



MACQUARIE

# Observations on current financial market disruptions and their implications

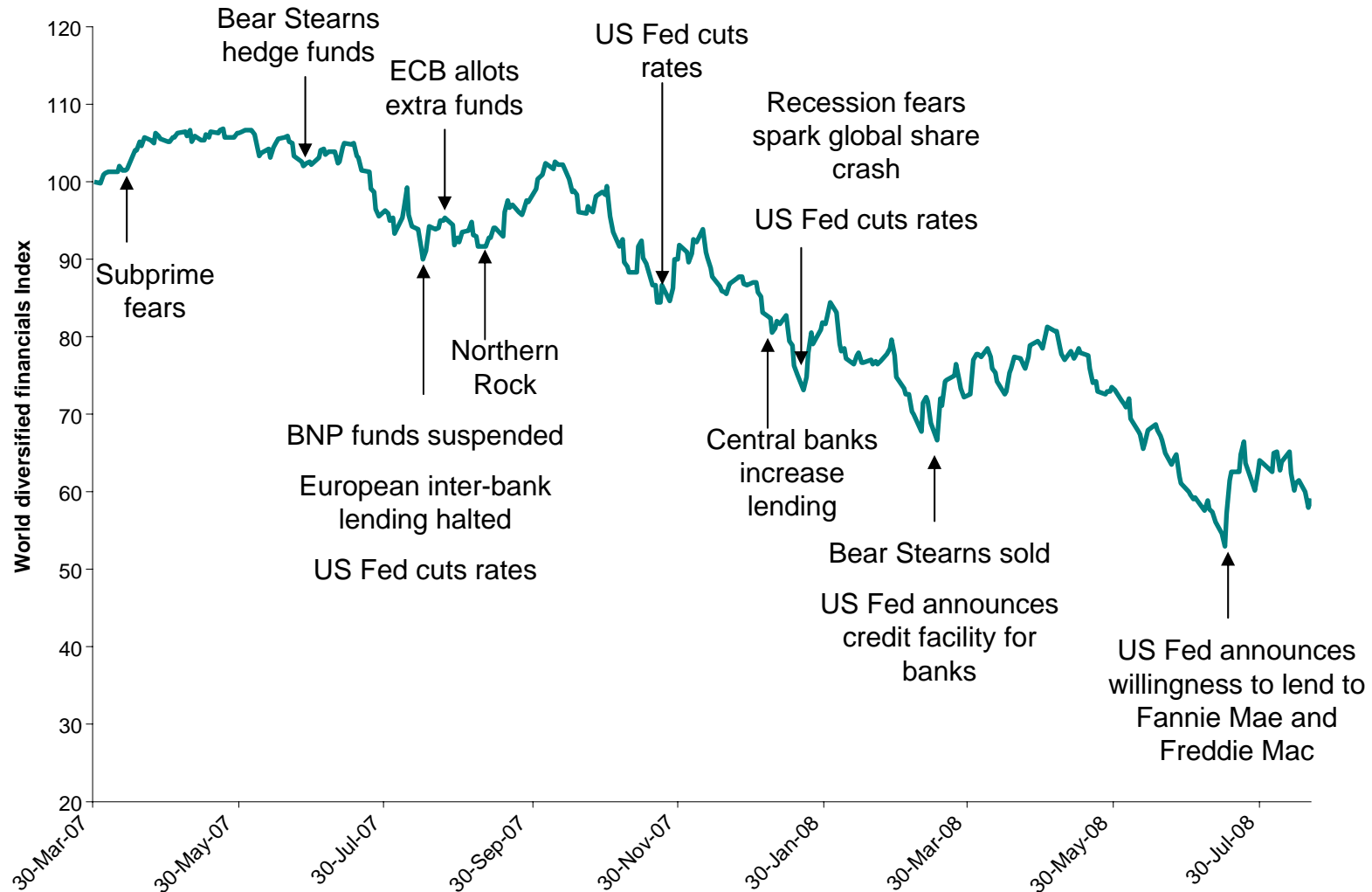
Richard Sheppard, Deputy Managing Director  
Macquarie Group Limited



Presentation to the AHIA 2008 conference  
8 October 2008

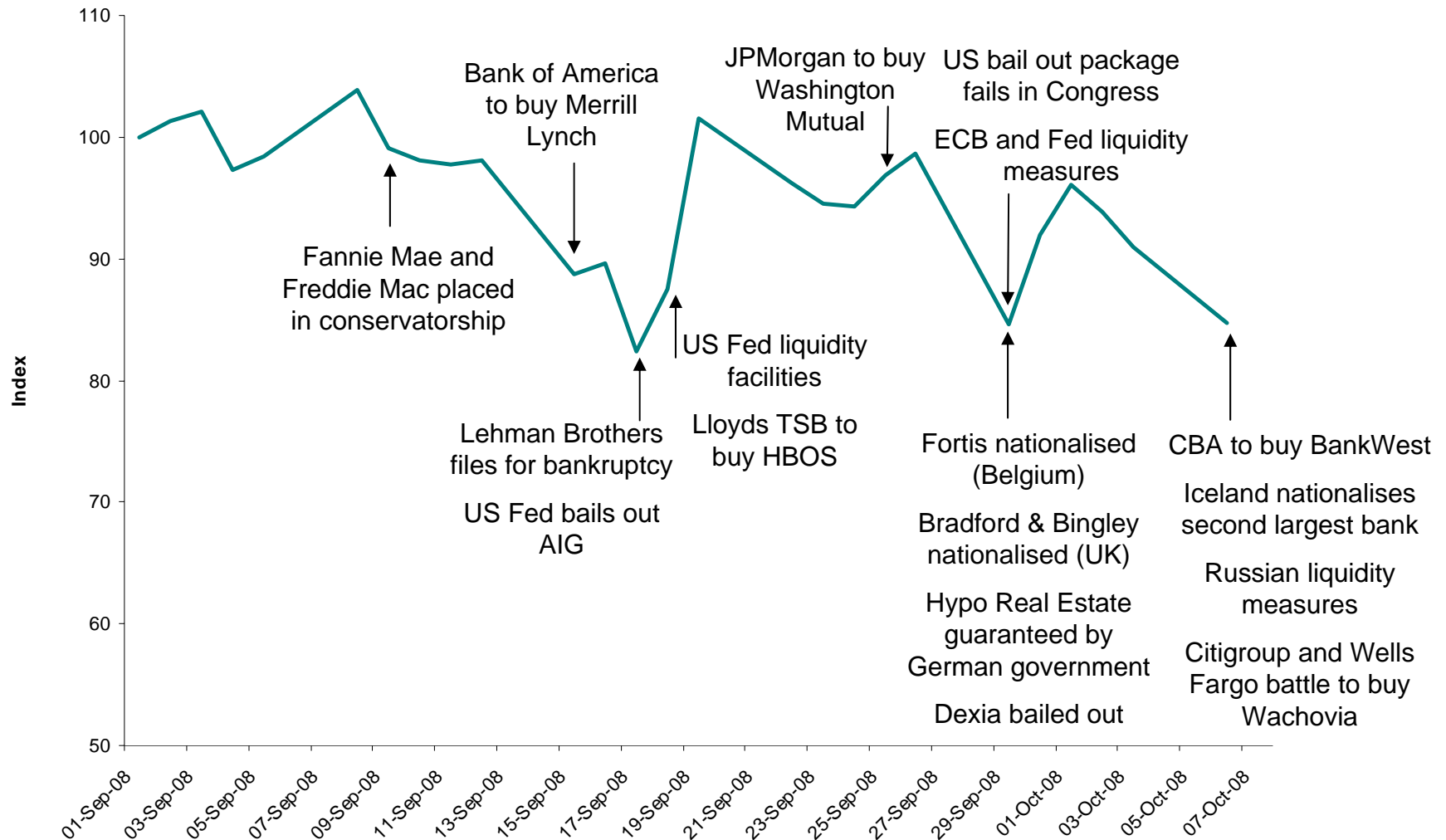


# Financial markets: 2007 – 08



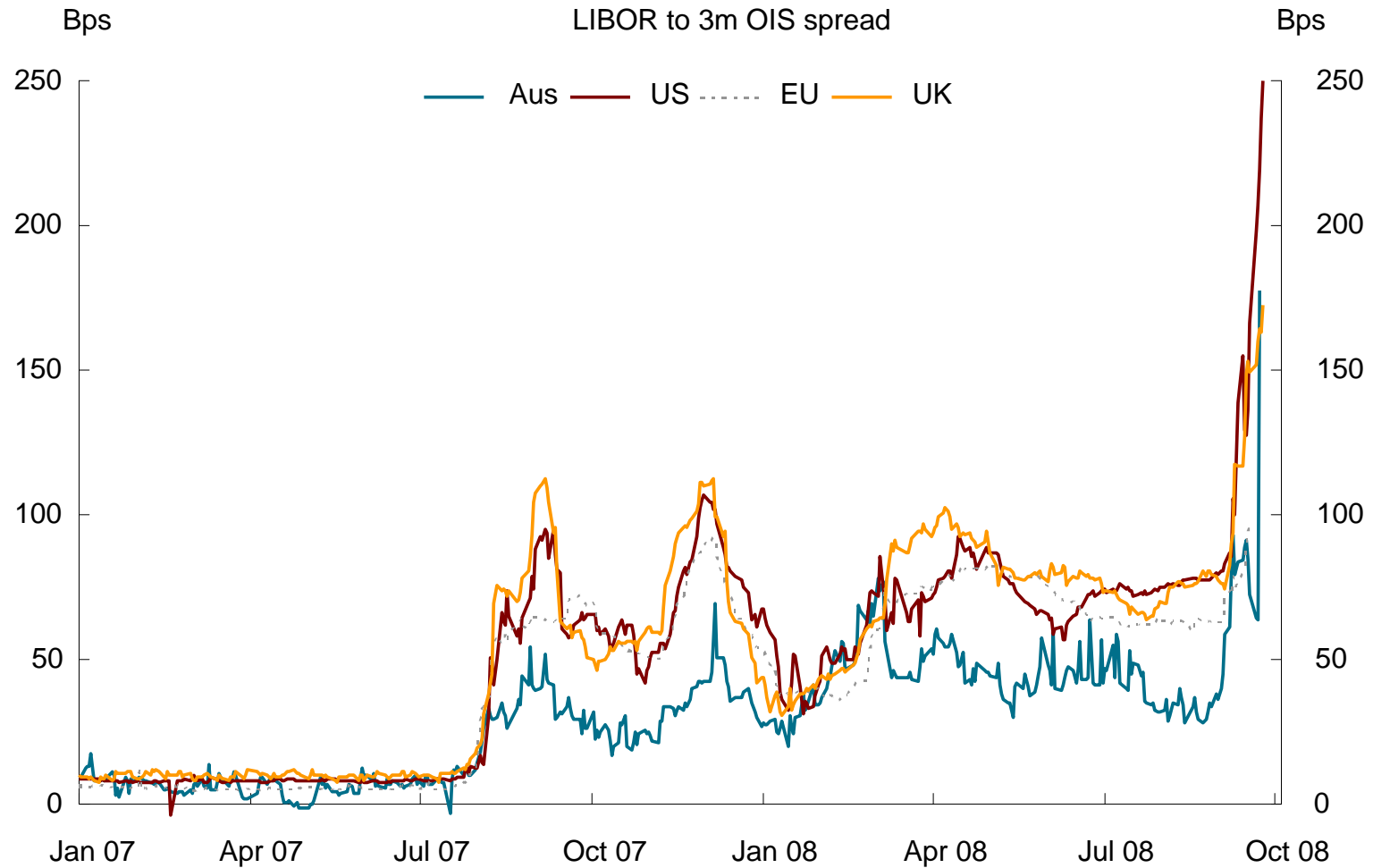


# Financial markets: September '08 – October '08



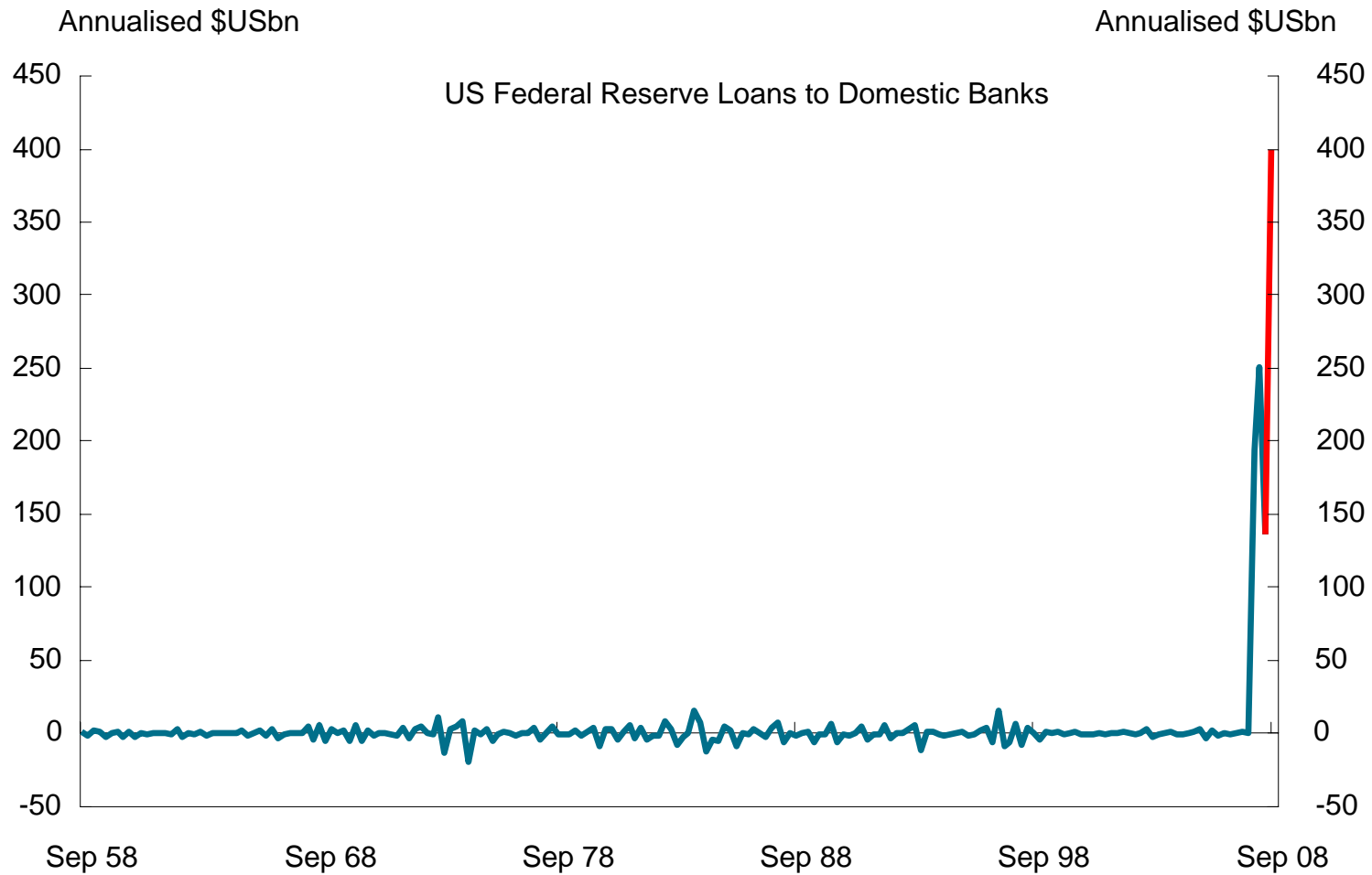


# Debt markets are disrupted





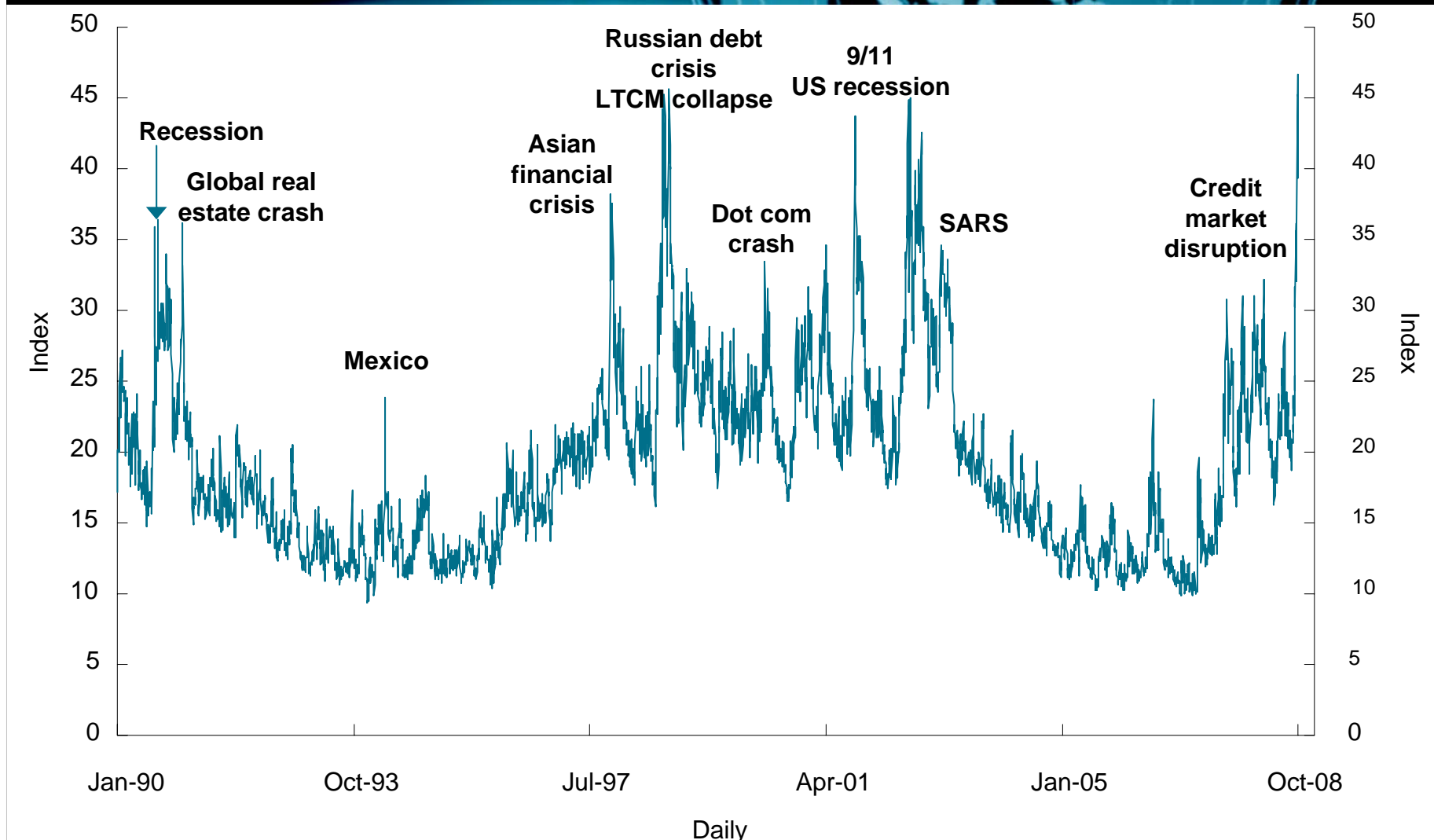
# The US Federal Reserve has been very active





# Market volatility is not a new phenomenon

## VIX (Implied Volatility Index)

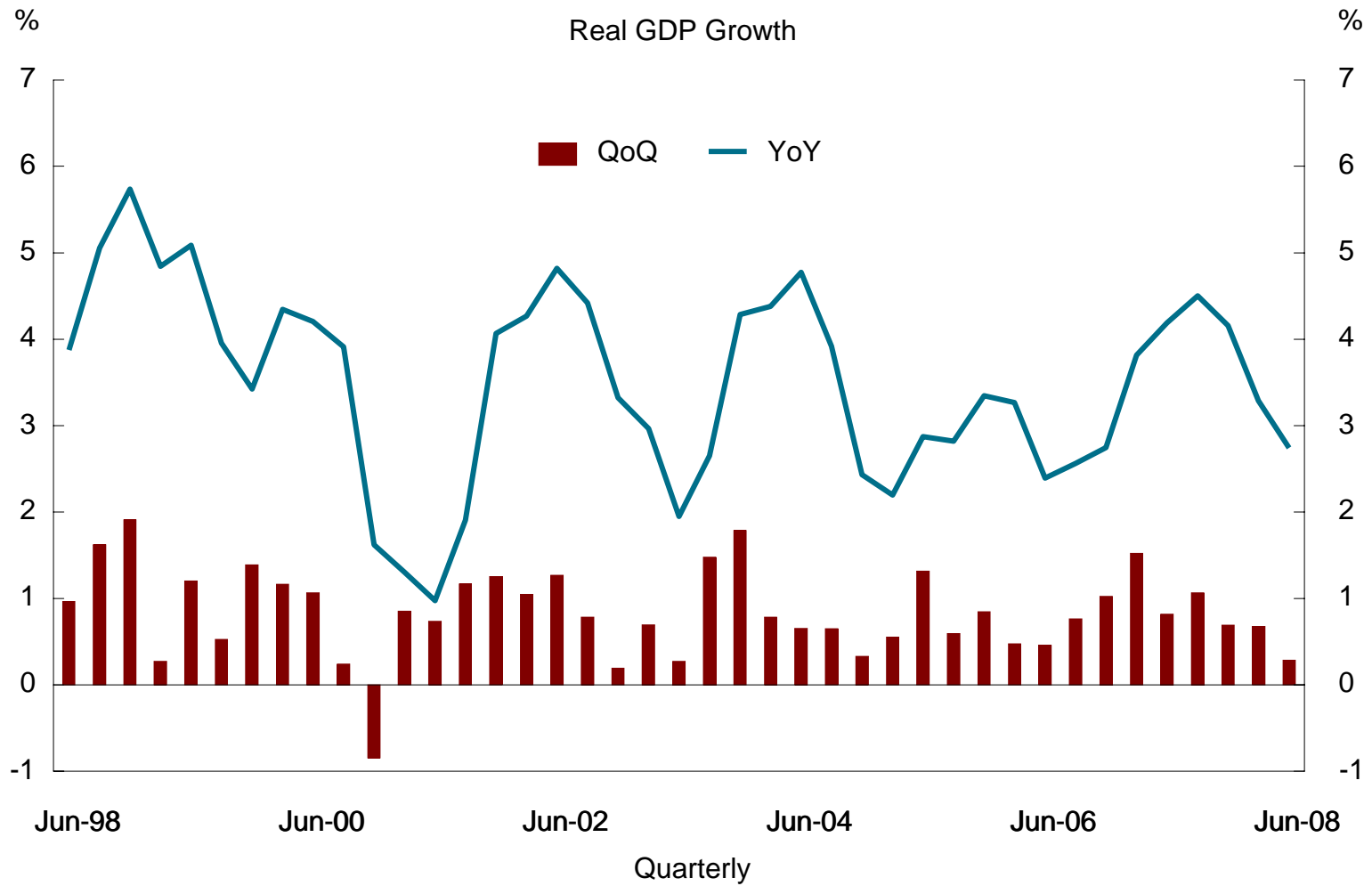


VIX index is the option implied volatility on the S&P500

Source: CBOE, October 2008



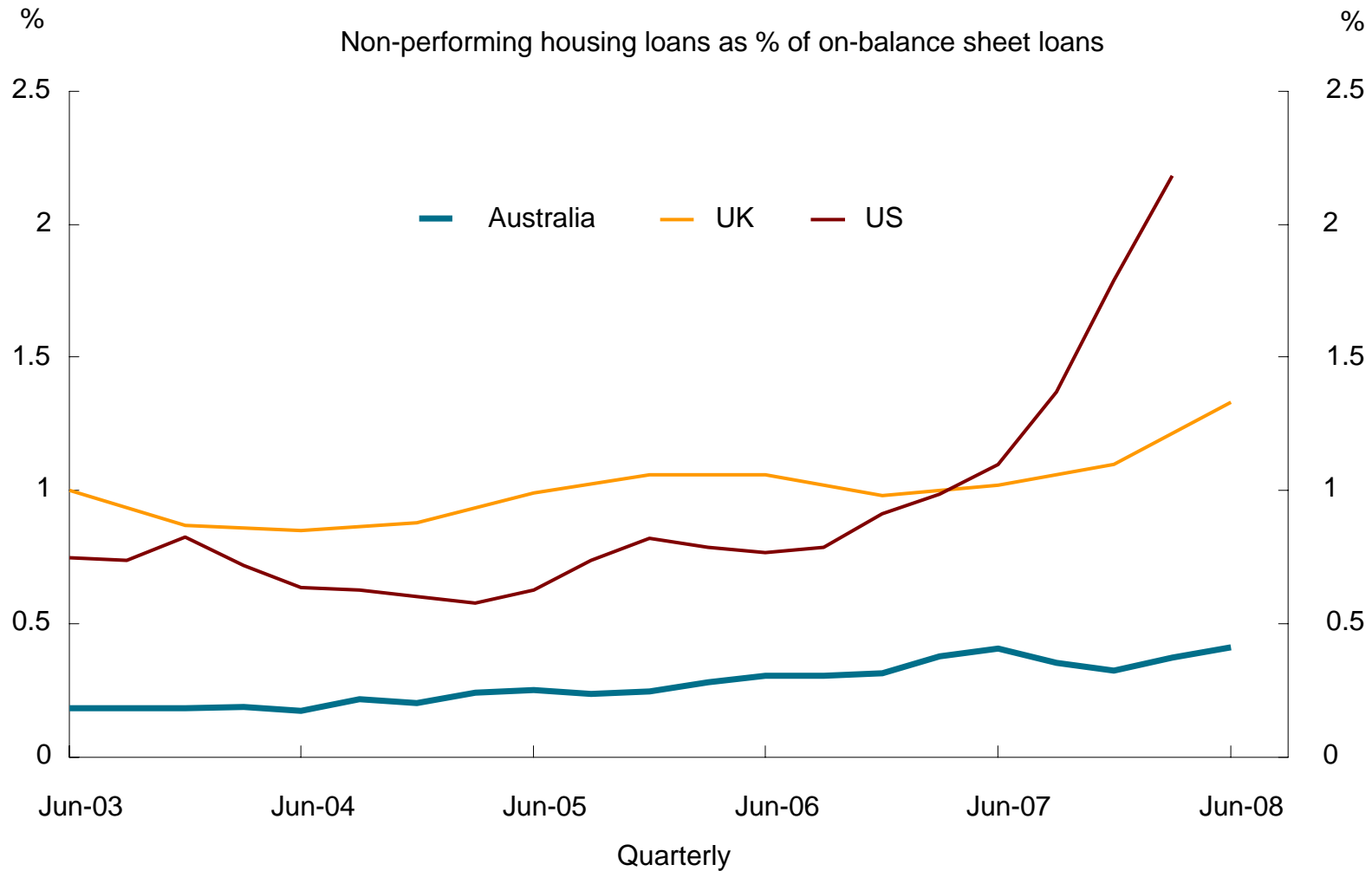
# The Australian economy remains resilient



Source: ABS, Macquarie Research, October 2008



# Australia's financial system is in good shape





# Australian policy responses

- The RBA has acted to increase liquidity
  - US\$30 billion swap line with the Federal Reserve
  - Increase daily repurchase arrangements
- This week's RBA rate cut
- RBA measures to expand domestic market facilities
- The Federal Government allocated \$A20 billion from the "Building Australia Fund" to national infrastructure projects at the October COAG meeting
- \$A4 billion fund to support the mortgage market
- Prime Minister and Treasurer have emphasised the strength of Australian banks
- Federal Budget and debt situation remains very strong



# Macquarie's positioning

- Remains profitable
- Most of its operating income from products and services to clients
- Long-term record of successful risk management
  - No problem trading exposures
  - No material problem credit exposures
  - No material exposures to US financial institutions which have been the subject of recent stress.
- Diversified by business mix and geography
- Regulated by APRA, the Australian banking regulator, as the holding company of an Australian bank
- Has grown through the cycle and market downturns have typically created opportunities.
- Well-funded and well-capitalised



# Where to from here?

- US Emergency Economic Stabilisation Act of 2008
  - Enacted 3 October 2008
- RBA cash rate
  - Likely to be followed by earnings in other major economies
- Greater regulation of the banking industry
- Deleveraging
- Slower global economic growth
- More cautious approach to business investment and employment
- Australia and Australian banks remain well placed
- The cycle will turn, the issue is timing



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