



BNP PARIBAS
CORPORATE & INVESTMENT BANKING

Searching for the Bottom

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November, 2008**



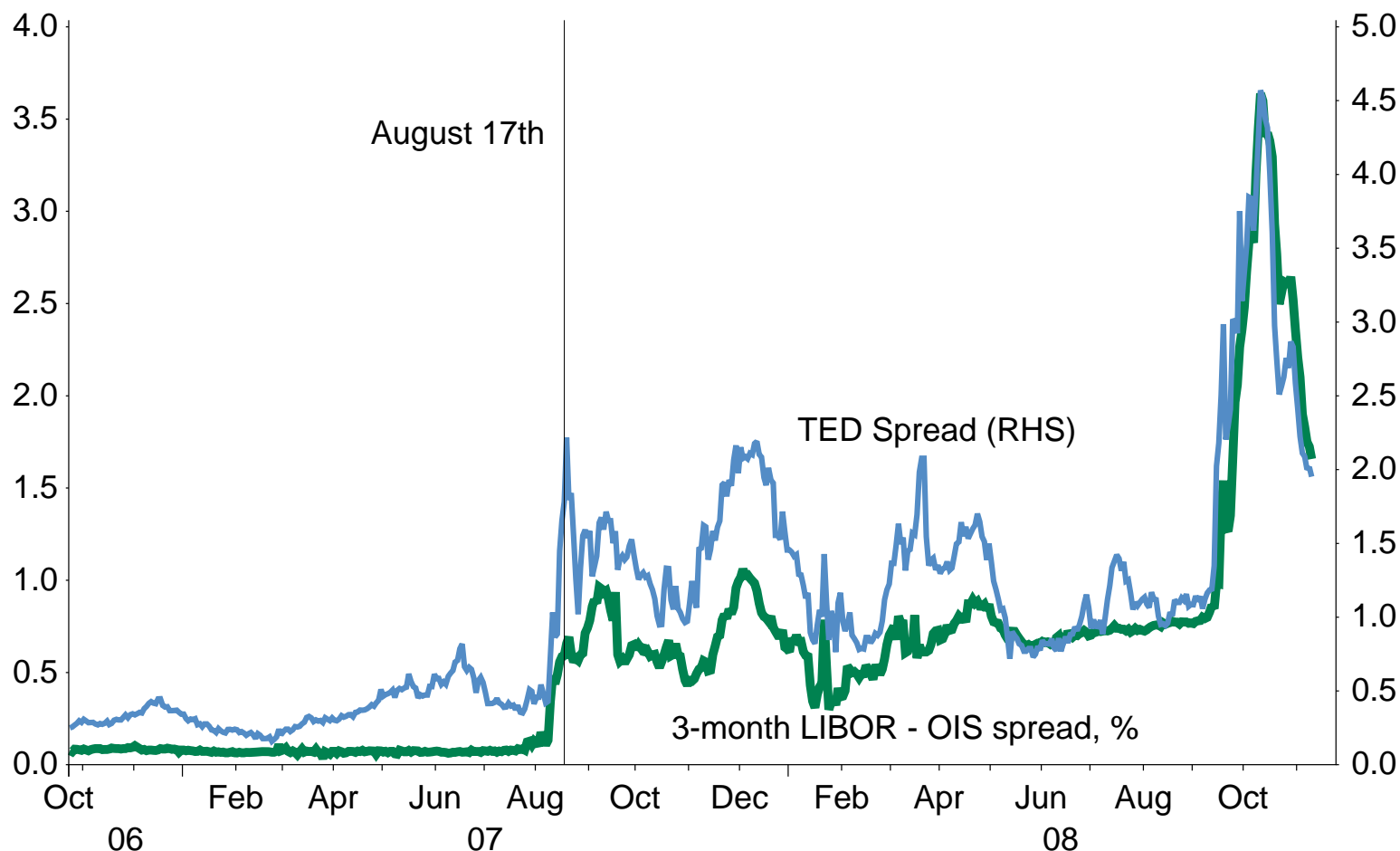


The Credit Crunch Will Savage an Already Weakened Economy

1. The massive, unprecedented and innovative steps that the US treasury and the Federal Reserve have undertaken in the past 13 months have not been sufficient to unfreeze the financial system and induce it to fund new economic activity.
2. Surviving financial institutions have tightened lending requirements, slashed leverage and in some cases stopped lending.
3. As a result, The economy is in recession and the credit crisis will deepen and prolong it; economic growth will contract sharply over the next several quarters.
4. Businesses are finding it difficult to secure funds for normal working capital needs and are shelving plans for new CAPEX and beginning to slash payrolls.
5. Corporate profits have fallen for the past year and will continue to drag stock prices lower this year.
6. Consumers are discovering obstacles to gaining credit for consumption, panicking as their wealth disappears, and coping with rising unemployment.
7. State and local governments revenue sources are shrinking causing budget dilemma for them and greatly restricted spending.
8. More fiscal stimulus is expected in 2009 and it will enlarge the Federal deficit which will swell to unprecedented proportions as revenue growth slows, needs increase, and the costs of bailing out the Federal agencies, purchasing unwanted mortgages, and investing in surviving banks propels the deficit toward \$1 trillion.
9. The FOMC has lowered its target rate to 1%, and is carrying out its collateral swapping and CP purchase programs by expanding its balance sheet. ie fighting deflation with future inflation.
10. Inflation is forecast to dive in the next few months reflecting the plunge in commodity and energy prices, decelerating labor costs associated with a rising unemployment rate and the influence from a deeper negative output gap.
11. A massive reduction in the US trade deficit kept GDP growth positive. However, the dollar should appreciate as economic woes spread to Europe, Japan and other advanced economies. As these economies weaken, US export growth will decelerate and GDP growth will diminish.
12. Recession won't end until housing sector returns to balance.
13. Interest rates are forecast to rise later in 2009, and credit spreads will widen in the next 12 months as delinquencies and bankruptcies increase.



Tight Conditions Continue in Money Markets Starting to Abate

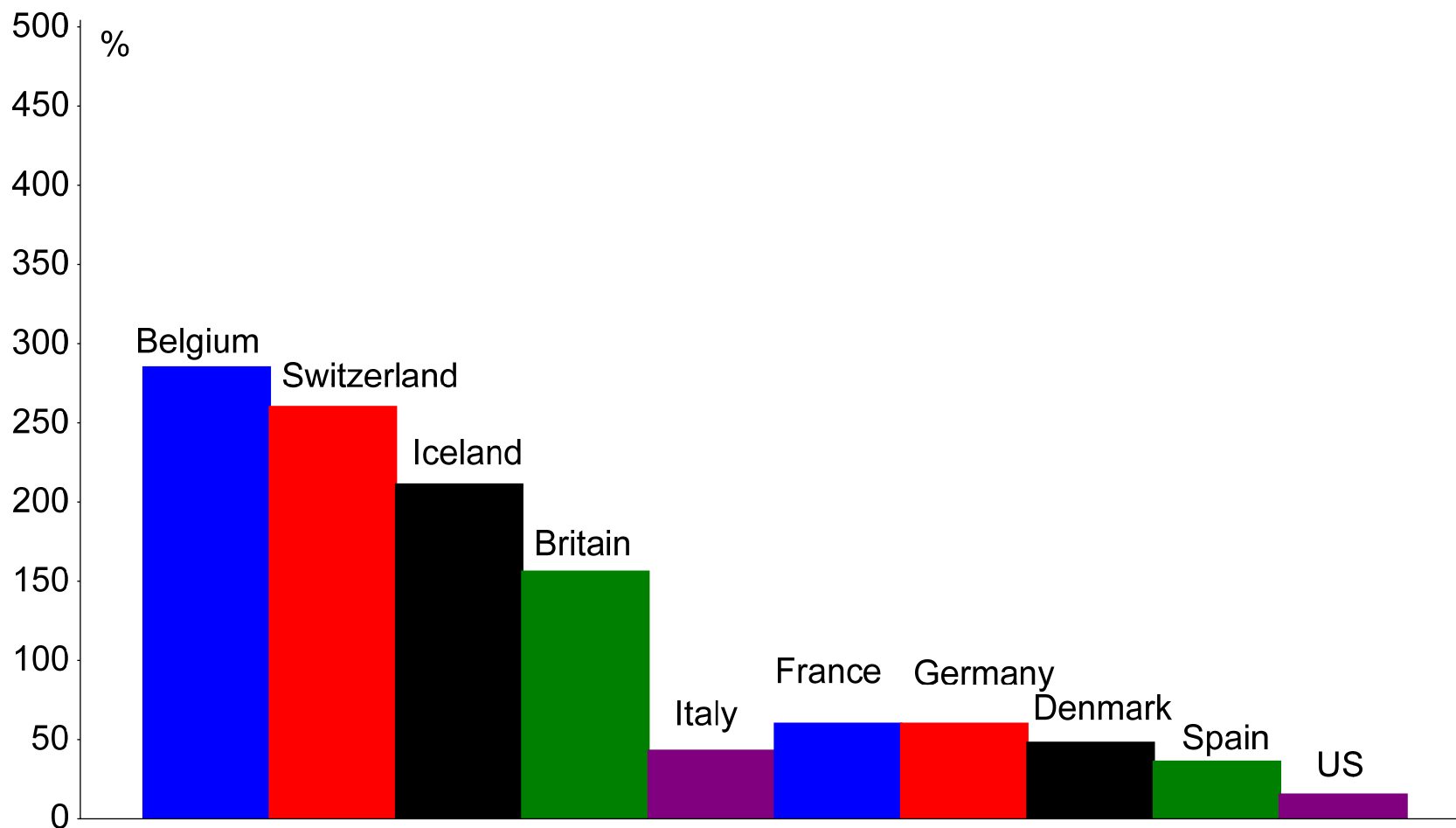


Money market spreads remain well above their normal levels in spite of massive actions by the Federal Reserve reflecting continued fears by market participants.

Source: Reuters Ecowin Pro, BNP Paribas



Short-term bank liabilities in proportion to each country's GDP



Source: Reuters Ecowin Pro, BNP Paribas



Federal Reserve Credit (USD bn)

Table 1: Federal Reserve Credit (USD bn)

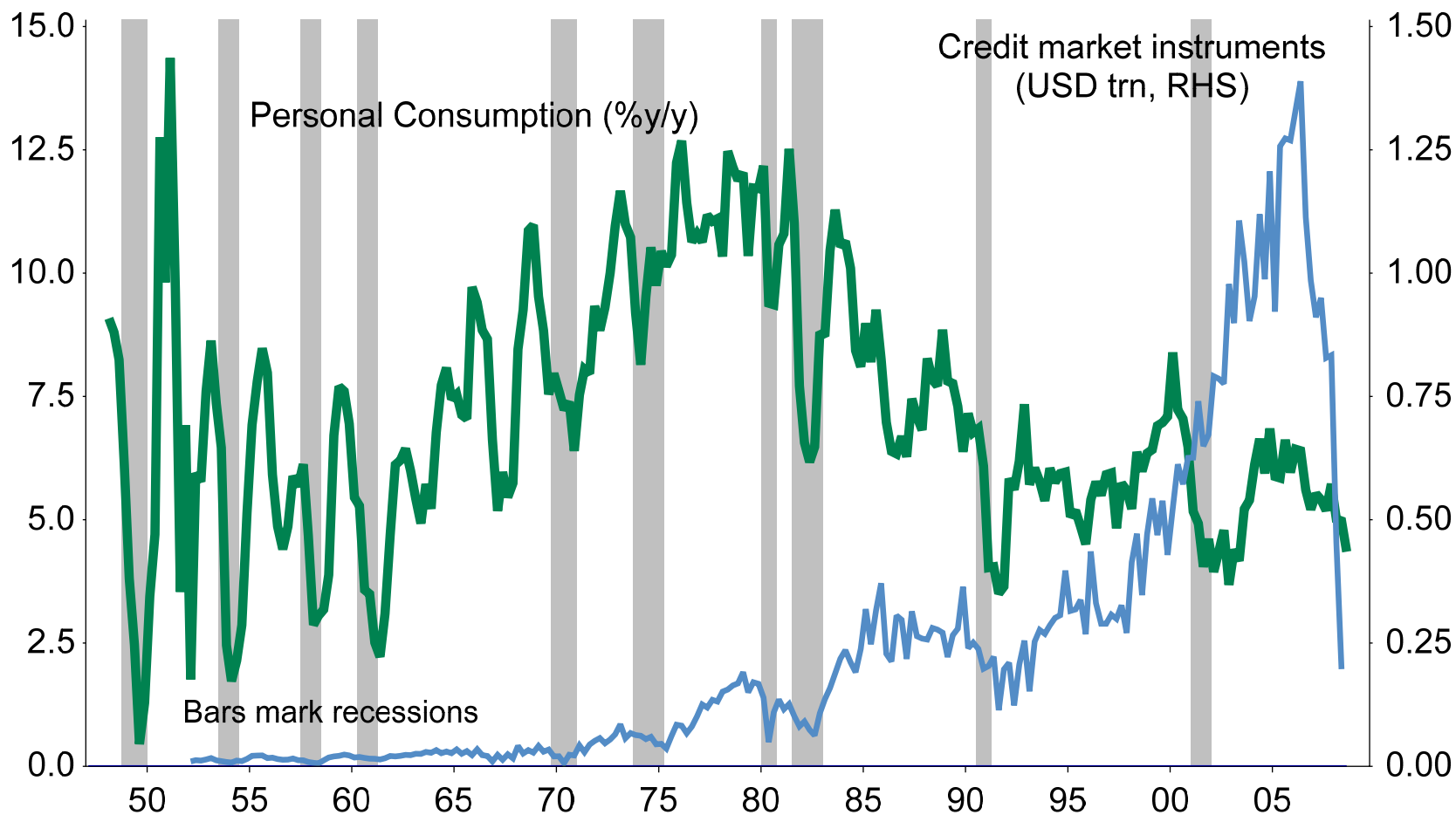
	12/19/07	06/04/08	09/17/08	10/29/08	11/05/08	Change (11/05/08 from 10/29/07)	Change (11/05/08 from 12/19/07)
Reserve Bank credit	870,930	877,723	931,340	1,872,948	2,055,846	182,898	1,184,916
Securities							
Treasuries	769,748	486,909	479,818	476,485	476,462	-23	-293,286
Agencies	0	0	0	13,897	13,565	-332	13,565
Repurchase Agreements	55,750	114,107	124,500	80,000	80,000	0	24,250
Term Auction Credit	N/A	150,000	150,000	301,363	301,363	0	301,363
Discount Loans	4,619	24,259	47,969	388,809	359,009	-29,800	354,390
Other	92,848	154,495	151,720	596,794	624,631	27,837	531,783
Total Assets	891,276	897,040	995,570	1,970,680	2,075,822	105,142	1,184,546
Total Liabilities	854,733	856,789	954,235	1,930,261	2,034,665	104,404	1,179,932
Capital	36,543	40,251	41,335	40,418	41,157	739	4,614
Securities lent to dealers (TSLF)	N/A	115,618	125,674	222,566	220,648	-1,918	220,648

Source: Federal Reserve

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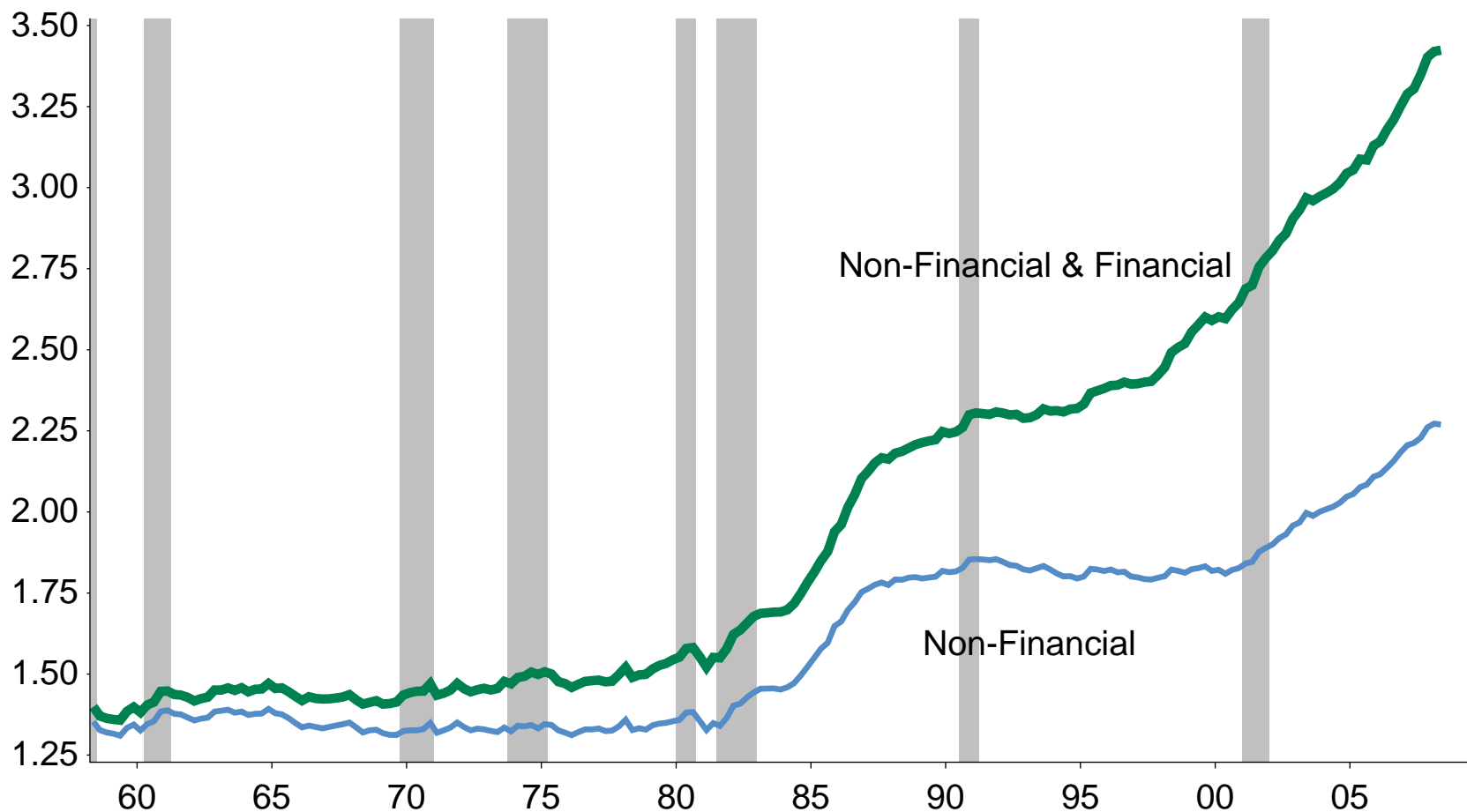
Credit Expanded Abnormally In this Decade



Source: Reuters Ecwin Pro, BNP Paribas



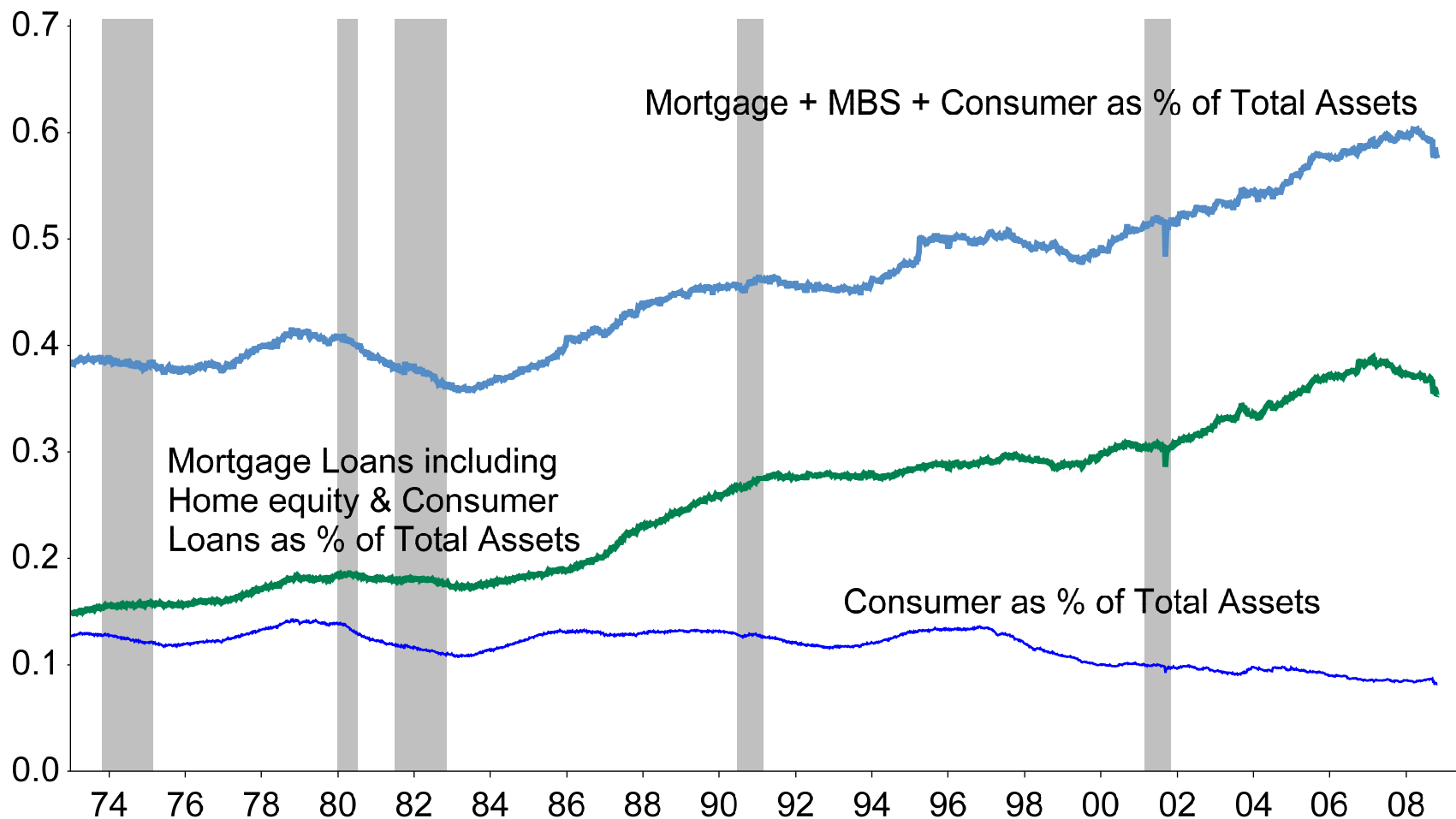
Total Domestic Debt as % of Nominal GDP Soared



Source: Reuters Ecowin Pro, BNP Paribas



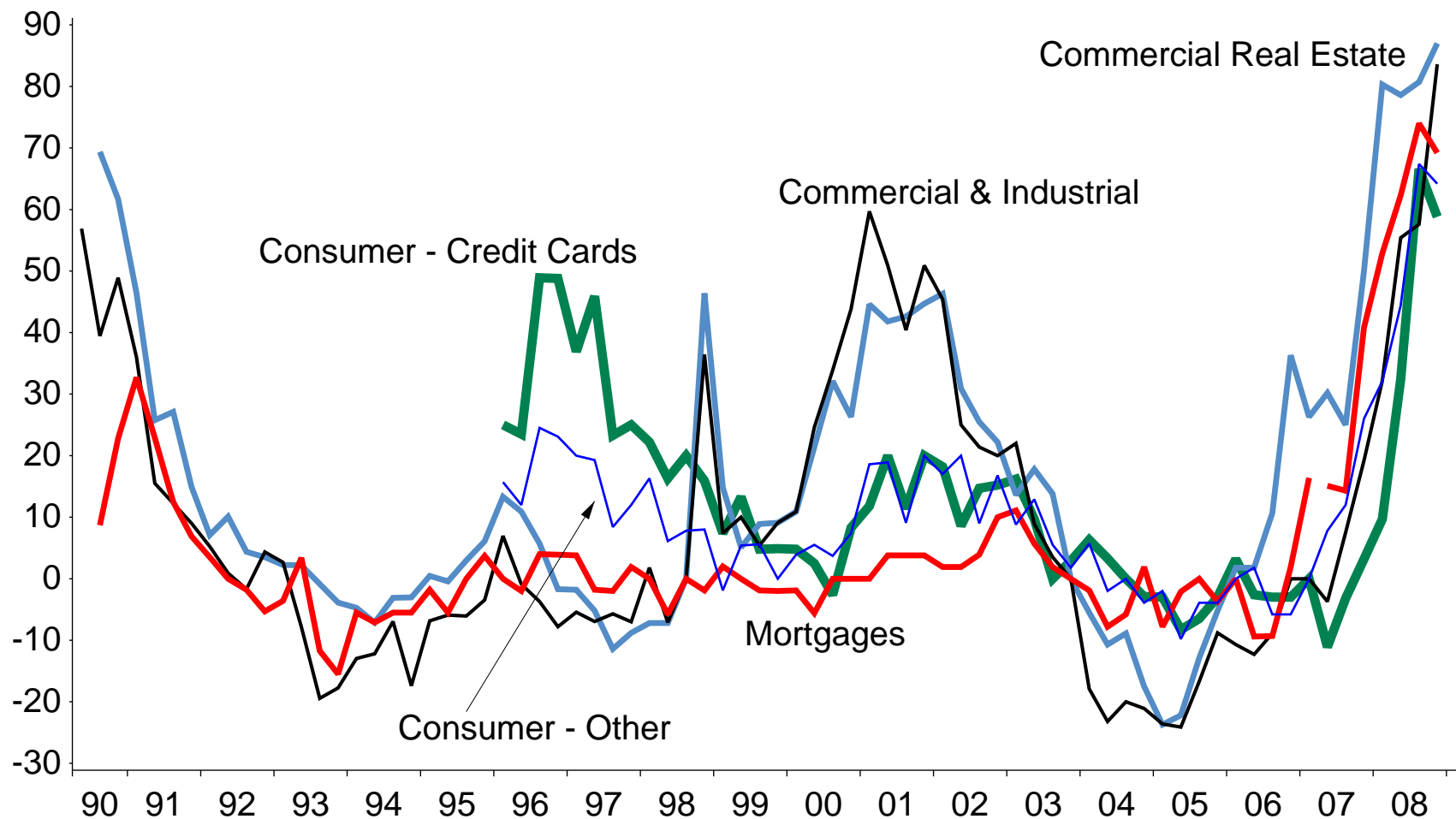
Commercial Banks Are Overexposed to Real Estate Debt



Source: Reuters Ecowin Pro, BNP Paribas



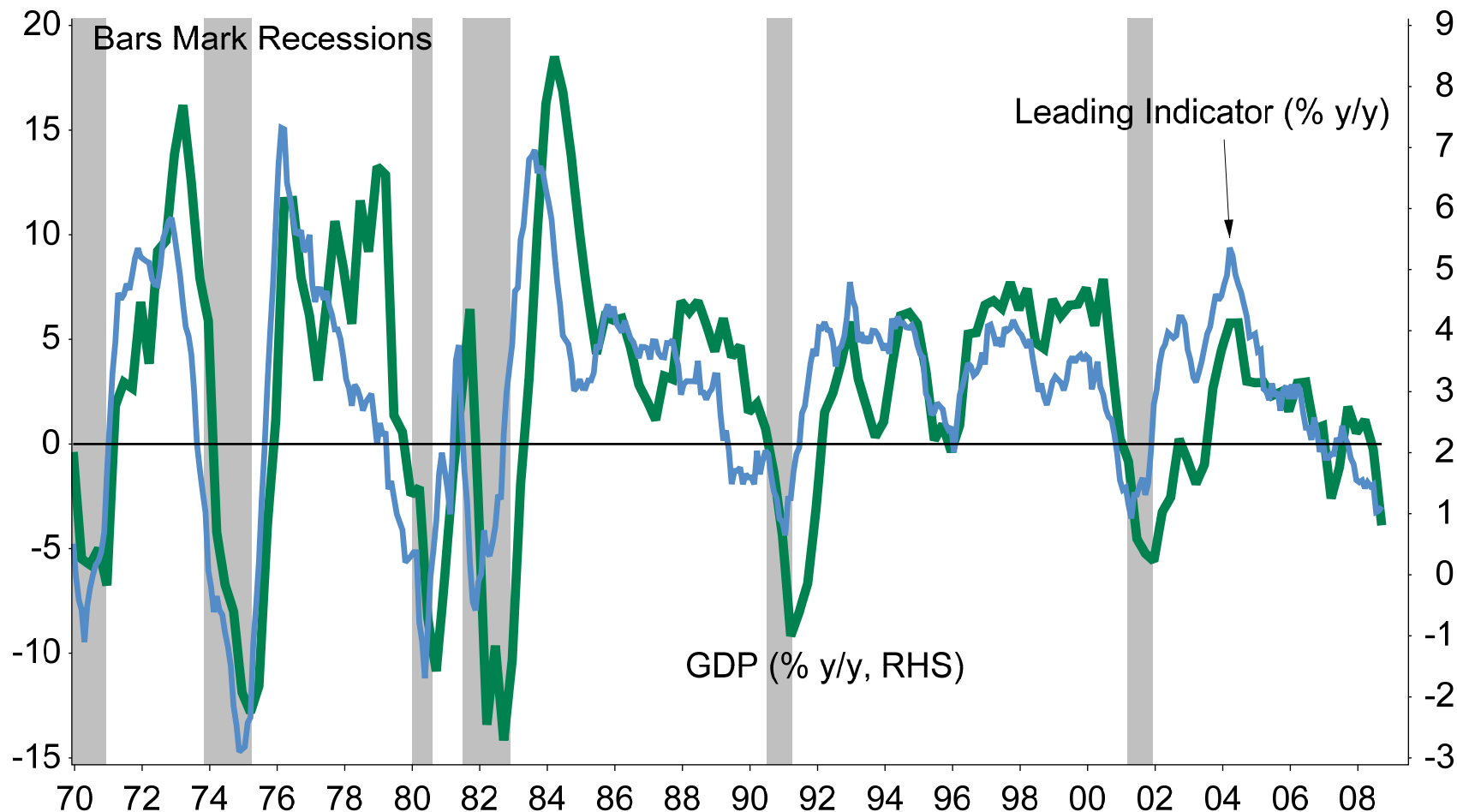
Bank Lending Standards Tightening for All Lending



Source: Reuters Ecwin Pro, BNP Paribas

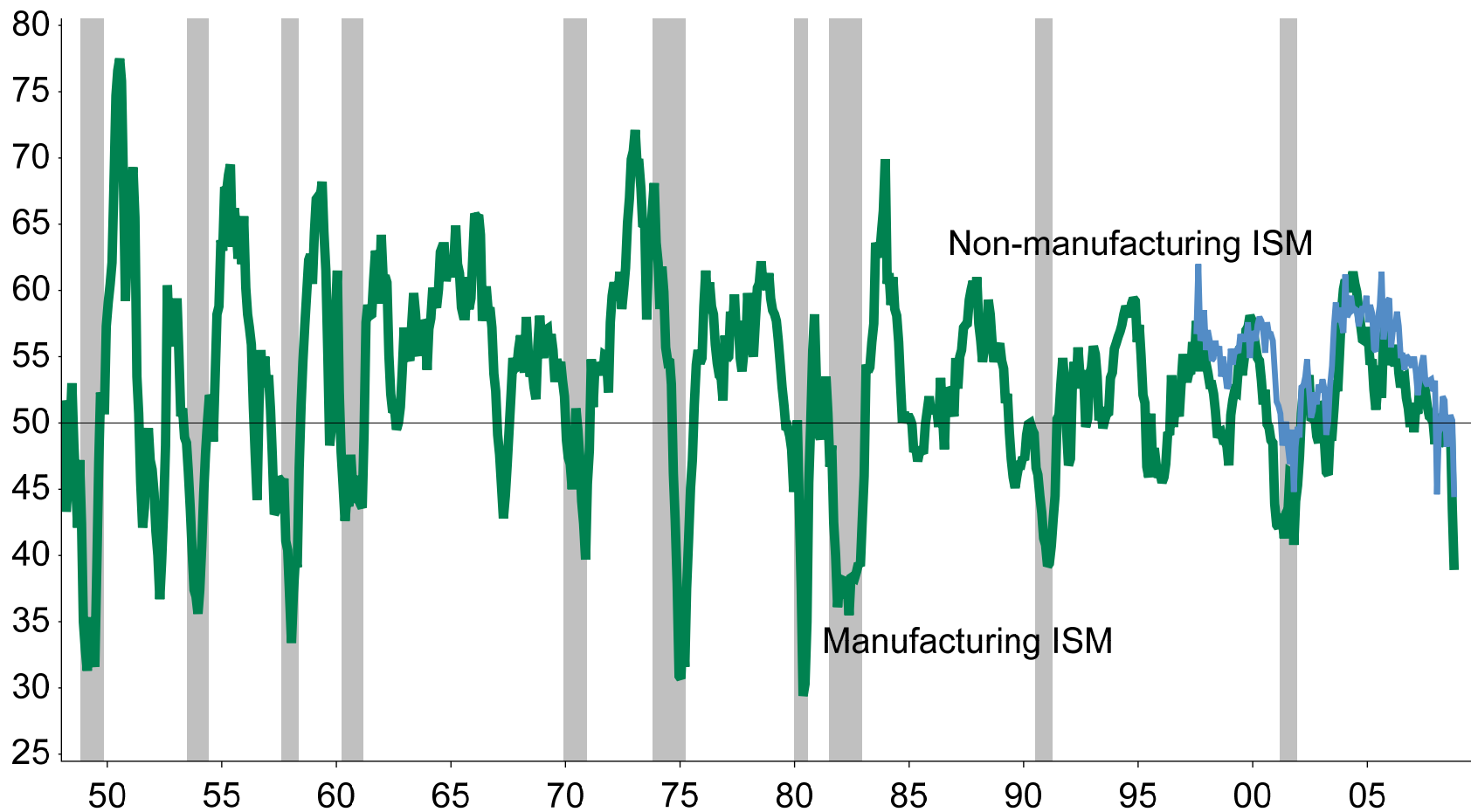


Leading Indicators Are Clearly Pointing to Recession



Source: Reuters Ecwin Pro, BNP Paribas

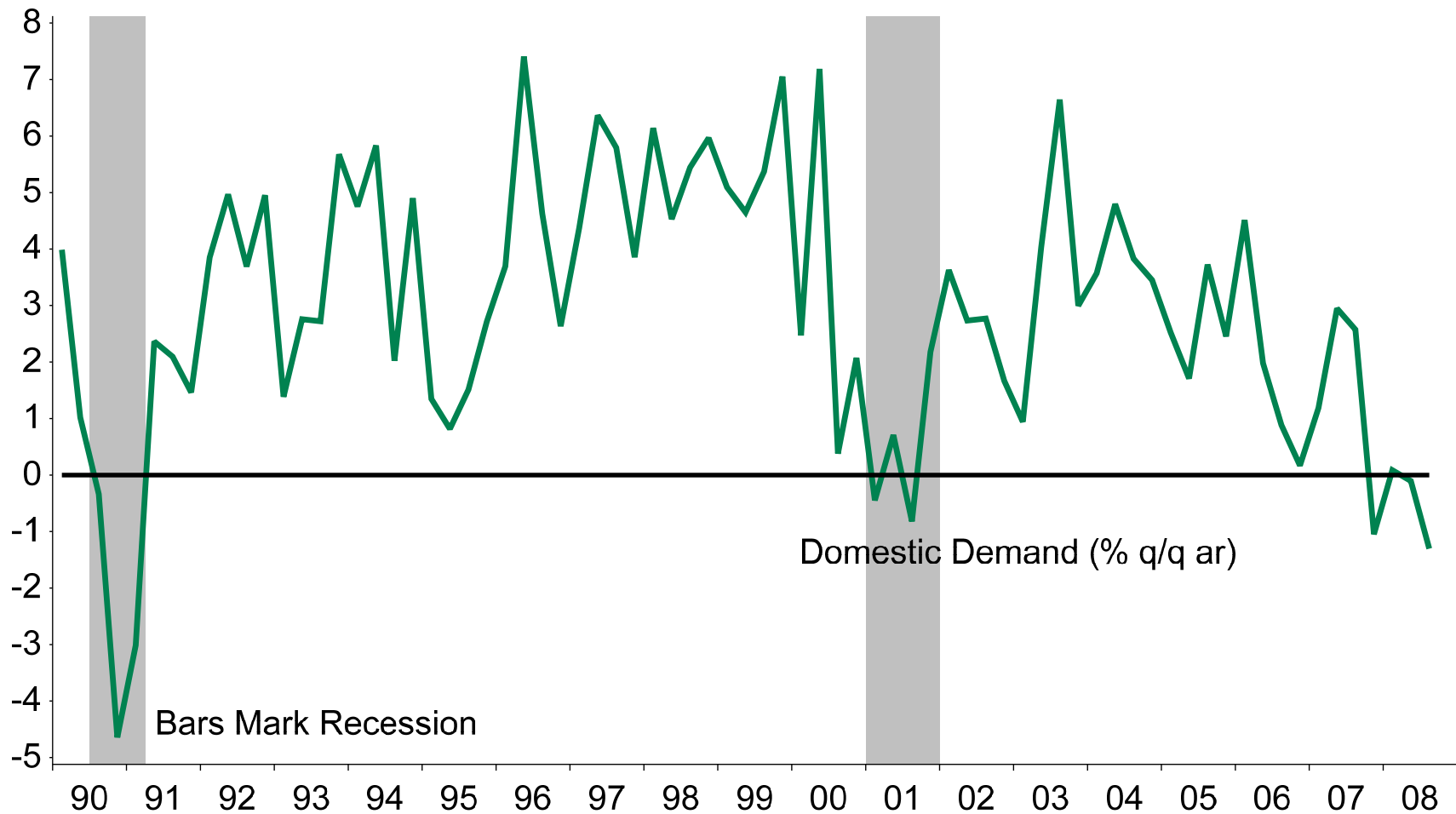
The ISM indexes are Now in Recession Territory



Source: Reuters Ecowin Pro, BNP Paribas



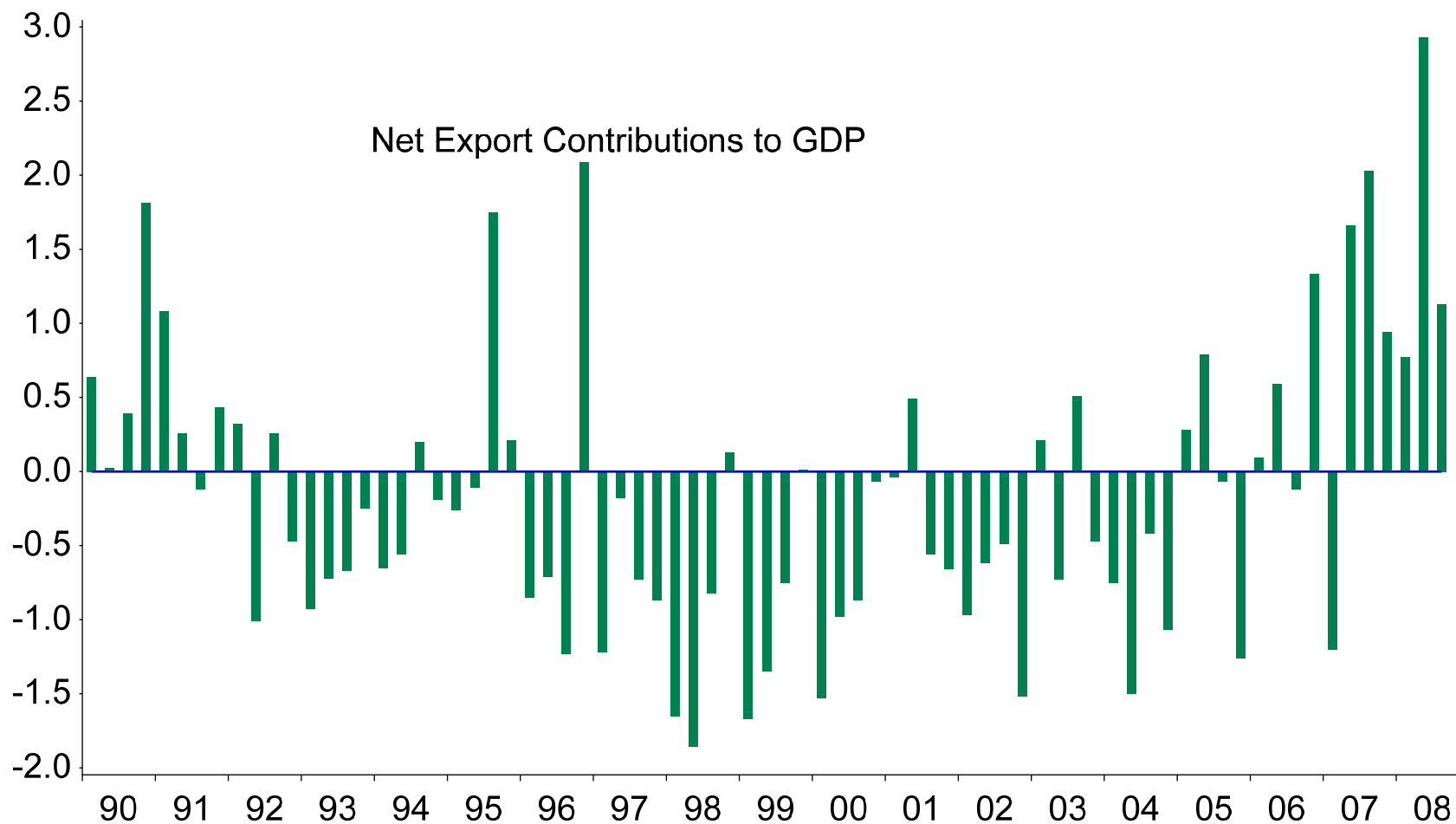
Domestic Demand Is Dormant



Source: Reuters Ecwin Pro, BNP Paribas



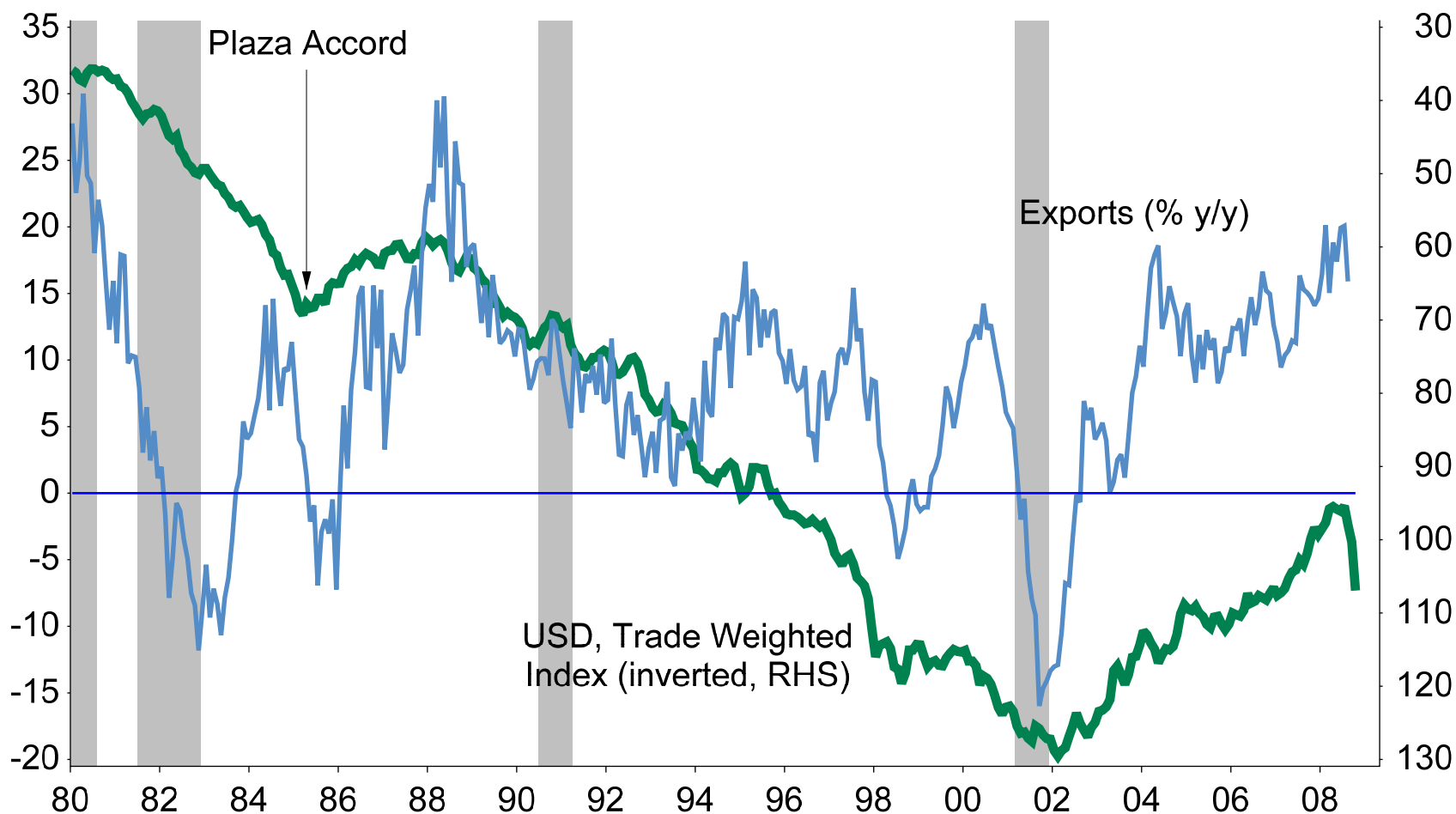
External Trade is Contributing All the Growth



Source: Reuters Ecowin Pro, BNP Paribas



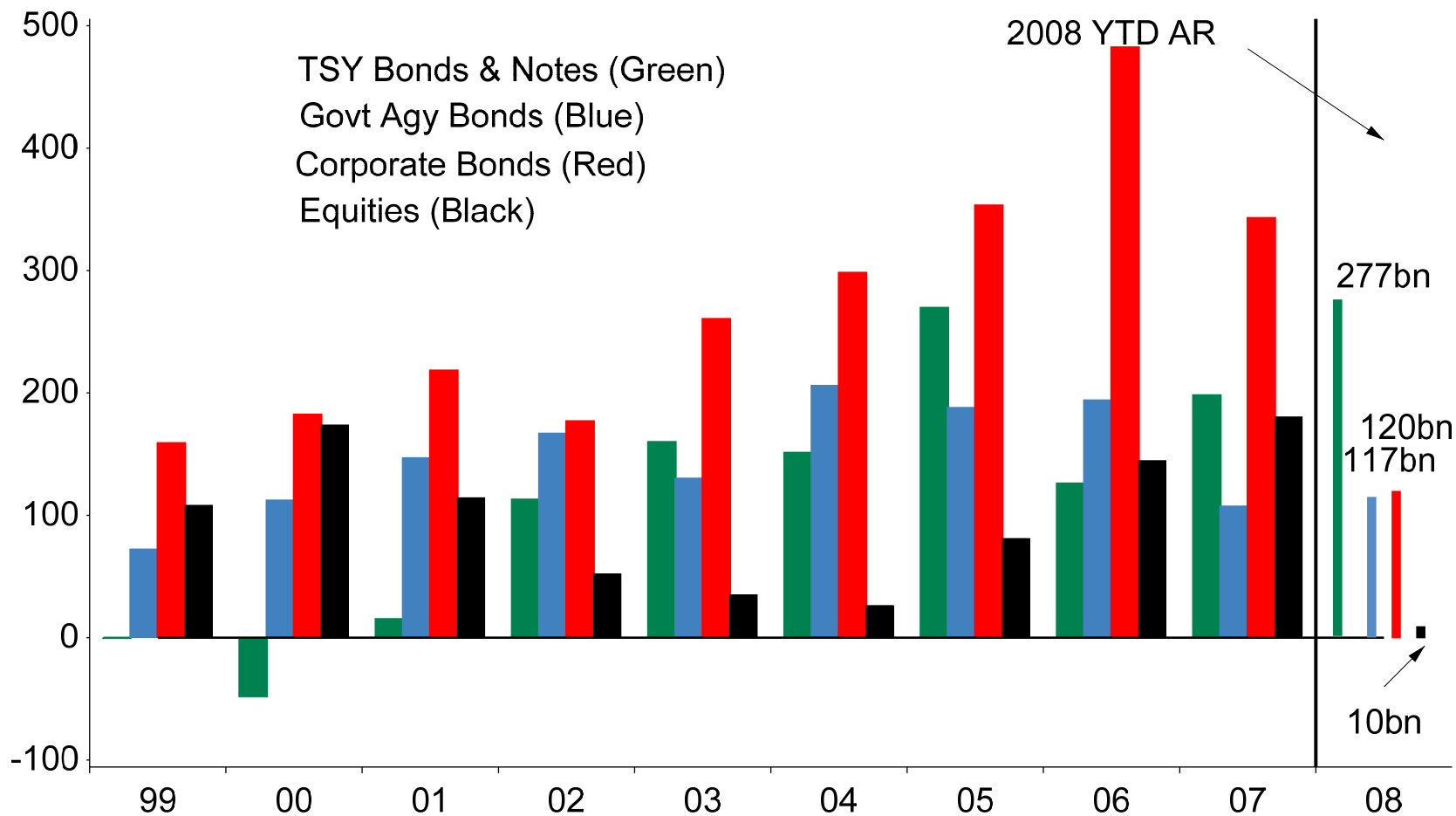
The 30% Depreciation of the Trade Weighted Dollar Helped



Source: Reuters Ecowin Pro, BNP Paribas



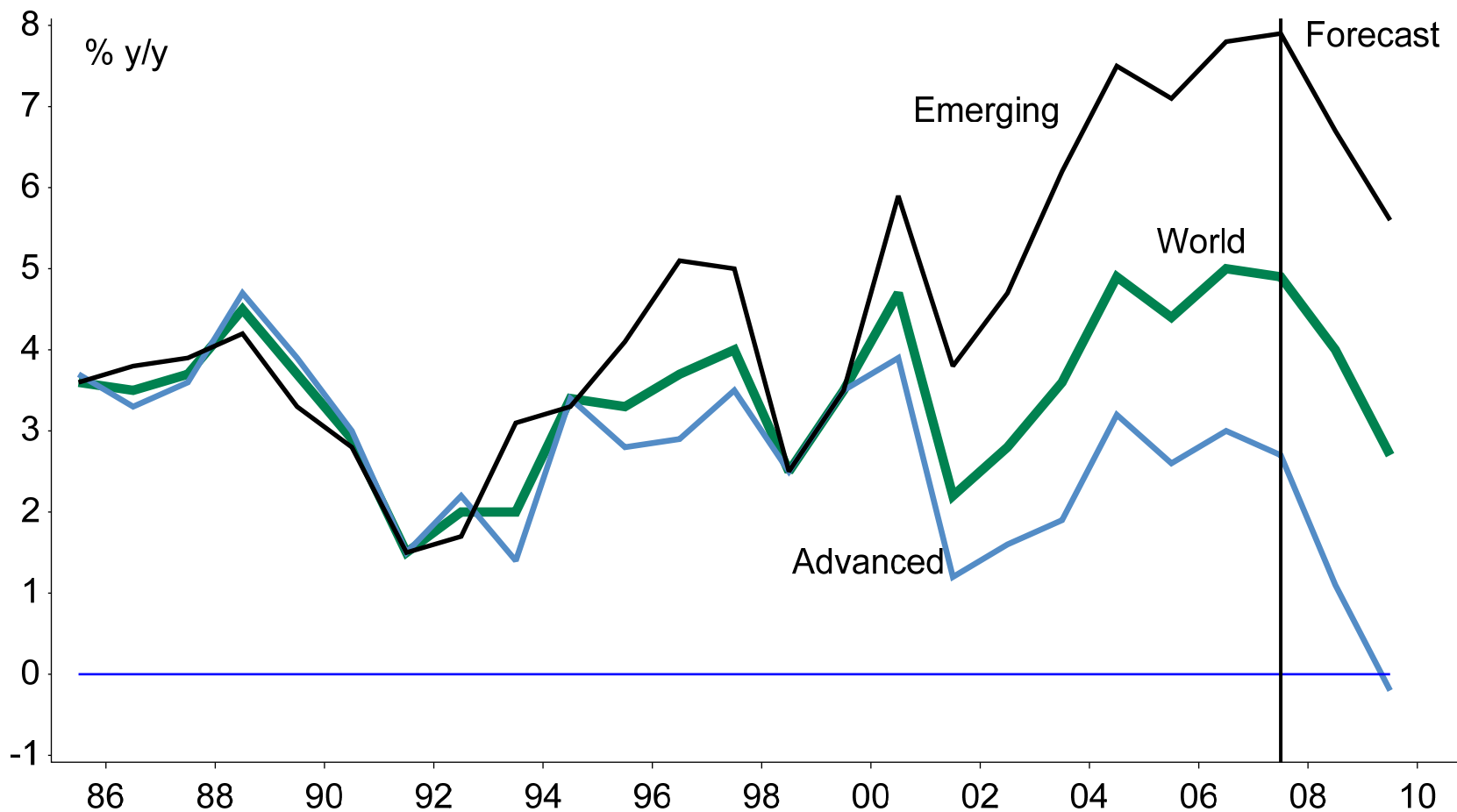
International Investors Slowed Corporate Purchases in 2008



Source: Reuters Ecwin Pro, BNP Paribas



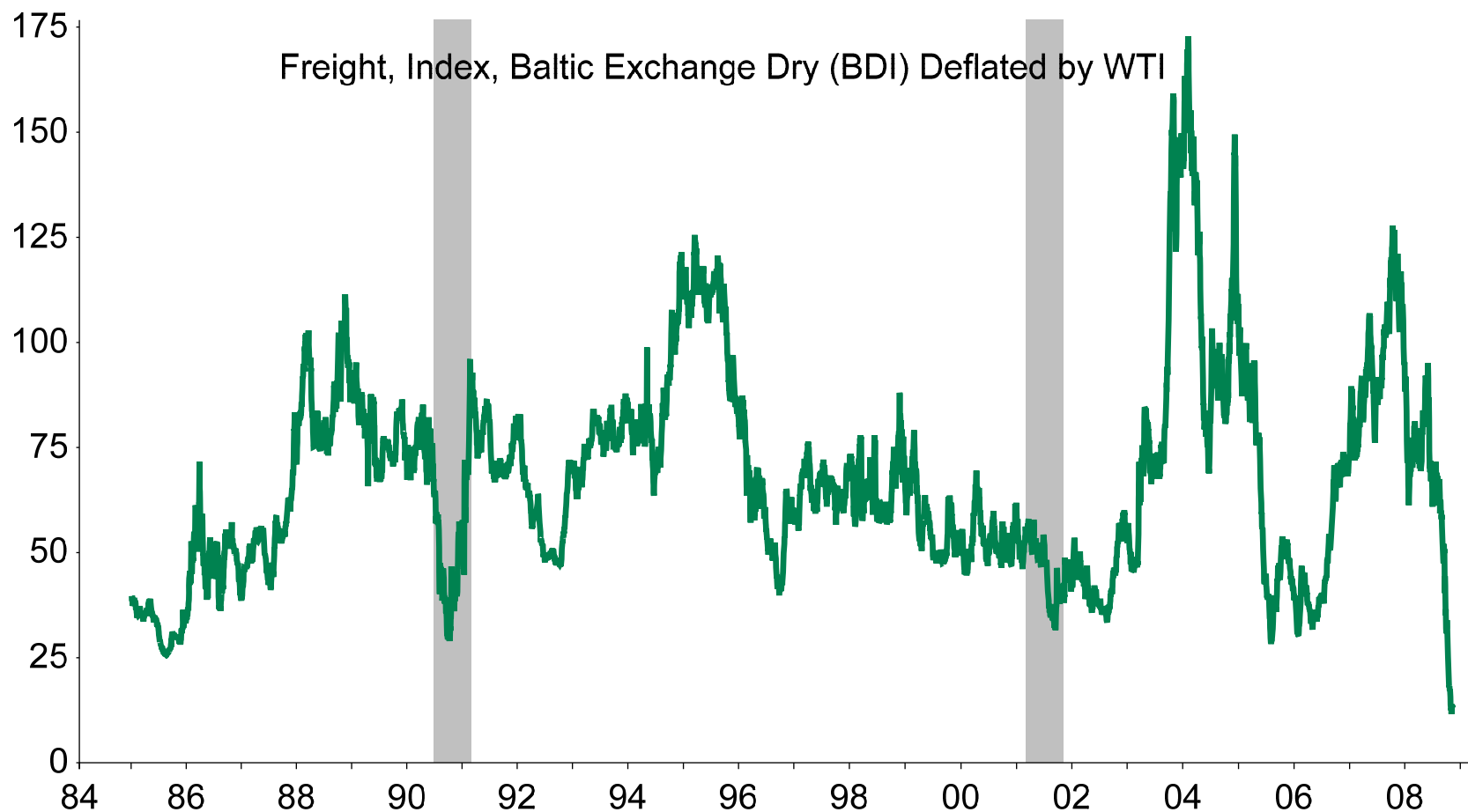
World GDP Growth Expected to Slow Dramatically



Source: Reuters Ecwin Pro, BNP Paribas



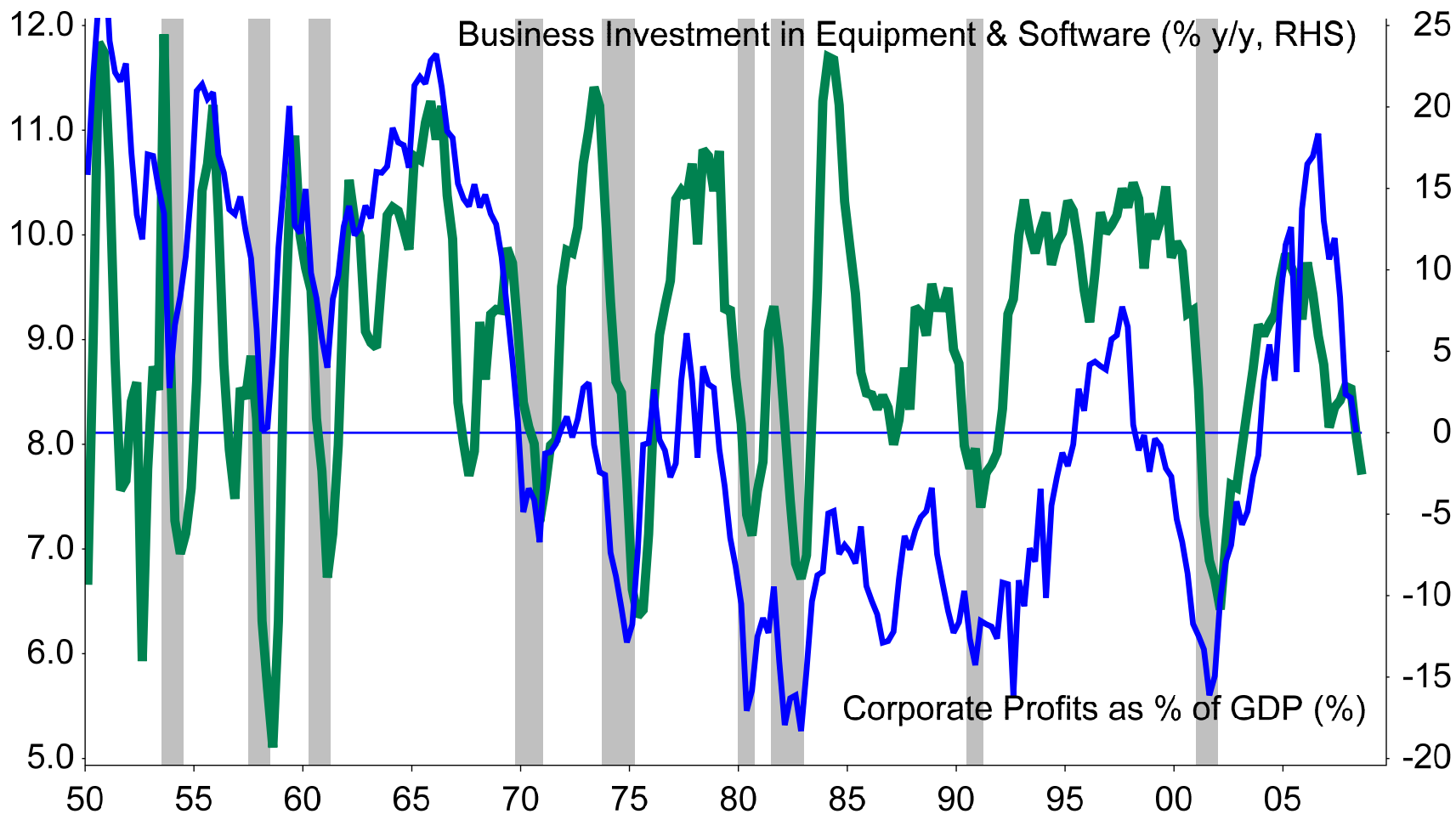
Freight, Index, Baltic Exchange Dry (BDI) Deflated by WTI



Source: Reuters Ecowin Pro, BNP Paribas



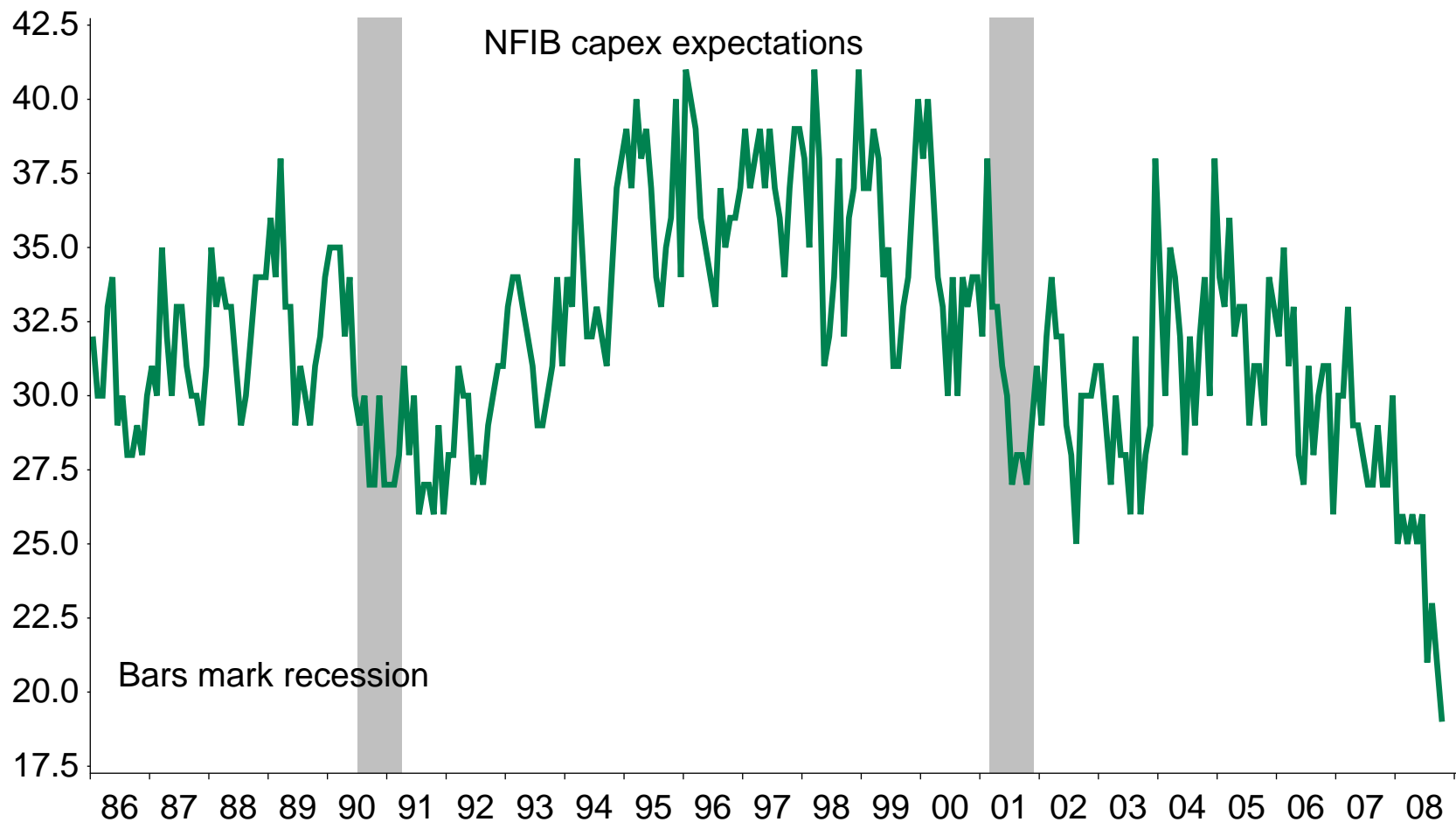
Business Investment Turns Off When Profits Slump



Source: Reuters Ecwin Pro, BNP Paribas



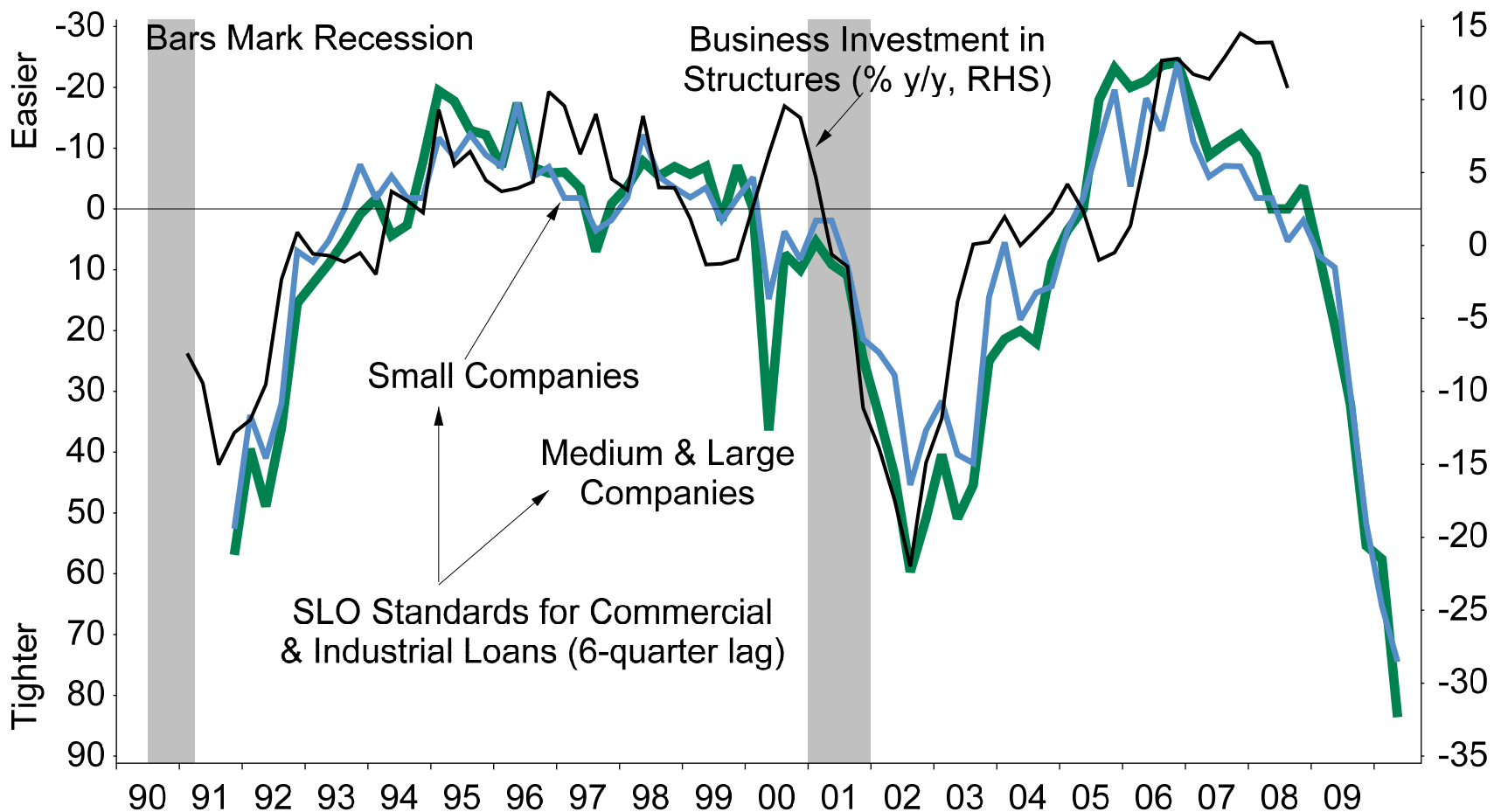
Small Businesses Confidence and Investment Plans Plunging



Source: Reuters Ecwin Pro, BNP Paribas



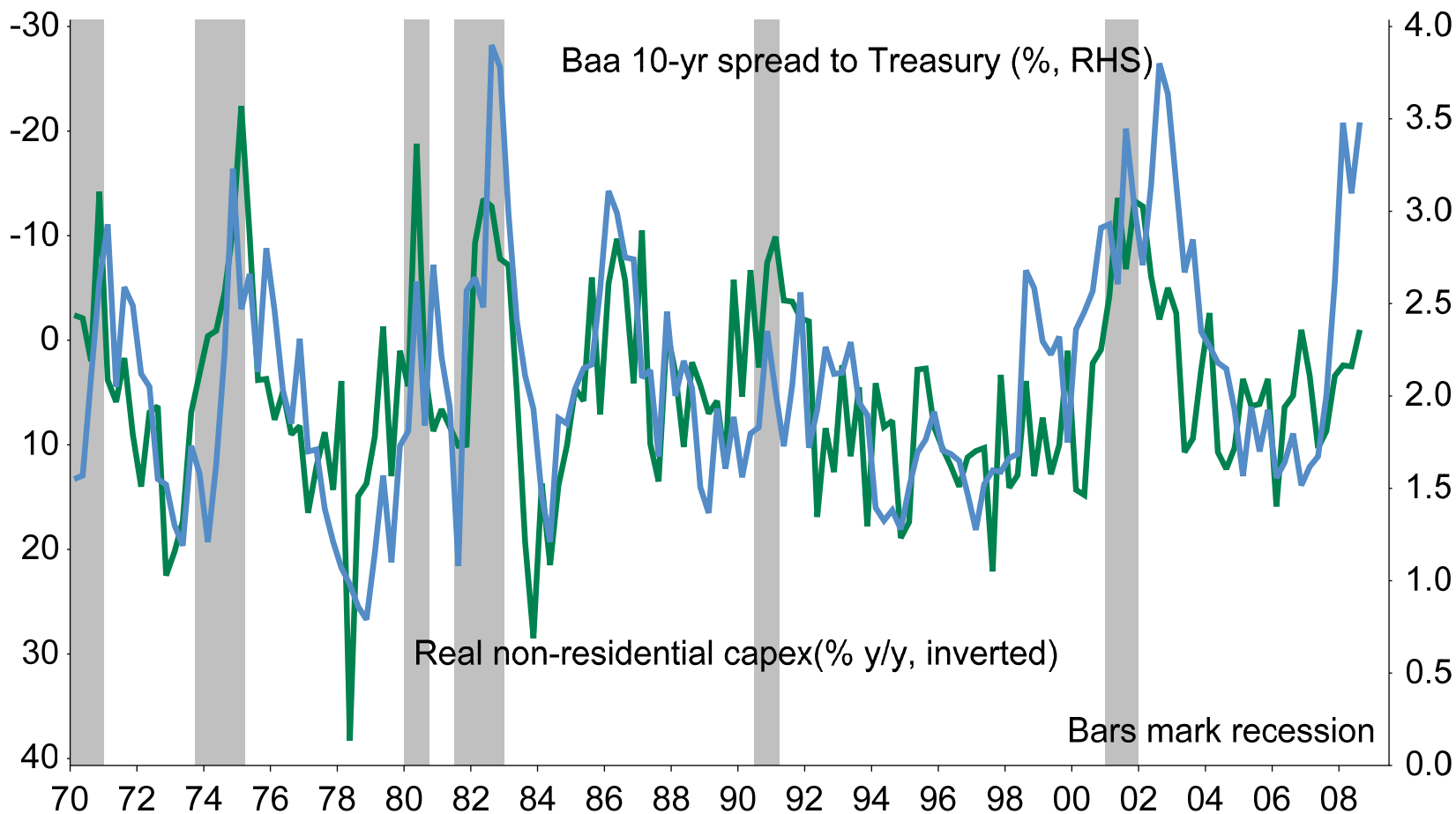
Business Investment in Structures (% y/y)



Source: Reuters Ecwin Pro, BNP Paribas



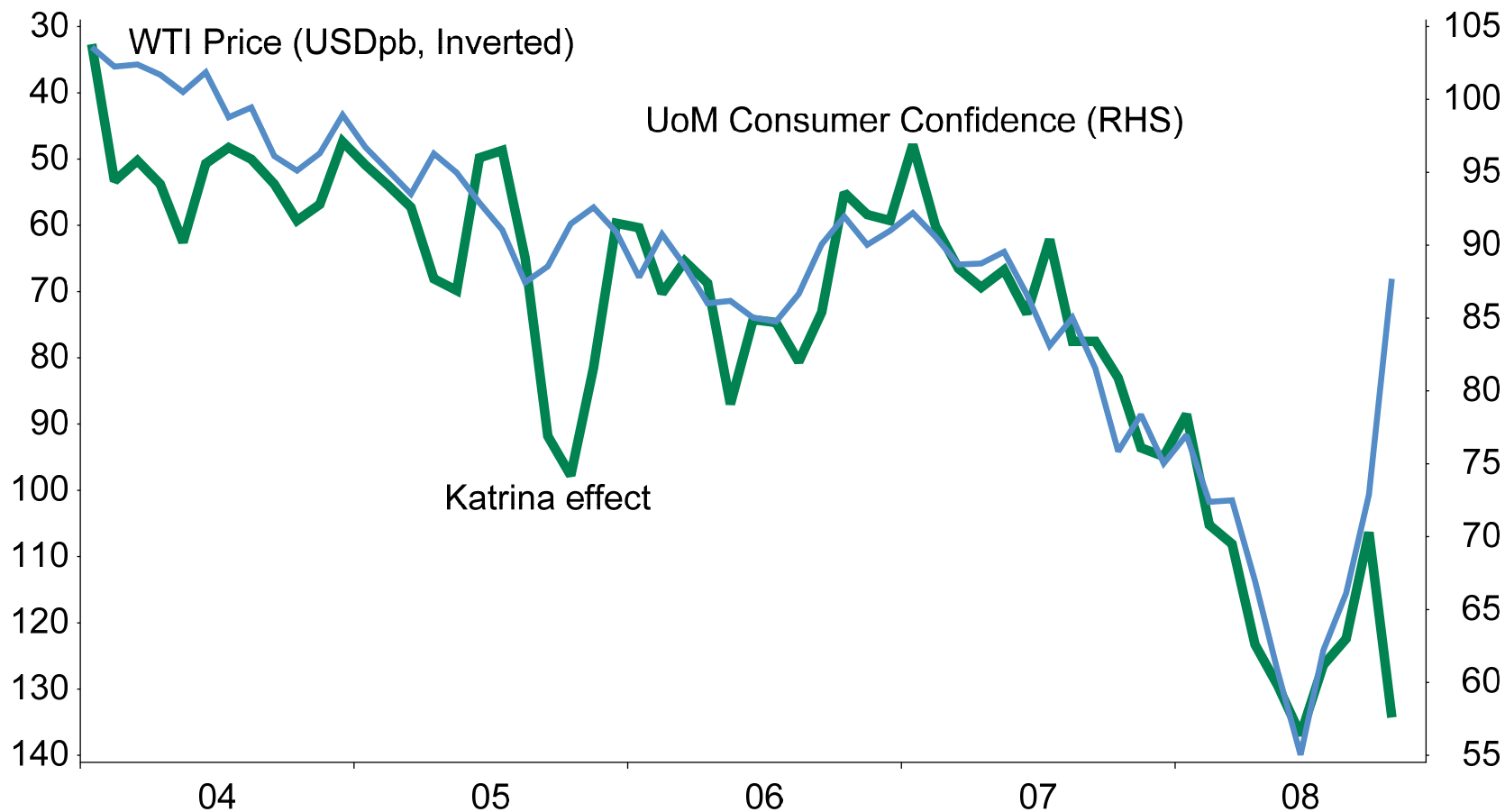
Corporate Debt Costs Are Rising



Source: Reuters Ecowin Pro, BNP Paribas



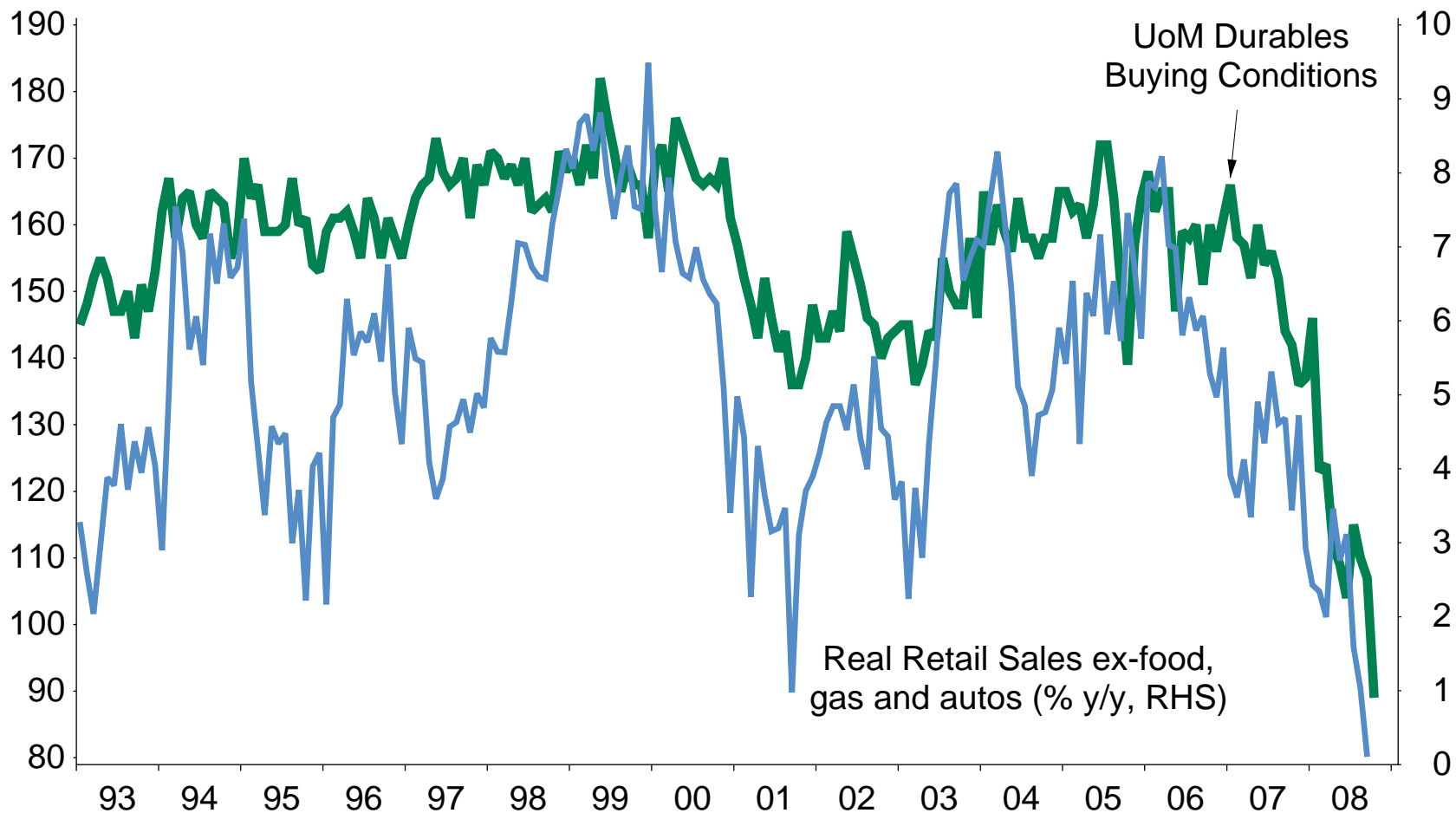
Higher Energy Costs Sank Consumer Confidence Now UR Is



Source: Reuters Ecwin Pro, BNP Paribas



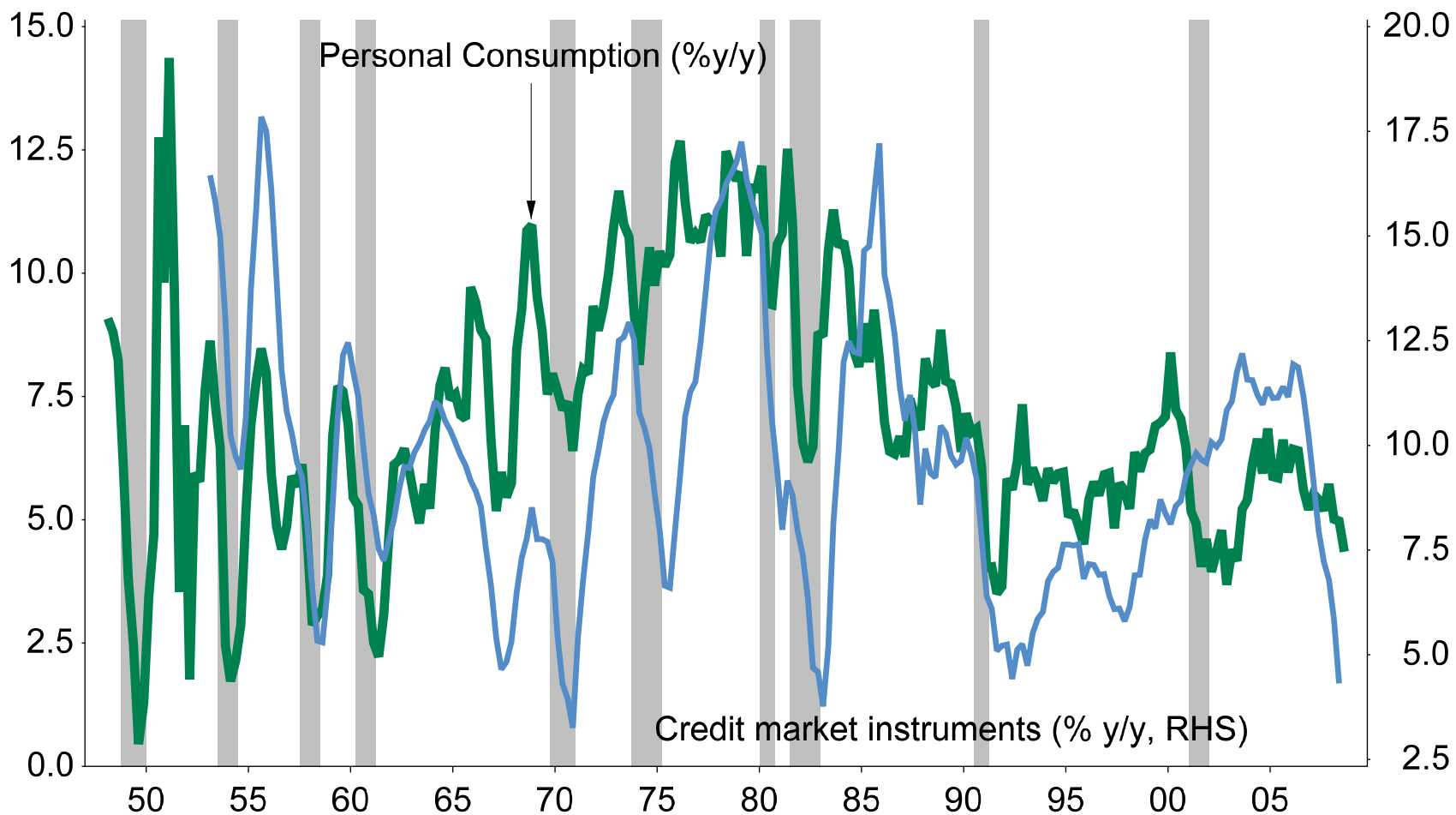
Consumers Buying Conditions Index Points to Lower Goods Purchases



Source: Reuters Ecwin Pro, BNP Paribas



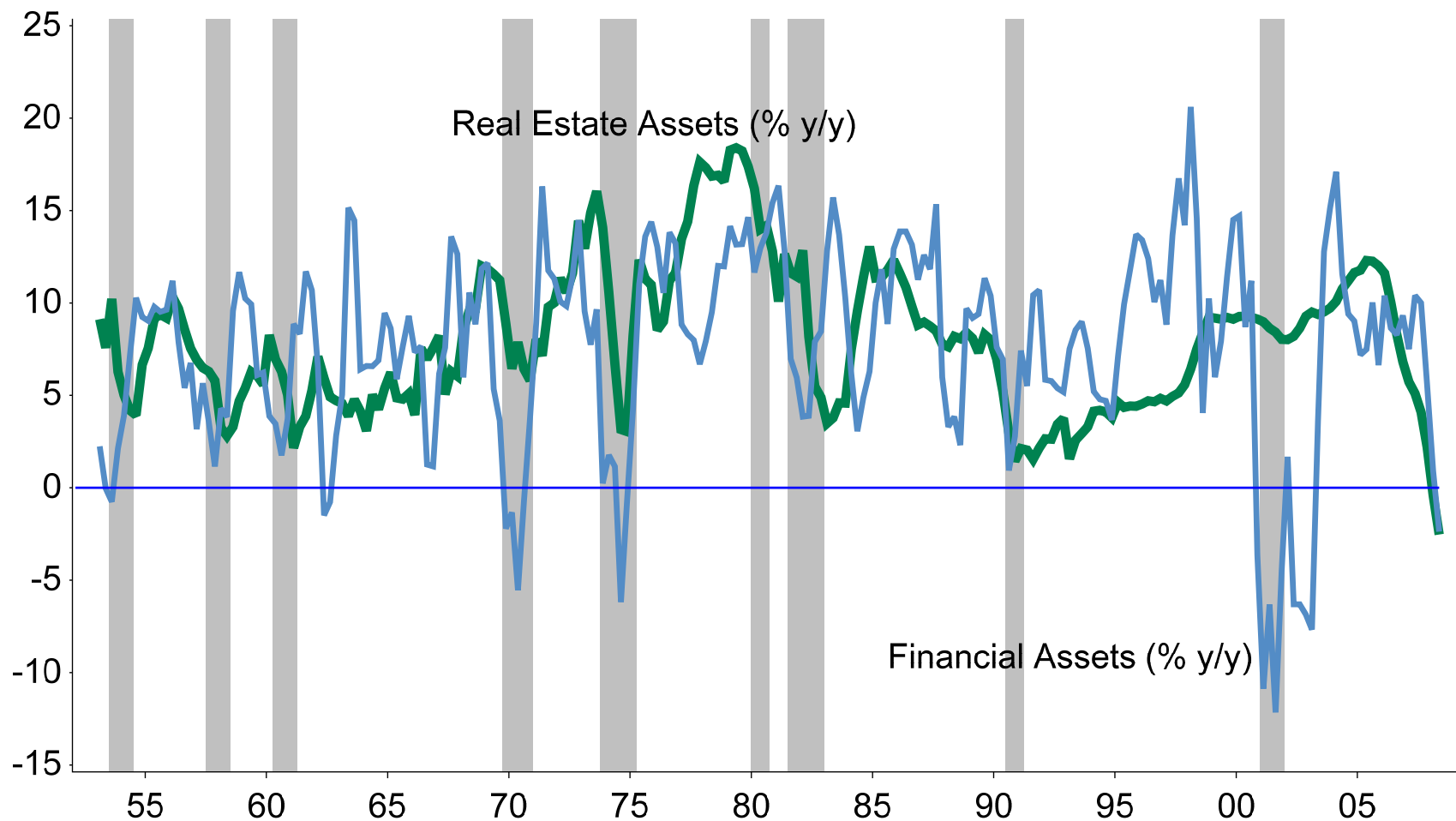
Credit is Now Being Withdrawn from Households



Source: Reuters Ecwin Pro, BNP Paribas



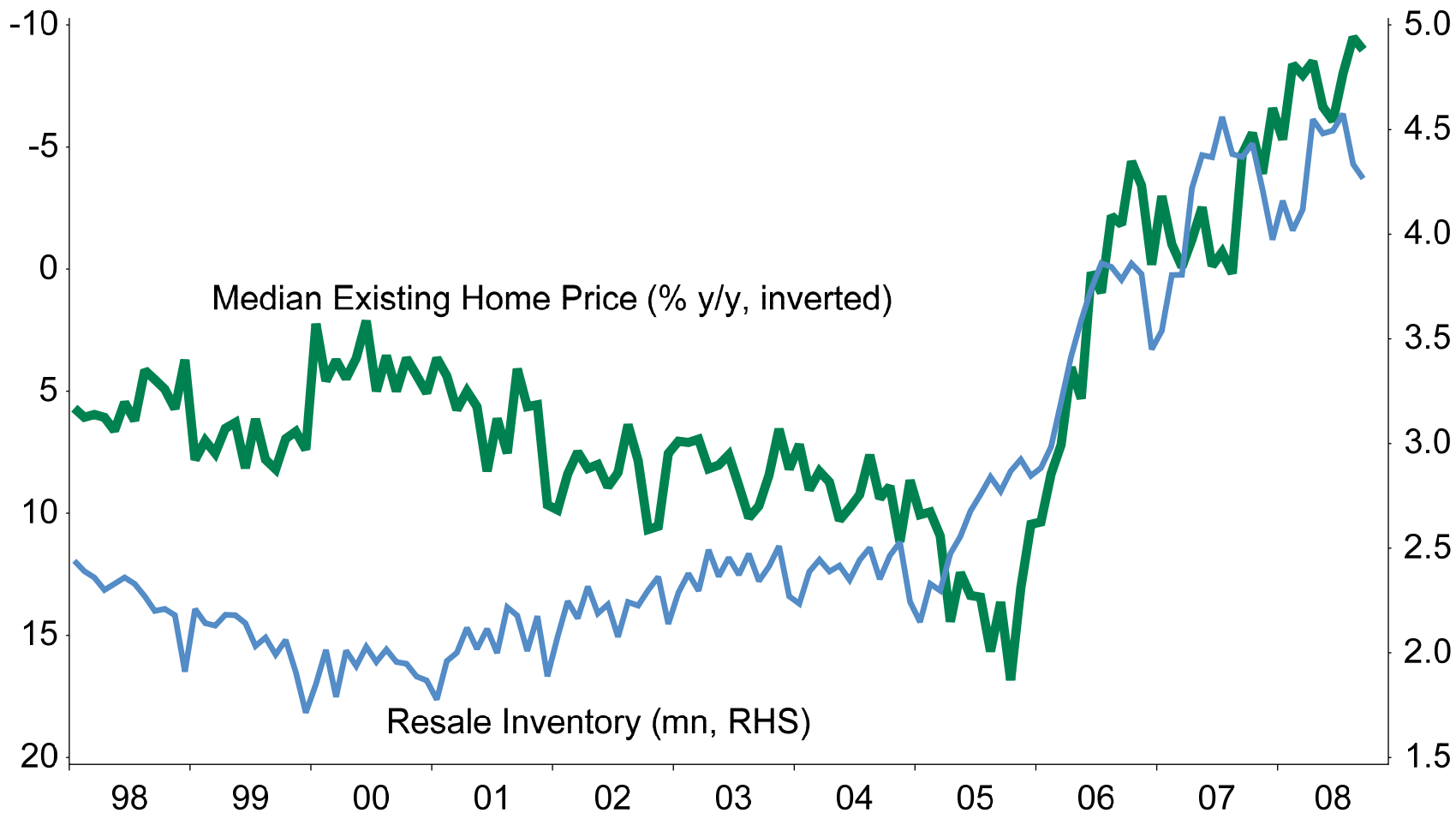
Household Wealth Is Declining



Source: Reuters Ecwin Pro, BNP Paribas



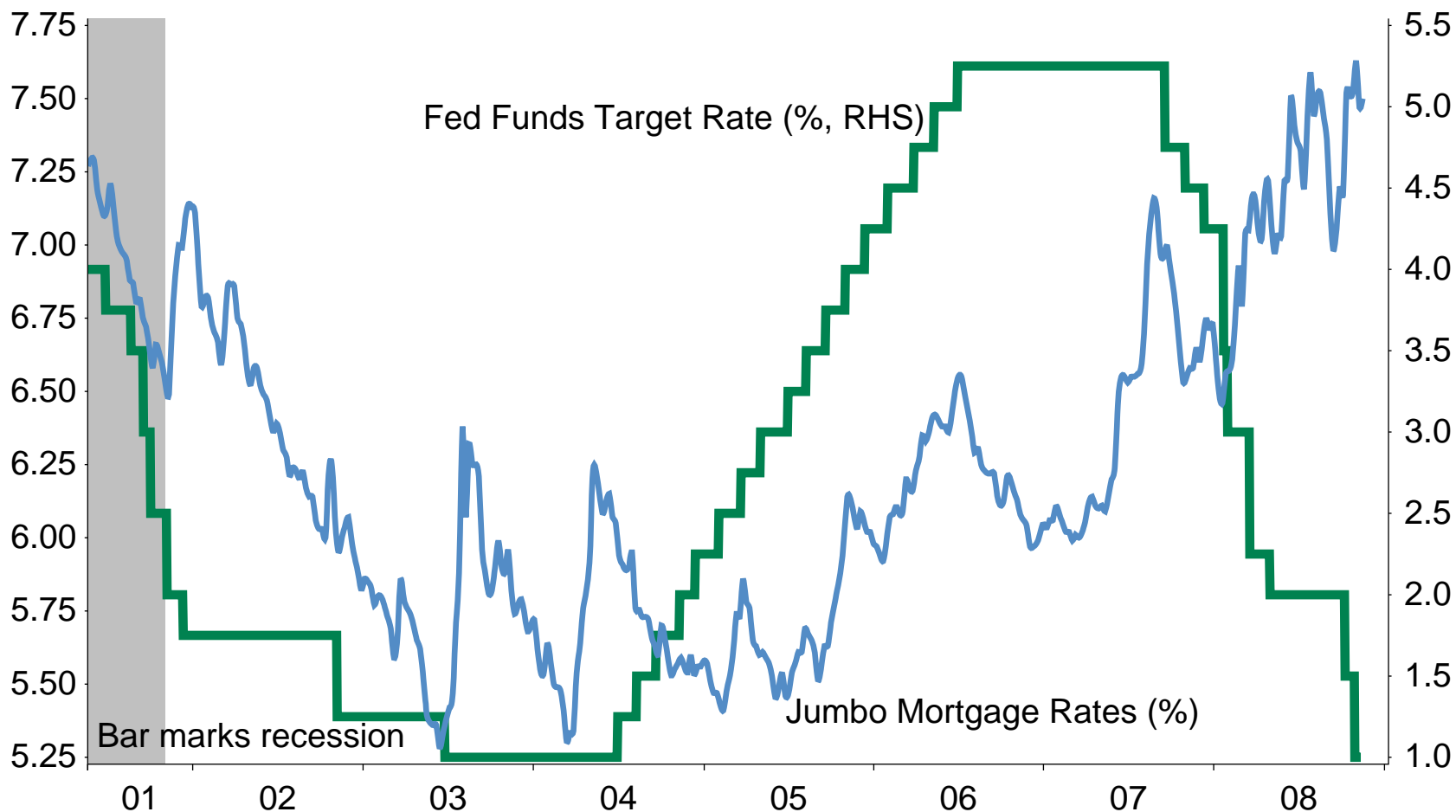
High Inventories of Unsold Homes Imply More Price Declines



Source: Reuters Ecwin Pro, BNP Paribas



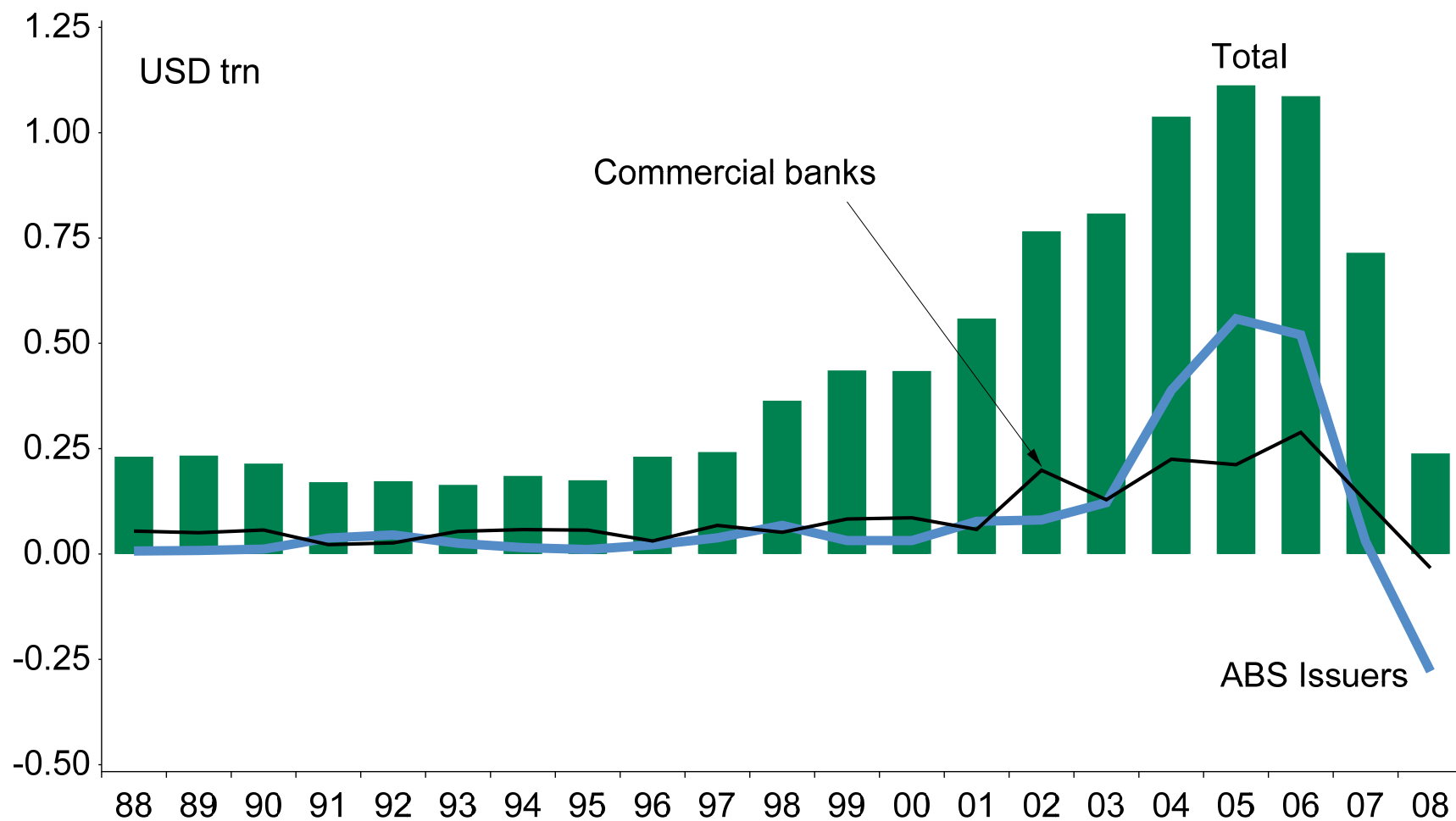
Interest Rates Keep Rising in Spite of Fed Ease



Source: Reuters Ecowin Pro, BNP Paribas



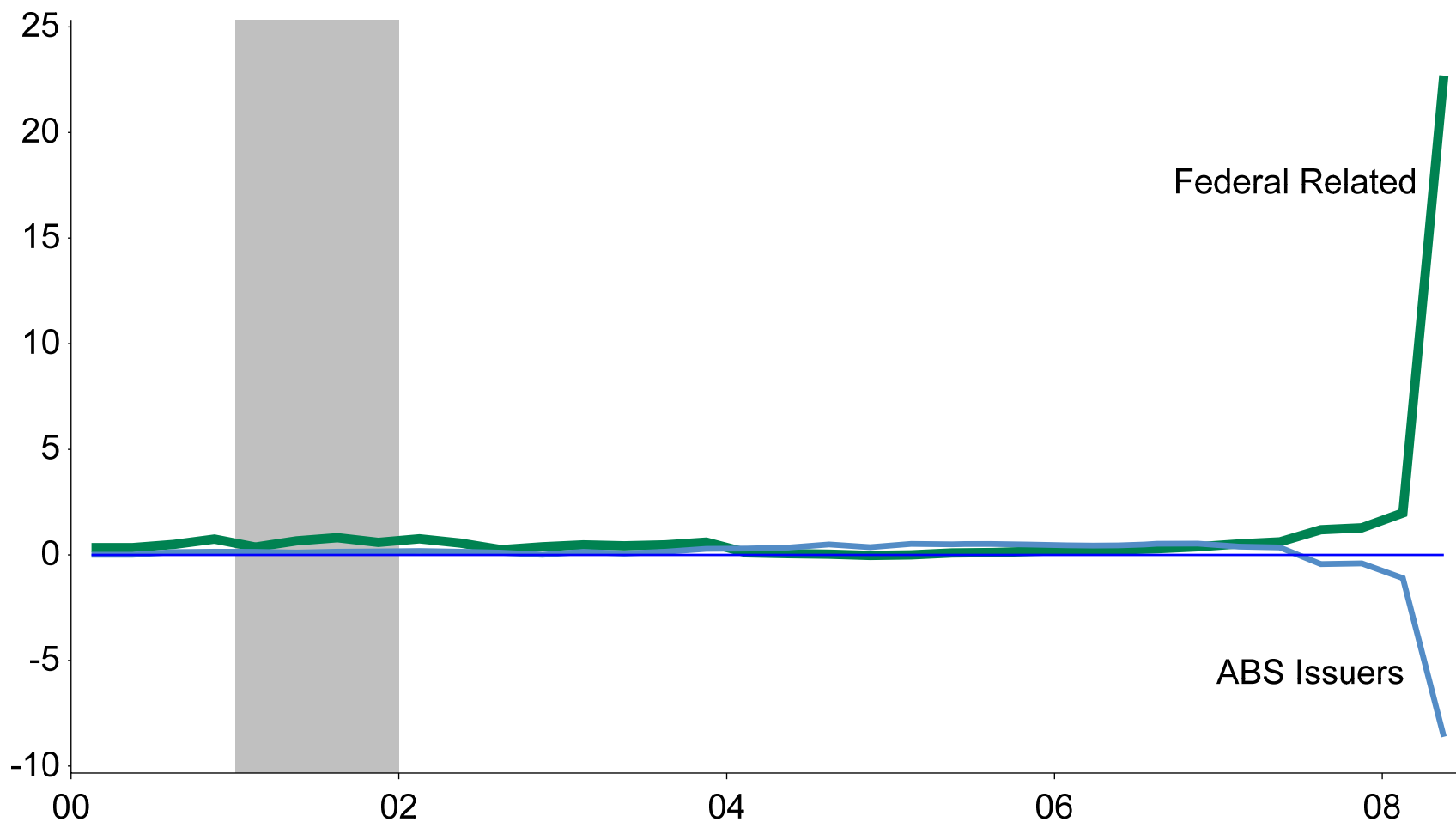
New Mortgage Creation is Plunging



Source: Reuters Ecwin Pro, BNP Paribas

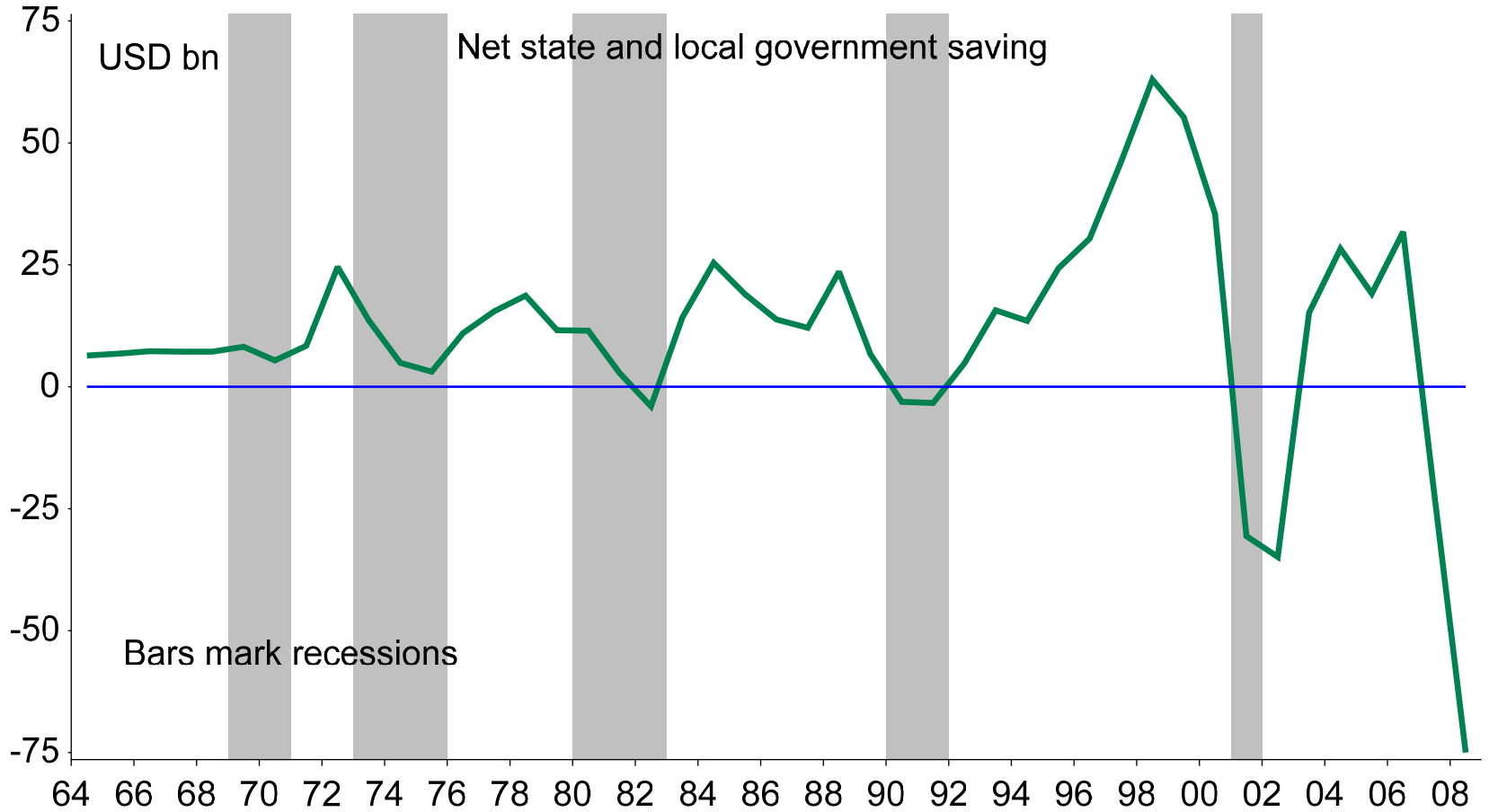


Institutional Holdings of Mortgages and Mortgage Backed Securities (% of Total)



Source: Reuters Ecowin Pro, BNP Paribas

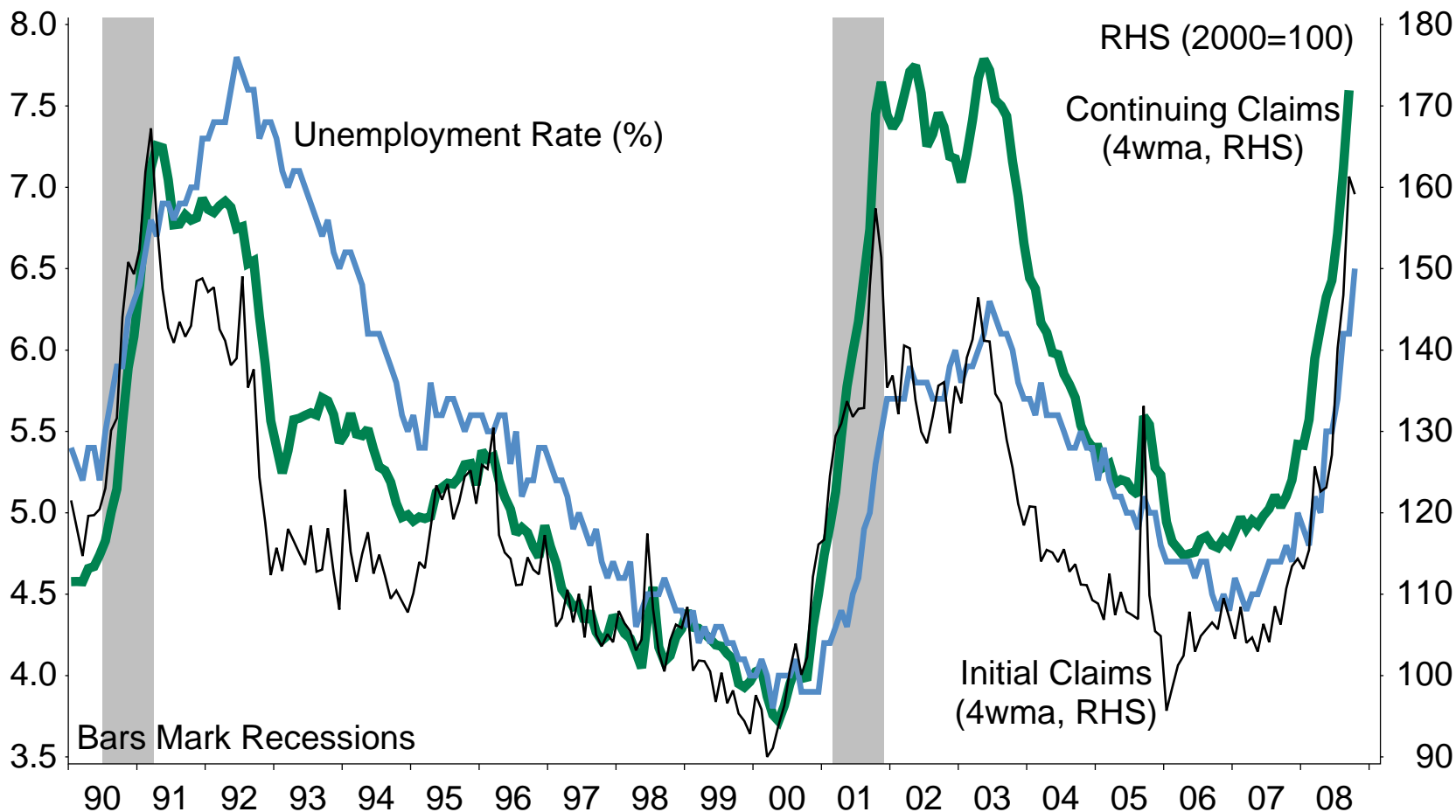
State and Local Savings Plunging



Source: Reuters Ecowin Pro, BNP Paribas



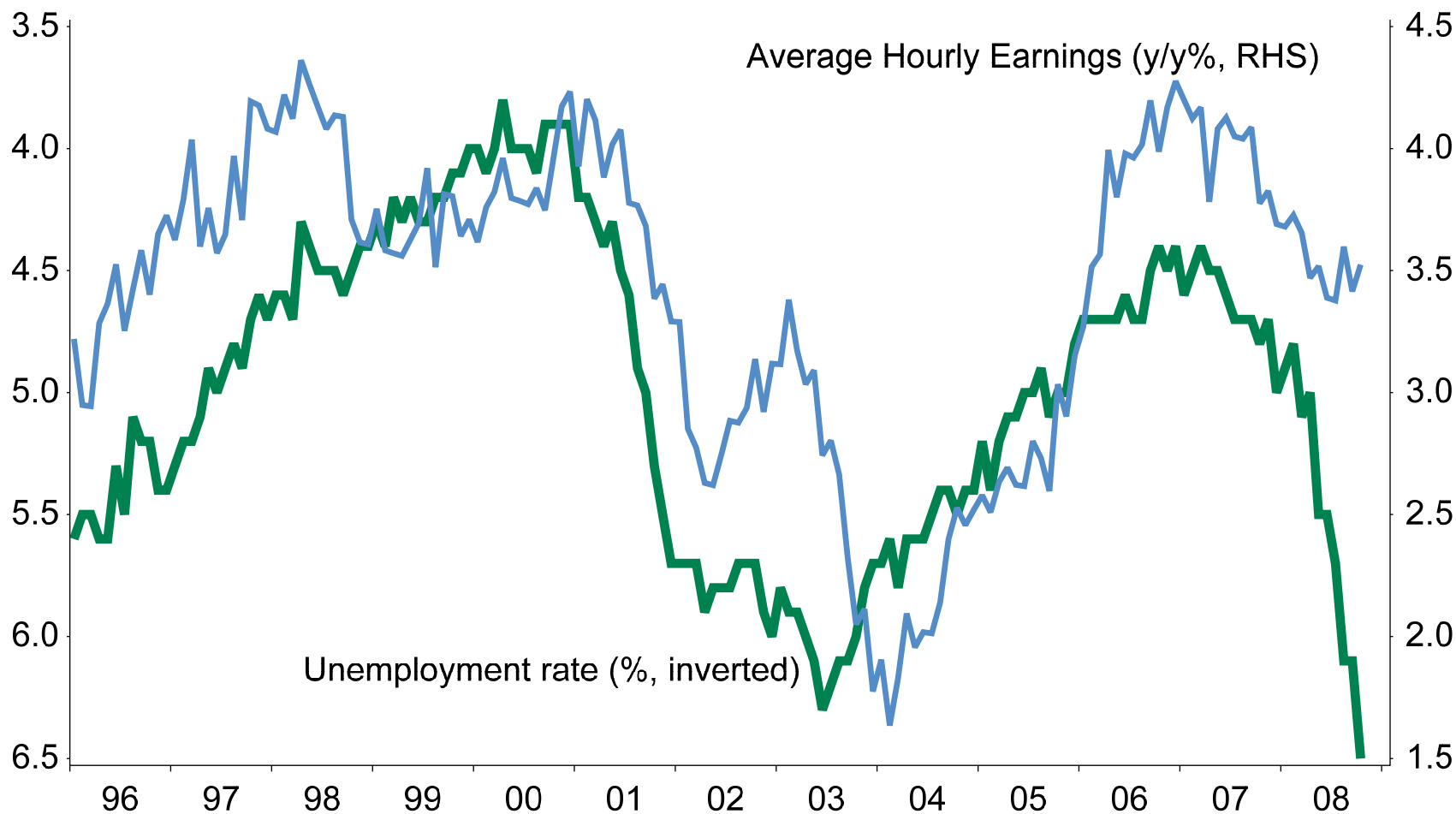
The Labor Market is Deteriorating Rapidly



Source: Reuters Ecwin Pro, BNP Paribas



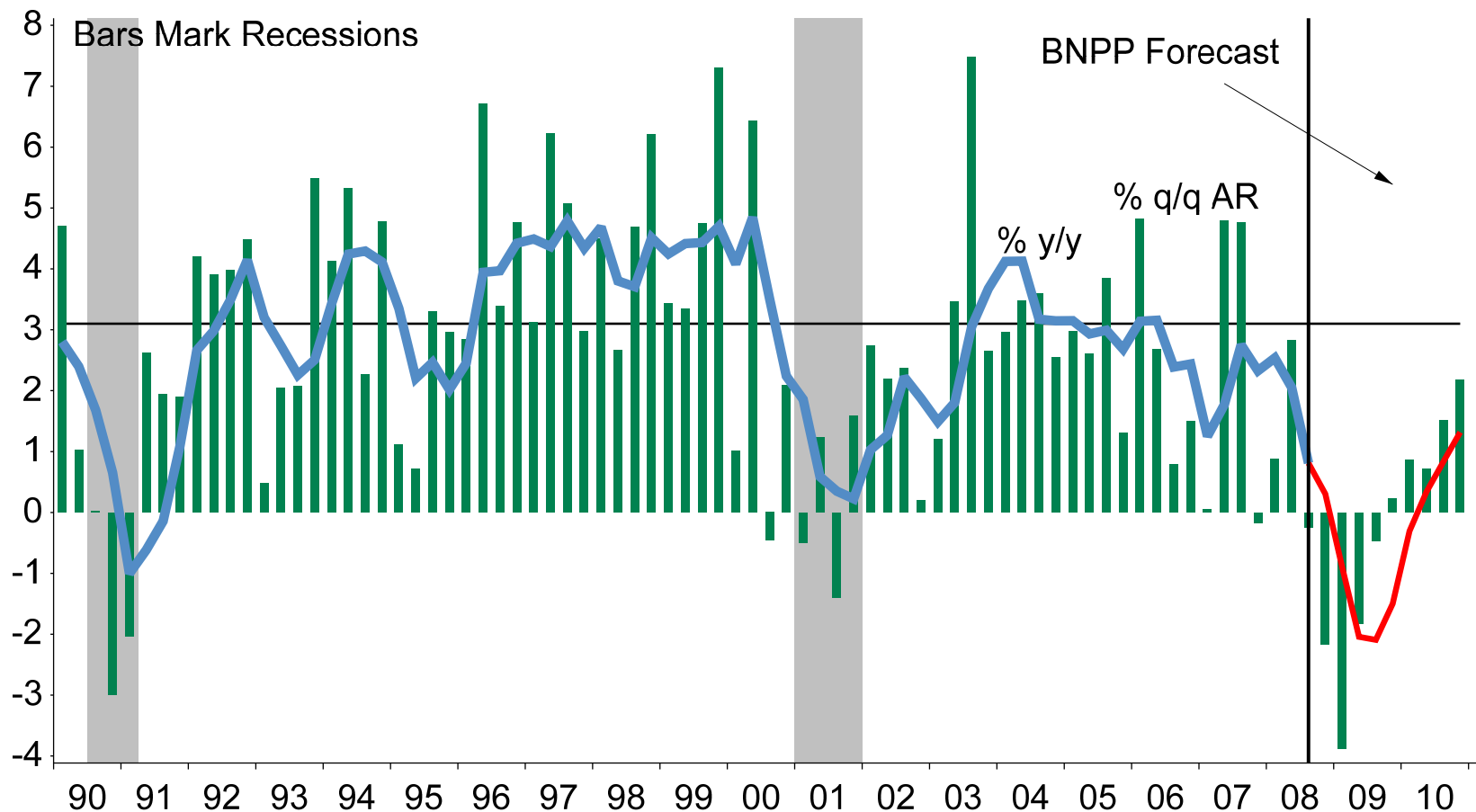
Earnings Are Decreasing as the Unemployment Rate Rises



Source: Reuters Ecwin Pro, BNP Paribas



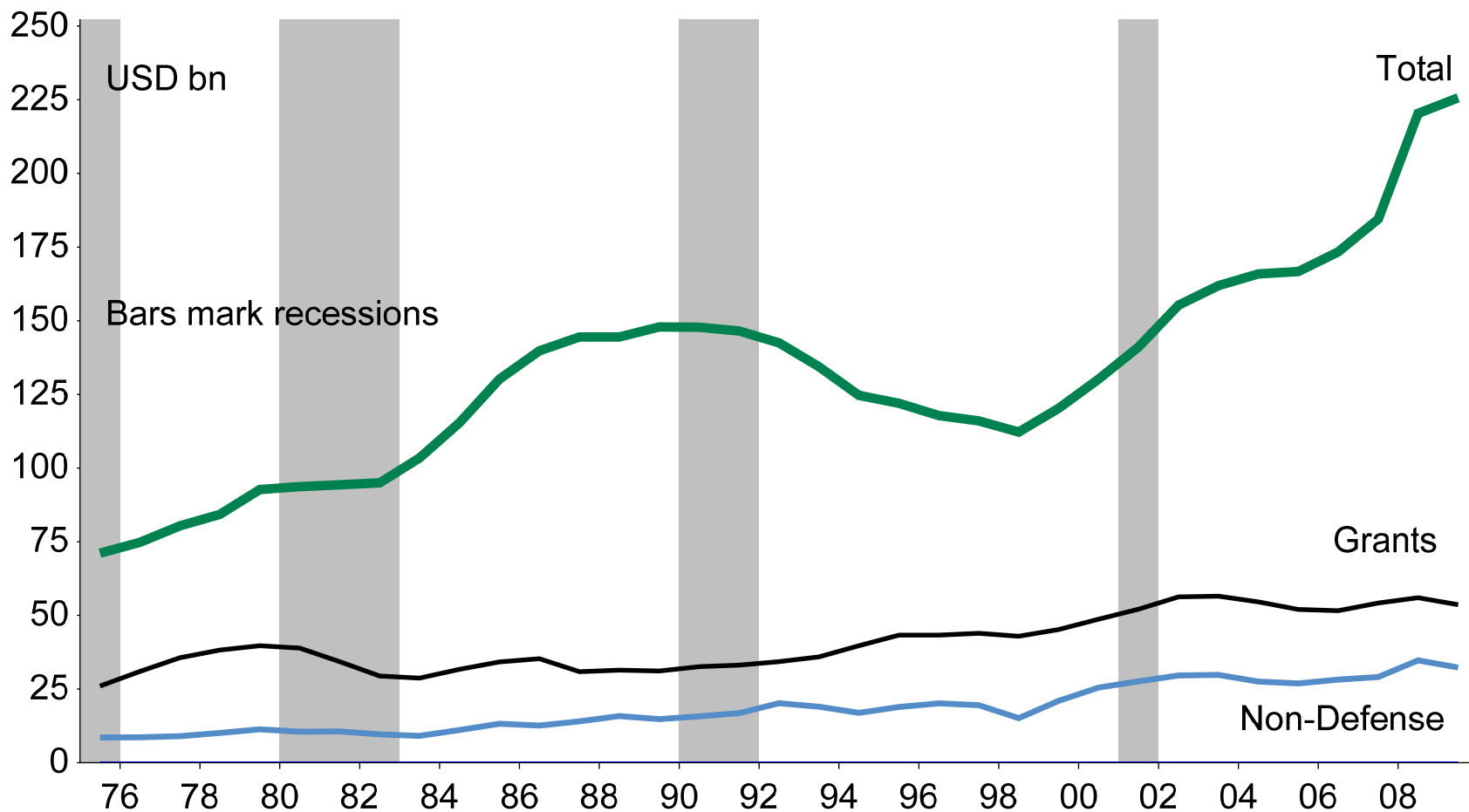
GDP Forecast: A Longer Recession and Shallower Recovery



Source: Reuters Ecwin Pro, BNP Paribas



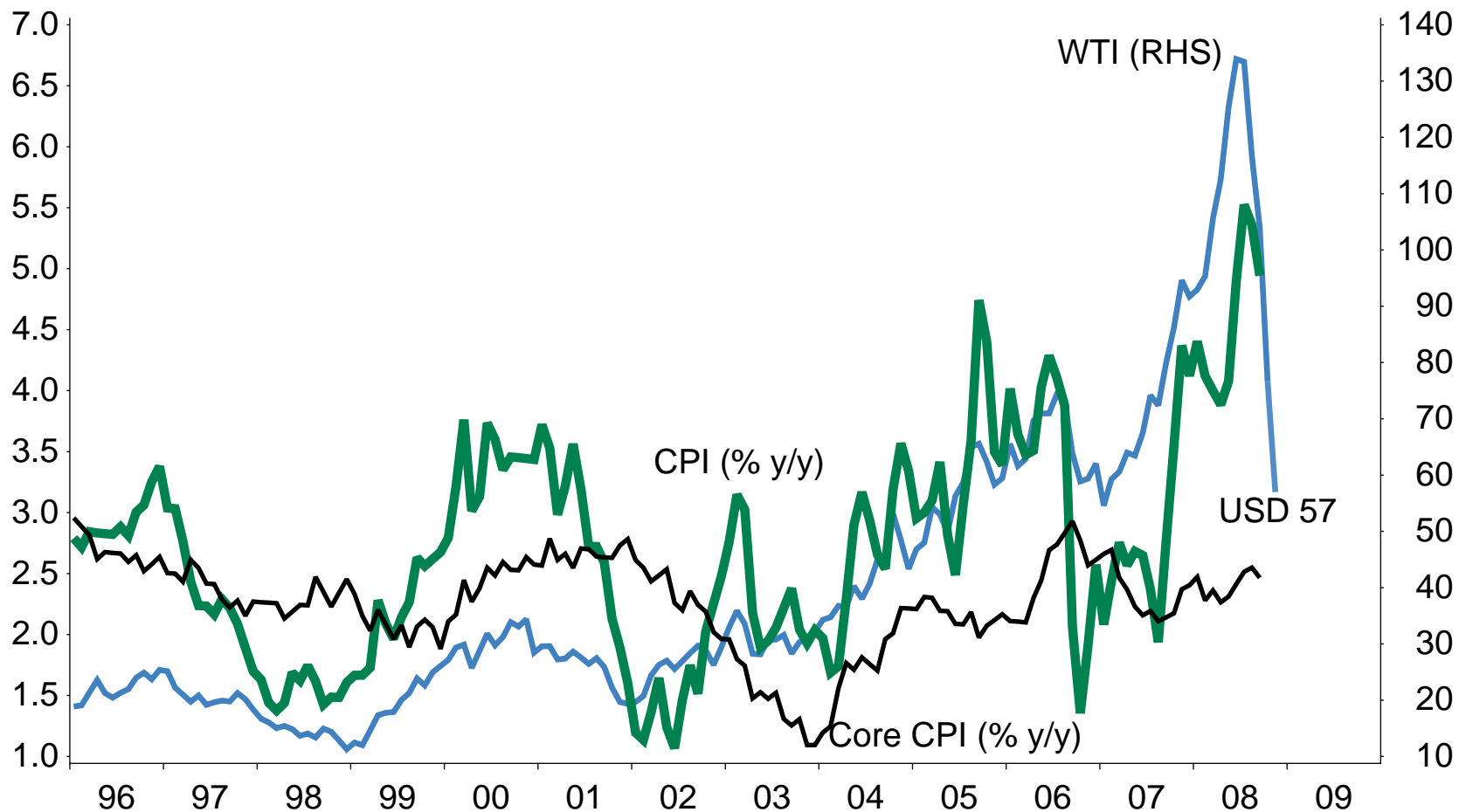
Physical Investment by Federal & State & Local Governments



Source: Reuters Ecowin Pro, BNP Paribas



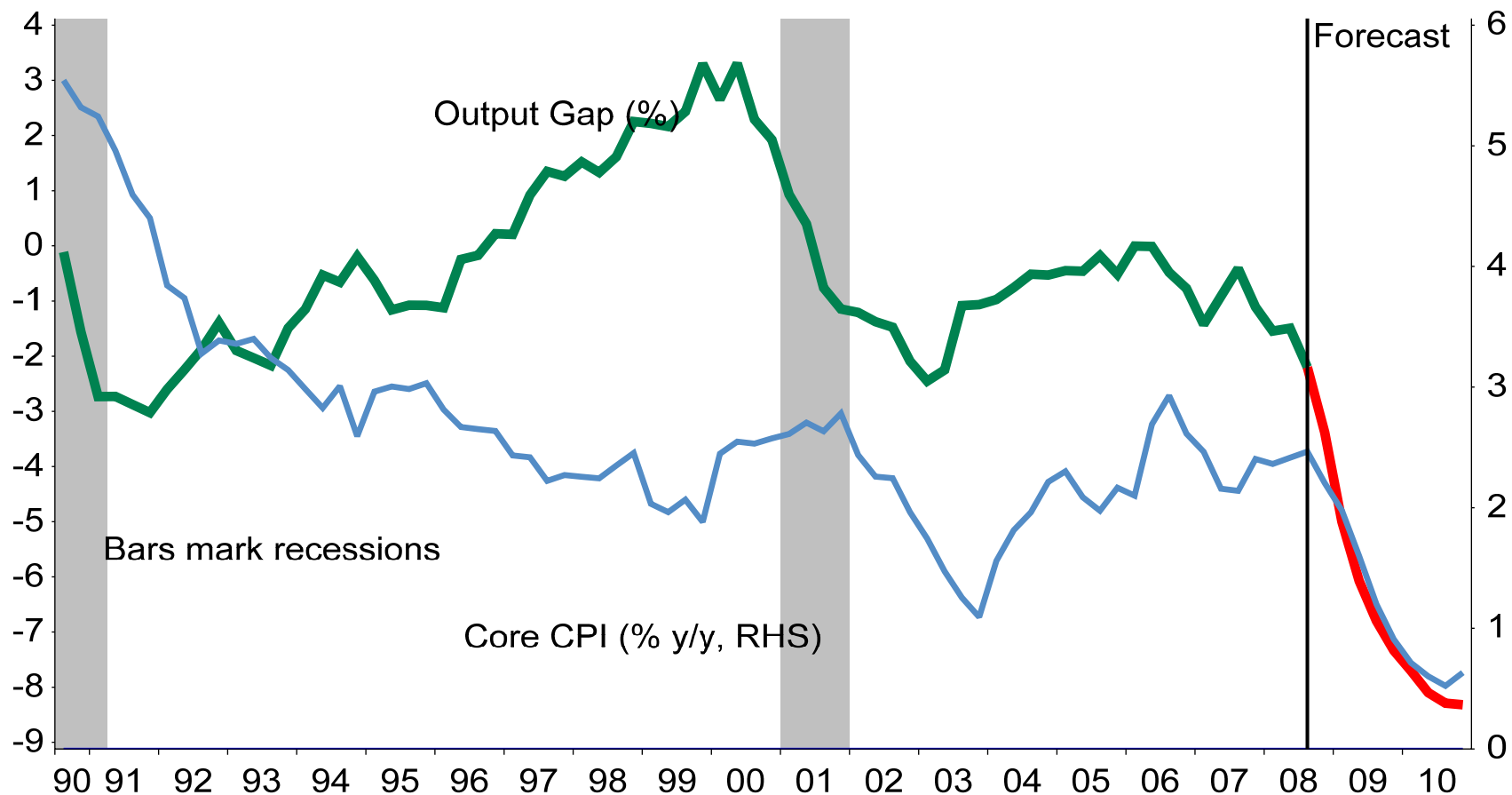
CPI – Core CPI & WTI



Source: Reuters Ecowin Pro, BNP Paribas



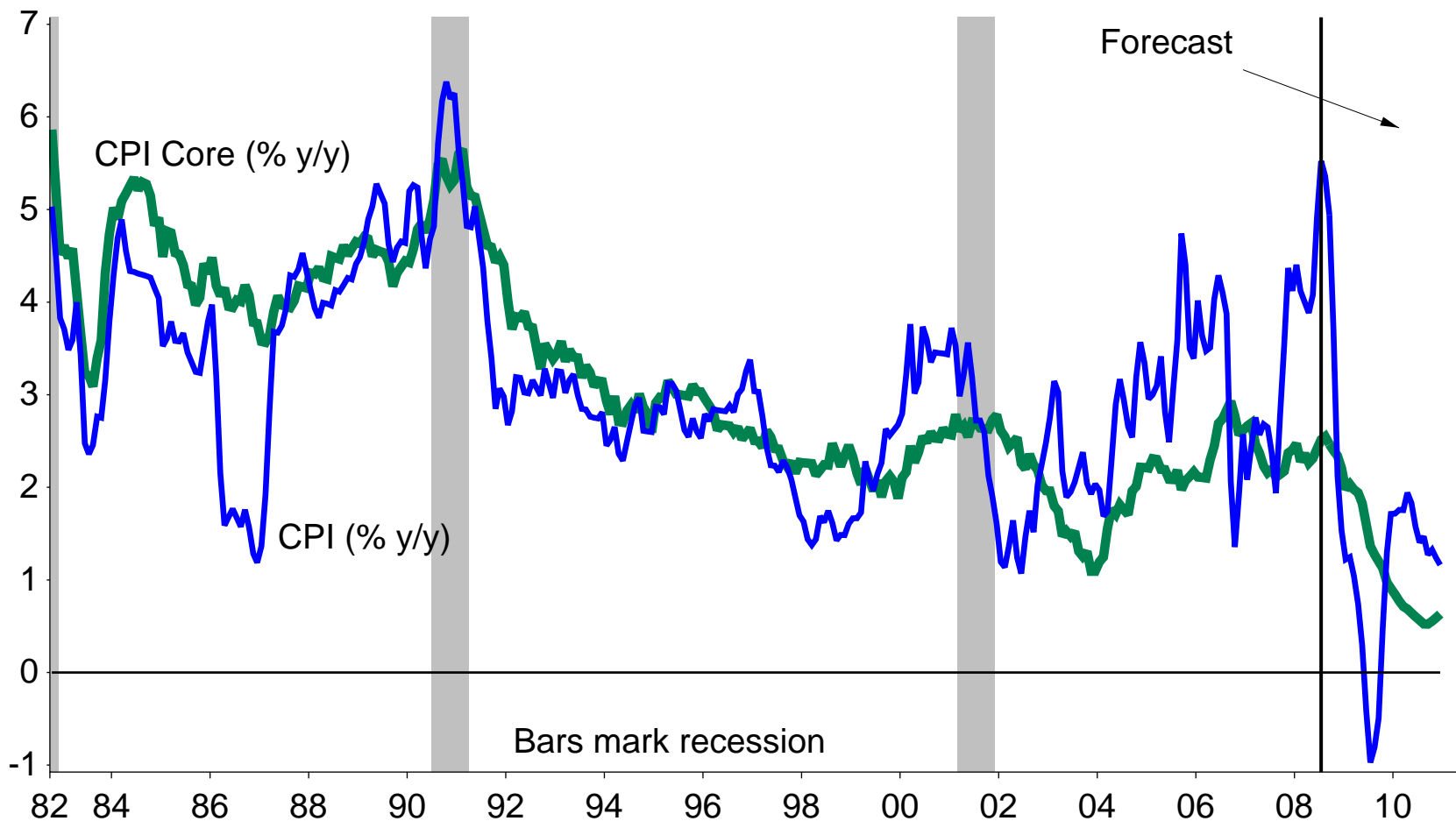
When Output GAP Turns Negative Inflation Declines



Source: Reuters Ecwin Pro, BNP Paribas



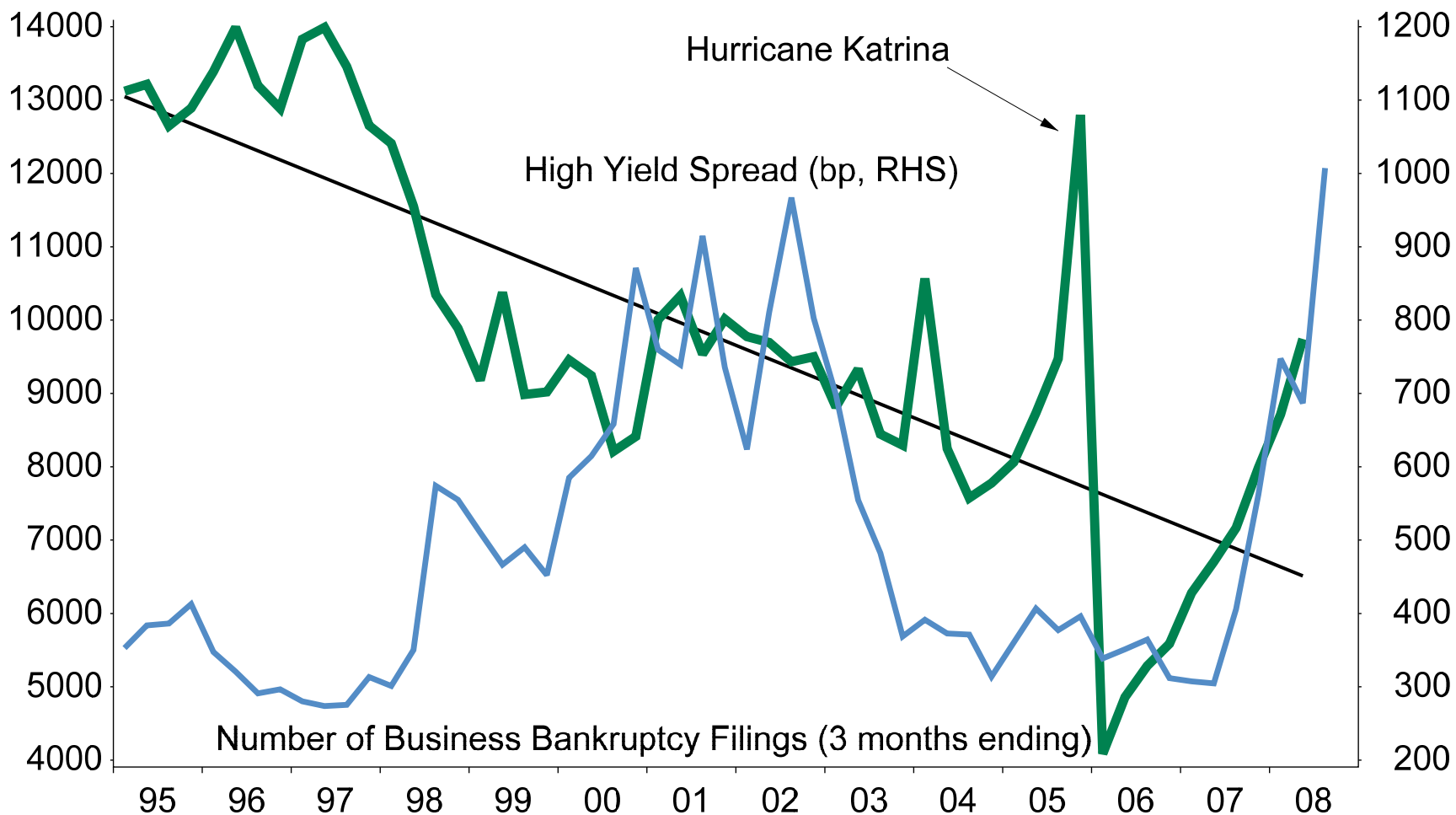
CPI Forecasts



Source: Reuters Ecowin Pro, BNP Paribas



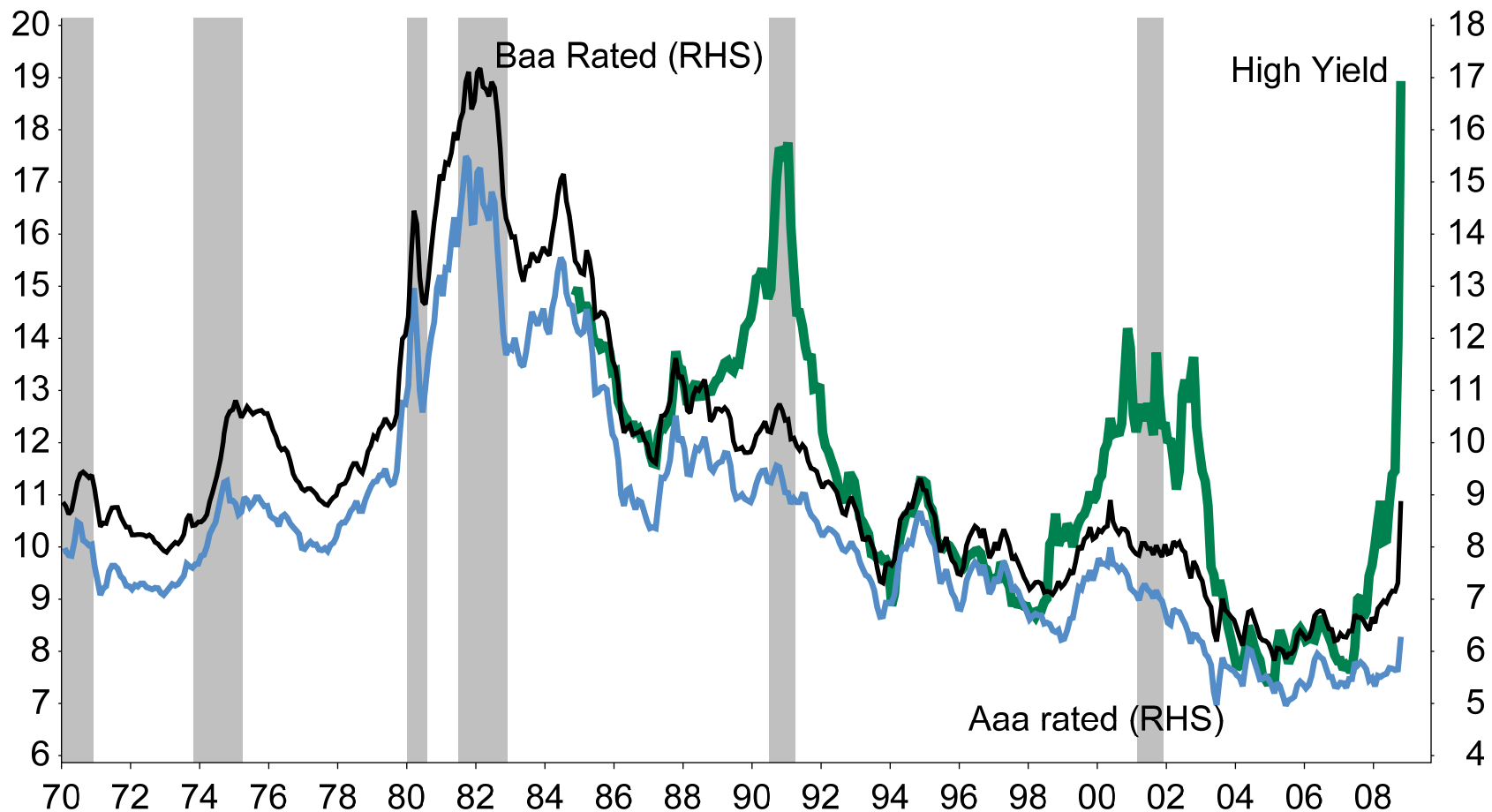
Business Bankruptcies Are Increasing



Source: Reuters Ecwin Pro, BNP Paribas



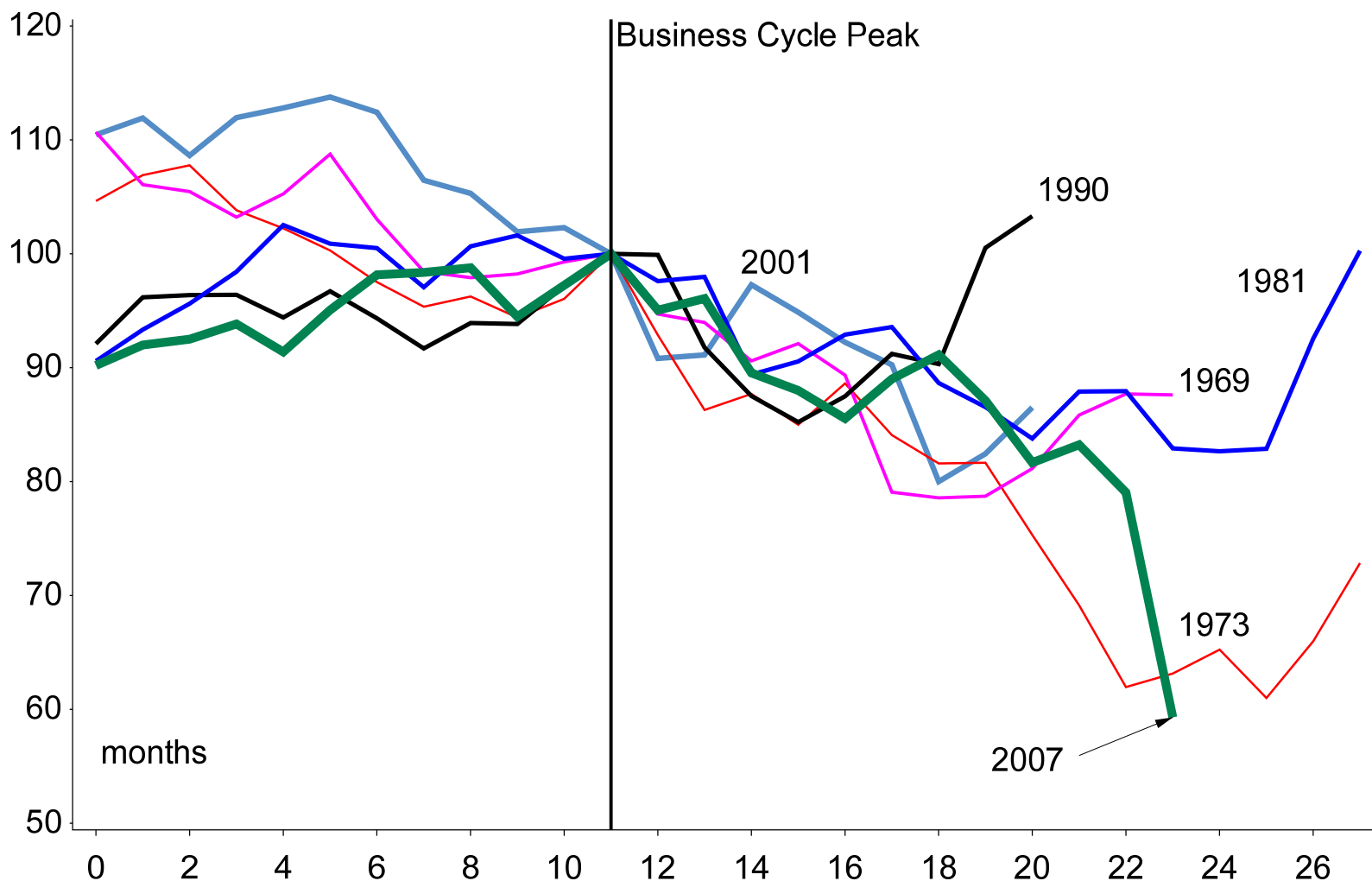
Credit Spreads Reflect Rising Risk Premium



Source: Reuters Ecowin Pro, BNP Paribas



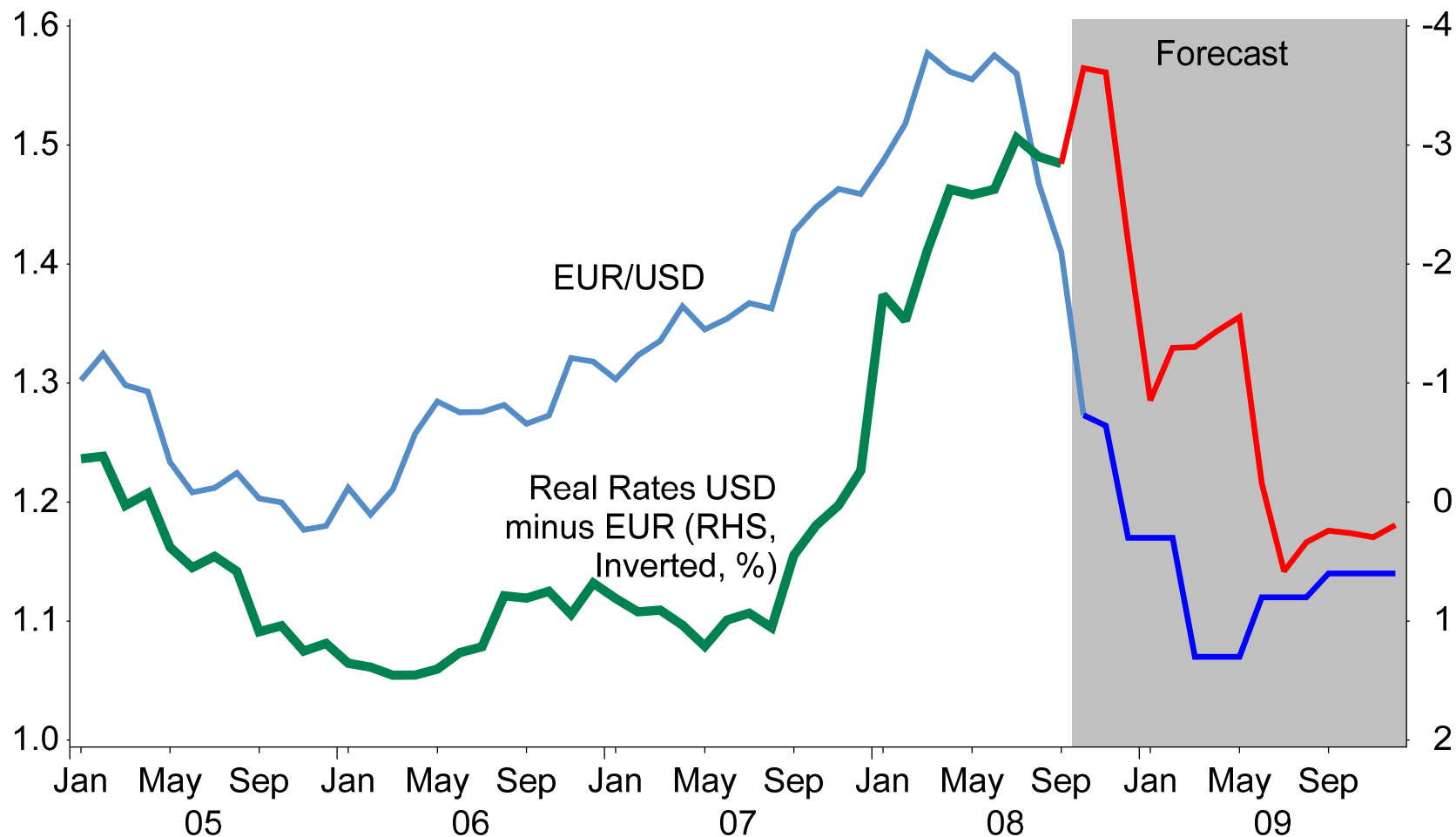
S&P 500 Prices Decline During Recessions



Source: Reuters Ecowin Pro, BNP Paribas



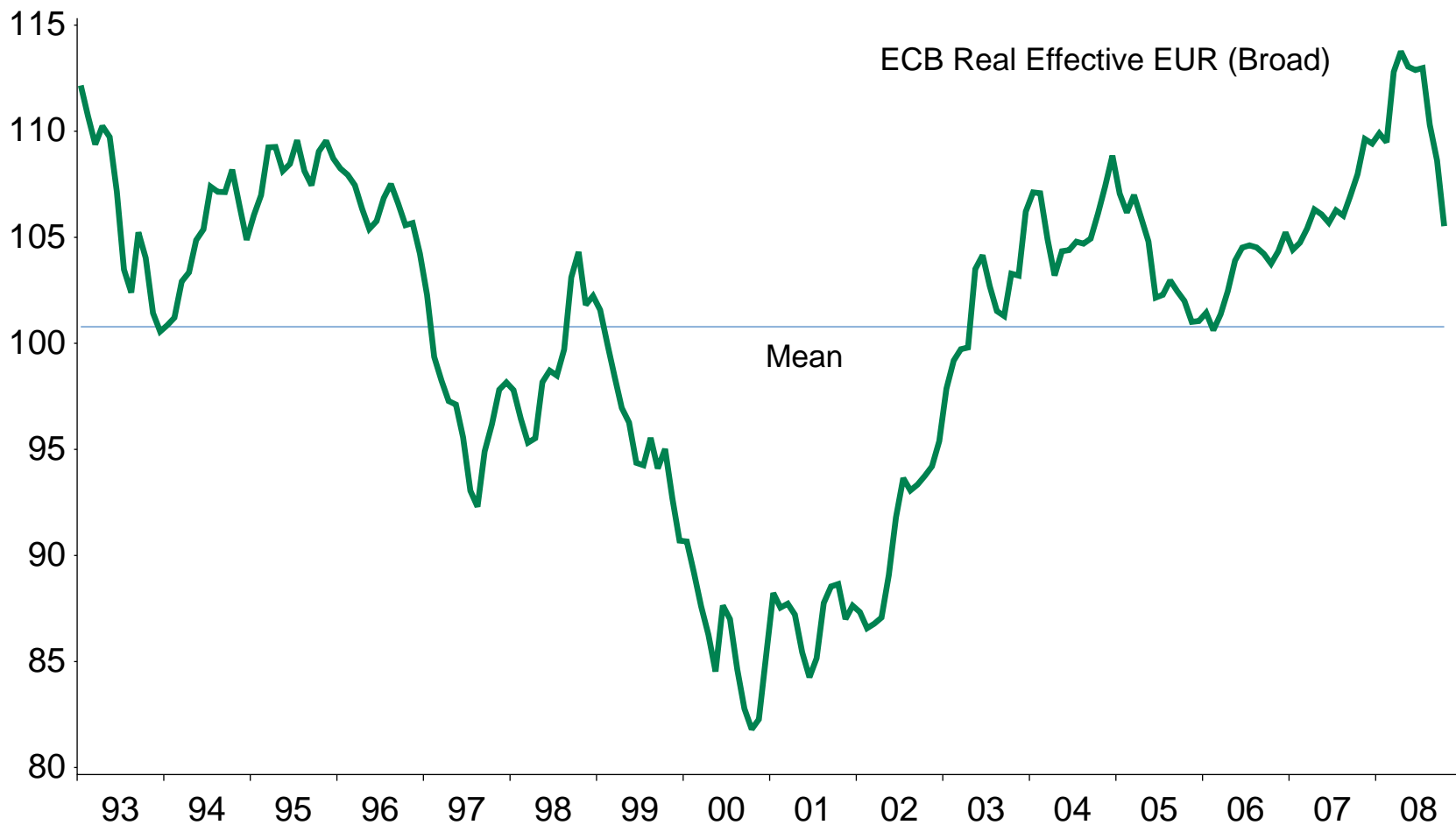
EUR/USD & Rate Differential



Source: Reuters Ecowin Pro, BNP Paribas



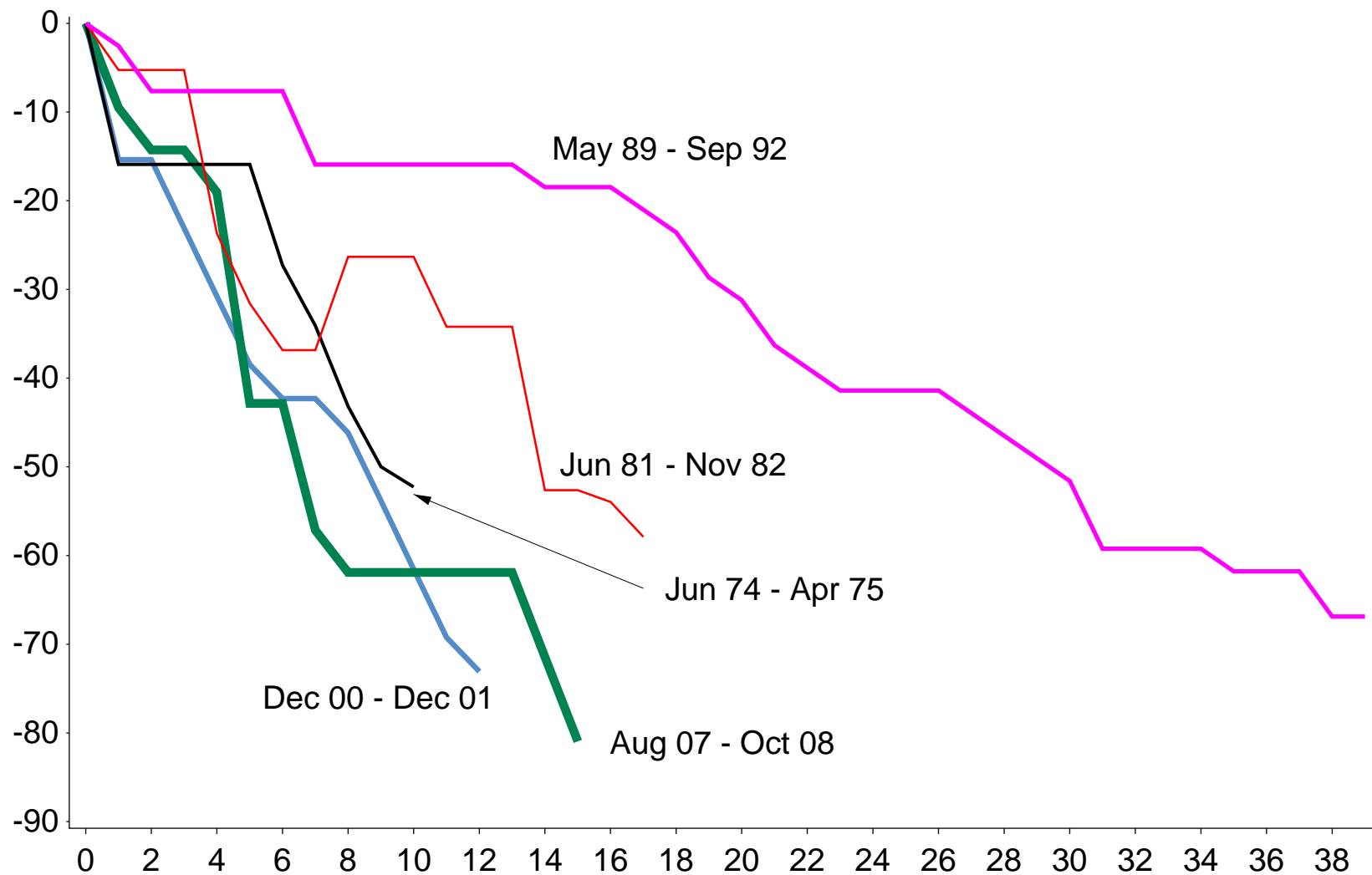
Eurozone: Trade-weighted EUR Exchange Rate



Source: Reuters Ecowin Pro, BNP Paribas



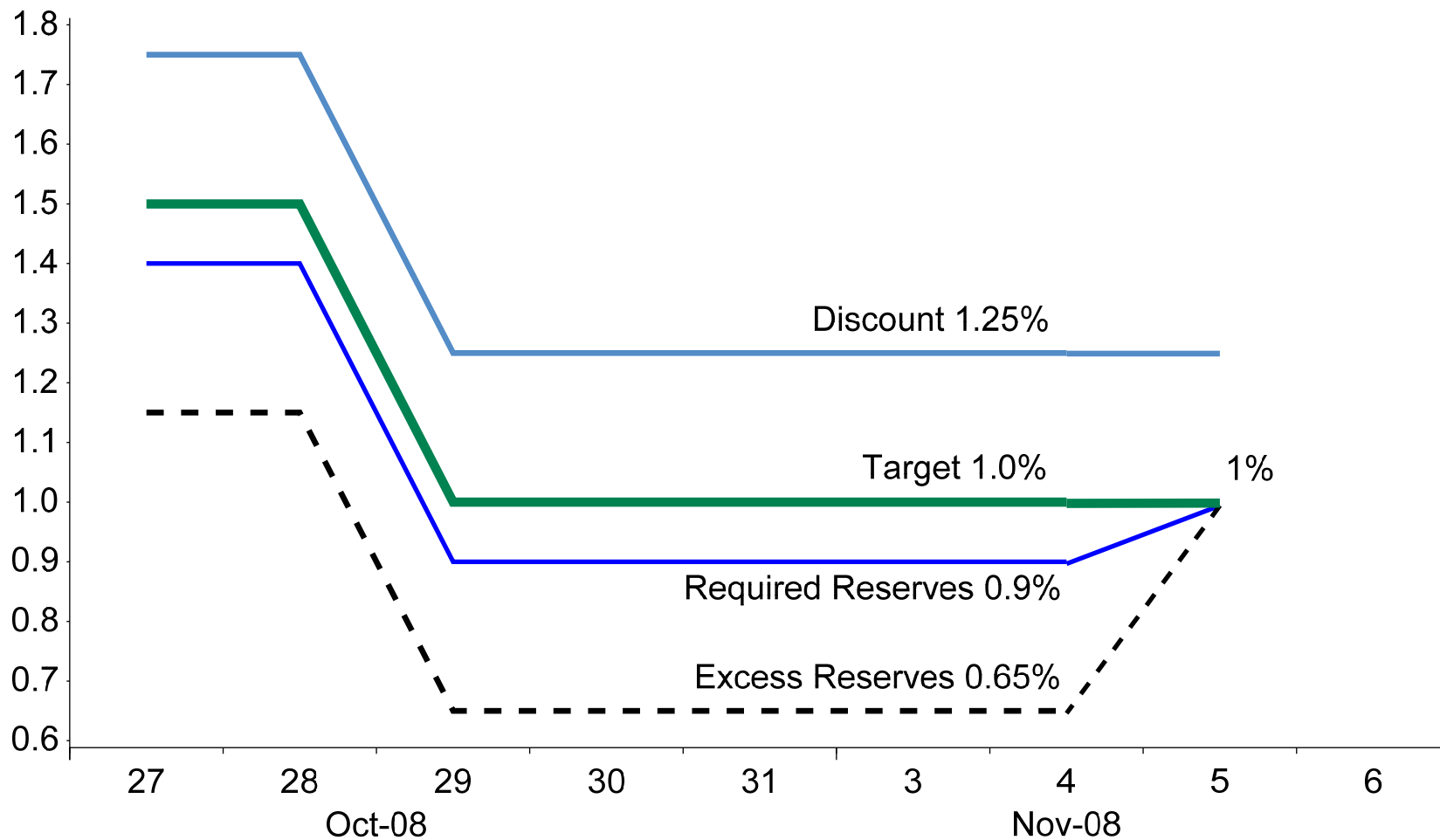
% Decline in Fed Funds



Source: Reuters Ecowin Pro, BNP Paribas



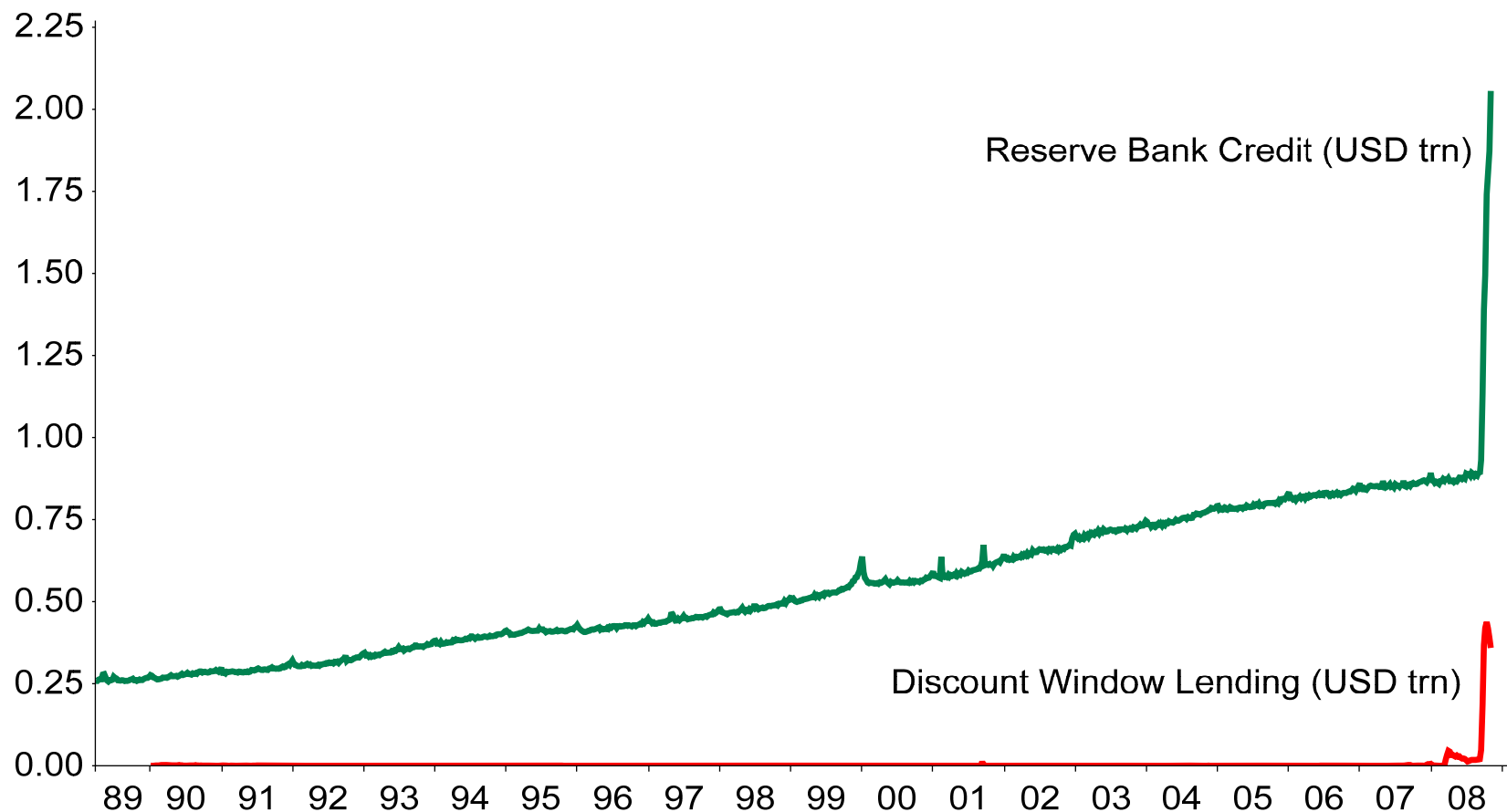
The Fed's Current Funding Bank Corridor



Source: Reuters Ecowin Pro, BNP Paribas



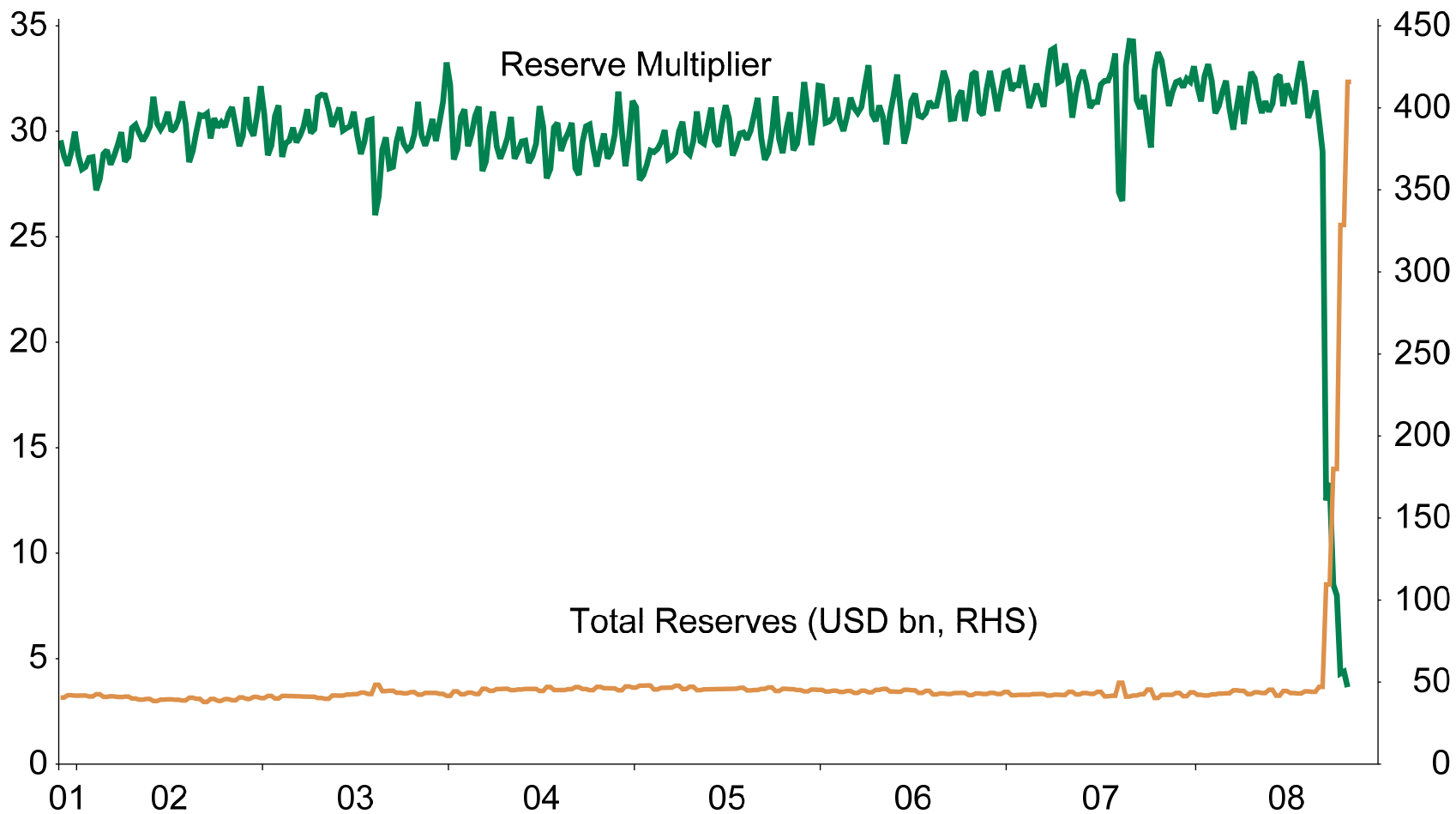
Fed Balance Sheet Exploding



Source: Reuters Ecowin Pro, BNP Paribas



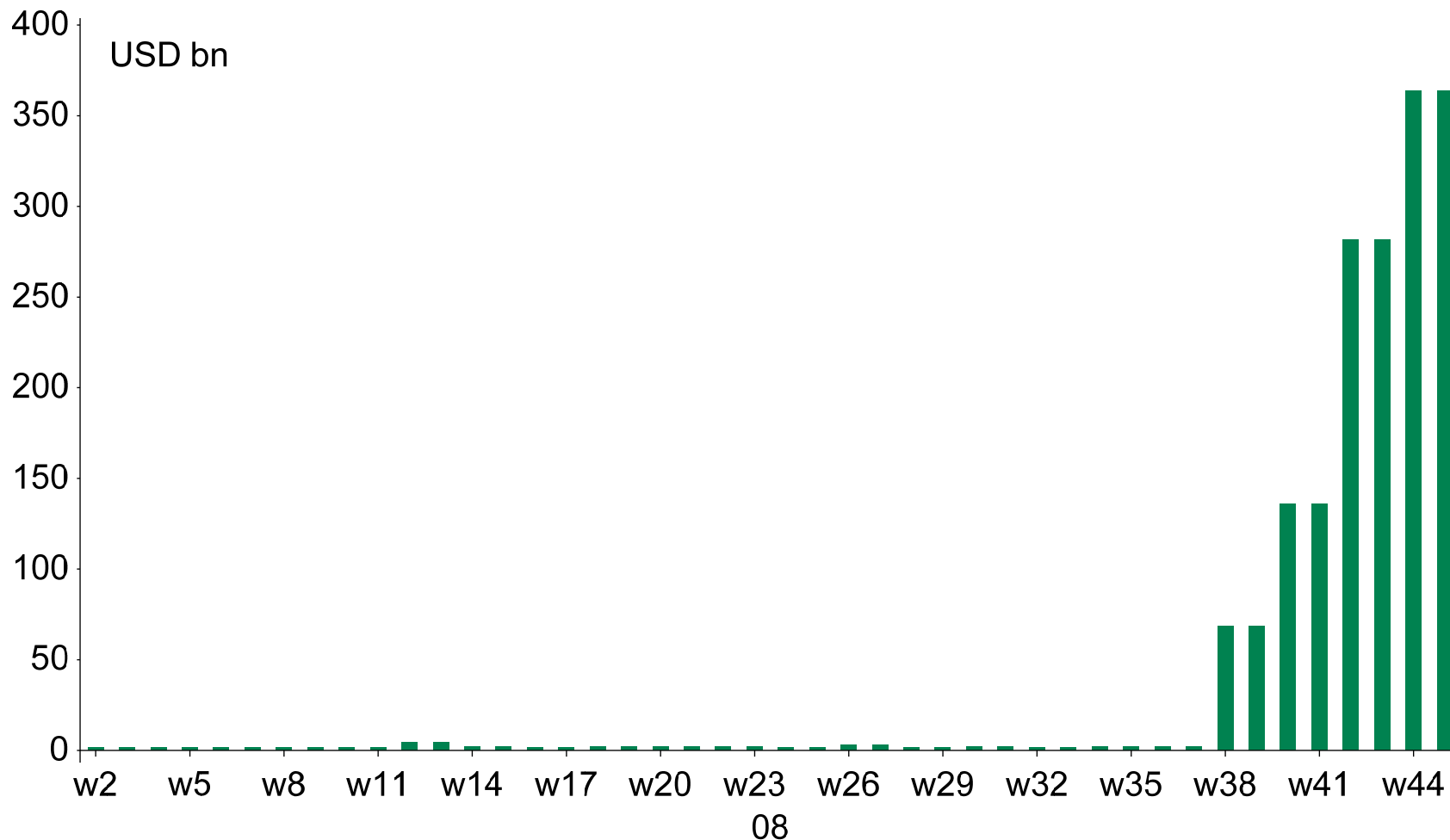
Money/Reserve Multiplier Plunging



Source: Reuters Ecowin Pro, BNP Paribas



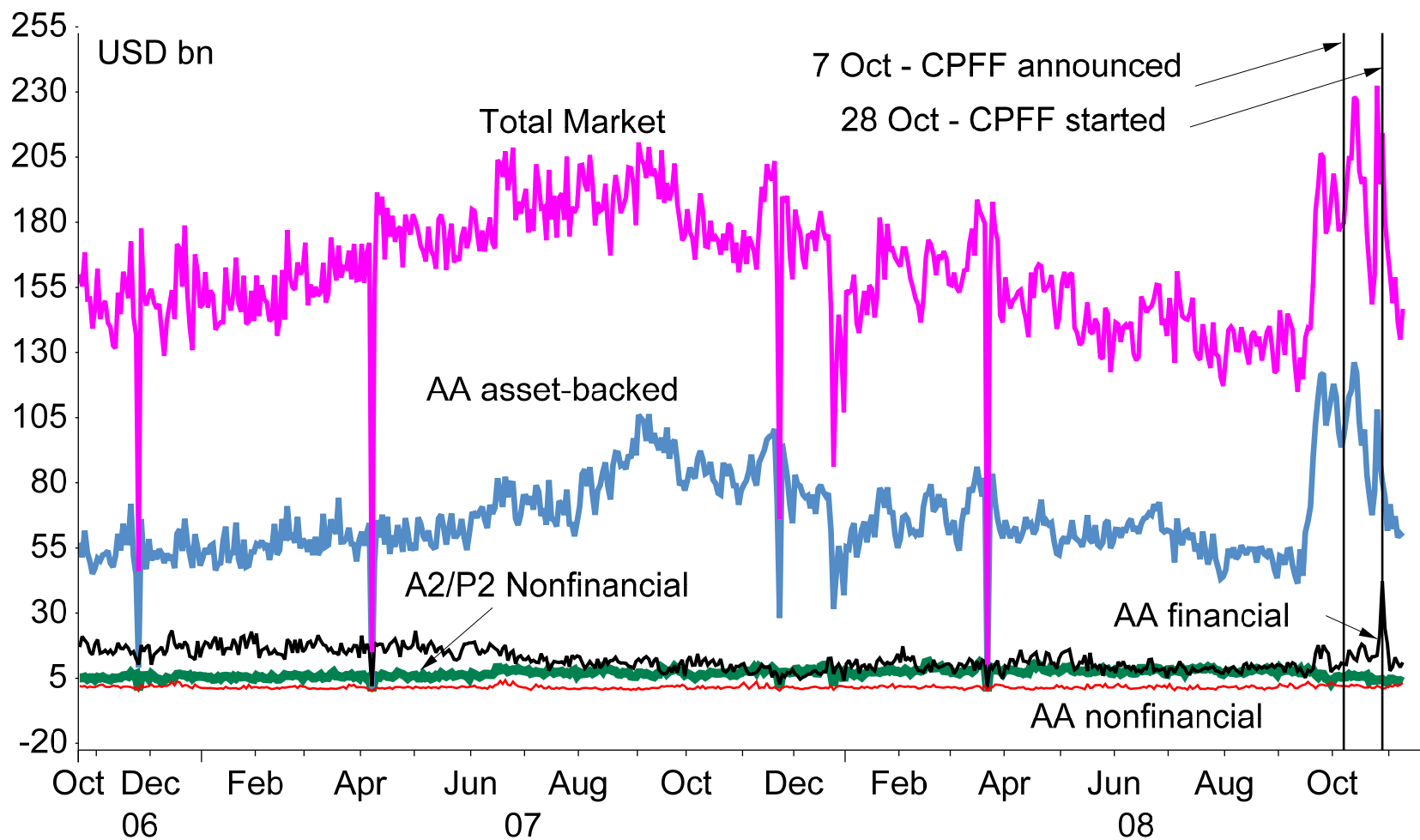
Excess Reserves Are Soaring as Banks Choose Not to Lend



Source: Reuters Ecowin Pro, BNP Paribas



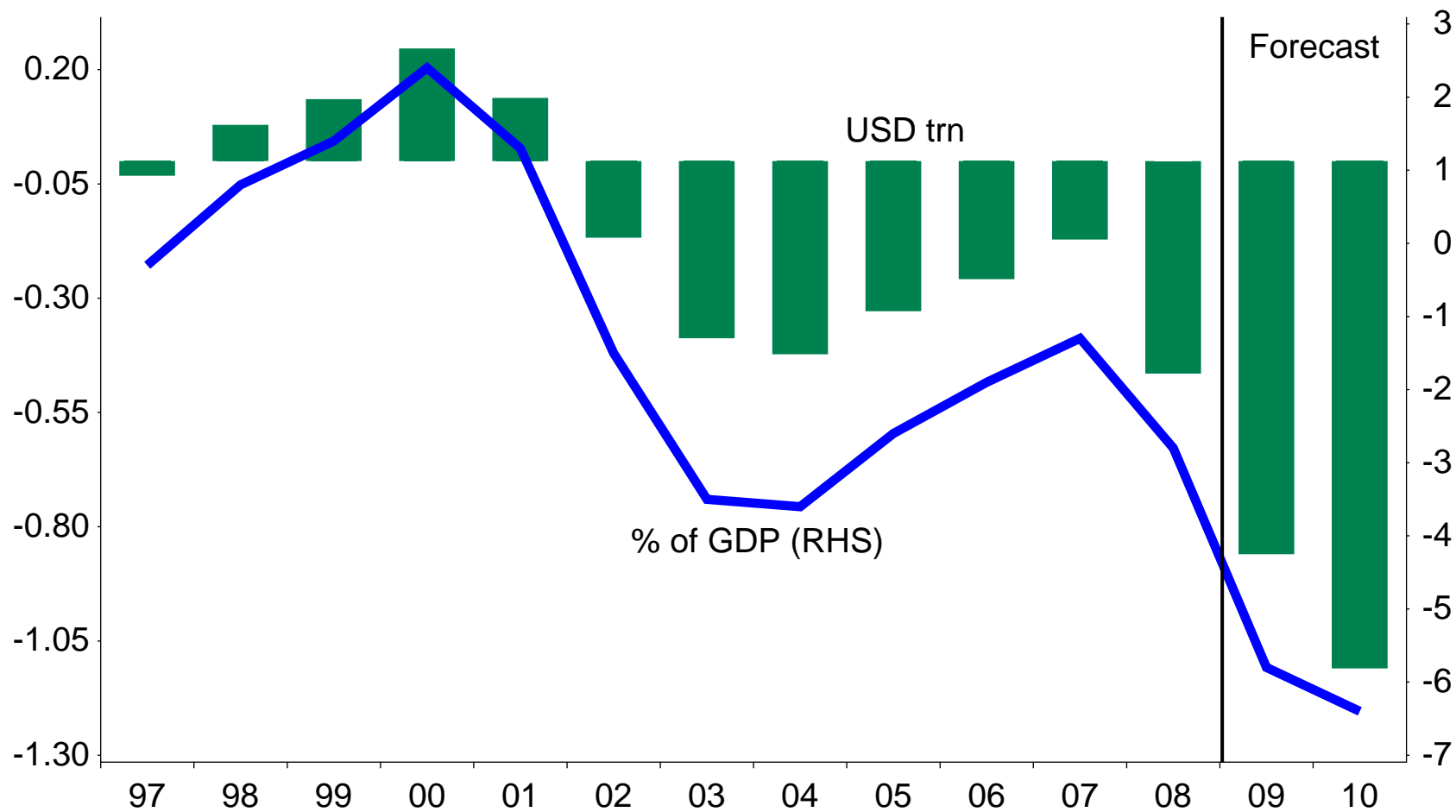
Commercial Paper Issuance



Source: Reuters Ecowin Pro, BNP Paribas

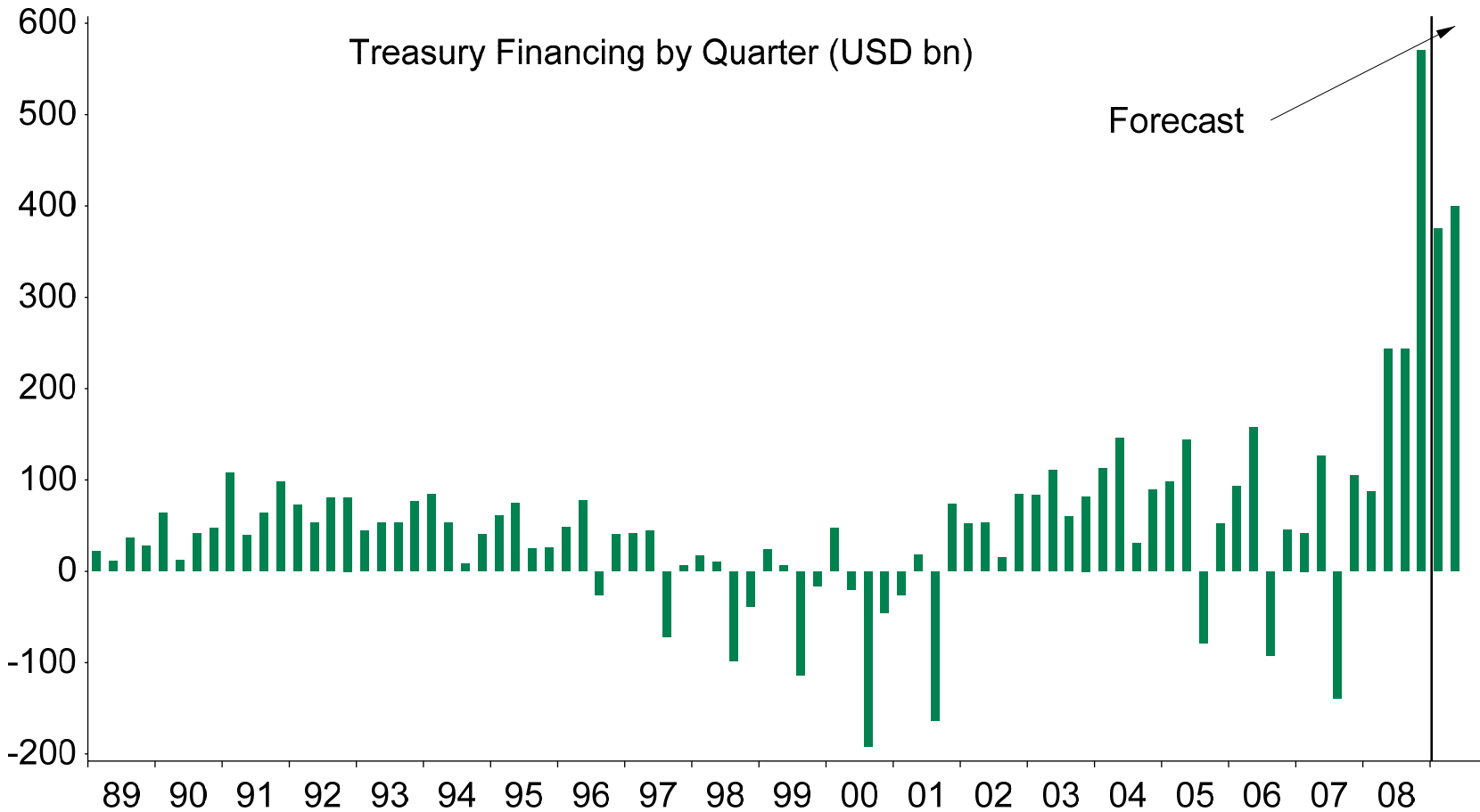


The Federal Budget Deficit is Going to Get Much Bigger



Source: Reuters Ecwin Pro, BNP Paribas

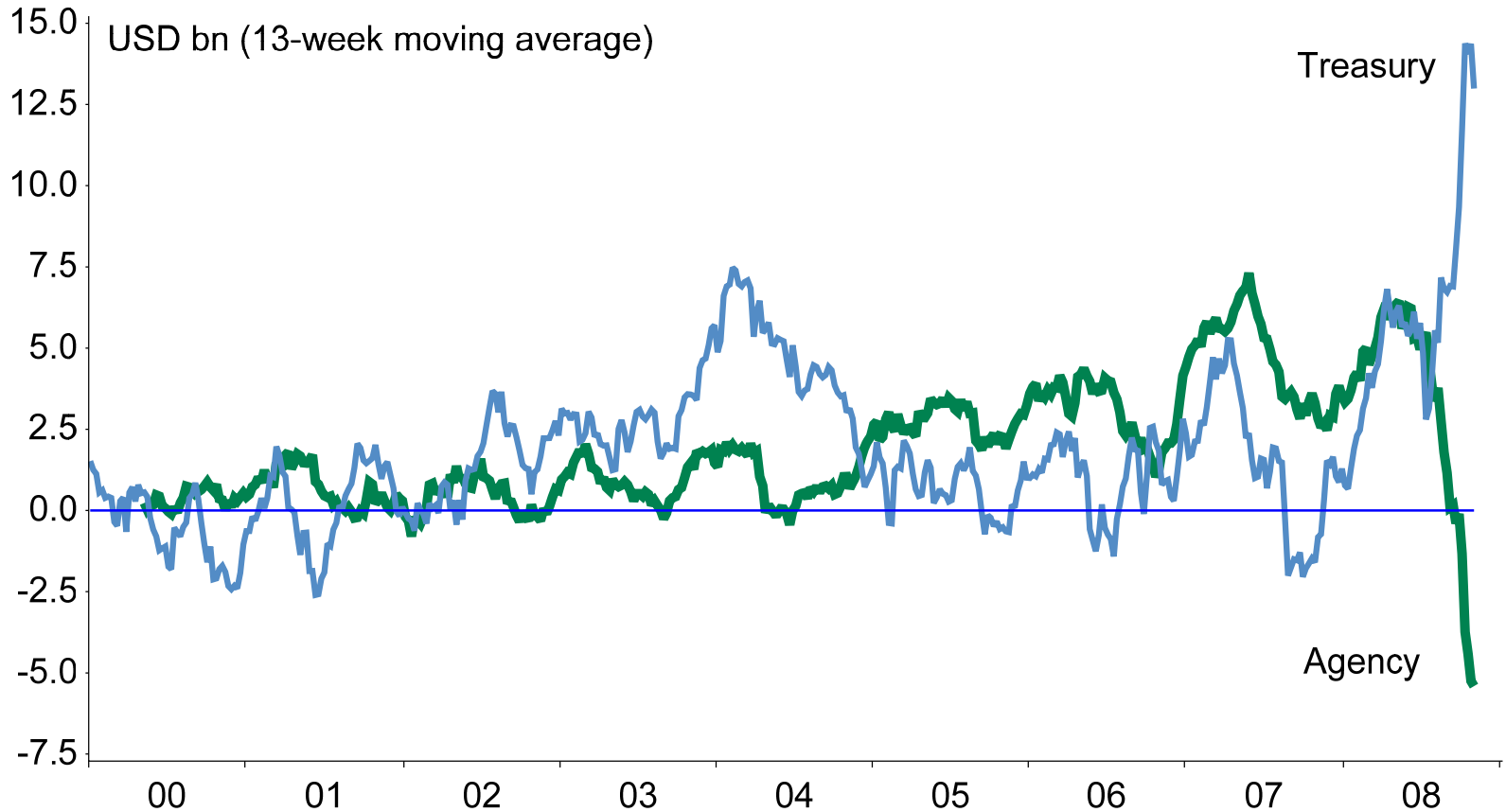
New Treasury Issuance Expected to Soar



Source: Reuters Ecowin Pro, BNP Paribas



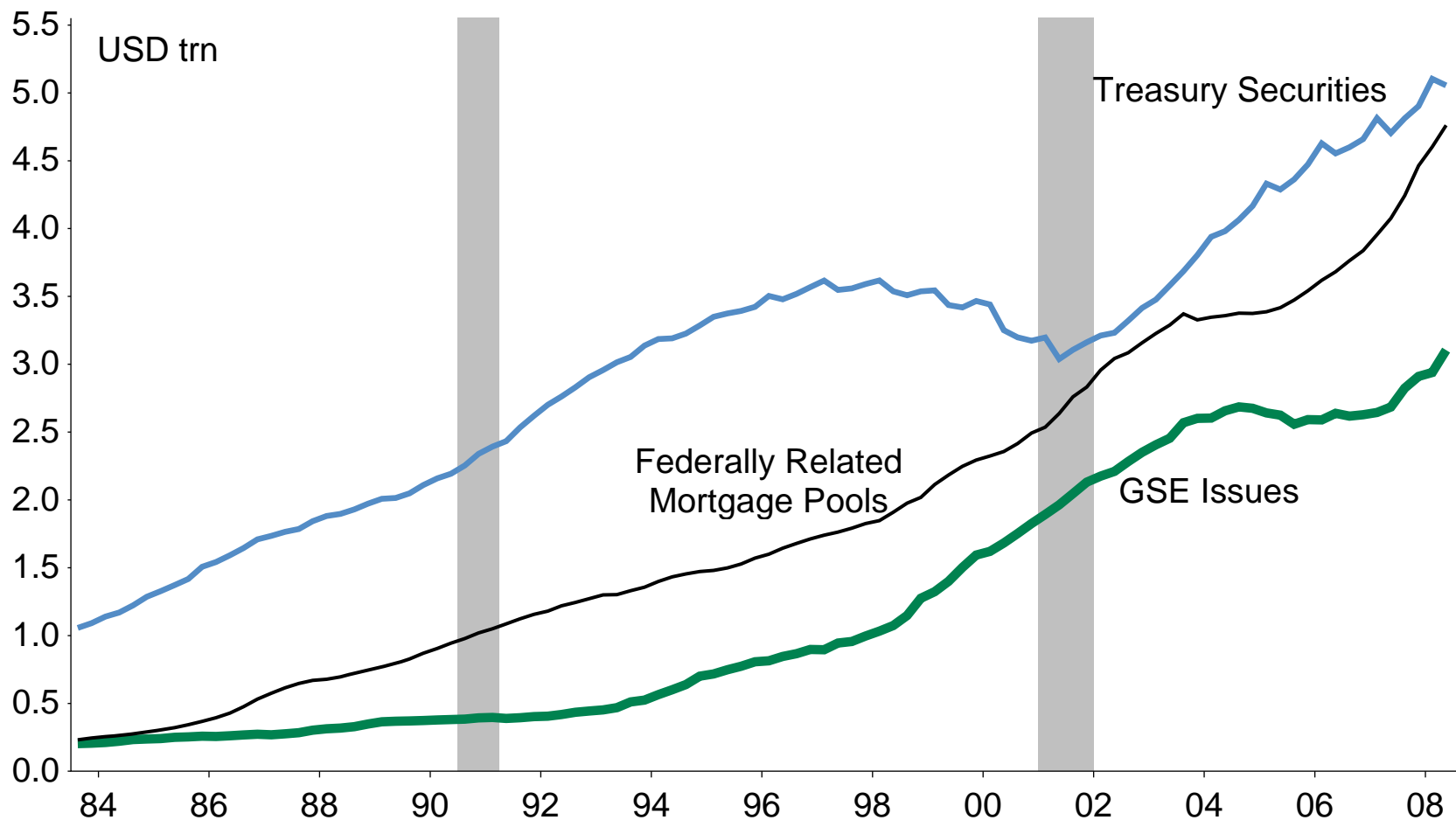
Average Weekly Increases in the Fed's Custody Holdings of US Treasury and GSE Securities for Foreign Official & International Institutions



Source: Reuters Ecowin Pro, BNP Paribas



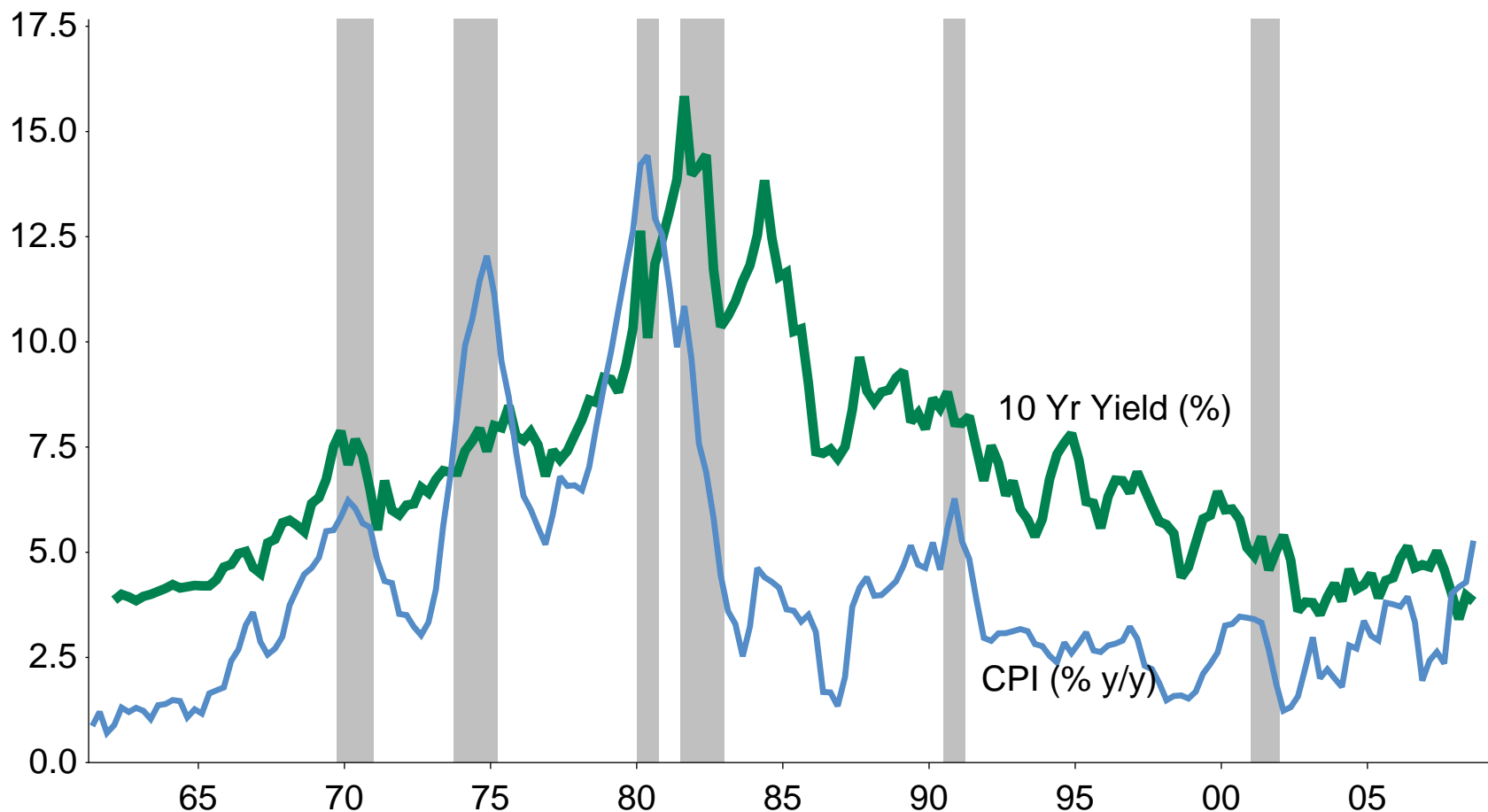
The GSE's Liabilities Would More Than Double Outstanding Treasury Debt



Source: Reuters Ecwin Pro, BNP Paribas



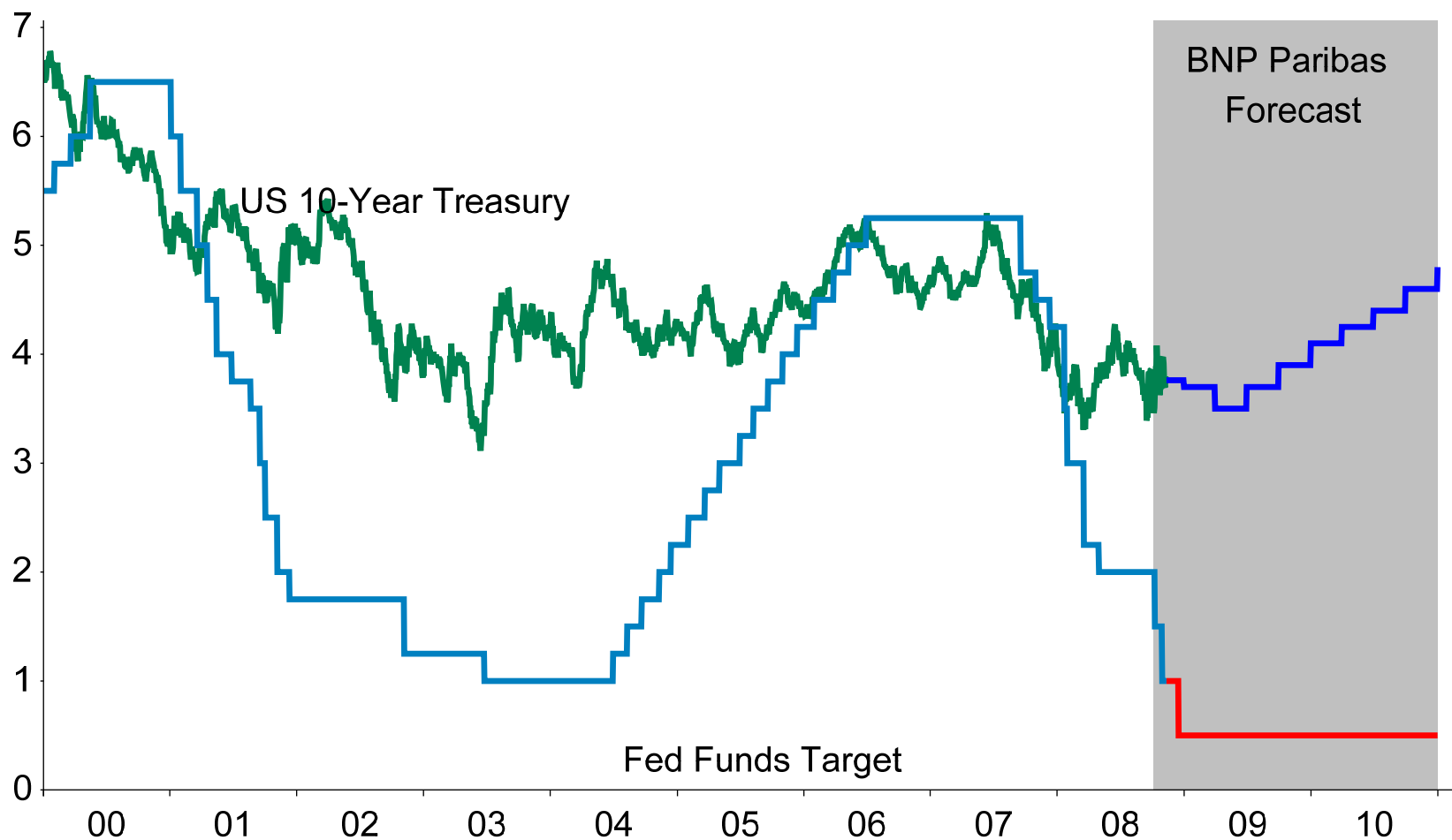
CPI %y/y & 10 Yr Yield



Source: Reuters Ecowin Pro, BNP Paribas

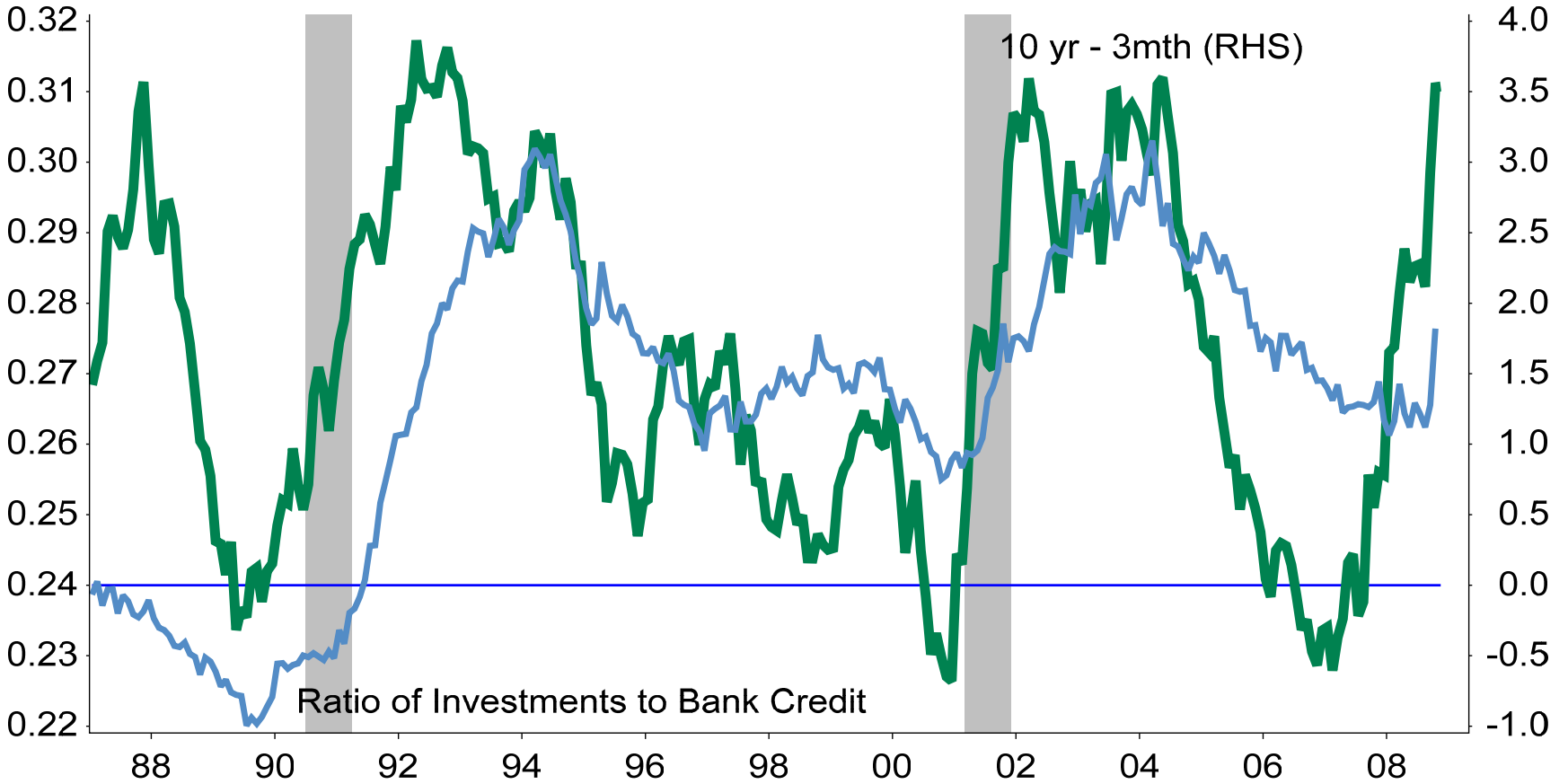


BNP Paribas Interest Rates Forecasts



Source: Reuters Ecowin Pro, BNP Paribas

Bank Investments Rise When Yield Curve Steepens



Source: Reuters Ecowin Pro, BNP Paribas



Economic Forecasts

Economic Forecasts (% y/y)*							
	2008	2009	2010	2008	2008	2009	2009
				Q3	Q4	Q1	Q2
US							
GDP	1.4	-1.6	0.5	0.8	0.3	-0.9	-2.0
CPI	4.0	0.4	1.5	5.3	2.4	1.2	0.2
Eurozone							
GDP	1.1	-1.0	0.6	0.8	0.0	-1.0	-1.1
CPI	3.4	1.5	1.4	3.8	2.6	2.1	1.2
Japan							
GDP	0.6	-0.9	1.1	0.6	-0.4	-1.6	-1.0
CPI	1.4	0.4	0.4	2.2	1.2	0.8	0.4

Source: BNP Paribas



Interest Rate & FX Forecasts

Interest Rate Forecasts (%)*					
	Spot**	Q4 '08	Q1 '09	Q2 '09	Q3 '09
US					
Fed Funds	1.00	0.50	0.50	0.50	0.50
2-year	1.27	1.00	1.00	1.25	1.25
10-year	3.76	3.70	3.50	3.70	3.90
Eurozone					
Refi	3.25	2.75	2.00	1.50	1.00
2-year	2.36	1.85	1.40	1.25	1.40
10-year	3.66	3.65	3.50	3.50	3.60
Japan					
ODR	0.50	0.50	0.50	0.50	0.50
Call Rate	0.30	0.30	0.30	0.30	0.30
2-year	0.54	0.55	0.55	0.55	0.55
10-year	1.50	1.50	1.45	1.55	1.55

Source: BNP Paribas * End Period

FX Forecasts*					
	Spot**	Q4 '08	Q1 '09	Q2 '09	Q3 '09
EUR/USD	1.25	1.17	1.07	1.12	1.14
USD/JPY	1.05	90	88	92	96
GBP/USD	1.50	1.41	1.27	1.37	1.43

Source: BNP Paribas *End Period



Disclaimer

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