

# Emerging Markets Daily

## Asia Edition

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See Disclosure Appendix A1 for the  
 Analyst Certification and Other  
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## Focus on Korea

- **Korea.** Direct economic impact from the Korea-U.S. Free Trade Agreement (FTA) would not be large enough to affect financial markets (p. 2).

## Highlights

- **India.** Single-digit export growth continues but deficit narrows due to lower oil prices (p. 3).
- **Malaysia.** The decline in exports was due not just to fewer working days in February but also lingering sluggishness in global tech demand (p. 3).

## Market Drivers

- **US.** Echoing an anticipated uptick in the PMI, the ISM non-manufacturing activity gauge likely rebounded in March; An aircraft-led rebound in durable goods requisitions, combined with price-induced increases in food and petroleum bookings, probably boosted factory orders in February
- **Euro Area.** Improving business conditions in the German retailing and services sector point to a rebound in the sentiment in the euro-area services sector
- **Philippines.** Headline inflation should hit rock bottom in March on the back of the base effect, strong currency and moderate demand pressures
- **Taiwan.** Headline CPI probably fell by 0.3% mom in March, mainly due to pullback in service charges after the Lunar New Year

## Data Calendar

Date	Day	Local Time	Country	Indicator	For	Citi Fcst	Mkt Fcst	Prev.
4-Apr	Wed	10:00 PM	US	Factory Orders (%)	Feb	1.8	2.3	-6.0
4-Apr	Wed	10:00 PM	US	Factory Inventory (%)	Feb	0.2	—	-0.2
4-Apr	Wed	10:00 PM	US	ISM Non-Manufacturing, PMI	Mar	55.0	55.0	54.3
4-Apr	Wed	10:00 PM	US	ISM Non-Manufacturing, Prices	Mar	60.0	—	53.8
4-Apr	Wed	4:00 PM	Euro Area	Services PMI	Mar	57.9	57.6	57.5
4-Apr	Wed	6:00 PM	Germany	Incoming Orders (%YoY)	Feb	4.9	—	6.5
4-Apr	Wed	4:30 PM	UK	Services PMI	Mar	57.3	57.6	57.4
4-Apr	Wed	9:00 AM	Philippines	CPI (%YoY)	Mar	2.4	2.7	2.6
4-Apr	Wed	4:00 PM	Taiwan	CPI (%YoY)	Mar	1.7	1.8	1.7

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

## Focus on Korea

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### **Korea-US FTA May Become a Building Block for EAFTA**

**Direct economic impact from the Korea-U.S. Free Trade Agreement (FTA) would not be large enough to affect financial markets.** Despite media hype that the Korea-US FTA will have sweeping consequences, its actual impact should be quite limited.

**Korea is already quite “developed” and “open,” which means any FTA liberalization with the U.S. will be quite modest.** People usually worry about agriculture, but the overall economic impact will not be large as agriculture accounts for only 2.8% of GDP. Others hope for a positive impact on the textile industry, but textiles explain only 4.6% of Korea’s exports to the U.S. The contraction of labor-intensive sectors such as “traditional” agriculture or textile industry is a natural phenomenon in the economic development process and would not be materially accelerated or reversed by the Korea-US FTA. Also note that Korea is a member of WTO and already quite open. For example, Korea’s degree of food self-support has already fallen to 25%, much lower than the 40% in Japan.

**Even the impact on the auto industry would not be large.** Some anticipate huge benefits to Korean automakers as the auto sector explains 25% of Korea’s exports to the U.S. But we think that FX risk is far more important than the exemption of the 2.5% tariff. The trend of factory relocation into the U.S. would likely continue. Moreover, any benefits for Korean automakers may be offset by the decline in domestic market share due to more US imports (including the ones made by Japanese automakers).

**Impact on services industries would be even smaller than agriculture or manufacturing.** The financial industry was already opened to global players since the crisis days from a decade ago. The Korean government will be maintaining its existing timetable on opening legal and accounting services. There would be no big changes in telecommunication and broadcasting services, while education, health and social services are excluded from FTA. Some have complained that Korea-US FTA could not contribute to the long-awaited development of the services industry.

**The real importance of Korea-US FTA is that it can serve as a building block for an East Asian Free Trade Agreement (EAFTA).** To build EAFTA, uniting Korea, China and Japan to form a single market of \$10 trillion, may be the eventual goal of Korea’s trade policy. Korea-US FTA can facilitate the process for EAFTA and ease some Korean people’s general objection to FTA. It will also draw greater attention from Chinese and Japanese policymakers and accelerate the process of Korea-China and Korea-Japan FTA, which would eventually result in EAFTA or ASEAN+EAFTA. We think this long-term policy goal is a major underlying reason why the Korean government has been so keen on signing a Korea-US FTA.

## News in Brief

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### India

**Single-digit export growth continues but deficit narrows due to lower oil prices.** In line with expectations, exports touched US\$9.7bn but due to the base effect, growth remained in single digits at 7.9%. Imports at US\$14.4bn were up 25.1% led by continued buoyancy in non-oil imports, which rose 39.8%, while relatively lower oil prices saw oil imports declining 1.2%. This resulted in the trade deficit narrowing to US\$4.7bn as compared with the US\$5.5bn-6bn range seen during the last few months. Though this data comes out with a two-month lag, the December numbers are still not out. Thus, a quick recap of the earlier data indicates that 70% of the rise in non-oil imports is due to capital goods and industrial raw materials – all of which support the investment story. The key sectors driving exports are engineering goods and petroleum products

We re-iterate our view that rising trade deficits poses a challenge for India's current account and its currency, but higher invisible inflows (software exports and remittances) coupled with strong capital flows will limit the rise in the CAD to 1.5% of GDP in FY07 and FY08 and should keep the currency on a slow appreciation trend (*Rohini Malkani/Anushka Shah*)

### Malaysia

**The decline in exports was due not just to fewer working days in February but also lingering sluggishness in global tech demand.** February exports fell 2.8% from a year ago while imports declined 4%, resulting in another trade surplus of US\$2.2bn. The decline in overall exports was led by 5.4% fall in tech exports. However, downside risk appears contained, as lean inventory relative to demand should prevent sharp cutbacks in tech exports. Imports highlight similar bumpiness, likely reflecting yet-to-become-robust domestic demand and consolidating export fortunes. Capital goods imports fell 15.8%, giving back a large part of the gains in January. Likewise, imports of intermediate goods, which tend to mirror export movements, dipped 2.4% from a year ago. However, a likely modest revival in

investment and stabilizing consumer demand should help offset slightly softer export prospects to keep GDP growth on track for 6% in 2007. We are not in the rate cut camp; while BNM is unlikely to be in a hurry to normalize interest rates, the next rate shift will likely remain up, not down. (*Moh Siong Sim*)

### South Korea

**Domestic auto sales look generally stable.** Domestic Motor Vehicle Sales rose 4.1% in March. We estimate that seasonally adjusted MoM growth in domestic auto sales would fall from 6.7% in February to 4.7% in March, and its QoQ growth would also fall from 16.8% in 4Q06 to -4.2% in 1Q07. All these estimates suggest that domestic auto sales may experience an overdue technical correction at this moment.

“Stable” domestic auto sales would still be supportive of our reasonably optimistic outlook on consumption. There should be a limit in the recovery of durable goods consumption (including auto sales) based on pent-up demand, though the overall momentum of consumption recovery is intact. (*Suktae Oh*)

**House price index did not fall despite the weakness in activities.** House price index rose 0.2% mom while Jeonse price index rose 0.4% mom in March. The weakness in housing market activities clearly affected the house price index, though the index itself still showed a slight month-on-month gain based on small, non-apartment units. Jeonse price also continued to rise, as some people chose to rent a house rather than to buy it.

Both house and Jeonse prices appear rather resilient compared with the weakness in housing market activities, which generally supports our view that the underlying strength in housing demand would prevent a significant decline in house prices. Of course, the chance of policy-led decline in house prices remains a key downside risk in economic growth.. (*Suktae Oh*)

**FKI survey also suggests stable business sentiment.** FKI's survey generally points to continued stability in business sentiment, again despite the global financial market turmoil. Seasonally adjusted outlook index

stayed around the neutral level of 100. Relative strength in domestic demand firms was also the same as BOK survey. Stable business sentiment in both BOK and FKI survey supports our view of steady economic growth this year. *(Suktae Oh)*

# Data Review

Announcement	Release Date	HK/SG- Time	For	Actual	Citi Fcst	Mkt Fcst	Prev
<b>India</b>							
Exports (% YoY)	2-Apr	3:30 PM	Feb	7.9	9.2	—	5.5
Imports (% YoY)	2-Apr	3:30 PM	Feb	25.1	19.9	—	23.2
Trade balance (US\$bn)	2-Apr	3:30 PM	Feb	-4.7	-5.6	—	-5.9
<b>Malaysia</b>							
Exports (% YoY)	3-Apr	12:01 PM	Feb	-2.8	5.0	6.9	8.9
Imports (% YoY)	3-Apr	12:01 PM	Feb	-4.0	8.0	8.6	17.6
Trade Balance (USD bn)	3-Apr	12:01 PM	Feb	2.2	1.9	—	1.9

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

## Malaysia. Exports Consolidating at a Low Gear, Awaiting Traction in the Tech Cycle

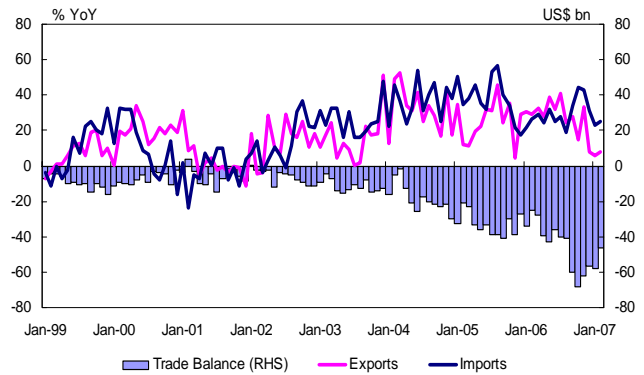
**External Trade**



Source: Ministry of Trade and Industry, CEIC Data Company Limited

## India. Trade During February Indicated a Continued Slowdown in Export Growth

**External Trade**



Source: DGCIS, RBI, Citigroup

# 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	-	0.27	0.81	Bangladesh Taka	68.795	0.00%	0.33%	4.00%		
Hong Kong - 3-Month Interbank Rate	4.15	(0.01)	(0.13)	(0.35)	China Renminbi	7.7332	-0.01%	0.17%	3.71%		
India - Overnight Reverse Repo Rate	6.00	-	-	0.50	Hong Kong Dollar	7.815	-0.01%	-0.01%	-0.70%		
Indonesia - BI Rate	9.00	-	(0.25)	(3.75)	Indian Rupee	43.09	0.47%	2.80%	3.51%		
Malaysia - Overnight Policy Rate	3.50	-	-	0.25	Indonesian Rupiah	9089.5	0.28%	1.03%	-0.73%		
Philippines - O/N Rate	7.50	-	#VALUE!	-	Malaysian Ringgit	3.4613	-0.05%	1.31%	6.36%		
Singapore - 3-Month Interbank Rate	2.94	-	(0.38)	(0.50)	Phillipine Peso	48.135	0.46%	1.25%	5.95%		
South Korea - Overnight Rate	4.50	-	-	0.50	Singaporean Dollar	1.5175	0.13%	0.60%	6.47%		
Taiwan - Overnight Rate	1.72	(0.01)	0.04	0.21	South Korean Won	936.7	0.07%	1.00%	3.64%		
Thailand - 14-Day Repo Rate	4.31	(0.03)	(0.25)	(0.19)	Taiwan Dollar	33.121	-0.14%	-0.83%	-1.61%		
					Thai Baht (onshore)	34.995	-0.01%	1.27%	10.93%		
					Thai Baht (offshore)	32.600	-0.15%	3.28%	19.08%		
					Vietnam Dong	16025	0.00%	-0.17%	-0.61%		
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)	2.80	-	0.12	0.37	Bangladesh DHAKA	1737	0.00%	-1.83%	15.90%		
Hong Kong - 5-Year Exchange Fund Note	4.01	-	(0.10)	(0.47)	China (H Shares)	9724	0.84%	7.59%	29.80%		
India - 10-Year Gilt	7.98	-	0.03	0.42	China (Shanghai SE Composite)	3291	1.18%	13.97%	59.91%		
Indonesia - FR26	9.52	(0.01)	(0.35)	(2.58)	Hong Kong Hang Seng	20003	0.96%	2.80%	19.69%		
Malaysia - MGS 1/05	3.46	-	(0.15)	(0.32)	India NIFTY	3688	1.48%	-1.04%	5.83%		
Philippines - 5-Year T Bond	6.38	-	0.70	(0.84)	Indonesia Jakarta	1895	2.39%	7.10%	29.84%		
Singapore - 10-Year SGS	2.89	-	(0.19)	(0.73)	Korea KOSPI	1464	0.29%	3.37%	5.74%		
South Korea - 5-Year Treasury	4.86	0.05	(0.02)	(0.35)	Malaysia Kuala Lumpur	1257	0.84%	7.33%	26.14%		
Taiwan - 10-Year Government Bond	1.96	0.00	-	0.15	Philippines Composite	3248	0.57%	3.31%	32.58%		
Thailand - 10 Year Government Bond	4.31	(0.01)	(0.15)	(1.10)	Singapore Straits Times	3288	1.28%	6.37%	22.49%		
Vietnam - 5-Year Government Bond	6.78	0.05	(0.86)		Taiwan Taiex	7933	0.60%	3.82%	16.04%		
					Thailand SET	685	0.83%	0.91%	-7.79%		
					Vietnam Ho Chi Minh	1028	-2.68%	11.69%	49.07%		
Other Indicators					EM CDS (5Yr)						
	Last Index Level	1 Day	Change		Prev	Close	Change				
			1 Mo	1 Yr			1 Day	1 Mo	1 Yr	5s-2s	10s-5s
Fed Funds	5.25	-	0.25	0.13	China	11	0	-1	-10	6	8
6 month LIBOR	5.33	-	0.01	0.19	India	49	0	-1	-6	#VALUE!	#VALUE!
10 Yr UST	4.65	0.01	0.15	(0.22)	Indonesia	120	0	-7	-49	65	87
10 Yr Bund	4.078	0.01	0.14	0.24	Korea	17	0	-1	-7	7	8
Eurostoxx	3703	0.62%	2.70%	5.32%	Malaysia	17	0	0	-11	8	10
10 Yr JGB	1.660	0.00	(0.01)	(0.20)	Philippines	121	0	-8	-65	69	87
10 Yr Swap	5.18	0.01	0.12	(0.23)	Thailand	42	0	-1	-2	17	23
HY BB Index	457	0.00%	0.13%	8.50%							
HY B Index	500	0.00%	0.38%	10.17%							
VIX	14.53	-	(4.08)	2.96							
DJIA	12382	0.00%	2.17%	9.99%							
SPX	1425	0.00%	2.62%	8.90%							
TPX	1704	1.28%	-1.01%	-2.95%							
NASDAQ	1773	0.00%	2.67%	3.75%							
Oil, WTI	66	-0.44%	6.11%	-1.66%							
Copper Index	318.00	0.19%	16.04%	18.96%							
JPY/USD	119	0.67%	1.56%	0.83%							
USD/EUR	1.3357	-0.07%	1.24%	9.12%							
ECB Marginal Lending	4.75	-	0.25	1.25							
BOJ	0.48	(0.04)	(0.57)	(0.57)							
Palm Oil Future	2,099	1.81%	7.67%								
Gold	664	0.01%	3.25%	11.48%							
DRAM Benchmark Value Weighted Index	3,408	0.13%	-12.60%	11.79%							

Source: Bloomberg (as of 4/3/2007 5:23 PM).

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