

# Emerging Markets Daily

## Asia Edition

March 12, 2008

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

- **Korea.** Lee administration's economic "action plan" confirms its growth-oriented stance, though lacks decisive measures (p. 2).

## Highlights

- **China.** Real retail sales dampened by snowstorm but growth potential remains strong. Feb M2 grew less than expected by 17.5% yoy, as the government's credit control restrained bank lending (p. 3).
- **India.** Jan industrial production slowed below expectations to 5.3%, with lower growth across the board except non-durables (p. 3).
- **Korea.** February employment data showed rather significant decline in the number of jobs (p. 4).

## Market Drivers

- **US.** Another jump in petroleum prices probably boosted import prices again in Feb. Feb retail sales were likely flat on weakness in autos and chain stores. While we look for another hefty rise in Jan inventories on slowed demand.
- **China.** Industrial output probably remained stable in February as several offsetting factors (snowstorm, year-end credit constraints) were at play.
- **Philippines.** We expect the Monetary Board to keep the policy rate unchanged at 5%.

## Data Calendar

Date	Day	Local Time	Country	Indicator	For	Citi Fcst	Mkt Fcst	Prev.
13-Mar	Thu	10:00 AM	China	Value Added Industry (% YoY, real)	Feb	17.5	16.8	17.4
13-Mar	Thu		Philippines	Central Bank Monetary Policy Meeting		5	5	5
13-Mar	Thu	8:30 PM	US	Initial Jobless Claims (thousands)	8-Mar	350	355	351
13-Mar	Thu	8:30 PM	US	Beneficiaries (million)	1-Mar	2.85	-	2.83
13-Mar	Thu	8:30 PM	US	Import Price Index (% YoY)	Feb	1	0.8	1.7
13-Mar	Thu	8:30 PM	US	Advance Retail Sales	Feb	0	0.2	0.3
13-Mar	Thu	8:30 PM	US	Retail Sales ex-transportation	Feb	0.4	0.2	0.3
13-Mar	Thu	10:00 PM	US	Business Inventories	Jan	0.6	0.4	0.6

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

## Focus on Korea

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### **Korea: Lee Administration's Economic "Action Plan" Lacks Decisive Measures**

**Government released its 2008 economic "action plan" that confirms growth as the top priority in Lee administration's economic policy.** Growth target remained at an elevated level of 6.0%, and the primary policy goal is the economic recovery by boosting domestic demand (consumption and investment).

**The goal of faster economic growth by boosting domestic demand would work against other key policy goals of stable inflation and current account balance.** The government assumes pretty stable inflation (3.3%) and current account (deficit of \$7.0bn), but its measures to achieve these targets are limited to "micro" measures such as improving the sales channel (for inflation) and developing domestic service industries (for current account).

**Government's growth target of 6% looks unrealistic, considering the lack of fresh and decisive measures to boost growth.** As we think that deregulation cannot be a short-term policy tool, government's expansionary measures should be focused on fiscal easing. But there were no surprises in today's action plan, as it just summarized various "minor" measures already known to the public such as the extension of temporary tax deduction on corporate investments, a cut in oil product taxes and a gradual reduction in corporate income taxes from 25% now to 22% in 2009 and 20% in 2013.

**Government would use W4.8 trillion (0.5% of GDP) for fiscal stimulus out of W15.3 trillion extra fiscal revenue, which looks too small to achieve 6% growth this year.** The government also said that a large chunk of this extra revenue would already be reserved: W1.2 trillion would be used to offset the cut in oil taxes, and that W1.6 trillion would be needed to offset the 1%p cut in corporate income taxes. So there may not be a sufficient room for additional tax cuts. Also note that permanent tax cuts cannot be easily implemented based on extra fiscal revenue that is only a temporary fiscal resource. Meanwhile, government officials said that using the extra fiscal revenue for tax cuts doesn't need a supplementary budget as the National Fiscal Policy Act only applies to the using of extra revenue for additional fiscal spending.

**The government's plan to reduce fiscal spending by 10% in 2009 budget and use the saved resources for tax cuts also looks pretty unrealistic.** Other plans to boost investment such as an expansion of state-owned companies' investments and an increase in BTL (build-transfer-lease) projects are not fresh ideas as they were used in Roh administration.

**The action plan supports people's belief that government seems to "hope" for monetary easing policy and would not allow a significant won appreciation.** It says that BOK will flexibly implement monetary policy considering the overall economic conditions and the interest rate differentials between Korea and other countries. On FX policy, government says it will make efforts to stabilize FX markets to avoid the misalignment with current account conditions. But we don't think that this statement suggests an active intervention to further weaken the won at this juncture: the intervention to weaken the won would actually increase the market's volatility.

## News in Brief

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### Japan

**The second preliminary report revealed that real GDP increased 0.9%qoq and 3.5%qoq annualized in the fourth quarter of 2007, only slightly revised downward from 0.9%qoq and 3.7%qoq annualized gains in the first print.** This was better than the market median projection of a 2.4qoq annualized increase. Business investment saw a smaller-than-expected reduction while both public and external demand was revised upward.

Looking at different components of the GDP, business investment was revised down to a 2.0%qoq gain from a 2.9%qoq pace in the first print (accordingly, the contribution to quarter-on-quarter GDP growth was lowered to 0.3 percentage points from 0.5 in the first print). Yet, the revision was more moderate than the market median expectation (down to a 1.2%qoq increase). Private residential investment also saw a mild reduction to a 9.3%qoq decrease from a 9.1%qoq drop in the first preliminary data. Private consumption was left unchanged at a 0.2%qoq gain. Meanwhile, both public investment and government consumption were revised upward with the former decreasing by 0.4%qoq, up from a 0.7qoq drop in the first print, and the latter increasing 0.9%qoq, up from a 0.8%qoq rise.

**Positive: It appears most likely that real GDP growth in the first quarter of 2008 will exceed the current market consensus expectation of a 0.4%qoq annualized pace.** (Kiichi Murashima/Jin Kenzaki)

### China

**The 20.2% yoy growth of retail sale value in Jan.-Feb. is higher than 14.7% in the same period last year.** Adjusting for the rise in retail prices, the volume of retail sales grew 10.7% yoy in Jan.-Feb. this year, lower than 12.6% in the same period of 2007. As household income growth remains faster than inflation, Chinese consumers can afford to spend more. We therefore expect retail sales volume to grow faster in coming months, after the effects from the snowstorms fade out. The breakdown of retail sales by commodity shows that a surge in consumer spending on food due to soaring food prices may have dampened the sales of

other consumer goods. The retail sales of “meat, poultry and eggs” and “grain and edible oil” soared 32% and 41% yoy respectively in Jan.-Feb., while apparel and communication equipment rose only 24% and 5%. As a result, the business of some retailers in the first two months this year may not be as good as the market expects.

**Negative: Adjusting for price hike, retail sales in Jan.-Feb. this year were slightly weaker than the same period last year.** Snowstorms may have dampened consumer confidence and spending in southern China. But the impact should be temporary, and we expect stronger retail sales in coming months thanks to rapid income growth. Soaring food prices, however, force consumers to spend more on food, dampening the growth of their spending on other goods.

**M2 money supply grew less than expected by 17.5% yoy (vs. Citi forecast 19% and market consensus 18.2%) in February, as the government’s credit control restrained bank lending.** New loans made by banks plunged from Rmb803.6bn in January to Rmb243.4bn in February. Apart from the Lunar New Year factor, the decline in new bank loans was due to the central bank’s tight credit control. Given that the central bank’s quota for new bank loans in 1Q08 is likely to be Rmb1.27trn (or 35% of 2007 loan growth), banks can lend only Rmb223.5bn in March to meet the quota. The central bank is, therefore, likely to maintain tight credit control in March. Companies will find it harder to borrow bank loans. **Negative: The Feb. monetary figures imply that China’s credit tightening will remain intact with no easing in the near term.** Companies in China will continue to face the problem of credit shortage, with particular big negative impact on property developers and those firms with large investment spending. (Joe Lo)

### India

**Jan Industrial Production slowed to 5.3%, below expectations as well as the 11.6% growth seen last Jan.** Growth was lower across the board with only non-durables posting better numbers in Jan08 v/s Jan07. On a cumulative basis, industrial growth during

Apr-Jan08 was 8.7% v/s 11.2% recorded last year. The huge disappointment was the 2.2% growth seen in capital goods – the lowest growth since April 02 and significantly lower than the 20%+ growth during the first few months of this fiscal. A continuation of negative growth in the rate sensitive consumer durable segment. While manufacturing output halved to 5.9% in Jan08 v/s 12.3% last Jan, the outliers were wood products contracting 4.6% v/s 55% growth seen earlier this year and jute products up 281%. While we maintain our view that there is a clear case for easing and expect a 50bps easing in FY09, with inflation currently being given priority over growth, there is a risk of an extended pause in rates.

**Negative: Although one month is too early to call a trend, the low capital goods number is a worry, as it indicates that the slowdown currently being seen in the consumption side of the economy could spill over to the investment side of the growth story.**

While the budget and the upcoming Pay Commission recommendations would give consumption a boost, continuation of a high domestic rate environment coupled with tight ECB norms and the low appetite for public offerings could dampen investment demand. This would pose a risk to our 8.3% GDP estimate.

*(Rohini Malkani/Anushka Shah)*

## South Korea

**February employment data showed rather significant decline in the number of jobs, which seems to match our current forecast of sub-par growth in the first half this year.** The number of the employed declined by 29,000 on seasonally adjusted basis, while the unchanged unemployment rate at 3.0% is explained by the contraction in the labor participation ratio from 61.8% to 61.6%. YoY job growth also declined to 0.9% from the peak of 1.2~1.3% last year. In detailed data by industries, manufacturing jobs declined again after the two months of increases in December and January, construction jobs were just flat after the big jump in January, while the service industry job growth was sluggish in general. Job status breakdown showed a jump in the self-employed and a decline in wage workers, which may not be a favorable sign.

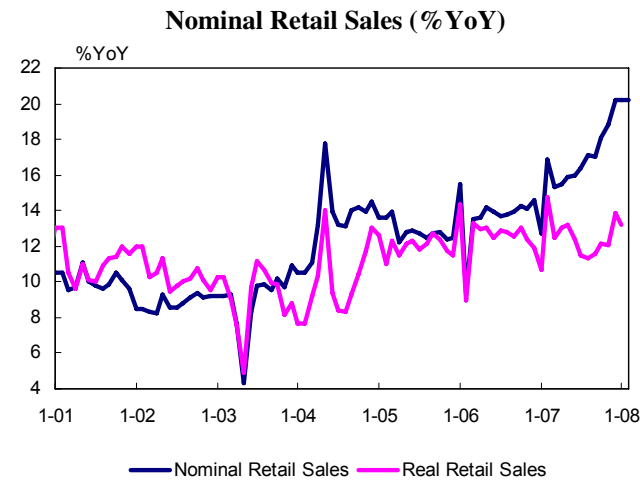
**Negative: A sign of deterioration in the job market supports the government's stance to boost economic growth.** YoY increases in jobs declined rather significantly to 209,000 from the peak of 314,000 last June, which should be a big concern for the government given a target of 350,000 job increases this year in its economic policy "action plan." BOK should also feel the pressure to ease monetary policy if the weakness in job market continues. Of course, it is too early to confirm the weakness in job market considering the usual volatility in employment data as well as potential distortion from Lunar New Year holidays. *(Suktae Oh)*

# Data Review

Announcement	Release Date	HK/SG-Time	For	Actual	Citi Fcst	Mkt Fcst	Prev
<b>China</b>							
Exports (% YoY)	12-Mar	9:00 AM	Feb	20.2	19	20	20.2
M2 (% YoY)	12-Mar		Feb	17.5	19.3	--	18.9
<b>India</b>							
Industrial Production (% YoY)	12-Mar	2:00 PM	Jan	5.3	7.5	8.0	7.7
<b>Korea</b>							
Unemployment Rate (% SA)	12-Mar	12:30 PM	Feb	3.0	3.1	3.1	3.0

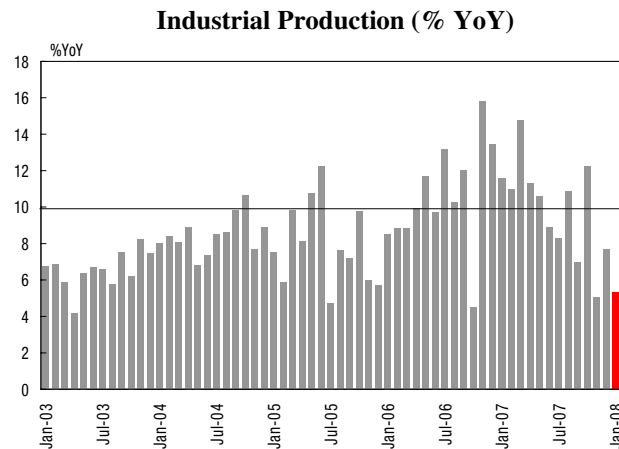
Source: Bloomberg, IDEAGlobal, CEIC Data Company Limited, Citi estimates.

## China: Retail Sales dampened by snowstorm



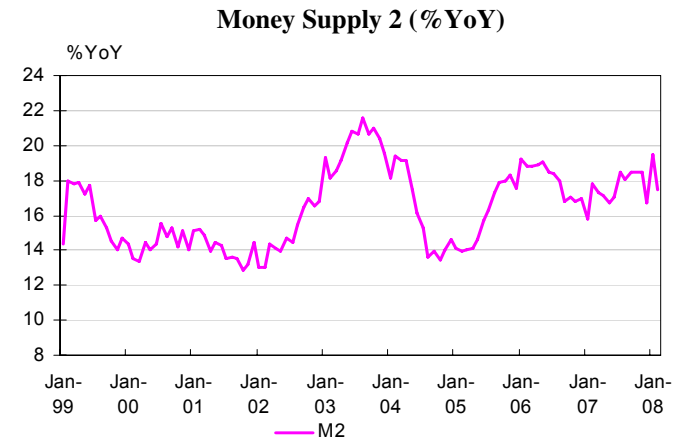
Source: CEIC Data Limited, Bloomberg

## India: Industrial production data slowed to 5.3% in Jan

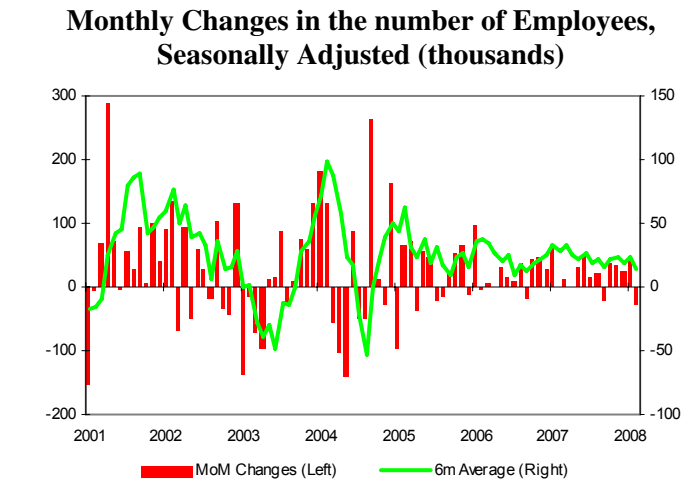


Source: CSO, SIAM, CEIC Data Company, Office of the Economic Advisor

## China. M2 growth lowered in February the government's credit control restrained bank lending



## Korea: Significant decline in jobs in February



Source: National Statistical Office

# 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	7.47	-	-	1.35	Bangladesh Taka	68.56	0.00%	0.01%	0.65%		
Hong Kong - 3-Month Interbank Rate	2.14	(0.00)	(0.13)	(2.08)	China Renminbi	7.1037	-0.01%	1.13%	8.98%		
India - Overnight Reverse Repo Rate	6.00	-	-	-	Hong Kong Dollar	7.7908	-0.04%	0.08%	0.32%		
Indonesia - BI Rate	8.00	-	-	(1.00)	Indian Rupee	40.37	0.23%	-1.67%	9.68%		
Malaysia - Overnight Policy Rate	3.50	-	-	-	Indonesian Rupiah	9162.5	-0.30%	0.90%	0.58%		
Philippines - O/N Rate	5.00	5.00	-	(2.50)	Malaysian Ringgit	3.1842	0.13%	1.82%	10.15%		
Singapore - 3-Month Interbank Rate	1.31	-	(0.31)	(1.81)	Philippines Peso	41.275	-0.69%	-1.10%	17.86%		
South Korea - Overnight Rate	0.00	(5.00)	#VALUE!	(4.50)	Singaporean Dollar	1.3877	0.02%	2.21%	10.20%		
Taiwan - Overnight Rate	2.08	(0.01)	0.00	0.38	South Korean Won	969.2	-0.66%	-2.36%	-2.54%		
Thailand - O/N Repo Rate	3.23	0.00	0.02	(1.27)	Taiwan Dollar	30.682	-0.30%	4.30%	7.46%		
					Thai Baht (onshore)	31.560	-0.03%	4.31%	11.38%		
					Thai Baht (offshore)	31.565	-0.05%	1.38%	4.39%		
					Vietnam Dong	15865	-0.02%	0.65%	0.95%		
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)	3.89	-	0.04	1.17	Bangladesh DHAKA	3035	0.00%	1.88%	43.37%		
Hong Kong - 5-Year Exchange Fund Note	1.98	0.09	(0.01)	(2.15)	China (H Shares)	12877	2.24%	2.69%	28.02%		
India - 10-Year Gilt	7.71	-	0.18	(0.26)	China (Shanghai SE Composite)	4070	-2.35%	13.01%	27.16%		
Indonesia - FR26	10.13	-	0.32	0.19	Hong Kong Hang Seng	23423	1.82%	3.44%	17.46%		
Malaysia - MGS 1/05	3.57	-	0.06	(0.01)	India NIFTY	4898	0.66%	0.84%	23.02%		
	6.59	(0.05)	0.39	-	Indonesia Jakarta	2556	1.28%	-1.30%	29.69%		
Philippines - 5-Year T Bond					Korea KOSPI	1659	1.05%	1.09%	13.43%		
Singapore - 10-Year SGS	2.09	-	(0.19)	(0.91)							
South Korea - 5-Year Treasury	5.21	(0.01)	0.02	0.34	Malaysia Kuala Lumpur	1233	2.11%	14.18%	2.64%		
Taiwan - 10-Year Government Bond	2.42	-	0.05	0.46	Philippines Composite	2953	1.50%	-7.66%	-7.74%		
Thailand - 10 Year Government Bond	4.44	-	0.50	(0.03)	Singapore Straits Times	2928	2.29%	2.04%	-5.39%		
Vietnam - 5-Year Government Bond	8.62	0.00	0.00	1.35	Taiwan Taixex	8435	0.64%	9.03%	8.91%		
					Thailand SET	828	1.04%	2.93%	18.50%		
					Vietnam Ho Chi Minh	644	0.81%	33.50%	79.88%		
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	2.88	-	(0.13)	(2.44)	China	83	0	23	72	34	40
6 month LIBOR	2.74	-	(0.22)	(2.59)	India	245	0	18	192	-	-
10 Yr UST	3.59	(0.01)	(0.03)	(0.91)	Indonesia	260	0	17	138	122	158
10 Yr Bund	3.799	0.01	(0.06)	(0.11)	Korea	108	0	22	90	34	42
	3100	1.26%	-1.03%	-	Malaysia	111	0	31	93	47	58
Eurostoxx				16.45%	Philippines	258	0	22	134	103	147
10 Yr JGB	1.345	-	(0.08)	(0.27)	Thailand	131	0	32	87	52	71
10 Yr Swap	4.34	(0.00)	0.05	(0.69)							
HY BB Index	458	0.00%	-0.38%	0.21%	Volatility						
HY B Index	479	0.00%	-1.38%	-4.24%	Last ATMf		1 Day	1 Mo	1 Yr		
VIX	26.36	-	(1.24)	8.23	China	1M Vol	3.90	0.05	0.70	2.65	
DJIA	12157	0.00%	-0.68%	0.67%	Hong Kong	3M Vol	4.10	0.00	0.80	2.65	
SPX	1321	0.00%	-1.40%	-4.34%		1M Vol	0.90	0.03	-0.26	0.20	
	1255	1.59%	-2.55%	-	India	3M Vol	0.90	-0.03	0.05	0.13	
TPX				37.47%		1M Vol	7.25	-0.25	2.55	3.45	
NASDAQ	1741	0.00%	-2.99%	1.06%		3M Vol	7.25	-0.25	2.05	3.15	
Oil, WTI	108	-0.32%	13.66%	46.56%	Korea	1M Vol	9.25	0.00	3.50	5.20	
Copper Index	376.05	-0.90%	5.37%	24.89%		3M Vol	7.50	-0.20	2.15	3.40	
	103	-0.21%	-3.65%	-	Singapore	1M Vol	5.53	-0.23	0.43	2.53	
JPY/USD				12.66%		3M Vol	5.63	-0.28	0.43	2.43	
USD/EUR	1.5368	0.20%	5.53%	14.13%	Taiwan	1M Vol	8.10	-0.10	3.40	4.93	
ECB Marginal Lending	5.00	-	-	0.25		3M Vol	6.90	-0.20	2.20	3.53	
BOJ	0.50	0.00	(0.50)	(1.04)	Thailand	1M Vol	6.00	0.00	-8.07	-9.00	
Palm Oil Future	3,806	-0.84%	10.40%	-		3M Vol	6.50	0.00	-5.51	-5.00	
Gold	970	-0.33%	4.80%	33.64%							
DRAM Benchmark Value Weighted Index	2,810	0.03%	-2.22%	29.67%							

Source: Bloomberg (as of 3/12/2008 8:13 PM).

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## Disclosure Appendix

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