



The Way ForwardSM
2009

Emerging Markets Outlook: Will the Global Recession Defer the BRICs Dream?

Dominic Wilson, Director
Global Macro and Markets Research
Goldman, Sachs & Co.

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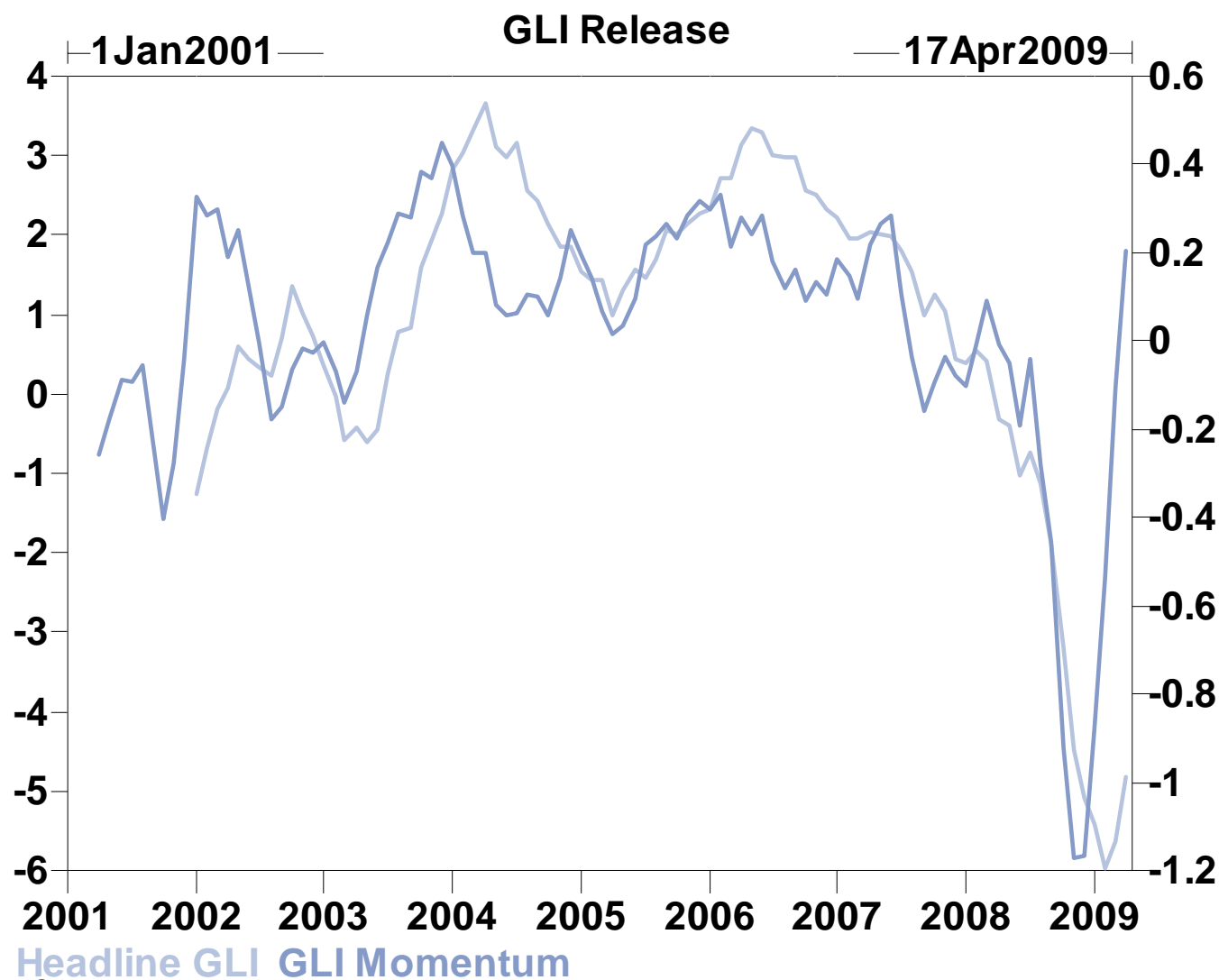
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Key themes

- **Tentative signs of stabilization but financial conditions still tight**
- **Already a new market YTD as commodos, China-related/EM assets outperform**
- **What the BRICs thesis was (is):**
 - Shifting economic power to the BRICs
 - An expanding middle class and growing global growth contribution
 - Leads to important, sustained shifts in product demand (commodities and on)
- **What the BRICs thesis wasn't:**
 - Immunity from the global cycle and global markets
 - Unconditional outperformance of local equity markets
- **Cyclical pressure on BRICs (as everyone) but resilience here and structural story remains intact as contribution to growth rises further**
- **BRIC markets too have behaved better than in the past and are doing well again**
- **Institutional risks are (always) the worry if recession is long-lasting (Russia)**

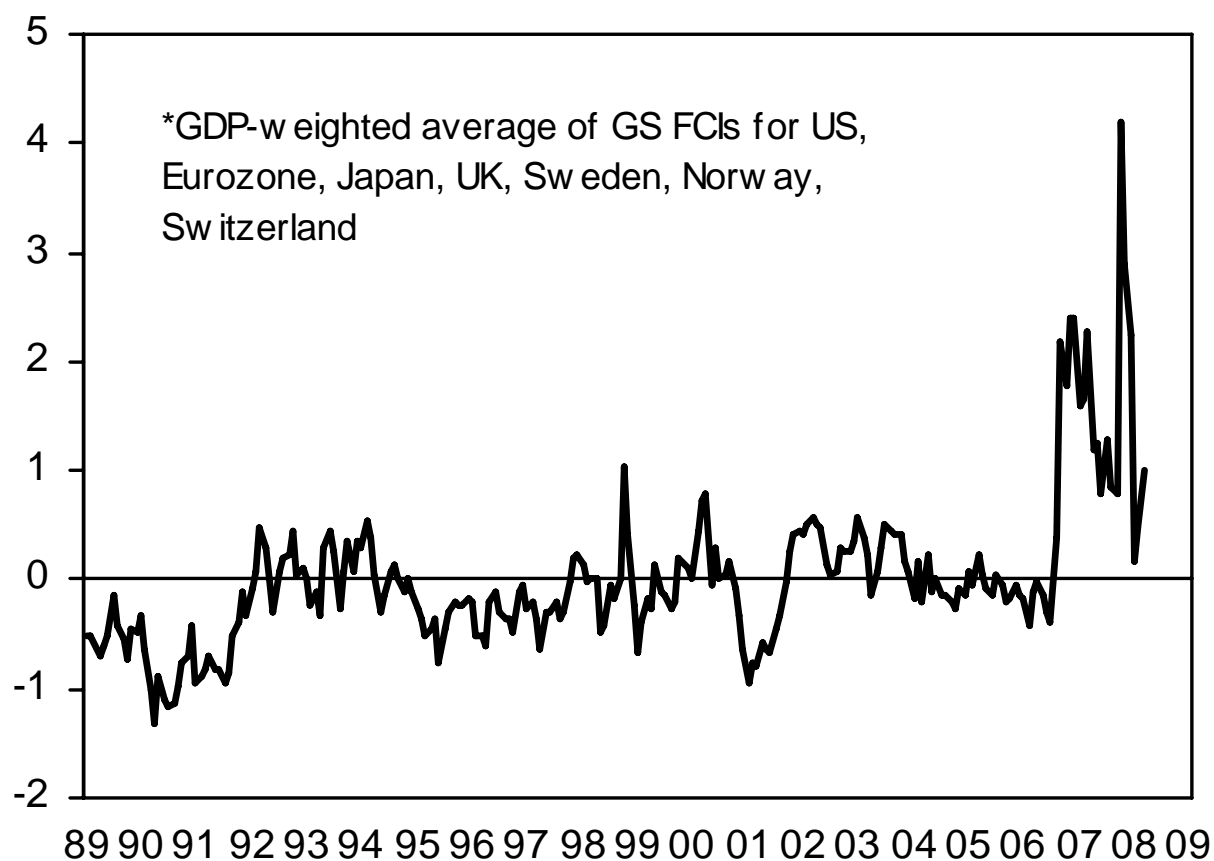
GS Global Leading Indicator (GLI) - new record lows



Source: Goldman Sachs Research.

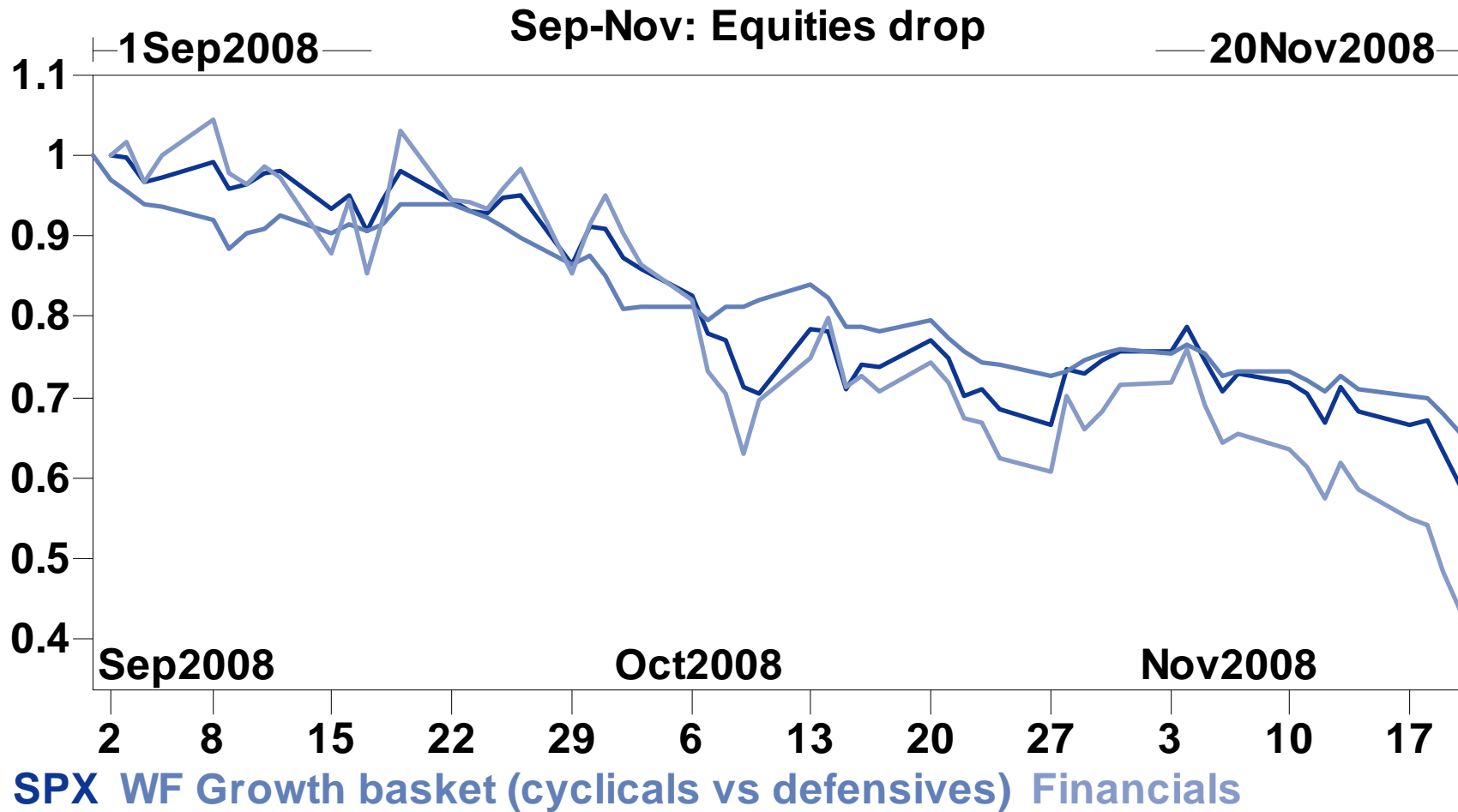
Financial conditions still tightening globally

Index **Financial Conditions Still Tight on Aggregate**



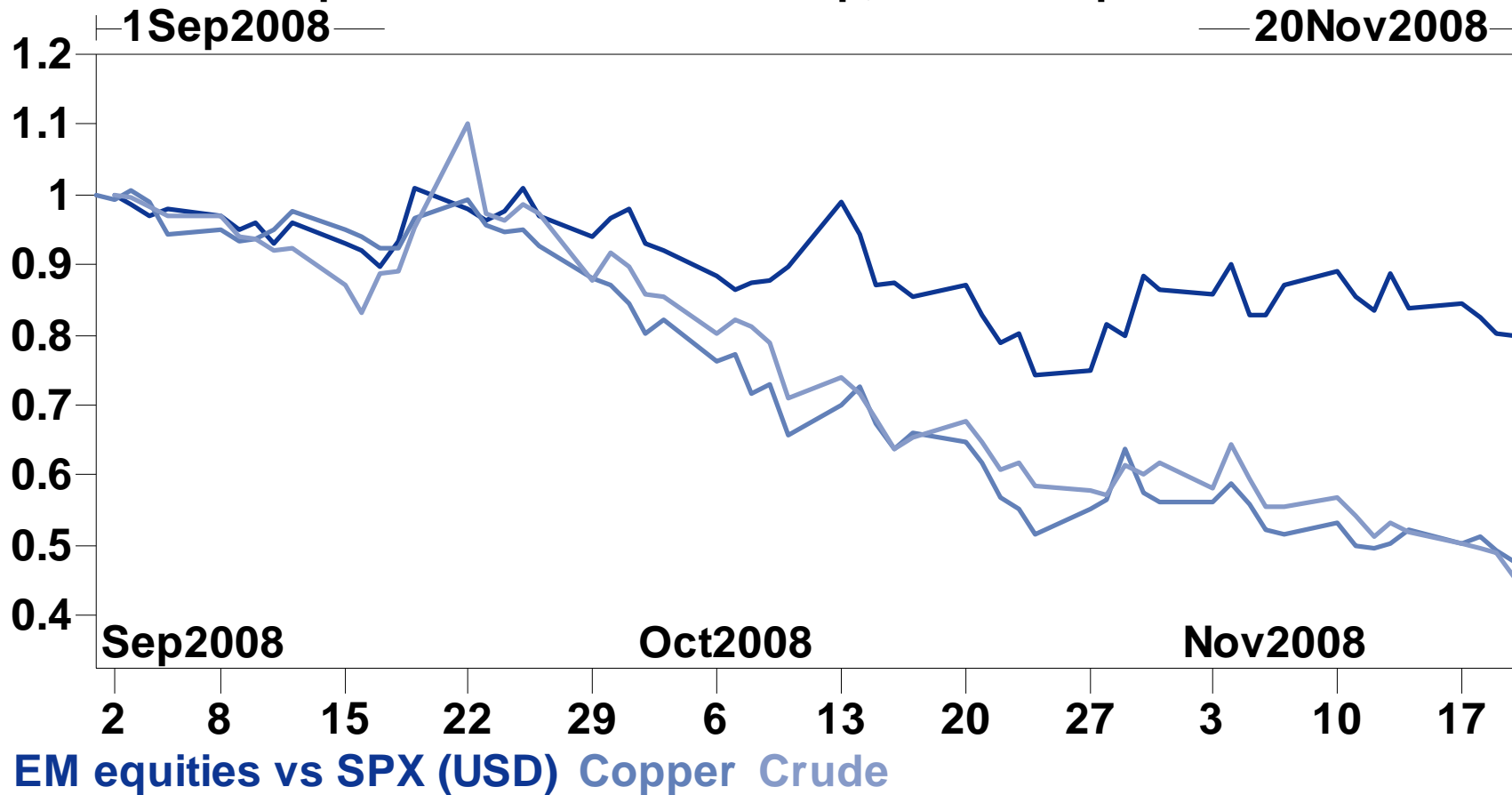
Source: GS Global ECS Research

Late 2008, equities fell....

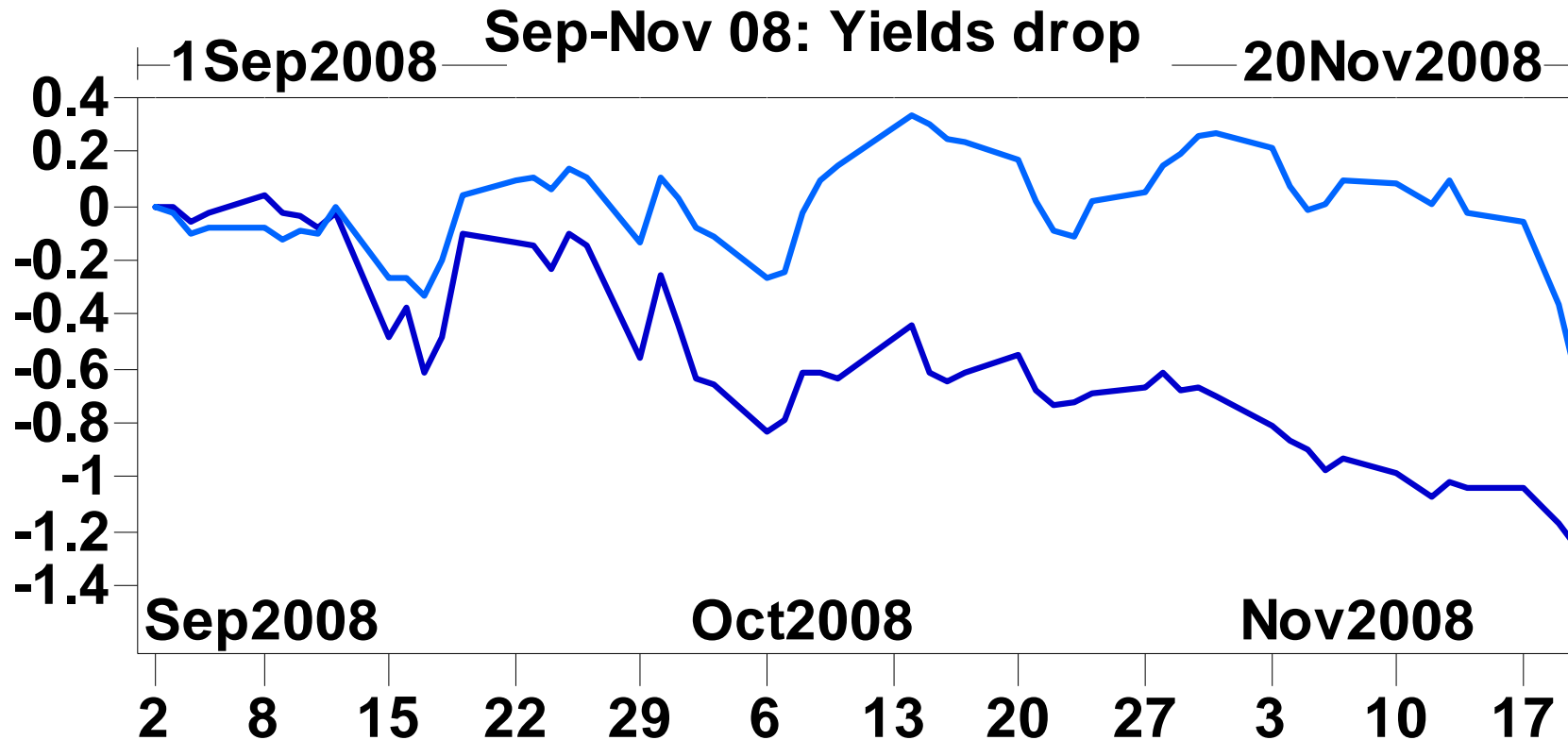


..commodities and EM assets were hit

Sep-Nov 08: Commods drop, EM underperforms

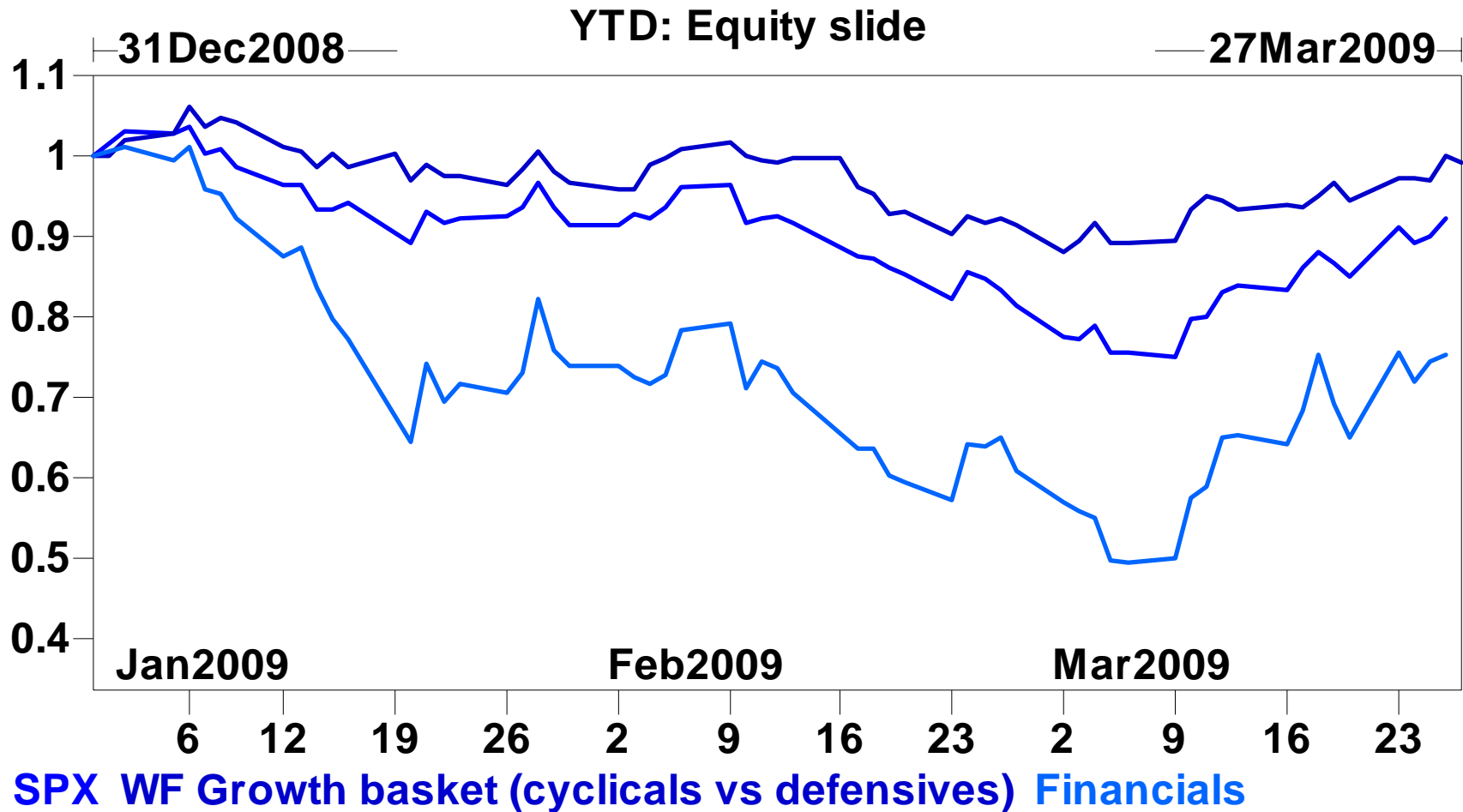


....and yields came down



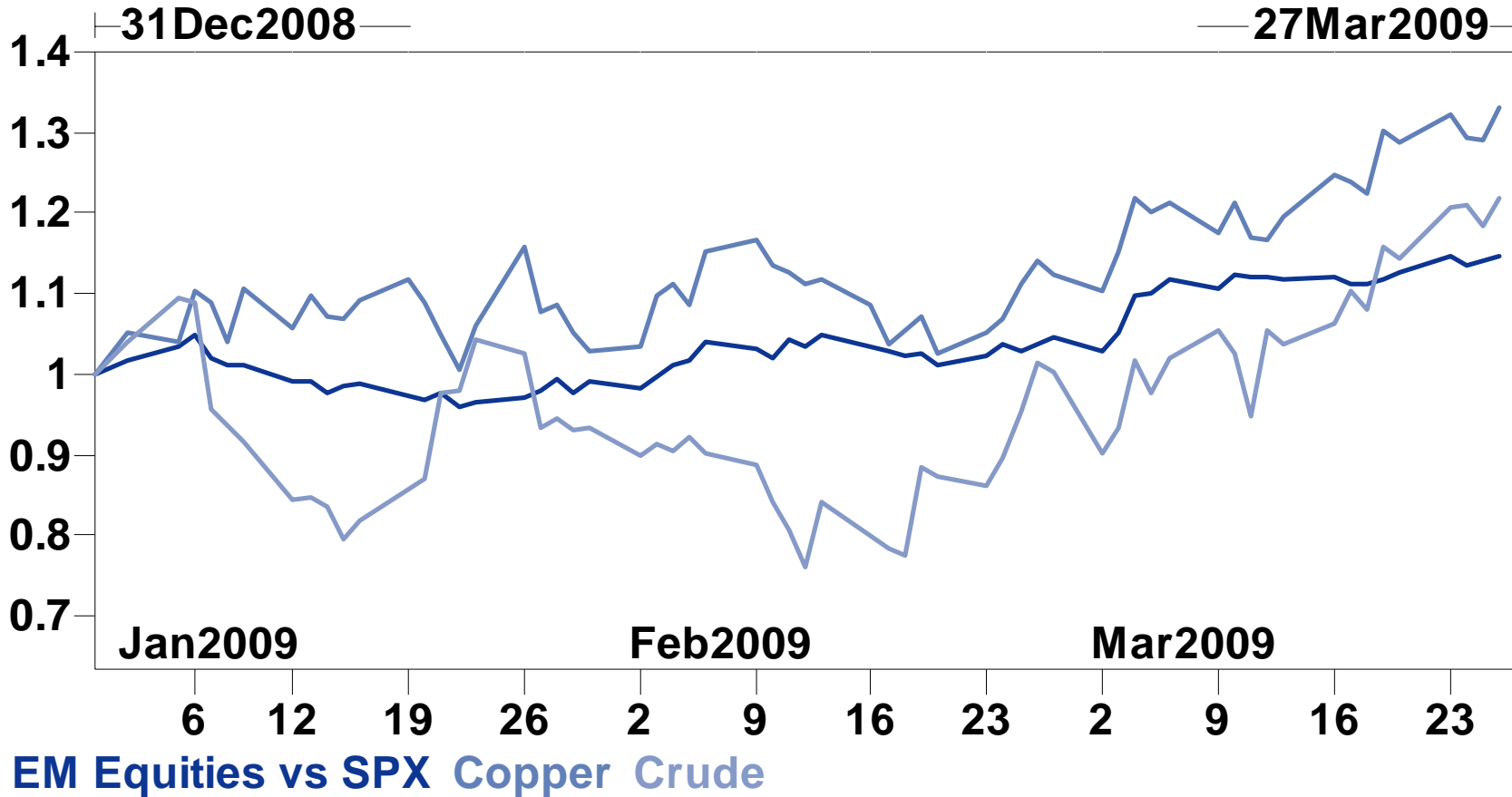
Cumulative change in 10-year yields
Cumulative change in 2-year yields

This year, DM equities have seen pressure



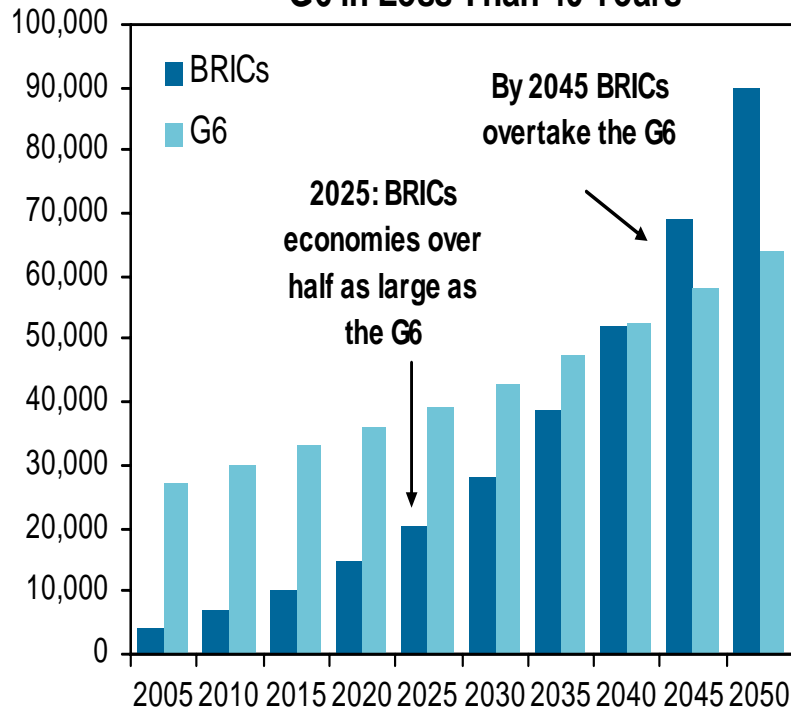
..but commods and EM equities are up

YTD: And commods higher, EM equities outperform



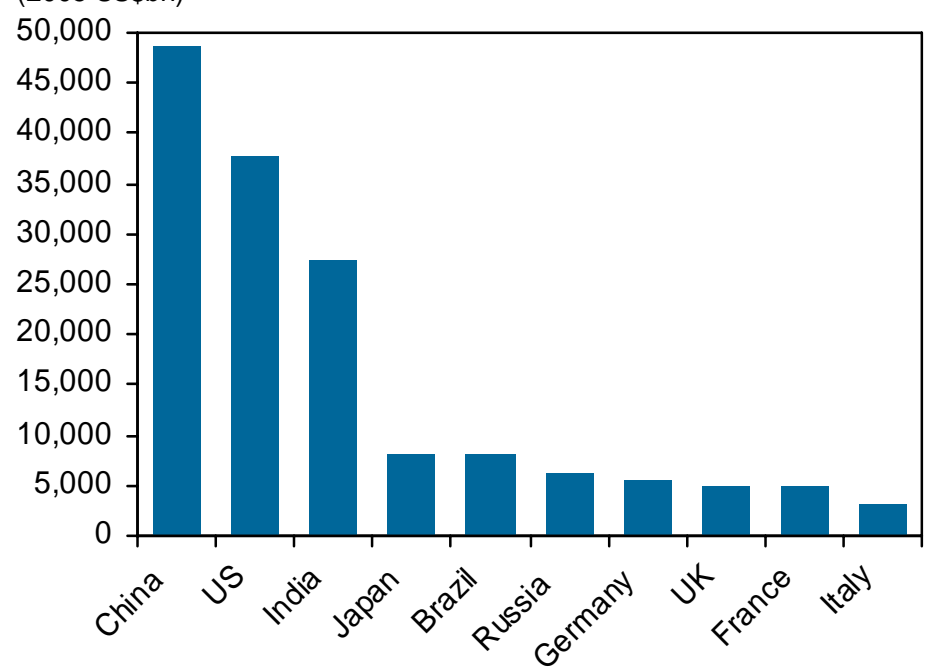
The original BRICs projections: what we said in 2003

GDP (2005 US\$bn) **BRICs Have a Larger US\$ GDP Than the G6 in Less Than 40 Years**

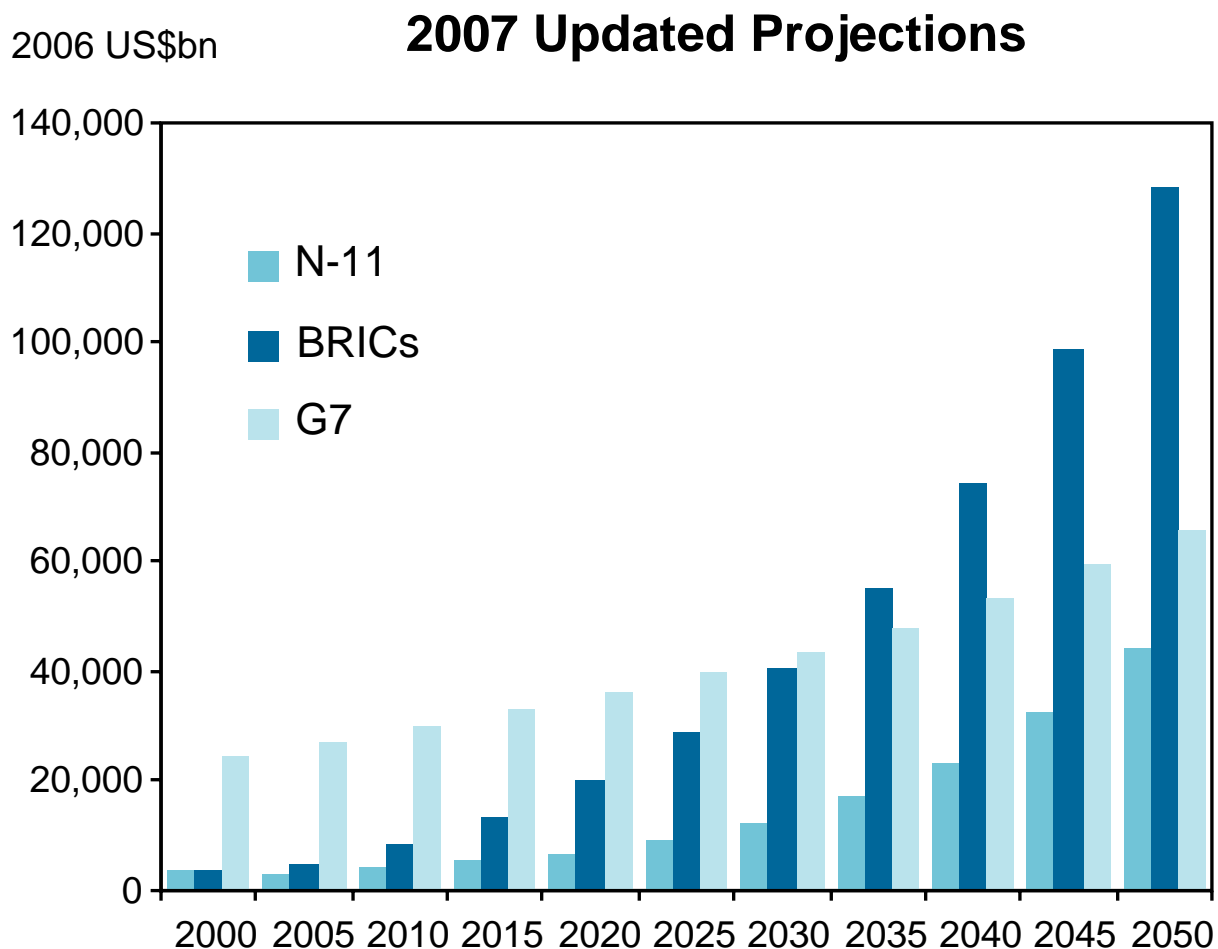


GS BRICs Model Projections

GDP (2005 US\$bn) **The Largest Economies in 2050**

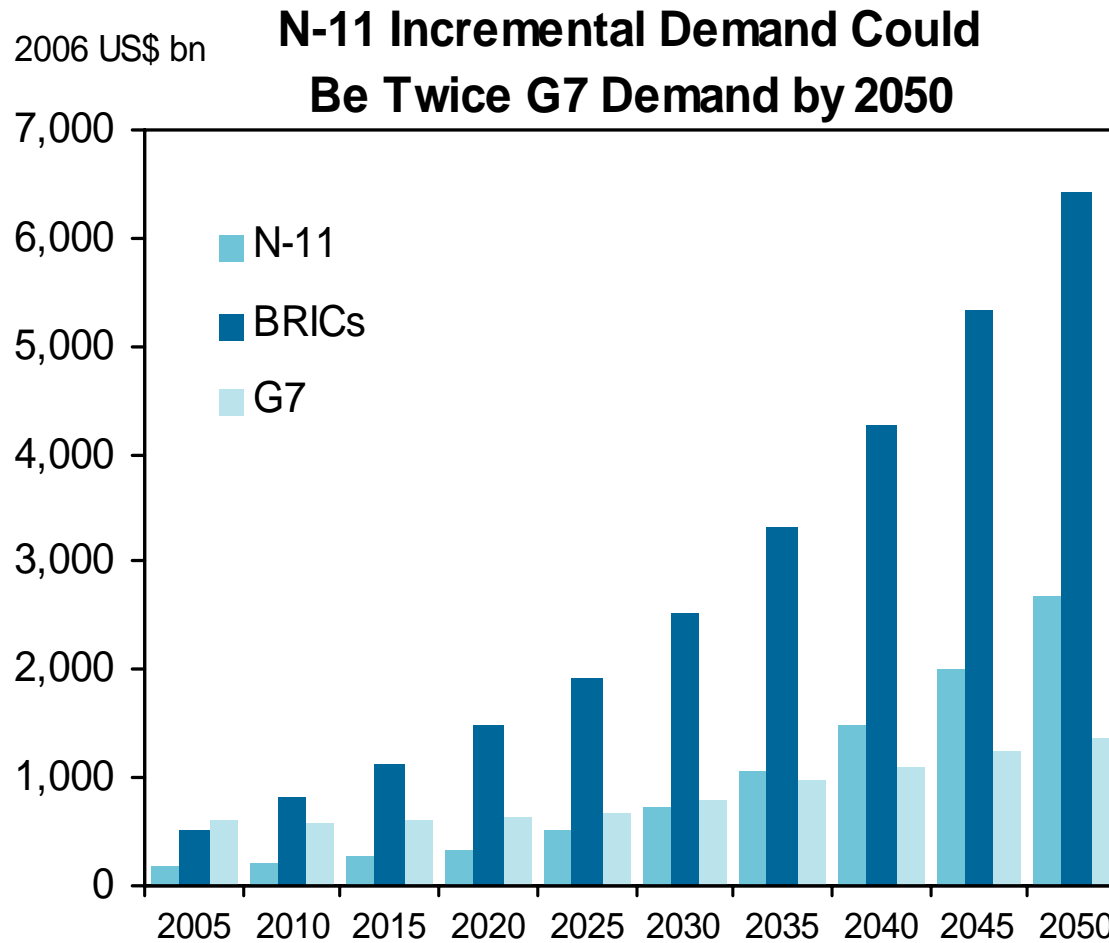


BRICs combined could overtake G7 in 25 years



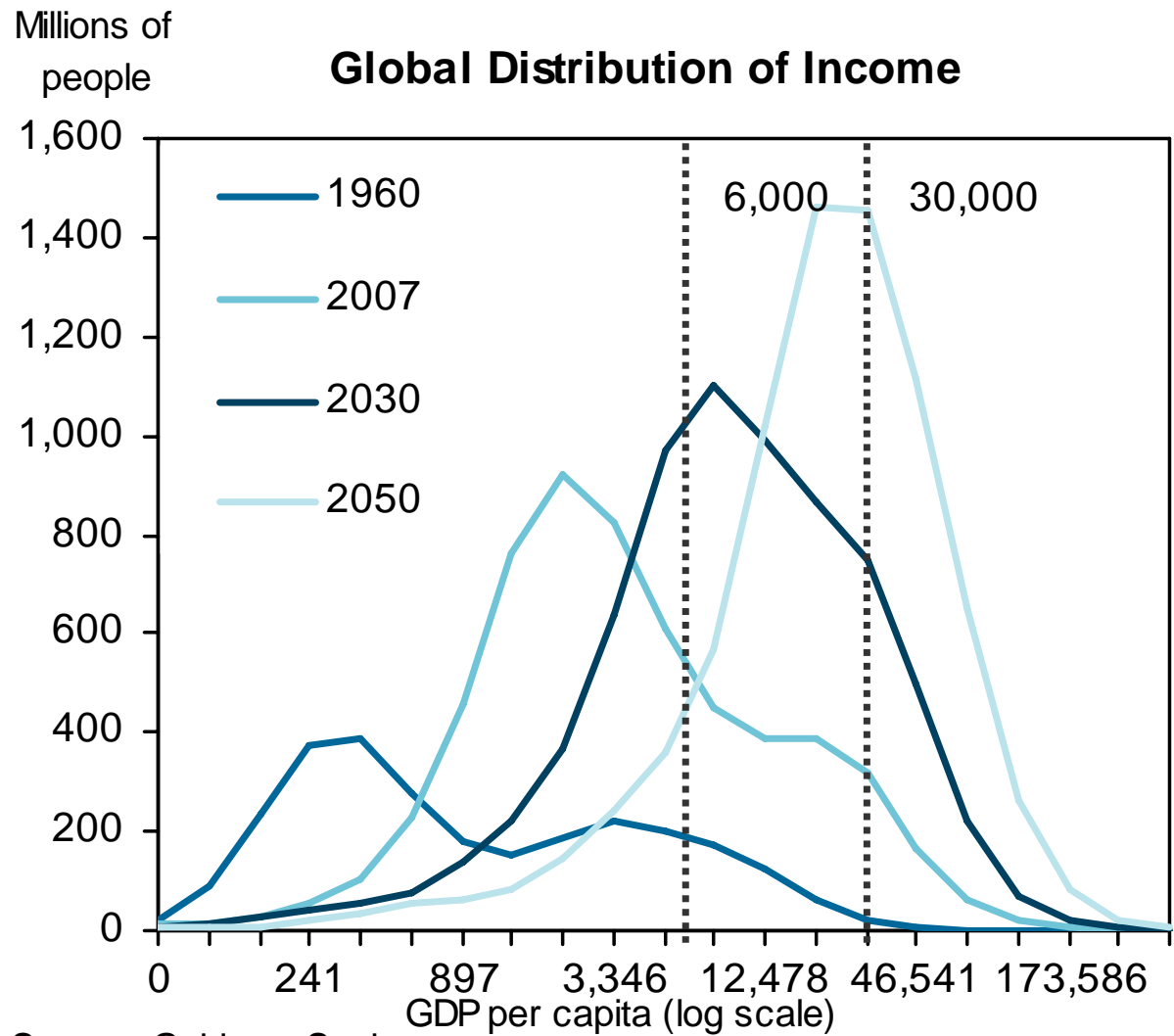
Source: GS

New demand: BRICs already rivalling G7



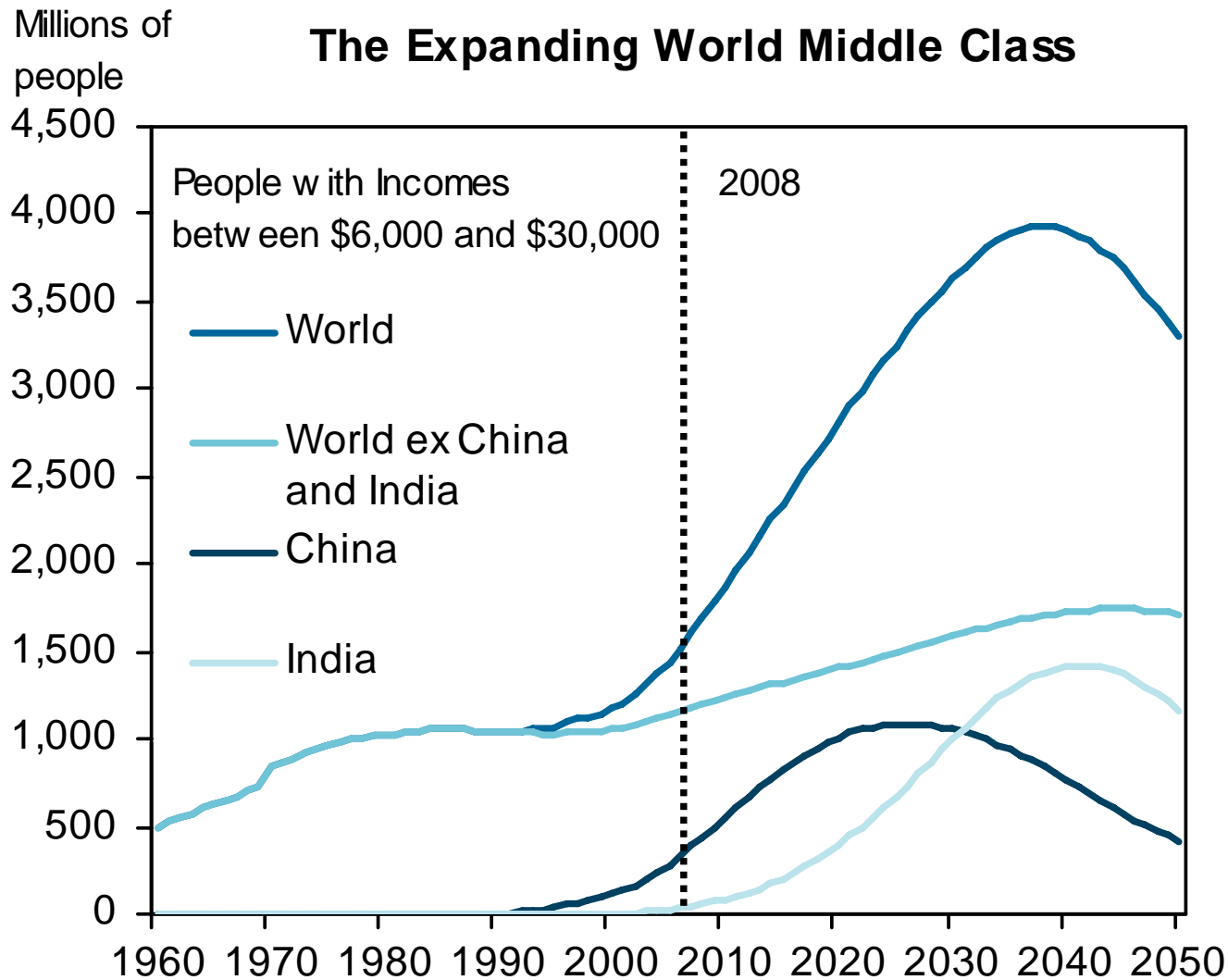
Source: GS

Global income distribution: the 'Expanding Middle'



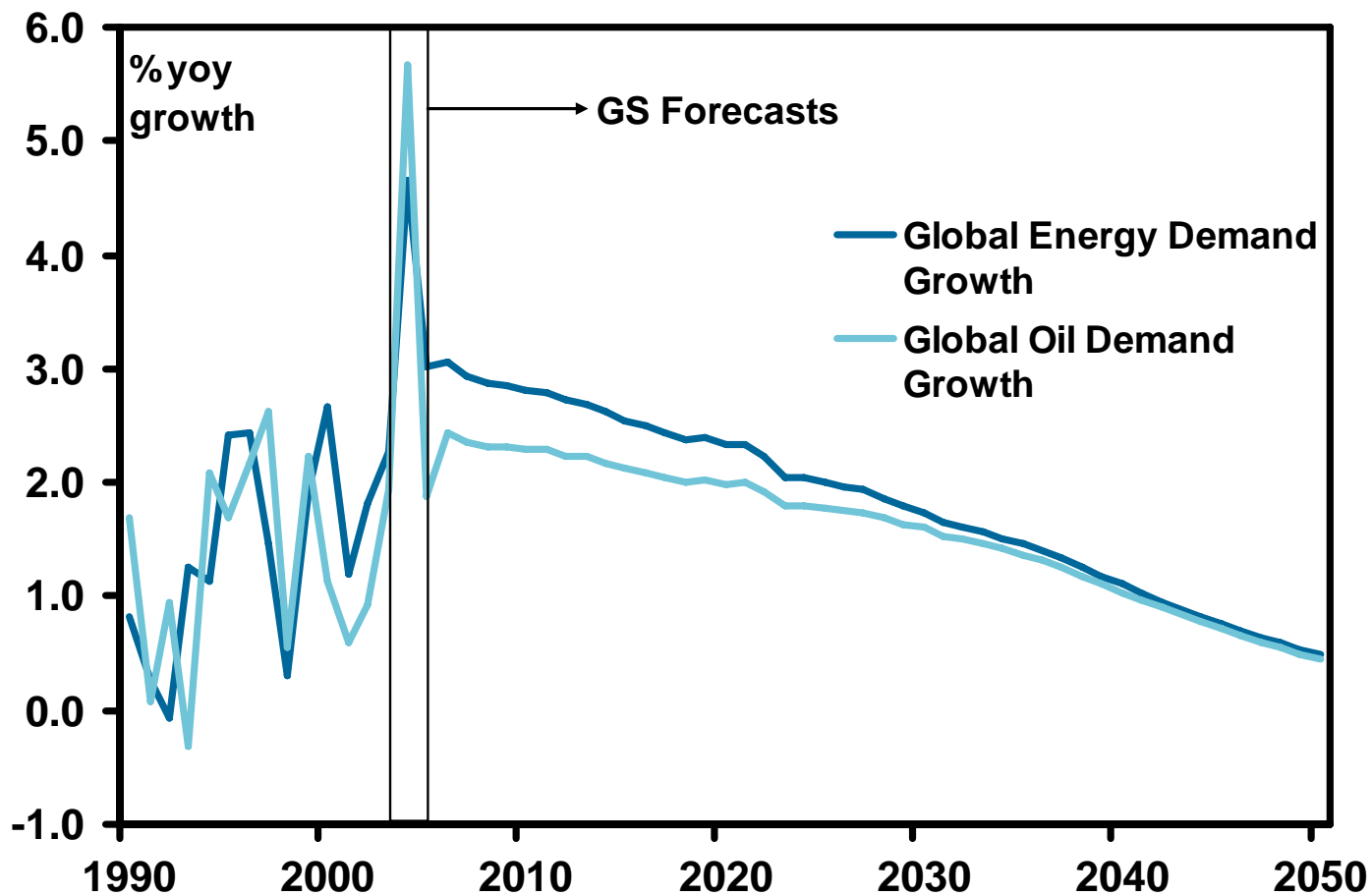
Source: Goldman Sachs

Global "middle class" set to continue to grow very rapidly

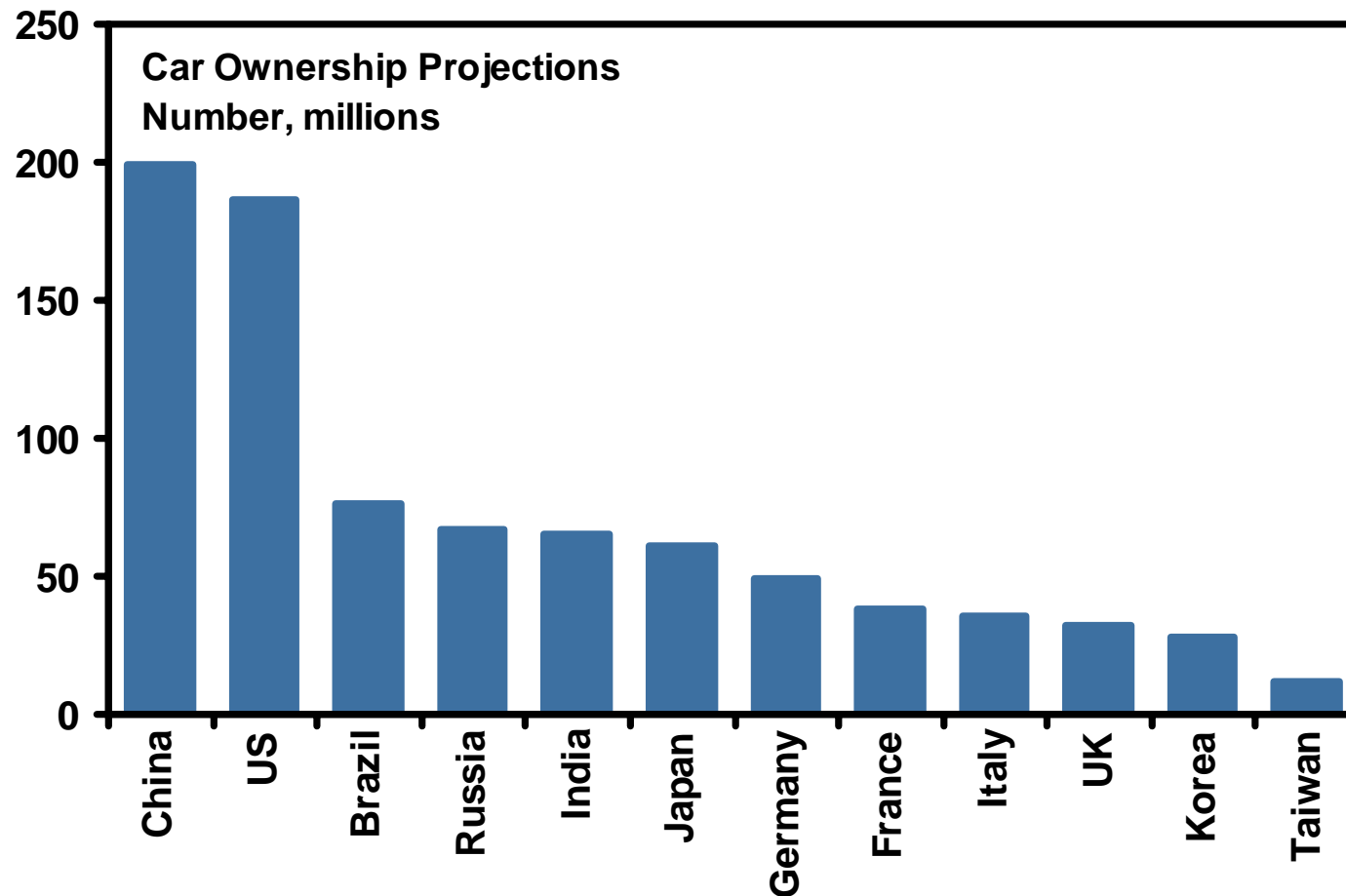


Source: Goldman Sachs

Global demand growth for energy and oil: underlying pressure for two decades

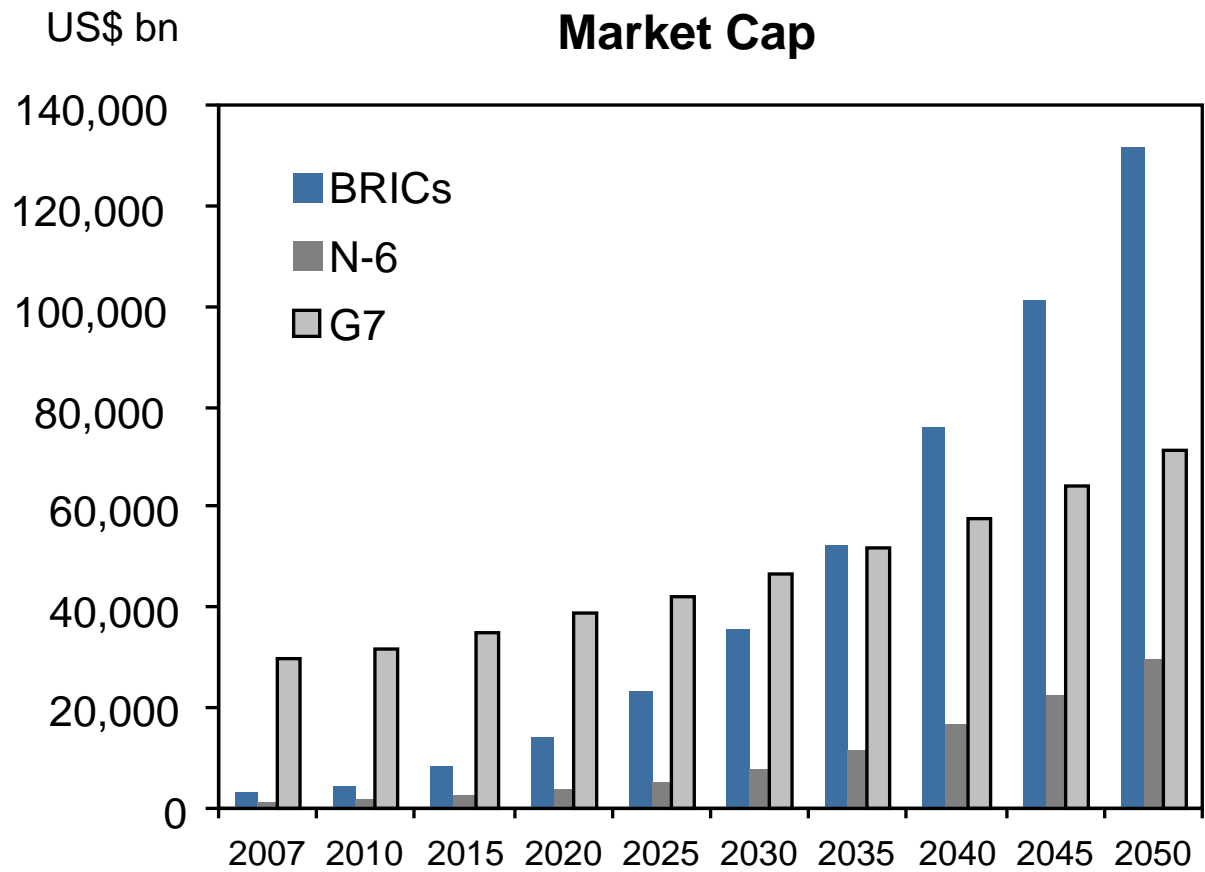


Rising durable spending: car ownership in 2025





BRICs share of EM and global mkt cap may rise sharply

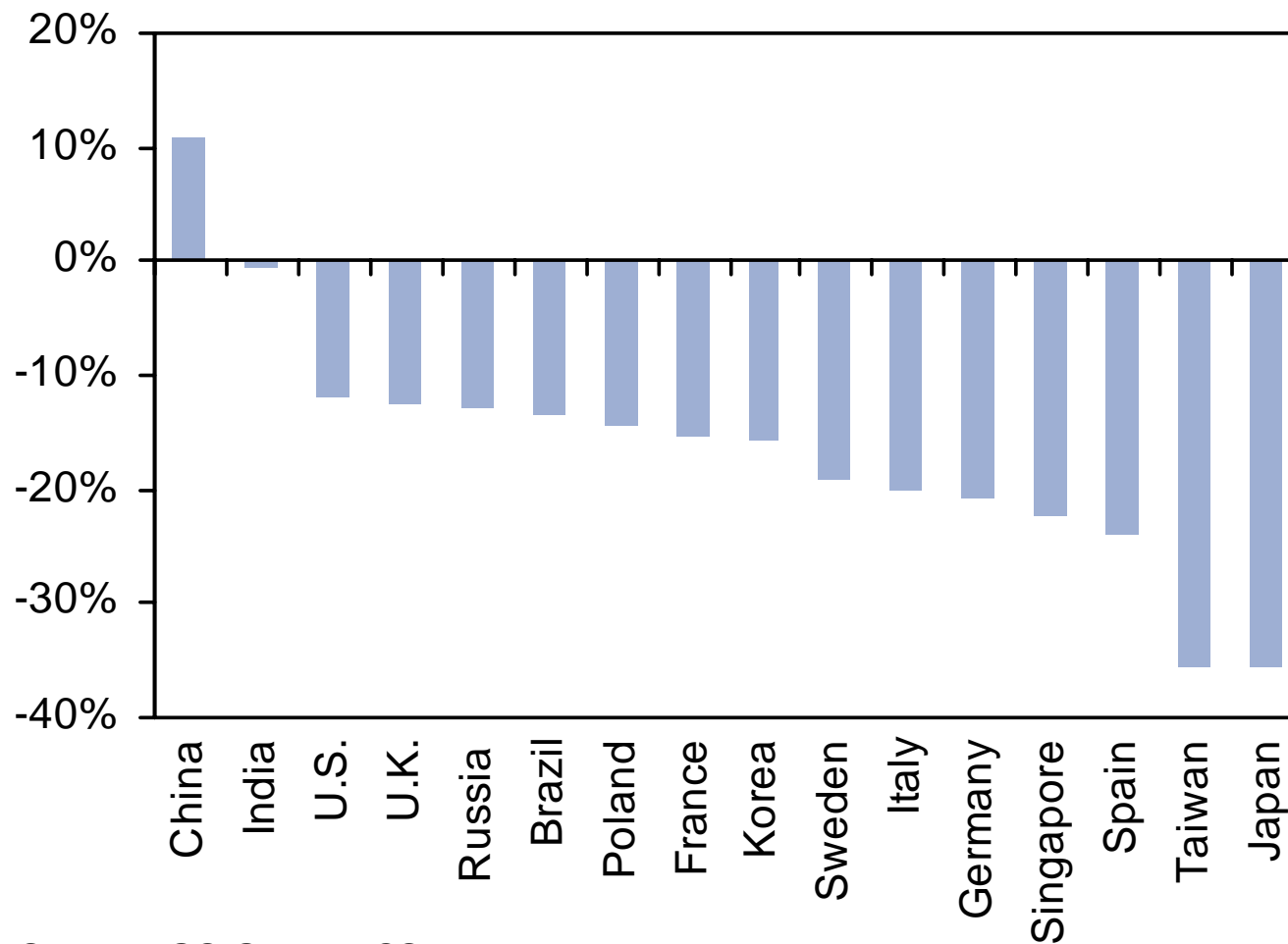


Note: N-6 includes Indonesia, Korea, Mexico, Pakistan, Philippines, Turkey, for which DS indices are available

BRICs: Everybody hurts some times

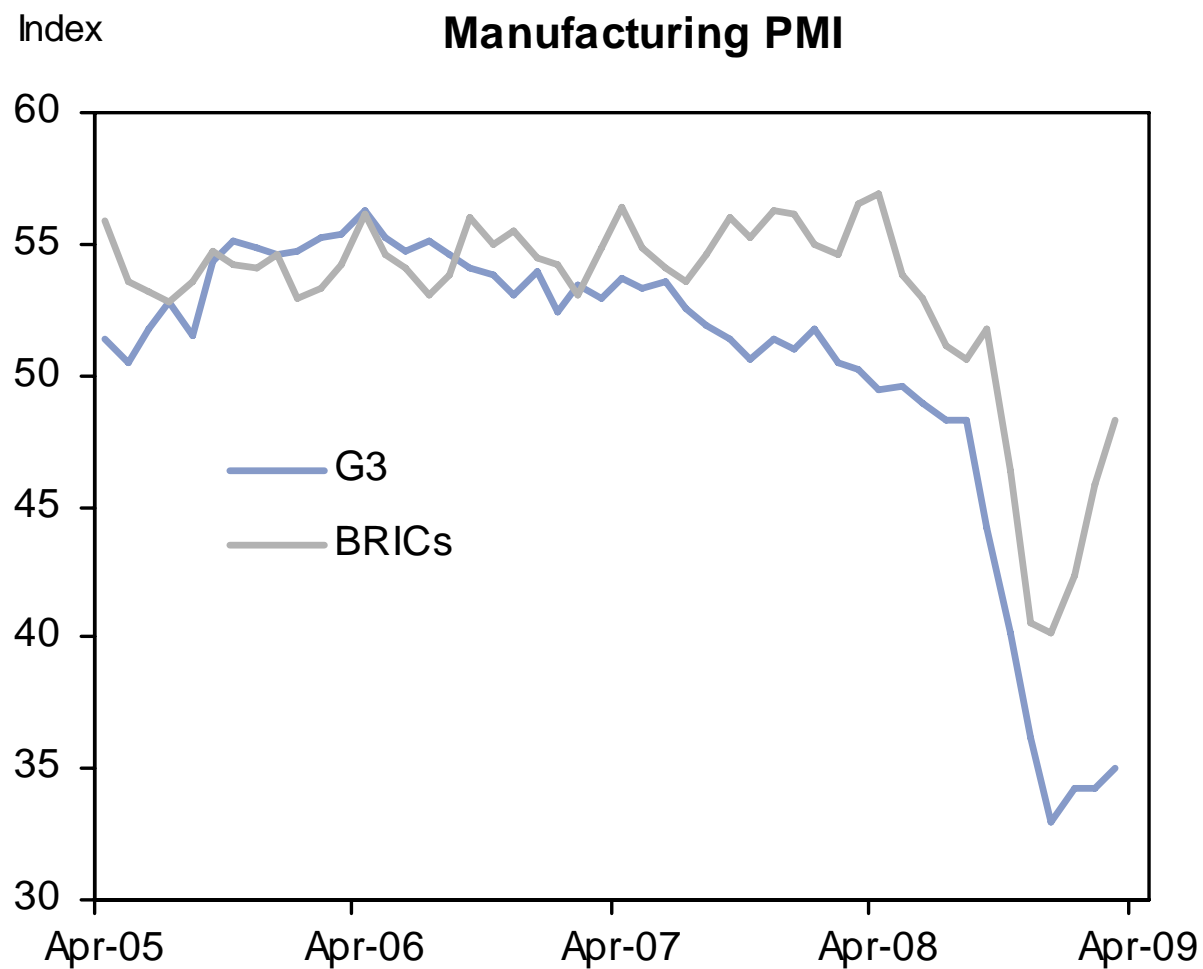
IP, % yoy
to Feb 09

Industrial Damage: Some Hit More Than Others



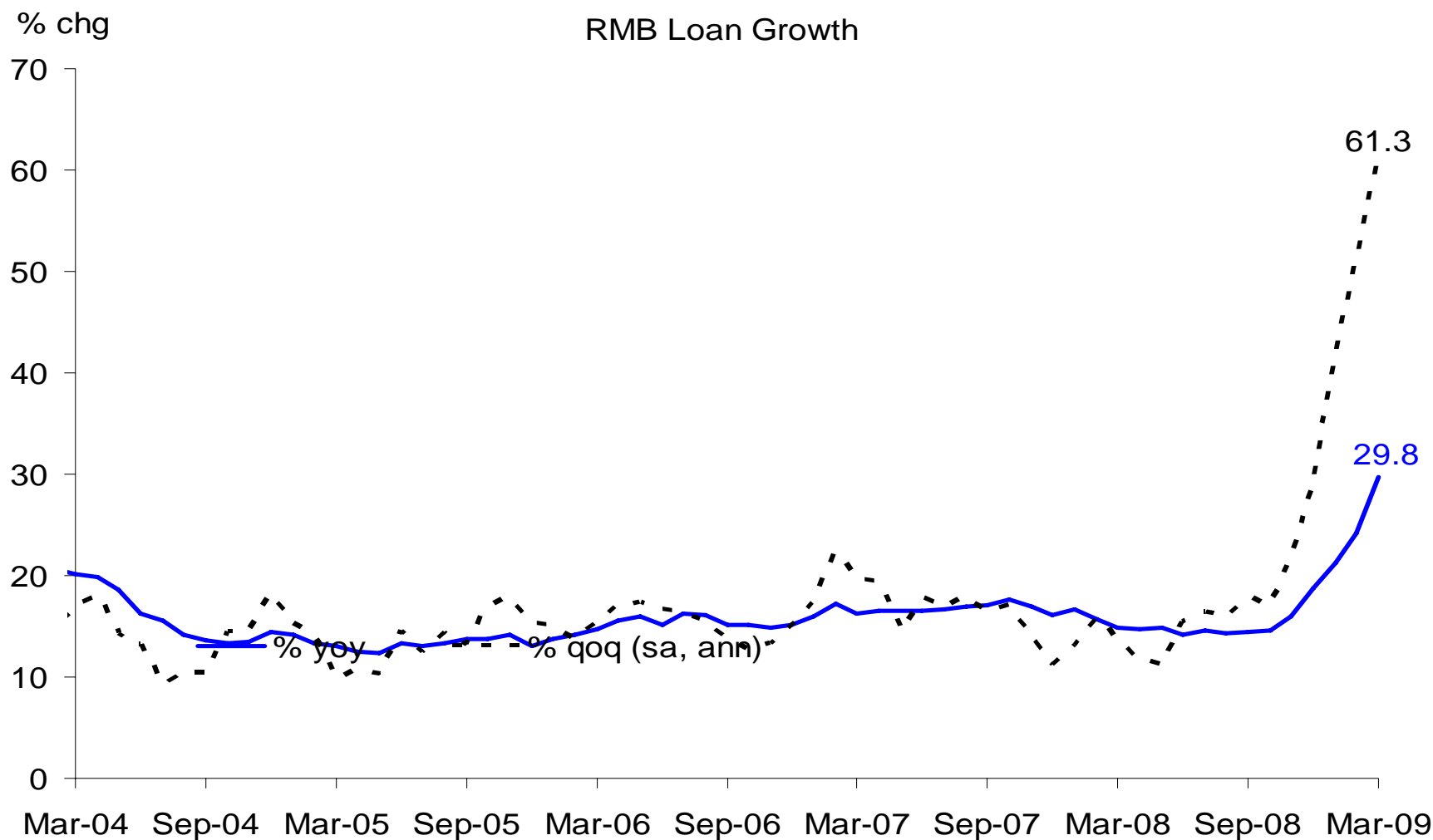
Source: GS Global ECS Research

BRICs PMIs: More of a bounce so far



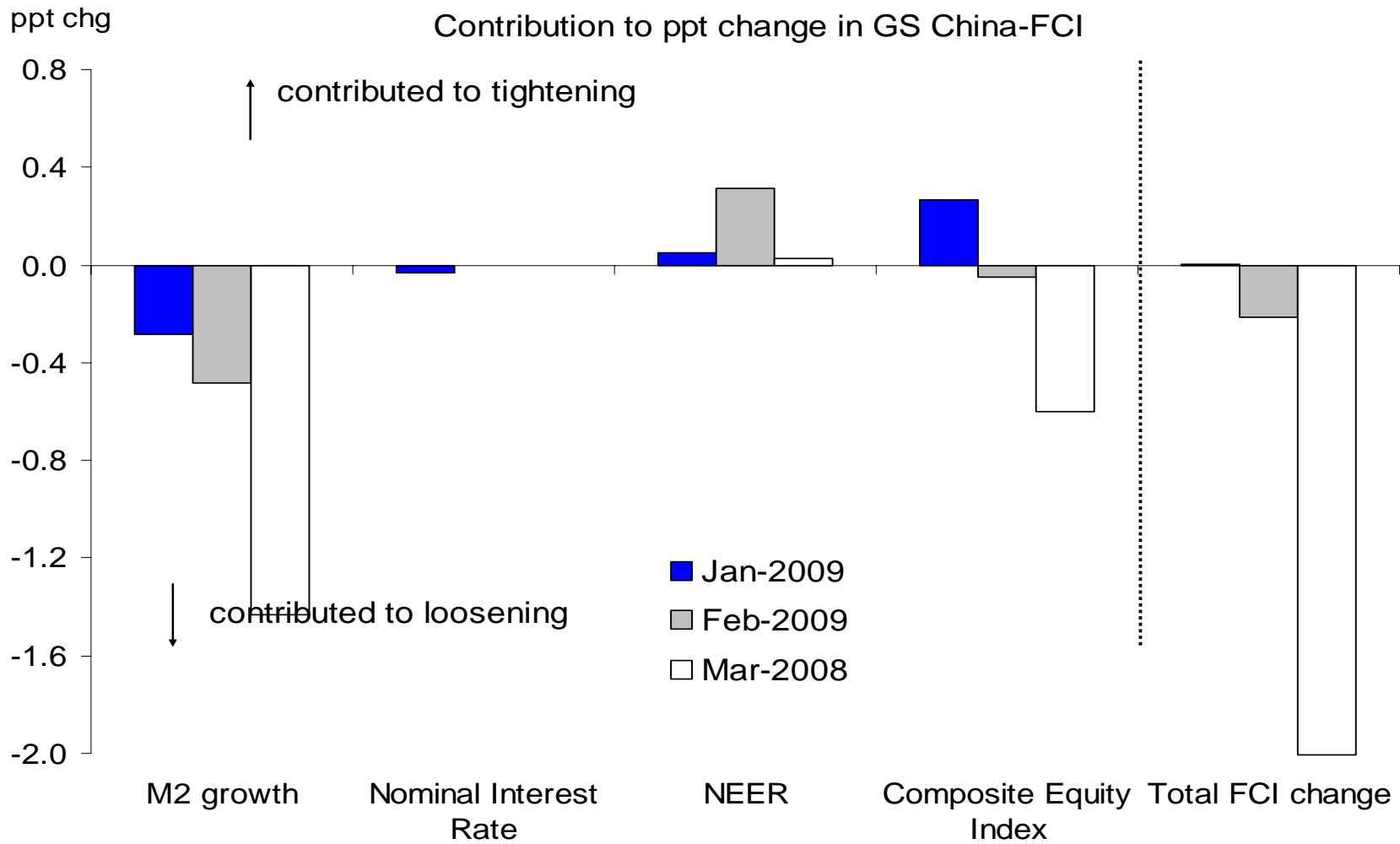
Source: GS Global ECS Research

China: RMB loan growth exploding as credit pump is primed



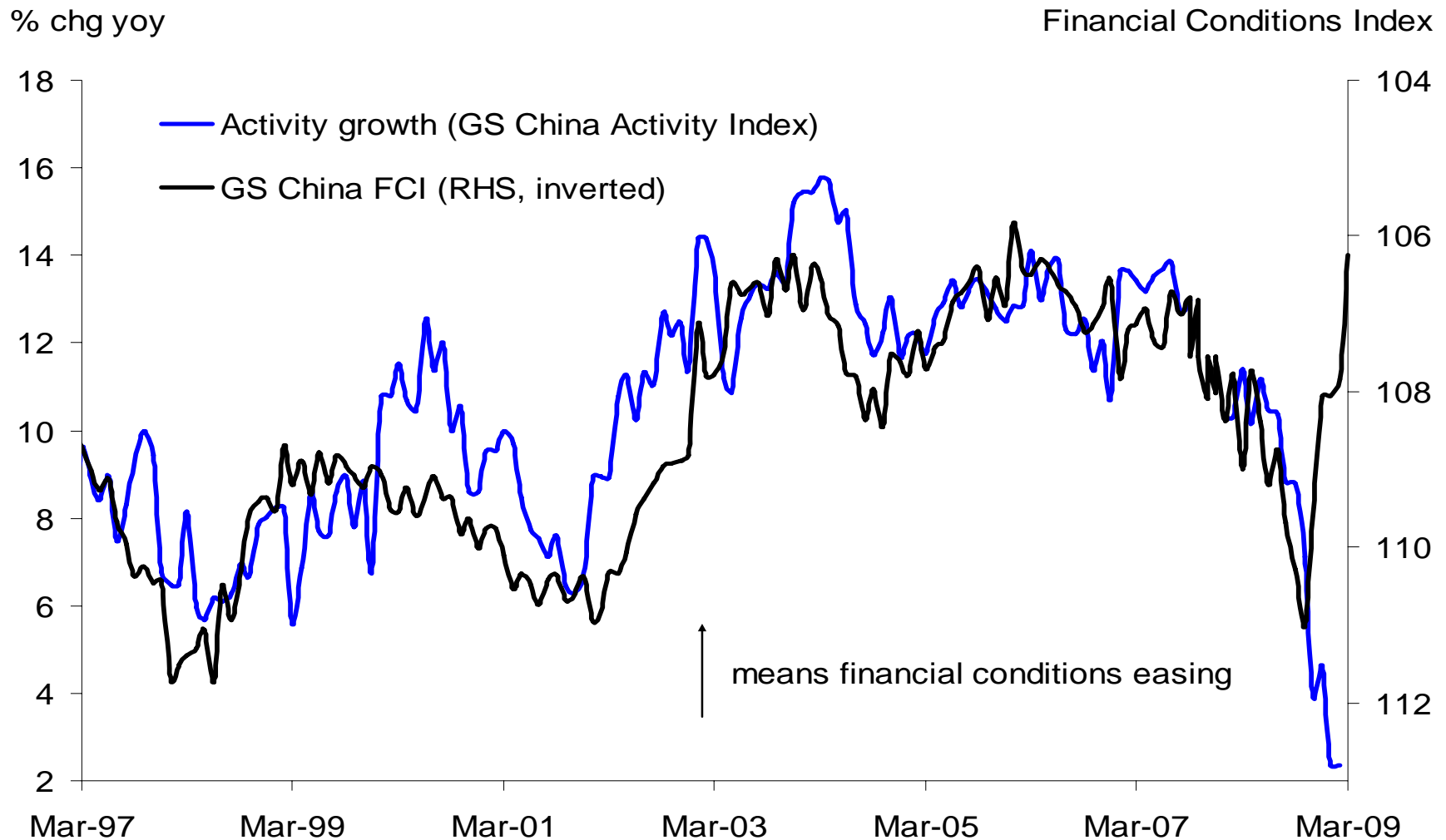
Source: CEIC, GS Global ECS Research.

China FCI- M2 and Equities driving a big loosening



Source: CEIC, GS Global ECS Research.

China - FCI rebound should help support recovery



Source: CEIC, GS Global ECS Research.

GDP forecasts: BRICs suffer but recover

GDP Growth: GS vs Consensus

%yoy	2007	2008	2009		2010	
			GS	Consensus*	GS	Consensus*
USA	2.0	1.1	-2.9	-2.8	1.2	1.7
Japan	2.4	-0.6	-6.1	-5.8	0.1	0.7
Euroland	2.6	0.7	-3.7	-2.6	0.7	0.5
UK	3.0	0.7	-2.6	-3.0	1.5	0.5
Europe	2.9	0.9	-3.4	-2.4	0.9	0.5
China	13.0	9.0	8.3	7.0	10.9	8.3
India	9.0	6.4	5.8	5.2	6.6	7.8
BRICs	10.4	7.5	3.6	4.8	7.0	6.9
Advanced Economies	2.7	0.9	-3.5	-3.0	1.1	1.3
World	5.0	2.9	-1.4	-0.6	2.9	2.9

* Consensus Economics March 2009

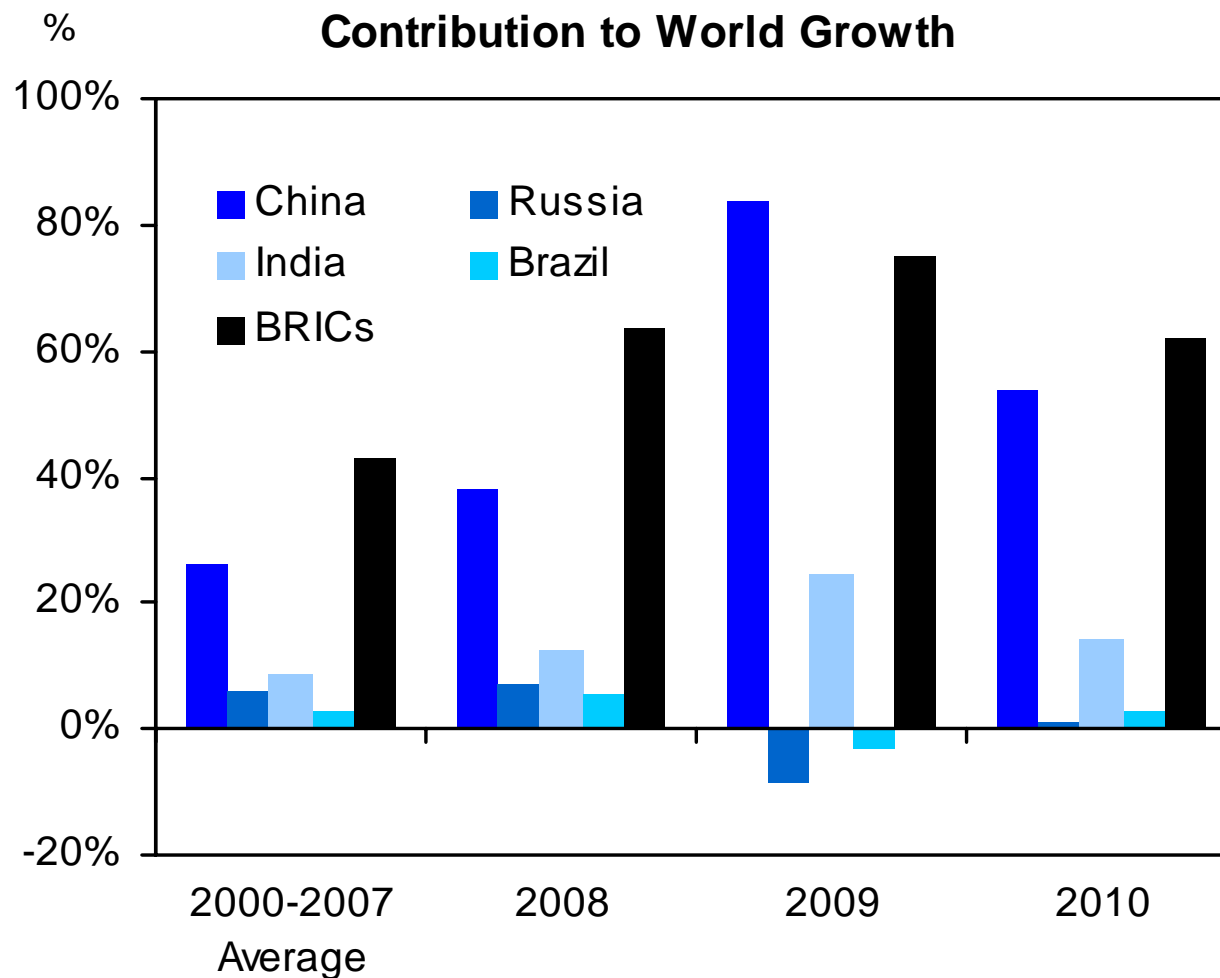
BRIC forecasts: China stimulus helps drive recovery

Real GDP Growth

% yoy	2008	2009	2010
Brazil	5.1	-1.5	3.0
Russia	5.6	-5.5	2.8
India	6.4	5.8	6.6
China	9.0	8.3	10.9
BRICs	7.5	3.6	7.0

* GS Global ECS Research

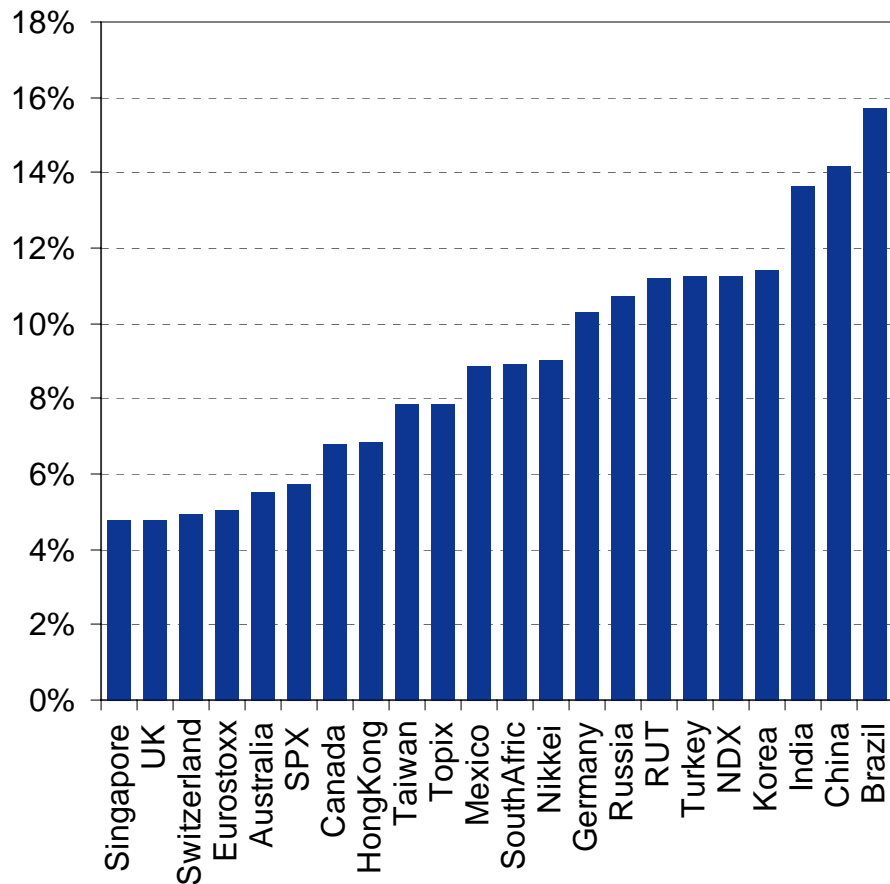
BRIC contributions to growth: higher not lower during the crisis



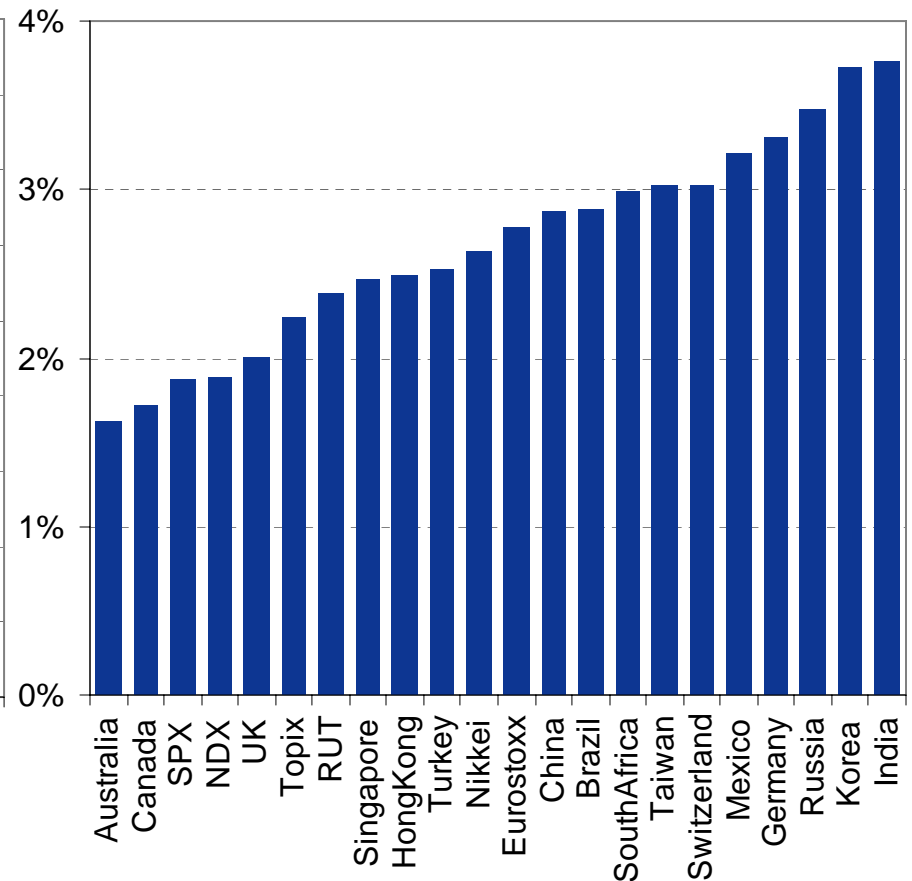
Source: GS Global ECS Research

Growth and global risk: BRICs markets always sensitive to both

Index response to 100bp rise in equity market growth expectations

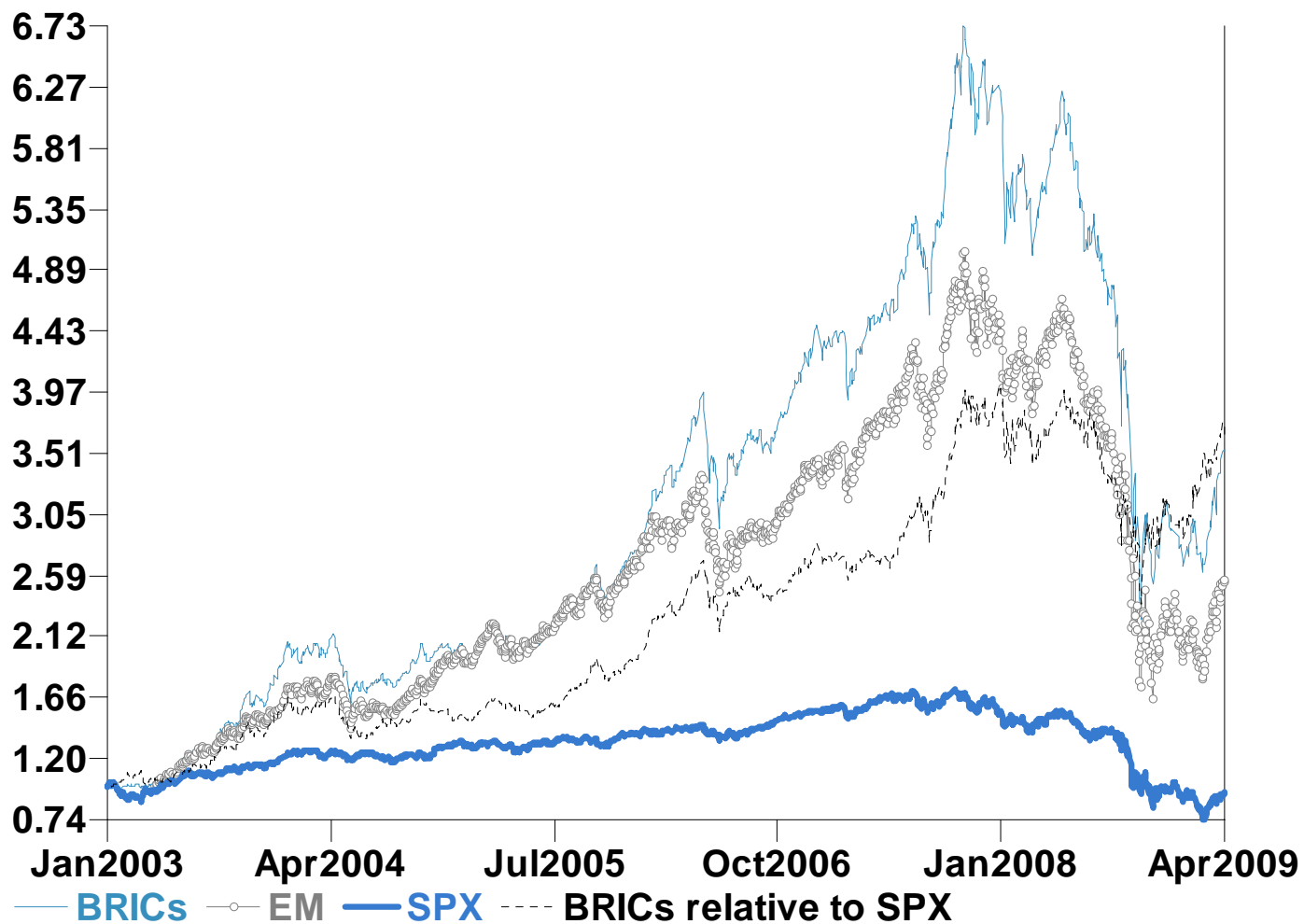


Index response to 1 standard deviation change in global market risk



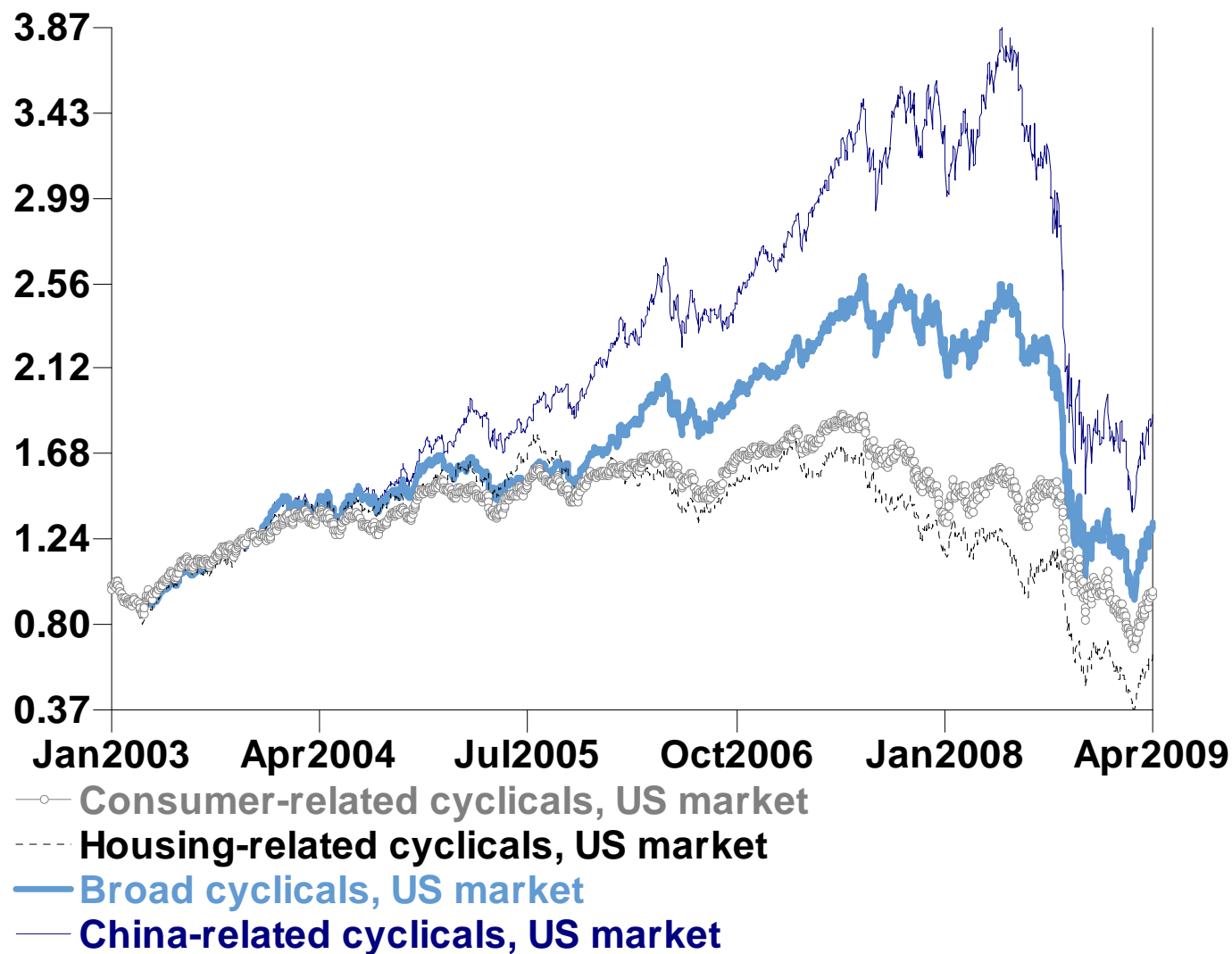
Source: Goldman Sachs Research.

BRICs equities far outstrips SPX in latest cycle, but strong decoupling fails



Source: Goldman Sachs Research.

China-related outperformance in US equities too tells a similar story



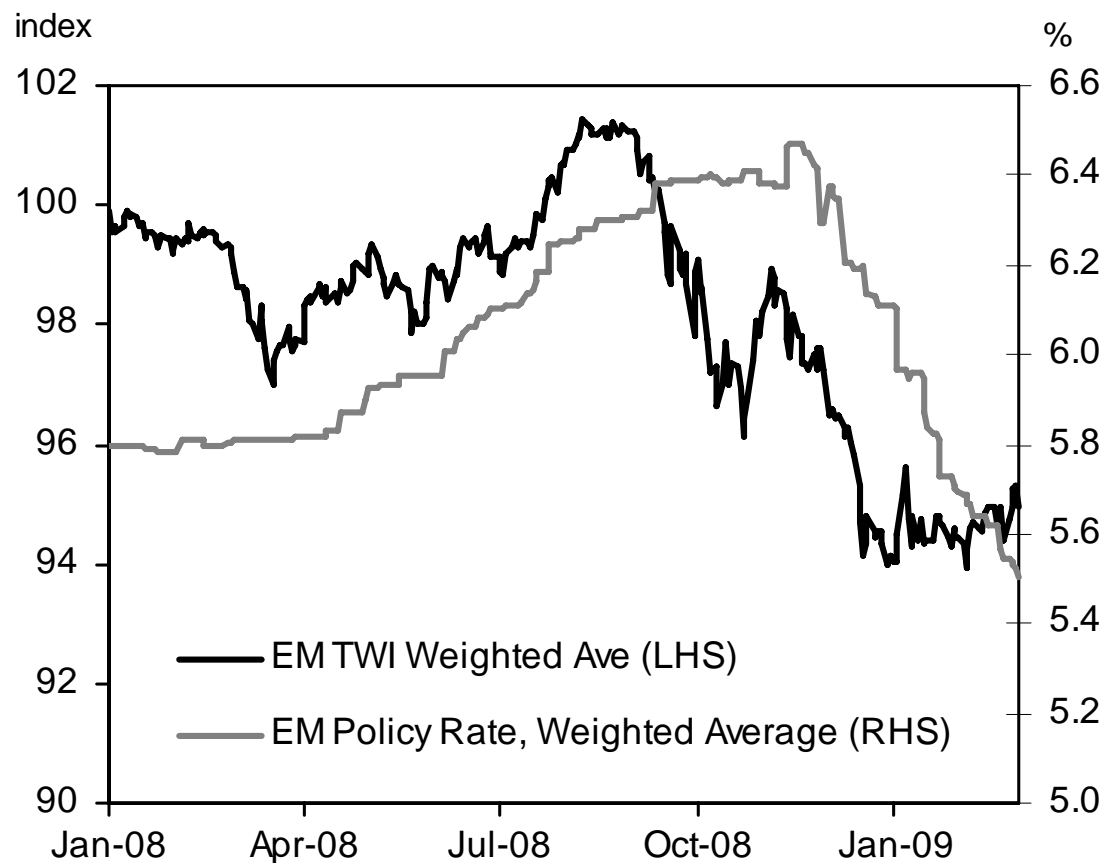
Source: Goldman Sachs Research.

EM currencies outperforming majors still on average



Source: Goldman Sachs Research.

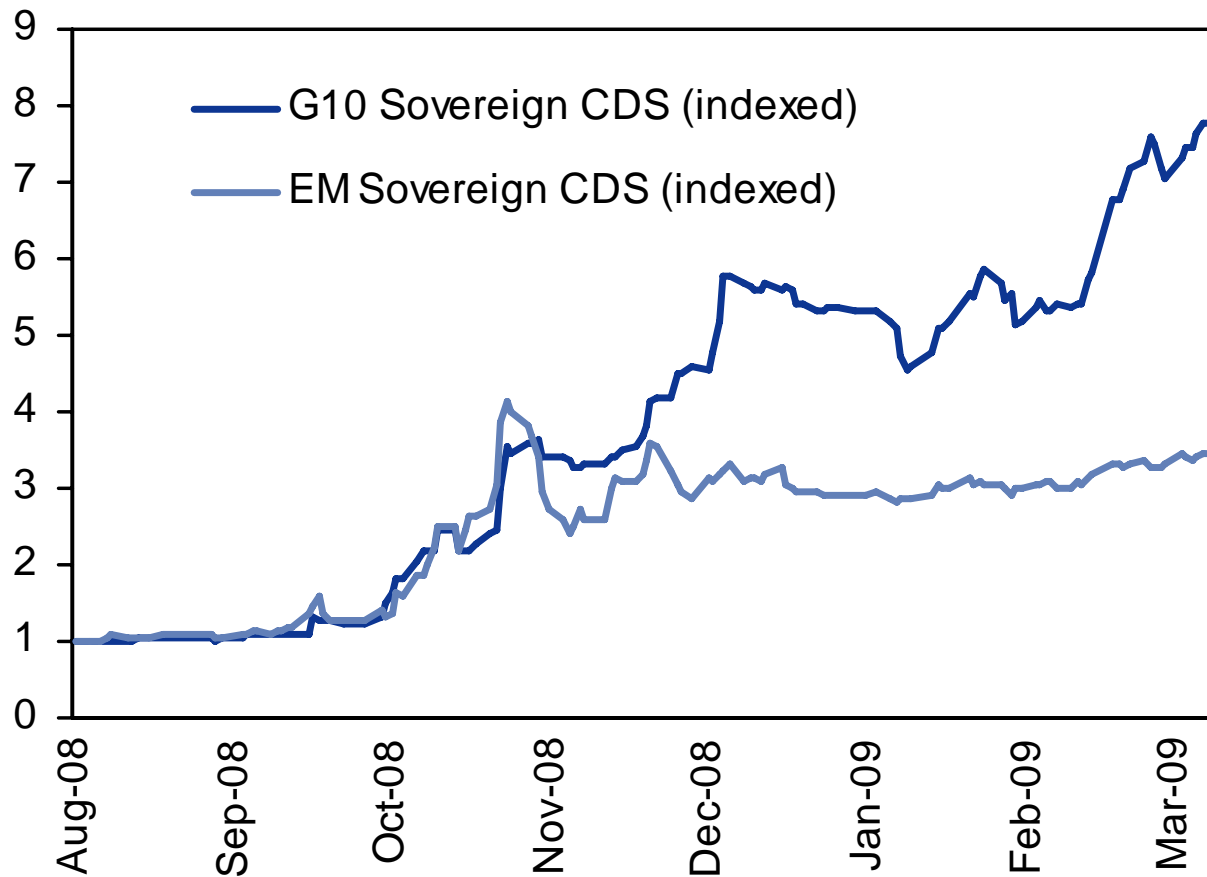
EM markets have been able to set policy like developed markets



Source: GS Global ECS Research

DM has widened vs EM since November

G10 Sovereign Risk Widens Further as EM Stabilises

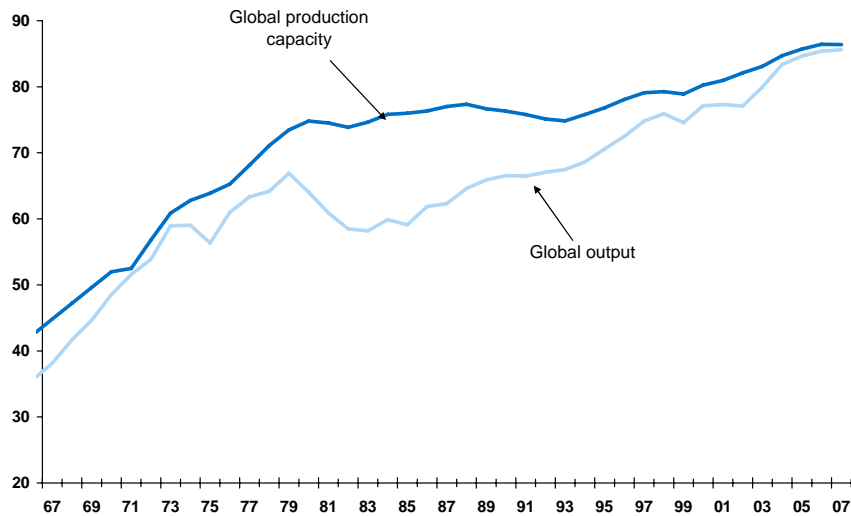


Source: GS Global ECS Research

No end in sight to the global energy constraint, so recovery will bring it back

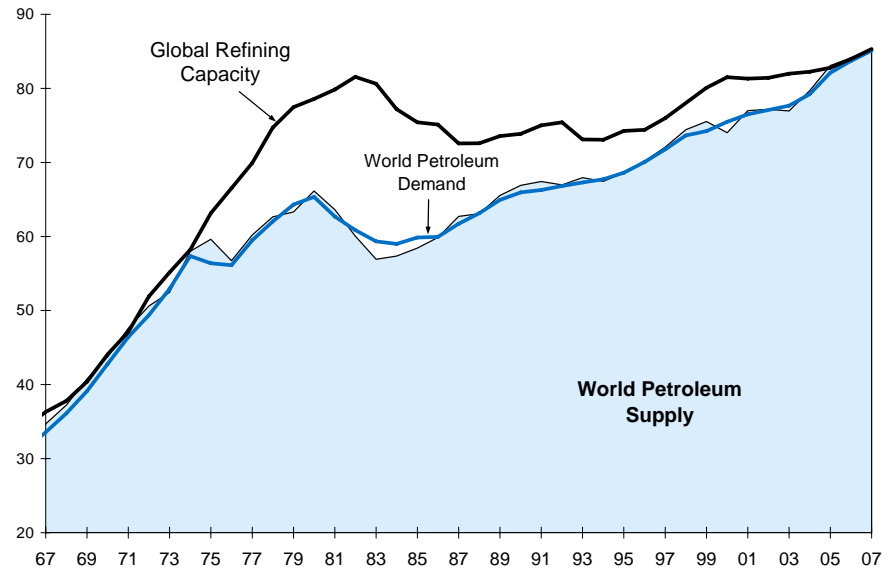
Global oil production and capacity

million b/d



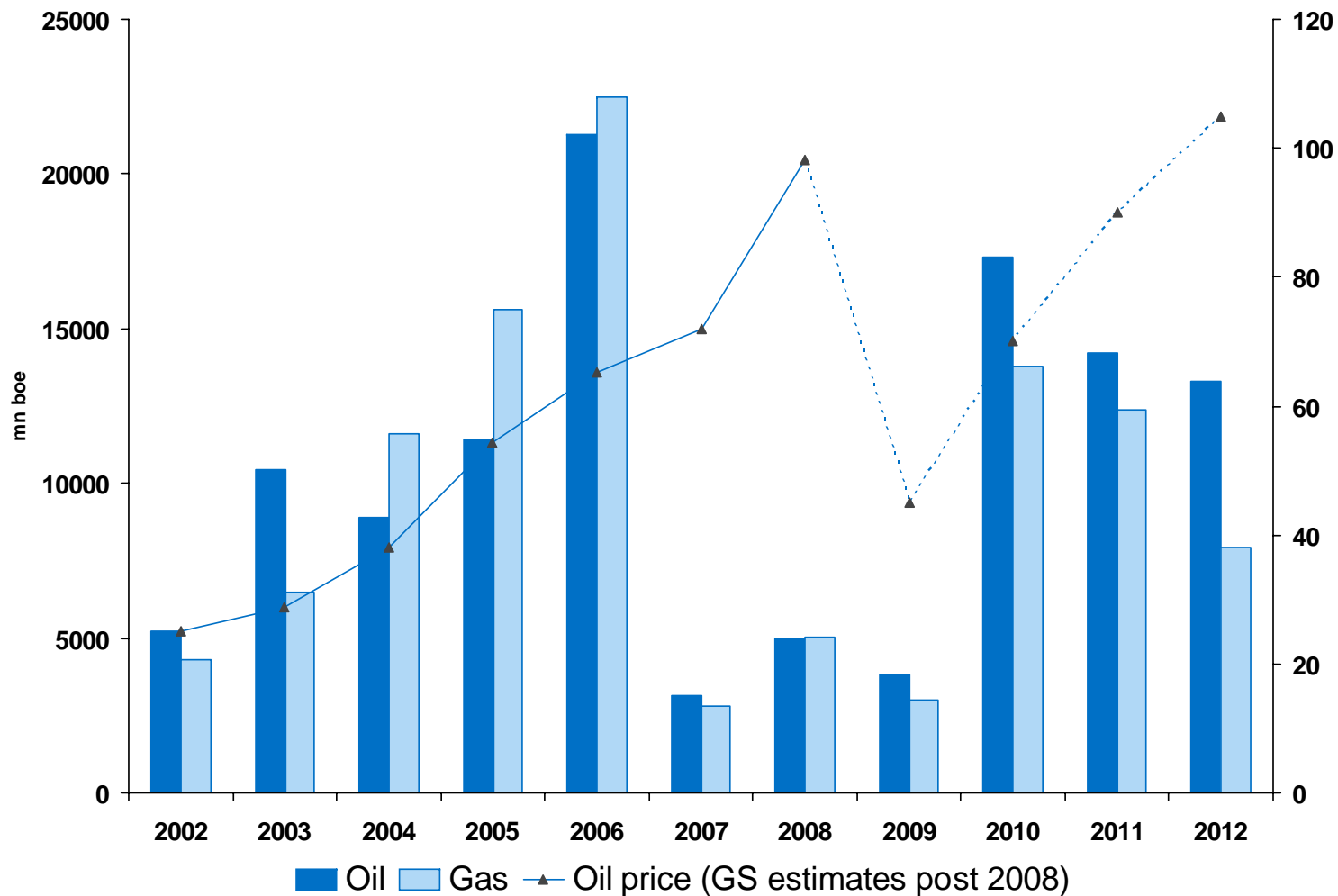
Global refining capacity

million b/d



Source: International Energy Agency (IEA), DOE and GS Global ECS Research.

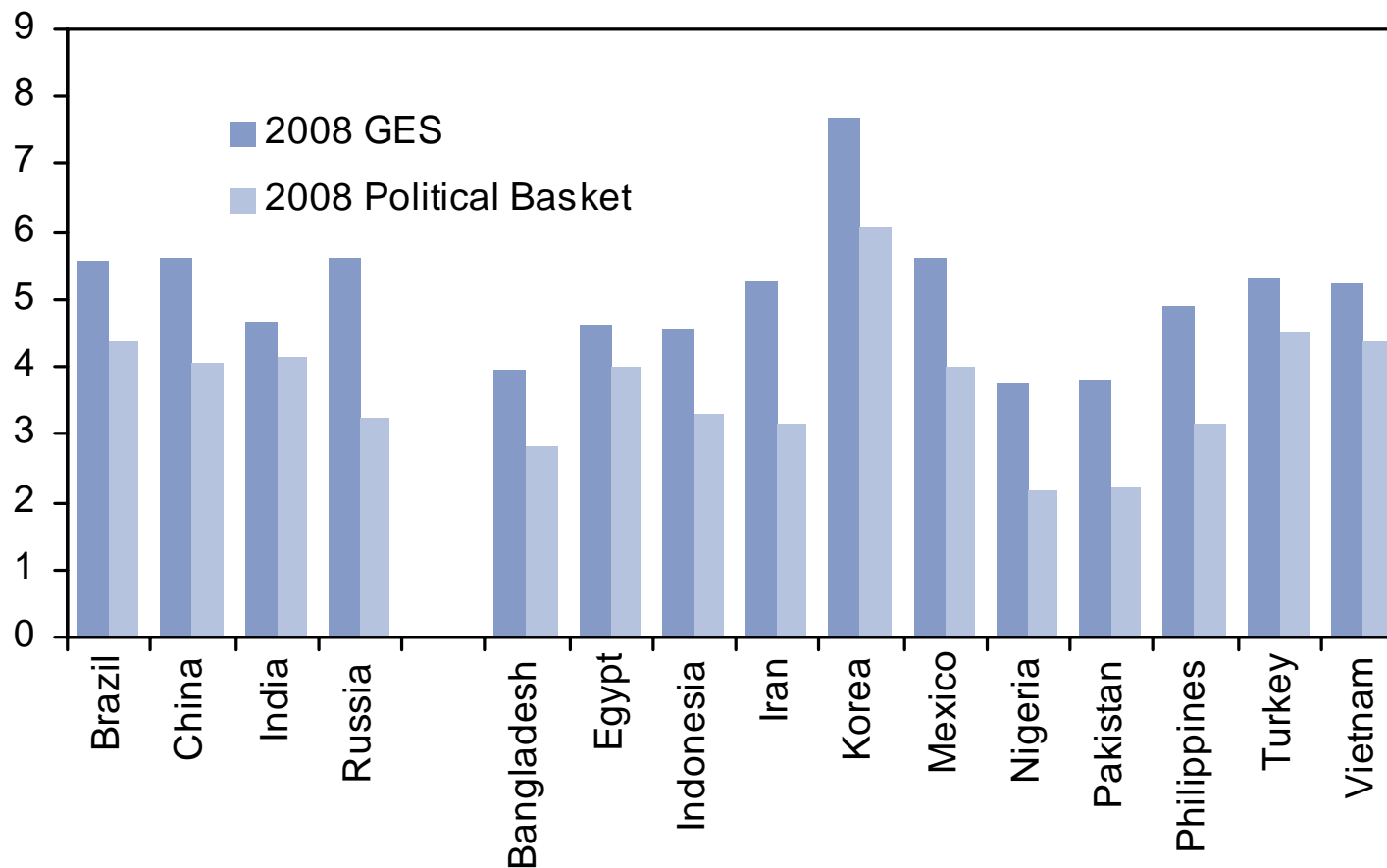
Upstream investment dipped off in 2007 and is staying low



Source: Company data, Goldman Sachs Research estimates.

Institutional stresses the big risk from a long-duration global slowdown

Growth Environment Scores, BRICs and N11



Source: GS Global ECS Research

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