

Morgan Stanley

November 2, 2007

Research
Asia/Pacific

Global Macroeconomic Outlook: Implications for Asia

*Presentation for
Asian Bankers Association*

Strategy

MORGAN STANLEY RESEARCH

Morgan Stanley Asia Limited+

Malcolm Wood

Malcolm.Wood@morganstanley.com

+852 2848 5830

Morgan Stanley does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

For analyst certification and other important disclosures, refer to the Disclosure Section.

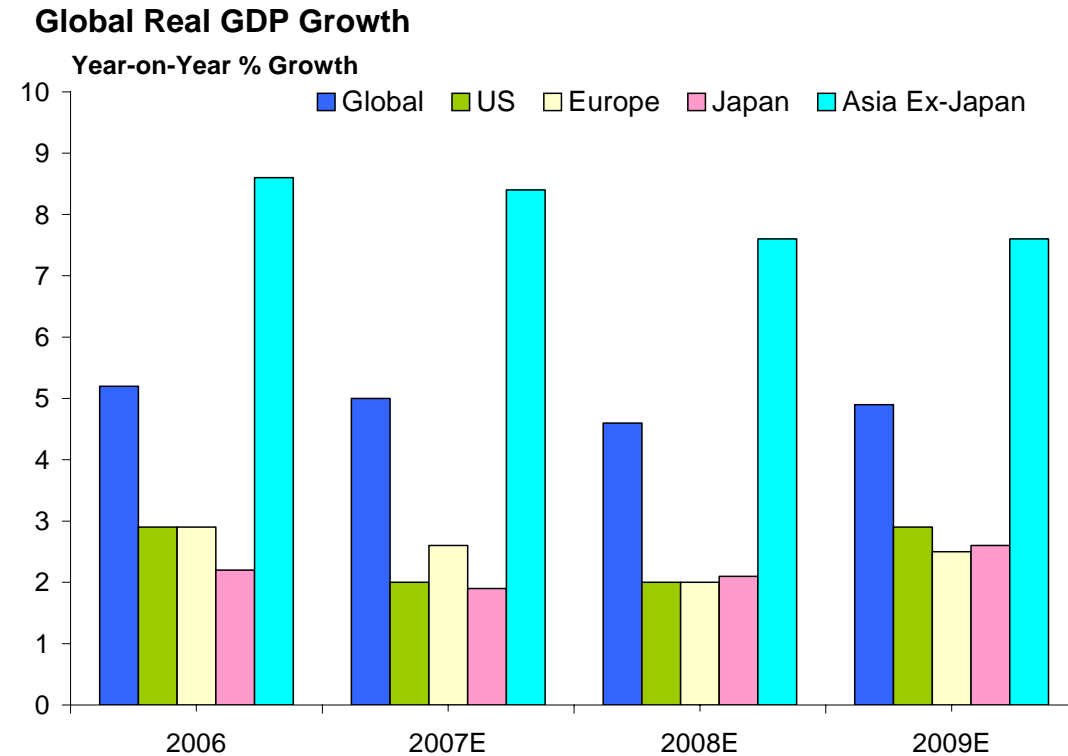
+ = Analysts employed by non-U.S. affiliates are not registered pursuant to NASD/NYSE rules.

Global Economic Growth Outlook

Morgan Stanley forecasts **global growth to moderate to 4.6% in 2008** from 5.0% in 2007.

US: Muddle-through; **Europe:** Growth moderating; **Japan:** Modest growth; **Asia ex-Japan:** Growth still strong

This would be the 6th consecutive year of above-trend global growth.



E= Morgan Stanley estimates.
 Source: Company data, Morgan Stanley Research.

US Economic Outlook

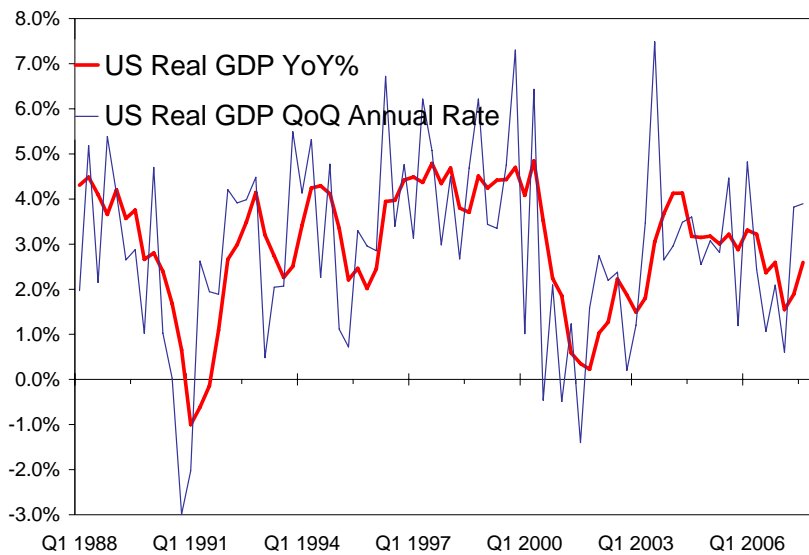
The US enters a credit squeeze with moderate growth

- US 2Q-3Q07 real GDP rose at a 3.8% rate
- We expect sluggish 1.5-2.0% growth through 4Q08

Three forces are depressing US growth:

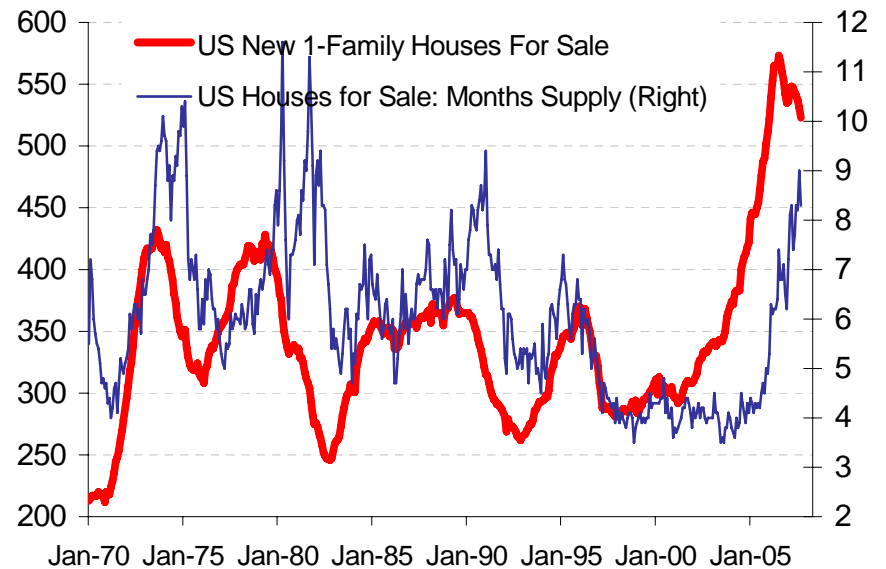
- (1) A deep housing downturn:
 - Sales are at a decade low; starts a 14-year low
 - Inventories (New & Existing) are at 20-year highs

US 3Q GDP: Up a Moderate 2.6% YoY



Source: Datastream, Morgan Stanley Research.

US New Home Inventories: a Two-Decade High



Source: Datastream, Morgan Stanley Research.

US Economic Outlook

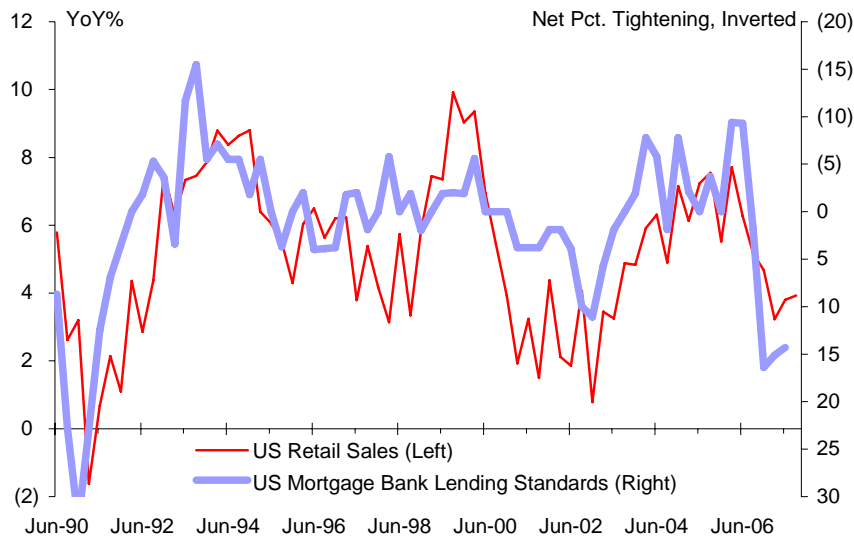
(2) Tighter credit conditions:

- Banks are tightening lending standards
- The ABCP market has contracted 16%

(3) Record oil prices:

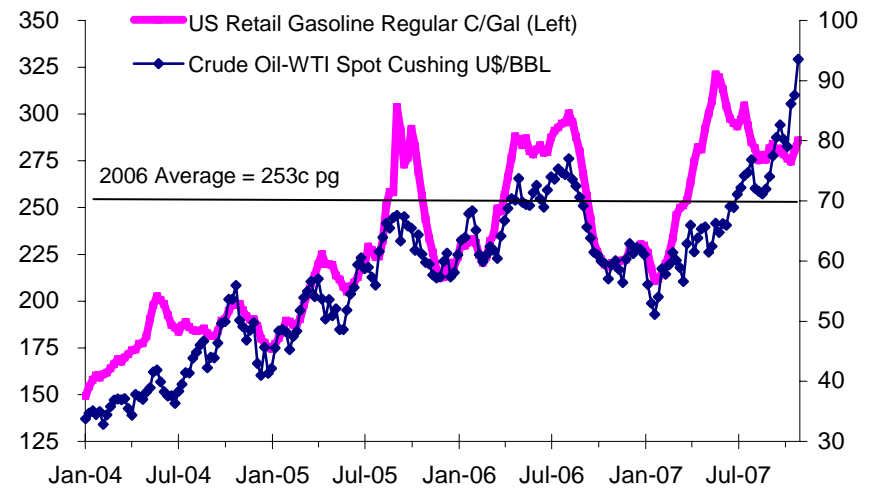
- US gasoline prices should rise back above US\$3.00 pg

Banks Are Materially Tightening Lending Standards



Source: Federal Reserve Board, CEIC, Morgan Stanley Research.

US Gasoline Prices Are Set to Rise Back Above US\$3 per Gallon



Source: Datastream, Morgan Stanley Research.

US Economic Outlook

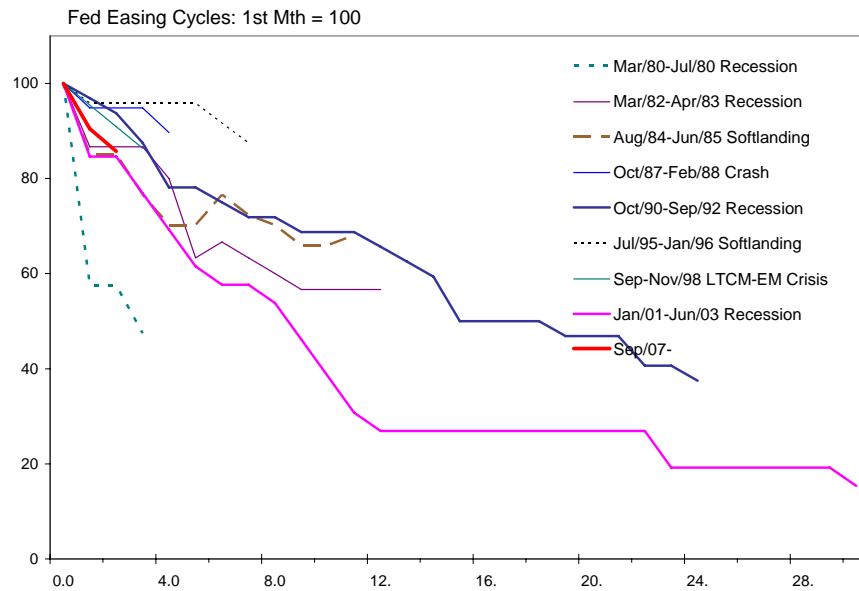
Three factors are supporting growth:

- (1) The Fed:
 - 75 bps of rate cuts
 - Liquidity injections into the money-market

(2) Lean inventories:

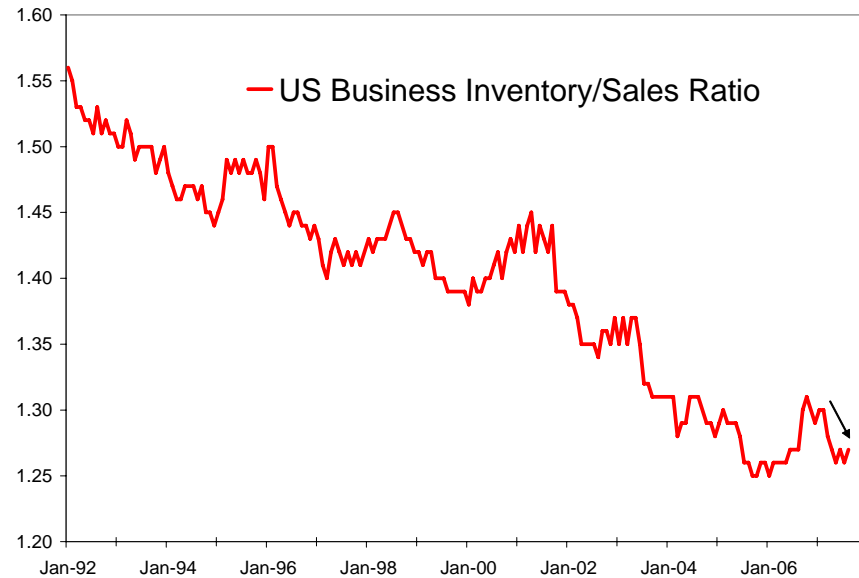
- Inventory/Sales ratio is close to record lows
- Inventories are up just US\$10 bn over the past year

Fed Rate-Cutting Cycles



Source: Datastream, Morgan Stanley Research.

US Inventories Are at Lean Levels



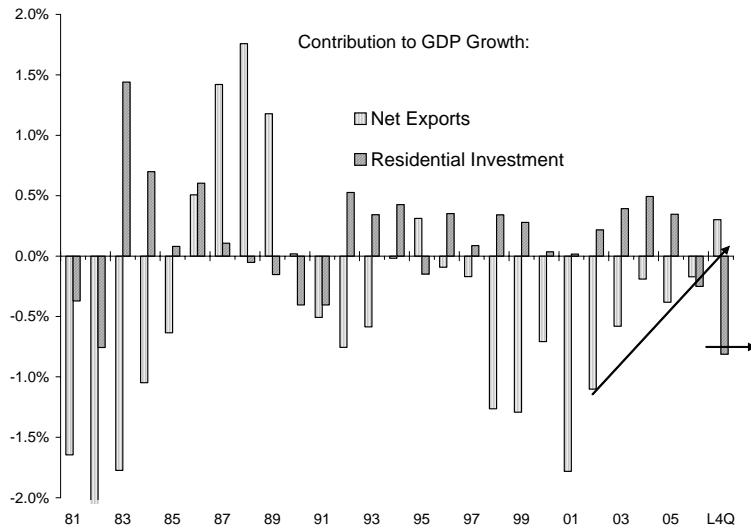
Source: Datastream, Morgan Stanley Research.

US Economic Outlook

(3) Strong net exports:

- Exports are up 9.8% YoY, vs. Imports up 2.0% YoY
- Trade has added 0.3 ppts to growth over the past year

Net Exports: 1st Contribution to US Growth Since 1995



Source: Datastream, Morgan Stanley Research.

How is the US Slowdown Impacting Asia?

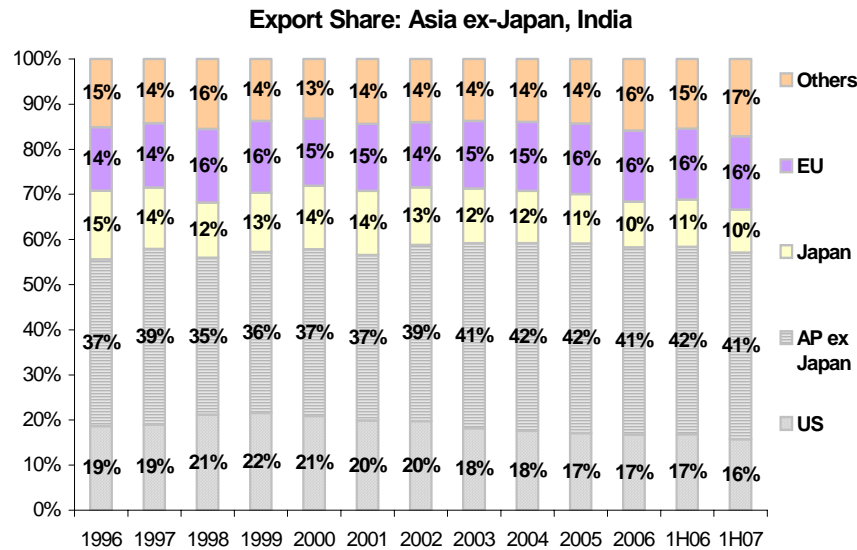
Asia is linked to the US in three key ways:

(1) **Trade** - the US slowdown has been limited by:

- Re-directing Exports to Europe & Other
- Gaining market share in global markets

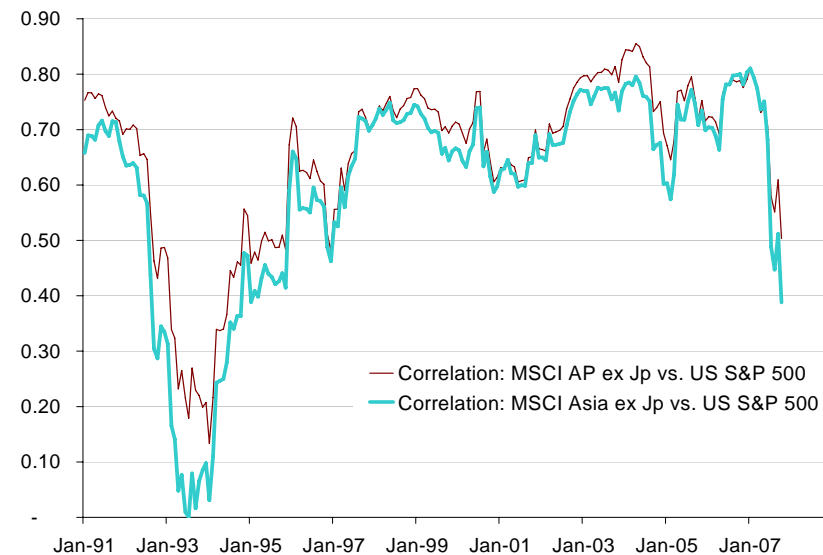
(2) **Financial Markets** – The recent Asia equity market outperformance has lowered correlations

US Share of Asia Exports: Down from 22% to 16%



Source: CEIC, Morgan Stanley Research.

Performance Correlations Between Asia and the US Have Declined Recently



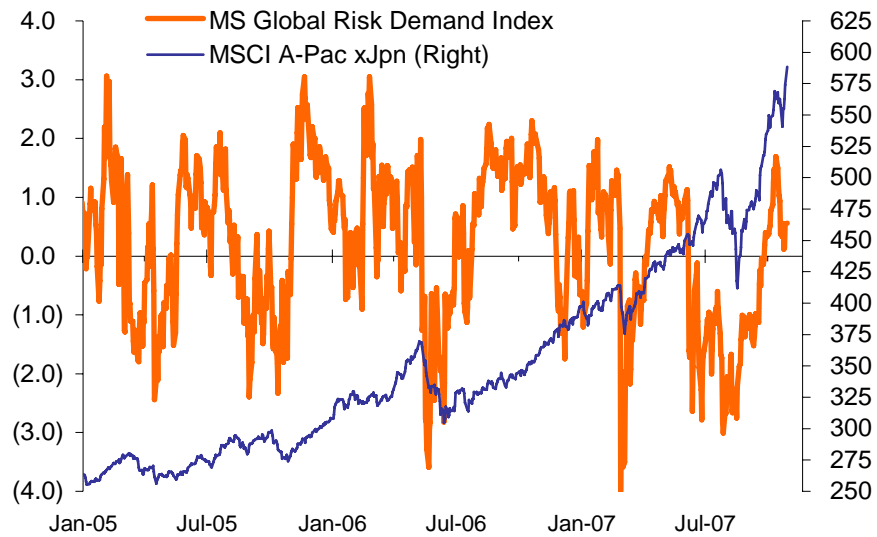
Source: Datastream, Morgan Stanley Research.

How is the US Impacting Asia?

(3) Sentiment – Asian markets are still highly influenced by global sentiment

Overall, we believe a US “muddle-through” will have limited impact on Asia.

MS Global Risk Appetite Back to Neutral Levels



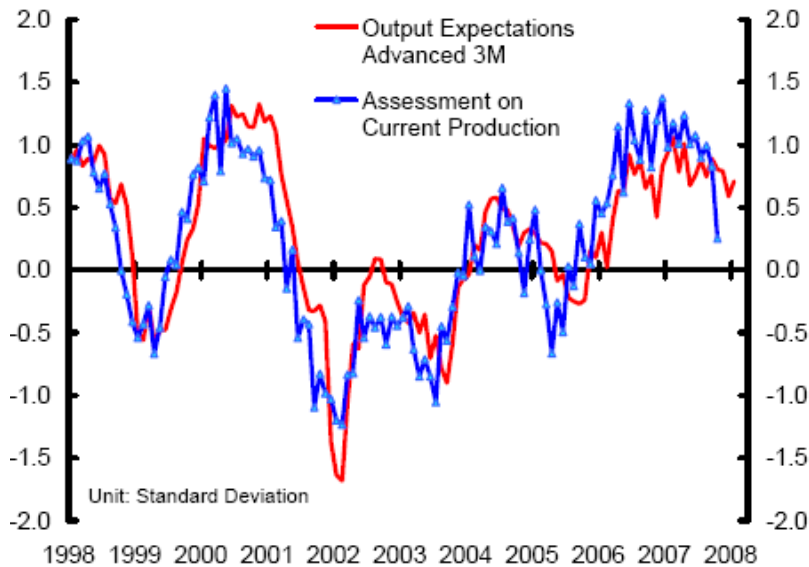
Source: Datastream, Morgan Stanley Research.

Europe Set to Slow - Watch Downside Risks

- (1) **Current production has fallen**, especially in Germany
- (2) **Demand is slowing**: tighter credit conditions, the record Euro and higher rates are slowing demand

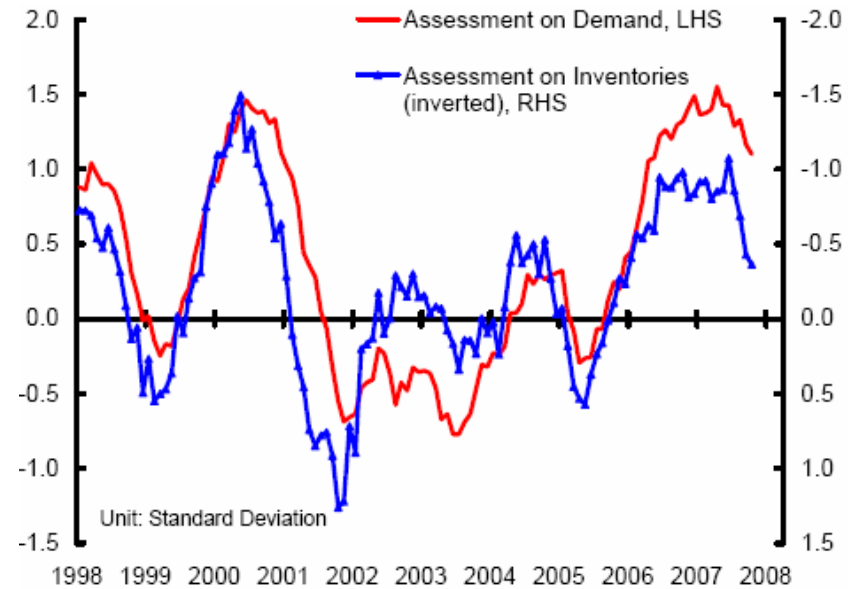
Morgan Stanley’s Europe Economists believe the risk of a Euro Manufacturing recession are rising, a downside risk for Euro growth.

Current Production in Europe Has Fallen Sharply



Source: MS Europe Economist – Eric Chaney, National Business Surveys, Morgan Stanley Research.

Demand Outlook Has Slowed



Source: MS Europe Economist – Eric Chaney, National Business Surveys, Morgan Stanley Research.

Commodity Producers - The Boom Continues

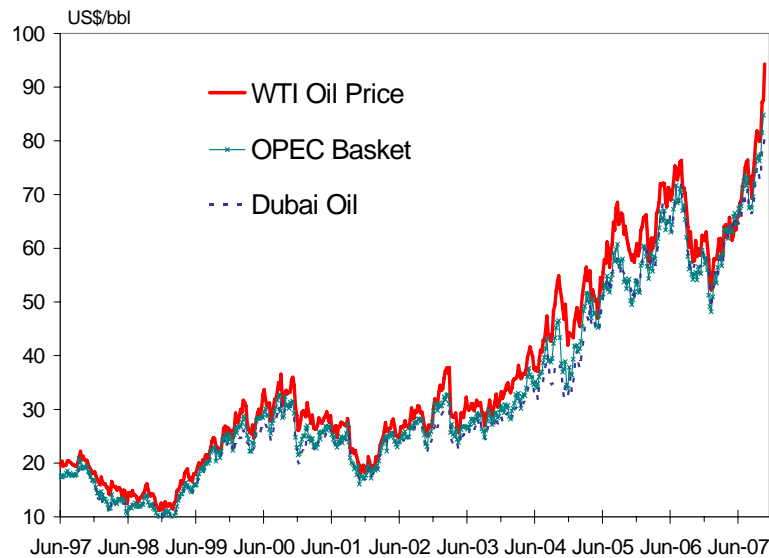
The Global Boom has Driven a Commodities Boom:

- The Oil price has almost quadrupled
- Metals prices are up 3.5x
- Food prices have almost doubled

Implications for Asia:

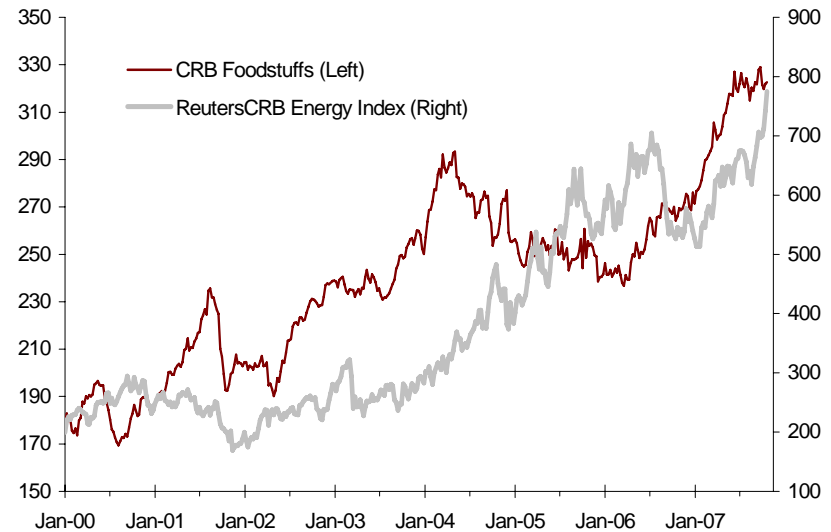
- A tax on Asian consumers, softened by subsidies
- A new major end-market for Exports
- Sovereign Wealth Funds and a new source of capital

The Oil Price Has Almost Quadrupled



Source: Datastream, Morgan Stanley Research.

High Energy Prices Are Impacting Other Commodities



Source: Datastream, Morgan Stanley Research.

Conclusions

- Above-trend global growth to continue, but G7 growth to slow
- The Fed is cutting rates to ensure a US soft-landing, but we expect an extended US workout
- The impact on Asia from a US “muddle-through” seems limited
- The Commodities boom is shifting global growth and capital flows away from the G7
- Asia is well positioned to deal with these macroeconomic developments

Disclosures

Information and opinions in Morgan Stanley Research were prepared or are disseminated by one or more of the following, which accept responsibility for its contents: Morgan Stanley Asia Limited, and/or Morgan Stanley Asia (Singapore) Pte. (Registration number 199206298Z, regulated by the Monetary Authority of Singapore, and/or Morgan Stanley Asia (Singapore) Securities Pte Ltd (Registration number 200008434H, regulated by the Monetary Authority of Singapore), and/or Morgan Stanley Taiwan Limited and/or Morgan Stanley & Co International plc, Seoul Branch, and/or Morgan Stanley Australia Limited (A.B.N. 67 003 734 576, holder of Australian financial services license No. 233742), and/or Morgan Stanley India Company Private Limited and their affiliates (collectively, "Morgan Stanley").

Global Research Conflict Management Policy

Morgan Stanley Research observes our conflict management policy, available at www.morganstanley.com/institutional/research/conflictolicies.

Important Disclosures

Morgan Stanley Research does not provide individually tailored investment advice. It has been prepared without regard to the circumstances and objectives of those who receive it. Morgan Stanley recommends that investors independently evaluate particular investments and strategies, and encourages them to seek a financial adviser's advice. The appropriateness of an investment or strategy will depend on an investor's circumstances and objectives. Morgan Stanley Research is not an offer to buy or sell any security or to participate in any trading strategy. The value of and income from your investments may vary because of changes in interest rates or foreign exchange rates, securities prices or market indexes, operational or financial conditions of companies or other factors. Past performance is not necessarily a guide to future performance. Estimates of future performance are based on assumptions that may not be realized.

With the exception of information regarding Morgan Stanley, research prepared by Morgan Stanley Research personnel is based on public information. Morgan Stanley makes every effort to use reliable, comprehensive information, but we do not represent that it is accurate or complete. We have no obligation to tell you when opinions or information in Morgan Stanley Research change apart from when we intend to discontinue research coverage of a company. Facts and views in Morgan Stanley Research have not been reviewed by, and may not reflect information known to, professionals in other Morgan Stanley business areas, including investment banking personnel.

To our readers in Taiwan: Morgan Stanley Research is distributed by Morgan Stanley Taiwan Limited; it may not be distributed to or quoted or used by the public media without the express written consent of Morgan Stanley. To our readers in Hong Kong: Information is distributed in Hong Kong by and on behalf of, and is attributable to, Morgan Stanley Asia Limited as part of its regulated activities in Hong Kong; if you have any queries concerning it, contact our Hong Kong sales representatives.

Morgan Stanley Research is disseminated in Japan by Morgan Stanley Japan Securities Co., Ltd.; in Canada by Morgan Stanley Canada Limited, which has approved of and takes responsibility for its contents in Canada; in Germany by Morgan Stanley Bank AG, Frankfurt am Main, regulated by Bundesanstalt fuer Finanzdienstleistungsaufsicht (BaFin); in Spain by Morgan Stanley, S.V., S.A., a Morgan Stanley group company, supervised by the Spanish Securities Markets Commission (CNMV), which states that it is written and distributed in accordance with rules of conduct for financial research under Spanish regulations; in the US by Morgan Stanley & Co. Incorporated, which accepts responsibility for its contents. Morgan Stanley & Co. International plc, authorized and regulated by Financial Services Authority, disseminates in the UK research it has prepared, and approves solely for purposes of section 21 of the Financial Services and Markets Act 2000, research prepared by any affiliates. Private UK investors should obtain the advice of their Morgan Stanley & Co. International plc representative about the investments concerned. In Australia, Morgan Stanley Research and any access to it is intended only for "wholesale clients" within the meaning of the Australian Corporations Act.

Trademarks and service marks in Morgan Stanley Research are their owners' property. Third-party data providers make no warranties or representations of the accuracy, completeness, or timeliness of their data and shall not have liability for any damages relating to such data. The Global Industry Classification Standard (GICS) was developed by and is the exclusive property of MSCI and S&P. Morgan Stanley bases projections, opinions, forecasts and trading strategies regarding the MSCI Country Index Series solely on public information. MSCI has not reviewed, approved or endorsed these projections, opinions, forecasts and trading strategies. Morgan Stanley has no influence on or control over MSCI's index compilation decisions. Morgan Stanley Research or portions of it may not be reprinted, sold or redistributed without the written consent of Morgan Stanley. Morgan Stanley research is disseminated and available primarily electronically, and, in some cases, in printed form. Additional information on recommended securities/instruments is available on request.

The information in Morgan Stanley Research is being communicated by Morgan Stanley & Co. International plc (DIFC Branch), regulated by the Dubai Financial Services Authority (the DFSA), and is directed at wholesale customers only, as defined by the DFSA. This research will only be made available to a wholesale customer who we are satisfied meets the regulatory criteria to be a client.

The information in Morgan Stanley Research is being communicated by Morgan Stanley & Co. International plc (QFC Branch), regulated by the Qatar Financial Centre Regulatory Authority (the QFCRA), and is directed at business customers and market counterparties only and is not intended for Retail Customers as defined by the QFCRA. H3824P

The Americas

1585 Broadway
New York, NY 10036-8293
United States
Tel: +1 (1)212 761 4000

Europe

25 Cabot Square, Canary Wharf
London E14 4QA
United Kingdom
Tel: +44 (0)20 7425 8000

Japan

4-20-3 Ebisu, Shibuya-ku
Tokyo 150-6008
Japan
Tel: +81 (0)3 5424 5000

Asia/Pacific

Three Exchange Square
Central
Hong Kong
Tel: +852 2848 5200