Financial Crises and the Future of Global and Asian Banking

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The Role of Global Banks in Macroeconomic Stability

- Contributed to the severity and pervasiveness of 2007-2009 recession
- Many have improved capital ratios and improved liquidity since the crisis
- Can play an important positive role
  - Transmit improved management, technology, risk management
  - Facilitate global trade
Talk Outline

- Economic outlook with a focus on recent trends in U.S.
- Examine the interconnectedness of global banks
- Explore implications of these increasingly linked banks on transmission of financial shocks
Global Economic Outlook

- Global economy has slowed in the first half of this year
- China and U.S. data consistent with positive but weaker growth in the first half of this year
- Europe likely in a recession with some countries experiencing sharply slower growth
### Figure 1
Economic Projections of FOMC Participants

<table>
<thead>
<tr>
<th>Variable</th>
<th>APRIL FOMC Central Tendency (Percent)</th>
<th>JUNE FOMC Central Tendency (Percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unemployment Rate (2012:Q4)</td>
<td>7.8 to 8.0</td>
<td>8.0 to 8.2</td>
</tr>
<tr>
<td>Real GDP Growth (2011:Q4 - 2012:Q4)</td>
<td>2.4 to 2.9</td>
<td>1.9 to 2.4</td>
</tr>
<tr>
<td>PCE Inflation (2011:Q4 - 2012:Q4)</td>
<td>1.9 to 2.0</td>
<td>1.2 to 1.7</td>
</tr>
<tr>
<td>Core PCE Inflation (2011:Q4 - 2012:Q4)</td>
<td>1.8 to 2.0</td>
<td>1.7 to 2.0</td>
</tr>
</tbody>
</table>

Note: The central tendency excludes the three highest and three lowest projections for each variable. Source: Federal Reserve Board
Figure 2
Real Business Fixed Investment Growth in the U.S. During the Most Recent Four Quarters

Source: Bureau of Economic Analysis / Haver Analytics
Figure 3
Average Monthly Change in U.S. Employment in the Current and Previous Three Recoveries

Source: Bureau of Labor Statistics / Haver Analytics
Interconnectedness of Global Banking

- New England – an example of interconnected banking – three of five largest banks foreign – U.K., Spain, Canada
- U.S. and Europe global banks highly interconnected
# Figure 4
## Assets of the Ten Largest Foreign Banking Operations in the U.S.

As of December 31, 2011

<table>
<thead>
<tr>
<th>Banking Organization</th>
<th>Home Country</th>
<th>Total U.S. Banking Assets</th>
<th>Branches and Agencies</th>
<th>Banking Subsidiaries</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Number</td>
<td>Assets</td>
<td>Number</td>
</tr>
<tr>
<td>The Toronto-Dominion Bank</td>
<td>Canada</td>
<td>4</td>
<td>250,131</td>
<td>2</td>
</tr>
<tr>
<td>Deutsche Bank AG</td>
<td>Germany</td>
<td>5</td>
<td>233,605</td>
<td>1</td>
</tr>
<tr>
<td>HSBC Holdings PLC</td>
<td>United Kingdom</td>
<td>4</td>
<td>215,207</td>
<td>1</td>
</tr>
<tr>
<td>Mitsubishi UFJ Financial Group, Inc</td>
<td>Japan</td>
<td>11</td>
<td>206,546</td>
<td>8</td>
</tr>
<tr>
<td>The Royal Bank of Scotland Group</td>
<td>United Kingdom</td>
<td>6</td>
<td>206,261</td>
<td>4</td>
</tr>
<tr>
<td>Bank of Montreal</td>
<td>Canada</td>
<td>6</td>
<td>163,515</td>
<td>2</td>
</tr>
<tr>
<td>The Bank of Nova Scotia</td>
<td>Canada</td>
<td>5</td>
<td>162,224</td>
<td>4</td>
</tr>
<tr>
<td>BNP Paribas</td>
<td>France</td>
<td>8</td>
<td>158,401</td>
<td>6</td>
</tr>
<tr>
<td>Banco Santander, S.A.</td>
<td>Spain</td>
<td>7</td>
<td>112,403</td>
<td>5</td>
</tr>
<tr>
<td>The Norinchukin Bank</td>
<td>Japan</td>
<td>1</td>
<td>94,791</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>57</strong></td>
<td><strong>1,803,084</strong></td>
<td><strong>34</strong></td>
</tr>
</tbody>
</table>

Source: Quarterly Call Reports
# Figure 5

**Assets of the Ten Largest U.S. Broker-Dealers Owned by Foreign Banking Organizations**

As of December 31, 2011

<table>
<thead>
<tr>
<th>Broker-Dealer</th>
<th>Home Country</th>
<th>Assets (Millions of Dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit Suisse Securities (USA) LLC and Subsidiaries</td>
<td>Switzerland</td>
<td>309,495</td>
</tr>
<tr>
<td>Barclays Capital Inc. and Subsidiary</td>
<td>United Kingdom</td>
<td>306,476</td>
</tr>
<tr>
<td>UBS Securities LLC</td>
<td>Switzerland</td>
<td>251,048</td>
</tr>
<tr>
<td>Deutsche Bank Securities Inc.</td>
<td>Germany</td>
<td>244,079</td>
</tr>
<tr>
<td>RBS Securities Inc.</td>
<td>United Kingdom</td>
<td>133,366</td>
</tr>
<tr>
<td>BNP Paribas Securities Corp.</td>
<td>France</td>
<td>105,928</td>
</tr>
<tr>
<td>HSBC Securities (USA) Inc.</td>
<td>United Kingdom</td>
<td>55,704</td>
</tr>
<tr>
<td>Mizuho Securities USA Inc.</td>
<td>Japan</td>
<td>54,165 **</td>
</tr>
<tr>
<td>RBC Capital Markets, LLC &amp; Subsidiaries</td>
<td>Canada</td>
<td>43,080 ***</td>
</tr>
<tr>
<td>Newedge USA, LLC*</td>
<td>France</td>
<td>40,443</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>1,543,784</strong></td>
</tr>
</tbody>
</table>

*Wholly owned by Newedge Group SA, a joint venture between Societe Generale and Credit Agricole CIB

**As of March 31, 2012   ***As of October 31, 2011

Source: SEC Focus Report Form X-17A-5
Figure 6
Regional Stock Market Indices

End of Week Quotes; January 1, 2006 - June 29, 2012

Index: Week of Jan. 1, 2006 = 100

- Hang Seng
- S&P 500
- FTSEurofirst 300
- Nikkei

Source: Bloomberg
Figure 7
U.S.-European Weekly Stock Market Returns 26-Week Trailing Correlation

Note: Correlations constructed from weekly stock returns (using end of week quotes) of the S&P 500 and FTSEurofirst 300.
Source: Bloomberg
Figure 8
U.S.-European Weekly Bank Stock Returns
26-Week Trailing Correlation

Note: Correlations constructed from weekly stock returns (using end of week quotes) of the largest banks (by assets) in the regions indicated for which data were available.
Source: Bloomberg
Figure 9
U.S.-Japanese Weekly Bank Stock Returns
26-Week Trailing Correlation

Note: Correlations constructed from weekly stock returns (using end of week quotes) of the largest banks (by assets) in the regions indicated for which data were available.
Source: Bloomberg
Figure 10
U.S.-Chinese Weekly Bank Stock Returns
26-Week Trailing Correlation

Note: Correlations constructed from weekly stock returns (using end of week quotes) of the largest banks (by assets) in the regions indicated for which data were available.
Source: Bloomberg
Figure 11
European-Japanese Weekly Bank Stock Returns
26-Week Trailing Correlation

Note: Correlations constructed from weekly stock returns (using end of week quotes) of the largest banks (by assets) in the regions indicated for which data were available.
Source: Bloomberg
Figure 12
European-Chinese Weekly Bank Stock Returns
26-Week Trailing Correlation

Note: Correlations constructed from weekly stock returns (using end of week quotes) of the largest banks (by assets) in the regions indicated for which data were available.

Source: Bloomberg
Figure 13
Foreign Claims of Domestically-Owned Reporting Banks on Asia

Consolidated, Immediate Borrower Basis

Note: In 2009Q1 the conversion of two investment banks into bank holding companies causes a significant break in the U.S. series.

Source: Bank for International Settlements (BIS)
Figure 14
Foreign Claims of Domestically-Owned Reporting Banks on Europe

Consolidated, Immediate Borrower Basis

Note: In 2009Q1 the conversion of two investment banks into bank holding companies causes a significant break in the U.S. series.
Conclusion

- Slowdown in global economic activity driven in part by a concern that global trade will slow if there is a financial shock.
- No region can be insulated from a significant financial shock:
  - Europe and U.S. highly correlated bank stock returns
  - Europe and the U.S. less correlated with Asia but on the rise
Figure 15
Employment Change from Pre-Recession Peak

Source: Bureau of Labor Statistics; Eurostat; Ministry of Health, Labor & Welfare / Haver Analytics
Final Comments

- Given global employment and fiscal challenges the world economy remains vulnerable to a financial shock
- Particularly important at this time to reduce the probability, and mitigate the severity, of any potential financial shock