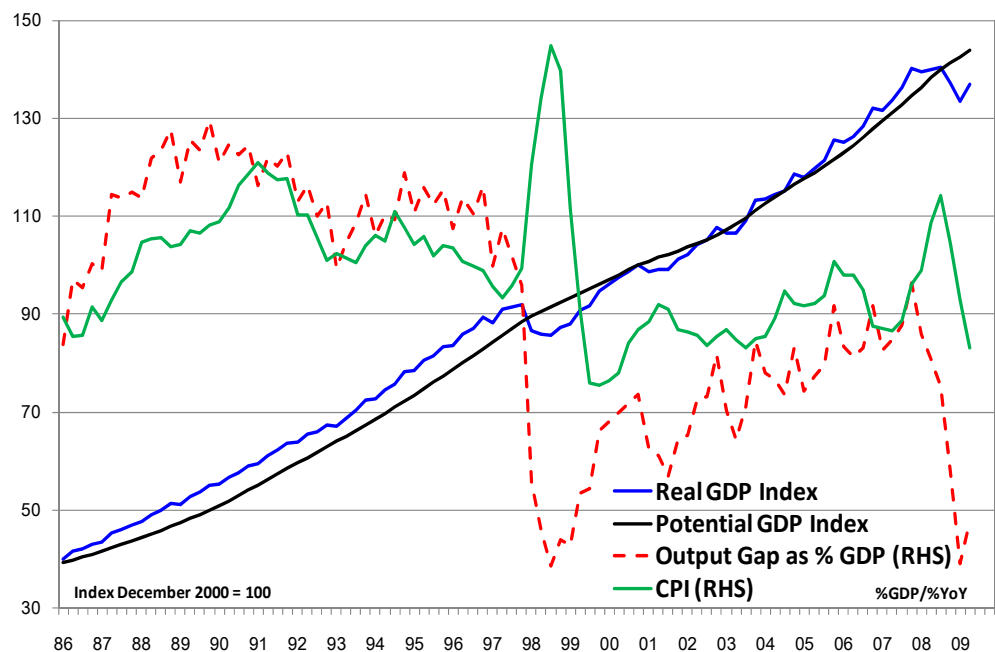


Various local economies have already attempted the domestic demand re-orientation trade.... with rather mixed results. Deregulation not more debt is surely the answer

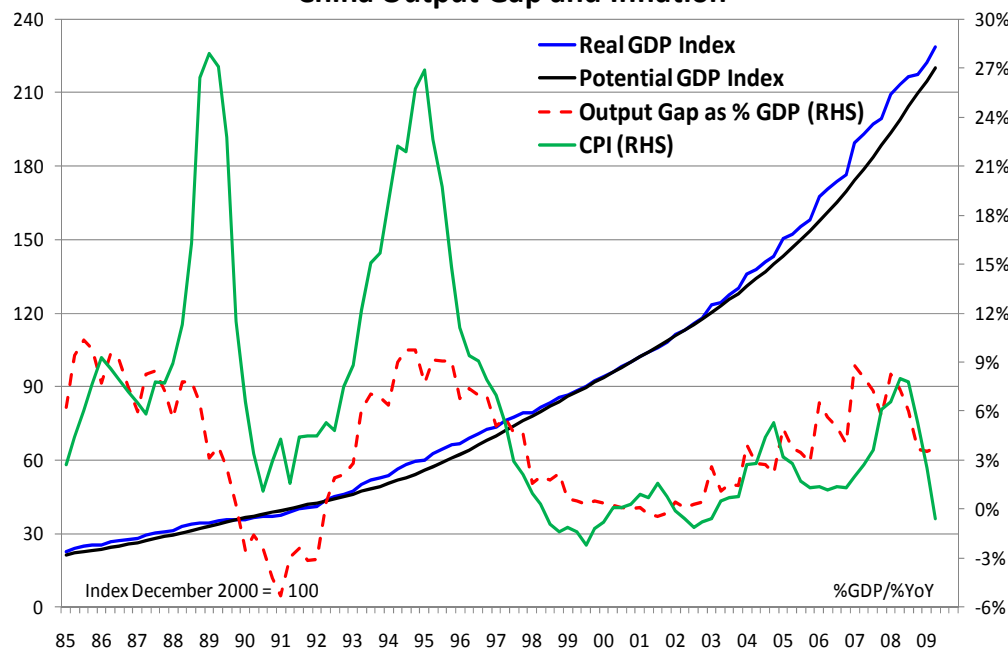


Outside of the two continental giants, the region has plenty of slack

Asia ex-Japan, China & India Output Gap and Inflation



China Output Gap and Inflation

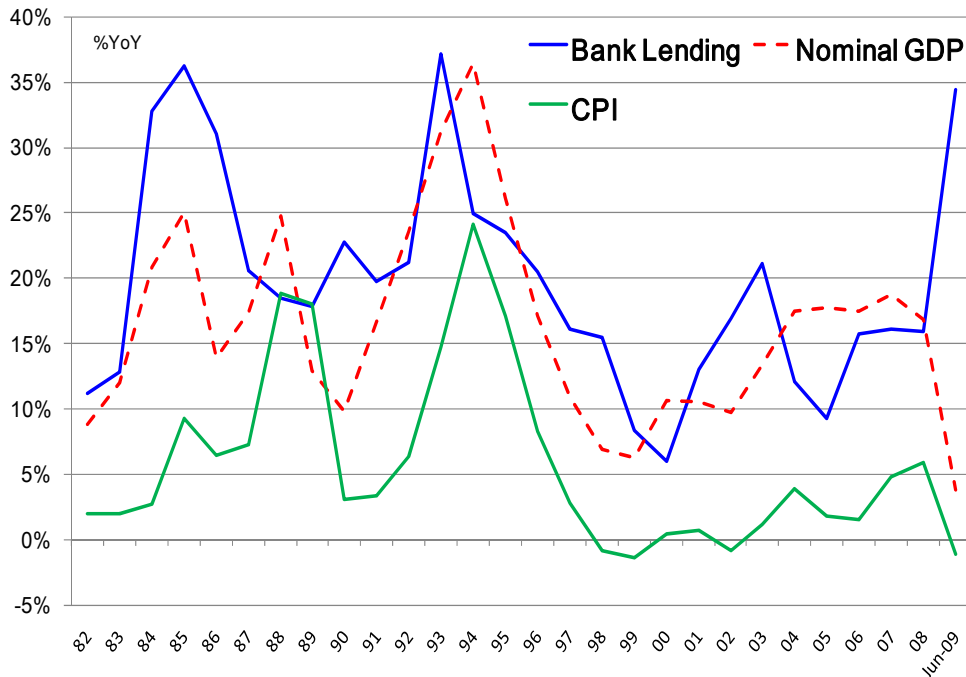


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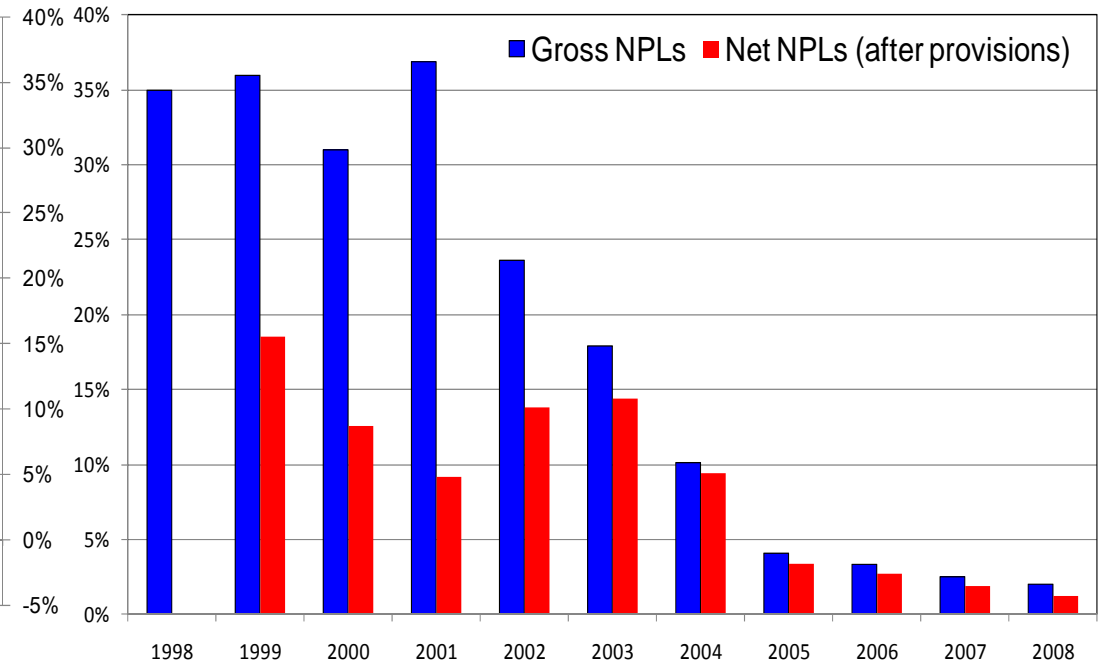
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Inflation will likely be a more immediate problem for China. NPLs will surely follow but these will not provide a binding constraint anytime soon

China: Bank Lending, Nominal GDP and Consumer Prices



China: Non-Performing Loans as a Percentage of Total Loans



DSGAsia's Outlook for the Global Economy

- While Great Depression II has likely been averted, the “Green Shoots” of recovery will quickly wither once transient inventory and fiscal drivers of growth recede
- Debt deflations are, well, deflationary and despite the best efforts of central bankers, money multipliers remain dysfunctional. Inflation will come but not any time soon. The bigger risk for 2010 is another deflationary swoon which is when the real currency debasement will begin
- The embrace (or not) of a Japanese-style warehousing approach to bad assets and failed companies will be the difference between an extremely nasty few years and a decade or more of stagnation
- We suspect (hope?) that America and the UK will largely avoid taking this path. Continental Europe is another matter and therefore the overvalued euro is likely to be the weakest of the majors. Nothing is imminent but the single currency's viability will be increasingly questioned
- Stories of Asian decoupling were always up there with the Tooth Fairy and Santa Claus. The region's asset markets still cannot decouple from major swings in risk appetites
- Nevertheless, so long as the global economy is not in freefall, the region's superior fundamentals *can* support some second round decoupling and relative outperformance in both growth and asset prices. The ride will not be for the faint-hearted though
- What are the superior fundamentals? Banking systems are largely liquid and solvent, balance of payments are generally strong, and the scope for fiscal expansion remains material. Institutional capability to deploy effectively will be the crucial factor

