

The Sovereign Wealth Funds and the Euro

Round Table 1: The Euro as a Global Currency: Opportunities for Investors

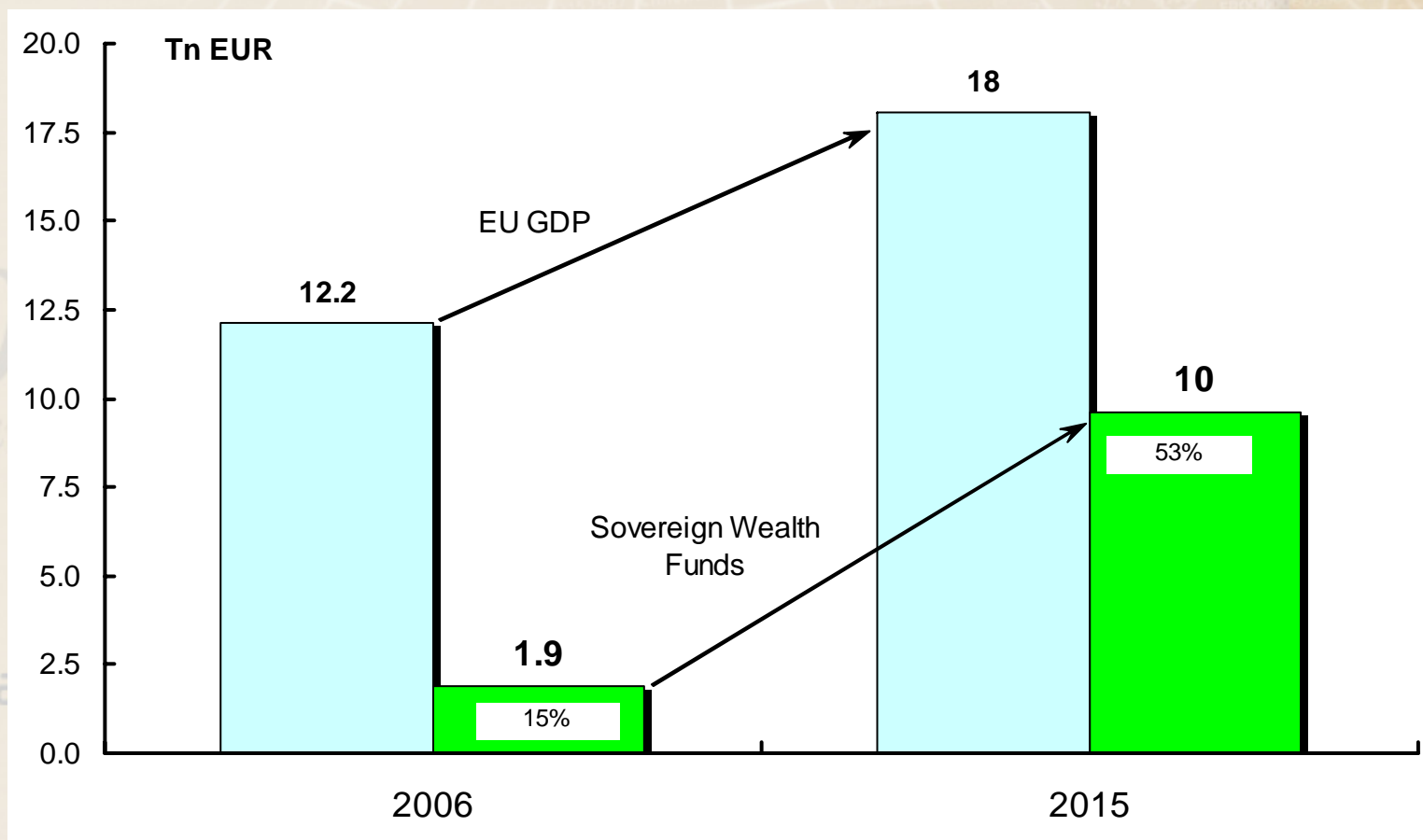
Eric Chaney, Chief Economist for Europe

Eric.Chaney@morganstanley.com

Morgan Stanley does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. Please see important disclosures at the end of this report.

Sovereign Wealth Funds: 12 Tn USD in 2015?

- Commodity producers and large catching-up Asian economies will have a prominent role in the global allocation of savings in the next 10 years.
- SWFs will invest in riskier and more diversified assets than traditional FX reserve managers



Source: Morgan Stanley Research (Stephen Li Jen: 'How Big Could Sovereign Wealth Funds be in 2015', May 3, 2007)

For SWFs, the Euro Is a 'Natural' Investment Vehicle

The economic rationality for SWFs:

- 1. C/A hedging (especially for oil/gas producers)**
- 2. Portfolio diversification**
- 3. Liquidity, safety, market supervision**

The key parameters that will influence asset allocation by SWFs:

- 1. LT strength of the euro area economy**
- 2. Commitment to keep inflation low**
- 3. Long term political credibility of the Monetary Union**

What about competition?

- 1. USD will remain the reserve currency of choice**
- 2. CNY will progressively become the 'other' main contender of the USD**