

Sibos 2009

Globalization Experience Innovation Opportunity Technology Partnership



16 September 2009

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Impact of the Credit Crisis on Global Trade

The Way Forward for Banks

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Agenda

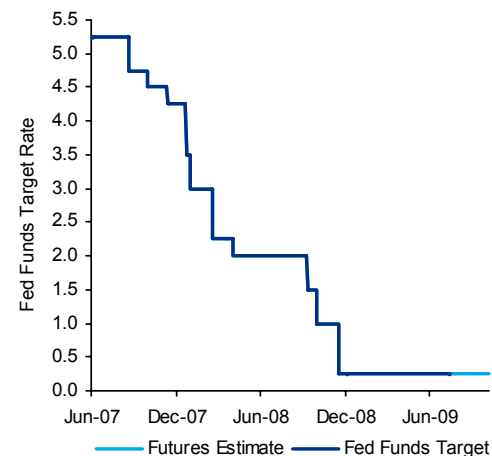
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Financial Conditions in Money Markets

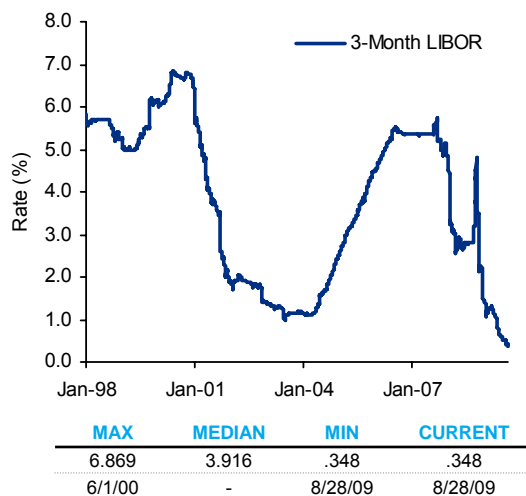
Conditions at the foot of the yield curve have improved substantially since last summer and have continued to improve in 2009

- ▲ Policy rates are accommodative and appear set to remain at current levels for several more quarters
- ▲ LIBOR levels as an indication of interbank lending have improved
- ▲ TED spread has collapsed to pre-crisis levels
- ▲ ECB is lending less dollars into the bank system (size and tenor)
- ▲ Short-dated floater market appears to be in repair
- ▲ Fed sponsored funding facilities usage for CP borrowers (and lenders) has decreased dramatically

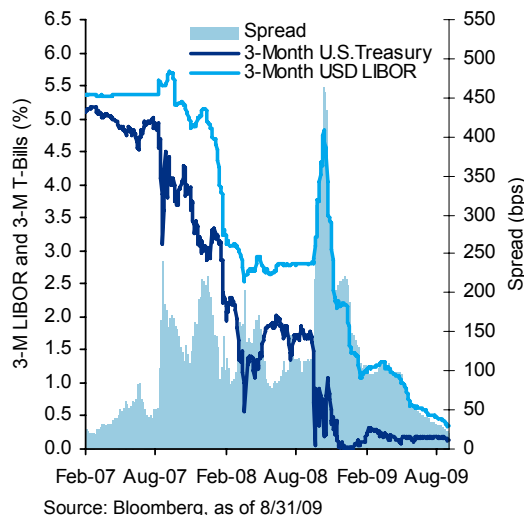
Fed Funds Target Rate & Outlook



Historical 3-Month LIBOR



3-M U.S. Treasuries vs. LIBOR ("TED")



Fed Funds Target Rate & Outlook

FOMC Meeting: 9/23/09

Fed Action	Current	1-W Ago	1-M Ago
No Change – 0.25	72.0%	76.0%	84.0%
Decrease to 0.00	28.0%	24.0%	16.0%

FOMC Meeting: 11/4/09

Fed Action	Current	1-W Ago	1-M Ago
No Change – 0.25	72.0%	72.5%	73.4%
Decrease to 0.00	28.0%	22.4%	13.5%
Increase to 0.50	0.0%	5.1%	13.1%

Source: Bloomberg, as of 8/31/09

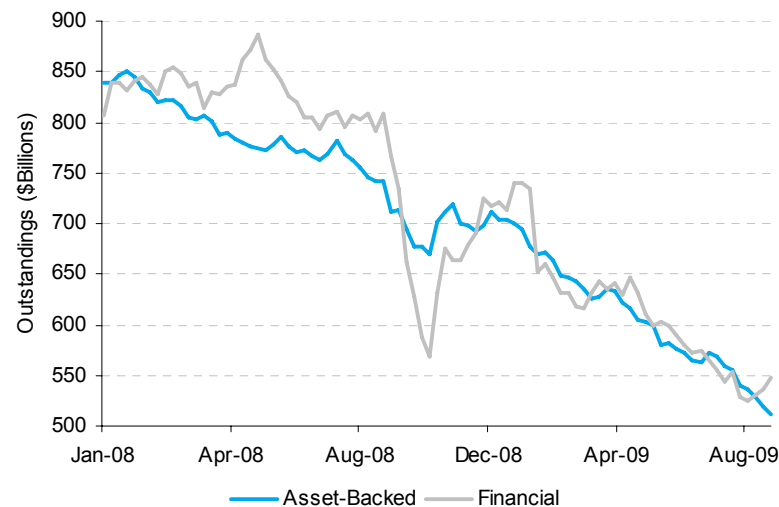
Note: numbers since 1/2/1998

Asset Backed Commercial Paper Market Conditions

Summary ABCP Market Observations

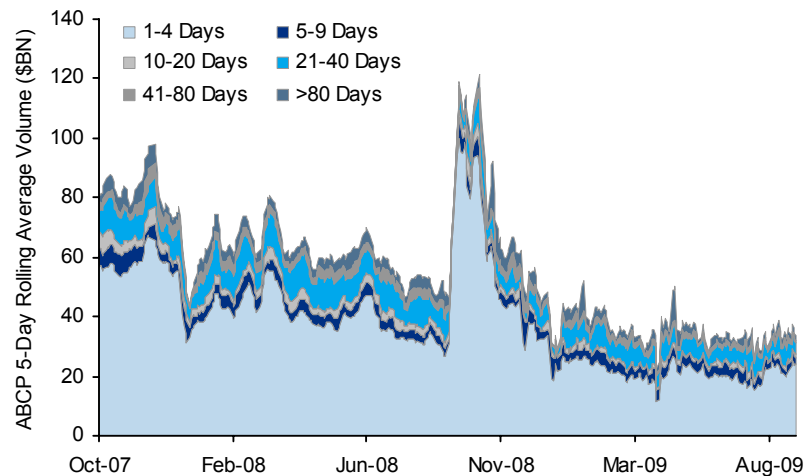
- ABCP outstandings have contracted by \$192 BN year-to-date and make up approx. 43% of the USCP market
- Month-end ABCP outstandings (\$539 billion) are at their lowest point since 2000
- ABCP volumes have normalized due to lack of supply and investor willingness to purchase longer-dated ABCP
- Liquidity and quality of execution in ABCP market has improved for most issuers able to attract investor interest
- Tiering in the ABCP sector has narrowed recently as sector outstandings continue to shrink and benchmark rates decline

ABCP and Financial Outstandings



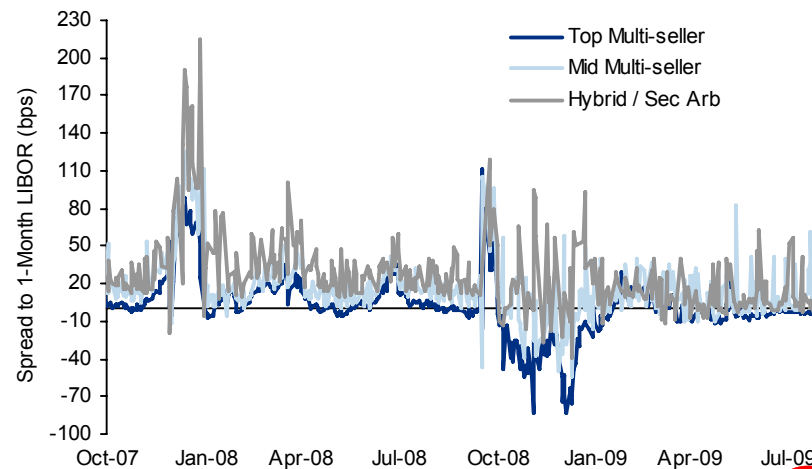
Source: Federal Reserve, as of 8/26/09

ABCP Volume & Maturity Profile



Source: Federal Reserve, as of 8/28/09

ABCP Pricing Breakdown

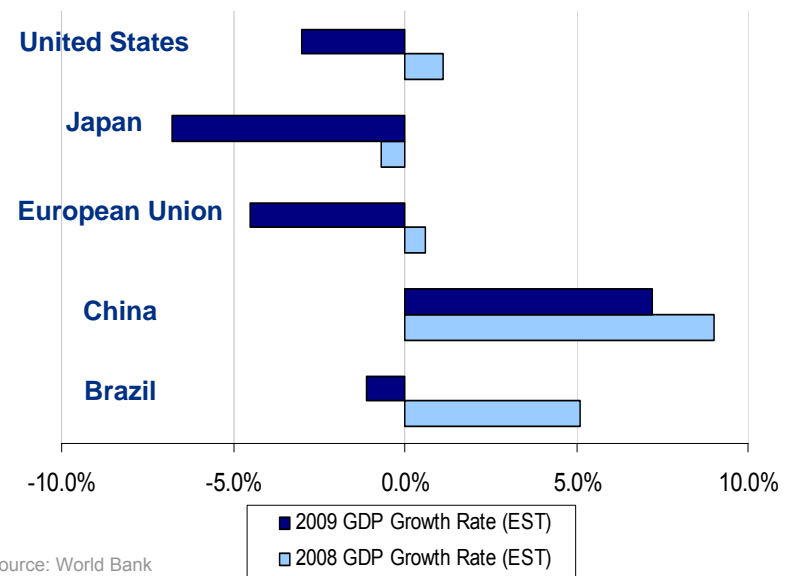


Source: Citi, as of 7/31/09

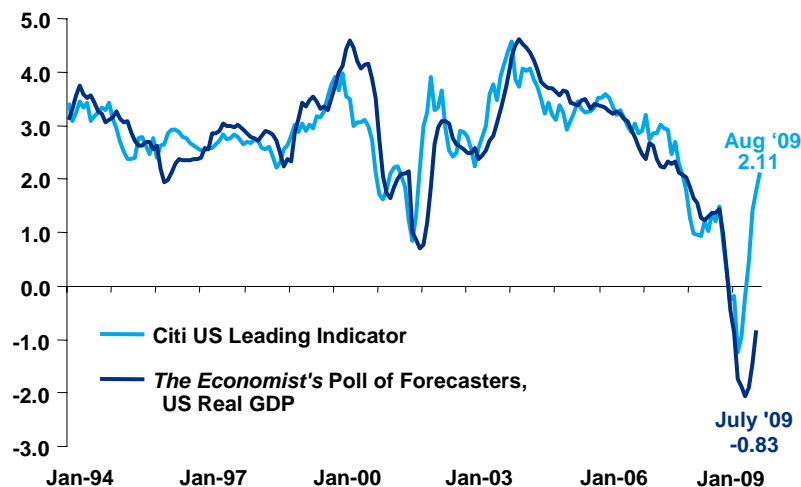
Macroeconomic Trends: GDP

- Leading indicators, such as GDP, for major economies have plunged during the economic crisis
 - Real global output growth slowed to 1.7%, compared to 3.5% in 2007, and is expected to fall 1-2% in 2009
- The impact of declining world production has been magnified in trade
- The WTO anticipates that global trade volumes will plunge 10% in 2009, the most since World War II
- Nevertheless, more recently, various economic signs indicate that the recession is slowing with several countries moving into recovery phase

Real GDP Growth Rates 2008 vs 2009



U.S. Growth Indicators, % real GDP July YTD 2009



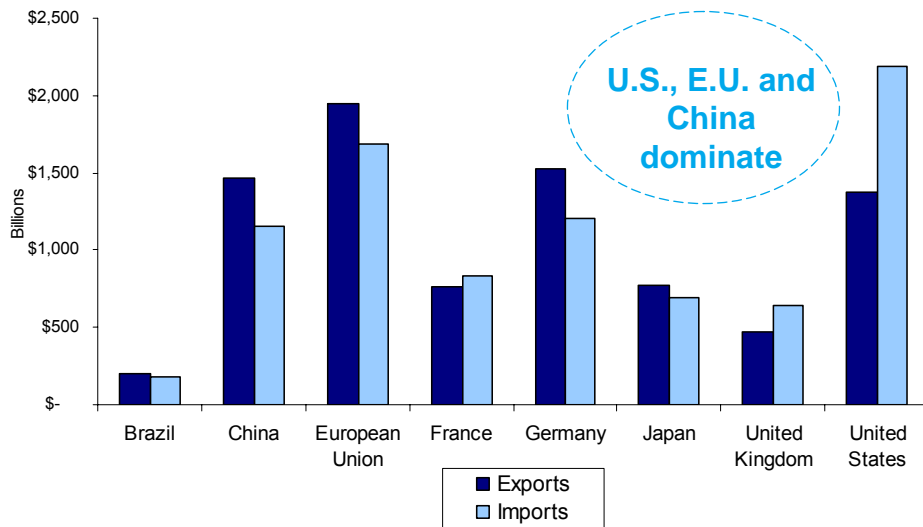
- According to new reports, the OECD has raised its prior GDP estimates for G7 countries.
- GDP for G7 countries is expected to fall by 3.7% in 2009, instead of the 4.1% decline predicted in June
 - Estimates were raised for Italy, Japan, Germany, France and Canada
- The Eurozone economy is now expected to shrink by 3.9% a marginal improvement on previous estimates of 4.8%
- U.S. GDP outlook for the rest of 2009 also looks surprisingly positive as the economy improves
- Freight traffic, another indicator of economic health, fell 13.4% compared with July 2008 instead of an average 22.4% decrease from preceding months

International Trade Trends

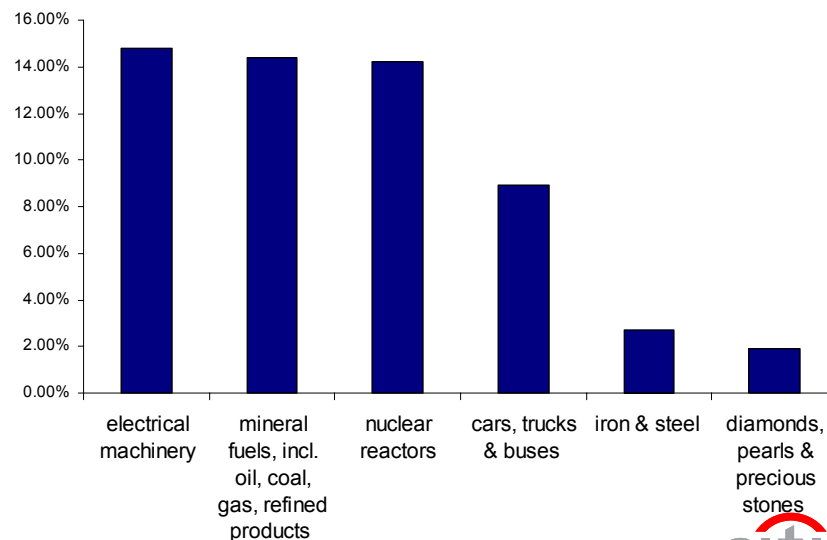
International Trade has grown over the past ten years, although this growth has been disrupted by the economic crisis

- Total world trade grew approximately from \$6 trillion in 1998 to \$17.7 trillion in 2008
- As of September 2008, exports and imports of major developed and developing economies fell sharply. Japan, for example, experienced a fall in exports of over 30% during the first five months of 2009.
- Trade prospects for 2009 continue to be exacerbated by credit shortages to finance imports and exports, faltering demand and falling production
- The E.U., U.S. and Asia continue to dominate the Trade environment in terms of growth regions

Top Import /Export Countries by USD Value in 2008



Top Import /Export Goods Globally - Share of World Trade in 2008



Source: CIA World Factbook

Source: CIA World Factbook

The Shift to Asia and Impact of the Economic Crisis

The Asia region represents a significant opportunity for the Trade business

Trade Growth within Asia

- Intra-regional Trade within Asia has grown at a faster rate than global inter-regional flows
- 39% of Asia's Trade is within the region, predominantly between China, Hong Kong, India, Japan and Korea
- Growth in Asian intra-region flows has been driven by changes in the supply chain, increased consumer demand and economic growth
- Firms are diversifying their supplier base to multiple lower cost countries in the same region; the resulting new flows are typically directed toward SME clients

Absolute Trade Volumes Full Year 2008

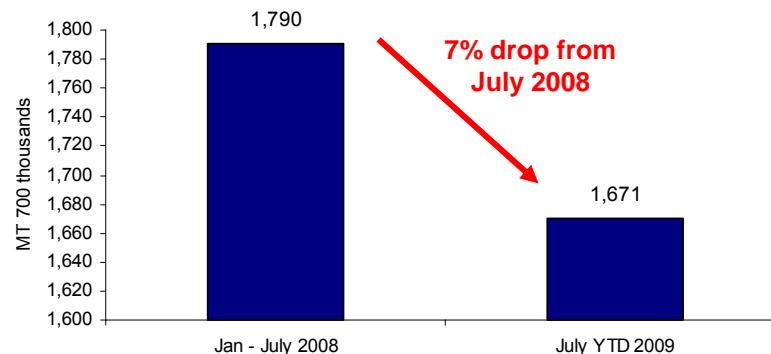
		2008									
Exporter/Importer	Africa	Asia	Aus/NZ	CEE	EU	Japan	Latam	ME	NA		
Africa	9%	15%	1%	2%	38%	4%	5%	2%	24%		
Asia	2%	39%	2%	5%	20%	8%	4%	4%	16%		
Aus/NZ	2%	40%	7%	1%	16%	20%	2%	4%	7%		
CEE	0%	2%	0%	0%	92%	1%	0%	0%	4%		
EU	2%	5%	1%	11%	69%	1%	2%	2%	7%		
Japan	1%	45%	3%	4%	18%	0%	5%	4%	20%		
Latam	2%	11%	0%	2%	18%	3%	21%	1%	42%		
ME	4%	33%	1%	2%	19%	19%	1%	10%	12%		
NA	1%	13%	2%	2%	24%	4%	17%	3%	34%		

Source: International Monetary Fund (IMF) – Direction of Trade Statistics Online (DOTS)

Impact of the Economic Crisis

- Trade flows in the region have been negatively impacted by the global economic crisis:
 - Major exporters in the U.S. and Europe have been forced to cut output and reduce jobs to counter collapsing demand affecting trade flows with Asia

SWIFT Trade Volumes for Asia Jan-July 2008 vs July YTD 2009



Source: SWIFT MT700 Traffic Watch

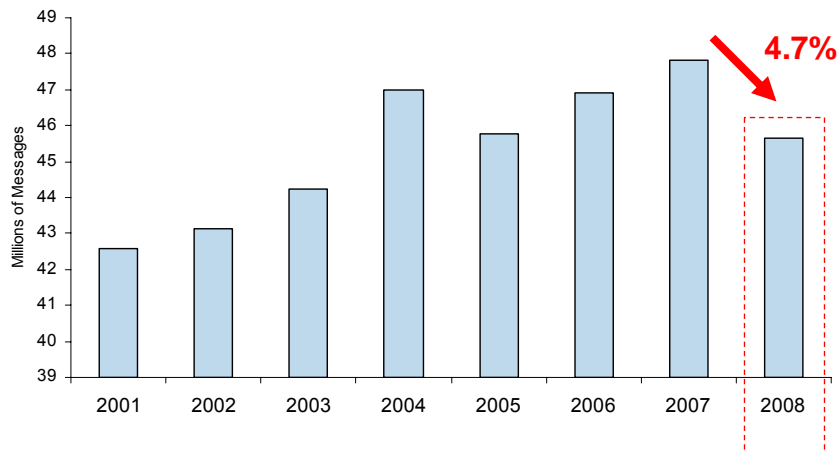
- However recent signs seem to indicate that global trade flows in the region are bottoming out after plunging steeply in the early months of the year
- Similarly, some Asian countries are moving into a recovery phase:
 - Thailand's economy is experiencing a V-shaped recovery as exports pick up and unemployment eases

Trade Environment: Trade Flows & SWIFT Metrics

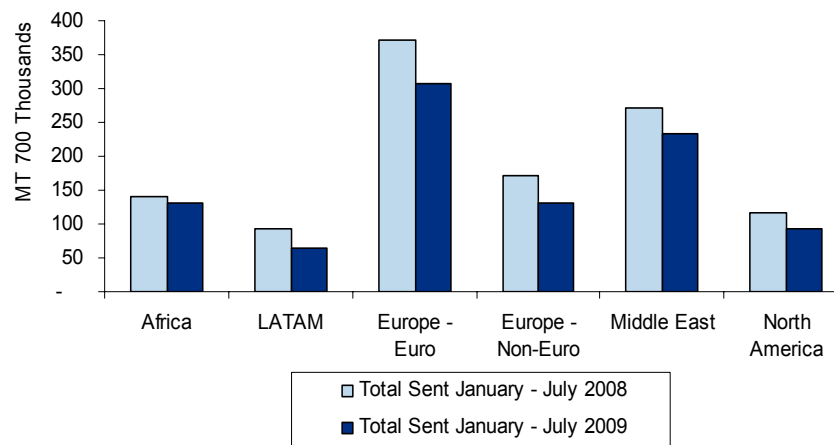
The majority of world economies are impacted by the economic recession, resulting in a drop in global trade and Letter of Credit volumes

- SWIFT's FIN message traffic for trade, which combines all category four and seven message types, rose gradually from 2001, reaching a peak in 2007
- However due to the economic crisis full-year 2008 messaging traffic fell by 4.7%, from 47.8 million to 45.6 million messages
- Letters of Credit MT 700s fell by 12.9% last year, although the value of LCs may have increased in some cases

SWIFT Trade Volumes Full Year 2001 – 2008
Includes category four and seven message types



SWIFT MT 700 Trade Volumes by Region Jan-July 2008 vs July YTD 2009



Source: SWIFT MT700 Traffic Watch

- The decline in letter of credit volumes is a global phenomenon. In terms of LCs sent, all regions experienced declines for the first six months of 2009.
- Declines occurred despite speculation that LCs would increase in volume as a result of concerns with counterparty and country risks
- During the crisis pricing on trade-related risks has increased dramatically
 - Traditional Trade LC products continue to be more expensive i.e. BA Financing, Discounts

The Way Forward

Drivers of the Trade Business

Demand has decreased resulting in the following three factors:

1. Government liquidity is being injected

- U.S. swap lines and financial support from foreign central banks have been put in place to support financial systems in crisis
- Capital has been also allocated in the form of senior debt guarantee programs and fiscal stimuli packages

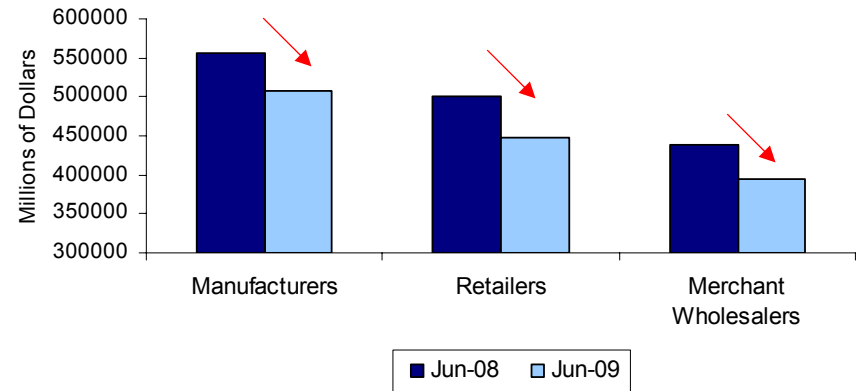
2. Companies have been working off excess inventory

- Due to reduced consumer purchasing, manufacturers have slowed production and are stocking less inventory than previously
- Inventories, adjusted for seasonal variations fell 1.1% from May 2009 (at \$1,350 billion) in June 2009 and 9.8% from June 2008

3. Commodity levels have fallen in general

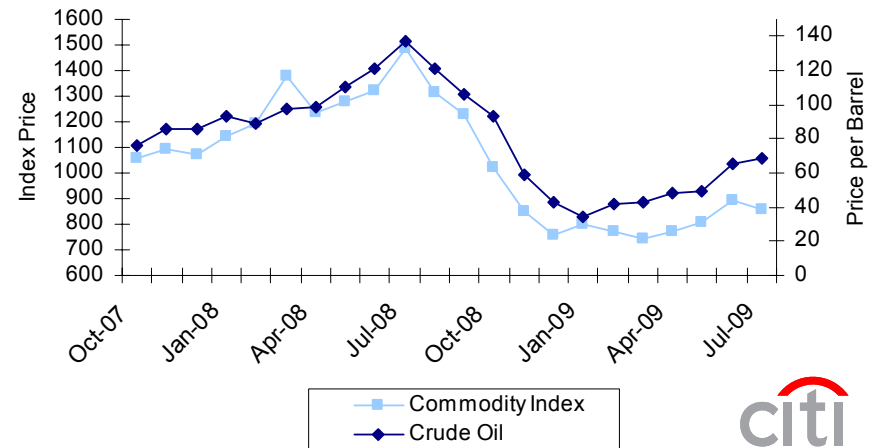
- Commodity trends have been volatile over the last few years
- Oil has leveled at around \$70 per barrel, after reaching over \$130 a year ago amidst concerns of a global energy crisis
- Other commodities such as sugar, gold, rice, and copper have followed a similar rollercoaster trend

U.S. Inventory Levels June 2008 vs June 2009



Source: U.S. Census Bureau news U.S. Department of Commerce

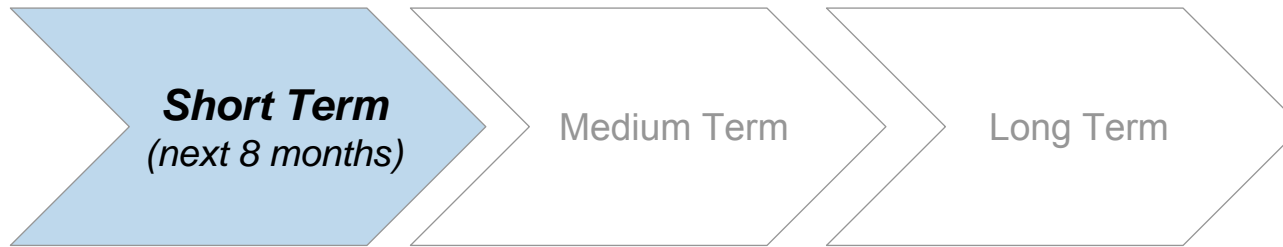
Commodity Pricing (Commodity Index & Crude Oil)
Oct 2007 – July 2009



Source: www.indexmundi.com

What Does this Mean for Banks?

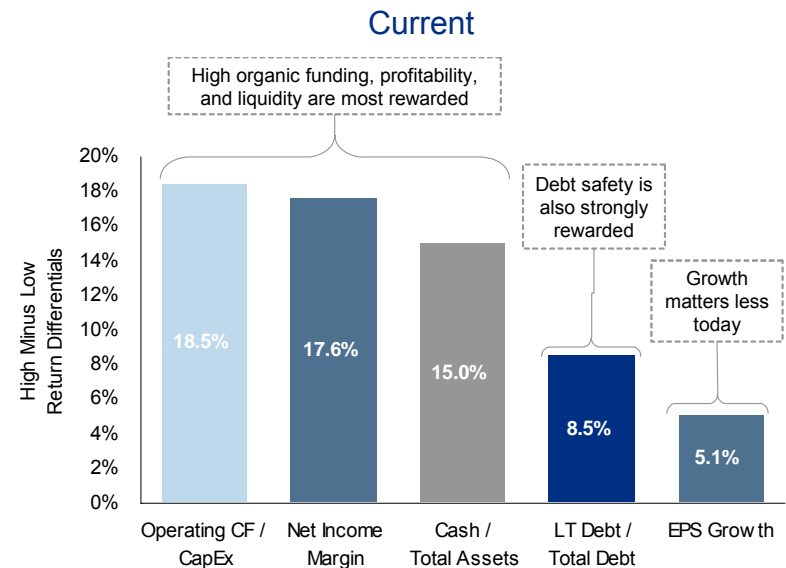
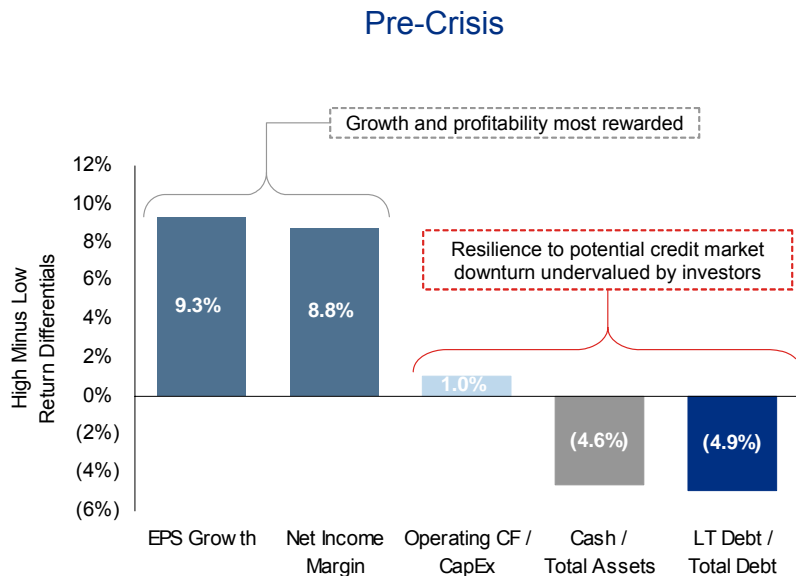
Short Term Impact



- Liquidity and risk will be major drivers
- De-leveraging of banks' balance sheets will continue to put stress on asset heavy Trade products
- Trade Service transactional products will be viewed more favorably
- Non-bank banks (e.g. CIT, GMAC) are no longer major competitors
- Government programs and assistance will remain critical in this fragile environment
- Sovereign risk is a significant issue for Banks with presence in a variety of Emerging Market countries

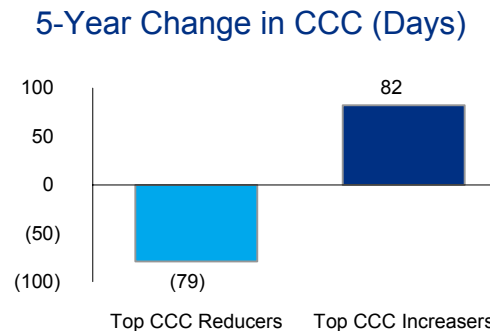
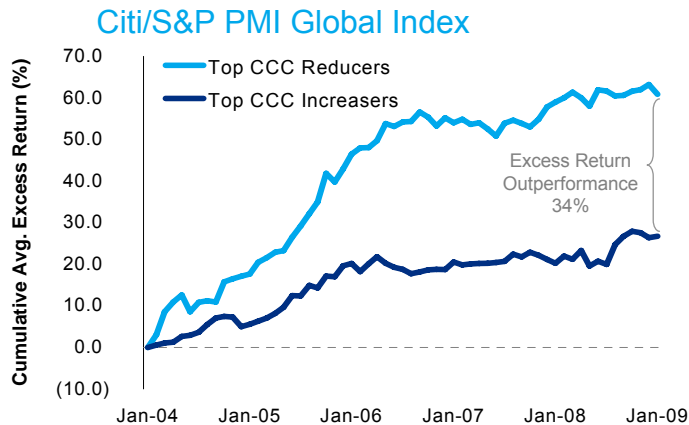
Short Term Impact: Liquidity as a Driver

- Strong liquidity and financial flexibility are now significant positive drivers of equity valuations
 - Financing of the Supply Chain is more imperative for companies than before
 - Companies across the globe are focused on preserving capital and reducing their reliance on external funding
 - Significant metrics that differentiate equity performance are measures of liquidity and financial flexibility: the leading driver is Operating Cash Flow/Capex, indicating a company's ability to self-finance investment



Short Term Impact: Liquidity and Working Capital

- Managing working capital is a direct way of controlling and improving liquidity
- Efficiently managing working capital by accelerating the Cash Conversion Cycle (CCC) is a key strategic priority for companies today
- Reducing working capital requirements, increases net income and reduces the need to fund working capital from bank lines or other external sources
- Most firms have seen CCC lengthen over the past year
- In response to capital pressures, many companies have recently launched working capital improvement initiatives



Top CCC Reducers (median)

	CCC	DSO	DIO	DPO
%	(56%)	(35%)	(25%)	16%
Days	(79)	(32)	(13)	10

Top CCC Increasers (median)

%	78%	31%	57%	(13%)
Days	82	14	24	(7)

Note: Firms include S&P/Citi PMI Global Index excl financials. Top CCC reducers/Increasers defined as the top/bottom 10 percentile in change in CCC, in units of days, from 1/1/04 – 1/1/09.

Short Term: Government Programs and Assistance

- Collaboration with the government is a big factor in today's environment for Banks
 - \$ 5 billion Auto Supplier Support Program was established by Citi and the U.S. Treasury to benefit the suppliers of General Motors and Chrysler. The program injects much needed liquidity into the supplier base and facilitates the return to normal trading conditions.
 - Under programs backed by the government, credit risk of the buyer is enhanced by a structured credit wrap from the government entity
- In the UK, the Bank of England is working to establish a Supply Chain Finance Facility to increase their presence in the working capital space
 - The facility will provide increased financing to larger UK suppliers of UK investment grade companies which are currently facing short-term liquidity strains

Medium Term Impact



- Market share in the Trade space is up for grabs. Many traditional Trade banks have either merged or are on the sidelines.
- Operational efficiency will return as a key driver of the business as pricing demands on risk return to normal
- The use of Official Agencies (ECAs, MLAs) will continue to be important in the next 8 to 24 months or until it is clear that economic conditions improve

Medium Term Impact: Bank Consolidation

Acquirer	Acquired Bank	Name of Merged Entity
TD Bank Financial Group	Commerce Bancorp	TD Bank
JPMorgan Chase	Washington Mutual	JPMorgan Chase
Wells Fargo	Wachovia	Wells Fargo
Fifth Third Bank	First Charter Bank	Fifth Third Bank
PNC Financial Services	National City Corp.	PNC Financial Services
Lloyds TSB	HBOS	Lloyds TSB
Royal Bank of Scotland	ABN AMRO	Royal Bank of Scotland
BNP Paribas	Fortis Bank	BNP Paribas
UniCredit	Capitalia	UniCredit Group
Banca Intesa	Sanpaolo IMI	Intesa Sanpaolo
Commerzbank	Dresdner Bank	Commerzbank
Grupo Santander	Alliance & Leicester, Bradford & Bingley	Grupo Santander
Banque Populaire	Natixis	Groupe Banque Populaire

Medium Term Impact: Operational Efficiency

- As a result of the consolidation of banks, there will be renewed pressure on Trade Banks to streamline operational processes to lower costs
- Those Banks remaining in Trade will face increased price competition as the consolidated Banks improve their efficiencies, costs and combined capabilities
- Smaller players may not be able to afford the technology investments, therefore may seek outsourcing options in both technology and operation processes
- Significant investments deferred during the down cycle will need to be re-started to support the regulatory and market changes e.g. Basel II, SWIFT updates, Supply Chain Finance

Medium Term Impact: Official Agencies

- Export Credit Agencies and Multilateral Agencies are partnering with Banks such as Citi through a series of global trade programs in reaction to growing concern over decreased liquidity
 - Citi's \$1.25 billion joint funding arrangement with the IFC through the Global Trade Liquidity Program. The program is designed to facilitate the extension of funded trade credits in the Emerging Markets, and is a risk/revenue sharing agreement for Emerging Market stimulus.
 - US Exim Put-Option: in June 2009, US Exim and its bank partners agreed to a put option available for all US Exim guaranteed loans closed in 2009; banks, including Citi, are now utilizing the option.
 - In addition, Supplier Financing programs supported by ECAs offer competitive pricing for companies while potentially limiting the amount of capital required to hold on a Bank's balance sheet

Long Term Impact



- Short term lending matched with short term liquidity will be a driving force in years to come
- Long term lending with short term liquidity needs to be replaced with capital market and/or government supported type programs
- Optimization of Trade Finance assets will become more prevalent in the long term
- Club deals with disclosed multi-bank partners will be more commonplace in arranging Trade Finance loans with Corporate clients
- Working capital will continue to be a major driver for our clients
- Market normalization will mean a shift back to Open Account and movement away from traditional Trade Service products will continue

Conclusion

Conclusion

- The Global Trade business has seen significant challenges within the last year as with the rest of the market
- Those Banks with credit appetite and/or capabilities have fared well during the business cycle as a result of relatively high margins and disruption with competitors
- Weaker players that do not have credit or capabilities will have to partner with stronger players in the industry
- As the markets normalize and credit spreads return from their historic highs, Trade Banks will need to again refocus on enhancing their Trade offering through various means
- Supply Chain Finance and working capital solutions will continue to be a high priority as Banks look to swap liquidity and credit risk with partners
- Citi continues to be a leader and innovator in the Transactional Banking space:
 - Leading bank in terms of Supply Chain Financing and Trade Outsourcing
 - Strong Operational Footprint with hubs in Penang, Mumbai, Tampa, Shanghai and Dublin
 - Industry expertise through a global team of technical specialists
 - Robust technology and ongoing investment in client front- and back-end systems
 - Innovative deal structuring experience partnering with governments and agencies

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efficiency, renewable energy & mitigation

