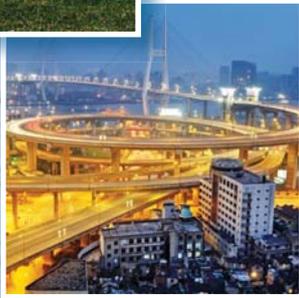


| Standard Chartered Global Focus |
2010 – The Year Ahead



Standard
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A New World Order



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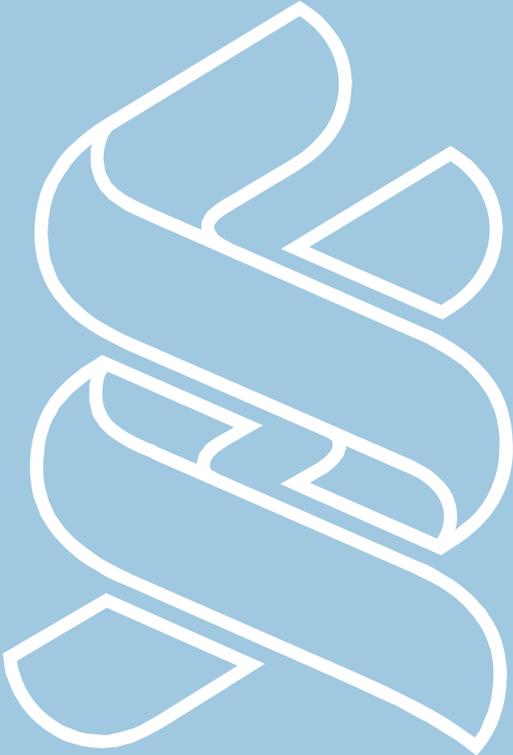
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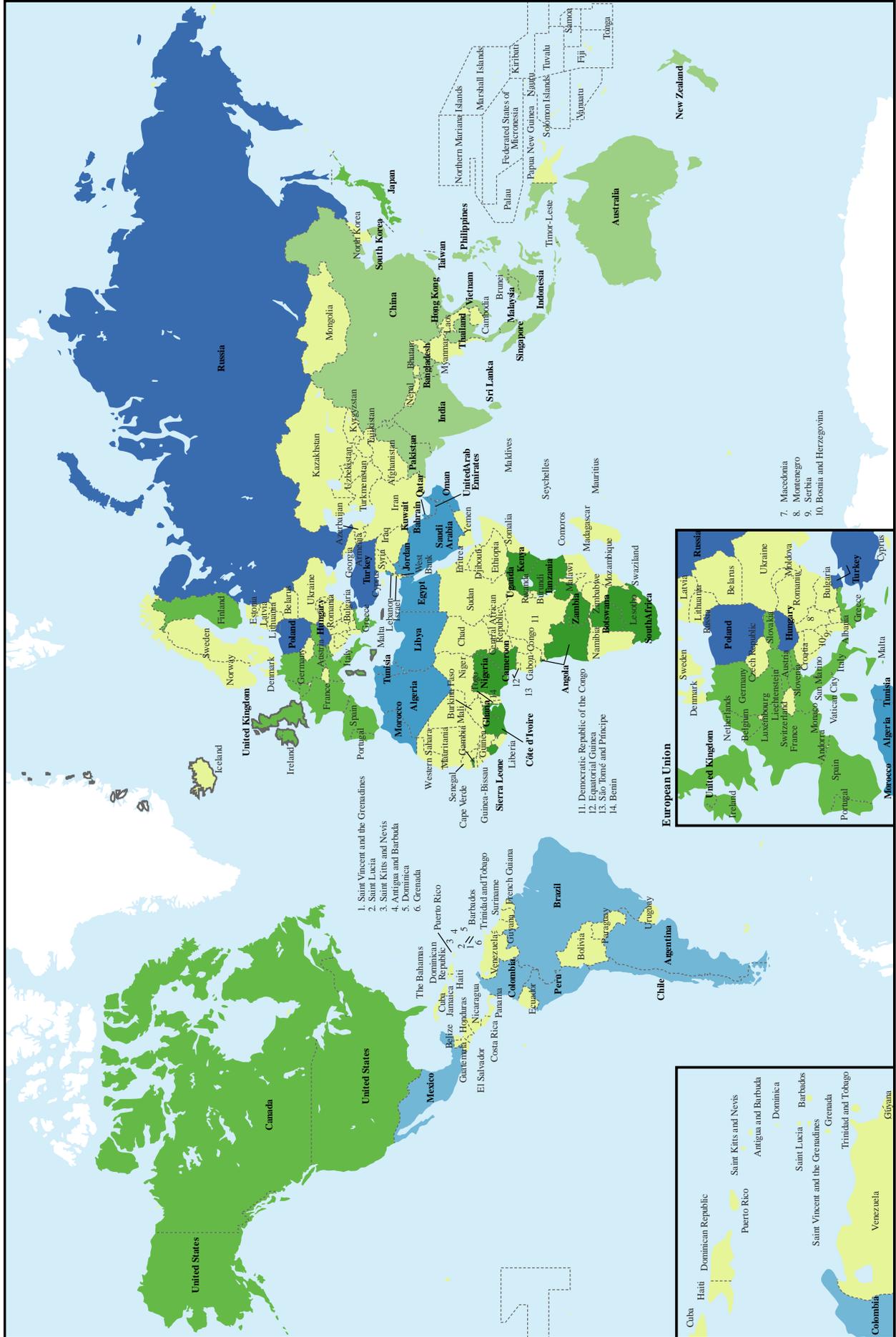
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Global overview







Global overview

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A new world order

Introduction

Policy works. Recovery happens. But there is a price to be paid. That may turn out to be the message of 2010. The world economy in 2010 is likely to be shaped by a few big, underlying themes. Some of these are moving in opposite directions, adding to the degree of uncertainty ahead.

We expect the world economy to grow by 2.7% in 2010, compared to -1.9% in 2009. This would represent a modest recovery. We see Asian growth accelerating to 7.0% from 4.5% in 2009. Inflation is not expected to be a major problem, staying low in the West. But in some emerging economies, where domestic demand is stronger and where asset prices have risen significantly, central banks will tighten policy to keep inflation in check.

One of the key themes is long-term in nature but continues to drive many shorter-term factors. This is the shift in the balance of economic and financial power. The winners in this shift will be economies that fit into one of the three following categories.

- 1) Those with financial resources, such as China or, say, Qatar, whose spending power allows them to better position themselves.
- 2) Those with natural resources. The continuing impact of climate change is reinforcing this advantage. The winners here will be those with water, energy, and commodities, although many of them will need to attract inward investment on a large scale and develop their infrastructure in order to benefit. This group includes the likes of Brazil, Canada, and many countries across Africa.
- 3) Those that adapt to and change with these longer-term shifts. The US will be in this group, but many other countries are trying to move up the value curve. Governments and firms with longer-term planning horizons are already positioning themselves for these changes. South Korea's fiscal boost in 2009, for instance, had a strong focus on positioning the country as a leader in green energy. China's continued investment in Africa is another example. It is possible to construct what I call an Arc

of Growth, from China to India and then on to Africa, as the centre of global manufacturing shifts to regions with large and growing labour forces. This longer-term influence is a positive one, although individual countries will be impacted differently.

In 2010, we may see two offsetting, nearer-term influences: the impact of debt and of deleveraging in the West, particularly in the US. The US consumer has been, along with China's emergence, one of the main drivers of global growth in recent years. The impact of the US consumer has fundamentally weakened. The immediate impact of weak US consumer demand in 2010 will be stubbornly high unemployment, sluggish wage growth, house prices stabilising at levels far off their boom-time peak, and worries about pensions, despite the rally in equity prices. All of these factors point to sluggish future consumer spending growth in the US, and in a host of European economies which are nursing large debt overhangs. While this can be viewed as part of the necessary rebalancing of the world economy, the recovery from the crisis has not prompted these economies to make rebalancing their number one priority.

Rebalancing implies that the West becomes relatively poorer, spending less and saving more, and that high-surplus regions such as the Middle East and East Asia do the opposite, spending more and saving less. The trouble is, in many cases, this is not the natural response to a crisis. Indeed, across Asia, saving more – not less – is the natural reaction to a crisis. Hence, there is a need (as stressed at the 2009 annual Asian Development Bank meeting) for Asia to deepen its social safety nets, provide help to small and medium-sized firms, and deepen and broaden its bond markets. All of these are possible, but all will take time.

The last leg of rebalancing is the need for currency adjustment. Throughout 2010, we expect policy makers to commit to rebalancing at the plethora of global meetings that will take place – IMF, OECD, G20, etc. At some stage, however, currency issues will need to take centre stage rather than being side-stepped, as they were during 2009. The market continues to fear for the dollar. But the key issue is the Chinese yuan (CNY). It



Global overview (cont)

needs to strengthen. The West has little immediate leverage to tell China what to do with its currency. But in the context of rebalancing the Chinese economy, a stronger CNY is in China's economic best interest. In 2010, possibly after the spring, we expect the CNY to be allowed to appreciate, albeit at a gradual pace. This is a key issue, as too many countries across Asia and elsewhere are intervening to keep their currencies stable, adding to domestic monetary challenges as their FX reserves build.

This leads into another key challenge of 2010: the policy aftermath of the crisis. The Good, the Bad, and the Ugly is one way to think of the policy aftermath in the West. It was good that policy makers helped to pull the world economy back from the brink. The London Summit of April 2009 helped (although many of the policy measures had already been announced) and set the tone that carries us into 2010, with a focus on avoiding premature policy tightening. Exit strategies are a big issue for 2010. The 'bad' is that many countries did not implement these measures from a position of strength. Here, fiscal policy in the US and UK stands out; a lesson of the crisis is to run budget surpluses in boom times.

The 'ugly' is the worry for 2010. Exiting from monetary and fiscal stimulus is one thing, and its consequences are probably clear. However, exiting from the huge liquidity and other stimulus measures provided to parts of the financial sector is another, and needs to be judged along with the impact of a host of regulatory changes. Politicians, playing to domestic political audiences, do not want to be seen as allowing business as usual for the banks. Meanwhile, the banks fear the unintended consequences of a host of new regulations. The need for effective regulation – neither too heavy nor too light – remains the key, and this will help the wider economy in the end. One challenge for 2010 is to avoid regulatory overkill.

Lest we forget, the financial crisis was triggered by a host of factors: a failure to heed many warning signals; an imbalanced global economy, as mentioned above; and a systemic failure of the financial system in the West. This failure was brought about by many factors, including procyclicality, a lack of liquidity management, and lack of risk management. The lack of risk management was not just a matter of insufficient controls within some, if not all,

of the firms that failed. It was also a matter of markets not pricing for risk.

As we enter 2010, there is a genuine risk that extremely low policy rates, particularly in the US, will create another environment where risk is not sufficiently priced in. Low policy risks can encourage bad behaviour – in particular a plethora of 'crowded trades', which only pay off if you can exit before the rest of the market. Leverage may be lower now than during the boom, but low rates are leading to much risk-taking and fear of how this will play out – reminiscent of the problems seen ahead of the crash. This adds to worries about asset price bubbles in particular, a key issue to be addressed in 2010.

1. The economic outlook

2010 is likely to be the year of global recovery. Thanks to a synchronised, sizeable, and successful global policy stimulus, the world economy is entering 2010 in the early stages of recovery. Across the globe, the outlook depends on the interaction between fundamentals, policy, and confidence. Although the fundamentals are key, confidence is a vital issue and can sometimes surprise. This was seen in the second half of 2009, when confidence in the financial sector rebounded significantly, helped by phenomenal policy stimulus. Previous economic recoveries have shown that confidence can surprise on the upside. Economies with stronger fundamentals, like China and India, may see stronger rebounds as we move through the year.

What shape will the recovery take? A 'double-dip' recession would require either an external shock – most likely an event that drove oil prices sharply higher, such as an escalation of tensions with Iran – or a policy-induced shock triggered by premature policy tightening in the West. We are not predicting a double-dip, although we would not be surprised if a number of economies witnessed a negative quarter of growth at some stage – such is the nature of recoveries. An external shock is hard to anticipate, but the later such an event occurred, the more resilient the world economy would be. We address the risks of domestic policy shocks below, but this is not our main view.

In the West, some fine-tuning of interest rates and fiscal policy is always possible, as governments and central bankers need to take into account the message to be



Global overview (cont)

sent to markets and to the wider economy. But generally speaking, we do not expect aggressive policy tightening for some time. Across the emerging world, there will be tightening, but it will be driven by domestic factors. Our forecasts suggest that the recovery will take the shape of an 'L' or a 'U' in the West and a 'V' in the East.

Instead of trying to second-guess the shape of the recovery, we continue to stress the need to focus on levels. This is highlighted in Table 1, which shows the scale of the major economies. The world economy is about USD 61trn in size, with the West accounting for two-thirds of this and the US making up around USD 14.4trn. If the West is not booming, the world will not boom. And the West is not going to boom. The US consumer, the key driver of the global economy for some time, faces a difficult outlook. The US will be strong in the first half of 2010 as the previous policy boost feeds through. But by the standards of previous US recoveries, this one will be modest; on the positive side, we see it gathering momentum in 2011.

A big issue in the US and Europe is the extent of the recovery in private investment. This is linked to confidence. If small and medium-sized firms obtain access to funds, this will be a big positive, as such firms are more likely to invest at home. But for large firms that have the ability to invest now, the temptation is likely to be to focus on the faster-growing markets across the emerging world, where costs are lower and future demand prospects are higher. This points to a jobless recovery in the West, where employment growth may be

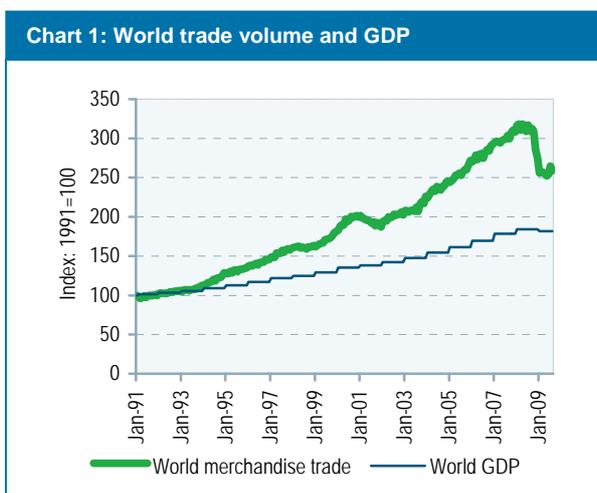
low, and to increased portfolio and longer-term capital flows to emerging regions (a positive development, but one which brings challenges in managing such inflows).

Europe will not assume the mantle of the US. In 2010, smaller European economies will likely come to terms with the competitive challenges of a firm euro and the aftermath of the bust. Contagion from Central and Eastern Europe will be felt as stagnation in that region impacts both exports and parts of the Western European banking sector. Germany, given its export machine, looks set to enjoy a steady recovery. The UK faces the biggest policy challenge, with the tightening of fiscal policy likely to be offset by continued low rates and a competitive sterling.

That leads to the key issue for 2010: to what extent will the coming year provide further evidence of the shift in the balance of power alluded to above? During 2009, I spent half the year travelling to emerging economies. One often wonders whether the economic statistics fully pick up what is happening on the ground. The pace and scale of change, and the catch-up potential across many countries, is phenomenal.

The global financial crisis may have derailed some investment and other flows, but 2010 may see a return to the trend evident before the crisis. If so, an infrastructure boom may be in full swing by the end of 2010 across Africa, India, and China, where it never really stopped. Despite having slowed sharply, and helped by policy, four Asian economies experienced steady growth during the last year: China, India, Indonesia, and Vietnam. All four look set to grow strongly in the year ahead, driven by domestic demand, although Vietnam's large external deficit does remain a cause for concern. The big challenge, though, is the export-driven nature of economies including China.

Chart 1 highlights this point, which is linked to the issue of levels mentioned above. Global trade is recovering, but it is way off its peak. Global trade normally takes two years to recover to its pre-recession level. In the early 1980s, it took four years. Commodity-driven regions such as the Middle East and parts of Africa, plus export-driven economies across Asia, are still heavily dependent upon final demand in the West, which is recovering only slowly. This will hold back the recovery in the export-



Sources: IMF, CPB Netherlands Bureau for Economic Policy Analysis, Standard Chartered Research



Global overview (cont)

driven regions, heightening the need for domestically driven growth.

Across the emerging world, 2010 will again be a year when it is necessary to differentiate. Central and Eastern Europe continue to face challenges. Across the Americas, the commodity-driven economies and those which are heavily dependent upon the US, such as Mexico, should experience a gradual recovery. Chile and Brazil look best-placed to outperform. Africa, like Asia, is a high-beta region which is heavily influenced by the global cycle and which can outperform in a recovery. This, plus a recovery in investment flows, should be positive in the coming year. The Middle East enters 2010 in the aftermath of the Dubai debt situation, which is still unfolding. While the risk of regional contagion should not be overlooked, it is important not to have an overly Dubai-centric view of the region. The Middle East is a high-savings region with sizeable reserves.

Then there is Asia. Judging from Table 1, it will be hard to replace the US as the locomotive of the world economy. China is the most likely candidate, given the speed at which it is growing. However, there are risks associated with China which always need to be borne in mind. In particular, it has an imbalanced economy, driven by investment and exports. China's slowing growth in recent years highlighted the problems of its export dependency. The authorities continue to wrestle with the high rate of investment, trying to direct funds away from capital-intensive sectors suffering from over-capacity towards potentially faster-growing, more environmentally friendly, and more labour-intensive areas. With the central regions of China poised to generate more growth (even though their income levels are lower), there is still much reason to be optimistic about China's growth

prospects. It is important to stress, though, that the business cycle does exist in China, and while the trend is clearly up, we expect fluctuations along the way – particularly as the authorities seek to control lending and asset prices.

India is more domestically driven than others. A key question is whether the outcome of the 2009 election will become more evident in the year ahead as India seeks to diversify and develop its economy. Just as China is a multitude of different economies, so is India. The industrialised western and southern states contrast with the rural hinterland in the east and north, and more than half of the country's exports originate from three states: Maharashtra, Gujarat, and Karnataka. Indonesia, like India, is heavily driven by domestic demand and should experience steady growth in the year ahead.

Overall, we expect stronger domestically driven growth across Asia in 2010. And while their fundamentals are positive, the greatest challenge for many emerging economies may come on the policy side in 2010.

2. Policy challenges

A big issue in 2010 will be the policy debate. Although this will vary from country to country, it is likely to fall into three broad categories: (1) exit strategies from the policy stimulus; (2) the need for emerging economies to control capital inflows and curb domestic inflation; and (3) currency policy, with continued worries about the longer-term outlook for the dollar co-existing with the aim of more countries to build up their FX reserves.

Looking for an exit

The scale of the policy stimulus seen over the past year has triggered a wider debate about whether all of these measures might create an even bigger mess than the one they aim to solve. It is important to differentiate between the West and the East, and to look at each country on its own merits.

Ahead of the crisis, one of the underlying messages was that the financial sector was not fully pricing for risk and that there was a risk of crowded trades. These warnings – given by many, including the Bank for International Settlements – should be heeded now by policy makers themselves, particularly in the West. Very low (in some cases, close to zero) interest rates make it hard for

	2008 GDP (USD trn)		2008 GDP (USD trn)
World	60.9	India	1.2
US	14.4	G7	32.4
Japan	4.9	EU	18.4
China	4.3	Euro area	13.6
Germany	3.7	Latam	4.2
France	2.9	Middle East	1.9
UK	2.7	Central and Eastern Europe	1.9
Russia	1.7	ASEAN-10	1.5
Brazil	1.6	Africa	1.3

Sources: IMF, Standard Chartered Research



Global overview (cont)

markets to price properly for risk, even in a recovery. Also, policy makers need to avoid the problem they warned about with crowded trades – namely, a rush to exit at the same time.

Thus, when it comes to withdrawing the policy stimulus, the challenge is to avoid both premature and collective policy tightening. Yet once policy makers feel that the global recovery is strong enough, there may be a temptation to tighten quickly, driven by the fear that those who wait will be penalised by the markets because they are seen as taking risks with inflation. In our opinion, inflation fears are likely to be misplaced in the vast majority of countries. The nature of this crisis and the importance of policy in driving the recovery suggest the need to keep the stimulus in place until private-sector demand recovers in the hardest-hit economies.

Exit strategies have a number of different aspects: liquidity, policy rates, and fiscal policy. The general feeling is that liquidity will be withdrawn first, but even this may still take some time, particularly in the UK. The mix of monetary and fiscal tightening will vary from economy to economy, as we outline in this report. Although the immediate concerns centre on monetary policy, some of the market's longer-term concerns are linked to fiscal policy. The best way to reduce budget deficits is through economic growth. Thus, the biggest risk on the fiscal front would be disappointing growth, even if offset by continued low policy rates. In many economies, fiscal fears appear overdone. For a country to be in a debt trap, its debt must exceed 100% of GDP, and real interest rates must exceed the economic growth rate. Based on these criteria, Japan may attract attention in 2010, but even there, fears need to be kept in context, as much of the debt can be financed from high domestic savings.

The Fed will be the key focus of policy in 2010. It is hard to see the Fed hiking rates before unemployment has peaked and is clearly on the way down. While unemployment should peak in 2010, we do not expect the Fed to hike until 2011, as we expect inflation to remain low. The need to help the recovery has to be weighed against the need to calm the markets, and the latter could yet encourage the Fed to hike in 2010. But even if it did, it would probably raise rates to only 1%, which could still be seen as low.

Across most economies, inflation is expected to remain low. But we do expect to see asset price inflation in 2010 and a further rise in commodity price inflation at some stage, although that may not happen until 2011. In many commodity markets, speculation makes it hard to accurately determine demand and supply. Overall, headline inflation is unlikely to be high, given the intense competitive pressures in the global economy. Where we do see challenges in 2010 is in economies which are driven by strong domestic demand and which appear to have limited spare capacity. This, along with asset price inflation, will be a particular challenge for economies tied to US rates through currency pegs or for those on the receiving end of large capital inflows, some of which might be linked to low US rates.

This is directly linked to the second big policy challenge of 2010: addressing bubbles created by capital flows.

Bubbles

Capital, particularly FDI and portfolio flows, is expected to flow into emerging economies in 2010. We expect Asia to be the main recipient. This should encourage more countries to deepen and broaden their capital markets. But this will take time. And these inflows will likely add to near-term concerns about asset-price inflation and raise concerns about future currency policy, particularly for economies that are linked to the dollar.

Brazil's recent introduction of taxes to curb inflows highlights the path some countries will take. It would not be surprising if more such measures were introduced in different countries in an attempt to deter hot money and control the scale of capital inflows.

With China keeping its currency stable, others across Asia are doing likewise. The challenge, though, is that this may create more problems than it solves. Keeping interest rates low in order to facilitate currency stability helps the competitiveness of the export sector. The problem is that domestic asset price inflation is the shock absorber. Even in countries that tighten early, the message is that interest rates need to be raised gradually. The challenge, particularly across Asia, is that policy makers fear that if they do not raise rates, asset-price bubbles may form in the equity and property markets. However, the same policy makers also fear that



Global overview (cont)

if they do raise rates, this may attract unwanted hot money, again feeding domestic asset prices. This is their policy dilemma.

The legacy of the policy boost is a fear of bubbles. The second half of 2009 has been characterised by rising equity prices and a recovery in property prices across many countries. It is hard to see how this could continue throughout 2010, as policy will be tightened at some stage or markets will run out of steam, having discounted too much good news. The fear across many emerging economies, particularly in Asia, is that loose monetary policy in the West may be feeding bubbles in the East as capital moves in search of higher yields to economies with a limited ability to absorb such inflows.

The trouble is that it is hard to say in advance whether bubbles are being created. The debate has come full circle from where it was many years ago. Now, as then, one view is that any surge in asset prices is a problem and needs to be stopped before it gets out of hand. The other view is that the rise in asset prices needs to be seen in the overall context of lending and credit growth. Thus, if lending and credit growth is sluggish, large rallies in financial markets do not necessarily point to a bubble. Another view – and one with which I concur – is that if sharp rises in asset prices occur alongside rapid lending and credit growth, then this constitutes a bubble. Given this view, we expect a gradual upward trend in policy rates in 2010, led primarily by economies with domestically driven growth. In addition, there may be specific, targeted measures elsewhere, such as controls on lending growth in China or even curbs on property borrowing in economies such as Hong Kong.

Whereas economies in the West are fragile and policy makers thus have to err on the side of keeping policy relaxed for longer, fundamentals across Asia are stronger and policy makers are able to err on the side of restraint. If the first few months of 2010 are strong, as seems likely, this may encourage further tightening, led by India and Indonesia.

Currency policy

The final policy challenge of 2010 is currency policy. This is closely linked to the dollar. Although we are cautious towards the dollar, we do not think it is a one-way bet. The end of carry trades, a return of global risk aversion,

and positive economic surprises in the US could all give the dollar a boost. Currency policy will be an important part of the policy debate in 2010. China is key. There is a need for a stronger CNY. We expect Beijing to allow a gradual appreciation during the year, prompting others to follow. The legacy of the crisis may encourage more countries to accumulate FX reserves.

Thus, we expect to see more evidence of passive diversification: we do not expect countries to actively sell the dollar, lest it trigger the crisis they fear. It is more likely that as reserves rise, a smaller proportion will go into the dollar. The challenge is which currencies to hold. The IMF may issue Special Drawing Rights (SDR) in anticipation of this. One of our key underlying themes is the need for more countries to set medium-term currency policy to suit their domestic needs; in time, we expect this to prompt more to manage their currencies against a basket of trading-partner currencies. This issue may come to the fore sooner rather than later, particularly if the recovery sees a greater divergence of growth rates between the US and emerging economies.

Another policy challenge of 2010 will be the likely accumulation of FX reserves by more emerging economies. It is hard to quantify the motives behind this accumulation. It appears to be both an insurance policy against the risk of a future crisis, and a consequence of intervention aimed at halting a currency's appreciation in order to keep it competitive. The insurance policy aspect could be reduced by making swap and other lines available in the event of a crisis. During 2009, there were moves across Asia to improve the regional response to crises, with China playing an instrumental role in agreeing FX swap deals with others. But the reality is that this still may not deter countries from building up reserves. The intervention that contributes to reserve accumulation could be reduced by CNY appreciation, which would in turn lessen the need for other countries to intervene.

3. Issues, risks, and opportunities

It will be crucial in 2010 not to lose sight of the key underlying economic and financial trends. During the financial crisis, these trends may not have been the centre of attention. But they remain important – particularly the need for regions with large savings to rebalance their economies. Other trends include the



Global overview (con'd)

emergence of new trade corridors, reflected in rising trade between Asia and regions such as Africa, the Middle East, and Latin America, and including rising flows of goods, commodities, people, remittances, and portfolio and direct investment flows. The clearest example of this in 2010 will be continued investment by China in Africa. It will also be interesting to see if there is further market opening in India, as this could potentially have a profound impact on trade flows between South Asia and the Middle East and East Africa.

Another key trend will be job creation across the emerging world in order to meet the demographic needs of young populations. Asia and the Middle East in particular will need to generate huge numbers of jobs in the coming years. If this occurs, it will create a large middle class, helping global rebalancing. In the Middle East, this trend is part of what we call it the three Ds: demographics, diversification, and the dollar. The Middle East will continue to be dependent on energy. But given their young populations, the region's economies need to diversify into non-energy areas in order to generate jobs. In our view, as they do this, they will need to change their dollar policy and adopt a policy more suited to their likely economic development.

The infrastructure boom in evidence before the crisis is likely to return in 2010 – led by China but also seen elsewhere in Asia, across the Middle East, and in a number of African countries, particularly South Africa. This will lead to a significant upward trend in demand for commodities. And that, in turn, will feed back into the debate over the environment and green energy – another key underlying trend.

A final longer-term trend worth focussing on during 2010 will be the role of the state. The demarcation lines between state and private sector have been highlighted in recent years by the focus on sovereign wealth funds and, more recently, by the events in Dubai.

What are the risks in 2010?

Perhaps the least expected risk in 2010 is that growth will surprise on the upside. This is partly because of the prevailing focus on the West and its importance as the largest end market for exports. Yet across the emerging world, the risk of an upside surprise should not be overlooked. The combination of policy stimulus and

positive underlying fundamentals could yet see stronger-than-expected growth in China and India, among others.

That said, the lessons from Japan's boom-and-bust era still linger. The scale of debt in the West, concerns that a public-debt problem has been substituted for a private-sector problem, and the worry that the early stages of the recovery have not prompted a shift in the behaviour of the financial sector all add to such concerns.

It is always possible to identify a low-probability, high-impact event. As mentioned above, Iran is perhaps the biggest worry in terms of a possible external shock. Another potential shock, of course, would be if China disappointed on the downside. We are not expecting this, but the imbalances we alluded to above, and the nature of the asset bubble created in 2009, mean that a boom-bust cycle in the next year or two is a risk. Markets remain focussed on the risk of a sovereign debt crisis; Central and Eastern Europe is the biggest concern, although there is much help at hand, including from the IMF. Protectionism around the world continues to be a risk, particularly if growth disappoints.

Perhaps one lesson of the crisis is that if something does not happen immediately, this does not mean it will not happen at all. This was evident during the crisis itself, when the fears expressed took some time to materialise. Likewise, it took some time for problems in Dubai to surface. Perhaps the key is to focus on the fundamentals and on markets which appear out of line with both underlying fundamentals and longer-term trends.

The economic model that drove the global economy during the boom is clearly broken. Savings should not flow 'uphill' from the East to the West to fuel credit-driven growth. Instead, there is a need to ensure a move to a more balanced, global economy. This requires regions with large savings, such as the Middle East and Asia, to switch to domestically driven growth.

The need to learn lessons from the crisis and to recognise some of the longer-term trends is paramount in looking ahead to 2010. If the crisis reflected the shift in the balance of economic and financial power, the performance of the G20 and its Financial Stability Board in 2010 will show how successful the shift towards more sharing of political and policy decision-making has been.

Strategy





Commodities

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Navigating the recovery

Top trades of 2010

- We expect platinum to outperform gold.** While both markets are likely to benefit from a weaker US dollar (USD) and strong investor inflows, the risk-reward outlook for platinum is more compelling. Platinum is currently trading at a modest premium to gold, compared to recent history, and therefore seems attractive as a relative value play.
- Copper is likely to outperform nickel in the next 12 months.** Copper continues to benefit from structural supply tightness and the roll-out of China's electricity grid. By contrast, nickel producers in China have proven to be very price-responsive and are likely to overproduce as long as prices remain at elevated levels. This should keep nickel prices pinned down, while copper prices should drive higher through late 2010.
- We believe the correction in crude palm oil (CPO) has been overdone.** We expect import demand from India to firm in 2010 and inventories in Malaysia and Indonesia to tighten. Firmer energy prices and increased global use of CPO as feedstock for biodiesel will lend support. We look for a price rally towards a target of MYR 3,150/tonne in H2-2010 and see value in July and September CPO futures, currently trading at around MYR 2,480/tonne.

Key issues

- The key issues for commodity markets are (1) the sustainability of the global macroeconomic

recovery, due to its impact on both actual demand and sentiment; (2) the path of the USD; (3) liquidity conditions; and (4) supply conditions for individual commodities.

- In H1-2010, we expect the USD to rebound and concerns over the sustainability of the global economic recovery to emerge as inventory-driven growth in the US moderates. We expect commodity prices to retreat during this period and investors to refocus on market fundamentals; those commodities with the tightest supply will outperform. With liquidity still ample, the pull-back is unlikely to be severe, but we see industrial commodities generally topping out towards the end of 2009 or in early 2010 and moving lower by Q2-2010.
- It is a markedly different story for H2-2010, when we foresee renewed USD weakness, a renewed pickup in growth (particularly in the US), and still-ample liquidity. Against this backdrop, we expect investor funds to flow into commodity markets, pushing the complex higher. With the notable exceptions of nickel, soybeans, sugar, and rice, we expect all of the commodity prices we forecast to be higher y/y in Q4-2010.
- Overall demand growth is likely to slow as the impact of stimulus packages diminishes, but to remain positive. Supply conditions will be the key determinant of individual commodity performance.

Our key calls for 2010

- Crude oil – trending higher, but upside is capped.** While demand is now picking up and crude inventories are starting to fall, the market is weighed down by high product inventories, particularly for middle distillates, which will suppress refinery margins. We expect upward price pressures to build as demand continues to expand and inventories edge lower. However, a rebound in the USD will provide significant headwinds in Q2, and the upside will be limited by OPEC's capacity to expand output. We expect prices to average USD 88/barrel by Q4-2010.

Standard Chartered Research forecasts: Commodities			
Annual average price	2009	2010	2011
Crude oil (WTI) USD/bbl	63	84	90
Gold USD/oz	973	1,150	1,300
Platinum USD/oz	1,214	1,513	1,700
Copper (LME 3M) USD/t	5,175	6,700	7,500
Nickel (LME 3M) USD/t	14,824	16,500	17,000
CPO (MDV) MYR/tonne	2,202	3,000	3,500

Source: Standard Chartered Research

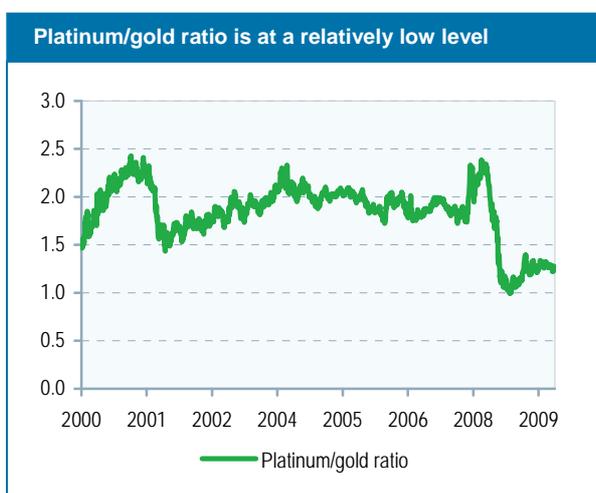


Commodities (con'd)

- Base metals – we prefer copper and lead, where supply is tightest.** The base metals complex has performed well this year, driven by China's economic rebound, although some of the increased demand has gone into inventory. However, supply is also expanding, particularly in the aluminium and nickel sectors. We are relatively more bullish on copper and lead, as the supply situation is tighter. Copper continues to benefit from structural tightness on the supply side of the industry, and the market is getting an additional boost from China's electricity grid roll-out. We expect copper to be the best-performing base metal in the year ahead. By contrast, nickel has excess capacity on the supply side and high levels of inventory on the LME. In addition, producers in China have proven very price-responsive and are likely to overproduce as long as prices remain at elevated levels. All of this should keep nickel prices pinned down.
- Precious metals: compelling case for gold and platinum.** The investment case for gold has become increasingly compelling as a result of central bank buying and a structural increase in demand for gold as an investment at the retail level. However, the upside will be capped by lower jewellery demand (until consumers and investors become accustomed to higher prices) and increased scrap availability as the price reaches new levels. Periodic dollar strength will also provide headwinds in H1, but we see gold moving

higher to average USD 1,300/oz in Q4-2010 once the dollar resumes its weakening trend. We expect platinum to outperform gold in 2010. In addition to the upward momentum provided by the gold market, platinum prices are also well supported by supply issues, including rising costs and a vulnerable power grid in South Africa. There are also upside risks from the launch of a US ETF and restocking in the automotive sector.

- Agriculture – corn to lead the grains complex higher.** Agricultural prices have underperformed the complex in 2009 as huge grains harvests have swelled supply. For the upcoming season, however, poor weather conditions have affected corn in the US and China, and are likely to result in a fall in end-season stocks. This should provide more price support, leading the grains complex higher as macro conditions become more supportive in H2-2010.
- CPO to rally on tighter supply.** Corn, along with CPO, should also benefit from firmer energy prices in H2-2010. At the end of November 2009, CPO near futures were down by more than 15% from the year's high and nearly 45% from their record high in March 2008. We believe the correction is overdone. The current decline in prices has been triggered by a slowdown in import demand from India – the largest importer – and increased output from Indonesia and Malaysia, which together account for around 85% of global production. We expect import demand from India to firm in 2010 and inventories in Malaysia and Indonesia to tighten as a result of strong exports and weather-related disruptions to output in Q1. We look for a price rally towards a target of MYR 3,150/tonne in H2-2010.
- Sugar and soybeans – correction expected.** Sugar and soybeans have been the exceptions in 2009, rising sharply while the rest of the agricultural complex underperformed. This was largely due to supply issues; improved crops in 2009/10 are expected to flood the market, dampening prices.



Sources: Bloomberg, Standard Chartered Research



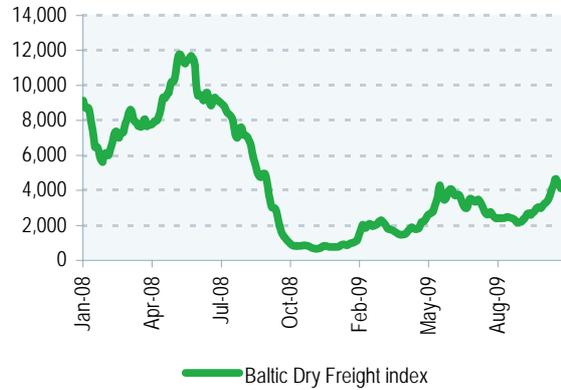
Charts of the year – Commodities

Chart 1: Commodity prices are expected to falter in H1, but trend higher overall in 2010



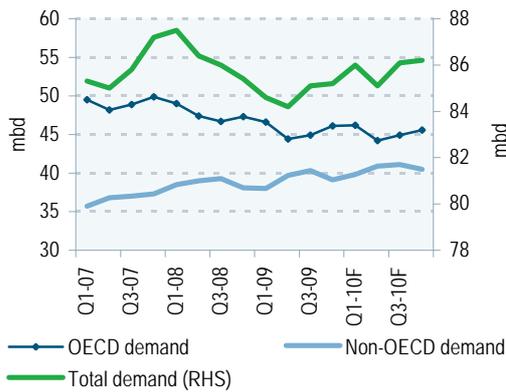
Sources: Bloomberg, Standard Chartered Research

Chart 2: Freight rates are recovering as global trade levels improve



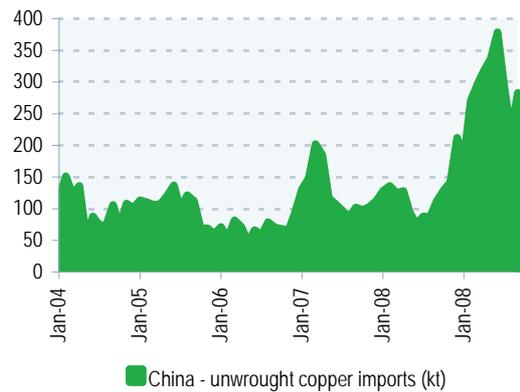
Source: Bloomberg

Chart 3: Crude oil demand is expected to keep rising, but to a level well below Q1-08 peak



Sources: IEA, Standard Chartered Research

Chart 4: China's copper imports have swelled inventories, but end demand is set to remain firm



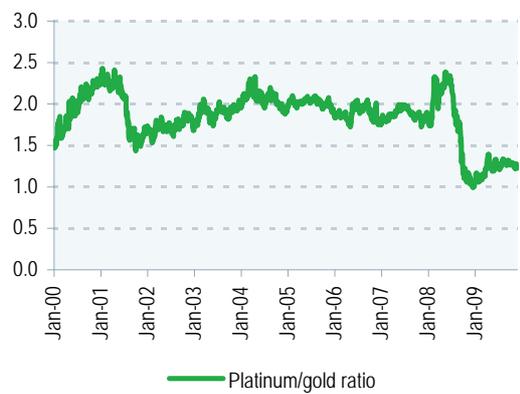
Source: Bloomberg

Chart 5: Gold to face headwinds from USD bounce in H1-10, head higher in H2



Sources: Bloomberg, Standard Chartered Research

Chart 6: Strong fundamentals, historically low ratio to gold suggest upside for platinum



Sources: Bloomberg, Standard Chartered Research



Credit

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Asia outperforms the West

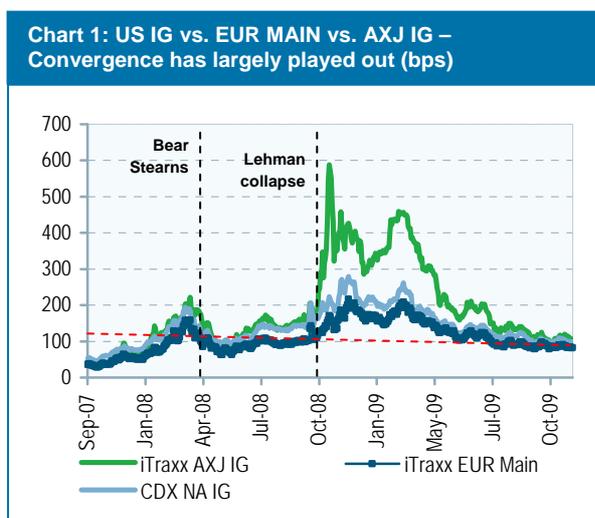
Top trades of 2010

- Select Middle Eastern credits.** Following the decision of the Dubai authorities to restructure Dubai World, Middle Eastern credits have widened substantially, virtually across the board. However, we believe that once the dust settles, our top picks from the region – such as the key oil and gas and infrastructure plays – will outperform over the medium to longer term. In Qatar, we continue to see value in the RasGas and Nakilat 2033 bonds. In Abu Dhabi, we see value in names like the Dolphin 2019s, the Mubadala 2019s, and the Aldar 2014s. Finally, in Dubai, names that are strong on a standalone basis, such as the DP World 2017s (which are not part of the recently announced restructuring), could perform well in the medium to long term. We recommend waiting for market volatility to subside and any potential spread widening to play out before positioning in the Middle East names mentioned above.
- The Korean quasi-sovereigns.** Issues such as KDB, EIBKOR, KORELE, and KOHNPW – the newly issued 5Y paper in particular – are all trading well wide of the sovereign 5Y CDS. We see considerable room for the cash bonds to perform and for spread convergence with the sovereign.

- Bank Tier 1 paper.** These bonds are still quoted well wide of both LT2 and UT2 subordinated debt, besides trading very cheap relative to senior paper. Indian Tier 1 paper (such as ICICI) and Malaysian perpetuals (such as AMBBK) are among the cheapest names in this sector, in our view.

Key issues

- The expected outperformance of Asian credits vis-à-vis the West, one of the key themes that we highlighted at the beginning of 2009, has come to fruition. Specifically, we had highlighted the fact that the iTraxx Asia ex-Japan High Grade Index was trading cheap relative to the CDX North America Investment Grade index.
- Accordingly, we were of the view that given Asia's superior fundamentals, the Asian index would converge with the CDX North America Index. Not only has this convergence occurred (see Chart 1), but at a couple of points in time, the Asian benchmark has traded through its North American counterpart.
- It is also significant that the Asian high-grade benchmark has outperformed its European counterpart, the Europe Main Index, although it has not traded through it. On balance, we believe that Asian credits are a touch overvalued in the short term, although we are constructive longer-term.
- Our reasons for short-term caution are manifold: The heavy calendar of new issuance is finally likely to contribute to investor fatigue, and the lack of liquidity during the holiday season is likely to take its toll on credit spreads. The expectation that investors will increasingly seek to take profits after a very good year, coupled with the lofty levels at which Asian credits are being quoted (as of late November 2009, Asian credit spreads were back to levels seen in January 2008), is also likely to weigh on sentiment.



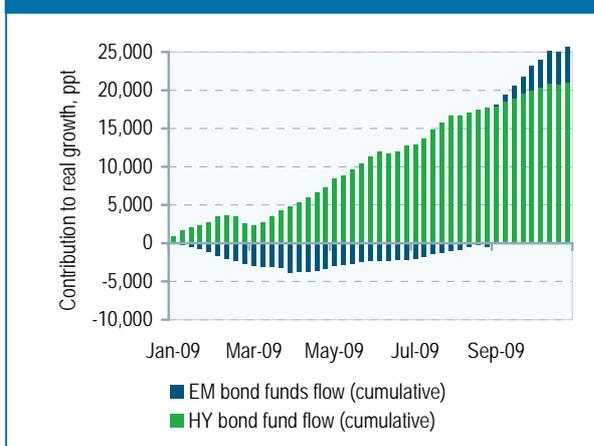
Sources: Bloomberg, Standard Chartered Research



Credit (con'd)

- Yet in spite of the market's elevated levels, it is clear that the appetite for risk assets has not completely waned, either – money market funds have seen cumulative outflows in excess of USD 450bn, while emerging-market bond funds took in about USD 5.0bn over the last eight weeks. High-yield bond funds saw cumulative inflows in excess of USD 20bn YTD in 2009 (as of late November). Given the still-substantial amount of cash in money market funds (USD 3.37trn as of mid-November, according to Investment Company Institute ICI data), there is still considerable cash on the sidelines to continue fuelling the rally in the longer term.
- Looking ahead, we are of the view that a bout of healthy consolidation would be more constructive for the market in the longer term. One sign which suggests that this consolidation may be in the offing is that Asian investors are accounting for progressively lower percentages of new issue allocations. This suggests that their appetite for Asian bonds has been sated.
- Normal investor allocations to Asia have ranged between 45% and 60% in the past, and on that basis, the Asian investor response to recent new issuance has been rather underwhelming – a state of affairs we expect to persist, at least in the short term. Thus, we are happy to wait for a correction to materialise so that we can pick better entry points in order to establish long positions.
- To put things into perspective, it is worth noting that as of late November 2009, credit spreads across the board (in Asia, Europe, and North America) were trading not just at pre-Lehman tights, but had for the most part retraced to levels prevailing in January 2008, before Bear Stearns was taken over by JP Morgan (see Chart 1). While it is true that credit spreads were much tighter in mid-2007, economic conditions were very different then. It is quite difficult to see how current conditions justify a return to those levels, regardless of how much things have improved since Lehman's collapse. Thus, we do not expect credit spreads to return to the heady levels of 2007 anytime soon.
- Fund managers might put some cash back to work in early 2010, but in spite of these fresh commitments of cash, we believe that the market's overall upside is limited and that it will be range-bound. Sector differentiation and individual credit selection will be important. In that context, as outlined above, we believe that the sectors which offer value are (1) select credits in the Middle East, particularly after the recent widening (2) Korean quasi-sovereigns, and (3) Bank Tier 1 paper.
- Finally, we do not believe that the developments in the Middle East will have a long-term adverse impact on Asia. As a practical matter, we believe that Dubai's problems highlight issues faced by highly indebted sovereigns in general. Regardless of whether the sovereigns are classified as belonging to the ranks of developed countries or are less developed emerging-market economies, if their debt/GDP ratios are high (we consider any ratio of more than around 100% to be high), investors are likely to penalise these sovereigns.
- Paradoxically, in Asia, Japan (a highly developed sovereign and a member of the G3) causes the most concern by the yardstick outlined above. For that reason, we believe that convergence trades involving selling CDS linked to emerging Asian economies such as Indonesia, while simultaneously buying Japan default protection, are likely to pay rich dividends.

Chart 2: Technicals are still strong as EM and HY bond funds attract strong inflows



Sources: EPFR, Standard Chartered Research



Charts of the year – Credit

Chart 1: Asia has staged a quick recovery and is expected to perform next year



Sources: Bloomberg, Standard Chartered Research

Chart 2: Europe has room for improvement



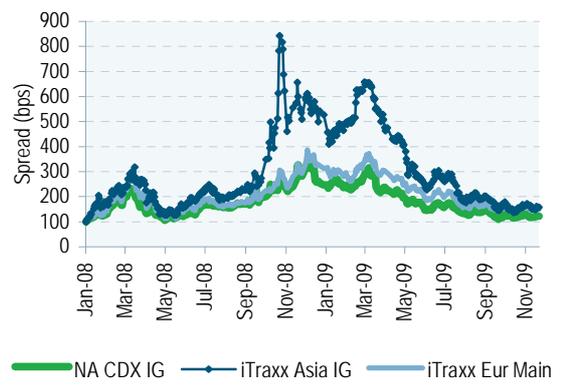
Sources: Bloomberg, Standard Chartered Research

Chart 3: US is still on the recovery track



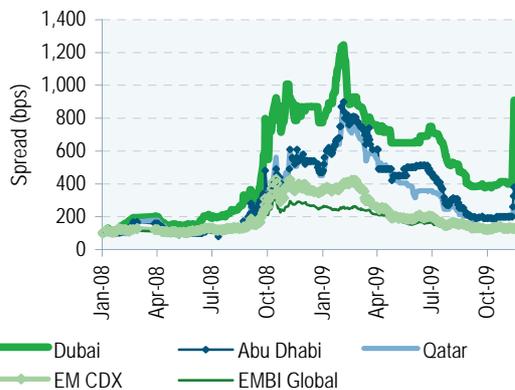
Sources: Bloomberg, Standard Chartered Research

Chart 4: Asia has come into line with the West given its better economic picture



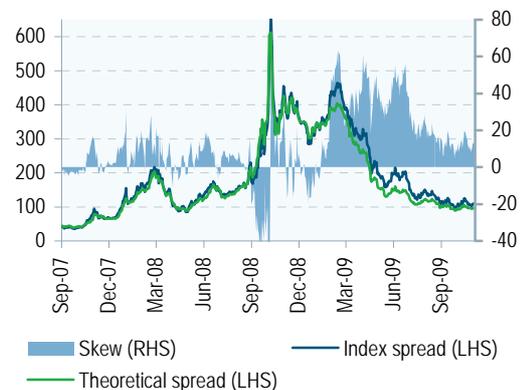
Sources: Bloomberg, Standard Chartered Research

Chart 5: Middle East widens considerably on the back of Dubai debt uncertainty



Sources: Bloomberg, Standard Chartered Research

Chart 6: Pockets of value exist, with the iTraxx index trading cheap to its constituents



Sources: Reuters, Standard Chartered Research



FX

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From 'top down' to 'bottom up'

Top trades of 2010

1. **Sell GBP-KRW (from end-Q1).** The UK economy is likely to be the worst G10 growth performer in 2010. Expectations of fiscal policy tightening after the election, combined with worries over a breakdown in the monetary policy transmission mechanism, may mean the Bank of England will need to keep its accommodative policy in place for even longer. By contrast, the Korean won (KRW) should benefit from the start of Korea's monetary policy tightening cycle in Q1. We forecast that GBP-KRW will reach 1,764 by end-2010.
2. **Sell EUR-INR (from January to end-H1).** The Indian rupee (INR) is likely to continue to catch up with other Asia ex-Japan (AXJ) currencies in recovering from the global credit crisis. This should help to make the INR an outperformer in 2010 – even as Western economies continue to struggle, India is less open and more resilient to external conditions than other AXJ economies. We forecast that EUR-INR will fall to 64.24 by mid-2010.
3. **Buy IDR-ZAR in Q1.** We expect the South African rand (ZAR) to weaken throughout 2010. By contrast, following a brief bounce in Q1, there is room for further Indonesian rupiah (IDR) appreciation. Our end-2010 IDR-ZAR forecast is 1,078.

Key issues

- Our 2010 FX forecasts are based on the following broad trajectory: a brief US dollar (USD) bounce in Q1 followed by consolidation in Q2 and a resumption of USD weakness in H2. This is based on the assumption that growth in the West will be weak for years, particularly in countries suffering from the largest credit overhang (i.e., the US and the UK). The recovery of the markets from the global systemic collapse scenario of Q4-2008 and Q1-2009 has been dramatic, and a reality check is therefore in order. Positioning adjustment and expectations that the pace of recovery will slow may trigger a correction in the USD. However, we see this as a good opportunity to position for longer-term USD weakness. Our macro view is

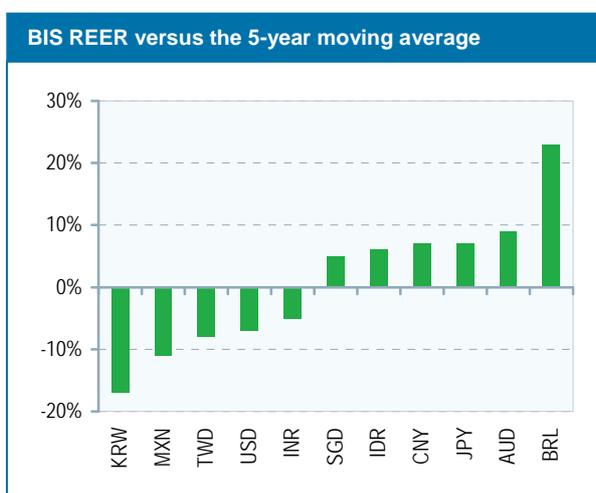
one of Asian economic growth outperformance. A bottom-up approach will work well in differentiating between the winners and losers in 2010.

- Worries about capital controls being imposed in emerging markets which have benefited from strong inflows may remain an issue in 2010. We do not expect any country to opt for controls that will risk creating a massive reversal of flows. The lessons from Thailand's imposition of such controls in late 2006 are still fresh. The countries that have so far given the market cause for concern on this issue are Brazil, India, Indonesia, and Korea. However, we expect any such measures to merely slow the trend, not to reverse it.
- We expect the Chinese yuan (CNY) to move away from its effective USD peg, resuming appreciation around end-Q2 or early Q3-2010. The precise timing will be a political decision, driven by two key economic variables: (1) the resumption of double-digit export growth and (2) the return of inflation as a potential concern. China is in a strong position to resist international pressure to strengthen the CNY given that the CNY real effective exchange rate (REER) is 15.6% stronger than in July 2005 (IMF REER), and that the US is increasingly dependent on China to finance its widening fiscal deficit.
- In North East Asia, the KRW remains a likely outperformer. There is room for further appreciation before USD-KRW returns to pre-crisis levels. Despite likely official intervention, the fundamentals driving the KRW's recovery are likely to remain in place: a current account surplus, rising net foreign inflows to the equity and fixed income markets, and rising interest rates. USD liquidity problems are unlikely to return to haunt the KRW. In Taiwan, a continual gradual appreciation of the Taiwan dollar (TWD) is likely. However, the impact of improving cross-strait relations is likely to take several years to feed through. Hong Kong's Aggregate Balance has reached such a level that we find it hard to argue for spot USD-HKD moving away from 7.75, the stronger end of the Hong Kong Monetary Authority's (HKMA's) Convertibility Undertaking.



FX (con'd)

- In South East Asia, we have short-term FX ratings of *Overweight* on the IDR, Philippine peso (PHP), and Malaysian ringgit (MYR), while we are *Neutral* on the Singapore dollar (SGD), Thai baht (THB), and Vietnamese dong (VND). In 2010, we expect overall outperformance of the IDR, PHP, and MYR on strong external balances and growth recoveries, which will stimulate capital inflows. As such, the expected bounce in the USD in Q1 will offer a good opportunity to buy these currencies. The SGD and THB will be laggards given FX policy and ongoing political uncertainty (in Thailand), but trend SGD NEER appreciation should resume when the Monetary Authority of Singapore (MAS) shifts to an appreciation stance, most likely in October 2010. In contrast, the VND will remain under weakening pressure given Vietnam's widening trade deficit, rising inflationary pressures, and low policy credibility.
- The INR is likely to benefit from India's status as one of the first economies to begin monetary tightening. The INR should therefore continue to catch up with other Asian currencies. Key risks to our view are related to the continuity of reforms and fiscal management.
- We expect the British pound (GBP) and the USD to be among the weakest performers in 2010 overall. The Australian dollar (AUD) may return as one of the best performers given Asia's strong fundamentals; our fair value model suggests that it will rise above parity against the USD by end-
- 2010. The euro (EUR) may still be taking some of the pressure for USD weakness as Asian central banks continue to slow the rise of their currencies.
- The coming year is likely to see substantially reduced African FX volatility relative to 2007 and 2008 – what we have termed the 'great moderation' in Africa FX. This still leaves profitable opportunities in the Sub-Saharan African context. The South African authorities have expressed a strong preference for a more stable ZAR, and they are well-placed to engineer this given their more active approach to FX intervention and likely restrained yield-seeking flows in early 2010. In the 'frontier' African FX context, local yield differentials look set to play a much more pronounced role in driving relative returns in the year ahead – the Ghana cedi (GHS) and Ugandan shilling (UGX), among others, offer attractive 'high-yield' opportunities.
- The aggressive appreciation in Latin American currencies in 2009 will be difficult to replicate in early 2010. The Brazilian real (BRL), Chilean peso (CLP), and Colombian peso (COP) have become expensive on a REER basis and are likely to weaken against a stronger USD in Q1 before their appreciation trend resumes, albeit at a shallower pace. The focus on capital controls, especially in Brazil, should facilitate short-term consolidation as investors assess the emergence of a new 'policy risk premium'. However, with long-term capital inflows still strong, this will continue to exert upside pressure on regional currencies over the course of 2010.
- We expect the Russian rouble (RUB) to benefit from Russia's growth recovery, higher commodity prices, and less official intervention. Meanwhile, we forecast that the Turkish lira (TRY) will underperform given sharply reduced carry, a challenging domestic debt issuance schedule, increasing political noise, and a lack of strong policy anchors (e.g. progress in the EU accession process, IMF support, and fiscal policy tightening), which were fundamental to Turkey's post-2001 recovery. Finally, we expect the Polish zloty (PLN) to bounce back strongly in H2-2010 as global risk appetite recovers and valuation remains attractive.



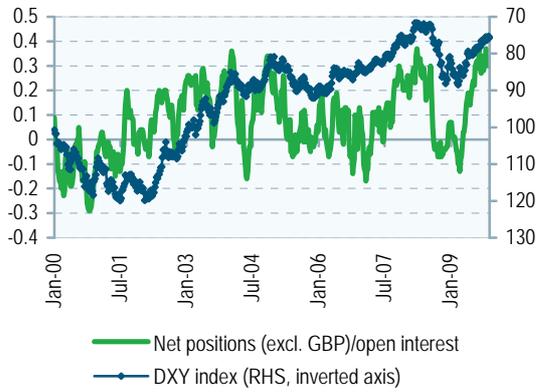
Sources: BIS, Standard Chartered Research



Charts of the year – FX

Chart 1: Short USD squeeze likely in H1-2010

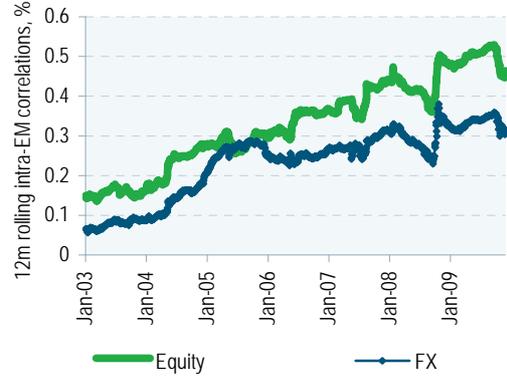
Short USD excl. GBP and the DXY Index



Sources: CFTC, Standard Chartered Research

Chart 2: EM performance to diverge more in 2010

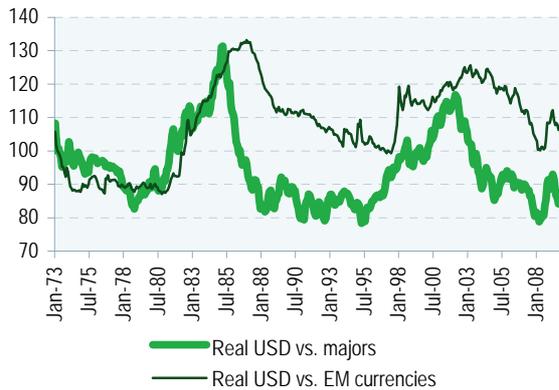
Intra-EM FX and equity correlations



Sources: Bloomberg, Standard Chartered Research

Chart 3: USD lower vs. majors than vs. EM

Real USD vs. majors and EM



Sources: Bloomberg, Standard Chartered Research

Chart 4: Back to the future for the greenback

Real USD vs. majors



Source: Standard Chartered Research

Chart 5: KRW to play catch-up in 2010

Asia REERs: bottom 5 performers



Sources: Standard Chartered Research, Datastream

Chart 6: INR to outperform

Asia REERs: top 5 performers



Sources: Standard Chartered Research, Datastream



Rates

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Bear global, think local

Top trades of 2010

1. **Pay rates.** Globally, policy rates are at rock bottom, liquidity is exceptionally flush, and fiscal stimulus packages have been rolled out. Fiscal concerns have not gone away and inflation, albeit not a problem now, is at the back of investors' minds. Growth, while still sub-trend, is gaining momentum. While talk of exit strategies may be overdone, the next move in policy rates (with very few exceptions) is clearly up. All told, a bearish rates environment is in the making. We favour short bond and paid swaps positions as a theme.
2. **Flatter curves as 2010 unfolds.** Yield curves in the majors and emerging markets alike are historically very steep. Fiscal supply concerns have undermined long tenors, while liquidity has favoured short tenors. As markets move to pre-empt rate hikes, we expect flatter curves. However, forward curves are already reflecting this. Timing is key – we expect better entry levels as 2010 unfolds.
3. **Higher-yield markets favoured.** Not all markets are created equal, and there will be exceptions to the 'pay rates' theme outlined above. These will typically be in markets where micro dynamics remain conducive to being long bonds. These markets may also benefit from the swing factor of offshore positioning. Indonesia and Ghana remain our favoured picks in Asia and Africa, respectively.

Key issues

- We see 2010 as a challenging year for global rates markets. Global central banks and governments generally did the right thing in implementing measures to pull the financial system back from the brink. In the West in particular, this took the form of quantitative easing – an umbrella and often overused term – addressing both liquidity and credit needs. The challenge now is to unwind these measures (by implementing so-called exit strategies), which will restore liquidity to pre-crisis conditions and ultimately return policy rates to levels more consistent with long-term sustainable

trend growth. With the majority of policy rates at historically low levels, the implication is a bearish backdrop for global rates markets.

- Macroeconomic conditions are not homogenous between East and West or among countries within regions. Hence, the timing of policy rate hikes will differ across markets. The US Fed continues to recite its mantra that policy rates will remain "exceptionally low" for an extended period. We expect the Fed to start hiking the Federal funds target rate only in Q3-2011. However, the yield curve is a leading indicator, and we therefore expect bearish flattening of the US Treasury and USD IRS curves to gain momentum as 2010 unfolds. Furthermore, unrelenting supply as the burdensome US fiscal deficit continues to necessitate heavy bond issuance will underpin bearish sentiment.
- An increasingly bearish US rates outlook will likely cast a shadow on the Asian dollar-bloc rates market. This includes Hong Kong, Singapore, and Thailand (due to their synthetic USD rates linkage). Nevertheless, the moves will not be identical. For example, political concerns in Thailand will cap the upside in yields, while speculation over the HKD peg may widen USD-HKD yield differentials.
- Asian economies experiencing domestically led recoveries will be the first to raise rates. This group includes Korea, China, India, and Indonesia. The front end of these markets is already pricing in monetary policy tightening. However, sentiment is a fickle thing, and when yield spikes create excessive buffers between policy rates and market rates, we see opportunities for tactical receive (or long bond) positions, despite expectations for strategic bearish flatteners. In particular, Indonesia stands out. While Indonesian bonds are likely to be undermined by tighter monetary policy and higher inflation, the expected improvement in the country's credit profile and structural inflation over the medium term – along with a favourable global



Rates (con'd)

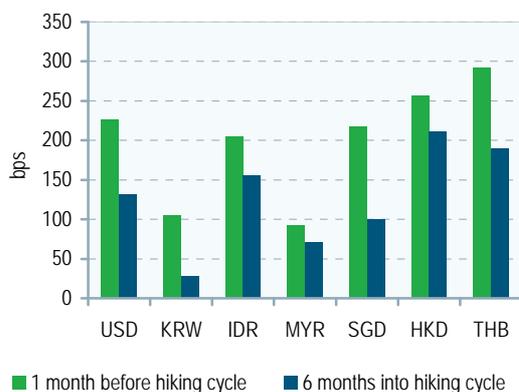
risk dynamic – should see it outperform the broader Asian rates market. Other Asian markets may have to wait until 2011 for the removal of accommodative monetary policy. Hence, carry trades may have further to run for the first half of 2010 at least.

- Asian government bond supply spooked players in 2009, and steep curves prevail. While anxiety has abated, we reiterate that supply remains a concern. While governments will actively manage the potential negative supply impact by pursuing alternative funding channels (including tapping the USD sovereign bond market or targeting retail investors), supply will continue to place a floor under bond yields. Indeed, government bond issuance in countries such as Indonesia and Thailand remains onerous, while more sanguine projections in countries such as Malaysia may be premised on overly optimistic budget assumptions.
- African local bond markets benefited strongly from flush liquidity in 2009, which accommodated increased domestic debt supply. We expect liquidity to remain flush in 2010. Moreover, sponsorship from offshore investors returning en masse to emerging debt markets benefited Africa. These investors may now become more selective, but we continue to see value in some markets. In contrast to bearish curve flattening expectations in other regions, we think that loose monetary

conditions are likely to persist for a while longer in Africa.

- Several African central banks have raised concerns that ongoing tight credit conditions may take a toll on the still-fragile economic recovery. We therefore expect the authorities to maintain – or, in Ghana's case, shift to – an accommodative stance. In tandem, a slight rebound in GDP growth is likely to help budget balances recover from the sharp deterioration most experienced in 2009. We see Ghana and Kenya as the countries most likely to post narrower fiscal deficits, in turn alleviating pressure on domestic borrowing and local bond yields. As global demand recovers, we also expect the rise in commodity prices to support some African markets. Zambia in particular, where yields have remained relatively high compared to the rest of the region, is likely to benefit from the copper play.
- Meanwhile, Middle Eastern rates markets are likely to continue to take their cue from USD IRS in the first months of 2010. However, with GDP growth and inflation likely to rebound faster in the UAE and Saudi Arabia than in the US, expectations of a revaluation or de-pegging of their currencies could resurface, creating volatility on their respective rates curves. With both central banks likely to remain on hold for most of 2010, we expect their respective IRS curves to retain a directional bias, with renewed inflation expectations likely to lead to more bearish steepening going forward.

2/10Y government bond yield spreads (before and during tightening cycles)



Sources: Bloomberg, Standard Chartered Research

- In conclusion, we see 2010 as a challenging year for global rates markets. While we prefer to approach the market from the short side (selling bonds and/or paying fixed in the swaps market), we note that markets seldom move in a straight line. As such, we expect to see intermittent tactical opportunities to establish (positive carry) curve steepeners, to buy bonds, or to receive in the swaps market. However, our core scenario remains one of bearish flattening of curves gaining momentum as the year unfolds. Lastly, we stress that timing is everything, and players are well advised to scrutinise local micro factors driving supply and demand.



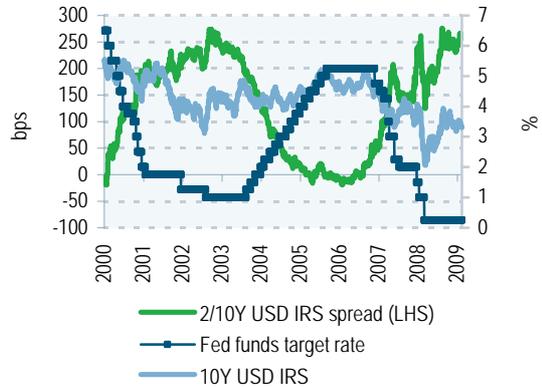
Charts of the year – Rates

Chart 1: Heavy government bond supply in 2009 to spill over into 2010 (*UST issues as proxy*)



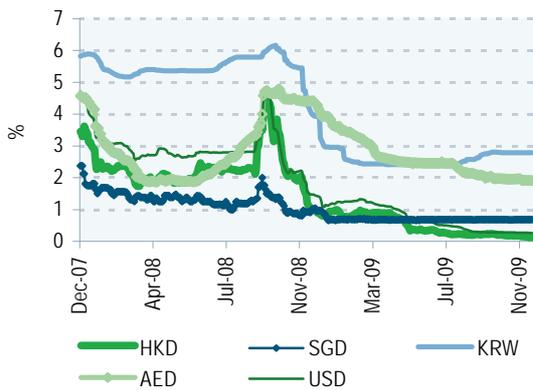
Sources: Bloomberg, Standard Chartered Research

Chart 2: Absolute rates are at very low levels, while curve steepness should moderate in 2010



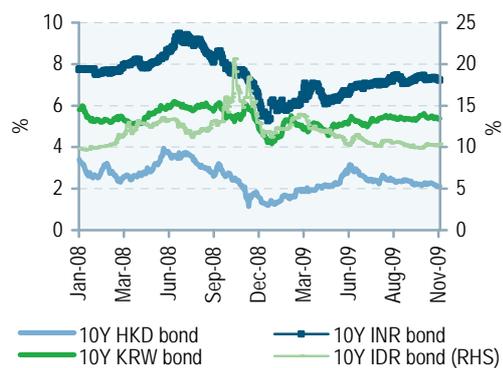
Sources: Bloomberg, Standard Chartered Research

Chart 3: Interbank markets expected to consolidate further in 2010 (*selected 3M rates*)



Source: Bloomberg

Chart 4: Long-end yields likely bottomed in 2009 (*selected 10Y T-bond yields*)



Sources: Bloomberg, Standard Chartered Research

Chart 5: Bond curve's excessive steepness may reverse in 2010 (*2/10Y T-bond yield spreads*)



Sources: Bloomberg, Standard Chartered Research

Chart 6: Swap curves to emulate bond counterparts in 2010 (*2/10Y swap spreads*)



Sources: Bloomberg, Standard Chartered Research



Sovereign risk

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A better year ahead

Ratings outlook

- The sovereign ratings environment gradually stabilised through 2009, and the outlook for 2010 is much more positive, despite ongoing downside risks in some places. As Chart 1 shows, both 2008 and 2009 were extremely difficult, with sovereign ratings falling sharply across the world. Encouragingly, in recent months, the pace of deterioration has slowed. Actions in recent weeks have been confined either to known trouble spots or to small economies with specific problems that are usually well known to the financial community. The only exception to this was Mexico, where Fitch Ratings cut the sovereign rating on 22 November 2009 to BBB (Stable) from BBB+, becoming the first of the three rating agencies to move it so low. Mexico has been a spectacular victim of the US crisis, but its failure to advance further with tax reform and the narrow tax base has not helped.

Impact varied, but lessons have been learnt

- More generally, the regional profile of ratings changes has been very telling. Central and Eastern Europe (CEE) was initially most impacted, a reflection of the extent of the imbalances the region faced at the onset of the financial crisis. Though downside risks remain, especially in really troubled countries like Ukraine and the Baltics, the worst fears of a regional collapse have now

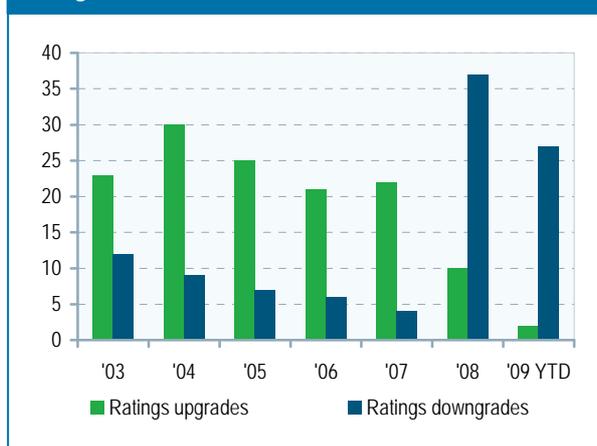
dissipated. Those countries with stronger fundamentals – notably Poland, Slovakia, and the Czech Republic – are faring far better, but Russia, now seeking to raise new funds, is less robust.

- Asia and Latin America, too, faced a surge in Negative Outlooks (Chart 2). Asia's ratings were typically stronger, with a few exceptions, such as the Philippines, where challenges remain. Both regions suffered badly from the collapse in world trade due to their generally highly dependence on external demand and commodity exports. But, importantly, both regions have learnt the harsh lessons from earlier crises. In particular, most countries recognised the need to maintain a comfortable external cushion. (The outliers are the likes of Venezuela and Ecuador, whose particular problems are quite specific.) Accordingly, official reserves have been built up so that, in many cases, reserves exceed external debt. Brazil has been an avid pupil in this regard, building its reserve cover to close to a year's worth of imports and managing its debt stock down to around 20% of GDP, compared with almost 34% in 2004. Now its reserves are equivalent to just over 70% of total debt, compared with 23% five years ago.

Asian outlook mostly promising

- In Asia, only Korea and Indonesia have reserves below external debt. Though the build-up of reserves and the monetary consequences thereof have contributed to the problem of global imbalances, the logic is clear from an individual country perspective. And because fiscal policy tends to be conservative, the traditional metrics used to rate countries all stack up well, leaving ratings and ratings prospects more secure.
- Again, there are exceptions. Thailand is least comfortable politically. The combination of a weak, effectively unelected government facing sometimes violent street protests and a troublesome former premier hovering nearby is a recipe for major uncertainty. Should the health of the revered King worsen again, the situation could

Chart 1: Long-term foreign-currency sovereign issuer ratings



Sources: S&P, Standard Chartered Research



Sovereign risk (con'd)

become even more tense and threaten the sovereign rating. Confidence would suffer, FDI inflows could be deterred, and existing high levels of excess capacity would increase, dragging growth lower. Vietnam is perhaps most exposed economically. There are issues over its exchange rate policy, its susceptibility to inflation, and its vulnerability to a shortage of dollar liquidity. Fiscal discipline could also be better. Elsewhere in Asia, asset bubbles are a risk, especially in China, Singapore, Hong Kong, and possibly Korea, though in all four cases, the authorities have taken specific measures to deflate price pressure.

- On the upside, if Sri Lanka weathers the forthcoming election without any serious fiscal slippage, and if the IMF remains satisfied with its progress, then a ratings upgrade is likely in the coming months. Indonesia, too, is faring well, with growth supported by its relatively closed structure, its commodity dependence, and the boost to growth from new infrastructure projects. Bangladesh may finally get a sovereign rating soon and could surprise on the upside.
- However, Pakistan is on a knife edge. The economic outlook is weak, the security environment is deteriorating, and political instability shows no sign of waning. India, by contrast, appears less vulnerable to a ratings downgrade now that the government is going to sell small stakes in profitable state-owned companies.

Africa is looking brighter

- The region's ratings prospects have brightened as South Africa emerges from recession, Ghana's imbalances narrow, and Nigeria moves towards a peace settlement in the Niger Delta. More countries may be rated in the coming months, further deepening Africa's capital markets.

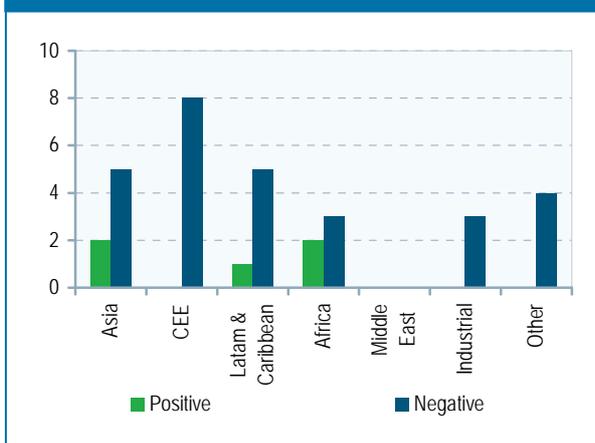
Middle East: a knock to confidence

- The uncertainty over the possibility of a technical default by Dubai World dominates the Middle East risk outlook. Though at this stage all that has happened seems to be a payment standstill until May, investor confidence will be damaged even if Abu Dhabi does ultimately back full settlement. It is important to differentiate within the region.

Elsewhere: where the ratings action is

- The industrial countries have had a fairly rough ride ahead due to problems in their banking sectors, though the rating agencies have taken the view that those with the strongest institutions and structures, where there is also significant fiscal and fundamental flexibility, are probably resilient to sovereign downgrades. Weaker countries, such as Greece or Ireland, have seen a progressive migration lower as fiscal deterioration has worsened and data have weakened. Stronger economies, notably the US, are more secure, though the UK is extremely vulnerable to downgrade due to the pace and extent of fiscal slippage. If, as is possible, the fiscal outturn misses the already yawning official target, it is quite feasible that the UK could lose its coveted AAA status – a major blow to the current government. Much will depend on how well the government (and the opposition Conservative party) identifies measures to correct the shortfall once the recovery is sufficiently strong.
- Latin America has fared well, and Brazil in particular is looking good, although the forthcoming election may delay another ratings upgrade. Peru, too, looks encouraging. In CEE, Turkey is arguably best placed, with risks balanced, though the economy has been remarkably resilient.

Chart 2: Long-term foreign-currency sovereign credit outlooks



Sources: S&P, Standard Chartered Research

Economies – Majors





Charts of the year – Majors

Chart 1: Slow-motion recovery

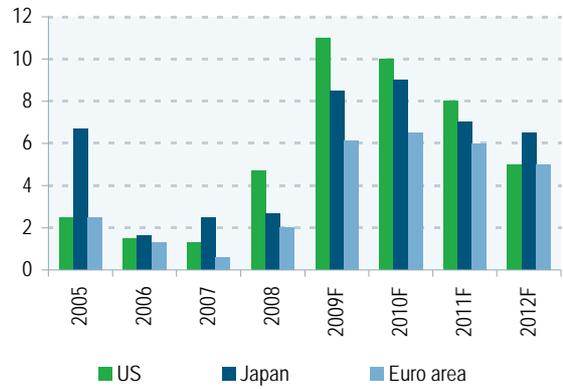
% real GDP growth



Source: Standard Chartered Research

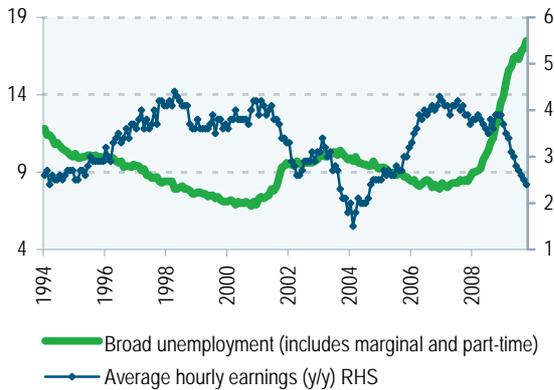
Chart 2: Fiscal deficits to remain large

% of GDP



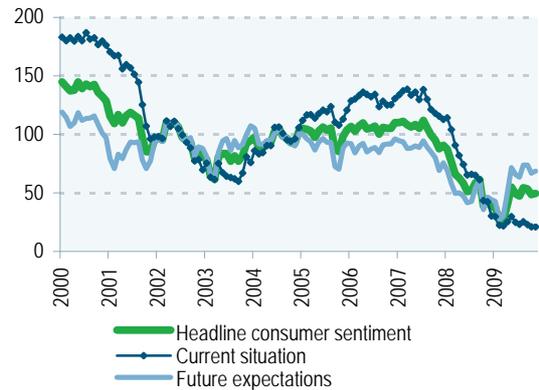
Sources: Datastream, Standard Chartered Research

Chart 3: EU wage pressure to remain weak



Source: Standard Chartered Research

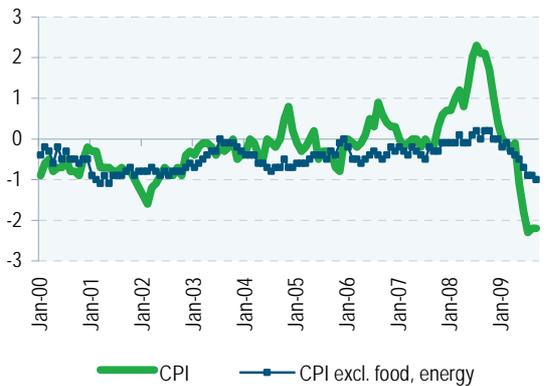
Chart 4: US optimism continues; so does the hangover



Source: Standard Chartered Research

Chart 5: Japan officially back in deflation

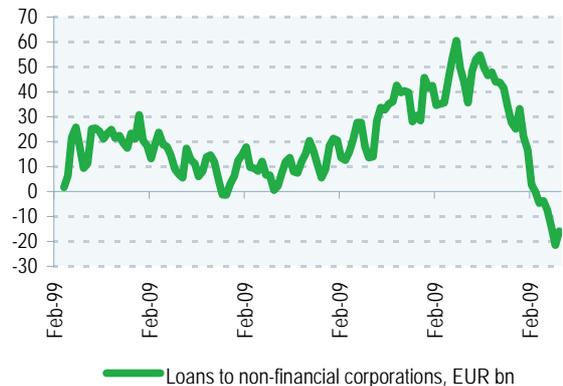
% y/y



Sources: Bloomberg, Standard Chartered Research

Chart 6: Loan demand remains weak

Euro-area loans to non-financial corporations



Source: Datastream



Canada

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Healthy upswing expected

Economic outlook

- Canada came out of recession slowly, but growth should gather steam in 2010, supported by consumer spending, house-building, and revived investment. As always, much will depend on the course of the US economy and the path of oil prices.
- Canada's economic fundamentals are very good, with sound banks, a solid fiscal position, and low inflation. High immigration, along with cuts in corporate tax rates and moves to reduce barriers to inter-provincial trade, should foster increasing investment and keep Canada's GDP growth on a higher trend path than that of the US.

Financial issues

- Canada's banks went into the crisis with relatively conservative loan books and higher capital ratios than elsewhere and hence fared well, with no need for government capital injections. They are therefore well placed to support the economic recovery, though there are already concerns that house prices are becoming frothy in some cities.

Policy

- The Bank of Canada has said it will not raise interest rates until at least the end of Q2-2010, though this is contingent on the inflation outlook. In our view, the first rate rises will come in Q4-2010, well before the US Fed moves.

- The Bank of Canada is likely to move first because Canada does not face the same headwinds as the US in the form of cautious consumers and an oversupplied housing market. Hence, concerns about asset bubbles and signs of a solid recovery will likely cause the central bank to move, despite the risk that the CAD is overly strong.
- The fiscal deficit looks set to peak at about 5.5% of GDP, far less than the US. Gross debt to GDP will therefore move up more slowly than in the US, but still reach the 80-90% range again by 2011-12 and need to be brought down in subsequent years.

Other issues

- Oil prices are a key factor for growth in western Canada and also a major influence on the exchange rate. Heavy investment in oil-sands projects requires an oil price of USD 60 per barrel or above, while a price below USD 40 would create major problems for Alberta in particular.
- If oil prices hold up as we expect, keeping the CAD relatively strong, the challenge for eastern Canada will be to stay competitive. Manufacturing is still a major source of growth, helped by lower labour and health-care costs than south of the border.

Politics

- Canada's Conservative government, led by Stephen Harper, holds only a minority in parliament. Therefore, an election is possible at any time if either the Conservatives or the main opposition party, the Liberals, see a chance of gaining a majority. But two other significant parties also compete – the left-wing NDP and the Bloc Québécois – so the picture can change quickly.
- This divide tends to keep policy fairly centrist. There remains a strong commitment to keeping the budget deficit and debt under control following the gains Canada has made in the past 12 years.

Standard Chartered Research forecasts: Canada				
	2009	2010	2011	2012
GDP (real % y/y)	-2.5	2.2	3.3	4.0
CPI (% y/y)	0.4	1.5	1.2	1.4
Policy rate (%)*	0.25	0.75	2.25	2.50
CAD-USD*	1.05	1.00	0.95	1.05
Current account balance (% GDP)	-2.5	-2.6	-2.7	-2.5
Fiscal balance (% GDP)**	-5.0	-5.5	-4.0	-2.5

* end-period; **for fiscal year starting 1 April

Source: Standard Chartered Research



Euro area

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Two steps forward, one back

Economic outlook

- Growth momentum is picking up, with the upswing likely to be supported by the inventory cycle and stronger net exports. Our forecasts for 2010 are somewhat higher than official forecasts and consensus opinion, as we see a stronger lift from activity in the final quarter of 2009.
- Nevertheless, GDP growth will likely struggle to reach trend in 2010, with the recovery weaker than would be expected following a 'normal' business-cycle recession. The outlook remains highly uncertain, in particular once support from inventories and government spending fades.

Financial issues

- The euro area has made less progress in writing down bad loans than the US, and bank lending will likely stay constrained in 2010 as banks rebuild their balance sheets. The increase in banking-sector assets was particularly high in the run-up to the recession; the severity of the crisis raises the risk of a three- to four-year decline in assets.
- However, there is evidence that recapitalisation policies and government guarantees may have mitigated some of the risks. Recently, the decline in lending has moderated and the tightening of banks' credit standards has started to slow.

Policy

- The risks associated with financial crises, the

weaker-than-expected economic recovery so far in the euro area, and the strong likelihood that a wide output gap will keep inflation below target for a prolonged period suggest that the European Central Bank (ECB) will be in no hurry to raise rates. We see the refi rate on hold through 2010, although it seems likely that the ECB will gradually scale back its very generous liquidity provisions over the course of 2010.

- The ECB is clearly unhappy about fiscal developments. The euro-area budget deficit is likely to widen to 6.5% of GDP in 2010, with only a slight and gradual improvement envisaged in 2011. Governments have so far shown little inclination to rein in deficits.
- Statements by ECB President Jean-Claude Trichet warning governments to be more disciplined carry the implicit threat that earlier policy tightening may be required if no action is taken to tackle 'excessive' fiscal deficits.

Other issues

- Within the euro area, the growth outlook varies considerably between countries. Among the majors, Germany is least exposed to the risk of a deflating domestic asset price bubble, while Spain's recession is likely to linger on as a result of the collapse in real-estate prices and construction.
- As government debt ratios rise further, the highly-indebted 'Club Med' countries will remain vulnerable to bouts of risk aversion, resulting in widening yield spreads. That said, we see the European Monetary Union remaining intact.

Politics

- There are no major elections scheduled for 2010, although Belgium, Italy, and Ireland may come under periodic pressure for early polls. The new EU President is regarded as a safe pair of hands. EU policy likely to remain heavily influenced by horse-trading among the sovereign governments.

Standard Chartered Research forecasts: Euro area				
	2009	2010	2011	2012
GDP (real % y/y)	-3.9	1.5	2.0	2.4
CPI (% y/y)	0.1	1.4	1.7	1.9
Policy rate (%)*	1.0	1.0	2.0	4.0
EUR-USD*	1.52	1.58	1.65	1.55
Current account balance (% GDP)	-1.0	-0.8	-0.2	0.2
Fiscal balance (% GDP)	-6.1	-6.5	-6.0	-5.0

* end-period

Source: Standard Chartered Research



Japan

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At the edge of the fiscal abyss

Economic outlook

- The economy is set to rebound from the deep contraction seen in 2009, but excess capacity will persist throughout 2010, exerting downward pressure on prices and wages. While deflation has peaked, it is likely to linger.
- The Democratic Party of Japan (DPJ) government's fiscal policy will support a mild rebound in domestic consumption at the expense of public infrastructure spending. Export growth will be dented by the weak recovery in the West.

Financial issues

- The level of public-sector indebtedness is a recurring concern given its recent strong rise from an already high level (it will approach 204% of GDP by 2011, the OECD estimates). With local financial institutions being the main investor base for these liabilities, the risk is less of a solvency issue than of a digestion issue, with rising real yields a likely result.
- The BoJ has not done much to absorb JGB supply over the past year – its 2009 measures fell short of previous quantitative easing regimes in terms of balance-sheet expansion. If the BoJ continues to refrain from stepping up its JGB purchases after withdrawing its credit-market measures, increased JGB supply could push up real interest rates, with likely spillover into corporate funding markets.
- Cash hoarding remains a longer-term risk.

Despite a year of recovering global risk appetite, Japanese households pushed their cash and deposit holdings to a new high (165% of GDP as of mid-2009).

Policy

- Lingering deflation will likely prompt the Bank of Japan (BoJ) to keep the policy rate at 0.1% throughout 2010.
- The DPJ government, mindful of rising concerns about a runaway deficit, is likely to implement its agenda of boosting household income growth at a measured pace while drastically trimming infrastructure spending. This could introduce near-term volatility to the budget and limit overall fiscal support to the economy.

Other issues

- With the natural rate of population growth dipping further into negative territory in 2009, the government has pledged to introduce policies to encourage child-bearing. Even so, demographics are set to worsen over the medium term. The labour force peaked at 69.1mn in mid-1997 and has resumed its declining trend since 2008, falling 0.4% y/y on average in 2009.
- The government seeks to strengthen Japan's ties with Asia while assuming a more assertive stance in its long-standing alliance with the US. Success will depend on its ability to mediate differences over divisive issues such as reserve diversification and exchange rate co-ordination, especially between the US and China.

Politics

- The DPJ – which effectively ended 50 years of political dominance by the Liberal Democratic Party – still enjoyed high popularity in the final months of 2009, despite having come off its pre-election peak. The true test of the new government will be its ability to sustain the economic rebound and resuscitate the economy amid the still-vulnerable global recovery.

Standard Chartered Research forecasts: Japan				
	2009	2010	2011	2012
GDP (real % y/y)	-5.8	1.5	1.0	1.5
CPI (% y/y)	-1.3	-1.0	-0.7	0.5
Policy rate (%)*	0.10	0.10	0.25	0.50
JPY-USD*	89.0	91.0	87.0	93.0
Current account balance (% GDP)	2.0	2.4	2.7	2.5
Fiscal balance (% GDP)**	-8.5	-9.0	-7.0	-6.5

* end-period; **for fiscal year starting 1 April

Source: Standard Chartered Research



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Dealing with debt

Economic outlook

- The economy is emerging from recession, helped by monetary policy stimulus, exchange rate depreciation, and a turnaround in the inventory cycle. But fiscal stimulus will be withdrawn as the government attempts to rein in the budget deficit.
- The economic recovery faces serious headwinds as banks and households rebuild their balance sheets. We expect growth to stay below trend in 2010-11 on weak consumer and government spending.

Financial issues

- Lending remains severely constrained. The situation should gradually improve with better access to credit and a stabilisation of borrowing costs, but is unlikely to normalise for several years as banks rebuild capital. In addition, demand for loans is likely to remain subdued as households and businesses reduce debt levels.
- Government liquidity programmes will continue to play an important role, and the government will retain its stakes in the more vulnerable banks.

Policy

- The Bank of England (BoE) is likely to cap asset purchases at GBP 200bn, although the Monetary Policy Committee will want to keep its options open, given significant uncertainty on the outlook.

- Inflation will likely spike higher in the early months of 2010 as a result of rising energy prices and the reversal of the December 2008 cut in the VAT rate. But the impact of these factors is likely to be temporary, given the substantial output gap which has opened up in the economy.
- Tighter public spending in 2010 is likely to delay any turnaround in employment, keeping wages under pressure. So we do not see any second-round effects from higher Q1-2010 inflation, and we agree with the BoE's assessment that inflation is likely to stay below target for much of 2010-11.
- It is likely to take several years before GDP recovers to its pre-recession level – according to our forecasts, this will not happen until H2-2012. This suggests that monetary policy will remain accommodative over the next 24 months, with rates rising only in 2011 – although the first rate hike could be delayed until 2012, depending on economic circumstances.

Other issues

- The BoE is agnostic about the sequencing of its eventual exit strategy. Selling Gilts back into the market is potentially risky, given the continuing large scale of issuance, so the bank may favour issuing short-term bills to mop up liquidity.

Politics

- A General Election is due by June 2010, with early May 2010 the most likely date for polling. Opinion polls suggest that the Conservatives will receive the most votes, wresting power from Labour after 13 years in opposition.
- The priority for the incoming government will be to tackle the substantial budget deficit through tax hikes and spending cuts. The Conservatives are likely to favour the former. But a hung parliament is possible, an outcome which could make it more difficult to tackle the burgeoning government debt.

Standard Chartered Research forecasts: UK				
	2009	2010	2011	2012
GDP (real % y/y)	-4.6	1.2	1.9	2.4
CPI (% y/y)	2.1	2.0	1.2	1.5
Policy rate (%)*	0.5	0.5	1.5	3.5
GBP-USD*	1.64	1.68	1.74	1.64
Current account balance (% GDP)	-2.0	-1.7	-1.5	-1.1
Fiscal balance (% GDP)**	14.0	14.1	12.3	10.2

* end-period; **for fiscal year starting 1 April

Source: Standard Chartered Research



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Upswing to disappoint in 2010

Economic outlook

- Growth will likely disappoint during 2010 after the initial lift from inventory restocking and fiscal stimulus. But we do not expect a new recession, and we expect faster growth in 2011-12 as consumer and bank balance sheets improve.
- Cautious consumers will be the main factor holding growth back in 2010. The household savings rate is set to rise further as consumers gradually adjust to lower wealth, higher unemployment, and reduced access to credit.
- A weak recovery characterised by high unemployment points to a further decline in inflation. Core inflation is set to move well below 1% p.a. during 2010, and a new deflation scare is highly likely.

Financial issues

- The risk of a new wave of financial turmoil is low, though not zero. Large US banks are now effectively underwritten by the US government, while small banks will be closed smoothly by the Federal Deposit Insurance Corporation (FDIC) as necessary. But loan losses continue to mount, with commercial real estate a particular problem area.
- Stresses on banks will keep credit tight, constraining consumers and business from borrowing actively and contributing to a cautious approach to spending, hiring, and investing.

Policy

- We expect slow growth and high unemployment to keep the Fed on hold until 2011. Moreover, further quantitative easing beyond the programme due to expire in March is much more likely than the markets anticipate, as scope for fiscal action is limited.
- Another major fiscal stimulus package is unlikely as concerns over rising government debt grow. But we expect further measures to boost jobs, support state governments, and increase spending on infrastructure.

Other issues

- Housing is probably the greatest area of uncertainty. Government support is likely to continue to hold prices up for the next few months, but a further downward adjustment cannot be ruled out. Home prices in relation to incomes and rents are still above historical averages.
- The current very depressed level of house-building will not last indefinitely, and a return to trend rates will add significantly to GDP in the coming years. But we expect only a slow improvement in 2010.

Politics

- The Democrats will face a tough time in the November 2010 mid-term elections unless the economy is far stronger than we expect. Also, there is considerable unease among many voters over government intervention in banks and auto companies, as well as increased government control of health care.
- Politicians face a difficult few years, with the largesse made available to them to implement the stimulus plan now needing to be paid for. Markets will look for serious signs that a process is being put in place to tackle the budget deficit. Also, the Bush tax cuts expire at the end of 2010, which will lead to a major debate over tax rates on both income and capital.

Standard Chartered Research forecasts: US				
	2009	2010	2011	2012
GDP (real % y/y)	-2.4	2.3	2.5	3.4
Core PCE (% y/y)	1.4	0.7	0.5	0.7
Policy rate (%)*	0.25	0.25	2.00	2.50
EUR-USD*	1.52	1.58	1.65	1.55
Current account balance (% GDP)	-3.5	-4.1	-3.2	-2.5
Fiscal balance (% GDP)	-11.0	-10.0	-8.0	-5.0

* end-period

Source: Standard Chartered Research

Economies – Asia-Pacific





Charts of the year – Asia

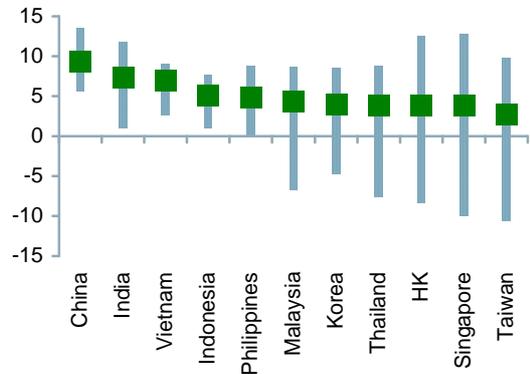
Chart 1: Foreign banks set to return



Sources: BIS, Standard Chartered Research

Chart 2: Chindia takes the lead

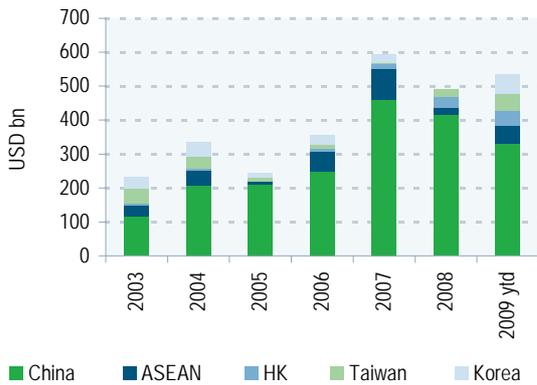
Average GDP growth and range, 2001-09



Sources: CEIC, Standard Chartered Research

Chart 3: The more, the better

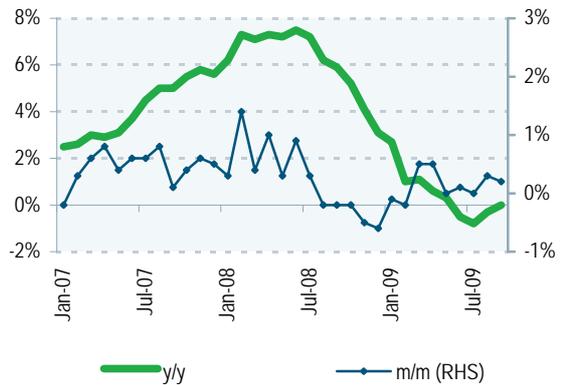
Annual change in FX reserves



Sources: CEIC, Standard Chartered Research

Chart 4: Inflation is not a problem

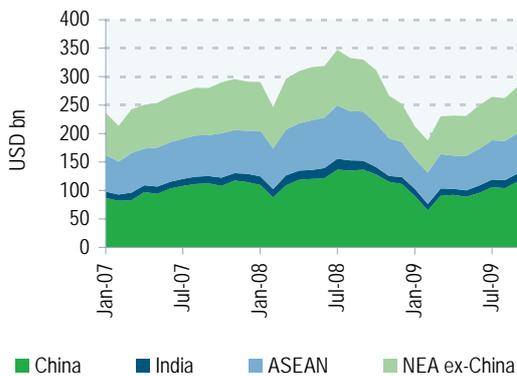
Asian CPI



Sources: CEIC, Standard Chartered Research

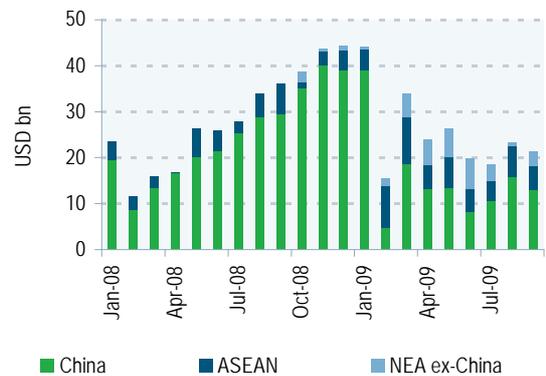
Chart 5: Still far from pre-crisis levels

Asian exports



Sources: CEIC, Standard Chartered Research

Chart 6: Asian trade surplus to decline slowly



Sources: CEIC, Standard Chartered Research



Asia

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Leading the recovery

Economic outlook

- Asia will continue to lead the world recovery in 2010 given its strong fundamentals, proactive policies, and improving confidence. Some economies, such as China, Indonesia, and India, may enjoy strong rebounds given their large domestic markets and relatively closed economies, which cushion them from external shocks. Other, more open and export-dependent economies – like Hong Kong, Singapore and Taiwan – will grow below trend given sluggish exports to major markets in the West.
- Regional and sectoral discrepancies will widen as recovery deepens. Growth will be centred in the ‘big three’ of China, India, and Indonesia, while the influence of the traditional G3 markets will subside. Domestically driven sectors like infrastructure and retail will prosper, while export-related sectors will fade. Economic gravity will shift further from the West to the East, and trade flows will shift from North-South to South-South. Regionalisation will precede globalisation, at least in the near term.
- The challenge for policy makers is to sustain the recovery. This will require spreading growth from the public to the private sector, from large to small companies, and from short-term spending to long-term investments.
- Consumer price inflation will not be an issue given still-high unemployment, low capacity utilisation,

and slack external demand. But asset price inflation will become a bigger concern as monetary policy stays loose and capital inflows accelerate while Asia spearheads the global recovery. The challenge will be more severe for economies with pegged currencies but open capital accounts, and for policy makers who fail to channel liquidity into long-term investments or to sterilise or recycle surplus capital. Some governments may resort to capital controls, although these are unlikely to be draconian in nature.

Financial issues

- Trade and current account surpluses will narrow as domestic demand pushes up imports while exports remain weak. But strong capital inflows will support further accumulation of FX reserves, albeit smaller than the USD 550bn increase estimated for 2009. This will keep most Asian economies’ external financing positions strong, though credit polarisation may maintain pressure on highly indebted economies.
- Financial markets will need to sustain the recovery by raising sufficient funding and improving distribution of liquidity in the near term, and by reinforcing financial stability and security through structural reforms in the long term. The challenge is to strike the right balance between liberalisation and regulation, development and prudence, and to apply international best practices to local reality.
- Funding the weak and needy is crucial. SMEs and microfinance are important not just to support the recovery, but also to create jobs and cushion the impact on the poor during a time of adversity.

Policy

- Fiscal stimulus measures may be scaled down gradually in 2010, but policy makers need to be cautious about premature exits. The focus of fiscal support should shift to the reinforcement of private-sector responses, the sustainability of financing, job creation and skills upgrading, and the structural transformation from an export-oriented to a domestically driven growth model.

Standard Chartered Research forecasts: Asia-Pacific*				
	2009	2010	2011	2012
Real GDP growth	4.5	7.0	6.9	6.7
<i>IMF</i>	4.5	6.2	7.1	7.3
Inflation	1.2	3.5	3.3	2.9
<i>IMF</i>	2.2	2.4	2.5	2.6
Current account balance (% GDP)	4.5	3.0	2.8	2.3
<i>IMF</i>	4.3	4.1	4.0	4.2

* 2008 USD GDP weighted total of 15 regional economies

Sources: IMF, Standard Chartered Research



Asia (con'd)

- 2010 will see a gradual exit from emergency monetary measures such as credit or deposit guarantees, liquidity support, and FX funding. This process needs to be steady and co-ordinated across sectors and borders to prevent disruption and unwarranted market volatility.
- The bigger challenge for monetary policy in 2010 will be to manage asset price inflation amid consumer price deflation or disinflation. Targeted prudential tools like loan-to-value and income-debt ratios are preferable to macro measures such as policy rates and reserve requirements. While we expect Korea, China, India, and Indonesia to start raising policy rates in 2010, most other central banks may keep rates at their current low levels throughout 2010.
- Industry and other macro policies need to support the structural shift in Asia's growth model. China needs to encourage consumption. India needs to increase investment. All economies need to improve efficiency. There is no 'one size fits all' prescription.
- FX policy will be tricky given the weakening USD, the internationalising CNY, and growing capital inflows. The CNY may resume appreciation in H2-2010 when domestic job pressures ease. Increased central bank intervention is likely to smooth FX volatility. Calls for regional co-ordination on FX and finance management will

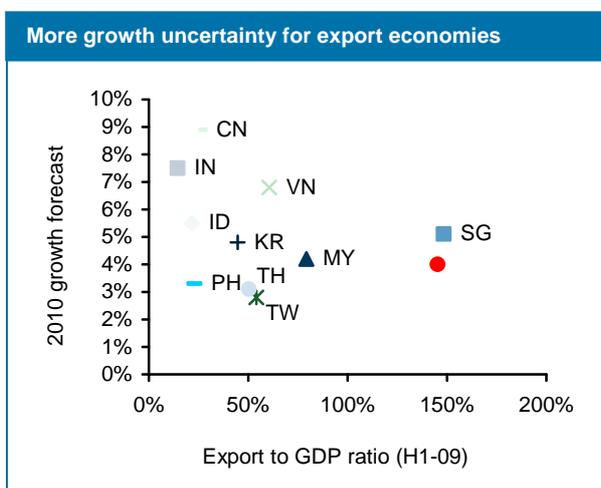
increase, although concrete plans and actions may take years.

Other issues

- Governments may turn more interventionist, and the public sector may expand at the expense of private business, especially in formerly socialist countries like China and Vietnam. This may risk stifling entrepreneurial and private-sector initiatives, undermining long-term growth prospects.
- Protectionism could rise, not just in trade but also in services, investment, finance, and other areas. Regionalisation needs to complement globalisation by reinforcing market deregulation rather than erecting new market barriers. Words and promises need to be supported by deeds and actions. Asia needs to walk the walk – given its heavy reliance on trade, it has the most to lose.

Politics

- No major elections are scheduled, except for presidential and parliamentary elections in the Philippines and local elections in places including Taiwan. Singapore and Malaysia may call for early polls to take advantage of the recovery. None of these events are likely to upset political stability.
- Thailand and Japan, both of which have had five prime ministers over the past four years, may get new leaders or cabinets in 2010. Thailand may see more uncertainty, as concern about the King's health may add to instability. Any leadership change in Japan would have implications more for policy than for system stability, given the Democratic Party of Japan's new policy platform.
- Stability in China, India, Indonesia, and Korea should support regional harmony, although China's rise will remain a concern for some. Regional rivalries may grow or even lead to isolated clashes on the Korean peninsula or in Indochina, but are unlikely to upset broad regional stability, as all key players need peace in order to pursue socio-economic development.



Source: Standard Chartered Research



Australia

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Managing the commodity swing

Economic outlook

- Optimism has run high during 2009, a year of relative growth outperformance. Yet sustaining this economic resilience will be a challenge in 2010, when most policy stimulus measures are set to fade and a repeat of the commodity export windfall of H1-2009 is unlikely. We expect tighter fiscal and monetary policy, together with a continued deterioration in terms of trade, to underpin another year of below-trend growth.

Financial issues

- Household borrowing expanded further in 2009 as plunging interest rates and strong fiscal incentives encouraged consumers to assume more debt, even as wages plummeted and joblessness increased. As such, deleveraging pressure could intensify if interest rates are raised more aggressively than expected or if income growth fails to meet expectations.
- Banking-sector NPL and impaired asset ratios deteriorated sharply in the year to June 2009, but are still better than the levels seen in the early 1990s. Despite returning growth optimism, further loan losses remain likely amid rising interest rates and a strengthening AUD.

Policy

- We expect the Reserve Bank of Australia (RBA) to gradually raise its policy rate back to a level it sees as a 'non-crisis' setting – we forecast the rate at

5% by end-2010. Given that inflation is expected to remain subdued, this suggests a rise in real interest rates.

- While the RBA is keen to shift to a more neutral policy stance, we expect fiscal policy to maintain an expansionary bias, keeping the budget in deficit. We expect the next budget, due to be announced in May 2010, to keep the primary focus on sustaining the recovery as the incumbent Labor Party gears up for the 2011 election.
- Managing relations with China will remain a key challenge to the trade policy of Prime Minister Kevin Rudd's administration. The past year has seen relations between the two countries strained by issues ranging from a stalemate over iron ore price negotiations to blocked attempts by Chinese companies to invest in Australia's commodity sector.

Other issues

- The government still faces the policy-making dilemma posed by the lopsided recovery. The current commodity-market buoyancy has supported a sharp AUD rebound in recent months, which could hurt the non-commodity-producing sector of the economy, delaying a broad recovery.
- The labour market has undergone a shift towards temporary positions, which reflects still-cautious business sentiment in general and the relative strength of the commodity sector in particular. This suggests that employment growth may remain volatile and that household finances will remain vulnerable.

Politics

- The Labor government's timely and sizeable stimulus packages have allowed it to maintain its lead in approval ratings throughout the global crisis. The next election will be called upon the dissolution or expiry of the current parliament, which will occur no later than 16 April 2011.

Standard Chartered Research forecasts: Australia				
	2009	2010	2011	2012
GDP (real % y/y)	-0.2	2.0	2.5	3.0
CPI (% y/y)	1.8	2.1	2.2	2.5
Policy rate (%)*	3.75	5.00	6.00	6.00
AUD-USD*	0.92	1.02	1.05	1.00
Current account balance (% GDP)	-2.1	-3.5	-3.7	-4.0
Fiscal balance (% GDP)**	-5.0	-4.8	-3.6	-2.0

* end-period; ** for fiscal year starting 1 July

Source: Standard Chartered Research



Bangladesh

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Carrying on regardless

Economic outlook

- Bangladesh has weathered the global crisis well. Its economy has barely slowed, though the external challenges do mean some headwinds in the short term. Further out, prospects are good and the risks lie to the upside. The policy environment is sound, and structural reform initiatives are underway that should help to alleviate poverty and secure longer-term growth potential.
- We expect 2009 GDP growth to be 5.9%, a creditable performance broadly in line with long-term trends. We forecast 5.5% for 2010 and 6.0% for 2011, confirming the economy's resilience, with industry and services both likely to pick up in the coming months. This partly reflects the government's plans for new infrastructure investment, a welcome – if overdue – impetus. There are some downside risks to the agriculture sector, which is always vulnerable to the vagaries of the weather. Likewise, the outlook for the important textiles sector could darken if global growth is weaker than we expect, though so far the industry has benefitted from being a low-cost and competitive alternative to other locations. Remittances could also slip.
- Inflation has edged lower thanks to declining food and fuel prices, but there is growing upside pressure from more expansionary monetary policy as capital inflows increase. This has put upward pressure on the currency, the Bangladesh taka (BDT), requiring intervention by Bangladesh Bank. This has boosted

monetary growth, as the intervention was partly unsterilised. Short-term interest rates have fallen sharply.

- The external position has strengthened and FX reserves have risen strongly, in part due to foreign appetite for the recent telecoms IPO and strong remittance inflows, despite the slowdown in the Gulf.

Financial issues

- Although there is no formal IMF support in place, the Fund regularly reviews the economy and has suggested that the government adopt a more flexible currency policy. This could perhaps be achieved in the short term by adopting a narrow band for the BDT to trade against the USD. The authorities have been rigorous in their pursuit of financial stability, and the financial sector suffered limited contagion from the crisis. Much progress has been made in raising risk management standards and in capital management, all part of the steps being taken towards Basel II readiness.

Policy

- Fiscal policy is prudent, with the budget deficit contained at some 4-5% of GDP. However, the tax base is unusually narrow, while infrastructure needs are high. Measures to address these shortcomings are slowly evolving, but progress will be slow. There is a risk of fiscal slippage if oil prices start to climb again, forcing energy subsidies to be raised. Monetary policy is also conservative. Bank supervision is pro-active, and the authorities are keen to curb excess liquidity in the system. Interest rates should remain stable.

Politics

- The ruling Awami League appears to be advancing with its reform agenda and faces little challenge to its supremacy. The conclusion of the trial of those charged with the assassination of the country's founder is another welcome step away from the past practice of political violence, though frequent protests can still be a challenge to stability.

Standard Chartered Research forecasts: Bangladesh				
	2009	2010	2011	2012
GDP (real % y/y)	5.9	6.0	6.0	6.5
CPI (% y/y)	6.7	6.0	6.3	6.3
Policy rate (%)*	6.5	6.5	7.0	7.0
BDT-USD*	69.0	69.0	70.0	70.0
Current account balance (% GDP)	2.1	1.0	0.8	0.5
Fiscal balance (% GDP)**	-4.1	-4.5	-4.9	-4.5

* end-period; **for fiscal year starting 1 July

Source: Standard Chartered Research



China

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Too hot and too cold

Economic outlook

- China's economy will likely start 2010 with double-digit GDP growth, a booming infrastructure build-out, a tightening labour market, and increasing worries about inflation. However, concerns about the global recovery and about what will happen when the stimulus package ends mean policy makers will be hesitant to tighten. We expect growth to moderate during the year as consumer spending grows steadily but investment growth slows.
- One of the big unknowns in making economic forecasts for 2010 is just how many more infrastructure projects will start. The CNY 4trn (USD 580bn) stimulus package announced in October 2008 was meant to last two years. However, it only includes projects in which the central government is financially involved. Tens of thousands of projects financed by local governments and banks started in 2009 – and project growth was still running at some 40% y/y at the time of writing. While the central government moved to start curbing over-capacity in some manufacturing-heavy sectors in September 2009, it has not yet moved to control infrastructure projects. At the beginning of 2010, banks will also start lending aggressively again, which will unleash another wave of projects. Thus, H1-2010 is likely to see lots of new projects. Given the huge amount of activity that began in Q2 and Q3-2009, by the middle of 2010, we expect to see an erosion of the year-on-year investment growth numbers.
- We forecast Q1-2010 real GDP growth at 11% y/y, slowing to 9.5% by Q4 and 10% for the year.
- With CPI inflation likely to remain below 4% y/y for most of 2010, the central government will probably delay significant monetary tightening. However, we foresee a couple of rate hikes in Q1 and Q2 as the central government battles to maintain control of inflationary expectations. At these levels, however, rate hikes will have little substantive effect. We expect year-on-year CPI inflation to top out in Q2-Q3, and to average 3.5% for the year.
- The lack of significant tightening will put continued upward pressure on home prices. The risk of inflating a bubble clearly exists. Prices in some first-tier cities – including Shanghai, Shenzhen, and Beijing – rose by 30-40% in 2009. Second-tier cities may be next. That said, the sector will see increased supply starting in Q2 as projects start to pre-sell – and prices may be more volatile than they were in 2009. Banks may well be guided away from lending to the real-estate sector at some point in 2010 if prices continue to head upwards. At some point – perhaps in 2010, perhaps later – the southern city of Shenzhen could introduce a property tax on an experimental basis (we understand that the system is ready). This would be a great way for municipalities to raise a steady stream of income and thus reduce their dependence on selling lots of land, which results in messy urban sprawl. Rolling out such a tax nationwide, though, will take years given the extent of the data needed, as well as likely protests from developers and urbanites.

Standard Chartered Research forecasts: China				
	2009	2010	2011	2012
GDP (real % y/y)	8.5	10.0	9.0	8.0
CPI (% y/y)	0.1	3.5	3.0	2.0
Policy rate (%)*	5.31	5.85	5.85	5.31
CNY-USD*	6.82	6.70	6.50	6.30
Current account balance (% GDP)	7.0	5.2	4.9	4.0
Fiscal balance (% GDP)	-3.0	-2.0	-0.5	-0.5

* end-period

Source: Standard Chartered Research

Financial issues

- Total government debt may now stand at more than 80% of GDP. The big unknown is how leveraged local government-controlled companies are. Researchers at the Ministry of Finance (MoF) informally estimate that local governments now have around CNY 8trn (USD 1.2trn) worth of debt. The number could be considerably bigger.



China (con'd)

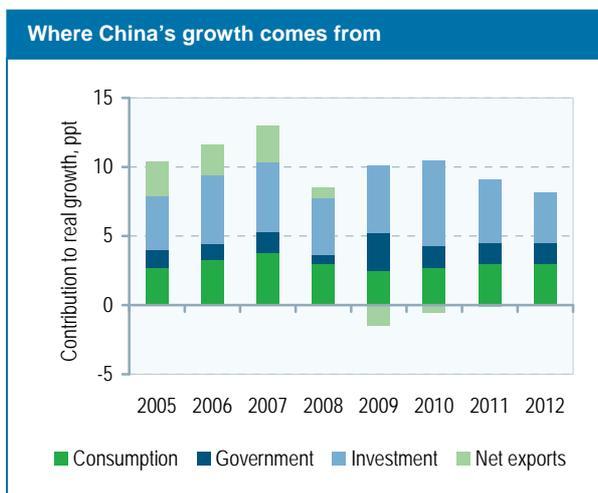
- Given these companies' lack of profits, as well as endemic corruption, these debts will show up as bad bank loans at some point (three to five years out, most likely). The problems will be worse at city commercial banks and credit co-operatives, where risk management systems are still immature. While resolving this will be messy, the government should be able to prevent a systemic crisis by recapitalising the banks and rural credit co-operatives with, say, USD 500bn worth of FX reserves (or other public resources). Of course, this is not a free lunch for the economy – ultimately, household wealth will be used to stabilise the system. However, the authorities should be able to muddle through.

Policy

- The Chinese yuan (CNY) will be a huge focus of attention in H1-2010 as the market waits for Beijing to de-peg from the dollar, again. We do not expect anything significant to happen before Chinese New Year (mid-February), given that some 50-100mn migrant workers will return home for the break and that the government will not want to cause them extra worry. At some point in Q2-Q3, Beijing will likely de-peg and then return the CNY to the gradual appreciation path it followed between 2006 and H1-2008. There is some discussion in Beijing of implementing a policy of appreciation against a basket of currencies and allowing greater flexibility. But we believe this is more likely to happen in 2011-12, when the global outlook is clearer and the domestic economy is on

a steadier footing. We forecast the CNY at 6.70 against the USD at end-2010.

- At its Economic Work Meeting in December 2009, the Party will likely decree that its main job for 2010 is, in addition to containing inflation, restructuring the economy. Faced with the global slowdown, China threw resources at infrastructure. While the government offered some subsidies to buyers of white goods and increased spending on health and education, the majority of the stimulus went into infrastructure. Many local economists became despondent about policy choices which further embedded the old growth model (as the chart below shows, investment has become even more important). 2010 will hopefully be the year when the leadership focuses on the medium term.
- Among other things, a strong restructuring agenda needs to include: (1) opening up leading services-sector companies to private competition; (2) introducing more CNY flexibility, and thus appreciation; (3) liberalising interest rates to give savers higher rates of return; (4) unveiling a clear and fully funded health-care reform plan; (5) introducing a property tax and constraints on land sales; (6) leasing out more rural land (and paying farmers properly for it); (7) allowing retail energy and utility prices to reflect costs; (8) forcing state firms to pay dividends into the budget; (9) reforming the household registration system to give rural migrants access to urban services; and (10) simplifying regulations.



Politics

- 2010 is the last year to really get stuff done before China's 'election cycle' begins in 2011. The Party Congress in 2012 will see the selection of a new leadership team. In the run-up to this, there will be much jockeying for position, and a cloud of extra-thick conservatism will likely descend upon Beijing.
- If Vice President Xi Jinping is elected to the Military Affairs Commission sometime in 2010 or 2011, this will be a sign that his ascension to the top post is assured. Vice Premier Li Keqiang is still the odds-on favourite for the premiership, to be formally announced in 2013.



Hong Kong

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Flood of liquidity continues

Economic outlook

- 2010 will be a year of continued recovery, in our view, fuelled in part by sustained ample liquidity onshore. Monetary conditions in Hong Kong are determined by US interest rates and by capital flows. We now expect the US Federal Reserve to start hiking rates only in Q3-2011. And if 2009 is to be remembered for its rampant capital inflows, 2010 should look no different. Not only will the Hong Kong (and China) recovery story remain compelling to global investors, so will the likely resumption of Chinese yuan (CNY) appreciation – or growing expectations thereof – against the US dollar.
- A return to negative real interest rates (following three short months of CPI deflation in 2009) will underpin consumer spending and asset price appreciation. In turn, consumer spending feeds on higher asset prices in the form of a positive wealth effect. The stabilisation of the job market should also help. We expect strong domestic consumption and rebounding investment to fuel GDP growth of 4.0% in 2010. This is still below historical trend growth (4.5%), mainly due to the gradual pace of the recovery in exports. Distortions due to base effects are likely to result in much higher y/y growth in H1-2010 than in H2.
- The inflation outlook, on the other hand, is much less straightforward. It is important to differentiate asset price inflation from consumer price inflation. A sustained uptrend in asset prices could prove

destabilising if left unchecked. Hence, we have long argued that the government should be prepared to activate policy ‘pressure valves’ when the need arises.

- The spillover of higher asset prices to consumer prices should not be overplayed, in our view. We expect CPI inflation to average a benign 2.0% in 2010 due to the following factors: (1) the delayed impact of higher property rents on the CPI private housing component, which accounts for close to 30% of the CPI basket and normally lags the Property Rental Index by around 12 months; (2) still-elevated unemployment, which is closely tracked by service-price inflation; (3) global overcapacity, which should keep the more import-oriented CPI components in check; and (4) the possible extension of some government relief measures.

Financial issues

- Sustaining the momentum of cross-border financial integration will be a key theme in 2010. The smooth launch of the CNY trade settlement pilot programme in July 2009 blew the gates open. The next steps towards Hong Kong’s transformation into a full-fledged CNY offshore centre are (1) to make more mainland companies and cities eligible for the scheme, and (2) to broaden the range of CNY-denominated investible assets available to local CNY deposit holders (e.g., allowing mainland corporates to issue CNY bonds in Hong Kong).
- Across the border, the Pearl River Delta (PRD) region is also ready to take financial reform to the next level. Under its PRD development plan for 2008-20, Beijing has confirmed the region’s ‘testing ground’ status, which allows it to run reform pilot programmes for the nation. Hong Kong needs to be part of that plan. The Closer Economic Partnership Arrangement (CEPA) between Hong Kong and the PRD is a good starting point; we also hope to see experiments on broadening the scope of financial products and the joint development of the Shenzhen-Qianhai special development zone.

Standard Chartered Research forecasts: Hong Kong				
	2009	2010	2011	2012
GDP (real % y/y)	-3.4	4.0	4.5	5.0
CPI (% y/y)	0.5	2.0	3.5	3.7
3M HIBOR (%)*	0.10	0.10	1.35	2.30
HKD-USD*	7.75	7.75	7.76	7.78
Current account balance (% GDP)	11.5	12.0	12.5	13.5
Fiscal balance (% GDP)**	-2.8	-1.0	-0.5	0.5

* end-period; **for fiscal year starting 1 April

Source: Standard Chartered Research



Hong Kong (con'd)

Policy

- Blame the US dollar peg all you want for potential asset price inflation in 2010, but do not expect it to change. Tweaking the peg would not solve anything – it is much too early to re-peg the Hong Kong dollar (HKD) to the CNY, and widening the Convertibility Undertaking band would only attract more capital inflows. The existing arrangement needs to be kept in place in order to anchor investor confidence – even if it comes at a higher cost.
- Because withdrawing liquidity from the system is not an option, the government needs to deal with the side effects of flush liquidity. It raised the minimum mortgage down payment for luxury flats in October 2009 and has pledged to fine-tune land supply arrangements when necessary. The key, in our view, is to continue to ensure prudent lending by banks and to use fiscal, land, and public housing policies to pre-empt asset bubbles.
- Levying charges on large balances maintained by banks in their clearing accounts held with the Hong Kong Monetary Authority – i.e., negative deposit rates – would be a viable option. However, the effectiveness of such a move in curbing hot money inflows could be limited, given that people are chasing after asset price gains right now and could generally care less about interest rate differentials.
- HIBOR rates, being solely market-driven, are likely to stay near their current lows for most of 2010,

especially at the shorter end of the curve. As a gauge of interbank liquidity, the massive Aggregate Balance accumulated since October 2008 should provide a sufficient buffer to help HIBOR weather any transitory capital outflows.

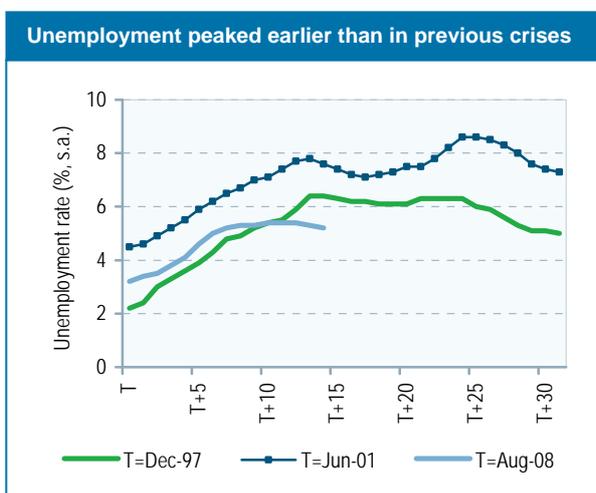
- The Policy Address delivered in October 2009 further cemented the importance of financial services and tourism to the economy. However, a long incubation period will be needed for the six industries identified as future pillars of growth (educational services; testing and certification; innovation and technology; medical services; cultural and creative industries; and environmental industry). Although there were no fresh fiscal concessions, some of the existing relief measures (e.g., SME loan guarantee schemes and the property rates waiver) are likely to be extended in 2010.

Other issues

- The return of tourists from mainland China was a major driver of Hong Kong's retail-sector recovery in 2009. We expect this momentum to be sustained in 2010, especially with the recent extension of the Individual Visit Scheme to roughly 2mn migrant workers across the border in Shenzhen.

Politics

- The debate over constitutional reform looks set to heat up in 2010. A huge rift remains between the government and the pan-democrats over the form the 2012 Chief Executive and Legislative Council (Legco) elections should take. The risk is that the government's latest reform proposal will be rejected by the Legco again, keeping constitutional development in limbo for years. The threatened mass resignation of pan-democratic legislators (which would force by-elections that the legislators claim would serve as a referendum on universal suffrage) could also create stress on the government. The good news is that the eventual result of such conflicts should have little impact on Beijing's commitment to allowing universal suffrage as early as 2017 for the Chief Executive, and by 2020 for Legco.



Sources: Bloomberg, Standard Chartered Research



India

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Overcoming hurdles to growth

Economic outlook

- Domestic demand staged a comeback in Q2-FY10 after languishing for almost a year. We expect growth for FY10 as a whole (began 1 April 2009) to accelerate to 7.5%, from 6.8% in FY09, as all three components of domestic demand – private final consumption (55-59% of GDP), gross fixed capital formation (32-33%), and government consumption (9-10%) – rebound. The improving labour-market outlook, the positive wealth effect from improving asset markets, and improved credit flow to retail investors should all boost household demand. The structural inflexibility of government expenditure and the focus on higher infrastructure spending should also support robust GDP growth.
- Investment demand, which has declined significantly since October 2008, should pick up. In H1-FY10, funding raised by corporates was down by 27% y/y, and was used mostly to meet working capital requirements or complete ongoing projects. However, resilient capacity utilisation and rising demand should kick-start capex.
- The return of domestic demand, firmer global commodity prices, and higher pricing power with producers could cause inflation from the manufacturing sector to inch higher in FY11. However, we do not expect a blowout in the headline number, as seen in 2008. Domestic demand, while improving, should still be far lower than during the boom years, and food inflation

should cool off, assuming normal rains. We expect WPI inflation to taper off after peaking in early 2010, averaging 5.5% in FY11.

Financial issues

- The opening up of India's capital account has taken a backseat since the global crisis. Key finance bills on increased foreign participation in the insurance and banking sectors have been delayed, as the authorities have made the extent of opening contingent upon progress in other sectors. The authorities are likely to focus on further strengthening the financial sector by encouraging consolidation among domestic banks, improving financial inclusion, and raising capital standards.
- India's total debt stock of USD 228bn (21.4% of GDP) as at June 2009 is comfortable, as the FX reserves ensure sufficient cover of 116.5%. The crisis has held important lessons for India. While access to international capital markets makes more capital available to domestic corporates, it also leaves them open to currency risk and the withdrawal of such support during crises. There is therefore a growing need to develop more domestic funding avenues, such as the corporate debt market. We expect this process to gain some traction in 2010 with the introduction of repos in the corporate bond market.

Policy

- While the focus in FY10 was to maintain growth-supportive policies, FY11 will present the more daunting task of facilitating the recovery without stoking inflationary pressure. The government has limited scope for such policy adjustments due to the structural inflexibility of spending. While the government has acknowledged that higher deficits are unsustainable, we expect the fiscal deficit to remain at a high 5.8% of GDP in FY11. The shortfall is likely to narrow from 6.8% in FY10 thanks to the phase-out of some expenditures (including drought-related spending and arrears payments to government employees), double-digit growth in revenue collection, and gains from the

Standard Chartered Research forecasts: India				
	2009	2010	2011	2012
GDP (real % y/y)**	6.8	7.5	8.4	8.6
WPI (% y/y)**	2.5	5.5	5.0	5.0
Reverse repo rate (%)*	3.25	4.00	5.00	5.00
USD-INR*	45.5	42.0	40.5	39.5
Current account balance (% GDP)**	-0.9	-1.8	-1.5	-1.5
Fiscal balance (% GDP)**	-6.8	-5.8	-5.0	-4.0

* end-period; **for fiscal year starting 1 April

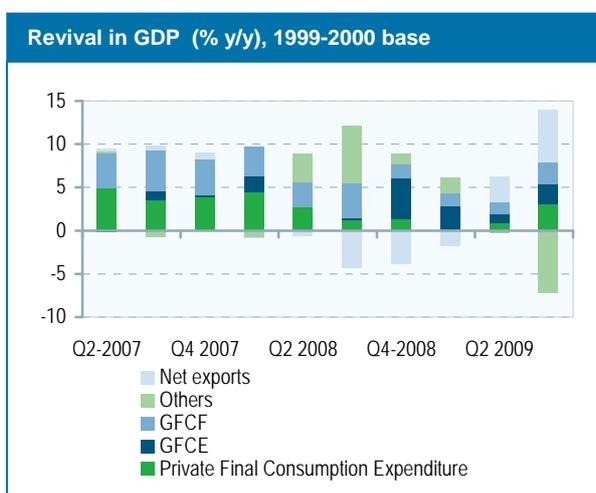
Source: Standard Chartered Research



India (con'd)

divestment of government stakes. Medium-term consolidation of the fiscal deficit will require contentious steps such as trimming subsidies. A lack of political will may remain a deterrent.

- The onus of managing the recovery process will primarily be on the Reserve Bank of India (RBI). The bank will need to strike the right balance between growth and inflation, actively manage liquidity against a backdrop of increased capital inflows, and ensure the smooth financing of huge government borrowing. While the market is factoring in a series of aggressive rate hikes in FY11, we expect a gradual normalisation of monetary policy.
- While flows have increased markedly in FY10, this does not appear to be causing concern for policy makers. We expect net inflows to just reverse the losses of FY09; even if they exceed expectations, we do not see a risk of draconian capital controls. Indeed, the PM economic advisor said in November 2009 that restrictions on speculative flows would be considered only if inflows near USD 100bn (close to the FY08 high).
- While excessive FX movements may cause the RBI to intervene, we doubt that the central bank will attempt to influence the currency's trajectory. If inflation risks intensify, policy makers may become more comfortable with currency appreciation.



Sources: CSO, Standard Chartered Research

Other issues

- Infrastructure development (both physical and social) via public-private partnerships is likely to dominate policy discussions in 2010. The UPA government is focussing on roads and energy. If realised, its ambitious target of building 20km of roads per day (versus 2km currently) could catapult the economy onto a higher growth path. The recently re-introduced Land Acquisition (Amendment) Bill is likely to remove hurdles to private investment in Special Economic Zones.
- Universal education will get a big boost from the recently passed Right to Education Bill, and the planned Foreign Educational Institutions Bill should broaden access to quality education. There is also a proposal to expand medical and life insurance coverage for the very poor by combining the current government schemes.
- The introduction of the goods and services tax (GST) in April 2010 will be a big step forward. Although this is still mired in debate, once implemented, it should enhance the efficiency of tax administration.

Politics

- Following its decisive election victory in April 2009, the UPA coalition further cemented its political gains with victories in several state elections. With the main opposition party (Bharatiya Janata Party) suffering from an identity and leadership crisis, the UPA may further consolidate its gains.
- The 2010 election calendar is light, with only one state going to the polls. This should allow the government to focus on contentious reform measures without worrying about electoral consequences. However, the lack of a majority in the upper house of parliament (Rajya Sabha) may continue to slow the reform process.
- India will increase its presence on the world stage via its participation in the G20 and other international fora. We expect progress in diplomatic talks with the US, but China and Pakistan will likely test India's foreign policy.



Indonesia

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Riding on the recovery

Economic outlook

- Indonesia has been a strong performer during the global recession, maintaining positive growth. While we expect growth to slow to 4.4% in 2009 from 6.1% in 2008, it is likely to be the third-highest in the G20 (after China and India). We expect growth to accelerate to 5.5% in 2010 and 6.5% in 2011.
- The strength of the economy can be attributed to three factors. The first is Indonesia's low dependence on exports, which has insulated it from the global turmoil. Exports were roughly 30% of GDP in 2008, compared to 104% in Malaysia and 78% in Thailand. In 2009, domestic consumption likely generated 67% of GDP, investment 24%, and net exports 9%. Private consumption (58% of GDP) has been resilient thanks to election spending, rate cuts, and fiscal stimulus measures. We expect private consumption to remain resilient in 2010 due to low bank lending rates, higher consumer credit growth, and employment generated by real investment.
- Infrastructure projects are the second factor underpinning growth. Along with FDI, infrastructure development (via both fiscal stimulus and public-private partnerships) will be a key driver of real investment growth. Construction of the trans-Java toll road network and badly needed power plants is particularly crucial, and will also induce private investment. Real investment growth, which is likely to slow to 2.5% in 2009 from 12.6% in 2008, is

expected to pick up to 8.7% in 2010, helped by low interest rates.

- High commodity prices are the third pillar of growth. While Indonesia is a net oil importer, it is a large net exporter of energy, including gas, coal, and palm oil – it is world's biggest palm oil producer. We expect the price of oil (NYMEX WTI) to hover around USD 80/barrel in 2010, and coal (API4) and palm oil prices to rise to USD 80/tonne and MYR 3,150/tonne, respectively, by end-2010. Higher energy prices will help to boost export and GDP growth.
- Higher energy prices are likely to prompt the government to hike domestic fuel prices and electricity tariffs by 20-30% in Q1-2010. Inflation is thus likely to accelerate from 3.8% y/y in December 2009 to 5.5% by December 2010. However, inflationary pressures stemming from non-energy factors are likely to remain weak – 2010 GDP growth will likely be below its full potential, and the IDR is expected to strengthen versus the USD, limiting imported inflation.
- Higher commodity prices are also expected to keep the trade and current accounts in surplus. We expect the trade surplus to fall to USD 28bn in 2010 from USD 30bn in 2009 on higher imports of capital goods for infrastructure development. Over the same period, we expect the current account surplus to fall to USD 5bn from USD 9bn. The current account surplus, along with continual portfolio capital inflows (into both the domestic equity and bond markets), are likely to increase Indonesia's FX reserves from USD 66bn in December 2009 to USD 73bn by December 2010. This should help the IDR to strengthen from 9,700 to the USD in Q1-2010 to 8,900 in Q4.

Standard Chartered Research forecasts: Indonesia				
	2009	2010	2011	2012
GDP (real % y/y)	4.4	5.5	6.5	7.0
CPI (% y/y)	3.8	5.5	6.5	6.0
Policy rate (%)*	6.5	7.5	8.0	7.0
USD-IDR*	9,200	8,900	8,500	8,100
Current account balance (% GDP)	1.7	0.8	0.8	0.5
Fiscal balance (% GDP)	-1.5	-1.3	-1.0	-0.8

* end-period

Source: Standard Chartered Research

Financial issues

- The impact of the global financial crisis on the banking sector has been limited. Of 126 banks, the government was forced to nationalise one small lender and liquidate another to prevent a systemic



Indonesia (con'd)

run on banks. Banks' average capital adequacy ratio (CAR) actually rose to 17.7% as of September 2009 from 16.2% in December 2008 – comfortably above the 8% Basel requirement. Over the same period, banks' NPLs as a proportion of total loans rose to 4.3% from 3.8%, still lower than the peak of 4.7% in May 2009. We expect NPLs and CAR to stabilise at 4-5% and 16-17%, respectively, in 2010, as faster GDP growth reduces debt default risk and stronger capital markets allow banks to raise additional Tier 1 and Tier 2 capital.

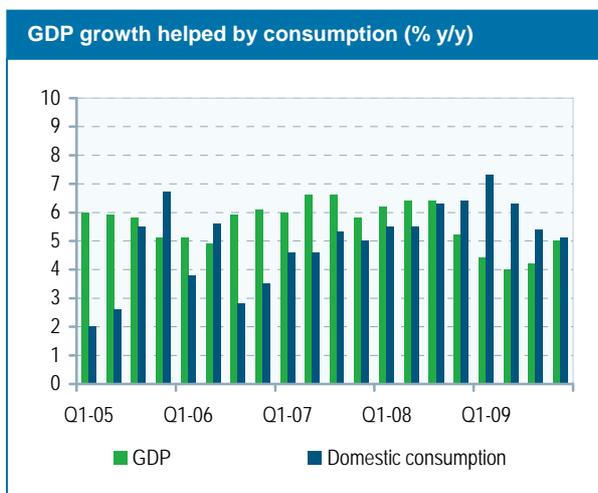
Policy

- On the monetary policy front, we expect Bank Indonesia (BI) to raise the BI rate from 6.5% to 7.5% in H1-2009 and to keep it there until December 2010. We do not expect more drastic rate hikes for three reasons: (1) the rise in inflation is expected to be limited; (2) we expect firm IDR appreciation in H2-2010; and (3) we expect global interest rates (USD, EUR, and JPY) to remain low, helping the IDR to remain relatively attractive.
- On the fiscal policy front, higher GDP growth in 2010 will likely ease the need for aggressive fiscal stimulus. Furthermore, the government (both at the national and regional levels) has a weak track record on spending its budget. In 2008, the central government's actual fiscal deficit was 0.1% of GDP

instead of the budgeted 2.1%. The government budgeted for a deficit of 2.4% in 2009 in order to limit the impact of the global recession on the domestic economy, but we expect the actual shortfall to be only 1.5%. For 2010, it targets a 1.6% deficit, while we expect 1.3%. We believe slow fiscal disbursement, and hence slow infrastructure investment, has prevented Indonesia from achieving its full potential growth of 7-8%.

Politics

- Indonesia cemented its status as the world's third-largest democracy (after India and the US) following successful parliamentary and presidential elections in 2009. Indeed, given the long absence of political riots, Indonesia is now one of the most politically stable countries in the region.
- President Bambang Yudhoyono has a much stronger mandate during his second term than his first, having been re-elected with 61% of the popular vote. His Demokrat party is now the biggest in parliament, controlling 27% of the seats compared to 11% in the previous parliament. His coalition government is supported by six political parties that together control more than 75% of parliament. This will allow the government to push through reforms such as further electricity-sector privatisation more quickly.
- While investors have praised Yudhoyono's choice of former Bank Indonesia Governor Boediono as his vice president, they have questioned his decision to include inexperienced figures in his economic team. That said, investors are willing to give him the benefit of the doubt, given the presence of veteran policy makers like Boediono, Finance Minister Sri Mulyani Indrawati (praised for her business-friendly tax and customs reforms), and Trade Minister Mari Pangestu (known for her commitment to trade liberalisation). In short, Yudhoyono has more political capital, a more loyal VP, and ministers less driven by a political agenda than in his previous government. The onus is now on him to ensure that his government delivers promised reforms.



Sources: National Statistics Agency, Standard Chartered Research



Malaysia

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Cautious optimism

Economic outlook

- Malaysia's expected 2010 recovery looks rosier now than in mid-2009. GDP is likely to expand by 4.2%, following an estimated 2.2% contraction in 2009, as the domestic and global economies continue to improve. While Malaysia remains significantly exposed to trade, domestic demand – a key growth driver – has remained resilient thanks to monetary and fiscal stimulus. Fiscal stimulus measures in particular will continue to support economic activity and private consumption in H1-2010. As public-sector stimulus is expected to fade in the latter half of the year, private-sector investment will need to resume and take over in driving the recovery process.
- Malaysia's GDP contraction narrowed to 1.2% y/y in Q3-2009 thanks to a turnaround in domestic demand, which grew by 0.4% y/y on government spending and improving private consumption. The pace of the decline in external demand also stabilised, translating into a more modest pace of contraction in the manufacturing sector.
- While exports account for about 89% of GDP and manufacturing remains a pillar of the economy, Malaysia is less dependent on external demand than its immediate neighbour, Singapore. Malaysia's export decline in 2009 was disappointing but not unexpected, driven by weakness in the electronics sector and the strong

base effect created by high commodity prices in 2008. Nonetheless, with imports also declining, Malaysia is expected to record a trade surplus for 2009, although it will likely be much smaller than 2008's record MYR 141.9bn surplus.

- While Malaysia's export decline eased further in late 2009, the manufacturing sector may not be out of the woods yet, especially if the global recovery is sluggish and shallow. More worrying is the continued sharp decline in imports, which may indicate that companies are delaying capital investments. This would reduce the capacity of Malaysia's manufacturing sector over the medium to long term, preventing it from reaping the benefits of an eventual recovery in demand. That said, the decline in imports has begun to narrow.
- The bout of y/y deflation seen during most of H2-2009 was largely due to the base effects of high commodity prices and transport cost increases in 2008. It is likely to end in late 2009, giving way to positive inflation.
- However, underlying inflationary pressures should remain benign in 2010 as economic growth stays below trend, dampening domestic demand. Changes in the management of fuel subsidies to be implemented in mid-2010 will introduce some upside risk to the inflation outlook, given that transport costs account for 15.9% of the CPI basket.

Standard Chartered Research forecasts: Malaysia				
	2009	2010	2011	2012
GDP (real % y/y)	-2.2	4.2	5.5	5.5
CPI (% y/y)	0.5	2.0	2.5	2.5
Overnight Policy rate (%)*	2.00	2.25	3.50	3.50
USD-MYR*	3.28	3.15	3.00	2.90
Current account balance (% GDP)	12.5	14.8	16.0	15.5
Fiscal balance (% GDP)	-7.4	-7.5	-5.5	-5.0

* end-period

Source: Standard Chartered Research

Financial issues

- Portfolio investments booked a net inflow of MYR 8.8bn in Q3-2009 after recording four straight quarters of significant outflows. Meanwhile, net direct investment remained weak, reflecting the global environment as well as competition for FDI within the region.
- The worry is that foreign investment sentiment towards Malaysia may remain weak in 2010 relative to regional neighbours like Singapore and Indonesia. This could have longer-term



Malaysia (con'd)

consequences, resulting in insufficient capacity and outdated technology and hurting Malaysia's competitiveness in the long run.

- Total outstanding loans grew by 5.4% in the first nine months of 2009 due to sustained household-sector demand for financing of residential properties, cars, and credit cards. Loan growth to businesses remained weak, although it showed an improvement.
- Government measures to increase companies' access to credit are expected to continue in 2010. However, the continued accumulation of debt by households amid a moderate economic recovery may be a source of concern for policy makers.

Policy

- After front-loading a cumulative 150bps of policy rate cuts between November 2008 and March 2009, Bank Negara Malaysia (BNM) has since kept the Overnight Policy Rate (OPR) steady at 2.0%. The central bank has repeatedly said that this level is conducive to the recovery process.
- We expect the bank to keep the OPR at 2.0% for much of 2010 as fiscal measures introduced in 2008 and 2009 continue to work their way through the economy. In addition, because BNM initiated its rate-cutting cycle later than most of its regional peers in 2008, we believe it may also start raising rates later, ensuring that the recovery is firmly entrenched first.

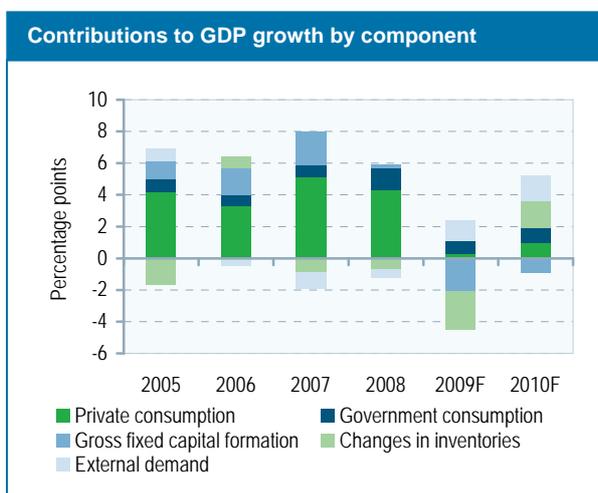
- Nonetheless, pressure to hike will start building in 2010, especially as growth looks more sustainable and inflationary pressures pick up in H2. We expect BNM to end 2010 with a token 25bps hike, signalling further hikes in 2011. We forecast that the OPR will be raised back to its pre-crisis level of 3.5% by end-2011.
- Malaysia's 2010 budget struck a balance between enhancing fiscal sustainability and supporting the economy amid a fragile global environment. However, the fiscal deficit target of 5.6% of GDP looks ambitious, and will require spending discipline, as well as a stable economic environment to generate the budgeted tax revenue. Given the lack of details on where spending will be cut or on new revenue streams, we expect a deficit of 7.5% in 2010, narrowing to 5% only in 2012.

Other issues

- A highlight of 2010 will be the 10 June unveiling of the 10th Malaysia Plan (10MP), the government's economic blueprint for 2011-15. Prime Minister Najib Razak took office in 2009 and introduced liberalisation measures for 27 services sub-sectors, the financial sector, and the capital markets. The personal income tax rate will be reduced in the 2010 budget, and the government has pledged to reduce crime and corruption. Further reforms can be expected in the 10MP.

Politics

- The disappointing performance of the ruling coalition, Barisan Nasional (BN), in the March 2008 parliamentary elections paved the way for the resignation of former Prime Minister Tun Abdullah Badawi. Mohamad Najib bin Tun Abdul Razak succeeded him as Malaysia's sixth prime minister in April 2009. While there are ongoing political conflicts, these are largely being addressed peacefully. The government's primary concerns are to deal with the downturn and, over the longer term, to implement economic reforms to improve Malaysia's competitiveness and its appeal to investors. The next general election is due in March 2013 at the latest.



Sources: CEIC, Standard Chartered Research



New Zealand

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Resisting tightening

Economic outlook

- The economy remains on course for a gradual recovery on the back of a stabilising housing market. We expect domestic demand to drive the improvement as exports remain under pressure from volatile dairy prices and the strong NZD. Inflation has bottomed and could reach the upper end of the Reserve Bank of New Zealand's (RBNZ's) target band of 1-3% in 2010 as the domestic demand recovery broadens.
- Sustaining the recovery will remain the over-riding policy objective, but the authorities could face difficulty keeping fiscal and monetary stimulus at the extreme levels seen in 2009.

Financial issues

- New Zealand has incurred large net external liabilities due to persistent current account deficits. This is reflected in the banking system's heavy overseas borrowing and makes the economy vulnerable to changes in external funding conditions.
- Because the country's banking sector is closely integrated with the Australian banking sector, there is a risk that the current Reserve Bank of Australia (RBA) tightening cycle could push up funding costs for the New Zealand banking sector, despite the RBNZ's pledge to keep its own policy rate low.
- Banks' increasing reliance on retail deposits for funding could also push up their borrowing costs.

The banks perceive retail deposits as more stable than short-term wholesale funding and as a better way to meet prudential liquidity requirements.

Policy

- Despite the RBNZ's pledge to keep the policy rate at its current record low level until H2-2010, we expect it to start tightening as early as Q1-2010 as signs of a broader recovery emerge and RBA continues to tighten.
- The RBNZ withdrew the majority of its temporary liquidity facilities in November 2009 on further signs of financial-market stabilisation. The central bank has indicated that its new liquidity facilities will be aligned with the new policy on banks' prudential liquidity, effective from April 2010. The policy requires higher liquid asset holdings and more funding in the form of deposits or longer-term wholesale borrowing.
- The fiscal balance is expected to remain in deficit, with gross sovereign debt rising from 27% of GDP in 2009 to 39% by 2012.
- Upon extension of the retail deposit guarantee scheme until December 2011, related fees were increased significantly and entry requirements were tightened. As a result, more institutions are expected to offer non-guaranteed products with higher interest rates.

Other issues

- The housing market will remain a potential stress point, despite recent signs of stabilisation, as prices are still high relative to household income.

Politics

- Prime Minister John Key's popularity remained undented after his first year in government. Local elections are due to be held in October 2010, and a clear win will allow the National-led government to push ahead with policies such as fiscal consolidation and business-friendly tax reforms.

Standard Chartered Research forecasts: New Zealand				
	2009	2010	2011	2012
GDP (real % y/y)	-1.0	1.6	2.0	2.5
CPI (% y/y)	2.3	3.0	3.0	2.5
Policy rate (%)*	2.5	4.0	5.5	6.5
NZD-USD*	0.72	0.79	0.85	0.81
Current account balance (% GDP)	-6.0	-5.5	-5.0	-5.5
Fiscal balance (% GDP)**	-5.0	-3.3	-3.9	-3.7

* end-period; **for fiscal year starting 1 April

Source: Standard Chartered Research



Pakistan

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Strong headwinds

Economic outlook

- Corrective measures taken under the USD 11.3bn IMF-funded stabilisation plan have helped to contain Pakistan's large deficits and bring stability to the economy. However, the economic outlook remains weak, with growth projected at 2.5% in FY10 (began 1 July 2009) versus 2% in FY09. The economy faces stiff headwinds from weak external and domestic demand, the deteriorating security environment, and political instability.
- Demand-side inflationary pressures have eased, with headline inflation slowing to 8.9% y/y in October 2009 – the first single-digit reading in over two years. However, rising commodity prices and persistent supply-side bottlenecks, including debilitating power cuts and gas shortages, pose significant downside risks. The central bank revised its CPI inflation forecast for FY10 to 12% from 9% to reflect these concerns.

Financial issues

- NPLs rose sharply to 11.1% of total loans in FY09 from 6.7% in FY07, reflecting weak corporate earnings and the impact of high inflation. However, banks are adequately capitalised to meet their provisioning costs. Their capital adequacy ratio (CAR) rose to 14% in FY09 from 12.8% in FY07.
- While liquidity conditions have improved, credit flows have dried up. Private credit contracted by 5% during the first three quarters of 2009 as risk

aversion among banks and heavy government deficit financing crowded out private credit.

Policy

- The government outlined an ambitious stimulus spending plan amounting to 1.5% of GDP in its FY10 budget. However, declining tax revenues and delays in the release of USD 2bn in pledged foreign aid have constrained stimulus spending. Investment spending is being crowded out by higher subsidies and war-related expenditures.
- Monetary policy is expected to remain tight, as inflationary pressures remain high. We expect the central bank to cut the policy rate to 12% in FY10.
- The Pakistani rupee (PKR) has stabilised, depreciating by around 6% in 2009 (through 25 November) versus 28% in 2008. External account corrections, combined with record-high remittances from overseas Pakistanis, have helped to keep the PKR broadly stable. However, the currency is expected to remain under pressure in 2010 due to rising commodity prices and exchange rate reforms including shifting crude oil payments to the interbank market.

Politics

- President Asif Ali Zardari is under pressure to resign after his party was unable to muster the necessary support from coalition partners and opposition parties to pass the controversial National Reconciliation Ordinance (NRO) through parliament. The NRO would have exonerated President Zardari and other members of his party from corruption charges – allegations which he denies and which were not proven during the eight years he spent in jail. Opposition parties are expected to challenge his candidacy for the office of president in the courts. The political temperature is likely to rise in 2010 as the controversial bill lapses. This may also have ramifications for the economy – if political paralysis delays the implementation of tax and power-sector reforms, it will lead to delays in the release of IMF funds, increasing pressure on the PKR.

Standard Chartered Research forecasts: Pakistan				
	2009	2010	2011	2012
GDP (real % y/y)**	2.0	2.5	4.0	4.5
CPI (% y/y)**	20.8	12.0	9.0	8.0
Policy rate (%)*	14.0	12.0	11.0	10.0
PKR-USD*	83.5	87.8	90.8	93.5
Current account balance (% GDP)**	-5.3	-4.5	-4.2	-4.0
Fiscal balance (% GDP)**	-5.2	-5.2	-4.8	-4.5

* end-period; **for fiscal year ending 30 June



Philippines

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All eyes on the election

Economic outlook

- The gradual global economic recovery should fuel growth in remittance income and support domestic consumption in 2010. Fiscal stimulus will remain a key driver of growth, particularly ahead of the general election in May 2010. The record PHP 1.5trn 2010 budget approved by the lower house includes an 8% increase in government spending on infrastructure and social transfers.
- Private investment, a pillar of a full-fledged recovery, will likely remain subdued due to the gradual pace of the recovery in external demand for goods exports and business process outsourcing.
- We expect tame inflationary pressure in 2010 to allow the central bank to maintain its easy monetary policy. The trend in food prices, which constitute 47% of the CPI basket, will be the wild card.

Financial issues

- The Philippine banking system remained resilient throughout the recent recession. Its NPL ratio has continued to edge down towards pre-Asian crisis levels, and its loan-to-deposit ratio remains comfortably on par with regional peers at 80%. An over-reliance on foreign funding remains the sector's weak point, as FX liabilities constitute one-fifth of the total balance sheet of universal and commercial banks.

Standard Chartered Research forecasts: Philippines				
	2009	2010	2011	2012
GDP (real % y/y)	1.0	3.3	4.1	5.0
CPI (% y/y)	3.0	3.3	3.3	4.0
Policy rate (%)*	4.0	4.0	5.5	6.0
PHP-USD*	45.5	43.5	42.0	41.0
Current account balance (% GDP)	5.3	5.5	5.2	4.8
Fiscal balance (% GDP)	-4.0	-3.2	-2.3	-1.5

* end-period

Source: Standard Chartered Research

- While exports may remain under pressure due to the weak global recovery, the Philippines' external position is set to strengthen further thanks to steadily growing remittances from overseas Filipino workers. The government has signed agreements with Korea, Canada, and Japan to facilitate deployment of Filipino workers. This should structurally boost remittance income, which amounts to about 10% of GDP.

Policy

- While the current administration has successfully the Philippines' fiscal position in recent years, debt servicing costs still constitute 20% of government expenditure (3.7% of 2008 GDP) – among the highest in Asia. We believe the current fiscal deficit of 3-4% of GDP is manageable in the short run, but the next government will have to demonstrate fiscal discipline in balancing the budget over the medium term.
- A structural capital drought and lack of infrastructure investment have been key obstacles to development. The PHP 3.3trn Comprehensive and Integrated Infrastructure Program (CIIP) for 2009-13 relies on PHP 1.6trn of private-sector funding and is clearly subject to much uncertainty amid the coming change in government.

Other issues

- Development of the Philippine banking system remains skewed towards urban areas. Increasing access to financial services in rural areas is key to reducing regional developmental disparities.

Politics

- The Constitution bars President Gloria Arroyo from running for re-election in May 2010. While Gilbert Teodoro, the candidate for the incumbent (and largest) Lakas-Kampi party, should benefit from the party's widespread grassroots support, Noynoy Aquino of the opposition Liberal Party has been leading in polls. The markets will focus on the candidates' policies on structural economic reforms and fiscal management.



Singapore

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Sailing on calmer seas

Economic outlook

- Singapore will recover from the global financial crisis in 2010, returning to positive growth of 5.1% after an estimated 2.8% contraction in 2009, according to our forecasts. Nonetheless, Singapore's heavy dependence on external demand – which accounts for three-quarters of the economy's total demand – will ensure that its economic performance remains highly correlated with the global economic recovery. Fiscal and monetary stimulus will play a less prominent role in driving the economy in 2010 as private-sector demand does more of the heavy lifting.
- Singapore's recovery in Q2 and Q3-2009 – when GDP grew at annualised rates of 21.7% and 14.2% q/q, respectively – was driven by a revival in manufacturing activity, in particular pharmaceutical production. The services sector, which makes up nearly two-thirds of GDP, still declined but at a slower pace, while construction activity grew at the slowest pace since Q1-2007. The economy has benefited significantly from monetary and fiscal stimulus, both domestically and due to the indirect impact of policies in other economies.
- As the electronics sector struggles to recover and some segments (such as hard-disk drive production) relocate to lower-cost production hubs, Singapore is embracing alternative industries such as pharmaceutical production, clean-water technology, and green technology. Two new so-

called 'integrated resorts' due to open in 2010 are expected to attract tourists and corporate events. Given Singapore's reputation as a regional financial hub and its recent inclusion on the OECD's 'white list' of financial jurisdictions, financial activities such as private banking are set to flourish in 2010.

- While inflation has turned slightly negative since April 2009, the pace of decline has been relatively mild (less than 1% y/y), and we expect inflation to return to positive territory as early as Q1-2010. The government revised up its 2010 CPI inflation forecast to a range of 2.5-3.5% (from 1-2%) due to the upward revision of the annual values (AV) of public housing properties. (When the values were revised up in 2008, the housing component of the CPI basket added 2.7ppt to headline inflation.) In light of the AV adjustment, we expect CPI inflation to average 3% in 2010, factoring in a smaller impact from the upward revision this time around.

Financial issues

- The de facto benchmark interest rate is the 3M SGD Singapore interbank offered rate (3M SGD SIBOR), which has hovered around 0.70% since January 2009. Moderate loan demand and ample SGD liquidity have also helped to keep rates low. The US Federal Reserve's ultra-loose monetary policy has resulted in USD LIBOR falling more sharply than SGD SIBOR, with the former staying below the latter since May 2009. As we now expect the Fed to keep rates steady until late 2011, SGD SIBOR is likely to remain below 1% for the next two years, in line with our USD LIBOR forecasts.
- Loan growth remained positive in 2009 (+1.4% for the first nine months of the year) due to strong housing loan demand (SGD 7.5bn of net growth YTD) and the government's co-sharing of lending risk with banks, which helped to alleviate the squeeze on business loans. In 2010, while the economic recovery and buoyant property-market demand will be supportive of loan growth, the

Standard Chartered Research forecasts: Singapore				
	2009	2010	2011	2012
GDP (real % y/y)	-2.8	5.1	5.6	5.0
CPI (% y/y)	0.2	3.0	3.0	2.3
3M SGD SIBOR (%)*	0.7	0.7	0.8	3.0
USD-SGD*	1.37	1.32	1.28	1.25
Current account balance (% GDP)	13.0	15.5	16.5	15.8
Fiscal balance (% GDP)**	-3.7	-2.5	-1.1	1.5

* end-period; **for fiscal year starting 1 April

Source: Standard Chartered Research



Singapore (con'd)

expected withdrawal of the risk-sharing scheme may dampen banks' appetite to lend. We expect loan growth of 5% in 2010.

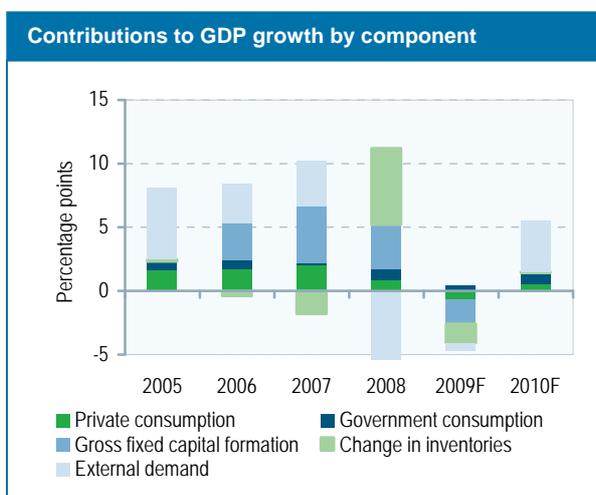
Policy

- We expect the Monetary Authority of Singapore (MAS) to revert to a 2% per annum appreciation of the SGD nominal effective exchange rate (NEER) policy band in its October 2010 Monetary Policy Statement (MPS). The MAS conducts monetary policy by targeting the exchange rate rather than via policy interest rates. It maintained its neutral SGD NEER policy in the October 2009 MPS, and we expect this stance to remain unchanged in the April 2010 statement. Given that risks are skewed towards a bumpy recovery in the G3 economies, and that core/underlying inflation (which excludes private road transport and housing costs) remains benign, the central bank is likely to take a conservative approach to monetary tightening.
- The budget for the fiscal year which began on 1 April 2009 was a response to the downturn, and included a SGD 20.5bn stimulus package, a record deficit of 3.5% of GDP, and a drawdown of SGD 4.9bn from the national reserves. Significant import leakage limited the ability of fiscal measures to pull Singapore out of recession, but the budget did its part in helping businesses and households to cope and keeping job losses at a manageable level.

Given that the government expects 2010 growth to be lower than during previous post-recession periods, Finance Minister Tharman has said that next year's budget is likely to be as expansionary as the current one. Thus, Singapore is likely to post another fiscal deficit, and may also dip into the national reserves again.

Other issues

- The economic recovery, flush liquidity and commercial banks' appetite to increase mortgage lending are likely to underpin the residential real-estate sector in 2010. After being in the doldrums in 2008, the private property market started rumbling again in Q2-2009, fuelled by attractive valuations, low interest rates, and flush liquidity.
- Private property prices rebounded by 15.8% q/q in Q3-2009, and the government stepped in with targeted anti-speculative measures. While these measures caused the number of transactions to ease in October from the highs of the preceding months, total new homes sales for 2009 will likely surpass the 2007 record of 14,811 units.
- With interest rates likely to remain low for an extended period, the property market will remain buoyant and could 're-heat' in 2010. Given that the authorities are still vigilant on property-market developments, more targeted cooling measures cannot be ruled out in 2010.



Sources: CEIC, Standard Chartered Research

Politics

- The PAP has been the ruling party since Singapore's independence. There are no clear threats to PAP rule. In uncertain times, Singaporeans are likely to maintain their support for a party that has steered the country prudently and handled past crises well. Political stability is likely to be maintained, while the government is expected to manage any social concerns arising from the economic downturn with fiscal spending and other forms of social support. The next election is due in February 2012 at the latest.



South Korea

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Steady recovery

Economic outlook

- We expect a steady recovery in the Korean economy in 2010. Our forecast that GDP growth will jump to 4.8% from 0.1% in 2009 mainly reflects the V-shaped recovery seen in Q2 and Q3-2009. Our base-case scenario actually assumes a considerable slowdown in seasonally adjusted q/q growth, from 11-12% in Q2 and Q3-2009 to 3-4% throughout 2010. However, our forecast suggests a continued recovery, with no 'double-dip'.
- Various headwinds are likely to limit the recovery in 2010. The export recovery is likely to slow from the breakneck pace seen in 2009 as the boost from the weak KRW and global inventory restocking wanes. Historical patterns point to the likelihood of a tech-sector slowdown in 2010, following an initial recovery in 2009. Policy makers will start to implement exit strategies: fiscal spending is set to decline, the Bank of Korea (BoK) will likely begin to raise rates, and the government may withdraw various financial support measures for SMEs. High private-sector debt, sluggish household income growth, and low household savings will weigh on the recovery in consumption and investment.
- However, we also emphasise that there will be favourable factors sustaining the recovery. Improved demand in both developed and emerging markets will continue to underpin exports. Monetary conditions will remain supportive of growth – even with a few policy rate

hikes – and policy makers are ready to deploy further stimulus if the outlook worsens. Strong business and consumer sentiment will continue to support domestic demand. We cannot rule out an upside surprise to growth due to renewed credit growth, although this would eventually increase the downside risk of abrupt deleveraging.

- The recovery momentum is likely to strengthen again in 2011-12 as a stronger US recovery eases double-dip concerns and further boosts Korean exports. Inflation is likely to remain stable, despite the sustained economic recovery and accommodative monetary policy, due to a lingering output gap and KRW appreciation. A strong KRW will also be a key factor in bringing the current account surplus down to a more normal level.

Financial issues

- Our base-case scenario assumes a gradual recovery without significant credit expansion, which may also be the goal of policy makers. Recent bank loan data suggests that this goal is likely to be achieved (see chart below). Mortgage lending, the main driver of overall credit growth since 2008, should be kept under control by proactive regulatory measures. Non-mortgage household loans will continue to reflect the pattern of deleveraging. SME loan growth is unlikely to accelerate again given the government's plan to withdraw SME support measures.
- We do not see a large risk of a housing-market bubble in Korea. Signs of a market recovery in 2009 were largely confined to upscale markets. The government has already imposed heavy restrictions on mortgage loans. In addition, the weakness of residential construction activity in recent years suggests that strength in the housing market may be partly explained by tight supply.
- Policy makers are keen to prevent an excessive increase in short-term external debt, which previously fuelled credit growth and caused significant financial-market volatility. At the same

Standard Chartered Research forecasts: South Korea				
	2009	2010	2011	2012
GDP (real % y/y)	0.1	4.8	4.1	5.2
CPI (% y/y)	2.8	2.5	2.5	2.5
Policy rate (%)*	2.0	2.5	3.5	4.5
KRW-USD*	1,150	1,050	950	890
Current account balance (% GDP)	5.0	2.5	2.0	1.0
Fiscal balance (% GDP)	-2.5	-1.0	-0.5	1.0

* end-period

Source: Standard Chartered Research



South Korea (con'd)

time, they are unlikely to impose direct capital controls to reduce capital inflows – especially considering Korea's leadership role in the G20. They have instead opted to discourage 'over-hedging' by exporters.

Policy

- The Bank of Korea (BoK) is likely to raise policy rates by 50bps in Q1-2010 in a pre-emptive move to control credit growth and stabilise the housing market. While the BoK has acknowledged that the recovery will be gradual and that inflationary pressures are weak, it will likely want to start the tightening cycle in Q1, before Governor Seong-Tae Lee's term ends. The next governor is likely to be dovish and keep policy rates on hold until the end of 2010, citing the slowing pace of the recovery and KRW appreciation pressure.
- FX authorities will likely continue their 'smoothing operations'. They will favour a weak KRW when USD strength resumes in global markets. But they are unlikely to lean against the wind; rather, we expect them to allow a certain degree of KRW appreciation when the USD weakens and AXJ currencies, including the CNY, strengthen. Intervention may continue in an effort to increase the FX reserves.
- The government plans considerable fiscal tightening – its 2010 budget proposal includes a 3.3% decline in fiscal spending. It projects that the

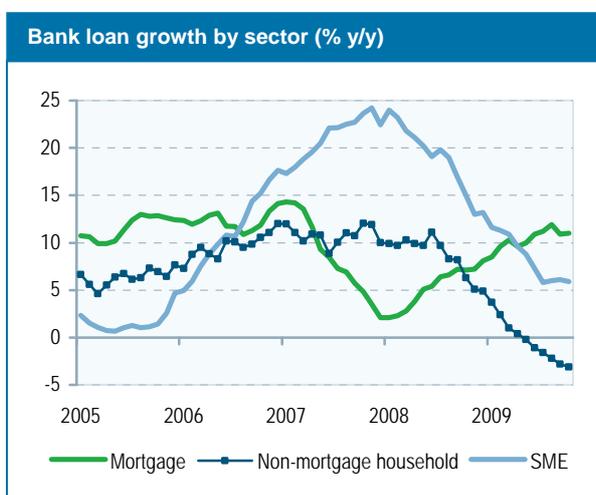
budget will be restored to balance (excluding social security funds) in 2013. While fiscal tightening remains a significant drag on the 2010 growth outlook, a supplementary budget would materialise only in case of a serious negative external shock.

Other issues

- The government has announced a plan to cut greenhouse gas emissions by 30% from the so-called 'business as usual' level by 2020, regardless of the outcome of the December 2009 UN Climate Change Conference in Copenhagen. Korea clearly aims to be a leader in green growth among emerging markets. The government plans to focus its efforts on non-industrial sectors in order to minimise the burden on the industrial sector. But Korea will eventually need to reduce its dependence on heavy industry in order to meet its goal, in our view.
- We expect labour relations to be rocky in 2010 for two reasons. First, wage negotiations will not be easy, as the V-shaped recovery seen in 2009 has raised workers' hopes of strong wage growth, while the business outlook is still uncertain. Second, the government's plan to ban companies from paying wages to full-time union representatives and to allow multiple unions at a single firm will create short-term turmoil, though it will be a long-term positive.

Politics

- Local elections will be held in June 2010, serving as a kind of mid-term election before the presidential and parliamentary elections in 2012. While President Myung-Bak Lee and his ruling party have maintained relatively high approval ratings, voters are likely to focus more on Geun-hye Park, the next presidential hopeful.
- The stalemate over North Korea's nuclear programme is likely to continue for a considerable period. Although North Korea periodically reminds the world of the nuclear issue, neither South Korea nor the US currently appears to view North Korea as a top priority.



Source: Bank of Korea



Sri Lanka

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At a turning point

Economic outlook

- We are optimistic about near-term prospects, and signs point towards a recovery in 2010. But the question is whether this heightened optimism is sustainable. GDP growth likely reached 6.0% in Q4-2009, setting the country onto a higher growth path for 2010. Inflation has decelerated, and we expect it to end 2009 at 3.5%. Although we expect a moderate rise in 2010, inflation will likely remain in the single digits. The release of the second tranche (USD 329.4mn) of the IMF's USD 2.6bn loan facility boosted the foreign-currency reserves to a record USD 5bn as of November 2009.
- Despite these positive signs, parliamentary and presidential elections slated for Q1-2010 are keeping investors watchful. The oversubscription (by 13 times) of the USD 500mn sovereign bond issue in October 2009 signals that Sri Lanka is poised for recovery, but the risk is that confidence will remain vulnerable to political developments.

Financial issues

- The IMF has cautioned against further sovereign borrowing to build up the foreign-currency reserves. The country raised USD 1.2bn in government bonds in January-October 2009, and such short-term inflows have put upward pressure on the Sri Lankan rupee (LKR). In 2010, we expect further LKR appreciation, driven by a narrowing external gap and the positive economic outlook.
- We think it is more important for Sri Lanka to build up its reserves through higher exports and

remittances than through sovereign borrowing. However, we do not believe this glut of foreign funds is a case of 'hot money', as the inflows have been into long-dated government securities.

Policy

- Sri Lanka needs to maintain fiscal flexibility in 2010 in order to respond to the changing post-war needs of the northern and eastern regions. The revised fiscal deficit target of 7% of GDP for 2009 announced by the IMF looks optimistic after the deficit widened by 30% y/y in January-September. The next budget, deferred until after the elections, will be pivotal, as it will be the first 'non-war' budget in more than two decades. Expectations are running high, and reform is eagerly awaited. The key to balancing the budget lies in reducing current expenditure. Therefore, crucial reforms to the convoluted tax system are a priority.

Other issues

- In our view, the government needs to take a firm stance on addressing concerns on its human rights record. The imminent loss of EU 'GSP Plus' concessions will impact the garment sector, the country's biggest export earner contributing 56% of total industrial exports; higher overseas workers' remittances and the high level volume of FX reserves may cushion the impact on the trade deficit. Although resettlement of internally displaced persons is high on the agenda, the integration of ethnic minorities is a challenge.

Politics

- Political stability will be the key to sustained growth as elections loom. The race for the presidency is already virtually underway, with the former Chief of Defence Staff entering the fray as a common candidate for the opposition. The outcome of the elections is critical – once the euphoria of the government's May 2009 military victory over the LTTE recedes in the minds of voters, the real issues will resurface. The winning party will need to demonstrate that it is better qualified to manage the transition from war to peace.

Standard Chartered Research forecasts: Sri Lanka				
	2009	2010	2011	2012
GDP (real % y/y)	4.0	5.5	6.0	7.0
CPI (% y/y)	3.5	4.7	5.1	5.5
Policy rate (%)*	7.5	6.0	7.0	7.0
USD-LKR*	114.0	113.0	111.7	111.0
Current account balance (% GDP)	-2.0	-1.5	-2.0	-2.5
Fiscal balance (% GDP)	7.5	9.0	9.0	8.5

* end-period

Source: Standard Chartered Research



Taiwan

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Cross-straits boom

Economic outlook

- Taiwan's nascent recovery is likely to take hold amid closer cross-straits ties and rising demand from mainland China, as well as higher business spending as the global tech cycle rebounds. We expect GDP growth to rebound to 4.0% in 2010, following a 2.9% contraction in 2009 amid Taiwan's worst recession on record. However, the recovery is expected to be bumpy as the growth in the US and Europe, Taiwan's key export markets, remains sluggish.
- The rebound in consumer confidence amid a gradually improving job market will also support domestic demand. Government spending will provide a further boost – the government recently approved TWD 120bn in typhoon relief and reconstruction spending, on top of the TWD 192bn economic stimulus package earmarked for 2010.
- The signing of the highly anticipated Economic Cooperation Framework Agreement (ECFA) with mainland China is expected in H1-2010. Along with recent measures to allow investments from mainland China and to expand direct cross-straits links and tourism flows, this will support domestic sentiment and boost the island's growth potential over the medium term.

Financial issues

- The asset quality of Taiwanese banks was not severely damaged by the global crisis, even as the recession crimped banks' revenues and profits.

Standard Chartered Research forecasts: Taiwan				
	2009	2010	2011	2012
GDP (real % y/y)	-2.9	4.0	4.1	4.6
CPI (% y/y)	-0.4	1.0	1.2	2.2
Policy rate (%)*	1.25	1.25	1.75	2.25
USD-TWD*	31.9	31.0	29.9	29.0
Current account balance (% GDP)	10.4	6.2	4.6	4.6
Fiscal balance (% GDP)	-2.8	-3.3	-3.7	-3.5

* end-period

Source: Standard Chartered Research

likely to benefit from the recent signing of a memorandum of understanding (MOU) on cross-straits banking and financial services. This will give local banks access to the mainland's fast-growing financial-services market and allow them to expand the services they provide to clients in the greater China region.

Policy

- We expect the central bank to maintain its pro-growth monetary stance, as headline CPI inflation – while likely to return to positive growth in early 2010 due to a low base – is unlikely to spiral out of control given the large labour resource gap and slack in the economy. This should enable the central bank to keep its benchmark policy rate at a record low 1.25% throughout 2010.
- Government finances are expected to deteriorate further as the recession reduces revenue collection, which relies primarily on income tax. The government has also announced plans to lower the corporate and personal income tax rates in 2010 and 2011, respectively. The government has also approved TWD 500bn in extra-budgetary spending for 2009-12 in a bid to revive domestic demand and investment. In order to rein in the widening deficit and keep debt below 40% of GDP, as mandated by law, the government proposes to raise the business tax rate by 1ppt to 6% in 2013.

Politics

- The outcome of municipal and township-level elections in December 2009 is unlikely to loosen President Ma Ying-jeou's grip on power, given the ruling Nationalist (KMT) Party's overwhelming majority in the legislative body. The retention of several key cabinet posts during a recent cabinet re-shuffle ensures continuity in President Ma's economic and cross-straits policies.
- Relations between Taiwan and mainland China warmed in late 2009. The expected start of formal negotiations on the highly anticipated ECFA should further strengthen ties.



Thailand

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Murky politics

Economic outlook

- Thailand's ongoing political conflict remains a key obstacle to achieving domestically led growth. Government spending is likely to remain the biggest growth driver, with public investment of about THB 1.43trn (or 16% of GDP) planned in FY10-12. The largest area of investment will be public transport (39.9% of total investment), followed by water and natural resources (16.7%) and energy (14.4%).
- Thailand's recovery is likely to be gradual rather than V-shaped. We expect the economy to return to moderate growth of 2.8% in 2010, accelerating to 4.5% in 2011. This would still be below trend growth, which we estimate at 5.0-5.5%. We are cautious on near-term growth prospects for the following reasons: (1) ongoing political uncertainties will continue to weigh on consumer and business sentiment; (2) a new private investment cycle will take time to develop; and (3) exports are unlikely to resume their role as an engine of growth over the next few years.
- Excess domestic capacity underpins our expectation of a slow recovery. The capacity utilisation rate remains extremely low across major industries. Large spare capacity means that the private sector is unlikely to invest in new capacity soon. Weak export demand is also partly responsible for low capacity utilisation, especially given the weak outlook for the US, the EU, and Japan – Thailand's top three export markets.

Standard Chartered Research forecasts: Thailand				
	2009	2010	2011	2012
GDP (real % y/y)	-3.5	2.8	4.5	5.8
CPI (% y/y)	0.2	3.2	3.7	3.8
Policy rate (%)*	1.25	1.25	2.25	3.25
USD-THB*	32.8	32.0	31.2	32.0
Current account balance (% GDP)	2.5	-1.0	-2.6	-2.8
Fiscal balance (% GDP)**	-3.5	-3.5	-3.5	-3.5

* end-period; **for fiscal year ending 30 September

Source: Standard Chartered Research

Financial issues

- A potential liquidity shortage may be a challenge for Thai financial markets in late 2010. Public-sector borrowing is set to increase markedly to finance the budget deficit and public investment. The government's considerably higher dependence on (mainly) domestic funding sources is likely to reduce excess liquidity in the banking system sooner or later, putting a floor under the cost of borrowing. This, combined with a gradual recovery in banks' loan growth, will put upward pressure on market interest rates.

Policy

- Expansionary fiscal policy will continue to play a significant role in supporting the economy given the likelihood of modest growth in private consumption and investment. Because the planned budget deficit of 3.5% of GDP for FY10 (began 1 October 2009) is at the legal ceiling, the government will need to employ extra-budgetary spending via public investment to boost the economy. This will leave the government with a higher debt burden in the future. Public debt is estimated to rise from 45% of GDP currently to nearly 65% in the coming years.
- The Bank of Thailand (BoT) will be in no rush to normalise its monetary policy stance for much of 2010. The BoT has reiterated on several occasions that it will consider hiking rates only when the recovery in private investment shows clear and sustainable momentum. This is unlikely to happen soon given the low level of capacity utilisation. Excess capacity suggests that there will be only modest upward pressure on core inflation, and there are no concerns about asset price bubbles in Thailand. Hence, we do not expect the first rate hike until early 2011.
- The BoT is expected to remain active in smoothing out day-to-day volatility in USD-THB. However, measures to stem capital inflows are unlikely, considering the damage done to investor by capital controls introduced in 2006. Like its South East



Thailand (con'd)

Asian counterparts, The BoT would likely prefer to see the THB move in line with other regional currencies.

- Fundamentally, Thailand needs a long-term strategy to adapt to the changing global economic landscape. The US and the EU – burdened by low savings, high debt, and financial-system weakness – will experience a U-shaped recovery at best in the coming years. As a result, external demand for Thai products is likely to shift from the traditional markets to emerging markets. Thailand therefore needs to seek out opportunities in developing Asia and the Middle East. At home, it will be crucial to establish a new upward cycle in private investment to ensure sustainable growth once government stimulus fades in 2013.

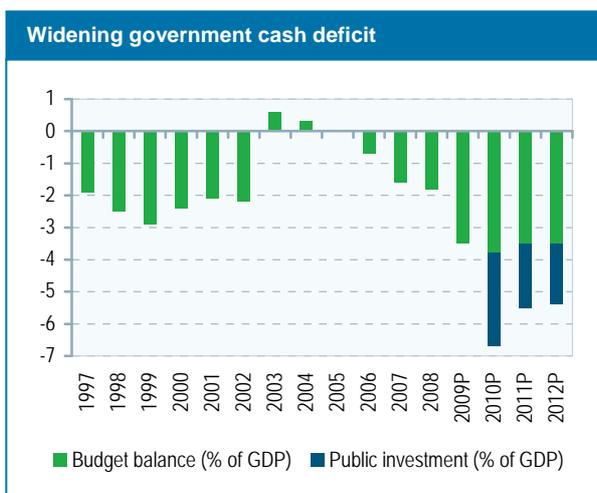
Other issues

- Asia's leading role in the global recovery may continue to attract portfolio inflows to the region in 2010. The Thai equity market should benefit from this to some extent given portfolio allocation. Yet while equity inflows are likely to raise domestic equity prices and sentiment, we do not expect them to boost economic growth, as they are likely to be short-term and volatile. In our view, FDI is preferable, as it is more sustainable and generates real economic activity.

- Achieving political stability remains a key precondition to increasing Thailand's appeal to foreign investors. The disruption to production at Map Ta Phut, the country's largest industrial estate, due to environmental concerns could also deter FDI, at least in the near term.

Politics

- 2010 is likely to be another challenging year for Prime Minister Abhisit Vejjajiva. His most important task is to defuse the deep-rooted political conflict between his Democrat Party and supporters of exiled former Prime Minister Thaksin Shinawatra via legal channels rather than physical confrontation.
- The parliament reached an agreement in October 2009 to amend the Constitution in order to achieve reconciliation between the two camps. However, the process is unlikely to be completed until mid-to late 2010; this would be followed by a general election. PM Abhisit will need to forge a consensus on the Constitution among all parties, which is critical to permanently resolving the conflict. Meanwhile, any further turmoil in the streets – caused either by anti-Thaksin protestors or Thaksin supporters – could threaten Abhisit's administration.
- On the external front, the latest dispute with Cambodia will be a key test of the Abhisit administration's ability to manage diplomatic conflicts. Relations between the two countries deteriorated in November 2009, when Cambodia appointed Thaksin as an economic advisor and denied a request from the Thai government to extradite him. So far, both governments have limited the dispute to diplomatic channels. While the direct short-term economic impact of the standoff should be minimal for both countries, the potential long-term impact on the region should not be underestimated. The dispute, if it escalates further, will pose a challenge to the nascent ASEAN integration process.



Sources: MoF, Standard Chartered Research



Vietnam

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In search of sustainable growth

Economic outlook

- Domestic demand, in particular consumption, will remain the key driver of growth. The government's pro-growth stance is likely to lead to increased infrastructure investment in 2010, adding to the economic momentum. However, this could be constrained by the need to restore fiscal discipline.
- Vietnam's exports are likely to recover only gradually in 2010 as key export markets make a slow recovery. An anticipated pick-up in commodity prices in 2010 should provide support to the country's agricultural exports.
- Inflation is expected to normalise, averaging 8.9% in 2010 and reaching 10% by end-2010, on the back of accelerating economic growth. The biggest inflationary threat is food and commodity prices, which make up more than 50% of the CPI basket.

Financial issues

- The global recovery will help to reverse the downtrend in FDI and overseas workers' remittances. There is significant interest among foreign businesses in investing in Vietnam as a manufacturing base. We expect actual disbursed FDI and remittance inflows to reach USD 12bn and USD 7.5bn, respectively, in 2010 – similar to the levels seen in 2008.
- Tight USD liquidity in Vietnam is likely to remain a challenge in the foreseeable future. Foreign

portfolio investors are likely to remain on the sidelines until they feel more comfortable with the ability to obtain USD when they exit the market.

Policy

- The State Bank of Vietnam (SBV) is expected to place more emphasis on capping lending growth in 2010. The central bank raised its policy rate in November 2009 in response to currency weakness, opening the door for further rate hikes in 2010.
- The one-off 3.5% devaluation of the Vietnamese dong (VND) against the USD in November 2009 undermined the SBV's credibility, as it had previously stated that it would not devalue the currency. We expect the central bank to continue to allow the VND to weaken against the USD in an orderly manner in 2010.

Other issues

- The trade deficit widened further in H2-2009 on the back of rising imports, triggering concerns that the VND may come under depreciation pressure again in 2010. While the country's foreign-exchange reserves declined in H2-2009, the authorities have obtained support from the World Bank and the Asian Development Bank to maintain reserves at an adequate level. Reserves in September 2009 were about USD 16bn, or three months of imports.

Politics

- Given the country's political structure, political stability is expected to prevail. With the 11th National Party Congress due to take place in January 2011, officials are likely to pay particular attention to maintaining economic stability as they jockey for leadership positions. This should set a solid foundation for the country's national socio-economic development strategy for 2011-20, which is expected to bring Vietnam to newly-industrialised economy status by the end of the next decade.

Standard Chartered Research forecasts: Vietnam				
	2009	2010	2011	2012
GDP (real % y/y)	4.9	6.7	7.2	7.0
CPI (% y/y)	7.1	8.9	8.5	8.0
Policy rate (%)*	8.0	10.0	11.0	10.0
USD-VND ('000)*	18.5	19.0	18.7	18.5
Current account balance (% GDP)	-7.0	-8.5	-6.5	-6.0
Fiscal balance (% GDP)	6.8	5.5	5.0	4.5

* end-period

Source: Standard Chartered Research

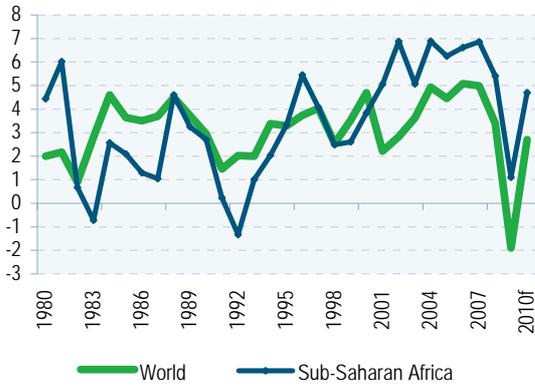
Economies – Sub-Saharan Africa





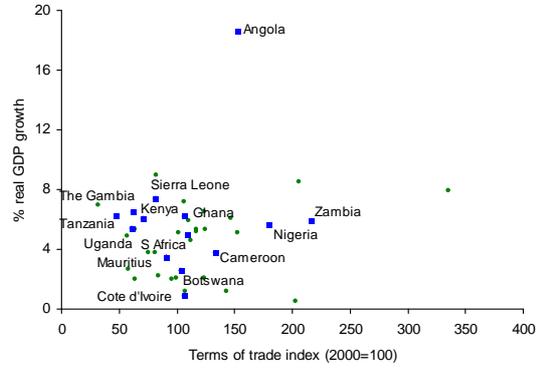
Charts of the year – Sub-Saharan Africa

Chart 1: Economic recovery is underway



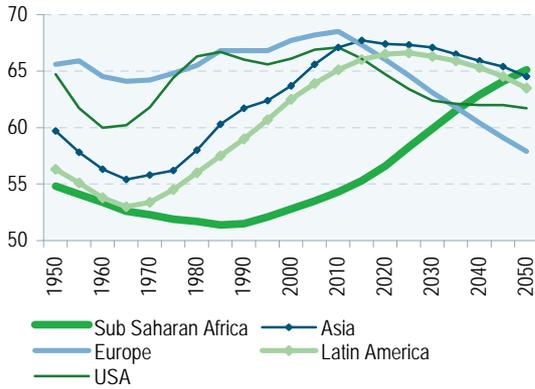
Sources: Standard Chartered Research, IMF

Chart 2: Commodities are not the key driver of growth



Sources: Standard Chartered Research, IMF

Chart 3: Africa's demographic dividend
Working-age population as % of total population



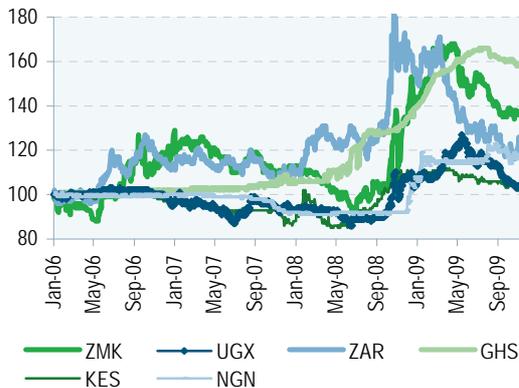
Source: United Nations

Chart 4: Rising Asian-African trade



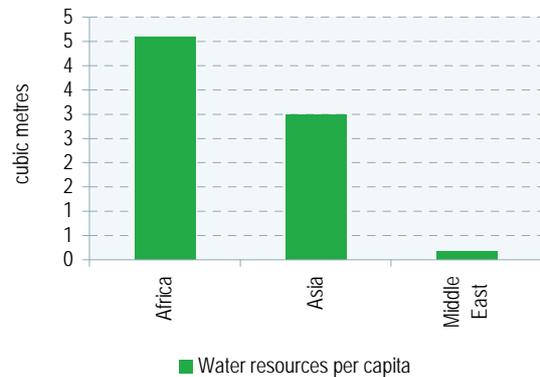
Source: IMF

Chart 5: Post-crisis stabilisation in African FX
Rate vs. USD rebased to Jan-06



Sources: Bloomberg, Standard Chartered Research

Chart 6: African agriculture has vast potential
Water resources per capita



Source: FAO



Africa

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Better, but not yet back to trend

Economic outlook

- Growth in Africa in 2010 will be higher than in 2009, though still below trend. Given how Africa was affected during past global slowdowns, with most of the impact being felt with a lag, this represents a significant achievement. Counter-cyclical policy has played an important role in avoiding a more protracted decline in growth. Yet there is still uncertainty. No one knows precisely which lagged effects are at work and how they might still play out. In most African economies, however, there is evidence that weak growth is already being offset by other factors.
- The prevailing view of how the crisis will impact Africa has changed many times. The initial thinking, that Sub-Saharan Africa is too isolated to be significantly affected, was quickly discarded in Q4-2008, when the region's financial markets suffered as much disruption as any others following an exodus of foreign investors. This was followed in Q1-2009 by a collapse in the region's exports, reflecting the disruption to global trade. Since then, the recovery has been much faster than expected, helped by a number of factors: (1) more proactive fiscal and monetary policy was implemented early in response to the crisis; (2) pledges of sizeable amounts of assistance by the international financial institutions (IFIs) following the April 2009 G20 meeting played an important stabilising role; (3) the early rebound in commodity prices, partly on the back of China's stimulus plan, and the return of Chinese engagement had a huge

influence on investor thinking towards Africa; and (4) the resurgence of risk appetite, although perhaps less significant than the other factors, was also helpful.

- How will these factors evolve in 2010? While growth is showing important signs of stabilisation, the policy stimulus put in place in response to the crisis does not look like it will be removed anytime soon. In all likelihood, Africa will see more IFI engagement over the coming year (most programmes run into the medium term), although this will be more carefully balanced with increased market access. Given China's bright economic prospects and the country's interests in Africa, long-term strategic ties between the two are likely to be strengthened in 2010. While risk appetite is difficult to call, other factors are at least supportive.

Financial issues

- 2010 should see the continued opening up of African economies to offshore investment. This process is likely to be fuelled by the threat to bilateral donor assistance over the medium term, given increased fiscal pressure in donor countries.
- Almost all of Africa's major frontier economies are in the line-up for eurobond issuance, including Nigeria, Kenya, Angola, and Côte d'Ivoire (a restructuring of existing external obligations for the latter). Several countries that have not yet announced plans to issue sovereign bonds may follow suit, like Uganda, Tanzania, and Zambia.
- For some time now, many African economies have been cut off from international capital markets, making them over-dependent on domestic markets for financing. While this may have initially been due to poor creditworthiness, in recent years, IFI objections to non-concessional borrowing have played a more important role. But the resources required to power African growth in the years ahead are likely to be substantially higher than those generated by domestic savings, so improved international market access will be necessary for growth – leading to a changing trend in Africa.

Standard Chartered Research forecasts: Sub-Saharan Africa*				
	2009	2010	2011	2012
GDP (real % y/y)	1.1	4.7	5.7	5.5
<i>IMF</i>	0.6	4.1	5.5	5.4
CPI (% y/y)	10.0	8.1	6.6	6.1
<i>IMF</i>	8.5	7.7	6.7	6.6
Current account balance (% GDP)	-1.7	0.2	0.5	1.0
<i>IMF</i>	-1.0	0.2	0.5	1.0

* 2008 USD GDP weighted total of the 13 regional economies covered in this publication

Sources: IMF, Standard Chartered Research



Africa (con'd)

More external issuance may even boost interest in the region's higher-yielding domestic debt markets.

Policy

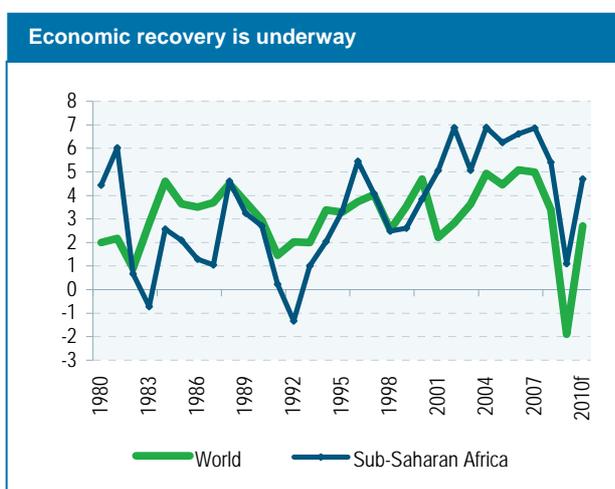
- With the exception of Ghana, where a unique rebalancing appears to be underway, fiscal stimulus in Africa looks unlikely to be removed anytime soon. Despite concerns about the capacity of African governments to realise spending plans, the region's fiscal multiplier has generally been seen as effective. While problems with the monetary policy transmission mechanism are well-documented (only a small proportion of the population in most frontier African economies is banked), fiscal policy has played an important post-crisis stabilising role. There are few pressures for the early removal of such stimulus.
- Nonetheless, the picture has not been entirely rosy. The narrow tax base of most African economies has led to an over-reliance on trade-related tax revenue in the region. The collapse of global trade thus hit fiscal revenues in Africa especially hard. Although a recovery is now being seen, the urgency of finding other sources of revenue to sustain official expenditure is clear.
- Africa is likely to see increasing resource nationalism over the coming year. This will be made possible in part by the emergence of new players in the scramble for African resources, competing against longstanding mining and oil and

gas investors. There has also been a growing recognition by African governments that tax incentives offered to resource investors early on were overly generous. Royalties have already been revisited in one form or another in Nigeria, Tanzania, Ghana, and Zambia.

- Most African economies eased monetary policy over the course of 2009, although recent central bank decisions suggest that this cycle has largely run its course. Interest rates are likely to remain accommodative for an extended period of time. Ghana, having only started its easing cycle in November 2009, is one exception. Nigeria may be the first to remove monetary policy accommodation if fuel price deregulation takes place as planned. In South Africa, the debate about the inflation-targeting mandate of the South African Reserve Bank (SARB) suggests that even outsized electricity tariff increases will not necessarily result in early monetary tightening.

Other issues

- While greater regionalisation remains an aspiration across Africa (seen as an effective way to overcome lack of economies of scale), only East Africa is expected to make substantial progress in this respect in 2010. Elsewhere, dependence on trade-related taxation suggests that the near-term costs of such integration (given the potential loss of fiscal revenue) will be perceived to outweigh the longer-term benefits.



Politics

- While elections are due in Tanzania and Côte d'Ivoire (with some uncertainty still governing the run-up to the country's long-delayed polls), the spotlight on political risk is likely to fall on other economies too. Concern over the president's health in Nigeria highlights the issues of political rotation and succession risk, with any uncertainty likely to feed north-south political tensions. In South Africa, the key question for 2010 will be whether President Zuma shows his hand in choosing between the left and centre when it comes to policy making. Finally, Kenya's politics, in the run-up to a referendum on the constitution in 2011, will be closely watched by all in the region.



Angola

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Back on track

Economic outlook

- We expect Angola to be among the fastest-growing African economies in 2010, with a GDP growth rate of 9%. 2009 was a difficult year, calling into question much of the progress achieved since 2002. Falling oil prices halted economic growth and pushed the twin balances into deficit, prompting the authorities to accumulate domestic arrears and impose restrictions on the FX market.
- The strong rebound will be driven by rising oil output and higher oil prices. Oil output is likely to average 1.9 million barrels per day (mbpd) in 2010, compared to 1.8mbpd in 2009. Non-oil growth will benefit from rising government spending resulting from the improvement in the fiscal accounts. Infrastructure spending and agriculture will be key drivers of non-oil growth (the non-oil sector represents 40% of GDP). The current account should return to surplus in 2010 thanks to rising oil exports. Capital inflows are also expected to help to increase the FX reserves from USD 12.1bn (as of October 2009).

Financial issues

- The government has announced that it will seek to tap the international bond market to raise USD 4bn. In our view, this is an ambitious target for a first issue. The country may also obtain a credit rating. Any rating would be supported by rising oil revenues and strong GDP growth but constrained by weaker savings and higher debt-servicing costs than in other oil-producing countries.

Standard Chartered Research forecasts: Angola				
	2009	2010	2011	2012
GDP (real % y/y)	-0.2	9.0	8.0	7.0
CPI (% y/y)	14.0	15.0	10.0	9.0
Policy rate (%)*	15.0	15.0	14.0	13.0
AOA-USD*	84.0	82.0	80.0	80.0
Current account balance (% GDP)	-3.5	3.0	3.0	5.0
Fiscal balance (% GDP)	-11.2	2.8	7.0	9.0

* end-period

Source: Standard Chartered Research

- Angola obtained a USD 1.4bn loan from the IMF in November 2009, its first from that institution. This should support liquidity and boost confidence. The government plans to launch a sovereign wealth fund in 2010 in order to reduce the vulnerability of fiscal revenues to swings in oil prices.

Policy

- We expect the exchange rate to remain broadly stable in 2010. The normalisation of the FX market that took place in late 2009 following the devaluation of the Angolan kwanza (AOA) is likely to continue, with the spread between the official and parallel rates narrowing and FX shortages easing thanks to improved USD liquidity.
- The key objective of monetary policy is to bring inflation down to the single digits. However, we expect inflation to remain in the double digits given the impact of the weaker exchange rate on imported inflation and, more importantly, structural bottlenecks such as port congestion, which will remain a key obstacle to the disinflation process.
- Fiscal policy will be more expansionary, with a 19% rise in spending in 2010 thanks to rising oil revenues. The 2010 budget is based on a conservative oil price assumption of USD 58/barrel (bbl). Despite the rise in expenditure, we expect the overall fiscal balance to post a surplus given our oil price assumption of USD 80/bbl in 2010.

- Domestic payment arrears accumulated throughout 2009, mainly towards construction companies, have begun to be repaid and will likely be cleared in 2010 as pressure on the public finances eases.

Politics

- A new constitution is currently being drafted. It remains unclear when presidential elections will be held.



Botswana

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In search of diversification

Economic outlook

- The economic recovery in 2010 will be led by diamond mining. As credit to the diamond pipeline is restored, diamond sales are picking up. This follows an outright economic contraction in 2009, possibly the most severe crisis-related slump in Africa, following the closure of Botswana's mines for a four-month period. Despite the country's reputation for sound economic management, the crisis has driven home the dangers associated with a narrow economic base and over-reliance on a single, dominant export.
- We expect government development spending, aimed at expanding Botswana's export base, to continue – but in view of the country's deteriorating fiscal position, cutbacks may be sought elsewhere. With the non-mining economy overly dependent on government spending, the real risks to growth may only manifest themselves with a lag. Despite the severe contraction in 2009, it has not felt like a recession yet for Botswana. This could change in 2010.
- Subdued private-sector credit may pose an additional risk to growth. Although indicators suggest that banks are now relaxing tight lending criteria, renewed expectations of fiscal consolidation might change this. Uncertainty also stems from the nature of the global economic recovery, with any double-dip likely to pose risks to Botswana's economic trajectory.

Standard Chartered Research forecasts: Botswana				
	2009	2010	2011	2012
GDP (real % y/y)	-4.2	5.2	3.9	4.3
CPI (% y/y)	8.3	6.8	7.2	6.6
Bank rate (%)*	11.0	11.0	11.5	12.0
USD-BWP*	6.63	7.17	7.40	7.80
Current account balance (% GDP)	0.5	3.0	5.2	6.0
Fiscal balance (% GDP)**	-14.0	-7.0	-6.8	-4.2

* end-period; ** for fiscal year starting 1 April

Source: Standard Chartered Research

Financial issues

- With government borrowing now having risen to non-negligible levels, the financing of infrastructure projects will become a key focus. Botswana was able to use its favourable credit rating to secure financing both from multilateral institutions such as the African Development Bank and from Chinese commercial creditors. Although eurobond issuance is unlikely to be in the pipeline just yet, the authorities will use the crisis to further develop domestic debt markets by increasing issuance and extending the maturity of the curve.

Policy

- FX policy will be a key focus, with the Botswana pula's (BWP's) crawling peg to a basket of currencies dominated by the South African rand (ZAR) receiving greater scrutiny. The authorities are unlikely to have much appetite for driving higher (USD-denominated) diamond revenues through sharp currency depreciation, especially given the inflation risks. But ZAR strength might complicate Botswana's own economic recovery, arguing for a gradual adjustment to the BWP's rate of crawl. As in South Africa, we expect interest rates to remain on hold for all of 2010 following aggressive easing in 2009.

Other issues

- The regionwide power-sector deficit will mean that electricity supply remains constrained, although Botswana's own spending on power-sector infrastructure will intensify. While the country will benefit from the World Cup-related tourism boom, the sustainability of electricity generation may be a key issue.

Politics

- Elections in 2009 were won comfortably by the ruling Botswana Democratic Party. In 2010, the government is likely to focus on private-sector dependence on state spending, with increased scrutiny of procurement programmes and their cost to the government.



Cameroon

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Weak recovery in sight

Economic outlook

- Cameroon's recovery in 2010 is likely to be weak. Oil output (which is modest, at 78,000 barrels per day in 2009) is on a declining trend. Sectors such as timber, whose performance depends partly on the health of the construction sector globally, will be slow to recover. Rising aluminium production and expanding electricity generation (particularly with the construction of dams underway) might provide some impetus to economic growth going forward.
- The global crisis has led to a rise in unemployment. Given the weak recovery, we do not expect a significant improvement, and rising social tensions cannot be ruled out. Long-standing infrastructure bottlenecks will continue to impact the manufacturing sector over the medium term. Cameroon's growth performance is likely to remain weaker than that of most African countries in the near term.
- Cameroon's external position may improve somewhat in line with higher exports and the improved outlook for capital inflows, especially FDI (projects are currently underway in cobalt, nickel, iron, and bauxite).

Financial issues

- There are plans to launch a domestic bond market, which would provide a new source of financing for the government. However, given the slow pace of reform implementation, it remains uncertain whether this will happen in 2010.

Policy

- Given the potential deterioration in social conditions due to high unemployment, there is a risk that the government may need to recapitalise or subsidise public companies facing financial difficulties – particularly in the refinery, financial, and cotton sectors. The cost of this could potentially reach 1.5% of GDP, by our estimates. Fiscal policy is likely to be more expansionary in 2010, and higher spending will likely cause the fiscal balance to move back to a slight deficit.
- Inflation will remain low, helped by CFA franc strength. Monetary policy is conducted by the regional CFA franc zone central bank, which relies more on reserve requirements than interest rates to manage liquidity. The CFA franc is expected to remain pegged to the euro at the same parity, despite the fact that CFA franc strength has fuelled some concerns about competitiveness.

Other issues

- Governance remains weak, and the business climate (particularly in the areas of starting a business and contract enforcement) deteriorated in 2009, according to the World Bank's Ease of Doing Business survey. This will remain a key constraint on overall economic performance in the near term.

Politics

- Succession remains a key issue. Despite his advanced age, President Paul Biya – who has been in power for 27 years – is likely to run in the next presidential elections, due to be held in 2011.

Standard Chartered Research forecasts: Cameroon				
	2009	2010	2011	2012
GDP (real % y/y)	2.0	3.0	4.0	3.5
CPI (% y/y)	3.0	2.5	2.5	2.0
Policy rate (%)*	4.25	4.5	4.5	4.5
XAF-USD*	423	415	398	423
Current account balance (% GDP)	-6.0	-4.2	-4.0	-3.5
Fiscal balance (% GDP)**	0.2	-0.2	-1.5	-1.0

* end-period; **for fiscal year starting 1 July

Source: Standard Chartered Research



Côte d'Ivoire

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All about politics

Economic outlook

- Much hinges on elections due to be held in 2010. Successful elections in the context of an improved external environment would boost confidence, investment, and GDP growth. However, while peaceful elections would help to sustain steady growth rates in the coming years, high growth is unlikely, as the legacy of a decade of political deadlock will continue to affect business and policy for some time. There are risks to the outlook if elections are not held quickly and successfully.

Financial issues

- Côte d'Ivoire plans to issue an estimated USD 2.2bn eurobond by the end of Q1-2010. The country reached a preliminary agreement in September 2009 to restructure its London Club debt, which amounted to USD 2.8bn at end-2008 (19% of total external debt). This agreement will lead to the cancellation of 20% of the London debt stock (consisting of Brady bonds) and the rescheduling of the remaining 80% through the issuance of a USD-denominated bond maturing in 2032. London Club creditors have until March 2010 to exchange their Brady bonds for the new instrument.

Policy

- Public finances are likely to remain relatively tight despite donor support, given pressure on expenditures from electricity subsidies, public servants' wages, high debt-service costs, and

election-related spending. Furthermore, significant domestic payment arrears are likely to remain, continuing to negatively impact the economy.

Other issues

- The cocoa-sector outlook is also linked to political stability. Production has been on a declining trend over the past decade as the sector (a pillar of the economy) has suffered from a lack of investment, ageing trees, and low producer prices. Not surprisingly, almost all of the candidates in the presidential election have pledged to reform the sector.
- While the strength of the CFA franc (which is pegged to the euro) has fuelled concerns about competitiveness, we do not expect any adjustment to the peg in the near term.

Politics

- Long-awaited elections, which have been postponed repeatedly due to delays in validating the electoral list, now look likely to be held in Q1-2010, although a date has not been announced. There are still around 1mn names on the electoral list which still need to be verified. While elections have been delayed several times since 2005, we expect them to go ahead in Q1-2010 as planned, as much progress has been made on voter registration, and the main parties are willing to hold elections soon.
- President Laurent Gbagbo is seen as the favourite candidate, as he has the greatest financial resources. An October 2009 poll showed him ahead of the main opposition candidates in the first round (48% of votes, compared with 30% for Henri Konan Bédié and 28% for Alassane Ouattara), and indicated that he would win the second round against Bédié. Even if the elections go ahead, a return to political normality is not a given. It is uncertain whether the elections results will be accepted, and significant challenges lie ahead, including the disarmament of militias and the reunification of the administration.

Standard Chartered Research forecasts: Côte d'Ivoire				
	2009	2010	2011	2012
GDP (real % y/y)	2.9	5.0	6.0	5.5
CPI (% y/y)	5.0	3.5	2.5	2.5
Policy rate (%)*	4.00	4.00	4.25	4.50
XOF-USD*	423	415	398	423
Current account balance (% GDP)	1.5	-1.5	-1.5	-1.0
Fiscal balance (% GDP)	-0.8	-2.5	-2.0	-2.5

* end-period

Source: Standard Chartered Research



Gambia

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Rebound unlikely

Economic outlook

- The economic outlook for 2010 is clouded by uncertainty over agricultural performance. Because the economy remains dominated by agriculture, GDP growth will remain vulnerable to weather conditions. Flooding impacted the country in late 2009, which does not bode well for overall economic performance in 2010. Moreover, tourism may continue to suffer from British pound (GBP) weakness, as 40% of visitors are from the UK. Overall, GDP growth is unlikely to improve in 2010 and should stay at around 4%.
- We expect another large current account deficit in 2010, of 18% of GDP. There is a risk of deterioration if bad weather conditions translate into lower groundnut exports (the country's main cash-crop exports), and if rising imports due to higher oil prices result in further depreciation of the Gambian dalasi (GMD).
- Inflation is expected to remain under pressure from rising oil prices, GMD depreciation, and lower domestic food production.

Financial issues

- The country remains at "high risk of debt distress", to quote the IMF. Interest rates on debt (mostly domestic debt) represent around 20% of fiscal revenues.

Standard Chartered Research forecasts: Gambia				
	2009	2010	2011	2012
GDP (real % y/y)	4.0	4.5	6.0	6.0
CPI (% y/y)	6.5	6.8	6.0	6.0
Policy rate (%)*	16.0	16.0	15.0	14.0
GMD-USD*	27.0	30.5	31.5	33.0
Current account balance (% GDP)	-17.0	-18.0	-18.0	-17.0
Fiscal balance (% GDP)	-1.6	-2.3	-4.0	-1.5

* end-period

Source: Standard Chartered Research

Policy

- Despite an expected improvement in total government revenues, the fiscal deficit is likely to widen as the government increases capital spending in 2010. We expect the IMF programme to be renewed after it expires in February 2010, but fiscal policy has traditionally been weak. We see a risk that spending overruns ahead of the 2011 election may derail the programme.
- The government has identified 14 public enterprises as candidates for privatisation, but the timing and execution of the privatisation programme remains uncertain.

Other issues

- The country needs to address the structural challenge of declining competitiveness, most notably in its re-export sector, which has been impacted by the Gambia's waning attractiveness as a regional hub. Harmonisation of imports and sales taxes across West Africa, as well as improvements in ports and customs operations in neighbouring countries, have eroded the Gambia's competitive edge.
- Gambian trade flows are likely to continue to be 'South-South' in nature. Trade is dominated by Asia (61.9% of exports and 38% of imports in 2007); India is the Gambia's largest export market, while China is its largest source of imports.

Politics

- President Yahya Jammeh and his party, the Alliance for Patriotic Reorientation and Construction (APRC), seized power in a 1994 coup; their power was subsequently reaffirmed through elections. They are likely to win the next presidential elections, due to be held in September 2011, given their access to financial resources and control of the media. There have recently been international protests against the arrests of several journalists, highlighting the fact that the country's transition to democracy is still incomplete.



Ghana

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Oil at last

Economic outlook

- Ghana will achieve oil producer status in 2010, marking a structural shift in the economy. Nonetheless, navigating the near-term constraints to growth will be a challenge. While the latest surveys indicate some recovery in business and consumer sentiment, the more important test will be a recovery from the outsized twin deficits that accompanied the food- and fuel-related crisis in 2008. 2009 was a year of much-needed rebalancing, although this took its toll on growth. The Composite Index of Economic Indicators recorded significant, deepening declines over the course of 2009. High interest rates resulting from Ghana's debt overhang were particularly worrying, with the NPL ratio rising from 7.6% in September 2008 to 13.2% in September 2009. With monetary easing now in place, 2010 at least holds the prospect of a more meaningful recovery. Moreover, exports and industrial consumption of electricity have been more resilient to the slowdown.
- Ghana's economy will benefit from its relative diversification, with agriculture remaining a focus despite new oil production. The authorities will continue to import subsidised fertiliser and hope to encourage more large-scale commercial farming. Tariffs on imported food have been reinstated to encourage domestic production.
- The official projection is that over the medium term, Ghana's non-oil economy will grow at a rate

of 8%. While this appears a bit high to us, there is little doubt that Ghana stands to be one of the better performers in Africa. By 2012, growth should be comfortably in the double digits.

Financial issues

- The legacy effect of a fiscal deficit in excess of 20% of GDP in 2008 continues. Ghana's biggest challenge will be to reduce domestic interest rates and prevent domestic debt from rising further. Given the recent increase in external debt, now at 31.8% of GDP, further external issuance is unlikely. The international financial institutions (IFIs), which are already supporting Ghana's recovery programme, would likely frown on any new non-concessional borrowing.
- During the economic crisis, the Bank of Ghana averted a spike in domestic interest rates by buying government securities from offshore investors who wanted to sell. By the end of October 2009, the Bank of Ghana held 11.8% of government securities, down from around 20% only two months earlier. This is expected to fall further over the coming year, and more long-term issuance is likely in order to meet new demand from domestic and offshore investors.
- A new pension scheme will be put in place in January 2010, aimed at enhancing domestic savings and making funds available for long-term investment. The government will increase its contribution to 13% of employees' salaries from the current 12.5%, resulting in GHS 1bn of pension contributions being invested domestically (according to official estimates).

Standard Chartered Research forecasts: Ghana				
	2009	2010	2011	2012
GDP (real % y/y)	4.7	5.9	9.8	11.1
CPI (% y/y)	19.5	16.0	13.2	12.0
Prime rate (%)*	18.0	14.0	16.0	13.0
USD-GHS*	1.40	1.56	1.55	1.58
Current account balance (% GDP)	-10.2	-8.0	2.0	3.8
Fiscal balance (% GDP)	-12.5	-7.8	-4.6	-3.0

* end-period

Source: Standard Chartered Research

Policy

- 2010 should see a sustained monetary easing cycle, driven by the need to bring down domestic debt service costs. In 2009, interest payments on domestic debt exceeded initial budget assumptions by around 21%. Budgeted figures suggest that in 2010, interest payments will represent 12.5% of the total budget, or 5.2% of



Ghana (con'd)

projected GDP. Reducing this cost, through a combination of monetary easing and lower dependence on very short-term financing of the deficit, will be a priority.

- A subtle disinflation trend is in place. How long it lasts will depend in part on how long the Ghana cedi (GHS) keeps appreciating. With growth slowing, the peak in inflation associated with the 30% upward adjustment in domestic fuel prices in 2009 was less pronounced than in earlier episodes. Core inflation (which excludes energy) has been declining. While rising oil prices and tariffs on imported food pose some risk to the inflation outlook in 2010, a gradual disinflation trend, helped by the base effect, is expected to remain in place.
- The speculative holding of FX that accompanied Ghana's 2008 balance-of-payments crisis should continue to reverse as we get closer to oil production – optimistically expected in Q4-2010. Growth in foreign-currency accounts at commercial banks has been slowing. The IMF's Special Drawing Rights (SDR) allocation has helped to boost FX reserves, which now stand at 2.4 months of import cover. Further gains are expected.
- Fiscal policy will remain focussed on narrowing Ghana's imbalances. A substantial proportion of arrears has been paid off, and a generally tight fiscal environment will prevail (the proposed 22.8%

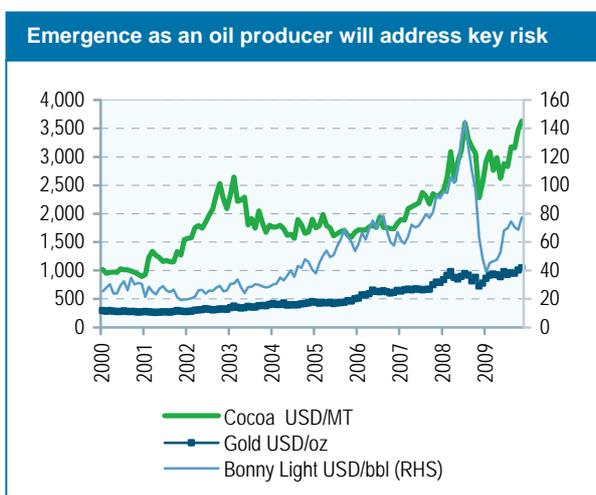
increase in spending is misleading, as much of that is statutory). Various measures have been put in place to raise revenue (including the reimposition of tariffs on food items and the doubling of mining-sector royalties), and more are planned (addressing the fiscal regime for the entire mining sector and raising user charges that do not fully reflect the cost of public goods and services).

Other issues

- Ghana's vulnerability to the price of imported oil and gas still bears watching until the country becomes an oil producer itself. Despite the construction of the West African Gas Pipeline, problems with the Nigerian supplier and disruptions due to unrest in the Niger Delta meant that Ghana did not receive the gas it required. In 2010, the emphasis will be on Ghana's own energy-based industries. Agreements are in place to ensure that the first 200bn cubic feet of gas produced from Ghanaian fields will be transferred to the state-owned petroleum company, GNPC, free of charge. Downstream oil and gas activity is intended to open up areas of the country that have previously been excluded from industrial development. With its own energy sources, Ghana's long-standing energy intensity (the legacy of years of cheap fuel) should become less of a threat to macroeconomic stability.

Politics

- Despite peaceful political transitions following elections in 2000 and 2008, investor concerns have centred on the honouring of contractual obligations undertaken by previous regimes when government changes. The narrow parliamentary majority of the ruling National Democratic Congress (NDC) is also a potential stumbling block to meaningful reform.
- China's rising engagement in the region's oil and gas sector is also a key theme. Potential Chinese financial backing for Ghana may be one factor behind the authorities' interest in acquiring a larger national stake in the Jubilee oilfield, rather than approving the sale of this stake to a Western oil major.



Sources: Datastream, Standard Chartered Research



Kenya

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Rain clouds gathering

Economic outlook

- Kenya's economic recovery in 2010 will be driven by the easing of food supply constraints due to the end of the drought, the effects of the government's stimulus package, the competitive advantages to Kenya of greater regionalisation, and improved private-sector credit.
- But a sustained pick-up in business and consumer confidence will be needed in order to restore economic growth to its pre-crisis and pre-election highs. This does not appear likely just yet. Political developments in the run-up to a planned referendum on the constitution will remain the overriding determinant of the growth outlook.
- The drought was the main downside risk to the economy throughout much of 2009, but with improved rains as of October/November, the outlook for 2010 is more favourable.
- The Kenyan economy has faced a triple whammy in the recent past. (1) It is still recovering from the dislocation experienced as a result of post-election violence in early 2008. (2) The global slowdown has not helped (although regional indicators remain relatively robust, and about half of Kenya's trade is with the East African sub-region). (3) The 2009 drought further delayed a full economic recovery, although the growth rate was still up from 2008. What will change in 2010?
- The recovery has momentum, as evidenced by indicators for Q2 and Q3-2009. An analysis of tax receipts shows that consumption, while weak, has been on an upward trend since Q1-2009. Although the authorities put in place a sizeable fiscal stimulus package, allowing the deficit to increase to 6.6% of GDP in FY10 (ending 30 June 2010), the positive impact of this spending is only expected to start coming through strongly in Q1-2010.
- While much of the new credit growth has been directed towards the public sector, recent evidence points to lower NPLs and a tentative relaxation of tight credit standards. Given the lagged impact of recent monetary easing, we expect a significant boost to private-sector credit growth to materialise only over the course of 2010.

Financial issues

- 2010 will see the issuance of Kenya's maiden eurobond (of around USD 500mn), which was planned before the crisis but delayed due to the unfavourable external environment.
- The cancellation of Kenya's external borrowing programme has led to increased domestic borrowing in order to finance the budget, but the authorities have put in place a number of innovative measures to prevent the overshooting of domestic interest rates and the crowding-out of private-sector lending.
- These measures include: (1) reducing the cash reserve ratio to add liquidity; (2) mandating that pension funds which receive public-sector money invest only in government securities; (3) cutting the policy rate to 7% by November 2009 from 9% in December 2008; (4) extending Central Bank of Kenya (CBK) regulation to microfinance institutions that are better able to mobilise deposits; (5) reducing the threshold for investment in government securities to increase the investor base; (6) separating the weekly T-bill auctions into 91-day and 182-day auctions to be held in

Standard Chartered Research forecasts: Kenya				
	2009	2010	2011	2012
GDP (real % y/y)	2.5	3.8	4.9	4.0
CPI (% y/y)	21.1	6.1	7.4	7.3
Bank rate (%)*	7.0	7.00	7.75	7.50
USD-KES*	75.0	77.90	79.85	81.50
Current account balance (% GDP)	-4.5	-4.0	-4.2	-4.7
Fiscal balance (% GDP)**	-6.6	-5.0	-5.5	-5.6

* end-period; ** for fiscal year starting 1 July

Source: Standard Chartered Research



Kenya (con'd)

alternating weeks; and (7) holding all other bond issues around the time of infrastructure bond auctions to ensure more favourable subscription levels. The government has also increased the use of its overdraft at the CBK, preventing even greater borrowing from the markets.

- It is hoped that eurobond issuance in 2010 will increase offshore investor interest in Kenya's domestic debt market, which has traditionally been limited. Although yields are not attractive relative to other African frontier markets, Kenya does offer the benefit of being the most liquid Sub-Saharan African FX market after South Africa. The Kenyan shilling's (KES') recent strengthening bias against a weakening USD may further enhance its appeal.

Policy

- In 2009, more frequent FX purchases by the CBK (aimed mostly at creating domestic liquidity conditions conducive to growth) saw Kenya's FX reserves improve to 4.2 months of import cover.
- The gradual widening of the current account deficit – driven by higher oil import prices and the recovery in demand forecast for 2010 – should offset this, but only to a limited extent. The more important driver of CBK FX purchases is likely to be the central bank's assessment of inflation risks. If there is a lower perceived need to add liquidity, FX purchases will stall.

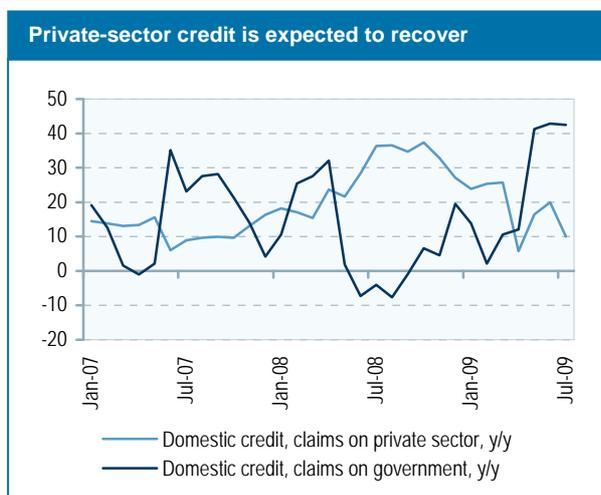
- The monetary easing cycle put in place in response to the crisis has probably ended, culminating in a final surprise 75bps rate cut in November 2009. 2010 will see the introduction of a new inflation index, with a reduced weighting for food. Already, changes in the computation of inflation – from an arithmetic to a geometric mean – saw y/y CPI inflation slow to 6.7% in October from 17.9% in September. Inflation is expected to fall further, but economic recovery expectations should keep the bank rate on hold in 2010.

Other issues

- The East African Protocol has been signed and will take effect in July 2010. This should usher in a period of more meaningful regionalisation, intended to allow for the free movement of goods, services, and labour within the East African Community (EAC), which has a population of 126mn.
- Kenya, the most industrialised economy in the region, is widely seen as the key beneficiary. However, political fallout once the Protocol becomes effective will have to be kept in check if the consensus for a further deepening of economic ties is to remain in place.

Politics

- Political risk remains key to the Kenyan outlook. The stability of the ruling coalition, formed in April 2008 under a power-sharing agreement, has always appeared tentative.
- Politics will return to centre stage in 2010, with negotiations over a new constitution that must be drafted by March. Recommendations that more executive powers be transferred from the largely ceremonial presidency to the prime minister are likely, and will prove controversial. With the electoral commission needing to prepare voter rolls before the issue can go to a vote, the referendum on the new constitution is not expected until 2011.



Sources: Standard Chartered Research, IFS, CBK



Nigeria

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Resource nationalism

Economic outlook

- 2010, the 50th anniversary of Nigeria's independence, looks set to be a landmark year for the reshaping of the country's economic outlook. Passage of the Petroleum Industry Bill (PIB), expected optimistically in Q1-2010, will represent Nigeria's first sweeping attempt to rewrite the terms of its engagement with international oil companies (IOCs). The aim is to drive revenue growth and realign the regulatory regime of Nigeria's hydrocarbon sector with what the authorities consider to be global best practices.
- More than USD 600bn in revenues is thought to have been generated since Nigeria's oil sector was developed in the 1960s, with – critics would argue – little to show for it. The hoped-for reforms, which should bring about a greater level of transparency and accountability, are aimed at changing this. But with production volumes and price-based royalties part of the overall PIB package, extracting greater revenue from existing output is a key feature of the bill. This strategy is not without its risks. IOCs active in Nigeria claim that with operating costs already high, they would be further disadvantaged by the change in regulation. Nigeria could be starved of much-needed new investment in existing oil fields as a result, risking a further decline in output. Countering this, some observers believe that new interest from Asian oil companies will generate enough competition to offset any loss

of output, even if these companies have less experience with extraction from deepwater fields. The issue is controversial. But whatever the risks to longer-term output stemming from potential underinvestment in Nigeria's oil and gas sector, growth in 2010 looks set to exceed that seen in 2009 for a number of reasons.

- First, the success of the recent amnesty with militants in the Niger Delta should see production recover from its 2009 lows. Second, with the benefits of Nigeria's banking sector clean-up in place, the Central Bank of Nigeria (CBN) will be in a better position to implement targeted measures to boost private-sector lending. Third, ahead of elections in 2011, government spending will be ramped up substantially, rising from a budgeted NGN 3trn in 2009 to NGN 4.08trn (USD 27bn) in 2010; the focus will be on development spending in the Niger Delta and on power-sector infrastructure projects. Although much spending has been devoted to resolving infrastructure bottlenecks in the past, the favourable impact of such spending on liquidity alone should go some way towards boosting growth.
- Plans are also underway to tackle the contentious issue of fuel-price subsidies, which have impeded structural progress on a number of fronts. Deregulation of the downstream oil and gas sector will result in substantial government savings (estimated at NGN 600bn) and boost supply of oil products. In turn, this is expected to remove an important bottleneck that has constrained power supply, driving more rapid growth across a number of industries. But the mostly long-term benefits will need to be offset against the almost-certain likelihood of industrial unrest provoked by the removal of subsidies, and a potential 300-400bps surge in inflation. Politically, numerous past attempts to address fuel price deregulation have failed. It is thus a case of 'wait and see' in 2010.

Standard Chartered Research forecasts: Nigeria				
	2009	2010	2011	2012
GDP (real % y/y)	4.2	5.9	8.5	7.8
CPI (% y/y)	12.0	9.6	8.9	11.2
Policy rate (%)*	6.0	7.0	7.5	8.0
USD-NGN*	148	147	145	143
Current account balance (% GDP)	2.0	8.0	12.0	14.0
Fiscal balance (% GDP)	-3.0	-4.9	-2.0	0.0

* end-period

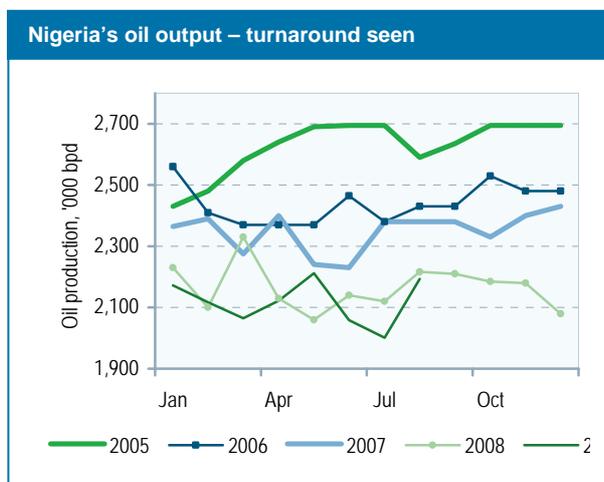
Source: Standard Chartered Research



Nigeria (con'd)

Financial issues

- Restoring health to the financial sector remains a key policy issue. 2009 saw a CBN-led special investigation into all 24 banks in Nigeria, with Tier 2 capital injected into nine institutions that were found to be illiquid and/or undercapitalised (a 10th institution was given until the end of June 2010 to recapitalise). Across the board, the banking sector has seen a higher level of provisioning, which threatens to undermine credit growth, despite the improvement in underlying fundamentals. Plans to establish an asset management company (AMC) tasked with buying around NGN 500bn worth of NPLs from banks, freeing up their balance sheets, should help to restore some lending momentum. But the AMC will focus on NPLs that can be valued, mostly related to margin trading.
- 2010 should see a new wave of consolidation in the Nigerian banking sector, driven by new foreign entrants as well as increased M&A activity among Nigerian banks. No institution will be allowed to have a market share greater than 20%, although ambitious bond issuance programmes by the country's leading banks suggest that an even-better capitalised sector, with fewer participants, is likely to emerge. Failure to secure buyers for rescued banks may result in temporary nationalisation, although the fiscal costs are not assumed to be great.



Sources: US Dept. of Energy, Datastream

Policy

- The CBN has adopted a cautious approach to FX policy, allowing the market to find a USD-NGN 'equilibrium' around 150. No change to this policy is expected, despite the return of windfall savings and an expected pick-up in the pace of FX reserve accumulation, with oil budgeted at USD 57/barrel in the 2010 budget. Although monetary policy remained in easing mode throughout 2009, and further (possibly targeted) measures aimed at boosting credit growth are planned, inflation risks stemming from fuel price deregulation would halt any further easing by the CBN.
- Given planned spending levels in 2010, fiscal policy will move into expansionary mode as well, resulting in a deficit of as much as 4.87% of GDP. The caveat lies in Nigeria's poor record in implementing spending plans. As of October 2009, roughly 40% of the budgetary allocations granted to ministries in 2009 were reportedly lying dormant in CBN accounts. With the budget assuming production of 2.09mn barrels per day, with a conservative price assumption, Nigeria's windfall savings will return. The risk is that the actual deficit will be narrower than planned.

Politics

- With all eyes on elections due in 2011, attention will be focussed on the reform of Nigeria's electoral body, INEC, as well as any leadership contest within the ruling PDP. While the party enjoys the considerable advantages of incumbency, opposition parties have spoken of the possible formation of a 'mega' party to challenge the PDP's hold on power. As long as rumours of President Yar'Adua's ill health persist, investors will be wary of any change ahead of 2011, as they associate the president with the appointment of key reformers in the Ministry of Finance and CBN.
- Renewed tensions in the Niger Delta would pose a risk to oil output, but for now, the amnesty, along with rehabilitation of militants and plans to give Delta communities a 10% share of a planned national oil company, appear to be working.



Sierra Leone

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Fast growth is not forever

Economic outlook

- Sierra Leone, a country with a weak base that is still grappling with the challenges of post-war economic rehabilitation, has discovered oil. While this has put the country on investors' radar, it is still too early to assess the potential, and any oil production would start only in a few years.
- Although the economy is likely to recover in 2010 in line with the improvement in the world economy, it may be difficult to repeat the levels of growth seen in the recent past, as post-conflict catch-up dynamics are progressively fading. We expect GDP growth to rebound to 5% in 2010.
- The worst impact of the international crisis appears to be over, and the outlook for the mining sector – especially diamonds – has improved. IMF support has also helped the country to cope with the crisis. The country is under a USD 80mn Poverty Reduction and Growth Facility (PRGF).
- The current account deficit is likely to narrow thanks to a recovery in mining exports as well as potentially lower oil and food imports. Improved capital inflows and the IMF Special Drawing Rights (SDR) allocation of USD 128mn will help to support the balance-of-payments position and the level of FX reserves.

- Inflation, which averaged 15% in 2008, likely slowed to an average of 10% in 2009, thanks to lower oil and food prices. In 2010, CPI is likely to trend down thanks to rising agricultural production and a lower dependence on oil.

Policy

- Sierra Leone is likely to continue to address key economic weaknesses by taking the following steps: (1) reducing its vulnerability to high oil prices (oil accounted for 36% of imports in 2008) through increased use of hydro-electricity, notably from the Bumbuna Hydroelectric Dam; and (2) reducing its dependence on food imports by boosting rice production. Like many countries in the region, Sierra Leone was badly impacted by soaring food prices in 2008 (rice accounted for 12.5% of its total 2008 imports).
- Fiscal revenues are set to improve, thanks to the economic recovery and a new mining law that will increase royalties. Furthermore, the government will introduce a tax on goods and services in 2010, widening the tax base. This is a positive step, as the tax base is currently very narrow (fiscal revenues amounted to 11.4% of GDP in 2008, among the lowest rates in Africa), and should help to reduce the country's dependence on donor support somewhat. However, international donor support is likely to remain strong and to continue to be a key source of financing for the government in the near term.

Politics

- While the political outlook is expected to remain broadly stable, rising tensions between the ruling All People's Congress (APC) and the opposition are possible. The next general elections are due to be held in 2012.

Standard Chartered Research forecasts: Sierra Leone				
	2009	2010	2011	2012
GDP (real % y/y)	4.0	5.0	6.0	6.0
CPI (% y/y)	10.0	7.5	7.5	7.5
Short-term rate (%)*	11.0	10.5	10.0	10.0
SLL-USD*	3,800	4,100	4,250	4,400
Current account balance (% GDP)	-9.1	-8.5	-6.5	-5.5
Fiscal balance (% GDP)	-4.0	-4.2	-3.8	-3.7

* end-period

Source: Standard Chartered Research



South Africa

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Unveiling Zumanomics

Economic outlook

- The hosting of the World Cup, the effect on policy of the perceived shift to the left, prospects for a more balanced recovery from recession, and the burning issue of power supply will all occupy South Africa in 2010. Striking a balance between market principles and an economic transformation driven by the state will remain a key challenge. The rebasing of GDP and the inclusion of estimates for the so-called 'non-observed economy' in revised statistics reveal that growth during the boom years was higher than previously believed. Nonetheless, more is needed in order to reach an employment-intensive growth path. The economic downturn in 2009 triggered higher unemployment and increasingly frequent protests in the townships – ostensibly over the poor pace of service delivery by local authorities, although the weak economy may have been the underlying cause. Higher, more inclusive growth is needed.
- The official growth forecast of only 1.5% for 2010 appears too low. Following an outright contraction in 2009, the economy should benefit from the rebuilding of inventories, higher public investment in infrastructure, and base-effect improvements in mining and manufacturing. But currency competitiveness will be key to prospects for the external sector, and could make the difference between a technical and a more sustained recovery. Credit growth will need to improve meaningfully to support higher consumption. Job insecurity means households are seeking to

reduce their overall debt burden, which may delay a full consumer recovery. South Africa's household debt-to-income ratio soared to 78% at the peak of the cycle, from 52% in 2002. The recent recession reduced this to only 73%, suggesting that household rebalancing may take some time.

- The financing of much-needed power-sector investment will also be pivotal to growth, but difficult decisions are required. A 45% annual electricity tariff increase for three years has been proposed to fund the investment. Unions are opposed to this, fearing job losses in sectors that are big industrial users of electricity. While the provision of cheap electricity has no doubt been a competitive advantage for South Africa, years of underinvestment in power infrastructure have increased the economy's vulnerability to potential shortfalls.

Financial issues

- Wider fiscal deficits over the coming years will see South Africa's borrowing requirement – and level of domestic debt – increase meaningfully. For now, the country is 'under-borrowed' internationally, but a greater balance between external and domestic borrowing may be required to prevent domestic interest rates from overshooting. External debt issuance by quasi-sovereign entities will also play an important role in financing ambitious public-sector infrastructure programmes.
- Such considerations lend some ambiguity to South Africa's FX policy stance. While the damaging effects of South African rand (ZAR) strength are well recognised, growth in the coming years will be driven substantially by public development spending, which has a significant import component. Press reports hinting at plans to 'freeze' the ZAR exchange rate are wide of the mark. Instead, South Africa has begun dismantling its exchange controls by liberalising offshore investment in the hope that this will encourage outflows in the short term, while helping to close the income imbalance on the current account deficit over the longer term. Such moves point to a

Standard Chartered Research forecasts: South Africa				
	2009	2010	2011	2012
GDP (real % y/y)	-2.0	2.3	2.7	3.2
CPI (% y/y)	7.4	6.4	6.5	6.0
Policy rate (%)*	7.0	7.0	8.0	8.50
USD-ZAR*	7.50	8.25	8.50	9.00
Current account balance (% GDP)	-4.9	-5.7	-6.1	-6.9
Fiscal balance (% GDP)**	-7.6	-6.2	-5.0	-4.2

* end-period; ** for fiscal year starting 1 April

Source: Standard Chartered Research



South Africa (con'd)

new pragmatism on the part of the authorities, who are putting in place market-friendly measures to respond to the left's concerns over damaging ZAR strength. Further ZAR strength in 2010 will likely be met with a steady accumulation of FX reserves.

Policy

- Public debate on the inflation targeting mandate of the South African Reserve Bank (SARB) will get underway in 2010. Leftist allies of the ruling African National Congress (ANC) want to see a broader mandate, possibly with the inclusion of employment-creation targets. While new SARB Governor Gill Marcus has welcomed this engagement, we expect the repo rate to remain at 7% throughout 2010. Previous SARB MPC decisions, although aimed at meeting the inflation target, have nonetheless taken the output gap into consideration. Setting policy to influence inflation over a two-year horizon also allows for flexibility in the inflation-targeting framework.
- South Africa will welcome the shifting global consensus that is now more tolerant of expansionary policy. The forecast of a wider budget deficit over the medium term is the result of weaker growth and revenue collection shortfalls, rather than a changed policy stance. As long as South Africa remains dependent on external financing, chances are low that its policy choices will veer too far to the left.

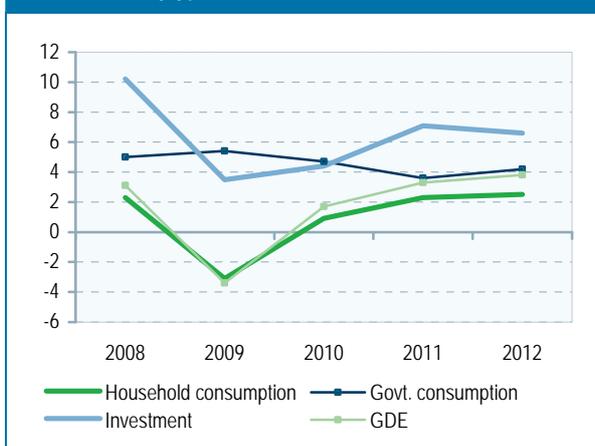
Other issues

- Black economic empowerment (BEE) policies need to be more broad-based in order to be properly transformative. Given the subdued recovery forecast for 2010, state intervention in dealing with BEE failures – although controversial – might nonetheless advance South Africa's redistribution agenda (i.e., the broad goal of reducing race- and gender-based income inequality).
- Sustained job creation will provide the greater challenge. While policy appointments suggest that big change is unlikely, the creation of a new economic development ministry should lead to increased experimentation with industrial policy at the micro level.

Politics

- While events in 2009 were somewhat overshadowed by the response to the economic crisis, the big question in 2010 will be whether South Africa sees a more meaningful shift to the left. Interpretations of the outcome of Polokwane – the ANC party conference at which Jacob Zuma was elected president – differ. For most observers, overtures to the left were no more than a necessary move to secure the party leadership. With President Zuma now declaring his intention to seek another term in office, the leadership might prove more beholden to the left.
- Political commentators observe that while 'Thabo Mbeki did not allow the conversation, Jacob Zuma does not force the choice'. There is a consensus that the 'new' ANC has ushered in a period of more open policy debate. Cabinet appointments appeared to be aimed at appeasing all stakeholders – Trevor Manuel (planning minister) and Pravin Gordhan (finance minister) appealed to business, while Ebrahim Patel (development minister) and Rob Davies (trade and industry minister) kept the left inside. Thus far, President Zuma has succeeded in being all things to all people. But with the policy debate heating up, things are likely to come to a head in 2010. Decisions will need to be made.

Rising public investment will drive growth (official forecasts, % y/y)



Sources: National Treasury, Standard Chartered Research



Tanzania

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Liberalisation, Arusha-style

Economic outlook

- After the downward revision of Tanzania's growth target to 5% from 8% in 2009 due to the global crisis and the regional drought, some recovery is expected in 2010. Growth should be underpinned by agriculture, mining, and construction, with tourism showing some signs of improvement. In particular, the authorities' 'Agriculture First' policy, under which 2.1mn farmers benefit from subsidies on fertiliser and other inputs, should finally pay dividends. The early days of the global crisis saw a collapse in Tanzania's traditional exports and the undershooting of its revenue collection target. Restoring rural incomes following the 2009 drought will be a priority.

Financial issues

- 2010 may well be the year in which Tanzania opens its capital markets to foreign investment. Pre-crisis, Tanzania was widely tipped to be planning to issue a eurobond, but its domestic markets remain closed to cross-border investment. Greater regional integration and a modest decline in donor assistance may trigger more rapid change on this front.

Policy

- The current account will benefit from a higher gold price and more visitor arrivals in 2010, but this will be offset by higher oil prices and increased imports of tax-exempt capital goods. Tanzania's response to the crisis – granting two-year tax exemptions to miners of gemstones (originally as an incentive to

sustain production at a time of weak demand) – is increasingly being called into question. Economy-wide tax waivers, thought to be equivalent to the amount of support received annually from donors, are controversial. With revenue likely to be more constrained in the years ahead, the entire fiscal regime for mines is expected to be in focus. Although a bill to change the country's Mining Act has yet to be tabled, talk of the government taking stakes in mining companies and increasing the rate of royalties from the current 3% is gaining traction.

- The drought-related surge in headline inflation in 2009 revealed just how problematic the high weighting of food in the CPI basket is. The introduction of a new basket in 2010, with a reduced weighting for food, should see inflation decline meaningfully.

Other issues

- The East African Protocol has been signed and should take effect by July 2010, ushering in a period of greater regionalisation. Significantly, Tanzanian objections were seen as the main stumbling block to greater liberalisation between member countries of the East African Community, with Arusha arguing that allowing citizens of other EAC countries to own land within its borders would conflict with its legal system (the government holds all land in trust). Despite the country's transition from socialism, more rapid reform of the legal system is still needed for a fully-fledged move to a market economy.

Politics

- Elections are due in 2010, with Jakaya Kikwete likely to be chosen again as the candidate of the ruling Chama Cha Mapinduzi (CCM). While the CCM has dominated mainland politics, politics on Zanzibar have been more fractious. Previous elections were marred by allegations of vote-rigging and the withdrawal of donor assistance. Talk of power-sharing is increasingly in vogue, although hardliners belonging to the opposition Civic United Front (CUF) will have to be won over.

Standard Chartered Research forecasts: Tanzania				
	2009	2010	2011	2012
GDP (real % y/y)	4.8	5.9	6.4	6.7
CPI (% y/y)	12.7	7.5	8.0	7.2
3M T-bill (%)*	4.8	6.8	7.6	7.2
USD-TZS*	1350	1380	1415	1420
Current account balance (% GDP)	-9.0	-7.0	-10.1	-9.9
Fiscal balance (% GDP)**	-4.0	-5.4	-5.1	-5.3

* end-period; ** for fiscal year starting 1 July

Source: Standard Chartered Research



Uganda

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From donor dependence to oil

Economic outlook

- Uganda's transition to becoming an oil producer will change the country's growth outlook over the coming years. Initial success with agriculture and donor-supported macroeconomic stabilisation have made Uganda one of Africa's star performers since the 1990s. More recently, growth has been supported by strong cross-border demand, especially from resource-rich areas in southern Sudan and the eastern Democratic Republic of Congo. Now, with oil, the country looks set to reinvent its growth model once again, although the immediate outlook is not clear-cut.
- Total confirmed oil reserves now stand at 2bn barrels, with exploration continuing. Despite an extraordinarily successful strike rate to date, future oil production will involve substantial upfront infrastructure costs. Landlocked Uganda will either have to build a domestic refinery or export crude through a yet-to-be-built pipeline to the Kenyan coast (Mombasa, 1,300km away, is the nearest port). The region's waxy oil will mean that the pipeline needs to be heated. While the authorities have a preference for domestic refining, and have commissioned a feasibility study on a refinery with a capacity of 150,000 barrels per day, some of Uganda's oil will need to be exported. Although the country has attracted around USD 500mn of exploration investment, more is needed to make the oilfields ready for production.
- With oil production at least two to three years away, the immediate outlook will be determined by

other factors. Despite having one of the highest growth rates in East Africa in 2009 and increasing its food exports to the region (with Kenya and Tanzania being afflicted by drought), Uganda is being impacted (with some lag) by the global slowdown. Following two years of high food-price inflation, 2010 may still see sub-trend growth before output recovers.

Financial issues

- Despite talk of potential eurobond issuance to support USD 1bn of infrastructure spending, a recent parliamentary report suggesting that new borrowing should only be on concessional terms, and for strategic priorities, bears watching. If oil is factored into export growth, concerns about Uganda's debt sustainability may dissipate.

Policy

- Monetary policy has moved away from strict money supply targeting in favour of an inflation-targeting regime. With declines in core inflation, and headline inflation driven mainly by exogenous factors like food, the monetary stance has become more relaxed. Efforts by the Bank of Uganda (BoU) to boost liquidity and credit continue. From January 2010, non-bank financial institutions will be permitted to buy government securities.
- Despite an expected widening of the current account deficit driven by capital imports for infrastructure development, healthy offshore investor interest in Ugandan debt markets and investor positioning ahead of oil production favour Ugandan shilling (UGX) stability. The BoU may no longer be as active in sterilising liquidity, but this does not matter much.

Politics

- With the opposition fragmented, President Yoweri Museveni is widely expected to be elected to a fourth term in 2011. Recent unrest, including rioting in September 2009, serves as a reminder of the benefits of stability.

Standard Chartered Research forecasts: Uganda				
	2009	2010	2011	2012
GDP (real % y/y)	6.3	6.4	6.8	7.5
CPI (% y/y)	13.5	7.2	7.7	6.5
3M T-bill (%)*	6.20	6.90	6.80	7.20
USD-UGX*	1,920	1,920	1,960	2,040
Current account balance (% GDP)	-6.4	-7.2	-7.8	-6.8
Fiscal balance (% GDP)**	-2.5	-3.0	-3.2	-2.8

* end-period; ** for fiscal year starting 1 July

Source: Standard Chartered Research



Zambia

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Powering the copper mines

Economic outlook

- Zambia's copper output looks set to surge over the coming year. However, power and fuel shortages could be the spoiler. With annual copper output expected to increase sharply from 660,000 tonnes in 2009 to 750,000 tonnes in 2010, the Zambian economy is likely to improve on its surprisingly robust 2009 growth performance. But gains in power generation capacity have not kept pace with rapid growth in mining. Despite vast hydroelectricity potential (Zambia has around 40% of the Southern African region's water reserves), delays to important new projects could stall the expected improvement. According to state-run electricity provider ZESCO, growth in the mining sector will see power consumption rise from 1,500MW currently to 2,437MW in 2010. There is a substantial risk of load shedding in order to sustain the operation of the mines.
- This is likely to take its toll on manufacturing, which remains constrained by Zambian kwacha (ZMK) strength. A structural effect is also at work. Since the opening up of South Africa post-1994, Zambian manufacturing has been too small to compete. The rehabilitation of the Zimbabwean economy in 2010 may pose an additional challenge.
- Despite these risks, GDP will be sustained by gains elsewhere. Zambia has seen bumper maize harvests and rising food exports. Double-digit construction growth is expected. Although tourism

fell by 23% in 2009 in response to the global crisis, South Africa's hosting of the 2010 World Cup should see tourism surge regionwide.

Policy

- In line with scaled-back donor assistance, Zambia will move away from money supply targeting and adopt a new policy rate in 2010. A formal repo window is to be instituted at the Bank of Zambia (BoZ) in December 2009, while a new wholesale lending rate, the prime rate, will be introduced in Q2-2010. A decline in the frequency of open-market operations has already resulted in more favourable liquidity conditions, with yields declining. With Zambia facing a higher borrowing requirement in the absence of donors, the cut in domestic debt-servicing costs will be timely.
- Measures will also be put in place to revise the petroleum tax regime, with a view to sustaining pump prices and addressing persistent uncertainty in fuel supply. But there is a bigger background issue here. Zambia has seen a structural decline in its domestic revenue collection as a percentage of GDP in recent years. Dependence on trade taxes, and the collapse of imports early on in the crisis, revealed Zambia's vulnerability. But given the strategic importance of the mining sector, plans to increase windfall taxation of the sector are likely to remain on the back burner.

Politics

- The controversial acquittal of former president Frederick Chiluba on graft charges has strained relations with donors, who are increasingly concerned by the authorities' response to corruption. Bilateral donor financing of the budget is set to fall dramatically, but an IMF package aimed at helping the country adjust to the crisis has caused import cover to rise to its highest levels in years. Following revisions to the windfall tax regime for mines, the low level of tax revenue from mining (despite an impressive growth rate) remains a political sore point, and is likely to be seized on by populist opposition politicians such as Michael Sata.

Standard Chartered Research forecasts: Zambia				
	2009	2010	2011	2012
GDP (real % y/y)	4.9	5.5	5.8	6.4
CPI (% y/y)	13.6	11.4	10.5	9.8
3M T-bill (%)*	7.20	8.60	9.1	8.4
USD-ZMK*	4750	5100	5600	4900
Current account balance (% GDP)	-3.7	-4.2	-3.2	-2.8
Fiscal balance (% GDP)	-3.0	-4.0	-3.6	-3.4

* end-period

Source: Standard Chartered Research

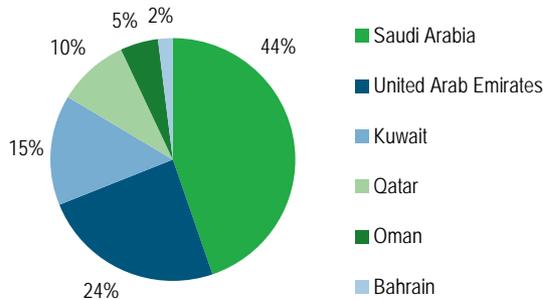
Economies – Middle East and North Africa





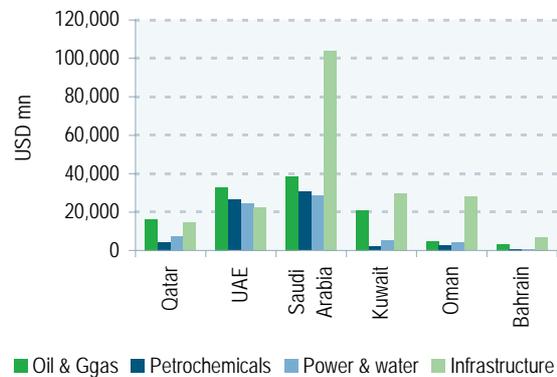
Charts of the year – Middle East and North Africa

Chart 1: Saudi continues to dominate
 % Contribution to GCC GDP, 2008



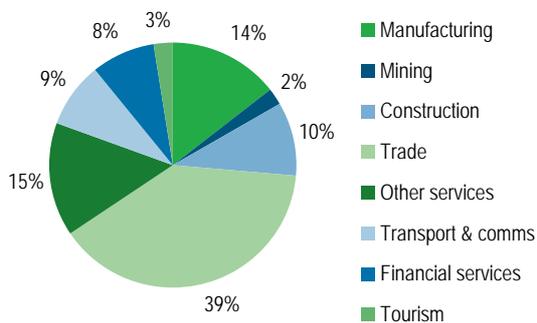
Sources: Standard Chartered Research, IMF

Chart 2: Investment to charge ahead
 GCC key investments 2010-13



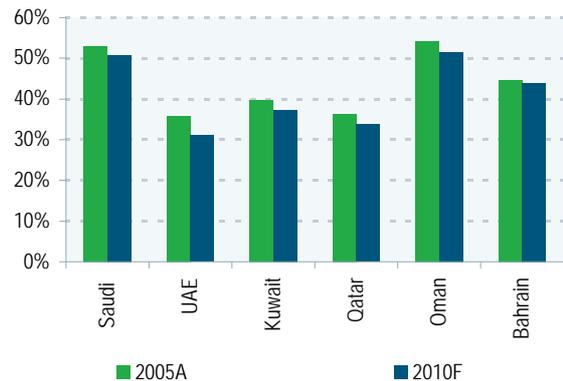
Sources: Standard Chartered Research, MEED Projects

Chart 3: The region's most diversified economy
 Contributors to Dubai's GDP, 2008



Source: Dubai Statistics Centre

Chart 4: Young population to drive growth
 Population below 24 years of age



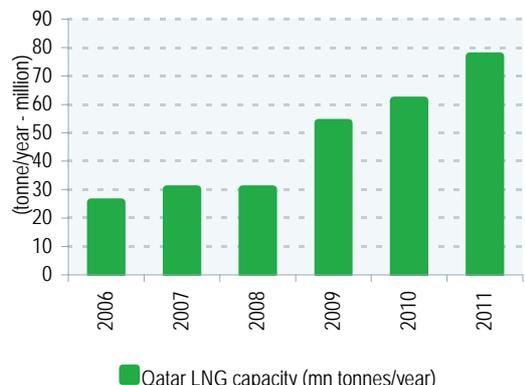
Source: UN World Population Prospects: The 2008 Revision

Chart 5: More deleveraging to come
 UAE advance-to-deposit ratio



Source: Central Bank of the UAE

Chart 6: Qatar to be the world's top LNG exporter
 Qatar's LNG liquefaction capacity



Source: MEED



MENA

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Rebounding in 2010

Economic outlook

- It is difficult to view the Middle East North Africa (MENA) region as a single economic bloc. Economic dynamics vary widely among the countries in the region, with per-capita GDP ranging from USD 2,162 in Egypt to USD 93,204 in Qatar, according to the IMF. It is best to divide the region into three groups: (1) the oil-producing countries of the Gulf Co-operation Council (GCC), (2) the Levant countries (Jordan and Lebanon) and Egypt, and (3) the Maghreb countries (Tunisia, Algeria, and Morocco).
- In the GCC, the economies of Saudi Arabia, the United Arab Emirates (UAE), and Kuwait likely contracted in 2009 due to weaker hydrocarbon markets, tight liquidity, and the bursting of speculative bubbles, especially in real estate. In Kuwait, the economic risks are higher, given the policy paralysis resulting from continuous disagreements between the cabinet and the parliament. Qatar was the fastest-growing GCC economy in 2009, and we expect this to continue in 2010 as gas production continues to increase.
- When it comes to hydrocarbons, production has a far more direct impact on real growth than prices; prices affect growth only indirectly, via the wealth effect and by enabling government spending. The accumulation of massive surpluses in the past few years allowed governments to continue with public spending despite falling oil prices. Oil prices are stabilising at high levels, making further OPEC production cuts unlikely in 2010, and this should support GCC growth. At the same time, heavy

infrastructure investment is likely to continue, led by government spending. As a result, we expect GCC economies to rebound in 2010, although growth will likely remain lower than the highs of 2008.

- The way in which Dubai's debt restructuring is handled will have wider implications for the region. Investors are concerned about the relationship between GCC sovereigns and quasi-sovereign entities and the region's lack of transparency. This is likely to increase risk premia in the region, making it harder for GCC countries to access international capital markets.
- The Levant countries and Egypt managed to sustain positive growth in 2009, mainly on the back of counter-cyclical policies. The challenge for these countries in 2010 will be to reduce their fiscal deficits without significantly hindering growth.
- In the Maghreb, Morocco has benefited from a strong agricultural sector, while Tunisia is ranked as one of the most competitive economies in Africa by the World Economic Forum. Algeria's economy receives significant support from the hydrocarbon sector and from government-driven investment in infrastructure. 2009 was a good harvest year, helping both Morocco and Algeria to avoid a contraction. While the agricultural sector is the wild card, we expect the Maghreb economies to maintain positive growth in 2010.

Financial issues

- Dubai's debt will likely remain a key focus of investors in 2010 and especially 2011, given the amount of bond maturities that year. We estimate that Dubai faces about USD 24.6bn of debt maturities in 2011. Key loans and bonds maturing during the first three quarters of 2009 were repaid on time. However, developments in Dubai and the possibility of a default by one of its quasi-sovereign entities will have wider implications for the GCC. Given the low level of transparency, international investors are likely to reduce their exposure to the

Standard Chartered Research forecasts: GCC				
	2009	2010	2011	2012
GDP (real % y/y)	0.4	4.3	3.9	3.7
CPI (% y/y)	3.1	4.0	4.8	4.6
Current account balance (% GDP)	5.3	10.2	9.7	9.1
Fiscal balance (% GDP)	5.3	9.7	10.3	11.7

* end-period

Source: Standard Chartered Research



MENA (con'd)

region in 2010, assessing companies on a standalone basis rather than relying on implicit state guarantees. The problem is that the lack of transparency makes it hard for investors to make such an assessment; as a result, foreign investment in the region will likely fall. We also estimate that project financing for infrastructure projects (around USD 717bn in the pipeline for 2010-13) will be difficult.

Policy

- GCC countries had aimed to introduce a common currency in 2010, but Oman and the UAE decided not to participate. In theory, introducing a common currency solves two problems. First, it makes currency pegs more credible by making them irreversible and makes it impossible for countries to engage in competitive devaluations. (That said, this has never been a problem in the GCC.) Second, it eliminates FX risk in the common currency area and reduces transaction costs, encouraging intra-regional trade. However, given that the GCC economy is dominated by hydrocarbons and services (mostly in non-tradable sectors such as real estate), intra-regional trade would be unlikely to increase, even with a common currency.
- The push for a common GCC currency is driven more by politics than economics. In our view, three conditions must be met in order to clear the way for the successful introduction of a common

currency in the near future. First, all six member states need to participate, rather than four. The GCC needs to reach a compromise to induce the UAE and Oman to rejoin.

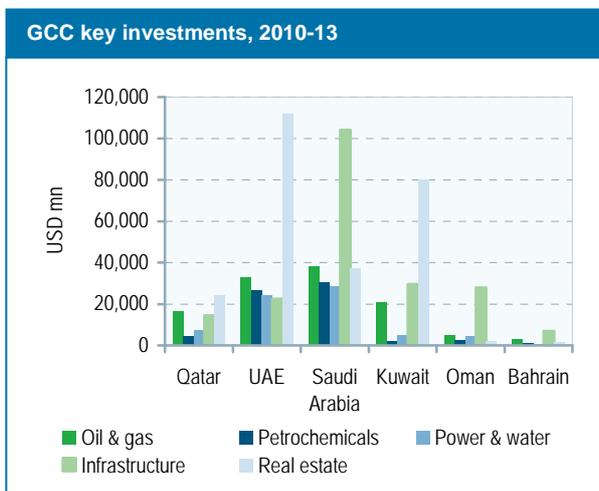
- Second, the central bank needs to have a clear mandate and room to pursue an independent monetary policy. This implies that the common currency should not be pegged to just one currency. It is also important for all member states to have equal (rather than weighted) voting rights in the central bank so that decision-making is not dominated by one country. This could be a concern for smaller countries in the region.
- Third, the region needs to develop deeper debt capital markets. A more flexible GCC common currency has the potential to become one of the world's reserve currencies. Central banks of oil-importing countries could choose to hold a small percentage of their reserves in the GCC currency as a natural hedge against rising oil prices. But for this to happen, the region needs to develop deeper debt capital markets and domestic-currency assets.

Other issues

- The two most important drivers of longer-term growth will be (1) the push to diversify GCC economies and (2) demographics. The GCC has a very young population. Demographics and diversification are interlinked. The challenge for Gulf countries is to create jobs for their young populations.

Politics

- Iran's standoff with the West is probably the most visible geo-political crisis in the Middle East, and Iran's stability (or instability) has repercussions across the region. This is particularly true in Iraq (majority Shia), in the Israel-Palestine conflict (Iran's support of Hamas in the Gaza strip versus the more secular pro-Western Fatah), and in Lebanon with Iran's support of Hezbollah.



Sources: MEED Projects, Standard Chartered Research



Algeria

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Great potential, limited growth

Economic outlook

- Delays in gas projects, combined with OPEC quota constraints, likely limited real GDP growth to below 3% in 2009.
- The non-oil economy has shown more strength, with government-led infrastructure development, social housing projects, and an excellent harvest contributing to headline GDP growth.
- In 2010, it will be important for Algeria to meet its gas development targets and resolve delays and bottlenecks that have plagued its hydrocarbon programmes.
- Algeria can potentially play a crucial role in substituting for Russia as a supplier of gas to Europe. Already, 25% of Europe's gas imports come from Algeria.

Financial issues

- Economic progress will continue to be constrained by heavy-handed policies such as the tightening of tax rules, ceilings on foreign ownership, barriers to imports of certain goods, and a ban on non-housing consumer lending (the latter was introduced in July 2009).
- The tax system is still very complex and is characterised by loopholes and multiple layers.

- If the government wants to continue to attract foreign investors, it will have to address concerns over excessive state control and inconsistent policies towards FDI.

Policy

- The government will maintain strong expansionary policies, including its five-year, USD 150bn infrastructure programme.
- The fiscal deficit should narrow in 2010 to 5.5% of GDP due to improved fiscal revenues and a gradual effort to rein in non-essential public spending.
- The substantial fall in government revenues in 2009 should be reversed in 2010 due to higher oil demand and a recovery in oil prices.

Other issues

- Social discontent and political disenfranchisement will persist. It is estimated that roughly 27% of Algerians aged under 30 are unemployed, while one-third of the population is aged under 15.
- Oil proceeds have failed to trickle down to the various layers of the population, and the pace of the reform process has been extremely slow.

Politics

- After having the constitution amended, President Abdelaziz Bouteflika – as expected – won a third term in the April 2009 elections.
- Since the civil war that followed the 1991 elections, the country has yet to hold free and credible elections seen as truly democratic by all parties.
- Algeria also faces a long-standing, low-level threat of terrorist activism that periodically turns more violent. However, this should not pose a fundamental risk to the country's stability.

Standard Chartered Research forecasts: Algeria				
	2009	2010	2011	2012
GDP (real % y/y)	2.5	3.5	5.0	5.0
CPI (% y/y)	5.5	4.0	3.5	3.0
Policy rate (%)*	0.875	0.875	0.875	0.875
DZD-USD*	69.75	63.00	65.00	62.00
Current account balance (% GDP)	-1.0	1.0	2.0	2.0
Fiscal balance (% GDP)	-7.5	-5.5	-4.5	0.0

* end-period

Source: Standard Chartered Research



Bahrain

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Resilience and challenges

Economic outlook

- Bahrain's economy has been less affected by the latest global crisis than most of its larger GCC peers, but it was also growing at a slower pace during the boom years. Employment in all sectors actually grew in H1-2009, according to official data.
- Bahrain will continue to focus on attracting foreign investment, while trying to bring down high unemployment among nationals by stepping up training programmes.

Financial issues

- Though credit growth was slow in 2009, this was related more to sentiment than to banks' ability to lend. There is adequate liquidity in the interbank market.
- Bahrain has recently taken measures to reinforce its lead as the region's asset management hub, a niche that it should continue to develop in order to fend off competition from Dubai.
- Bahrain has long served as the entry point to Saudi financial markets. Should Saudi Arabia open up its markets substantially, this position could be endangered.
- The official line is that the privatisation programme will continue.

- The expansion of aluminium production will depend on Bahrain's ability to secure new gas supply from abroad, potentially from Qatar.

Policy

- The expansionary fiscal policy implemented during the crisis is likely to result in slight fiscal deficits in both 2009 and 2010. Bahrain arguably has the weakest fiscal position in the GCC and has repeatedly resorted to sovereign bond issuance (both sukuk and conventional).
- Regulators have been proactive in managing monetary conditions, controlling liquidity by issuing securities and managing credit growth.

Other issues

- Lawmakers will continue to pressure the government to increase social spending in order to alleviate poverty and improve living standards.

Politics

- Despite efforts to advance the political reform process, the government and the ruling family continue to dominate the political arena. The government has faced some pressure due to immigration, religious tensions, and growing economic inequalities.
- The government has set a series of national unity initiatives to tame escalating tensions between rival political groups. While we do not see any serious challenges to the current government and ruling family, Bahrain is the GCC country where opposition to the current leadership is the strongest.
- On the international front, the government will continue to balance its strong commitment to the US (Bahrain is home to the largest US naval base in the Gulf, and is the only GCC country with which the US has a free-trade agreement) with an apparent will to maintain cordial relations with Iran.

Standard Chartered Research forecasts: Bahrain				
	2009	2010	2011	2012
GDP (real % y/y)	2.0	3.0	4.0	4.0
CPI (% y/y)	2.5	3.0	3.5	3.5
Policy rate (%)*	0.5	0.5	0.5	0.5
BHD-USD*	0.38	0.38	0.38	0.38
Current account balance (% GDP)	2.0	14.0	17.0	17.0
Fiscal balance (% GDP)	-0.5	-0.3	0.0	1.0

* end-period

Source: Standard Chartered Research



Egypt

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Heading into an election year

Economic outlook

- Higher fiscal stimulus spending sustained the economy's growth momentum in FY09 (ended 30 June 2009), with GDP growth of 4.7% y/y beating market expectations. However, the outlook remains weak. We expect growth to slow to 4.5% y/y in 2010 on weak export growth and declining revenues from key sectors, including Suez Canal transit trade and tourism. Upcoming parliamentary and presidential elections are likely to weigh on the economy as higher government subsidies ahead of the elections crowd out private investment.
- Inflationary pressures resurfaced in Q4-2009 on rising food and wage inflation, with CPI inflation accelerating to 13.3% y/y in October from 9.9% in Q3. However, the inflation outlook appears benign: the key core inflation indicator was 6.5% y/y in October 2009, well within the central bank's comfort zone.

Financial issues

- The banking sector remains healthy despite rising bad loans. This is partly the result of reforms undertaken over the past five years, including enhancing banking supervision, cleaning up balance sheets by provisioning non-performing loans, and privatising state banks. Banks increased their capital base to EGP 41bn in FY09 from EGP 33bn in FY07.

Standard Chartered Research forecasts: Egypt				
	2009	2010	2011	2012
GDP (real % y/y)	4.7	4.5	4.5	5.0
CPI (% y/y)	18.3	10.0	9.0	8.0
O/N deposit rate (%)*	8.25	8.25	8.00	8.00
USD-EGP*	5.53	5.45	5.75	5.65
Current account balance (% GDP)	-2.3	-1.8	-1.0	1.0
Fiscal balance (% GDP)**	-6.9	-8.4	-7.5	-7.0

* end-period; **for fiscal year starting 1 July

Source: Standard Chartered Research

- Liquidity remains tight, and private-sector credit flows grew just 0.9% in the first nine months of 2009. Risk aversion among banks and higher government deficit financing requirements are crowding out private credit.

Policy

- Monetary policy will remain accommodative, as inflation remains within the central bank's comfort zone. The central bank cut rates six times in 2009, bringing the overnight deposit rate to 8.25% and the lending rate to 9.75% by September. However, the rate cycle has likely bottomed. The central bank kept rates on hold at its November 2009 monetary policy meeting, citing concerns about rising inflation; no further cuts are likely in 2010.
- The Egyptian pound (EGP) is managed via a de facto peg to a basket of currencies, fluctuating in a narrow band of +/-2.5%. We expect the EGP to strengthen going forward on external account corrections.
- Fiscal policy will remain expansionary – the government outlined a USD 2.5bn stimulus spending plan in its FY10 budget. Higher food and oil subsidies, wage increases, and investment spending, combined with declining tax revenues, will likely widen the fiscal deficit to 8.4% of GDP in FY10 from 6.9% in FY09. Debt is expected to rise to 82% of GDP in FY10, but this is unlikely to stop heavy spending ahead of an election year.

Politics

- The political temperature is likely to rise ahead of the parliamentary elections scheduled for 2010 and the presidential election in 2011. President Hosni Mubarak appears set to further tighten his grip on the country, despite considerable public discontent over high food prices and rising unemployment. The government has embarked on an expansionary spending spree ahead of the elections.



Jordan

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Stimulus spending constrained

Economic outlook

- GDP growth slowed to 3% y/y during the first three quarters of 2009 from 5.8% in 2008, owing to a slowdown in foreign capital flows and weak export demand. Fiscal stimulus spending is constrained by declining tax revenues and delays in the release of budgetary grants from Saudi Arabia and the US. Hence, the growth outlook for 2010 is weak, although we expect a moderate pickup to 4% y/y, in line with an improvement in global trade flows.
- The inflation outlook is benign, although reductions in food and energy subsidies and higher commodity prices are likely to cause CPI inflation to rise to 4% y/y in 2010. CPI inflation fell to -0.7% in 2009 from +14.9% in 2008, reflecting swings in international commodity prices.

Financial issues

- All of Jordan's banks are compliant with capital adequacy requirements (CAR), with industry CAR standing at 18.3% as of end-2008, and they comfortably meet liquidity requirements. The global financial crisis had very limited impact on credit quality, with the non-performing loan (NPL) ratio edging up only slightly from 4.1% at end-2007 to 4.2% as of end-2008, according to the latest available data.

Policy

- The Central Bank of Jordan (CBJ) has taken proactive measures to improve liquidity conditions,

including cutting policy rates by 150bps since November 2008 and lowering banks' reserve requirements. We expect the central bank to maintain its accommodative monetary stance in 2010 as the interest rate differential with the US remains at an all-time high, helping to ease pressure on the balance of payments.

- The CBJ is committed to keeping the Jordanian dinar (JOD) pegged to the dollar; the peg was crucial in maintaining confidence in the Jordanian economy during the recent turmoil in global markets. Expected corrections in the country's large external deficit and the build-up of FX reserves will ease pressure on the JOD in 2010.
- Fiscal stimulus spending is constrained by declining tax revenues and delays in the release of foreign aid grants. During 2009, domestic tax collection declined by 8.4% y/y, and foreign grants fell by 79% y/y. This has constrained stimulus spending, as higher fiscal deficits could cause public debt to exceed the legislative ceiling of 60% of GDP set for 2011.

Politics

- Jordan is a key player in the volatile Middle East region, playing a constructive role in advancing the peace dialogue with Israel and helping the Iraqi government to develop its nation-building capacity. This role has resulted in large aid flows from the US and Saudi Arabia.
- King Abdullah II remains a popular leader, enjoying the support of the powerful military establishment and the nationalist parties. He is expected to maintain his control over the country, as the opposition (primarily Islamist parties) remains weak and divided. However, pushing through key economic reforms – including reducing food and energy subsidies – will be difficult, and could be put on hold pending the parliamentary elections scheduled for 2011.

Standard Chartered Research forecasts: Jordan				
	2009	2010	2011	2012
GDP (real % y/y)	3.0	4.0	4.5	5.0
CPI (% y/y)	0.2	4.0	3.5	3.0
Repo rate (%)*	5.00	5.00	5.50	5.75
JOD-USD*	0.71	0.71	0.71	0.71
Current account balance (% GDP)	-10.0	-8.8	-7.0	-6.0
Fiscal balance (% GDP)	-6.5	-6.1	-5.8	-5.5

* end-period

Source: Standard Chartered Research



Kuwait

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Political obstruction

Economic outlook

- We expect GDP to expand by 3.0% in 2010, following a contraction of 5.5% in 2009, on improving oil-sector conditions. In addition, the non-oil sector – especially financial services – should benefit from improved investor sentiment and increased government expenditure in 2010.
- Kuwait is heavily reliant on the oil sector, which contributes more than 55% of GDP. It had to cut oil output in 2009 in line with OPEC quotas.
- The government cut spending in 2009 under its counter-cyclical fiscal policy. This will have a negative effect on private-sector demand, already muted due to weak global investor sentiment.
- We forecast a 10% contraction in the oil sector for 2009 and flat growth in the non-oil sector due to the lack of counter-cyclical government spending. However, supportive monetary policy likely prevented the non-oil sector from contracting.
- In 2010, higher exports should boost oil-sector growth to 4%. The positive effects of higher oil-driven government spending on the private sector should help to boost non-oil growth to 2% in 2010.

Financial issues

- The authorities implemented several measures aimed at cushioning the domestic financial sector from the impact of the global crisis. The central

bank and the sovereign wealth fund supported a local bank that lost USD 1.4bn in local equities through a 16% emergency rights issue. The sovereign wealth fund invested USD 5bn long-term in local equities, while the parliament approved a USD 5.2bn Financial Stabilisation law that guarantees 50% of new loans.

Policy

- The 2009 budget included a 36% drop in expenditure, as the government wanted to avoid running a budget deficit in a year when oil prices and production were dropping. Our view is that Kuwait needed to implement aggressive counter-cyclical spending, and that a fiscal deficit would have been manageable following several years of significant surpluses. The state has sufficient reserves to finance a significant deficit.
- As oil prices improve in 2010, we expect Kuwait to increase spending. But fiscal policy has been procyclical, and disagreements between the cabinet and the parliament have led to policy paralysis.

Other issues

- The parliament has called for a complete write-off of consumer loans, and this issue has dominated parliamentary sessions. The finance ministry strongly objects to the move. Further parliamentary opposition caused Kuwait to cancel a refinery project worth over USD 15bn in March 2009. This followed the cancellation of a USD 17bn petrochemicals joint venture with a US group.

Politics

- The domestic political landscape is dogged by standoffs between the government and parliament, which have seen the parliament dissolved more than three times in three years – and created a significant obstacle to the implementation of economic policy. A USD 5bn economic stimulus package was delayed for several months due to such a dispute, and was only approved after the resignation of the cabinet.

Standard Chartered Research forecasts: Kuwait				
	2009	2010	2011	2012
GDP (real % y/y)	-5.5	3.0	3.5	3.0
CPI (% y/y)	3.0	4.5	4.5	4.0
Policy rate (%)*	3.0	3.0	3.0	3.0
KWD-USD*	0.27	0.27	0.27	0.27
Current account balance (% GDP)	20.0	26.0	22.0	20.0
Fiscal balance (% GDP)	24.0	24.0	22.0	22.0

* end-period

Source: Standard Chartered Research



Lebanon

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Challenges ahead

Economic outlook

- Following the May 2008 Doha accord, which ended 18 months of paralysis among various Lebanese political factions, the country's economic indicators have improved, domestic consumption has resumed, and tourism figures have reached record highs.
- We expect the return of sustained political stability to help to boost growth to 4% in 2010 from 3.5% in 2009. The global economic recovery is likely to push remittances higher, and tourism and investments from the Lebanese diaspora should remain strong.
- Tourism grew by 43% y/y in the first 10 months of 2009. Overseas remittances (25% of GDP) were resilient, declining by only 2.5% from the same period in 2008, which was a record year. They were still up by 21% compared to 2007.

Financial issues

Lebanon needs to address three main issues:

- The structural problem of high debt, which is still more than 150% of GDP, despite recent improvements
- Liberalisation of the electricity sector, which constitutes a major drag on public finances
- The much-needed privatisation of the telecom sector, something we do not see happening under the new government

Policy

- Lebanon will continue to pursue orthodox macroeconomic policies, as it has very little room for fiscal manoeuvre due to its high debt-to-GDP ratio.
- The fiscal deficit will continue to be a major additional drag on Lebanon's debt burden. Interest payments on government debt represent around one-third of total public spending.

Other issues

- The dollarisation of the economy will continue, although the substantial interest rate differential between the Lebanese pound (LBP) and the USD (almost 6%) has encouraged a slight de-dollarisation of deposits. This has in turn triggered significant cash inflows into the banking system from the diaspora.
- At the same time, the high local-currency lending rate is an impediment to private-sector growth.

Politics

- The political scene is a complicated sectarian canvas kept in place over the years by various agreements. Lebanon's Sunni Muslim prime minister-designate, Saad al-Hariri, formed a national unity government in November 2009 after almost half a year of political turmoil which brought foreign forces into play. Following a thaw between regional powers Saudi Arabia and Syria, Lebanese political factions were able to agree on the allocation of cabinet seats.
- Economics and politics are closely linked in Lebanon. Political stability triggers an improvement in sentiment which quickly feeds through to key GDP contributors such as tourism, domestic consumption, and investment.
- The fragile equilibrium that defines Lebanese politics means that reforms are hampered by conflicts between various vested interests.

Standard Chartered Research forecasts: Lebanon				
	2009	2010	2011	2012
GDP (real % y/y)	3.5	4.0	4.5	4.5
CPI (% y/y)	3.0	4.5	4.5	4.5
Policy rate (%)*	0.875	0.875	0.875	0.875
LBP-USD*	1.508	1.508	1.508	1.508
Current account balance (% GDP)	-11.5	-9.5	-12.0	-12.0
Fiscal balance (% GDP)	-11.0	-10.0	-9.0	-9.0

* end-period

Source: Standard Chartered Research



Libya

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Reforms alter the landscape

Economic outlook

- We expect real GDP growth to accelerate to 5.0% in 2010 from 2.0% in 2009. Oil exports should lead growth in 2010 as prices rebound and production increases. In 2009, the non-oil sector was the key growth driver due to strong government spending.
- The oil sector has been the main engine of growth for a number of years, with hydrocarbon exports accounting for 95% of export earnings and the sector contributing 50% of GDP. We expect oil-sector growth to pick up to 6% in 2010 on higher production and continued investments in oil exploration. In 2009, OPEC production cuts likely led to a 2% contraction in the oil sector.
- We expect a 4% expansion in the non-oil sector in 2010, supported by government spending and positive effects on the non-oil private sector from both oil-sector growth and increased government spending. However, non-oil growth is likely to slow from an estimated 6% in 2009, which was driven by aggressive government spending on construction, transport, and utilities.

Financial issues

- The Libyan banking sector is opening up. The Central Bank of Libya confirmed that the fourth privatisation of a local bank would take place before end-2009, with a 15% stake on offer.
- Since the easing of sanctions in 2002, Libya has taken steps to strengthen its banking sector to support the flow of funds generated by new

projects and investments. Local banks are now allowed to seek partnerships with foreign banks.

- The Libyan government is undertaking a privatisation drive that aims to transfer ownership of a number of state-owned enterprises in sectors such as utilities and telecoms to Libyan citizens. The government has already successfully privatised a large number of enterprises, opening up new areas of the economy to foreign investors. We expect the programme to continue to gather pace in 2010.

Policy

- Monetary policy is driven by the currency's peg to the IMF's Special Drawing Rights (SDR). However, the central bank is under pressure from local banks to initiate a review that would overhaul monetary policy and banking regulation, particularly as the sector liberalises.

Other issues

- Libya continues to suffer from high unemployment, at close to 30%. New jobs involving manual labour or requiring higher-skilled workers continue to be largely filled by imported labour. However, the government is intent on increasing the proportion of locals employed under its new infrastructure investment programme. This is likely to have positive implications for social stability, and to support non-oil sector growth through increased domestic consumption in 2010 and beyond.

Politics

- Libya's foreign relations, particularly with Western countries, have improved in recent years on the resolution of the Lockerbie bombing case and the shelving of its weapons of mass destruction programme.
- The domestic political landscape has become clearer, with Saif al-Islam Kaddafi being appointed as the general co-ordinator of the Popular Social Command, making him Colonel Kaddafi's most likely successor.

Standard Chartered Research forecasts: Libya				
	2009	2010	2011	2012
GDP (real % y/y)	2.0	5.0	5.0	4.0
CPI (% y/y)	6.0	7.0	7.5	6.0
Policy rate (%)*	--	--	--	--
LYD-USD*	1.18	1.16	1.22	1.10
Current account balance (% GDP)	22.0	31.0	22.0	20.0
Fiscal balance (% GDP)	10.6	16.3	18.0	15.0

* end-period

Source: Standard Chartered Research



Morocco

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Agriculture-dependent GDP

Economic outlook

- Morocco showed strong resilience in 2009 due to its limited integration with the global financial system, prudent macroeconomic policies, and very strong agricultural output, which has a large impact on GDP. Strong 2009 real GDP growth, however, masks weaknesses in non-agricultural output, in particular phosphates (a major export), industrial output, tourism, and services.
- The outlook for Morocco is, on balance, positive. The country's young king holds promise for the future – he is a strong leader and is committed to economic liberalisation, social progress, and integration with the world economy.
- GDP growth still depends heavily on the harvest, which is difficult to forecast, leading to volatile business cycles. Agriculture accounts for 15% of GDP but almost 50% of the workforce, and it therefore has significant second-round effects on household wealth and private consumption.

Financial issues

- The Casablanca Stock Exchange has announced a five-year strategic plan that aims to attract 75 new companies by 2015, and to turn Morocco into a regional financial hub by encouraging African listings on the exchange. Proposals include the extension of tax breaks for newly listed companies.

Standard Chartered Research forecasts: Morocco				
	2009	2010	2011	2012
GDP (real % y/y)	4.0	4.5	4.5	4.5
CPI (% y/y)	2.0	2.5	2.5	2.5
Trade (% y/y)	5.0	5.0	5.0	5.0
MAD-USD*	7.49	7.21	6.90	7.25
US FFTR* (%)	-0.5	-0.1	0.5	0.5
FDI flows (% y/y)	-1.0	-1.5	-1.0	-1.0

* end-period

Source: Standard Chartered Research

Policy

- The government's counter-cyclical policies have helped in the short term but may not be sufficient to support faster growth in 2010 without a boost from agriculture. The government's fiscal position deteriorated in H1-2009 as falling tax receipts (due to tax cuts) offset lower subsidy costs (due to falling oil prices). Revenues may be depressed further by planned income tax cuts in 2010.
- The authorities continue to claim that they are committed to full convertibility of the Moroccan dirham (MAD), although this is unlikely to happen in the next three years.

Other issues

- Significant long-term challenges remain as the government faces the task of lifting a substantial part of the population out of poverty and illiteracy.
- The government's 'Emergence II' plan envisages 6% real GDP growth over the long term and targets creating 220,000 new jobs by 2015 and building 150,000 new housing units a year. While laudable, these targets look ambitious given the current global economic environment and the vulnerability of GDP to volatile agricultural output.

Politics

- Since the accession of King Mohamed VI in 1999, the kingdom has pursued an ambitious reform and modernisation programme, ranging from family law and justice to economics. The King has an established power base and largely controls the defence, foreign affairs, and interior ministries. He is popular with the people, thanks to his genuine concern about the country's persistently high levels of unemployment and poverty.
- Morocco is a constitutional monarchy but has yet to become a mature democracy. The first real general parliamentary elections were held only in September 2008.



Oman

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Race against time

Economic outlook

- Oman's economy has proven more resilient than most of its GCC peers thanks to investments in oil capacity. Also, as a non-OPEC member, Oman has benefited from rising oil prices without having to cut production. This helped to keep real GDP growth positive in 2009, when larger GCC economies contracted. Fiscal expansion has created the conditions for sustained demand-led growth.
- We expect GDP growth to accelerate to 4% in 2010 from 3.5% in 2009 as oil production rises. Production is estimated to reach 900,000 barrels per day (bpd) in 2010, from 757,000bpd in 2008.
- Based on its current known reserves and pace of extraction, Oman's crude oil will last only another 25-30 years. The need for diversification is all the more urgent given that Oman has by far the youngest population in the GCC, with almost half under the age 15.

Financial issues

- With the onset of the global financial crisis, the Central Bank of Oman took a number of steps to ensure the stability of the banking system. It reduced the reserve requirement to 5% from 8%, lowered the maximum loan-to-deposit ratio to 85% from 87.5%, and made USD 2bn of liquidity available to banks. We expect these measures to continue into 2010 if private-sector credit growth fails to pick up significantly.

Standard Chartered Research forecasts: Oman				
	2009	2010	2011	2012
GDP (real % y/y)	3.5	4.0	4.0	4.0
CPI (% y/y)	3.7	5.0	6.0	6.0
Policy rate (%)*	2.0	2.0	2.0	2.0
OMR-USD*	0.39	0.39	0.39	0.39
Current account balance (% GDP)	1.0	6.5	7.0	7.0
Fiscal balance (% GDP)	0.5	1.5	1.5	1.0

* end-period

Source: Standard Chartered Research

Policy

- Oman recently reaffirmed that it would not join the planned GCC common currency on the grounds that it requires fiscal flexibility that would not be permitted under the convergence criteria.
- Oman's expansionary fiscal policy aims both to boost oil-sector production capacity and to diversify the economy into sectors such as tourism, real estate, transport, and industry. Thanks to rising oil prices and no quota limits, Oman likely escaped a fiscal deficit in 2009. We expect a gradual improvement in government finances.
- The authorities have announced a plan to reduce the oil sector's contribution to GDP from 42% in 2007 to less than 10% by 2020. For now, though, Oman is boosting oil production in the hope that higher revenues will help to advance the diversification process before its oil is depleted.
- A plan to maximise gas revenues has led to a slight increase in LNG production; again, given its rapidly depleting gas reserves, Oman is probably playing its last cards unless it gets lucky in its exploration projects.

Other issues

- The government's 'Omanisation' programme, which encourages employment of nationals, may be relaxed further after the February 2009 lifting of a ban on expatriate workers in some professions.

Politics

- Royal succession remains an issue. Sultan Qaboos has no children and no clear successor. The process for selecting his successor is opaque and could be a potential source of future conflict within the ruling family and the government.
- The Sultanate attempts to balance its alliance with the West with its friendly approach towards Iran, from which it is trying to secure gas imports.



Qatar

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Propelled by gas

Economic outlook

- Qatar's economic fortunes are closely linked to the development of its burgeoning liquefied natural gas (LNG) reserves. 2010 will be a key year for Qatar, as capacity expansion is expected to double its LNG production to 77 million tonnes per annum (mtpa) from 53mtpa in 2009. This will cement the country's position as the world's largest exporter of natural gas.
- Qatar benefits from guaranteed LNG export revenues. Close to 75% of its exports are sold under 20-year contracts, with only 25% of them subject to market volatility.
- We expect increased LNG output to boost growth to 8.5% in 2009 and 9.5% in 2010. However, we expect growth to slow significantly in 2011 (to 4%) as the impact of higher LNG production wanes.
- Qatar's GDP reached USD 102.2bn in 2008. As of 2008, natural gas was the largest contributor to GDP, at 31%, followed by oil, which contributed 27%; other oil- and gas-related activities contributed 2.5%. The third-largest sector of the economy was services, at 10% of GDP, followed by manufacturing (7%) and construction (5%).
- LNG liquefaction capacity is expected to have increased to almost 53.6mtpa in 2009 from 30.2mtpa in 2008. Capacity expansion in the gas sector is being carried out in stages over 2009-10.
- Qatar's economic growth in 2009 was driven by natural gas and natural gas-related projects. The situation was different for oil due to OPEC production cuts. While no official figures on oil production are released, we estimate that Qatar cut production by 20%, in line with other major OPEC producers. However, this was likely offset by a 75% increase in production of exportable LNG in 2009. Thus, we expect the overall hydrocarbon sector to have grown by 20% in 2009.
- We expect growth of 6% in the non-oil sector in 2009, driven mainly by mega-project spending in the gas sector. Private-sector growth was largely absent due to weak confidence in the non-oil sector and low credit growth.
- In 2010, we expect hydrocarbon growth to deliver another boost to the economy, with the sector growing by 25% as exportable LNG capacity reaches its peak level of 77mtpa by year-end.

Financial issues

- At the beginning of 2009, the Qatar Central Bank (QCB) purchased real-estate loans and investments worth USD 1.79bn from banks, bolstering the positions of local lenders with exposure to the weakening real-estate market. In May 2009, the QCB announced that it would spend a further USD 4.1bn to buy banks' real-estate portfolios. The Qatar Investment Authority (QIA) set up a USD 5.3bn fund to buy stakes of up to 5% in nine listed Qatari banks, a move aimed at recapitalising local banks and boosting investor confidence in the sector.
- We do not expect any further government intervention in 2010, as Qatari banks remain very well capitalised and the sector continues to benefit from direct exposure to the country's buoyant gas export sector.

Policy

- The Qatari riyal (QAR) is pegged to the US dollar (USD). The peg is likely to remain in place in the

Standard Chartered Research forecasts: Qatar				
	2009	2010	2011	2012
GDP (real % y/y)	8.5	9.5	4.0	4.0
CPI (% y/y)	-2.0	3.5	8.0	5.5
Policy rate (%)*	2.0	2.0	2.0	2.0
QAR-USD	3.64	3.64	3.64	3.64
Current account balance (% GDP)	4.2	17.0	25.0	20.0
Fiscal balance (% GDP)**	9.0	13.0	14.0	15.0

* end-period; **for fiscal year starting 1 April

Source: Standard Chartered Research



Qatar (con'd)

short term, given Qatar's commitment to joining the GCC common currency. However, we remain sceptical of whether the 2010 deadline for the common currency can be achieved.

- Qatar's budget for FY10 (began 1 April 2009) is based on an average oil price estimate of USD 40 per barrel, compared to the previous year's price estimate of USD 55. The government plans to reduce spending by a marginal USD 800mn from FY09, putting total spending at USD 26bn.
- While the official reason for the drop in spending is lower hydrocarbon receipts, we believe the authorities are being careful not to drive through increased policy-led expenditure during a year when LNG exports are experiencing explosive growth. That said, the government is driving non-oil growth – 40% of the current year's budget, or USD 10.4bn, is allocated for development projects.
- We expect the FY11 budget to be similar, as we see no need for policy-driven spending given the increase in LNG exports and their positive impact on GDP. However, there will be a need for higher government spending post-2010 as the country's hydrocarbon export capacity stabilises. Investment in non-hydrocarbon infrastructure will be key, as the volatile hydrocarbon sector does not generate enough jobs for the country's young population.

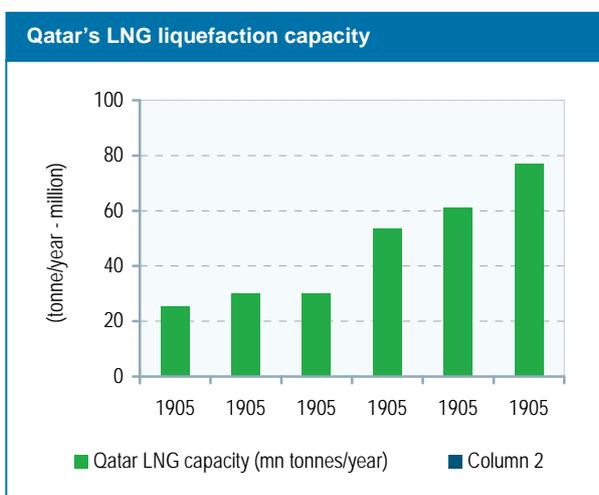
- Credit growth was slightly negative at -2.5% in Q1-2009, compared to 14.5% in Q1-2008. This was largely due to weaker private-sector confidence. We expect credit growth to rebound in 2010 as global sentiment improves and as Qatari banks are able to resume lending due to their stronger liquidity position. Furthermore, as the expansion of Qatar's LNG projects comes on-stream in late 2009 and 2010, the returns generated for Qatar-based stakeholders should help to support domestic credit growth and consumption.
- The challenge for regulators going forward will be to manage inflation and liquidity. Creating a domestic debt market could help to absorb liquidity and avoid the creation of asset bubbles.

Other issues

- Qatar's real-estate boom came to an end in 2009, when weak investor sentiment and tight credit conditions sapped much of the market vigour of the previous year. The future outlook for Qatar's real-estate market will depend on progress in diversifying the economy.
- The hydrocarbon sector is driving the economy, but it is capital- rather than labour-intensive and is therefore unlikely to generate enough jobs to attract more expatriates to the country. On the positive side, improved investor sentiment and healthier credit conditions should result in a loosening of bank lending in 2010, boosting mortgage activity.

Politics

- The political outlook in Qatar is stable. The country enjoys good relations with its neighbours and has maintained deep economic and diplomatic ties with key Western allies. The country is seen as a political dynamo, having hosted and brokered a number of Middle Eastern agreements, including an agreement between rival Lebanese political factions in 2008 and the Gaza summit in 2009 between key Arab states. Qatar's commitment to the GCC common currency has further cemented its relations with other GCC countries.



Source: MEED



Saudi Arabia

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Powered by youth and wealth

Economic outlook

- We expect GDP growth to reach 3.0% in 2010, following a 1.0% contraction in 2009. Growth will be driven by an oil-sector rebound and by continued policy-led infrastructure and diversification spending programmes – part of the government's long-term socio-economic development plan.
- The non-oil sector makes up 72% of Saudi GDP, while the oil and gas sector makes up the remaining 28% (based on 2008 figures). Government services are the largest non-oil contributor to GDP, at 17%, followed by manufacturing at 12% (both are indirectly related to the hydrocarbon sector), services at 11%, trade at 8%, and construction at 7%.
- Our growth forecast for 2009 is based on a 15% contraction in the oil and gas sector, as the country cut production sharply to meet OPEC quotas. This is likely to be balanced by growth of 5% in the non-oil sector on aggressive government spending.
- 2010 should see oil-sector growth bounce to 5% on higher oil prices, while we expect non-oil growth to slow to 2% as government spending moderates.

Financial issues

- The Saudi central bank governor has stated that the debts of the Saad and al-Gosaibi groups do not pose a systemic threat to the banking system. The multi-billion-dollar case between the groups and their creditors is being played out in the courts.

Standard Chartered Research forecasts: Saudi Arabia				
	2009	2010	2011	2012
GDP (real % y/y)	-1.0	3.0	3.5	3.0
CPI (% y/y)	4.9	4.0	4.5	4.0
Policy rate (%)*	0.25	0.25	0.25	0.25
SAR-USD*	3.75	3.75	3.75	3.75
Current account balance (% GDP)	6.0	10.0	6.5	5.5
Fiscal balance (% GDP)	1.2	6.7	8.0	10.0

* end-period

Source: Standard Chartered Research

- While credit growth was very low throughout most of 2009, this was a result of weak confidence rather than any structural challenges facing Saudi banks. In 2010, we expect the banking sector to benefit from improved confidence in the domestic and global economies.

Policy

- The USD 127bn government budget for 2009 was the largest in the country's history, and the first in a decade to forecast a deficit. The budget earmarked USD 60bn for new and existing projects, the largest amount of capital spending by any of the G20 countries for the year. The actual budget, however, likely remained in surplus due to higher-than-expected oil prices (the budget assumed an oil price of USD 45 per barrel).
- Spending was focussed on infrastructure and social development programmes. We expect the 2010 budget to see lower but still significant spending on development programmes. The country requires massive spending in order to bring its infrastructure in line with its wider social and economic goals.
- The Saudi Arabian Monetary Agency (SAMA) has closely monitored the banking sector, strictly enforcing a maximum loan-to-deposit ratio of 85% on all banks during the boom in 2008. This enabled Saudi banks to remain liquid in 2009.

Other issues

- Saudi Arabia will be one of the largest markets for infrastructure development in the region for years to come, driven by positive demographic fundamentals – 54% of the population is below 24 years of age.

Politics

- Saudi Arabia's political situation remains stable. The country enjoys stable relations with its neighbours and with Western powers. The King's economic reform programmes aim to improve living standards and are a positive for domestic stability.



Tunisia

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Stable environment continues

Economic outlook

- We expect growth to accelerate to 3.5% in 2010 from 2.0% in 2009. Expansionary fiscal policy, a key driver of Tunisia's economic resilience in 2009, is expected to continue in 2010. Growth in 2010 will also be bolstered by the improved outlook for global trade, which will support the country's key agricultural exports.
- Tunisia's industry will continue to move up the value chain. The country is also likely to continue to liberalise its economy and maintain excellent competitive rankings.

Financial issues

- The business environment has become increasingly market-friendly, although further reforms are necessary.

Policy

- Monetary policy has been cautious, with interest rates held steady despite the drop in inflation. The central bank closely manages liquidity and credit growth through a range of instruments within a stated monetary framework.
- The exchange rate is targeted against an undisclosed basket dominated by the euro. Officially, the government still plans to make the Tunisian dinar (TND) fully convertible in 2010.

- The government announced a 12.5% increase in public spending for 2009, which will likely push the fiscal deficit over the stated 3% maximum target to 5% of GDP – still a manageable level, in our view.
- Fiscal policy is prudent, with public debt at just over 50% of GDP.

Other issues

- Tunisia is regularly awarded impressive rankings by The World Economic Forum. In 2009, it again ranked as the most competitive country on the African continent, 17th in the world for the quality of its education system, and seventh in the world for maths and science.
- Tunisia is unique within the Maghreb region due to its high level of education and resulting large middle class. It also has the most advanced laws towards women in the Arab world.
- High and rising unemployment means that there is growing potential for social discontent, and there have been occasional protests.

Politics

- President Zine El-Abidine Ben Ali was re-elected, as expected, in October 2009 with almost 90% of the vote. Legislative reforms passed in March 2009 granted more parliamentary seats to the opposition (25% from 20% previously), but this is unlikely to loosen the ruling party's grip on power.
- The highly secular rule of the president and his party represses any Islamist opposition. Islamist groups remain excluded; their leaders are mostly based overseas, and local support is limited.
- While the government will likely persist with economic reforms, little political relaxation is likely, especially as uncertainty over the transition of power from Ben Ali grows in the coming years.

Standard Chartered Research forecasts: Tunisia				
	2009	2010	2011	2012
GDP (real % y/y)	2.0	3.5	4.0	4.5
CPI (% y/y)	3.0	3.0	3.5	3.5
Policy rate (%)*	4.5	4.5	4.5	4.5
TND-USD*	1.26	1.22	1.16	1.24
Current account balance (% GDP)	-4.0	-3.4	-2.5	-2.5
Fiscal balance (% GDP)	-5.0	-4.0	-3.5	-3.0

* end-period

Source: Standard Chartered Research



UAE

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Living in the aftermath

Economic outlook

- Higher oil prices are likely to boost real GDP growth to +3.0% in 2010 from -0.5% in 2009. Non-oil growth will be driven by diversification-related project spending in Abu Dhabi. Negative global investor sentiment and restricted access to international capital markets due to the handling of Dubai's debt restructuring will affect non-oil growth, especially in Dubai.
- We expect the non-oil sector (which contributed 62% to the UAE economy in 2008) to expand by 4% in 2010, driven mainly by a low base effect and activity in Abu Dhabi. We estimate that the non-oil sector expanded by 7% in 2009, largely due to aggressive government spending. Private-sector growth was limited by the prevailing tight credit conditions and low risk appetite.
- We estimate that the oil sector contracted by around 15% in 2009 due to significant cuts in oil production. Any rebound in the sector will depend on future decisions by OPEC.
- Dubai's economy is diversified and is the least oil-reliant in the region, with the non-oil sector contributing 98% to 2008 GDP. We expect Dubai's growth to be limited to 1.5% in 2010 due to unfavourable credit conditions and negative investor sentiment. However, Dubai is an open economy, and its economic performance will be helped by global trends. A revival in global trade should boost exports (Dubai is the world's third-largest re-export centre) and limit the downside to

growth. It is also important to note that the economy is starting 2010 from a low base, given that the real-estate sector was already in decline in 2009, with contractors of large developers facing significant payment delays. Private-sector growth is likely to remain subdued due to weakened confidence and tight credit. Dubai's GDP accounted for 32% of overall UAE GDP in 2008, according to the latest official figures.

- Abu Dhabi's GDP is likely to expand by 5% in 2010, outpacing Dubai's growth, thanks to solid hydrocarbon receipts and government spending on infrastructure. Higher oil prices and a lack of further OPEC production cuts will also be positive for the economy. For 2009, we estimate flat GDP growth, as government spending likely offset the sharp drop in the hydrocarbon sector. We expect Abu Dhabi to increase infrastructure spending significantly, supported by diversification-related mega-projects that seek to boost the non-oil sector to 64% of GDP by 2030.
- The oil sector's contribution to Abu Dhabi's GDP declined in 2009 (from 63.6% in 2008) as production was slashed to about 2.2mn barrels from 2.7mn barrels due to OPEC cuts – leaving government-led infrastructure spending to pick up the slack. (Oil revenues accounted for 93% of 2008 government revenues.) According to official estimates, Abu Dhabi needs an oil price of only USD 30 per barrel in 2009 to balance revenues with expenditures. This means that the emirate will post yet another budget surplus for the year.
- Other key sectors of Abu Dhabi's economy include manufacturing (9.6% of GDP), construction (5.2%), and financial services (5%). The emirate's GDP accounted for 55% of UAE GDP in 2008.

Standard Chartered Research forecasts: UAE				
	2009	2010	2011	2012
GDP (real % y/y)	-0.5	3.0	4.5	5.0
CPI (% y/y)	3.0	4.0	3.5	4.0
Policy rate (%)*	1.0	1.0	1.0	1.0
AED-USD*	3.68	3.68	3.68	3.68
Current account balance (% GDP)	-0.02	3.20	3.50	5.00
Fiscal balance (% GDP)	4.0	12.7	12.0	14.0

* end-period

Source: Standard Chartered Research

Financial issues

- Global investor sentiment towards Dubai had begun to improve in H2-2009, as reflected in the strong appetite for the USD 2bn bond issue by the government of Dubai in October 2009, which was



UAE (con'd)

three times oversubscribed. However, market perceptions of Dubai deteriorated rapidly following the announcement on 25 November 2009 that the emirate would restructure two key government-owned groups – a move that could be seen as a forced restructuring and consequently a default. This is also likely to have negative implications for the wider economy and restrict Dubai's access to international markets.

- Credit growth was non-existent in 2009. Banks' efforts to attract deposits to bridge their funding gap kept market interest rates high, further tightening monetary conditions. We expect credit conditions to remain difficult in 2010, particularly given the plan to restructure the debt of two flagship state-owned enterprises. The outcome of the restructuring plan is likely to determine global investor appetite, which is unlikely to improve in the short term. Investors will be concerned about the relationship between the sovereign and quasi-sovereign entities, as well as the lack of transparency in the region. This will be negative for credit growth, especially given the exposure of local banks to the restructured conglomerates.

Policy

- The 2010 federal budget envisions a 3.4% spending increase, with 41% of expenditure going towards social development, health, and education. However, the emirate-level budgets of

Dubai and Abu Dhabi will be a better gauge of policy-driven spending. We expect both budgets to include higher infrastructure spending. In Abu Dhabi, key projects – including the USD 7bn Abu Dhabi metro and a new USD 6.8bn airport – will result in a significant jump in spending. Dubai's access to global capital markets will likely be restricted in 2010, and the emirate will therefore rely on internal financing for its 2010 needs. We estimate that Dubai will face at least USD 6.6bn of debt maturities in 2010, rising to USD 24.60bn in 2011.

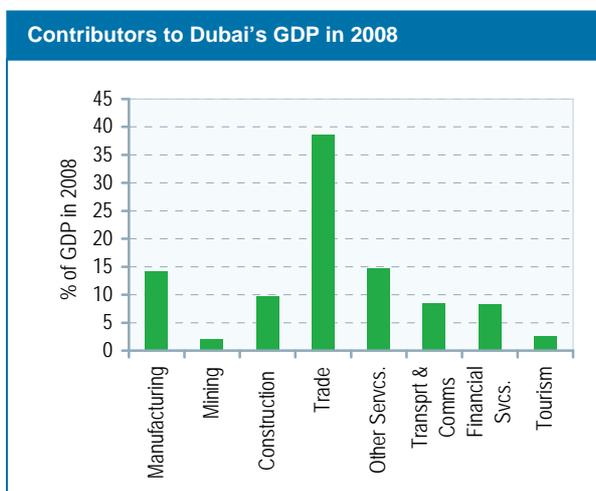
- The UAE dirham (AED) is pegged the US dollar. The UAE government remains committed to the peg, as the country's largest export, oil, is dollar-denominated. Furthermore, UAE policy makers believe that the peg has provided economic stability for decades. The UAE's decision to withdraw from the Gulf Co-operation Council (GCC) common currency should bolster expectations that the peg will remain in place for the near and medium term.

Other issues

- The Dubai property market suffered a sharp correction in 2009, with prices falling by 50-60%. We believe that the worst is over, and Q3-2009 statistics showed the first increase in property prices since 2008. We expect prices to stabilise in 2010, with activity in the rental market accounting for the bulk of real-estate activity. In the absence of speculative activity, supply and demand fundamentals will be the key market driver, keeping prices suppressed.

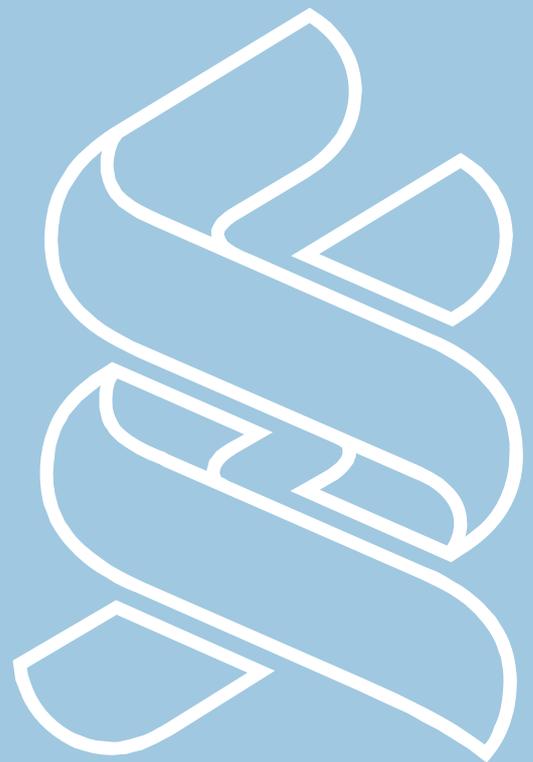
Politics

- The political outlook in the UAE is stable, with the president and key officials emphasising the unity of the federation. The UAE's decision to pull out of the common GCC currency is unlikely to affect the country's relations with other GCC countries. Furthermore, the country maintains very strong and constructive relations with key Western countries including the US, France, and the UK.



Sources: Dubai Statistics Center, Standard Chartered Research

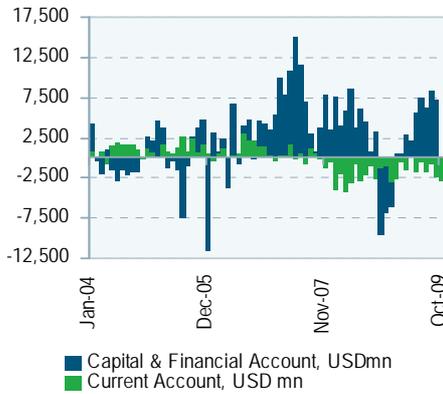
Economies – Latin America





Charts of the year – Latin America

Chart 1: Capital inflows into Brazil continue



Source: Banco Central do Brasil

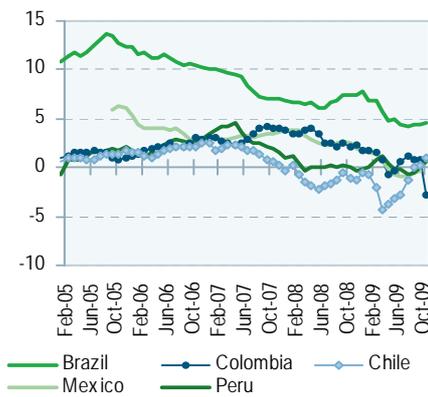
Chart 2: Scaling new heights

BRL REER



Source: Standard Chartered Research

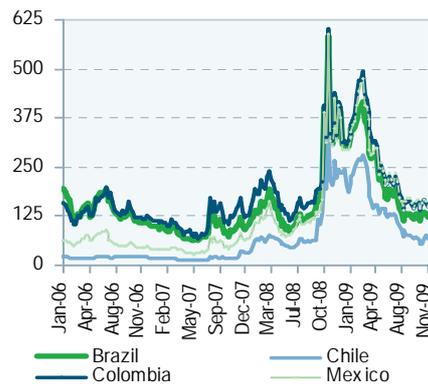
Chart 3: Real rates are most attractive in Brazil



Source: Bloomberg

Chart 4: Crisis is over

5Y CDS spreads



Source: Bloomberg

Chart 5: Small economies lead the recovery

Real GDP growth forecasts



Source: Standard Chartered Research

Chart 6: Current account deficits are set to widen



Source: Standard Chartered Research



Argentina

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Rekindling the market romance

Economic outlook

- GDP will likely contract by 1.5% in 2009. Investment remains depressed, real wage growth is declining, and confidence is weak. The commodity price boom brought significant windfall income to Argentina, but little was saved or invested, so there is no room for counter-cyclical fiscal policy without stoking new fears of debt default.
- For 2010, we expect mediocre growth of 1.6%, likely the slowest in the region. Lack of investment, particularly in energy infrastructure, is a serious risk to growth. The outlook is heavily influenced by external conditions, as the economy is leveraged to commodities and global trade.

Financial issues

- A key focus in 2010 will be Argentina's return to the international capital markets. This will require reaching a resolution with the debt holdouts from the government's 2005 debt exchange, who represent about USD 20bn in principal claims and USD 10bn in past-due interest. The government is expected to offer a new debt exchange at favourable terms to achieve a high participation rate and thus claim success.
- The reason why the government is willing to negotiate with its creditors now is simply that it needs money. It has raised taxes on the agricultural sector and nationalised the pension funds in order to generate new sources of income.

Tapping the international markets is the next step. A successful debt exchange will mean rating upgrades, allowing the sovereign to issue debt and benefit from low global interest rates.

Policy

- The return to the capital markets is crucial to the government's political agenda. Fiscal policy remains expansionary, and is focussed on high current spending in order to boost the government's popularity and reward favoured groups.
- The central bank implements monetary policy via M2 growth targets. There is no inflation target or formal policy interest rate; the 7-day reverse repo rate is the closest thing to a policy rate. For 2009, the central bank's M2 growth target is 9-18%, which is consistent with inflation of 7%, according to the government. Monetary policy will remain loose in 2010, and we expect inflation of 11%, according to the official data.

Other issues

- The credibility of official data is seriously in doubt. The inflation data (from government agency INDEC) are widely thought to be manipulated lower, as private measures of inflation are roughly three times higher. A resolution of this issue will be important in gaining the trust of investors.

Politics

- President Cristina Kirchner was elected in October 2007. Her popularity has since dropped to 30% from 55%. She was weakened in the June 2009 congressional elections as her coalition lost its majority in both houses of Congress.
- Kirchner and her husband – former president Nestor – want to remain politically relevant. This means continuing expansionary policies with the goal of reviving their fortunes by the next elections in 2011. This is why the debt exchange will happen in 2010. Unfortunately, it means there is likely to be little progress on key economic reforms.

Standard Chartered Research forecasts: Argentina				
	2009	2010	2011	2012
GDP (real % y/y)	-1.5	1.6	2.5	2.0
CPI (% y/y)	7.3	6.8	7.5	7.0
Policy rate (%)*	10.50	7.75	9.25	10.00
ARS-USD*	3.80	3.60	3.35	3.50
Current account balance (% GDP)	2.5	2.8	2.0	1.0
Fiscal balance (% GDP)	-0.5	0.2	-1.0	-0.5

* end-period

Source: Standard Chartered Research



Brazil

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Exit strategies and elections

Economic outlook

- Brazil's economic rebound in 2009 has been quite impressive. For example, industrial production rose 4.1% q/q (non-annualised) in Q3, the fastest quarterly expansion since late 2003. There is still slack in the economy – relative to Q3-2008, industrial production remains down by 8.3% – but the output gap is closing quickly.
- The quick economic rebound has been driven in large part by accommodative policies – including low interest rates, expanded lending by public-sector banks, and aggressive fiscal expansion – and the fact that the banking system is not impaired like those in the US and Europe. Real wages have been rising, and employment has been growing.
- This backdrop will support stronger growth in 2010. We forecast 3.8% growth, with risk to the upside. The key drivers of growth in 2010 will be domestic consumption and investment. It is worth noting that Brazil's growth is always a domestically led story. Despite a large trade surplus, trade in real terms typically subtracts from growth, as the volume of imports rises quickly with economic growth.
- The inflation outlook is also fairly benign for 2010. As of October 2009, CPI inflation stood at 4.17% on a y/y basis. That was the lowest in two years and well below the 4.5% inflation target. Furthermore, wholesale price growth – as

measured by the IGP-M broad price index – is in negative territory on a y/y basis.

- The strength in the Brazilian real (BRL) in 2009 means that inflationary pressure from regulated prices will be low in 2010 because of the backward-looking way in which regulated prices are computed in Brazil. While this does not mean that inflation will not rise, there is unlikely to be much pressure from non-demand-driven sources in 2010.

Financial issues

- The government is quite concerned that the strong BRL will decimate the country's manufacturing and export sectors. As such, its preferred approach is to create disincentives for portfolio investment in Brazil, rather than to deal with underlying issues. In our view, a much better approach would be to implement policies that boost productivity and competitiveness.

Policy

- Given current growth and the outlook for 2010, the focus is increasingly on exit strategies from expansionary government policies. For some time now, we have argued that the first hike of 50bps in the overnight rate (currently at 8.75%) would come by end-Q1-2010. In total, we expect 275bps of hikes in 2010, with rates peaking at 11.50% by year-end.
- We suspect that the central bank will do all of the heavy lifting in withdrawing stimulus. Fiscal policy has been quite stimulative in the past year, and the ability to use counter-cyclical fiscal policy is relatively new for Brazil. It is also one reason why the economy rebounded so quickly. Now, fiscal policy has turned pro-cyclical, and there are no plans to cut back on spending – particularly since 2010 is an election year.
- There has been a worrisome increase in net debt as a percentage of GDP. Furthermore, the quality

Standard Chartered Research forecasts: Brazil				
	2009	2010	2011	2012
GDP (real % y/y)	0.6	3.8	3.3	4.5
CPI (% y/y)	4.8	4.6	3.9	4.5
Policy rate (%)*	8.75	11.50	11.50	8.25
BRL-USD*	1.70	1.55	1.45	1.70
Current account balance (% GDP)	-1.50	-2.0	-2.5	-3.5
Fiscal balance (% GDP)	-3.2	-2.75	-3.0	-2.5

* end-period

Source: Standard Chartered Research



Brazil (con'd)

of government spending is poor – there has been a large increase in current expenditure such as wages, while capital expenditure remains quite low.

- The government will continue to face pressure for the BRL to appreciate in 2010. This is the result of strong domestic growth, high real interest rates, and a global environment of low G3 policy rates and a weak USD. To date, the government has imposed a 2ppt tax on foreign-currency investment in Brazil's equity and debt markets. After weakening initially, the BRL – not surprisingly – continued to appreciate. This will present a major policy challenge in 2010.

Other issues

- Brazil has investment-grade ratings from all the major agencies, though it is at the lowest rung of the ratings scale. In 2010, we expect a one-notch upgrade due to much lower external vulnerabilities (in particular high exports), a wider base of trade (including Asia), and reserves of more than USD 215bn. At the same time, we see little scope for additional upgrades until the fiscal accounts are improved, as Brazil's debt (net debt at 42% of GDP) is relatively high for an investment-grade country.

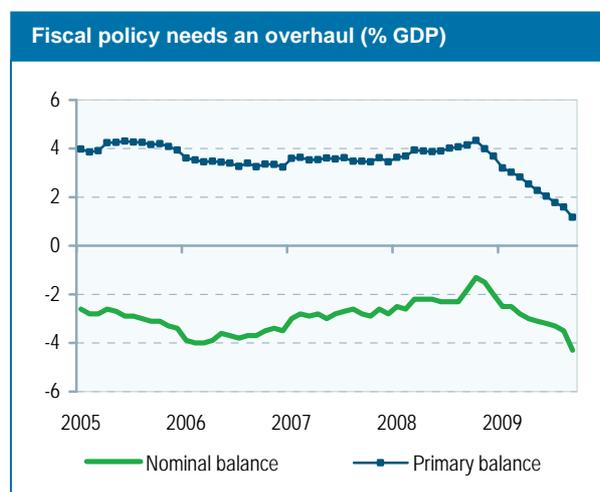
Politics

- Brazil will hold presidential elections in October 2010. While President Lula remains very popular,

he cannot run again because of term limits. His preferred successor is his chief of staff, Dilma Rousseff. The other leading candidate is Jose Serra, who is the current governor of Sao Paulo state and was health minister in the previous government.

- The latest polls show Serra ahead, with support from 39.5% of voters, compared to 19% for Dilma. Interestingly, Lula's popularity has not transferred to Dilma. One reason for this is that Serra is much better-known than Dilma. In addition, Dilma has never run for public office. That said, the election is still some time off, and the state of the economy in 2009 and 2010 is likely to favour Dilma. As a result, the race is likely to get closer as we move into 2010.

- The three leading politicians of the day – Lula, Dilma, and Serra – are all quite different. Neither Dilma nor Serra has the charisma of Lula. Serra is well-known as a technocrat and a competent public official, while Dilma is far less known. However, both candidates have interventionist tendencies. This will likely be clearest with respect to monetary policy. Both have criticised the central bank for not being sufficiently pro-growth and only cutting rates to 8.75%. Given the likely departure of current central bank Governor Meirelles, and the fact that the central bank is only independent 'in principle' and not by law, the risk is that any new appointees will be more dovish than the current ones.



Sources: Bloomberg, Standard Chartered Research

- It is interesting to note that the market is pricing in continued rate hikes in 2011, while we see rates peaking at end-2010. The market view could change quickly as the election approaches if either candidate continues to imply that the central bank will become more dovish in the next administration. This would bring significant volatility to the local rates and FX markets. As for fiscal policy, Serra would be more conservative; given the state of public finances, this would be a welcome change.



Chile

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New president, same policies

Economic outlook

- Chile was among the best-placed emerging-market countries to use monetary and fiscal policy to offset the negative external shock to the economy. Long-standing policy credibility, very little debt, comfortable reserves, and a sovereign wealth fund all paid dividends as the country grappled with the global recession.
- For full-year 2009, we expect GDP to contract by 0.9%. The lack of growth has helped to alleviate inflationary pressures, which were quite strong until mid-2008, allowing the central bank to aggressively front-load monetary easing. Growth will resume in 2010; we forecast 3.8%.

Financial issues

- Chile is a small, very open economy. This means that external factors are highly important to the domestic economy, and changes in the value of the Chilean peso (CLP) are felt quickly in the real economy.
- We do not expect any controls to be implemented on inflows, but if the CLP continues to strengthen in 2010, there will likely be more verbal intervention from the central bank.

Policy

- Chile has a history of very prudent fiscal policy, posting large fiscal surpluses in recent years. Total public-sector debt is in the 4-5% of GDP range, so

there are no fiscal concerns. In 2009 and 2010, the government will implement counter-cyclical fiscal policy and will thus likely run small deficits of about 2% of GDP. In January 2009, the government announced a USD 4bn stimulus plan consisting of infrastructure spending and tax breaks. At present, the sovereign wealth fund holds USD 17bn (or 12% of GDP).

- The central bank follows an inflation-targeting monetary policy with a target of 1-3%. The bank cut rates aggressively to 0.50% in 2009, and looks likely to begin raising rates in Q2-2010. It has already begun to withdraw liquidity provided under some of the quantitative easing measures it implemented in late 2008 and early 2009.

Other issues

- Chile is the most internationally oriented country in the region and has signed free-trade pacts with over 52 countries, including China, South Korea, Japan, Malaysia, India, and Singapore. We expect this trend to continue into 2010.

Politics

- December 2009 brings presidential and congressional elections, and President Bachelet cannot run again due to term limits. Her party, the centre-left Concertacion Party, has been in power since the end of the military government in 1990. Since then, there has been policy continuity, with rules-based fiscal and monetary policy and a commitment to open the economy.
- Concertacion candidate Eduardo Frei is widely expected to lose to Sebastian Pinera of the centre-right Alianza party in the second-round vote on 17 January. Pinera's messages have been market-friendly and he favours increasing productivity, easing labour-market rigidities, and reducing the size of the public sector. Overall, we do not foresee a change in policy if Pinera wins.

Standard Chartered Research forecasts: Chile				
	2009	2010	2011	2012
GDP (real % y/y)	-0.9	3.8	3.5	4.5
CPI (% y/y)	2.0	3.3	3.6	4.0
Policy rate (%)*	0.50	2.75	3.75	5.50
CLP-USD*	505	445	425	500
Current account balance (% GDP)	-1.0	2.8	1.5	1.1
Fiscal balance (% GDP)	-3.5	-0.5	0.5	0.5

* end-period

Source: Standard Chartered Research



Colombia

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May election in focus

Economic outlook

- The economy likely contracted by 0.1% in 2009, but should grow by 2.5% in 2010 given near-zero real interest rates, strong monetary stimulus, and improving external conditions. Industrial output, retail sales, and economic leading indicators are all bottoming out. We expect 2010 inflation to rise to 3.0%, the centre of the inflation target range.

Financial issues

- Weak exports may raise the current account deficit to 3% of GDP in 2010, while declining revenues will likely widen the fiscal gap to 3.5% of GDP. However, no major external or public financing problems are likely.

Policy

- The central bank was one of the first in the region to cut interest rates in 2008, and it cut the policy rate again in November 2009 to 3.5%. We see rates remaining on hold through H1-2010 at least.
- The government's ability to implement counter-cyclical fiscal policy has been limited by large deficits in the past. This means that monetary policy has had to do most the heavy lifting to support the economy; thus, rates are likely to remain low until a turnaround is clear.

Other issues

- The approval of a free-trade agreement with the US will be a key focus. But this does not appear to be a priority for the US government in 2010.

- Trade tensions with Colombia's neighbours, particularly Venezuela, threaten to slow the economic upturn. Colombia is a small, open economy, and exports typically contribute 1-2ppt to growth (1.3ppt in 2006 and 2ppt in 2007).
- Commodities make up about 56% of Colombia's exports. Of these, 24% are oil-related, 17% are metals, and 15% are agricultural. Colombia's top trade partner is the US (35% of exports), closely followed by Ecuador and Venezuela.

Politics

- Presidential elections will be held in May 2010. President Uribe was elected for a first term in May 2002 and a second term in 2006. He remains quite popular domestically (70% approval rating), largely due to an improvement in domestic security.
- Uribe is ineligible to run again in 2010 because of term limits. However, there is a strong domestic movement to change the constitution so that he can run again. Congress approved a bill that allows for a referendum on whether the constitution should be amended for Uribe. He has not said if he will run in May 2009, and the idea of a referendum is being challenged in court.
- In any case, a centre-right candidate is likely to win the election, as the domestic security situation has improved dramatically under Uribe. We expect policy continuity from the next government.
- The dispute with Venezuela is very political. Venezuelan President Hugo Chavez tends to demonise Uribe because of his alliance with the US. Chavez is prone to announcing border closings with Colombia to express his disapproval of Uribe's foreign policy. Colombia's relations with other neighbours, such as Ecuador, are similarly tense. However, such noise only makes Uribe stronger domestically.

Standard Chartered Research forecasts: Colombia				
	2009	2010	2011	2012
GDP (real % y/y)	-0.1	2.5	4.5	3.5
CPI (% y/y)	2.50	3.00	3.75	3.00
Policy rate (%)*	3.5	4.0	5.0	5.5
COP-USD*	1,940	1,660	1,580	1,860
Current account balance (% GDP)	-1.90	-3.00	-3.30	-2.75
Fiscal balance (% GDP)	-3.0	-3.5	-2.5	-2.0

* end-period

Source: Standard Chartered Research



Mexico

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Waiting for the US to turn around

Economic outlook

- Mexico's economy has weakened a great deal on the back of the US recession and financial crisis. Roughly 81% of Mexico's exports are destined for the US, and a large share of these is related to the distressed auto industry. The weakness in the US housing market has also been negative for Mexico.
- We expect GDP to contract by 7.0% in 2009, with growth recovering to a modest 2.7% in 2010 because of the still-weak outlook for the US. That means inflation is likely to remain subdued, rising from 4.1% in 2009 to 4.3% in 2010.

Financial issues

- A key vulnerability for Mexico is the dependence of its fiscal accounts on oil, which accounts for about 38% of federal government revenue. This concern is not new, but is becoming more acute as Mexico's oil production declines year by year. For example, the government estimates that oil production will decline from 2.62 million barrels per day (mbpd) in 2009 to 2.50mbpd in 2010.
- This vulnerability led Fitch to downgrade Mexico's sovereign rating by one notch to BBB in late November 2009. This followed the downgrade of S&P's outlook to negative from stable in May 2009 due to Mexico's heavy reliance on oil and narrow tax base. The market is now waiting for a formal downgrade of one notch from S&P and possibly Moody's. The July 2009 congressional elections and the 2010 budget process were opportunities to

make progress. However, the government lost seats in both houses, making negotiations over reforms more contentious, and the 2010 budget did little to improve things.

Policy

- The government has run a balanced budget in recent years, causing overall indebtedness to slowly decline to a low 25.5% of GDP at present. The government has taken advantage of its low public indebtedness to boost spending to help offset the impact of the US slowdown on growth and employment. This will widen the fiscal deficit to roughly 2% of GDP for both 2009 and 2010. Newly introduced policies include further infrastructure spending, a freeze on some energy prices, and additional lending by state banks.
- The central bank's official inflation target is 3.0% +/- 1ppt. Headline inflation has fallen only slowly due to regulated prices and pass-through from the weakened exchange rate. For 2010, we expect only a modest increase to 4.3% due to the wide output gap. As for monetary policy, we do not expect any rate hikes from the central bank until Q3-2010 at the earliest.

Other issues

- Even if Mexico is downgraded by other rating agencies, it will still be highly rated. Nevertheless, Mexico's downgrade is in contrast with the regional trend toward rating upgrades.

Politics

- President Felipe Calderon took office in December 2006 for a six-year term. He cannot run again in 2012 because of term limits. While still popular, his government lost seats to the opposition PRI party in the July 2009 congressional elections. This has made approving key reforms very difficult, as the PRI has its eye on the next elections and does not want to initiate unpopular but crucially important reforms such as making the labour market more flexible, widening the tax base, and opening up the oil sector to foreign investment.

Standard Chartered Research forecasts: Mexico				
	2009	2010	2011	2012
GDP (real % y/y)	-7.0	2.7	4.0	3.8
CPI (% y/y)	4.1	4.3	3.9	4.1
Policy rate (%)*	4.5	5.0	6.5	6.5
MXN-USD*	13.20	12.45	11.20	12.10
Current account balance (% GDP)	0.5	-1.3	-1.5	-2.5
Fiscal balance (% GDP)	-2.0	-2.5	-1.0	0.0

* end-period

Source: Standard Chartered Research



Peru

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Making growth inclusive

Economic outlook

- Peru, along with Chile, is among the best-positioned countries in the region to respond to the global slowdown. This is thanks to years of responsible fiscal and monetary policy.
- We expect growth to rebound to 5.5% in 2010 from 0.2% in 2009. The authorities have eased monetary policy considerably, and have also put in place a fiscal expansion plan which has provided an important cushion for the economy.

Financial issues

- There is still a relatively high degree of dollarisation in the local economy, so the central bank buys and sells USD to prevent sharp moves in the Peruvian nuevo sol (PEN) that would have a significant wealth effect.
- At the same time, Peru relies very little on portfolio inflows thanks to low interest rates and minimal local-currency debt, so it is less susceptible to sudden interruptions in capital flows.

Policy

- Peru has a well-deserved reputation for prudent fiscal policy, and has allocated the windfall from booming commodity prices to a counter-cyclical fiscal fund and to debt reduction. The fiscal accounts will be in deficit in 2009-11 as fiscal stimulus continues through at least mid-2010. With

public-sector debt at a low 24% of GDP, there is no concern about financing these deficits.

- The inflation outlook is very benign due to low inflation expectations, an appreciating exchange rate, and weak domestic demand. The central bank has an inflation target band of 1-3%, and inflation is likely to end 2009 just above 0%.
- We do not expect any rate hikes before the second half of 2010. In fact, if inflation remains low and appreciation pressure on the PEN continues, we do not rule out further cuts or unsterilised FX purchases.

Other issues

- Peru is vulnerable to global commodity prices, as 80% of its exports are commodities-related. Of these, 62% are minerals, 8% are energy-related, and 6.9% are agricultural and other commodities. The good news is that Peru has a relatively wide range of trading partners – China is its second-largest export market after the US.

Politics

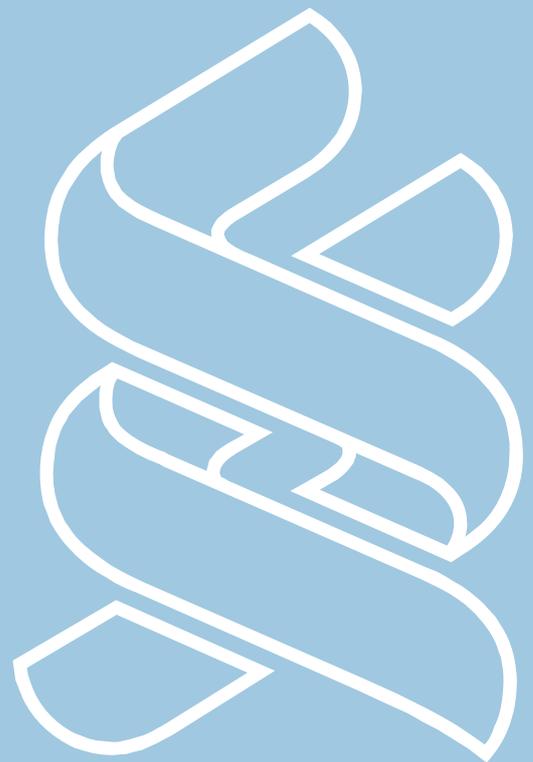
- President Alan Garcia took office in July 2006 for a five-year term. He was president during the 1980s and left Peru with high inflation and high debt. This time, his policies have been much more orthodox.
- Regional elections in November 2010 will be important, as the results will be a good indication of the outlook for Garcia and his APRA party in the April 2011 presidential elections.
- Garcia faces a big challenge in translating strong growth into better social conditions. Lack of progress on this front has led to social conflict. Poverty remains widespread, and there are severe wealth gaps between the country's regions. The government has committed to spending to improve infrastructure, for example, but poor implementation remains a problem.

Standard Chartered Research forecasts: Peru				
	2009	2010	2011	2012
GDP (real % y/y)	0.2	5.5	4.5	4.0
CPI (% y/y)	3.40	2.50	3.00	3.25
Policy rate (%)*	1.25	3.00	4.50	5.50
PEN-USD*	2.85	2.65	2.60	2.85
Current account balance (% GDP)	-0.5	-1.5	-2.4	-2.6
Fiscal balance (% GDP)	-2.0	-2.0	-1.0	0.0

* end-period

Source: Standard Chartered Research

Economies – Emerging Europe





Charts of the year – Emerging Europe

Chart 1: The worst is over

Foreign bank lending to EM in Q2-2009



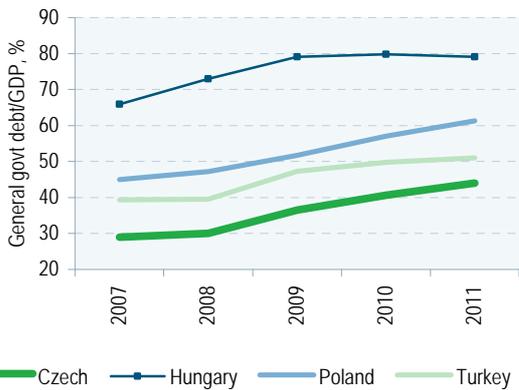
Sources: BIS, Standard Chartered Research

Chart 2: EE recovery to follow euro area



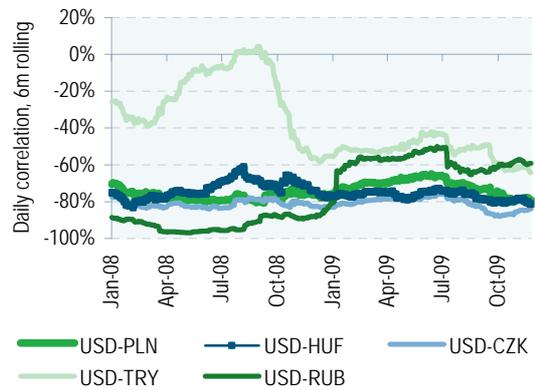
Sources: Bloomberg, Standard Chartered Research

Chart 3: Corrective action likely in 2010



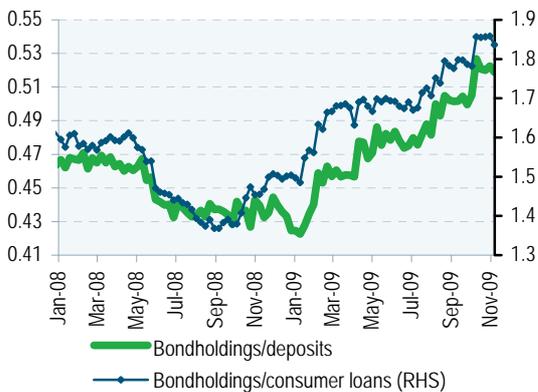
Sources: EC, Standard Chartered Research

Chart 4: EE currencies are subject to EUR-USD dynamics



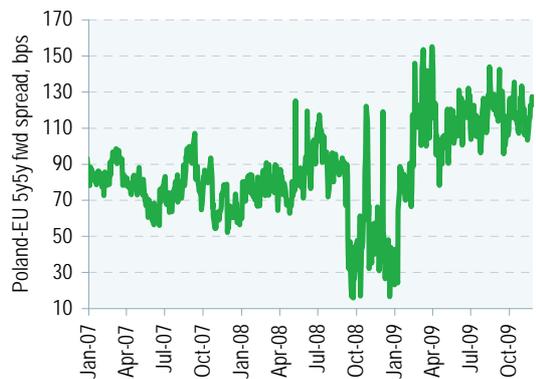
Sources: Bloomberg, Standard Chartered Research

Chart 5: Turkey's fiscal expansion caps consumer lending



Sources: CBT, Standard Chartered Research

Chart 6: Poland's likely entry into ERM2 in H2-2010 is not priced in



Sources: Bloomberg, Standard Chartered Research



Hungary

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On the straight and narrow?

Economic outlook

- Hungary's economy has been among the hardest-hit by the global financial crisis, suffering a steep contraction in domestic demand. That said, the slowdown predated the crisis, with GDP growth having underperformed the region in recent years.
- Improving global economic developments in 2010 should support the outlook. By mid-year, a recovery in domestic demand, along with recovering euro-area import demand, should provide impetus for growth. However, the recession is likely to linger in H1-2010, and positive full-year growth is unlikely before 2011.

Financial issues

- Non-resident parent groups of Hungarian financial institutions have played a key role in easing liquidity stresses by maintaining adequate capital in their subsidiaries. Moreover, the government's willingness to pursue IMF-led policy recommendations has shored up foreign investor sentiment. Nevertheless, widespread FX-denominated lending (around 66% of total loans) is likely to keep sentiment cautious in 2010.
- Anaemic domestic demand, rising household savings, sharp Hungarian forint (HUF) depreciation, and recovering foreign demand have helped to reduce the external deficit. However, the basic balance has weakened as FDI has collapsed. Hungary is thus likely to remain vulnerable to deteriorating global risk sentiment in 2010.

Policy

- Monetary policy has been eased sharply in response to the recession, and is likely to remain accommodative in 2010 as inflation falls further, given the substantial negative output gap. However, the central bank remains alert to any deterioration in risk perceptions which could trigger stresses in the domestic financial system, and monetary policy is likely to remain hostage to fiscal dynamics.
- The government led by Prime Minister Gordon Bajnai has implemented impressive fiscal austerity measures over the past 12 months to trim Hungary's bloated public sector. Indeed, Hungary's budget deficit target of 3.9% of GDP for 2009 is among the lowest in the EU.
- However, the main opposition party, Fidesz, is widely expected to wrest power from the MSZP-led coalition in the April 2010 elections. Fidesz has indicated that it is likely to loosen fiscal policy if it gains power, which would risk pushing general government debt above 80% of GDP and threaten the flow of IMF financing.

Other issues

- The outlook for the HUF is heavily dependent on the economic policies that will be pursued following the elections. Any loosening of fiscal policy is likely to reduce the effectiveness of the IMF anchor and curb investor appetite towards the HUF, despite relatively high yields. We expect this to drive further FX volatility, particularly as risk appetite consolidates in H1, though Fidesz's commitment to euro adoption should prevent dramatic fiscal slippage.

Politics

- General elections are scheduled for April 2010. According to polls, Fidesz remains the dominant political force, with some 35-45% of voter support, compared to 10-14% for the governing MSZP and 6-8% for the far-right Jobbik party. Thus, Fidesz may win with a sufficiently majority to avoid a coalition government.

Standard Chartered Research forecasts: Hungary				
	2009	2010	2011	2012
GDP (real % y/y)	-6.7	-0.3	2.5	3.5
CPI (% y/y)	4.1	3.8	2.0	2.5
Policy rate (%)*	6.0	6.0	6.5	6.5
EUR-HUF*	265	275	270	255
Current account balance (% GDP)	-0.8	-1.0	-1.5	-2.0
Fiscal balance (% GDP)	-4.0	-4.3	-3.9	-3.5

* end-period

Source: Standard Chartered Research



Poland

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ERM2 likely, despite fiscal woes

Economic outlook

- The Polish economy's recent outperformance in the CEE4 region (Czech Republic, Hungary, Poland, and Romania) is likely to extend into 2010. Relatively low export dependence, an investment-led recovery plan, and loose fiscal policy are likely to continue to support domestic demand. We expect recovering foreign bank lending inflows, inventory restocking, and EU-led infrastructure spending to drive a modest acceleration in growth to 2.0% in 2010, from an estimated 1.3% in 2009.

Financial issues

- Strong sponsorship from parent institutions in the euro area, relatively conservative bank regulatory policies, healthy corporate and financial-sector balance sheets, and modest credit growth enabled the financial system to weather the crisis. Given the relatively small scale of Poland's imbalances in the run-up to the crisis and the country's subscription to the IMF's Flexible Credit Line, we expect financial risks to remain contained in 2010.
- The high share of FX-denominated lending, particularly in housing, means that exchange rate dynamics will continue to influence bank asset quality. We expect Polish zloty (PLN) appreciation in 2010 (concentrated in H2), driven by the currency's fairly attractive valuation, robust economic growth, a strong basic balance, and the prospect of ERM2 entry in late 2010.

Policy

- Poland's public finances are its Achilles' heel. The government intends to keep public debt below 55% of GDP in 2010 in order to avoid mandatory austerity measures. But privatisation revenue targets in the 2010 draft budget look ambitious (around PLN 30bn), and proposals to divert private pension fund contributions and/or suspend public finance legislation risk denting investor sentiment.
- The government has yet to outline a clear strategy to restore debt sustainability, despite Poland's listing under the EU's Excessive Deficit Procedure. As such, further periodic volatility stemming from fiscal deterioration appears likely in 2010.
- While inflation is likely to briefly edge below the central bank's target of 2.5% (+/-1ppt) in mid-2010, we expect the policy rate to remain on hold at 3.5% until year-end. With nine of the 10 current MPC members scheduled to be replaced in spring, we see some risks of a more hawkish bias.

Other issues

- We expect Poland to apply for ERM2 entry if pro-euro Prime Minister Donald Tusk wins in presidential elections scheduled for October 2010 – as polls suggest is likely. This would help to clear constitutional hurdles to ERM2 entry. While meeting the Maastricht fiscal targets remains a challenge, we expect euro adoption in 2014.

Politics

- Ahead of the October presidential elections, the PO-led government is likely to proceed with limited fiscal correction and reform. We expect Tusk to win, boosting the PO's political capital, though potential fall-out with the junior coalition partner (the PSL) and the impact of the recent gambling scandal remain risk factors. A defeat for Tusk would generate political uncertainty in the run-up to general elections in 2011, risking further fiscal deterioration.

Standard Chartered Research forecasts: Poland				
	2009	2010	2011	2012
GDP (real % y/y)	1.3	2.0	3.0	3.5
CPI (% y/y)	3.5	2.0	2.3	2.5
Policy rate (%)*	3.5	3.5	4.0	4.5
EUR-PLN*	4.0	3.8	3.8	3.8
Current account balance (% GDP)	-1.5	-2.8	-3.2	-3.8
Fiscal balance (% GDP)	-6.4	-6.2	-5.5	-4.0

* end-period

Source: Standard Chartered Research



Russia

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Gradual recovery now in motion

Economic outlook

- Russia's economy emerged from a deep recession in Q3-2009, supported by rising commodity prices (oil and gas still comprise around 60% of exports), aggressive fiscal and monetary stimulus, and improving global credit markets.
- While we expect higher commodity prices to drive a further recovery in the external sector in 2010, domestic demand – a much more important growth driver – will likely remain under pressure. This is largely because of three factors: (1) the banking system's reliance on external wholesale funding and its disappointing pace of reform, recapitalisation, and consolidation, which will likely keep lending growth subdued; (2) the lack of focus on investment in official stimulus plans; and (3) headwinds to consumption from contracting real wage growth and high wage arrears. We thus expect sub-trend growth of 2.7% in 2010.

Financial issues

- Stabilising economic activity and recent Russian rouble (RUB) appreciation suggest that the level of NPLs is likely to peak in H1-2010, but the banking system remains fragile. Depositor confidence has proved weak, several banks are paying punishingly high rates to attract funding, and the banking system remains vulnerable to protracted RUB weakness and renewed cross-border funding stresses.

- A sharp decline in commodity prices would strain public finances (the 2010 budget is based on a USD 58/barrel average Urals oil price), pressure FX reserves, raise depreciation speculation, and expose banking-sector fragilities.
- The Russian stock market's 129% YTD rally (as of 25 November 2009) extended RUB appreciation, prompting the central bank to increase FX purchases and mull restrictions on hot money inflows. We expect outright capital controls to be avoided in 2010. 'Softer' measures – such as cutting rates, tightening banks' and corporates' access to foreign borrowing, or cutting the current 15% tax allowance on foreign interest payments – seem like more likely alternatives.

Policy

- Substantial liquidity provision, direct support to the banking sector, and monetary easing have helped to stabilise the economy. We expect a further 50bps of policy rate cuts (to 8.5%) in 2010 in response to further modest disinflation. Progressively lower RUB intervention is likely as part of the transition to a free-float in 2011.
- Fiscal policy will remain expansionary in 2010, though the deficit is likely to narrow from 6.8% of GDP to 4.8% in 2010 as revenues recover. While about USD 18bn in eurobond issuance is scheduled for 2010, we expect the actual amount to be far lower as oil prices remain high.

Politics

- President Dmitry Medvedev's reform, privatisation, and modernisation agenda is likely to dominate the political arena in 2010. Crackdowns on corrupt and bureaucratic state-controlled enterprises threaten the dominance of special-interest groups such as the 'siloviki', while Medvedev's strong indications that he will run for the presidency again in 2011 may increase tensions within the Kremlin. However, we anticipate no overt conflict between Medvedev and Putin in 2010, and see no market-moving political changes for now.

Standard Chartered Research forecasts: Russia				
	2009	2010	2011	2012
GDP (real % y/y)	-6.5	2.7	4.0	4.5
CPI (% y/y)	11.7	8.8	8.0	7.5
Policy rate (%)*	9.0	8.5	8.5	8.5
USD-RUB*	29.0	26.5	24.0	23.0
Current account balance (% GDP)	3.5	3.8	4.0	4.5
Fiscal balance (% GDP)	-6.8	-4.8	-3.0	-1.8

* end-period

Source: Standard Chartered Research



Turkey

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Ankara still in need of an anchor

Economic outlook

- Turkey's economy emerged from recession in Q2-2009. We expect improving global credit conditions and inventory restocking to drive a more robust recovery in 2010. Yet growth is likely to remain well below its potential of around 5.5%, for two main reasons.
- First, consumption is likely to face headwinds from rising commodity prices and the further withdrawal of fiscal stimulus. Second, in the absence of solid policy anchors (namely an IMF Stand-By Agreement or tighter fiscal policy), we expect the recovery in foreign investment to remain slow. We expect GDP growth of 2.8% in 2010, with significant upside risks if an IMF accord is struck.

Financial issues

- Turkey's prudently managed banking sector, low levels of FX-denominated mortgage borrowing, and abundant hard-currency liquidity, along with the corporate sector's strong ability to repatriate offshore earnings, should limit financial risks.
- While sharp Turkish lira (TRY) depreciation or renewed global credit-market stresses would raise corporate FX rollover risks, we see Turkey's external financing requirements in 2010 as manageable, and expect the financial sector to remain a pillar of stability.

Policy

- Proactive monetary and fiscal expansion has helped to stabilise domestic demand. However, real policy rates are likely to turn negative in H1-2010, and rising domestic debt issuance may drive greater market volatility – particularly if banks' recent appetite to finance fiscal expansion fades now that private-sector creditworthiness is improving and monetary easing is likely over.
- In our view, Turkey's fiscal anchor is now the weakest it has been in years. Primary expenditure is set to be cut only marginally in 2010 (to 22.2% of GDP from 22.3% in 2009), leaving the onus on high tax revenue growth (18% y/y, a target we believe is optimistic) to drive fiscal adjustment. The AKP's pre-election spending record and the lack of a binding fiscal rule in 2010 suggest that fiscal consolidation is likely to be slower than forecast.

Other issues

- Though we do not see external financing as a major concern in 2010, IMF support remains desirable. IMF funds would bring more credible fiscal targets, and help to reduce domestic debt rollover ratios and associated 'crowding-out' effects. Perceptions of Turkish risk premium would also improve, enabling the corporate sector to re-leverage at lower cost. However, given the political backdrop, an IMF deal is likely to remain elusive.

Politics

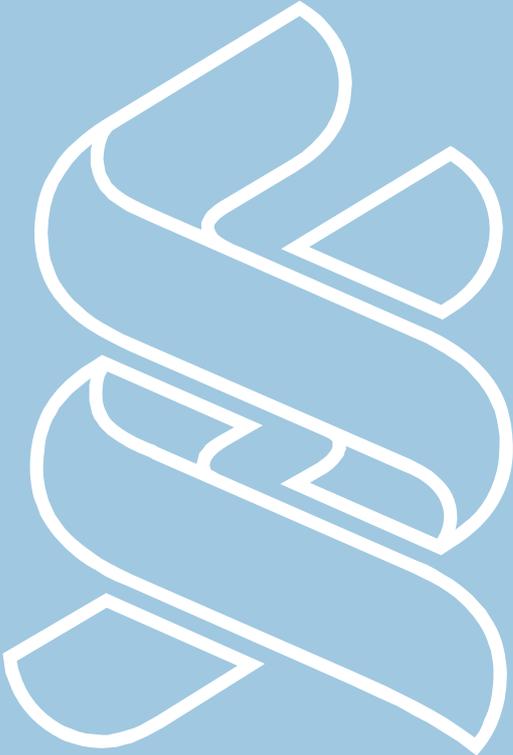
- Tensions between the ruling AKP and the secularist opposition are likely to intensify in the run-up to the July 2011 parliamentary elections. Numerous political controversies provide the opposition with plenty of ammunition to stall policy and keep the spectre of early elections – or even a repeat closure case – alive. We expect destabilising confrontation to be avoided, but such noise is likely to distract the AKP from more robust fiscal consolidation and an IMF deal in 2010.

Standard Chartered Research forecasts: Turkey				
	2009	2010	2011	2012
GDP (real % y/y)	-5.8	2.8	4.0	5.5
CPI (% y/y)	6.2	6.2	5.8	5.5
Policy rate (%)*	6.5	8.0	8.0	8.0
USD-TRY*	1.45	1.58	1.50	1.35
Current account balance (% GDP)	-1.5	-2.8	-3.7	-4.5
Fiscal balance (% GDP)	-6.6	-5.5	-4.5	-3.2

* end-period

Source: Standard Chartered Research

Forecast snapshots





FX snapshots

Currency	Fundamentals	S/T weighting (3-6 months)	M/T weighting (6 months+)
CNY	<ul style="list-style-type: none"> • USD-CNY is stuck in a very narrow range of 6.82-84 for now • Economic data should improve significantly in 2010 • Appreciation expected by Q2-Q3-10; this is a political decision • Best strategy for H1 is to buy 1-3M and sell 1-2Y • We are Neutral CNY but expect to be Overweight by Q2-2010 	Neutral 	Neutral
HKD	<ul style="list-style-type: none"> • We see no reason for a change to the USD 7.75-85 link • USD-HKD remains pinned to 7.75 on speculative lending flows • Asset price inflation to create policy headache • Strong China growth should support HK prospects in 2010 • We are Underweight HKD short-term, Neutral medium-term 	Underweight 	Neutral
KRW	<ul style="list-style-type: none"> • FX regulations should slow the pace of appreciation • KRW is cheap on a REER basis • C/A surplus is shrinking due to strong KRW, domestic demand • KRW will lead the way higher, just as it led the way lower • We raised our short-term FX rating to Overweight on 30-Apr-09 	Overweight 	Overweight
TWD	<ul style="list-style-type: none"> • Taiwan's economy has slowed sharply on global recession • We expect a stronger export recovery in 2010 • Improvement in cross-straits relations to support economy • C/A surplus to fall in 2010 due to increasing import demand • We raised our short-term FX rating to Neutral on 10-Jun-09 	Neutral 	Neutral
IDR	<ul style="list-style-type: none"> • USD-IDR is consolidating on choppy risk appetite, positioning • Indonesia remains a growth outperformer in Asia • External balances have improved substantially • Politics remain a medium-term positive • We raised our short-term rating to Overweight on 27-Mar-09 	Overweight 	Overweight
MYR	<ul style="list-style-type: none"> • Malaysia should return to positive y/y growth in Q4-2009 • MYR NEER is stabilising after depreciating since April 2008 • C/A should improve in 2010 on stronger external demand • Portfolio flows should resume on better valuation • We raised our short-term FX rating to Overweight on 07-Oct-09 	Overweight 	Overweight
PHP	<ul style="list-style-type: none"> • Most PHP negatives appear to be priced in • GDP to rebound on fiscal boost, inward remittances • BoP dynamics are supportive given inward remittances • Capital inflows should lead PHP strength • We raised our short-term rating to Overweight on 30-Sep-09 	Overweight 	Overweight
SGD	<ul style="list-style-type: none"> • Economy is rebounding; downside risk seen in Q2-Q3-2010 • Growth concerns outweigh inflation concerns for now • SGD NEER has limited room to appreciate near-term • MAS is likely to move to an appreciation stance in Oct-10 • We raised our short-term FX rating to Neutral on 21-Apr-09 	Neutral 	Neutral



FX snapshots (cont)

Currency	Fundamentals	S/T weighting (3-6 months)	M/T weighting (6 months+)
THB	<ul style="list-style-type: none"> The economy likely returned to positive y/y growth in Q4-09 The C/A surplus may narrow on oil prices, domestic demand Bank of Thailand will resist THB NEER appreciation We expect USD-THB to grind lower as AXJ recovers We raised our short-term FX rating to Neutral on 20-May-09 	Neutral 	Neutral
VND	<ul style="list-style-type: none"> SBV devalued VND, widened trading band on 25-Nov-09 Depreciation pressures remain on trade deficit, slowing inflows BoP dynamics and fiscal deficit remain medium-term concerns Further depreciation is priced in by onshore forwards/NDFs We raised our short-term FX rating to Neutral on 24-Aug-09 	Neutral 	Neutral
INR	<ul style="list-style-type: none"> USD-INR continues choppy trading on global cues Upside has been capped by exporter selling for now Official rhetoric continue to support capital inflows RBI's balanced exit strategy should sustain investor confidence We raised our short-term rating to Overweight on 20-May-09 	Overweight 	Overweight
PKR	<ul style="list-style-type: none"> USD-PKR is trading in a narrow range on two-way flows Q3-09 C/A deficit narrowed to USD 0.46bn on remittances USD-PKR to remain stable on donor aid, higher FX reserves Importer buying should limit downside We raised our short-term FX rating to Neutral on 01-Apr-09 	Neutral 	Neutral
SAR	<ul style="list-style-type: none"> Credit growth has slowed significantly despite ample liquidity Fiscal stimulus likely to support the economy into 2010 FX forwards are back to historical averages Recent rally in oil prices should boost government revenues We are Overweight SAR short-term, Neutral medium-term 	Overweight 	Neutral
AED	<ul style="list-style-type: none"> Outstanding loans are still higher than deposits New interbank rate mechanism lowered interbank market rates FX forwards are back to historical averages Recent rally in oil prices should boost government revenues We are Overweight AED short-term, Neutral medium-term 	Overweight 	Neutral
TRY	<ul style="list-style-type: none"> USD-TRY continues to range-trade on lagging capital inflows Risk appetite, growth recovery to support TRY stability in Q4 Lack of IMF support/policy anchors to weigh on TRY in 2010 Reduced carry and political noise to keep investors cautious We cut our medium-term FX rating to Neutral on 25-Sep-09 	Overweight 	Neutral
RUB	<ul style="list-style-type: none"> USD-RUB has fallen on higher commodity prices, yield seeking Economy has emerged from recession; recovery will be slow Improving BoP dynamics to support RUB in 2010 Transition to free-float in 2012 to drive further appreciation We raised our short-term rating to Overweight on 09-Sep-09 	Overweight 	Neutral



FX snapshots (cont)

Currency	Fundamentals	S/T weighting (3-6 months)	M/T weighting (6 months+)
KES	<ul style="list-style-type: none"> • USD-KES holds broadly stable in relatively light trading • CBK has made modest progress in rebuilding FX reserves • However, external balances show no clear sign of improvement • We raised KES to Neutral from Underweight on 21-Jul-09 • Medium-term risks are balanced; we are Neutral medium-term 	Neutral 	Neutral
NGN	<ul style="list-style-type: none"> • CBN Dutch auctions now meeting local USD demand in full • Prospective oil price/production recovery and FDI are positive • Event risk linked to bank recapitalisation has faded • We raised our short-term rating to Overweight on 04-Nov-09 • We maintain a medium-term recommendation of Overweight 	Overweight 	Overweight
BWP	<ul style="list-style-type: none"> • Positive impact of ZAR advances vs. USD has started to wane • Diamond demand is recovering, albeit from depressed levels • BWP REER has been boosted by higher inflation • Faster BWP downward crawl vs. basket may be seen in late 2009 • We raised our short-term FX rating to Neutral on 29-Apr-09 	Neutral 	Underweight
ZAR	<ul style="list-style-type: none"> • ZAR set to benefit from broader USD weakness into year-end • Portfolio inflows from overseas have slowed but remain positive • Sustained central bank intervention should slow new ZAR gains • Further out, C/A shortfall weighs on ZAR outlook • We raised our short-term rating to Overweight on 04-Sep-09 	Overweight 	Underweight
ARS	<ul style="list-style-type: none"> • USD-ARS is beginning to peak ahead of key 3.86 high • Momentum indicators are still neutral, suggesting consolidation • Details of proposed USD 20bn debt swap raise onshore hopes • CDS spreads traded sideways in October but are narrowing • We are Neutral ARS short-term and medium-term 	Neutral 	Neutral
BRL	<ul style="list-style-type: none"> • Central bank has drawn a line in the sand for USD-BRL at 1.70 • 2% IOF tax invokes new risk premium for future policy steps • This is unlikely to deter longer-term capital inflows in 2010 • We are wary of a stronger USD as the year-end approaches • We remain Overweight BRL short-term, Neutral medium-term 	Overweight 	Neutral
CLP	<ul style="list-style-type: none"> • The CLP outperformed the region in Nov-09 at +7.87% vs. USD • We suspect key factor is a short squeeze after a weak Q3 • Copper prices made new high in Nov-09, a medium-term boost • USD-CLP should consolidate back towards 525 by year-end • We are Neutral CLP short-term, Overweight medium-term 	Neutral 	Overweight
COP	<ul style="list-style-type: none"> • USD-COP has stabilised below resistance at 2,000 • Concerns are rising that Colombia, like Brazil, may tax inflows • Colombia's previous attempts to stem inflows have failed • Initial target of 1,850 has been met; consolidation for 1,940 YE • We raised our short-term rating to Overweight on 09-Sep-09 	Overweight 	Overweight



FX snapshots (con'd)

Currency	Fundamentals	S/T weighting (3-6 months)	M/T weighting (6 months+)
MXN	<ul style="list-style-type: none"> • USD-MXN continues to trade within ranges set in April • August low of 12.75 remains key support, 13.80 resistance • Budget conflicts unlikely to ease credit agencies' concerns • Risk of sovereign downgrade is high in 2010; fallout contained • We raised our short-term FX rating to Neutral on 14-Apr-09 	Neutral 	Neutral
PEN	<ul style="list-style-type: none"> • USD-PEN is well supported at 2009 low of 2.8505 • Growth in 2010 could be among the strongest in the region • This reflects the prudent policies of the boom years • Peru's growing minerals trade with China is a key positive • We are Neutral PEN, both short-term and medium-term 	Neutral 	Neutral
EUR	<ul style="list-style-type: none"> • EUR-USD supported by economic stabilisation, risk appetite • EUR-USD short-term fair value overvalued vs. S&P 500, IRS spreads • EUR-USD S/T fair value overvalued vs. Baltic Dry Index • We see a pull-back in EUR-USD in Q1, consolidation in Q2 • We raised our short-term FX rating to Neutral on 30-Mar-09 	Neutral 	Overweight
JPY	<ul style="list-style-type: none"> • JPY NEER has stabilised after correcting lower • Japan's external surplus appears to be stabilising • We see a slow grind lower in USD-JPY into the year-end • Fiscal consolidation is a medium-term concern • We lowered our short-term FX rating to Neutral on 18 February 	Neutral 	Underweight
AUD	<ul style="list-style-type: none"> • AUD remains supported by commodities, rate expectations • Australia has escaped a recession • We expect the RBA to raise interest rates to 5.00% by Q4-2010 • We expect a correction in the AUD in Q1 on slowing growth • We raised our short-term rating to Overweight on 19-Mar-09 	Overweight 	Overweight
NZD	<ul style="list-style-type: none"> • New Zealand's economy appears to have bottomed out • We expect the RBNZ to begin its tightening cycle in Q1-2010 • Loose fiscal policy, monetary easing to support 2010 growth • C/A deficit should narrow sharply in 2009 • We raised our short-term FX rating to Neutral on 03-Apr-09 	Neutral 	Overweight
CHF	<ul style="list-style-type: none"> • EUR-CHF in narrow ranges on reported SNB intervention • SNB policy will remain focused on supporting growth • We expect CHF underperformance while the downturn lasts • CHF is 37.55% overvalued vs. USD on OECD PPP basis • We lowered our short-term FX rating to Underweight on 17 March 	Underweight 	Neutral
GBP	<ul style="list-style-type: none"> • GBP has rallied on broad-based USD weakness • Most negatives priced in; C/A deficit should narrow sharply • BoE quantitative easing should support growth prospects • Long-term fiscal risks remain a key concern • We raised our short-term FX rating to Neutral on 20-Apr-09 	Neutral 	Neutral
CAD	<ul style="list-style-type: none"> • USD-CAD has bounced on BOC warning, positioning • However, sentiment on long-term growth prospects should help • Canada's trade surplus has collapsed but should stabilise • We are Overweight CAD on a medium-term basis • We raised our short-term FX rating to Overweight on 14-Jul-09 	Overweight 	Overweight



Commodities short-term views

	Market close	m/m	Change YTD	y/y	Short-term (1M) view	Comments
	27-Nov-09	%	%	%		
Energy						
Crude oil (near future, USD/b)						
NYMEX WTI	76.05	-0.5	71.9	40.8	Bullish	Renewed USD weakness ahead of year end is expected to push prices higher, although still lack lustre demand will cap the upside.
Agricultural products						
Softs (near future)						
NYBOT cocoa, USD/tonne	3,232.00	-1.4	22.0	37.1	Bearish	Remarkably resilient despite weak fundamentals. Investor demand is a major price support but market is still vulnerable to a sharp correction if physical demand does not improve.
NYBOT coffee, USc/lb	137.95	1.2	23.1	n/a	Bullish	Supply concerns are brewing following wet harvest weather which dented output in top producer Brazil. The Brazilian government is also buying local coffee at above-market prices in order to boost the market.
NYBOT sugar, USc/lb	22.20	2.9	93.1	91.6	Neutral	We retain the view that any short-term rallies will be short-lived and capped by prospects of a larger cane crop in 2010/11.
Fibres						
Cotton (Cotlook A index, USc/lb)	74.95	9.2	31.0	31.3	Neutral	Global cotton stocks are adequate despite risks of a larger than expected drop in output from largest consumer China. We therefore expect a pause to the rally.
Grains & oilseeds (near future)						
CBOT corn (maize), USc/bushel	397.25	8.9	-2.0	14.1	Bullish	A potential drop in US and global output has tightened global end-season stock estimates. Could also get support from an increase in the US ethanol blending mandate.
CBOT soybeans, USc/bushel	1,053.00	8.8	9.4	20.5	Neutral	We turn neutral from bullish on soybeans on account of improved yield prospects in the US and good planting progress in Brazil and Argentina.
CBOT wheat, USc/bushel	548.75	12.7	-8.8	2.7	Neutral	Wheat remains constrained by surplus stocks and will rely on outside markets for direction including the USD, energy and other grains.



Commodities short-term views (con'd)

	Market Close	m/m	Change YTD	y/y	Short-term (1M) view	Comments
	27-Nov-09	%	%	%		
Metals						
Base metals (LME 3M, USD/tonne)						
Aluminium	1,912.00	+4.8	+26.0	-9.9	Bullish	Operating cost base is rising on weaker USD and market is underpinned by financing deals for the time being.
Copper	6,430.00	+9.9	+113.9	+41.2	Bullish	Continued investor interest and ample liquidity is key driver, offsetting impact of rising LME stocks and falling imports by China.
Lead	2,230.00	+4.3	+132.9	+47.3	Bullish	Prices supported by low stock levels on the LME and strong seasonal demand heading into the winter.
Nickel	17,800.00	+7.5	+57.5	+35.1	Neutral	Poor demand from stainless sector is weighing on prices, but downside will be limited by rallies across the complex.
Tin	14,650.00	+3.6	+40.0	-1.6	Neutral	Market is trading water, with dominant position holder dictating price moves.
Zinc	2,190.00	+18.4	+84.5	+76.9	Bullish	Problems at Century are adding a risk premium to prices and construction demand is being boosted by government infrastructure spending.
Precious metals (spot, USD/oz)						
Gold (spot)	1,028.10	+4.6	+17.7	+37.5	Bullish	Investors are targetting precious metals and gold in particular and central bank buying will remain strongly supportive.
Palladium (spot)	316.00	+12.2	+73.1	+62.6	Neutral	Heavy investment through physical ETFs is providing support, but prices are due a period of consolidation.
Platinum (spot)	1,308.50	+4.8	+42.3	+64.6	Bullish	Premium over gold remains modest and cost base is rising rapidly.
Silver (spot)	16.15	+2.3	+24.1	+67.3	Bullish	Investors are buying silver as an alternative to gold and general precious metals rally will provide support.



Forecasts – Economies

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

Country	Real GDP growth (%)				Inflation (yearly average %)				Current account (% of GDP)			
	2009	2010	2011	2012	2009	2010	2011	2012	2009	2010	2011	2012
Majors												
US [^]	-2.4	2.3	2.5	3.4	1.4	0.7	0.5	0.7	-3.5	-4.1	-3.2	-2.5
Euro area	-3.9	1.5	2.0	2.4	0.1	1.4	1.7	1.9	-1.0	-0.8	-0.2	0.2
Japan	-5.8	1.5	1.0	1.5	-1.3	-1.0	-0.7	0.5	2.0	2.4	2.7	2.5
UK	-4.6	1.2	1.9	2.4	2.1	2.0	1.2	1.5	-2.0	-1.7	-1.5	-1.1
Canada	-2.5	2.2	3.3	4.0	0.4	1.5	1.2	1.4	-2.5	-2.6	-2.7	-2.5
Switzerland	-1.4	1.9	2.5	2.6	-0.3	0.8	1.1	1.6	4.5	5.8	6.4	7.0
Australia	-0.2	2.0	2.5	3.0	1.8	2.1	2.2	2.5	-2.1	-3.5	-3.7	-4.0
New Zealand	-1.0	1.6	2.0	2.5	2.3	3.0	3.0	2.5	-6.0	-5.5	-5.0	-5.5
Asia												
Bangladesh*	5.9	6.0	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	-3.4	4.0	4.5	5.0	0.5	2.0	3.5	3.7	11.5	12.0	12.5	13.5
India*	6.8	7.5	8.4	8.6	2.5	5.5	5.0	5.0	-0.9	-1.8	-1.5	-1.5
Indonesia	4.4	5.5	6.5	7.0	3.8	5.5	6.5	6.0	1.7	0.8	0.8	0.5
Malaysia	-2.2	4.2	5.5	5.5	0.5	2.0	2.5	2.5	12.5	14.8	16.0	15.5
Pakistan*	2.0	2.5	4.0	4.5	20.8	12.0	9.0	8.0	-5.3	-4.5	-4.2	-4.0
Philippines	1.0	3.3	4.1	5.0	3.0	3.3	3.3	4.0	5.3	5.5	5.2	4.8
Singapore	-2.8	5.1	5.6	5.0	0.2	3.0	3.0	2.3	13.0	15.5	16.5	15.8
South Korea	0.1	4.8	4.1	5.2	2.8	2.5	2.5	2.5	5.0	2.5	2.0	1.0
Sri Lanka	4.0	5.5	6.0	7.0	3.5	4.7	5.1	5.5	-2.0	-1.5	-2.0	-2.5
Taiwan	-2.9	4.0	4.1	4.6	-0.4	1.0	1.2	2.2	10.4	6.2	4.6	4.6
Thailand	-3.5	2.8	4.5	5.8	0.2	3.2	3.7	3.8	2.5	-1.0	-2.6	-2.8
Vietnam	4.9	6.7	7.2	7.0	7.1	8.9	8.5	8.0	-7.0	-8.5	-6.5	-6.0
Africa												
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	5.0	6.0	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	5.9	9.8	11.1	19.5	16.0	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	9.6	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	-2.0	2.3	2.7	3.2	7.4	6.4	6.5	6.0	-4.9	-5.7	-6.1	-6.9
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	4.9	5.5	5.8	6.4	13.6	11.4	10.5	9.8	-3.2	-4.2	-3.2	-2.8
Middle East and North Africa												
Algeria	2.5	3.5	5.0	5.0	5.5	4.0	3.5	3.0	-1.0	1.0	2.0	2.0
Bahrain	2.0	3.0	4.0	4.0	2.5	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	10.0	9.0	8.0	-2.3	-1.8	-1.0	-1.0
Iran*	3.8	4.0	3.0	4.0	12.0	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	4.0	3.5	3.0	-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	3.0	4.5	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	2.0	2.5	2.5	2.5	-0.5	-0.1	0.5	0.5
Oman	3.5	4.0	4.0	4.0	3.7	5.0	6.0	6.0	1.0	6.5	7.0	7.0
Qatar	8.5	9.5	4.0	4.0	-2.0	3.5	8.0	5.5	4.2	17.0	25.0	20.0
Saudi Arabia	-1.0	3.0	3.5	3.0	4.9	4.0	4.5	4.0	6.0	10.0	6.5	5.5
Tunisia	2.0	3.5	4.0	4.5	3.0	3.0	3.5	3.5	-4.0	-3.4	-2.5	-2.5
Turkey	-5.8	2.8	4.0	5.5	6.2	6.2	5.8	5.5	-1.5	-2.8	-3.7	-4.5
UAE	-0.5	3.0	4.5	5.0	3.0	4.0	3.5	4.0	0.0	3.2	3.5	5.0
Latin America												
Brazil	0.6	3.8	3.3	4.5	4.8	4.6	3.9	4.5	-1.5	-2.0	-2.5	-3.5
Chile	-0.9	3.8	3.5	4.5	2.0	3.3	3.6	4.0	-1.0	2.8	1.5	1.1
Colombia	-0.1	2.5	4.5	3.5	2.5	3.0	3.8	3.0	-1.9	-3.0	-3.3	-2.8
Mexico	-7.0	2.7	4.0	3.8	4.1	4.3	3.9	4.1	0.5	-1.3	-1.5	-2.5

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

** Inflation: CPIX used for South Africa ^For US inflation, core PCE deflator is used

Source: SCB Global 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	Q4-09	Q1-10	Q2-10	Q3-10	Q4-10	Present	Q4-09	Q1-10	Q2-10	Q3-10	Q4-10
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	1.51	1.52	1.45	1.46	1.51	1.58	1.00 (Refi Rate)	1.00	1.00	1.00	1.00	1.00
Japan	86.94	89.00	92.00	95.00	93.00	91.00	0.10 (O/N Call Rate)	0.10	0.10	0.10	0.10	0.10
UK	1.65	1.64	1.58	1.58	1.64	1.68	0.50 (Bank Rate)	0.50	0.50	0.50	0.50	0.50
Canada	1.05	1.05	1.13	1.07	1.04	1.00	0.25 (O/N Lending Rate)	0.25	0.25	0.25	0.25	0.75
Switzerland	1.00	1.00	1.05	1.08	1.04	1.02	0.25 (LIBOR Target)	0.25	0.25	0.25	0.25	0.25
Australia	0.92	0.92	0.85	0.90	0.95	1.02	3.75 (OCR)	3.75	4.25	4.50	4.75	5.00
New Zealand	0.72	0.72	0.66	0.72	0.75	0.79	2.50 (OCR)	2.50	2.75	3.25	3.75	4.00
Asia												
Bangladesh	68.75	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	6.82	6.83	6.82	6.78	6.70	5.31 (1Y Base Lending)	5.31	5.58	5.85	5.85	5.85
Hong Kong	7.75	7.75	7.75	7.75	7.75	7.75	0.10 (3M HIBOR)	0.10	0.10	0.10	0.10	0.10
India	46.31	45.50	45.00	44.00	43.00	42.00	3.25 (RRP)	3.25	3.25	3.50	3.75	4.00
Indonesia	9,440	9,200	9,700	9,500	9,300	8,900	6.50 (BI Rate)	6.50	7.00	7.50	7.50	7.50
Malaysia	3.38	3.28	3.38	3.34	3.25	3.15	2.0 (OPR)	2.00	2.00	2.00	2.00	2.25
Pakistan	83.53	83.50	85.00	86.00	86.90	87.80	12.85 (6M KIBOR)	12.00	12.00	11.50	11.00	10.50
Philippines	46.84	45.50	47.50	46.50	45.50	43.50	4.00 (RRP)	4.00	4.00	4.00	4.00	4.00
Singapore	1.38	1.37	1.40	1.38	1.36	1.32	0.68 (3M SGD SIBOR)	0.70	0.70	0.70	0.70	0.70
South Korea	1,159	1,150	1,180	1,150	1,100	1,050	2.0 (Base Rate)	2.00	2.50	2.50	2.50	2.50
Sri Lanka	114.37	114.00	114.40	114.00	113.50	113.00	7.5 (RP)	7.50	7.00	6.50	6.50	6.00
Taiwan	32.18	31.90	32.00	31.80	31.60	31.00	1.25 (Discount Rate)	1.25	1.25	1.25	1.25	1.25
Thailand	33.16	32.80	33.50	33.20	32.80	32.00	1.25 (1-day Repo)	1.25	1.25	1.25	1.25	1.25
Vietnam	18,487	18,500	18,600	18,800	18,900	19,000	8.00 (Base Rate)	8.00	8.50	9.00	9.50	10.00
Africa												
Angola	87.70	84.00	84.00	83.50	83.00	82.00	20.3 (91-day T-bill)	20.00	19.75	19.50	19.00	18.50
Botswana	6.61	6.63	6.69	6.85	6.86	7.17	11.0% (Bank Rate)	11.00	11.00	11.00	11.00	11.00
Cameroon	435	423	437	449	434	415	4.25 (TIAO)	4.25	4.25	4.25	4.50	4.50
Côte d'Ivoire	435	423	437	449	434	415	4.25 (Discount Rate)	4.00	4.00	4.00	4.00	4.00
The Gambia	26.80	27.00	27.50	28.50	29.00	30.50	10.56 (91-day T-bill)	11.75	11.75	11.00	10.75	10.50
Ghana	0.93	1.40	1.47	1.49	1.53	1.56	25.32 (91-day T-bill)	25.00	22.00	21.00	20.00	18.00
Kenya	74.75	75.00	76.50	77.00	77.50	77.90	7.20 (91-day T-bill)	7.60	7.30	7.20	6.80	7.00
Nigeria	146.00	148.00	152.00	154.00	150.00	147.00	6.0% (MPR)	6.00	6.00	6.00	7.00	7.00
Sierra Leone	3,795	3,800	3,875	3,950	4,025	4,100	12.88 (91-day T-bill)	11.50	11.60	11.00	10.70	11.00
South Africa	7.34	7.50	7.60	7.75	7.90	8.25	7.00 (Repo Rate)	7.00	7.00	7.00	7.00	7.00
Tanzania	1,336	1,350	1,390	1,320	1,360	1,380	5.18 (91-day T-bill)	4.80	5.40	7.40	6.30	6.80
Uganda	1,868	1,920	1,860	1,880	1,900	1,920	6.05 (91-day T-bill)	6.20	6.80	7.60	7.30	6.90
Zambia	4,665	4,750	4,700	4,800	4,950	5,100	7.88 (91-day T-bill)	7.20	7.70	8.00	8.40	8.60
Middle East and North Africa												
Algeria	70.60	69.75	68.50	67.50	65.50	63.00	3.28 (Interbank Rate)	3.28	3.28	3.28	3.28	3.28
Bahrain	0.38	0.38	0.38	0.38	0.38	0.38	0.50 (1-wk Deposit Rate)	0.50	0.50	0.50	0.50	0.50
Egypt	5.48	5.53	5.55	5.58	5.50	5.45	8.25 (O/N Depo Rate)	8.25	8.25	8.25	8.25	8.25
Iran	9,890	9,090	9,434	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	3.00 (Discount Rate)	3.00	3.00	3.00	3.00	3.00
Lebanon	1,500	1,508	1,508	1,508	1,508	1,508	...	...	...	...	...	...
Libya	1.20	1.18	1.23	1.25	1.22	1.16	...	...	...	...	...	...
Morocco	7.55	7.49	7.57	7.74	7.51	7.21	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	1.28	1.26	1.29	1.31	1.28	1.22	4.50 (Money Market Rate)	4.50	4.50	4.50	4.50	4.50
Turkey	1.51	1.45	1.52	1.55	1.58	1.58	6.50 (Base Rate)	6.50	6.50	7.00	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												
Brazil	1.76	1.70	1.84	1.70	1.65	1.55	8.75 (Selic)	8.75	9.25	9.75	10.50	11.50
Chile	497	505	535	510	490	445	0.50 (Overnight Rate)	0.50	0.75	1.00	2.25	2.75
Colombia	1,998	1,940	2,080	1,950	1,880	1,660	3.5% (Min reverse repo)	3.50	3.50	3.75	4.00	4.00
Mexico	12.87	13.20	13.85	13.30	12.75	12.45	4.50 (TdF)	4.50	4.50	4.50	4.50	5.00

Forecasts are for end of period

Sources: Bloomberg, SCB Global Research



Forecasts – Commodities

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

	Market close	m/m	Change YTD	y/y	Q3-09	Q4-09	Q1-10	Q2-10	Q3-10	Q4-10	2009	2010	2011
	27-Nov-09	%	%	%	A	F	F	F	F	F	F	F	F
Energy													
Crude oil (near future, USD/b)													
NYMEX WTI	76	-0.5	+71.9	+40.8	68	79	83	80	84	88	63	84	90
ICE Brent	77	+3.5	+70.7	+45.5	69	78	82	79	83	87	63	83	88
Dubai spot	78	+0.2	+109.8	+56.7	68	77	80	78	80	82	62	80	84
Refined oil products													
Singapore fuel oil 180 (USD/t)	476	+2.7	+131.2	+97.1	421	465	475	455	455	468	372	463	465
Singapore gasoil (USD/b)	83	-1.6	+52.6	+27.4	75	83	87	86	89	92	69	89	99
Singapore jet kerosene (USD/b)	84	-0.3	+54.3	+20.1	75	84	89	88	91	94	70	90	101
Singapore naphtha (USD/b)	79	+4.8	+150.8	+124.1	67	75	80	79	81	84	61	81	86
Europe gasoil (USD/t)	605	-3.2	+44.6	+11.6	560	626	663	641	678	704	525	671	745
Europe jet (USD/t)	660	-1.5	+50.8	+12.4	605	698	739	714	754	783	572	747	825
Europe naphtha (USD/t)	696	+6.1	+169.1	+114.2	596	672	725	703	743	779	536	738	797
Coal (USD/t)													
API4	64	+0.2	-19.1	-51.7	60	67	70	67	70	73	64	70	80
API2	73	+1.2	-13.6	-52.0	68	76	80	77	81	85	70	81	95
globalCOAL NEWC*	81	+11.7	+0.6	-27.1	72	76	84	80	83	87	72	84	95
Metals													
Base metals (LME 3m, USD/tonne)													
Aluminium	2,016	+6.7	+32.3	+14.9	1,837	2,000	1,800	1,700	1,900	2,150	1,692	1,888	1,950
Copper	6,855	+6.5	+124.8	+90.7	5,866	6,645	6,300	6,300	6,700	7,500	5,175	6,700	7,500
Lead	2,300	+0.8	+132.7	+110.7	1,945	2,385	2,150	2,100	2,200	2,550	1,753	2,250	2,300
Nickel	16,085	-11.0	+38.9	+59.3	17,598	18,000	16,500	15,000	17,000	17,500	14,824	16,500	17,000
Tin	14,895	+1.4	+39.3	+21.1	14,187	15,250	14,000	13,500	14,000	16,000	13,429	14,375	15,000
Zinc	2,230	+4.1	+86.2	+85.9	1,782	2,200	2,000	1,950	2,050	2,360	1,674	2,090	1,900
Steel** (CRU assessment, USD/t)													
HRC, US	572	-8.0	-4.5	-4.5	542	625	630	640	660	690	542	655	700
HRC, Europe	628	-4.7	-1.1	-1.1	604	670	690	700	720	760	582	718	770
HRC, Japan	737	+0.7	-32.6	-32.6	713	735	740	750	762	790	758	761	830
HRC, China	513	+3.8	-2.5	-2.5	565	510	530	550	635	665	525	595	680
Precious metals (spot, USD/oz)													
Gold (spot)	1,178	+12.0	+32.7	+43.1	961	1,100	1,075	1,025	1,200	1,300	973	1,150	1,300
Palladium (spot)	365	+13.9	+95.2	+91.6	274	360	300	300	330	380	267	328	350
Platinum (spot)	1,441	+9.1	+54.7	+64.0	1,234	1,420	1,350	1,450	1,550	1,700	1,214	1,513	1,700
Silver (spot)	18.30	+11.5	+59.6	+76.5	14.7	18.0	17.0	16.0	17.0	20.5	14.8	18.0	20.5
Agricultural products													
Softs (near future)													
NYBOT cocoa, USD/tonne	3,232	-1.4	+22.0	+37.1	2,860	2,800	2,825	2,850	2,900	2,850	2,679	2,856	2,900
LIFFE coffee, USD/tonne ***	1,318	-1.4	-13.4	-24.5	1,419	1,425	1,490	1,550	1,625	1,685	1,478	1,588	1,625
NYBOT coffee, USc/lb	138	+1.2	+23.1	#N/A N/A	125	128	135.0	140.0	140	137	122	138.0	145
NYBOT sugar, USc/lb	22.20	+2.9	+93.1	+91.6	20.5	23	21	19	17	16.0	17.7	18.0	19.0
Fibres													
Cotton (Cotlook A index, USc/lb)	75.0	+9.2	+31.0	+31.3	64.4	69.0	77.0	80.0	82.0	82.0	62.0	80	75.0
Grains & oilseeds (nr future)													
CBOT corn (maize), USc/bushel	397	+8.9	-2.0	+14.1	327	350	375	400	450	500	365	431	525
CBOT Soybeans, USc/bushel	1,053	+8.8	+9.4	+20.5	1,051	1,060	1,000	975	975	1,050	1,045	1,000	1,100
CBOT wheat, USc/bushel	549	+12.7	-8.8	+2.7	484	522.0	540.0	630	650	650	530.0	618.0	650
CBOT rice, USc/cwt	15.4	+7.5	+0.7	+16.9	13.3	14.0	15.0	14.7	14.5	14.0	13.2	15.0	15.0
Thai B rice 100%, USD/tonne*	565	+8.7	+8.7	+0.0	558	570	600.0	630.0	625.0	620	567	619.0	600
Edible oils (3m future)													
Palm oil (MDV,MYR/tonne)	2,458	+12.9	+44.7	+51.5	2,209	2,250	2,500	3,150	3,150	3,200	2,202	3,000	3,500
Soyoil (CBOT, USc/lb)	40	+10.7	+21.0	+23.7	35	36	37	40	42	50	36	42	44

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



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