

# Macroeconomic Challenges

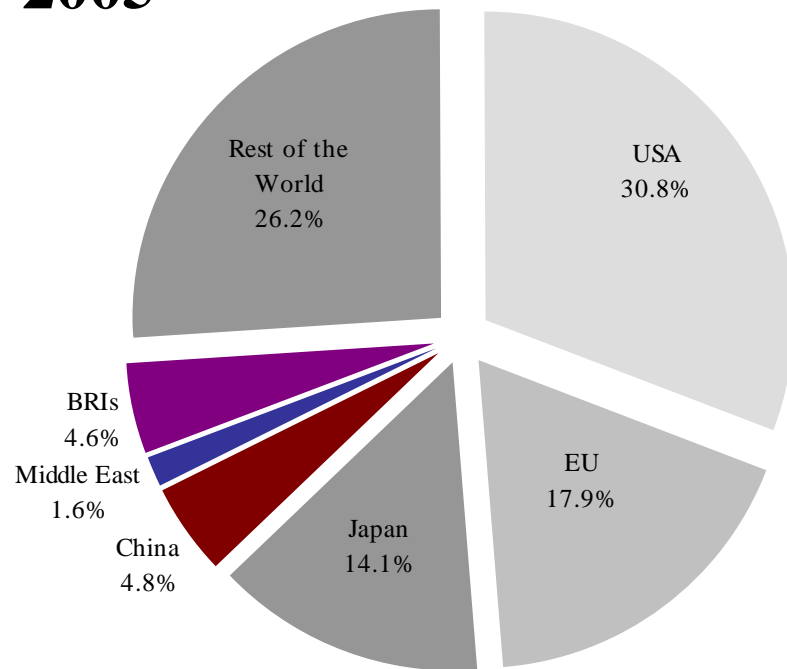
23<sup>rd</sup> ABA General Meeting and Seminar  
On 3<sup>rd</sup> October 2006 in Taipei, Taiwan

Welch Lin  
Chief Investment Officer, Taishin FHC

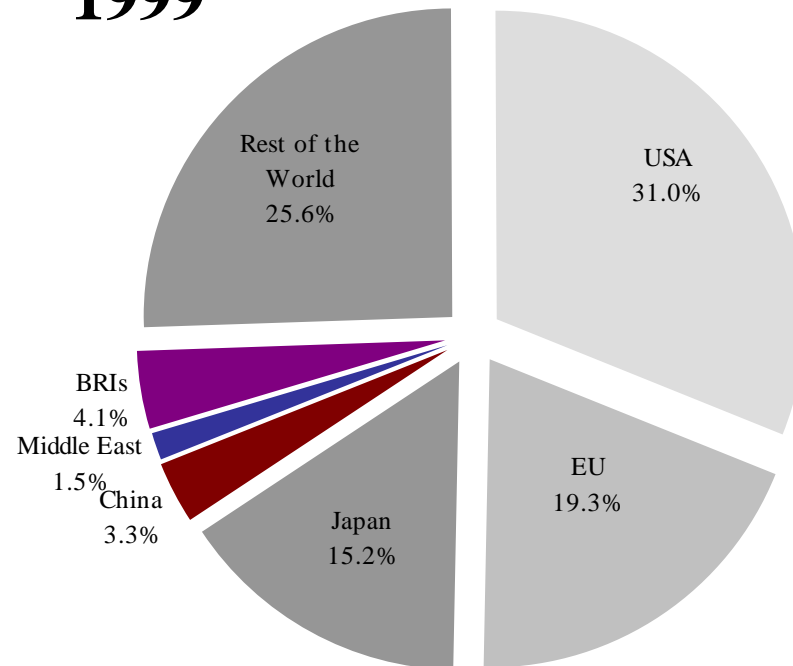
- ❑ The Three Well-known Challenges
  - ❑ US - Overheating Housing Market
  - ❑ Japan - The beginning of Tightening Policy
  - ❑ China - Risks of Sustainability and Economic Imbalance
  
- ❑ The Under-discussed Opportunity: Oil Money
  - ❑ High Oil Price
  - ❑ The 911 Side-Effect

# Share of Global Economy

**2005**

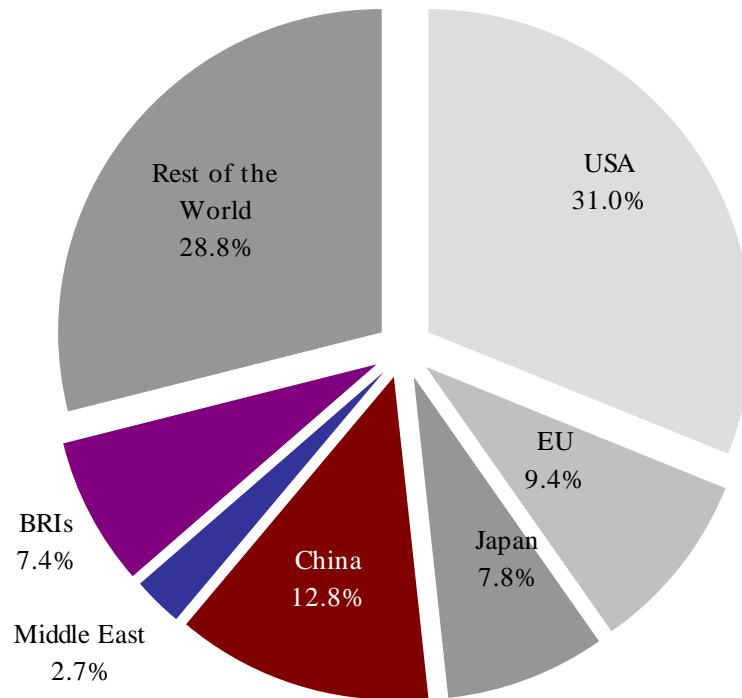


**1999**

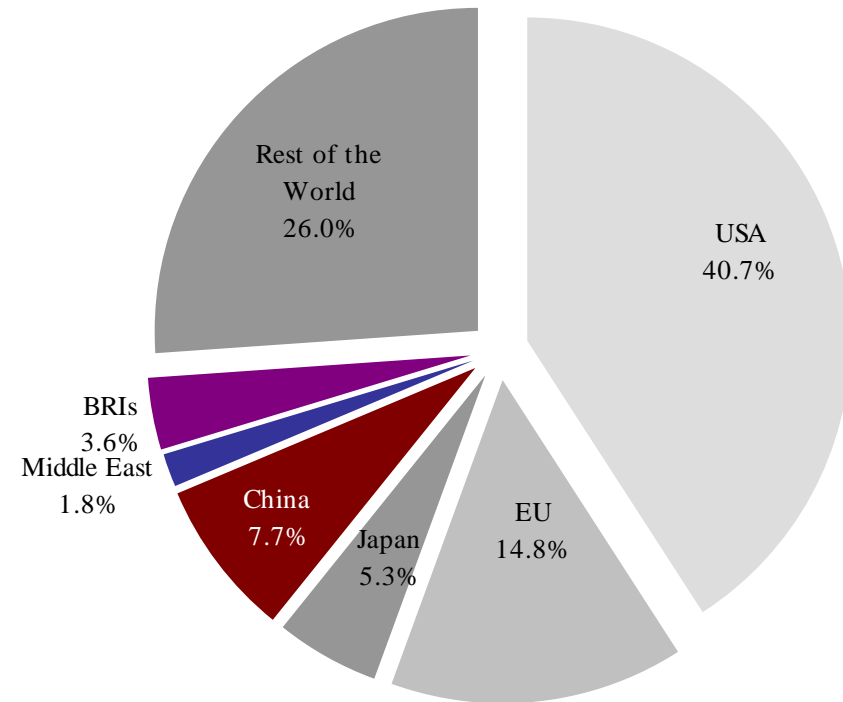


# Share of Global Economic Contribution

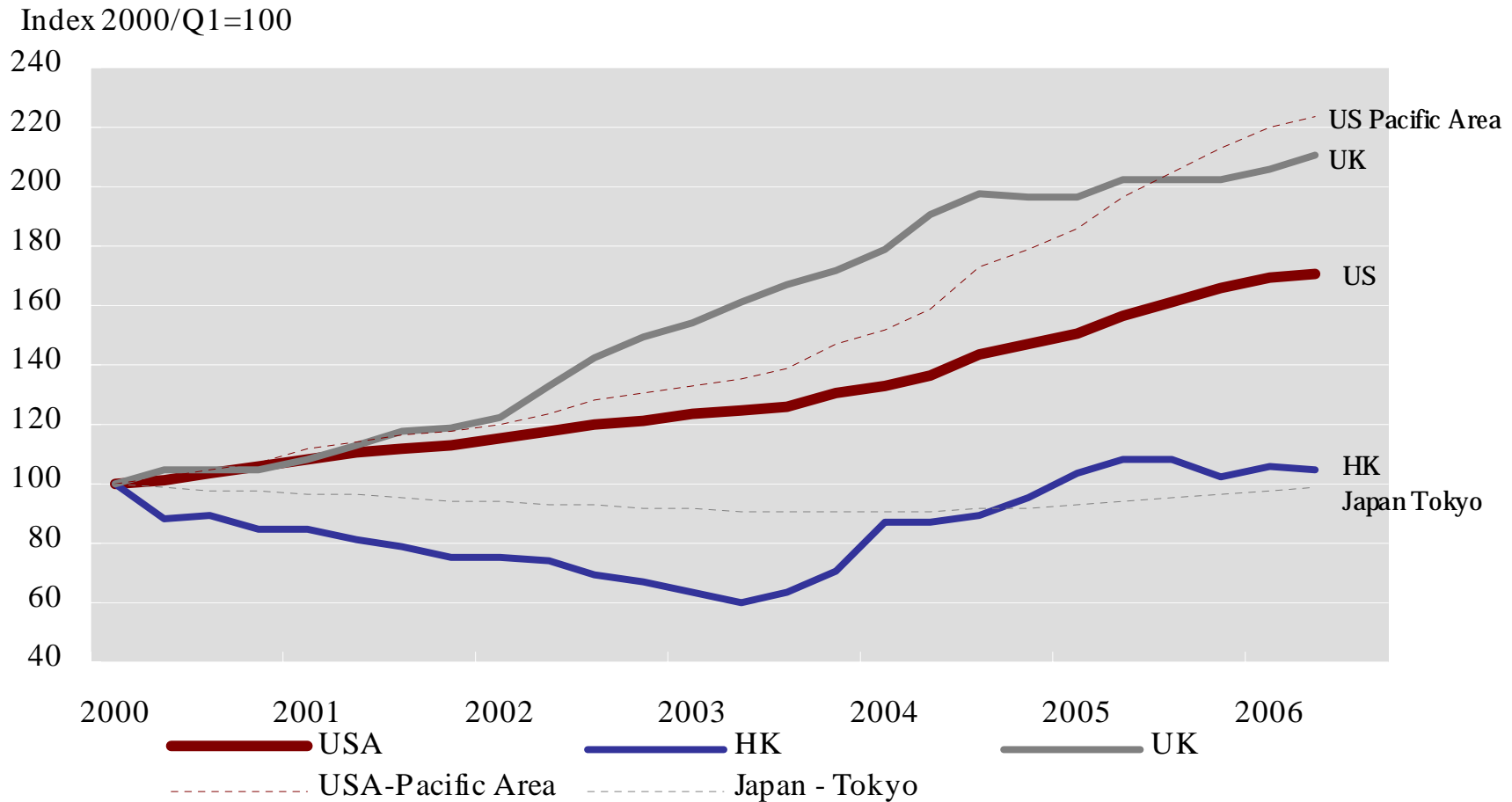
## 2005-2000



## 2000-1995

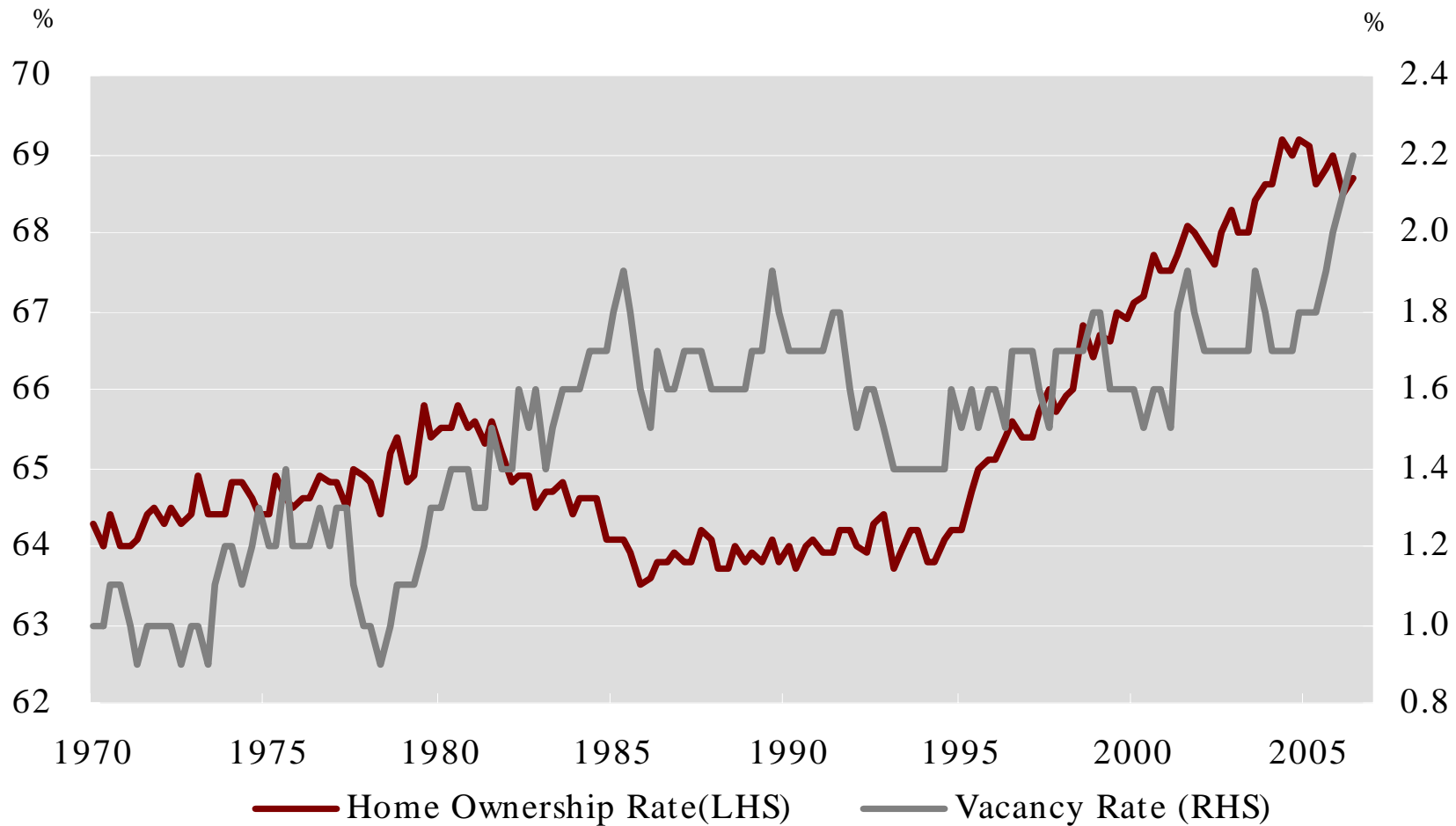


# Red-hot US Housing Prices; Sustainable?



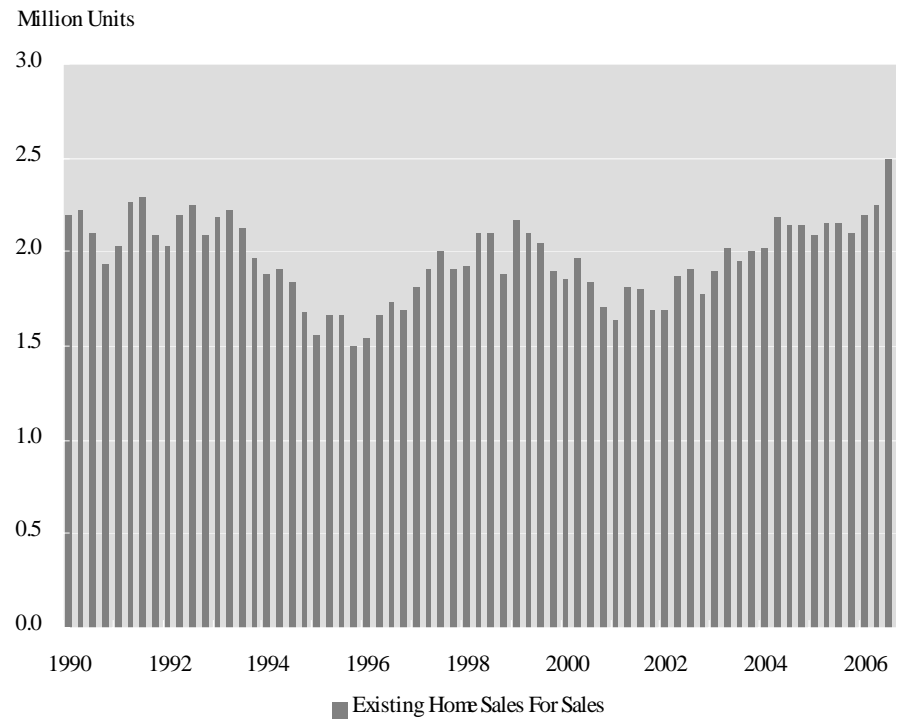
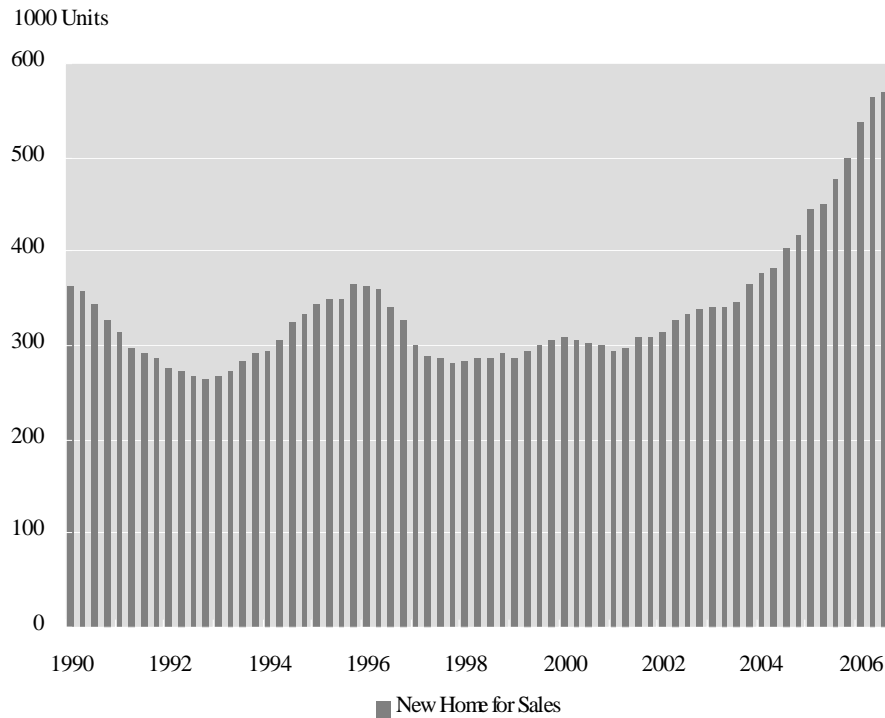
Source: NAHB, Bloomberg

# All Time High Ownership & Vacancy Rates



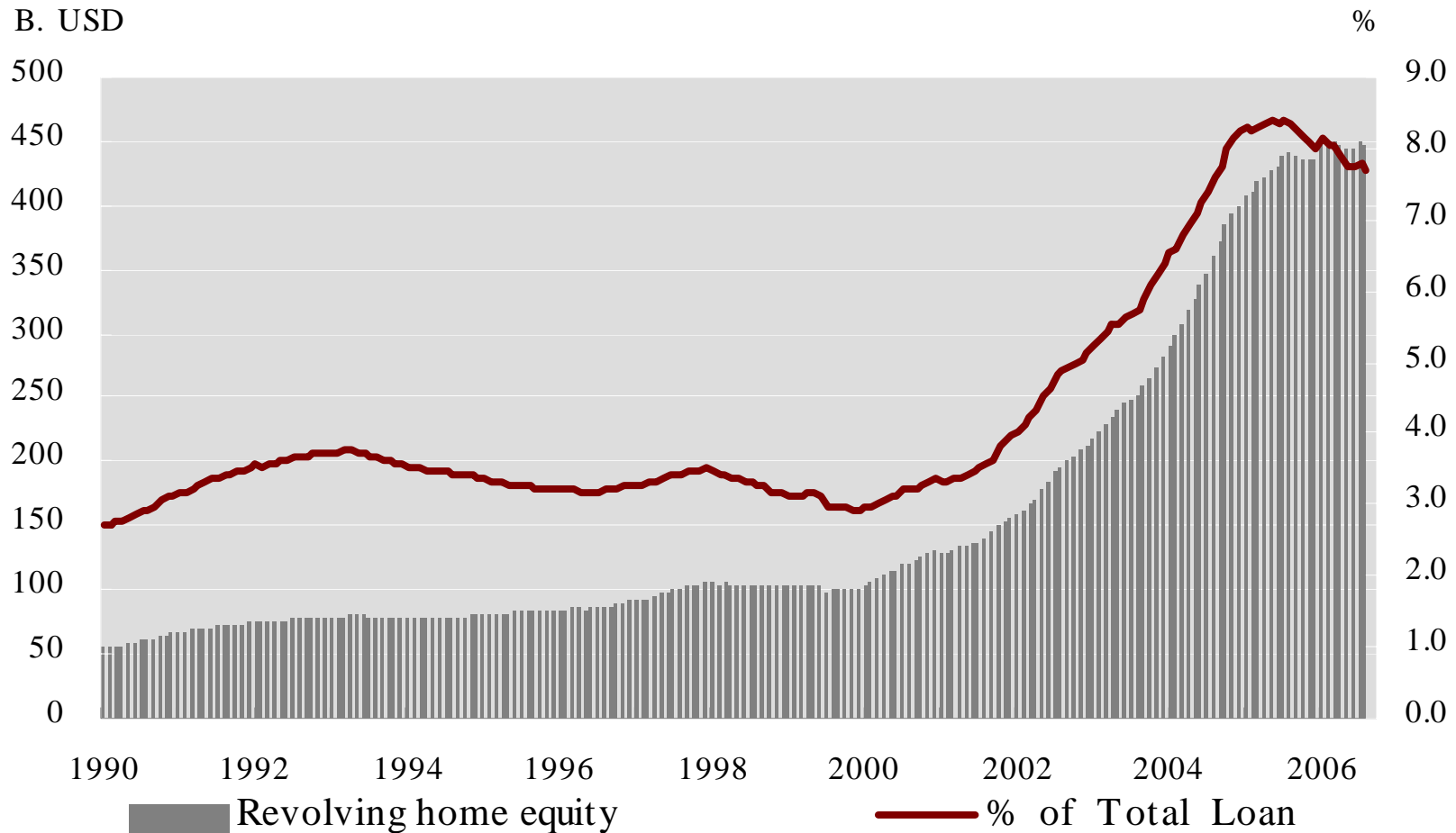
Source: DOC

# All Time High Inventory: both new & existing homes



Source:DOC, NAHB

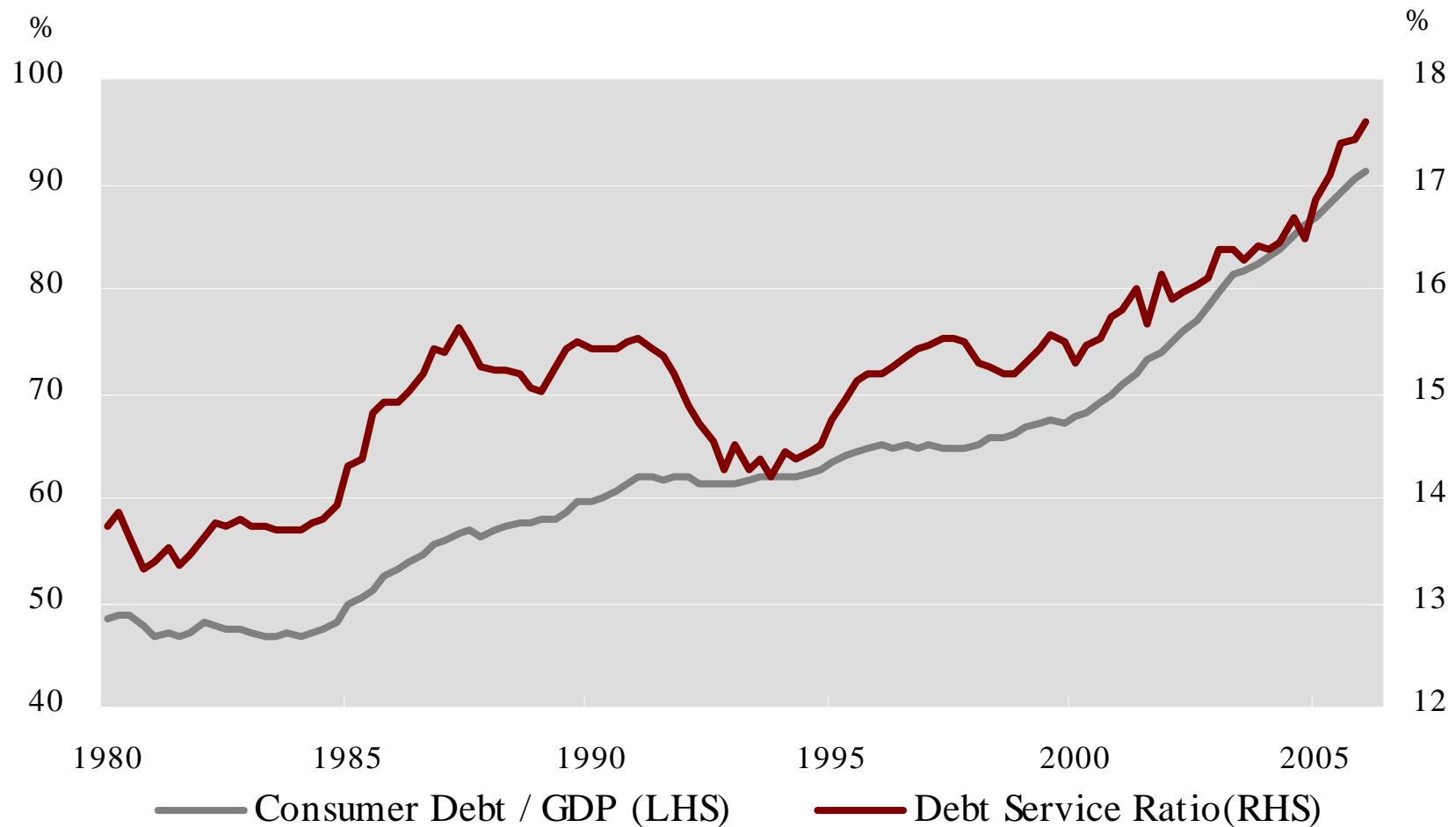
# All Time High Home Equity Loans



Source: Federal Reserve

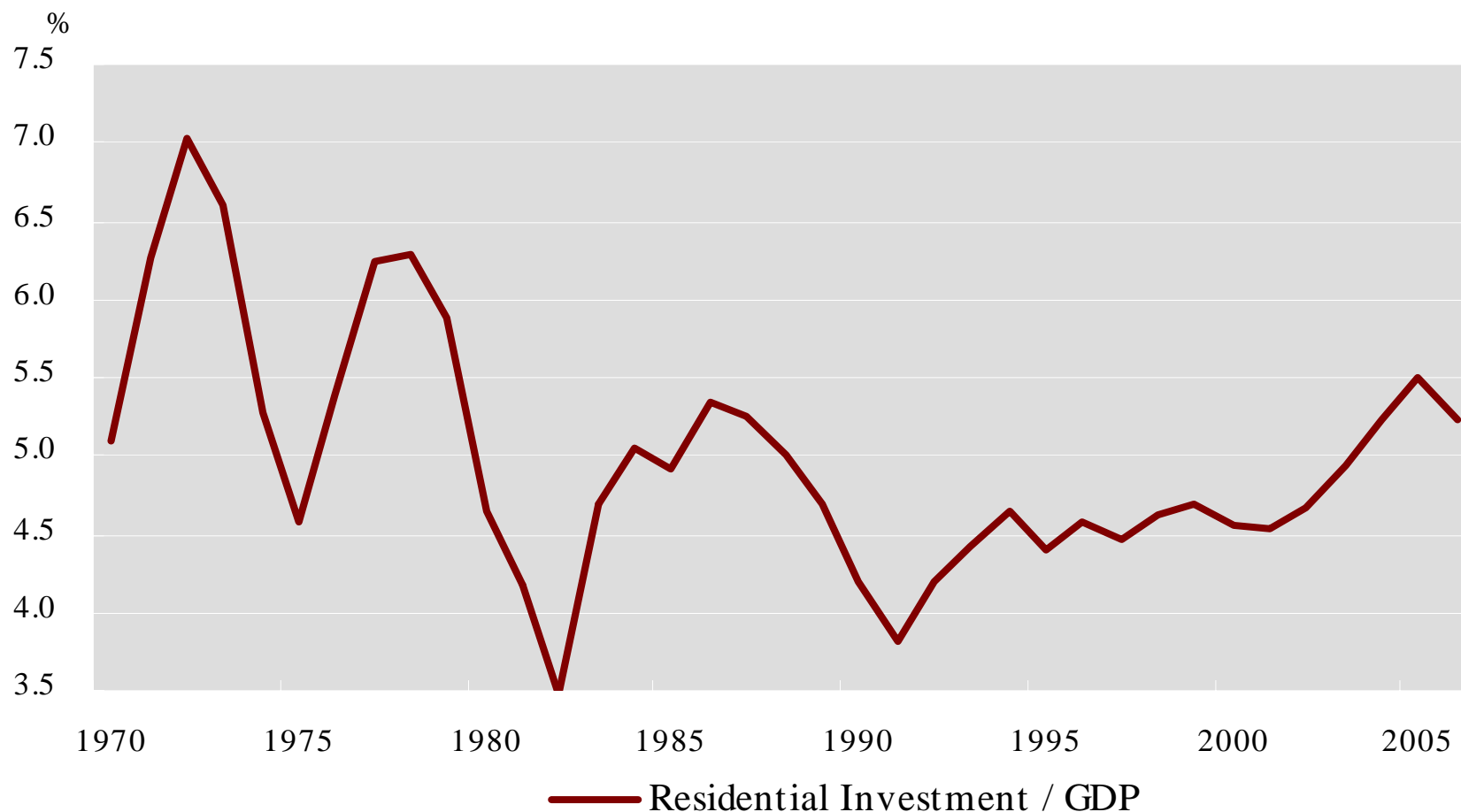


# All Time High Consumer Debt Level & Debt Service Ratio



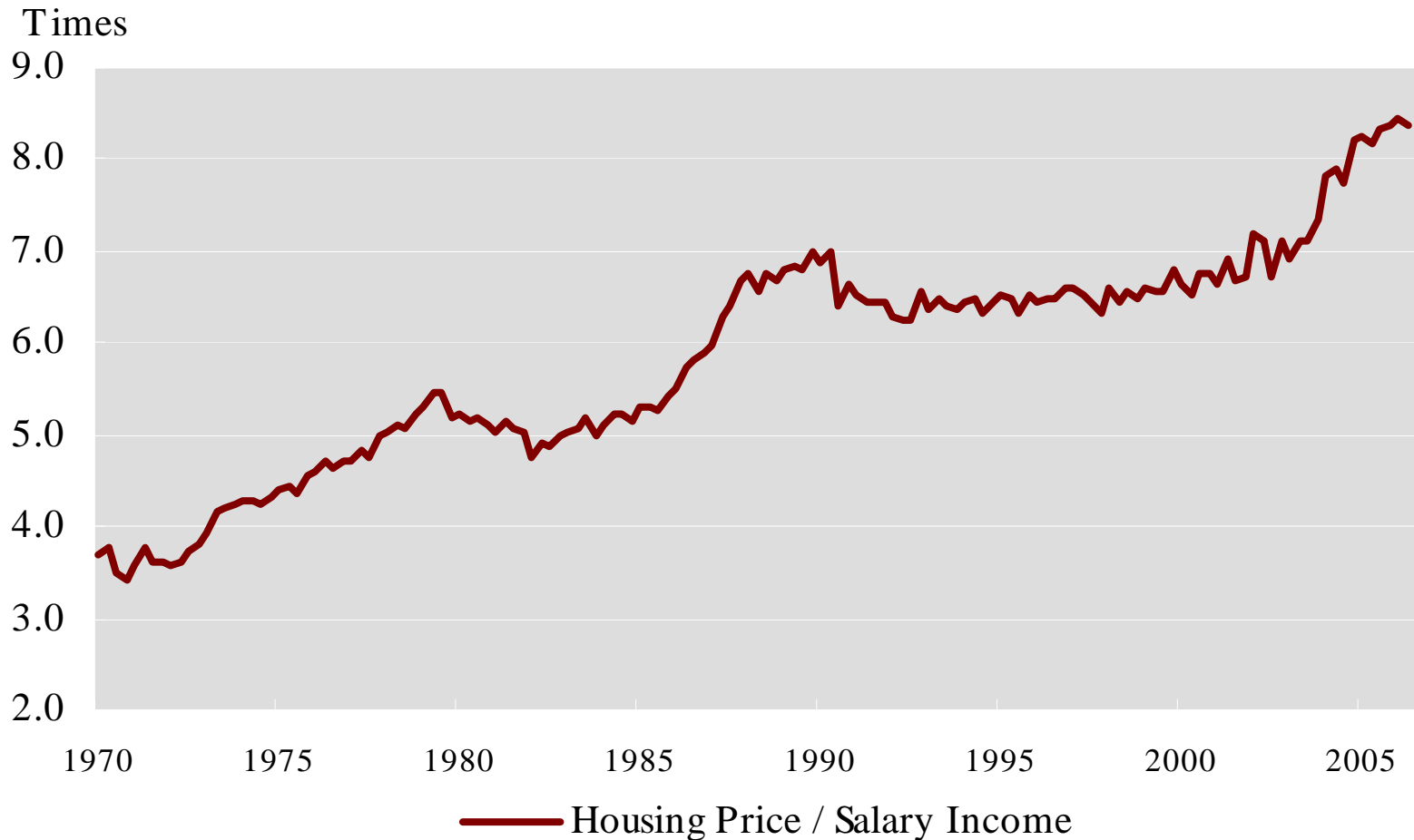
Source: Federal Reserve, BEA

# % of Residential Investment at 20-year High



Source: BEA

# All Time High Housing Price-to-Income Ratio Means All Time Low Affordability



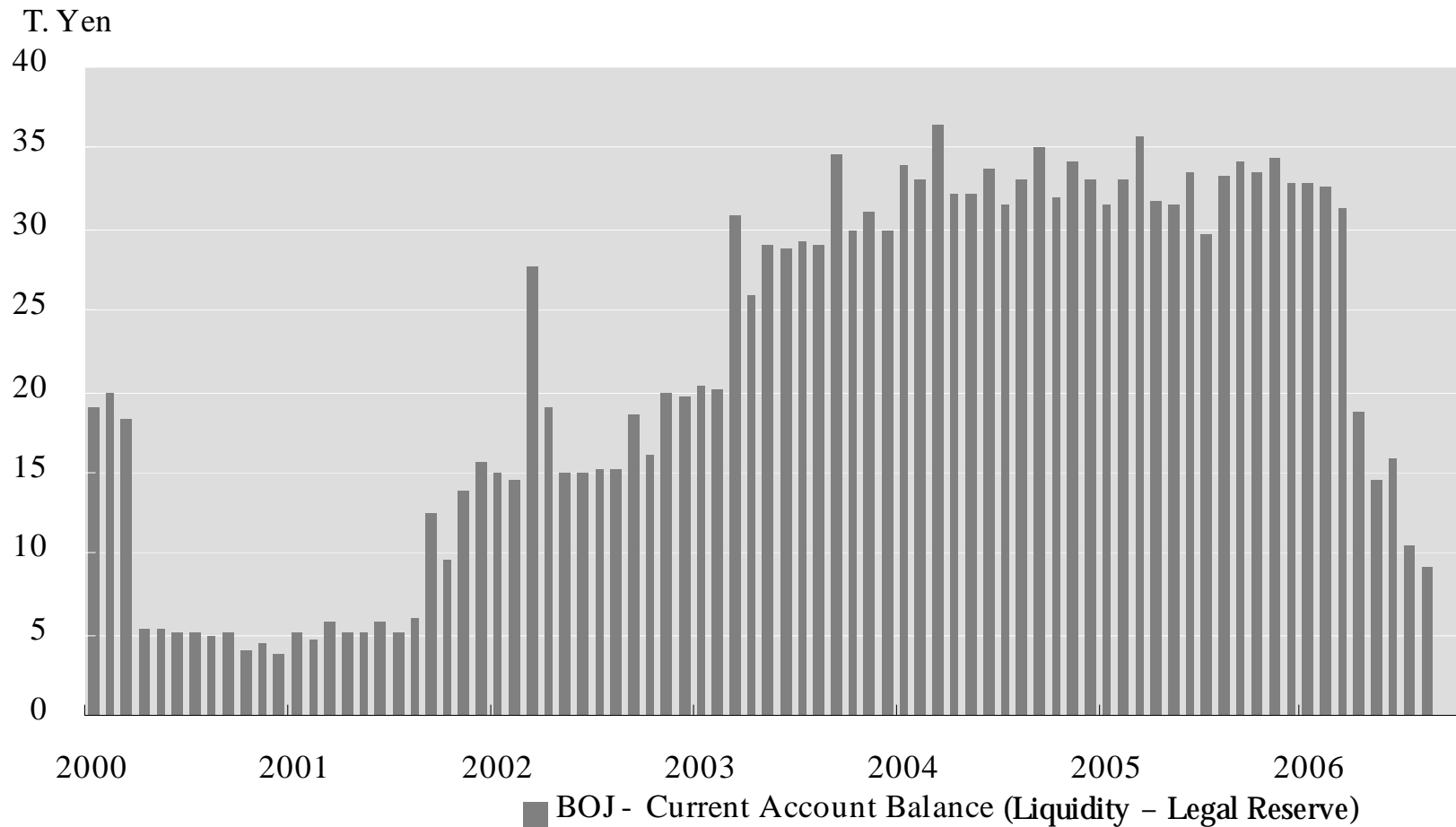
Source: DOC, BEA



## □ Possible Impact from US Residential Investment Slowing to Its Long-term Trend

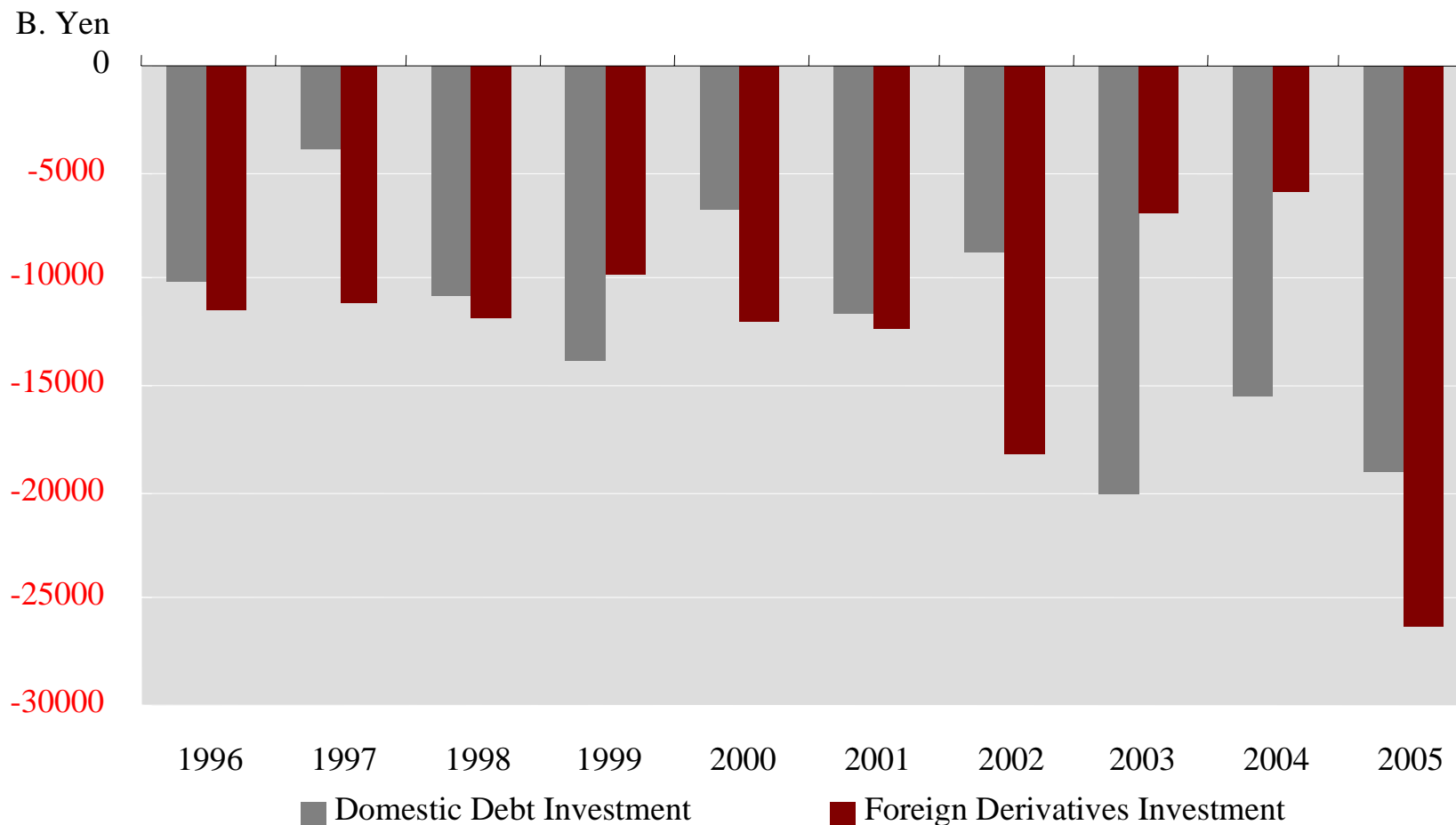
Item	2004-2005 change	Possible Impact
US Residential Investment back to long term Trend	\$48.2	-\$95.0
--with Multiple Effect 2.5x	\$120.5	-\$237.5

# BOJ's Aggressive Policy Resulted in Huge Excess Liquidity since 2002



Source: BOJ

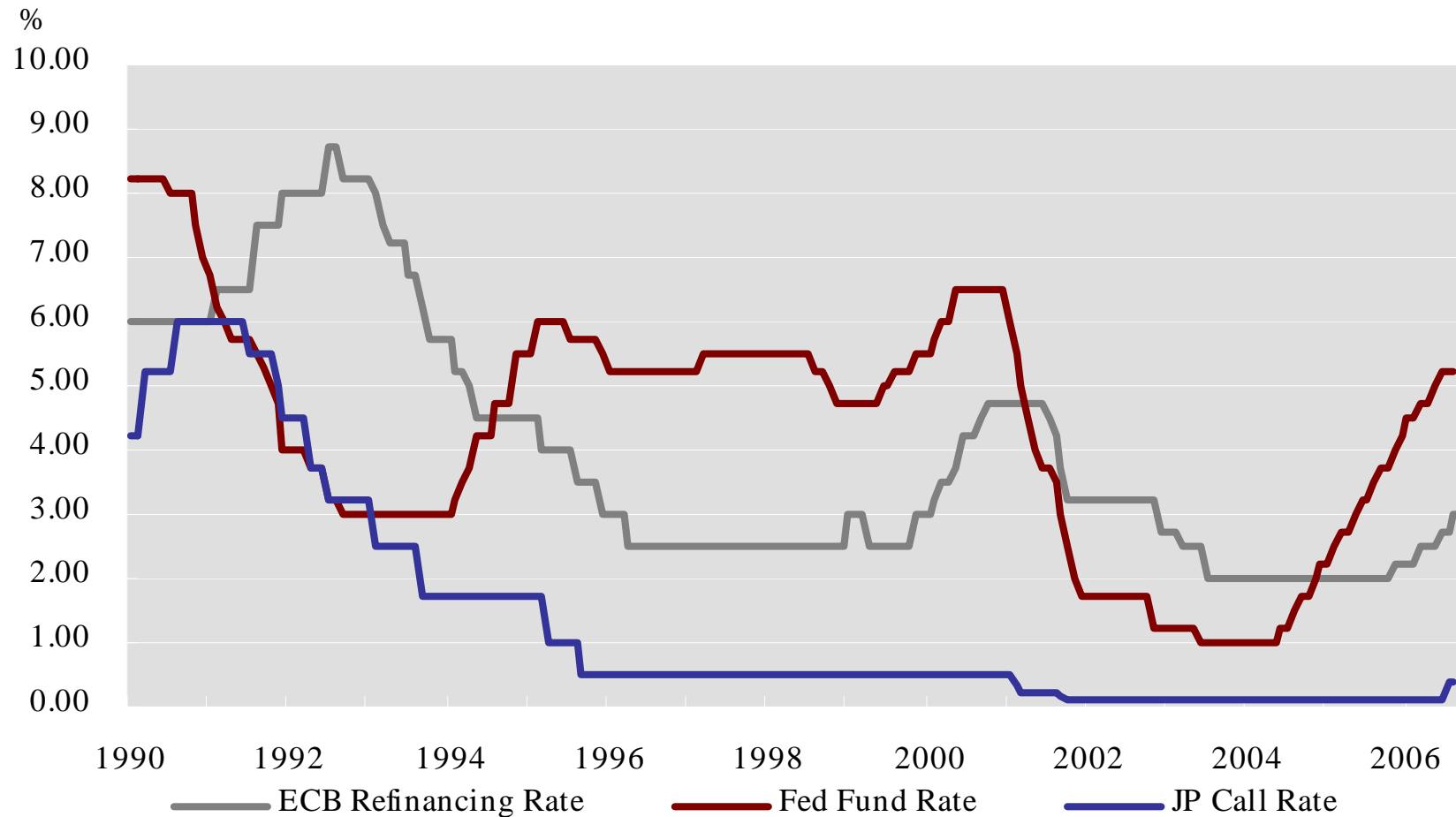
# Japan Provided US\$2.1-trillion of Liquidity to Global Markets in the Past 10-year



(Overseas debt investment by Japanese) (Derivatives investment by foreigners financed by Japanese)

Source: BOJ

# Three Major Interest Rates Are Increasing, for the First Time in 15 Years!



Source: Bloomberg, CEIC, Federal Reserve

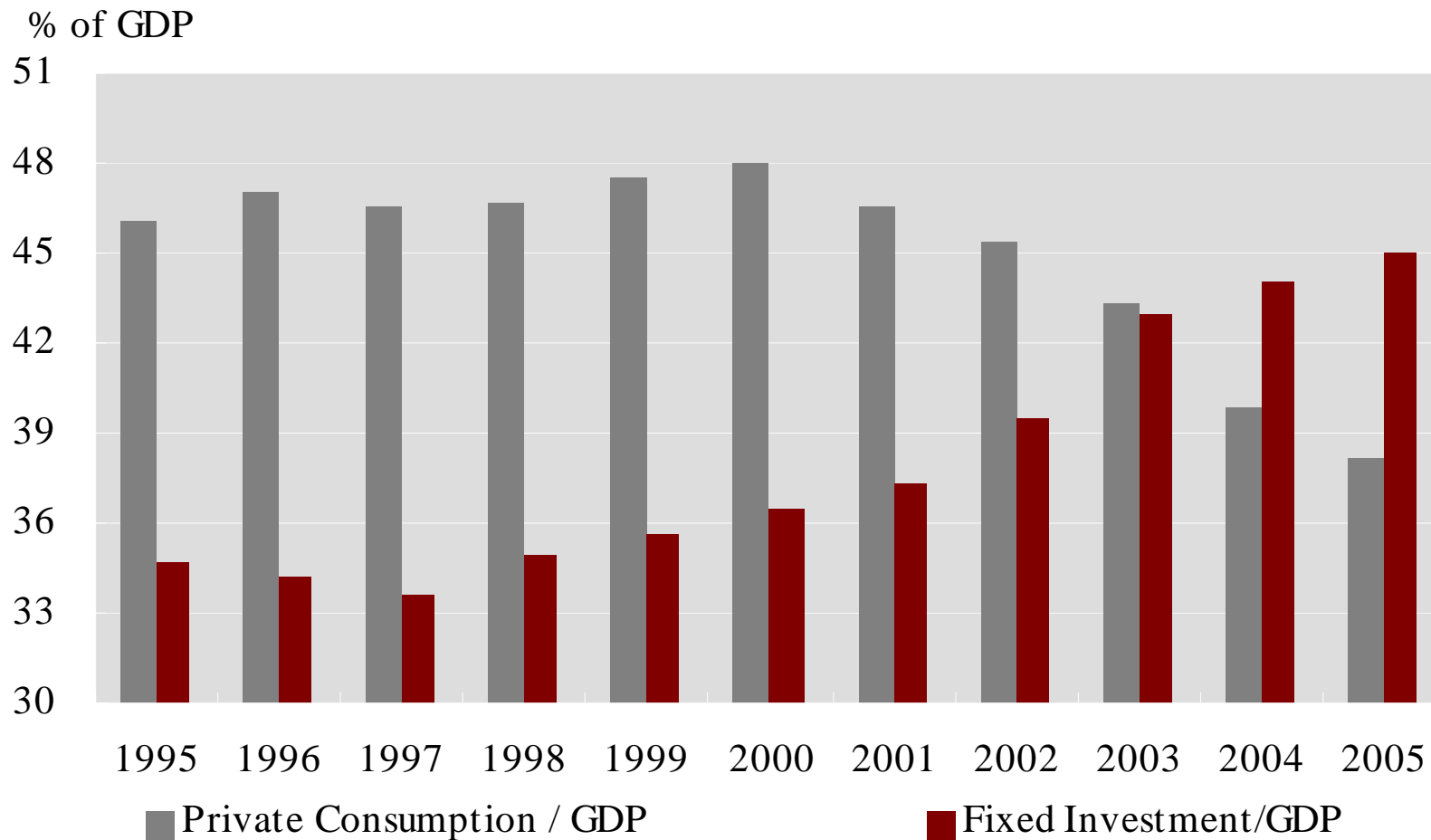


## □ Possible Impact If 10% - 30% of Japanese Offshore Liquidity Retreats Back to Japan

Item	2004-2005 change	Possible Impact
Japan's Off-shore Liquidity retreats to Japan by 10-30%	\$394.5	-\$220 ~ -\$659



# Trends in Composition of China's GDP



Source: CEIC

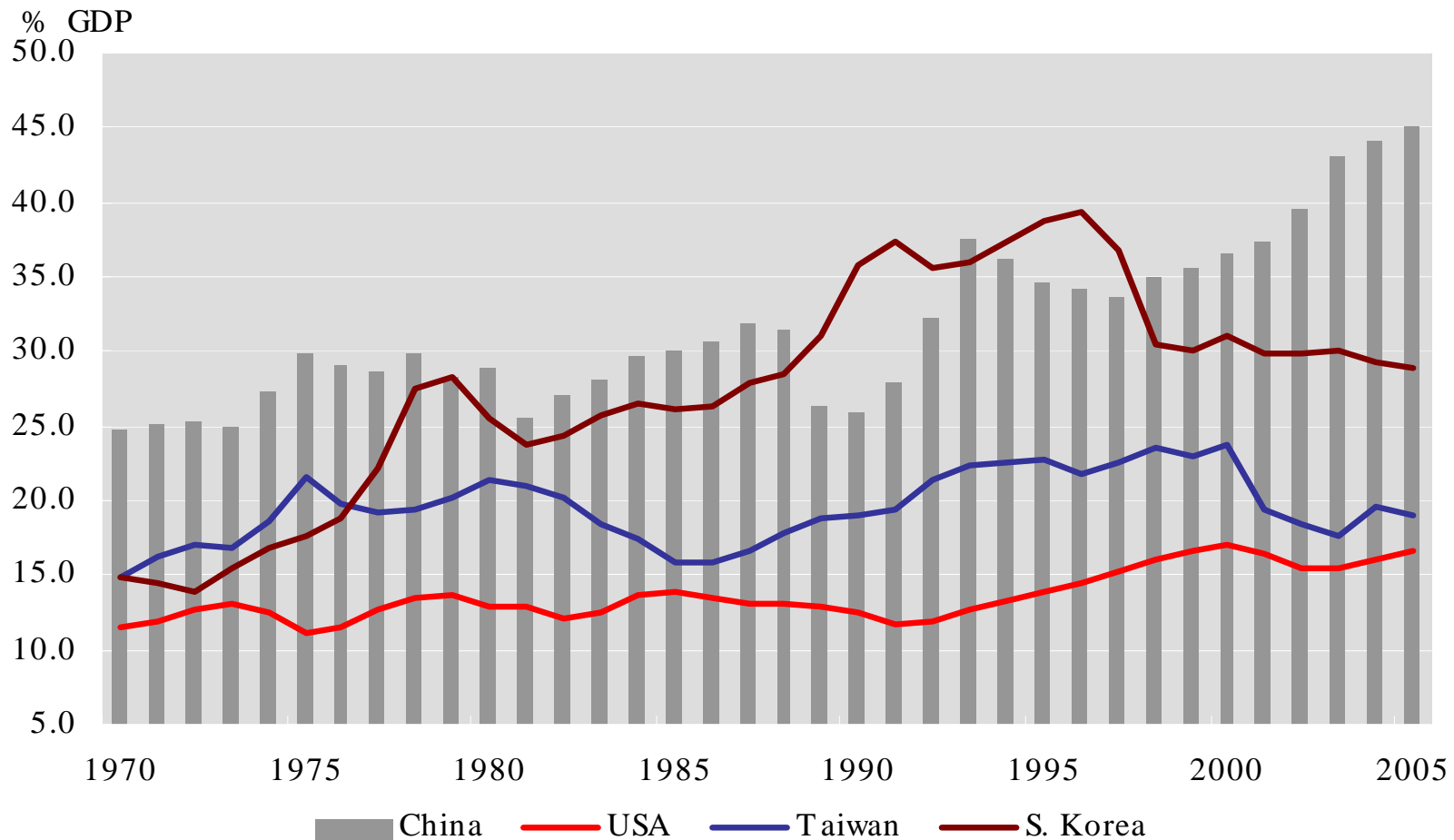
# China's GDP Composition Is Very Unique, But Is It Sustainable?

	Private Consumption Exp. / GDP (%)	Fixed Investment / GDP (%)
USA	71.0	16.7
<b>India</b>	<b>69.3</b>	<b>25.4</b>
Taiwan	57.7	18.9
Thailand	57.6	26.6
EU12	57.0	20.6
Japan	56.3	23.3
S. Korea	49.8	28.8
<b>China</b>	<b>39.6</b>	<b>45.3</b>

Source: CEIC, Bloomberg

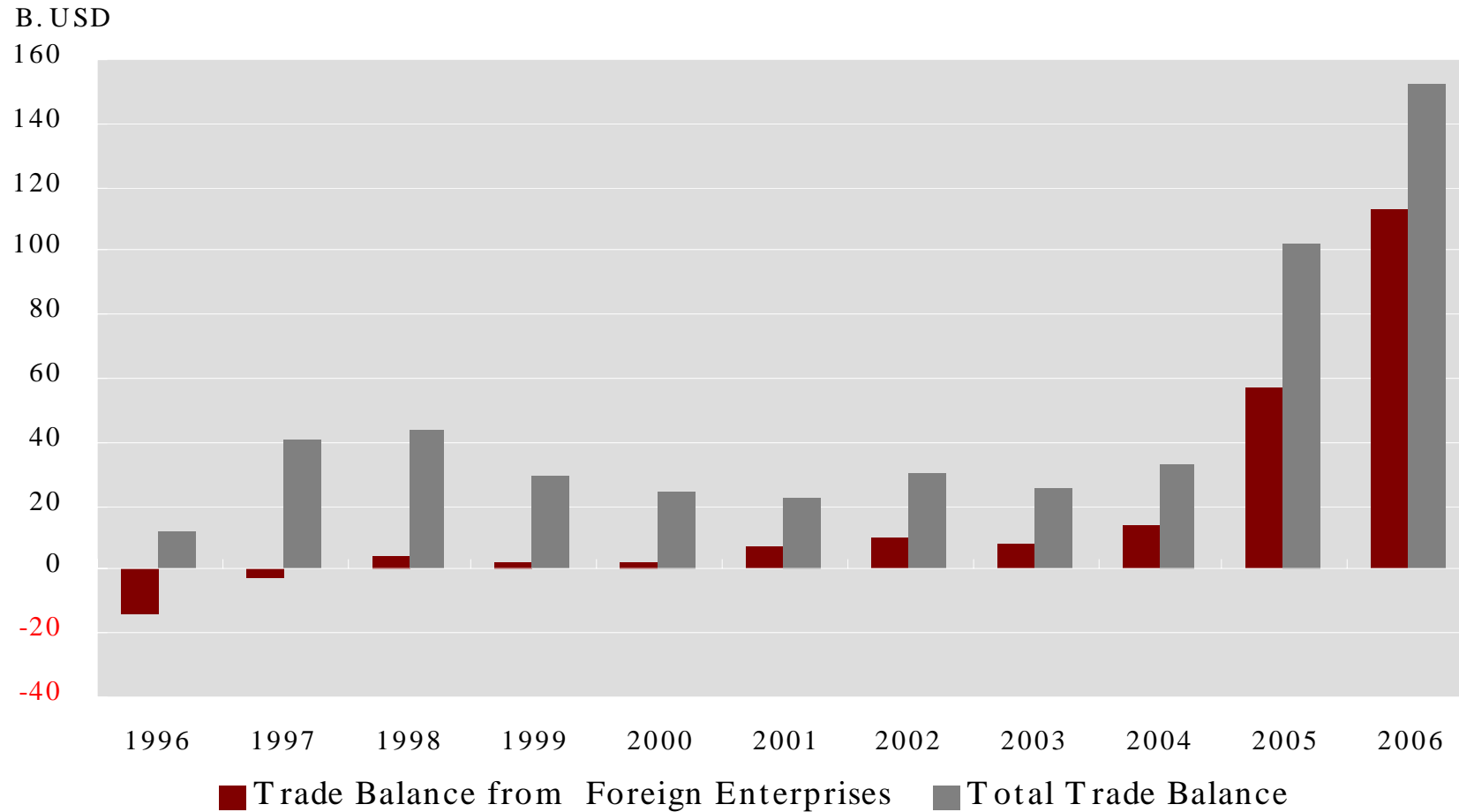
***Sustainable?***

# Historical Trends of Investment-to-GDP



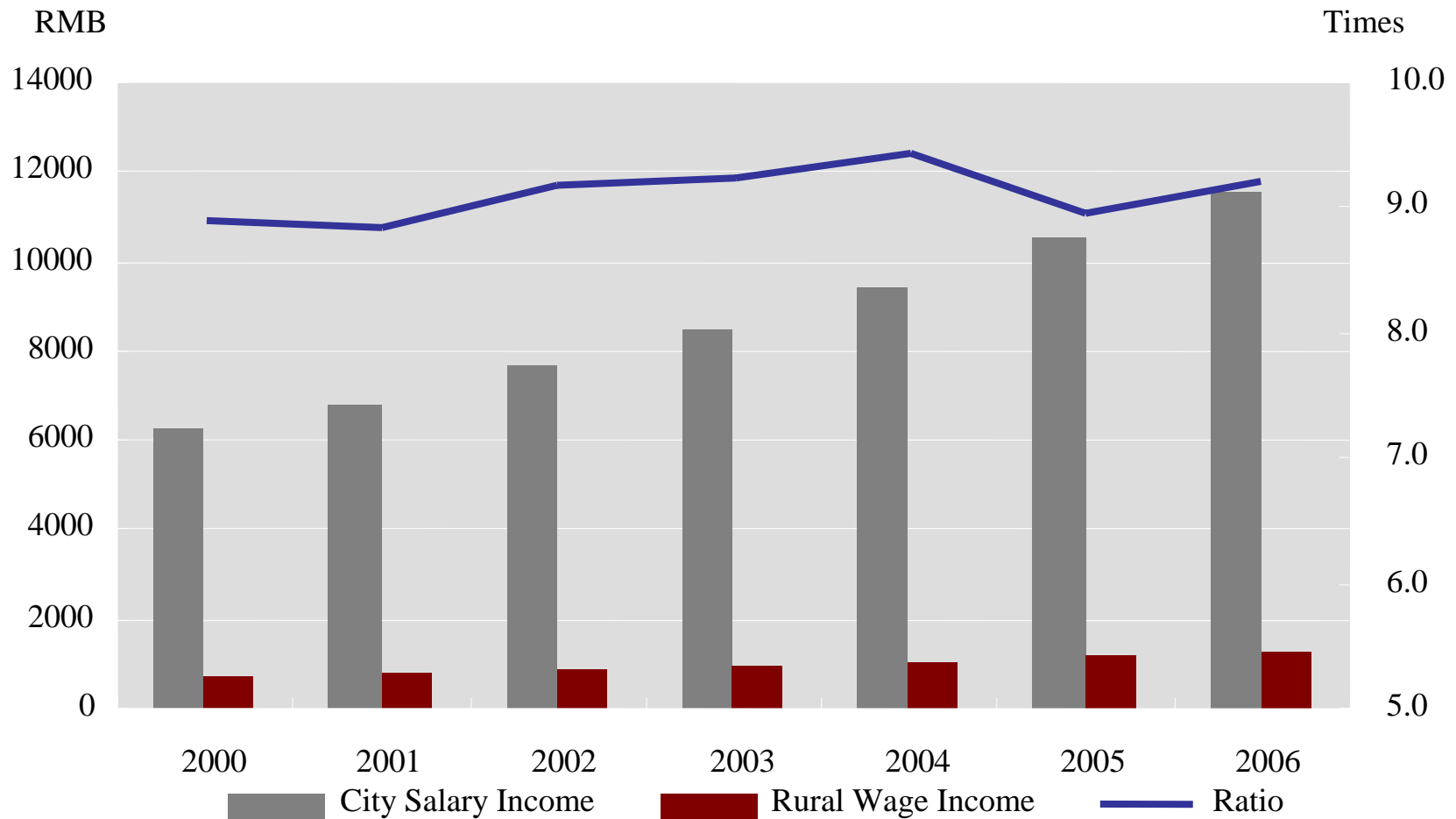
Source: Taiwan National Statistics, US BEA, CEIC, \*China's data in nominal term

# Huge Trade Surplus - But How Much Really Is Contributed to Domestic Wealth?



Source: CEIC

# Growing Imbalance Risks in Resource Distribution



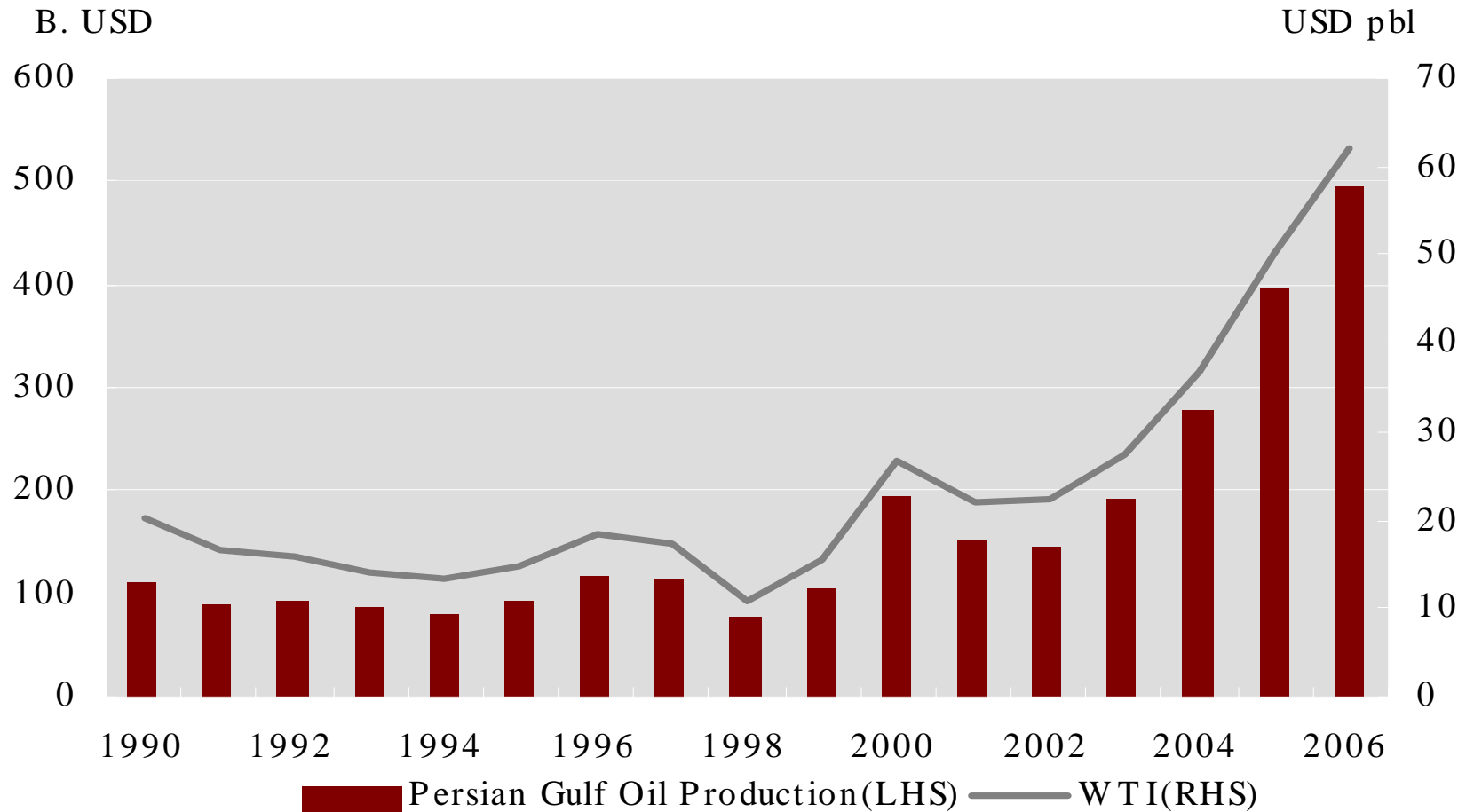
Source: CEIC, Bloomberg



## □ Possible Impact If China's GDP Growth Declines to 5-8% Level

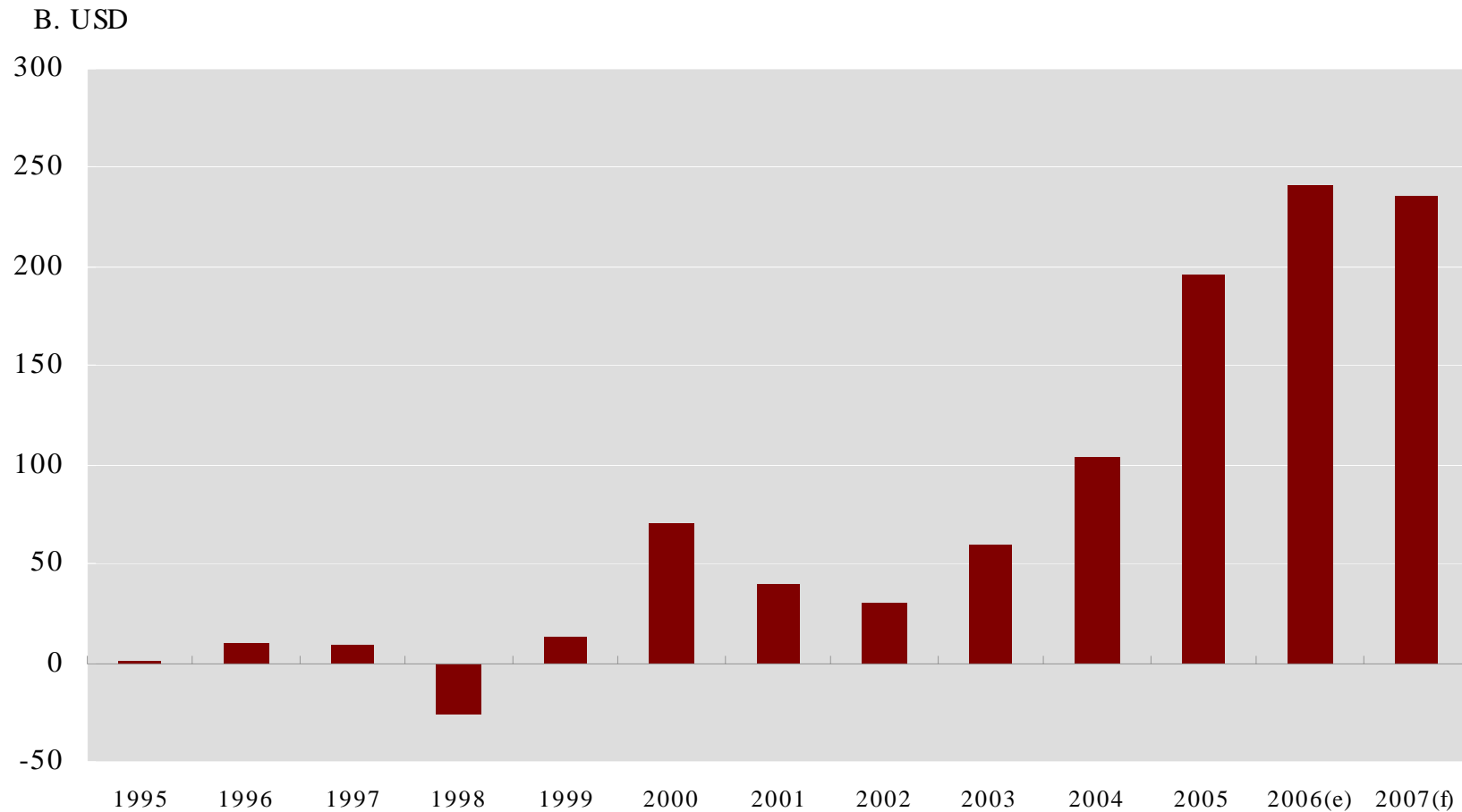
Item	2004-2005 change	Possible Effects
China GDP Growth declining to 5%~8% from 10%	\$293.0	-\$122 ~ -\$56

# High Oil Price – a Threat and an Opportunity



Source: Bloomberg, TSC

# Middle East Countries Now Have Lots of Cash to Spend – Import and Investment

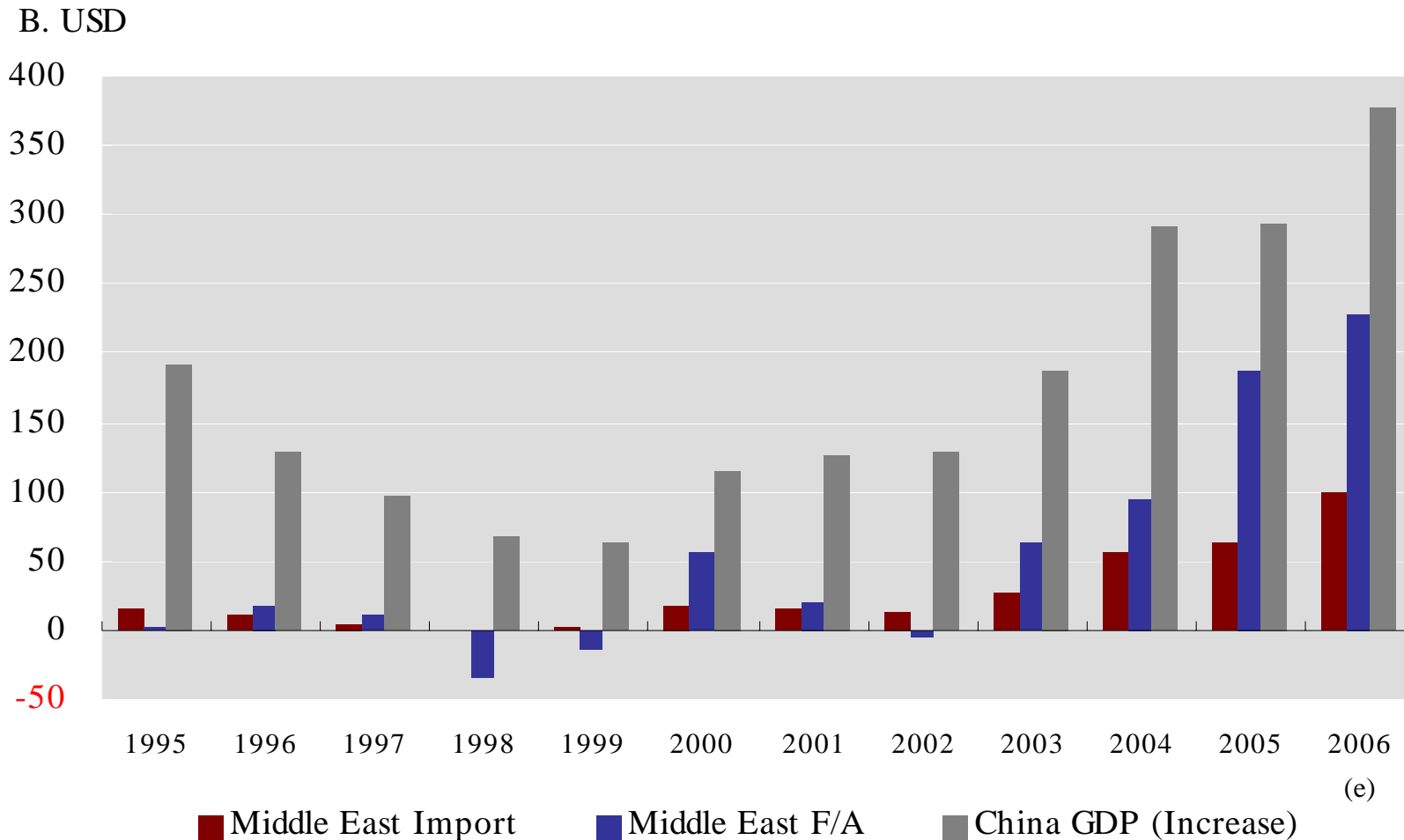


Source: IMF

■ Middle East Current Account Balance

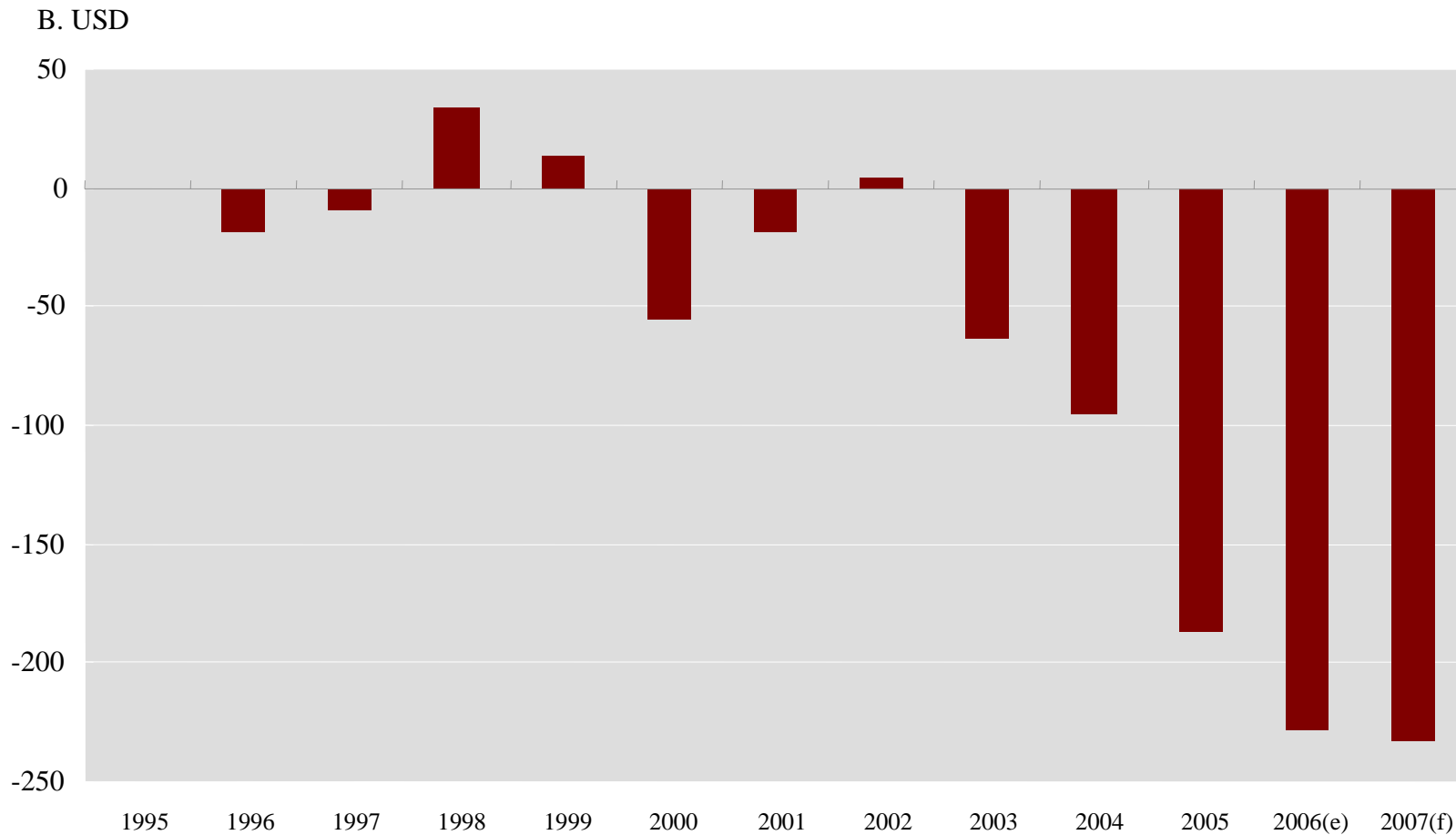


# Middle East Imports + Investments Size Is Catching up with China's GDP Growth



Source: IMF

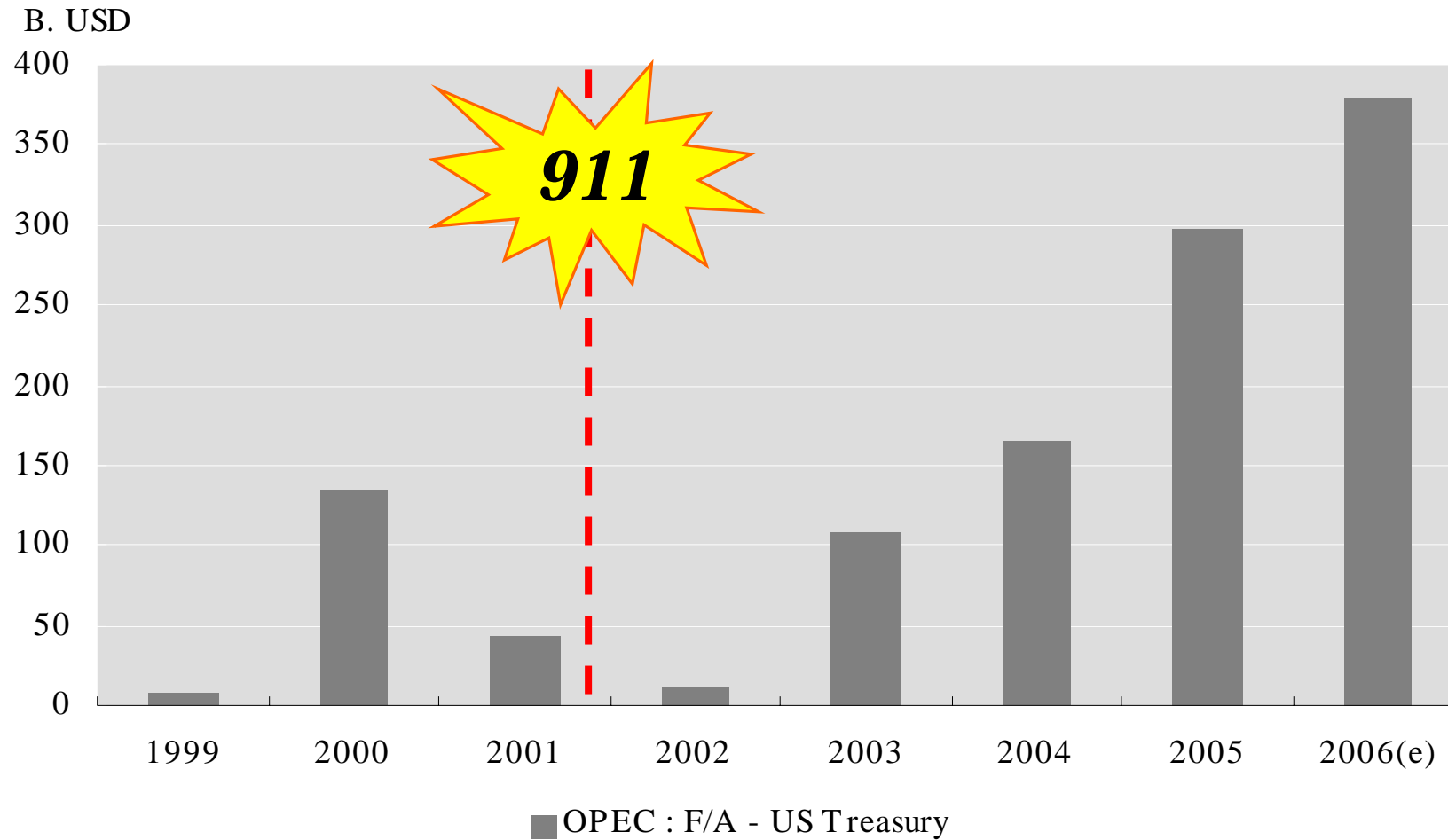
# Surging Off-shore Investment by Middle East Countries



Source: IMF

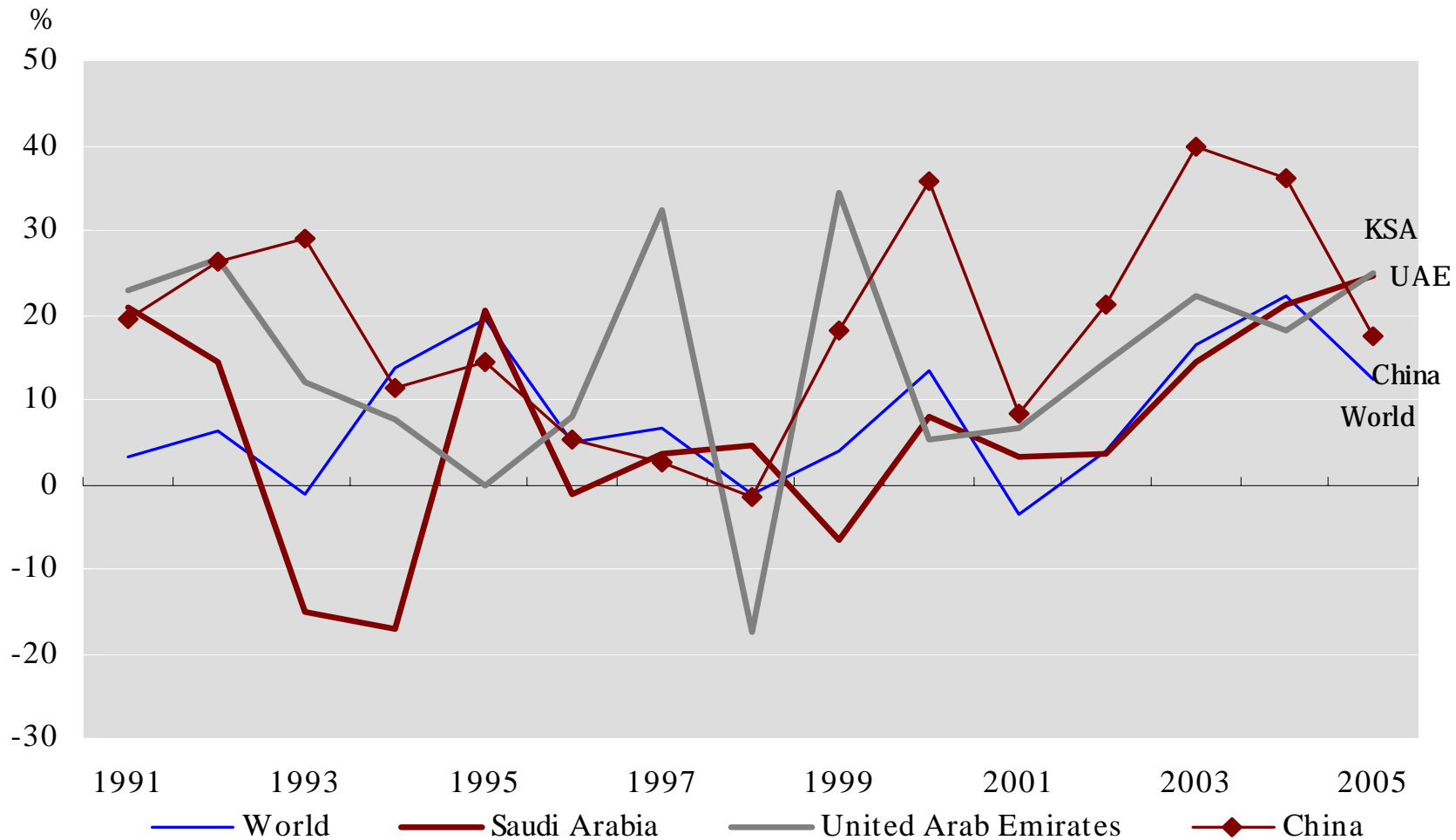
■ Middle East--Financial Account Balance

# OPEC's non-US Investments after 911

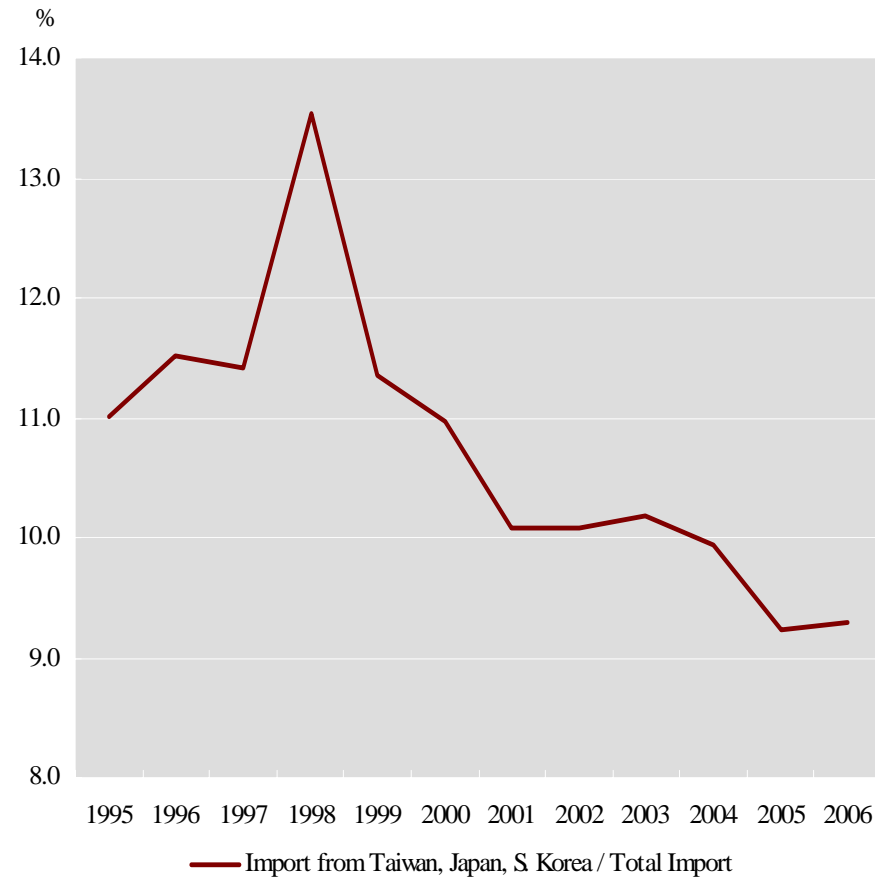
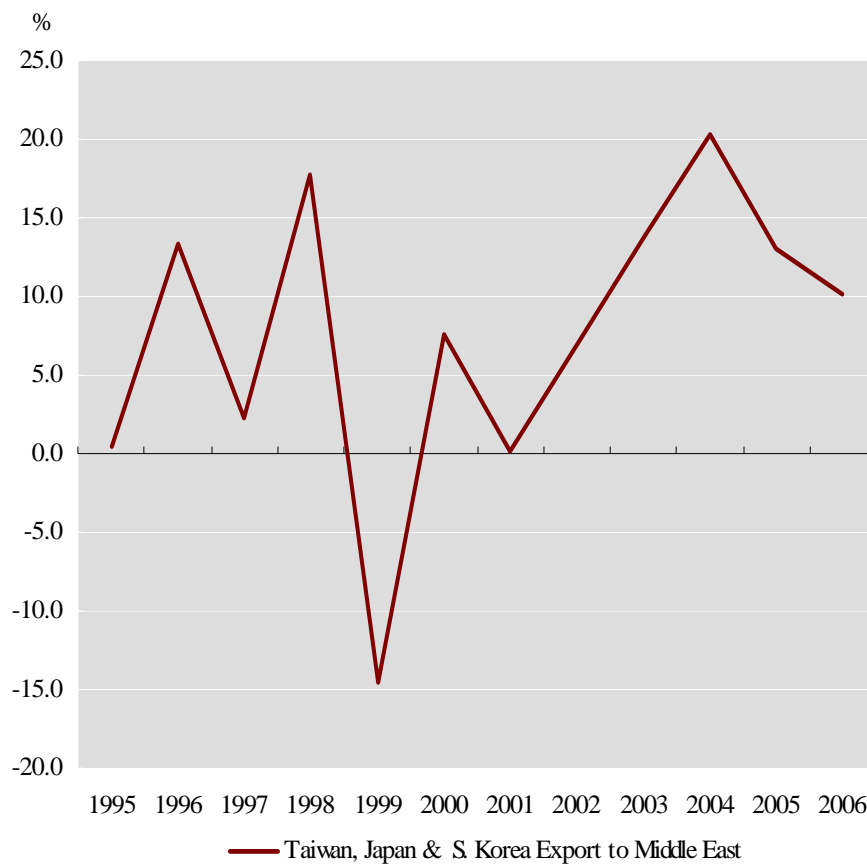


Source: IMF, US Department of Treasury

# The Import Growth of KSA & UAE Is Higher Than Chinese Import Growth

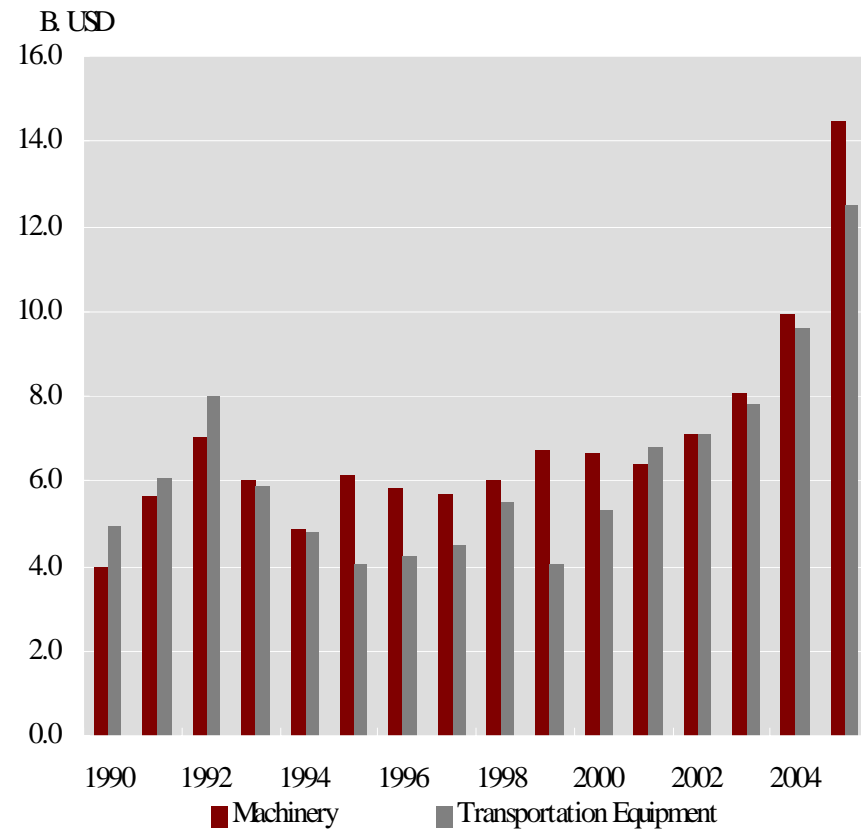
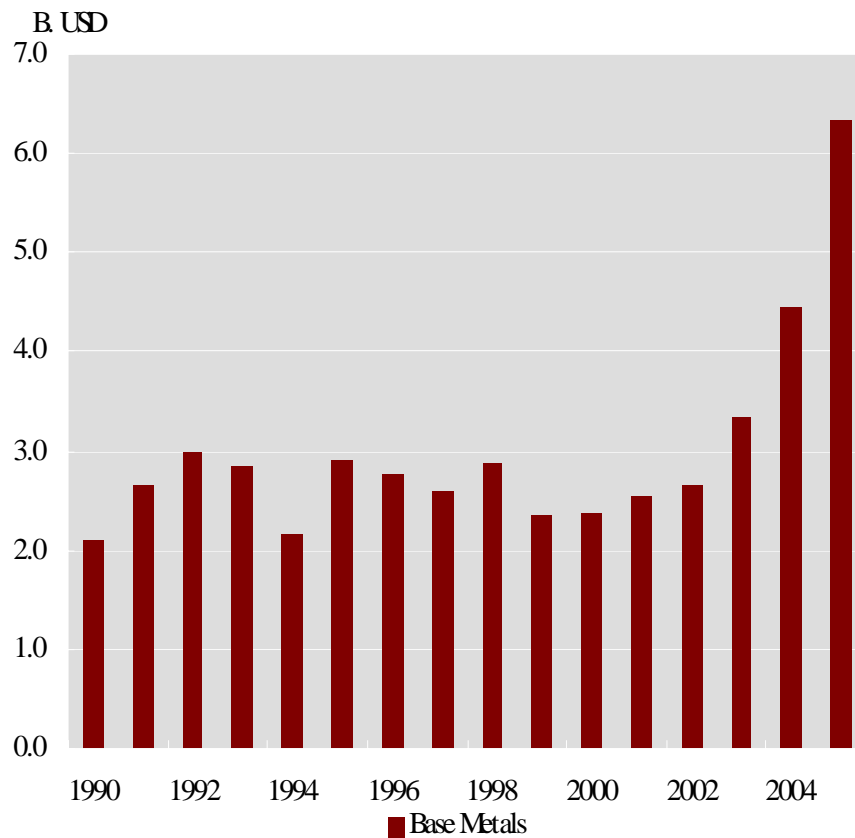


# Japan/Korea/Taiwan - Increasing Export Amount But Decreasing Market Share



Source: Taiwan MOF, Bloomberg

# Saudi Arabia Example – Increasing Demand in Base Metal & Equipment



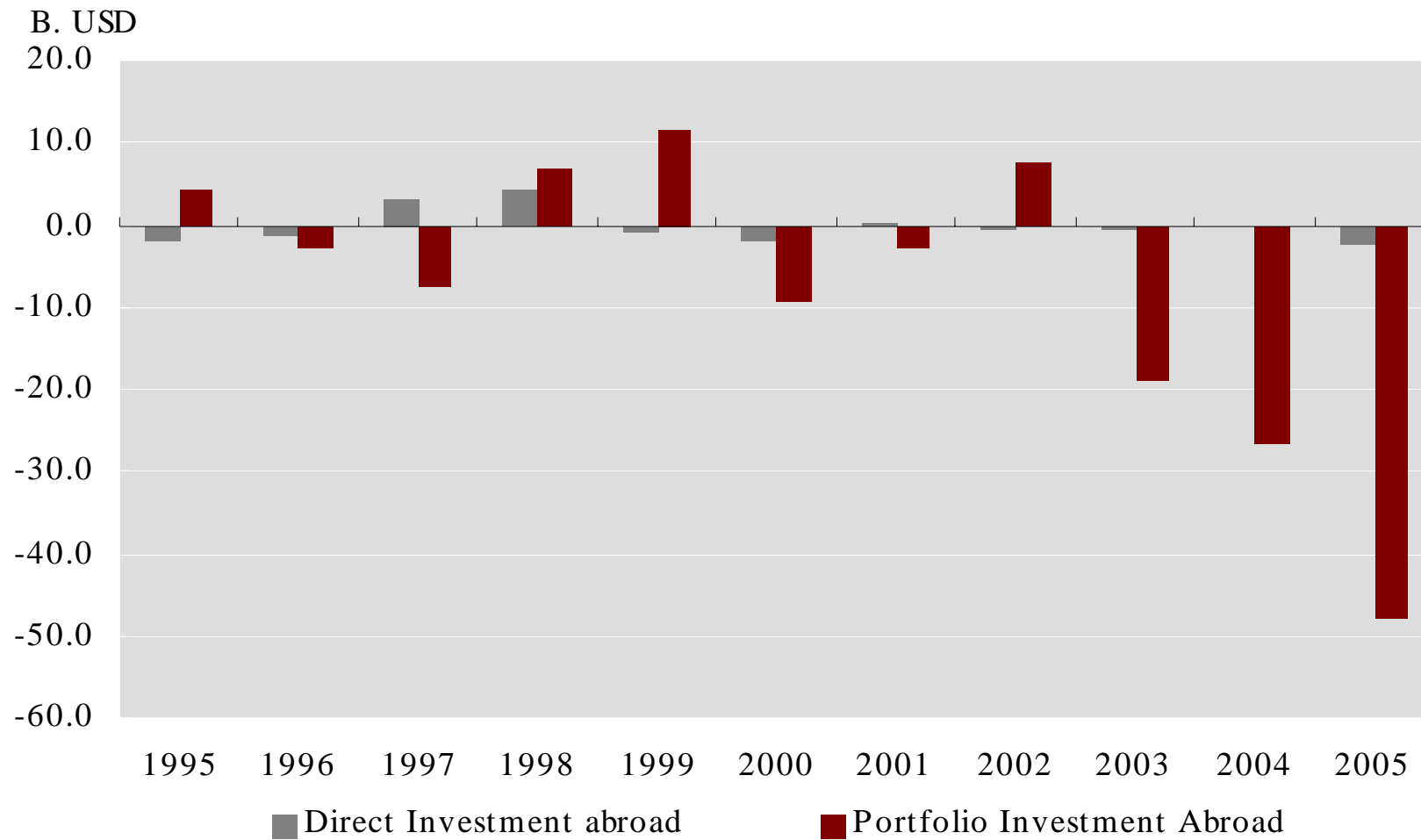
Source: Bloomberg

# Saudi Arabia's 10-year US\$1-trillion Plan

Investment Projects	Amounts (Billion USD)
1 Infrastructure	180
2 Housing	75
3 Petrochemical expansion	112
4 Electrical Power Generation	140
5 Water desalination	100
6 Agriculture	28
7 Telecom	80
8 Tourism	53
9 Gas Production and gathering	50
10 Education System	23
11 Railway Network and Mining	34
12 others	125
<b>Sum</b>	<b>1000</b>

Source: Ministry of Industry & Commerce

# Surging Off-shore Investment by KSA



Source: IMF



# Summary

Item	2004-2005 change	Possible Impact
<b>US Residential Investment back to long-term Trend</b>	\$48.2	-\$95.0
<b>--plus Multiple Effect 2.5x</b>	\$120.5	-\$237.5
<b>Japan's Off-shore Liquidity returns to Japan by 10-30%</b>	\$394.5	-\$220 ~ -\$659
<b>China GDP Growth declines to 5%~8% from 10% level</b>	\$293.0	-\$122 ~ -\$56
<b>Oil Dollar ( Current Account)</b>	\$196.5	\$240.9

In US\$ billion



**Thank  
You !!**