| Standard Chartered Global Focus |

Monthly Analysis of Economic and Financial Market Developments – 08 April 2010

The winning ingredients

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Shaping the New World Order

Highlights of the month

- A huge fundamental change is underway in the global economy. The shift in the balance of economic power from the West to the East will last for decades.
- There will be winners and losers in this shift. The winners will be those with financial, natural or human resources, or one or more of the three Cs: cash, commodities or creativity.
- Creativity may be the most powerful of all the resources to be rich in. With vast numbers of people entering the workforce, huge improvements in productivity, and continued globalisation, the rewards for innovation and creativity will become even greater.
- The three Cs are shaping the New World Order, as well as the path of the current recovery. For example, China's cash has allowed it to inflate its demand and raised Asia's exports back to pre-crisis levels, despite an uncertain outlook clouded by weak G3 demand and growing protectionism.
- In Africa, the rebound in commodity prices and a growing share of trade with emerging markets have also supported the trade recovery.
- Strong fundamentals and flush liquidity are supporting Asian credits and currencies, especially as USD strength peaks in light of Europe's improving situation, rising risk appetite and shifting interest rate expectations.

Important disclosures can be found in the Disclosures Appendix

Global

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- **Successful economies will have financial, natural or human resources**
- **In a globalised world, manufacturing will remain a disinflationary force**
- **Encouraging creativity and innovation is vital for developed economies**

Cash, commodities and creativity

We do not believe that a CNY revaluation will rebalance US-China trade; given China's production costs and productivity, it is very hard to envision any currency adjustment that would allow the US to compete on cost

Picking the winners after the crisis

A huge fundamental change is underway in the global economy. There is a shift in the balance of economic power from the West to the East which will last for decades. It has profound immediate economic implications, none more so than the elevated international tensions currently on display over the issue of the Chinese yuan (CNY). Politicians on both sides of the Pacific have weighed in on the debate, with China vigorously defending the current valuation while US politicians push for a revaluation and threaten to name China as a currency manipulator and impose trade sanctions. It is our view that a revaluation will not help to rebalance trade between the US and China – and certainly not a move of 5% or 10%. Given China's low production costs and high productivity, it is very hard to see how any currency adjustment would allow the US to compete on cost. Therefore, this is really an issue for Thailand, Malaysia and some of the other Asian countries that compete more closely with China from a cost perspective. Indeed, while the US worries about the low costs of mass producing in China, Premier Wen Jiabao is talking about shifting China's focus to quality rather than quantity. That is surely where the US should focus too.

We believe that China will aim for a gradual appreciation of the CNY as it rebalances its own economy. This will hopefully appease the US and prevent local politics from spilling over into a widely detrimental bout of protectionism. The appreciation and ultimate internationalisation of the CNY will be just another factor in the shift in economic and financial power which, over the next 25 years, will likely return China to its place as the biggest economy in the world – a place it held for 18 of the last 20 centuries.

There will be winners and losers during this shift in the balance of power. And importantly, if we can view a country's currency as a proxy for its macroeconomic outlook, then the disagreements over the strength of the CNY will resolve themselves if China ends up – as we think it will – one of the winners. Meanwhile, the value of the USD will depend on the ability of the US to adapt and change.

The winners will likely fall into the following categories: (1) Countries with financial resources – large reserves, strong fiscal positions and large savings pools. These include countries such as China, Qatar or even Japan (although Japan's pool of resources is rapidly draining). (2) Countries with natural resources – energy, hard commodities, agricultural resources and even water. These include Russia, Brazil, Canada, Australia and Angola. (3) Countries with human resources that can innovate, adapt and change. These have traditionally included the US, the UK,

Global (cont)

Japan and Germany, although they have been hard hit by the credit and financial crisis, and how they will come out is still uncertain. One might say the winners will have one or more of the 'three Cs': cash, commodities or creativity.

At the heart of the crisis was the imbalanced global economy, as excess savings from the developing world flowed 'uphill' to the Western economies

Cash

The world has just suffered the worst economic slowdown since World War II. At its heart was the imbalanced nature of the global economy. Excess savings in the developing world flowed 'uphill' to the Western economies – the US, the UK and Spain in particular. After the tech bubble burst, the US Federal Reserve left rates too low for too long and introduced moral hazard where investors felt that risks had been underwritten. This led to cheap credit and a debt-fuelled construction- and consumption-led boom as individuals in these countries were overcome with greed and the desire to have it all, now. The boom was helped along by a widespread failure on the part of much of the financial-services industry to price or manage credit and other risks appropriately – many were too highly leveraged and lacked adequate liquidity. This was compounded by a failure on the part of financial regulators to adequately oversee the institutions they regulated and, finally, by shareholders' failure to discipline banks' management.

In hindsight, it all seems so obvious. Chronic over-investment – particularly in housing, but also in many other areas – took place, driving economic growth beyond its natural rate, which led to further mis-investment. It was an accident waiting to happen. The accident, when it came, was very bad indeed – especially for countries which went into the crisis with no margin of safety, such as the UK, which was running a large structural deficit throughout the boom years.

That is not to say that everyone got killed or injured in the crash. There were plenty of well-run, conservative and liquid financial institutions which survived or even thrived during the crisis. A number of countries also emerged from the crisis in pretty good shape, reflecting effective supervision and appropriate regulation – China, India, Indonesia, Canada, Australia and Hong Kong, to name a few. Similarly, a significant number of institutions and markets were tested and passed successfully. Despite huge volatility in stock markets, clearinghouses and payment systems all withstood the storm.

The next stage will be recovery. The strength of that recovery will depend on fundamentals. The fundamentals for many Western economies are poor, and the need to curb fiscal deficits – and eventually rein in loose monetary policy and rebuild the broken financial-services industry – will ensure a long and painful period of low growth for the US, the UK and others. Unfortunately, the debt-fuelled boom in the US helped China and other economies to boom too. And without a booming US, it will be difficult for many emerging markets to grow at the rates we witnessed until 2007. The West (except Germany) will need to spend less and save more. The East needs to spend more and save less. This is where financial resources make all the difference. We will not be surprised if some of the weaker Western sovereigns default on their obligations in the next five to 10 years.

Global (cont)

We expect consumption to start leading China's growth in 2012; we may be seeing the beginning of the end of China's huge trade surpluses

China can afford to keep spending, at both the government and personal level. And despite concerns that Chinese consumers are not doing their bit, retail sales continue to rise at more than 15% p.a., and disposable incomes are rising at 5-10% p.a. Corporate China also continues to invest. This is evident in the performance of Germany's exports to China, which rose by 7% in 2009, led by machinery (although vehicles and vehicle parts rose by 18% as well). Government spending continues to rise too – spending on education, health care and social security has shown large increases as a percentage of a growing GDP in the last two years. Though investment and government spending have dominated growth in 2009 and 2010, we expect consumption to start to lead, along with government spending, from 2012. Others clearly do too – Western luxury-goods companies are moving into China, especially into second-tier cities. Meanwhile, China also continues to invest in Africa, elsewhere in Asia, and in the natural-resources field. We may be seeing the beginning of the end of China's huge trade surpluses and rapid accumulation of foreign exchange reserves.

The Gulf countries are another group with huge financial resources that are continuing to accumulate rapidly as oil prices remain around USD 80/barrel. Despite real-estate-related problems in Dubai, the region has deployed those financial resources to positive effect in the aftermath of the economic and financial crisis. Investment is continuing at a fast enough pace to transform the region's economies and, in the case of Saudi Arabia, to provide employment for a rapidly growing population. Abu Dhabi released a plan in December 2009 to spend USD 68bn on building transport infrastructure alone. As in China, some of these investments may never be financially viable in their own right, but we remain highly confident that they will provide the backbone for future growth and, in many cases, raise the metabolic growth rates of these economies and their close neighbours.

With emerging markets willing to deploy resources at home, and with their spare capital going to attractive markets such as India (or Africa for agricultural investments), there may also be less spare capital to invest in Western government bonds. Rising borrowing costs may well be another headwind for the cash-strapped economies of the West.

Commodities

As we like to repeat, growth in the East is growth in the consumption of 'stuff' – people buying their first car and driving it on new highways, buying their first home with their first white goods, taking their first airplane flight to stay at a new hotel. For many people, this growth will mean going from one meal per day to three, or eating meat more regularly. All of this is consuming vast amounts of natural resources. We often say that people underestimate the scale and pace of change in China, but it is difficult for most people to grasp what it means when one talks of another 300 million people moving into urban areas in China in the next 20 years – let alone the impact on copper, cement or aluminium consumption when that happens.

Global (cont)

We will be in a super-growth cycle for the world and a super-consumption cycle for commodities in the coming years as hundreds of millions more people increase their wealth

We believe the outlook is uncertain for individual resources (e.g., how will shale gas affect coal and oil consumption and pricing?), and the path for prices is likely to be very volatile; we will not attempt to tackle these aspects here. But we are confident that we will enter a super-growth cycle for the world and a super-consumption cycle for commodities in the coming years as hundreds of millions more people increase their wealth. With an estimated 90 million people sinking back into poverty in the last couple of years, it is easy to forget that 900 million were raised out of poverty during the emerging-market growth of the last decade.

How much is the consumption of commodities affected by slow growth or recession in the West? Not that much. From 1998 to 2008, China represented more than 100% of global growth in the consumption of lead and nickel, and more than 70% of global growth in the consumption of copper, zinc, tin and aluminium. It also represented more than 60% of the increase in coal and 40% of the increase in oil consumption. Global growth in oil consumption since 1998 has been 70% driven by China, Russia and the GCC.

This bodes well for countries that supply the raw materials which are vital to the growth of China and other emerging markets. We have already discussed the GCC, but other big winners are likely to be Canada, Australia, Russia and Brazil (the CARBs?). We exclude Indonesia, as it is growing so rapidly itself that much of its coal and other energy resources may be consumed internally rather than being exported – but that is the price of success. Certainly, as democracy now seems to be embedded in Indonesia, we are very positive on its prospects and believe the country is likely to obtain investment-grade sovereign ratings by 2012.

These countries' prospects vary, and their economies are not pure plays on commodities, but their rich natural resources provide a source of revenues that they can either choose to exploit or not. Brazil's prospects in particular seem bright as the emerging middle class increases consumption and the proceeds of the last decade's success are spread throughout the economy. The outlook for Canada looks positive too – almost alone in the developed world, its banking system came through the crisis unscathed, enhancing the reputation of its central bankers and finance ministers. Canada will surely reap the benefits of this credibility in terms of its borrowing costs and ability. In stark contrast to the UK and other Western economies, Canada is aiming to cut taxes to spur the economy and encourage investment – but its commodity exposure gives it a solid platform from which to leap forward.

Water is also a key resource. Without sufficient water the production of many commodities – not just agricultural, but energy and metals as well – is impossible. Copper mines in Chile rely on water being pumped as far as 135km from desalination plants to the mines. As climate change impacts countries, we are likely to get knock-on effects on their commodity production or, at the least, pricing. Australia looks more vulnerable to these risks than Canada, Russia or Brazil.

Global (cont)

The final feature of post-crisis winners will be the ability to innovate and create; creativity may be the most powerful of all the resources

Creativity

So is there any hope for a country such as the UK, with an economy severely damaged by government and personal profligacy, hobbled with enormous debts and a weakened banking system, and having already used up much of its natural resources? We believe there is hope, as the final feature of post-crisis winners will be the ability to innovate and create. Indeed, creativity may be the most powerful of all the resources to be rich in.

A feature of the New World Order – with vast numbers of people entering the workforce, huge improvements in productivity, and continued globalisation – will be that the rewards for innovation and creativity will be even greater. Two hundred years ago, many thousands of musicians made reasonable incomes, and the greatest musicians were limited in their earning capacity by the audiences they could physically reach. Now, the world's top bands capture a disproportionate amount of the available revenues through global CD and MP3 sales. The UK Premiership dominates British football, driven by global TV revenues, and a few European teams dominate global football revenues. The rewards for the players have polarised as well, and nearly all of the world's best players now play for a score of top clubs. In the fashion industry, the 'right' label can drive huge differences in pricing, and subsequent success in a market like China can overcome any recession in the West. You could almost say this next phase of world development will be a move from doing to being – the price of doing is deflating daily, while the rewards for being creative are rising.

So the rewards for creative success are bigger, and they are more concentrated. This will be a challenge for Western governments, as the disparities between the 'winners' and 'losers' within countries will grow. The creative types are mobile, whether they are Premiership footballers or investment bankers or entrepreneurs, and their departure takes many other jobs away too. Balancing the attractiveness of their countries with social cohesion could be a serious challenge.

Currently, the West – particularly the US and the UK – still has the institutions and infrastructure to foster creative success. The US and the UK currently dominate the world's top universities. However, that is changing, with China in particular catching up in engineering and other technical disciplines. On patents, Japan and the US still lead, but China is catching up rapidly. The challenge for the US and UK will be to continue to – or, in the case of the UK (judging from the patent statistics), start to – leverage research and intellectual prowess into creative products or services. It is still unclear, however, whether some Western governments 'get it'. The current UK government is cutting spending on vital infrastructure and attacking the elite education that most often produces the creative successes, while skewing taxes against success. Canada, on the other hand, is cutting taxes while channelling more towards its most successful universities. China's educational expenditure continues to rise as a proportion of a rapidly growing GDP.

Global (con'd)

Singapore and South Korea are both examples of countries that have transformed their economies and are now looking increasingly to creativity and innovation as the path to their prosperity. Singapore is searching for a new 'universal technology', while South Korea is focusing on becoming a leader in renewable energy. The latter is a poignant example of a failure in the UK, since Korea is looking to take cutting-edge UK fusion technology and commercialise it – something that the UK cannot or will not find the investment for.

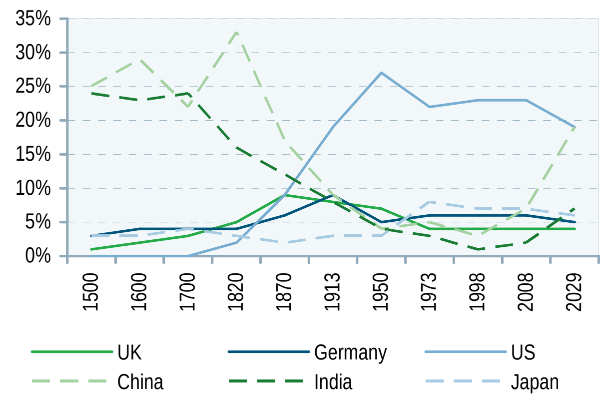
The next few years will be important, both for the countries that have come out of this crisis strongly and for those that are currently weak; countries must make use of their cash, their commodities and, perhaps most importantly, their creative talent

Cash, commodities and creativity

Some governments already seem to be embracing these pillars of success, often leveraging off strengths in one area or another. Take the examples of Qatar and Abu Dhabi. They have seized the opportunity of the global crisis to use their financial resources, based on natural resources, to build their human resources in order to move along the creative path to success. It is too early to tell whether they will succeed or not, but much will depend on whether the current owners of the human resources re-invest and actively retain their talent, or stand by and watch them walk out of the door. The UK in particular needs to be careful not to waste its remaining rich resources.

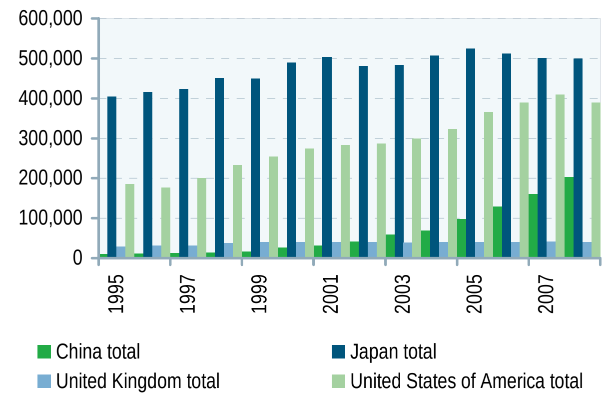
The next few years will be important, both for the countries that have come out of this crisis strongly and for those that are currently weak. Making the wrong choices on how to develop their economies could cause some to lose their advantages, while the right choices could help others overcome their difficulties. Countries must make use of their cash, commodities and, perhaps most importantly, their creative talent.

Chart 1: The world is changing … back



Sources: Maddison, Standard Chartered Research

Chart 2: Top patent applicants



Source: WIPO

Asia

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- **Asian exports are back to pre-crisis levels, led by China, Indonesia and Vietnam**
- **Improvement is driven by China demand, while US and Europe remain sluggish**
- **Mixed outlook, currency appreciation and competition from China worry exporters**

Uneven recovery in Asian exports

Asian exports entered 2010 with strong momentum, returning to pre-crisis levels

Asian exports are back to pre-crisis levels

Asian exports rebounded with a vengeance in late 2009 and early 2010, following a spectacular collapse immediately after the global financial crisis. Our calculations put Asia's exports for the four-month period from November 2009 to February 2010 at USD 1.14trn, 23% higher than the same period a year earlier and 1.3% higher than the same period two years earlier. This implies that Asian exports have made a full recovery to pre-crisis levels. The stronger-than-expected rebound is largely driven by factors within Asia, as demand from the US and Europe is improving only gradually. China has played an important role in driving demand for Asian exports, but only in selected product categories.

Vietnam, Indonesia and China are leading the export rebound, while the Philippines, Taiwan, Singapore, Malaysia, Hong Kong and India have yet to make a full recovery

China, Indonesia and Vietnam lead the export recovery

Chart 1 illustrates the value of Asian economies' exports from November 2009 to February 2010 (green bar). This is indexed against the same period in 2007-08 (pre-crisis), at 100; data for the same period in 2008-09 (blue bar) is also included for comparison purposes. Exports from Vietnam, Indonesia, China, Thailand, and South Korea have already recovered to beyond the levels seen in late 2007 and early 2008. Vietnam and Indonesia are 22% and 12% above their pre-crisis levels, respectively, while China is 4.5% higher.

The Philippines, Taiwan, Singapore, Malaysia, Hong Kong and India have yet to make a full recovery. The Philippines' exports between November 2009 and February 2010 were still 15.7% lower than the same period two years earlier, according to our estimate. For Taiwan and Singapore, the catastrophic drop in exports in early 2009 meant that even after a strong rebound in recent months, their latest export values are still about 6-8% below pre-crisis levels.

Of Asia's three key export markets, only China is showing a strong pick-up in demand (Chart 2). In the three months from November 2009 to January 2010, China's imports from Asia surged by 55.5% y/y, or USD 66bn, from the same period a year earlier. Rising demand for commodities as a result of China's resource-intensive stimulus programme was part of the reason for the strong surge in demand. In contrast, y/y growth in US imports from Asia was in the low single digits in December 2009 and January 2010, with imports rising by only USD 4.5bn versus a year earlier. And EU imports from Asia were still declining on a y/y basis at the end of 2009. For China, emerging markets such as ASEAN and Latin America have been the key drivers of export growth, rather than the traditional markets of the US and Europe. This reflects the power of intra-regional trade in fueling Asia's current export recovery.

Asia (con'd)

Leading indicators and commodity prices are pointing to a sturdy recovery, but based on corporate feedback, the outlook for orders remains cloudy at best

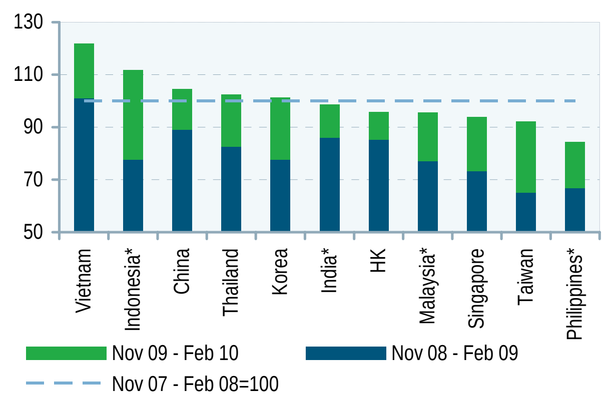
What to expect in the months ahead

Leading indicators suggest a benign outlook for exports. The North American semiconductor book-to-bill ratio, a leading indicator of demand for Asian tech exports, was at 1.22 in February. A reading above 1.0 indicates that orders for semiconductors are greater than shipments, pointing to an increase in demand in the months ahead. The OECD leading indicator also shows that the developed economies are recovering, and this tends to correlate well with Asian exports.

The outlook for commodity prices is another supportive factor. Although the DJ UBS Commodity index is still 44% below its mid-2008 peak, it is 25% higher than a year ago. This positive price effect will buoy Asia's exports in the months ahead, especially for commodity exporters such as Indonesia, Vietnam and Thailand. Raw-material price increases also explain why these three economies have seen faster export recoveries than the rest of the region.

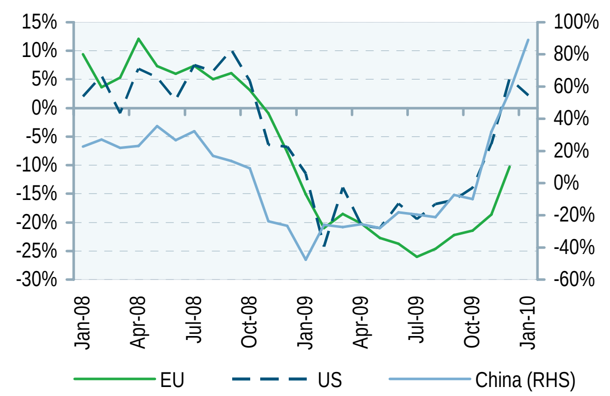
Despite these positive indicators, there are still concerns on the horizon. As noted above, the recovery in US and European demand is still at a nascent stage. An expected slowdown in the recovery in the West in H2-2010 means that Western buyers are still taking a conservative approach to orders, buying for the near term and avoiding committing to orders beyond two to three months ahead. China's commodity import boom may also fizzle in the months ahead due to high inventory and the return of domestic supply as local mines reopen after the winter. Prospects of stronger Asian exchange rates pose another challenge to Asian exporters. Regardless of China-US tensions over the USD-CNY exchange rate, Asian currencies are expected to appreciate on the back of capital inflows, and this could slow the recovery in Asian exports. Many South East Asian exporters face intense competition from China, both in Western and Asian markets. This is especially true of Thailand and Malaysia, whose manufacturing industries have considerable overlap with China's. This competition is likely to put even more pressure on exporters in Asia ex-China during the recovery phase.

Chart 1: Comparing export values across Asia



** February 2010 values for these economies are estimates;*
Source: Standard Chartered Research

Chart 2: Sluggish demand recovery in US and Europe
y/y import growth



Sources: CEIC, Standard Chartered Research

Africa

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- **Relative to past crises, the collapse in trade in 2009 was more intense, but of shorter duration**
- **Recovery is on track as commodity prices rebound, but differentiation is needed**
- **Trade with emerging markets has continued to rise as a share of Africa's total**

Trade normalisation

After a massive decline, trade is recovering

The unprecedented collapse in exports was all about commodities

Africa's trade was severely impacted by the onset of the global crisis in Q4-2008. The magnitude of the trade collapse was the most severe since the 1980s, due to the large correction in commodity prices, coupled with lower demand across the globe. Africa remains basically a commodity exporter (the continent's export mix is dominated by oil, which accounts for roughly two-thirds of the total), so the rapid collapse in commodity prices – especially oil – led to a massive decline in export value. Compared with past crises, export values collapsed more dramatically given their very high base and the largest-ever recorded decline in commodity prices.

There was a massive collapse in volumes, but not the worst ever seen

Looking only at trade volumes, while African export volumes have been impacted by lower GDP growth across the globe, it is worth mentioning that the magnitude of the decline has not been as severe as the collapse experienced in 1982. This is partly due to the fact that emerging economies now account for a larger share of African trade, and many of them were less impacted by the latest crisis than by previous ones. This led to a less pronounced decline in demand. The decline in import volumes was also less severe than in 1982. So while Africa was severely impacted by the latest crisis, it was able to maintain positive growth rates, as it entered the crisis from a position of strength relative to the past.

Pain was more intense but of shorter duration than in the past

Trade flows fell at a faster pace than during previous crises because of the magnitude of the decrease in commodity prices, but began to recover more quickly. In other words, the latest crisis has been more painful but shorter than previous ones. Trade appears to be rebounding strongly in line with the strong recovery in commodity prices. Africa clearly does not seem to be headed for several years of negative trade growth, as seen in the past (see charts in the 'Market snapshots' section).

The rebound in trade is set to continue throughout most of 2010 due to last year's low base effect, rising trade volumes fueled by the global recovery and, above all, higher commodity prices. Also, with the worst of the crisis over, trade finance is likely to recover in 2010, helping to sustain the rebound in trade. However, African exports are unlikely to return to pre-crisis levels just yet, as world growth and commodity prices should remain below their pre-crisis levels in 2010.

Africa (con'd)

While oil exporters are likely to be the main winners, some countries will suffer terms-of-trade losses

African export rebound to continue in 2010, but differentiation is key

Africa's export performance is set to continue to improve in 2010, mainly because the price of oil, the continent's main export, is set to rise. Most commodity prices are expected to be higher on average in 2010. However, differentiation is necessary. Oil and mining countries will generally see their exports rise faster than exporters of agricultural and other commodities. Many African countries may continue to see their terms of trade deteriorate and will not necessarily enjoy net gains in trade. For countries where the value of oil imports is higher than the value of their main export, potential export gains are likely to be eroded by higher oil prices. This is the case for some mining countries and most agricultural countries, where export price increases are expected to be modest, or which are generally vulnerable to high oil prices.

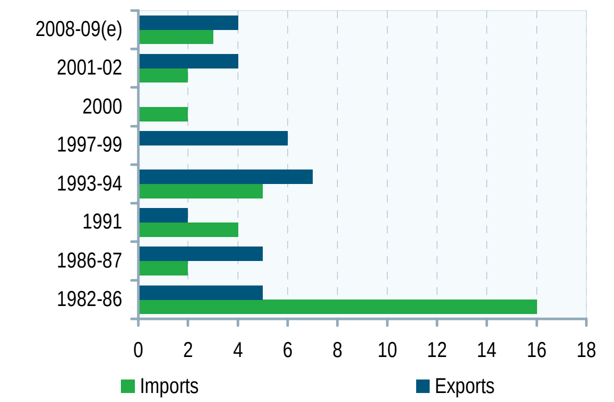
South-South relations continue to gain traction

Share of trade with other emerging markets continues to grow

In recent years, buoyant trade with other developing economies has been competing with Africa's traditional trade relationships with industrial countries, in line with the shifting balance of power towards emerging economies. Emerging economies continued to increase their share of Africa's total exports in 2009, rising to 40% from 33% in 2008. They accounted for 47% of Africa's imports last year, up from 46% in 2008.

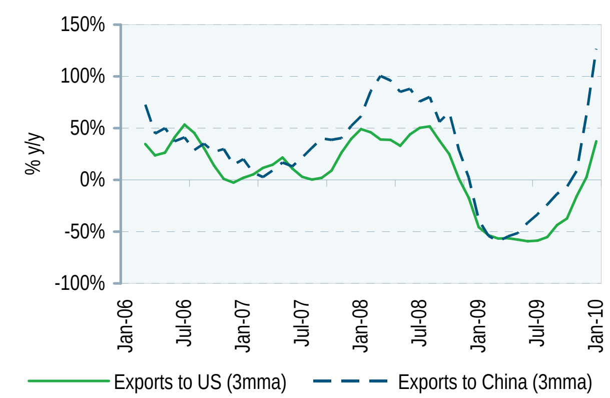
The pick-up in 2009 is partly explained by the fact that the emerging world as a whole grew more strongly than the developed world – and Africa's exports to these markets therefore declined less than its exports to advanced economies. Africa's exports to emerging markets also appear to be recovering faster than its exports to advanced economies. In particular, China's re-stocking has helped to sustain demand for several commodities. On the import side, while emerging markets have taken market share from the US and Europe in selling consumer goods to Africa, they are also increasingly competing with developed markets in supplying capital goods to the region.

Chart 1: Trade collapse in 2009 was shorter than in previous crises *(number of consecutive quarters of negative growth in trade)*



Sources: IMF DOTS, Standard Chartered Research

Chart 2: Export recovery is led by emerging markets
Exports to China vs. exports to the US



Sources: Datastream, Standard Chartered Research

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- **Inflation in the GCC is driven by housing costs, ample liquidity and food prices**
- **2009 saw a reversal of inflationary pressures across most of the GCC**
- **Saudi Arabia and Kuwait should face higher inflationary pressures in 2010**

Inflation outlook

Inflation was subdued in most Gulf Co-operation Council (GCC) countries last year, and some economies even experienced deflation. This followed significant inflationary pressures in 2007-08. Yet Kuwait's central bank governor, Sheikh Ahmed Abdul Aziz al Sabah, recently stated that "inflationary pressures have subsided substantially, but this does not at all mean that they are totally gone."

The inflation outlook for GCC countries in 2010 will depend to a large extent on the housing market

In order to come up with inflation projections for 2010, one has to look at the mechanics of inflation in the region. The three main drivers of inflation in 2007-08 were food prices, housing costs and ample liquidity. The latter had a significant impact on housing costs by causing asset-price inflation. We expect inflation in Bahrain, Qatar and the UAE to remain subdued in 2010, while Saudi Arabia and Kuwait should face higher inflationary pressures due to their domestic housing markets. Inflation in Oman should lie somewhere between these two groups as a result of a moderate housing-market correction.

Housing market to suppress inflation

The UAE avoided an outright contraction of its consumer price index (CPI) in 2009, with inflation averaging 1.56%, according to official statistics. The 'cost of housing' component makes up 39.33% of the CPI basket and rose by 0.42% during the year. It is surprising that this component was more or less flat in 2009, given the sharp correction in Dubai's housing market. One potential explanation is that higher housing costs in Abu Dhabi compensated for the softening housing market in Dubai, although we believe this is unlikely.

In Dubai's CPI basket, the cost of housing rose by 2.41% last year, while headline inflation was 4.03%. Both outpaced the equivalent inflation rates for the UAE as a whole, suggesting that housing costs in Dubai actually rose faster than those in the rest of the UAE, including Abu Dhabi. It is possible that the housing-market component is calculated differently in Dubai's CPI basket than in the nationwide basket. Even so, CPI inflation in both the UAE and Dubai shows no extreme deflationary pressures emanating from the housing market. Base effects may partly explain this, as the cost of housing only began to decline on a year-on-year basis after June 2009.

However, it is difficult to reconcile the absence of deflationary pressures in Dubai's CPI housing component with data from Dubai's Real Estate Regulatory Authority (RERA). According to RERA, there were no rent increases for two-bedroom properties in all 49 areas of Dubai between January 2009 and April

Middle East (con'd)

2009. Also, according to Jones Lang LaSalle, property prices in Dubai fell by more than 50% in 2009 from their highs in 2008.

Liquidity in the UAE is tight, and credit growth continues to be non-existent. The housing market is still under pressure, and this particular component of the CPI basket is vulnerable to further disinflationary pressures. This should keep inflation in the UAE subdued in 2010. This was evident in January and February, when the CPI declined by 0.32% and 0.16%, respectively.

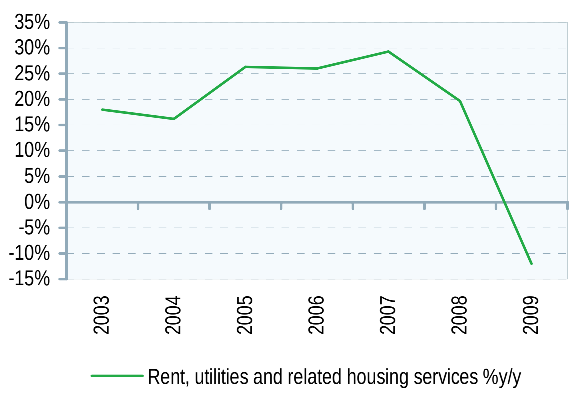
Qatar also experienced a housing-market correction in 2009. Rents, utilities and related housing services make up 32.15% of Qatar's CPI basket. Unlike in the UAE, the housing component of the CPI basket declined by 12.0% in 2009, leading to 2009 headline inflation of -4.9%. The divergence in inflation rates between Qatar and the UAE is staggering, especially when one considers that their inflation drivers are more or less the same. The cost of housing is the most important component of both CPI baskets, and while both countries experienced housing-market corrections last year, this was only evident in Qatar's inflation data. In 2010, we expect inflation in Qatar to stabilise at moderately positive levels – slightly higher than the UAE as the housing-market numbers in the UAE CPI index continue to catch up. Bahrain should face a trajectory similar to Qatar's as spare capacity in the real sector keeps inflationary pressures at bay.

Inflation in Saudi Arabia and Kuwait to be more persistent

Inflation in the UAE and Qatar is likely to be subdued, while Saudi Arabia and Kuwait should experience higher inflationary pressures

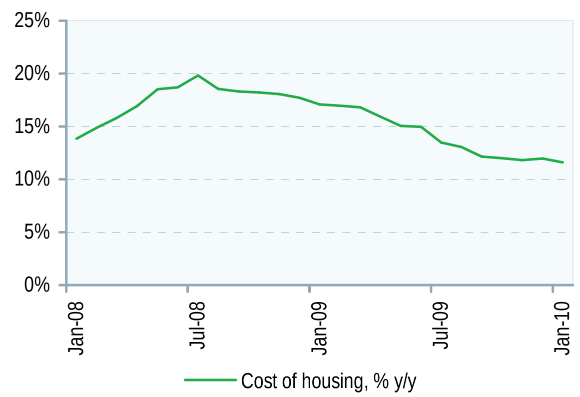
Kuwait and Saudi Arabia did not experience housing-market corrections like those in the UAE and Qatar. In fact, Saudi Arabia still faces tight housing-market supply, with the Economy and Planning Ministries estimating a shortage of 2mn homes by 2015. Headline inflation in Saudi Arabia was 5.10% in 2009, with the cost of housing rising by an average 14.28% – and this higher inflation is likely to continue in 2010. Different GCC countries are experiencing different inflation dynamics, and the main reason for this is the state of their domestic housing markets.

Chart 1: Qatar housing costs *(y/y)*



Sources: Qatar Statistics Authority, Standard Chartered Research

Chart 2: Saudi Arabia housing costs *(y/y)*



Sources: Bloomberg, Standard Chartered Research

Commodities

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- **Agricultural commodities are increasingly trading on their own fundamentals**
- **Grain markets are bearish, edible oil markets are resilient and softs are bullish**
- **We expect ample grain stocks to cap food prices, although upside risks remain**

The emergence of divergence

Three key themes dominate agricultural commodity markets: the bearish, the resilient and the bullish

Changing market dynamics

Two years after prices of many grains, fibres and edible oils peaked, dynamics within agricultural commodity markets have changed. In the 2007/08 season, tight market fundamentals supported by a weak US dollar (USD), high energy prices, and insatiable investor demand for the asset class favoured the complex, pushing its prices up in unison. Now, three divergent trends are emerging within agricultural commodities: (1) grain markets are under pressure; (2) edible oils are resilient; and (3) softs are being bid higher. We believe the current market profile (compared with the 2007/08 season) reflects differences in fundamentals against a backdrop of a weaker global economy, relatively softer energy prices, a firmer USD and more selective investor demand for commodities.

Record harvests for grains have significantly dampened price pressure

Grains: under pressure from global surpluses

Corn prices are stuck in a bearish range, after falling by around 15% since January; wheat is also in a downward spiral and slumped by around 18% in Q1-2010. Soybean and rice prices were down by 7% and 17%, respectively, over a similar period. While favourable field conditions and yields are helping to contain corn prices, especially in the Americas, declines in both Chicago Board of Trade (CBOT) rice prices and physical rice prices in Asia have been triggered primarily by (1) increased supply as the harvest in Asia and North America progresses and (2) ample supply of substitute food grains, such as wheat.

Wheat has also been affected by a large stock overhang and improving global yields. Although output is down from last year's level, this season's forecast output, at 677.4mt, will be the second-highest on record and reflects larger planted acreage in key consuming countries and regions such as India, Kazakhstan, Pakistan and North Africa.

Edible oil prices have largely shrugged off bearish news

Edible oils: resilient despite bearish headwinds

Crude palm oil (CPO) markets have largely shrugged off intense bearish pressure, including unseasonably high Malaysian inventories and a potentially large soybean harvest in Latin America. We expect edible oil prices to benefit from strong cumulative demand from the EU, China, India and Pakistan this season and a slowdown in yields due to a lack of rain in Malaysia – as a delayed result of El Niño weather conditions. Malaysia is the second-largest producer of CPO.

Soyoil prices are also holding up. We expect soyoil output to be capped by weak meal demand, despite the increase in soybean supply in the second half of this season. Furthermore, strong soyoil demand from China, firmer energy prices, and

Commodities (con'd)

the possibility of further fiscal incentives for US biodiesel should provide solid support for prices in H2-2010.

Supply constraints underpin prices of soft commodities

Softs (cocoa, coffee and cotton): bid higher

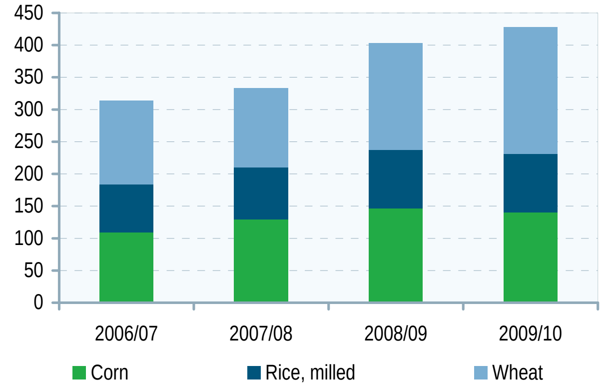
Supply constraints continue to be the major theme in the cocoa, coffee and cotton markets. The latest estimates from the International Coffee Organisation (ICO) put global production this season in a range of 123-125 million bags (mb), compared with expected demand of 134mb. This production deficit is likely to keep inventories tight. In cotton, supply shortfalls in India and the US (the world's second- and third-largest producers) and rising consumption in China and Turkey (which account for 60% of global demand) are boosting sentiment.

Cocoa prices rose by around 4% m/m in March as global demand started to improve. Although we are not yet convinced that demand is strong enough to sustain a much higher cocoa price, we acknowledge that the cocoa balance will likely tighten this season. Low global inventory-to-grinding and end-user coverage ratios (which are at a 19-year low) are indicative of tight stocks and should be bullish for cocoa prices for the rest of 2010.

Outlook

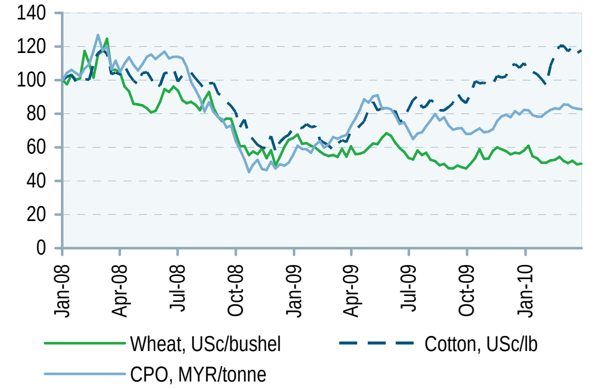
Globally, fundamentals for grains are weak and, with the exception of wheat, likely to remain sluggish next season. This contrasts with tighter fundamentals for softs and tightening supply balances for edible oils. Demand from China for traditional imports, such as soybeans and cotton, has firmed significantly this season, partly due to poor weather and crop failures but also due to demand growth – for instance, we expect China's protein meal and edible oil demand to grow by around 6% y/y this year. Overall, we believe that inflationary pressure on food prices will be capped this year by ample grain stocks. However, upside risks will persist as the global economy starts to recover, energy prices tick higher and investor sentiment improves.

Chart 1: Global grains end-season stocks
Trending higher



Sources: USDA, Standard Chartered Research

Chart 2: Weekly price index
Jan 2008=100



Sources: Reuters, Standard Chartered Research

Credit

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- **Strong rally in Asian credit markets shows no signs of abating**
- **Asian bond issuance has slowed considerably since Chinese New Year**
- **Supportive technicals: heavy inflows into EM/HY bond funds and cash on the sidelines**

Technicals continue to support Asian credits

Spreads have tightened in considerably since early 2009

There is no sign of a pause in the strong rally in asset markets since last March

The strong rally in asset markets since March 2009 shows no signs of abating, as Asian credit markets have been among the best performers across all asset classes over the past 12 months. Concerns are mounting that valuations are stretched – particularly given that credit spreads have not only retraced all of their losses since before the Lehman Brothers collapse, but have also regained their pre-Bear Stearns tights of March 2008. Nevertheless, despite the mixed fundamental picture, technicals in the form of demand/supply dynamics and fund flows are still very supportive.

Our initial analysis of Asian issuers' supply/redemption dynamics for 2010 was based on the following assumptions: (1) existing issuers would issue around USD 40bn of bonds in 2010 (vis-à-vis redemptions of USD 36bn), and (2) this issuance would be front-loaded, with about 70% of full-year issuance occurring in the first half of the year. Moreover, we estimated that about a third of total issuance for the year would be from the Korean space (the bulk of it from quasi-sovereigns), with the Asian high-yield (HY) sovereigns – Indonesia, the Philippines and, to a lesser extent, Vietnam – also featuring prominently among issuers during H1.

Issuance started strong, but tapered off

2010 issuance started out strongly, with Indonesia, the Philippines and Vietnam tapping the markets early in the year, as expected. More interesting was the unexpected appearance of a number of first-time issuers. Star Energy (STAREN) and PT Chandra Asri (CIKLIS) in the Indonesian HY space, and Indian Oil Corp. (IOCLIN) in the Indian high-grade (HG) space, among others, priced benchmark deals. On account of all of these first-time issuers tapping the markets, we now anticipate that total issuance for 2010 will be around 50% higher than our initial estimate of USD 40bn.

Issuance came to a sudden stop following the Chinese New Year period, contrary to expectations

Indeed, as of early February 2010 (just prior to the Chinese New Year holiday), nearly USD 11.0bn of Asian bonds had been priced. This gave us confidence that our call for front-loaded issuance in H1 was coming to pass. We had also held the view that this heavy issuance calendar would weigh on spreads, especially with spreads having tightened as much as they had. But issuance suddenly slowed following Chinese New Year, and through the end of March, only another USD 3.2bn of Asian USD-denominated bond issues had been priced – a much slower pace than we had anticipated. However, we do expect issuance to pick up during the post-Easter period. One reason for the smaller new issue pipeline was that markets underwent a stiff correction from the second half of January to early

Credit (con'd)

February. Given unfavourable market conditions, issuers had not filed updated documentation that would allow them to issue at short notice; this is expected to change going forward, as asset markets continued to rally through the end of Q1-2010. Thus, the technicals remain very supportive.

Strong inflows into EM and HY bond funds underpin markets

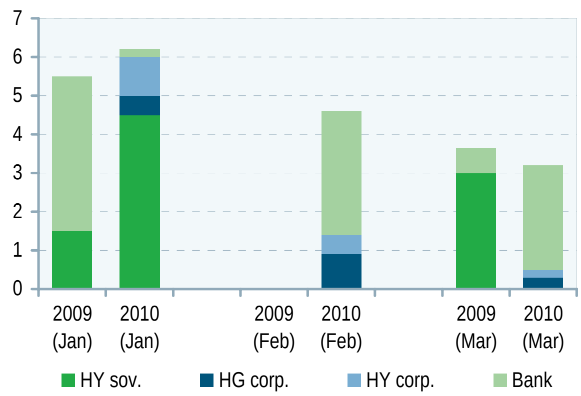
Apart from the relative dearth of supply in recent weeks, another supportive factor for Asian credit markets is the strong volume of inflows into emerging market (EM) and HY bond funds globally. According to EPFR Global, flows into all bond funds have exceeded USD 6.0bn in four of the past five weeks – a very strong pace of inflows. In addition, EM funds took in over USD 1.0bn each in two of the last three weeks, a record. Likewise, higher-risk HY bond funds have seen inflows totalling USD 4.0bn over the past five weeks. Finally, money market funds have seen cumulative outflows of nearly USD 800bn since January 2009.

Cash on the sidelines is still substantial, despite considerable flows out of money market funds

Even so, there is still USD 3.2trn of cash on the sidelines in the form of low-yielding money market funds (according to the Investment Company Institute), at a time when the opportunity cost of earning minimal yields on risk-free assets is quite high. Overall, this represents considerable firepower, in the form of cash on the sidelines, to drive a strong rally in credit markets going forward.

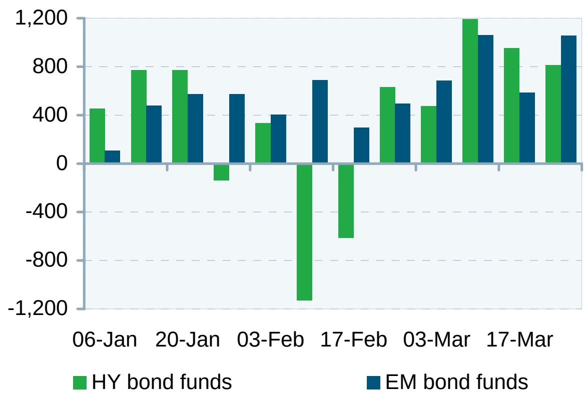
Finally, it is worth noting that Asian G3 bonds in issuance total only a little over USD 300bn – a very small percentage of the total volume of international bonds in issuance. According to the Merrill Lynch-Capgemini study on global wealth, Asian investors alone are likely to invest around USD 500-700bn in USD-denominated assets over the next decade or more, given that Asian demographics are set to turn unfavourable (particularly in countries such as Taiwan and South Korea, which, like Japan, will have rapidly ageing populations). Thus, structurally too, the technicals favour continued gains in the Asian bond markets in the medium to long term.

Chart 1: Pace of issuance slowed in March
USD bn



Source: Standard Chartered Research

Chart 2: Strong flows into HY and EM bond funds
USD mn



Sources: EPFR Global, Standard Chartered Research

FX

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- **USD strength in Q1 should give way to consolidation in Q2**
- **Europe is oversold and ready to bounce as the data improves**
- **AXJ currencies should continue to outperform within EM**

The USD is peaking

Greece, risk appetite and interest rates

The three factors that have been supporting the USD are starting to fade

Currently, we are focusing on three factors that are impacting exchange rates: Greece, risk appetite and interest rates. The statement of support for Greece by the euro-area heads of state, together with the pledge of a joint IMF programme if needed, were crucial factors in helping to stabilise Greek markets and overall risk appetite. Further obstacles lie ahead, but in our view, this package is a major step towards market stabilisation and a refocusing on growth prospects and interest rate spreads. In the immediate term, the result is short covering of euro (EUR) positions against both G10 and emerging market (EM) crosses. Thereafter, if risk appetite holds, it should lead to a more sustainable rally in G10 and EM currencies against the US dollar (USD).

So far this year, two factors have weighed heavily on the EUR: Greece and growth. In the first case, short-term concerns are abating after the announcement of the euro-area/IMF aid package, together with the fact that Greece was able to sell another EUR 5bn of 7Y paper. Greece faces further significant refinancing needs in April and May, but these two developments have helped to put a floor under sentiment. In the second case, euro-area Q4-2009 GDP growth was a meagre 0.1% q/q. By comparison, US Q4-2009 growth was 5.6% q/q SAAR. Euro-area business and consumer numbers consistently underperformed their US peers in the first two months of the year, helping to shift the rate spread further in favour of the US. However, recent euro-area data has begun to surprise on the upside, supporting our view that stronger US growth will inevitably see positive spill-over elsewhere.

Remembering Mundell-Fleming

Euro-area growth underperformance will gradually give way to catch-up with the US

It is not just Greece and the difference in growth performance that have been weighing on EUR-USD. Another important factor is the economic policy combination, which the Mundell-Fleming approach to exchange rates tells us has clear implications for real yields, and therefore for currencies. The current US combination of loose monetary policy and loose fiscal policy should be an offsetting factor for the exchange rate. In the euro area, the Stability and Growth Pact requires fiscal tightening if budget deficits exceed pre-set limits, and this is exactly what Greece and others are doing. As such, the policy combination of loose monetary policy and tighter fiscal policy should be negative for real yields, and thus negative for the EUR. The fact that the US is exiting its quantitative easing (QE) programme is a further potential positive for the USD in this context.

FX (con'd)

While these factors have weighed on EUR-USD to date, we expect their negative impact to dissipate as Q2 progresses, and to reverse in Q3. First, we believe that the Greek situation has stabilised. Second, euro-area data is starting to pick up, benefiting from EUR weakness and strong growth elsewhere. Third, inflation may be at low levels in the euro area, but it appears to have found a floor. Notably, German CPI numbers showed a distinct rise in the latest month. While we expect the European Central Bank to remain firmly on hold this year, euro-area rate-hike expectations may well pick up as economic numbers continue to improve, retracing the recent trend in rate spreads, this time against the US.

The *Standard Chartered Risk Appetite Index* (SCB RAI) daily reading remains in *Risk neutral* territory, albeit only marginally above the lower threshold. From a data perspective, the prospect of rising growth in the absence of policy rate hikes should be a positive for risk appetite. Indeed, this is reflected in continued portfolio outflows from money market funds, favouring higher-beta assets such as equities and credit. In this context, market jitters have reflected more specific concerns over Greece, the Fed and US-China trade policy rather than worries over prospects for global growth – which have actually continued to improve. Given this backdrop, we expect risk appetite to continue to improve.

We continue to look for AXJ outperformance

AXJ currencies are leading the way in EM

EM currencies have had a better time in recent weeks, led by moves in Asia ex-Japan (AXJ). In 2010, AXJ currencies, which are much more sensitive to the global recovery, have significantly outperformed most of their counterparts in emerging Europe and Latin America. We expect this outperformance to continue on a trend basis given the global recovery.

Our top three currencies in AXJ have been the Indian rupee (INR), Indonesian rupiah (IDR) and South Korean won (KRW). We remain constructive on all three and have *Overweight* short-term FX ratings on them. The INR has seen some catch-up in recent sessions, breaking through the key 44.65-70 support area in USD-INR. Given the prospect of further rate hikes by the Reserve Bank of India (starting from April) and the positive market reaction to India's last budget, we expect further INR gains. We forecast USD-INR at 42.00 at end-2010.

Currencies such as the Philippine peso (PHP) and the Malaysian ringgit (MYR) have also started to play catch-up. We look for further gains in both currencies on a medium-term basis, although in the short term, we may see a period of consolidation. The final wave of AXJ currency appreciation is likely to come with the Thai baht (THB), Taiwan dollar (TWD) and Singapore dollar (SGD). The latter two are very externally focused economies. As such, the authorities will need a lot of evidence that global demand for AXJ exports has found a sustainable floor before they consider tighter monetary conditions. Indeed, we expect the Monetary Authority of Singapore to keep its FX stance unchanged at its April semi-annual policy meeting.

Rates

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- **Asian rates curves to bearish flatten in Q2 as central banks turn more hawkish**
- **Korea and Indonesia are exceptions, as inflows should bolster bond markets**
- **Zambia is likely to bullish flatten further on flush liquidity, while Nigeria is expensive**

Asian rates curves to bearish flatten in Q2

Asian central banks begin tightening cycle

BNM started the Asian hiking cycle, while the RBI delivered an inter-meeting rate hike

Bank Negara Malaysia (BNM) kicked off the Asian rate-hiking cycle with a 25bps move on 4 March to 2.25%, while the Reserve Bank of India (RBI) delivered an inter-meeting 25bps hike on 19 March. The MYR IRS and INR OIS curves have bearish flattened since, although the MYR bonds rallied on inflows and benign supply. The THB IRS curve also bearish flattened in March on an increasingly hawkish tone from the Bank of Thailand (BoT), while the KRW rates curve rallied on inflows and a relatively dovish Bank of Korea (BoK).

Further monetary policy tightening expected – Thailand next in line

BoT is next in line to hike policy rates, in our view

We expect Thailand to be the next central bank to tighten policy/normalise rates. There are two Monetary Policy Committee (MPC) meetings in Q2, on 21 April and 2 June. Given the ongoing anti-government protests, we believe the risk is biased towards a June hike. We have long called for Indonesia to start hiking in Q2-2010, while, the Philippines, South Korea and Taiwan are likely to stand pat until H2.

Asian rates curves to bearish flatten ahead

Asian rates curves are expected to bearish flatten in Q2-2010 as central banks turn more hawkish

We expect Asian rates curves to generally bearish flatten ahead, driven by central banks' increasingly hawkish stance. On the THB rates curve, although roughly two to three 25bps hikes are already priced into the 1Y IRS, we believe there is scope for further normalisation of the THBFIX fixings. We expect the rollover rate of Kimchi funds (Thai mutual funds investing in KRW assets) to be moderate; this should result in improved USD liquidity onshore, driving THBFIX fixings and IRS rates higher. The MYR rates curve also has scope to flatten further as BNM continues to hike rates (we expect hikes of 25bps in May and July). Meanwhile, the SGD and HKD rates curves should mirror USD rates, which have been bearish flattening over the past month. We expect this trend to persist near-term.

Korea and Indonesia seen bucking the trend in April

Inflows should offset bearishness in Korea and Indonesia

The Korean bond market should continue to benefit from heavy foreign inflows (on FX posturing) and a relatively dovish BoK. Expectations that Korea will be included in the MSCI developed markets index (at the June review) and potentially in the Citigroup World Government Bond Index should underpin foreign inflows. The KRW IRS curve may also edge lower, as the CD rate seems to be slipping. In Indonesia, scope for a further bond-market rally may be limited, as Bank Indonesia is expected to hike by around 100bps in Q2 and Q3-2010. However, persistent foreign inflows should offset local selling. Hence, we expect the market to stay range-bound in the near term.

Rates (con'd)

Yield curves have bullish flattened on ongoing flush liquidity, except in South Africa, where the surprise rate cut led to bullish steepening

Africa

Despite some disparity among African markets, the ongoing rally across the curves remains a common theme. Yields have continued to ease dramatically across the board in Africa, with already-expensive valuations at the short end pushing investors further out the curves in markets like Uganda, Kenya and Zambia. This has led to significant bullish flattening.

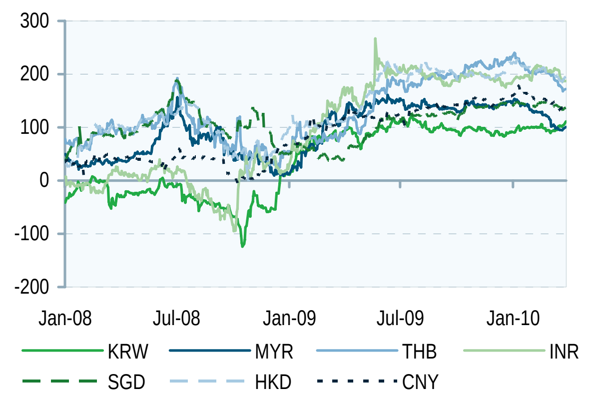
While liquidity conditions have been loose for some time now, the focus continues to be on growth at the expense of inflation. A few central banks in the region embarked on further rate cuts in March – namely those of Nigeria, Kenya and South Africa. Most were largely unexpected, leading to a sharp bullish steepening of the South African government bond (SAGB) curve, while yields continued to ease across the board in Kenya and Nigeria, where short-term valuations already appeared stretched.

Zambia continues to offer value, while valuations appear far too stretched in Nigeria

Although significant liquidity tightening appears relatively premature at this stage, differentiation among African local bond markets will be key in the coming months. In particular, heightened political risk in Nigeria continues to weigh on already extremely stretched valuations across the curve. While the creation of the Asset Management Company will continue to provide liquidity in the near term, the medium-term outlook is worsening. The 2010 budget proposal targets a budget deficit of NGN 1.52trn, more than 5% of GDP. Domestic borrowing is set to increase from NGN 524.1bn in 2009 to a target of NGN 897bn in 2010, which is likely to push government yields higher as government bonds compete with alternative investments, such as corporate bonds, due to be issued in Q2. Talk of fuel price deregulation will also weigh on the inflation outlook, which is already uncertain – CPI inflation has been stuck at 12.3% since January.

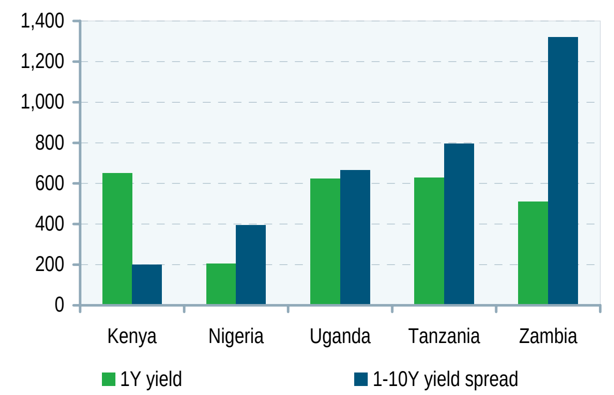
Meanwhile, we think Zambia offers the best value on the 3Y-5Y segment of a still-steep curve, as demand remains strong on the back of flush liquidity.

Chart 1: IRS curves (1/5Y) are steep and should flatten
bps



Source: Standard Chartered Research

Chart 2: Zambia's yield curve is steep versus peers
bps



Source: Standard Chartered Research

Brazil

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- **Key dates are approaching ahead of the 3 October presidential election**
- **The government candidate has gained in the polls and has important advantages**
- **Markets should focus on the election and the likely results for the main candidates**

Not too early to focus on October elections

A key domestic focus

The election cycle in Brazil is well underway in the domestic market, but few outside Brazil seem interested. This contrasts sharply with the election eight years ago, when now-President Lula was gaining in the polls and the market was alarmed about possible anti-market outcomes if Lula were elected. Now, President Lula is finishing his second four-year term and has retained record-high popularity.

As Serra has waited to announce his candidacy, he has lost much ground in the polls

The 3 October presidential election will likely pit Dilma Rouseff – the official candidate of the Workers' party (PT) and chief of staff to President Lula – against Jose Serra of the PSDB party, who is the current governor of the state of Sao Paulo. We say 'likely' here since Serra has not officially declared his candidacy. He will be the main opposition candidate, but he is intentionally waiting as long as possible to declare his candidacy to minimise the time that he will be exposed to criticism from President Lula.

Serra's strategy of delaying his candidacy has been controversial, as Dilma has risen quickly in the polls and closed Serra's lead. In an early March poll by leading pollster Ibope, voting intentions for Dilma rose to 30% from 17% in December, while those for Serra fell by 5ppt to 35%. The poll's margin of error was 2ppt, so the two appear to be essentially tied. If no candidate receives more than half of the valid votes in the October election, a run-off will be held on 31 October. Under this scenario, the poll showed that voting intentions for Serra also fell by 5ppt to 44%, versus 38% for Dilma. These gains by Dilma are not necessarily decisive, but they should be worrying to the Serra campaign.

Key pre-election developments in April and July

The vice presidential candidates will be just as interesting to watch as the presidential ones

3 April was the deadline for anyone in public office seeking to run in the October election to step down from their current position. (Legislation requires that candidates leave the executive branch six months before the election.) As such, Serra is likely to declare his candidacy in April. The next key period starts in mid-July, after the football World Cup. The presidential campaign will hit full speed at this time, as the candidates will get free airtime to campaign on domestic TV.

Equally interesting will be the choices for vice president. Serra is unlikely to announce a vice presidential candidate until mid-year. One possibility is Aecio Neves, the popular governor of Minas Gerais state. However, Neves will probably wait and see how Serra does in the polls from April to June before deciding whether join the campaign.

Brazil (con'd)

In the Dilma campaign, central bank Governor Henrique Meirelles had been mentioned as a possible vice presidential candidate. However, this seems unlikely for political reasons. Meirelles is a member of the PMDB party, and current PMDB leader and president of the Lower House Michel Temer is thought to want the vice presidency. In fact, Meirelles has decided to stay at the central bank and finish his term this year instead of stepping down to run for office.

Meirelles' decision to stay at the central bank is a plus for economic stability

Implications for monetary policy

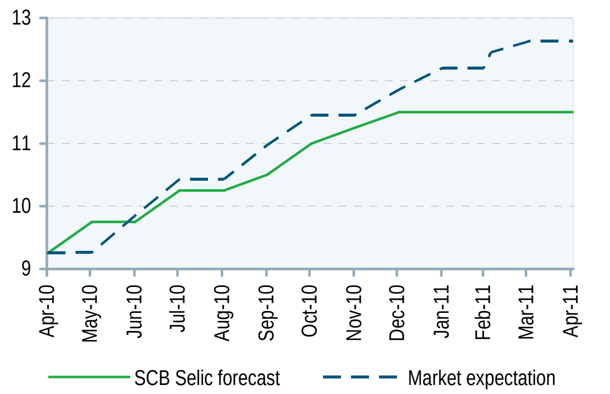
The fact that Meirelles decided to remain at the central bank is a positive for economic stability and helps to avoid the volatility that can occur when those in senior positions must be replaced. But it is clear that the central bank needs to begin a rate-tightening cycle, and by all indications, this should start in April. As fiscal policy is expansionary, and is likely to remain so ahead of the election, monetary policy will have to do all of the heavy lifting in terms of policy tightening. At the March central bank meeting, the 5-3 vote against a hike signalled that rates would be raised by 50bps at the 28 April meeting, instead of our long-standing call that the first hike would be in March. We think that too much is priced into the local curve, as Chart 1 shows. However, with the economy growing quickly and inflation expectations rising, rates do need to rise, as Chart 2 shows. The longer rates are on hold, the more they will have to go up.

Many twists and turns are likely between now and October, fuelling volatility in rates, FX and credit

The bottom line

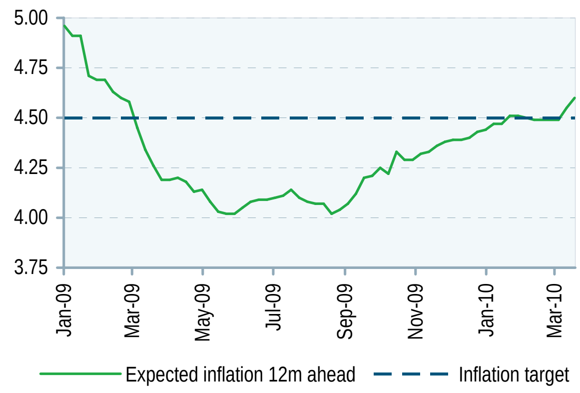
The campaign is still in its early days, but the Serra campaign cannot take for granted the lead that it had previously. Also, while Serra is probably the preferred candidate of the markets and more affluent voters, Dilma has two important advantages despite never having held elected office: the economy is booming, and she benefits from the high popularity of President Lula.

Chart 1: The market is pricing in too many hikes *(%)*



Sources: Bloomberg, Standard Chartered Research

Chart 2: Inflation expectations are rising quickly *(%)*



Sources: Central Bank of Brazil, Standard Chartered Research

China

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- **H1 is turning out fine, but worries about H2 are unnerving policy makers**
- **Property transactions have slowed sharply, with no clear national trend in prices**
- **We still look for gradual CNY appreciation, starting mid-year**

Bright skies in H1, dark clouds in H2

Growth is strong, policy focus has shifted to maintaining growth, and overheating worries will recede

Today, China's economy is doing just fine – real GDP growth in H1-2010 will likely be 11-12% y/y. Our freight index, which we believe is a good proxy for industrial activity, has recovered and appears to be peaking out in terms of year-on-year growth, as Chart 1 shows. Electricity and industrial production have recovered too, as Chart 2 shows. But as was the case around this time in H1-2008, there are two dark clouds on the horizon which are confusing policy makers.

Talking to clients in recent weeks has cemented our view that China's growth is real and robust, even outside of the sectors which have benefited directly from stimulus. A large household furnishings company reports 20% y/y sales growth in January-February. A maker of construction equipment says that orders are still very strong. A supermarket chain reports that customers are still steadily increasing spending. A firm which sells fertiliser to farmers tells us that rural households' income growth from grain sales this year will exceed the increase in their input costs, a positive for rural consumption. A company involved in the flat-screen TV supply chain is still very optimistic about demand in 2010 (and reports that the average Chinese household now buys a bigger-screen TV than the average US household, despite having a smaller home). The labour market appears to be right back to pre-crisis normal. A recent survey we carried out in Guangdong province found nominal wages up by 8-12% this year (supported by the recovery in exports). Anecdotally, this seems to be the story in other parts of the country too, including the Shanghai financial-services sector. Real income growth will underpin consumption growth this year.

So, what of the two dark clouds? The first consists of worries about inflation and an asset-price bubble. CPI inflation accelerated to 2.7% y/y in February and will push higher in June-July (peaking, we believe, at around 4-5% y/y). However, with food prices contained by ample supply of the basics (soy, grain and pigs), we do not expect them to rise by more than 12% this year, which is acceptable. Raw-material prices have also risen, but if the oil price remains at USD 80-90 per barrel, the pressure should be contained. A big property-market bubble is the other worry in this cloud. House prices rose by some 20-30% last year. Rents also appear to have risen in Shanghai and other Tier 1 cities. Prices in many Tier 1 cities are beyond the reach of most urban residents and the new urbanites. Rental yields in many parts of the Tier 1 market are negative. But with real income growth now almost back to double digits and confidence strong, we do not expect this market to pop and cause a nasty macroeconomic fall-out. A couple of years of low transaction volumes and mild price declines, perhaps. But not a big bang.

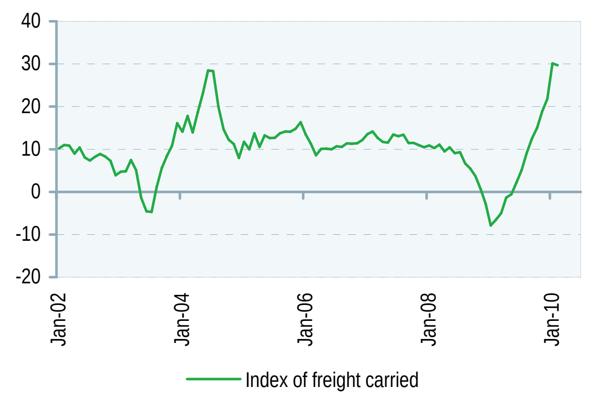
China (con'd)

The other cloud on the horizon is a second dip in the global economy. In the US, there are significant risks of a second-round decline in house prices and more deflationary pressures as the fiscal and monetary stimulus recedes. We expect US growth to slow in H2. Europe's recovery was always going to be more sluggish – and is now being destablised by massive government deficits. After Greece, there are many other countries which could experience distress.

Faced with these two dark clouds, policy makers in Beijing have taken their foot off the accelerator, but have not yet hit the brakes. In order to maintain public confidence, the official policy rhetoric has remained the same. We have seen a sharp slowdown in new infrastructure project starts, limits on bank credit, a neutral budget and measures to cool the property market. But monetary policy is still supportive and fiscal policy is neutral. Policies aimed at cooling the property sector seem to have resulted in a dramatic fall in transaction volumes, though price trends vary across the country. Shenzhen prices are off, while Beijing's secondary market is still hot. We expect prices to fall a little in Q2-Q3 as new projects start to sell, but nothing too dramatic. Beijing is targeting stability, so if prices fall by more than 10%, we would expect policy to become supportvei.

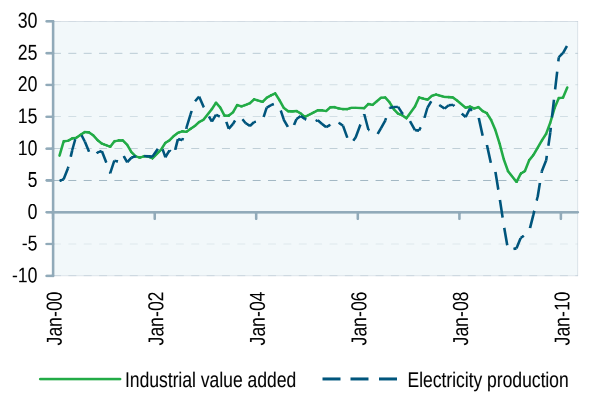
Overall, we believe policy makers do see some limited, short-term overheating pressures developing. But they are reluctant to tighten more, recalling that when they did so in H1-2008, the sudden slowdown in the second half of the year hit them hard. Within this context, we still think the CNY will resume a gradual appreciation against the USD sometime around mid-2010. Political tensions with the US are running high right now, which makes it harder for Premier Wen Jiabao to sign off on a change in policy. But on balance, more flexibilty in the exchange rate would benefit China – and while exporters would suffer, there are plenty of domestic firms that would benefit.

Chart 1: Freight has come back strongly
SCB China Freight Index, y/y %, 3mma



Source: CEIC

Chart 2: Boom, bust, boom
Industrial and electricity production, y/y %, 3mma



Source: CEIC

Hong Kong

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- **Too much property talk is diverting attention from better macro data**
- **The swift decline in unemployment, while encouraging, masks uneven job creation**
- **Exports are recovering, but manufacturers in the PRD are in for another tough year**

The rough edges of a promising recovery

The property market remains the talk of the town. Prices of prime properties in Hong Kong are now back to pre-crash 1997 levels. Even so, we see no signs of a widespread bubble at this time (see **On the Ground, 17 February 2010, 'Hong Kong – No property bubble'**). Prices in the mass market remain contained, and there is much less leverage in the luxury sector than there was in 1997. We do welcome the property-market measures rolled out by the government in recent months, including the hike in stamp duty on luxury flat transactions; the acceleration of redevelopment of old buildings to boost supply of small- and medium-sized flats; and the release of 4,000 unsold Home Ownership Scheme (HOS) flats (a now-suspended public housing programme) into the market.

Yet there is more to the Hong Kong economy than the property market. For example, retail sales have been impressive of late, largely due to a faster-than-expected drop in unemployment. Exports, the weakest link in the recovery, are finally expanding again in year-on-year terms, by 22.8% in the first two months of 2010. But job creation is uneven, and factories in the Pearl River Delta (PRD) are in for a challenging year.

Most of the jobs created so far have been in construction, retail and other services; firms are not hiring enough managers and professionals

Jobs are returning, but not to every sector

The headline unemployment rate, on a three-month-average basis, dropped to 4.6% during the December-February period from 5.4% in June-August 2009. This, together with rising property prices and the first-ever rise in monthly tourist arrivals above the 3mn mark in December 2009, has supported consumption. Retail sales rose by 18.8% y/y in value terms in the first two months of 2010, compared with 12.7% in Q4-2009 and -1.1% in Q3-2009. Consumption contributed 2.8ppt to Hong Kong's 2.6% y/y GDP growth in Q4-2009, and will likely underpin growth in 2010 too. This view underpins our 5.4% GDP forecast for 2010, which is higher than the official projection.

However, job creation varies across sectors, as we show in Chart 1. Retail and personal services (such as entertainment and recreation) are hiring, while government infrastructure projects are creating construction jobs. Many of these jobs go to low-skilled workers, which is encouraging. Managers and professionals, however, are still seeing job destruction, as Chart 2 shows. This is problematic given that the finance and trade sectors – the main employers of higher-skilled workers – have historically enjoyed higher productivity growth.

Hong Kong (con’d)

Troubles faced by PRD manufacturers may ultimately spill over to Hong Kong via trade and trade-related services

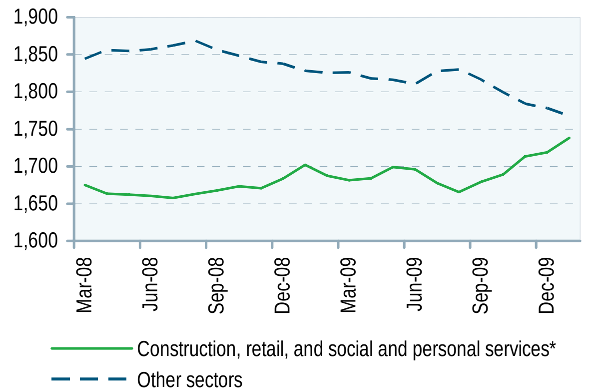
PRD manufacturers face more challenges

Because Hong Kong is a re-export and trans-shipment centre, its services industries live off the volume of merchandise trade flows – especially with the mainland, which accounts for half of the city’s trade. Around 70% of Hong Kong’s trade with China is with neighbouring Guangdong province (the largest part of the PRD). According to the Hong Kong Federation of Industries, there are close to 60,000 Hong Kong-invested factories in the PRD, employing close to 10mn workers. Many of these manufacturers have their sourcing, distribution, finance, design and marketing managed by their Hong Kong offices. We believe PRD firms are in for another tough year, and the potential spill-over to Hong Kong is not fully reflected in the otherwise improving trade numbers.

Yes, export orders have been gradually returning to the PRD. Yet many of the factory owners we talked with recently struggled to make projections beyond the next three to six months. “Where will growth come from once all this inventory replenishment is over?” one asked. While we should see higher revenues relative to last year, profit margins will likely be compressed further as costs rise.

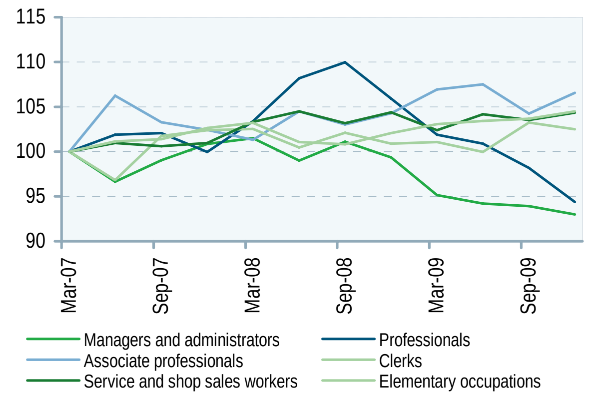
Our recent survey of PRD manufacturers suggested that the region’s nominal wages not only returned quickly to pre-crisis levels, but climbed by another 10% on average after Chinese New Year (see **On the Ground, 8 March 2010, ‘China – Guangdong companies talk wages’**). And for the few that are still paying the minimum wage, the Guangdong government hiked it by an average of 22% in March. Some interpret such moves as a way for China to appreciate its real exchange rate via domestic price hikes. But we believe they are an effort by provinces like Guangdong, which are facing labour shortages, to send a clear signal that they will look after migrant workers. For many factories, the short-term decision is whether to move inland to find cheaper labour, or to consider relocating to other parts of Asia. In other words, they have come out of the crisis facing exactly the same headaches as before – a labour shortage and rising costs.

Chart 1: Job creation is far from broad-based
Total employment, ’000s of people



** Includes accommodation and food services, and public admin.*
Sources: CEIC, Standard Chartered Research

Chart 2: Lower-skilled workers are getting hired
Total employment (indexed: Q1-07 = 100)



Sources: CEIC, Standard Chartered Research

India

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- **Ample liquidity in the system has had little impact on high WPI inflation to date**
- **However, increased credit uptake could stoke inflation if excess liquidity remains**
- **Further monetary policy normalisation is required for sustainable growth**

Inflation – not yet a monetary phenomenon

The importance of credit channels

While the unprecedented global monetary stimulus was initially well received during the financial crisis, it has now given way to concerns of inflation risk. India is no exception. In fact, with wholesale price index (WPI) inflation threatening to reach double digits soon and liquidity still ample, such concerns seem even more valid. However, we believe any inflationary-related risks that might arise from monetary policy are more of a concern for the months ahead.

Despite an increase in liquidity, a stable money multiplier has ensured that inflation is not a monetary policy-induced phenomenon

The recent spike in inflation to 9.89% y/y was driven by a disappointing monsoon season and consequent higher food prices. Non-food and non-fuel inflation was either negative or around 0% y/y for most of 2009, before rising to 5.17% y/y in February 2010, essentially driven by favourable base effects. While low commodity prices were one of the reasons for moderate non-food and non-fuel inflation, subdued corporate demand – because of the uncertain economic outlook and the difficulty of obtaining financing – played an equally important role in keeping a lid on prices. However, the situation is now changing.

During the financial crisis, a sharp contraction in overseas flows to corporates, along with domestic banks' unwillingness to take credit risks, resulted in much tighter liquidity. The decline in liquidity was offset by the Reserve Bank of India (RBI) via aggressive reductions in the cash reserve ratio (CRR), government bond buybacks, the provision of temporary refinancing facilities and the unwinding of stabilisation bonds. These measures ensured ample liqudity in the banking system, as they arrested any sharp decline in base money/reserve money (in fact, it showed double-digit growth once adjusted for the temporary effect of CRR changes).

However, banks' reluctance to invest in other assets or to engage in corporate lending prompted them to park available liquidity in government bonds. This was even more the case because Indian banking regulations stipulate that banks must hold a minimum of 25% (24% during the crisis) of their net demand and time liabilities (NDTL) in government bonds. In reality, the banks maintained an even higher proportion, which in turn reduced the flow of credit to the real economy – and resulted in minimal upward pressure on inflation.

Our analysis of the adjusted money multiplier (i.e., how much money supply increases in response to a change in reserve/base money, or the ratio of money supply to reserve money) shows that it has remained relatively stable. This is in sharp contrast with other economies (such as the US), where the money

India (con'd)

Abundant liquidity against the backdrop of an improving growth outlook could stoke inflation; the RBI's CRR and policy rate hikes are justified

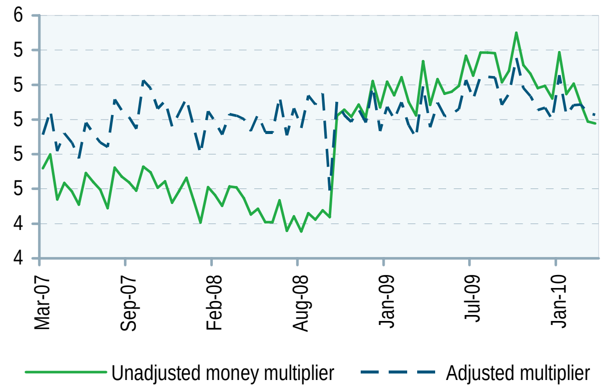
multiplier collapsed. This contrasting picture was a consequence of: (1) limited liquidity injections in India relative to other economies, as the fallout from the crisis was less; (2) slower but better credit flow to the corporate sector, which prevented a complete collapse in money supply; and (3) investment flow into government bonds, which added to money supply.

A rise in the money multiplier, if unaccompanied by a proportionate increase in output, usually leads to inflation. However, in India, as the adjusted money multiplier effect has been relatively stable, it has had a limited impact on inflation – despite ample liquidity injections and the consequent pick-up in growth.

Going forward, however, an increase in the multiplier is likely, and this could put upward pressure on inflation. This is because an uptrend in credit flow to the real economy is now clearly visible (Chart 2). After bottoming out near 10% y/y, non-food credit growth picked up to 15% y/y in Q1-2010. With the improved growth outlook, higher investment demand should lead to a further improvement in credit uptake. While this is desirable, existing short-term supply constraints could fuel inflationary pressure as too much money chases the existing supply of goods. Also, with a turn in the cycle, credit may flow to unproductive sectors, fueling inflation. The resumption of capital flows creates further pressure, adding to excess liquidity. Moreover, although banks' investments in government bonds are expected to be lower than the previous year, there is limited room for a downside correction, as banks have to maintain 25% of their NDTL in government paper.

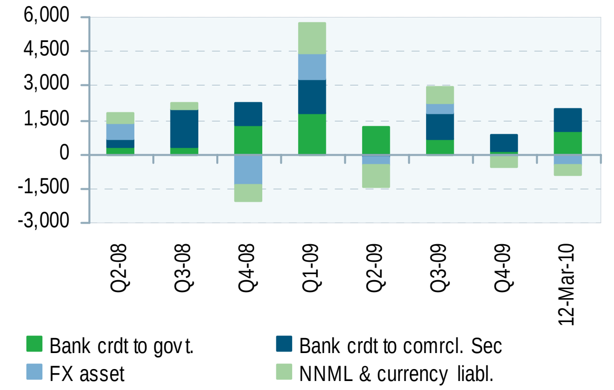
To ensure that growth is non-inflationary, it is imperative that the RBI withdraw this excess liquidity. The RBI's 75bps increase in the CRR was a first step in this direction, followed by the normalisation of policy rates (25bps increases in both the repo and reverse repo rates). While similar moves should be expected by the RBI in the next few quarters as it aims to cap inflation, the central bank will want to leave sufficient liquidity in the system to allow for adequate credit flow to productive sectors, while ensuring the smooth functioning of the government debt market, the refinancing of which remains huge.

Chart 1: Money multiplier is relatively stable



Sources: RBI, Standard Chartered Research

Chart 2: Drivers of variation in M3 *(INR bn)*



Sources: RBI, Standard Chartered Research

Indonesia

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- **Indonesia may achieve investment-grade sovereign ratings by 2012**
- **Political uncertainty is easing after the Bank Century case**
- **Government raises 2010 fiscal deficit target to 2.1% of GDP from 1.6%**

Sovereign ratings up, political uncertainty down

S&P rating upgrade

S&P upgraded Indonesia's rating to BB in March, following Fitch's upgrade to BB+ in January 2010

In a surprise move, Standard and Poor's (S&P) upgraded Indonesia's sovereign rating to BB (two notches below investment grade) in March 2010, with a positive outlook. This implies that an upgrade to BB+ is likely within the next 12 months. The S&P upgrade followed an upgrade by Fitch Ratings to BB+ (with a stable outlook) in January 2010. Based on economic indicators, the upgrades were justified. While Indonesia's GDP growth slowed to 4.5% in 2009 from 6.0% in 2008 due to the global recession, it was still the third-highest in the G20 after China's and India's, and we expect growth to recover to 5.5% in 2010. Inflation slowed to 2.8% y/y in December 2009 from 11.1% in December 2008, though we expect it to rise modestly to 5.5% by end-2010 on hikes in electricity tariffs and domestic fuel prices in H2. Between 2005 and 2009, the government consistently kept its fiscal deficit below 2% of GDP (the constitutional cap is 3%), government debt fell to 29% of GDP from 47%, and Indonesia's foreign debt fell to 31% of GDP from 46%. (For a detailed analysis of Indonesia's sovereign risk, see **Special Report, 23 March 2010,** '**Indonesia – Shooting for investment grade'**).

What was surprising about the Fitch and S&P rating upgrades was that they came amid heightened political tensions. In March, 59% of parliamentarians from six of nine political parties voted to confirm that the November 2008 decision by Bank Indonesia (BI) and the Ministry of Finance (MoF) to bail out a troubled commercial bank, Bank Century, during the global financial crisis was improper. The six parties included three parties from President Yudhoyono's coalition government, leading to concerns that he would face a hung parliament and that his administration was built on a fragile coalition. However, parliament only has the power to recommend further investigation of the case. Critics of the bailout allege that some of the IDR 6.7trn in bailout funds were channelled to political parties and that the bailout decision itself lacked legal basis, but without evidence of illegality, a formal investigation by law enforcement agencies seems unlikely. At a parliamentary hearing in February, Tumpak Hatorangan, chairman of the KPK anti-corruption commission, said that "there was no state corruption" in the Bank Century case. As parliament has increasingly come to accept this view, the risk of a constitutional or political crisis has dwindled – reinforcing the confidence of international investors and rating agencies in Indonesia.

Fitch remains the most optimistic on Indonesia among the three major rating agencies, while S&P and Moody's (which rates Indonesia Ba2, with a stable outlook) both have Indonesia two notches below investment grade. Given broad political stability, we believe the authorities will be able to achieve their policy

Indonesia (con'd)

goals, including accelerating infrastructure development and revising labour laws. We therefore believe it is realistic to expect Indonesia to reach BBB- (Standard & Poor's and Fitch ratings) and Baa3 (Moody's) by 2012, versus BB+ (Fitch), BB (S&P) and Ba2 (Moody's) currently.

The government has raised its 2010 budget deficit target to 2.1% of GDP from 1.6% on higher energy subsidies

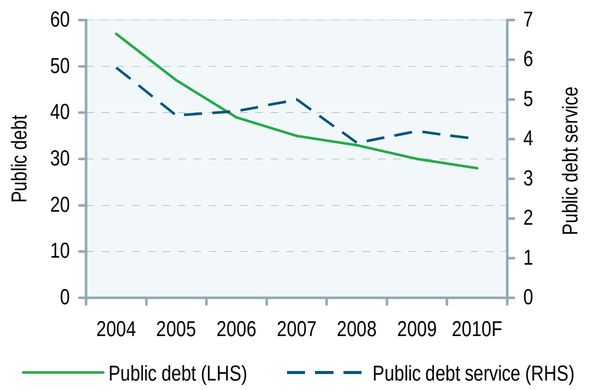
A more realistic 2010 budget

Due to higher global oil prices, the government has raised its oil-price assumption for the 2010 budget, forecasting that the Indonesian crude price (ICP) will average USD 77 per barrel (bbl), versus USD 66 previously. ICP is typically USD 2-3/bbl below NYMX WTI; we forecast an average NYMX WTI price of USD 82/bbl in 2010. Based on the government's new 2010 assumptions – including unchanged domestic fuel prices and a 15% electricity tariff hike in H2 – spending on energy subsidies will rise to USD 15.1bn, versus the previously assumed USD 10.7bn. This would widen the 2010 fiscal deficit to 2.1% of GDP from 1.6%.

The government is legally allowed to hike domestic fuel prices if ICP is more than 10% above the budget assumption – i.e., if it exceeds USD 85/bbl this year. Despite the government's claim that it will keep subsidised fuel prices unchanged this year, we expect it to raise prices by 30%, as it may not be able to meet its budget target for oil revenue-sharing with government contractors amid declining oil-well productivity.

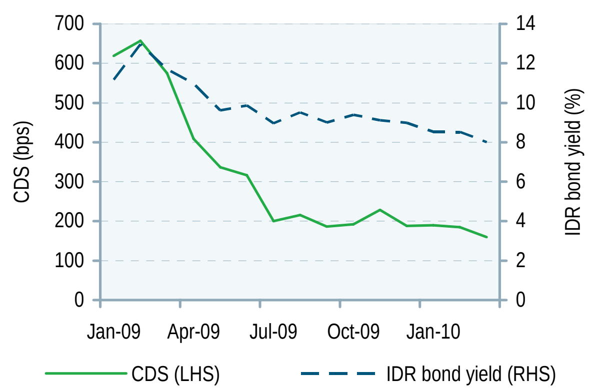
Despite the higher deficit projection, we do not foresee severe budgetary pressures over the next two years. We expect NYMX WTI to rise modestly to USD 90/bbl in 2011 from USD 82 in 2010. Moreover, the central and regional governments have limited capacity to spend their budgets due to slow progress on infrastructure projects as a result of slow land clearance and regional governments' weak technical capabilities. Consequently, despite recording a budget deficit of 1.6% of GDP in 2009, the government had USD 4.1bn of undisbursed allocations at year-end. We therefore expect the 2010 fiscal deficit to be 1.5-1.8% of GDP, below the 2.1% target and the 3% constitutional cap.

Chart 1: Public debt and public debt service
% of GDP



Sources: Ministry of Finance, Standard Chartered Research

Chart 2: 5Y sovereign CDS and IDR bond yield
Helped by sovereign risk rating upgrades



Source: Bloomberg

New Zealand

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- **Recovery continues, but investment remains a sore spot**
- **Divergence in terms of trade explains recent growth gap with Australia**
- **High leverage, especially in the farm sector, is the main risk going forward**

From housing bubble to milk froth

A bittersweet recovery

Q4-2009 GDP report confirmed that the economy is emerging from recession

The latest GDP report showed a 0.8% q/q expansion in Q4-2009, which pushed headline y/y growth back to a positive 0.4% y/y and formally ended New Zealand's two-year recession. Growth was led by residential construction, which rebounded to 4.8% q/q after two years of consolidation. Last year's heavy dose of macro policy easing also continued to support growth in private consumption (0.8% q/q) and public spending (0.9% q/q). Yet the GDP report also showed renewed declines in private investment (-2.5% q/q) and exports (-0.9% q/q), suggesting a cautious business sector – contrary to the rebound in sentiment surveys in recent months.

But the casualty count has been high

This caution is understandable, considering the carnage that has been wrought. Even with the latest rebound, Q4 output remained 2% below its 2007 peak, with manufacturing (14% below its peak), construction (19%) and wholesale trade (12%) being the hardest-hit sectors. Over the last two years, joblessness doubled from 80,000 (Q4-2007) to 168,000 (Q4-2009). While we have reservations about the near-term outlook for Australia (see **On the Ground, 17 March 2010, 'Australia – The beautiful south'**), things clearly look much grimmer on the other side of the Tasman Sea.

A tale of two commodity producers

Difference in trade terms explains the growth divergence with Australia

The unfortunate reality is that New Zealand has not shared the gains in Australia's terms of trade (ToT) – the price of exports relative to imports – over the past decade. This reflects an export composition dominated by agricultural commodities (which account for 65% of New Zealand's trade income), in contrast with Australia's more prominent position in the global minerals trade. World price developments in past years have clearly favoured Australia's export mix.

As shown in Chart 1, the ToT divergence between the two economies began in 2004 and has since widened to a 40% gap. This has translated into an extra boost to national income for Australia which has largely eluded New Zealand, and has coincided with a period of economic underperformance by New Zealand. While Australia's average GDP growth slowed marginally to 0.7% q/q in 2004-09 from 0.96% in 2000-03, New Zealand's growth dropped more precipitously to 0.35% q/q from 0.79%. This contrast became all the more stark in the latest downturn, as New Zealand saw its terms of trade come down from their Q1-2008 peak to a five-year low in Q3-2009, while Australia's hit a new high in Q4-2008 and have held on to most of those gains since. The result: Australia escaped a recession, while New Zealand suffered one of its worst in recent history.

New Zealand (con'd)

Tepid agriculture-sector borrowing is coming into focus

Dairy farms misread the heyday of two years ago

While the acceleration in New Zealand's Q4-2009 GDP growth, along with a 5.7% q/q rebound in its ToT, may suggest that the worst of the recession over, the economy could still be at risk of further setbacks. In particular, the upswing in soft commodity prices prior to 2008 was accompanied by strong agricultural credit growth, with banks' outstanding claims to the sector rising to NZD 47bn at end-2009. This represented a 32% jump from two years earlier, far outpacing the 8% growth in total credit during the period (see Chart 2)

According to the Ministry of Agriculture and Forestry, this borrowing surge was driven by "large sums of money needed to establish new dairy farms" in 2008, when dairy prices hit a record high. The ministry also noted that "rising farm-land prices have been a factor in the growth in credit" as "many farming businesses relied on capital gains as their main source of profitability".

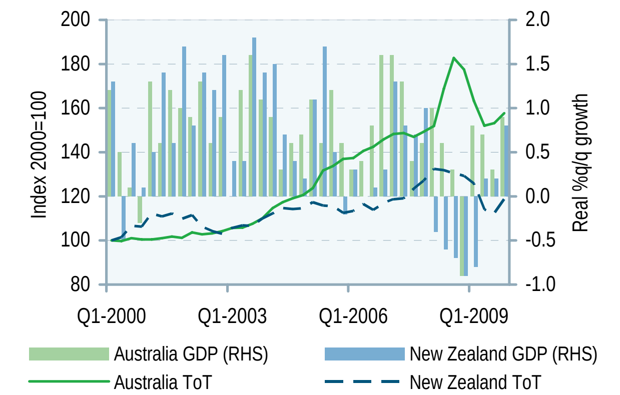
Interest payments are taking a big bite out of farm incomes

Milk debts turn sour

The harsh reality of the past year has clearly deflated lofty price expectations for both farm output and farmland. A key question now is whether the sector has become vulnerable from a balance-sheet perspective. As Chart 2 shows, even amid the fall in market interest rates, the agriculture sector still suffered an income squeeze in the past two years due to a jump in its total interest expenses. This may warn of more testing times ahead for the industry if interest rates return to their historic norms.

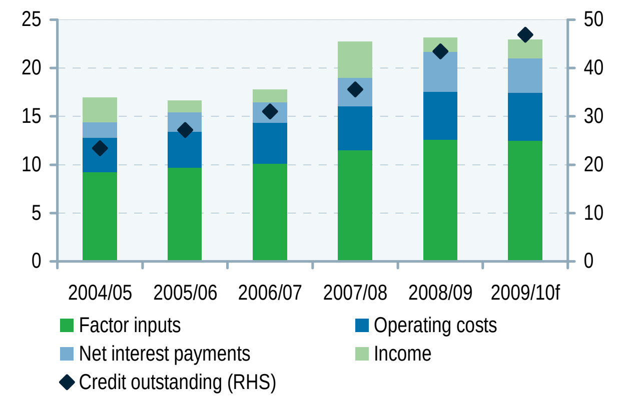
The Reserve Bank of New Zealand (RBNZ), in its November 2009 Financial Stability Report, also struck a cautious tone on rising dairy-sector leverage, but chose to take the more optimistic view that "the recent lift in some commodity prices and the willingness of lenders to work with troubled operators should help keep the problems contained". We continue to expect the RBNZ to start tightening in mid-2010, but we also expect it to consider these legacy issues more carefully when the time comes to decide on the details of its policy path.

Chart 1: Trade terms part ways



Sources: ABS, Statistics NZ, Standard Chartered Research

Chart 2: Agriculture sector's cost structure *(NZD trn)*



Sources: MOAF, RBNZ, Standard Chartered Research

Nigeria

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- **Growth was a surprisingly robust 8.2% in Q4-2009, according to official data**
- **However, banking-sector fallout poses clear risks to future non-oil growth**
- **The AMC and banking-sector balance-sheet cleanup are key to restoring growth**

Getting to grips with Nigerian GDP

The correlation between post-consolidation credit growth and overall Nigerian GDP growth was not clear-cut

More so than in most emerging markets, consensus estimates of Nigerian growth have always varied widely. While strong growth during the oil-boom years was a given, interpreting recent trends has been more difficult. A number of factors must be weighed: the global economic crisis and the subsequent recovery in oil prices; the gains in oil output after the Niger Delta amnesty (with output rising to 2.6mn barrels per day from just over 1mn last year); and the impact of Nigeria's domestic banking crisis, which eroded two-thirds of the sector's capital.

Even so, the magnitude of recent losses in the banking sector poses a clear risk to the growth outlook

Consistent declines in oil output meant that even including the boom years, the oil sector's contribution to growth was negative from 2005 until Q2-2009, when this trend reversed (Chart 1). The non-oil economy led overall growth, but there is still debate over how much of the gain was due to consolidation in the banking sector, and the sharp rise in domestic credit after 2005.

Assessing credit multipliers – the impact of bank consolidation

While the post-consolidation surge in bank asset growth coincided with a more robust performance in the non-oil economy, the degree of causality is unclear. A sectoral breakdown of GDP suggests that the majority of the value-added came from agriculture, oil (higher prices and its still-significant share of GDP helped, despite negative output growth), and wholesale and retail trade. Telecoms posted an impressive growth rate between 2005 and 2009, of over 30% y/y. Measured at current basic prices, however, this sector's share of GDP is only 1%.

The lows in overnight rates, and Nigeria's bond-market rally, point to a system that is flush with liquidity; however, banks are reluctant to lend

Non-oil growth was driven primarily by agriculture and the government, neither of which is a particularly heavy user of bank credit. Table 1 compares sectoral shares of GDP with the sectors that benefited the most from bank asset growth. The mismatch is evident. Nigeria's equity-market operators and domestic oil marketers were the key beneficiaries of post-consolidation credit growth. At the margin, this contributed to some growth – at least the liquidity was sloshing around – but it may not have been sufficient to make a big difference to the economy. Nigeria's recent economic upswing was not driven primarily by gains in the financial sector. Why, then, has the recent banking-sector fallout had such a marked effect on perceptions of current growth and expectations of future output?

Money velocity and sub-optimal monetary aggregate performance

With oil output and prices up and the authorities unveiling ambitious spending plans, Nigeria's growth outlook should be more favourable than it is

Money supply data provides important clues. Prior to regulatory intervention, the early days of the banking crisis were marked by significant liquidity hoarding, competitive bidding for deposits, and – despite monetary easing by the Central Bank of Nigeria (CBN) – higher loan and deposit rates. By June 2009, credit

Nigeria (con'd)

The decline in the velocity of money is hurting – FMCG companies reported a slow start to the year, access to credit is problematic for distributors and the impact is now being felt across the chain

Liquidity helps, but banking-sector balance sheets need to be cleaned up; the establishment of an asset management company is key

growth had decelerated sharply to 6.2% y/y from the cycle peak of over 90%. A short-term ban on the use of off-balance-sheet items (necessary at the time to identify troubled banks) temporarily flattered official credit growth – which rose to 26% by the end of 2009 – but the subsequent lifting of the ban has revealed a clearer picture. Broad money, M2, was down by 3.1% y/y in January 2010. Annualised private-sector credit fell by 16%, with SMEs particularly hard-hit.

On many levels, Nigeria's banking reforms have been successful. Troubled banks were identified, ring-fenced and given liquidity support. Accommodative monetary policy and a blanket guarantee on interbank placements have allowed overnight rates to fall to less than 2% from a crisis-high of over 24%. Some of the rescued banks, benefiting from the sovereign lifeline, have even been restored to profitability. Loan impairments are likely to have peaked. Based on the undercapitalised banks' share of system loans (over 40%) and liabilities (over 30%), there is little doubt that this was Nigeria's most significant banking-sector crisis to date. Yet unlike during previous crises, no bank has been allowed to fail, and no depositor funds have been lost. Still, given the severe loss of capitalisation that was uncovered sector-wide, banks have yet to resume loan growth in a meaningful way. The impact of the banking-sector crisis is now beginning to manifest itself more clearly. While the debate over its initial contribution to favourable growth continues, it is clear that the sector's losses are having a real and detrimental effect on growth prospects. The initial credit multiplier following the consolidation was uncertain. The seizing up of the velocity of money in the wake of the banking crisis is not.

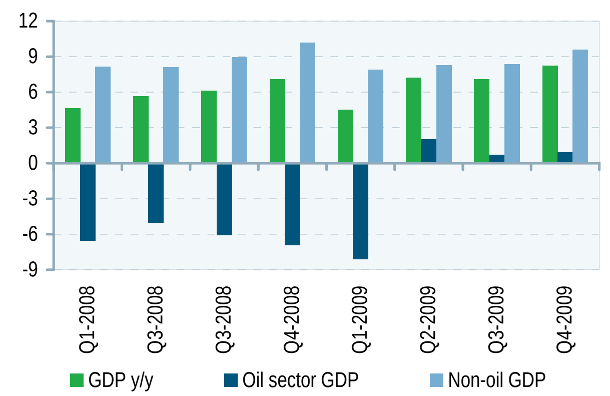
Increasingly, corporates – especially small corporates – cite the tighter availability of credit as a major growth constraint. There is ample liquidity, but with banks not yet lending, the liquidity is not moving around. While oil-sector conditions may finally be more favourable, this will not be sufficient to safeguard growth. Urgent action, aimed at cleaning up banking-sector balance sheets in order to allow banks to lend again, is now required.

Table 1: Sectoral share of GDP vs. share of bank lending *(2008)*

	Share of GDP	Share of bank lending
Agriculture	**31%**	**1%**
Oil, mining	**39%**	**10%**
Manufacturing	**3%**	**14%**
Real estate & Other business services	**5%**	**7%**
'Other'	**22%**	**68%**

Source: CBN

Chart 1: Growth has been driven by the non-oil sector all along; risks are now mounting



Sources: NBS, CBN MPC statements

Pakistan

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- **Central bank keeps policy rate on hold at 12.5%, expresses inflation concerns**
- **Weak fiscal position forces government to cut energy subsidies and print money**
- **Market confidence shaken by resurgent inflation; yield curve has steepened**

Uncertainty clouds outlook

Inflation concerns rise, rates kept on hold

Central bank kept the policy rate unchanged at 12.5% on 27 March, expressed concerns about the resurgence of inflation

The State Bank of Pakistan (SBP) kept the policy rate unchanged at 12.5% at its 27 March monetary policy meeting, as expected. The central bank highlighted that the economy is showing signs of a nascent recovery. The large-scale manufacturing sector grew by 2.4% y/y in H2-2009 after contracting by 10.3% in H1, and FX reserves are likely to have risen to USD 15bn at the end of Q1-2010 from USD 12bn a year earlier. However, the SBP cautioned that "uncertainty has increased" due to the government's weak fiscal position. This is fuelling inflation because of reductions in energy subsidies and higher government spending, which is being financed by borrowing from the central bank via printing new money. After slowing to 8.9% in October 2009 from 20% in 2008, CPI inflation has shot back up again in recent months, and printed 13% in February 2010.

Weak fiscal position creates uncertainty

Inflation is fuelled by cuts in energy subsidies and the high fiscal deficit, which is being financed by printing money

The current inflation cycle has been fuelled by fiscal slippage, with the central bank indicating a significantly higher deficit of 5.5% of GDP in FY10 (ends in June 2010) than the budget target of 4.9%. At the heart of the problem lies the debt of the government and public-sector enterprises (PSEs). Public debt increased sharply to USD 106bn (60% of GDP) at end-2009 from USD 90bn (56.2% of GDP) in 2007, and with tax collection below 10% of GDP in the last two years, the government has been forced to borrow money just to be able to service its debt. This weak fiscal position has forced the government to cut energy subsidies, resulting in a 40% hike in power tariffs, a 30% increase in gas prices and an almost 27% increase in petroleum prices in just the last 12 months. The transfer of higher energy prices to consumers has fuelled the current inflation cycle, with CPI inflation averaging 13.2% in Q1-2010 versus 10.3% in Q4-2009. However, despite the reduction in energy subsidies, the fiscal deficit remains too high. Increased government spending is being financed by borrowing from the central bank – i.e., printing money. Reserve money growth has increased sharply, to 16% y/y as of 28 March 2010 from 5% in June 2009, and is the key driver of high inflation.

Corrective measures are critical to reducing uncertainty

Corrective policy measures, including introduction of VAT and removal of circular debt, are needed to sustain growth and bring down inflation

The outlook for 2010 will depend largely on the successful introduction of a value added tax (VAT) and a resolution of the crippling power crisis. Both of these issues are critical to sustaining the recovery and bringing down inflation. Resolving the power crisis – largely caused by PKR 200bn in circular debt that has impacted the cash flow of the entire energy supply chain – will be critical to reducing the supply-side bottlenecks that are fuelling inflation and to improving

Pakistan (con'd)

credit flow to the private sector. Similarly, the introduction of VAT should result in additional tax revenue of 3% of GDP. This extra revenue should help to contain the fiscal deficit, reducing both government deficit-financing needs and the stock of reserve money. This, in turn, should help to curb inflation. It should also give the government room to increase its investment spending – critical to sustaining the recovery and bringing additional power supply online.

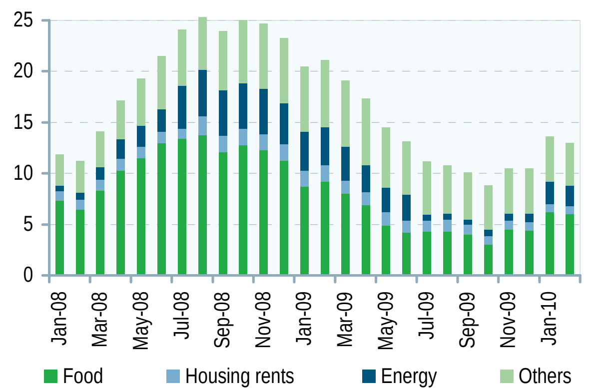
Market confidence has been hit by the resurgence of inflation; markets are pricing in downside risks, with the benchmark 6M T-bill yield up by 50bps since January

Markets are pricing in significant downside risks

Delays in the introduction of VAT and the presence of the circular debt have increased uncertainty about the pace of the recovery and the government's ability to control inflation. There is also a risk of delays to much-needed financial assistance from the IMF, with the USD 1.2bn fifth tranche of an IMF loan hanging in the balance. The IMF board meeting, earlier scheduled for 31 March, has been postponed due to delays in obtaining legislative approval for the VAT law.

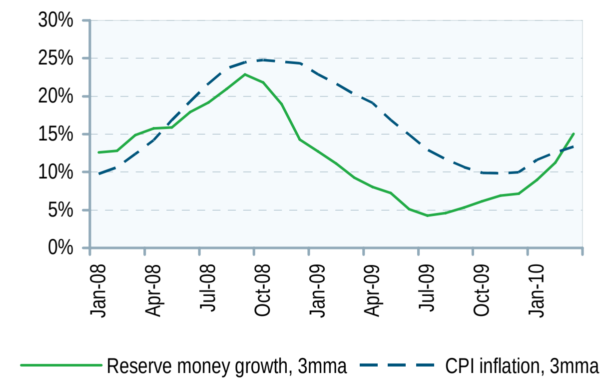
Markets are now pricing in significant downside risks. The yield on the benchmark 6M T-bill has risen by 50bps since the last monetary policy meeting in January 2010. The shift in the yield curve and higher demand for shorter-maturity paper indicates lingering market uncertainty over whether current government policies will bring down inflation. Market interest rates have inched towards the higher end of the interest rate corridor, with the benchmark 6M KIBOR currently at 12.41%, versus 12.25% at the end of January 2010. The central bank's latest decision to keep rates on hold should support the Pakistani rupee (PKR) at the 85 level in the short term, although downside risks have increased due to delays in pledged foreign aid flows and the slowdown in private FX inflows (i.e., FDI and remittances).

Chart 1: Resurgence in CPI inflation *(% y/y)*



Source: Federal Bureau of Statistics

Chart 2: Reserve money growth fuels inflation *(% y/y)*



Source: State Bank of Pakistan

Peru

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- **Growth in 2010 likely to be near trend at 5.5%; risk is for higher growth**
- **Inflationary environment is quite tame for now, but rate hikes are likely in H2-2010**
- **Taming FX appreciation and volatility will likely lead to more reserve accumulation**

Regional growth outperformer in 2010

We expect strong growth in 2010, with the economy firing on all cylinders

Significantly improved outlook

Peru's economic growth slowed to 0.9% in 2009, considerably lower than the 9.8% rate achieved in 2008 but still in positive territory. But the economy expanded by 3.4% y/y in Q4, thanks to a boost from private consumption (+2.8% y/y) and government spending (+21.4% y/y). Net exports contributed 3.2ppt to 2009 growth as imports declined significantly more than exports. The investment component of GDP posted double-digit declines during all four quarters of 2009.

The outlook for 2010 is considerably better, and we expect growth of 5.5% – our highest forecast for the region. If there is a risk to that view, it is for higher growth. The monthly GDP proxy rose by 3.6% y/y in January and has increased on a y/y basis every month since September.

One important reason for this is that business confidence remains strong and has been on the rise. The central bank's monthly survey of market expectations for February showed that the reading for business confidence remained at 72. This was the highest figure since May 2008 (see Chart 1). The sub-index which tracks business expectations three months ahead improved further to 68 in February from 67 in January – nearly double the low reached in December 2008. These figures are consistent with significantly higher business investment data.

Fiscal spending is important as well

Another key reason for strong growth in 2010 is fiscal stimulus, particularly public investment, which looks likely to expand by 10% or more. This rate should slow somewhat in the second half of the year as the central government reins in spending, but the state and local authorities will continue to expand – particularly since 2011 is an election year.

The upcoming election is not much of a concern at present, but political noise will only increase going forward. One of the candidates for president is likely to be anti-market Ollanta Humala, who ran in the prior election and currently holds about 12% of voting intentions.

No demand-side inflationary pressures yet, but deflationary pressures are gone as well

Still-benign inflation outlook

A benign inflation outlook will allow the central bank to keep the overnight rate on hold at 1.25% throughout H1-2010 at least. February's CPI rose by 0.3% m/m. That took the y/y CPI inflation rate to 0.8% from 0.44% in January, but still below the 1% lower band of the inflation target (2% plus/minus 1ppt).

Peru (con'd)

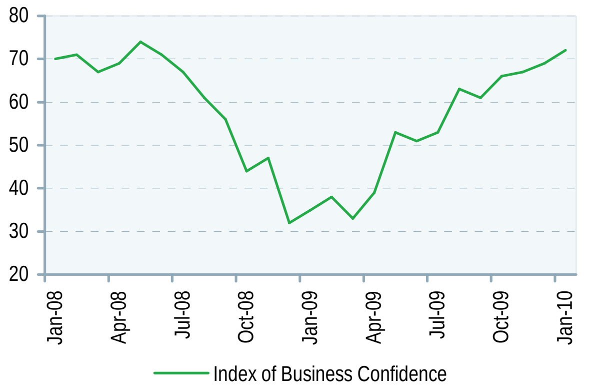
While the deflationary pressures seen in 2009 will slowly give way to upward pressure on prices, those demand-side pressures are not evident yet. As such, the central bank's post-meeting statement for February contained slightly more hawkish language than in January. The pick-up in inflation in February largely reflected higher electricity prices and food-price increases.

Controlling FX volatility and strong appreciation pressures is a key goal of the central bank

Central bank is active in the currency market

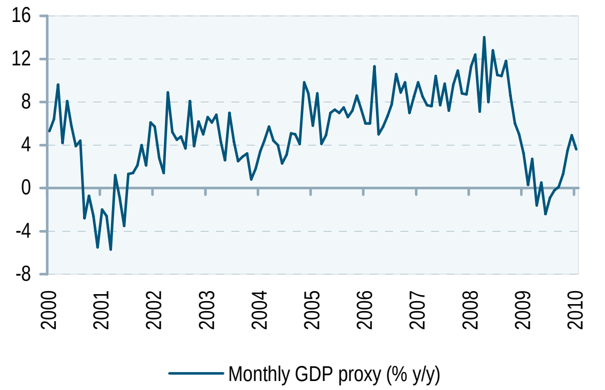
The central bank also remains active in the currency market in order to prevent excessive appreciation of the Peruvian nuevo sol (PEN) and to allow net exports to continue to be a positive source of growth. The central bank also wants to fight against currency volatility, since there is still a high degree of dollarisation in the economy and volatility induces wealth effects. The central bank has boosted its reserves by nearly USD 2.5bn since the start of the year to a strong USD 35.5bn.

Chart 1: Business confidence continues to rise



Sources: Central Bank of Peru, Standard Chartered Research

Chart 2: Growth data increasing quickly



Sources: Bloomberg, Standard Chartered Research

Qatar

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- **Qatar will become world's largest LNG exporter in 2010, achieving a key milestone**
- **The country has outlined multi-billion-dollar infrastructure spending plans**
- **Qatar is allocating resources to infrastructure to support diversification**

Infrastructure and diversification

Qatar to become world's largest LNG exporter

Qatar will become the world's largest LNG exporter in 2010, achieving a key milestone in its energy-sector development

As 2009 drew to a close, Qatar achieved another milestone in reaching its LNG export production goals, reaching its targeted annual export capacity of 56 million tonnes (mt) for the year. By September 2010, the 'Train 7' state-run LNG production unit should reach its full production capacity of 7.8mt per year, bringing Qatar's total annual LNG production to 77mt. With this, Qatar should become the world's largest exporter of natural gas, and will have completed most of its key export-oriented gas-sector projects planned for the next few years. Qatar has placed a moratorium on further production from its giant North Field until 2015, when further studies on the field are due to be completed.

Multi-billion-dollar infrastructure projects

Qatar's economy remains heavily dependent on energy, with the oil and gas sectors accounting for close to 60% of GDP. Having invested heavily in developing its energy sector, the country now aims to use the proceeds of its gas and oil exports to implement infrastructure projects to support its diversification programme. In recent months, Qatar has announced a number of key infrastructure spending programmes that highlight its commitment to building the infrastructure required to support economic diversification.

In November 2009, Qatar signed a USD 25bn joint venture with Germany's national railway to develop its railroad network. The project is expected to be completed within 15 years; however, the government aims to have the most of the railway network in place by 2022, before the FIFA World Cup, which Qatar is hoping to host. The project will include a metro system, a long-distance passenger train network and a freight network. In January 2010, an official from the Qatar Public Works Authority announced plans to spend USD 20bn on road construction over the next five years. The official said that about USD 10bn of contracts are likely to be awarded in the next few months. Among the projects under construction is the 100km North Road, which includes 22 bridges.

Government has outlined multi-billion-dollar infrastructure development plans, underlining its commitment to diversification

Qatar is also pushing ahead with the new Doha Port, with the first of 21 contracts for the project expected to be awarded in July 2010. The first phase of the new port, which is expected to be operational by November 2014, will accommodate 2 million 20 foot equivalent units (TEUs) in addition to 2mt of general cargo. The port will be expanded in five phases to reach a capacity of 12mn TEUs by 2030. The new port will be entirely funded by the government and will act as a catalyst for planned economic zones, according to officials.

Qatar (con'd)

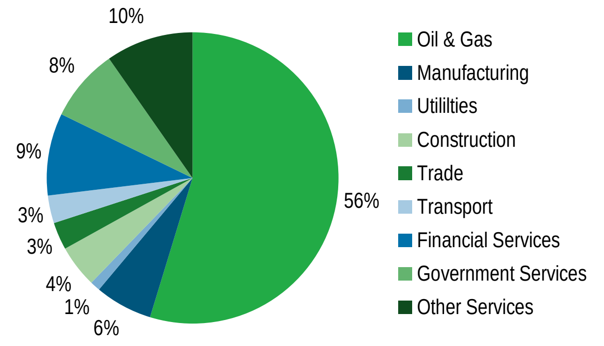
On the utilities front, Qatar plans to build a new 2,000MW power plant this year, at an expected cost of around USD 2.5-3.0bn. Qatar's energy demand is expected to reach 6,572MW this year. While its current capacity of 7,589MW exceeds demand, the country plans to export 600MW to neighbouring Gulf countries this summer. However, Qatar is likely to face a shortage of up to 350MW by late 2012, and hopes to have the proposed plant in place by then to meet growing demand.

The outlook

Investment in non-hydrocarbon infrastructure is key to Qatar's economic future, as the capital-intensive downstream energy sector will not create the jobs required for the country's young population. While the infrastructure spending push is a clear indication of the government's commitment to diversification, Qatar needs to take more concrete steps to find a competitive niche in the non-oil sector which will utilise the spare capacity being created by its new transport, utilities and logistics infrastructure.

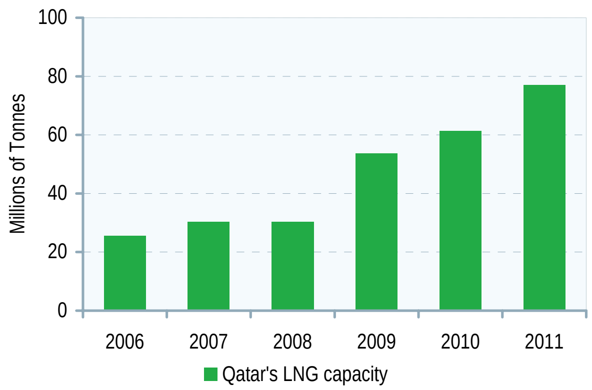
Investment in education is also key to Qatar's development. The government has undertaken a massive investment in education by setting up the Qatar Foundation, which has been used as a model for similar initiatives in the region. The foundation hosts top schools, universities, and research centres, including Carnegie Mellon University, Weill-Cornell Medical College, RAND-Qatar, and the Qatar Science & Technology Park. Qatar's focus on developing intellectual capital is key to its long-term economic development, as the mineral resources that drive much of its current economic growth are cyclical and finite. While infrastructure investment will build capacity, investment in education is crucial to building the human capital that will use that capacity and drive future growth.

Chart 1: Qatar's GDP breakdown



Sources: Qatar Central Bank, Standard Chartered Research

Chart 2: Qatar's LNG export growth



Source: MEED

Saudi Arabia

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- **Saudi Arabia's inflation is likely to ease to a still-high 4% in 2010**
- **Monetary aggregates are tight, and imported inflation is not a serious threat**
- **But housing costs will put increasing pressure on headline inflation**

Persistent inflation

Contradictory forces at play in 2010

Saudi inflation proved sticky in 2009, contrary to other parts of the region

Compared with the rest of the region, inflation in Saudi Arabia has not eased as significantly. Saudi inflation slowed to 5.1% in 2009 from about 10% in 2008, while Qatar, for example, turned to deflation last year after inflation soared to 13% in 2008. Market rigidities in Saudi Arabia, such as price subsidies on many staple items, and specific market dynamics (especially in the housing market) explain this divergence. We expect Saudi inflation to ease in 2010, but only marginally, to 4%. This is still high by historical standards.

Imported inflation

Overall, Saudi Arabia is unlikely to import inflation from its trading partners in 2010, although we do expect wheat prices to rise gradually throughout the year

The main drivers of Saudi inflation are the 'rents' and 'foodstuffs' components, which together represent almost half of the inflation basket. Housing rents are a domestic factor, while food inflation is imported. Like the rest of the region, Saudi Arabia imports most of its food and is therefore subject to global soft commodity prices. This will be amplified in the future, as the country has decided to phase out its decade-long programme of wheat self-sufficiency. The two main Saudi food imports – wheat and rice – should make a neutral contribution to inflation in 2010 after causing significant inflationary pressures in 2007-08. We see global wheat prices rising by 1.2% in 2010, while rice prices should decrease by 3%. However, we note that wheat prices are on an upward trend, as they are forecast to rise by 8.74% between Q1 and Q4-2010. Another variable is the volatility of the US dollar (USD) – which is impossible to offset because of the currency peg. One reason for Saudi Arabia's historically high inflation in 2008 was the weakening USD. Imported inflation from Saudi's main trading partners (mostly OECD countries) should be muted this year, reflecting these countries' own tame inflationary pressures.

Inflation drivers

In January 2010, several contributors to inflation showed marked resilience, suggesting that inflation will not abate in line with regional peers. While credit growth – especially to the private sector – was muted, the number of point-of-sales terminals (viewed as a proxy for domestic consumption) grew by 14% y/y, translating into 21% growth in transaction value. Money supply as measured by the M3 aggregate expanded by 8.3% y/y in January after growing slowly but steadily over the course of 2009 (although it dipped by 2% versus December). All of these indicators point to resilient economic activity, yet at the same time, they are not strong enough to suggest an aggregate uptick in headline inflation in 2010.

Saudi Arabia (con'd)

A structural housing shortage will result in growing pressure on rents, and will be the main driver of inflation in 2010 and beyond

Housing market will be the key component

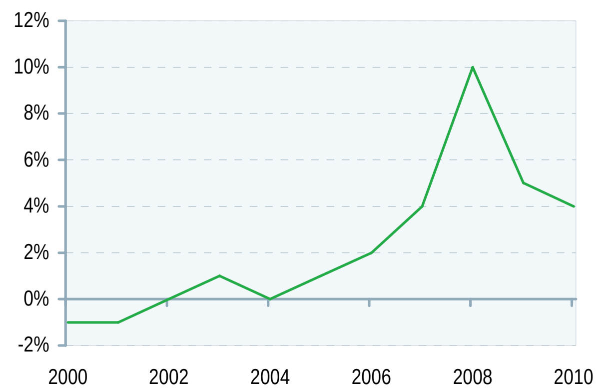
While the outlook for food prices is muted, inflationary pressures will arise from housing rents, the second-biggest component of the index. Saudi Arabia faces a chronic housing shortage, especially in the affordable segment, according to official figures. The Economy and Planning Ministry estimates that by 2015, the country will face a shortage of 2mn homes. Demand for housing exceeds supply by almost 200,000 units a year, which has led to increasing pent-up demand.

Saudi Arabia's large, rapidly growing population – which distinguishes it from its neighbours in the region – only compounds the problem. The population has grown to 26mn from 6mn in the past 40 years, and the Economy and Planning Ministry expects it to reach 33mn by 2020.

The housing problem is even more acute if we consider that most of the housing being built is aimed at the high-end segment, while affordable housing is needed the most. This has put growing pressure on the rent component of the CPI. In the three years from 2007 to 2009, rent inflation averaged 13%. It was still at 14% in 2009, when most of the region saw dramatic declines – which were generally responsible for a sharp slowdown in inflation, or even deflation in some countries. In Saudi Arabia, we expect pressure on housing prices to persist in 2010 and beyond, considering the fundamentals of the market.

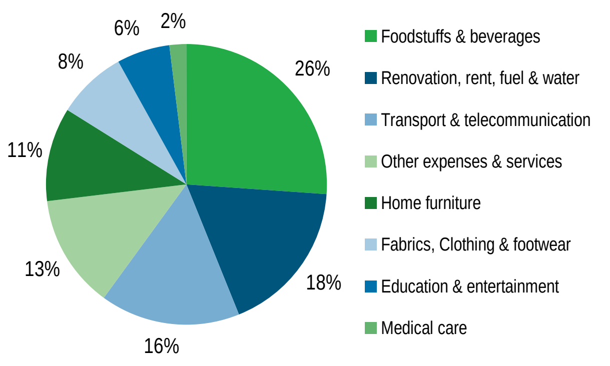
On balance, most of Saudi Arabia's major CPI components should see muted growth in 2010, contributing to the easing of overall inflation. But this slowdown will be offset by housing rents, which rose by 11.5% y/y in January.

Chart 1: Saudi inflation since 2000 *(%)*



Sources: SAMA, Standard Chartered Research

Chart 2: Saudi CPI weightings *(%)*



Sources: Central Department of Statistics, Standard Chartered Research

Senegal

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- **Public finances are set to improve after several difficult years**
- **GDP growth is likely to remain weak, which may impact revenue collection**
- **Despite Senegal's high ranking, governance is not necessarily a key strength**

An uneasy rebound

Energy sector remains a risk to the outlook

Public finances should improve after several difficult years, but risks remain

Senegal has suffered several shocks since 2006. Its public finances faced the impact of the international crisis from a weak position, as they had been hard hit by rising oil and food prices in 2008; this led to a widening budget deficit, (food and energy subsidies cost the government a total of 6.6% of GDP between 2006 and 2008), eventually resulting in significant payment arrears to the private sector. Lower oil and food prices in 2009 provided some relief. Rising domestic agricultural production has allowed Senegal to decrease its dependence on imports, with food imports declining 4.9% by volume in 2009.

While the fiscal deficit widened to 5% of GDP in 2009, the outlook for public finances has improved, as the government has improved its fiscal management and started to repay its arrears to the private sector. France granted the country a special loan for this purpose, highlighting the strong support Senegal enjoys from France – a key strength of the country, along with its low indebtedness. Senegal's local and international government bond yields (the country issued its first-ever Eurobond, amounting to USD 200mn, in December 2009) have decreased, indicating some improvement in investors' risk perception (see Chart 2).

Energy-sector reforms are underway but are far from complete. Electricity tariff increases are one of the more controversial proposed reforms, and they may be politically difficult to implement. While the removal of energy subsidies would address a key vulnerability, Senegal is still subject to high oil prices, as oil imports account for 24% of its total imports.

GDP growth to remain weak

2010 should see only a mild recovery

GDP growth was impacted in 2009 by the international crisis, which affected foreign investment, tourism and demand for the country's main exports. But GDP growth had already been weak even prior to the global crisis. Senegalese growth has been very low over the past decade as the economy faced repeated shocks, was impacted by financial difficulties at large corporations, and suffered from structural competitiveness problems.

Following low GDP growth rates of 2.5% in 2008 and 1.4% in 2009, growth is likely to recover somewhat in 2010. The general economic activity index, a proxy for GDP, has started to pick up, rising by 5.4% y/y in January. Chemical-industry output has been improving, arrears repayments to the private sector are helping growth, and agricultural output is on the rise as the government implements a plan to achieve food self-sufficiency. However, growth is likely to remain weak in

Senegal (con'd)

2010 – we see a risk that it will remain below 3% due to disruptions to the energy and electricity sectors (refinery activity was suspended recently, leading to a fuel shortage).

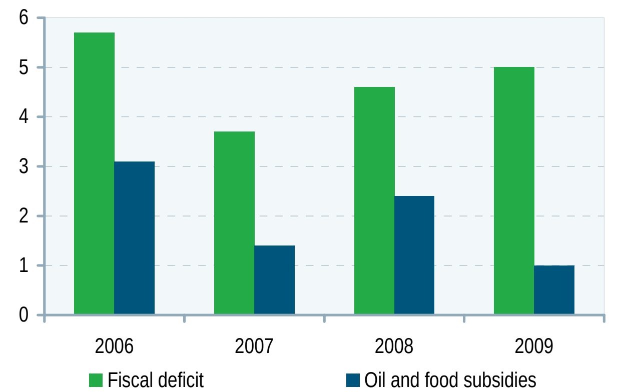
Foreign direct investment (FDI) now looks unlikely to be as high as expected before the onset of the international crisis. A major project in the iron ore sector has been put on hold, and delays in other major projects cannot be ruled out. In its most recent report under its review of the Policy Support Instrument programme for Senegal, the IMF projected that annual FDI into Senegal would average EUR 262mn for the 2010-13 period, down from the EUR 748mn it forecast for the same period in its June 2008 Article IV report. This may prevent Senegal from achieving the level of investment needed to achieve a sustained boost to GDP growth. However, despite lower-than-anticipated FDI, investment is still likely to be higher than historical levels as foreign investors, particularly from other emerging markets, increase their participation in infrastructure projects.

Despite a relatively high ranking, governance issues have impacted Senegal's economic performance

Governance has been slipping

Senegal has long enjoyed a reputation as a stable and well-functioning democracy. The country is also among the highest-ranked countries in Africa in key governance indices. Yet while stability remains a key strength of the country, there has been some deterioration in governance in recent years. For example, Senegal's ranking in Transparency International's index of corruption perceptions dropped to 99th in 2009 from 85th in 2008. In the past, governance problems at some large public corporations were partly to blame for these companies' inefficiency and financial difficulties; in 2008, weak fiscal management also translated into rising extra-budgetary expenditures (estimated at 0.6% of GDP in an audit completed in July 2009). Overall, it is worth keeping in mind that governance issues have been (and could still potentially be) detrimental to Senegal's economic performance.

Chart 1: Public finances are set to improve *(% of GDP)*



Sources: IMF, Standard Chartered Research

Chart 2: Risk perception has been declining *(%)*

Source: Reuters

South Korea

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- **Government savings declined in 2009 due to fiscal stimulus**
- **Household savings rate remained low, which is not supportive of consumption**
- **Record-high corporate savings rate is good news for business investment**

Analysis of national savings

National savings rate was stable in 2009, while the decline in inventory investment led to a large current account surplus

The gross national savings rate declined slightly in 2009, to 30.0% from 30.5% in 2008, according to national accounts data released on 26 March. The decline in the government's savings rate was almost entirely offset by rises in the household and corporate-sector savings rates. The sizeable current account surplus in 2009 (5.1% of GDP) was due mostly to a plunge in inventory investment. The gross investment rate fell to 25.8% from 31.0%, reflecting a sharp decline in inventory. Fixed capital investment was stable despite the global recession, as the ratio of gross fixed capital formation to GDP held steady at 29.2%.

Decline in government savings reflects fiscal stimulus

Government savings rate declined due to tax cuts and increases in fiscal spending

The ratio of gross government savings to GDP declined from 9.3% in 2008 to 6.7% in 2009, the lowest level since 1987; this was a natural outcome of the government's aggressive fiscal stimulus efforts. Tax revenue shrank by 4.2%, reflecting various tax cuts aimed at boosting the economy, particularly in light of decent nominal GDP growth of 3.6%. The national accounts data also showed a significant increase in fiscal spending. Government consumption expenditure rose by 8.5%, and government fixed capital investment jumped by 17.9% from the previous year. The government savings rate is likely to rebound to a more normal level of around 10% within a few years as the government attempts to normalise its fiscal stance, mainly by scaling back fiscal spending.

Household savings rate remained low

Household savings rate remained low, while disposable income growth was a bit stronger than we had expected

The household savings rate remained pretty low last year due to the recovery in consumption, though stronger-than-expected disposable income growth led to a modest rise in the net savings rate to 3.2% from 2.6% (see Chart 1). We had previously estimated that household savings rate would be stable at around 2.5% in 2008 and 2009 (see **On the Ground, 9 November 2009, 'South Korea – Hurdles to a strong, sustainable consumption recovery'**). Note that the US household savings rate jumped to 4.3% in 2009 from 1.7% in 2007 amid significant weakness in consumption.

Nominal disposable income growth slowed to 4.3% in 2009 from 6.3% in 2008, despite the weakness in the labour market. Compensation of employees (mostly wages) increased by 3.2%, although the pace of growth slowed from 5.7% in 2008. A bigger surprise came from the household-sector operating surplus (the income of self-employed businesses), which rose by 5.0% after declining in 2007 and 2008. Net property income fell by 4.6% due to a contraction in dividends. The ratio of interest payments to disposable income declined slightly, to 6.5% from 6.8%. Tax on income and wealth declined for the second year in a row (by 3.7%

South Korea (con'd)

in 2009, following a 3.0% fall in 2008), which reflects tax cuts. Growth in social benefits slowed to 11.8% from 16.1%, suggesting weakness in Korea's social welfare system.

Low household savings rate remains a key hurdle to consumption growth

The low household savings rate remains a key negative for Korea's consumption growth outlook, in our view. The rebound in disposable income growth is likely to be limited in the next few years, despite recent signs of improvement in the labour market, due to the lack of a sharp slowdown in income growth in 2009 and the lack of additional support from tax cuts. The household savings rate may have to fall further from its already-low level of 3.2% if Korea is to return to the strong nominal consumption growth of around 7% seen in 2005-07. We do expect the household savings rate to gradually decline towards 2% within a few years. We continue to monitor the possibility of a renewed household credit boom, which typically follows such a decline.

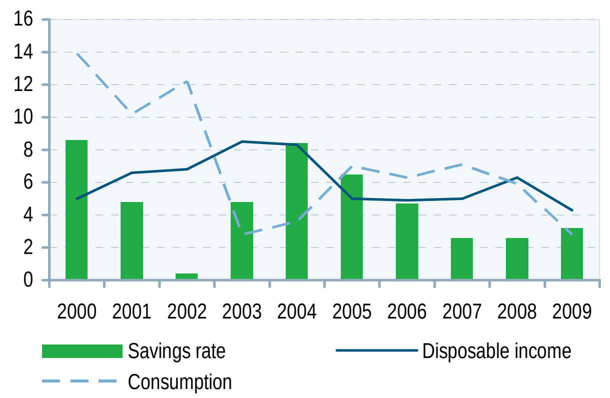
Record-high corporate profits, helped by healthy operating profits and tax cuts, are favourable for business investment

Corporate savings (profits) reached a record high

The ratio of gross corporate savings to GDP rose from 16.8% to 18.4%, a record high, despite the global recession in 2009. This is favourable for the business investment outlook. Corporate savings are similar to corporate profits, although there are some differences between the two. Here we assume that corporate net profits are the sum of corporate net savings (net of depreciation) and distributed income (including dividends). Chart 2 shows that the ratio of corporate net profits to GDP rose to 15.4% in 2009 from 11.1% in 2005. The comparable ratio for the US was much lower, at 7.0%, in 2009.

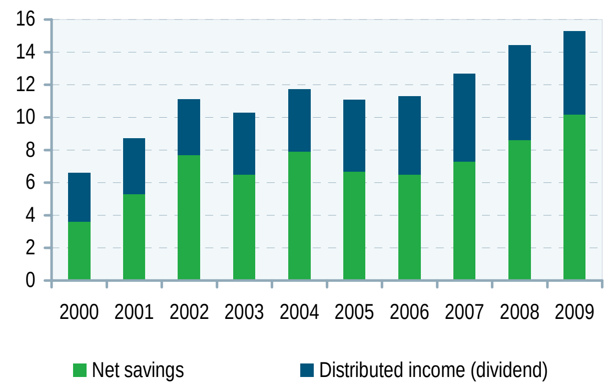
The increase in corporate profits resulted mainly from healthy operating profits and corporate income tax cuts. Operating surplus (profits) rose by 6.3% despite the recession, helped by the weak KRW. Corporate income tax declined by 5.3%, reflecting tax cuts. Meanwhile, corporate profits were not particularly sensitive to interest rates – the ratio of net interest payments to operating surplus for non-financial companies plunged to 3.6% in 2009 from 43.9% in 2000 due to increases in operating surplus and interest income.

Chart 1: Growth in household disposable income, private consumption and household savings rate *(%)*



Source: Bank of Korea

Chart 2: Ratio of corporate net profits to GDP *(%)*



Source: Bank of Korea

Taiwan

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- **Taiwan to hold mayoral elections in five major cities in November**
- **Elections will be a litmus test of the ruling party's economic, cross-straits policies**
- **Voter turnout and party unity will have a strong bearing on election results**

Preparing the 2012 election battleground

At the starting line-up

Politicians are jostling for nomination ahead of '3-in-1' mayoral elections in2 five major cities in November

Taiwan is scheduled to hold '3-in-1' elections for mayors, councillors and township governors in five major cities, including Taipei City and Taipei County, on 27 November. Although it is still several months before the election campaign officially kicks off, competition among potential candidates is already heating up, as the number of available mayoral seats has been reduced to five from eight previously.

Total votes cast in the five major cities will represent 60% of Taiwan's electorate. The election outcomes in Taipei City, Taipei County and Taichung – considered strongholds of the ruling Nationalist (KMT) party, with combined voter numbers nearly twice those of Tainan and Kaohsiung, the other two cities where elections will be held – will have a significant bearing on the legislative and presidential elections in early 2012. This puts added pressure on the Pan-Blue camp (which includes the ruling KMT, the People's First Party and the New Party), as a convincing win would give it strong momentum going into 2012.

A litmus test of the ruling party's policies

The lack of a convincing win by the ruling KMT party could complicate cross-straits relations

Election preparations come against the backdrop of the start of formal negotiations between Taiwan and mainland China on the highly anticipated cross-straits Economic Cooperation Framework Agreement (ECFA), which is expected to be signed by end-June 2010. This will be another major step by the ruling KMT government to further liberalise trade and capital flows with the mainland.

However, the opposition Democratic Progressive Party (DPP) has raised the idea of a public debate on the signing of the ECFA and is considering calling for a public referendum against it. This is seen as an effort by the opposition Pan-Green camp – which consists mainly of the DPP and the Taiwan Solidarity Union (TSU) party – to ride on their recent success in legislative by-elections and muster public support.

A loss by the KMT party in the year-end elections could lead to rising uncertainty, as it could potentially be seen as a vote of no confidence in the government's cross-straits policy. Indeed, President Ma Ying-jeou rose to power on the back of strong expectations that the change in government would remove the stalemate in parliament and the impasse in cross-straits relations had crippled the island's economy under the previous DPP rule.

Taiwan (con'd)

The KMT and President Ma have seen their approval ratings decline over the government's handling of Typhoon Morakot and US beef imports

Party unity and voter turnout are critical

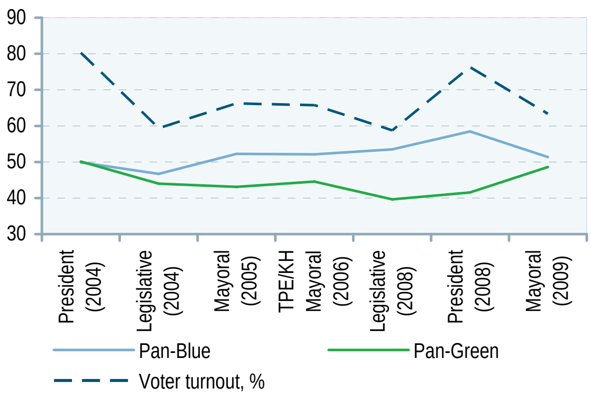
The KMT faces an uphill battle. The public approval ratings of both the party and President Ma are in the doldrums following rising public disappointment with the government's handling of rescue and relief efforts following Typhoon Morakot last year, as well as a lack of adequate communication on imports of US beef.

Voter disenchantment was evident in recent legislative by-elections, in which the KMT lost seven of the eight contested seats. While this does not undermine the government's overwhelming majority in parliament or President Ma's grip on power, it does serve as a strong warning. This is especially true in southern Taiwan, where the opposition DPP has traditionally enjoyed strong support.

Apart from voter support, the KMT's ability to increase voter turnout and ensure party unity behind its candidates will be decisive factors in the year-end election outcome. For example, average voter turnout in the recent legislative by-elections was around 40% – a far cry from about 60-70% during the 2008 legislative and presidential elections. Low turnout tends to favour the opposition DPP party, as supporters of the Pan-Blue camp are known to be more passive voters.

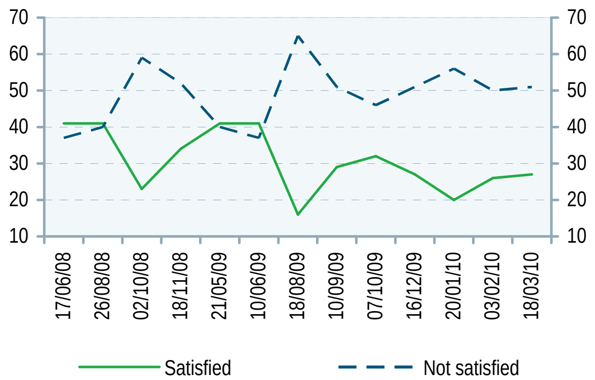
Ensuring party unity will also be crucial for the KMT. The party would have won at least one more legislative seat in Tao-yuan in the recent legislative by-elections had it not been for a three-way split within the party. In addition, Fu Kun-qi – an independent who won the governor's seat in Hua-lien – is a former KMT member who struck out on his own after failing to gain a nomination from the party. A failure to resolve the divisions within the KMT party would weaken its chances of winning in the year-end elections.

Chart 1: Results of recent major elections in Taiwan



Source: Taiwan Central Election Committee

Chart 2: President Ma's public approval ratings

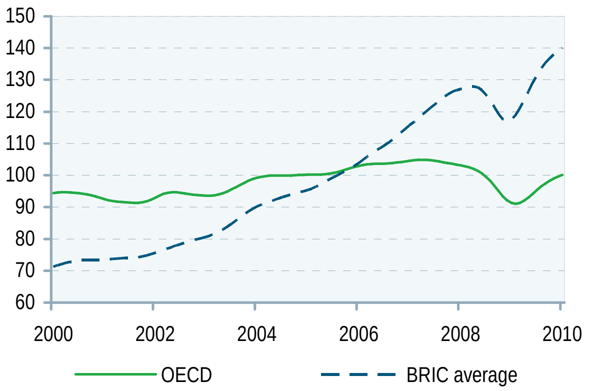


Source: TVBS poll centre

Market snapshots – Global and G3 economies

Chart 1: Emerging markets lead the global recovery

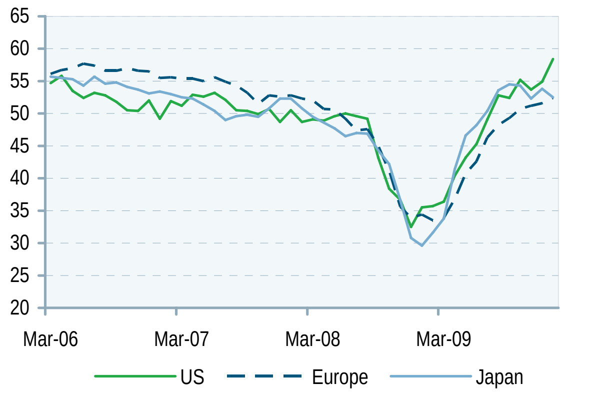
OECD and BRIC leading indices



Sources: Bloomberg, Standard Chartered Research

Chart 4: G3 growth is still recovering

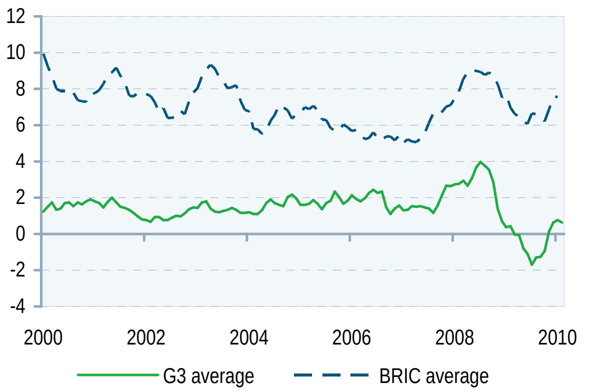
PMI



Sources: Bloomberg, Standard Chartered Research

Chart 2: Growing divergence in inflation

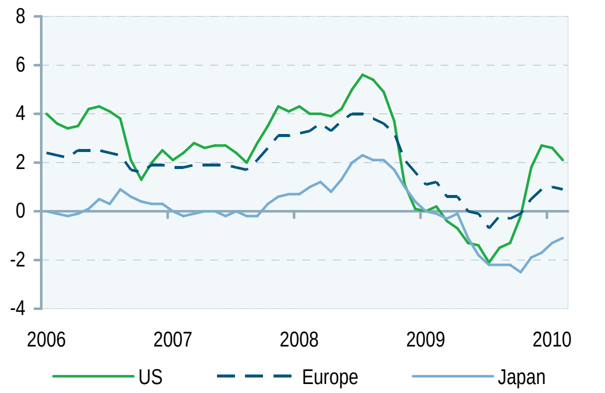
G3 and BRIC inflation, % y/y



Sources: Bloomberg, Standard Chartered Research

Chart 5: G3 inflation is not a concern yet

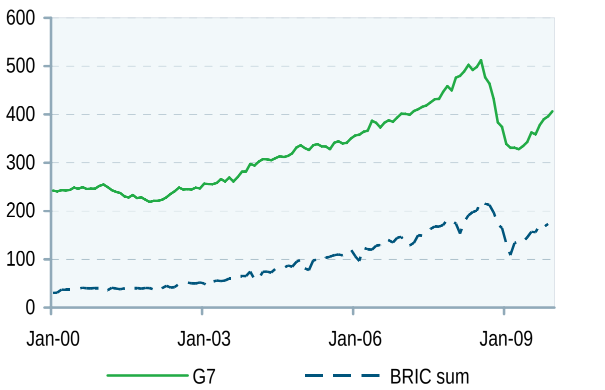
Headline CPI, % y/y



Sources: CEIC, Standard Chartered Research

Chart 3: Global exports are still below the 2008 peak

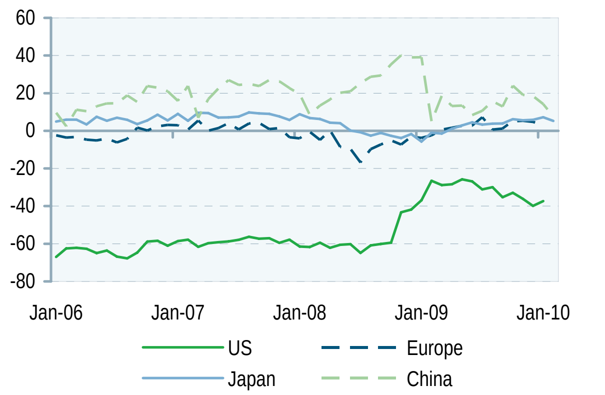
OECD exports, BRIC exports (USD bn)



Sources: Bloomberg, Standard Chartered Research

Chart 6: Trade imbalance is widening again

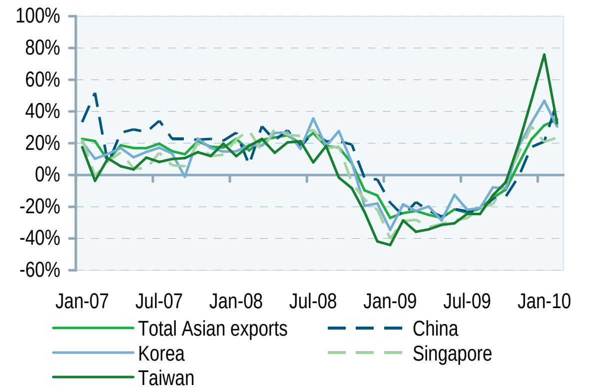
G3, China trade balances (USD bn)



Sources: CEIC, Standard Chartered Research

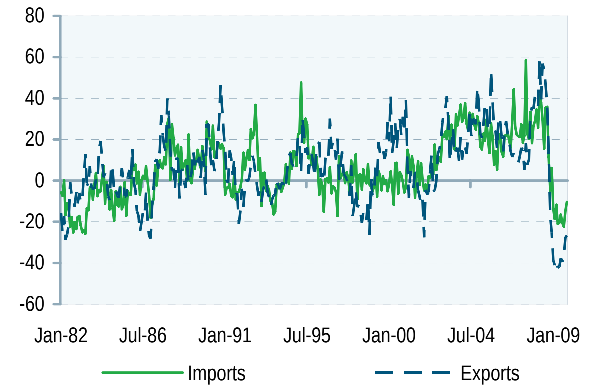
Market snapshots – Asia and Africa

Chart 7: Asian exports are showing very strong y/y rebound *(% y/y)*



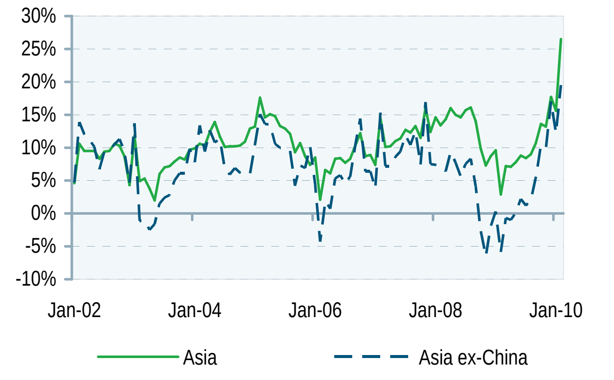
Sources: CEIC, Standard Chartered Research

Chart 10: African trade collapsed in 2009 *(% y/y 3mma)*



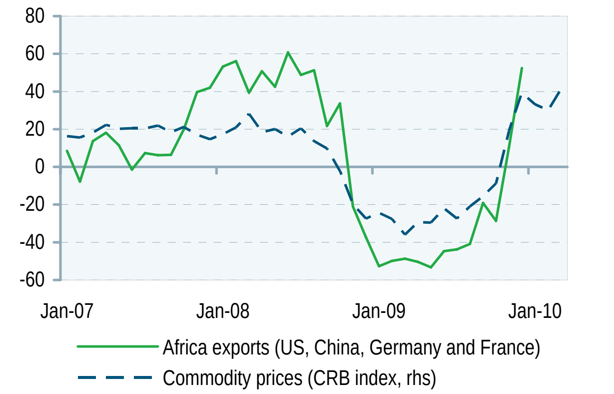
Sources: IMF DOTS, Standard Chartered Research

Chart 8: Asian consumers show resilience
Retail sales index, GDP-weighted, % y/y



Sources: CEIC, Standard Chartered Research

Chart 11: African trade is recovering rapidly in line with rebound in commodity prices *(% y/y)*

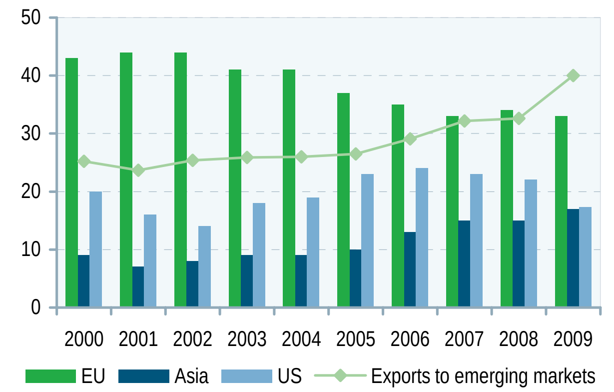


Sources: Datastream, National customs sources

Chart 9: Asian inflation to pick up in months ahead, but not a threat yet *(CPI, % y/y)*

Sources: CEIC, Standard Chartered Research

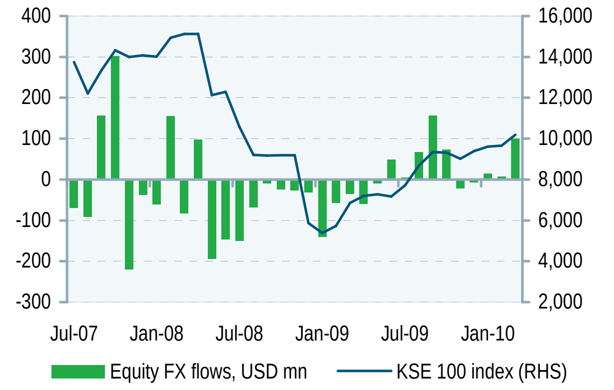
Chart 12: Trade with emerging markets has continued to rise as a share of Africa's total *(% of total exports)*



Sources: IMF DOTS, Standard Chartered Research

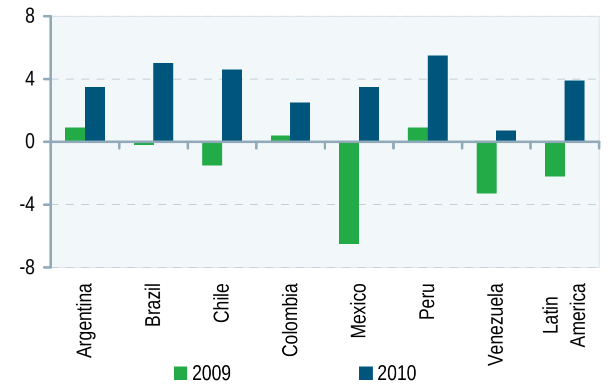
Market snapshots – Middle East and Latam

Chart 13: Pakistan – return of foreign investors
USD mn and KSE 100 index level



Sources: State Bank of Pakistan, Karachi Stock Exchange

Chart 16: Latin America has a significantly better growth outlook in 2010

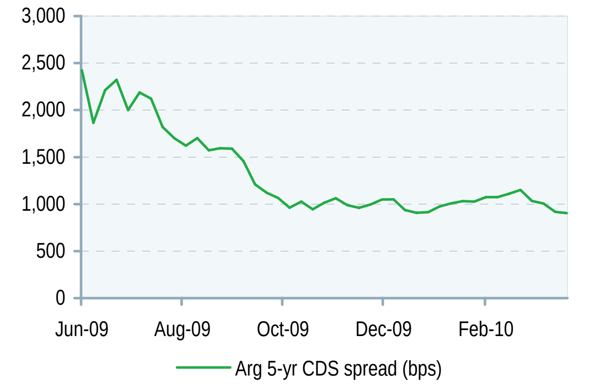


Sources: Bloomberg, Standard Chartered Research

Chart 14: Saudi Arabia M3 money supply
January 2009 – February 2010, riyal

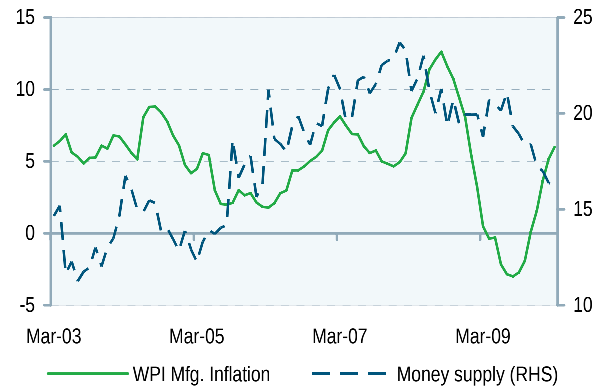
Sources: SAMA, Standard Chartered Research

Chart 17: Argentina's CDS spread is lower but still quite high, despite upcoming debt exchange



Source: Bloomberg, Standard Chartered Research

Chart 15: India inflation – still a non-monetary phenomenon *(% y/y)*



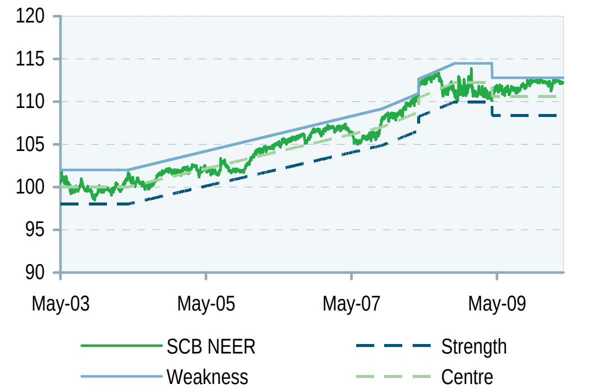
Sources: RBI, CSO Standard Chartered Research

Chart 18: Chile's economy picked up sharply before the 28 February earthquake

Source: Bloomberg, Standard Chartered Research

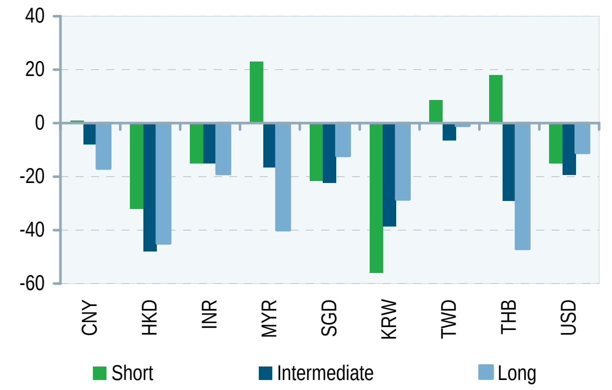
Market snapshots – FX and rates

Chart 19: SCB SGD NEER
Trading in the strong half of the policy band



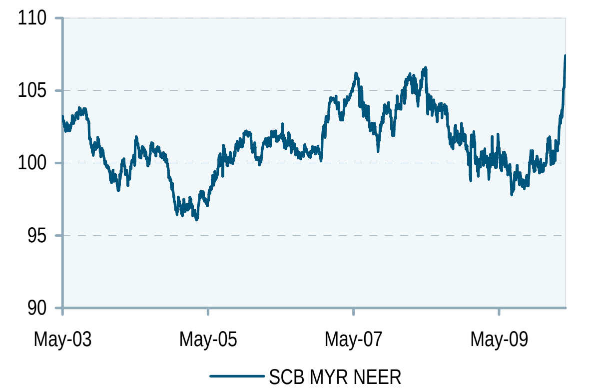
Sources: Bloomberg, Standard Chartered Research

Chart 22: Bullish performance in rates markets
Changes in IRS levels since 01-Jan-10



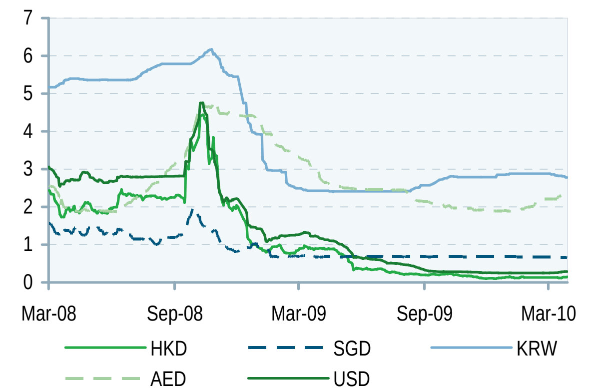
Sources: Bloomberg, Standard Chartered Research

Chart 20: SCB MYR NEER
MYR has outperformed in 2010



Sources: Bloomberg, Standard Chartered Research

Chart 23: KRW liquidity under modest pressure
Selected 3M interbank rates, %



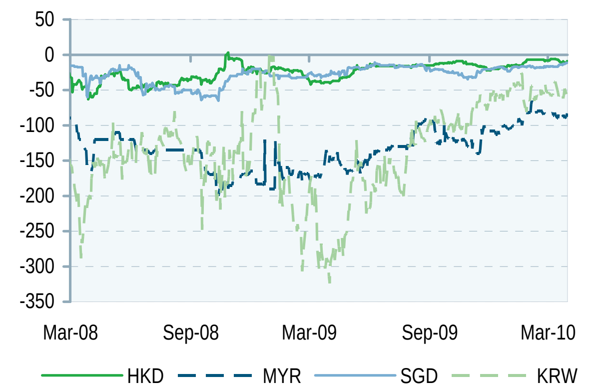
Sources: Bloomberg, Standard Chartered Research

Chart 21: Portfolio weights in the SCB RMP – Q2-2010

Currency	Weight
EUR	8%
JPY	-11%
INR	20%
CNY	-20%
KRW	9%
IDR	12%
ZAR	5%
BRL	15%

Source: Standard Chartered Research

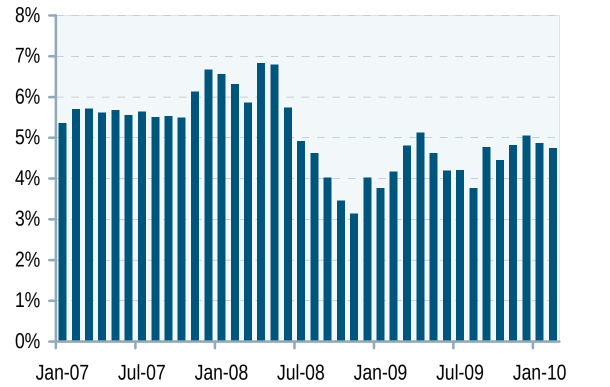
Chart 24: USD liquidity concerns dissipate
Selected 5Y basis swaps, bps



Source: Bloomberg

Market snapshots – Credit and commodities

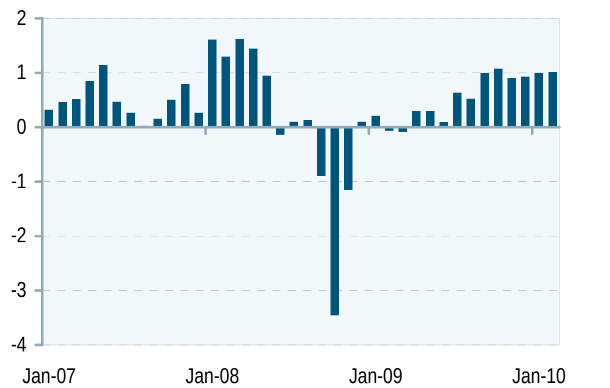
Chart 25: Allocations of global bond funds to Asia is still not near historical highs



Sources: EPFR, Standard Chartered Research

Chart 26: Global bond fund flows into Asia

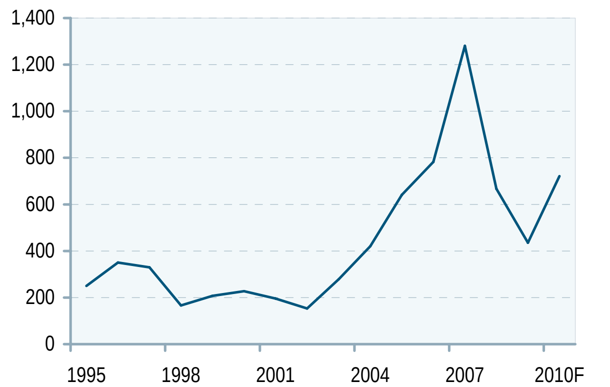
Asia continues to enjoy moderate fund inflows (USD bn)



Sources: EPFR, Standard Chartered Research

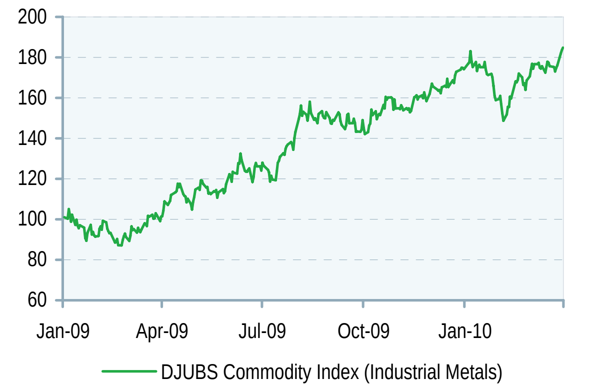
Chart 27: EM net private capital flows

EM private capital flows bounce back



Sources: IIF, Standard Chartered Research

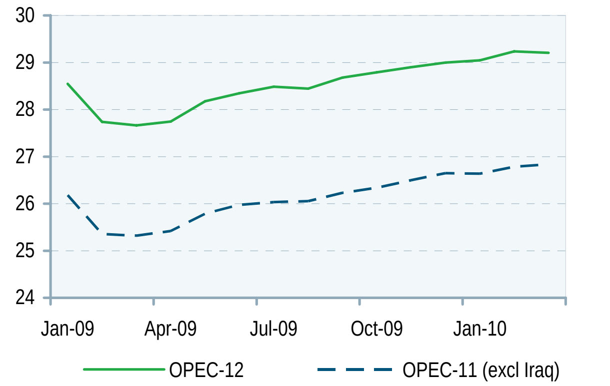
Chart 28: Industrial metals rallied in March on the back of strong Chinese growth



Sources: Bloomberg, Standard Chartered Research

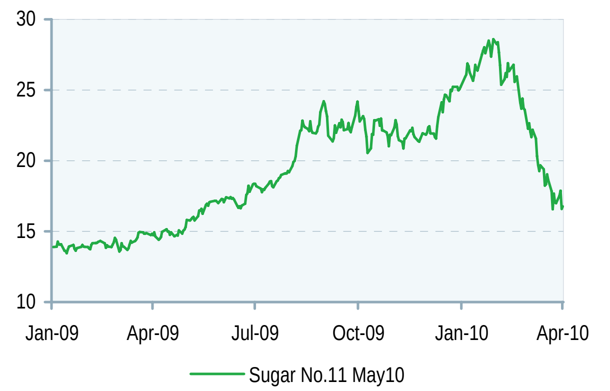
Chart 29: OPEC's output is creeping higher

Billion barrels per day



Sources: Bloomberg, Standard Chartered Research

Chart 30: Sugar falls on investor liquidation and better supply prospects for Q2-2010 *(USD/lb)*



Sources: Bloomberg, Standard Chartered Research

FX strategy summary

Currency	Fundamentals	S/T weighting (3-6 months)	M/T weighting (6 months+)
CNY	• Inflation is creeping up, mostly due to food prices • Monetary tightening to begin in Q2 with two 27bps hikes • Appreciation expected by Q2/Q3-10; this is a political decision • Best strategy for H1 is to buy 1-3M USD-CNY NDF, sell 1-2Y • We are *Neutral* CNY but expect to be *Overweight* by Q2-2010	Neutral	Neutral
HKD	• We see no reason for a change to the USD 7.75-85 link • USD-HKD has stabilised on equity buying • Aggregate Balance measure of interbank liquidity remains high • Strong China growth should support HK's prospects in 2010 • We are *Underweight* HKD short-term, *Neutral* medium-term	Underweight	Neutral
KRW	• Stabilisation of risk appetite has supported KRW appreciation • KRW is cheap on a REER basis • C/A surplus is shrinking due to strong KRW, domestic demand • KRW will lead the way higher, just as it led the way lower • We raised our short-term FX rating to *Overweight* on 23-March-10	Overweight	Overweight
TWD	• GDP rebounding on rising mainland demand, lower base • TWD is 13% undervalued vs. USD, according to SCB PPP • Improvement in cross-straits relations to support economy • CBC likely to keep rates low for an extended period • We raised our short-term FX rating to *Neutral* on 10-Jun-09	Neutral	Neutral
IDR	• Global recovery, low global interest rates should support IDR • BoP dynamics remain positive on commodities, capital inflows • Near-term, CPI inflation should remain relatively tame • IDR looks fairly valued now, but valuation needs to be watched • We raised our short-term rating to *Overweight* on 11-Mar-10	Overweight	Overweight
MYR	• MYR has lagged AXJ currencies given external economic focus • Global growth recovery, CNY 'de-pegging' should support MYR • Economic recovery, external balances remain positives for MYR • SCB MYR NEER has just begun to rally, more to come • We raised our short-term FX rating to *Overweight* on 12-Mar-10	Overweight	Overweight
PHP	• Economic recovery and BoP dynamics provide support for PHP • Strong inward remittances are a key driver • Upcoming election is likely to be broadly supportive • Capital inflows should lead PHP strength • We raised our short-term rating to *Overweight* on 07-Apr-10	Overweight	Overweight
SGD	• Economy is rebounding, growth forecasts being revised higher • Exports have responded strongly to stabilisation in demand • SGD NEER has limited room to appreciate near-term • MAS is likely to keep its FX stance unchanged in April • We have had a short-term rating of *Neutral* since 21-Apr-09	Neutral	Neutral

FX strategy summary (cont)

Currency	Fundamentals	S/T weighting (3-6 months)	M/T weighting (6 months+)
THB	• Thai growth returned to positive q/q SA territory in Q4-2009 • The large C/A surplus may moderate on oil, domestic demand • Bank of Thailand will resist fast THB NEER appreciation • We expect USD-THB to grind lower as AXJ recovers • We have had a short-term FX rating of *Neutral* since 20-May-09	Neutral	Neutral
VND	• SBV devalued VND, widened trading band on 25-Nov-09 • Trade deficit, slowing inflows put depreciation pressure on VND • BoP dynamics and fiscal deficit remain medium-term concerns • Further depreciation is priced in by onshore forwards/NDFs • We have had a short-term FX rating of *Neutral* since 24-Aug-09	Neutral	Neutral
INR	• USD-INR traded sharply lower on positive fiscal outlook • FY11 budget targets lowering the fiscal deficit to 5.5% of GDP • S&P revised India's FC rating outlook to stable from negative • Rising inflation risks led to a 25bps inter-meeting hike by RBI • INR gains to be sustained on strong growth, balanced policy stance	Overweight	Overweight
PKR	• USD-PKR traded briefly below 84 as oil payments slowed • Down-move in USD-PKR unlikely to be sustained • Rising commodity prices likely to sustain depreciation pressure • Donor aid, higher FX reserves should limit pace of depreciation • We raised our short-term FX rating to *Neutral* on 01-Apr-09	Neutral	Neutral
SAR	• Inflationary pressures likely to weigh on economy in 2010 • Fiscal stimulus is likely to support the economy in 2010 • USD-SAR forwards are back to historical averages • We forecast a gradual growth recovery in 2010 and 2011 • We are *Overweight* SAR short-term, *Neutral* medium-term	Overweight	Neutral
AED	• Markets remain focused on Dubai's debt restructuring • USD-AED forwards are back to historical averages • Higher oil prices should support government revenues • Abu Dhabi will be a growth outperformer relative to Dubai • We are *Overweight* AED short-term, *Neutral* medium-term	Overweight	Neutral
TRY	• USD-TRY continues to range-trade on lack of investor conviction • Lack of robust policy anchors, firm USD to pressure TRY in H1 • Political noise is rising, impeding capital flows and fiscal reform • Recovery, tighter fiscal policy, imminent rate hikes are risks • We lowered our short-term FX rating to *Neutral* on 03-Dec-09	Neutral	Neutral
RUB	• Recovery, robust commodity prices keeping RUB well supported • Yields remain attractive despite monetary easing • Improving BoP dynamics to support RUB in 2010 • Transition to free-float in 2012 to drive further appreciation • We have been *Overweight* RUB since 09-Sep-09	Overweight	Neutral

FX strategy summary (cont)

Currency	Fundamentals	S/T weighting (3-6 months)	M/T weighting (6 months+)
KES	• USD-KES has rebounded amid new political jitters • Upswing in CBK reserves has shown tentative signs of stalling • Current account deficit widened in year to Oct-09 • We raised KES to *Neutral* from *Underweight* on 21-Jul-09 • Medium-term risks are evenly balanced; we are *Neutral* medium-term	Neutral	Neutral
NGN	• Higher oil prices, output have driven strong trade improvement • Politics uncertain, but reform momentum has been maintained • Event risk linked to bank recapitalisation has faded • We raised our S/T FX rating to *Overweight* on 04-Nov-09 • We maintain a medium-term recommendation of *Overweight*	Overweight	Overweight
BWP	• BWP retreats from its Q4-09 peak vs. USD as ZAR slips • Diamond demand is recovering, albeit from depressed levels • BWP REER had been boosted by higher inflation • Faster BWP downward crawl vs. basket may emerge M/T • We cut our S/T FX rating on BWP to *Neutral* on 29-Apr-09	Neutral	Underweight
ZAR	• ZAR remains a little vulnerable amid choppy risk conditions • Economic recovery is lacklustre; SARB may cut policy rates • Equity inflows have rebounded, underpinning ZAR • Further out, C/A deficits, structural shortfalls are ZAR-negative • We lowered our S/T FX rating to *Neutral* on 14-Jan-10	Neutral	Underweight
ARS	• USD-ARS is drifting to fresh highs of 3.87 ahead of key debt swap • The debt exchange is expected by 14 April • Success is crucial to government spending and popularity • Local credit access remains weak, dampening • We are *Neutral* ARS short-term and medium-term	Neutral	Neutral
BRL	• 200-day MA is again capping rally in USD-BRL • Focus is on the political plans of central bank Governor Meirelles • The central bank will likely start hiking in April, by 50bps • Fiscal policy will remain loose; monetary policy must tighten • We lowered our S/T rating to *Underweight* on 01-Dec-09	Underweight	Neutral
CLP	• USD-CLP tested 536 but failed to hold, pointing to retest of 512 • Growth was strong before the 27 February earthquake • March/April data will be crucial to assessing the new outlook • The topside breakout in copper prices will lift CLP sentiment • We are *Neutral* CLP short-term, *Overweight* medium-term	Neutral	Overweight
COP	• USD-COP tests channel resistance at 1,940, risks turning to 1,900 • Former Defence Minister Santos leads in the May election polls • He is from a centre-right party, so policy continuity is expected • Colombia could be the growth laggard in Latam in 2010 • We lowered our short-term rating to *Underweight* on 22-Jan-09	Underweight	Overweight

FX strategy summary (con'd)

Currency	Fundamentals	S/T weighting (3-6 months)	M/T weighting (6 months+)
MXN	• USD-MXN posted new 2010 lows of 12.350 in March • No rate hikes before Sep-10 at earliest; risk of no move in 2010 • Growth data continue to be driven by external demand • Consumer confidence remains at a multi-year low; rate hikes unlikely • We are *Neutral* MXN short-term; our rating is under review	Neutral	Neutral
PEN	• Steady bear channel in USD-PEN recorded new 2010 low of 2.828 • 2010 growth at 5.5% is our highest forecast in the region • Inflation picture is benign, but less so than in 2009 • Monetary tightening is scheduled for Q3 • We are *Neutral* PEN, both short-term and medium-term	Neutral	Neutral
EUR	• Greek concerns are abating for now, giving support to EUR • EUR-USD is now undervalued s/term vs. oil, S&P 500 • After the fall in Q1, we expect EUR-USD to consolidate in Q2 • Medium-term, EUR-USD is supported by growth recovery • We are *Neutral* EUR short-term, *Overweight* medium-term	Neutral	Overweight
JPY	• JPY is weakening as BoJ policy encourages carry trades • JPY should fall more vs. AXJ currencies such as KRW, TWD • USD-JPY is supported by rising US yields • Fiscal consolidation is a medium-term concern • We cut our short-term FX rating to *Underweight* on 07-Jan-10	Underweight	Underweight
AUD	• Australia continues to recover, supported by booming China • AUD IMM positioning, some valuation measures look stretched • We expect RBA to raise rates to 4.50% by Q4-2010 • AUD to remain supported by commodity prices, rates • We lowered our short-term rating to *Neutral* on 16-Dec-09	Neutral	Overweight
NZD	• New Zealand's economy appears to have bottomed out • We expect the RBNZ to begin its tightening cycle in Q2-2010 • Loose fiscal policy, monetary easing to support 2010 growth • We expect NZD to gather momentum from Q2 • We raised our short-term FX rating to *Neutral* on 03-Apr-09	Neutral	Overweight
CHF	• Swiss growth rebounding, despite deleveraging, unemployment • Switzerland's external surplus is recovering • Capital outflows are not enough to recycle this • Over-valuation remains a major medium-term concern • We raised our short-term FX rating to *Overweight* on 01-Apr-10	Overweight	Neutral
GBP	• GBP was hammered in Q1 on growth, debt, political concerns • But EUR-GBP seems to have peaked, remains very overvalued • BoE quantitative easing should support growth prospects • Long-term fiscal risks remain a key concern • We have had a short-term FX rating of *Neutral* since 20-Apr-09	Neutral	Neutral
CAD	• USD-CAD continues to grind lower on better Canadian dynamics • BoC is likely to start hiking rates from Q3 • Canada's external surplus appears to have stabilised • The CAD is 14.68% overvalued vs. USD on OECD PPP basis • We have had a short-term FX rating of *Overweight* since 14-Jul-09	Overweight	Overweight

Commodities short-term views

	Market Close	m/m	Change YTD	y/y	Short-term (1M) view	Comments
	06/04/2010	%	%	%		
Energy						
Crude oil (near future, USD/b)						
NYMEX WTI	86.8	6.2	9.1	76.1	Bearish	Overbought at these levels. Look for consolidation as investors pause for breath and US demand suffers from price surge.
Agricultural products						
Softs (near future)						
NYBOT cocoa, USD/tonne	2,913.0	1.5	-11.9	8.8	Neutral	Market is likely to remain choppy in the near term with the downside limited by the prospect of fimer demand.
NYBOT coffee, USc/lb	139.2	8.3	2.0	18.0	Bullish	Production deficit this year is likely to keep inventories tight.
NYBOT sugar, USc/lb	15.9	-28.0	-40.7	30.7	Bullish	Sell off in sugar has been overdone and investors are likely to find current prices attractive.
Fibres						
Cotton (Cotlook A index, USc/lb)	87.0	0.0	10.9	57.0	Neutral	Better cotton prices should lead to an increase in cotton acreage next season which will cap upside momentum.
Grains & oilseeds (near future)						
CBOT corn (maize), USc/bushel	346.5	-4.7	-16.1	-12.2	Neutral	The corn market has been pummeled by slowing demand and increased global yields and should stay rangebound for now until fundamentals improve.
CBOT soybeans, USc/bushel	944.5	1.2	-9.0	-4.4	Neutral	Demand from China continues to support soybean prices despite a record Latin American harvest.
CBOT wheat, USc/bushel	463.5	-4.7	-15.1	-14.9	Bullish	Expect moderate pressure on global stocks following a decline in US winter wheat seedings.

Commodities short-term views (con'd)

	Market Close 06/04/2010	m/m %	Change YTD %	y/y %	Short-term (1M) view	Comment
Metals						
Base metals (LME 3M, USD/tonne)						
Aluminium	2,365	+5.8	+5.8	+60.0	Bearish	Physical premiums still rising due to global demand improvement and tightly held inventory, but due a correction
Copper	7,990	+5.4	+7.9	+81.6	Bearish	LME stocks are falling and Chinese demand and imports are strong, but due a period of consolidation
Lead	2,300	+2.8	-5.7	+71.9	Bearish	Drought has hit mine supplies in China and demand is strong, but expected to consolidation recent gains
Nickel	24,850	+9.5	+32.4	+124.9	Bearish	Prices are being squeezed higher as demand recovers, but fundamentals suggest a pullback
Tin	18,415	+6.3	+9.1	+69.7	Neutral	Demand is improving, but will be pinned back by weakness elsewhere in the base metals complex
Zinc	2,448	+3.3	-5.2	+79.1	Neutral	Weak fundamentals should be ignored for now
Precious metals (spot, USD/oz)						
Gold (spot)	1,134	-0.1	+3.4	+28.7	Bullish	Heading into a period of strength due to rising concerns about inflation and ahead of likely US rate hikes
Palladium (spot)	506	+6.9	+25.2	+126.5	Bullish	Automotive sector is strong and investor inflows continue
Platinum (spot)	1,702	+8.7	+17.1	+47.1	Bullish	Strong fundamentals are combining with buying by ETF investors
Silver (spot)	17.9	+3.4	+6.3	+46.3	Bullish	Should rally on the back of gold and rising risk appetite

Forecasts – Economies

Forecasts in BLUE (RED) indicate upward (downward) revisions over the past month

Country	Real GDP growth (%)				Inflation (yearly average %)				Current account (% of GDP)			
	2009	2010	2011	2012	2009	2010	2011	2012	2009	2010	2011	2012
Majors												
US^	-2.4	2.6	3.0	4.2	1.5	0.8	0.5	0.6	-3.8	-4.1	-3.2	-2.5
Euro area	-4.1	1.2	2.0	2.4	0.1	1.4	1.7	1.9	-1.0	-0.8	-0.2	0.2
Japan	-5.2	1.5	1.0	1.5	-1.4	-1.0	-0.7	0.5	2.8	2.4	2.7	2.5
UK	-5.0	1.2	1.9	2.4	2.2	2.5	1.5	1.5	-2.0	-1.7	-1.5	-1.1
Canada	-2.4	2.7	3.2	4.0	0.3	2.1	1.5	1.4	-2.5	-2.6	-2.7	-2.5
Switzerland	-1.4	1.9	2.5	2.6	-0.3	0.8	1.1	1.6	4.5	5.8	6.4	7.0
Australia	1.3	2.0	2.5	3.0	1.8	2.1	2.2	2.5	-4.1	-3.5	-3.7	-4.0
New Zealand	-1.6	1.6	2.0	2.5	2.1	3.0	3.0	2.5	-6.0	-5.5	-5.0	-5.5
Asia*	4.8	7.0	6.9	6.7	1.4	3.5	3.3	3.0	4.4	3.1	2.9	2.3
Bangladesh*	5.9	5.5	6.0	6.5	6.7	6.0	6.3	6.3	2.1	1.0	0.8	0.5
China	8.5	10.0	9.0	8.0	0.1	3.5	3.0	2.0	7.0	5.2	4.9	4.0
Hong Kong	-2.7	5.4	5.0	5.0	0.5	2.0	3.5	3.7	11.5	12.0	12.5	13.5
India*	7.0	7.5	8.4	8.6	3.8	5.5	5.0	5.0	-2.8	-2.2	-1.5	-1.5
Indonesia	4.5	5.5	6.5	7.0	4.9	4.9	5.4	6.3	2.0	1.1	0.5	0.5
Malaysia	-1.7	4.2	5.5	5.5	0.6	2.0	2.5	2.5	16.7	17.0	18.0	15.5
Pakistan*	2.0	2.5	4.0	4.5	20.8	12.0	9.0	8.0	-5.3	-4.5	-4.2	-4.0
Philippines	0.9	3.3	4.1	5.0	3.2	4.6	3.3	4.0	5.3	5.5	5.2	4.8
Singapore	-2.0	5.1	5.6	5.0	0.6	2.2	3.0	2.3	19.1	15.5	16.5	15.8
South Korea	0.2	4.8	4.1	5.2	2.8	2.5	2.5	2.5	5.1	2.5	2.0	1.0
Sri Lanka	4.0	5.5	6.0	7.0	3.5	4.7	5.1	5.5	-2.0	-1.5	-2.0	-2.5
Taiwan	-1.9	4.0	4.1	4.6	-0.9	1.0	1.2	2.2	11.2	6.2	4.6	4.6
Thailand	-2.3	2.8	4.5	5.8	-0.8	3.2	3.7	3.8	7.1	-1.0	-2.6	-2.8
Vietnam	5.3	6.7	7.2	7.0	7.0	11.5	8.5	8.0	-7.0	-8.5	-6.5	-6.0
Africa*	1.2	4.7	5.7	5.7	10.0	9.1	6.8	6.9	-1.5	0.9	1.1	1.5
Angola	-0.2	9.0	8.0	7.0	14.0	15.0	10.0	9.0	-3.5	3.0	3.0	5.0
Botswana	-4.2	5.2	3.9	4.3	8.3	6.8	7.2	6.6	0.5	3.0	5.2	6.0
Cameroon	2.0	3.0	4.0	3.5	3.0	2.5	2.5	2.0	-6.0	-4.2	-4.0	-3.5
Côte d'Ivoire	2.9	3.0	5.0	5.5	5.0	3.5	2.5	2.5	1.5	-1.5	-1.5	-1.0
The Gambia	4.0	4.5	6.0	6.0	6.5	6.8	6.0	6.0	-17.0	-18.0	-18.0	-17.0
Ghana	4.7	7.7	9.8	11.1	19.5	13.5	13.2	12.0	-10.2	-8.0	2.0	3.8
Kenya	2.5	3.8	4.9	4.0	21.1	6.1	7.4	7.3	-4.5	-4.0	-4.2	-4.7
Nigeria	4.2	5.9	8.5	7.8	12.0	12.6	8.9	11.2	2.0	8.0	12.0	14.0
Sierra Leone	4.0	5.0	6.0	6.0	10.0	7.5	7.5	7.5	-9.1	-8.5	-6.5	-5.5
South Africa	-1.8	2.6	3.6	3.6	7.4	6.4	6.5	6.0	-4.3	-4.9	-5.3	-5.8
Tanzania	4.8	5.9	6.4	6.7	12.7	7.5	8.0	7.2	-9.0	-7.0	-10.1	-9.9
Uganda	6.3	6.4	6.8	7.5	13.5	7.2	7.7	6.5	-6.4	-7.2	-7.8	-6.8
Zambia	6.3	5.5	5.8	6.4	13.6	11.4	10.5	9.8	-3.2	-4.2	-3.2	-2.8
MENA*	1.5	3.5	4.0	3.9	8.4	6.6	7.1	6.4	3.2	6.5	5.7	5.4
Algeria	4.0	3.5	5.0	5.0	5.6	5.0	3.5	3.0	-1.0	1.0	2.0	2.0
Bahrain	3.0	3.0	4.0	4.0	1.2	3.0	3.5	3.5	2.0	14.0	17.0	17.0
Egypt*	4.7	4.5	4.5	5.0	18.3	12.1	10.0	8.5	-2.3	-1.8	-1.0	-1.0
Iran*	3.8	4.0	3.0	4.0	22.0	15.0	16.0	15.0	11.0	10.0	11.0	10.0
Jordan	3.0	4.0	4.5	5.0	0.2	4.5	5.0	5.0	-10.0	-8.8	-7.0	-6.0
Kuwait	-5.5	3.0	3.5	3.0	3.0	4.5	4.5	4.0	20.0	26.0	22.0	20.0
Lebanon	3.5	4.0	4.5	4.5	3.4	3.5	4.5	4.5	-11.5	-9.5	-12.0	-12.0
Libya	2.0	5.0	5.0	4.0	6.0	7.0	7.5	6.0	22.0	31.0	22.0	20.0
Morocco	4.0	4.5	4.5	4.5	1.2	2.5	2.5	2.5	-0.5	-0.1	0.5	0.5
Oman	3.7	4.0	4.0	4.0	3.6	3.0	6.0	6.0	1.0	6.5	7.0	7.0
Qatar	9.0	9.5	4.0	4.0	-5.0	2.5	8.0	5.5	4.2	17.0	25.0	20.0
Saudi Arabia	0.2	3.0	3.5	3.0	4.4	4.0	4.5	4.0	6.0	10.0	6.5	5.5
Tunisia	2.0	3.5	4.0	4.5	3.7	3.5	3.5	3.5	-4.0	-3.4	-2.5	-2.5
Turkey	-5.8	2.8	4.0	5.5	6.2	8.2	6.5	5.5	-1.5	-2.8	-3.7	-4.5
UAE	-0.5	3.0	4.5	5.0	1.5	1.0	3.5	4.0	0.0	3.2	3.5	5.0
Latin America*	-2.0	4.2	3.9	4.1	4.8	4.8	4.7	4.7	-0.3	-1.6	-2.0	-2.3
Argentina	0.9	3.5	3.0	3.5	6.2	8.0	8.5	8.3	2.8	1.5	0.5	0.5
Brazil	-0.2	5.0	3.9	4.5	4.9	5.2	4.8	4.5	-1.5	-2.7	-2.9	-3.0
Chile	-1.5	4.6	4.0	4.5	1.5	3.3	3.6	4.0	2.2	2.8	1.5	1.1
Colombia	0.4	2.5	4.5	4.8	2.5	3.0	3.8	4.5	-1.9	-3.0	-3.3	-2.8
Mexico	-6.5	3.5	4.0	3.8	5.3	4.3	3.9	4.1	0.5	-1.3	-1.5	-2.5
Peru	0.9	5.5	4.5	4	3.2	2.5	3.0	3.25	-0.5	-1.5	-2.4	-2.6
Global*	-1.8	2.8	3.2	3.7	1.9	2.1	1.9	2.1	--	--	--	--

* Fiscal year starts in April in India, March in Iran, July in Bangladesh, Pakistan, and Egypt

** 2008 USD GDP weighted total of the regional economies covered in this publication

^ Inflation: Core PCE deflator used for US

Source: Standard Chartered Research

Forecasts – Markets

Forecasts in BLUE (RED) indicate upward (downward) revisions over the past month

Country	Exchange rate vs. USD						Short-term interest rates					
	Present	Q2-10	Q3-10	Q4-10	Q1-11	Q2-11	Present	Q2-10	Q3-10	Q4-10	Q1-11	Q2-11
Majors												
US	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	0.25 (FFTR)	0.25	0.25	0.25	0.25	0.25
Euro area	1.33	1.42	1.45	1.47	1.44	1.38	1.00 (Refi Rate)	1.00	1.00	1.00	1.25	1.50
Japan	93.28	**95.00**	95.00	91.00	93.00	96.00	0.10 (O/N Call Rate)	0.10	0.10	0.10	0.10	0.10
UK	1.52	1.55	1.64	1.68	1.65	1.60	0.50 (Bank Rate)	0.50	0.50	0.50	0.50	0.50
Canada	1.00	**1.00**	**0.97**	**0.95**	**0.96**	1.00	0.25 (O/N Lending Rate)	0.25	**0.75**	**1.25**	1.25	1.50
Switzerland	1.07	**1.03**	**1.00**	**0.98**	**1.02**	1.07	0.25 (LIBOR Target)	0.25	0.25	0.25	0.50	0.75
Australia	0.93	0.95	0.98	1.02	**0.96**	0.92	4.25 (OCR)	**4.25**	**4.50**	**5.00**	**5.25**	5.50
New Zealand	0.71	0.72	0.75	0.79	**0.75**	0.73	2.50 (OCR)	3.00	3.50	4.00	4.50	5.00
Asia												
Bangladesh	68.95	69.00	69.00	69.00	69.00	69.00	6.50 (RRP)	6.50	6.50	6.50	6.50	6.50
China	6.82	**6.81**	**6.77**	6.70	6.65	6.60	5.31 (1Y Base Lending)	5.85	5.85	5.85	5.85	5.85
Hong Kong	7.76	7.76	7.75	7.75	7.75	7.76	0.14 (3M HIBOR)	0.10	0.10	0.10	0.10	0.50
India	44.29	44.00	43.00	42.00	**42.60**	43.00	3.50 (RRP)	**3.75**	**4.00**	**4.25**	**4.50**	4.75
Indonesia	9,045	**9,100**	**9,000**	**8,800**	8,800	8,900	6.50 (BI Rate)	6.75	7.50	7.50	7.50	7.50
Malaysia	3.22	**3.27**	**3.22**	3.15	3.10	3.15	2.25 (OPR)	2.50	2.75	2.75	3.00	3.50
Pakistan	83.45	86.00	86.90	87.80	88.58	89.00	12.35 (6M KIBOR)	**12.00**	**11.50**	**11.00**	**10.50**	10.50
Philippines	44.79	**44.00**	**43.00**	**41.50**	**41.00**	42.00	4.00 (RRP)	4.00	4.25	4.50	4.50	4.75
Singapore	1.40	1.38	1.36	1.32	1.30	1.32	0.52 (3M SIBOR)	0.70	0.70	0.70	0.75	0.75
South Korea	1,123	**1,120**	1,100	1,050	1,025	1,035	2.0 (Base Rate)	2.00	2.25	2.50	2.75	3.00
Sri Lanka	113.75	114.00	113.50	113.00	113.80	113.80	7.5 (RP)	**8.00**	6.50	6.00	6.00	6.25
Taiwan	31.55	31.80	31.60	31.00	30.00	30.50	1.25 (Discount Rate)	1.25	1.25	1.25	1.38	1.50
Thailand	32.37	**32.00**	**31.50**	**31.00**	**30.50**	31.00	1.25 (1-day Repo)	**1.50**	**1.75**	**2.00**	**2.25**	2.50
Vietnam	18,950	19,800	20,200	20,600	21,000	21,300	8.00 (Base Rate)	9.00	**10.00**	**12.00**	**12.00**	12.00
Africa												
Angola	90.75	**92.50**	**93.00**	**93.50**	**94.00**	94.50	20.3 (91-day T-bill)	19.50	19.00	18.50	18.50	18.00
Botswana	6.76	**6.58**	**6.82**	**7.02**	**7.09**	7.42	10.0% (Bank Rate)	10.00	10.00	10.00	10.00	10.00
Cameroon	490.80	461.94	**452.00**	**446.00**	**456.00**	475.00	4.25 (TIAO)	4.25	4.50	4.50	4.50	4.50
Côte d'Ivoire	490.80	461.94	**452.00**	**446.00**	**456.00**	475.00	4.25 (Discount Rate)	**4.25**	**4.25**	**4.25**	**4.25**	4.25
The Gambia	25.75	28.50	29.00	30.50	29.50	29.00	10.14 (91-day T-bill)	11.00	10.75	10.50	11.00	11.25
Ghana	0.93	1.41	1.43	1.45	1.44	1.40	15.08 (91-day T-bill)	14.20	13.90	13.20	12.90	12.80
Kenya	77.28	77.00	77.50	77.90	78.10	79.00	5.74 (91-day T-bill)	7.20	6.80	6.60	6.30	6.50
Nigeria	149.75	150.00	150.00	147.00	146.00	146.00	6.0% (MPR)	6.00	7.00	7.00	7.00	7.00
Sierra Leone	3,805	3,950	4,025	4,100	4,125	4,150	14.88 (91-day T-bill)	15.00	14.50	14.00	13.50	13.00
South Africa	7.26	**7.45**	**7.30**	**7.65**	**7.80**	8.20	6.5 (repo rate)	**6.50**	**6.50**	**6.50**	**7.00**	7.00
Tanzania	1,350	1,320	1,360	1,380	**1,410**	1,370	3.15 (91-day T-bill)	7.40	6.30	6.80	6.60	6.80
Uganda	2,072	**2,070**	**2,110**	**2,150**	**2,180**	2,220	4.0 (91-day T-bill)	7.60	7.30	6.90	6.70	6.90
Zambia	4,665	4,300	**4,500**	**4,700**	**4,750**	4,800	1.95 (91-day T-bill)	5.30	5.90	6.50	7.40	7.50
Middle East and North Africa												
Algeria	71.84	67.50	65.50	63.00	64.50	67.00	3.28 (Interbank Rate)	3.28	3.28	3.28	3.28	3.28
Bahrain	0.38	0.38	0.38	0.38	0.38	0.38	0.50 (1-wk Deposit Rate)	0.50	0.50	0.50	0.50	0.50
Egypt	5.51	5.60	**5.58**	**5.57**	**5.59**	5.62	8.25 (O/N Depo Rate)	8.25	8.25	8.25	8.25	8.25
Iran	9,875	9,740	9,740	9,740	9,740	9,740	…	…	…	…	…	…
Jordan	0.71	0.71	0.71	0.71	0.71	0.71	5.00 (Repo Rate)	5.00	5.00	5.00	5.00	5.00
Kuwait	0.29	0.27	0.27	0.27	0.27	0.27	2.50 (Discount Rate)	3.00	3.00	3.00	3.00	3.00
Lebanon	1,498	1,508	1,508	1,508	1,508	1,508	…	…	…	…	…	…
Libya	1.28	1.25	1.22	1.16	1.20	1.24	…	…	…	…	…	…
Morocco	8.36	7.70	7.58	7.21	7.49	8.00	5.00 (1M Depo Rate)	5.00	5.00	5.00	5.00	5.00
Oman	0.38	0.39	0.39	0.39	0.39	0.39	2.00 (Repo Rate)	2.00	2.00	2.00	2.00	2.00
Qatar	3.64	3.64	3.64	3.64	3.64	3.64	2.00 (O/N Deposit Rate)	2.00	2.00	2.00	2.00	2.00
Saudi Arabia	3.75	3.75	3.75	3.75	3.75	3.75	0.25 (Reverse Repo Rate)	0.25	0.25	0.25	0.25	0.25
Tunisia	1.41	1.31	1.28	1.22	1.24	1.30	4.50 (Money Market Rate)	4.50	4.50	4.50	4.50	4.50
Turkey	1.50	1.55	1.58	1.58	1.60	1.57	6.50 (Base Rate)	7.00	8.00	8.00	8.00	8.00
UAE	3.67	3.68	3.68	3.68	3.68	3.68	1.00 (Repo Rate)	1.00	1.00	1.00	1.00	1.00
Latin America												
Argentina	3.88	3.72	3.68	3.60	3.65	3.67	9.00 (7d Rev Repo)	9.50	9.75	10.00	10.50	10.50
Brazil	1.78	1.70	1.65	1.55	1.60	1.72	8.75 (Selic)	9.75	10.50	11.50	11.50	11.50
Chile	516.40	**490**	**475**	445	450	485	0.50 (Overnight Rate)	**0.50**	**1.00**	**1.50**	**2.25**	3.00
Colombia	1,927	**1,800**	**1,760**	1,660	1,710	1,820	3.50 (Min Rev Repo)	3.75	4.25	5.00	5.25	5.25
Mexico	12.29	**12.75**	**12.45**	**12.00**	**11.65**	11.80	4.50 (TdF)	4.50	4.50	5.00	5.50	5.50
Peru	2.84	**2.76**	**2.70**	2.65	2.70	2.78	1.25 (Reference Rate)	1.25	1.75	2.50	3.25	3.75

Forecasts are for end of period

Source: Standard Chartered Research

Forecasts – Commodities

Forecasts in BLUE (RED) indicate upward (downward) revisions over the past month

	Market close	m/m	Change YTD	Q3-09	Q4-09	Q1-10	Q2-10	Q3-10	Q4-10	2008	2009	2010	2011
	06-Apr-10	%	%	A	A	A	F	F	F	A	A	F	F
Energy													
Crude oil (near future, USD/b)													
NYMEX WTI	86.8	+6.1	+9.0	68	76	79	80	84	88	100	62	83	90
ICE Brent	86.2	+7.6	+10.3	69	76	77	79	83	87	98	63	81	88
Dubai spot	82.8	+7.4	+5.7	68	75	76	78	80	82	94	62	80	84
Refined oil products													
Singapore fuel oil 180 (USD/t)	472	-1.8	-4.2	422	461	475	481	491	502	511	371	487	509
Singapore gasoil (USD/b)	96	+8.2	+12.7	75	82	83	88	90	92	119	69	88	96
Singapore jet kerosene (USD/b)	93	+6.8	+7.0	75	83	84	89	91	94	121	70	89	99
Singapore naphtha (USD/b)	82	+0.8	+1.8	67	75	78	80	82	84	88	61	81	84
Europe gasoil (USD/t)	722	+11.1	+13.5	560	612	614	641	678	704	917	522	659	745
Europe jet (USD/t)	771	+10.2	+11.7	599	659	668	714	754	783	997	560	730	825
Europe naphtha (USD/t)	731	-0.5	+3.1	597	661	697	708	748	779	788	534	733	783
Coal (USD/t)													
API4	86	+0.2	-19.1	60	67	81	85	90	95	121	64	88	90
API2	74	+1.2	-13.6	68	76	79	77	81	85	147	70	80	105
globalCOAL NEWC*	95	+0.2	+12.1	72	77	94	95	100	105	129	72	99	100
Metals													
Base metals (LME 3m, USD/tonne)													
Aluminium	2,365	+6.1	+6.1	1,837	2,042	2,200	2,100	2,000	1,900	2,621	1,706	2,050	1,850
Copper	7,990	+5.6	+8.0	5,871	6,701	7,279	7,500	7,600	8,000	6,869	5,207	7,595	7,750
Lead	2,300	+3.1	-5.4	1,946	2,318	2,241	2,300	2,400	2,500	2,088	1,740	2,360	2,500
Nickel	24,850	+9.5	+32.4	17,603	17,675	20,142	20,000	16,000	17,500	21,309	14,762	18,411	17,000
Tin	18,415	+6.3	+9.1	14,187	15,109	17,270	16,000	15,000	16,500	18,395	13,412	16,193	15,000
Zinc	2,448	+3.4	-5.1	1,781	2,252	2,312	2,250	2,300	2,350	1,896	1,690	2,303	2,300
Steel (CRU assessment, USD/t)**													
HRC, US	693	+6.1	+25.5	542	582	653	700	710	720	947	531	696	750
HRC, Europe	630	+17.3	+11.1	604	618	578	640	650	680	927	569	637	740
HRC, Japan	706	+0.9	-2.8	713	732	700	750	762	790	985	757	751	830
HRC, China	586	+3.9	+6.7	565	519	578	600	635	665	729	528	620	680
Precious metals (spot, USD/oz)													
Gold (spot)	1134	+0.1	+3.5	961	1,101	1,110	1,100	1,200	1,300	872	974	1,178	1,100
Palladium (spot)	506	+6.7	+25.1	274	351	442	475	500	500	351	265	479	500
Platinum (spot)	1,702	+8.8	+17.2	1,234	1,396	1,565	1,600	1,650	1,750	1,574	1,210	1,641	1,800
Silver (spot)	17.94	+3.5	+6.5	14.7	17.6	16.9	17.0	17.5	18.0	15.0	14.7	17.0	20.5
Agricultural products													
Softs (near future)													
NYBOT cocoa, USD/tonne	2,913	+1.2	-12.1	2,860	3,260	3,079	3,000	3,150	3,000	2,556	2,797	3,057	2,900
LIFFE coffee, USD/tonne ***	1,363	+1.2	+4.4	1,419	1,363	1,283	1,425	1,500	1,550	2,099	1,462	1,439	1,625
NYBOT coffee, USc/lb	139	+8.2	+1.9	125	139	134.6	140.0	140	137	132	125	138.0	145
NYBOT sugar, USc/lb	15.89	-28.0	-40.7	20.5	23	25	22	19	17	12.1	17.8	21.0	13.0
Fibres													
Cotton (Cotlook A index, USC/lb)	87.0	+0.0	+10.9	64.4	71.9	81.3	80.0	82.0	82.0	71.3	62.8	81	75.0
Grains & oilseeds (nr future)													
CBOT corn (maize), USc/bushel	347	-4.7	-16.1	327	386	371	400	405	415	527	374	398	436
CBOT Soybeans, USc/bushel	945	+1.3	-8.9	1,051	1,003	956	975	975	1,050	1,233	1,031	989	1,100
CBOT wheat, USc/bushel	464	-4.8	-15.2	484	522.9	496.5	520	550	560	796	529.8	532.0	650
CBOT rice, USc/cwt	13.0	+2.5	-9.7	13.3	14.6	13.6	12.6	13.2	12.9	18.0	13.3	13.0	18.0
Thai B rice 100%, USD/tonne*	500	-5.7	-15.3	558	561	553	540	547	544	687	562	546.0	600
Edible oils (3m future)													
Palm oil (MDV,MYR/tonne)	2,565	-4.0	-0.3	2,210	2,348	2,569	2,750	2,950	3,000	2,839	2,228	2,817	3,500
Soyoil (CBOT, USc/lb)	40	+0.4	-1.2	35	39	40	40	42	50	52	36	43	44

*weekly quote **monthly average ***10 tonne contract

Sources: Bloomberg, Platts, CRU, SCB forecasts

Forecasts – Interbank rates

Forecasts in BLUE (RED) indicate upward (downward) revisions over the past month

	Q1-10	Q2-10	Q3-10	Q4-10	Q1-11	Q2-11
US						
3M USD LIBOR	0.29	**0.35**	**0.40**	**0.45**	**0.55**	0.75
6M USD LIBOR	0.44	**0.50**	**0.55**	**0.65**	**0.80**	1.00
12M USD LIBOR	0.92	**1.00**	**1.10**	**1.25**	**1.40**	1.75
Euro area						
3M EUR LIBOR	0.58	**0.70**	**0.90**	**1.20**	**1.50**	1.80
6M EUR LIBOR	0.88	**1.00**	1.20	1.50	1.80	2.10
12M EUR LIBOR	1.19	1.30	1.40	1.80	2.10	2.40
Japan						
3M JPY LIBOR	0.24	0.30	0.30	0.30	0.35	0.38
6M JPY LIBOR	0.45	0.50	0.40	0.45	0.48	0.50
12M JPY LIBOR	0.68	**0.70**	0.70	0.65	0.70	0.74
UK						
3M GBP LIBOR	0.65	0.65	**0.70**	0.75	0.85	1.10
6M GBP LIBOR	0.88	0.90	**0.95**	1.00	1.10	1.35
12M GBP LIBOR	1.32	1.35	**1.40**	1.50	1.60	1.85
Canada						
3M CAD LIBOR	0.41	0.40	0.75	1.25	1.75	1.75
6M CAD LIBOR	0.72	0.70	1.00	1.50	2.00	2.00
12M CAD LIBOR	1.31	1.40	1.75	2.25	2.50	2.50
Switzerland						
3M CHF LIBOR target	0.25	0.25	0.25	0.25	0.50	0.75
6M CHF LIBOR	0.33	0.50	0.60	0.70	0.90	1.15
12M CHF LIBOR	0.64	0.70	0.80	0.90	1.20	1.45
Australia						
3M AUD LIBOR	4.36	**4.65**	**5.00**	**5.30**	**5.70**	5.95
6M AUD LIBOR	4.63	**5.05**	**5.35**	**5.65**	**6.10**	6.35
12M AUD LIBOR	5.30	**5.70**	**6.00**	**6.35**	**6.70**	6.95
New Zealand						
3M NZD LIBOR	2.80	3.45	4.00	4.55	4.95	5.45
6M NZD LIBOR	3.05	3.75	4.35	4.95	5.45	5.95
12M NZD LIBOR	3.96	**4.20**	4.50	5.05	**5.55**	6.15
Hong Kong						
3M HKD HIBOR	0.15	0.10	0.10	0.10	0.10	0.50
6M HKD HIBOR	0.25	**0.25**	**0.25**	**0.35**	**0.50**	0.70
12M HKD HIBOR	0.59	0.45	**0.55**	**0.70**	**0.85**	1.35
Korea						
3M CD rate	2.80	2.90	3.00	3.20	3.40	3.60
Indonesia						
3M JIBOR	6.96	7.00	7.80	7.60	7.60	7.70
6M JIBOR	7.27	7.30	8.00	7.80	7.70	7.80
12M JIBOR	7.52	8.00	8.50	8.30	8.00	8.30
Malaysia						
3M KLIBOR	2.52	2.60	2.85	2.85	3.10	3.60
6M KLIBOR	2.58	2.65	2.90	2.90	3.15	3.65
12M KLIBOR	2.67	2.75	3.00	3.00	3.25	3.75
Singapore						
3M SGD SIBOR	0.65	0.70	0.70	0.70	0.75	0.75
6M SGD SIBOR	0.72	0.80	0.80	0.80	0.85	0.85
12M SGD SIBOR	0.92	0.90	0.90	0.90	1.00	1.00
Thailand						
3M BIBOR	1.39	**1.75**	**2.00**	**2.25**	**2.50**	2.75
6M BIBOR	1.55	**1.85**	**2.10**	**2.35**	**2.55**	2.80
12M BIBOR	1.75	**1.95**	**2.15**	**2.35**	**2.60**	2.80
South Africa						
3M JIBAR	6.67	7.30	7.46	7.60	7.80	7.85
6M JIBAR	6.88	7.76	7.80	8.15	8.35	8.40
12M JIBAR	7.48	8.36	8.51	8.72	8.90	8.95
Turkey						
3M TRLIBOR	7.17	7.50	8.50	8.50	8.60	8.60
6M TRLIBOR	7.48	8.00	9.00	9.00	9.10	9.10
12M TRLIBOR	8.05	8.30	9.30	9.30	9.45	9.45

Source: Standard Chartered Research

Forecasts – Rates

Forecasts in BLUE (RED) indicate upward (downward) revisions over the past month

Country	Government bonds						Swaps					
	30-Mar-10	Q2-10	Q3-10	Q4-10	Q1-11	Q2-11	30-Mar-10	Q2-10	Q3-10	Q4-10	Q1-11	Q2-11
Asia												
China							*Interest Rate Swap (against 7-Day repo), Act/365, Quarterly*					
2Y	2.05	2.40	2.60	3.00	3.00	3.20	2.78	3.00	3.25	3.55	3.60	3.60
5Y	2.67	3.30	3.50	3.80	4.00	4.00	3.71	3.85	3.90	4.15	4.20	4.30
10Y	3.46	3.80	3.90	4.20	4.40	4.60	4.14	4.40	4.50	4.60	4.70	4.80
Hong Kong							*Interest Rate Swap, Act/365, Quarterly*					
2Y	0.73	0.90	1.30	1.50	1.60	1.90	1.01	1.35	1.60	1.70	1.80	2.10
5Y	1.90	2.00	2.20	2.40	2.50	2.60	2.36	2.60	2.60	2.80	2.90	3.00
10Y	2.75	2.95	3.20	3.30	3.40	3.50	3.24	3.65	3.70	3.85	4.00	4.10
India							*Overnight Index Swap, Act/365, Semi-Annual*					
2Y	6.08	**6.30**	**6.45**	**6.60**	**6.65**	6.75	5.65	**5.85**	**6.00**	**6.20**	6.25	6.35
5Y	7.17	**7.35**	**7.50**	**7.60**	**7.65**	7.75	6.52	**6.95**	**7.10**	**7.20**	**7.25**	7.35
10Y	7.76	**8.00**	**8.15**	8.25	8.25	8.25						
Indonesia							*Interest Rate Swap, Act/360, Semi-Annual*					
3Y	7.90	**8.00**	**8.25**	**8.15**	**8.25**	8.40	7.85	**8.25**	**8.35**	**8.20**	**8.20**	8.30
5Y	8.33	**8.45**	**8.55**	**8.40**	**8.50**	8.75	8.75	**8.65**	**8.60**	**8.35**	**8.35**	8.55
10Y	9.11	**9.25**	**9.30**	**9.15**	**9.40**	9.65						
Malaysia							*Interest Rate Swap, Act/365, Quarterly*					
3Y	3.26	**3.40**	**3.40**	**3.50**	**3.65**	3.80	3.41	**3.60**	**3.65**	**3.80**	**3.95**	4.10
5Y	3.74	**3.85**	**3.85**	**3.90**	**4.05**	4.15	3.81	**3.95**	**4.00**	**4.15**	4.35	4.45
10Y	4.17	**4.30**	**4.30**	**4.35**	**4.45**	4.55	4.30	**4.45**	**4.55**	**4.70**	**4.85**	5.00
Pakistan												
3Y	12.42	**12.00**	**11.70**	**11.50**	**11.30**	11.20						
5Y	12.51	**12.30**	**12.10**	**11.90**	**11.70**	11.60	*See Note 1.*					
10Y	12.62	**12.50**	**12.30**	**12.10**	**11.90**	11.80						
Philippines							*Interest Rate Swap, Act/360, Quarterly*					
2Y	4.70	5.25	5.50	5.75	5.90	5.90	4.36	**4.85**	**5.05**	**5.25**	**5.35**	5.35
5Y	6.08	6.70	7.00	7.30	7.50	7.50	5.65	**6.20**	**6.40**	**6.60**	**6.75**	6.65
10Y	7.95	8.50	8.80	9.10	9.30	9.30						
Singapore							*Interest Rate Swap, Act/365, Semi-Annual*					
2Y	0.57	0.60	0.60	**0.80**	**1.05**	1.35	1.35	**1.35**	**1.40**	**1.60**	**1.85**	2.15
5Y	1.32	1.35	**1.45**	**1.60**	**1.90**	2.10	2.26	**2.20**	**2.25**	**2.40**	**2.65**	2.85
10Y	2.77	2.60	2.65	**2.80**	**2.95**	3.10	2.94	**2.85**	**2.95**	**3.15**	**3.35**	3.55
South Korea							*Interest Rate Swap, Act/365, Quarterly*					
3Y	3.92	**3.85**	**4.10**	**4.30**	4.50	4.60	3.96	**3.85**	**4.05**	4.20	4.35	4.40
5Y	4.53	**4.35**	**4.55**	**4.70**	**4.85**	5.00	4.23	**4.15**	**4.30**	**4.40**	4.55	4.65
10Y	4.98	**4.75**	**4.85**	**4.95**	**5.05**	5.20	4.55	**4.40**	**4.50**	**4.55**	**4.65**	4.75
Taiwan							*Interest Rate Swap, Act/365, Quarterly*					
2Y	0.50	0.80	1.40	1.80	2.10	2.10	1.12	1.60	1.80	2.20	2.50	2.50
5Y	1.00	1.50	1.70	2.00	2.30	2.30	1.81	2.30	2.50	2.70	3.00	3.10
10Y	1.44	2.20	2.40	2.70	3.00	3.20	2.25	2.60	2.80	3.10	3.40	3.60
Thailand							*Interest Rate Swap, Act/365, Semi-Annual*					
2Y	2.04	**2.45**	**2.65**	**2.80**	**2.90**	3.00	2.34	**2.75**	**3.00**	**3.15**	**3.25**	3.35
5Y	3.55	3.60	3.75	3.90	4.00	4.10	3.38	**3.60**	**3.85**	**4.10**	4.30	4.40
10Y	3.95	4.00	4.15	4.30	4.40	4.50	3.96	**4.10**	**4.30**	**4.45**	**4.60**	4.70
Vietnam												
2Y	11.90	12.50	**13.00**	**13.50**	**14.00**	14.50						
5Y	12.15	12.75	**13.50**	**13.75**	**14.25**	14.75	*See Note 1.*					
10Y	12.15	13.00	**13.75**	**14.00**	**14.50**	15.00						

Note 1. Forecasts are not available, as these financial instruments are at a nascent stage of development.

Sources: Bloomberg, Standard Chartered Research

Forecasts – Rates (con'd)

Forecasts in BLUE (RED) indicate upward (downward) revisions over the past month

Country	Government bonds						Swaps					
	30-Mar-10	Q2-10	Q3-10	Q4-10	Q1-11	Q2-11	30-Mar-10	Q2-10	Q3-10	Q4-10	Q1-11	Q2-11
Majors												
United States							*Interest Rate Swap, 30/360, Semi-Annual*					
2Y	1.04	1.35	1.75	2.15	2.20	2.20	1.19	**1.50**	**2.00**	2.30	2.40	2.40
5Y	2.60	2.60	2.85	3.20	3.20	3.20	2.71	**2.80**	**3.35**	3.45	3.45	3.45
10Y	3.87	**3.70**	**3.85**	4.00	4.00	4.00	3.80	**3.75**	**3.90**	4.25	4.45	4.45
Africa												
Ghana												
2Y	14.30	13.50	13.70	13.50	13.25	12.50	*See Note 1.*					
3Y	14.50	**13.75**	**14.00**	**14.00**	**13.50**	12.75						
Kenya												
2Y	6.93	**6.50**	**6.70**	**6.80**	**7.10**	7.20	*See Note 1.*					
5Y	7.60	**7.50**	**7.70**	**7.90**	**8.00**	8.20						
10Y	8.75	**8.75**	**9.00**	**9.20**	**9.40**	9.60						
Nigeria												
2Y	3.03	**6.00**	**7.60**	**7.30**	**7.00**	7.40	*See Note 1.*					
5Y	4.21	**7.50**	8.60	8.40	**8.00**	8.20						
10Y	5.98	8.60	8.80	8.60	**8.30**	8.50						
South Africa							*Interest Rate Swap, Act/365, Quarterly*					
2Y	6.92	**7.40**	**7.60**	**8.00**	8.40	8.60	7.00	**7.60**	**7.80**	**8.20**	8.50	8.70
5Y	8.00	8.35	**8.50**	**8.70**	**8.90**	9.00	7.93	8.40	8.70	9.00	9.20	9.30
10Y	8.55	**9.00**	**9.30**	**9.50**	**9.70**	9.80	8.35	8.70	8.90	9.20	9.60	9.50
Uganda												
2Y	7.60	9.50	8.50	8.00	7.75	7.50	*See Note 1.*					
5Y	8.60	11.00	10.00	9.50	9.30	9.10						
10Y	12.90	13.30	12.30	11.70	11.70	11.30						
Middle East												
Saudi Arabia							*Interest Rate Swap, Act/360, Annual*					
2Y	*See Note 1.*						1.47	2.20	2.50	2.60	2.70	2.90
5Y							3.00	3.30	3.50	3.80	3.80	4.00
10Y							4.25	4.50	4.65	4.80	4.80	5.00
United Arab Emirates							*Interest Rate Swap, Act/360, Annual*					
2Y	*See Note 1.*						2.91	2.50	2.80	3.20	3.30	3.50
5Y							4.16	3.90	4.10	4.30	4.30	4.50
10Y							5.35	5.10	5.25	5.40	5.40	5.60

Note 1. Forecasts are not available, as these financial instruments are at a nascent stage of development.

Sources: Bloomberg, Standard Chartered Research

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Disclosures Appendix

Regulatory disclosure

Subject companies: **– Indian Oil Corp., Star Energy and PT Chandra Asri**

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