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**Global**

Outlook

# The Global Monetary Analyst

## Paradise Lost

The longer the banking crisis and the sovereign crisis last (and both are by far not over yet), the more likely we will get a crisis of confidence in the central banks who act as lenders of last resort to banks and governments. Financial and fiscal stability concerns will make it difficult for central banks to aggressively fight inflation pressures once they emerge. Inflation in the US and the euro area is still low, but the UK, where inflation is way above target, may be a leading indicator rather than an aberration. The ECB is just the latest victim – the sovereign and banking crises have forced it into actions that threaten to undermine its credibility over time. The gold price and exchange rates have already been signaling a loss of (overall and relative) confidence in the value of fiat money for some time. Yet, the famed bond vigilantes are fast asleep, lulled in by liquidity, carry and roll-down. p 2

## Central Bank Watch



### Key Central Bank Risk Events

| Date | Country | Event |
|---|---|---|
| 03 Jun | **Sweden** | Riksbank General Council Meeting |
| 03 Jun | **Indonesia** | Rate decision: Expect on hold |
| 08 Jun | **Norway** | Gov Gjedrem speech |
| 09 Jun | **Brazil** | **Rate decision: Expect 75bp hike** |
| 09 Jun | **United States** | Beige Book |
| 09 Jun | **Australia** | Speech by RBA Governor Glenn Stevens |
| 10 Jun | **Euro Area** | Rate decision: Expect on hold |
| 10 Jun | **UK** | Rate decision: Expect on hold |
| 10 Jun | **Korea** | Rate decision: Expect on hold |
| 10 Jun | **New Zealand** | Rate decision: Expect on hold |

### What's Changed?

| | Forecast Changes Since Last Week |
|---|---|
| **US** | GDP: 3.7% in 2Q10 (prev. 3.4%) |
| **Australia** | Policy rates: 4.5, 5% end-4Q10, 4Q11 (prev. 5, 5.25%) |

### Where Do We Differ Most from the Market?

**BoJ** expected to cut rates in 2Q10, markets expect no cuts (page 12)

**Riksbank** expected to raise rates slower than markets expect (page 13)

# Paradise Lost

Joachim Fels (44 20) 7425 6138

- The longer the banking crisis and the sovereign crisis last (and both are by far not over yet), the more likely we will get a crisis of confidence in the central banks who act as lenders of last resort to banks and governments.
- Financial and fiscal stability concerns will make it difficult for central banks to aggressively fight inflation pressures once they emerge.
- Inflation in the US and the euro area is still low, but the UK, where inflation is way above target, may be a leading indicator rather than an aberration.
- The ECB is just the latest victim – the sovereign and banking crises have forced it into actions that threaten to undermine its credibility over time.
- The gold price and exchange rates have already been signaling a loss of (overall and relative) confidence in the value of fiat money for some time. Yet, the famed bond vigilantes are fast asleep, lulled in by liquidity, carry and roll-down.

**Once upon a time:** In comparison to the challenges facing central bankers today, the one-and-a-half decades in the run-up to the credit crisis must have felt like paradise for monetary policymakers, where they could do (almost) no wrong. They were standing on the shoulders of giants like Paul Volcker and others, who had successfully fought the Great Inflation with restrictive monetary policies during the 1980s and had thus restored central bank credibility. Importantly, they were also helped in their pursuit of price stability by a combination of favourable external factors beyond their control – globalisation, deregulation and a productivity 'miracle' – that kept inflation in check even when monetary policy was expansionary. Hence, central bankers could have their cake and eat it: they were able to slash interest rates aggressively whenever a financial crisis or recession came along, and to only raise rates very slowly thereafter, without creating inflating pressures or sacrificing credibility. If anything, these firefighting missions coupled with ongoing low inflation added to the image of central bankers as the 'maestros' of their economies and financial markets.

**Maestro myth revealed:** Alas, as is now widely recognised (also by many central bankers), these actions sowed the seeds for an asset price and credit bubble of gigantic proportions. Since the bubble burst, we have been moving from crisis to crisis – a credit and banking crisis, the Great Recession, an emerging market crisis and now a European sovereign debt crisis. With central banks having long been forced (by circumstances rather than government decree) to open the floodgates and apply an unprecedented series of unconventional measures, it looks more and more likely to us that the confidence crisis in banks and sovereigns will ultimately morph into a crisis of confidence in the central banks who act as lenders of last resort to both banks and governments. Yes, central banks can extend unlimited amounts of credit to banks and governments. But they do so by issuing ever more of their own liabilities – money. And just as the trust in banks' and governments' liabilities eroded when they issued ever more, we believe that the trust in money will erode if central banks issue ever more of it.

**Gold and exchange rates illustrate confidence loss:** A loss of confidence in the value of fiat money usually shows up first in the price of gold and in exchange rates. By these standards, the process has long started. The price of gold has more than doubled from its pre-crisis levels at the start of 2007, no matter whether it is measured in US dollars, euros or sterling. And exchange rates – the relative price of fiat currencies – have also reflected (relative) confidence losses. Last year, when the Fed embarked on active quantitative easing with massive asset purchases, while the ECB was less aggressive and engaged in the less risky versions of 'passive' quantitative easing, the dollar weakened significantly against the euro. This year, when the Fed ended its asset purchase programme and the ECB was recently forced to become more aggressive by extending liquidity support to the banks again and starting to buy government bonds (though at a much smaller scale than the Fed) outright, the euro was punished relative to the dollar.

**Inflation still low…** Meanwhile, the internal value of money, as measured by its purchasing power in terms of goods and services, has been reasonably stable as inflation has remained low, especially in the US and Europe. But this is hardly surprising, given that the global economy only started to emerge from its deepest post-war recession at around this time last year. Moreover, it provides little comfort for the future as global monetary policies remain extremely accommodative despite the economic recovery and as we believe that the sovereign debt crisis will keep both the ECB and the Fed on hold for longer and will thus make it more difficult for many emerging market central banks to tighten monetary policy (see “XXL Liquidity”, *The Global Monetary Analyst*, May 12, 2010).

**…but the UK may be a leading indicator:** Interestingly, the country with the highest current inflation rate in the G10 is the UK (see page 4), with CPI inflation at 3.7% by far exceeding the 2% target. Even excluding the VAT hike (but only assuming partial pass-through), our UK economists think that CPI inflation would be running at slightly above 3% currently. Judged by the expansion of the Bank of England’s balance sheet since the start of the crisis (see page 5), the UK has also had the most aggressive monetary policy response, and sterling has weakened significantly versus both the dollar and the euro over the past couple of years. And, as an aside, the UK experience flies in the face of the popular theory that, in order to create inflation, you must have solid credit creation and broad money growth – both M4 and M4 lending (on the BoE’s preferred measure that excludes intermediate OFCs) have only barely picked up fairly recently. Recall that similar arguments about preconditions for an economic recovery were put to rest last year when a surge in excess liquidity provided enough traction for the start of the economic recovery. Credit creation and broad money growth or the absence of economic slack would certainly aid and abet inflation, but their absence does not necessarily rule out inflation and inflationary risks when such expansionary monetary policy regimes are in place.

**ECB the latest victim:** More recently, the focus has shifted to the ECB, which has traditionally been viewed as the most independent and credible among the major central banks by many market participants. To a large extent, the ECB’s credibility has been built on its very nature of a supranational central bank mandated with the primary goal of price stability, issuing a denationalised currency remote from government influence. However, the credit crisis that has morphed into a sovereign crisis has forced the ECB into actions that threaten to undermine its credibility over time.

**Credibility undermined:** First, the ECB had to make a climb-down on its collateral rules by accepting Greek government bonds irrespective of their credit rating. While justified as an exceptional step, it seems clear that the ECB will not be able to deny similar treatment to any other member state getting into trouble. Second, the decision to buy government bonds in the ‘dysfunctional’ secondary market was a big step, as can be seen by the open controversy it created in the ECB Council. While these purchases do not violate the Maastricht Treaty, which only rules out direct lending to governments or bond purchases at auction, they clearly help governments finance their deficits at lower rates than otherwise. Third, by continuing to provide banks with unlimited liquidity at various maturities, the ECB keeps even the weakest players afloat and thus slows down the necessary consolidation and recapitalisation in the banking sector.

**Hostage to financial and fiscal stability concerns:** Of course, all these measures can be justified with concerns about domino effects and thus a potential meltdown of the system, and it is difficult to see how the ECB could have acted differently in these situations. Yet, these actions also delay the necessary adjustment as banks and governments have learned to rely on the ECB as a lender of last resort. And without the necessary adjustment in the form of banking sector consolidation or the threat of regulatory intervention (breakups, orderly wind-downs, etc.), recapitalisation of banks (especially those in public ownership) and major fiscal reforms, the ECB will likely remain hostage to financial stability concerns and find it difficult to respond to inflationary pressures when they appear.

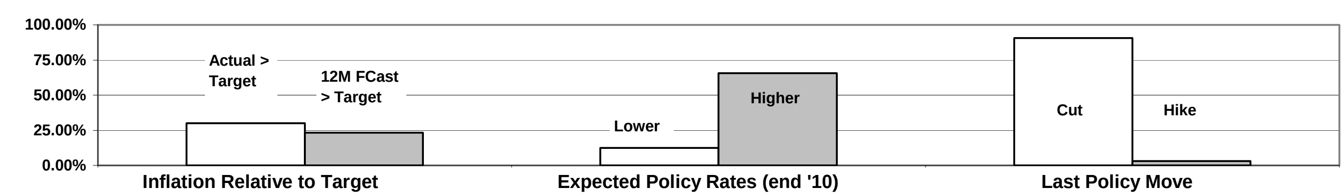
**Vigilantes asleep:** In short, over the next several years, central banks will face an uphill battle to defend their credibility, and many of them will have their hands tied by financial and fiscal stability concerns. Amazingly, though, while the gold price and currency markets have been sensitive to these concerns, bond markets appear to be lulled in by liquidity, carry and roll-down that seems to springs eternal. But this is not new: bond markets also took years to take on board the Great Inflation of the 1970s and the big disinflation of the 1980s and 1990s. The famed bond vigilantes are fast asleep, again.

# Inflation Target Monitor & Next Rate Move

Global Economics Team. Contact: Manoj.Pradhan@morganstanley.com

| | Inflation target | Latest Month | 12M MS FCast | Next Rate Decision | Current Rate | Market Expects (bp) | MS Expects (bp) | Risks to our call |
|---|---|---|---|---|---|---|---|---|
| **United States** | 1.5-2.0% PCE Price Index | 1.2% | 2.0% | 23 Jun | **0.125** | 0 | 0 | Fed on hold until European uncertainty clears |
| **Euro Area** | < 2% HICP (u) | 1.6% | 2.4% | 10 Jun | **1.00** | 2 | 0 | EONIA to stay below refi rate until July |
| **Japan** | 0-2% CPI (u) | -1.5% | -0.5% | 15 Jun | **0.10** | 0 | -5 | - |
| **United Kingdom** | 2% CPI | 3.7% | 1.6% | 10 Jun | **0.50** | 0 | 0 | QE could be re-started in double-dip |
| **Canada** | 1-3% on CPI | 1.8% | 1.7% | 20 Jul | **0.50** | 15 | 25 | If inflation moderates meaningfully, BoC could wait until July |
| **Switzerland** | <2% CPI (u) | 1.4% | 0.4% | 17 Jun | **0.25** | -6 | 0 | - |
| **Sweden** | 2.0% CPI | 1.0% | 1.5% | 01 Jul | **0.25** | 17 | 0 | Balanced |
| **Norway** | 2.5% CPI | 3.3% | 2.5% | 23 Jun | **2.00** | 4 | 0 | Small risk of a hike |
| **Australia** | 2-3% over the cycle | 2.9% | 1.9% | 06 Jul | **4.50** | -3 | 0 | An increase |
| **New Zealand** | 1-3% CPI | 2.0% | 1.8% | 10 Jun | **2.50** | 19 | 0 | 50-50 between June/July hike |
| **Russia** | none | 6.0% | 8.2% | - | **7.75** | 0 | 0 | - |
| **Poland** | 2.5% (+/- 1%) CPI | 2.4% | 2.6% | 30 Jun | **3.50** | - | 0 | - |
| **Czech Republic** | 3.0% (+/-1%) CPI | 1.1% | 1.9% | 23 Jun | **0.75** | - | 0 | - |
| **Hungary** | 3.0% CPI | 5.6% | 2.8% | 21 Jun | **5.25** | - | 0 | - |
| **Romania** | 3.5 (+/-1%) CPI | 4.3% | 4.6% | 30 Jun | **6.25** | - | 0 | - |
| **Turkey** | 6.5% CPI end '10 | 10.2% | 5.9% | 17 Jun | **6.50** | 0 | 0 | - |
| **Israel** | 1-3% CPI | 3.0% | 2.9% | 28 Jun | **1.50** | - | 25 | BoI might hold |
| **UAE** | - | 0.8% | 1.5% | - | **1.00** | - | - | - |
| **South Africa** | 3-6% CPI | 4.8% | 5.1% | 22 Jul | **6.50** | - | 0 | Weak labour mkt/CPI undershoot prompts further easing |
| **China** | - | 2.8% | 3.2% | - | **5.31** | - | 0 | Balanced risk |
| **India** | 8.5% WPI | 9.9% | 7.0% | 27 Jul | **3.75** | 0 | 0 | Growth weaker than expected |
| **Hong Kong** | - | 2.4% | 2.5% | - | **0.50** | - | 0 | Premature US tightening upon global inflation uptick |
| **S. Korea** | 2-4% CPI | 2.7% | 3.5% | 09 Jul | **2.00** | - | 0 | External uncertainties may delay rate hike cycle |
| **Taiwan** | - | 1.3% | 2.0% | 25 Jun | **1.25** | - | 0 | Rate hike may be delayed due to mild inflation pressure |
| **Singapore** | 1.5% (long-term CPI) (u) | 2.8% | 2.0% | 01 Oct | **0.55** | - | NA | Changes in the FFTR and SGD appreciation pace |
| **Indonesia** | 5% +/- 1.0% | 4.2% | 5.0% | 03 Jun | **6.50** | - | 0 | Evenly balanced |
| **Malaysia** | - | 1.5% | 1.7% | 08 Jul | **2.50** | - | 25 | Evenly balanced |
| **Thailand** | 0.5-3.0% core CPI | 3.5% | 3.8% | 14 Jul | **1.25** | - | 25 | Downside risks |
| **Brazil** | 4.5% +/-2.0% IPCA | 5.3% | 5.7% | 09 Jun | **9.50** | - | 75 | - |
| **Mexico** | 3% +/-1% CPI | 4.3% | 3.8% | 18 Jun | **4.50** | 0 | 0 | Inflationary impact of tax reform in 2010 |
| **Argentina** | 15.5-24.2% M2 growth | 10.2% | 10.5% | NA | **9.25** | - | - | - |
| **Chile** | 3% +/-1% CPI | 0.9% | 3.5% | 15 Jun | **0.50** | 0 | 0 | - |
| **Colombia** | 3% +/-1% CPI | 2.0% | 4.0% | 25 Jun | **3.00** | 0 | 0 | Slower recovery leading to rates on hold for longer |

(u) = unofficial
Notes: Inflation numbers in red indicate values above target; MS expectations in red (green) indicate our rate forecasts are above (below) market expectations




Source: National Central Banks, Morgan Stanley Research
Notes: (u) = unofficial target; Interest rate expectations are implied by overnight indexed swap (OIS) curves and may differ from those implied by other instruments; where adequate OIS data are not available, FRAs, foreign exchange swaps, and/or interbank cash rate futures are used; due to varying risk premia (such as liquidity, basis, credit, term, reserve management, calendar turns, etc.), these figures should be used as estimates only; where such instruments are not available, we have inserted our best guess of what markets expect based on consensus estimates.

# Central Bank Balance Sheet Monitor

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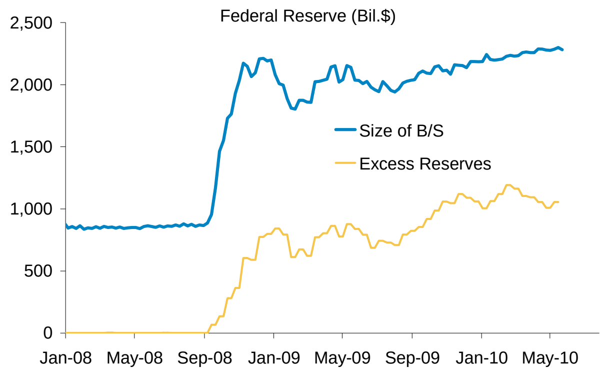
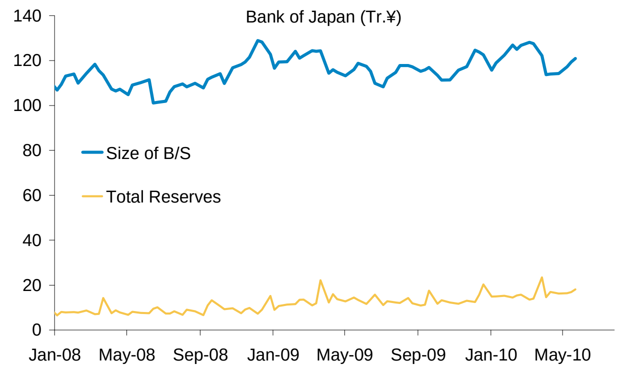
## US



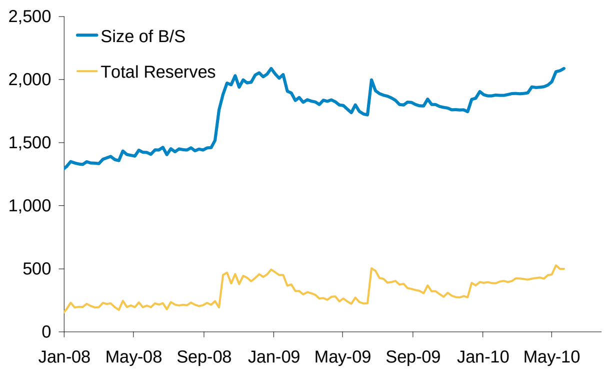

Source: Haver Analytics

## Japan



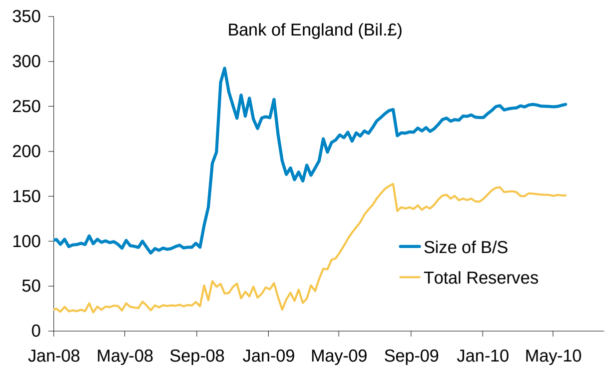

Source: Haver Analytics

## Europe




Source: Haver Analytics

## UK




Source: Haver Analytics

# Central Bank Watch

## What's New This Week?



## US: The 'Strong' Dollar Doesn't Threaten the Outlook

Richard Berner (1 212) 761 3398

**Concerns overdone:** Fears that a stronger dollar will undermine US exports will prove deflationary and will depress corporate earnings are overblown, in our view. On a trade-weighted basis, the dollar has risen only 4% from its April lows, and our FX team expects little further change in the TWI. Moreover, economic growth trumps currency movements in its impact on trade, prices and profits.

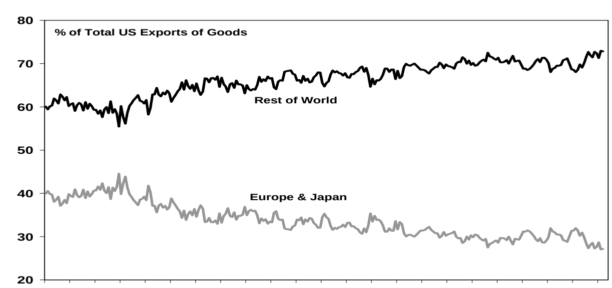
**Low exchange rate pass-through:** The 'pass-through' of exchange rate changes to import prices and thus to trade and inflation has declined over the past two decades. In turn, the influence of import prices on US trade and inflation is less important than economic growth, inflation expectations and slack in the economy.

**Dollar won't undermine the trade outlook:** We think that strong global growth will boost US net exports in 2010 and 2011. True, weakness in Europe and Japan should restrain overall overseas demand. But those regions represent a shrinking share of US exports, and we have long expected sluggish growth in both areas.

**Dollar not a deflation threat; inflation still poised to bottom soon:** There is concern that a stronger dollar in concert with the sovereign crisis would promote deflation. In contrast, we think that the fundamentals for pricing power are gradually improving. And the data at early stages of the processing pipeline support the story of eventually higher inflation.

**Dollar doesn't threaten near-term earnings outlook:** A weak euro will translate profits earned in Europe into fewer dollars. But the influence of growth abroad on overseas earnings is far stronger, and we continue to expect strong global growth this year. The challenge to earnings will come in 2011, when monetary and fiscal policies will turn less accommodative.

### US: Europe and Japan Are Less Important for US Merchandise Exports




Source: Census Bureau

# Central Bank Watch

## US: Why Are Jobless Claims So High?

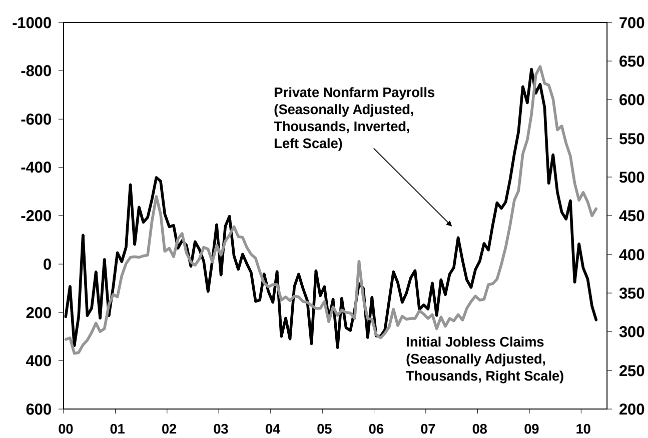
David Greenlaw (1 212) 761 7157

**Disconnect between claims and other labor metrics:** Initial claims for unemployment insurance appear to have become disconnected from a wide range of other labor market indicators, such as payroll employment, the household survey measure of employment, the BLS business employment dynamics data and the Challenger layoff survey.

**Increase in ineligible filers may play a role:** It's important to recognise that the initial claims data are a tally of applications for benefits – not approvals. Eligibility requirements vary from state to state, but historically, about half of all claims for unemployment insurance are rejected. We see some indication that the rejection rate has begun to rise, meaning that some of the elevation in filings might reflect an increase in ineligible filers.

**Construction workers tend to file more frequently:** We suspect that an unusually high degree of filings by construction workers may be contributing to the breakdown in the relationship between claims and other indicators. Also, the claims data may continue to be distorted to the upside over the near term due to census worker filings.

### US: Claims Go Off Track




Source: Bureau of Labor Statistics, Department of Labor

## Japan: Price Stability or Financial Stability?

Takehiro Sato (81 3) 5424 5367

**Governor Shirakawa puts emphasis on financial stability:** Since late April, Governor Shirakawa has made two impressive speeches, in which he argued about the importance of securing financial stability rather than price stability. According to the governor, central banks have made a remarkable success of price stability in the past few decades; however, at the same time, the authorities have overlooked the disequilibrium accumulated in the risky asset market, resulting in a huge fluctuation in asset prices and subsequent fluctuation of the real economy. Therefore, it would not be enough for central banks to simply monitor prices, and it would also be dangerous to let market participants believe that the super-low interest rate environment will last for an extended period. Thus, monetary policy should be conducted not to enhance such expectations.

**Fed view, or BIS view?** There are two schools in the policy theory. One is the so-called Fed view. The other one is the so-called BIS view. The former largely represents the view that monetary policy should not be allocated to asset prices, and central banks should cope with the collapse of asset prices through aggressive monetary easing. The latter largely represents the view that monetary policy should be aimed at preventing asset bubbles. Governor Shirakawa's view is apparently based on the BIS view. As we undergo the current financial turmoil under stable prices, it makes some sense for the central bankers to be tempted by the BIS view.

**It's not a central bank's job:** In our view, however, the BIS view has its own problems. For example, if there is an economic rationale for the surge in asset prices, such as the upward shift of productivity, and if the central banks tighten unnecessarily, it could result in a decline in economic welfare. Indeed, the governor's remarks may sound like a violation of the BoJ Law, in which the BoJ is assumed to pursue sound development of the national economy through price stability.

**Further easing scenario remains, though:** Considering such a stance by the governor, it is tough to assume that further monetary easing is likely in the near term. However, we retain our out-of-consensus scenario. Indeed, the risky asset markets are getting unsettled due to European sovereign issues. If the problems in Europe deepen, we are likely to see large yen buying through the elimination process. So, the currency movement is still the key for the conduct of monetary policy, in our view.

# Central Bank Watch

## UK: Indicators Consistent with (Temporarily) Stronger Growth in 2Q

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**Expecting a (temporary) uptick in 2Q GDP growth and a below-par 2010:** We have been expecting a temporary uptick in GDP growth in 2Q and our analysis of incoming data looks consistent with this (we forecast 0.6%Q after 0.3%Q in 1Q). However, we think that a sustainable recovery in domestic demand is still some way off. Consumer spending should be dampened by slower income growth and strong incentives to save remaining in place. Spare capacity should dampen the incentive for firms to invest. We remain relatively optimistic on the export outlook, although recent events in Europe increase downside risks to exports. Our analysis of the recent run of data leaves us relatively comfortable with our forecast for a below-par recovery and only 1% GDP growth in 2010.

**Balanced risks to 2Q growth forecast, but some areas losing momentum:** After the recent run of data, our summary indicators and GDP components model look consistent with a pick-up in GDP growth in 2Q (if rather modest). Our export indicators have picked up and there are some upside risks to our inventories estimates. However, our consumer spending indicators have lost momentum and our business investment model predicts a 2Q correction. With June's emergency budget likely to bring more clarity on the 'fiscal pain' ahead, we are comfortable expecting a weaker 2H for the economy.

**MPC still some time away from raising rates:** With lacklustre lending and money supply data, inflation expectations contained and mortgage spreads elevated, there is no hurry for the BoE to tighten rates. However, domestic inflation pressures show some signs of building and we are concerned about the risk of high inflation outcomes in the medium-to-long term. But unless household inflation expectations pick up or disappointment with the upcoming budget causes sterling to weaken sharply, we expect no rate increase until 2011. The weak GDP outlook and prospective fiscal tightening should help keep any rise in bond yields contained.

For more details, see *UK Economy Tracker: Indicators Consistent with (Temporarily) Stronger Growth in 2Q*, May 26, 2010.

## Romania: Swallowing the Bitter Pill

Pasquale Diana (44 20) 7677 4183

**Fiscal adjustment, and a lot of pain to come:** The weaker-than-expected growth outturn over recent months, coupled with worse-than-expected fiscal results, points to the need for further tightening. The original IMF-agreed target of a 5.9% deficit in 2010 already appears well out of reach. Without corrective measures, the authorities estimate that the deficit would exceed 9% of GDP. Thus, the government announced drastic cuts in public sector wages, of 25%, as well as the dismissal of 70,000 public sector employees. Also, a cut in state pensions of 15%, a ban on early retirement and a broadening of the tax base will be introduced. Taken together, these measures should serve to contain the deficit to 6.8%.

**NBR will continue to manage the RON actively:** The NBR reduced the pace of rate cuts at its May meeting to 25bp, from 50bp previously. The bank sees limited demand pressures in the economy, and its cleanest measure of core inflation is running at sub-2%. Yet, its latest inflation report clearly states that the risks to its latest forecast are to the upside. Also, the risk environment is clearly different now, and the central bank sees risks to the implementation of the fiscal package sponsored by the IMF. The bank feels that inflationary expectations are still not stably anchored at a low level, so headline inflation and its 'stickiness' are a concern. Prospects for further rate cuts look rather limited to us.

Our sense is that the RON will continue to be managed quite heavily, on the strong side and (probably more relevant in the short term) on the weak side also. The relevant 'range' (unofficial, of course) seems to be 4.0-4.3 versus EUR currently. Interestingly, the pass-through from FX to CPI appears to be asymmetric, with the weaker RON pushing CPI up more than the stronger RON reduces CPI: the relative coefficients are in the region of 0.4% and 0.25%, respectively. The strongest reason to avoid RON weakness is not so much the impact on FX loans: these continue to show lower NPL ratios than RON loans and in general were taken out by higher-quality borrowers. Rather, the reason is to avoid fast currency substitution (from RON into EUR) and a rout which would jeopardise the inflation outlook and endanger the NBR's credibility. The central bank currently has €32 billion of FX reserves, and the average daily trading volume on the FX market is about half of what it is in CZK, a third of HUF and a tenth of PLN, we estimate. Therefore, a small amount of ammunition goes a long way. This explains why the central bank was successful at capping currency weakness in the sharpest days of post-Lehman sell-off, as well as why RON has remained more stable than its peers ever since.

# Central Bank Watch

## Turkey: Our Off-Consensus Forecast: May CPI Preview

Tevfik Aksoy (44 20) 7677 6917

**We have an off-consensus forecast for May:** On Thursday, June 3, TURKSTAT will release May CPI inflation. Against a consensus forecast of 0.6%M, we expect monthly CPI inflation to ease to 0.4%M, which would bring the headline rate to 9.9%Y.

**Where we differ?** The reasons could be broadly pinned down to three categories: Clothing, transportation and food. Clothing prices will likely rise significantly (around 11%Y) in line with seasonal patterns. On the other hand, weaker oil prices and relatively stable currency should lead to declines in domestic fuel and gasoline costs. But most importantly, food prices have been coming down on the back of lower meat prices (after the government opened up livestock and meat imports) and fruit & vegetables. We expect food and transportation price deflation to keep the headline CPI at relatively tame levels.

**Inflation to decline to single-digits and gradually ease until year-end:** Based on our projections, inflation will remain in single-digits in the coming months, with a risk of a rise in August and September due to base effects. However, after that the trend should be down and as the base effects start working favourably in 4Q, we should see inflation heading towards 8%Y. Our current inflation forecast for this year stands at 8.1%.

**No policy action in the near term:** The ongoing uncertainties surrounding Europe and the implications for demand for Turkey's exports as well as investment appetite leave the CBT cautious about taking aggressive policy action. With the ongoing liquidity management in place, we do not expect any policy rate hikes until 4Q10.

## India: Reducing Our 2H10 Rate Hike Forecasts

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Chetan Ahya (65) 6834 6738

**GDP growth accelerated to 8.6% in QE-Mar 2010:** The Central Statistical Organization (CSO) announced that GDP growth in the quarter ended March 2010 (QE-Mar 2010) was 8.6%. This compares with 6.5% (revised upwards from 6% earlier) registered in QE-Dec 2009 and 8.6% (revised upwards from 7.9%) in QE-Sep 2009. The growth was in line with our and consensus expectations (as per Bloomberg survey) of 8.6%. Full-year F2010 (12 months ended March 2010) GDP growth stands at 7.4% compared to 6.7% registered in F2009.

**Agriculture growth recovered in QE-Mar 2010 and industry output growth remained on a V-shaped recovery:** Agriculture output increased in QE-Mar 2010 after declining in the previous quarter due to better winter crop (rabi) production. The growth in the mining and quarrying also accelerated in QE-Mar 2010. Industry segment growth increased by 13.2% in QE-Mar 2010 while growth also accelerated in the electricity, gas & water supply and construction segments.

**Services segment growth accelerated further, sharp rise in capex while consumption is still weak due to farm income shock:** Growth in the services sector picked up to 8.4% in QE-Mar 2010, while fixed investment growth accelerated to 17.7%. Consumption expenditure growth, on the other hand, decelerated. Rural consumption has been adversely impacted due to a farm income shock on account of poor monsoons. The net export contribution to growth was 4%, as the expansion in exports more than offset the decline in imports.

**Reducing our rate hike forecasts for 2H10:** Sovereign debt concerns in Europe have checked the rise in commodity prices. Capital inflows have also slowed over the last few weeks. We believe that concerns about the adverse impact on global and therefore domestic growth mean that the RBI will remain slow in reversing its accommodative monetary policy support in 2H10. We are therefore cutting our 2H10 policy rate (repo rate) hike expectations to a cumulative 50bp compared with our earlier estimate of 75bp. Our forecast for an additional 100bp hike in the repo rate in 2011 remains unchanged.

# Central Bank Watch

## India: RBI Announces Temporary Liquidity-Easing Measures

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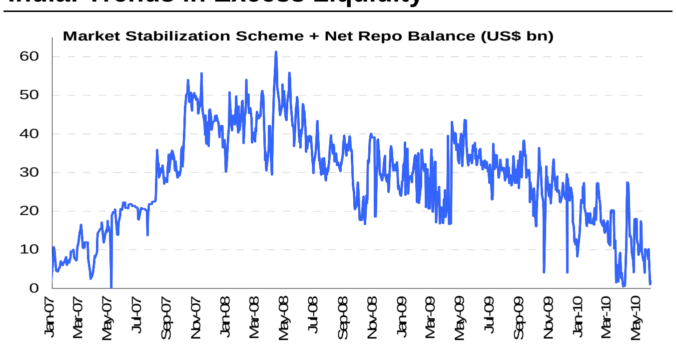
The RBI announced that scheduled commercial banks may avail themselves of additional liquidity support under the Liquidity Adjustment Facility (LAF) of up to 0.5% of their deposit base. In addition, the RBI said that as an ad hoc temporary measure, banks may seek a waiver of penal interest for any shortfall in maintenance of the statutory liquidity ratio (SLR) arising out of taking up this facility. This facility will be available until July 2, 2010. Note, normal regulations allow banks to access funds via the repo window (borrowing funds from the RBI at 5.25% currently) only against the collateral of G-sec holdings in surplus after meeting the SLR requirements. Note that banks are currently statutorily required to hold 25% of their deposits in government securities. Besides this, the RBI will be conducting a second LAF (SLAF) on a daily basis, effective May 28 and up to July 2.

**What is the reason for this move?** The banking system was expected to see a large outflow in one hit on account of loan offtake by telecom companies for paying 3G license fees to the government and advance tax outflows, which are due in mid-June. The funding requirement for these two activities could be about US$20 billion (1.9% of the total banking system's net demand and time liabilities (NDTL) base of US$1.1 trillion).

**Implications:** These measures mean that banks will easily be able to access funds from the RBI at the repo rate of 5.25%. This liquidity window can release about US$5.3 billion (0.5% of NDTL) to banks. Banks will probably raise more than US$5.3 billion from the RBI – some against the existing stock of surplus G-sec holding in excess of SLR. We believe that market short-term rates will rise. Until recently, banks have been parking about US$5-10 billion of excess liquidity with the central bank at 3.75% (reverse repo rate). As a result, short-term rates remained low.

### India: Trends in Excess Liquidity




Source: Bloomberg, Morgan Stanley Research

## Korea: Keeping Our Interest Rate Hike Call

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**Inflation remained benign:** Korea's CPI increased by 2.7%Y in May, slightly higher than 2.6%Y in April. This headline inflation rate is below our and consensus forecasts (Morgan Stanley: 3.0%; consensus: 2.8%), and is well within the BoK's inflation target of 2-4%. Core CPI increased by 1.6%Y and 0.3%M in May, compared to 1.5%Y and 0.2%M in April. The lower-than-expected inflation implies that the current inflation level is well under control despite the record-low policy interest rate.

**What's next for the real economy?** Despite rising external uncertainties over European sovereign issues, we maintain our positive view on Korea's export market, on the back of its strong competitiveness. Our optimism also comes from China, which is one of Korea's main export markets, where we continue to see a 'Goldilocks' scenario in its economy, and we believe that liquidity-tightening measures there will be limited to the property sector. As it will still take time for issues in Europe to affect the real Korean economy if they are not contained, we think that Korea's economic data could remain strong in June. Business and consumer sentiment are the swing factors here, as any reversal could directly affect facility investment and private consumption. We will closely monitor developments in the external environment to assess any longer-term impacts on Korea's real economy.

**Keeping our interest rate hike call:** Lower-than-expected headline inflation in May is a good sign for the market, but we stress that interest rate levels still need to be normalised. Past experience also tells us that inflation can rise quickly and become volatile, especially in a system with abundant liquidity. We think that inflation pressure is still building in Korea, especially in the housing/utilities and service sectors. The current record-low interest rate of 2.0% was set amid a crisis scenario at the start of 2009, and has held steady for more than 15 months now. We believe that Korea's strong economic fundamentals can already justify a rate hike, given the robust growth in the export sector and improving domestic demand. With the lingering external uncertainties in Europe, we do not expect any move in the policy rate at the BoK monetary policy meeting on June 10. However, as external uncertainties could ease in 2H10, in our view, we think that the BoK will soon start the interest rate normalisation cycle. We stick to our interest rate call of a 50bp hike in 2H10 and 125bp hike in 2011, with the first rate hike of 25bp in 3Q10.

# Central Bank Watch

## Thailand: Policy Rate Remains on Hold

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Chetan Ahya (65) 6834 6738

**1D repurchase rate held at 1.25%:** At today's Monetary Policy Meeting, the Bank of Thailand (BoT) kept its policy rate on hold at 1.25% for the ninth consecutive time, in line with consensus expectations.

**Political uncertainty and EU sovereign debt concerns delay policy normalisation:** EU sovereign debt concerns and domestic political risks are factors stopping the central bank from pursuing policy normalisation for now. Indeed, in today's monetary policy statement, the BoT highlighted that EU sovereign debt concerns may "dampen the region's recovery and pose risks to the sustainability of global growth". Meanwhile, on the domestic economy, the BoT highlights that while 1Q10 growth had surprised on the upside, April indicators "slowed down somewhat, partly owing to adverse impact of domestic political situation on tourism as well as confidence of consumers and businesses". Meanwhile, the assessment on inflation remains fairly unchanged compared to the last statement; the BoT continues to hold that while "inflation remains low at present", it is "projected to increase in the periods ahead".

**Policy normalisation process to be event-dependent:** Although the stronger-than-expected 1Q10 GDP implies upside risk to our average headline GDP forecasts for 2010, recent political events and EU sovereign debt concerns pose likely dampeners for the growth trajectory of the dual-track economy going forward. While exports have stayed fairly robust and are likely to be so before moderation sets in in 2H10, recent political conditions have meant that almost all of the high-frequency domestic demand indicators available for April (such as vehicles sales, VAT revenue collection and private consumption) are showing moderation. The negative sentiment resulted in a sharp fall in tourist arrivals (-11.8%M, seasonally adjusted, in April 2010) and the sharpest net foreign equity sell-off to date (Bt69.3 billion as of June 1, 2010, on a 30-day trailing sum basis). With so many moving parts playing into the growth equation for Thailand, which will similarly have consequences for how quickly inflationary pressures will accelerate, we think that the BoT is likely to adopt a wait-and-see attitude, especially on the upcoming macro indicators, to gauge the impact from recent political events before committing to policy normalisation. The BoT now looks likely to hike rates later rather than sooner relative to our base case of a first rate hike in 3Q10.

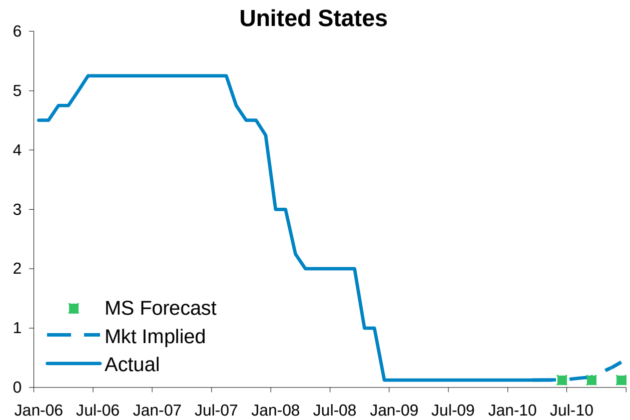
## Chile: Central Bank Seems to Be Heading for the Exit

Luis Arcentales (1 212) 761 4913

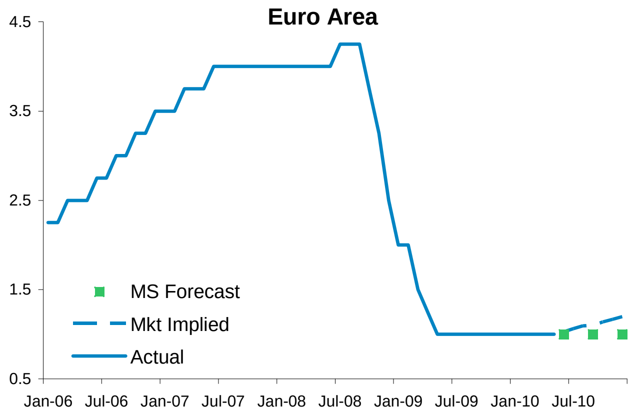
**Against a backdrop of solid growth momentum and a gradual normalisation in inflation, Chile's central bank is likely to start its tightening cycle as early as this month, in our view:** While the deterioration in Europe's outlook and associated financial jitters played a role in May's decision to keep rates unchanged at 0.50%, we suspect that the central bank's primary role is to begin a process of normalisation as the underlying monetary policy stance had begun to move out of synch with the cyclical backdrop. While our work suggests that the neutral real rate may be in a range of 1-3.5%, the actual real rate was slightly negative in both April and May. In this context, central bank authorities may have become uncomfortable, even as surveys and breakeven measures suggested that medium-term inflation expectations remained well-anchored near the 3.0% central target. In turn, this suggested that, absent more aggressive near-term tightening, the real interest rate would have been on its way towards deeply stimulative levels. Such a move, in our view, would have put the authorities in the uncomfortable position of allowing an effective ratcheting up in monetary stimulus even as the economy's cyclical rebound continued to gain ground.

**Chile is very well positioned to respond to a potential escalation of market jitters:** Importantly, since the more immediate contagion channels from Europe's woes are likely to be financial in nature, the central bank is more likely to respond with a set of high-powered, liquidity-boosting measures as it effectively implemented in late 2008 and into 2009, rather than by keeping interest rates at the current historically low levels. In addition, Chile's comfortable fiscal position – with public sector savings worth near 9% of GDP and gross government debt at just 6% of GDP – gives the government ample manoeuvering room to kick-start the rebuilding efforts and even deliver additional fiscal stimulus, thus limiting the negative impact of a potential global slowdown. And despite the ongoing consumption boom, the country is still running a current account surplus – to the tune of 3.3% of GDP in 1Q, the fifth consecutive quarterly surplus – putting it in a solid position to withstand a potential external shock.

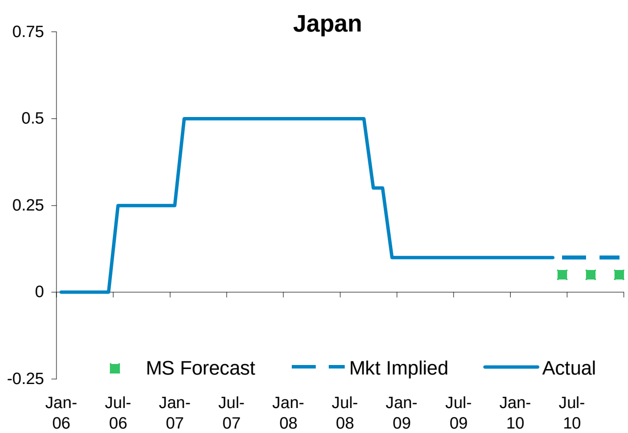
# Monetary Policy Outlook – Morgan Stanley versus Markets



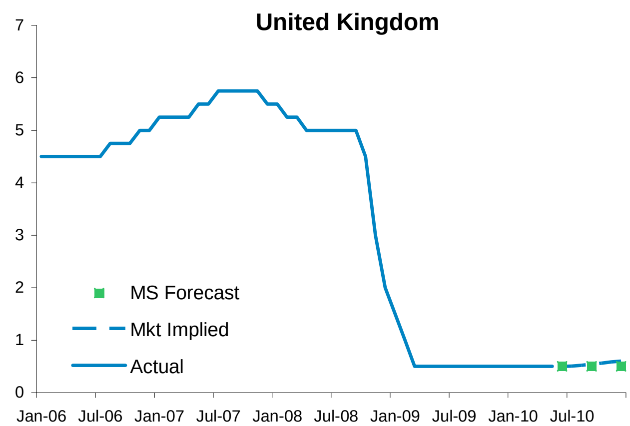

- A modest programme of asset sales could be announced later this year, but reverse repos and term deposits still likely needed.
- More dovish Fed policy this year in response to Europe impacts could force more aggressive reversal next year.




- ECB to gradually reduce maturity of its liquidity operations over the summer.
- For now, full allotment MRO will likely keep EONIA close to deposit rate.



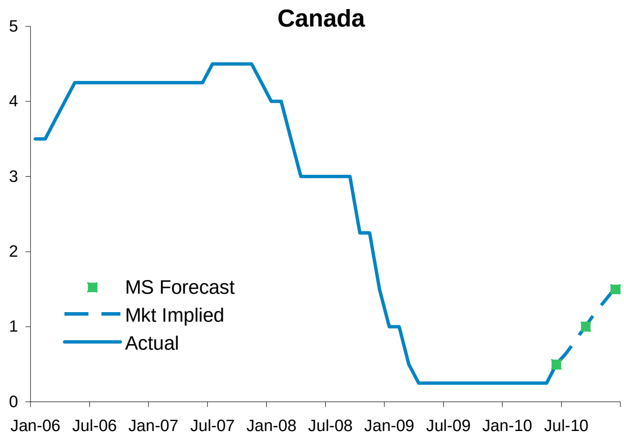

- An early exit from deflation is not in prospect, even with upside for the economy, and we expect the government to continue leaning on the BoJ for monetary easing.
- We maintain our outlook for a policy exit in Japan in Jan-Mar 2012.



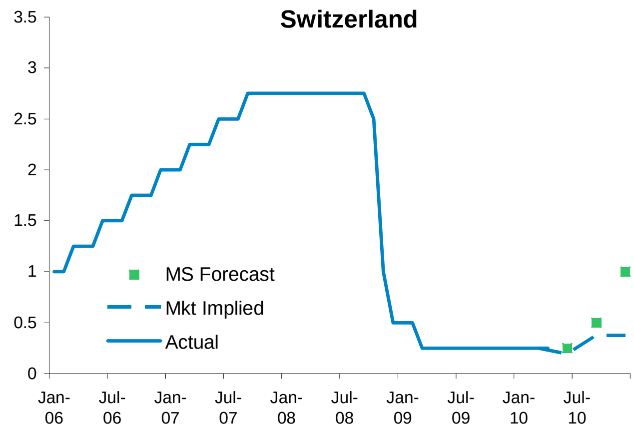

- We think that the MPC will start raising rates in early 2011. Markets seem to be pricing in a similar outcome.
- Fiscal policy decisions will likely complicate decisions on timing/pace.

Source: National Central Banks, Morgan Stanley Research
Notes: (u) = unofficial target; Interest rate expectations are implied by overnight indexed swap (OIS) curves and may differ from those implied by other instruments; where adequate OIS data are not available, FRAs, foreign exchange swaps, and/or interbank cash rate futures are used; due to varying risk premia (such as liquidity, basis, credit, term, reserve management, calendar turns, etc.), these figures should be used as estimates only; where such instruments are not available, we have inserted our best guess of what markets expect based on consensus estimates.

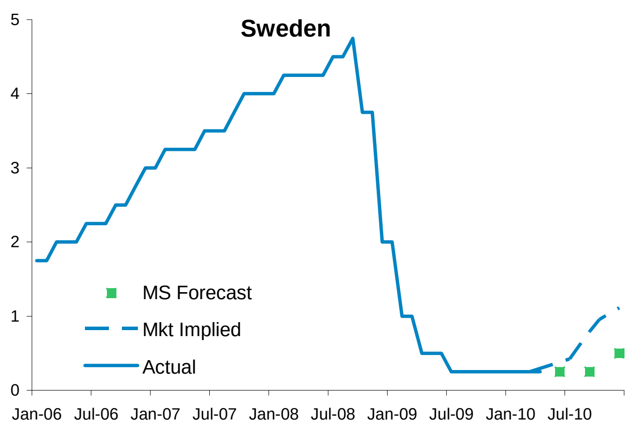
# Monetary Policy Outlook – Morgan Stanley versus Markets



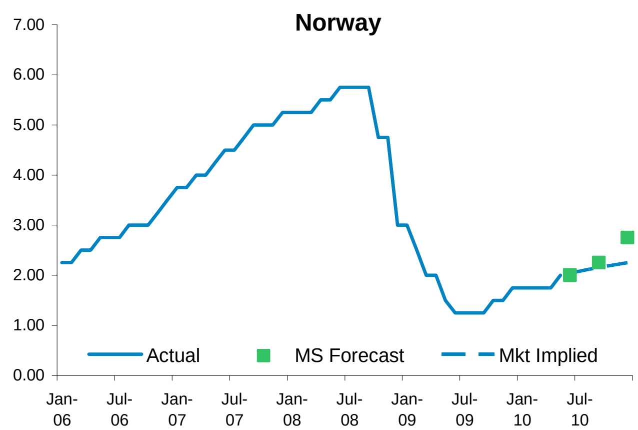

- The pace of rate hikes will likely continue at 25bp clips to leave rates at 1.50% by year-end.
- This is slower than we previously envisaged due to new MS forecasts for the Fed to stay on hold this year.




- SNB starting to prepare stimulus withdrawal – we expect a first rate hike in 3Q10.
- SNB likely to stay committed to preventing excessive Swiss franc appreciation versus the euro through intervention, if needed.



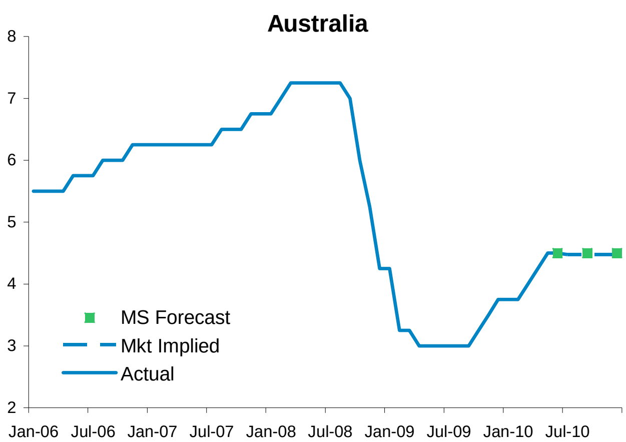

- Marked downside risks to the Riksbank's growth forecasts push first rate rise back into the autumn.
- Watching the dissenting votes on the Executive Board closely for indications of a shift in consensus.



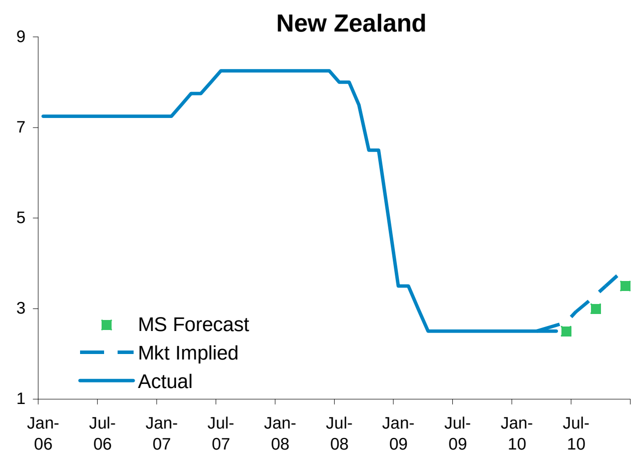

- Our forecast for this year's terminal rate is slightly above market expectations.
- Norges Bank's dovish outlook indicates downside risks.

Source: National Central Banks, Morgan Stanley Research
Notes: (u) = unofficial target; Interest rate expectations are implied by overnight indexed swap (OIS) curves and may differ from those implied by other instruments; where adequate OIS data are not available, FRAs, foreign exchange swaps, and/or interbank cash rate futures are used; due to varying risk premia (such as liquidity, basis, credit, term, reserve management, calendar turns, etc.), these figures should be used as estimates only; where such instruments are not available, we have inserted our best guess of what markets expect based on consensus estimates.

# Monetary Policy Outlook – Morgan Stanley versus Markets




- RBA is effectively on hold. We now think that policy is at neutral, further increases will take it to restrictive.
- We expect no rate hikes before early next year.




- We continue to expect a first rate hike in July, though there is a risk of a hike in June.
- RBNZ guidance has policy rates at or below 2.5% through the latter half of 2010, but this is conditional on inflation.

Source: National Central Banks, Morgan Stanley Research
Notes: (u) = unofficial target; Interest rate expectations are implied by overnight indexed swap (OIS) curves and may differ from those implied by other instruments; where adequate OIS data are not available, FRAs, foreign exchange swaps, and/or interbank cash rate futures are used; due to varying risk premia (such as liquidity, basis, credit, term, reserve management, calendar turns, etc.), these figures should be used as estimates only; where such instruments are not available, we have inserted our best guess of what markets expect based on consensus estimates..

# Global Monetary Policy Rate Forecasts

Global Economics Team

| | Current | 2Q10 | 3Q10 | 4Q10 | 1Q11 | 2Q11 | 3Q11 | 4Q11 | Last change (bp) | Since peak/ trough (bp) | Since Dec 06 (bp) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **United States** | 0.125 | 0.125 | 0.125 | 0.125 | 0.50 | 1.50 | 2.00 | 2.50 | -87.5 (16/12/08) | -512.5 | -512.5 |
| **Euro Area** | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.25 | 1.50 | -25 (07/05/09) | -325 | -200 |
| **Japan** | 0.10 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | -20 (19/12/08) | -40 | -40 |
| **United Kingdom** | 0.50 | 0.50 | 0.50 | 0.50 | 1.00 | 1.50 | 1.75 | 2.00 | -50 (05/03/09) | -525 | -450 |
| **Canada** | 0.50 | 0.50 | 1.00 | 1.50 | 2.00 | 2.50 | 3.00 | 3.25 | -25 (21/04/09) | -425 | -400 |
| **Switzerland** | 0.25 | 0.25 | 0.50 | 1.00 | 1.25 | 1.50 | 1.75 | 2.00 | -50 (11/12/08) | -250 | -175 |
| **Sweden** | 0.25 | 0.25 | 0.25 | 0.50 | 0.75 | 1.25 | 1.50 | 1.75 | -25 (01/07/09) | -450 | -275 |
| **Norway** | 2.00 | 2.00 | 2.25 | 2.75 | 3.00 | 3.25 | 3.50 | 3.75 | +25 (05/05/10) | +75 | -75 |
| **Australia** | 4.50 | 4.50 | 4.50 | 4.50 | 4.75 | 5.00 | 5.00 | 5.00 | +25 (04/05/10) | +150 | -175 |
| **New Zealand** | 2.50 | 2.50 | 3.00 | 3.50 | 3.75 | 4.00 | 4.00 | 4.00 | -50 (29/04/09) | -575 | -475 |
| **Russia** | 7.75 | 7.50 | 7.50 | 7.50 | 8.00 | 8.00 | 8.50 | 9.00 | -25 (30/04/10) | -525 | -325 |
| **Poland** | 3.50 | 3.50 | 3.75 | 4.00 | 4.25 | 4.50 | 4.50 | 4.50 | -25 (24/06/09) | -250 | -50 |
| **Czech Republic** | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 1.00 | 1.25 | 1.50 | -25 (06/05/10) | -300 | -175 |
| **Hungary** | 5.25 | 5.00 | 5.00 | 5.00 | 5.00 | 5.25 | 5.50 | 5.75 | -25 (26/04/10) | -625 | -275 |
| **Romania** | 6.25 | 6.25 | 6.25 | 6.25 | 6.25 | 6.25 | 6.25 | 6.25 | -25 (05/05/10) | -400 | -250 |
| **Turkey** | 6.50 | 6.50 | 6.50 | 8.00 | 9.25 | 9.75 | 9.75 | 9.75 | -25 (19/11/09) | -1100 | -1100 |
| **Israel** | 1.50 | 1.75 | 2.00 | 2.25 | 2.50 | 3.00 | 3.25 | 3.50 | +25 (28/03/10) | 100 | -300 |
| **UAE** | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.50 | 2.00 | 2.50 | -50 (28/01/09) | -425 | -425 |
| **South Africa** | 6.50 | 6.50 | 6.50 | 6.50 | 7.50 | 7.50 | 7.50 | 7.50 | -50 (25/03/10) | -550 | -250 |
| **China** | 5.31 | 5.31 | 5.31 | 5.58 | 5.58 | 5.58 | 5.58 | 5.58 | -27 (23/12/08) | -216 | -81 |
| **India** | 3.75 | 3.75 | 4.25 | 4.75 | 5.00 | 5.25 | 5.50 | 5.50 | +25 (20/04/10) | -225 | -225 |
| **Hong Kong** | 0.50 | 0.50 | 0.50 | 0.50 | 1.00 | 2.00 | 2.50 | 3.00 | -100 (17/12/08) | -625 | -625 |
| **S. Korea** | 2.00 | 2.00 | 2.25 | 2.50 | 2.75 | 3.25 | 3.50 | 3.75 | -50 (12/02/09) | -325 | -250 |
| **Taiwan** | 1.25 | 1.25 | 1.25 | 1.38 | 1.50 | 1.63 | 1.75 | 1.88 | -25 (18/02/09) | -238 | -150 |
| **Singapore** | 0.55 | 0.80 | 1.00 | 1.30 | 1.80 | 1.80 | 1.80 | 1.80 | - | - | - |
| **Indonesia** | 6.50 | 6.50 | 6.75 | 7.50 | 7.50 | 7.50 | 7.50 | 7.50 | -25 (03/08/09) | -300 | -325 |
| **Malaysia** | 2.50 | 2.50 | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 | +25 (13/05/10) | -100 | -100 |
| **Thailand** | 1.25 | 1.25 | 1.75 | 2.25 | 2.75 | 2.75 | 2.75 | 2.75 | -25 (08/04/09) | -250 | -375 |
| **Brazil** | 9.50 | 10.25 | 11.75 | 11.75 | 12.75 | 12.75 | 12.75 | 12.75 | +75 (28/04/10) | +75 | -425 |
| **Mexico** | 4.50 | 4.50 | 4.50 | 4.50 | 5.25 | 6.00 | 6.00 | 6.00 | -25 (17/07/09) | -375 | -250 |
| **Chile** | 0.50 | 0.75 | 1.50 | 2.75 | 4.25 | 5.00 | 5.00 | 5.00 | -25 (09/07/09) | -775 | -475 |
| **Colombia** | 3.00 | 3.00 | 3.00 | 4.25 | 5.75 | 6.00 | 6.50 | 6.50 | -50 (23/11/09) | -650 | -550 |
| | | | | | | | | | | | |
| **Global Policy Rate** | 2.1 | 2.0 | 2.2 | 2.3 | 2.5 | 2.9 | 3.1 | 3.3 | | | |
| std. deviation | 2.9 | 2.6 | 2.7 | 2.8 | 3.0 | 2.9 | 2.8 | 2.8 | | | |
| # countries above | 15 | 14 | 17 | 18 | 19 | 19 | 18 | 18 | | | |
| # countries below | 17 | 18 | 15 | 14 | 13 | 13 | 14 | 14 | | | |
| **G10 Policy Rate** | 0.6 | 0.6 | 0.6 | 0.6 | 0.8 | 1.3 | 1.6 | 1.9 | | | |
| std. deviation | 1.4 | 1.4 | 1.4 | 1.4 | 1.5 | 1.5 | 1.4 | 1.4 | | | |
| # countries above | 3 | 3 | 4 | 5 | 6 | 6 | 6 | 6 | | | |
| # countries below | 6 | 6 | 5 | 4 | 3 | 3 | 3 | 3 | | | |

Source: National Central Banks, Morgan Stanley Research
Note: Global policy rates are GDP weighted averages of national policy rates

# Global GDP and Inflation Forecasts

| | GDP | | | CPI | | |
|---|---|---|---|---|---|---|
| | 2009E | 2010E | 2011E | 2009E | 2010E | 2011E |
| **GLOBAL** | **-0.9** | **4.7** | **4.2** | **2.0** | **3.3** | **3.3** |
| **G10** | **-3.3** | **2.5** | **2.3** | **0.0** | **1.4** | **1.8** |
| United States | -2.4 | 3.4 | 3.3 | -0.3 | 1.8 | 2.4 |
| Euro Area | -4.0 | 0.9 | 1.1 | 0.4 | 1.3 | 1.6 |
| Germany | -5.0 | 1.9 | 1.3 | 0.3 | 1.0 | 1.4 |
| France | -2.5 | 1.3 | 1.4 | 0.1 | 1.7 | 1.9 |
| Italy | -5.0 | 0.9 | 1.1 | 0.8 | 1.4 | 1.5 |
| Spain | -3.6 | -0.9 | 0.4 | -0.3 | 1.5 | 1.4 |
| Japan | -5.2 | 3.4 | 1.5 | -1.3 | -1.0 | -0.1 |
| United Kingdom | -4.9 | 1.0 | 1.2 | 2.2 | 3.1 | 1.7 |
| Canada | -2.6 | 3.6 | 3.1 | 0.3 | 2.1 | 1.9 |
| Sweden | -4.9 | 1.5 | 2.3 | -0.3 | 1.6 | 1.8 |
| Australia | 1.1 | 3.0 | 4.4 | 1.8 | 2.1 | 2.4 |
| **Emerging Markets** | **2.1** | **7.4** | **6.2** | **4.3** | **5.4** | **5.0** |
| **CEEMEA** | **-5.4** | **4.5** | **3.2** | **8.0** | **5.8** | **6.1** |
| Russia | -7.9 | 6.5 | 3.2 | 11.7 | 6.5 | 8.7 |
| Poland | 1.7 | 3.3 | 2.7 | 3.5 | 2.2 | 2.6 |
| Czech Republic | -4.2 | 1.1 | 2.1 | 1.0 | 1.3 | 1.9 |
| Hungary | -6.2 | -0.9 | 1.7 | 4.2 | 4.3 | 3.0 |
| Romania | -7.1 | 1.1 | 2.9 | 5.6 | 4.8 | 4.3 |
| Ukraine | -15.1 | 4.5 | 3.0 | 16.0 | 11.5 | 11.0 |
| Turkey | -4.7 | 5.0 | 4.0 | 6.3 | 9.2 | 5.8 |
| Israel | 0.7 | 3.7 | 3.2 | 3.3 | 2.5 | 2.4 |
| UAE | -4.8 | 1.0 | 2.6 | 1.7 | 0.4 | 1.5 |
| South Africa | -1.8 | 3.3 | 3.7 | 7.2 | 5.1 | 5.2 |
| **Asia ex Japan** | **5.9** | **9.0** | **7.8** | **2.4** | **4.8** | **4.0** |
| China | 8.7 | 11.0 | 9.0 | -0.7 | 3.2 | 3.5 |
| India | 6.4 | 8.5 | 8.4 | 10.8 | 10.9 | 6.0 |
| Hong Kong | -2.7 | 4.5 | 3.5 | 0.5 | 2.8 | 2.5 |
| Korea | 0.2 | 5.0 | 4.3 | 2.8 | 3.3 | 3.0 |
| Taiwan | -1.9 | 4.5 | 3.6 | -0.9 | 0.5 | 2.0 |
| Singapore | -2.0 | 9.0 | 6.0 | 0.4 | 2.0 | 2.0 |
| Indonesia | 4.6 | 6.0 | 6.5 | 4.8 | 5.0 | 5.7 |
| Malaysia | -1.7 | 6.5 | 5.0 | 0.6 | 1.7 | 1.9 |
| Thailand | -2.3 | 4.6 | 4.8 | -0.8 | 3.8 | 3.0 |
| **Latin America** | **-2.0** | **5.3** | **3.9** | **6.3** | **7.0** | **7.4** |
| Brazil | -0.2 | 6.8 | 4.0 | 4.9 | 5.2 | 5.6 |
| Mexico | -6.5 | 5.2 | 4.0 | 5.3 | 4.8 | 3.5 |
| Chile | -1.5 | 4.3 | 5.0 | 1.5 | 1.7 | 3.1 |
| Peru | 0.9 | 4.9 | 5.5 | 2.9 | 1.6 | 2.2 |
| Colombia | 0.4 | 4.1 | 3.8 | 4.2 | 2.8 | 4.4 |
| Argentina | 0.9 | 4.6 | 2.4 | 6.3 | 10.2 | 10.8 |
| Venezuela | -3.3 | 0.3 | 3.5 | 27.1 | 34.7 | 41.8 |

Source: National Statistics Offices, IMF, Morgan Stanley Research estimates
Note: Figures in parenthesis indicate the country's or region's weight (in %) in global GDP, using PPPs.

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