| Standard Chartered Global Focus |
Monthly Analysis of Economic and Financial Market Developments – 04 May 2010

Deflate, default, de-peg

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Overviews

The euro at a crossroads

Highlights of the month

- The EUR 110bn EU/IMF bailout package should prevent Greece from a default and keep it in the euro area, but it will also keep Greece in a debt trap and force its economy to deflate. But then, there was never going to be an easy way out for Greece.
- In terms of the euro, none of this should come as a surprise. Not all of the countries currently in the euro area should be in it. The euro system is not sustainable in its present form.
- The basic problem with the euro is that one interest rate does not fit all. Monetary union requires labour mobility and fiscal flexibility in the form of a single Treasury. The euro is at a crossroads, and its long-term survival depends on a political union within the euro area.
- Sovereign debt problems in Europe will reinforce the focus on both safe havens and growth recovery stories. Markets will look to low debt, high growth and stable economies, mostly in Asia.
- The bailout of Greece should support the EUR as well as AXJ currencies in H2, but given relatively tight credit spreads in Asia, the upside for Asian credits may be limited in the near term.
- European woes, an accommodative Fed stance and capital inflows have kept Asian rates generally lower, but Asian market rates are likely to move higher, albeit gradually.

Important disclosures can be found in the Disclosures Appendix

Global

Gerard Lyons, Chief Economist and Group Head of Global Research
Standard Chartered Bank, United Kingdom
+44 20 7885 6988, Gerard.Lyons@sc.com

- **Greece is in a debt trap, but it will likely remain in the euro area**
- **The euro is at a crossroads; its survival depends on political union**
- **Beware of contagion, especially to continental European banks**

Survival depends on political union

The political craving to expand euro membership meant that entry rules were relaxed; this built up problems for the future, which are now being seen

Faced with the abyss, a significant reversal in direction is recommended. The EU and Greece seem to have realised that. A EUR 110bn 'rescue' package has been put together with IMF help. In turn, Greece must disappear from the markets' sight for the next three years and inflict severe pain on its residents. Euro membership was never meant to be like this. But, then, none of this should be a surprise. Good economics tends to mean good politics, but the reverse is not always true. The political craving to expand euro membership meant that entry rules were relaxed. This built up problems for the future, which are now being seen.

Although the markets are relieved by the help for Greece, this is a dynamic situation, and political support is needed within Greece as well as in other parts of Europe. Nothing can be taken for granted. Of the EUR 110bn, the EU provides EUR 80bn, and the rest comes from the IMF. Germany will provide EUR 22bn of this; if they did not give it to Greece directly, they might have had to help their banks, which are large holders of Greek debt. The total amount should cover Greece's debt refinancing and fiscal deficit for the next three years. The good news is that this keeps Greece out of the markets during that time, hopefully limiting contagion to other European borrowers – and there are quite a few of those. The bad news is that the Greek economy will contract. The official forecasts accompanying this bailout are for a shrinkage of 4% this year and 2.6% next, returning to growth in 2012. There may indeed be growth in 2012, but only because the economy could collapse before then under this deal, in our view. But there was never going to be an easy way out for Greece.

Greece is in a debt trap. Its debt is greater than the size of its economy, at 126% of GDP, and the interest it pays on its debt is higher than its rate of economic growth. Even with this bailout, its debt-to-GDP ratio is expected to rise, peaking at 149.1% in 2013, according to officials. It might even be worse.

It is the equivalent of maxing out one's credit card and not being able to pay the monthly bill: an unsustainable situation.

What are the options for Greece?

There has been too much focus on cutting spending or raising taxes, and not enough on boosting growth

Too much of the global debate about reducing deficits has focused on cutting spending or raising taxes, and not enough on boosting growth. The trouble for Greece, though, is that there is limited scope to boost growth. And thus it cannot really boost its tax revenues immediately. In particular, as Greece is in the euro area, it cannot devalue in the way that, say, the UK has, to correct the major loss

Global (cont)

of competitiveness it has suffered in recent years. Of course, devaluation would only partially help Greece. The reality is that Greece, like a number of other smaller European countries, has deep structural problems and probably should not have been allowed into the euro in the first place.

Without the ability to boost its growth directly, the pressure is thus on Greece to cut spending. Effectively, it has to deflate its economy. The trouble is that this does not reduce the deficit as much as one might think: cutting spending when the economy is already suffering weakens it further. It is like chasing one’s tail. Moreover, as we are seeing in Greece, this austerity message is not going down well locally, as evidenced by strikes and riots. Thus, the economic crisis is already becoming a political and social crisis.

Greece will likely remain in the euro area, even if it defaults, but government debt yields will rise

Although the Greek government recently outlined plans to reduce its budget deficit to manageable levels, domestic opposition to cuts has made the financial markets wary that the deficit reduction plan will be unsuccessful. Hence, in recent weeks, there was increased fear in the markets of Greece restructuring its debt, or even defaulting. That would have created problems for the euro area: half of Greece’s debt is held by other euro-area members. We could yet see a restructuring in a couple of years’ time, but the markets may be better able to cope then.

Pressure on the EU and IMF to help arose from the risk of contagion to other weak euro-area members; and then there was the additional headache of how to respond to Greece if it did default. Would they force Greece to leave the euro even if it did not want to, and if so, how would they do that?

Given the risk of contagion, the focus has turned in recent weeks to Berlin and Washington, and to whether the rest of the EU would be able to help, albeit with IMF assistance. Market participants have complained about the apparent lack of urgency with which this help has been put together.

In some respects, you can’t blame the Germans. Greece could reduce its budget deficit if it collected all of its tax revenues. It is claimed, probably accurately, that unpaid tax revenues last year were larger than Greece’s 13.6% budget deficit. German and other EU taxpayers have also rightly asked, why throw good money after bad? In Germany, for instance, the press has pointed out that German taxpayers would be subsidising Greek workers who would retire at an earlier age than they would. As part of its austerity plan, Greece will have to sort these issues out, with far tougher measures than the ones proposed recently by the Greek government itself; for instance, it is reported that the public-sector retirement age will rise from 53 to 67.

Global (cont)

The euro area at a crossroads

In terms of the euro, none of this should be a surprise. All of the arguments against the UK joining the euro have been vindicated. Not all of the countries that are currently in the euro should be in it. The euro may have provided better protection to some of its members than they would have received if they had been outside during the crisis, and some countries, like Iceland, still want to join. Yet despite all this, the euro system is not sustainable in its present form.

At some stage, the euro area was always going to have to come to a fork in the decision-making road. This may be that fork, although the likelihood is that events will be delayed a little while longer, perhaps even by a couple of years. But a decision could just as well be taken now.

At that imaginary fork, the euro area needs to decide whether it wants political union. The nations which accept a political union will have to go down one route, and those which do not will have to leave the euro and take another route. This is because history shows that monetary unions of large sovereign nations cannot survive unless they become political unions. (I wrote about this in the Financial Times in 1998: 'Survival depends on political union' – please see Box 1.)

The arguments are the same now as they were then. Monetary union requires labour mobility and fiscal flexibility in the form of a single Treasury. Rich regions need to bail out poor areas when needed. This is easier to implement if they are part of the same country. It is much harder to justify across a monetary union.

Who are the weak countries? They used to be called the Club Med: Portugal, Italy, Spain and Greece. Now they are called the PIIGS, with Ireland representing the extra 'I'. Yet Ireland is taking the tough medicine that Greece is resisting, and politically, it does not want to leave the euro. Indeed, outside the construction sector, Ireland's economy is sound. The worries are centred on Spain – a much bigger economy and one that is in trouble, where one in five is unemployed and prospects for growth are minimal, as economic growth before the crisis was driven by a construction boom which is unlikely to return.

The basic problem with the euro is that one interest rate does not suit all the countries. In economic jargon, the euro is not an 'optimal currency area'; in other words, the economies are so different that they need their own interest rates. One size does not fit all. So ahead of the recent financial crisis, the euro contributed to an even bigger boom in the smaller European economies. Hence, they have seen a bigger bust.

All of this demonstrates the fragile underpinnings of the euro area. A monetary union makes sense for Germany and its satellite economies, including France. But the Club Med members need a competitive boost. They need devaluation and structural change. Ideally they need a two-speed euro. But because they cannot leave, the markets are pushing yields up, creating domestic problems. Hence the focus on the bailout from the centre, with the IMF's help. A bailout does not solve the problem. It

Global (cont)

just gets us by, some hope, until the world economy is stronger and the markets are better able to cope, even if Greece eventually defaults.

What does this indicate about the markets?

The current situation highlights the fragile state of the markets. At the end of last year, one worry was whether Greece was the new Lehman Brothers. It should not be, but this question focuses attention on whether an economic crisis threatens to create a sovereign debt crisis.

Global liquidity is abundant, but the markets are worried about how to unwind the sheer size of the stimulus measures implemented last year. The fact that the rating agencies downgraded Spain and Portugal last week, as well as cutting Greece to junk, says more about the rating agencies, I fear. Rather than being proactive, they are following the markets. This is not good. It is pro-cyclical, and makes matters worse with self-fulfilling prophecies.

What are the wider implications of the Greek crisis?

All of this reinforces the focus on safe havens and growth recovery stories. Europe is clearly not a growth recovery story, despite Germany's tremendous export machine. Markets will look to low-debt economies and to Asia as safe havens. As for the growth stories, well, they are the same: low debt and Asia.

The recent rebound in the US may stabilise markets somewhat, but the trouble is that the US rebound is policy-induced and still in its infancy. The good news, therefore, is the clear message from the Fed. It will keep rates low.

Be prepared for the second-round effects of contagion on continental European banks

Watch the contagion through the markets and be prepared for second-round effects in the future. Continental European banks look most vulnerable if the deal to help Greece flounders. A number of them were hit by problems in Central and Eastern Europe a year ago. When they suffered that contagion, many Western European banks shrank their international lending. Some Asian economies were also hit, although they coped. They could yet be affected by the Greek crisis, but given the other financial flows into Asia, and indeed other emerging economies, the impact this time could be limited. Asia is in a different space to even 12 months ago; it now faces problems from too much money coming in.

A deal in Greece may help to improve the mood towards sovereigns, including Dubai. But the reality is that Dubai should not be materially impacted even if Greece gets into trouble. It has had its shake-out and, indeed, the latest signs indicate that any rise in Dubai yields prompts locals to buy.

One side effect of financial-sector issues now is that politicians get even tougher on the financial sector, adding to the already-high risk of regulatory overkill.

Finally, as for the euro itself, it cannot survive in its present form. Political union is essential. The good news is that this deal, if ratified, addresses the immediate problem. The trouble is that the markets will now look for the next problem. And there are plenty of those.

Global (cont)

Table 1: Comparative debt profiles, select countries

	Fiscal balance as % of GDP, 2009	General government debt as % of GDP, 2010	Net external debt as % of GDP, 2010*
Australia	-4.0	19.1	47.9
Austria	-3.5	70.2	18.5
Belgium	-6.0	100.9	-45.2
Brazil	-3.5	70.2	-1.3
Canada	-4.8	81.2	26.1
Chile	-4.3	7.0	6.7
China	-2.9	23.9	-50.9
France	-7.9	83.1	23.3
Germany	-3.2	76.6	-6.3
Greece	-13.6	133.3	75.4
Hong Kong	1.0	2.1	-248.2
India	-10.7	81.2	-5.4
Ireland	-14.3	116.3	-73.3
Italy	-5.3	118.6	38.1
Japan	-8.8	214.3	-50.2
Kenya	-3.3	41.8	8.7
Korea	-1.1	37.3	-5.0
Malaysia	-6.5	50.5	-32.7
Mexico	-2.7	38.2	-1.0
Netherlands	-4.9	67.0	21.6
Nigeria	-2.0	14.5	-23.7
Portugal	-9.4	85.9	79.9
Russia	-5.9	11.1	-27.0
Saudi Arabia	-2.0	4.3	-107.7
Singapore	10.6	46.8	-104.9
South Africa	-6.8	38.2	0.5
Spain	-11.2	66.9	84.7
Sweden	-2.3	45.5	37.1
Switzerland	-0.5	40.3	-111.2
Taiwan	-5.8	49.1	-149.8
Thailand	-6.8	32.0	-44.2
United Kingdom	-11.5	78.2	28.9
United States	-11.4	87.5	42.8

**Negative figures indicate a net external assets position;* Sources: Fitch, IMF, EC, S&P, Standard Chartered Research

Table 2: Monetary unions

Still surviving but with political union	
British monetary union between England and Scotland	From 1707
Italian Monetary Union	From 1961
US Federal Reserve system	From 1913
German unification	From 1990
Still surviving without political union	
Belgium-Luxembourg union	From 1923
West African CFA franc zone	From 1948
Failed once political system collapsed	
German monetary union	From 1857-World War I (WWI)
The Soviet system	1917-1993
Temporary monetary unions	
Latin monetary union	1865-WWI
Scandinavian currency union	1873-1920
Other currency pegs	
Gold standard	1870-1931/36
Bretton Woods	1944-1973
ERM	From 1979
Asian currency crisis	1997

Global (con'd)

Box 1: Survival depends on political union, *Financial Times,* 23 March 1998

The lessons of history suggest that the success of Emu is far from guaranteed

The European economic and monetary union (Emu) may need to become a political union to survive. This is one lesson from a historical analysis of monetary union in the 19th and 20th centuries. Monetary unions of large sovereign nations which do not have political union eventually fail, sometimes after a long time.

Politics has been the driving force behind Emu. Since the Luxembourg prime minister presided over the Werner Report in October 1970, the irreversible fixing of exchange rates has been a central objective in European economic policy. Yet, even in 1970 it was not a new idea. A century ago Europe was also dominated by a desire for currency stability and the experience then suggested Emu's success is far from guaranteed.

Monetary unions can be divided into four categories as shown in the table.

The first category is where political union has ensured the monetary union's success. Many examples fit this category. A recent example is German unification. Longer lasting is last century's Italian monetary union, which followed political unification in 1861. The example Emu may try and emulate is the US Federal reserve, established in 1913 as a decentralised system. The setting of twin policy mandates for the Federal Open Markets Committee, as well as accountability to Congress, have ensured a credible yet flexible monetary policy. This has been supported by flexibility in the labour market and in fiscal policy, helping to create the conditions for employment growth that Europe has been unable to match.

Second, monetary unions of small countries can survive without political union, provided there has been economic convergence. Two examples are the 1923 Union between Belgium and Luxembourg and the CFA franc zone in west Africa, which has survived from 1948, helped by a substantial devaluation in 1994 following disappointing economic performance.

The third category is where the survival of the monetary union is dependent on the political system. Once the political system binding it together collapses, the monetary union fails. One example is the collapse of the Soviet system, another is the failure of the 19th century German monetary union. This was one of three monetary unions which co-existed across Europe a century ago, the other two without political union. All three survived for some time.

There is a common perception that political union preceded German monetary union in the 19th century. Yet, many elements of monetary union were in place following the creation of the Zollverein in 1834, which removed all internal tariffs and created a single market, prior to German political union in 1871. Then followed the formation of the Reichsbank in 1871 and the introduction of the mark in 1876. The collapse came at the outbreak of the first world war.

The fourth category is a temporary monetary union that survives for a long time without political union but eventually collapses. The Latin and Scandinavian monetary union from last century are examples.

The Latin monetary union was formed in 1865 between France and the closely linked economies of Belgium, Italy and Switzerland. Greece joined in 1868. It was a bimetallic union, initially based on silver and then on gold. The precious metal standard, common in old unions, reflected a commitment to fiscal conservatism and small balanced budgets. This union ran alongside Germany's monetary union until the first world war.

Denmark and Sweden almost joined the Latin monetary union, but did not, because of the Franco-Prussian war. Instead, they formed the Scandinavian currency union, which Norway joined in 1875.. This was the most stable of all the unions, benefiting from economic and political stability and common policy objectives. The suspension of the gold standard at the outbreak of the first world war led to volatility in real exchange rates and provided the trigger for the gradual collapse of the Union in 1920.

The lesson is monetary unions of politically independent, large sovereign nations can fail, particularly when there is an external shock, causing the economic environment to change. It is easier for unions to survive when the economic cycle is favourable. The long time during which both the Latin and the Scandinavian unions survived demonstrates the importance to withhold judgment on the success of a union, until its performance can be judged in an economic downswing or when there is a deflationary shock.

There is also a fifth relevant category for Emu. This is the less from currency pegs or other systems. The lesson from the gold standard, Bretton Woods or even the exchange rate mechanism (ERM) is the need for flexibility, particularly when currency systems are attempting to bind together economies whose cycles and structures are different. The ERM worked well in its first phase, from 1979-87 because the system was flexible, with 11 frequent realignments. The second phase, between 1987-92, appeared to work well. There was only one realignment, when the lira moved to a narrow band. Yet all that happened was that problems built up below the surface. Nominal exchange rates did not change, but real rates moved badly out of line, providing the catalyst for the system's near collapse in September 1992. Flexibility is important for any currency system.

Last year's Asian currency crisis was the latest example of the clash between domestic and external needs. Previous experience of monetary unions in Europe is that they can last for some time, but ultimately Emu must become a political union to survive.

Asia

Tai Hui, Regional Head of Research, South East Asia
Standard Chartered Bank, Singapore
+65 6530 3414, Tai.Hui@sc.com

- **China contributes to Asian export recovery, especially for Hong Kong and Taiwan**
- **Tourists from China are also boosting the region's tourism sectors**
- **China's exporters are looking to make further inroads into Asian markets**

China lends a helping hand

China is an important driver of Asia's export recovery

The US has contributed less than 10% of Asia's export recovery so far, excluding China and the Philippines

Recent economic data and policy actions from Asia are encouraging. Singapore, the second Asian economy to report Q1 GDP growth (after Vietnam), expanded at a breakneck pace of 13.1% y/y. As a result, the Monetary Authority of Singapore opted to revalue the Singapore dollar in a one-off move, as well as allowing the currency to appreciate. Meanwhile, the Reserve Bank of India has raised its benchmark interest rates to fight rising inflationary pressures.

Asia's domestic and export sectors are both recovering well. As we noted here last month, exports from Vietnam, Indonesia, China, Thailand and South Korea had already fully recovered to their pre-crisis levels as of end-2009 or early 2010. Other Asian economies are also making good progress, and the current trajectory suggests that a full recovery is within reach for the rest of the region in the months ahead.

China is an important driver of this recovery. Chart 1 compares the contributions of China and the US to Asia's export growth (by demand), using export data for the three-month period from December 2009 to February 2010. The US contributed less than 10% of the export recoveries of Asian economies (with the exceptions of China and the Philippines) over this period. This reflects still-weak direct demand from the US amid the nascent consumer recovery; we expect the recovery to remain on a choppy path in the quarters ahead.

China's demand for Asian goods has been much more prominent. For example, mainland China was responsible for 75.9% of Hong Kong's export growth and 53.5% of Taiwan's during the period from December 2009 to February 2010. This reflects the close trade relationships within the Greater China region. Similarly, China accounted for 37.4% of South Korea's export growth in Q1-2010. This pattern reflects China's growing importance to the rest of North East Asia, as both a final and an intermediate export market. China's contribution to South East Asia's export growth is still greater than that of the US; this is especially true for Malaysia (China accounted for 29.8% of its export growth from December 2009 to February 2010) and Thailand (26.2%).

Tourists from China have had a significant impact on Hong Kong and Taiwan, accounting for 79% and 66% of their tourism growth, respectively

In addition to trade in goods, China is also contributing to the region's tourism sector. China is now a net importer of tourism services. This means that mainland Chinese tourists are spending more overseas than foreign visitors are spending in China. This trend is strongly reflected in tourism data from Hong Kong and Taiwan. Between December 2009 and February 2010, mainland Chinese tourists

Asia (con'd)

Despite China's strong demand, its needs are uneven; at the same time, Chinese exporters are increasingly competing with Asian manufacturers

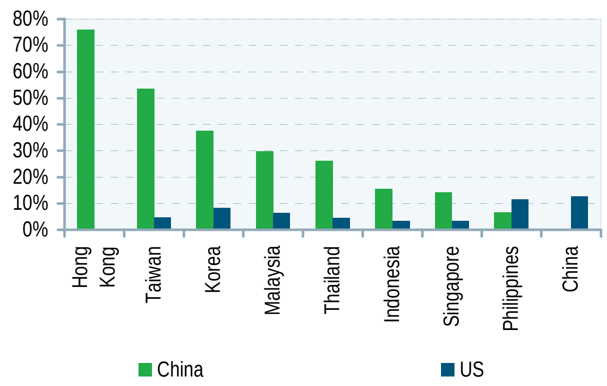
were responsible for 79.1% and 66% of the tourism growth in Hong Kong and Taiwan, respectively. China's tourists have had a more modest impact in South East Asia, contributing 20% of Singapore's tourism growth and 12% of Malaysia's. Nonetheless, their spending power is arguably a force to be reckoned with for tourism sectors across the region.

China lifting the barbell

China's import demand is uneven across product categories. It follows a 'barbell' pattern, characterised by heavy imports of raw materials and capital goods and limited imports of labour-intensive manufactured products, where it is already competitive. Table 1 shows the top products which contributed to China's import growth between December 2009 and February 2010. Petroleum and related materials were responsible for almost 19% of China's import growth during the period. They were followed by electrical machinery, which appears to correlate with the government stimulus-led investment boom. Commodities or raw materials were in five of the top nine product categories and were responsible for 42% of China's import growth. The remaining four categories consisted mainly of professional instruments, road vehicles and office machinery.

While China has shown strong demand for imports from Asia, it is also worth noting that it is expanding its exports to Asia. This may put competitive pressure on Asian manufacturers, especially in ASEAN, where many export sectors overlap significantly with China's manufactured goods. This competitive threat is compounded by the fact that the Chinese yuan (CNY) has depreciated against most other Asian currencies since March 2009. While we expect the CNY to begin a gradual appreciation in the near term, this is unlikely to give Asian manufacturers of labour-intensive products much breathing room. Therefore, the benefits of China's demand for Asian goods may be partly offset by flows in the opposite direction.

Chart 1: Share of export growth contributed by China and the US *(Dec-2009 to Feb-2010)*



Sources: CEIC, Standard Chartered Research

Table 1: What is driving China's import growth?
Contributions to import growth, Dec-2009 to Feb-2010

China's imports	Contribution
Petroleum, related materials	18.9%
Electrical machinery, apparatus and appliances	17.0%
Metalliferous ores and metal scrap	10.1%
Professional, scientific instruments	5.5%
Non-ferrous metals	4.8%
Road vehicles	4.6%
Plastics in primary forms	4.3%
Organic chemicals	4.2%
Office & automatic data processing machines	4.1%

Sources: CEIC, Standard Chartered Research

Africa

Razia Khan, Head of Macroeconomic Research
Regional Head of Research, Africa
Standard Chartered Bank, United Kingdom
+44 20 7885 6914, Razia.Khan@sc.com

- **We explore Africa's demographic dividend**
- **Recent evidence shows declining poverty levels, despite higher population growth**
- **Lower dependency ratios imply higher financial returns over time**

Demographics and the attraction of African returns

Africa is doing better; counter-cyclical policy has played a role

Africa emerged from the crisis in better shape than most expected, but any rapid fiscal consolidation might endanger future growth

Africa did not have such a bad crisis after all. Headline growth rates, although still below trend, are at least recovering. The IMF's latest Regional Economic Outlook for Africa, published in April, notes the resilience of African economies, despite the sharper contraction in global growth relative to previous crises. (We outlined some of the reasons for this in **Global Focus, 1 December 2010, 'New World Order'**.) African and other emerging-market (EM) economies entered the crisis with more favourable fundamentals. A rapid recovery in China, gains in select commodity prices and the return of risk appetite also helped. Not least, Africa saw an unprecedented amount of counter-cyclical stimulus across the region.

The sustainability of growth depends on Africa's ability to attract foreign capital inflows, as well as its ability to increase domestic revenue collection

Going forward, fiscal trends will need to be watched. Rising levels of official development assistance (ODA) in response to the crisis helped to avert a deeper contraction. But future fiscal sustainability will depend on the extent of the recovery in growth and revenue collection, and on Africa's ability to replace ODA with greater private capital inflows.

Attracting greater private-sector inflows will be key

While demographic trends alone will not determine growth, they will have an important influence on future output

With many countries typified by large informal economies and a narrow formal-sector tax base, Africa is ripe for reforms that should bring a substantial improvement in revenue collection rates. We believe that private-sector inflows are also likely to rise significantly from current levels, perhaps even several-fold. We explore the likely drivers of this trend below – in particular the relationship between demographic trends and asset price returns, a factor which is likely to work greatly in Africa's favour.

Recent years have seen the opening up of African frontier markets to private capital from offshore. The latest global crisis has done little to derail this trend. Across Africa, governments remain concerned with the sustainability of low interest rates in order to support economic recovery. Vast infrastructure deficits are seen as a greater constraint on export competitiveness than exchange rates, perhaps in all countries except South Africa. There is no region-wide effort to fight exchange rate appreciation. Moreover, a handful of frontier African economies have announced their intention to issue maiden eurobonds over the coming year. Africa is opening up to private capital as never before. Ultimately, however, returns on investment, as well as Africa's appetite for offshore capital, will determine whether there is a flood of new inflows into Africa. How are returns influenced by demographic trends?

Africa (con'd)

Relative to other regions, Africa will have a higher working-age population as a percentage of its total population

Demographics – the great debate

Although Africa has a higher population growth rate (even with the incidence of HIV/AIDS in some parts of the continent) and a younger population than other developing regions, its demographics have not always been viewed positively. The dominance of Afro-pessimism and misplaced notions that African growth lags far behind other developing regions have led to a view that rapid population growth is a negative influence on the region's economic well-being. However, recent research has dispelled such pessimism, suggesting that economic growth and poverty reduction have been more successful than commonly believed.

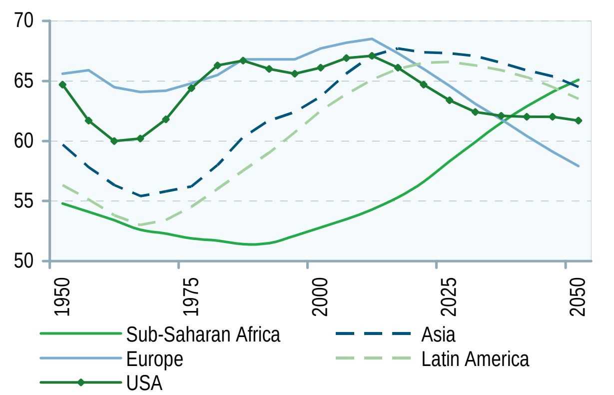
Pension reform in Africa is important, and is moving broadly in the right direction; Africa's growth outlook is less likely to be impacted by negative fiscal trends related to pension liabilities

Younger populations imply higher financial returns

In the recently published paper 'African poverty is falling... much faster than you think' (Pinkovskiy & Sala-i-Martin, January 2010), the authors compare USD-a-day poverty rates with PPP-adjusted per-capita GDP trends in Africa. The two lines are often mirror images of each other over time, suggesting that faster economic growth has driven both higher per-capita incomes (despite a growing population) and declining poverty rates.

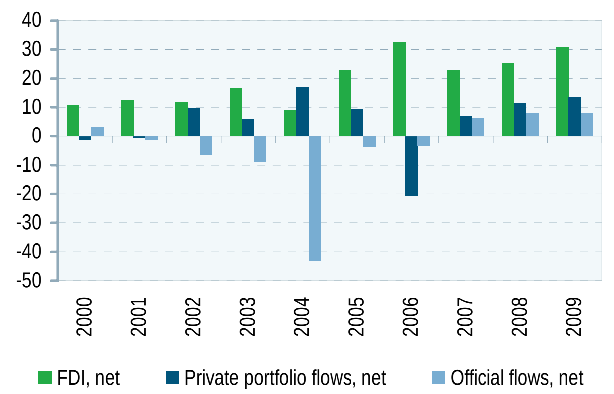
Chart 1 shows that dependency ratios are expected to fall much faster in Africa than elsewhere. In order to gauge the likely impact on financial returns, the contrast with more rapidly ageing populations needs to be considered. Other factors being equal, a smaller working-age population supporting a larger number of retirees will increase the future value of pension liabilities – a potential fiscal drain that could subtract significantly from economic growth. The data suggests that Africa will face fewer pressures of this nature. Ageing populations are also likely to save more for retirement, increasing the pool of savings (at the expense of current consumption) and possibly driving down returns on savings. The sale of assets such as housing and equities in order to fund longer retirements may exert further downward pressure on such asset prices. Again, the evidence appears to suggest that much of Africa will be immune to such trends.

Chart 1: Africa's demographic dividend
Working-age population as % of total population



Sources: UN, Standard Chartered Research

Chart 2: Private capital inflows into Africa set to rise
USD bn



Sources: IMF WEO

Middle East

Marios Maratheftis, Head of Research, West
Standard Chartered Bank, UAE
+9714 508 3311, Marios.Maratheftis@ sc.com

Nancy Fahim, Economist, Middle East and North Africa
Standard Chartered Bank, UAE
+9714 508 3647, Nancy.Fahim@sc.com

- **GCC economies are recovering, and some leading indicators are turning positive**
- **As a result, confidence in the region is improving**
- **With inflation low and economic activity picking up, pressure on the pegs is limited**

Recovery and the impact on currencies

Gulf Co-operation Council (GCC) countries experienced a downturn in 2009 as oil production dropped and housing markets corrected. We expect growth to pick up in 2010. Even though official Q1 data has not been released, some indicators point towards a recovery. The region's US dollar (USD) pegs were the centre of market attention not long ago, as they constrained monetary policy and contributed to boom-and-bust dynamics. While GCC monetary policy still faces the same constraints, the current accommodative US monetary stance is working well for the region. Currency reform is not currently on the agenda. And with GCC economies recovering and inflation remaining low overall compared with 2008, pressure on currencies is limited. Here, we look at some of the positive indicators and introduce the Standard Chartered UAE dirham (AED) and Saudi riyal (SAR) currency barometers, which capture prevailing pressures on the pegs.

The positive signs

Some indicators suggest that the UAE has entered the recovery phase

The UAE experienced a sharp housing-market correction in 2009, which continues to impact its economy. However, there are positive signs to suggest the economy has entered the recovery phase. Central bank data shows that retail sales returned to positive q/q growth in Q4-2009, increasing by 4%. This followed flat growth in Q3 and declines of 16% and 15% q/q, respectively, in Q1 and Q2. The latest data is an early indication that the retail sector is turning around.

Dubai's property market is also showing signs of life, with transaction data released by the Dubai Chamber of Commerce showing the number of sales of land, flats and villas amounting to 1,933 in March and 861 in January.

Consumer confidence is improving. The Nielsen Global Consumer Confidence Index for the UAE rose by 13 points in H2-2009 from H1, following a 21-point decline from H2-2008 to H1-2009. The Consumer Confidence Index (CCI), a quarterly survey conducted across the Middle East, showed an increase in the UAE reading in Q1-2010.

However, credit is still tight as the economy deleverages. We estimate credit growth for 2009 at 1.5%, and it has remained subdued in 2010 as bank loans still exceed bank deposits. This is limiting growth dynamics in the economy. Tight credit conditions are an issue across the GCC (as well as globally), not just in the UAE.

Middle East (con'd)

Currency pegs constrain monetary policy and are subject to pressure; to quantify such pressures, we introduce our in-house AED and SAR currency barometers

Currency barometers

Currencies in the GCC are pegged to the USD, with the exception of the Kuwaiti dinar (KWD), which is targeted against a basket of currencies. As a result, monetary policy across the region follows that of the US. The problem is that what works well for the US in terms of monetary policy is not always ideal for the region. Historically, GCC countries have experienced inflation when the USD is too weak and deflation when the USD is too strong. As a result, there are times when the pegs experience pressure.

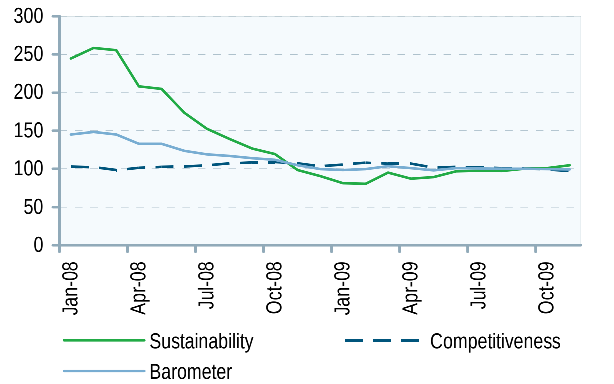
We have created two currency barometers to gauge such pressures on the AED and the SAR. The barometers are made up of two components, which we also chart individually. The competitiveness component makes use of a trade-weighted currency basket and inflation differentials between each country and its trading partners. The sustainability component takes into consideration each country's foreign exchange reserves and broad money supply.

Currently, our barometers do not detect any unusual pressures on the SAR and the AED

It is important to highlight two issues. First, revaluations can be avoided, even when there is pressure on the pegs. There is no critical point beyond which the peg breaks, as a country which stops its currency from appreciating accumulates reserves rather than depleting them. The costs of maintaining a peg under such conditions are inflation and a boom-and-bust cycle, but this depends on the tolerance of the different authorities. Our barometers show massive pressure on both pegs in 2008; they do not detect any significant pressures currently.

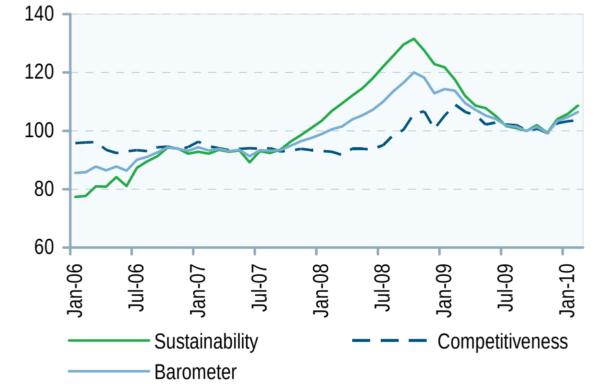
The second point worth emphasising is that in the case of GCC countries, the sustainability component of the barometer merits extra attention. Given that their exports are dominated by oil, competitiveness is less of an issue for the UAE and Saudi Arabia – appreciation of their real effective exchange rates is unlikely to have a significant impact on their economic competitiveness, at least when compared with economies that are dominated by exports of industrial goods.

Chart 1: AED monthly barometer



Source: Standard Chartered Research

Chart 2: SAR monthly barometer



Source: Standard Chartered Research

Commodities

Helen Henton, Head of Commodity Research
Standard Chartered Bank, UK
+44 20 7885 7281, Helen.Henton@sc.com

Daniel Smith, Metals Analyst
Standard Chartered Bank, UK
+44 20 7885 5563, Daniel.Smith@sc.com

Abah Ofon, Softs Analyst
Standard Chartered Bank, UAE
+9714 508 3738, Abah.Ofon@sc.com

- **Investor flows are key, but fundamentals explain divergent performance**
- **Crude oil is likely to remain range-bound for now**
- **Gold and PGMs are expected to outperform**

Broadly bullish, but vulnerabilities remain

Investors flows are supportive but volatile

We expect investor flows to continue to support the commodity markets this year

Commodity indices increased only modestly in April, with the Dow Jones UBS index up just 1.4% m/m. Strong performances by precious metals and energy were offset by corrections in base metals, and the agricultural complex continued to underperform (Chart 1). Commodity markets are benefiting from investor support as liquidity remains ample, but flows remain volatile and are increasingly correlated with confidence in the global recovery (and thus equity markets), as opposed to the USD (Chart 2).

We remain broadly bullish on the commodity complex this year on the basis of continuing investor flows into the asset class and recovering demand, but we emphasise its vulnerability to (1) confidence in the macroeconomic outlook, specifically demand in China; (2) monetary policy tightening; and (3) significant supply responses as idled capacity comes back onstream. While investor funds are now arguably the key market driver, the divergent performances within the complex illustrate that fundamentals are still important, and are a key consideration for investor flows.

Energy – Crude oil likely to remain range-bound for now

Crude oil prices have pulled back from their recent peaks as doubts have emerged about the sustainability of the global recovery following sovereign credit rating downgrades for Greece, among others. Inventories are climbing in the US, but we remain confident that a continued demand recovery will bring them lower as the year progresses. We have revised up our Q2 forecasts for crude oil to reflect stronger-than-expected investor flows to date, but we still believe that the upside is capped by OPEC's spare capacity and the weakness and price-sensitivity of demand growth in the West.

Precious metals – Strong performance expected to continue

PGMs are likely to outperform on tight fundamentals

Precious metals have rallied strongly in recent weeks, outperforming the wider commodity complex. Palladium has led the way, with the market benefiting from the rebound in the global auto sector as well as strong investor appetite for commodities. Similar factors have lifted platinum. Looking ahead, the platinum group metals (PGMs) have been through a period of strength and should consolidate these gains in the weeks ahead, before moving higher once more in H2-2010. We have revised up our Q2 forecasts for the PGMs to reflect stronger-than-expected demand.

Commodities (con'd)

Gold has also shown resilience in the face of USD strength, reaching record highs in euro terms. Worries about Greece have accelerated safe-haven buying, and strong investor inflows have been seen into the main physical ETFs. With rate hikes not expected until 2011 in the US and Europe, and given the ongoing turmoil in Europe, gold should remain on an upward track for most of 2010.

Base metals – Copper and lead to outperform

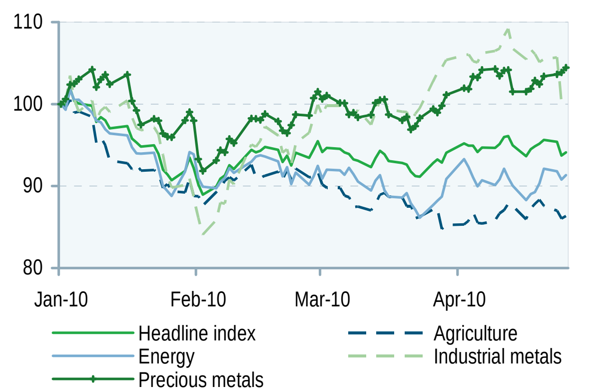
Further upside is expected for some base metals

Base metals sentiment has been boosted by continuing evidence of a global economic recovery and various signs of a stronger-than-expected recovery in industrial metals demand. However, concerns about Greece and a strong USD have tended to weigh on prices and sentiment. Divergence price action supports the view that investors are not oblivious to fundamentals. Aluminium – a market in oversupply – was hit hard by a sell-off in late April, while lead and nickel were boosted by strong demand. Looking forward, we expect further upside for some base metal prices, with copper and lead likely to outperform aluminium and nickel. Copper should benefit from strong import demand from China and tightness in raw-material supplies, while aluminium and nickel will suffer due to high inventory levels and as supply starts to respond to elevated prices. We have revised up our forecasts for base metal prices for Q2-2010 to reflect stronger-than-expected investor appetite and physical demand to date.

Agriculture – Divergence continues

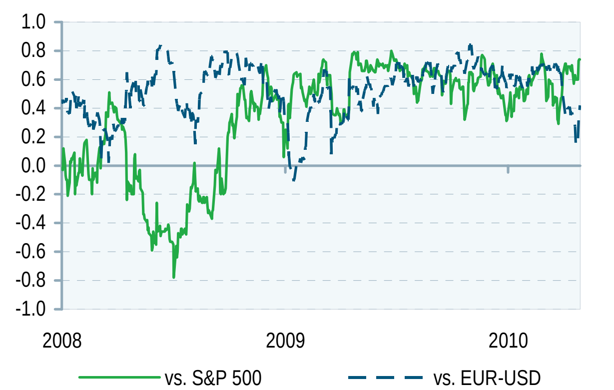
Activity in agricultural commodity markets has been muted in recent weeks. This is typical for this time of year, as crops are between seasons and fresh fundamental news is noticeably absent. Markets have broadly followed the trends we highlighted in last month's Global Focus: the outlook for grain markets is bearish, edible oils are resilient and softs look bullish. In particular, cocoa rose to a 32-year high in April, driven by increased demand and the International Cocoa Organisation's forecast of a small deficit in the current season. Overall, we expect the current trends to be sustained until the end of Q2-2010, when we expect grain and edible oil markets to improve as supply tightens.

Chart 1: DJ UBS commodity index
Rebased, Jan 2010=100



Sources: Bloomberg, Standard Chartered Research

Chart 2: DJ UBS commodity index correlations
20-day rolling



Sources: Bloomberg, Standard Chartered Research

Credit

Vijay Chander, Head of Credit Strategy
Standard Chartered Bank (Hong Kong) Limited
+852 3983 8569, Vijay.Chander@sc.com

Sandeep Tharian, Credit Strategist
Standard Chartered Bank, United Kingdom
+44 20 7885 5171, Sandeep.Tharian@sc.com

- **We have compared Asia's current macroeconomic conditions with those of 2000-03**
- **We take a detailed look at the wave of technical factors supporting credit spreads in Asia**
- **Credit spreads in Asia are tighter now than earlier – justified, but with limited upside**

Asian credit spreads are much tighter now than in 2003, but Asia is also in better economic shape relative to the previous recession

Two recessions compared: 2000-03 vs. 2008-10

An over-optimistic market?

We have compared various economic metrics for Asia during the period from 2005 to the present (which includes the latest recession) with those during the 1998-2003 period (which included the previous global recession). We have also undertaken a similar comparison of benchmark Asian credit spreads to assess where they were trading then relative to current levels.

Our objective is to determine whether current Asian credit spread levels compare favourably with credit spreads during the earlier period. Our analysis reveals that the region's credit markets are more optimistic now than they were then. That said, economic conditions in Asia are much better now than they were during the previous period. In summary, the tighter credit spreads seem justified.

Macroeconomic backdrop – Asia is in better shape now

Asian macro data points are mixed when it comes to comparing the 2008-10 downturn with the earlier episode. China's and Indonesia's GDP growth have fared better in the more recent downturn, while Korea and the Philippines have lagged. Industrial production in the region is back to pre-crisis levels as Asian economies' de-coupling from the West gathers pace. While it is a slow and arduous task, steps are being taken to boost domestic demand within the region, and the export-driven model is beginning to diminish in importance.

A wall of supporting technicals

The technicals in support of Asia have been much stronger during the current period than they were earlier. The stock of money market funds built up since 2006 now stands at a strong USD 3.0trn, after seeing about USD 1.0trn of outflows following the latest crisis. Emerging-market (EM), and specifically Asian, bonds have been the beneficiaries of an increasing share of these outflows as investors have shifted their focus to the EM space. On the other hand, private capital flows to EM (and Asia) have collapsed during the 2008-10 period, in contrast with 2000-03. It is worth noting, though, that private capital flows to Asia fell by much more during the Asian crisis and in the aftermath of SARS (2003-05) than during the latest period.

Other pieces of technical evidence suggest that the better performance of Asian credits this time around is justified. Turning first to the supply/redemption picture, in 2003, Asian issuance dwarfed redemptions (c.32.8bn of issuance versus just USD 6.8bn in redemptions). This time around, issuance of USD 16.2bn YTD in

Credit (con'd)

2010 has exceeded redemptions of USD 11.2bn, but not by as wide a margin as in the earlier episode. We expect USD c.40bn in supply this year from existing issuers (and more from new issuers), versus expected redemptions of USD c.36bn. In our view, the net issuance of c.10-15bn should be absorbed quite easily.

Global bond funds are set to increase their allocations to Asia

Global bond fund allocations to Asia are currently in the 5% range, below the peak level of 7% seen in H1-2008. In our view, allocations to Asia could increase to about 8-9% as the region becomes an increasing area of focus. This translates into roughly USD 13bn of increased fund flows (although still only about 4.3% of the total Asian G3 bond market of USD 307bn).

Valuations seem fair for Asia

Are valuations fair at current levels? Although valuations have bounced back rapidly, spreads appear to be tight. Both the 5Y and 10Y Treasuries are broadly trading at levels similar to where they were a decade ago, while the 2Y rates are much lower now. Given that Treasuries are trading at approximately the same levels, investors should theoretically be indifferent (*ceteris paribus*) to where Asian credit is trading now relative to 2003.

Looking at select Asian benchmark spreads (see Table 1 below), it is clear that the Philippines sovereign has exceeded even the best levels at which it traded during 2003, with 2010 spreads more than 100bps inside those seen seven years ago. In the case of the investment-grade benchmark Hutchison Whampoa, spreads are just a touch tighter. Given that Hutchison is a key diversified player with exposure to a number of macro trends (ports, retail sales, telecoms, energy), it is a proxy for comparison of Asian credits across the 2003 and 2010 periods.

In summary, Asian fundamentals and technicals show that the assumption of *ceteris paribus* does not hold, and that economic conditions are much better now than they were during the previous period. Thus, a substantial part of the tightening since 2003 is fully justified, in our view. With investor allocations to Asia still not at the peak levels seen in early 2008 (and with inflows into Asian bond funds also running below their recent peaks), there could be room for modest gains.

Table 1: Bond comparisons with 2003 levels

	2003	Tightest yield (%)	Widest yield (%)	Average yield (%)	2010	Yield (%)
Philippines 10Y	PHILIP 13	7.15	9.65	8.50	PHILIP 20	5.27
Philippines 20Y	PHILIP 24	7.72	8.62	8.34	PHILIP 30	6.35
Hutchison 7Y	HUWHY 10	5.14	5.47	5.31	HUWHY 17	4.74
Hutchison 10Y	HUWHY 13	5.37	6.84	6.11	HUWHY 19	5.23
GS-Caltex	GSCCOR 11	4.68	6.32	5.55	GSCCOR 17	5.08

Sources: Bloomberg, Standard Chartered Research

FX

Thomas Harr, Senior FX Strategist
Standard Chartered Bank, Singapore
+65 6530 3617, Thomas.Harr@sc.com

- **FX markets will remain volatile near-term, subject to debt woes in the euro area**
- **The EUR should recover from H2, once Greece is bailed out, on global recovery**
- **USD-AXJ is likely to remain choppy in May-June; AXJ to outperform again in H2**

Sovereign risks amid the global recovery

FX economics

Near-term, global FX markets will remain focused on sovereign risks and the global recovery

Global FX markets are currently dominated by two key factors: (1) sovereign debt worries in the euro area and (2) the global recovery. The situation in the euro area remains fluid. There is considerable uncertainty about Greece's financing needs, a possible restructuring of Greece's debt, and potential contagion to other euro-area economies, such as Spain and Portugal. Ahead of the 19 May rollover date for Greece's debt, markets are likely to remain highly volatile, with the events unfolding in the euro area dominating risk sentiment. Our base case is that Greece will eventually be bailed out by the EU and the IMF, preventing the euro-area debt crisis from escalating into a global sovereign debt crisis. As such, the outlook should improve after Greece gets over its financing hump in May. That said, the fiscal consolidation process in the euro area will drag on for much longer.

Meanwhile, the global recovery remains on track. The driving force has been the sharp recovery in the global industrial cycle. The US ISM Manufacturing Index rose to 59.6 in March from 56.5 in February, while Germany's IFO Business Climate Index rose to 101.6 in April from 98.2 in March. In Asia, Korea's May Business Survey for manufacturing rose to 107 from 105, while China's March PMI rose to 55.1 following a dip to 52.0 in February. The global industrial cycle may remain at its current high level in the coming months but is likely to slow in H2. Large emerging economies (particularly in Asia) have led the growth recovery, followed by the US, while the euro area has lagged so far. We expect the US and China to slow in H2 as policy stimulus fades. In contrast, the euro area may catch up given the positive spill-over from strong growth in the US and China.

FX outlook

EUR-USD is likely to remain choppy and trendless near-term, recovering in H2

Near-term, global FX markets are likely to remain highly volatile, subject to headline risk – especially from the debt woes in the euro area. As such, EUR-USD is likely to remain choppy and trendless. Medium-term, our base case remains that Greece will be bailed out without debt restructuring, and that other debt-laden economies in the euro area, such as Portugal and Spain, will also ride out the storm. Given the amount of speculative short euro (EUR) positioning, this should trigger a sharp bounce in EUR-USD. In addition, growth dynamics should move in favour of the EUR in H2, when the US economy slows. Recently, interest rates have moved modestly in favour of the US dollar (USD) versus the EUR. In our view, this USD-positive factor should fade in the coming months.

Until now, emerging market (EM) currencies, in particular Asia ex-Japan (AXJ) currencies, have remained largely immune to the debt worries in the euro area.

FX (con'd)

However, if the situation escalates, there will be a natural spill-over to EM currencies through financial linkages and risk sentiment. In addition, our seasonal analysis of AXJ currencies shows that they typically perform worse in Q2 and Q3, but significantly better in Q1 and (particularly) Q4 as risk appetite returns. Therefore, we are likely to see a period of choppy trading in USD-AXJ before we see further strength.

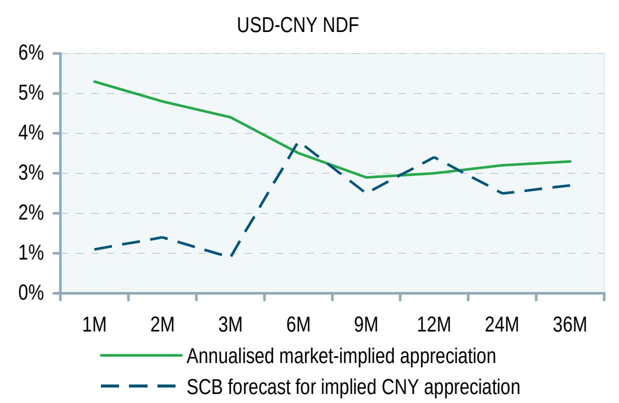
Fundamentally, we remain bullish on AXJ currencies. AXJ is likely to continue to lead the global recovery, which should attract further capital inflows to the region. Despite the fact that China has kept the Chinese yuan (CNY) effectively pegged to the USD, most AXJ central banks have tolerated gradual currency appreciation. We expect AXJ currency appreciation to gain speed in H2, when China moves back to the crawling USD peg which was in place from July 2005 to July 2008. We expect the Philippine peso (PHP), Singapore dollar (SGD) and Taiwan dollar (TWD) to catch up with the rallies in the Korean won (KRW), Indonesian rupee (INR), Indonesian rupiah (IDR) and Malaysian ringgit (MYR).

AXJ exporters should use short-term weakness in local currencies to raise hedge ratios on USD and JPY receivables

FX strategy

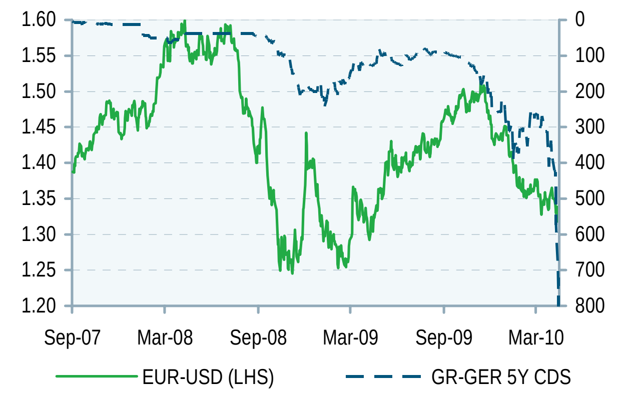
We recommend that AXJ exporters use short-term weakness in local currencies to raise hedge ratios on USD receivables. This is especially the case in longer tenors, where USD-AXJ should significantly underperform forwards. AXJ exporters should also use any weakness in their local currencies to hedge longer-term Japanese yen (JPY) receivables. AXJ exporters with short-term EUR receivables should maintain high hedge ratios given the risk of further EUR-AXJ losses near-term. In addition, we advise AXJ corporates with subsidiaries in G10 markets to raise translation risk hedges, given that AXJ currencies are likely to outperform G10 currencies. In contrast, we advise USD-based clients to lower their hedge ratios for AXJ-denominated assets.

Chart 1: CNY market-implied appreciation
The market is overestimating CNY appreciation



Sources: Bloomberg, Standard Chartered Research

Chart 2: Greece-Germany 5Y CDS vs. EUR-USD
Greek debt worries are weighing on EUR-USD



Sources: Bloomberg, Standard Chartered Research

Rates

Edward Lee Wee Kok, Regional Head of Rates Strategy, Asia
Standard Chartered Bank, Singapore
+65 6530 3188, Lee.Wee-Kok@sc.com

- **Developments in Greece, accommodative Fed stance are capping market rates**
- **Asian rates are generally lower, despite divergence in recent policy decisions**
- **Market rates are likely to move higher throughout the year, but at a gradual pace**

Rates bulls benefit from European woes

Capped rates

Concerns over potential contagion from Greece, along with a still-accommodative Fed, are putting downside pressure on yields

After a brief but sharp bearish bout during which the 10Y US Treasury yield tested 4% early in the month, rates markets performed largely positively in April. Bernanke's dovish testimony to the Joint Economic Committee and a temporary break in UST supply in mid-April both helped to ease yields. UST supply has since resumed, but UST sentiment has been mostly driven by developments in Europe. Concerns over Greece heightened significantly in the last week of April, further fuelling the rally in the UST market, after S&P downgraded Greece's credit rating by three notches to BB+ (from BBB+) on 27 April. Meanwhile, Spain and Portugal also had their sovereign ratings downgraded, by one notch to AA (from AA+) and by two notches to A- (from A+), respectively.

Market sentiment has improved since a three-year bailout package worth EUR 110bn was announced on 2 May. EUR 80bn will come from Europe and EUR 30bn from the IMF. That said, markets are still cautious given the very stringent fiscal tightening measures Greece will have to adopt over the coming years. European CDS spreads narrowed after the package was announced, although the magnitude was small, reflecting ongoing concerns about contagion. This caution will benefit rates markets, including the USD market and USD-correlated Asian markets such as HKD and SGD.

Another factor capping rates is the lack of urgency for the US Fed to hike rates. This was again underlined at the latest FOMC meeting on 28 April, where the Fed maintained that the federal funds target rate will be kept at exceptionally low levels for an extended period.

Diverse monetary policy decisions, but uniform impact on rates

April saw Asian market rates move generally lower, despite divergent monetary policy decisions within the region

Recent central bank meetings in Asia have continued to show diverse monetary stances across the region. The Monetary Authority of Singapore (MAS) surprised with a very aggressive decision to re-centre the SGD NEER (Singapore dollar nominal effective exchange rate) to the prevailing level and move the SGD to a modest, gradual appreciation bias. In contrast to the MAS' implicit monetary policy tightening, the Reserve Bank of India underwhelmed with a 25bps policy rate hike. These latest decisions underscore the contrast among Asian central banks – countries with typically more manageable inflation, such as Singapore and Malaysia, are tightening, while those with typically higher inflation volatility, such as Indonesia and India, are being more accommodative. The deflationary impact of FX appreciation may have played a big part in allowing central banks to focus more on growth. But given Asia's robust fundamentals, we believe it is only

Rates (con'd)

a matter of time before policy makers will have to address inflation in a more committed manner. Meanwhile, in Thailand, the central bank has toned down its hawkishness following the deterioration in the political situation. The prolonged uncertainty has dented the growth outlook, dampening expectations of an imminent rate hike. While we maintain our forecast that the first rate hike will come in June, the situation remains fluid.

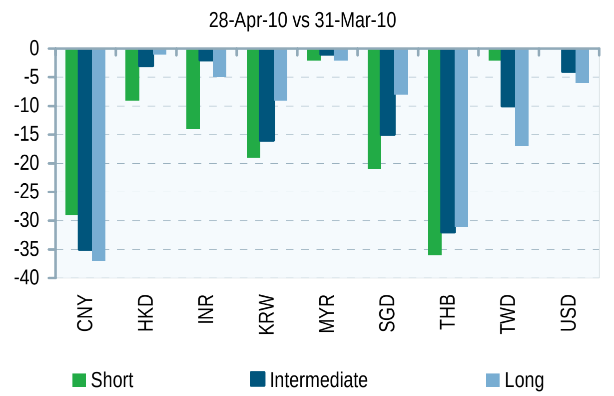
Despite Asia's diverse monetary policy developments, the impact on rates markets has been uniform. SGD rates fell despite the implicit MAS tightening, although this is not surprising given the decision's impact on liquidity and the central bank's latitude to tolerate FX appreciation. Thus, short-end SGD rates may remain depressed on this policy outcome. But USD rates are also key to the outlook for SGD rates. While we do not expect the Fed to hike the federal funds target rate until Q3-2011, any hardening of USD market rates due to dissenting voices within the Fed or improving economic data will impact SGD rates. INR and THB rates have fallen intuitively in response to monetary policy developments. Although India hiked policy rates, already-high INR market rates moderated the upward impact on yields. Even so, given the risk of inter-meeting hikes and the fact that policy rates will be hiked further, the upside bias to yields remains.

Robust foreign inflows into domestic bonds complicate the outlook for rates markets

Inflows complicate rates outlook

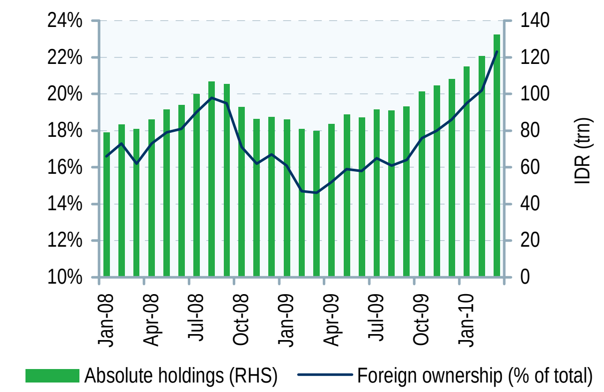
While some central banks are tightening, inflows driven by economic outperformance, flush global liquidity and the positive Asian FX outlook are complicating the outlook for rates, in particular government bond yields. Foreign ownership of IDR government bonds has reached new record highs, pushing yields lower, despite expectations of rate hikes in H2-2010. Malaysian government bond yields are lower year to date due to foreign inflows, despite Bank Negara Malaysia's clear stance that it will hike rates. Although bond/swap spreads have widened, such flows provide downside impetus to market rates. As such, with central banks generally still on the cautious side, we reiterate our view that the move higher in market rates this year will be gradual, and that dips will provide hedging opportunities.

Chart 1: Rates markets rallied in April *(bps)*



Source: Standard Chartered Research

Chart 2: Rising foreign ownership of IDR govt. bonds



Source: DMO

Botswana

Razia Khan, Head of Macroeconomic Research
Regional Head of Research, Africa
Standard Chartered Bank, United Kingdom
+44 20 7885 6914, Razia.Khan@sc.com

- **Output curbs by De Beers are likely to be a game-changer**
- **Growing imbalance between rough and polished prices is a concern**
- **Benefits would reduce risk of an FX adjustment, but ZAR strength a concern**

When the world runs out of diamonds

Global trade has bounced back faster than in previous crises

Diamond sales have recovered, but the causes are not yet certain

For many African commodity producers, the recovery in China's demand for commodities, particularly metals, has been a key driver of improved prospects. For the continent's diamond producers, still dependent on Western markets for over 50% of final retail demand, the outlook has been less certain. Although sales have recovered from the lows of the crisis, there is little reassurance on the sustainability of demand. The diamond pipeline remains notoriously dependent on the availability of financing, but it is unclear whether an improvement in financing (perhaps subject to new reversals in the short term) or a more sustained turnaround in underlying demand has driven the recent pick-up in sales.

Last year, Botswana's economy experienced one of the most severe economic contractions in Africa, declining by 6%. Given the weak base, a rebound in 2010 – with diamond exports having resumed – is a given. But with the country in its second consecutive year of a double-digit fiscal deficit, having already had its prized single-A rating downgraded by S&P, it is not just the near-term outlook that matters. Having realised the downside of over-dependence on a single commodity, Botswana has focused its efforts on spending in order to diversify future export revenues. Ironically, the outlook for diamond earnings remains key to the affordability of this diversification strategy.

De Beers output cut expected to shore up diamond prices

De Beers has announced that output is unlikely to return to 2008 levels

Recent news may be encouraging. Following the crisis-related slowdown, the diamond market saw better-than-expected seasonal sales around Christmas. Continued restocking by retailers underscored demand in Q1-2010, and Botswana's exports are back – if not exactly to cycle peaks, then at least to levels much higher than those seen at the low point of the crisis, when Botswana's mines were forced to shut down for four months (Chart 1). Press releases have touted the expected doubling of China's share of the world diamond market to 16%. But the real game-changer for Botswana's export outlook may be the recent unveiling of plans by De Beers to curb output. The company, which has a long-standing partnership with the Botswana government (which, in turn, has a 15% equity stake in De Beers), is thought to control around 40% of the global rough diamond market. Officially, the reason for the production cuts was asset sales by De Beers during the recent crisis, which may necessitate reduced output levels. Output rationing will help to reduce running costs amid a hoped-for turnaround in financial strength indicators.

Botswana (con'd)

Even diamond (reserves) may not be forever

But other factors may also lie behind the planned cutbacks. There are increasing fears in some quarters that a sustained rise in demand from Asia may risk more rapid depletion of diamond reserves globally. In the 1980s, reserves in the ground were thought to represent around 85 years of production. That has now fallen dramatically to an estimated 20 years. Given this, it makes sense at the company level to reduce output. Analysts believe that the latest measures may drive prices up by an estimated 5% per annum for several consecutive years.

Rough versus polished – a risky strategy

The growing imbalance between rough and polished prices is a concern; the diamond pipeline may feel the squeeze, exacerbating volatility

This strategy is not without its risks. If final retail demand remains weak, subject to the uncertainty inherent in the economic cycle, the diamond pipeline – already highly leveraged – may bear the brunt of the squeeze. Under such a scenario, prices for rough diamonds would increase, driven by reduced output. Producers of polished diamonds would have little other choice than to accept these higher prices. But a growing imbalance between rough and polished prices may result in more – not less – volatility in the diamond pipeline, exacerbating uncertainty.

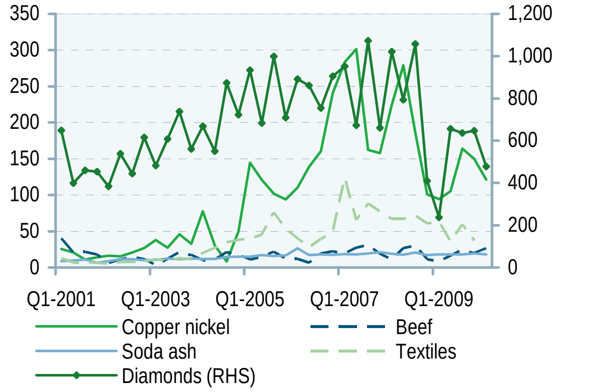
Botswana's cost-benefit trade-off, and the implications for FX policy

Botswana should still benefit overall, but the timing of any uplift to export growth is key

Given the double-digit fiscal deficit, further ZAR strength would be particularly problematic; this would weigh on fiscal receipts at a time when room for manoeuvre is limited

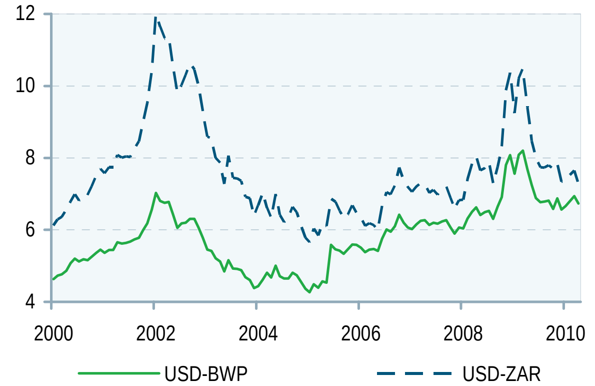
For Botswana, the trade-off will depend on the extent of production cutbacks versus any boost to diamond prices. Given plans for the continued extension of the Jwaneng mine, aimed at securing 95mn additional carats and extending the mine's life for an additional 15 years, it looks at first glance as though the country will come out ahead. Minimal production cutbacks in the context of higher prices would represent a win-win scenario. For FX policy, improved export earnings reduce the likelihood of the adoption of a faster rate of crawl in the Botswana pula (BWP) against the basket of currencies against which it trades. In other words, there would be less urgency to allow the BWP to depreciate faster in July, when the rate of crawl is typically reset. But much will depend on how quickly the country's exports recover. Continued ZAR strength with a fiscal deficit already in double digits leaves Botswana with little room to manoeuvre.

Chart 1: Global crisis continues to weigh on Botswana's key exports *(USD mn)*



Sources: BFS, Standard Chartered Research

Chart 2: ZAR strength at a time of economic weakness is especially problematic for Botswana



Sources: Datastream, Standard Chartered Research

Chile

Douglas Smith, Regional Head of Research, Latin America
Standard Chartered Bank, United States
+1 212 667 0564, Douglas.Smith@sc.com

- **The earthquake has affected the growth-inflation trade-off**
- **Reconstruction effort poses a risk to inflation; central bank is sounding hawkish**
- **We think the first rate hike is likely to come in August**

Policy making after the earthquake

Narrower output gap

In the best of times, policy making is more of an art than a science. The massive earthquake which hit Chile in late February has presented the new government with many challenges, including a more difficult short-term trade-off between growth and inflation.

The earthquake has likely knocked off 1.0-1.5ppt from potential growth in 2010

First off, the central bank estimates that the earthquake destroyed 3% of the country's net capital stock. The implication is that potential growth for 2010 is 1.0-1.5 percentage points lower than before the earthquake. So even though the economy was operating with an output gap before the quake – growth in 2009 was -1.5%, following 3.7% in 2008 – that gap has narrowed with the lower net capital stock. This is still true despite the large drop in industrial production in March (see Chart 1).

Upside inflation risks

The primary implication is obviously for inflation. The output gap prior to the earthquake was an important source of disinflationary pressure. The inflation data for March surprised on the downside, as headline CPI inflation remained at 0.3% y/y and core CPI inflation moved further into deflationary territory, at -1.0% y/y. That compares to the official inflation target of 3%, so on the face of it, inflation is far from a worry. Note, though, that the March inflation figures excluded prices from the worst-affected areas of the country because of data collection problems. It is reasonable to expect some short-term increase in prices such as food and building materials, especially in the most affected areas, but they should be temporary.

Hawkish monetary stance

The central bank is sounding increasingly hawkish

More relevant to inflation, though, will be the significant increase in investment spending on rebuilding. This will come from the private and public sectors. Upside pressure on inflation is likely in the context of the narrower output gap and still very accommodative monetary policy. This will keep the central bank watchful.

Indeed, in the minutes of the April central bank board meeting, there was a discussion of raising interest rates by 25bps. In the end, there was no change to the 0.50% overnight rate, but the hawkish message from the minutes was clear. Uncertainties around the earthquake are holding the central bank back from hiking at the moment.

Chile (con'd)

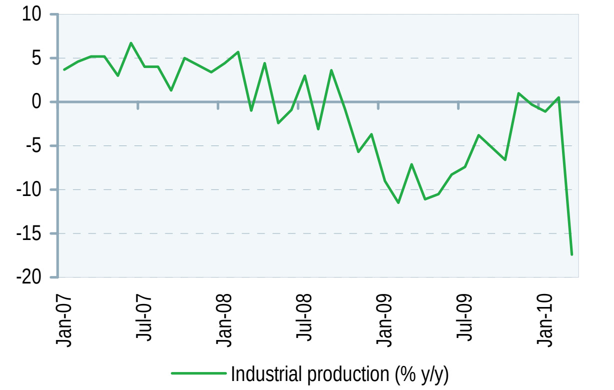
As far as monetary policy goes, central bank President de Gregorio said recently that he expected the overnight rate to be at 5.5% in two years, but that monetary accommodation would be withdrawn gradually. In Chile, the rule of thumb is that a neutral overnight rate is about 5.5%.

Hikes to come soon

The first hike is likely to come in August, if not sooner

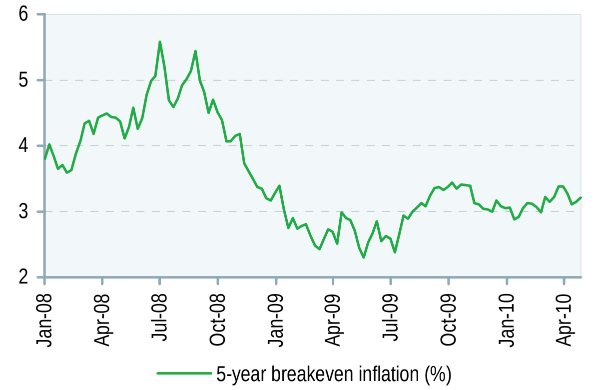
We continue to expect the central bank to begin raising rates with a 25bps hike in August. If there is a risk to that view, it is that rate hikes may begin sooner. The sooner the hikes begin, the more incremental they will be; we expect them to be done in 25bps intervals since there will be much uncertainty. Generally speaking, when the central bank acts, it does so quickly and aggressively. This is in part because Chile is a classic example of a small, open economy in which external conditions quickly filter through to the real economy. Overall, monetary policy will remain accommodative for the next few quarters until rates approach the more neutral 5.5% level.

Chart 1: After the quake, production fell sharply



Sources: Bloomberg, Standard Chartered Research

Chart 2: Inflationary pressures are low



Sources: Bloomberg, Standard Chartered Research

China

Stephen Green, Regional Head of Research, Greater China
Standard Chartered Bank, China
+86 21 6168 5018, Stephen.Green@sc.com

Li Wei, Economist, China
Standard Chartered Bank (China) Limited
+86 21 6168 5017, Li.Wei-CN@sc.com

- **Beijing has moved forcefully against real-estate speculation**
- **Transaction volumes are set to drop; prices in speculative cities may fall by 20-30%**
- **The moves will also have a lagged and negative effect on investment growth**

Attacking real estate

Beijing is now focused on deflating real-estate bubbles in Tier 1 cities

Beijing policy makers have surprised everyone in recent days by moving aggressively against real-estate bubbles in several big cities. The massive rise in transactions (shown in Chart 1) and price increases since March seems to have been the trigger. The authorities have done, or plan to do, the following:

- Raise down-payment and deposit rates for second homes
- Restrict access to mortgages for those buying their third homes
- Introduce residency requirements for people buying homes
- Restrict developers' access to bank credit and capital markets
- Investigate developers that do not develop their land banks
- Roll out a property tax in Beijing, Shenzhen, Chongqing and (after the Expo) Shanghai, likely for owners of three or more homes
- Increase the supply of new land for development

Just about everyone in the sector is surprised by the breadth and apparent force of these measures. The key is how they are implemented by local governments and banks. Today, we discuss some of the consequences (see also **On the Ground, 22 April 2010, 'China – Pop!'**). First, despite concerns about the negative macroeconomic consequences, Beijing has shown that it is prepared to take some short-term pain for long-term gain, which is positive for China's medium-term outlook. The key now is follow-through.

Second, we expect residential home transaction volumes to fall for at least a month or two as a result of the measures. Prices of developments currently on sale are already down a bit. But developers will wait to assess the follow-through by Beijing before they respond more actively. How forcefully will residency requirements be enforced, for instance? Most residential projects due for completion in 2010 have already been pre-sold, but by mid-year, developers will be ready to pre-sell projects due for completion in 2011. If they are certain that the policy pressure will remain, they will be more likely to cut prices.

Third, we expect price corrections of 20-30% in some segments of the secondary markets in Shanghai, Beijing, Hangzhou and Sanya, taking us back to H2-2009 price levels (with limited macroeconomic consequences). In other second- and third-tier and less speculative cities, we foresee 5-10% price corrections (suburban areas will generally do worse than city centres). Without big interest rate hikes, significant CNY appreciation, or other investment channels being made avaiable, there is still limited incentive for many owners to sell. Moreover, any nationwide crash would quickly be met with looser policy.

China (con'd)

Fourth, the measures have reduced the chances that the People's Bank of China (PBoC) will hike interest rates in the next few weeks. Our forecast is for two hikes in Q2; in our view, negative real interest rates, accelerating producer price inflation, and strong inflation expectations are still important reasons to hike. CPI inflation will probably breach 3% y/y by mid-May, PPI inflation will be near 10% y/y, and inflation expectations will be resurgent. This would therefore be a good time to hike. The PBoC's loan quota, however, will do the heavy lifting of monetary tightening. This already began to bite in March, as reflected in higher grey-market lending rates.

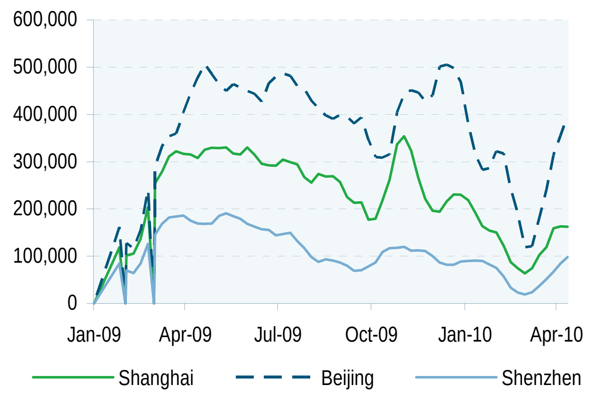
The measures will have a lagged negative effect on the broader economy

Fifth, developers are likely to scale back new project starts after current builds are completed. It will be interesting to see if Beijing's attempts to force developers to develop idle land are effective. We do not expect this to be strictly enforced because the relationships between city governments and developers are usually extremely close, and land requisitions are financially harmful to both.

Sixth, local governments rely on land-sale revenues and land as bank collateral to finance their infrastructure activities – and booming sales in recent months (Chart 2) have provided plenty of funds. We now expect land values to deflate significantly, which will limit local governments' ability to finance their projects. This comes after the government advised commercial banks to restrict loans to these projects. This will drag on investment activity in H2, and will cause a deterioration in the quality of the collateral held by banks which lend to these project companies.

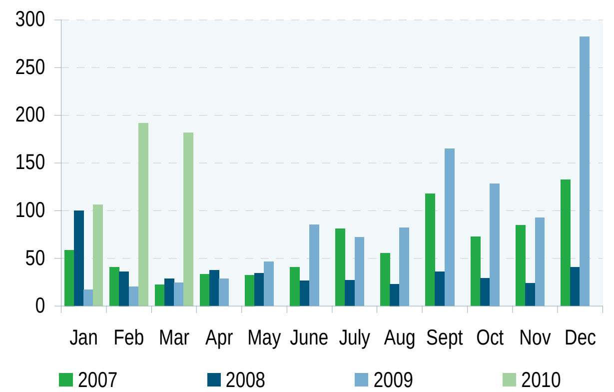
These measures fit with our story of an economy which is overheating today, but from which stimulus is already being withdrawn. Whether the removal of stimulus is enough to prevent broader inflationary pressures from emerging at year-end is another question. For now, the good news is that, assuming Beijing follows through on these measures, a nationwide housing bubble has been averted.

Chart 1: New apartments sold
m2



Sources: CRIC, Standard Chartered Research

Chart 2: Land-sale revenues for local governments
CNY bn



Sources: CRIC, Standard Chartered Research

Colombia

Douglas Smith, Regional Head of Research, Latin America
Standard Chartered Bank, United States
+1 212 667 0564, Douglas.Smith@sc.com

- **Most recent poll results have dethroned the presumed winner of the May election**
- **The current leader should not upset markets, as he has fiscal credibility**
- **We do not expect rate hikes before Q3-2010 given the benign inflation environment**

The region's first full presidential election of 2010

A twist in the polls ahead of the 30 May vote

Two weeks ago, a victory by Santos was a foregone conclusion

There has been an interesting twist in the political landscape in the run-up to the 30 May presidential election. For some time now, the conventional wisdom has been that former Defence Minister Juan Manuel Santos would easily prevail. The reason was that he benefited from the very high popularity (about 75%) of President Uribe – who cannot run again because of term limits – in large part because he would continue Uribe's pro-security policies, which have made the country much safer.

The most recent polls show a reversal in favour of the Green Party's Antanas Mockus (Chart 1). For example, a poll taken on 24 April by pollster IPSOS showed that Mockus led Santos by a decisive 38% to 29%. One week prior, the same poll showed Santos ahead with 30% of the vote, compared with 20% for Mockus; one month ago, Santos was ahead 36% to 9%.

Even more interesting, the polls now show that if the election were to go to a second round, Mockus would prevail. One poll shows Mockus ahead 50% to 37%, and a second shows him ahead 50% to 44%. A second-round vote will take place on 20 June if no candidate gets more than 50% of the vote in the first round on 30 May. The third candidate, the Conservative Party's Noemi Sanin, has been steadily declining in the polls.

Who is Antanas Mockus?

Mockus is trying to move beyond Uribe by focusing on corruption in the Uribe government

Mockus is the former mayor of the capital city of Bogota and a university professor. His recent surge in the polls probably reflects a combination of factors. First, he has allied himself with Sergio Fajardo, the former mayor of Medellin, which gives him support in the second-biggest city in Colombia as well as in Bogota. He has also pledged to take on corruption scandals and allegations, which have one of the more negative aspects of President Uribe's administration. Lastly, Mockus has managed to run a 'clean' campaign in the sense that he has so far stayed above the political bickering and mudslinging common between Santos and other candidates such as Noemi Sanin. Now that Mockus has moved to front-runner status, it will be interesting to see if he can maintain that demeanour in response to the inevitable increase in criticism and scrutiny from the other candidates.

Market implications

As far as his policy track record, while in office, Mockus was known for being fiscally conservative. In his campaign he has talked about fiscal constraint, which

Colombia (con'd)

is a good thing and should alleviate some market concern. As ex-mayor of Bogota, he is well known throughout the country and has orthodox economic advisers. As a result, the local market reaction to his gains in the polls has been muted.

The new leading candidate has very low support in Congress

However, there are two issues Mockus must face. The first is that he is not known to international investors. The second is that he and his Green Party have no real support in Congress, as they have only five senators and a small number of representatives. In contrast, nearly two-thirds of Congress is controlled by President Uribe's coalition, which includes Santos' Union Party. This means Mockus would face an uphill battle to pass important structural reforms, including crucial fiscal reform. Overall, the gains by Mockus should not scare investors, but they do make the reform outlook cloudier and will require watching.

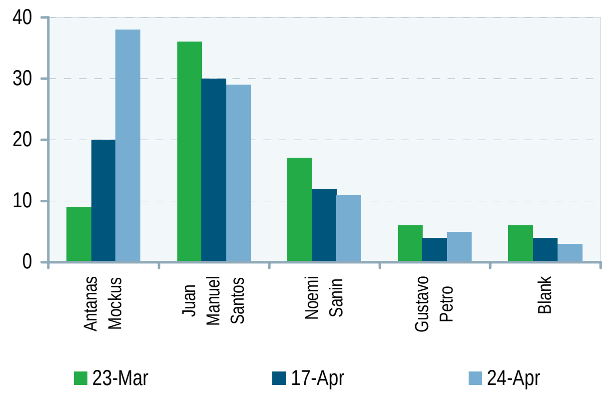
Economic backdrop

The central bank will continue with its supportive monetary policy, as the economy is still weak. The economy faces headwinds from weak consumer demand and lower exports to neighbouring Venezuela. GDP growth in 2009 was 0.4%, and we anticipate a mediocre 2.5% increase in 2010, so demand-side inflationary pressures should not be much of a problem.

The central bank will remain on hold until at least Q3, with a risk of no change at all this year

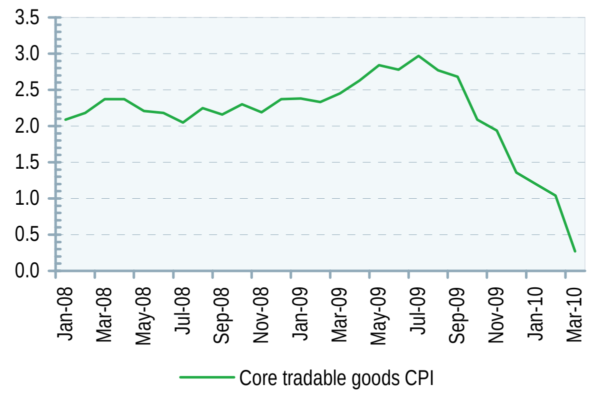
The inflation outlook is quite benign, as headline inflation is below the 2.0% lower limit of the inflation-targeting range (2-4%). Prices of core tradable goods, a good proxy for domestic demand, are rising at a subdued pace of 0.27% y/y, following a -0.12% m/m print in March (Chart 2). The core CPI (excluding food) rose by a mild 0.15% m/m, or 2.43% y/y, in March. We expect no rate hikes from the central bank until Q3-2010 at the earliest, and we see a risk of no hikes at all in 2010.

Chart 1: Sharp turnaround in election polls



Sources: Bloomberg, Standard Chartered Research

Chart 2: Domestic demand pressure is weak *(% y/y)*



Sources: DANE, Standard Chartered Research

EU

Sarah Hewin, Senior Economist
Standard Chartered Bank, United Kingdom
+44 20 7885 6251, Hewin.Sarah@sc.com

- **Greece's multi-year bailout from the EU/IMF demands sustained fiscal tightening**
- **Other euro-area high debtors remain vulnerable to market sentiment**
- **The UK has benefited from being outside EMU, but the deficit needs to be cut promptly**

Spotlight on EU sovereign debt

Weak GDP growth prospects make fiscal adjustment tough

The EU- and IMF-sponsored EUR 110bn, three-year bailout for Greece aims to give the euro area's highest debtor some breathing space, and should ease pressure on other peripheral countries. Nevertheless, EU debtor countries face prolonged fiscal austerity and the threat of further rating downgrades. Any renewed deterioration in the Greek crisis and/or rating downgrades could trigger a need for more bailouts, potentially tripling rescue costs for the EU and the IMF.

The multi-year bailout package will allow Greece to implement fiscal adjustment and structural reform without needing to tap the markets for funding over the next three years, but austerity will deepen and prolong the recession

Greece, Portugal and Spain remain on negative outlook following recent downgrades. Ireland and the UK, which have avoided rating actions during the Greek crisis, also both have a negative outlook from at least one rating agency. Italy, despite its high debt/GDP ratio, has nevertheless retained a stable outlook from the rating agencies due to its low fiscal deficit, high domestic savings and the high proportion of government debt held by local banks (Tables 1 and 2).

Other EU debtors remain vulnerable to any renewed deterioration in market sentiment – which could be triggered by a hold-up in the package or policy slippage in Greece

Greece was downgraded to junk by Standard and Poor's and risked losing access to European Central Bank (ECB) financing if it lost its remaining two investment-grade ratings. But the ECB has suspended its minimum threshold for Greek debt, which means that Greek banks – which hold close to EUR 40bn in government bonds – will continue to have access to liquidity via the ECB. Further rating actions will be guided by whether Greece is on track to reduce its fiscal deficit by 11ppt of GDP by 2014 as planned. The cost will inevitably be a prolonged recession, with GDP forecast to fall by 4% in 2010 and 2.6% in 2011.

Table 1: Government finance stresses in the EU

Country (weakest sovereign rating shown)	General government borrowing, % GDP		Government debt			Govt. securities <1yr remaining maturity, % GDP	Govt interest payments, % revenues
			% GDP		EUR bn		
	2009	2010f	2009	2010f	2009	2010	2009
Greece (BB+)	13.6	8.1	115.1	133.3	273	15.9	12.8
Ireland (AA-)	14.3	11.2	64.0	116.3	105	3.3	6.1
Italy (A+)	5.3	5.2	115.8	118.6	1761	24.5	10.6
Portugal (A-)	9.4	8.3	76.8	85.9	126	13.0	7.3
Spain (AA)	11.2	10.2	53.2	66.9	560	12.4	5.5
Euro area	**6.3**	**6.8**	**78.7**	**84.0**	**7062**	**-**	**-**
UK (AAA)	11.5	11.1	68.1	78.2	1067	6.6	5.5

Sources: International Monetary Fund, European Commission, S&P, Fitch, Standard Chartered Research

EU (con'd)

Other European countries have achieved substantial fiscal consolidation in the past, but the pain of domestic budget cuts has been partly offset by devaluation and lower interest rates – options which are not available to Greece

By stretching out fiscal consolidation to 2014 (the government's original plan set 2012 as the target date for reducing the deficit to below 3% of GDP), Greece's new programme should have a better chance of success. Other European countries have undergone similarly sharp fiscal adjustments. Denmark's average deficit reduction was equivalent to 3% of GDP per annum in 1982-85, and Sweden managed to eliminate a 12.9%-of-GDP deficit between 1993 and 1997. In both cases, GDP growth held up despite dramatic cuts in public spending. But both economies also benefited from falling interest rates and exchange rate depreciation, options which are not open to Greece and other high-debt euro-area economies.

A current example of a European economy in the process of fiscal consolidation is Ireland, which suffered a cumulative GDP contraction of close to 10% in 2008-09. Greece did not go through the credit-driven real-estate boom and bust that Ireland experienced, which should protect it against an extreme downturn. But Ireland's nascent economic recovery is being driven by high-tech and pharmaceutical exports, whereas Greece has a less dynamic export sector.

Portugal is accelerating fiscal austerity, bringing forward some 2011 consolidation measures to 2010, following its two-notch downgrade to A- (the second-weakest euro-area rating after Greece). It aims to cut the deficit from 9.4% of GDP to 2.8% by 2013. But Portugal's similarities with Greece – in particular its sizeable current account deficit and dependence on foreign savings (Table 2) – make it especially vulnerable to any further deterioration in sentiment towards Greece.

The UK – yet to embark on serious fiscal austerity

There are strong reasons why the UK's AAA rating should remain unchanged when the rating agencies conduct their reviews after the 6 May election. Sterling provides greater flexibility, the reliance on foreign savings is low (with a relatively small current account deficit and private-sector savings of over 10% of GDP), and the UK has a strong record of debt management. The main risk is that the incoming government fails to deal promptly or adequately with the sizeable deficit.

Table 2: Dependence on foreign support

Country (% share of euro-area GDP)*	Current account, % GDP		Govt. debt held abroad, % GDP	Depository institutions' claims on govt., % GDP
	2007-8	2009	2009	2009
Greece (2.7)	-14.5	-11.2	99.0	17.5
Ireland (1.9)	-5.3	-2.9	47.2	5.8
Italy (17.0)	-2.9	-3.4	56.4	29.4
Portugal (1.8)	-10.8	-10.1	60.2	10.2
Spain (11.8)	-9.8	-5.1	26.9	20.6
UK (17.9)	-2.1	-1.3	17.9	5.1

**UK GDP in relation to the euro-area total GDP is listed for comparison;*
Sources: IMF, Fitch, Standard Chartered Research

India

Anubhuti Sahay, Economist
Standard Chartered Bank, India
+91 22 2268 3182, Anubhuti.Sahay@sc.com

- **Quick rebound in remittance flows has contained current account deficit**
- **Remittance usage patterns, migrants' wealth accumulation may explain resilience**
- **Improved global labour-market outlook should help, barring protectionism**

Resilient remittances

Inward remittances from overseas Indian workers have provided an important cushion

Unlike receipts from merchandise exports, which fell dramatically during the latest financial crisis, remittance inflows from Indians working overseas were very resilient. Barring a marginal correction in H2-FY09, these inward remittances have rebounded to pre-crisis levels (see Chart 1), preventing a significant widening of the current account deficit. With the trade deficit still wide (USD 60bn for April-December 2010), the role of such invisibles flows is particularly important – particularly as capital flows, while robust, are still vulnerable to global risk appetite. Services export receipts (essentially non-software services) fell by about 9% to USD 18bn in Q3-FY10 from USD 20.5bn in Q1, while the trade deficit remained at about USD 30bn and capital flows declined to USD 14.7bn from USD 22.5bn. The cushion provided by remittance flows was therefore crucial.

Defying the downward trend

Wealth accumulation by migrants over several years has probably also provided support

A recent World Bank study identifies several factors which may explain why remittances have been so resilient. First, because remittances are a small part of migrants' overall income, migrant workers continue to send money home even when hit by income shocks. Moreover, because these funds are sent by a migrant population built up over the years, and not just by new migrants, some degree of insulation against temporary income shocks exists. Thus, wealth accumulation depends on the skills and average earnings of such migrants. According to a recent study by the Reserve Bank of India (RBI), North America is the biggest source of Indian remittances, accounting for 38% of the total in 2009 (although this was down from 44% in 2006). North America's high share can be largely attributed to a higher proportion of migrants employed in software and other information technology-related areas, where average earnings are higher. While flows from North America did dip in H2-FY09 (see Chart 1), the decline was small, and fiscal stimulus measures later announced by the US probably helped to define a floor.

Remittance usage patterns may have also boosted the resilience of inflows. If recipients spend the majority of the remittances they receive on basic maintenance and consumption (i.e., food, education and health), senders are likely to avoid significantly reducing the amount they send unless circumstances are extremely pressing. The RBI study indeed shows that money sent home for maintenance purposes makes up the largest share of remittance flows (see Chart 2). Also, investment in land, property and equities fell to 7% of total remittances in 2009 from 20-25% during the 'boom years' (July 2006).

India (con'd)

Remittances may have also benefited from the September 2008 hike in the interest rate ceiling on non-resident Indian (NRI) deposits. According to the RBI's 2009 survey, 20% of total remittance flows were directed towards bank deposits. Economic uncertainties in host countries may have also prompted 'safe-haven' flows from overseas workers, given India's better growth prospects.

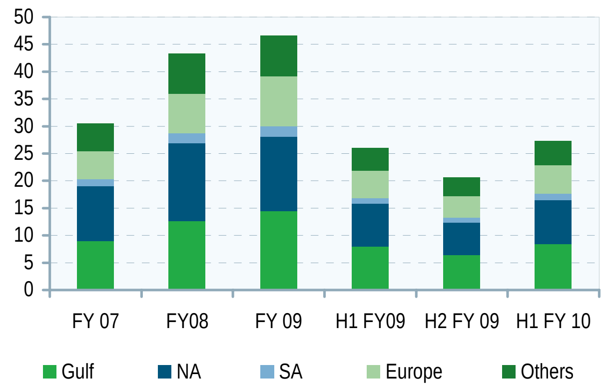
From another perspective, even if migrants returned to India, they would have returned with their accumulated savings, avoiding a sharp slump in such flows until now. However, there is little evidence of a significant trend of reverse migration, giving us some comfort that the recent resilience is likely to be maintained.

Outlook improves with global recovery

As the global labour-market outlook improves, remittances should gain further momentum. Indeed, the Gulf region, which accounts for an average of 27% of total remittance inflows – the second-largest share after North America – has rebounded fast as oil prices have bounced back. Moreover, the World Bank projects that overall remittance flows to developing countries will increase by 6.2% in 2010 and 7.1% in 2011.

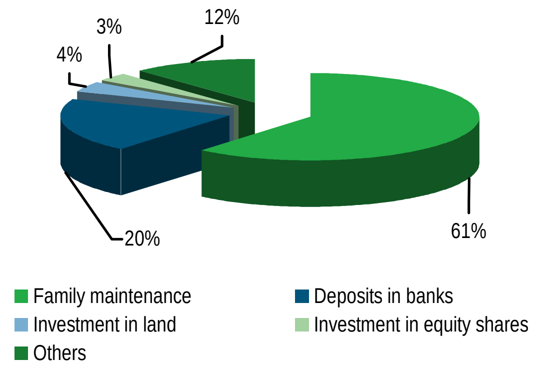
Even so, risks such as persistently high unemployment in host countries might create pressure to restrict migrant labour. Immigration is a particularly contentious issue in the US and the UK. Any rise in protectionism, either active or passive, could potentially have a negative impact on remittances.

Chart 1: Private transfers by region
USD bn



Sources: RBI Monthly Bulletin April 2010, Standard Chartered Research

Chart 2: Remittance utilisation pattern
% of total remittances



Sources: RBI Monthly Bulletin April 2010, Standard Chartered Research

Malaysia

Alvin Liew, Economist
Standard Chartered Bank, Singapore
+65 6427 5229, Alvin.Liew@sc.com

- **Strong Q1 performance underpins our revised 2010 GDP growth forecast of 5%**
- **We expect two more 25bps rate hikes in 2010, but this will not disrupt growth**
- **New Economic Model points in the right direction, but reforms require political will**

Malaysia *boleh*! (Malaysia can do!)

Q1 GDP surge will likely set the stage for optimism

We have raised our Q1 GDP growth forecast to 6.5% y/y from 5%, and have also revised up our full-year 2010 growth forecast to 5%

After three straight quarters of y/y contractions, the Malaysian economy turned the corner in Q4-2009, growing by 4.5% y/y (versus -1.2% in Q3) on robust domestic demand and fiscal stimulus measures; external demand also improved. Based on January and February industrial production and trade data, as well as assessments by the government and think tanks, Malaysia's Q1-2010 GDP expansion is likely to outperform market expectations due to a continued improvement in external demand and resilient private consumption. We are therefore revising up our Q1 GDP growth forecast to 6.5% y/y (from 5% previously). While we do not expect this growth momentum to be sustained into H2-2010, we expect higher growth in H1 to fuel a full-year expansion of 5% in 2010 (versus our previous estimate of 4.2%).

Who's afraid of the central bank?

We expect two more 25bps hikes from the central bank, taking the OPR to the 'normalised' rate of 2.75% for 2010

Even though inflation remains largely benign, Bank Negara Malaysia (BNM) led the way in South East Asia (excluding Vietnam) by hiking the overnight policy rate (OPR) by 25bps to 2.25% on 4 March 2010. The central bank noted that monetary policy remains accommodative and that the economy will strengthen in the coming months, paving the way for interest rate normalisation, while consumer prices will rise only gradually.

Given expectations of a robust recovery in H1-2010, the central bank is likely to normalise interest rates further to suit current economic conditions. It will also want to ensure that interest rates are not kept too low for too long, as this would hurt depositors – especially those whose retirement funds are in savings – and may encourage excessive risk-taking in search of higher returns. Hence, we expect BNM to hike rates by 25bps at both its 13 May and 8 July policy meetings, and to leave the OPR on hold at 2.75% for the rest of the year. Note that 2.75% is quite close to the 2.7% level at which the OPR was initially set in 2004. Hence, we see this as the 'normalised' rate for 2010. We view modest monetary tightening as a positive for the MYR, as it should support capital inflows, in contrast to the huge outflows seen in late 2008 and H1-2009. After pausing in late 2010, we expect the central bank to resume hiking in early 2011. We forecast that it will raise the OPR back to the pre-crisis rate of 3.5% by end-Q2 as inflationary pressures become more pronounced, led by commodity prices and domestic wage pressures.

Malaysia (con’d)

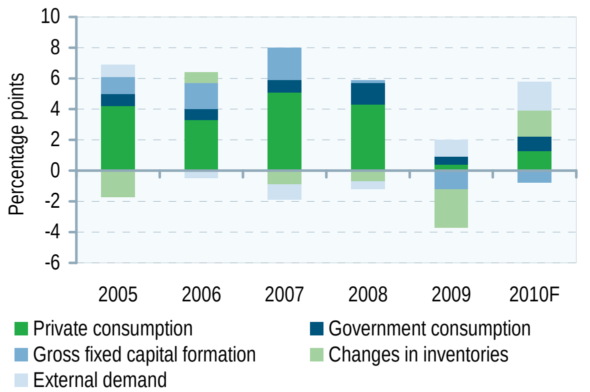
The NEM sets the stage to transform Malaysia’s economy and improve the government’s fiscal position, but reforms will require political resolve

Time to bring on the NEM and bring down the fiscal deficit

Prime Minister Najib Razak provided the broad outlines of the New Economic Model (NEM) on 30 March. While thin on details, the NEM will form the backbone of Malaysia’s long-term policy plan. The goal is to achieve average economic growth of 6.5% between 2011 and 2020 and to turn Malaysia into a high-income economy by 2020 (with a target of doubling per-capita income to USD 15,000 from USD 7,500 currently). The NEM recommendations are based on three principles: (1) increasing incomes, (2) promoting sustainable growth, and (3) achieving inclusive growth, with the rewards shared among all Malaysians. The NEM is likely to be incorporated into the upcoming 10th Malaysia Plan (the nation’s five-year development plan), scheduled in June. The NEM measures are a good start, but they will require strong follow-through from the government, and this will require buy-in from the general public. The recent success of PM Najib’s ruling coalition in the Hulu Selangor district by-election in opposition-controlled Selangor state may help to bolster support for the badly needed reforms outlined in the NEM.

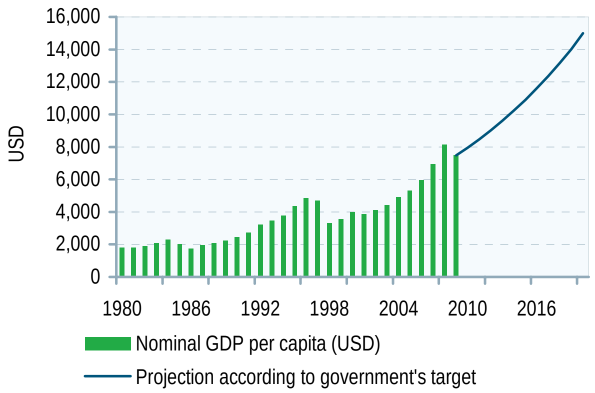
It is encouraging that the government is moving forward with the process of divesting some state-owned listed companies; this will bring an immediate benefit to the banking sector in the form of increased corporate finance activity. More importantly, divestment, if successful, will reduce government participation in the domestic stock market and allow more participation by private investors, both local and foreign. Malaysia is also in a strong position to cement its role as an Islamic financial hub, thanks to its 30 years of experience in Islamic banking and finance. The government also needs to tackle reforms such as reviewing government subsidies and implementing a Goods and Services Tax (GST). These steps would improve the fiscal position (Malaysia recorded a deficit of 7% of GDP in 2009 and projects a deficit of 5.6% for 2010) and, more importantly, reduce market distortions and inefficiencies within the domestic economy.

Chart 1: Strong growth momentum in early 2010 should drive full-year GDP growth of 5%



Sources: CEIC, Standard Chartered Research

Chart 2: Nominal per-capita GDP projection looks realistic if reforms go ahead



Sources: Bank Negara Malaysia, Standard Chartered Research

Philippines

Vincent Tsui, Economist
Standard Chartered Bank (Hong Kong) Limited
+852 3983 8563, Vincent.Tsui@sc.com

Simon Wong, Regional Economist
Standard Chartered Bank (Hong Kong) Limited
+852 3983 8559, Simon.Wong@sc.com

- **ASEAN integration brings fresh opportunities to the Philippines' private sector**
- **Mining and business process outsourcing are emerging as new growth drivers**
- **Tapping foreign capital could become a key channel to close the infrastructure gap**

Embracing regional integration

ASEAN integration opens up a window of opportunity

ASEAN integration presents new opportunities for the Philippines' commodity sector and could bring in fresh capital to fuel development

We believe the Philippines has vast untapped potential to look outwards for growth as part of its development strategy. On top of recovering global demand, which will provide a cyclical lift to the country's manufactured exports, several recent regional developments present opportunities for the Philippines to redefine the external landscape to its advantage. These include the sixteenth ASEAN Summit, concluded on 9 April, which reiterated members' commitment to establishing the region as a single market and production base by 2015; free trade agreements (FTAs) between ASEAN and India, China, Australia and New Zealand, which took effect in January 2010; and the ASEAN Comprehensive Investment Agreement, which will take effect in August this year. These developments open up new markets for the Philippines' vast productive resources and create new channels to meet its investment needs. How the Philippines harnesses these opportunities will be a key challenge facing the new government following the 10 May presidential election.

Exporters need a makeover

Without clear cost advantages, labour-intensive manufacturers will face fierce competition within the region going forward

The Philippines has a small export sector as a percentage of GDP relative to its ASEAN counterparts (see Chart 1). Exports of goods and services amounted to 29.5% of the country's GDP in 2009, below the levels of Thailand, Malaysia and Vietnam. Indeed, even before the credit crisis, Philippine exports had been struggling – annual export growth averaged only 6.4% between 2004 and 2008, compared with double-digit growth in other ASEAN-5 economies. The country's export sector is still dominated by labour-intensive activities such as assembly of semiconductors and computer parts (41% and 13% of total exports in 2009, respectively), garments (4%), and agricultural products (6%). As trade barriers fall further in the coming years, the Philippines' current export model is at risk of further underperforming its ASEAN counterparts – especially countries like Vietnam and Indonesia, which boast similar or better labour cost advantages.

Search for new growth engines

Mining and business process outsourcing may be the bright spots for growth in the coming years

On the other hand, stronger regional integration will enable the Philippines to benefit from heavy demand for raw commodities from China and India. The country is estimated to possess the world's fifth-largest reserves of gold and copper, and also holds substantial iron ore deposits. While these resources have been under-developed in the past due to relatively high production costs, the rally in metal prices in recent years, if sustained, could rekindle interest in the sector. The government will need to overcome considerable hurdles in order to develop this sector – from building the supporting infrastructure to resolving security

Philippines (con'd)

issues – but the potential payoff is substantial considering that mining output currently accounts for only 1.6% of GDP and 3.8% of total exports.

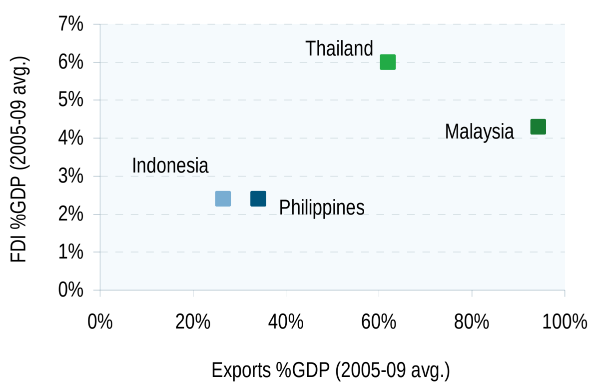
Services provide further impetus to growth. While the Philippines has been a major exporter of overseas workers for decades, its domestic business process outsourcing (BPO) industry has also flourished in recent years. Business surveys show that the country is now the second-largest outsourcing hub in the world, just behind India. Even amid the global recession, the BPO industry grew by a solid 19% in 2009 and generated revenue of USD 7.2bn, or 4.5% of GDP. This is also an encouraging development from a quality-of-growth perspective, as the ability to keep more educated workers at home will support business capital formation and further development. One could argue that the global recession had given this industry a positive jolt by increasing the need for multinational companies to cut costs and outsource. Yet the trend is set to continue as recent FTAs dismantle service-sector entry barriers across the region.

Foreign investors could bring in fresh capital to close the infrastructure gap; the right policy incentives would make a difference

Investment inflows could benefit, but only with the right policies

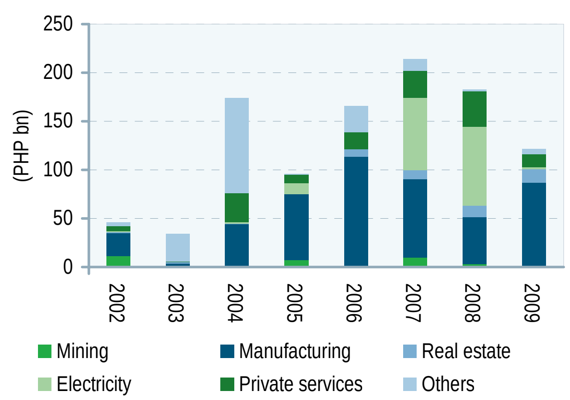
While the Philippines stands to benefit from a more integrated regional and global economy, it should also look to liberalise its capital regime in order to meet its investment needs. Recent drought-induced blackouts have highlighted a significant infrastructure gap that, if unaddressed, could become a growth bottleneck. Although FDI inflows to electricity facilities have picked up in recent years (see Chart 2), inadequate transport infrastructure is still seen as a major obstacle to development; investment in this area constituted less than 1% of total investment in the country over the last five years. With fiscal consolidation likely to move to the top of the new government's agenda, private capital – especially foreign capital – will be key to narrowing the country's infrastructure gap. From this perspective, regional efforts to strengthen investment co-operation could offer a timely springboard for the Philippines to secure capital to fund its development needs. The proper policy incentives, along with stronger measures to improve the business environment, could make a big difference here.

Chart 1: Relative weak competitive position compared with ASEAN peers



Sources: CEIC, Standard Chartered Research

Chart 2: FDI could play a bigger role in infrastructure development



Sources: CEIC, Standard Chartered Research

South Korea

SukTae Oh, Regional Head of Research, Korea
Standard Chartered First Bank Korea Limited
+822 3702 5011, SukTae.Oh@sc.com

- **We now expect 2010 GDP growth of 5.5%, though growth will likely slow from Q2**
- **Exit strategies will become clearer in H2; we expect fiscal tightening and rate hikes**
- **Portfolio capital inflows still support KRW, despite smaller current account surplus**

Update on macroeconomic outlook

2010 GDP forecast raised to reflect strong Q1 growth

Strong recovery continued in Q1-2010, led by exports, government spending and labour market

GDP data showed that the strong recovery continued in Q1, led by exports/manufacturing and government spending. Manufacturing production rebounded, led by the high-tech and auto sectors, after a temporary slowdown in Q4-2009. Growth in government consumption and investment in Q1 reflects the front-loading of fiscal spending. The recovery in private consumption and investment was lukewarm, especially compared with strong sentiment; slow credit growth was probably the reason. Private non-farm payrolls extended the strong recovery that began in Q4-2009. Meanwhile, renewed weakness in the housing market and private construction activity has become a key concern.

We have raised our 2010 GDP growth forecast to 5.5%; we expect growth to slow from Q2, though the underlying recovery momentum will remain intact

We raised our 2010 GDP growth forecast to 5.5% from 4.8% on 27 April to reflect strong Q1 growth, though we expect growth to slow from Q2 to a q/q pace of about 0.8-0.9%. Export growth is likely to slow modestly as global inventory adjustment comes to an end. Given the front-loading of fiscal spending and overall fiscal tightening this year, the decline in government spending will become a key headwind to GDP growth in H2. The recent peaking of the National Statistical Office's leading index also supports our base scenario of a modest slowdown. However, we expect the underlying recovery momentum to persist into 2011 as demand from emerging markets supports exports, the improving labour market underpins consumption, and corporate investment is supported by record-high profit margins.

'Exit strategies' will become clearer in H2

Fiscal tightening effectively started in H2-2009, and we continue to expect the BoK to start hiking rates in Q3-2010

The exit from accommodative fiscal policy effectively began in H2-2009: fiscal spending declined by 6.1% y/y after surging by 34.4% in H1. While the 2010 budget plans to reduce fiscal spending by 3.0%, the pattern of front-loading spending in H1 and reducing it in H2 will be repeated this year. We expect this, along with the continued economic recovery, to turn the consolidated fiscal balance to a surplus of 0.7% of GDP in 2010 from a deficit of 1.7% in 2009 (see Chart 1). We expect the deficit in the adjusted balance, which excludes the surplus from social security funds, to disappear within a few years. The ratio of government debt to GDP is also likely to stabilise at around 34% thanks to the balanced budget.

We maintain our forecast that the Bank of Korea (BoK) will start its rate-hiking cycle in Q3-2010. Admittedly, the appointment of a new governor and a new monetary policy committee member supports the market consensus that the BoK will become more dovish this year. Inflation and asset-market conditions also do

South Korea (con'd)

not provide a compelling reason to hike rates. We maintain our CPI inflation forecast of 2.5% for 2010, and some market participants are now arguing that the BoK should keep interest rates low to support the ailing housing market.

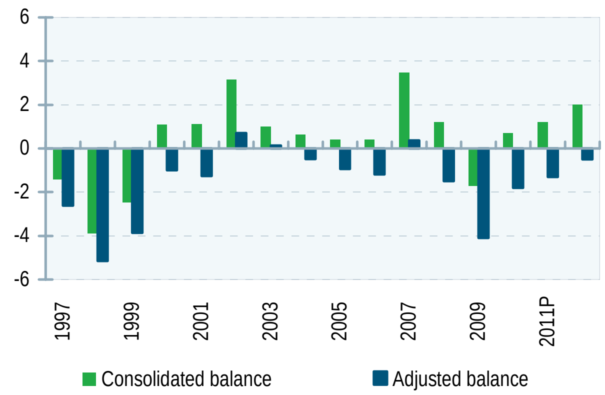
However, in our view, the continued recovery in economic activity and the improving global environment argue in favour of rate hikes. The BoK raised its GDP growth forecast from 4.6% to 5.2% and emphasised the strength of the private sector in its revised 2010 economic outlook released on 12 April; this supports pre-emptive tightening action. Moreover, several Asian economies (China, India, Malaysia and Singapore) have already started monetary tightening, raising concerns that the BoK may be 'behind the curve'. Market participants are also focusing on G20 comments that exit strategies should be "tailored to individual country circumstances", interpreting this as a sign that global co-operation on exit strategies no longer exists. Note that the need for global co-ordination was a key argument for the dovish stance of BoK Governor Kim.

Portfolio capital inflows continue to support the KRW, though we now expect a smaller current account surplus

Portfolio capital inflows support the KRW

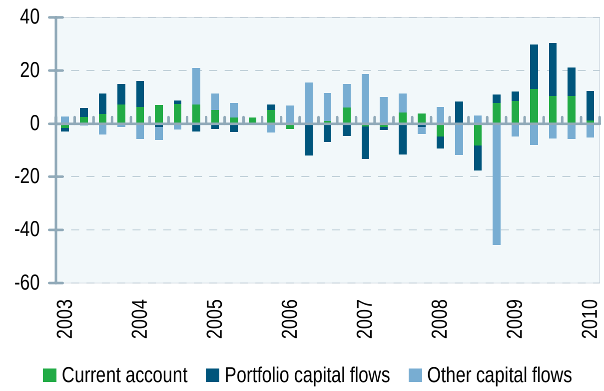
Continued portfolio capital inflows will support the Korean won (KRW), though we now expect a smaller current account surplus in 2010. Chart 2 shows that portfolio capital inflows remained strong in Q1, while the current account surplus declined significantly. We revise down our forecast for the current account surplus to 1.0% of GDP from 2.5% in 2010, and to 0.5% from 1.0% in 2011, as we expect the services account deficit to widen along with the strong KRW. That said, strong portfolio capital inflows are likely to continue in 2011 as rising corporate profits boost equities and the healthy fiscal outlook supports government bonds. A modest capital outflow in the 'other investment' account may also be favourable for the KRW, as it indicates the repayment of banks' external borrowing. We maintain our USD-KRW forecast of 1,050 at end-2010 and 950 at end-2011.

Chart 1: Fiscal balance *(% of GDP)*



Source: Ministry of Strategy and Finance

Chart 2: Balance of payments *(USD bn)*



Source: Bank of Korea

Thailand

Usara Wilaipich, Senior Economist
Standard Chartered Bank, Thailand
+66 2724 8878, Usara.wilaipich@sc.com

- **Political turmoil forces Thailand to rely more on external demand**
- **Inventory restocking will also be a driver of the recovery in 2010**
- **We see mixed impact on the current account balance from political events**

A rocky economic recovery

A strong Q1 recovery is in the bag, but the adverse political environment raises real uncertainty for Q2

Political stalement obstructs recovery

While Thailand's Q1-2010 growth is expected to have rebounded strongly in line with the rest of the region, Q2 growth will be much more challenging. In 2009, the Thai economy coped with the global financial crisis relatively well, contracting by only 2.3%, thanks to accommodative monetary policy and fiscal stimulus measures. Boosted by a strong rebound in exports and tourism, GDP expanded by a real 5.8% y/y in Q4-2009. We expect the recovery to have continued in Q1-2010, driven mainly by improving global demand and the extension of the fiscal stimulus package – especially tax incentives for new homebuyers, which boosted household consumption. Exports increased by 14.2% y/y during the first two months of 2010, helped by a low base, while the private consumption index expanded by 4.8% y/y in January and 9.7% in February.

The domestic political stalemate is hurting local business sentiment and tourism, increasing the economy's reliance on the export sector

Thailand may still avoid a double dip, but rebound will be muted

The recovery is expected to decelerate in Q2 due to the political disorder created by anti-government protesters who have who have occupied Bangkok's central business areas since 14 March. The resulting unrest has led to a substantial loss of tourism receipts, as more than 47 countries have warned their citizens to avoid non-essential travel to Thailand. In addition, the rally is undermining consumer and investor confidence, which will prevent a broad-based recovery.

On the bright side, inventory restocking should continue to support growth, partly offsetting the damage from the political turmoil. A closer look at the supply side suggests that restocking will be concentrated in a few key manufacturing sectors – including electronic goods, vehicles and parts, and electrical appliances. Thanks to the global demand recovery, Thailand's exports of these goods have rebounded to near pre-crisis levels in recent months (see Chart 1). Rising exports should support production in these sectors in the coming quarters.

We maintain our cautious GDP growth forecast of 2.8% for 2010, compared with consensus forecasts of 3.5-5.5%. Our sub-consensus forecast reflects concerns over the potential impact of protracted political instability, the further suspension of investment projects at the Map Ta Phut industrial estate, and slow progress on public investment in infrastructure. As mentioned above, external demand and inventory restocking in export-related sectors should be the major growth drivers this year. The ongoing recovery in Asia, which absorbs 40% of Thai exports, should continue to boost exports in H2. On the local front, ample surplus liquidity in the domestic financial system, estimated at about THB 1trn, should also

Thailand (con'd)

facilitate growth. Base money grew by 13.1% y/y in February, the fastest rate since June 2008.

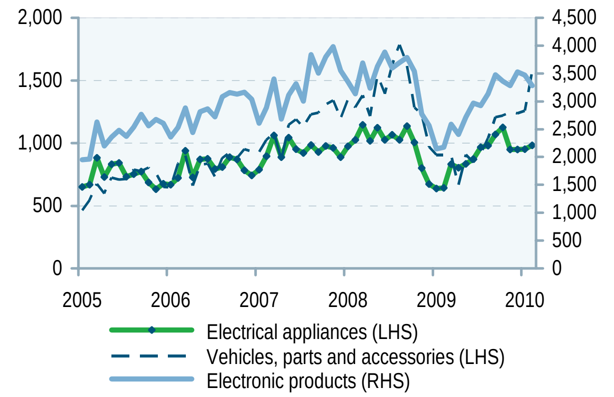
We expect a mixed impact on the current account, as slow investment progress will curb capital-goods imports, while lost tourism receipts will hurt the services account

Political events to have a mixed impact on the current account

The implementation of public investment in infrastructure has been slow so far, and is running behind the government's original schedule. As of 16 April, only 32% of planned investment for FY10 (ends 30 September 2010) had been disbursed. Looking ahead, the political situation may further impede progress on public investment. This, in turn, is likely to curb imports of capital goods. Public investment in infrastructure is estimated to have a 50% import content, so the delay in public investment will likely limit the deterioration in the country's current account balance.

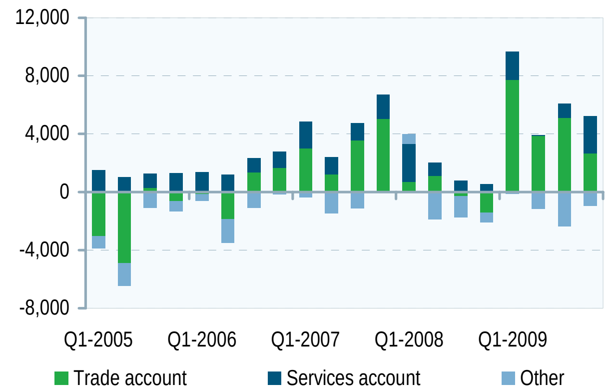
On the other hand, the poltical unrest will damage the services account via loss of tourism receipts. In addition, the protests have prompted a recent rise in outbound travel by Thais, which is likely to continue until the situation in Bangkok returns to normal. This will also undermine the services account balance. Chart 2 indicates that the services surplus (tourism receipts in particular) has contributed substantially to the current account surplus in recent years. Separately, Thailand will need to import nearly 1.5mn tonnes of liquefied petroleum gas (LPG) for the remainder of 2010 due to the suspension of refinery operations at Map Ta Phut. Taking all factors into account, we expect the current account to remain in deficit this year. However, we now forecast a smaller current account deficit of 0.4% of GDP in 2010, compared with our original forecast of 1% of GDP.

Chart 1: Exports of selected products
% y/y, USD mn



Source: BoT

Chart 2: Key contributors to current account
%



Source: BoT

UAE

Nancy Fahim, Economist, Middle East and North Africa
Standard Chartered Bank, UAE
+9714 508 3647, Nancy.Fahim@sc.com

- **Government spending has helped the UAE deal with the economic downturn**
- **But the policy response can also help to improve the quality of institutions**
- **The UAE will need a well-defined and workable bankruptcy law going forward**

Emphasis on governance and regulation

Recessions highlight weaknesses in the quality of institutions. They can also bring opportunities to implement change. Government spending has helped the economy avoid the worst, and with fiscal policy remaining expansionary in 2010, it will continue to play a key role in driving growth. We have repeatedly highlighted the UAE's drive for diversification, the need to create jobs for its young population, and the importance of investment. But improving the quality of institutions is of equal importance.

Global rankings

The UAE's lowest sub-scores in the World Bank's Doing Business report were in the areas of enforcing contracts and closing a business

The UAE ranks 33rd out of 183 economies in terms of the ease of doing business, according to the World Bank's Doing Business 2010 report. It is ranked third-highest among the six Gulf Cooperation Council (GCC) countries, with Saudi Arabia and Bahrain leading the way.

While the UAE's overall ranking climbed 14 notches between the 2009 and 2010 surveys, its lowest sub-scores barely moved, or they even went down. The UAE scored low in the areas of 'protecting investors' (119th out of 183), 'enforcing contracts' (134th) and 'closing a business' (143rd). Among GCC countries, the UAE has the lowest rankings for 'protecting investors' and 'closing a business'. It outranked Saudi Arabia only in 'enforcing contracts'.

The difficulty of closing a business in the UAE is clearly the biggest drag on its overall ranking. According to the report, it takes an average of 5.1 years to close a business in the country, compared with 1.7 years in Saudi Arabia.

Improving the institutional framework in the UAE would bring key benefits. First, there is evidence that high-quality institutions improve the absorptive capacity of an economy, helping to maximise the benefits of international investment inflows. This is even more important for a country like the UAE, as it would help to better assimilate its oil proceeds. Second, stronger regulation and enforcement can restore investor confidence and encourage the development of new businesses.

A state 'watchdog' and a Public Debt Management Unit have been set up to improve the regulatory environment

The UAE is taking steps to improve the quality of its institutions. These include the recent creation of a state 'watchdog' over quasi-government entities in Dubai, a Public Debt Management Unit (PDMU) set up by the Ministry of Finance, and renewed statements by officials on the need to move forward with a clearer bankruptcy law. The watchdog will oversee the spending and borrowing activities of all firms in which the government has a stake of at least 25%, making them

UAE (con'd)

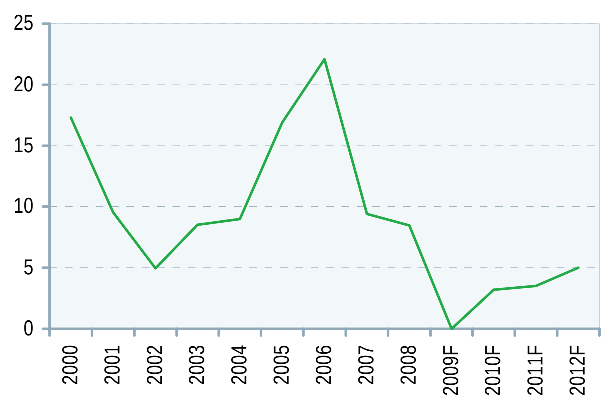
more accountable and helping to achieve greater transparency in business transactions. The PDMU was set up in Q4-2009, also with the goal of improving transparency on issues relating to sovereign debt.

The bankruptcy law has been the subject of much rhetoric but little action. The latest crisis has highlighted the need for, and the current lack of, a timely process under which businesses can file for bankruptcy and assets can be evaluated and distributed. Prior to the crisis, strong confidence in the UAE and ample liquidity had allowed this issue to slide into the background, with little demand for such a legal framework. The renewed emphasis is positive, but implementation will be key. Going forward, a workable bankruptcy law will help businesses in the UAE address their financial difficulties with fewer complications than have been seen in recent cases.

A well-defined bankruptcy law is needed, but implications for the current quality of corresponding institutions will have to be considered

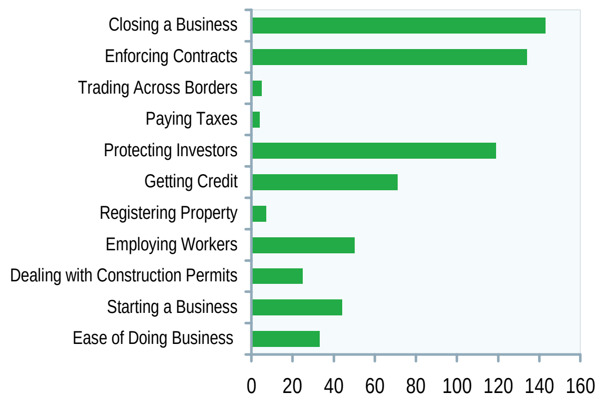
It may be worthwhile to consider best practices in other jurisdictions, as well as to assess the implications such a law could have on the UAE judicial system. Laws allowing businesses to restructure, such as Chapter 11 in the US, have given numerous organisations a chance to get back on their feet. For the UAE law to be effective, however, it needs to go hand in hand with a strengthening of the legal and judicial system. UAE courts face challenges in handling lawsuits in a timely manner and do not appear to have the capacity to process the number of claims that come their way. According to the Doing Business 2010 report, it takes 49 procedures and 537 days for a lawsuit or a legal dispute to reach a resolution in the UAE; as a result, the country has a low ranking for 'enforcing contracts'. As the UAE takes steps to strengthen its regulatory framework, those efforts need to be matched by an equal strengthening of its institutional and legal framework.

Chart 1: UAE current account as % of GDP



Sources: IMF, Standard Chartered Research

Chart 2: UAE rankings, Doing Business 2010 report



Source: World Bank's Doing Business 2010 Report

US

David Mann, Regional Head of Research, the Americas
Standard Chartered Bank, United States
+1 646 845 1279, David.Mann@sc.com

David Semmens, Economist
Standard Chartered Bank, United States
+1 212 667 0452, David.Semmens@sc.com

- **The government is still propping up US consumer spending**
- **Underlying consumption remains weak, however you spin it**
- **Employment and credit concerns will weigh on any progress**

Butterfly or permanent chrysalis?

The good news is not spread evenly

US consumer spending has been driven by a reduction in savings, not by fundamental improvements

The US consumer's stronger-than-expected performance in the first quarter of 2010 has lifted optimism about the path of the US recovery. This is unjustified, in our view. Shaky fundamentals are the reason for our lack of good cheer. Most importantly, the pick-up in spending has been driven by a fall in the savings rate, not by any real improvement in private income growth. Furthermore, the decline in the savings rate has been much larger than we would have expected given the relatively modest improvement in the wealth effect. The best way to gauge the wealth effect is to look at net worth as a share of disposable income. Using this measure, net worth has risen to 492% of GDP from the low of 450% reached in Q1-2009. This is still well below the high of 639% hit in Q1-2006.

The halt in the decline of US net worth has seen consumers embark on a 'retail therapy'-driven turnaround. Note that the benefits from stock-market gains are concentrated among a much smaller portion of the US population than the benefits from the comparatively weak housing 'turnaround' seen so far. Professor Edward Wolf of New York University estimates that 91% of stock ownership is in the hands of the wealthiest 20% of Americans. Therefore, stock-market wealth has an imbalanced wealth effect. The Gini coefficient, a measure of income disparity where 0 is perfect income equality and 100 is perfect income inequality (i.e., one person has all the country's income), shows that the US (40.8) has slightly less income equality than the world average (40.5), similar to that of Singapore (42.5). The three Scandinavian countries are all in the top five for equality (averaging 25.2), while the UK and Italy (36) are in between.

The US home ownership rate has fallen from a high of 69.2% at end-2004 to 67.1% as of March 2010. This is, however, still well above the average of 64.3% between 1965 and 1995. Those who entered the housing market last have invariably faced the largest negative equity pressure. The Case-Shiller index is only now back to the levels seen in Q4-2003. While the technical recession ended in Q3-2009, the US consumer continues to feel its effect. 18.1mn American households were claiming food stamps in January 2010, up 25% year-on-year. The number of people claiming unemployment benefits should at least stabilise this year at around the current level of 10mn. At the start of April, there were 4.7mn people on normal continuing unemployment claims, while 5.4mn were on extended emergency claims. The average duration of unemployment is still rising and is currently at 31.2 weeks, double its historical average.

US (con'd)

The US labour market has passed the worst, but the outlook remains gloomy

The slow grind down

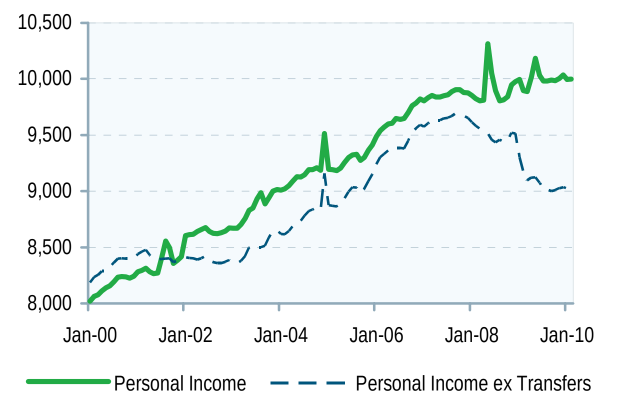
It is not all bad news. Aggressive cuts in the labour market have at least halted and gradually given way to minor additions. However, there are many problems ahead. A 6% cut in the labour force from its peak, the most aggressive since the end of the Second World War, will put continual downward pressure on wage growth. Typically, wage growth remains weak for the first few years of a recovery. This is understandable, as employees have less bargaining power in the early recovery stage. The depth of this recession was almost three times that of the average post-war recession. Without significant above-trend growth, we are unlikely to see unemployment fall back to its previous trend level of 5.5% before 2015. In the short term, the low level of hours worked gives employers the opportunity to increase current employees' hours before turning to new hiring. Importantly, optimism levels in the small business sector, the catalyst for two-thirds of job creation over the last 15 years, collapsed during the crisis. Small businesses' outlook has yet to recover to above the levels seen in prior recessions; this alone should dampen optimism that the US will experience a hiring spree, which would have supported a continued spending pick-up.

Consumer sentiment has a long way to go

Consumer spending

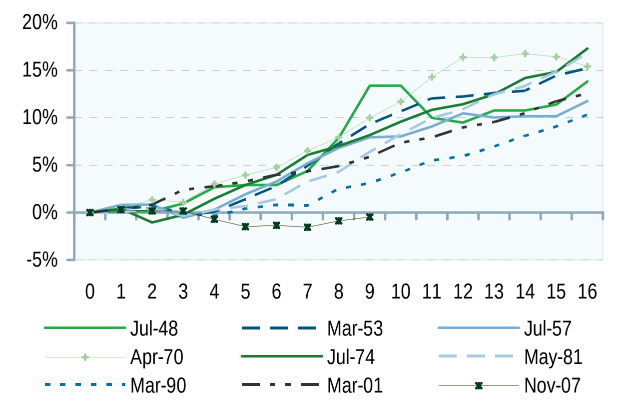
A major question mark remains over the outlook for consumer spending given the weakness of its three key pillars: employment, income growth and the wealth effect. Personal income has so far been supported by government programmes; we show this in Chart 1, which compares income with and without government support. Even with some modest job creation underway, there is a long way to go before this drives down the unemployment rate. Consumers may be feeling more inclined to spend following the rally in the stock market, though this effect is far less powerful than if it were coming from a rally in the housing market. Unfortunately, that is unlikely to occur anytime soon.

Chart 1: Government support bridges the gap
USD mn



Sources: Bloomberg, Standard Chartered Research

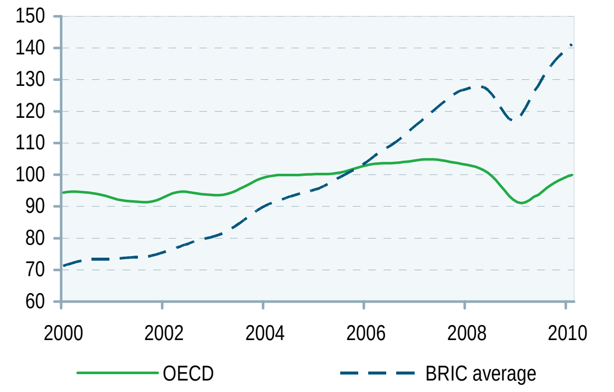
Chart 2: US consumerism on hold



Sources: Bloomberg, Standard Chartered Research

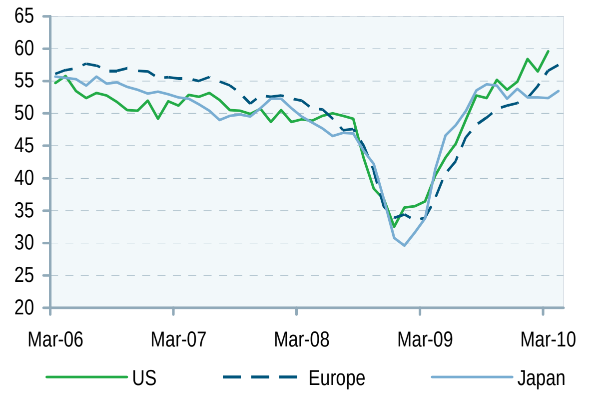
Market snapshots – Global and G3 economies

Chart 1: Emerging markets lead global recovery
OECD and BRIC leading Indices



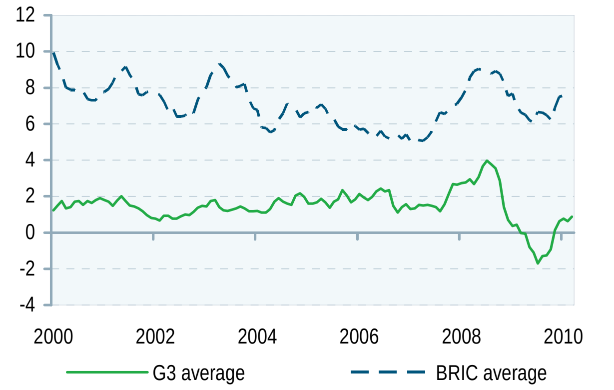
Sources: Bloomberg, Standard Chartered Research

Chart 4: Recovery in G3 economies continues
PMI



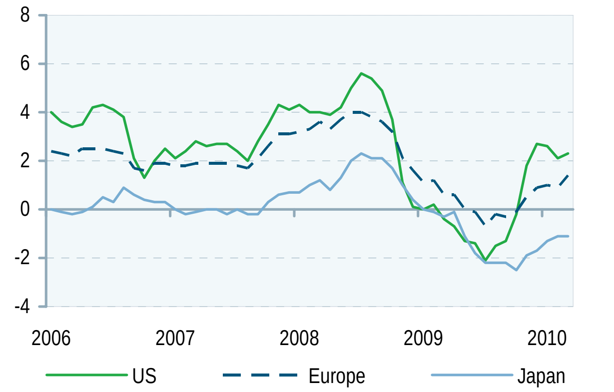
Sources: Bloomberg, Standard Chartered Research

Chart 2: Growing divergence in inflation, again
G3 and BRIC inflation, % y/y



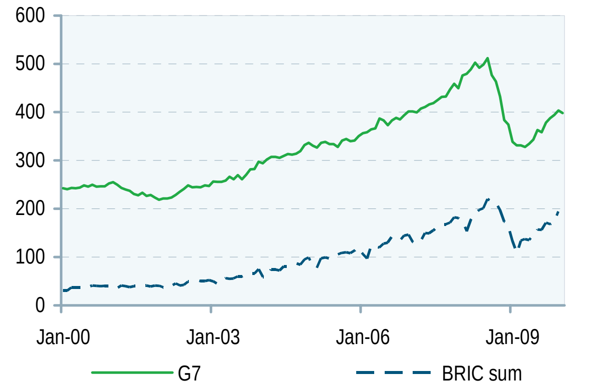
Sources: Bloomberg, Standard Chartered Research

Chart 5: G3 inflation remains subdued
Headline CPI, % y/y



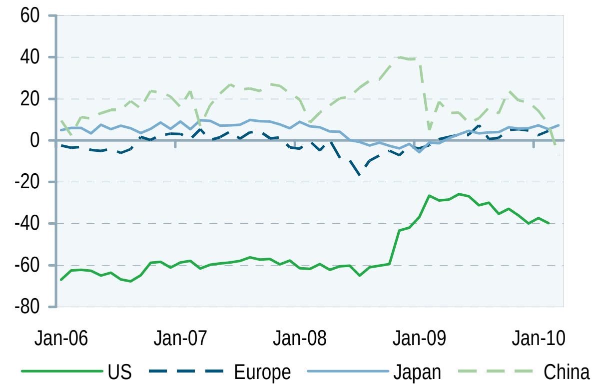
Sources: CEIC, Standard Chartered Research

Chart 3: Global exports are still below 2008 peak
OECD exports, BRIC exports (USD bn)



Sources: Bloomberg, Standard Chartered Research

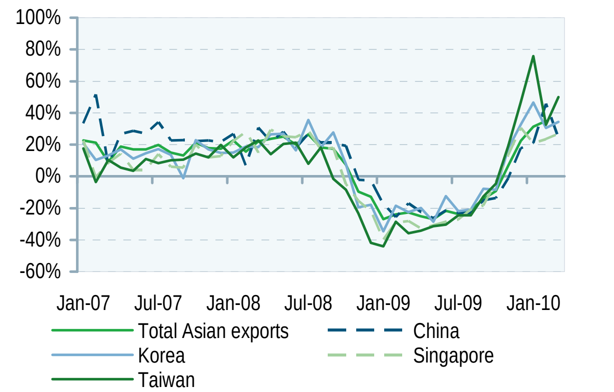
Chart 6: Trade imbalance remains wide
G3, China trade balances (USD bn)



Sources: CEIC, Standard Chartered Research

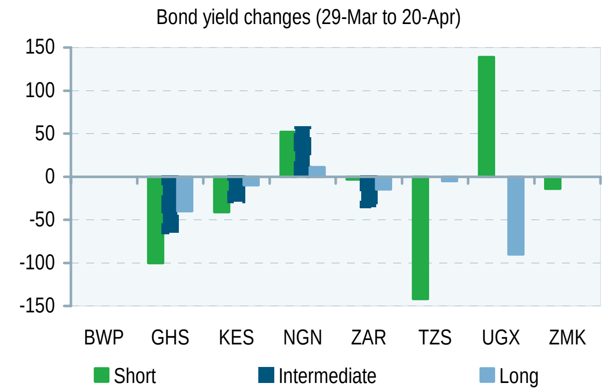
Market snapshots – Asia and Africa

Chart 7: Asian exports are rebounding strongly y/y
% y/y



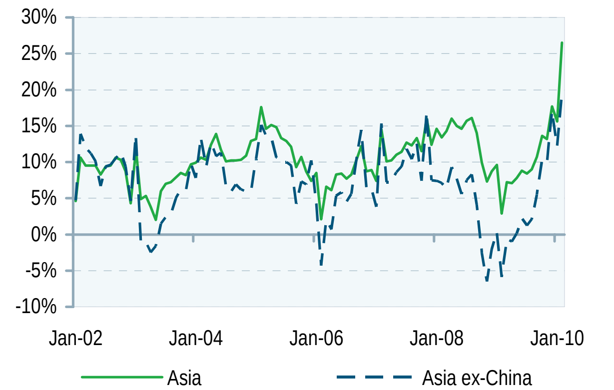
Sources: CEIC, Standard Chartered Research

Chart 10: Recent weeks' activity sustains YTD bond-market rally, with a mixed picture ahead *(bps)*



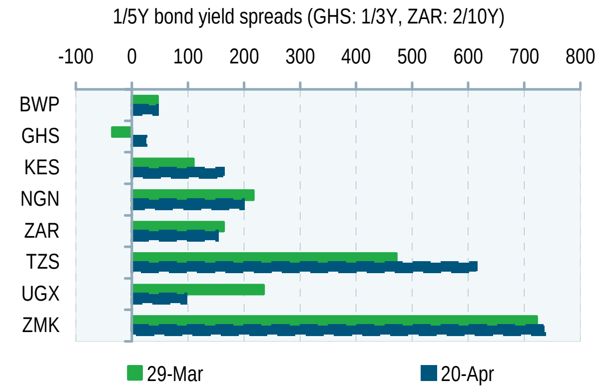
Source: Standard Chartered Research

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



Sources: CEIC, Standard Chartered Research

Chart 11: Steepness of Zambian yield curve stands out among African rates markets *(bps)*

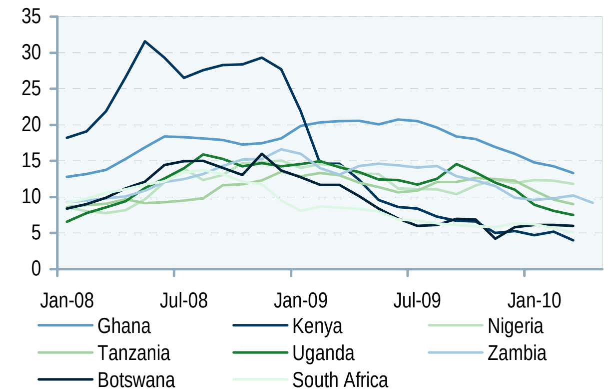


Source: Standard Chartered Research

Chart 9: Asia inflation will continue to rise in months ahead, but is not a threat yet *(CPI, % y/y)*

Sources: CEIC, Standard Chartered Research

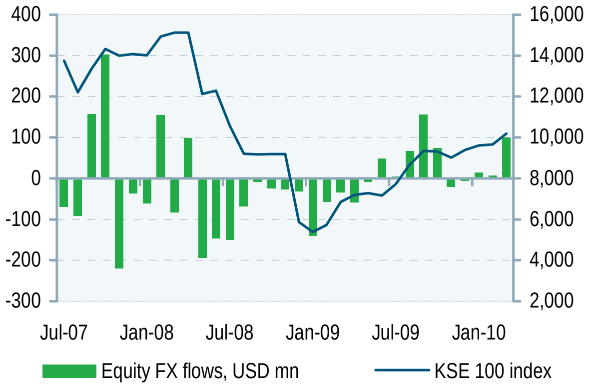
Chart 12: Inflation continues to trend down across Africa *(%)*



Source: Standard Chartered Research

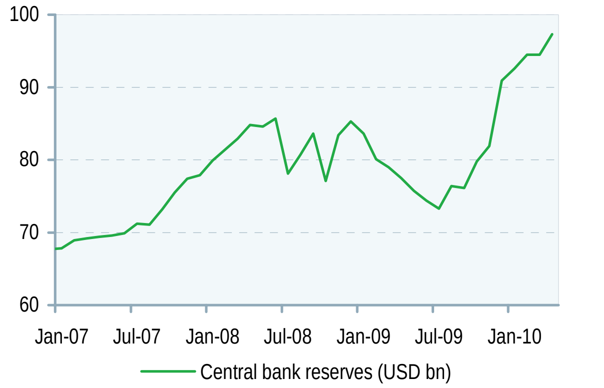
Market snapshots – MESA and Latam

Chart 13: Pakistan – strong manufacturing rebound
% 3mma



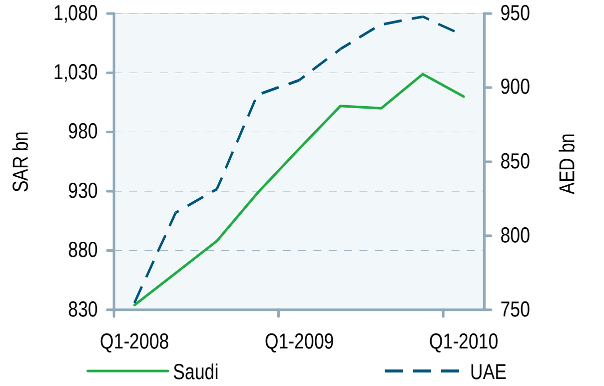
Sources: FBS, State Bank of Pakistan

Chart 16: Mexico's reserves reach new highs



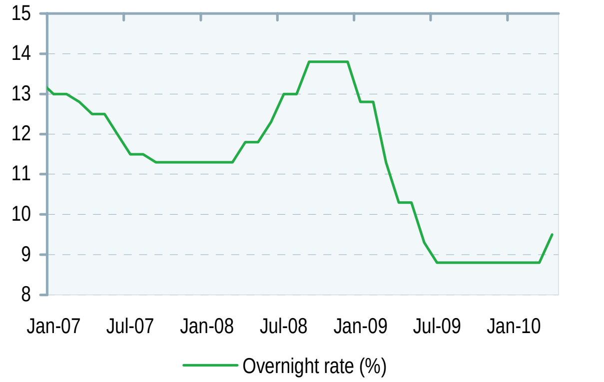
Sources: Bloomberg, Standard Chartered Research

Chart 14: UAE vs. Saudi M3 money supply – similar trends *(Q1-2008 to Q1-2010)*



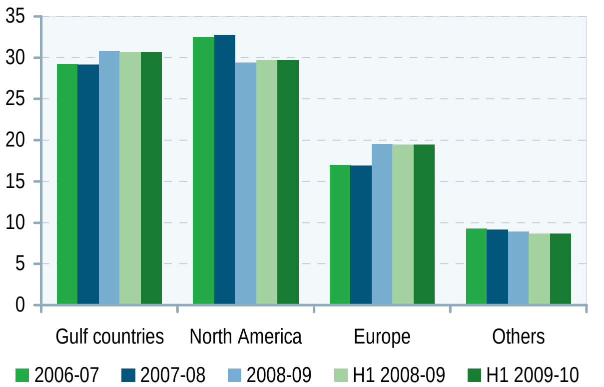
Note: Saudi Q1-2010 data based on Feb figure;
Sources: UAE central bank, SAMA

Chart 17: Brazil kicks off the region's tightening cycle



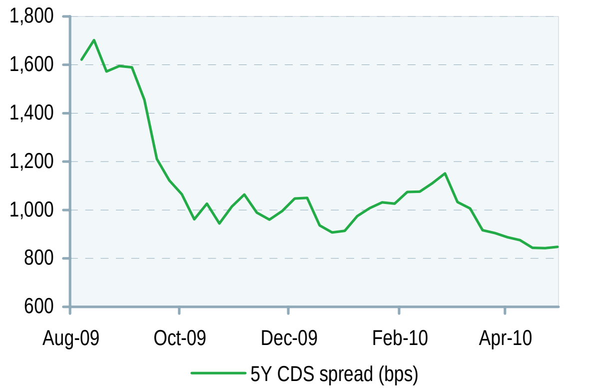
Sources: Bloomberg, Standard Chartered Research

Chart 15: Sources of private transfers to India
(% of total)



Sources: RBI, CSO Standard Chartered Research

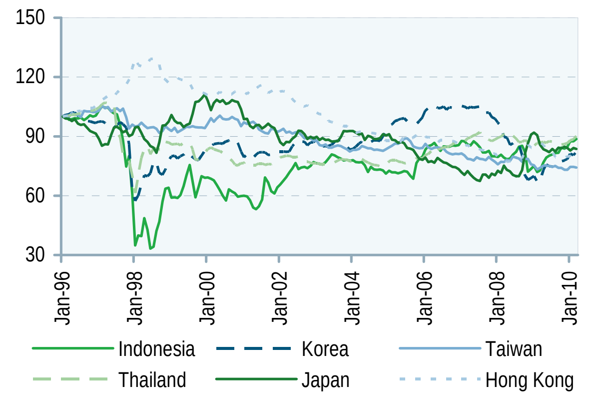
Chart 18: Argentina CDS still high despite debt swap



Sources: Bloomberg, Standard Chartered Research

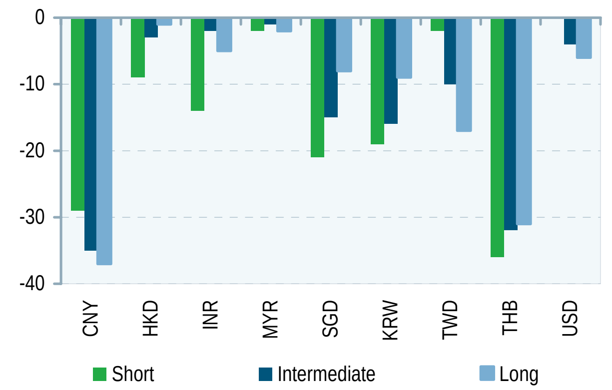
Market snapshots – FX and rates

Chart 19: Asia REERs – bottom 6 performers
Korea & Taiwan are the key underperformers



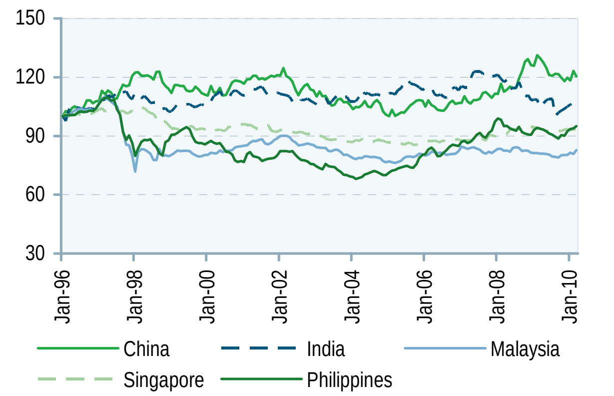
Sources: BIS, Standard Chartered Research

Chart 22: Bullish performance in Asian rates
Changes in IRS levels since 31-Mar-10 (bps)



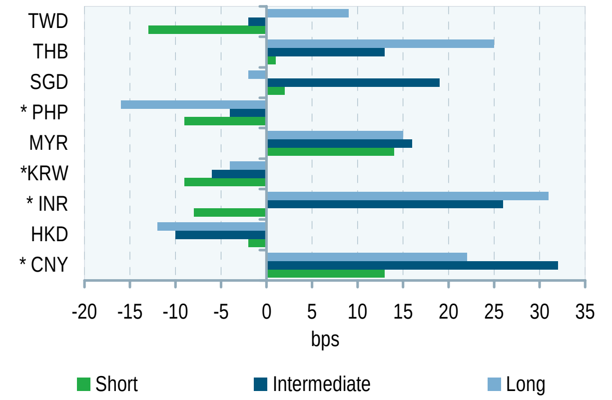
Sources: Bloomberg, Standard Chartered Research

Chart 20: Asia REERs – top 5 performers
China remains the best performer since 1996



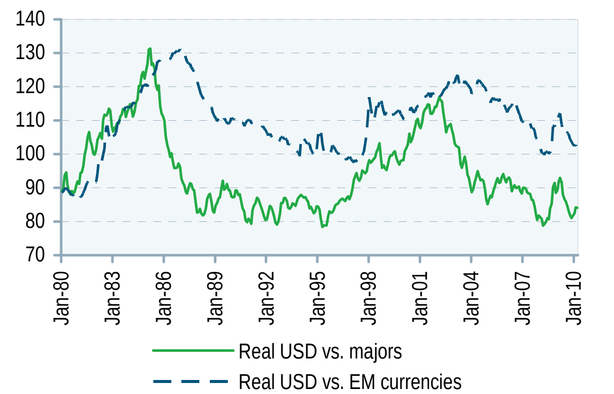
Sources: BIS, Standard Chartered Research

Chart 23: Short-end bond-swap spreads widen
Bond-swap spread changes, 29-Apr vs. 31-Mar



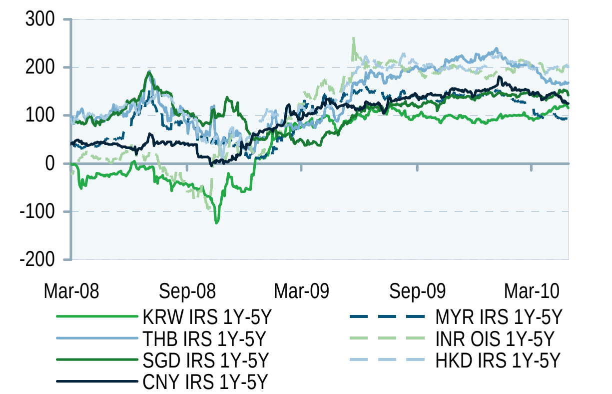
Sources: Bloomberg, Standard Chartered Research

Chart 21: Real USD vs. majors and EM currencies
EM currencies should catch up with the majors



Source: Standard Chartered Research

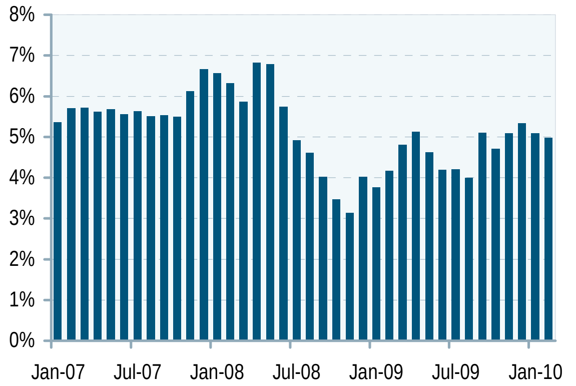
Chart 24: Scope for front end of curves to flatten
Selected IRS 1Y/5Y IRS spreads (bps)



Sources: Bloomberg, Standard Chartered Research

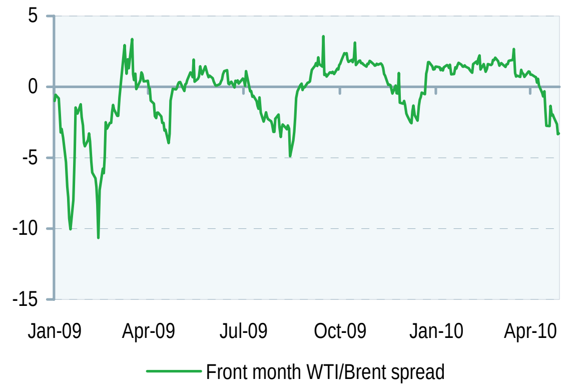
Market snapshots – Credit and commodities

Chart 25: Allocation of global bond funds to Asia
Allocations to Asia (in USD) are close to historical highs



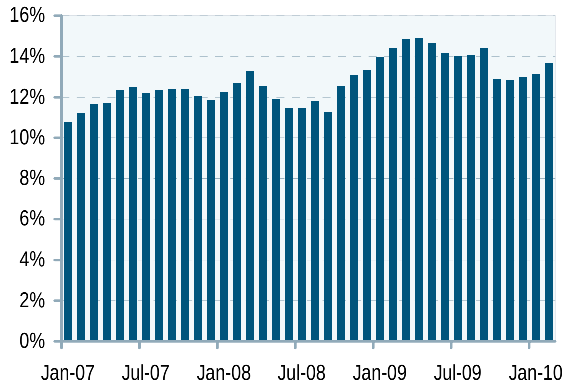
Sources: EPFR, Standard Chartered Research

Chart 28: WTI/Brent arbitrage continues to widen as stocks build further at cushing *(USD/bbl)*



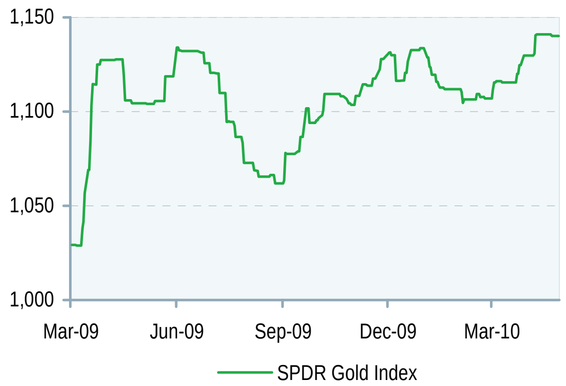
Sources: Bloomberg, Standard Chartered Research

Chart 26: Allocations of EM bond funds to Asia
Allocations to Asia (in USD) are growing



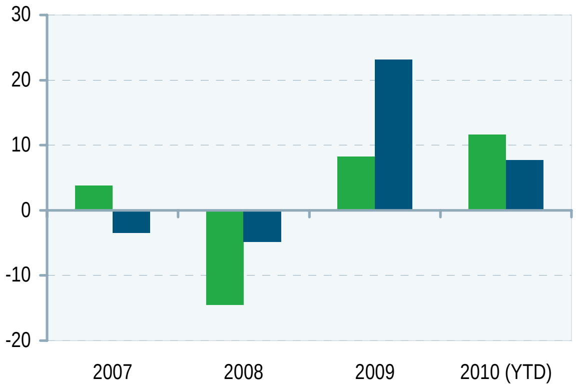
Sources: EPFR, Standard Chartered Research

Chart 29: Gold recorded impressive investor inflows in April on safe-haven buying *(metric tonnes)*



Sources: Bloomberg, Standard Chartered Research

Chart 27: EM and HY bond fund flows compared
Cumulative flows into EM bond funds YTD higher than inflows for the whole of 2007, 2008 and 2009 (USD bn)



Sources: EPFR, Standard Chartered Research

Chart 30: Cocoa price surges on improved demand and disappointing crops in Ivory Coast *(USD/t)*

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 in May; 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 Q3-2010	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	• Q1 GDP growth accelerated on exports and government spending • 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-Mar-10	Overweight	Overweight
TWD	• Economy is recovering, BoP is strong • Improvement in cross-straits relations to support economy • TWD is 13% 'undervalued' vs. USD, according to SCB PPP • Appreciation likely to accelerate once CNY de-pegs • We raised our short-term FX rating to *Overweight* on 26-Apr-09	Overweight	Overweight
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 outperformed on CNY expectations, valuation • Global growth recovery, CNY 'de-pegging' should support MYR • Economic recovery, external balances remain positives for MYR • SCB MYR NEER has rallied; we expect 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 • The upcoming election is likely to be broadly supportive • The PHP should catch up with AXJ currencies in 2010 • We raised our short-term FX rating to *Overweight* on 07-Apr-10	Overweight	Overweight
SGD	• Economy is rebounding, growth forecasts being revised higher • The MAS has moved to a gradual appreciation of the SGD • Economic recovery, fundamentals underline trend SGD strength • The SGD should benefit from CNY de-pegging in May • We raised our short-term FX rating to *Overweight* on 14 Apr-10	Overweight	Overweight

FX strategy summary (cont)

Currency	Fundamentals	S/T weighting (3-6 months)	M/T weighting (6 months+)
THB	• The THB has underperformed on political uncertainty • Growth, BoP dynamics and interest rates are positive for THB • Bank of Thailand to resist fast currency 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	• USD-VND is stabilising as USD shortage has eased • Trade deficit may be outweighed by FDI, inward remittances • 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 is range-trading on global uncertainties • Accelerating inflation has pushed INR REER higher • RBI is comfortable with INR appreciation, only worried about pace • We expect measured tightening by the central bank • INR gains to be sustained on strong growth, balanced policy stance	Overweight	Overweight
PKR	• USD-PKR has traded lower as oil payments have slowed • Down-move in USD-PKR is 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 in negative territory • 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 Q2 • Political noise continues, 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 will 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 been volatile but basically non-trending • CBK would likely add to FX reserves on any USD-KES dip • Current account deficit has edged lower, but only marginally • We raised KES to Neutral from Underweight on 21-Jul-09 • Medium-term risks are evenly balanced; we are *Neutral* M/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 has retreated from its Q4-09 peak vs. USD as ZAR slipped • 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/term • We raised our S/term FX rating on BWP to *Neutral* on 29-Apr-09	Neutral	Underweight
ZAR	• USD-ZAR has been volatile but largely non-trending • ZAR underpinned by portfolio inflows, despite policy rate cut • Authorities would likely act to slow any new ZAR appreciation • Further out, C/A deficits, structural shortfalls are ZAR-negative • We cut our S/term FX rating to *Neutral* on 14-Jan-10	Neutral	Underweight
ARS	• USD-ARS is drifting to fresh highs of 3.88 ahead of key debt swap • The debt exchange should go live by early May • The participation rate is expected to be high • Sentiment is still vulnerable to global sovereign risk dynamics • We are *Neutral* ARS short-term and medium-term	Neutral	Neutral
BRL	• 200-day MA is again capping rally in USD-BRL • Rate hikes have begun, but too much is priced into the curve • Government candidate still lags in polls for October election • Capital inflows are a net positive, compensating for trade deficit • We raised our S/term rating to *Neutral* on 22-Apr-10	Neutral	Overweight
CLP	• USD-CLP is testing resistance at 530 and has held so far • Post-earthquake data is beginning to trickle in • Central bank speech is hawkish, but there is much uncertainty • Copper prices reached new high in April but are retracing lower • We are *Neutral* CLP short-term, *Overweight* medium-term	Neutral	Overweight
COP	• USD-COP broke above 200-d MA of 1,965, first time since April-09 • May election polls have turned away from government candidate • Consumer and growth outlook among the weakest in the region • COP remains on the back foot and is the regional underperformer • 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 low of 12.13 in April • Weak data supports our view of no hikes until Sep-2010 at earliest • Domestic demand remains very soft; US data is driving growth • Positioning heavily in MXN's favour; USD short covering is a big risk • 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 • Central bank to remain vigilant amid robust growth outlook • Inflation picture is still benign; no more disinflationary pressures • Monetary tightening is expected in Q3 • We are *Neutral* PEN, both short-term and medium-term	Neutral	Neutral
EUR	• Greek woes continues, weighing on EUR • EUR-USD is undervalued vs. oil, overvalued vs. Baltic Dry Index • EUR-USD to remain choppy near-term; focus is on fiscal woes • 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 6.00% by end-2010 • AUD to remain supported by commodity prices, rates • We raised our short-term rating to *Overweight* on 09-Apr-10	Overweight	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-2010	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 in Q3 • Canada's external surplus appears to have stabilised • The CAD is 15.17% 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 30/04/2010	m/m %	Change YTD %	y/y %	Short-term (1M) view	Comments
Energy						
Crude oil (near future, USD/b)						
NYMEX WTI	86.2	2.0	9.1	62.7	Neutral	Prices are expected to consolidate at these levels as confidence in medium term outlook outweighs near term demand softness. Investors remain supportive, if volatile.
Agricultural products						
Softs (near future)						
NYBOT cocoa, USD/tonne	3,229.0	8.1	-1.7	40.5	Bullish	Buoyed by resurgent global demand and a shortfall in supply this season. Should trend higher before peaking at the end of Q2-2010.
NYBOT coffee, USc/lb	135.2	-0.9	0.2	13.6	Neutral	Comfortable global stocks particularly in top producer Brazil which has seen a big harvest this year.
NYBOT sugar, USc/lb	15.2	-9.2	-43.7	0.7	Bearish	Market has struggled to recover from a precipitous decline which started in February. The prospect of large supply from top producer Brazil is keeping the market on the back foot.
Fibres						
Cotton (Cotlook A index, USc/lb)	90.6	6.2	15.4	52.8	Neutral	Higher prices likely to attract bigger acreage in the US and China which will limit further upside for cotton.
Grains & oilseeds (near future)						
CBOT corn (maize), USc/bushel	366.3	6.8	-11.2	-9.4	Neutral	Although rapid planting progress and good weather in the US is bearish for corn recent strong demand from China is supportive.
CBOT soybeans, USc/bushel	989.5	4.9	-4.9	-10.3	Neutral	Decreasing old crop stocks in the US is bullish but record output from Latam is helping to keep prices contained.
CBOT wheat, USc/bushel	491.8	8.5	-8.9	-11.4	Bearish	Market is currently oversupplied and is being undermined by large carryover stocks from last season.

Commodities short-term views (con'd)

	Market Close	m/m	Change YTD	y/y	Short-term (1M) view	Comment
	30/04/2010	%	%	%		
Metals						
Base metals (LME 3M, USD/tonne)						
Aluminium	2,255	-2.9	+1.1	+50.9	Bullish	Prices are recovering after recent sharp sell-off. Fundamentals are weak, but will be ignored for now.
Copper	7,430	-4.6	+0.7	+67.7	Bullish	Close to bottom of recent ranges and fundamentals remain supportive.
Lead	2,230	+3.9	-8.3	+67.7	Neutral	In a weak period for fundamentals and LME stocks are rising.
Nickel	26,300	+5.2	+42.0	+125.2	Bullish	Demand recovery and speculative interest to keep prices on upward track.
Tin	18,250	-1.1	+7.7	+47.8	Bullish	Will benefit from demand recovery and bounce back in major base metals.
Zinc	2,285	-3.8	-10.7	+60.4	Neutral	Supply and high inventories expected to weigh on prices.
Precious metals (spot, USD/oz)						
Gold (spot)	1,179	+6.0	+8.2	+33.9	Bullish	Benefitting from worries about Greece and potential contagion effects. Investors inflows are strong.
Palladium (spot)	548	+13.8	+33.9	+150.5	Neutral	Fundamentals are strong, but market is overdue a period of consolidation.
Platinum (spot)	1,737	+4.7	+18.8	+59.3	Bullish	Strong auto sales and investor interest should push prices higher.
Silver (spot)	18.6	+5.3	+11.8	+50.7	Bullish	Will benefit from safe haven buying and improved industrial demand.

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	**3.0**	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	**-1.3**	-1.7	**-1.6**	**-1.4**
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	**-1.5**	1.9	2.5	2.6	**-0.5**	**1.3**	**1.7**	**1.8**	**8.3**	**10.2**	**11.0**	**10.5**
Australia	1.3	**3.2**	**3.8**	3.0	**1.9**	**2.6**	**3.4**	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	7.4	7.0	6.8	1.4	3.7	3.4	2.9	4.5	3.0	2.8	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	**9.0**	**9.5**	**10.0**	**11.0**
India*	7.0	**8.1**	**8.5**	**8.8**	3.8	**6.8**	5.0	**4.5**	-2.8	-2.2	-1.5	-1.5
Indonesia	4.5	5.5	6.5	7.0	4.9	**4.2**	**5.3**	**6.2**	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	**15.0**	15.5
Pakistan*	2.0	2.5	4.0	4.5	20.8	12.0	9.0	8.0	-5.3	**-2.5**	**-4.0**	-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	**6.5**	5.6	**6.8**	0.6	2.2	3.0	2.3	19.1	**17.0**	**15.0**	15.8
South Korea	0.2	**5.5**	4.1	5.2	2.8	2.5	2.5	2.5	5.1	**1.0**	**0.5**	1.0
Sri Lanka	4.0	5.5	**6.5**	7.0	3.5	4.7	5.1	5.5	-2.0	-1.5	-2.0	-2.5
Taiwan	-1.9	**5.9**	4.1	4.6	-0.9	**1.3**	1.2	2.2	11.2	**7.4**	**6.4**	4.6
Thailand	-2.3	2.8	4.5	5.8	-0.8	3.2	3.7	3.8	7.1	**-0.4**	**-1.5**	**-1.8**
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	**3.8**	7.4	**5.7**	**5.6**	**5.3**	-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	**-4.7**	**4.7**	**5.2**	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	2.9	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	1.32	1.36	1.39	1.44	1.40	1.35	1.00 (Refi Rate)	1.00	1.00	1.00	1.25	1.50
Japan	94.83	95.00	95.00	93.00	96.00	100.00	0.10 (O/N Call Rate)	0.10	0.10	0.10	0.10	0.10
UK	1.53	1.55	1.60	1.65	1.63	1.60	0.50 (Bank Rate)	0.50	0.50	0.50	0.50	0.75
Canada	1.01	0.98	0.95	0.93	0.95	0.97	0.25 (O/N Lending Rate)	0.50	0.75	1.00	1.25	1.50
Switzerland	1.08	1.07	1.06	1.04	1.06	1.09	0.25 (LIBOR Target)	0.25	0.25	0.25	0.50	0.75
Australia	0.92	0.95	0.97	0.98	0.94	0.90	4.50 (OCR)	4.75	5.50	6.00	6.25	6.75
New Zealand	0.73	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	69.25	69.00	69.00	69.00	69.00	69.00	6.50 (RRP)	6.50	6.50	6.50	6.50	6.50
China	6.83	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	44.52	44.00	43.00	42.00	42.60	43.00	3.50 (RRP)	3.75	4.00	4.25	4.50	4.75
Indonesia	9,017	9,000	8,900	8,800	8,800	8,900	6.50 (BI Rate)	6.50	6.50	7.00	7.00	7.50
Malaysia	3.20	3.17	3.12	3.02	2.97	3.05	2.25 (OPR)	2.50	2.75	2.75	3.00	3.50
Pakistan	83.97	86.00	86.90	87.80	88.58	89.00	12.35 (6M KIBOR)	12.30	11.80	11.30	10.80	10.30
Philippines	44.47	44.00	43.00	41.50	41.00	42.00	4.00 (RRP)	4.00	4.25	4.50	4.50	4.75
Singapore	1.37	1.35	1.33	1.29	1.27	1.29	0.52 (3M SIBOR)	0.45	0.50	0.50	0.60	0.70
South Korea	1,114	1,100	1,075	1,050	1,025	1,035	2.0 (Base Rate)	2.00	2.25	2.50	2.75	3.00
Sri Lanka	113.55	114.00	113.50	113.00	113.80	113.80	7.5 (RP)	8.00	6.50	6.00	6.00	6.25
Taiwan	31.39	31.00	30.60	30.00	29.50	29.80	1.25 (Discount Rate)	1.25	1.25	1.25	1.38	1.50
Thailand	32.24	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	18,940	19,200	19,600	20,000	19,900	20,000	8.00 (Base Rate)	9.00	10.00	12.00	12.00	12.00
Africa												
Angola	93.30	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	6.87	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	496.31	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	496.31	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	26.80	28.50	29.00	30.50	29.50	29.00	9.94 (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	13.50 (91-day T-bill)	14.20	13.90	13.20	12.90	12.80
Kenya	77.15	77.00	77.50	77.90	78.10	79.00	4.9 (91-day T-bill)	7.20	6.80	6.60	6.30	6.50
Nigeria	150.95	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	3,850	3,950	4,025	4,100	4,125	4,150	15.07 (91-day T-bill)	15.00	14.50	14.00	13.50	13.00
South Africa	7.41	7.45	7.30	7.65	7.80	8.20	6.50 (Repo Rate)	6.50	6.50	6.50	7.00	7.00
Tanzania	1,390	1,320	1,360	1,380	1,410	1,370	1.97(91-day T-bill)	7.40	6.30	6.80	6.60	6.80
Uganda	2,112	2,070	2,110	2,150	2,180	2,220	4.19 (91-day T-bill)	7.60	7.30	6.90	6.70	6.90
Zambia	4,760	4,300	4,500	4,700	4,750	4,800	1.98 (91-day T-bill)	5.30	5.90	6.50	7.40	7.50
Middle East and North Africa												
Algeria	73.50	67.50	65.50	63.00	64.50	67.00	3.28 (Interbank Rate)	3.28	3.28	3.28	3.28	3.25
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	5.56	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	1,499	1,508	1,508	1,508	1,508	1,508	…	…	…	…	…	…
Libya	1.28	1.25	1.22	1.16	1.20	1.24	…	…	…	…	…	…
Morocco	8.42	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	1.43	1.31	1.28	1.22	1.24	1.30	4.50 (Money Market Rate)	4.50	4.50	4.50	4.50	0.00
Turkey	1.49	1.55	1.58	1.58	1.60	1.57	6.50 (Base Rate)	6.50	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	1.73	1.70	1.65	1.55	1.60	1.72	9.50 (Selic)	10.25	11.25	12.00	12.00	11.50
Chile	517.25	490.00	475.00	445.00	450.00	485.00	0.50 (Overnight Rate)	0.50	1.00	1.50	2.25	3.00
Colombia	1,961	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	12.26	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
	30/04/2010	%	%	A	A	A	F	F	F	A	A	F	F
Energy													
Crude oil (near future, USD/b)													
NYMEX WTI	86.2	+2.0	+9.1	68	76	79	84	84	88	100	62	84	90
ICE Brent	87.4	+5.7	+13.9	69	76	77	86	83	87	98	63	83	88
Dubai spot	86.2	+6.8	+10.1	68	75	76	83	80	82	94	62	80	84
Refined oil products													
Singapore fuel oil 180 (USD/t)	508	+7.9	+3.0	422	461	475	490	510	515	511	371	498	509
Singapore gasoil (USD/b)	97	+9.1	+14.7	75	82	83	95	96	96	119	69	92	96
Singapore jet kerosene (USD/b)	97	+9.3	+11.6	75	83	84	96	97	98	121	70	94	99
Singapore naphtha (USD/b)	85	+5.5	+5.9	67	75	78	85	86	86	88	61	84	84
Europe gasoil (USD/t)	732	+8.5	+15.1	560	612	614	700	702	704	917	522	680	745
Europe jet (USD/t)	779	+8.9	+12.8	599	659	668	755	766	783	997	560	743	825
Europe naphtha (USD/t)	757	+5.3	+6.8	597	661	697	730	748	779	788	534	738	783
Coal (USD/t)													
API4	87	+0.2	-19.1	60	67	81	85	90	95	121	64	88	90
API2	79	+1.2	-13.6	68	76	79	77	81	85	147	70	80	105
globalCOAL NEWC*	109	+14.6	+28.5	72	77	94	100	100	105	129	72	100	100
Metals													
Base metals (LME 3m, USD/tonne)													
Aluminium	2,255	-2.9	+1.1	1,837	2,042	2,200	2,100	2,000	1,900	2,621	1,706	2,050	1,850
Copper	7,430	-4.6	+0.7	5,871	6,701	7,279	7,500	7,600	8,000	6,869	5,207	7,595	7,750
Lead	2,230	+3.9	-8.3	1,946	2,318	2,241	2,300	2,400	2,500	2,088	1,740	2,360	2,500
Nickel	26,300	+5.2	+42.0	17,603	17,675	20,142	23,000	16,000	17,500	21,309	14,762	19,161	17,000
Tin	18,250	-1.1	+7.7	14,187	15,109	17,270	17,000	15,000	16,500	18,395	13,412	16,443	15,000
Zinc	2,285	-3.8	-10.7	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	750	+8.2	+22.5	542	582	653	730	710	720	947	531	703	750
HRC, Europe	768	+21.9	+35.2	604	618	578	700	650	680	927	569	652	740
HRC, Japan	770	+9.1	+10.8	713	732	700	750	762	790	985	757	751	830
HRC, China	671	+14.5	+15.1	565	519	578	630	635	665	729	528	627	680
Precious metals (spot, USD/oz)													
Gold (spot)	1179	+6.0	+8.2	961	1,101	1,110	1,150	1,200	1,300	872	974	1,190	1,100
Palladium (spot)	548	+13.8	+33.9	274	351	442	475	500	500	351	265	479	500
Platinum (spot)	1,737	+4.7	+18.8	1,234	1,396	1,565	1,650	1,650	1,750	1,574	1,210	1,641	1,800
Silver (spot)	18.64	+5.3	+11.8	14.7	17.6	16.9	17.5	17.5	18.0	15.0	14.7	17.0	20.5
Agricultural products													
Softs (near future)													
NYBOT cocoa, USD/tonne	3,229	+8.1	-1.7	2,860	3,260	3,079	3,000	3,150	3,000	2,556	2,797	3,057	2,900
LIFFE coffee, USD/tonne ***	1,292	+8.1	-0.2	1,419	1,363	1,283	1,425	1,500	1,550	2,099	1,462	1,439	1,625
NYBOT coffee, USc/lb	135	-0.9	+0.2	125	139	134.6	140.0	140	137	132	125	138.0	145
NYBOT sugar, USc/lb	15.15	-9.2	-43.7	20.5	23	25	22	19	17	12.1	17.8	21.0	13.0
Fibres													
Cotton (Cotlook A index, USC/lb)	90.6	+6.2	+15.4	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	366	+6.8	-11.2	327	386	371	400	405	415	527	374	398	436
CBOT Soybeans, USc/bushel	990	+4.9	-4.9	1,051	1,003	956	975	975	1,050	1,233	1,031	989	1,100
CBOT wheat, USc/bushel	492	+8.5	-8.9	484	522.9	496.5	520	550	560	796	529.8	532.0	650
CBOT rice, USc/cwt	12.4	-0.4	-15.3	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*	465	-8.8	-21.2	558	561	553	540	547	544	687	562	546.0	600
Edible oils (3m future)													
Palm oil (MDV,MYR/tonne)	2,589	-0.6	+0.4	2,210	2,348	2,569	2,750	2,950	3,000	2,839	2,228	2,817	3,500
Soyoil (CBOT, USc/lb)	39	-0.8	-4.2	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	**0.95**	**1.50**	1.75	**2.00**
6M CAD LIBOR	0.72	0.70	**1.20**	**1.80**	2.00	**2.25**
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	**5.15**	**6.00**	**6.30**	**6.70**	**7.15**
6M AUD LIBOR	4.63	**5.55**	**6.35**	**6.65**	**7.10**	**7.55**
12M AUD LIBOR	5.30	**6.20**	**6.95**	**7.25**	**7.40**	**7.85**
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	**0.17**	**0.20**	**0.25**	**0.40**	**0.65**
6M HKD HIBOR	0.25	**0.30**	**0.35**	**0.45**	**0.60**	**0.85**
12M HKD HIBOR	0.59	**0.60**	**0.65**	**0.75**	**0.90**	**1.30**
Korea						
3M CD rate	2.80	2.90	3.00	3.20	3.40	3.60
Indonesia						
3M JIBOR	6.96	**6.60**	**6.70**	**7.20**	**7.30**	7.70
6M JIBOR	7.27	**6.80**	**6.90**	**7.30**	**7.50**	7.80
12M JIBOR	7.52	**7.00**	**7.20**	**7.60**	**7.80**	**8.10**
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	**0.45**	**0.50**	**0.50**	**0.60**	**0.70**
6M SGD SIBOR	0.72	**0.55**	**0.60**	**0.60**	**0.70**	**0.80**
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					
	29-Apr-10	Q2-10	Q3-10	Q4-10	Q1-11	Q2-11	29-Apr-10	Q2-10	Q3-10	Q4-10	Q1-11	Q2-11
Asia												
China							*Interest Rate Swap (against 7-Day repo), Act/365, Quarterly*					
2Y	1.89	2.40	2.45	2.45	2.50	2.50	2.50	3.00	3.10	3.00	3.10	2.90
5Y	2.64	2.85	2.90	2.95	2.95	3.10	3.37	3.40	3.30	3.30	3.15	3.40
10Y	3.33	3.50	3.55	3.60	3.60	3.70	3.78	4.10	4.15	4.00	3.90	3.90
Hong Kong							*Interest Rate Swap, Act/365, Quarterly*					
2Y	0.65	0.70	0.90	1.20	1.30	1.50	0.93	1.15	1.20	1.40	1.50	1.70
5Y	2.03	2.00	2.20	2.40	2.50	2.60	2.37	2.60	2.60	2.80	2.90	3.00
10Y	2.87	2.95	3.20	3.30	3.40	3.50	3.26	3.65	3.70	3.85	4.00	4.10
India							*Overnight Index Swap, Act/365, Semi-Annual*					
2Y	5.93	6.30	6.45	6.60	6.65	6.75	5.56	5.85	6.05	6.20	6.25	6.35
5Y	7.53	7.65	7.80	7.90	7.95	8.00	6.53	7.00	7.20	7.40	7.45	7.55
10Y	8.10	8.00	8.15	8.25	8.25	8.25						
Indonesia							*Interest Rate Swap, Act/360, Semi-Annual*					
3Y	7.33	7.25	7.25	7.75	8.25	8.40	7.80	8.15	7.55	8.05	8.40	8.45
5Y	8.22	8.25	8.00	8.50	8.75	9.00	8.60	8.65	8.25	8.60	8.70	8.90
10Y	8.69	8.75	8.50	9.00	9.25	9.50						
Malaysia							*Interest Rate Swap, Act/365, Quarterly*					
3Y	2.99	3.25	3.15	3.15	3.25	3.45	3.41	3.65	3.50	3.45	3.55	3.70
5Y	3.57	3.70	3.65	3.60	3.70	3.90	3.82	4.00	3.95	3.90	4.00	4.20
10Y	4.05	4.15	4.10	4.05	4.10	4.25	4.30	4.45	4.45	4.45	4.50	4.70
Pakistan												
3Y	12.35	12.00	11.70	11.50	11.30	11.20						
5Y	12.45	12.30	12.10	11.90	11.70	11.60	*See Note 1.*					
10Y	12.56	12.50	12.30	12.10	11.90	11.80						
Philippines							*Interest Rate Swap, Act/360, Quarterly*					
2Y	4.85	5.00	5.25	5.50	5.65	5.65	4.60	4.65	4.85	5.05	5.15	5.10
5Y	6.38	6.35	6.50	6.60	6.75	6.75	5.90	5.80	5.90	5.90	5.95	5.90
10Y	8.00	7.90	8.00	8.10	8.25	8.25						
Singapore							*Interest Rate Swap, Act/365, Semi-Annual*					
2Y	0.46	0.60	0.60	0.80	1.05	1.35	1.16	1.25	1.30	1.55	1.85	2.15
5Y	1.10	1.20	1.30	1.50	1.75	2.00	2.13	2.20	2.25	2.35	2.55	2.80
10Y	2.70	2.60	2.65	2.80	2.95	3.10	2.87	2.80	2.90	3.10	3.35	3.50
South Korea							*Interest Rate Swap, Act/365, Quarterly*					
3Y	3.62	3.85	4.10	4.30	4.50	4.60	3.77	3.85	4.05	4.20	4.35	4.45
5Y	4.30	4.50	4.60	4.70	4.80	4.85	4.06	4.15	4.25	4.35	4.45	4.45
10Y	4.83	4.90	5.00	5.10	5.15	5.20	4.44	4.45	4.55	4.65	4.65	4.70
Taiwan							*Interest Rate Swap, Act/365, Quarterly*					
2Y	0.43	0.60	0.60	0.80	1.00	1.10	1.07	1.40	1.00	1.20	1.40	1.50
5Y	1.00	1.00	1.00	1.20	1.35	1.50	1.69	1.80	1.80	1.90	2.05	2.30
10Y	1.44	1.50	1.50	1.60	1.75	1.85	2.05	1.90	1.90	2.00	2.15	2.25
Thailand							*Interest Rate Swap, Act/365, Semi-Annual*					
2Y	1.82	2.25	2.55	2.75	2.90	3.10	1.96	2.40	2.80	3.05	3.20	3.45
5Y	3.06	3.40	3.65	3.75	3.85	3.95	3.06	3.50	3.85	4.00	4.15	4.30
10Y	3.48	3.15	3.90	4.00	4.10	4.20	3.63	3.40	4.15	4.25	4.35	4.45
Vietnam												
2Y	11.35	12.50	13.00	13.50	14.00	14.50						
5Y	11.60	12.75	13.50	13.75	14.25	14.75	*See Note 1.*					
10Y	11.60	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					
	29-Apr-10	Q2-10	Q3-10	Q4-10	Q1-11	Q2-11	29-Apr-10	Q2-10	Q3-10	Q4-10	Q1-11	Q2-11
Majors												
United States							*Interest Rate Swap, 30/360, Semi-Annual*					
2Y	1.03	1.35	1.75	2.15	2.20	2.20	1.19	1.50	2.00	2.30	2.40	2.40
5Y	2.50	2.60	2.85	3.20	3.20	3.20	2.67	2.80	3.35	3.45	3.45	3.45
10Y	3.77	3.70	3.85	4.00	4.00	4.00	3.74	3.75	3.90	4.25	4.45	4.45
Africa												
Ghana												
2Y	13.60	13.50	13.70	13.50	13.25	12.50						
3Y	13.75	13.75	14.00	14.00	13.50	12.75	*See Note 1.*					
Kenya												
2Y	6.40	6.50	6.70	6.80	7.10	7.20						
5Y	7.60	7.50	7.70	7.90	8.00	8.20	*See Note 1.*					
10Y	8.63	8.75	9.00	9.20	9.40	9.60						
Nigeria												
2Y	3.14	6.00	7.60	7.30	7.00	7.40						
5Y	4.74	7.50	8.60	8.40	8.00	8.20	*See Note 1.*					
10Y	6.57	8.60	8.80	8.60	8.30	8.50						
South Africa							*Interest Rate Swap, Act/365, Quarterly*					
2Y	6.96	7.40	7.60	8.00	8.40	8.60	6.90	7.60	7.80	8.20	8.50	8.70
5Y	7.76	8.35	8.50	8.70	8.90	9.00	7.74	8.40	8.70	9.00	9.20	9.30
10Y	8.52	9.00	9.30	9.50	9.70	9.80	8.20	8.70	8.90	9.20	9.60	9.50
Uganda												
2Y	7.75	9.50	8.50	8.00	7.75	7.50						
5Y	8.60	11.00	10.00	9.50	9.30	9.10	*See Note 1.*					
10Y	12.00	13.30	12.30	11.70	11.70	11.30						
Middle East												
Saudi Arabia							*Interest Rate Swap, Act/360, Annual*					
2Y							1.45	2.20	2.50	2.60	2.70	2.90
5Y	*See Note 1.*						2.95	3.30	3.50	3.80	3.80	4.00
10Y							4.18	4.50	4.65	4.80	4.80	5.00
United Arab Emirates							*Interest Rate Swap, Act/360, Annual*					
2Y							2.63	2.50	2.80	3.20	3.30	3.50
5Y	*See Note 1.*						3.92	3.90	4.10	4.30	4.30	4.50
10Y							5.11	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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Contacts

Chief Economist and Group Head of Global Research

Gerard Lyons
+44 20 7885 6988
Gerard.Lyons@sc.com

Global		
Alex Barrett	Head of Client Research	**London** +44 20 7885 6137 Alex.Barrett@sc.com
Callum Henderson	Head of FX Research	**Singapore** +65 6530 3282 Callum.Henderson@sc.com
Christine Shields	Head of Country Risk Research	**London** +44 20 7885 7068 Christine.Shields@sc.com
Christophe Duval-Kieffer	Head of Quantitative Research	**London** +44 20 7885 5149 Christophe.DuvalKieffer@sc.com
Helen Henton	Head of Commodity Research	**London** +44 20 7885 7281 Helen.Henton@sc.com
Kaushik Rudra	Head of Credit Research	**Singapore** +65 6427 5259 Kaushik.Rudra@sc.com
Razia Khan	Head of Macroeconomic Research	**London** +44 20 7885 6914 Razia.Khan@sc.com
East		
Nicholas Kwan	Head of Research, East	**Hong Kong** +852 2821 1013 Nicholas.Kwan@sc.com
China		
Stephen Green	Regional Head of Research, Greater China	**Shanghai** +86 21 6168 5018 Stephen.Green@sc.com
Korea		
SukTae Oh	Regional Head of Research, Korea	**Korea** + 822 3702 5011 SukTae.Oh@sc.com
South East Asia		
Tai Hui	Regional Head of Research, South East Asia	**Singapore** +65 6530 3464 Tai.Hui@sc.com
West		
Marios Maratheftis	Head of Research, West	**Dubai** +9714 508 3311 Marios.Maratheftis@sc.com
Africa		
Razia Khan	Regional Head of Research, Africa	**London** +44 20 7885 6914 Razia.Khan@sc.com
Americas		
David Mann	Regional Head of Research, the Americas	**New York** +1 646 845 1279 David.Mann@sc.com
Latin America		
Douglas Smith	Regional Head of Research, Latin America and Mexico	**New York** +1 212 667 0564 Douglas.Smith@sc.com
Europe		
Christophe Duval-Kieffer	Regional Head of Research, Europe	**London** +44 20 7885 5149 Christophe.DuvalKieffer@sc.com
India		
Samiran Chakraborty	Regional Head of Research, India	**Mumbai** + 91 22 6735 0049 Samiran.Chakraborty@sc.com