



Highly uncertain outlook after an awful 2008Q4

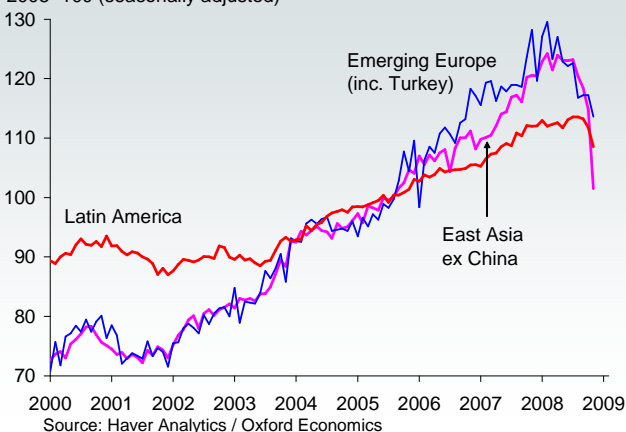
Although we have yet to see any comprehensive national accounts for the last quarter, as was stressed last week the real economy data on the emergers in Q4 continue to surprise on the downside. In response we have dramatically reduced our 2009 growth forecasts across the board; this month our aggregate forecast in the emergers has been cut to 1.8%, compared with 3% last month and 5.7% in September (before Lehman's bankruptcy). Out of 24 emerging economies that we regularly cover, we now expect that GDP will shrink in at least half this year – and the vast majority of the aggregate growth rate is anticipated to come from China and India (even though they are set to record their slowest expansions in many years).

In our baseline forecast, we expect that a gradual lessening of the problems in the developed economies in 2009H2 (triggered by the massive easing of fiscal and monetary policy, low oil prices and normalising credit markets) in combination with the measures taken by emergers themselves (in particular China's massive fiscal boost and the widespread easing of monetary policy) will help facilitate a recovery in the emergers during H2, before building to 5% growth in 2010. To a large extent these forecasts assume that the changes to quarterly GDP growth will be most dramatic in 2008Q4 and 2009Q1, before levelling out in Q2 and edging higher in H2.

However, given the unprecedented nature of the global financial crisis, there is a very high degree of uncertainty surrounding these forecasts. Although it seems improbable, particularly given the recent reversal to end-December/early-January rallies in risky assets, there is still the chance that the scale and rapidity of the global policy easing triggers a more rapid response in business and consumer confidence and a speedier freeing-up of banking and credit markets – prompting a faster economic recovery than currently expected. With regard to the emergers, there would appear to be relatively few countries where there is a reasonable chance that our baseline forecast might be exceeded. One might be China, where although growth has been

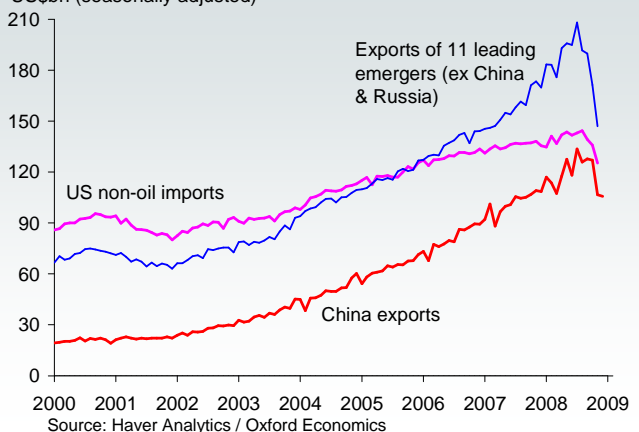
Emerging Markets: Industrial output

2005=100 (seasonally adjusted)



Emerging Markets: Exports

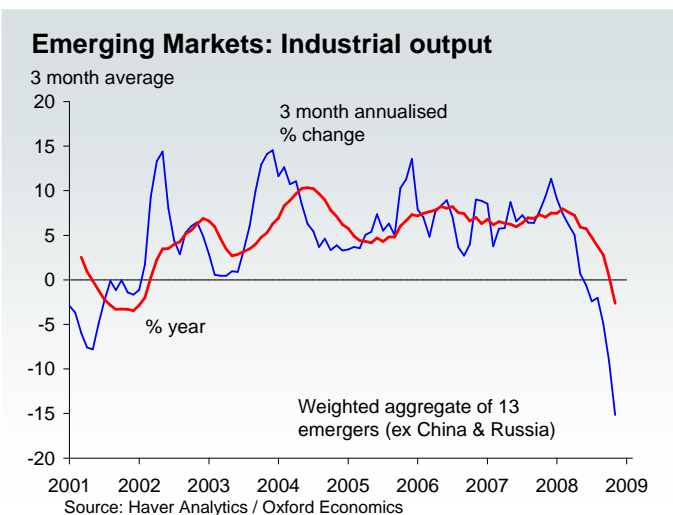
US\$bn (seasonally adjusted)



under massive pressure in recent months from the collapse in world trade and the turndown in the domestic investment cycle, the size of the fiscal stimulus and the relative stability of the banking system may allow a relatively rapid pick-up in 2009H2. One possible “straw in the wind” supporting this possibility is the fact that year-on-year bank lending growth accelerated from 14.6% in October to 18.8% in December.

Two other possible candidates for where there may be at least some upside risks to GDP growth relative to our latest forecasts for 2009 are Brazil and India: in comparison with most other emergers, their dependence on exports as a key driver on growth is limited (though far from insignificant), their financial sectors are fairly solid (though still struggling at present because of the impact of companies forced to borrow domestically rather than re-finance external debts in international markets) and both will have significantly lower interest rates in H2 than seen a year earlier.

But in the current environment, the risks still appear overwhelmingly skewed to the downside, both for the developed and emerging economies. One danger is that the size of the likely output losses in Q4 and Q1 is even larger than presently forecast, and that this in turn prompts even sharper retrenchment amongst businesses and consumers, as well as sparking off another wave of severe pessimism in financial and credit markets – which would itself cause further difficulties. Although in response to any such developments governments would doubtless ease policy further, hopes of a recovery might be pushed out until 2010. Against such a background, even China’s fiscal boost would most likely struggle to gain any traction, resulting in its GDP growth falling below 5% and aggregate GDP growth for the emergers as a whole close to zero.



Alternative GDP growth forecasts			
	2008	2009	2010
Oxford forecast (40%)			
US	1.3	-2.0	2.5
Eurozone	0.9	-1.9	0.8
China	8.7	5.6	9.6
World (PPP)	3.5	0.4	3.3
Deep-V (30%)			
US	1.3	-3.5	1.4
Eurozone	0.9	-3.4	0.2
China	8.7	3.6	7.0
World (PPP)	3.5	-1.2	2.1
Deflation (20%)			
US	1.3	-2.9	-1.2
Eurozone	0.9	-2.2	-1.0
China	8.7	4.5	5.5
World (PPP)	3.5	-0.3	0.4

Moreover, for those emergers that are very highly dependent on external trade to drive overall growth – the mid-sized Asian countries and the Central European economies – there is still the risk that even our cautious forecasts (see table on page 4) do not take sufficient account of the true collapse seen in industrial output and manufactured exports since mid-2008. As well as the more general weakness, several economies have been severely affected by the particular problems of the car sector. Korea, Taiwan, Thailand and the Czech Republic all saw falls of 10% or more in seasonally adjusted industrial output (not annualised) between August and November. For the major emergers as a whole (excluding China and Russia as they only report growth

data), a weighted index of output has fallen 6.3% over the same period, with November a particularly dreadful month.

This is also borne out by the developments in merchandise trade data. Running the export data through a seasonal adjustment filter, Chinese exports have fallen back to 2007Q3 levels while the aggregate exports of eleven other leading emergers (excluding Russia given its dependence on energy sales) have plunged to early-2007 levels. (However, it was at least some comfort that after November's huge falls, the monthly declines in Chinese and Korean seasonally adjusted exports in December were less than 2%.) Moreover, adding to the pressure from falling sales to the US and EU, Asian exporters have been hit hard by the fact that Chinese imports have fallen much more rapidly than its exports – leading to another escalation in that country's trade surplus. More generally, there is the danger that, in response to such large declines in output and exports, companies cut investment and employment very aggressively – in turn provoking a further loss of confidence and inhibiting consumer spending for some time.

The group of trade-dependent emergers (without the opportunities of massive domestic markets that China, India and Brazil have) might also be most vulnerable in another plausible downside scenario – that where current and future policy actions fail to trigger a meaningful recovery in the main western economies, held back by overwhelming problems in banking and credit markets, and resulting in the world economy sinking into deflation. In such a situation there would be a significant risk that the previous consensus behind globalisation and free trade disintegrates.

Scenarios for the global economy



Summary of forecasts for Emerging Markets

	2005	2006	2007	2008	2009	2010	2011
Real GDP Growth							
Asia (excl. Japan)	7.8	8.7	8.9	6.3	2.5	6.8	8.0
China	10.4	11.6	11.9	8.8	5.6	9.7	10.0
Hong Kong	7.1	7.0	6.4	2.6	-0.6	3.6	5.2
India	9.1	9.8	9.3	7.5	4.0	7.1	8.7
Indonesia	5.7	5.5	6.3	5.7	2.0	5.3	5.8
Korea	4.2	5.1	5.0	3.2	-2.4	3.1	5.3
Malaysia	5.3	5.8	6.3	5.2	1.6	4.9	6.3
Philippines	5.0	5.4	7.2	4.3	1.9	3.9	5.6
Singapore	7.3	8.2	7.7	1.5	-3.9	3.9	5.8
Taiwan	4.2	4.8	5.7	0.5	-4.0	2.6	4.5
Thailand	4.6	5.2	4.9	3.6	-2.0	3.7	6.5
NE Asia (excl. Japan)	8.1	9.1	9.5	6.5	2.6	7.4	8.4
S Asia	7.3	7.8	7.5	5.9	2.4	5.7	7.2
Asia (incl. Japan)	4.7	5.3	5.5	3.1	-0.1	4.1	5.2
Latin America *	4.5	5.4	5.5	4.2	0.3	2.6	4.8
Argentina	9.2	8.5	8.7	6.5	0.8	3.4	5.9
Brazil	3.2	4.0	5.7	5.8	0.8	2.8	4.9
Chile	5.6	4.3	5.1	3.9	0.4	3.4	5.0
Mexico	3.1	4.9	3.2	1.9	-0.6	1.9	4.6
Africa **	4.8	5.3	5.9	4.8	3.5	4.2	5.4
South Africa	5.0	5.3	5.1	3.1	0.8	3.1	4.0
Turkey	8.4	6.9	4.6	1.9	-0.8	4.8	6.6
Eastern Europe	5.8	7.3	7.3	5.9	0.8	2.3	4.9
Czech Rep	6.3	6.8	5.9	3.9	-1.8	3.0	4.9
Hungary	4.2	4.1	1.3	0.4	-2.8	0.9	3.7
Poland	3.6	6.2	6.7	4.9	1.9	3.8	5.3
Russia	6.4	7.3	8.1	5.7	-0.8	3.7	5.6
Emerging Markets Average	6.6	7.3	7.3	5.5	1.8	5.0	6.6
World (market exchange rates)	3.5	3.9	3.8	2.1	-0.9	2.8	4.0
Memo Items							
US\$ Effective	83.8	82.5	77.9	74.4	80.6	80.3	81.8
¥/\$	110.1	116.4	117.8	103.4	94.8	103.2	101.8
\$/Euro	1.24	1.26	1.37	1.47	1.39	1.37	1.29
Brent Oil (\$/bl)	54.4	65.4	72.7	97.4	43.8	59.8	74.3
Non-Oil commodity prices (% change)	6.0	23.2	14.1	9.3	-20.8	6.5	4.8

Notes

* Latin America includes Mexico and Venezuela

** Africa includes Nigeria and Algeria

Latest data

Recent Data Releases

	Previous month	Latest	Comment
China - Exports (Dec) - Imports (Dec) - Trade balance (12m total) - M2 money supply (Dec) - Total loans (Dec)	-2.2% y/y -17.9% y/y \$278.7 bn (Nov) 14.8% y/y 16.0% y/y	-2.8% y/y -21.3% y/y \$295.1 bn (Dec) 17.8% y/y 18.8% y/y	Exports continued to shrink on a year-on-year basis, although the size of the fall was much smaller than those seen in Korea, Taiwan and Singapore for the same month. Imports were even weaker, so the trade balance has continued to surge. Glimmer of hope provided by pick up in money and loan growth
Brazil – Retail sales (Nov) (seas. adj. volumes)	-0.9% m/m 9.8% y/y	-0.7% m/m 5.1% y/y	After having grown very strongly in Q1-Q3 consumer spending contracted in Q4
Russia – Exports (Nov) - Imports (Nov) - Trade balance (12m total)	11.9% y/y 21.2% y/y \$193.7 bn (Oct)	-16.7% y/y -3.8% y/y \$188.5 bn (Nov)	Although the collapse in export growth is not a surprise given the plunge in oil prices, import growth moved negative for the first time since 2000 – suggesting that domestic demand growth has slowed dramatically
India – Ind. output (Nov) - Infrastructure output (Nov)	-0.3% y/y 3.4% y/y	2.4% y/y 2.2% y/y	Although not as bad as had been feared in November, output growth is likely to move negative in early 2009 – reflecting large cutbacks in car and steel production
Korea – Unemployment(Dec) – Employment (Dec) - Export prices (Dec) - Import prices (Dec)	3.3% (seas. adj.) 0.3% y/y 31.5% y/y 32.0% y/y	3.3% -0.1% y/y 25.0% y/y 22.4% y/y	Employment levels now shrinking as companies cut back in response to collapsing sales. Although trade prices are now falling significantly they are still way up on year-earlier levels
Mexico - GDP proxy (Oct) (seasonally adjusted)	-1.1% m/m -0.3% y/y	0.6% m/m -0.3% y/y	Although seasonally adjusted activity increased in October it did not make up for the losses seen in the previous two months. And year-on-year growth stayed negative
Turkey – Unemployment - Exports (Nov) - Current account (12m total)	9.7% (Nov 2007) -1.5% y/y \$-46.9 bn (Oct)	10.9% (Nov 2008) -16.4% y/y \$-44.1 bn (Nov)	Unemployment now rising quickly in response to weaker economy. Turkey also experienced a plunge in export growth in November but imports fell even more – leading to a sharp fall in the external deficits
Poland - Exports (Nov) - Current account (12m total) – CPI (Dec)	-6.1% y/y \$-27.8 bn (Oct) 3.7% y/y	-23.5% y/y \$-28.9 bn (Nov) 3.3% y/y	Inflation moving closer to the 2.5% target may allow another significant rate cut at the next central bank meeting
Czech – Ind. output (Nov) (s. adj.) – PPI (Dec)	-8.8% m/m -6.6% y/y 1.2% y/y	-9.2% m/m -16.1% y/y -0.2% y/y	Two massive falls in output in a row suggest a huge deceleration in the Czech economy – slump in car output a key factor
Hungary – CPI (Dec)	4.2% y/y	3.5% y/y	Inflation has dropped sharply since August
Singapore – Non-oil domestic exports (Dec)	-2.8% m/m -17.5% y/y	-13.1% m/m -20.8% y/y	Another set of desperately weak Asian export figures reflecting global trade slump

Events

Monetary policy meetings in past week

	Key rate (now)	Outcome	Comment
Jan 14 th - Thailand	2% (1-day repo)	Down 75bp	The rate cut was not quite as aggressive as we had assumed. The bank indicated that it wanted to monitor how the economy was responding to the government's fiscal boost. However, given the very weak global and domestic background, and low inflation, further monetary easing seems inevitable. We expect interest rates will be cut to 1% within the next few months.
Jan 15 th - Turkey	13% (overnight borrowing rate)	Down 200bp	At each of the last three meetings the central bank has eased policy more aggressively than expected – responding to the clear signs of recession in the economy and confident that this, and lower commodity prices, will drive inflation down into its target range, with even the risk that it might undershoot the range at the end of 2009. However, the bank's statement did suggest that it was "front-loading" its easing rather than pursuing a gradual policy. Rates may be cut another 100bp at the next couple of meetings before levelling out. So far the move has not hit the TRY unduly.

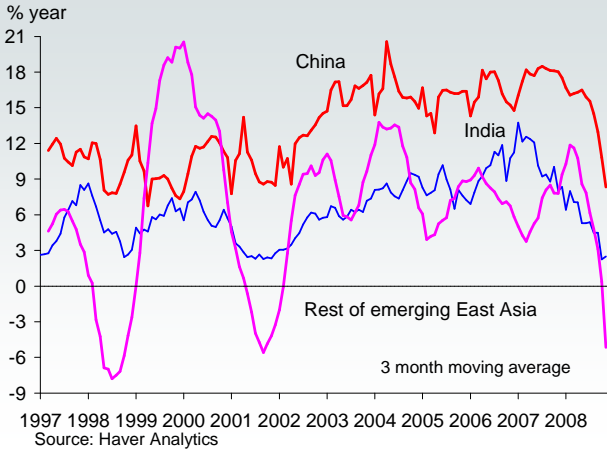
For more information contact Simon Knapp (sknapp@oxfordeconomics.com)

Monetary policy meetings in upcoming week

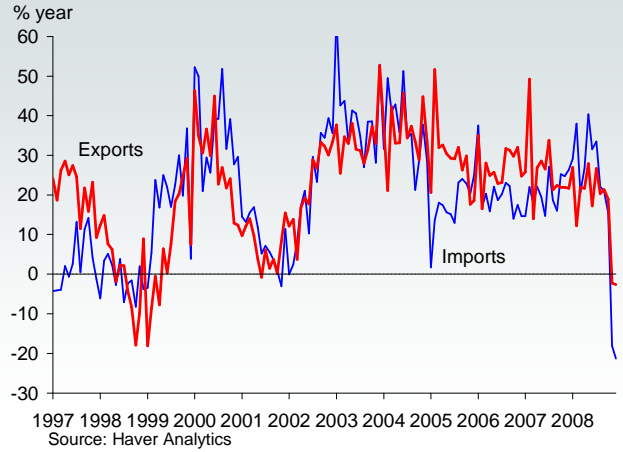
	Key rate	Forecast	Comment
Jan 19 th - Hungary	10% (Base)	Down 50bp	Given the falling trend in inflation and the sharp contraction in the industrial sector, the bank will want to cut rates. However, it has to take account of the HUF, which has been on a sliding trend so far this year.
Jan 21 st - Malaysia	3.25% (Overnight policy rate)	Down 25bp	In response to a faltering economy, depressed by the collapse of world trade, and waning inflation fears, the central bank is expected to cut rates again.
Jan 20 th – 21 st - Brazil	13.75% (Selic rate)	Down 75bp	With clear evidence of a marked weakening in the real economy in recent months (which will help bring inflation back on target) the central bank is expected to make the first of a series of rate cuts. By the end of 2009 the Selic is likely to be 11.25% or less.

Asia

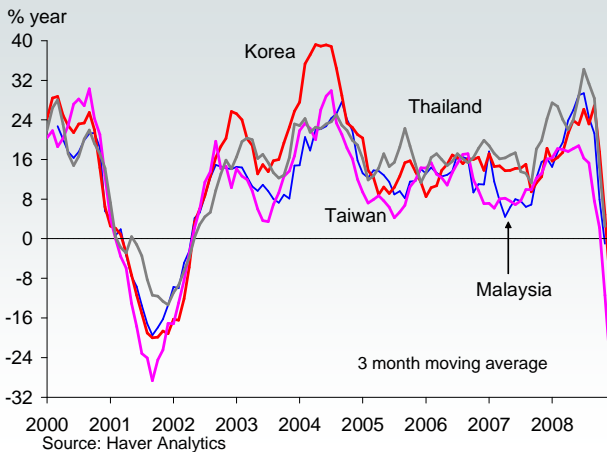
Asia: Industrial output



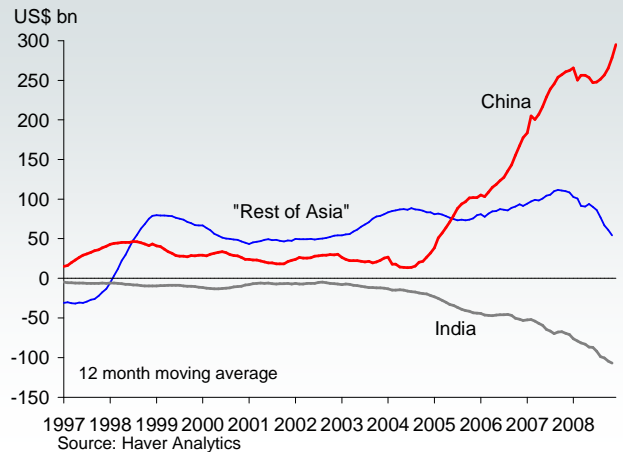
China: Exports & imports



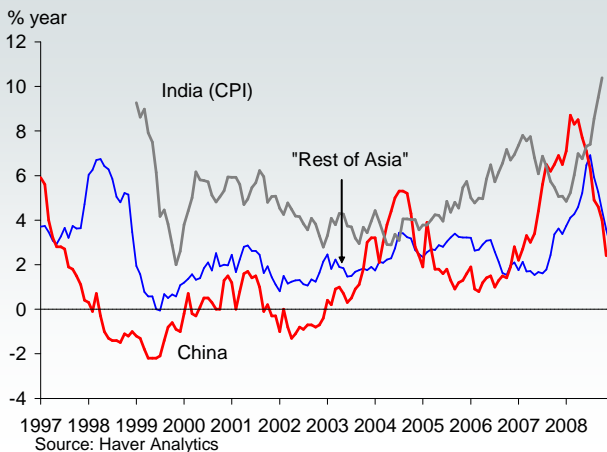
"Rest of East Asia": Goods' Exports (US\$)



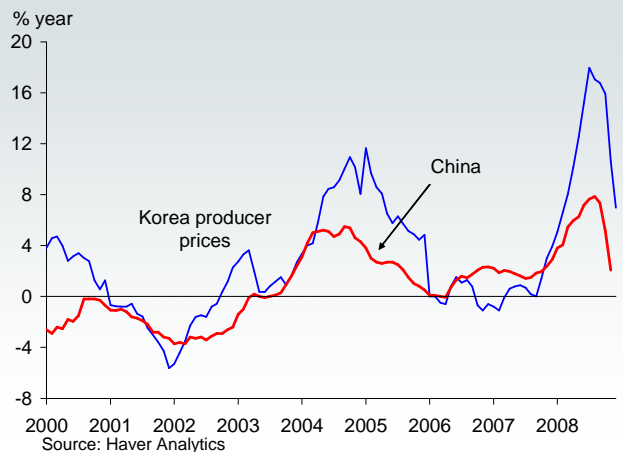
Emerging Asia: Trade balance



Emerging Asia: Consumer prices

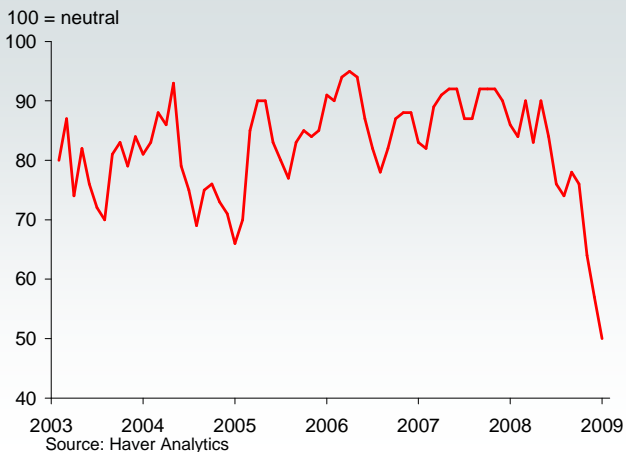


China & Korea: Manufacturing producer prices

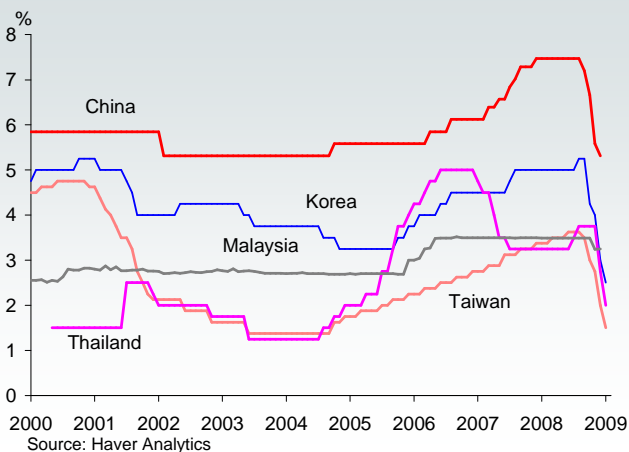


Asia

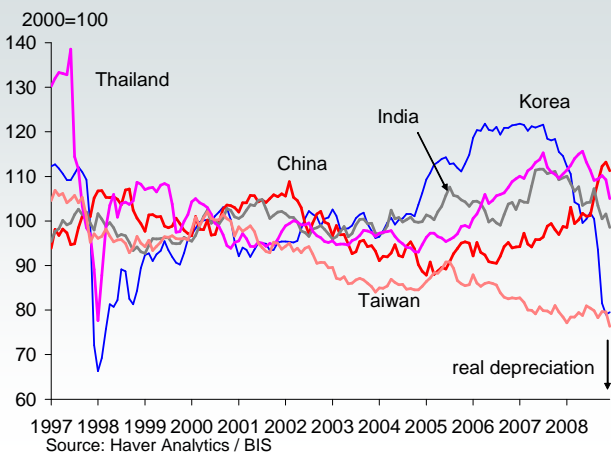
Korea: Business confidence



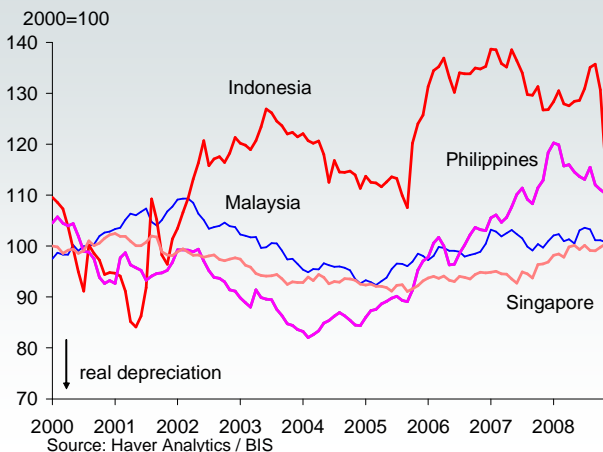
Emerging Asia: Short-term interest rates



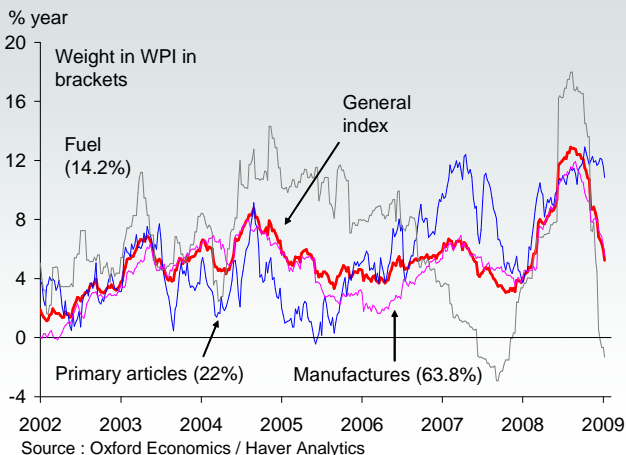
Emerging Asia: Real effective exchange rates



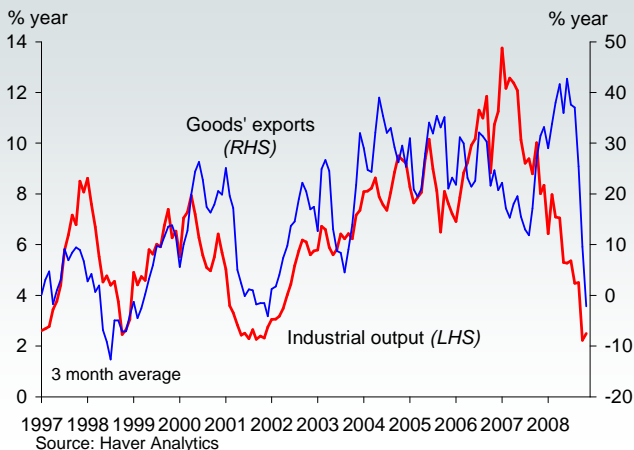
Emerging Asia: Real effective exchange rates



India: Wholesale prices (weekly series)

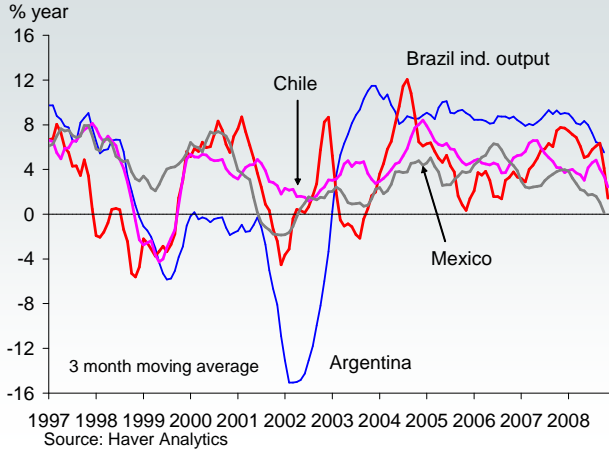


India: Industrial output & goods' exports

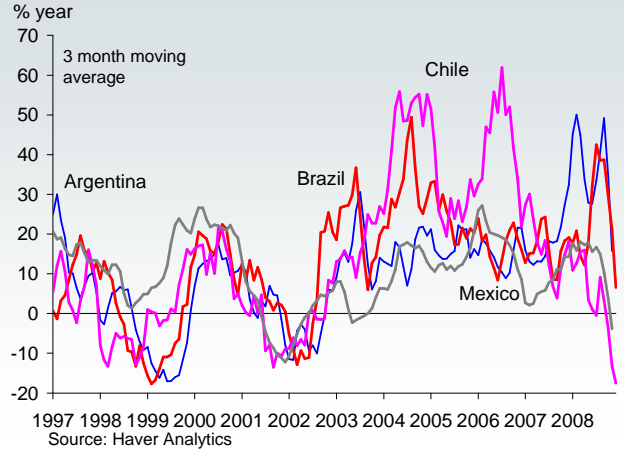


Latin America

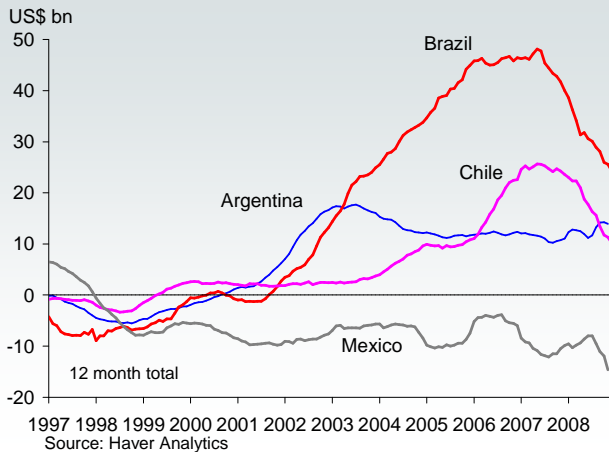
Latin America: Monthly GDP / Industrial output



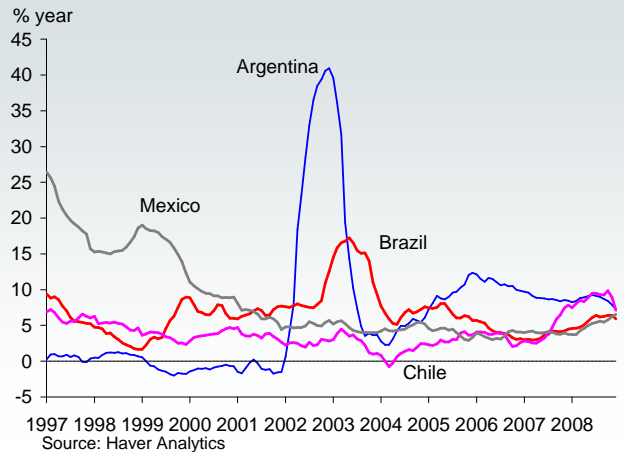
Latin America: Goods' exports (US\$)



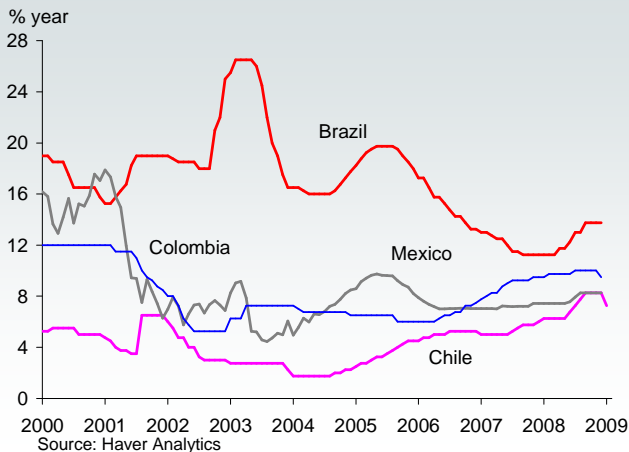
Latin America: Trade balance



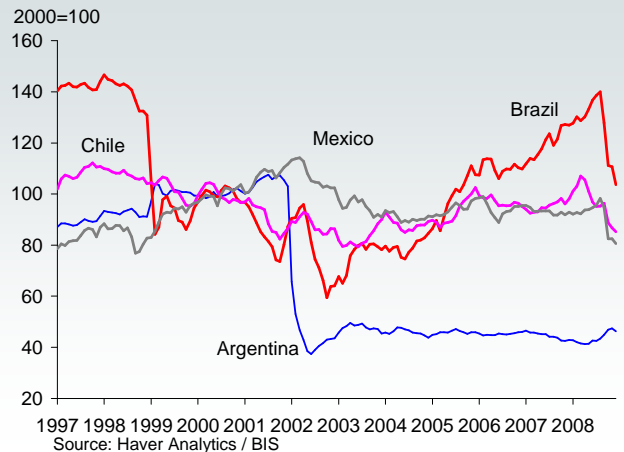
Latin America: Consumer prices



Latin America: Short-term interest rates

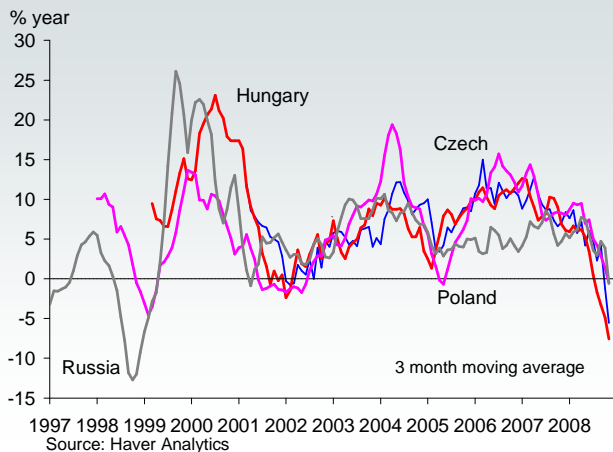


Latin America: Real effective exchange rates

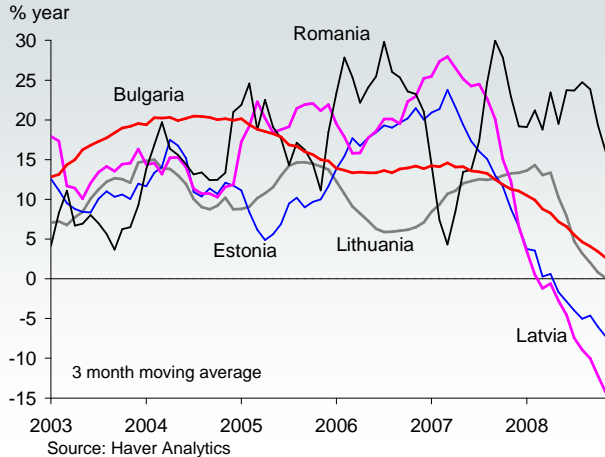


Emerging Europe

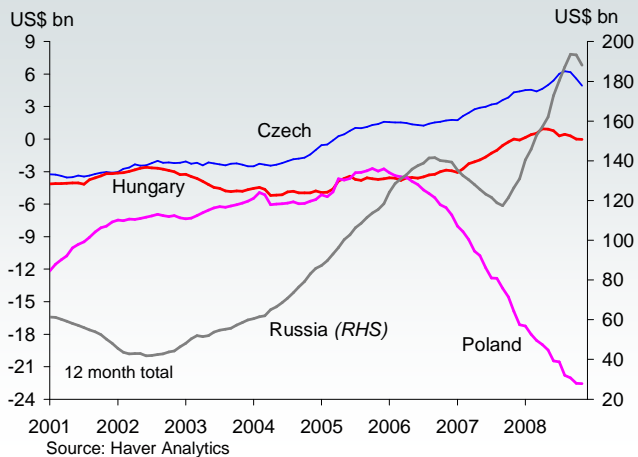
Central & Eastern Europe: Industrial output



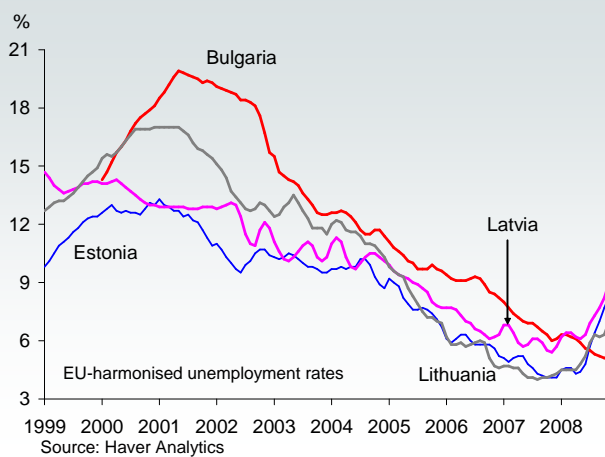
Central and Eastern Europe: Retail sales



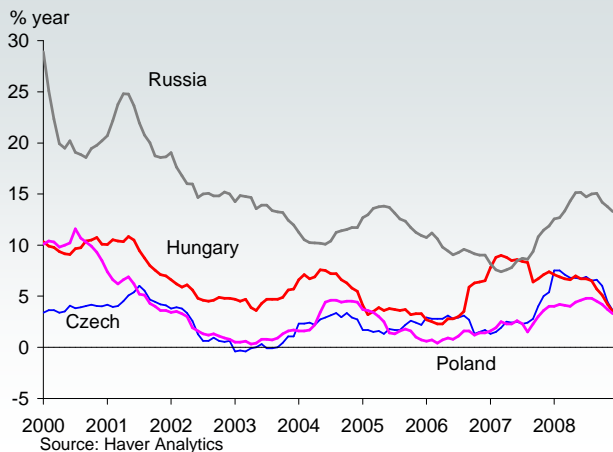
Central & Eastern Europe: Trade balance



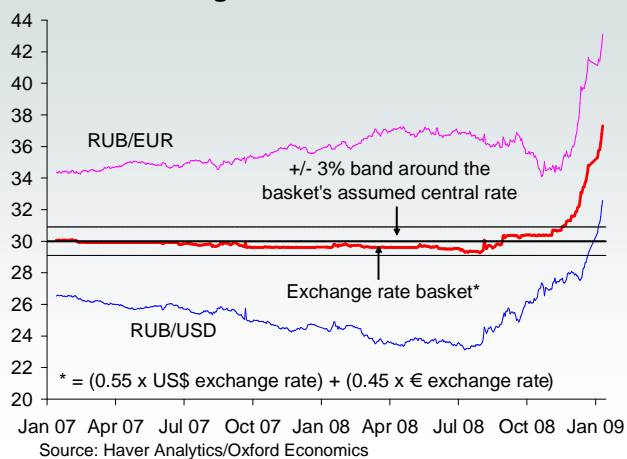
Central & Eastern Europe: Unemployment rates



Central & Eastern Europe: Consumer prices

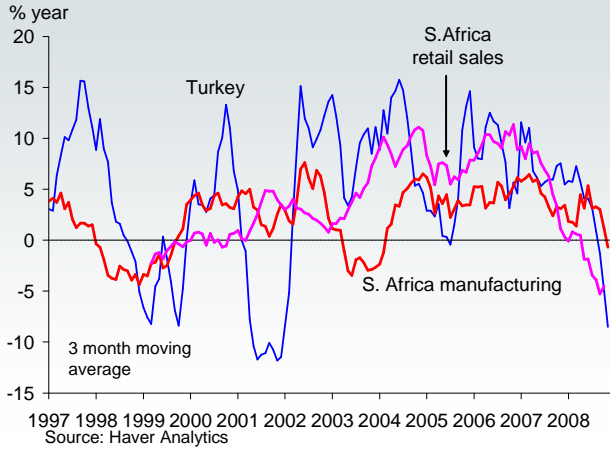


Russia: Exchange rate basket*

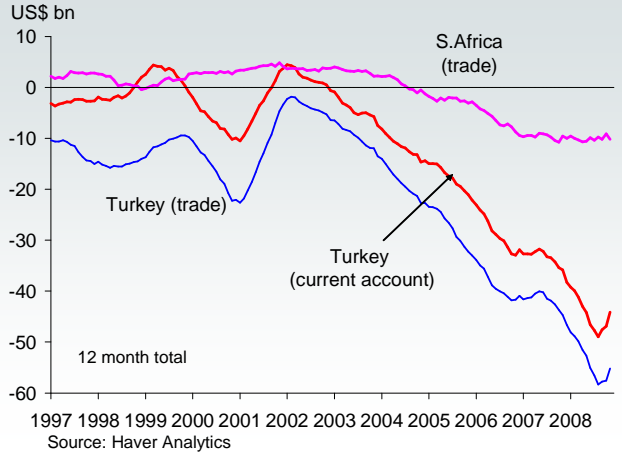


Rest of the world & financial developments

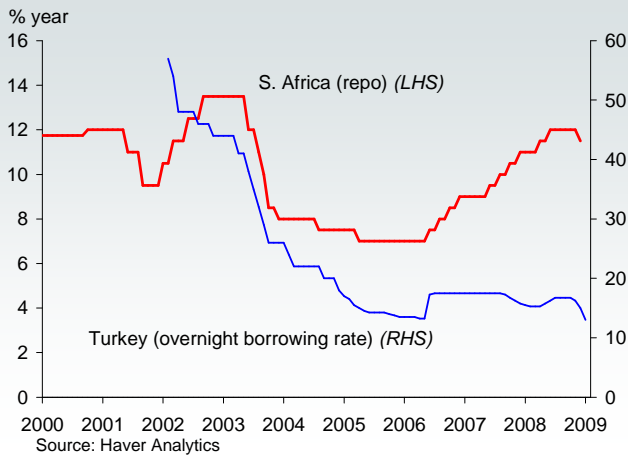
Rest of World: Industrial output & Retail Sales



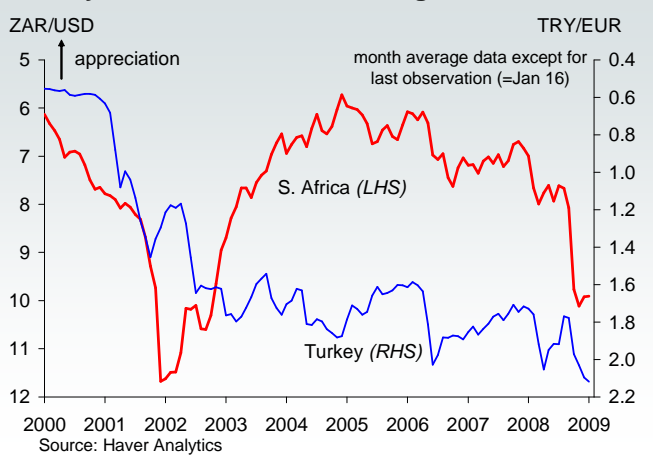
Rest of World: Trade & current account balance



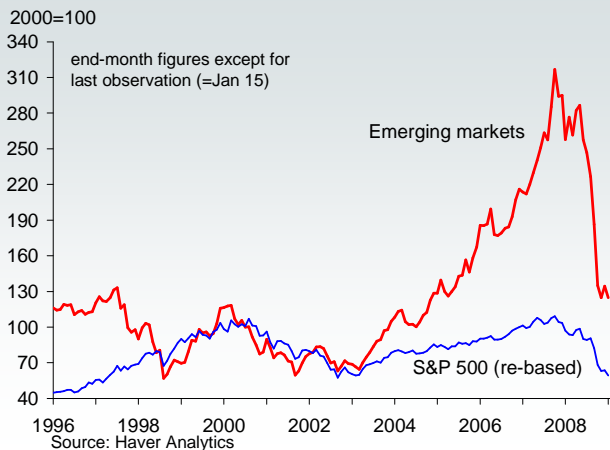
Rest of World: Short-term interest rates



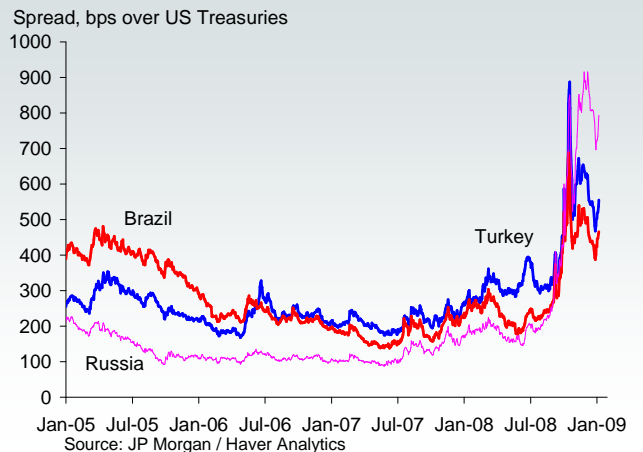
Turkey & South Africa: Exchange rates



Emerging markets: MSCI equity index (in US\$)



Emerging Markets: Risk spreads



Industrial Production

Percentage changes on a year earlier unless otherwise stated

	China	Brazil	Korea	India	Mexico	Russia	Turkey	Taiwan	Poland
2007									
Nov	17.3	7.4	7.5	4.9	1.9	5.3	8.5	11.0	8.5
Dec	17.4	6.5	10.4	8.0	3.5	5.7	-1.9	13.5	6.6
2008									
Jan	15.4	8.4	11.2	6.2	2.8	4.5	11.5	13.3	10.9
Feb	15.4	6.4	10.1	9.5	2.0	7.5	8.2	16.5	11.0
Mar	17.8	5.8	12.2	5.5	0.7	6.5	2.5	9.7	6.2
Apr	15.7	6.0	11.0	6.2	0.4	9.2	6.9	10.0	11.3
May	16.0	3.5	9.0	4.4	-0.4	6.7	3.1	5.6	3.6
Jun	16.0	6.2	8.3	5.4	-0.2	0.9	2.5	5.1	7.4
Jul	14.7	7.7	6.3	6.4	-1.0	3.2	3.7	1.8	4.1
Aug	12.8	4.6	3.2	1.7	-0.1	4.7	-3.6	0.7	1.3
Sep	11.4	6.9	3.6	5.5	-4.4	6.3	-4.3	-1.2	3.2
Oct	8.2	1.0	-2.2	-0.3	-2.3	0.6	-7.2	-12.6	-0.4
Nov	5.4	-3.5	-12.8	2.4	-	-8.7	-13.8	-28.4	-4.2

Consumer prices

Percentage changes on a year earlier unless otherwise stated

	China	Brazil	Korea	India	Mexico	Russia	Turkey	Taiwan	Poland
2007									
Dec	6.5	4.5	3.6	5.1	3.8	11.9	8.4	3.3	4.0
2008									
Jan	7.1	4.6	3.9	4.8	3.7	12.6	8.2	2.9	4.0
Feb	8.7	4.6	3.6	5.2	3.7	12.7	9.1	3.9	4.2
Mar	8.3	4.7	3.9	6.0	4.2	13.3	9.2	3.9	4.1
Apr	8.5	5.0	4.1	7.0	4.5	14.3	9.7	3.9	4.0
May	7.7	5.6	4.9	6.8	4.9	15.1	10.7	3.7	4.4
Jun	7.1	6.1	5.5	7.3	5.3	15.1	10.6	5.0	4.6
Jul	6.3	6.4	5.9	7.4	5.4	14.7	12.1	5.8	4.8
Aug	4.9	6.2	5.6	8.5	5.6	15.0	11.8	4.7	4.8
Sep	4.6	6.3	5.1	9.5	5.5	15.0	11.1	3.1	4.5
Oct	4.0	6.4	4.8	10.4	5.8	14.2	12.0	2.4	4.2
Nov	2.4	6.4	4.5	-	6.2	13.8	10.8	1.9	3.7
Dec	-	5.9	4.1	-	6.5	13.3	10.1	1.2	3.3

Exports (US dollars)

Percentage changes on a year earlier unless otherwise stated

	China	Brazil	Korea	India	Mexico	Russia	Turkey	Taiwan	Poland
2007									
Dec	21.6	16.0	14.8	20.9	15.8	30.9	10.6	19.7	19.1
2008									
Jan	26.5	20.9	14.9	34.9	19.7	60.4	58.4	11.8	38.7
Feb	6.3	26.4	18.9	43.6	12.4	51.1	42.6	18.3	45.6
Mar	30.3	-2.1	18.5	34.1	22.1	50.3	27.1	22.7	29.6
Apr	21.8	13.0	26.4	45.7	17.3	48.1	33.2	13.9	56.6
May	28.1	41.4	26.9	27.6	14.2	43.4	32.4	20.5	29.5
Jun	17.2	41.7	16.4	56.2	15.2	63.4	28.2	21.2	35.4
Jul	26.8	44.8	35.6	31.2	20.5	58.1	39.8	7.9	42.3
Aug	21.0	30.8	18.2	26.9	9.2	47.0	27.1	18.2	20.8
Sep	21.5	41.3	27.7	17.1	2.0	53.9	41.7	-1.6	26.5
Oct	19.2	17.4	8.5	-12.1	0.2	11.9	-1.5	-8.3	-6.1
Nov	-2.2	5.0	-18.3	-9.9	-13.3	-16.7	-16.4	-23.3	-23.5
Dec	-2.8	-2.9	-17.4	-	-	-	-	-41.9	-

Imports (US dollars)

Percentage changes on a year earlier unless otherwise stated

	China	Brazil	Korea	India	Mexico	Russia	Turkey	Taiwan	Poland
2007									
Dec	25.6	46.9	23.2	24.3	12.5	25.4	23.9	27.5	28.6
2008									
Jan	27.6	45.9	31.7	64.0	17.2	34.1	54.2	14.8	35.5
Feb	35.6	65.3	28.4	47.1	15.3	49.6	39.1	26.0	48.2
Mar	24.9	21.3	26.6	37.6	18.8	37.8	28.6	37.5	31.4
Apr	26.7	49.1	29.3	39.7	14.5	51.5	37.5	17.7	53.8
May	40.7	55.5	29.6	38.7	10.3	39.8	31.1	17.6	30.6
Jun	31.4	70.7	32.7	32.3	11.7	36.9	37.8	22.4	38.9
Jul	33.8	59.0	47.1	48.1	19.7	49.3	36.5	11.8	39.2
Aug	23.0	51.1	36.4	51.2	15.2	36.1	31.0	39.8	29.2
Sep	21.3	61.7	45.8	24.2	8.5	46.6	25.1	10.3	25.2
Oct	15.6	40.3	10.4	10.6	3.7	21.2	-2.2	-7.2	-2.1
Nov	-17.9	9.2	-14.6	6.1	-2.2	-3.8	-27.6	-13.2	-20.3
Dec	-21.3	8.7	-21.5	-	-	-	-	-44.6	-