

Press Release

New report from Crédit Agricole CIB Research: “Asia Outlook and Strategy Mid-Year 2010: Storm Before the Calm”

Volatility and Uncertainty still to threaten Global Economic and Markets

- **Global economic recovery in 2H 2010 to be led by the US but to be below-average**
- **G3 central banks to be in no rush to hike interest rates**
- **USD to strengthen further but risk towards the end of 2011, while EUR to be under pressure and JPY to weaken**
- **No double dip in the US while China’s growth to decelerate only gradually**
- **Asia’s economic growth to accelerate from 5.9% in 2009 to 8.2% in 2010**
- **Demand-push inflation pressure in Asia to gradually build up**
- **Asian central banks to hike rates in view of strong economic fundamentals and inflationary risks**
- **Asian FX to resume appreciation in Q4**

Hong Kong – July 7, 2010 – According to a new report, “Asia Outlook and Strategy Mid-year 2010”, published by Crédit Agricole Corporate and Investment Bank, global economic and markets have been through some turbulent times over recent months fuelled in large part by an intensification of European sovereign risk fears. Although Asia is undoubtedly in a fundamentally stronger position the region has not fully escaped the impact from Europe. Crédit Agricole CIB expects the storm to continue, with volatility and uncertainty set to persist over the coming few months. Further out, markets will take a calmer tone, especially in Asia, as it becomes clear that the worst case scenarios do not pan out in Europe and Asia enjoys a relatively superior growth outlook.

G3 Growth

Crédit Agricole CIB does not expect to see a double dip for major economies although it does forecast a growing divergence in growth. G3 economic recovery will likely be led by the US but, even here, the recovery will be below-average. Crédit Agricole CIB looks for an annualised pace of 3.3% of growth in the US in 2010 and 3.4% in 2011 whilst in Japan GDP is set to grow by 3.3% in 2010 and 1.6% in 2011. Eurozone growth will lag at 0.9% in 2010 and 1.2% in 2011.

G3 Interest Rates

Crédit Agricole CIB maintains its view that the G3 central banks will be in no rush to hike interest rates. Crédit Agricole CIB expects the Fed to be on hold until Q211. The ECB is similarly likely to wait until Q211 before its first rate hike. Crédit Agricole CIB expects Japan's central bank to maintain the call money rate at 0.1% throughout 2011.

G3 FX

Crédit Agricole CIB sees further USD strength for much of the forecast horizon but risks towards the end of 2011 as focus returns to US budget/debt worries. Attention on fiscal/debt problems in Europe will likely keep the EUR under pressure and Crédit Agricole CIB forecasts EUR/USD 1.12 by end-2010. The JPY is also likely to weaken over the forecast horizon and Crédit Agricole CIB sees USD/JPY moving to around 100 by the end of 2010.

Asia Growth

The economic recovery in the region is likely to be sustained in coming quarters, notwithstanding the European sovereign crisis. The crisis matters, with potential impacts on Asian exports, equity and FX markets. However, a significant deterioration in the situation for European credits is not Crédit Agricole CIB's core scenario. Crédit Agricole CIB does not expect a double dip in the US, and it expects China to decelerate only gradually. Global demand for Asian products is likely to remain resilient. Meanwhile, improving labour markets are likely to support domestic demand. These should lead Asian economies to expand by 8.2% this year, accelerating from 5.9% in 2009. Asia's fundamentals are stronger than many European economies, with more favourable debt and external positions. Asian banking systems largely enjoy significant amounts of excess deposits, and are much less reliant on foreign bank loans than some other emerging-market banking systems. These will help limit Asia's financial vulnerability.

Asia Inflation

While inflation has moderated somewhat in Q2, it is still much stronger than a year ago. Looking forward, demand-push inflation pressure is likely to gradually build up. Upside risks on commodity prices should also support prices in Asia.

Asia Rates

Inflation fighting will be high on the agenda for Asian central banks again, as risk aversion is likely to moderate gradually. Policy makers will need to hike rates from current exceptionally accommodative levels in view of strong economic fundamentals and inflationary risks, bringing real policy rates back into positive territory. More hawkish central banks in Asia would put upward pressure on front-end swap rates. Meanwhile, increases in long-end rates could be tempered by a favourable bond supply outlook, with another wave of major fiscal stimulus measures unlikely. This will result in a bear flattening trend in most Asian rate markets. The rate markets that are relatively dovish compared to our policy rate calls include China, Korea and India.

Asia FX

Q3 may remain choppy for Asian currencies, as concern over Europe lingers. However, Crédit Agricole CIB expects Asian FX to resume appreciation, likely in Q4, once more signs accumulate that the European sovereign crisis will not derail the global recovery. Supportive factors include Asia-G3 GDP growth differentials, interest rate differentials as Asian central banks hike rates before the Fed, the ECB and the BOJ, resilient current account surpluses, and CNY appreciation. KRW, INR, PHP and MYR will likely outperform their regional peers in our view.

About Crédit Agricole Corporate and Investment Bank

Alongside its commercial banking activity, Crédit Agricole CIB's business lines are concentrated around four major divisions, with 13,000 employees serving large corporate clients and financial institutions in over 50 countries worldwide:

- **Coverage and Investment Banking**, which is responsible for following up and developing business with clients in France and abroad through a two-pronged commercial organisation: geographic coverage for multi-business line clients, and sector coverage, which provides a means of pooling the expertise built up in the Bank's other divisions. This division also handles financing and corporate finance activities (Mergers and Acquisitions, Equity Capital Markets, Corporate Equity Derivatives and Loan Syndication).
- **Equity Brokerage and Derivatives**, which houses equity brokerage in Europe, Asia and the United States together with trading, equity derivatives and fund activities. These activities are organised around Crédit Agricole Cheuvreux, CLSA and Newedge (a joint holding with Société Générale).
- **Fixed Income Markets**, which handles all capital markets trading and sales activities via a network of 31 trading rooms including five liquidity centers in London, Paris, New York, Hong Kong and Tokyo. Teams are organised around five specialised business lines (Foreign Exchange, Interest Rate Derivatives, Debt & Credit Markets, Commodities and Treasury).
- **Structured Finance**, which originates, structures and finances major export and investment deals for aircraft, ships, corporate real estate, commodities, etc., relying mainly on secured guarantees and complex secured credit facilities. This division comprises nine areas of activity, all of which rank at the top of their field globally: Air Transportation and Rail Financing, Shipping Finance, Natural Resources/Infrastructure/Power, Real Estate and Lodging, Export and Trade Finance, Acquisition Finance, Transactional Commodity Finance, Tax Based Leases and Global Energy Group.

www.ca-cib.com

For media enquiries, please contact:

Crédit Agricole CIB Fixed Income Markets
Asia Pacific ex-Japan
Ms. Joyce Lam, Communications Manager
Tel: +852 2826 1052
Email: joyce.lam@ca-cib.com

Crédit Agricole CIB Fixed Income Markets
Ms. Virginie Ourceyre, Global Head of Communications
Tel: +44 (0) 207 214 6610
Email: virginie.ourceyre@ca-cib.com