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For immediate release

Standard Chartered issues its first Asia Focus Report: 2006 - A year of turning tides with upside surprises from Japan

(Hong Kong - 16 February, 2006) Standard Chartered Bank (Hong Kong) Limited has issued its first regional economic monthly report **Asia Focus** today. The report highlights that 2006 is a year of turning tides when US interest rates and oil prices peak. Japan will recover further and formally exit from quantitative easing, and this could offer one of the biggest upside surprises for Asia, the report says.

“If avian flu was what the Year of Chicken offered to test Asia’s resilience, the Year of Dog is likely to be the time when Asian economies bark loud and high to capitalise on its proven strengths,” said Nicholas Kwan, Standard Chartered’s Regional Head of Economic Research for North East Asia.

Mr Kwan also sees fewer risks in 2006 though he cautions that the risks remain substantial. “While we are confident US policy rate hikes will stop soon, we are less certain about the move of the currently inverted yield curve. The current anomaly may not last long and the yield curve could revert, probably in quite volatile ways,” Mr Kwan said.

Standard Chartered’s Asia Research Team, which produces **Asia Focus**, expects that rising liquidity and shifting demands within Asia will provide the region with more opportunities than risks, despite generally slower growth and higher inflation in 2006.

In its first **Asia Focus** regional economic monthly report published today, Standard Chartered highlights that while Japan’s economic recovery may stay mild after an initial catch-up phase, its impact on Asia should not be underestimated.

According to Standard Chartered’s analysis, any 1% rise in Japan’s import from Asia could offset 0.6% decline in US demand from the region. Meanwhile, any 10% rise in Japanese banks’ lending to Asia could raise the region’s narrow money supply directly by 0.6%. If Japanese banks are to rebuild its Asia lending

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to the same level as before the Asian financial crisis, it will boost Asia's money supply by 14%. Hong Kong, which hosts the largest loan portfolio of Japanese banks in Asia, has seen the largest increase of Japanese bank lending in the region in 2004, up USD 3.2bn or 14%, and will be a major beneficiary of such a turning tide.

In addition to renewed bank lending activities, Asia could also benefit from increasing import demand and sustained direct investment from Japan. This could be followed by growing Japanese portfolio investment and the arrival of more Japanese tourists as the country's recovery gathers momentum. Japan used to account for 10-15% of Asia's foreign direct investment and foreign tourists inflows, amounting to about USD 22bn a year combined.

On top of offering a timely boost to the region at time of an expected US slowdown, Japan rebound may also provide a new source of regional growth in the longer run. Japan's resurgence will offer Asia with a renewed source of final demand, capital and technology – a fuel much needed for sustaining the momentum of Asia's twin growth engines: China and India.

Along with the analysis on Japan, the new monthly **Asia Focus** also provides in-depth analyses on the economies of China, India, Malaysia and Taiwan in this issue, drawing on the expertise of Standard Chartered's on-site economists in Mumbai, Shanghai, Hong Kong, Singapore and other parts of the region.

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Note to Editors:

Standard Chartered – leading the way in Asia, Africa and the Middle East

The history of Standard Chartered in Hong Kong dates back to 1859. It is currently one of the SAR's three note-issuing banks. Standard Chartered incorporated its Hong Kong business on 1 July 2004, and now operates as a licensed bank in Hong Kong under the name of Standard Chartered Bank (Hong Kong) Limited, a wholly owned subsidiary of Standard Chartered PLC.

Standard Chartered PLC is listed on both the London Stock Exchange and the Stock Exchange of Hong Kong and is ranked in the top 25 among FTSE-100 companies, by market capitalisation. Standard Chartered has a history of over 150 years in banking and is in many of the world's fastest growing markets. It has an extensive global network of over 1,200 branches (including subsidiaries, associates and joint ventures) in 56

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countries in the Asia Pacific Region, South Asia, the Middle East, Africa, the United Kingdom and the Americas. As one of the world's most international banks, Standard Chartered employs over 40,000 people, representing 80 nationalities, worldwide. Serving both Consumer and Wholesale Banking customers, the Bank combines deep local knowledge with global capability to offer a wide range of innovative products and services as well as award winning solutions. Standard Chartered is committed to be the Right Partner to all our stakeholders by living its values in its approach to managing its people, exceeding expectations of its customers, making a difference in the communities that we operate in and working with its regulators. The Bank is trusted across its network for its standard of governance and corporate responsibility.

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