

Emerging Markets Daily

Asia Edition

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See Disclosure Appendix A1 for the
 Analyst Certification and Other
 Disclosures.

Focus on India/Taiwan

- **India.** We believe the government's revised export targets are too ambitious and expect growth to moderate to 15% in FY08 (p. 2).
- **Taiwan.** The CBC will likely continue to boost bond yields, but whether it can overcome structural problem remains a test (p. 3).

Highlights

- **Hong Kong.** Export growth fell in March, consistent with our view of unexciting export prospects this year (p. 4).
- **Singapore.** The weak manufacturing readings suggest that first quarter GDP may be downgraded to about 5.8% (p. 4).

Market Drivers

- **US.** Sluggish GDP growth in 1Q included another steep drop in residential investment. Increase in hourly earnings and prices of medical care suggesting notable pickups in Employment Cost Index.
- **Japan.** We expect rising industrial production, but continual growth decline of retail sales and core CPI likely to decrease by 0.2%yoy in March.
- **Korea.** Industrial production is likely to remain sluggish as we expect high-tech and auto sector to decline
- **Taiwan.** The index of leading indicators likely remained flat amid slightly firmer export momentum but a weaker financial market in March.

Data Calendar

Date	Day	Local Time	Country	Indicator	For	Citi Fcst	Mkt Fcst	Prev.
27-Apr	Fri	8:30 PM	US	Advance GDP Annualized (%)	1Q	1.6	1.8	2.5
27-Apr	Fri	8:30 PM	US	Employment Cost Index (%QoQ)	1Q	1.0	0.9	0.8
27-Apr	Fri	7:30 AM	Japan	Jobless Rate (%)	Mar	3.9	4.0	4.0
27-Apr	Fri	7:30 AM	Japan	Nationwide CPI Ex-Food (%YoY)	Mar	-0.2	-0.2	-0.1
27-Apr	Fri	7:50 AM	Japan	Industrial Production (%YoY)	Mar	3.3	3.5	3.1
27-Apr	Fri	7:50 AM	Japan	Retail Trade (%YoY)	Mar	-0.8	-0.2	-0.2
27-Apr	Fri		Japan	BoJ Monetary Policy Meeting				
27-Apr	Fri	12:30 PM	Korea	Industrial Production (%YoY)	Mar	3.5	—	-0.4
27-Apr	Fri	12:30 PM	Korea	Consumer Goods Sales (%YoY)	Mar	6.8	—	12.4
27-Apr	Fri	4:00 PM	Taiwan	Leading Indicators (%MoM)	Mar	0.0	—	-0.1

Source: Bloomberg, CEIC Data Company Limited, Citigroup estimates.

Focus on India

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India: Foreign Trade Policy- Revised targets too ambitious

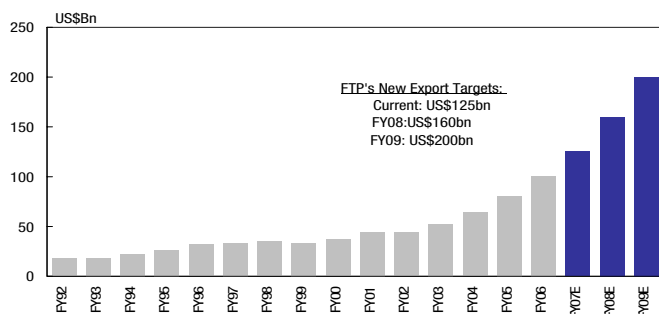
Foreign Trade Policy aims at increasing India’s share in world trade. Last week, Commerce Minister Mr. Kamal Nath released the third addition to the 2004-09 Foreign Trade Policy (FTP). The objectives remain unchanged and are aimed at: (1) increasing India’s share of merchandise trade to 1.5% in 2008 from 1.1% currently; (2) encouraging employment generation; and (3) facilitating ‘inclusive growth’ by incentivising agricultural exports.

Export Targets for FY09 raised, but targets look too ambitious. On the back of three consecutive years of 25%+ export growth with exports touching US\$125bn in FY07, the government has targeted exports rising US\$160bn in FY08 (+28%). The FY09 target has also been raised to US\$200bn, from US\$150bn earlier. Given the current backdrop of moderating US growth, and the base effect coming into play, we believe the targets are ambitious and expect growth to moderate to 15% in FY08.

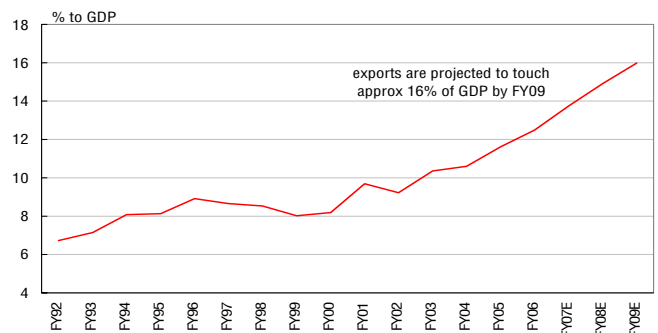
Higher targets are to be achieved through measures that will support ‘inclusive growth as well as sector specific measures. These include a reduction of transaction costs in areas such as port handling, custom clearances and transportation arrangements as well as sector specific measures, including:

- 1 Exemption of service sector exports from service taxes. Though service exports are not included as part of merchandise exports, the policy has said that all services rendered abroad would henceforth be exempted from service tax. These will however, hit public finances to the tune of Rs6bn annually.
- 2 Measures directed toward export incentive sectors: These include duty-free imports of equipment for gems and jewellery as well as benefits for exporters of hi-technology products. SEZ developers would enjoy benefits such as interest payable on delayed refunding of excise duties/duty drawbacks, etc.
- 3 Measures aimed at encouraging ‘inclusive growth’ and include incentives for the agro/food-processing industry, with exporters being awarded duty credit scrips at 10% of the value of agri exports provided they use them for imports of cold storage units, reefer vans, etc.

Merchandise Exports- Current Trends + Targets (US\$bn)



Trends in Exports as a Percent to GDP



Source: DGCIS, Ministry of Commerce, Citigroup estimates

Focus on Taiwan

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Taiwan: CBC Shows More Determination to Boost Bond Yields

The CBC likely will continue to use a variety of tools to boost up bond yields.

These include further policy rate hikes, continuous offering of 364-day Negotiable Certificate of Deposit (NCDs), allowing more foreign currency financial instrument, moral persuasion on major bond traders, and potential change of rule such that the CBC can use open market operation to trade bonds. Despite benchmark 10-year government bond yields have reached our one-month target of 2.1% after the bond sell-off, we maintain our view that bond yields likely will only rise gradually, targeting 2.30% at year end.

Benchmark 10-Year government bond yield surged to 2.1088% on Wednesday, up 6.1bp from previous closing, after the CBC conducted a special audit on several bill companies who were major bond trading houses. Swap rates also moved higher and IRS curve steepened. Two weeks ago bond yields have moved higher on CBC's sudden decision to resume the offering of 364-day NCDs. Benchmark 10-year bond yields climbed to 2.05%, but thereafter has moved lower to 2.01% last week when legislator failed to pass the bill to lift insurance companies' overseas investment cap from 35% to 50%. The CBC's move on Tuesday was regarded by the market that the CBC's was not satisfied with current bond yields and it would try to boost bond yields and steepen yield curve further. In addition, the scheduled auction of 2-year government bond in May and continuous CBC's offering of 364-day NCDs posed further upside risks in bond yields.

However, whether CBC's determination can overcome structural problem remains a test. Despite the 11 rate hikes since October 2004, bond yields remained at low level and resulted a flattened yield curve. Structural problems of over-saving and limited supply of government bonds were main reasons. The influence of CBC's rate hikes on bond yields appeared to be dwindling. With recent economic data pointed to a weak domestic demand and lower global bond yields, we suspect CBC's determination can sustain a significant jump in bond yields.

News in Brief

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Hong Kong

Exports lost momentum in March Exports and imports posted 6.9%yoy and 11.1%yoy growth in March, respectively. Trade balance reached a HK\$28.3bn deficit. The three-month seasonally adjusted growth of exports fell to a nine-month low of 0.9%. Exports to the US fell 9.1% yoy, offset by 16.8% yoy growth of exports to mainland China. Among major imports, electrical machinery and telecom equipment posted 19.7% yoy and 27.8% yoy growth respectively. These are encouraging signals of robust business investment and strong consumer spending

China's weak exports growth and a weaker US demand dampened Hong Kong's exports. With the threat of protectionism and China's policies to contain trade surplus, Hong Kong's exports may maintain only moderate growth. Meanwhile, a rebound in imports widening the trade deficit to record high reinforces our belief that robust domestic demand will be Hong Kong's main growth engine this year. *(Joe Lo/Patricia Pong)*

South Korea

A large balance deficit in March is not supportive of the Won The basic balance showed a large deficit of \$9.4bn in March, due to the deficits in both current account and long-term capital account. The recent strong domestic demand and weak high-tech export would raise the chance of a smaller current account surplus, or even a current account deficit: our forecast of a decent current account surplus this year hinges on the recovery of high-tech exports. **Negative:** The deficit in the basic balance should diminish in April: foreign investors showed a large net equity buying, though domestic investors' overseas equity investment and the dividend-led deficit in the current account continued. Other investment surplus, or short-term external borrowing is also likely to decrease, as the decline in USD/KRW weakened exporters' hedging

activities and policymakers' concern on short-term debt resulted in a "window guidance" on some foreign banks. But the large deficit in the basic balance we saw in March is negative for the won, though it is likely to be a temporary surge. We maintain our view that the balance of payment condition is not supportive of any further won rally. *(Suktae Oh)*

Singapore

The weak manufacturing readings suggest that first quarter GDP may be downgraded to about 5.8% Manufacturing output in March contracted 2.9% from a year ago. The dip was largely due to the decline in biomedical output (-21.1%) with electronics output also remaining sluggish (+0.7%). Output of transport engineering moderated sharply (+4.3%), pulled down by the Marine & Offshore Engineering segment (-2.9%). We expect some small upward revision in construction and services growth to partly offset the weaker-than-expected manufacturing figures.

Electronics production continues to be sluggish, expanding 0.7% in March. Semiconductors grew 14.2%, but this was more than offset by the contractions in data storage (-13.1%) and consumer electronics (-25%). Singapore's electronics output appears to be lagging behind the recovery seen in Korea and Taiwan. We expect a slow and gradual tech recovery. Services will likely be the main pillar of growth this year (see Figure 2). Financial services, information and communications, sea transport, and business services have been some of the faster growing services sectors.

We maintain our full-year GDP growth forecast of 6.2% and expect a more material improvement in manufacturing figures in the second half of the year. *(Hak Bin Chua)*

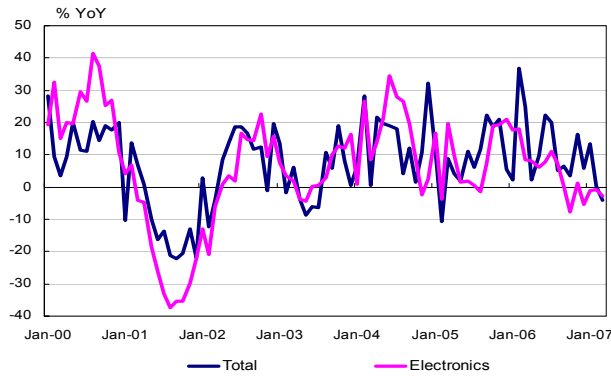
Data Review

Announcement	Release Date	HK/SG- Time	For	Actual	Citi Fcst	Mkt Fcst	Prev
Hong Kong							
Exports (HK\$, % YoY)	26-Apr	4:15 PM	Mar	6.9	5.7	8.7	11.6
Imports (HK\$, % YoY)	26-Apr	4:15 PM	Mar	11.1	4.0	5.3	1.3
Trade balance (HKD bn)	26-Apr	4:15 PM	Mar	-28.3	-15.6	—	-7.5
Singapore							
Industrial production (%YoY)	26-Apr	1:00 PM	Mar	-2.9	3.1	3.3	0.1

Source: Bloomberg, CEIC Data Company Limited, Citi estimates.

Singapore. The weak manufacturing readings suggest that first quarter GDP may be downgraded to about 5.8%

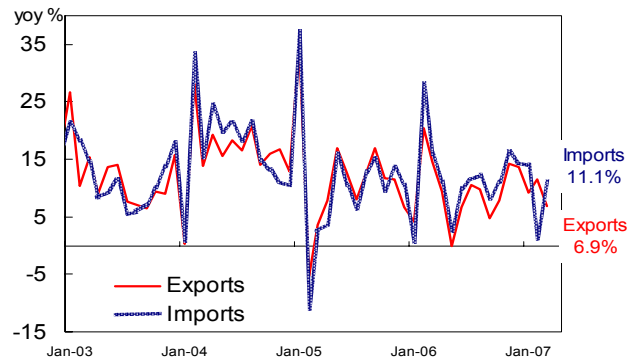
Industrial Production



Source: CEIC Data Company Limited, Singapore Economic Development Board

Hong Kong. Export growth fell in March, consistent with our view of unexciting export prospects this year

External Trade



Source: CEIC Data Company Limited, HK SAR Government

Selected Market Indicators

Policy Rates					Currency									
	Spot	Change (ppt)			Spot	Change (%)								
		1 Day	1 Mo	1 Yr		1 Day	1 Mo	1 Yr						
China - 1-year lending rate	6.39	-	-	0.81	Bangladesh Taka	69.275	0.00%	-0.57%	1.08%					
Hong Kong - 3-Month Interbank Rate	4.22	0.04	0.04	(0.35)	China Renminbi	7.7335	-0.14%	0.04%	3.68%					
India - Overnight Reverse Repo Rate	6.00	-	-	0.50	Hong Kong Dollar	7.8204	-0.01%	-0.08%	-0.83%					
Indonesia - BI Rate	9.00	-	-	(3.75)	Indian Rupee	40.79	0.48%	6.14%	10.47%					
Malaysia - Overnight Policy Rate	3.50	-	-	-	Indonesian Rupiah	9077.5	0.06%	0.50%	-3.11%					
Philippines - O/N Rate	7.50	-	-	-	Malaysian Ringgit	3.4205	0.00%	0.88%	6.43%					
Singapore - 3-Month Interbank Rate	2.63	-	(0.38)	(0.78)	Philippine Peso	47.425	0.01%	1.59%	9.33%					
South Korea - Overnight Rate	4.50	-	-	0.50	Singaporean Dollar	1.5143	0.00%	0.11%	4.90%					
Taiwan - Overnight Rate	1.73	(0.00)	0.00	0.21	South Korean Won	928.9	-0.23%	1.28%	1.90%					
Thailand - 14-Day Repo Rate	4.03	-	(0.50)	(0.72)	Taiwan Dollar	33.216	0.03%	-0.39%	-3.51%					
					Thai Baht (onshore)	34.815	-0.07%	0.65%	8.29%					
					Thai Baht (offshore)	32.690	-1.19%	-1.65%	15.33%					
					Vietnam Dong	16048	0.00%	-0.19%	-0.66%					
Long Term Bond Yield					Equities									
	Spot	Change (ppt)			Last Index Level	Change (%)								
		1 Day	1 Mo	1 Yr		1 Day	1 Mo	1 Yr						
China - Government bond yield (5-Year)	3.08	-	0.27	0.54	Bangladesh DHAKA	1699	0.00%	-3.76%	17.45%					
Hong Kong - 5-Year Exchange Fund Note	4.04	0.07	0.06	(0.56)	China (H Shares)	10261	0.82%	6.73%	32.75%					
India - 10-Year Gilt	7.98	-	(0.01)	0.61	China (Shanghai SE Composite)	3783	1.03%	17.03%	62.53%					
Indonesia - FR26	9.29	(0.00)	(0.24)	(2.50)	Hong Kong Hang Seng	20667	0.63%	4.65%	19.33%					
Malaysia - MGS 1/05	3.48	-	(0.06)	(0.71)	India NIFTY	4174	0.17%	8.49%	14.82%					
Philippines - 5-Year T Bond	5.93	-	-	(0.62)	Indonesia Jakarta	2016	1.46%	9.74%	26.50%					
Singapore - 10-Year SGS	2.65	-	(0.25)	(0.90)	Korea KOSPI	1553	0.49%	6.43%	6.56%					
South Korea - 5-Year Treasury	5.03	0.02	0.23	(0.04)	Malaysia Kuala Lumpur	1316	0.00%	5.23%	27.86%					
Taiwan - 10-Year Government Bond	2.11	0.06	0.16	(0.11)	Philippines Composite	3350	1.22%	5.24%	32.93%					
Thailand - 10 Year Government Bond	3.87	(0.02)	(0.40)	(1.74)	Singapore Straits Times	3407	1.30%	5.07%	23.78%					
Vietnam - 5-Year Government Bond	7.25	-	0.51		Taiwan Taiex	8000	0.19%	1.94%	10.39%					
					Thailand SET	694	0.55%	2.24%	-10.98%					
					Vietnam Ho Chi Minh	924	0.00%	-11.94%	32.73%					
Other Indicators					EM CDS (5Yr)									
	Last Index Level	1 Day	Change		Prev	Change								
			1 Mo	1 Yr		Close	1 Day	1 Mo	1 Yr	5s-2s	10s-5s			
Fed Funds	5.25	-	-	0.63										
6 month LIBOR	5.35	-	0.02	0.09										
10 Yr UST	4.65	(0.00)	0.05	(0.46)										
10 Yr Bund	4.211	0.02	0.19	0.22										
Eurostoxx	3869	0.62%	5.14%	8.74%										
10 Yr JGB	1.660	0.00	0.01	(0.29)										
10 Yr Swap	5.18	(0.00)	0.05	(0.44)										
HY BB Index	461	0.00%	0.95%	9.62%										
HY B Index	506	0.00%	1.20%	11.01%										
VIX	13.21	-	(0.27)	1.45										
DJIA	13090	0.00%	5.29%	13.26%										
SPX	1495	0.00%	4.47%	12.71%										
TPX	1703	0.94%	-1.20%	-1.17%										
NASDAQ	1881	0.00%	4.86%	9.52%										
Oil, WTI	66	-0.43%	4.01%	-9.72%										
Copper Index	357.30	-0.34%	14.57%	2.52%										
JPY/USD	119	0.33%	1.12%	3.70%										
USD/EUR	1.3637	-0.01%	2.09%	8.67%										
ECB Marginal Lending	4.75	-	-	1.25										
BOJ	0.55	0.02	(0.38)	(0.38)										
Palm Oil Future	2,157	0.00%	7.23%											
Gold	687	0.05%	3.23%	6.98%										
DRAM Benchmark Value Weighted Index	3,143	-0.60%	-6.54%	-2.85%										
					Volatility									
					Last ATMf	1 Day	1 Mo	1 Yr						
									China	Hong Kong	India	Korea	Singapore	Taiwan
					1M Vol	1.25	-0.03	-0.10	-0.90					
					3M Vol	1.45	-0.03	-0.05	-1.05					
					1M Vol	0.73	0.00	0.00	0.28					
					3M Vol	0.75	0.00	0.03	0.20					
					1M Vol	9.10	0.85	4.65	4.15					
					3M Vol	6.80	0.30	2.30	1.85					
					1M Vol	3.78	0.00	-0.33	-3.18					
					3M Vol	4.03	0.00	-0.13	-2.68					
					1M Vol	3.10	0.00	-0.28	-1.45					
					3M Vol	3.35	0.00	-0.15	-1.20					
					1M Vol	2.80	0.00	-0.43	-2.80					
					3M Vol	3.13	0.00	-0.28	-2.48					
					1M Vol	12.50	0.00	-4.50	5.70					
					3M Vol	10.00	0.00	-3.00	3.20					

Source: Bloomberg (as of 4/26/2007 5:07 PM).

Economic & Market Analysis

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