Federal Reserve Bank of San Francisco

The Asian Financial Crisis Revisited

Challenges Over the Next Decade

June 20 – 21, 2007

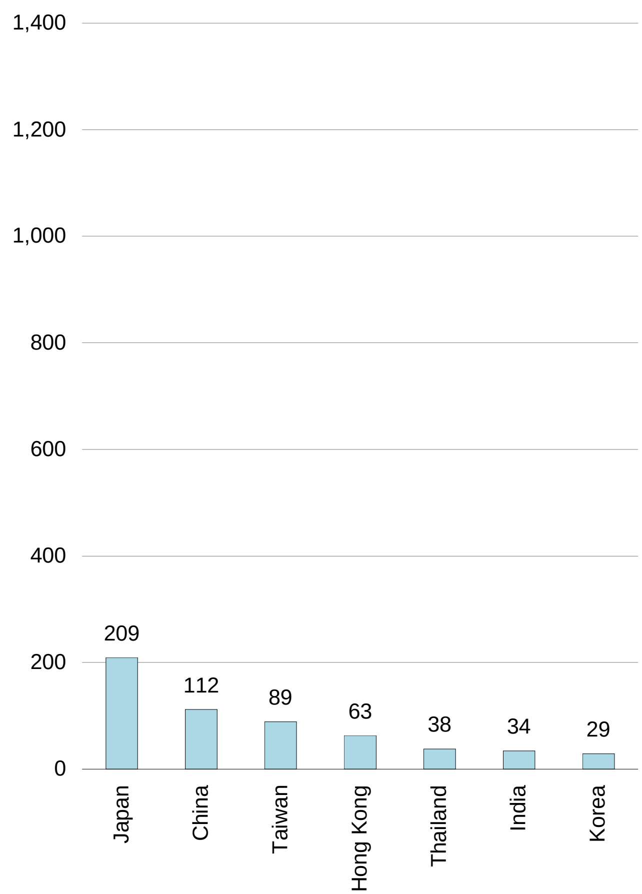
Morgan Stanley

FX Reserves

10 years ago vs. Current

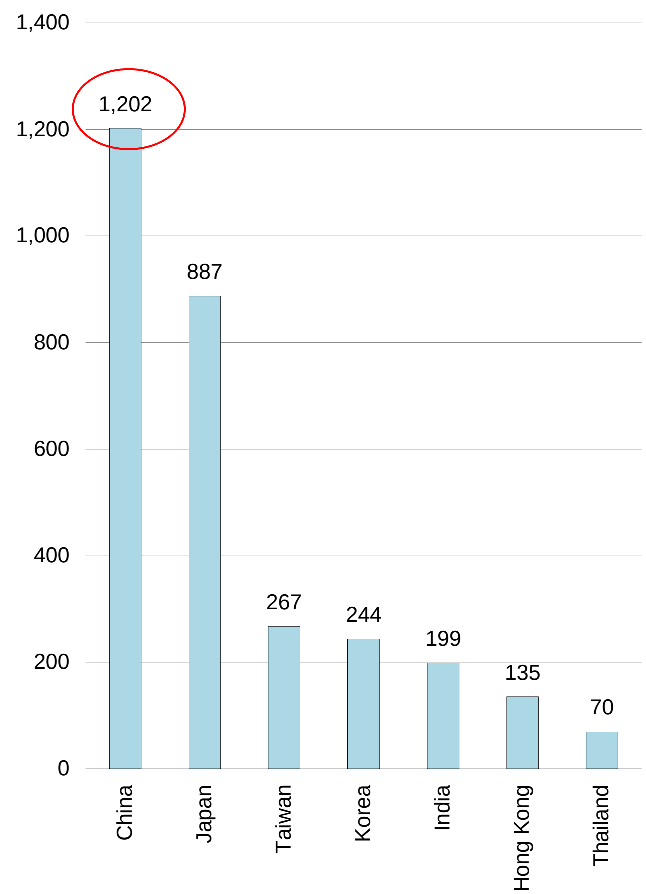
- **Over the past decade, countries in the Asia-Pacific have accumulated large foreign exchange reserves**
  - **As China exceeds the $1Tn mark, it has begun to diversify its foreign exchange reserves, as exemplified by its $3Bn investment in private equity firm, The Blackstone Group**

1997
$Bn



Source Bloomberg

May 2007
$Bn



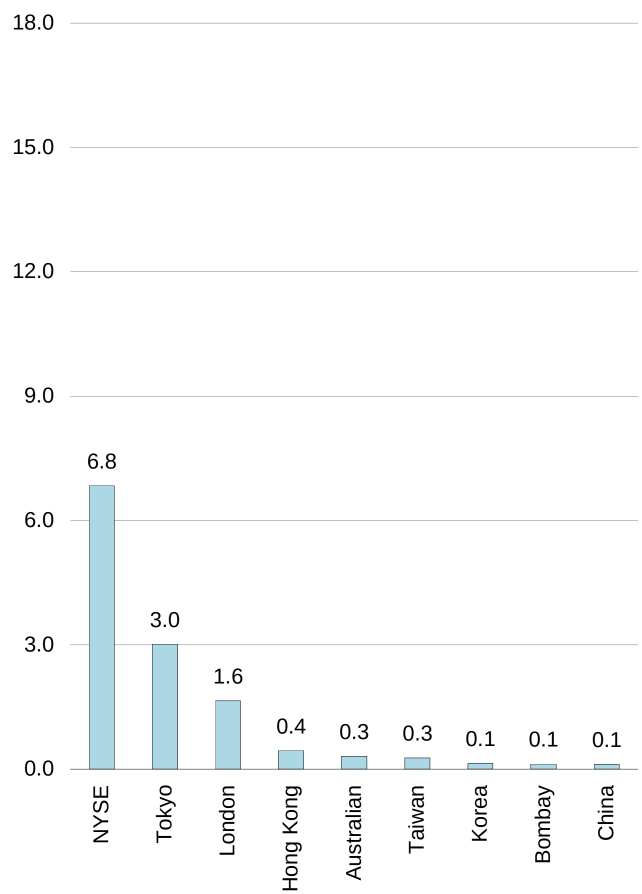
Source Bloomberg

Market Caps of Exchanges

1996 vs. 2006

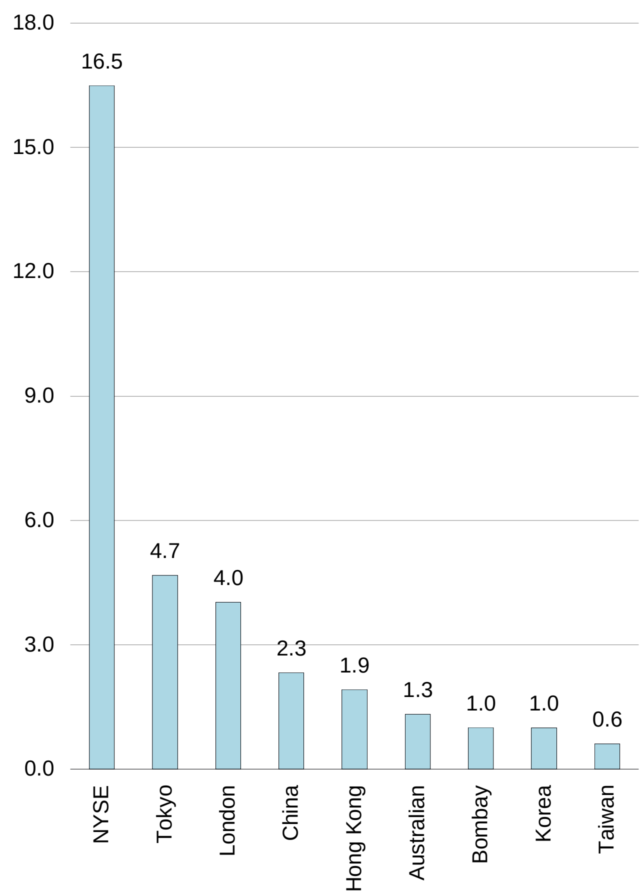
- **Since 1996, the market value of all major stock exchanges around the world have grown significantly, reflecting increasing volume as well as rising trends in valuation**
- **Stock exchanges in Asia-Pacific countries have grown in tandem with their burgeoning economies and maturing financial markets**
  - **The Shenzhen and Shanghai exchanges in China have experienced the most dramatic growth, 36.8% combined CAGR over ten years**

1996
$Tn



Source World Federation of Exchanges

2006
$Tn



Source World Federation of Exchanges

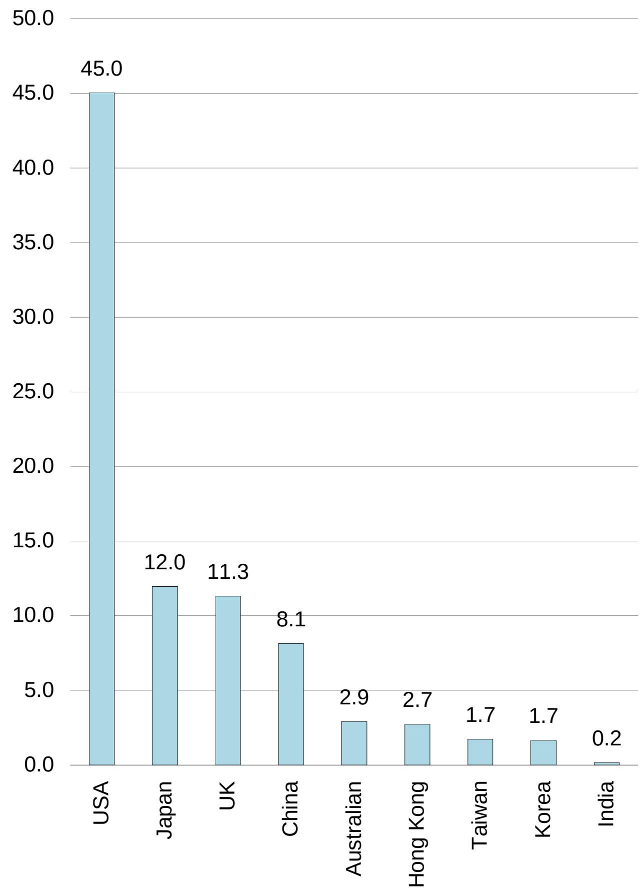
Notes
1. China includes Shanghai and Shenzen stock exchanges

Market Value of IPOs

1996 vs. 2006

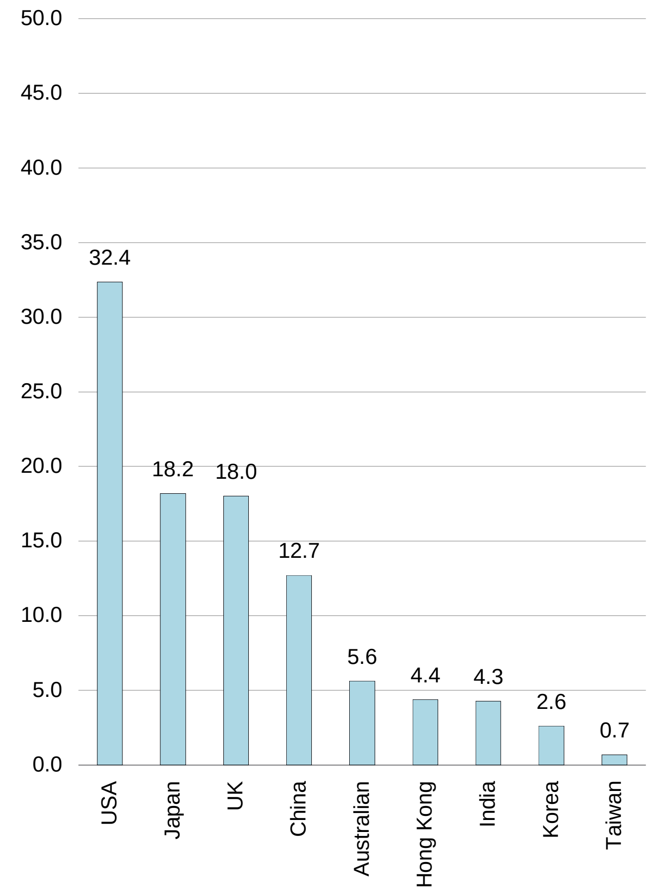
- **The U.S. remains the leading market for IPOs, though other markets in the Asia-Pacific region have become more prominent, reflecting their maturing financial markets**
  - **China, as the fastest developing economy, has seen many of the largest IPOs in the Asia-Pacific region**

1996
$Bn



Source Thomson Financial

2006
$Bn



Source Thomson Financial

15 Largest Global Financial Service Firms

1996 vs. 2006

- **In ten years span, the aggregate market value of the top 15 global financial services firms grew 8.9% CAGR**
  - **In contrast to 1996 when only 3 of the 15 top firms had market cap over $100Bn, all of the top 15 firms are above the mark**
- **The composition of the top fifteen global financial services firms has changed, driven by**
  - **Rise of the financial conglomerates**
  - **Development of Chinese banks**

Financial Sector 1996

Rank	Company	Market Cap ($US Bn)
1.	Sumitomo Mitsui Banking	248.1
2.	Banco Santander Chile	164.9
3.	Banco de A. Edwards	100.7
4.	Bank of Tokyo - Mitsubishi	86.3
5.	HSBC	57.0
6.	AIG	50.8
7.	CitiCorp	77.5
8.	Bank of America	63.9
9.	Fannie Mae	41.1
10.	Berkshire Hathaway	40.7
11.	JP Morgan Chase	39.2
12.	American Express	26.8
13.	Allstate	25.7
14.	WFC Holdings	24.9
15.	ING	24.4
	Total	**1,072.0**

Source Capital IQ

Financial Sector 2006

Rank	Company	Market Cap ($US Bn)
1.	Citigroup	273.7
2.	Industrial and Commercial Bank of China Ltd.	260.2
3.	Bank of America	239.8
4.	HSBC	209.4
5.	AIG	186.3
6.	Berkshire Hathaway	169.6
7.	JPMorgan Chase	167.6
8.	China Construction Bank	143.0
9.	Bank of China	139.4
10.	Mitsubishi UFJ Financial	124.8
11.	Royal Bank of Scotland	124.6
12.	Wells Fargo	120.0
13.	UBS AG	119.9
14.	Banco Santander Central Hispano SA	116.7
15.	Wachovia Corp.	114.5
	Total	**2,509.5**

Source Capital IQ

Notes
1. Global Financial Services Firms include Commercial Banks, Investment Banks, Investment Brokers and Insurance Companies

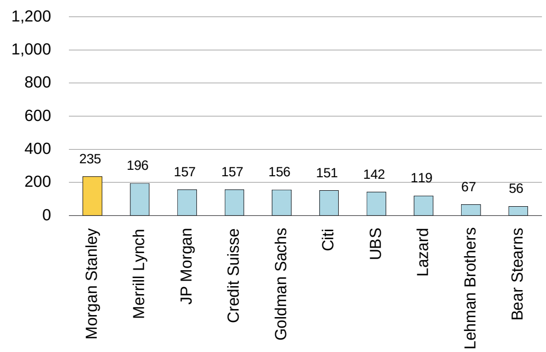
Global Debt, Equity and M&A League Tables

1996 versus 2006

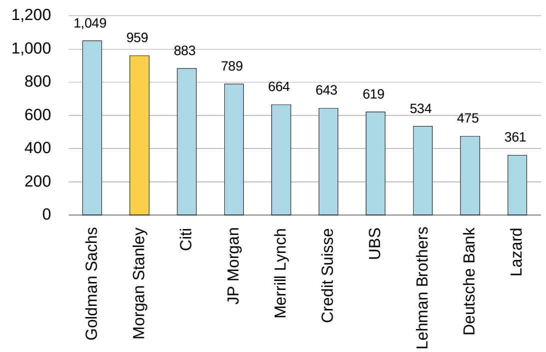
M&A (1)

$Bn

1996



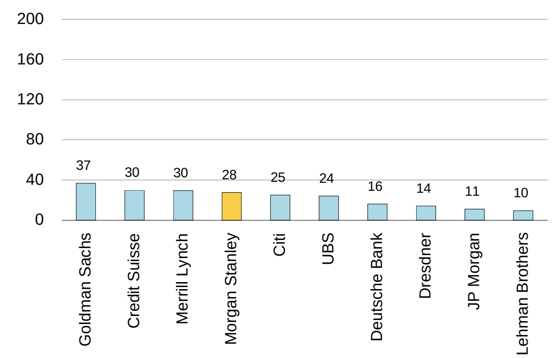
2006



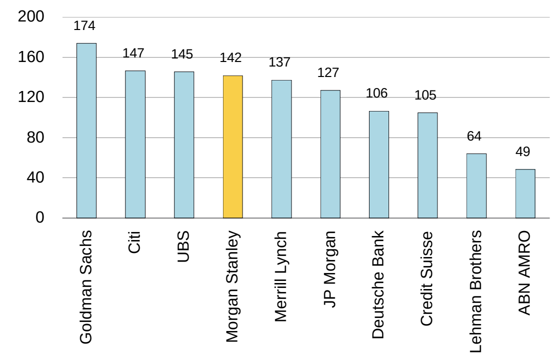
Equity

$Bn

1996



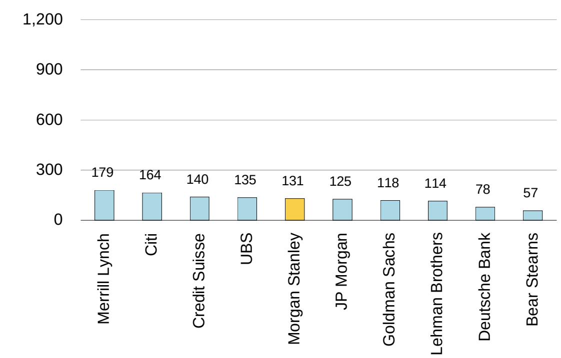
2006



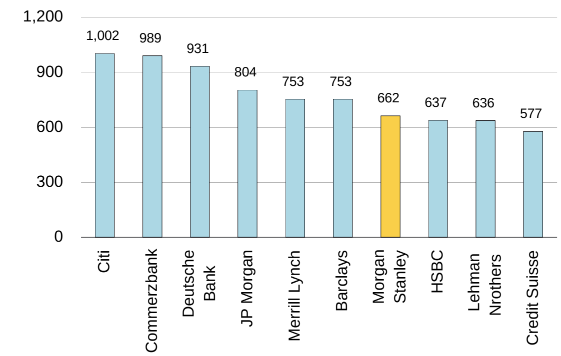
Debt

$Bn

1996



2006



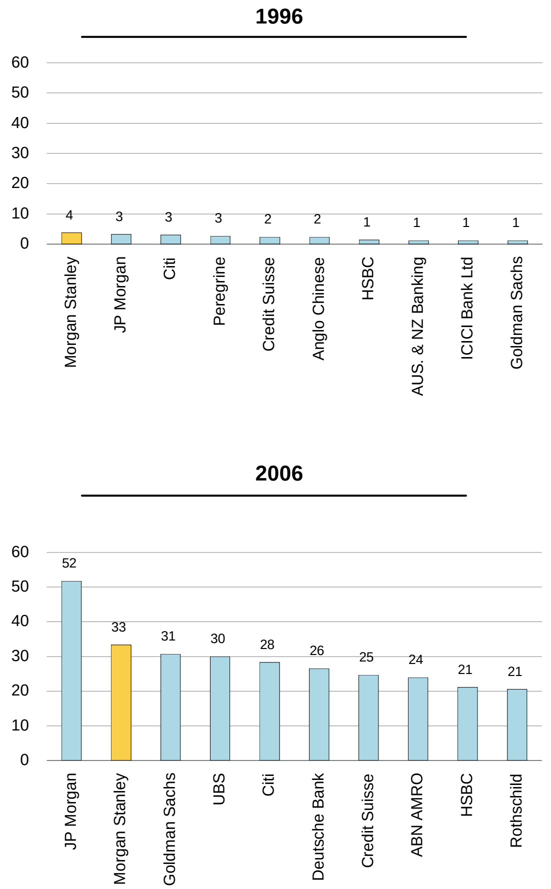
Source Dealogic, Thomson Financial

Notes
1. Deals greater than $100MM; any party transactions in the region

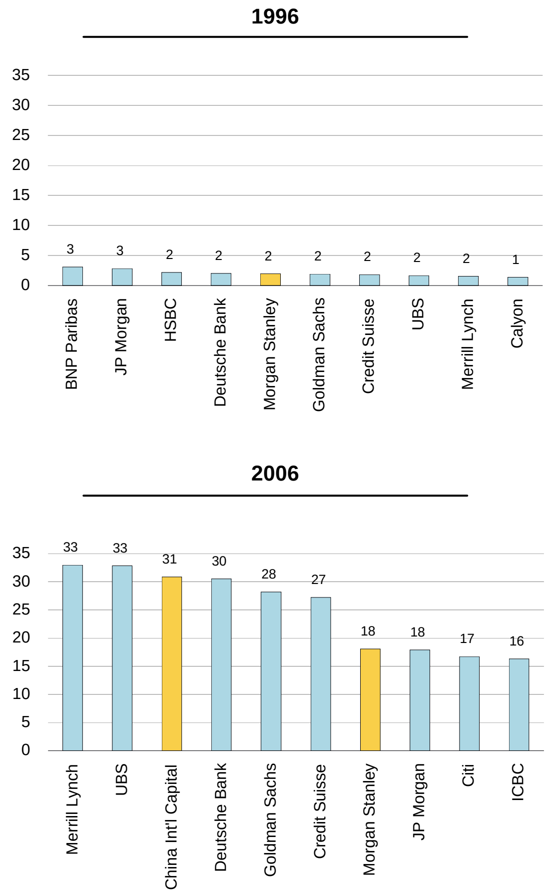
Asia-Pacific Debt, Equity and M&A League Tables (1)

1996 versus 2006

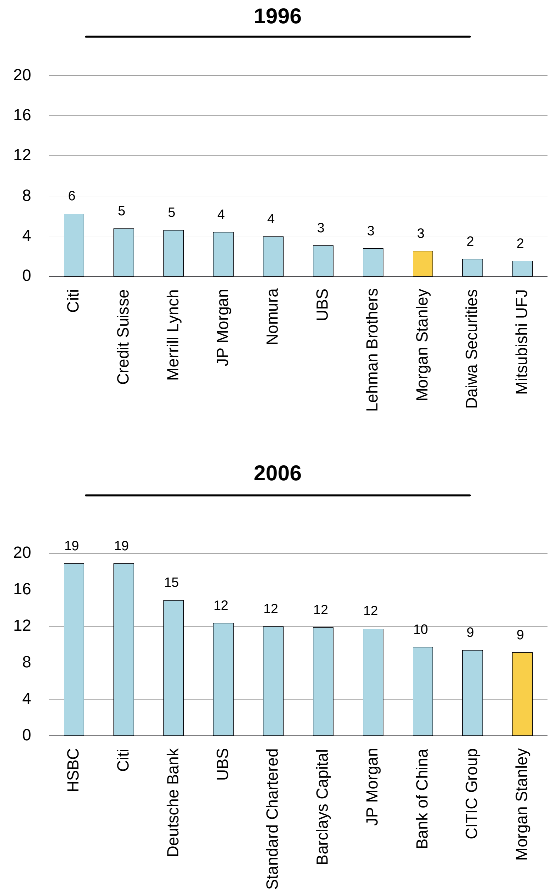
M&A (2)
$Bn



Equity
$Bn



Debt
$Bn



Source Dealogic, Thomson Financial

Notes
1. Excludes Japan and Australia
2. Deals greater than $100MM; any party transactions in the region

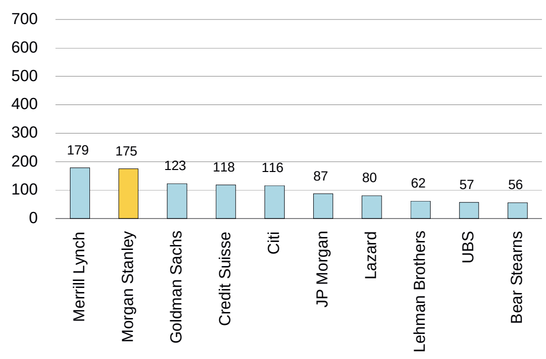
US Debt, Equity and M&A League Tables

1996 versus 2006

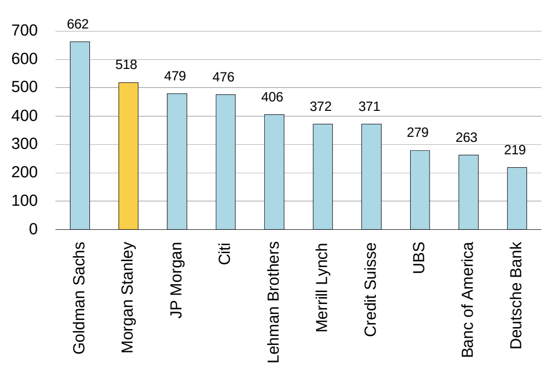
M&A (1)

$Bn

1996



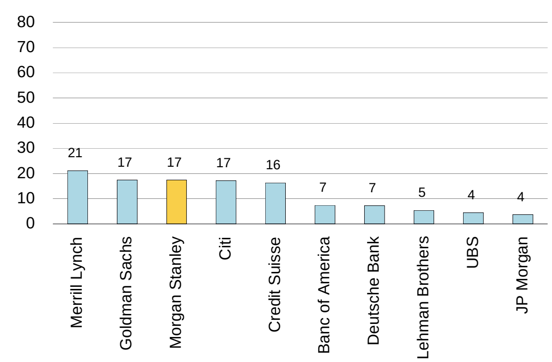
2006



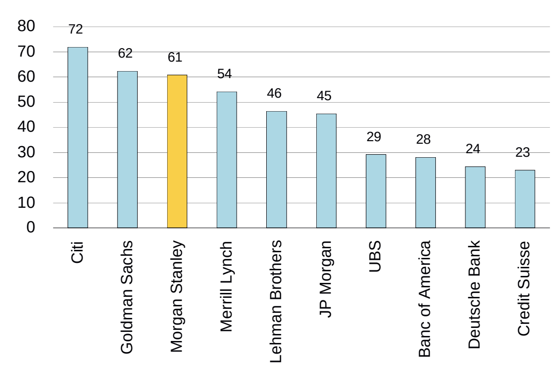
Equity

$Bn

1996



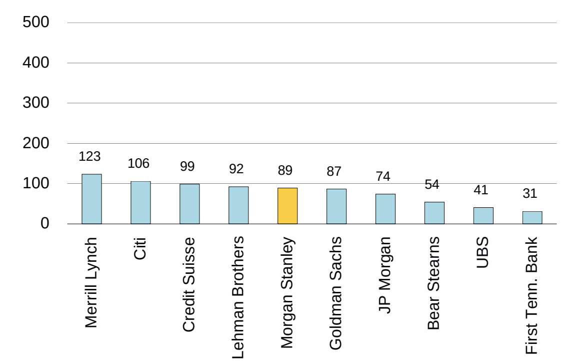
2006



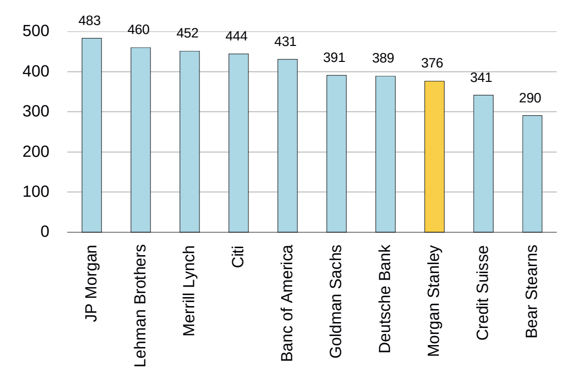
Debt

$Bn

1996



2006



Source Dealogic, Thomson Financial

Notes
1. Deals greater than $100MM; any party transactions in the region