ECONOMIC &
MARKET ANALYSIS:
ASIA PACIFIC

Asia-Pacific Economics/Strategy

24 September 2007

Yiping Huang
+852-2501-2735
yiping.huang@citi.com
Hong Kong

Hak Bin Chua
Asian Equity Economist

Asia Economics Team

Beijing
Minggao Shen

Hong Kong
Yiping Huang
Joe Lo
Adrienne Lui
Michael Luk
Patricia Pong

Singapore
Hak Bin Chua
Leon Hiew

Mumbai
Rohini Malkani
Anushka Shah

Jakarta
Anton Gunawan

Seoul
Suktae Oh

Manila
Jun Trinidad

Taipei
Renee Chen
Cheng Mount Cheng

Asia Economic Outlook and Strategy

Can China Hold Up the World?

- **Strong fundamentals appear to be insulating emerging Asia markets from recent financial turmoil, at least so far**
- **Even in the unlikely scenario of a US recession, China should be able to maintain 8-9% growth and might become an investment safe haven**
- **But China probably is not large enough to support the world, and Taiwan and Thailand would grow the slowest due to limited policy flexibility**
- **China's domestic demand should be the key to carry growth, while China's demand-dominated commodities could perform better**
- **For now, we remain cautious on Asian currencies and expect Asian yield curves to steepen following the Fed's cut**

Asia Pacific

Citigroup Global Markets

Citi Key Economic Forecasts

Figure 1. GDP Forecasts (Growth Rate in Percent)

	2006 GDP	2007 GDP Forecasts			2008 GDP Forecasts		
		Current	Previous	Consensus	Current	Previous	Consensus
Asia-Pacific	8.5	8.5	8.5	8.4	8.5	8.5	8.1
Asian NIEs	5.5	5.1	5.1	5.0	5.2	5.3	5.2
SEA-4	5.4	5.7	5.6	5.6	6.0	6.0	5.8
Bangladesh*	6.0	6.1	6.1	6.0	6.1	6.1	6.0
China	11.1	11.2	11.2	11.3	11.0	11.0	10.6
Hong Kong	6.9	6.0	6.0	5.8	5.5	5.8	5.1
India**	9.4	9.3	9.3	8.5	9.4	9.4	8.3
Indonesia	5.5	6.0	6.0	6.2	6.5	6.5	6.2
Malaysia	5.9	5.7	5.7	5.7	6.0	6.0	6.0
Philippines	5.4	7.1	6.3	6.3	6.8	6.4	5.9
Singapore	7.9	7.2	7.2	7.3	6.2	6.2	6.5
South Korea	5.0	4.8	4.8	4.8	5.2	5.2	5.1
Sri Lanka	7.4	6.3	6.3	6.0	6.6	6.6	6.0
Taiwan	4.7	4.5	4.5	4.4	4.6	5.0	4.8
Thailand	5.0	4.5	4.7	4.2	4.8	5.0	4.9
Vietnam	8.2	8.0	8.0	8.1	8.0	8.0	8.2

Figure 2. CPI Forecasts (Growth Rate in Percent)

	2006 CPI	2007 CPI Forecasts			2008 CPI Forecasts		
		Current	Previous	Consensus	Current	Previous	Consensus
Asia-Pacific	3.1	4.0	4.0	3.8	4.0	4.0	3.7
Asian NIEs	1.7	2.0	2.0	2.0	2.5	2.5	2.4
SEA-4	8.2	4.1	4.1	4.0	4.1	4.2	4.2
Bangladesh*	7.2	7.5	6.5	7.6	6.5	6.5	6.9
China	1.5	3.5	3.5	4.0	4.5	4.5	3.6
Hong Kong	2.0	1.8	1.8	1.9	3.6	3.6	3.1
India**	5.3	4.5	4.5	5.7	4.5	4.5	5.4
Indonesia	13.1	6.3	6.3	6.4	6.3	6.3	6.0
Malaysia	3.6	2.0	1.8	2.1	2.5	2.2	2.4
Philippines	6.3	2.8	3.0	3.0	3.8	3.8	3.9
Singapore	1.0	1.5	1.5	1.4	2.5	2.5	1.6
South Korea	2.2	2.4	2.4	2.4	2.6	2.6	2.7
Sri Lanka	9.6	16.0	10.0	13.3	10.0	8.0	8.7
Taiwan	0.6	1.4	1.4	1.2	1.7	1.7	1.7
Thailand	4.7	2.7	2.7	2.2	1.9	2.6	2.4
Vietnam	7.5	7.4	7.4	7.4	7.2	6.6	6.6

Figure 3. Current Account Forecasts (Percent of GDP)

	2006 CAB	2007 CAB Forecasts			2008 CAB Forecasts		
		Current	Previous	Consensus	Current	Previous	Consensus
Asia-Pacific	5.9	6.0	6.0	6.7	5.6	5.6	6.5
Asian NIEs	5.6	4.7	4.7	6.6	4.2	4.2	6.3
SEA-4	5.2	6.6	6.6	5.5	3.5	3.6	4.8
Bangladesh*	1.4	1.3	1.3	0.5	1.2	1.3	0.3
China	9.0	10.1	10.1	10.7	9.7	9.7	10.4
Hong Kong	10.8	9.9	9.9	9.9	7.0	7.1	9.9
India**	-1.0	-1.3	-1.3	-1.6	-1.4	-1.4	-1.5
Indonesia	2.6	1.8	1.8	2.5	0.9	0.9	2.2
Malaysia	17.1	12.4	12.4	15.6	11.1	11.1	14.6
Philippines	4.3	6.0	6.0	4.4	5.3	5.7	3.4
Singapore	27.5	19.2	19.2	28.7	17.2	17.2	27.3
South Korea	0.7	0.7	0.7	0.3	0.9	0.9	0.2
Sri Lanka	-4.9	-4.0	-4.0	-3.9	-3.1	-3.1	-3.4
Taiwan	6.9	6.5	6.5	6.4	5.8	5.8	6.1
Thailand	1.6	1.7	1.7	4.9	0.3	0.3	3.6
Vietnam	0.5	-2.7	-2.7	-1.7	-1.9	-1.9	-2.0

Note: Asian NIEs are Hong Kong, Korea, Singapore, and Taiwan. SEA-4 includes Indonesia, Malaysia, the Philippines and Thailand. Asia-Pacific is Asian NIEs + SEA-4 + China + India, GDP-weighted.

*Bangladesh Fiscal year runs for July-June. **India Fiscal year runs from April-March and inflation data are Wholesale Price Index forecasts

Source: CEIC Data Company Limited, Consensus Economics and Citi estimates.

Investment Summary

Our base case is for slower growth, but not a recession, in the US and other industrial economies and another 25bp rate cut by the Fed before year-end. Under such a scenario, Asian growth could soften slightly and currencies should weaken somewhat. Asian short rates are likely to fall while Asian yield curves will probably steepen following the Fed's cuts.

Overview: Financial Stress and the Global Outlook

Recent financial turmoil has changed the outlook for parts of the global economy. The ongoing housing contraction is a threat to the U.S. economy, but preemptive Fed easing should limit downside risks. Dislocations in short-term money markets threaten mortgage financing and the economy in the United Kingdom. Strong fundamentals appear to be insulating emerging markets, at least so far. The unsettled state of short-term money markets remains a threat to a sustained recovery in asset markets.

Can China hold up the world in case there is a US recession?

A potential US recession could slow Chinese growth, but likely expansionary policies should support its GDP growth at 8-9%. China might turn into a safe haven for international investment. But it is probably not yet large enough to support global growth. A combination of US recession, stimulation of Chinese growth and domestic policy flexibility could lower Asia's growth by 1-2ppts. Taiwan and Thailand would probably suffer the sharpest slowdown due to their limited scope for engaging in expansionary policies. Markets for investment-related commodities, especially those dominated by Chinese demand such as steel, zinc, nickel, copper and aluminium, should be more resilient, while oil and gold markets might weaken given China's small market shares.

Fed cuts: Cheap stocks outperform expensive ones

In periods of lower interest rates, cheap stocks outperformed expensive stocks, according to our regional equity strategist Markus Rosgen. The average P/BV during up markets post Fed cuts was 1.3 times. The two times when markets fell, the P/BV averaged 2.3 times. The P/BV currently is 2.6 times. During Fed cuts, banks and utilities have been outperformers, and both are currently underowned by investors. Ditto for Korea and Taiwan.

Contents

Macro Overview

- **Recent financial turmoil has changed the outlook for parts of the global economy. But strong fundamentals appear to be insulating emerging markets, at least so far**
- **A potential US recession could slow Chinese growth, but likely expansionary policies should maintain its GDP growth at 8-9%. China might also become a safe haven for global investment**
- **China is probably not large enough to support global growth. Asian economies could slow by 1-2ppts, while Taiwan and Thailand would suffer the sharpest slowdown due to limited policy flexibility**
- **Markets for investment-related, China demand-dominated commodities such as steel, copper and aluminium should be relatively resilient. But the tech market would sink further**

Overview: Financial Stress and the Global Outlook

Lewis Alexander
(1-212) 816-9882
lewis.alexander@citi.com

The United States and other industrial countries have experienced a broad financial market correction. The repricing of risk has adverse consequences for important parts of our global economic outlook. Unwinding the large imbalance in the U.S. housing sector will probably involve a combination of further declines in the pace of home building and lower home prices. In addition, tighter credit conditions should be an independent drag on consumption and investment. The aggressive monetary easing already implemented by Federal Reserve should limit the negative impact on recent financial developments on the U.S. economy.

The nature of the financial stresses that have emerged in recent weeks, however, imply significant uncertainty for the outlook. On one hand, the strong financial market reaction to the Federal Reserve's actions this week, coming after tentative signs of stabilization in many markets since mid August, may suggest that the worst is behind us.

But considerable challenges remain. Short-term money markets have remained disrupted for an extended period of time and significant uncertainty about the prospects for financial institutions persists. In the United Kingdom these pressures have forced the British authorities to offer back-stop support for a troubled bank and to extend ex-post implicit guarantees for deposits in solvent banks. If these stresses persist, in the United States, the U.K. and elsewhere, the potential for a broader and deeper correction in the markets for risky assets will increase, with the potential for significant negative impacts on the real economy.

A moderation in economic growth in the U.S., the U.K., and some other industrial countries should help to dampen global demand. But the direct impact of the recent financial turmoil outside of the industrial countries appears to have been modest. Commodity prices remain robust suggesting that global demand remains quite healthy. Indeed, the lack of significant spillover to emerging markets is another indication of the fundamental progress many of those countries have made.

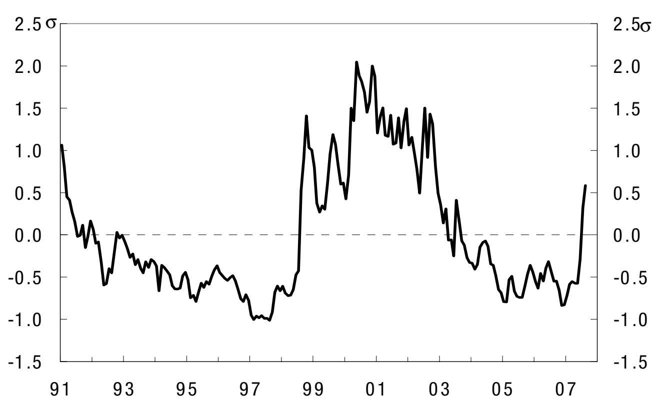
Financial Turmoil

In recent years, a combination of low macro volatility, improving corporate profitability and balance sheets, and financial innovation helped to push down risk premia. Inevitably this led to excesses in some parts of the financial system. Credit standards for mortgage origination in the United States deteriorated sharply. Rapid growth of structured credit products in the last few years effectively co-mingled mortgage and corporate risk in complex ways. Many investors exploited ample liquidity to effectively leverage positions in highly-rated credit products under the expectation that volatility would remain low.

In this environment, the ongoing correction in the U.S. housing sector has generated significant disruptions across a range of financial markets. The unexpectedly rapid deterioration of the performance of alternative mortgage products has led to a sharp repricing of structured credit products that include such instruments. The commingling of mortgage and other forms of credit has risk has put pressure on the latter and a broad range of credit products have sold-off in recent weeks (See figure 4).

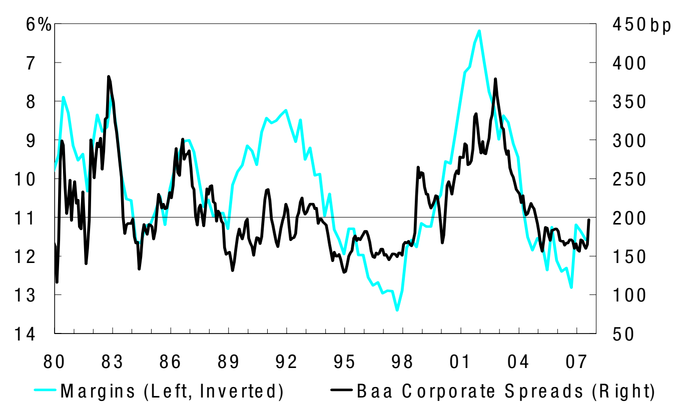
The recent widening of credit spreads is likely to be protracted. First, the disruptions to the market for structured credit products are not likely to be reversed quickly. Second, the recent sell-off in corporate credit has come in a context of moderating corporate profit growth and releveraging of corporate balance sheets. Profit margins appear to have peaked (See figure 5). The financial condition of corporate borrowers remains, in general, very strong. Looking ahead, however, corporate fundamentals appear more likely to deteriorate than improve and the recent reversal of spreads credit must be seen in this light.

Figure 4. Global — Average of Normalized Spreads for Domestic Credit Products (Standard Deviations) 1991-Aug 2007



Note: Average of spreads for Agencies, Asset-Backed Securities, Conventional Mortgage Back-Securities, High-Yield Corporates, Interest Rate Swaps, Investment Grade Corporates, and On/Off the Run Spreads.
Source: Citi.

Figure 5. United States — Corporate Profit Margins (Percent) and Baa Corporate Spreads (Basis Points) 1980-Aug 07



Source: Moodys, BEA.

Moreover, the sell-off in credit products has generated a material disruption to the financial intermediation process itself. Sharp increases in the demands on banks' balance sheets, ranging from substantial amounts of illiquid LBO-related assets to the need to support a variety of structures fund through the commercial paper market, constrained banks' willingness or capacity to supply short-term funding to the financial system. In addition, uncertainty about counterparty risk surged, particularly after the large exposures of German banks to off-balance sheet asset-backed commercial paper programs were revealed. As a result, short-term money markets have been under significant stress in spite of large liquidity injections by some major central banks. Moreover, market participant's perception of the credit risk for major financial institutions increased sharply.

The Federal Reserve's aggressive easing this week, as well as the ECB's decision to provide liquidity at somewhat longer maturities and some signs of more accommodation in its short-term money market operations by the Bank of England, appear to have improved the functioning of short-term money markets, at least to some degree. Pressures in financial markets may linger, however, until the full scope of the fallout from the recent turmoil becomes clear. The ongoing contraction of the commercial paper market could add further pressure to bank balance sheets. Poor hedge fund performance could prompt redemptions and asset sales. Third-quarter earnings reports from major financial institutions will likely be viewed as gauges of the damage to the financial system. Until these hurdles are behind us, the risk of a more substantial sell-off in financial markets cannot be ruled out.

Can China Hold Up the World?

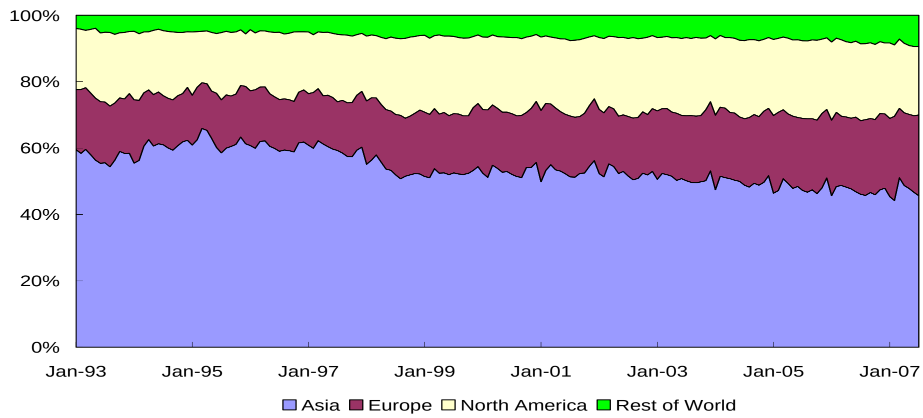
Yiping Huang
852-2501-2735
yiping.huang@citi.com

Could China survive an unfortunate event of a recession in the US? And, more critically, would China be able to hold up the global economy? These are probably the questions that many investors are debating these days.

Incoming data point to increasing downside risks for the US economy, especially in the housing sector and the job market. However, aggressive Fed rate cuts, which began on September 18, should help support investor confidence. We think a recession in the US is still highly unlikely. But if growth of the US and other industrial economies softens, the performance of the Chinese economy could become a pillar for global investment.

What if there is a recession in the US? One direct channel of transmission to Asia would be through trade links. Exports already account for 36% of China's GDP, while the US market makes up 22% of China's total exports (see figure 6). Rapidly growing markets in Europe, Latin America and Africa may provide some cushion in case the US falls to a recession. But expansion of these other markets has so far been occurring mainly at the expense of Asian markets.

Figure 6. Changing Composition of China's Export Destinations by Region, January 1993 – July 2007 (%)



Source: CEIC Data Company and Citi.

Slowing export growth in China would generate second-round effects on consumption and investment. According to an earlier exercise applying the Oxford Economic Forecasting Model (OEF), a slowdown of US GDP growth by 0.8ppt could cut Chinese growth by 1.1ppt. These imply an elasticity of 1.4.[1] In a recession scenario, US growth could fall by 3ppts from our 2008 forecast of 2.5%. This would directly drag down Chinese growth from the expected 11% to 6.9%.

This OEF model, however, probably ignores two important mechanisms. One, the model does not automatically take into account likely policy responses by the Chinese government. During the East Asian financial crisis, China maintained 7.8% growth through expansionary policies. The authorities would probably act again to prevent significant slowing of the economy given their strong belief of 8% minimum growth.

Two, the model does not effectively capture changes in capital flows. In a world with rising risks and slowing growth, capital is likely to leave emerging market economies. But China could be an exception this time around, as many investors have begun to view China as a safe haven. Plus, while world interest rates start to fall, Chinese interest rates are probably still on an uptrend. This could mean increased capital flows to China in the event of a US recession.

On balance, the Chinese economy would slow, but expansionary policies and capital inflows could support its GDP growth at 8-9%. In this hypothetical scenario, the trade and current account surpluses would narrow sharply; profit margins might collapse; growth would become even more dependent on investment activities; and inflationary pressure could ease.

In the case of a US recession, the US dollar would probably collapse, and the Chinese renminbi might appreciate against the dollar. But the People's Bank of China would most likely remain conservative, at least for the effective exchange rate.

What does this mean for Asia? In general, slowing growth in the US could hurt Asia while growth stimulation in China might help Asia. In the figure below, which summarizes our calculation of the net impact:

---

[1] See "Asia Macro Views: How Would a Fed Cut Affect Asia?", September 14, 2007, Hong Kong.

- "Citi 2008 GDP Forecasts" are the base case forecasts made in August 2007
- "US Growth Elasticity" and "China Growth Elasticity" are estimated applying the OEF model
- "Impact of US Recession" are results by multiplying the "US Growth Elasticity" by a 3ppt drop in US growth
- "Impact of China Stimulation" are the results from multiplying the "China Growth Elasticity" by a 1.6ppt increase in Chinese growth due to a stimulation policy
- "Net of US, China Impacts" are growth estimates from subtracting the "Impact of US Recession" and "Impact of China Stimulation" from the "Citi 2008 Forecast"
- And the "Assessment of Policy Flexibility" are Citi's scores indicating individual economies' ability to adopt expansionary policies. The more the stars, the greater the policy flexibility

Figure 7. Gauging the Net Growth Impact of a US Recession and Chinese Stimulation (%)

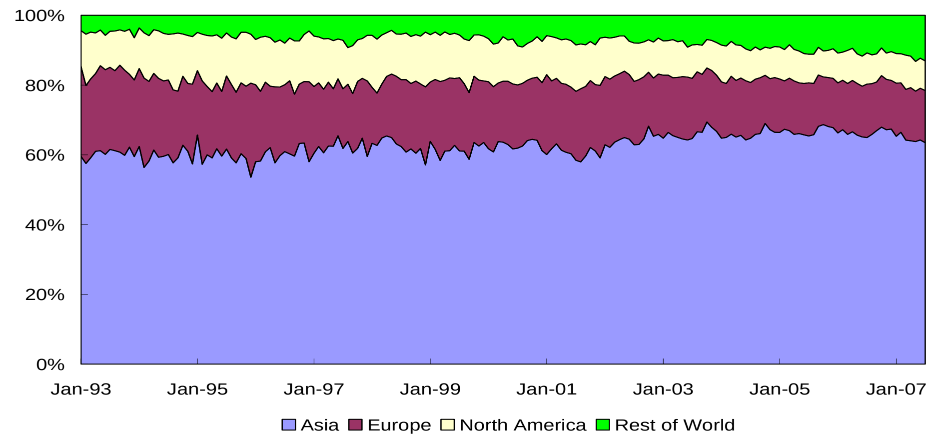
	Citi 2008 Forecasts	*US Growth Elasticity*	Impact of US Recession	*China Growth Elasticity*	Impact of China Stimulation	**Net of US, China Impacts**	Assessment of Policy Flexibility
China	**11.0**	*1.4*	-4.1	*1.0*	1.6	**8.5**	****
Hong Kong	**5.8**	*1.1*	-3.4	*1.2*	2.0	**4.4**	****
India	**9.4**	*0.5*	-1.5	*0.1*	0.2	**8.1**	*
Indonesia	**6.5**	*1.1*	-3.4	*0.5*	0.8	**3.9**	**
Korea	**5.2**	*1.0*	-3.0	*0.3*	0.5	**2.7**	***
Malaysia	**6.0**	*0.5*	-1.5	*0.6*	1.0	**5.5**	***
Philippines	**6.4**	*1.0*	-3.0	*0.3*	0.5	**3.9**	**
Singapore	**6.2**	*1.8*	-5.3	*0.3*	0.5	**1.4**	****
Taiwan	**5.0**	*1.0*	-3.0	*0.3*	0.5	**2.5**	*
Thailand	**5.0**	*1.1*	-3.4	*0.7*	1.1	**2.8**	**

Source: Oxford Economic Forecasting Model and Citi.

"Net of US, China Impacts," however, still does not take into account possible policy responses by individual Asian economies. In this regard, we think Hong Kong, Singapore, Malaysia and Korea have more room to stimulate growth. India, Taiwan, Indonesia, the Philippines, Taiwan and Thailand have much less policy flexibility, but Indonesia, the Philippines and Thailand could cut interest rates more aggressively. As a result, Taiwan and Thailand might suffer the sharpest slowdowns.

In general, Asian investment strategies should probably focus more on domestic demand, as exports would suffer more. Relatively resilient Chinese growth might benefit Asian exports to a certain extent. After all, Asia still accounts for almost 60% of China's total imports. The market shares of Africa, Latin America and Oceania are also growing rapidly (see figure 8).

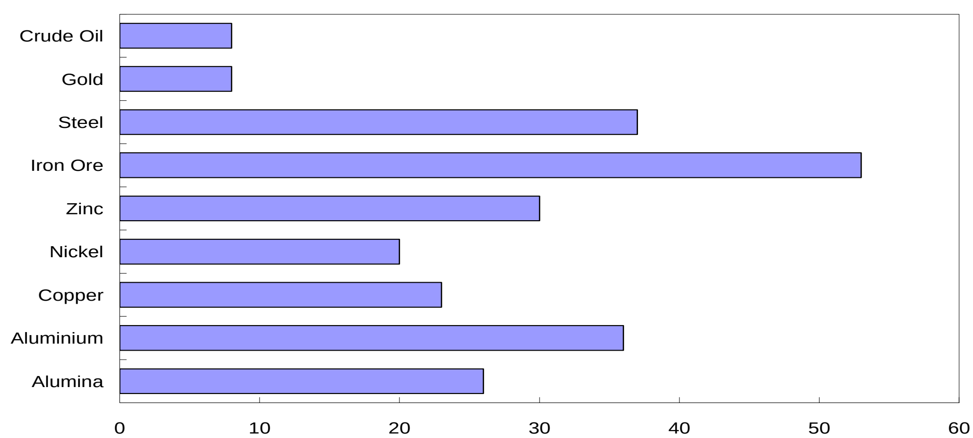
Figure 8. Changing Composition of China's Import Sources by Region, January 1993 – July 2007 (%)



Source: CEIC Data Company and Citi.

A main body of Asian trade – electronics – might collapse as a result of a US recession. But more investment-dependent Chinese and Asian growth could provide some support for commodity markets. This should be particularly so for commodities heavily used in investment projects and dominated by Chinese demand. Obvious examples would include steel, nickel, zinc, copper and aluminum (see figure 9). Meanwhile, the oil and gold markets, where China accounts for only a very small proportion, will probably weaken significantly.

Figure 9. China's Share of Global Consumption by Commodity, 2006 (%)



Source: Citi Investment Research.

Strategy — Asian Currencies and Interest Rates

Figure 10. Currency Forecasts and Forwards

		Spot	3 Months		6 Months		12 Months						
	Range in Aug	20-Sep	Forecast	Forward	Forecast	Forward	Forecast	Forward	4Q07	1Q08	2Q08	3Q08	4Q08
Versus USD													
Japan YEN*	114.17 - 119.66	115.89	110.49	*114.67*	112.67	*113.62*	115.90	*111.68*	110.00	113.00	115.00	116.00	116.00
Euro EUR*	1.34 - 1.38	1.3974	1.4096	*1.3995*	1.4278	*1.4003*	1.4400	*1.4009*	1.4100	1.4300	1.4400	1.4400	1.4300
Bangladesh BDT	68.13 - 68.73	68.700	70.00	*NA*	71.05	*NA*	73.15	*NA*	70.00	71.05	72.10	73.15	74.20
China RMB	7.56 - 7.6	7.5100	7.3800	*7.4243*	7.2000	*7.3260*	7.0000	*7.1318*	7.2300	7.1300	7.0300	6.9421	6.7900
Hong Kong HK$	7.8 - 7.83	7.7830	7.7800	*7.7683*	7.7750	*7.7581*	7.7820	*7.7490*	7.7800	7.7750	7.7750	7.7820	7.7900
India INR	40.22 - 41.17	40.00	40.70	*40.23*	40.20	*40.41*	39.50	*40.84*	40.20	40.10	39.50	39.50	40.00
Indonesia IDR	9273 - 9475	9172	9225	*9216*	9250	*9279*	9350	*9392*	9225	9250	9300	9350	9375
Malaysia MYR	3.46 - 3.52	3.4450	3.4300	*3.4315*	3.3800	*3.4193*	3.3200	*3.4015*	3.4000	3.3500	3.3300	3.3100	3.2800
Philippines P	45.05 - 46.87	45.350	44.500	*45.320*	43.850	*45.465*	43.750	*45.660*	44.500	43.850	43.750	43.750	43.250
Singapore SGD	1.51 - 1.53	1.5059	1.4850	*1.4960*	1.4700	*1.4874*	1.4300	*1.4734*	1.4800	1.4700	1.4500	1.4300	1.4100
South Korea KRW	922.85 - 950.45	923.0	920.0	*921.2*	900.0	*917.6*	890.0	*915.6*	920.0	900.0	890.0	890.0	880.0
Taiwan TWD	32.87 - 33.13	33.081	32.950	*32.819*	32.600	*32.571*	31.800	*32.163*	32.830	32.470	32.070	31.800	31.700
Thailand THB	33.82 - 34.56	34.240	34.000	*34.110*	33.500	*34.001*	33.000	*33.865*	34.000	33.500	33.250	33.000	33.000
Vietnam VND	16145 - 16253	16208	16180	*16334*	16125	*16474*	16070	*16778*	16170	16115	16080	16070	16060

* Forecast as of Global Economic Outlook and Strategy (20 September 2007)

Source: Reuters and Citi estimates.

Figure 11. Interest Rate Forecasts (% period end)

		Range in Aug	20-Sep	In 3M	In 6M	In 12M	4Q07	1Q08	2Q08	3Q08	4Q08
US*	Fed Fund Rate	5.25 - 5.25	4.75	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50
	10-Year Treasuries	4.50 - 4.87	4.54	NA	NA	NA	4.60	4.65	4.75	4.80	4.85
EU*	Repo Rate	4 - 4	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00
	10-Year Bunds	4.22 - 4.42	4.28	NA	NA	NA	4.25	4.25	4.40	4.50	4.60
JP*	Call Money	0.01 - 0.58	0.53	0.50	0.75	1.00	0.50	0.75	0.75	1.00	1.00
	10-Year JGBs	1.56 - 1.80	1.61	NA	NA	NA	1.60	1.70	1.80	1.90	1.90
BG	3-Month T-Bills	7.62 - 7.62	7.62	7.60	7.50	7.50	7.60	7.50	7.50	7.50	7.50
	5-Year Government Bond	10.82 - 10.82	10.82	10.55	10.40	10.50	10.55	10.40	10.40	10.50	10.50
CN	1-year lending rate	6.84 - 7.02	7.29	7.56	7.83	7.83	7.56	7.83	7.83	8.10	8.10
	7-Day Shibor	1.93 - 2.64	6.48	3.10	3.40	3.65	3.10	3.40	3.60	3.65	4.00
	Government bond yield (5 -Year)	3.65 - 3.78	3.85	3.65	3.70	4.00	3.70	3.85	4.00	4.10	4.30
HK	3-Month Interbank Rate	4.37 - 4.87	4.52	3.93	3.85	3.90	3.93	3.85	3.88	3.90	3.95
	5-Year Exchange Fund Note	4.15 - 4.39	3.95	4.37	4.47	4.58	4.37	4.47	4.55	4.60	4.60
IN	Overnight Repo Rate	7.75 - 7.75	7.75	7.75	7.50	7.50	7.75	7.50	7.50	7.50	7.50
	Overnight Reverse Repo Rate	6 - 6	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
	91-Day T Bill	6.48 - 7.10	7.10	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50
	10-Year Gilt	7.83 - 8.02	7.87	8.00	7.50	7.50	8.00	7.50	7.50	7.50	7.50
ID	BI Rate**	8.25 - 8.25	8.25	7.75	7.00	7.00	7.75	7.00	7.00	7.00	7.00
	FR0028 10% 07/15/2017	9.19 - 10.2	9.44	8.75	8.75	9.50	8.75	8.75	9.35	9.50	9.25
MY	Overnight Policy Rate	3.5 - 3.5	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50
	3-Month Interbank Rate	3.6 - 3.61	3.61	3.60	3.60	3.60	3.60	3.60	3.60	3.60	3.60
	5-year MGS	3.46 - 3.76	3.56	3.70	3.75	3.90	3.75	3.83	3.90	3.90	3.90
PH	O/N Rate	7.50 - 7.50	6.00	5.50	5.50	5.75	5.50	5.50	5.50	5.75	5.75
	91-Day T Bill	4.18 - 4.66	4.13	4.75	4.50	4.00	4.50	4.25	4.00	4.25	4.50
	5-Year T Bond	6.94 - 7.25	6.54	6.50	6.00	6.25	6.50	6.00	6.00	6.25	6.50
SG	3-Month Interbank Rate	2.56 - 2.83	2.69	2.45	2.45	2.45	2.45	2.45	2.45	2.45	2.45
	10-Year SGS	2.79 - 2.95	2.92	3.05	3.10	3.20	3.05	3.15	3.20	3.20	3.20
KR	Overnight Rate	5 - 5	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
	91-Day CD	4.94 - 5.28	5.35	5.30	5.30	5.30	5.30	5.30	5.30	5.30	5.30
	5-Year Treasury	5.22 - 5.47	5.41	5.40	5.50	5.50	5.43	5.50	5.50	5.50	5.50
TW	Overnight Rate	2 - 2.01	2.01	2.09	2.09	2.12	2.09	2.10	2.11	2.12	2.13
	Re-discount Rate	3.13 - 3.13	3.13	3.13	3.13	3.25	3.13	3.13	3.25	3.25	3.38
	91-Day CP Rate	2.05 - 2.19	2.11	2.32	2.37	2.47	2.37	2.41	2.45	2.47	2.50
	10-Year Government Bond	2.26 - 2.58	2.48	2.40	2.50	2.75	2.40	2.50	2.63	2.75	2.80
TH	Overnight Repo Rate	3.2187 - 4.5	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
	3-Month Interbank Rate	3.54 - 4.42	3.54	3.50	3.75	4.00	3.50	3.75	4.00	4.00	4.00
	10-Year Government Bond	4.61 - 4.78	4.49	4.50	4.75	4.50	4.75	4.63	4.50	4.50	4.50
VN	3-Month Interbank Rate	6.48 - 6.95	8.23	7.90	7.50	7.75	7.90	7.50	7.50	7.75	7.75
	5-Year Treasury	7.54 - 7.9	8.09	8.00	7.75	7.75	8.00	7.75	7.75	7.75	8.00

Note: Quarterly forecasts are for period ends, expect China 7-day Shibor forecasts are quoted as period averages. * Forecast as of Global Economic Outlook and Strategy (20 September 2007)

**Our forecasts on Indonesia policy rate from Feb 08 onwards are based on overnight BI rate rather than the current 1-month BI rate, following the expected change by Bank Indonesia

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

Strategy — Asian Equities

Markus Rösgen
+852-2501-2752
markus.rosgen@citi.com
Hong Kong

Fed Cuts: Cheap Stocks Outperform Expensive Ones

Buying value is the most rewarding way to play rate cuts

Very simply during five of the last seven rate cuts since 1980, Asian markets moved higher and in two rate cut cycles the Asian markets moved lower. Based on this limited amount of information, the call would seem rather simple – five up, two down – buy the region.

Things become less simple when one adds "what you pay", i.e. valuations to the equation. Five times when the region rose post a Fed rate cut, the P/BV averaged 1.2 times. The two times the regional markets fell post a rate cut, the average P/BV stood at 2.3 times. The current P/BV is 2.6 times. We were asked why we used P/BV rather than P/E. Very simply, Fed rate cuts have historically occurred once growth had begun to slow, and as such, the earnings part of the market was much lower than prior to the cut. As such, the analysis would have suggested that the higher the P/E, the higher the returns, which clearly is not the case.

What continues to surprise is that the sectors that have historically benefited from lower Fed rates, banks and utilities, are also the least well-owned sectors in Asia ex.

When the Fed cuts, buy value not expensive stocks

Up markets 1995 and 1998

For the region as a whole, 12 months post the first rate cut we found that P/E gave the highest spread, 30% between the 50 cheapest and 50 most expensive stocks. Note worthy that in the case of P/E, P/BV and dividend yield the highest spreads are had nine months post the first Fed rate cut with dividend yield and P/BV doing best. The reason behind this is P/BV and yield have tended to be associated with the likes of the banks and utilities, which have been the two star outperforming sectors post interest rate cuts.

In the case of Hong Kong, dividend yield is a clear winner with high dividend yield stocks outperforming low dividend yielding stocks by 25.1% on a 12-month view. Given the interest sensitivity of the Hong Kong market, this should be no surprise. P/BV comes in second best. This can be explained by the combination of banks, property and utilities in the Hong Kong index.

Korea on the other hand has been more P/BV-driven post Fed rate cuts. The spread between low P/BV and high P/BV is some 57.5%, the highest spread among any of the markets. Beware as the series includes the 1998 period when the majority of the returns came from that one incident. The reason behind P/BV working must lie in the industrial nature of the market and the fact that especially in 1998 this was a highly leveraged entity.

Trust India to be different, value did not work in the 1995 and 1998 periods, but buying expensive stocks did with high P/BV outperforming low P/BV by 33.2%. Neither did buying low P/Es work nor dividend yields. We would be a little skeptical about suggesting to go out and buy high multiple stocks.

Singapore is P/BV driven during periods of Fed rate cuts. Again, the fact that much of the market is banks and real estate makes this understandable. The best spread returns comes in at 31.4% over a 12-month period. Peak returns are had after nine months at 41.8%. This number isn't much different from using the simple P/E at 41.5%.

For Taiwan, dividend yield has worked best with an 11.3% spread between high and low dividend stocks.

Down market 2001

Sadly, limitations on stocks level data allow us to look at only the 2001 period when markets were richly priced and markets headed lower. As the saying goes, one swallow does not make for a summer, so neither does just one data point.

For the region as a whole, low P/E outperformed high P/E by 55.4% followed by P/BV at 28.6%. In other words, highly valued stocks or those considered to have "growth characteristics" did not prove to be a safe haven.

For Hong Kong, P/E showed up best with 31% returns between cheap and expensive with dividend yield coming in second at 25.1% between high and low dividend yields.

In the case of Korea, P/BV remains the valuation ratio with the highest spread at 70.3% after 12 months. This is a clear case where low P/BV is the way to go. Low P/E is the second best strategy.

For India, the best spread is to buy high dividend yield and sell low yield stocks. The spread using this strategy stood at 32%. The nine-month return was slightly higher at 33.3%.

The Taiwanese market showed the strangest returns profile. Low P/E stocks did well relative to expensive P/E stocks, but the best returns would have come from buying high P/BV stocks and shorting low P/BV stocks.

Figure 12. Model Portfolio (Asia/Pacific ex-Japan ex-Pakistan) Percentage Weighting Over/Under MSCI Benchmark

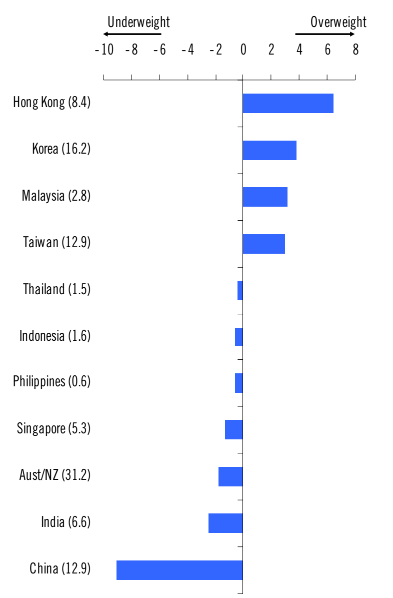


Figure 13. Model Portfolio (Asia/Pacific ex-Japan ex-Pakistan) Percentage Weighting Over/Under MSCI Benchmark

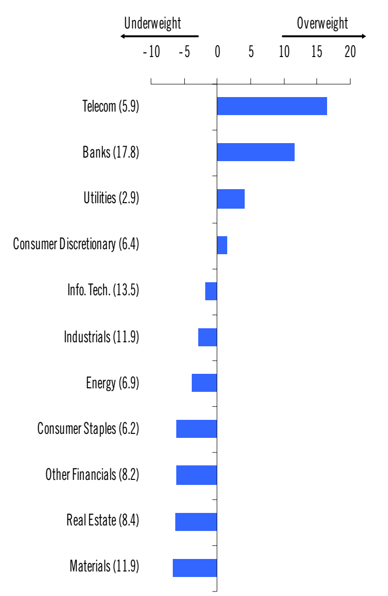
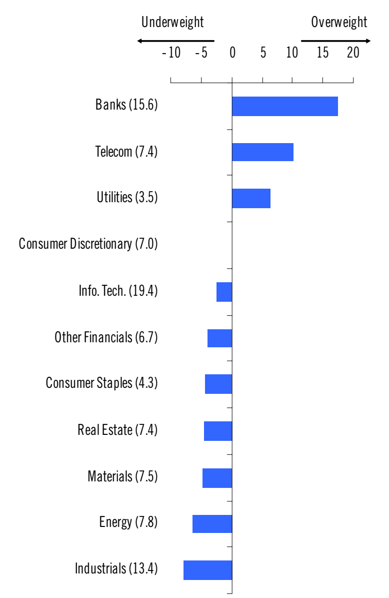


Figure 14. Model Portfolio (Asia ex-Japan ex-Pakistan) Percentage Weighting Over/Under MSCI Benchmark



Note: Numbers in brackets show neutral weights within MSCI Asia Free ex-Japan US$ Index as at Jul 2, 2007.
Consumer Staples includes food & staples retailing, food beverage & tobacco, household products, health care equipment & services, and pharmaceutical & biotechnology. Industrials include capital goods, commercial services & supplies and transportation. Information Technology includes technology hardware & equipment, semiconductors and semiconductor equipment, software & services. Other Financials include diversified financials and insurance.
Source: MSCI, Citi Investment Research Estimates.

Investor Checklist & Asian Chart Summary

Asia Investor Checklist

Key Underlying Assumptions Behind Our Forecasts	Confidence	Citi Comments
Global		
Global inflationary pressure should be contained with moderate monetary policy tightening around the world	–	The Fed cut rates by 50bps and may cut by another 25bps before year-end, while ECB and BoJ are likely to keep rates unchanged this year
A solid economic outlook in emerging markets means that market returns will be driven by convergence and by the quality of policymaking	–	Strong fundamentals appear to be insulating emerging markets, at least so far
The USD should continue to drift lower in trade-weighted terms, driven by declines against emerging Asian currencies	–	The unsettled state of short-term money markets remains a threat to a sustained recovery in asset markets
Regional		
The evolution of the "Asian consensus" implies that Asian currencies as a group could show greater flexibility. Asian central banks may increasingly recycle surpluses within the region	–	While Asian markets are still shadowed by global turmoil, Asian asset prices, especially stocks and currencies, generally recovered from recent dents
Return of investment to emerging Asia outside of China and India will support growth, but help regional surpluses	–	Investment is improving only gradually, but that process may strengthen going forward, especially in Southeast Asia and Korea
Asian financial markets are becoming more politics-proof and increasingly correlated with each other	•	The upcoming political changes in Korea, Taiwan and Thailand may turn out to be positive for their economies
Bangladesh		
Textile exports and workers' remittances should drive growth	•	Exports and remittances remain in positive territory
Natural disasters will remain a risk	•	Recent floods will likely impact growth and lead to mounting price pressure
A shifting political situation is likely to hinder growth	–	Elections are scheduled for 2008. The interim government has been trying to remove corruption and revamp the electoral system
China		
Economic policies will likely focus on rebalancing between investment and consumption and between domestic and external demand	–	Despite continuous policy efforts, structural distortions deteriorated on faster growth of GDP, investment, trade surplus and CPI
The central bank will probably continue to tighten liquidity, liberalize the capital account and allow greater exchange rate flexibility	–	While the central bank continues its tightening efforts domestically, capital account control eased but currency appreciation remained very slow early this year and in August
The financial market landscape will probably change rapidly, with increasing competition from foreign banks and foreign institutions, in the post-WTO era	–	Financial reforms and liberalization continue. But rapidly growing equity prices pose increasingly greater risks to the markets and economy
Hong Kong		
Interest rates are in a downcycle	+	HK banks have partially followed the recent US Fed's rate cut. We expect more rate cuts if HIBORs decline further and/or the Fed cuts rate again. Lower interest rates would boost domestic demand and the housing market
The financial sector continues to gain strongly from fund-raising by Chinese firms and China's overseas investment	+	China began a trial program to allow individual investors to invest directly in Hong Kong's stock market. Outflows of Chinese funds to Hong Kong through the QDII program are also gathering momentum.
RMB appreciation boosts Hong Kong's economy and the financial market, while the impact on inflation is likely to remain moderate	•	Inflation remains moderate despite faster RMB appreciation
India		
Strong trends in industry and services are likely to sustain growth. Other growth drivers (investment, consumption and outsourcing) remain on track	•	Strong savings and investment support our GDP forecast. While policy tightening starts to reflect on industrial growth, we maintain our 9.3% GDP estimate on better agricultural output and a benign monetary policy outlook.
Solid consumption is supported by favorable demographics and the trickle-down impact; positive trends in outsourcing are likely to continue	•	There is strong potential for food processing, bio-fuels, microfinance and knowledge process outsourcing
India has the potential to further lift its trend growth level from 8% to more than 10%	•	Long-term hurdles include infrastructure development and a talent shortage; short-term risks include a worsening global outlook and politics
Indonesia		
Macroeconomic stability continues, and the government should keep subsidies intact in 2007	•	The global financial turmoil is weighing on the IDR despite relatively stable inflation and a still healthy current account. BI's FX intervention halted a rise in official FX reserves
Infrastructure investment slowly kicks in with the government sharing non-commercial risks. Domestic demand to return as interest rates decline	+	Implementation is key for recent policies to improve the investment climate. A proposal to restrict foreign ownership in key sectors undermined the new investment law. The new risk-sharing policy is proceeding slowly. Contingent liabilities are rising in the monorail and electricity power sectors
Efforts are being made to revitalize the agricultural sector and provide more jobs	–	Government efforts to boost agricultural productivity are too little. Progress to improve labor flexibility has been slow. Don't expect labor law amendments
Korea		
Domestic demand is weakened slightly by rising interest rates and a weak housing market	•	Indicators were mixed in July. Consumption and construction activities rebounded from recent sluggishness while facility investment was weak
Exports are boosted by continued global expansion, high-tech recovery, shipbuilding boom and strong demand from oil exporting countries	•	Strength in exports based on both tech and non-tech heavy industries continued in August
BOK extends its tightening stance throughout 2H07 based on a favorable growth outlook and continued liquidity concerns	•	BOK emphasized a balanced stance at its September MPC meeting, supporting our view that there would be no changes in policy rates at least until year-end

Note: Movement in Confidence Level reflects present assessment versus last month.
Source: Citi estimates.

Asia Investor Checklist (continued)

Key Underlying Assumptions Behind Our Forecasts	Confidence	Citi Comments
Malaysia		
Full-year GDP growth will likely fall short of the government target of 6% given a manufacturing and export slump. We now forecast 5.7%	●	Achieving the official forecast for GDP growth of 6% will require a stronger electronic and export recovery in 2H07
An investment revival is looking more like a 2008, rather than a 2007, story	–	The 2008 budget reins in public investment sharply. This is a major shift from what was a government-led effort to one that completely counts on the private sector to revive investment
The policy interest rate will likely remain on hold at 3.5% for the rest of the year	●	CPI inflation has probably bottomed out and may start climbing from the current levels. Fed rate cuts might provide small room for policy rate cuts, particularly if the US subprime crisis worsens
Philippines		
Potential for a 25bp-50bp rate cut in 4Q07	+	A high real interest rate setting, public sector finance trending toward a surplus and Fed rate easing argue for policy rate adjustments
Increased fiscal spending in the post-election period	●	A bias for increased fiscal spending underscores improved growth prospects in the near term. Persistent revenue shortfalls, absorptive capacity and privatization delays in 2H07 are risks to fiscal outlook
Benign political risk premia	+	The anti-graft court convicted former President Estrada of 'plunder' and sentenced him to life imprisonment. This event risk was shrugged off by the financial markets.
Singapore		
We upgraded our GDP growth forecast for 2007 to 7.2% given a sharp rebound in manufacturing growth and a surge in construction activity. We also raised our GDP growth forecast for 2008 to 6.2%	●	Prospects have so far not been materially affected by the subprime crisis and slower US growth. The financial sector is seeing slower M&A deals and public offerings, while property transactions have quietened somewhat. But otherwise, overall growth remains largely intact
We raised our 2008 inflation forecast to 2.5%	+	Inflation pressure is increasing, given rising residential rent, transport costs and tighter labor market. Inflation in July came in at 2.6%, a 12-year high
Prime Minister Lee announced sweeping policy changes, particularly to CPF and HDB, to address an ageing population and widening income gap	●	Policies will reinforce the HDB-centered social support system. Changes in CPF might limit or crowd out private-sector participation
Sri Lanka		
Despite the ongoing civil conflict, volatile political conditions and a devastating tsunami in 2004, growth is likely to stay resilient at around 6%	●	We expect growth to decelerate to 6.3% in 2007 due to tightening in 2006. We expect a marginal deceleration in investments and services led by tourism
Inflation has been a worry since the tsunami disaster, which set back agriculture and created supply shortages	●	Given that oil prices and politics also remain a threat, we expect inflation to trend closer to 16% levels vs. our earlier estimate of 13% in 2007
Weak governance and a deteriorating political situation are threats to growth	●	An unstable government has stalled reforms and hindered growth
Taiwan		
A referendum for a UN bid increases tension across the Taiwan Strait as well as between Taipei and Washington	–	The referendum will likely take place during the next presidential election on March 22. Despite likely strong reaction from the Chinese government, we think it will not change the status quo and limited economic impact
Consumer and investment spending could recover moderately	●	Stable labor markets and a resurging equity performance would support consumption. Corporate capital retrenchment could end on a sustained export and output expansion
With the Fed lowering interest rates, the CBC likely will follow suit until market jitters settle down	+	With the Fed lowering interest rates, the CBC likely will follow suit until market jitters settle down.
Thailand		
Waning political risk premia after the 58% approval rating of the plebiscite on the draft constitution	+	The plebiscite results bode well for elections late in the year that can pave the way for a return to political democracy in 1Q08. Thaksin's former political party remains a solid force to contend with
Potential for a 25bp-50bp rate cut in 4Q07	+	US Fed rate easing hikes the potential for rate cut to protect flickering domestic demand recovery from a collapse in export growth in 2H07. Pass-through of a strong baht and lackluster demand accorded easing flexibility
Fiscal deficit of 2% of GDP	–	The government's hefty cash deficits reflect a policy shift to increased fiscal spending. Lacking a stronger infrastructure component, the fiscal policy bias may not be as effective, but still complements policy rate easing
Vietnam		
The State Bank of Vietnam (SBV) will likely retain a tightening bias in monetary policy to rein in inflation	●	The SBV has stepped up open market operations to withdraw VND liquidity while maintaining lending rates and keeping the VND exchange rate stable
Authorities would make efforts to accelerate banking and state-owned enterprise (SOE) reforms to cope with market liberalization	●	A decree is being drafted to streamline the SOE asset sale process and offer more investment options for foreign investors to facilitate the restructuring of SOEs. But a possible delay in 2H07 IPO plans may slow the equitization
The VND will likely maintain its past path of modest depreciation against the USD in 2007	●	The scope for VND appreciation is limited by dimmer prospects for portfolio capital inflows amid the global financial market turmoil; strong corporate and importer USD demand; and fewer IPOs of large SOEs

Note: Movement in Confidence Level reflects present assessment versus last month.
Source: Citi estimates.

Asia Chart Summary

Figure 15. Asian economies expected to bottom out in 2007

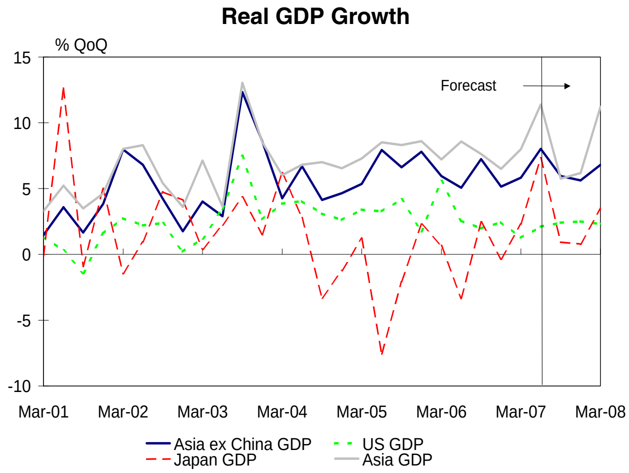
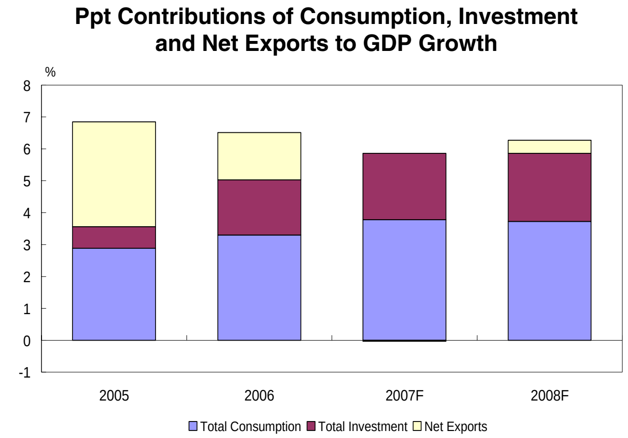


Figure 16. Asia (ex-China) seeing a falling contribution from external demand and stronger contribution from domestic demand



Note: Asia - Hong Kong, India, Indonesia, Malaysia, Korea, Philippines, Singapore, Taiwan and Thailand.

Figure 17. The worst of the manufacturing slowdown in Asia might be behind us

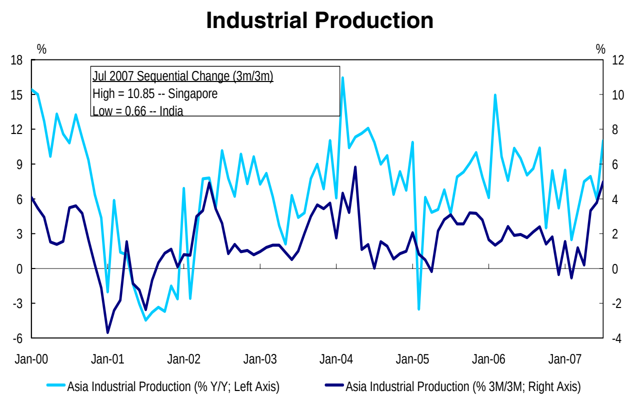
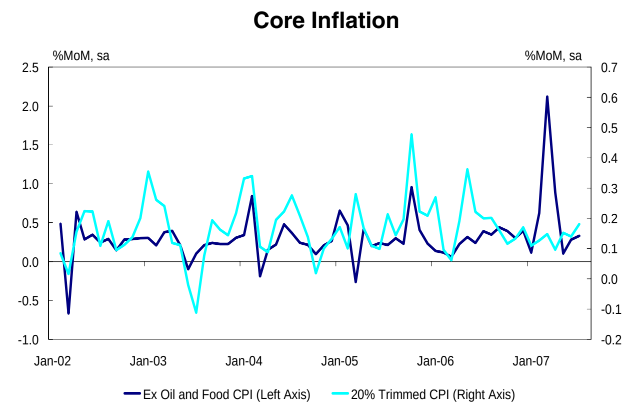
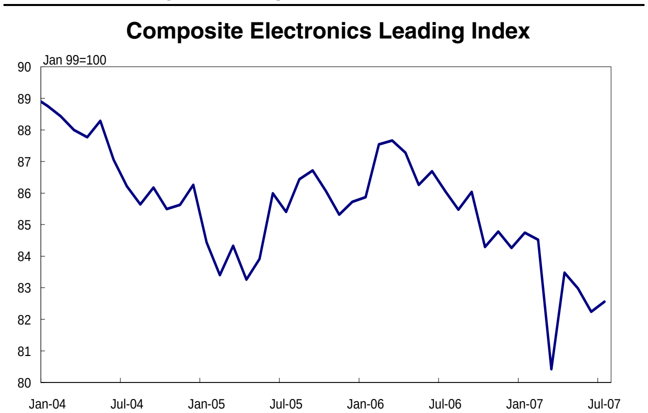


Figure 18. Albeit still benign, inflation pressures appear to be rising (partly pushed up by fresh food prices)



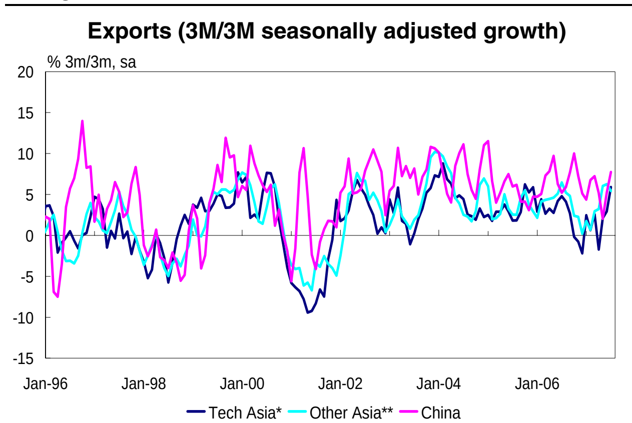
Note: Asia - Hong Kong, India, Indonesia, Malaysia, Korea, Philippines, Singapore, Taiwan, Thailand. *March ex-oil and food CPI surged mainly on the end of the waiver of public housing rents in Hong Kong.

Figure 19. Albeit see-saw readings, our tech leading index points to a mild recovery in tech exports



Note: The index is a weighted average of six US leading electronic indicators (New Orders, US Book to Bill, PPI Chips, Shipment-to-inventory Ratio, ISM Manufacturing PMI and NASDAQ).

Figure 20. Overall export trends in Asia are improving on a moving average basis



Note: Tech Asia – Malaysia, Philippines, Singapore, Taiwan; Other Asia – Hong Kong, India, Indonesia, Korea, Thailand

Source: Citi calculations based on data collected by CEIC Data Company Limited.

Citi Asia Monetary Conditions Index

Figure 21. China. The PBOC raised policy rates for a fifth time this year amid overheating concerns. We see another 27bp hike in 4Q07

China MCI (RHS) and GDP (LHS)

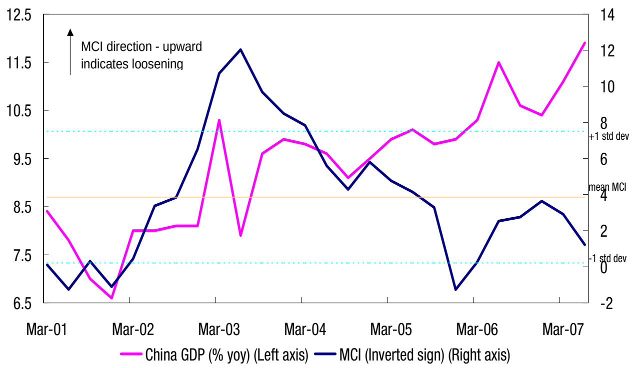


Figure 22. Hong Kong. HIBOR is likely to fall after the Fed's target rate cut and liquidity easing measures in the US

Hong Kong MCI (RHS) and GDP (LHS)

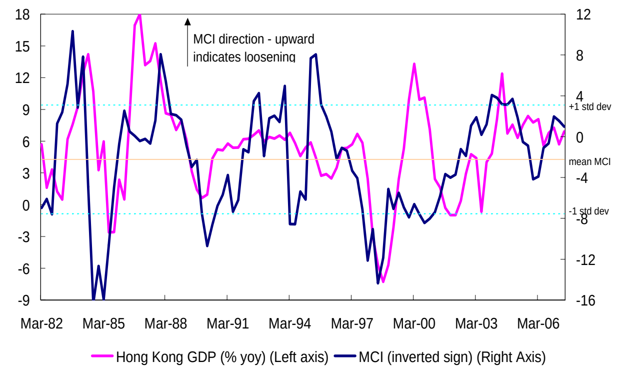


Figure 23. India. With strong economic growth and inflationary pressure, RBI is likely to keep policy rates unchanged

India MCI (RHS) and GDP (LHS)

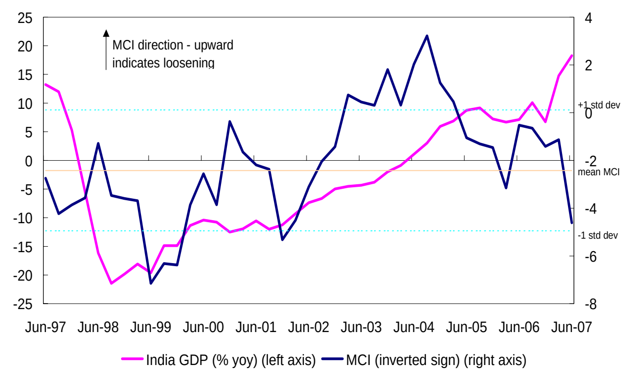


Figure 24. Indonesia. With resilient GDP growth and higher inflation expectations, BI may cut rates by 25bps in November

Indonesia MCI (RHS) and GDP (LHS)

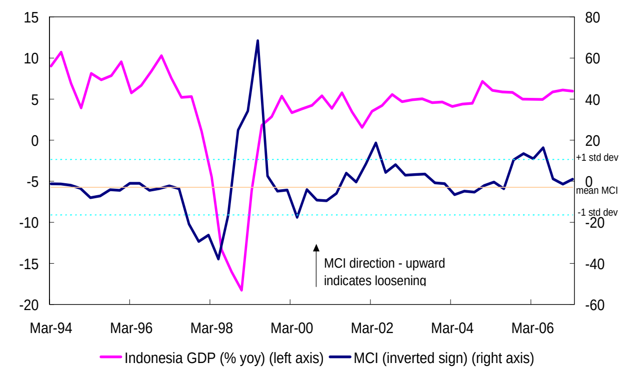


Figure 25. Korea. We expect no rate action in 2008 due to stable conditions in growth, inflation and financial markets/liquidity

South Korea MCI (RHS) and GDP (LHS)

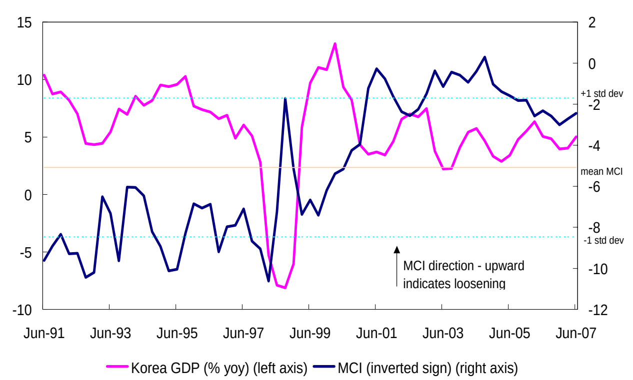
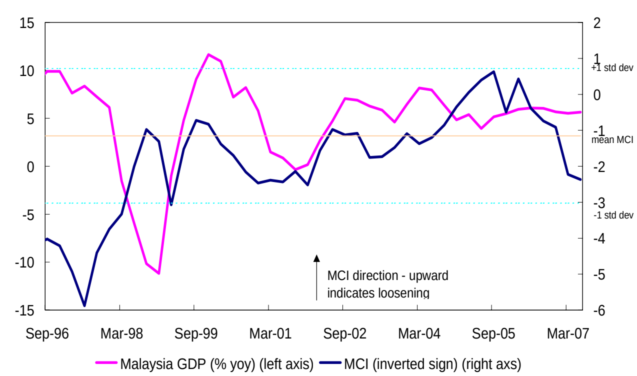


Figure 26. Malaysia. We think BNM will likely hold or, at most, cut the overnight policy rate by 25bps following the Fed's cut

Malaysia MCI (RHS) and GDP (LHS)



Note: See "Asia Economic Outlook and Strategy: Measuring Monetary Conditions" February 2005
Source: Citi calculations based on data collected by CEIC Data Company Limited.

Figure 27. Philippines. Despite strong economic growth, we expect the MB to trim the overnight rate by 25-50bps at its October meeting

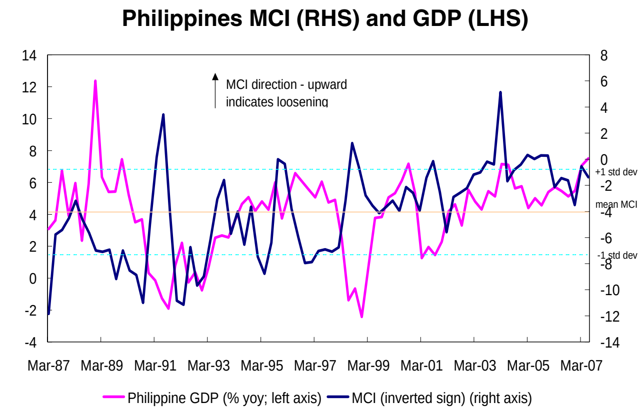


Figure 28. Singapore. The MAS is likely to maintain its modest and gradual appreciation policy

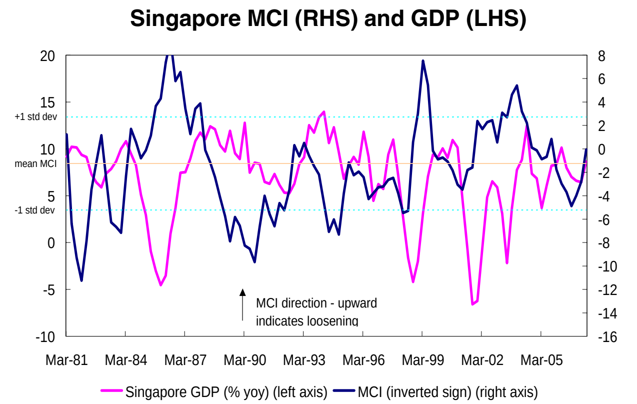


Figure 29. Taiwan. The CBC continues to tighten, highlighting inflation concerns. We expect another rate hike in December by at least 12.5bps

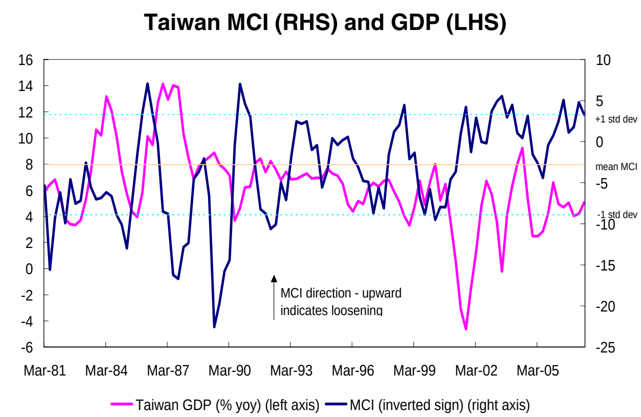
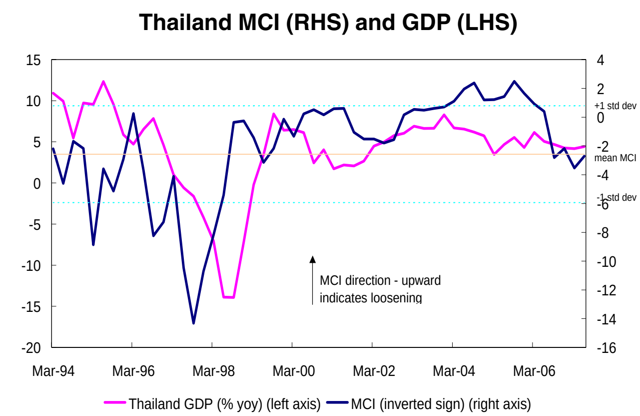


Figure 30. Thailand. We anticipate another 25-50bp policy rate cut to fast-track recovery of private spending



Note: See "Asia Economic Outlook and Strategy: Measuring Monetary Conditions" February 2005
Source: Citi calculations based on data collected by CEIC Data Company Limited.

Long Term Forecasts

Figure 31. Citi GDP and CPI Forecasts (Period Average)

	GDP (Year-Year Growth Rate in Percent)					CPI (Year-Year Growth Rate in Percent)				
	2007E	2008E	2009E	2010E	2011E	2007E	2008E	2009E	2010E	2011E
United States	2.0	2.3	2.7	2.7	2.7	2.7	2.2	2.0	2.0	2.0
Japan	2.0	1.5	2.0	2.0	2.0	-0.1	0.2	0.5	0.7	0.8
Euro Area*	2.6	2.1	2.0	1.8	1.7	1.9	1.8	1.8	1.8	1.8
Asia-Pacific	8.5	8.5	8.4	8.5	8.1	3.5	4.0	3.9	3.8	3.6
China	11.2	11.0	10.9	11.0	10.4	3.5	4.5	4.0	3.8	3.5
India***	9.3	9.4	9.8	9.8	9.7	4.5	4.5	4.5	4.5	4.5
Asian NIEs	5.1	5.2	4.8	5.0	4.8	2.0	2.5	2.5	2.7	2.7
of which: Hong Kong	6.0	5.5	5.5	5.3	5.0	1.8	3.6	4.5	5.5	5.5
Korea	4.8	5.2	4.7	5.0	4.7	2.4	2.6	2.5	2.5	2.5
Singapore	7.2	6.2	5.2	5.6	5.8	1.5	2.5	1.7	1.7	1.7
Taiwan	4.5	4.6	4.5	4.5	4.5	1.4	1.7	1.8	1.8	1.8
SEA	5.7	6.0	6.0	5.7	5.6	4.1	4.1	4.7	4.6	4.3
of which: Indonesia	6.0	6.5	6.7	6.0	5.8	6.3	6.3	7.1	6.5	5.6
Malaysia	5.7	6.0	6.0	6.0	6.0	2.0	2.5	2.5	2.5	2.5
Philippines	7.1	6.8	6.0	6.0	5.8	2.8	3.8	4.3	4.6	4.5
Thailand	4.5	4.8	5.0	4.8	5.0	2.7	1.9	2.8	3.3	3.5
Bangladesh**	6.1	6.1	6.1	6.1	6.1	7.5	6.5	6.5	6.5	6.5
Sri Lanka	6.3	6.6	6.9	7.0	7.0	16.0	10.0	9.0	7.0	6.5
Vietnam	8.0	8.0	8.0	8.0	8.0	7.4	7.2	6.8	6.6	6.6

Note: * US$/Euro. **Bangladesh Fiscal year runs for July-June. ***India Fiscal year runs from April-March and inflation data are Wholesale Price Index forecasts

Source: Citi estimates.

Figure 32. Citi FX Forecasts (Calendar Average)

	Exchange Rate (Local Currency per U.S. Dollar)				
	2007E	2008E	2009E	2010E	2011E
Japan	116	114	109	100	94
Euro Area*	1.35	1.43	1.44	1.45	1.45
Bangladesh	73.1	77.5	81.4	86.3	90.3
China	7.609	7.000	6.650	6.320	6.000
Hong Kong	7.80	7.78	7.78	7.76	7.76
India	41.55	40.00	39.00	37.50	36.00
Indonesia	9162	9217	9306	9250	9150
Korea	931	890	880	860	840
Malaysia	3.47	3.43	3.21	3.08	2.96
Philippines	46.7	43.8	42.5	42.3	42.8
Singapore	1.52	1.46	1.38	1.33	1.27
Sri Lanka	110.00	115.00	120.00	125.00	130.00
Taiwan	33.0	32.1	31.6	31.3	30.5
Thailand	34.6	33.5	32.5	31.6	31.0
Vietnam	16120	16095	16050	16050	15900

Note: * US$/Euro.

Source: Citi estimates.

Figure 33. Citi Short-Term Interest Rate Forecasts (Calendar Average)

	Instrument	2007E	2008E	2009E	2010E	2011E
United States	Fed Funds Rate	5.10	4.50	4.50	4.50	4.50
Japan	Call Money	0.50	1.05	1.40	1.75	2.40
Euro Area	Euro Repo Rate	4.05	4.00	4.00	4.00	4.00
Bangladesh	3-Month T-Bills	8.25	7.50	7.00	7.50	7.75
China	1-Year Lending Rate	7.56	7.56	7.56	7.56	7.56
Hong Kong	3-Month Interbank Rate	4.31	3.90	4.12	4.12	4.12
India	91-Day T Bill	6.50	5.60	5.60	5.60	5.60
Indonesia	1-Month SBI Rate	8.31	6.50	6.00	6.00	6.00
Korea	91-Day CD	4.30	4.30	4.30	4.30	4.30
Malaysia	3-Month Interbank Rate	3.63	3.60	4.10	4.10	4.10
Philippines	91-Day T Bill	4.49	4.63	4.38	4.63	5.25
Singapore	3-Month Interbank Rate	2.60	2.50	3.00	3.00	3.00
Sri Lanka	3-Month T-Bills	19.00	14.00	11.00	12.00	12.00
Taiwan	91-Day CP Rate	2.08	2.45	2.50	2.55	2.60
Thailand	3-Month Interbank Rate	4.04	4.00	4.50	4.50	4.50
Vietnam	3-Month Interbank Rate	7.70	7.40	7.10	7.20	7.20

Source: Citi estimates.

Figure 34. Citi Long-Term Bond Yield Forecasts (Calendar Average)

	Instrument	2007E	2008E	2009E	2010E	2011E
United States	10-Year Treasuries	4.70	4.75	5.10	5.35	5.35
Japan	10-Year JGB	1.70	1.80	2.25	2.60	2.90
Euro Area	10-Year Bunds	4.25	4.55	4.75	4.75	4.75
Bangladesh	10-Year Benchmark bond	12.50	11.25	10.25	10.50	10.75
China	5 Year Sovereign Bond	3.28	4.50	4.00	4.50	5.00
Hong Kong	5-Year Exchange Fund Note	4.27	4.53	4.52	4.58	4.65
India	10-Year GOI	8.00	7.50	7.50	7.50	7.50
Indonesia	FR0028 10% 07/15/2017	9.00	9.75	10.50	11.00	10.75
Korea	5-Year Treasury	5.20	5.50	5.50	5.50	5.50
Malaysia	5-Year MGS	3.64	3.88	4.00	4.15	4.20
Philippines	5-Year T Bond	6.17	6.50	6.00	6.25	6.50
Singapore	10-Year SGS	2.90	3.15	3.20	3.30	3.40
Sri Lanka	5-Year Treasury	16.00	13.00	12.00	13.00	13.00
Taiwan	10-Year Government Bond	2.23	2.65	3.00	3.15	3.30
Thailand	10-Year Government Bond	4.25	4.25	4.50	4.25	4.50
Vietnam	5-year Government Bond	7.70	7.60	7.50	7.60	7.70

Source: Citi estimates.

Selected Country Focus

Korea

Suktae Oh

Summary of Direction in Change in Views

Growth	Inflation	Short Rates	Long Rates	Exchange Rate	Current Account
•	•	•	•	•	•

Note: Symbols above are directional indicators with (+) indicating a nominal rise, (–) a fall, and (•) no change. Source: Citi estimates.

Strong growth based on exports and domestic demand

Global financial turmoil created volatility in Korea's financial market, but data suggest that sentiment and activity have not been affected so far. The outlook for the global economy after this turmoil is especially important for Korea's mid- to long-term outlook on economic growth as well as the financial market. Our current forecasts for steady economic growth, a gradual decline in the USD/KRW and the lack of a clear trend in bond yields all assume continued expansion of the global economy.

The economy is currently showing strong growth momentum based on a pickup in exports and stable domestic demand. The recovery of high-tech exports and production that started in 2Q is providing a boost to industrial production and GDP growth. Strength in heavy industry exports such as shipbuilding, steel and machinery continues along with the global economic expansion. Consumption has been extending the steady growth, with consumer goods sales picking up in July after consolidating in 2Q, and the service industry has remained strong. A stable job market also suggests steady income growth. Meanwhile, investment seems to be losing its steam after its recent recovery. Facility investment peaked in 1Q as the replacement of automatic teller machines ended. Housing market weakness started to affect residential investment in 2Q, but construction activities rebounded in July.

We expect GDP growth to soon slow slightly to a sustainable (trend) pace. The impressive pace of the tech recovery appears to be temporary, and rising interest rates and a weak housing market would be negative for domestic demand. But steady expansion of the global economy would continue to underpin exports, and strength in credit (SME and consumer loan) growth would still support domestic demand. Stabilization of the won and terms of trade since 2H06 are also favorable for growth.

CPI inflation remained stable and below the central bank's target range. It fell to 2.0% in August thanks to non-core items of fresh food and oil prices. Inflation is likely to remain stable into 2008 if we discount the adverse base effect at year-end. Stable housing rent would help to cap core inflation, while higher oil prices may not pose a significant threat to YoY inflation.

The increase in short-term external debt accelerated this summer despite authorities' stabilization efforts, including a revision of tax rules for the branches of foreign banks and restrictions on the purpose of banks' FX loans. A rise in currency market volatility apparently encouraged exporter hedging and external bank borrowing. Export strength has been sustaining a decent surplus in the current account.

Despite the stable inflation, Bank of Korea (BOK) raised the policy rate from 4.5% to 5.0% in back-to-back hikes in July and August based on strong economic growth and excess liquidity/credit concerns. BOK's balanced assessment on growth and inflation suggests that the policy rate would be on hold into 2008. Heightened volatility in the global financial market lowers the chance of further BOK rate hikes, and we think a rate cut would be difficult unless we see a visible slowdown in economic growth and liquidity. Note that bank loan growth picked up again in August after a brief slowdown in July, prolonging the concern about abundant liquidity.

Fiscal data suggest that unintended tightening of the fiscal stance has been repeated this year. A recent correction of fiscal data unveiled a sizable surplus in the consolidated fiscal balance due to strength in revenue growth. The unexpected fiscal tightening this year seems to be leading to an apparently expansionary 2008 budget proposal that can be interpreted as a “corrective action”, and may also raise the chance of a tax cut under a new president.

Our base scenario for continued expansion of the global economy and a “minor” slowdown in the US leads to a forecast for global dollar weakness. We maintain the view of a gradual decline in the USD/KRW, which implies a stable won on a real effective exchange rate (REER) basis.

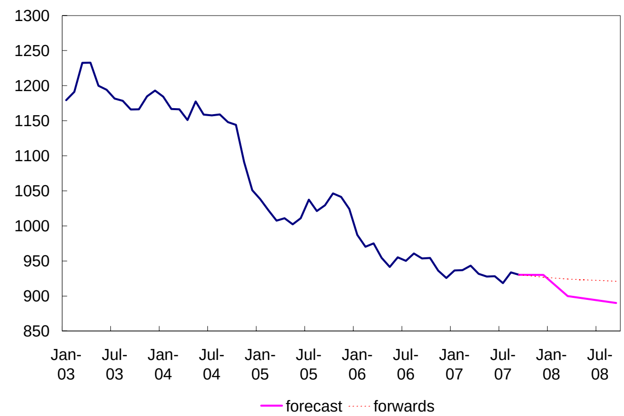
Tension about North Korea's nuclear development continued to ease. Dialogue between the US and North Korea resumed after the shutdown of the Yongbyon nuclear facility, and a summit of South and North leaders is scheduled in Pyongyang in early October. Former Seoul Mayor Lee Myung-Bak is the presidential candidate of the opposition party and continues to lead opinion polls by a wide margin. People consider him to be a pro-growth politician and expect him to boost construction by lifting regulations if he wins the presidential election. The candidate from the ruling party has yet to emerge.

Figure 35. Key Economic Forecasts

	2000	2001	2002	2003	2004	2005	2006	2007E	2008E
Real Sector									
Real GDP (% yoy)	8.5	3.8	7.0	3.1	4.7	4.2	5.0	4.8	5.2
Domestic demand ex Inventory (% yoy)	8.7	3.3	7.3	1.0	1.0	3.4	4.1	4.6	4.0
Real Consumption: Private (% yoy)	8.4	4.9	7.9	-1.2	-0.3	3.6	4.2	4.0	3.6
Real Gross Fixed Capital Formation (% yoy)	12.2	-0.2	6.6	4.0	2.1	2.4	3.2	5.4	4.5
Consumer prices (% yoy)	2.3	4.1	2.8	3.5	3.6	2.8	2.2	2.4	2.6
Nominal GDP (US$ bn)	512	482	547	608	681	791	887	970	1,081
GDP per capita (USD)	10,888	10,177	11,483	12,704	14,173	16,438	18,373	20,024	22,230
Unemployment Rate (%)	4.4	4.0	3.3	3.6	3.7	3.7	3.5	3.3	3.3
External Sector									
Exports (% yoy, US$)	21.2	-14.0	7.9	20.7	30.6	12.1	14.8	15.0	16.0
Imports (% yoy, US$)	36.2	-13.4	7.7	18.0	25.6	16.0	18.5	15.0	15.5
Trade balance (US$ bn)	17.0	13.5	14.8	22.0	37.6	33.7	29.2	33.6	40.7
Current account (% of GDP)	2.4	1.7	1.0	2.0	4.1	1.9	0.7	0.7	0.9
International Reserves ex. Gold (US$ bn)	96	103	121	155	199	210	239	270	290
Local Currency/USD (period average)	1131	1291	1251	1192	1145	1024	956	931	890
Other									
Overnight Rate (period average, %)	5.1	4.7	4.2	4.0	3.6	3.3	4.2	4.8	5.0
5 Year Treasury Yield (period average, %)	8.70	6.20	6.30	4.82	4.30	4.52	4.95	5.20	5.50
Fiscal balance (% of GDP)	1.1	1.2	3.3	1.1	0.7	0.4	0.4	2.0	2.0
Population (persons million)	47	47	48	48	48	48	48	48	49

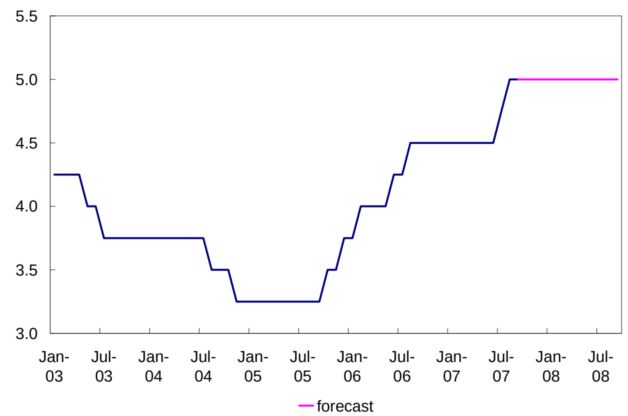
Source: CEIC Data Company Limited and Citi estimates.

Figure 36. Exchange Rate: USD-KRW



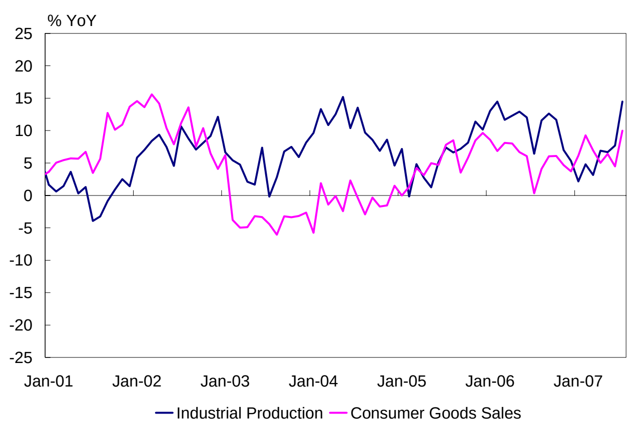
Source: Bloomberg, Haver Analytics, Citi estimates

Figure 37. Interest Rate (%): Overnight Rate



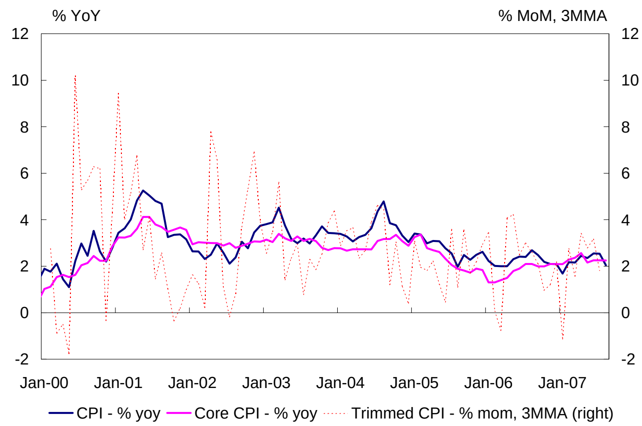
Source: Bloomberg, Haver Analytics, Citi estimates

Figure 38. Tech recovery led industrial production growth and steady consumption reinforce resilient economic momentum



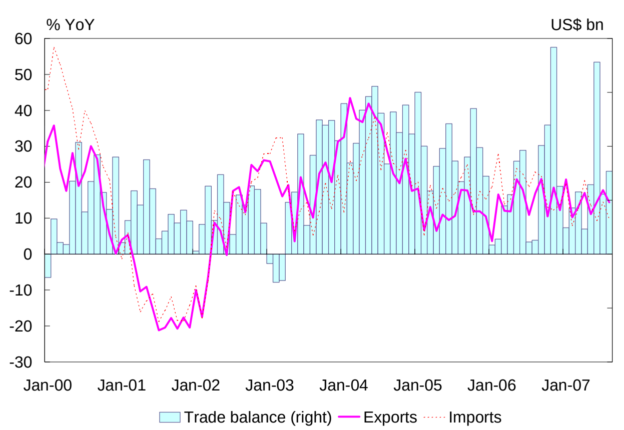
Source: CEIC Data Company Limited

Figure 39. Sizeable dip in headline inflation (led by food and oil) likely be temporary, but core inflation likely to remain stable



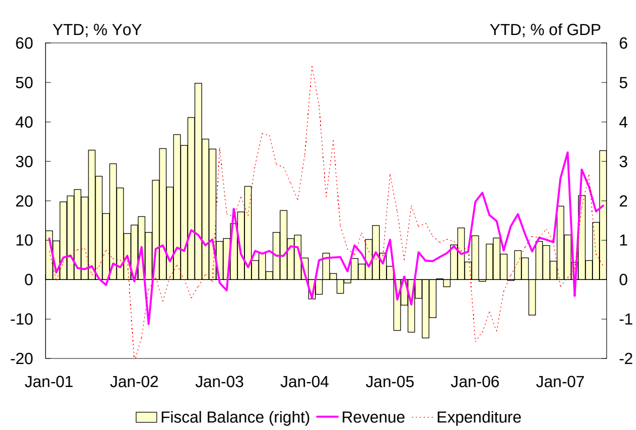
Source: CEIC Data Company Limited

Figure 40. Sustained growth momentum in both exports and imports suggests sustained growth momentum



Source: CEIC Data Company Limited

Figure 41. Fiscal data suggest unintended fiscal tightening, and larger-than-expected fiscal balance allows tax cut in 2008



Source: CEIC Data Company Limited

Singapore

Hak Bin Chua

Summary of Direction in Change in Views

Growth	Inflation	Short Rates	Long Rates	Exchange Rate	Current Account
•	•	•	•	•	•

Note: Symbols above are directional indicators with (+) indicating a nominal rise, (–) a fall, and (•) no change. Source: Citi estimates.

A bottleneck economy

The biggest policy challenge has shifted to overcoming supply bottlenecks. Demand is no longer the main point of concern. Rather, pro-growth policies of income tax cuts, looser immigration policy and upcoming integrated resorts have perhaps been overly successful in attracting investment and foreign workers.

Real investment grew 17.5% in 1Q07 and 26% in 2Q07, up from a tepid 0.2% in 2005. Job growth is running at a blistering pace, with about 113,800 jobs generated in 1H07, a rate that will likely beat the record high of 175,900 in 2006. More than half of these jobs have gone to foreigners, lifting rental property demand.

Business costs, including rentals and wages, are increasing sharply as a result. The concern is that escalating costs and limited slack could also hurt competitiveness and constrain growth, particularly against Hong Kong. The threat is further exacerbated by currency movements. The Hong Kong dollar, because of its peg to the US dollar, has depreciated against the Singapore dollar by about 13% from two years ago.

Singapore has climbed to the 14th most expensive city for expatriates, overtaking New York City, according to Mercer's latest cost of living index. Since 2004, Singapore has climbed from the 46th spot to 34th in 2005, 17th in 2006 and 14th in 2007. Across Asia, Singapore is now the fifth most expensive, behind Osaka, Hong Kong, Tokyo and Seoul.

The latest 2Q figures from the Urban Redevelopment Authority (URA) describe the alarming surge in housing and office rents. The Residential Property Rental Index is surging at some 31.2% from a year ago. Rental for the core central region – the catchment area for most expatriates – is up some 35.5% from a year ago. The private residential occupancy rate is currently at 95.1%, a historical high. This is higher than even the property boom episode over 1990-96, where occupancy rates peaked at 94.3% in December 1996.

The Office Rental Index is rising at an even faster rate, up some 46.4% in 1Q07 from a year ago. The Office Rental Index has surpassed its June 1996 peak, higher now by some 3.5%. The increase in the Office Rental Index for the Central Area is somewhat higher, rising some 48.3% in 2Q07 from a year ago. Office rents in the central region are already some 8% higher from the previous peak in June 1996. Indications are that office rents will continue to rise given limited new supply and continued strong office space demand, especially from financial institutions.

Wage pressures are also starting to emerge given a tightening labor market. The unemployment rate has fallen to 2.3%, a six-year low. Nominal wages rose a sharp 8.5% in 2Q07 and 5.5% in 1Q07, led by wages in the service industry, particularly the financial and real estate segments. The labor unit cost of manufacturing rose by more than 5% in the first half of 2007, the fastest rate of increase since 2Q03.

The civil service is seeing some of the higher attrition rates and wage pressures. The government announced in April this year that wages of civil servants would now increase by some 3% to 33%.

These supply bottlenecks and rising business costs have started to show up in CPI inflation. The latest CPI inflation reading surged to 2.6% in July from 1.3% in June. Inflation is now at a 12-year high and looks set to climb further given rising rents (which are not fully reflected in the CPI), rising transport costs and higher labor costs. We forecast inflation to average 1.5% in 2007 and 2.5% in 2008, with next year's forecast above the government's 1-2% range.

Supply-side policies, including office and residential space, may need time to materialize. The government has been releasing more land for commercial and residential development, assuring the public that supply remains adequate. We think URA's estimated projection of 42,200 units completed over 2007-10 will likely fall short, as completion rates have been consistently over-estimated in the past, sometimes by as much as one-third.

Policy issues that will naturally arise over the coming months include whether the government will need to tame excessively strong demand conditions with tighter policies, either through fiscal or monetary policies, in the interim. Tighter immigration policies are less clear cut and are a double-edged sword, reducing pressure on rent but increasing pressure on wage costs as a result. A US slowdown may help to moderate demand pressure, but a likely total of 75bps of Fed rate cuts this year would offset and cushion this potential risk.

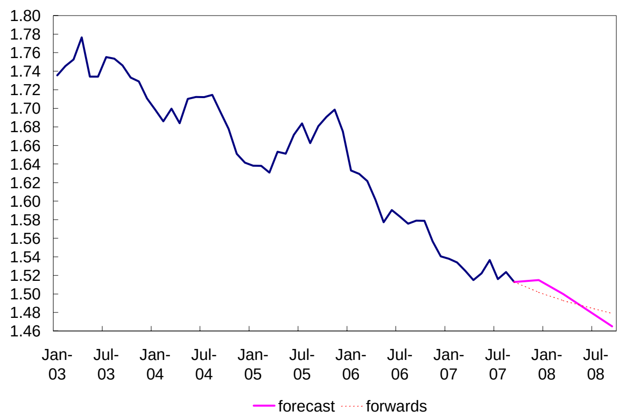
We expect growth to remain strong despite the risk of a US slowdown and the subprime crisis, forecasting GDP growth at 7.2% in 2007 and 6.2% in 2008.

Figure 42. Key Economic Forecasts

	2000	2001	2002	2003	2004	2005	2006	2007E	2008E
Real Sector									
Real GDP (% yoy)	10.1	-2.4	4.2	3.1	8.8	6.4	7.9	7.2	6.2
Domestic demand ex Inventory (% yoy)	13.4	0.9	-0.5	-0.1	6.2	2.7	6.4	7.0	5.8
Real Consumption: Private (% yoy)	14.9	4.0	5.1	1.2	5.6	3.1	2.5	4.0	3.9
Real Gross Fixed Capital Formation (% yoy)	9.8	-3.8	-11.4	-3.3	10.2	0.1	11.5	15.2	10.0
Consumer prices (% yoy)	1.3	1.0	-0.4	0.5	1.7	0.5	1.0	1.5	2.5
Nominal GDP (US$ bn)	93	85	88	92	107	117	132	150	170
GDP per capita (USD)	23,077	20,693	21,113	22,066	25,329	26,876	29,475	33,460	36,944
Unemployment Rate (%)	2.7	2.7	3.6	4.0	3.4	3.1	2.6	2.5	2.5
External Sector									
Exports (% yoy, US$)	20.2	-11.7	2.8	16.9	25.0	25.5	18.4	10.2	10.4
Imports (% yoy, US$)	21.1	-13.8	0.4	12.0	26.9	20.8	19.3	11.2	11.1
Trade balance (US$ bn)	3.3	5.8	8.7	15.9	17.4	29.6	33.1	34.1	35.8
Current account (% of GDP)	11.6	14.0	13.7	24.2	20.1	24.5	27.5	19.2	17.2
International Reserves ex. Gold (US$ bn)	80	75	82	96	112	116	137	145	160
Local Currency/USD (period average)	1.72	1.79	1.79	1.74	1.69	1.66	1.59	1.52	1.46
Other									
3M Interbank Rate (period average, %)	2.6	2.0	0.9	0.7	1.0	2.2	3.5	2.6	2.5
10 Year SGS Yield (period average, %)	4.4	3.6	3.5	2.9	3.2	2.9	3.4	2.9	3.2
Fiscal balance (% of GDP)	11.3	-0.3	-1.6	6.5	5.6	6.9	10.0	7.0	6.0
Population (persons million)	4.0	4.1	4.2	4.2	4.2	4.3	4.5	4.5	4.6

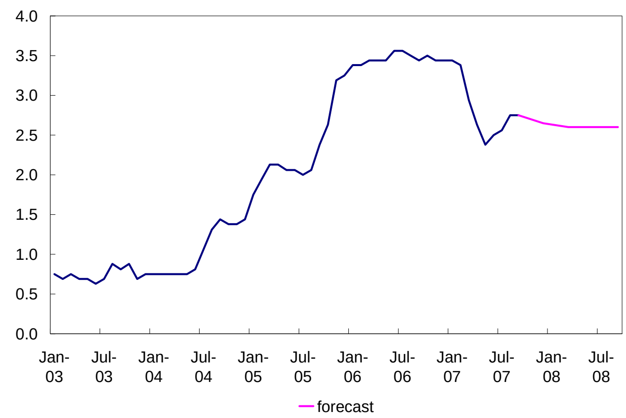
Source: CEIC Data Company Limited and Citi estimates.

Figure 43. Exchange Rate: FX Rate



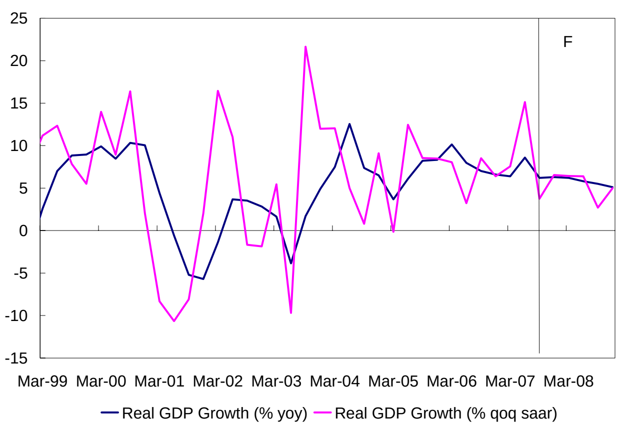
Source: Bloomberg, Haver Analytics, Citi estimates.

Figure 44. Interest Rate (%): 3 Month SIBOR



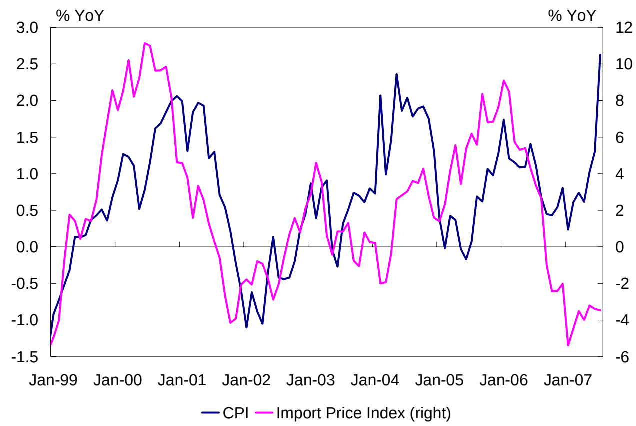
Source: Bloomberg, Haver Analytics, Citi estimates.

Figure 45. Final 2Q GDP came in strongly, risks to 2H is the ongoing US housing recession and further tightening of financial conditions



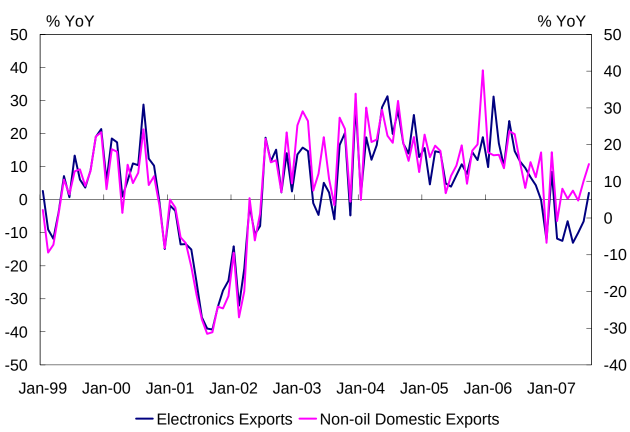
Source: CEIC Data Company Limited and Citi estimates.

Figure 46. Inflation surged on GST in July, but price pressures from bottlenecks and supply constraints are clearly emerging



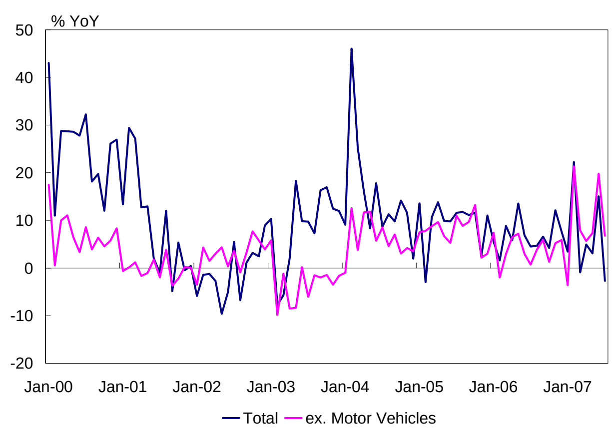
Source: CEIC Data Company Limited.

Figure 47. NODX expands strongly in August on drugs, offsetting weakness in tech exports



Source: CEIC Data Company Limited.

Figure 48. July retail sales fell on vehicle sales. Slowdown largely attributed to the 2% GST hike, which fueled spending in June



Source: CEIC Data Company Limited.

Thailand

Jun Trinidad

Summary of Direction in Change in Views

Growth	Inflation	Short Rates	Long Rates	Exchange Rate	Current Account
–	•	•	•	•	•

Note: Symbols above are directional indicators with (+) indicating a nominal rise, (–) a fall, and (•) no change. Source: Citi estimates.

Expecting a mild upturn in domestic demand

We lowered our 2007 GDP forecast to 4.5% from the previous 4.7% on the back of: 1) a gradual response of durable good demand to a cumulative policy rate cut of 175bps; and 2) the likelihood of a sharp deceleration in net export growth as the global trading environment in 2H07 slows. For a fourth straight quarter, consumption of durables contracted 9% yoy in 2Q07. This became a major drag on overall consumption expenditure, which grew less than 1% yoy during the quarter. Private investment became flat, confirming the sluggish investment setting. High growth in net exports may be at risk assuming a slower global trading environment in 2H07. Exports in July and August reported growth in a range of 6% yoy after registering an average 18% yoy rise in 1H07.

As we anticipate a mild upturn of 2.5% yoy in 2H domestic demand (ex-inventory) instead of a surge, we curbed our growth optimism. Behind this positive outlook is a faster pace of durable good expenditure. Waning risk premia recently will enable the policy rate cuts to exert a larger influence on consumer demand for durables. For July and August, car sales reported marginal gains of 1% yoy and 0.65% yoy to finally break free from the clutches of weak demand since 2006. End-year election spending will also provide a one-off boost to non-durable good consumption. We expect the fiscal catalyst to stay for the remainder of the year. The drag from private investment will persist, while we continue to miss more aggressive public investment activity.

The US Fed rate easing and export uncertainty alongside benign inflation risk tilt the odds in favor of additional policy rate easing of 25bps in 4Q07. We believe the real catalyst that can nudge the Monetary Policy Committee (MPC) into further easing on top of the 175bp rate cut in 1H07 is heightened risk of a prolonged export downturn that could easily overwhelm domestic demand gains. Additional insurance from policy rate cuts ensures that offshore headwinds do not snuff out initial signs of a private spending upturn.

The strong currency pass-through in 1H07 and lackluster demand kept inflation risk benign. The baht's nominal appreciation has muted recent oil price increases, enabling the broad energy price index to post lackluster increases. Subdued inflation risk mirrored by core inflation equal to a fraction of 1% yoy has accorded the monetary authority a lot of latitude to adjust policy rates if the need arises.

Lackluster domestic demand but buoyant offshore demand reflected by first half export growth has strengthened the external accounts and beefed up dollar reserves that supported the underlying FX trend. Despite the strong likelihood of lackluster export growth in 2H, we expect the current account surplus to remain intact. Slower exports will not be accompanied by a surge in imports. Any improvement in import demand will be capped by modest domestic demand gains. We hang on to our full-year forecast for a current account surplus of US$750mn against at YTD July surplus estimate of US$1.48bn. We think BoT's total FX reserves of US$88bn (BoT's GIR of US$74.4bn plus net forward 'buy' contracts of US$13.6bn as of end-August) will not materially diminish despite prospects of slower net exports. A stock of USD reserves at 36% of estimated full-year GDP underpins a strong baht outlook although the pace of appreciation may not be as rapid.

Financial market implications

Lackluster GDP gains that could lead to undersized GDP growth of less than 5% over the next 12 to 18 months bode well for local currency bonds. Short-duration risk, however, will be preferred in the near term with subprime risk aversion and potential political surprises (from election uncertainty) that can hold back market sentiment. The US Fed rate cut of 50bps in September, the impact on US Treasuries and the perceived influence on the MPC's priorities can help usher in a local bond market rally even though it may be short-lived. Bond investors may sense that any MPC rate adjustment at this stage would not be the start of another policy cycle.

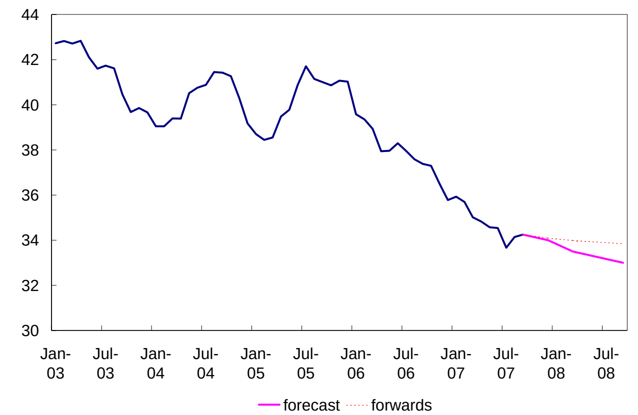
A current account surplus remaining intact in 2H07 will partially offset a mediocre GDP outlook and sustain the favorable baht outlook against the USD. However, we rule out rapid baht appreciation for the remainder of the year although fundamentals and liquidity could support a baht outlook at 34 against the USD. A weak USD environment in 4Q07 as a side effect of expected US Fed rate cuts will provide additional support for the baht. BoT intervention will absorb offshore flows (exports and capital flows). Low interest rates arising from the 175bp cut in 1H07 suggest low sterilization cost at the margin, which can be a strong incentive for BoT to maintain its intervention and sterilization strategy.

Figure 49. Key Economic Forecasts

	2000	2001	2002	2003	2004	2005	2006	2007E	2008E
Real Sector									
Real GDP (% yoy)	4.8	2.2	5.3	7.1	6.3	4.5	5.0	4.5	4.8
Domestic demand ex Inventory (% yoy)	5.0	3.2	5.2	7.4	7.9	7.0	3.4	4.3	5.8
Real Consumption: Private (% yoy)	5.2	4.1	5.4	6.5	6.2	4.3	3.1	1.6	3.0
Real Gross Capital Formation (% yoy)	5.5	1.1	6.5	12.1	13.2	11.1	4.0	8.6	10.7
Consumer Prices (% yoy)	1.6	1.7	0.6	1.8	2.8	4.5	4.7	2.7	1.9
Nominal GDP (US$ bn)	123	116	127	143	161	176	206	244	270
GDP per capita (USD)	1,965	1,835	1,999	2,230	2,478	2,705	3,061	3,568	3,903
Manufacturing Production (% yoy)	6.7	2.7	9.1	14.0	11.7	9.1	7.4	6.0	7.0
External Sector									
Exports (% yoy, US$)	19.5	-7.1	4.8	18.2	21.6	15.0	17.4	10.3	9.5
Imports (% yoy, US$)	31.3	-3.0	4.6	17.4	25.7	25.9	7.0	8.5	9.8
Trade balance (US$ bn)	5.5	2.5	2.7	3.8	1.5	-8.5	2.2	4.7	4.8
Current account (% of GDP)	7.6	4.4	3.7	3.4	1.7	-4.5	1.6	1.7	0.3
International Reserves ex. Gold (US$ bn)	32	32	38	41	49	51	65	63	64
Local Currency/USD (period average)	40.1	44.4	43.0	41.5	40.2	40.2	37.9	34.6	33.5
Other									
3M Interbank Rate (period average, %)	3.90	3.04	2.17	1.56	1.59	3.23	5.16	4.04	4.00
10 Year Government Bond (period average, %)	6.51	5.82	5.06	3.76	5.06	5.00	5.39	4.25	4.25
Fiscal balance (% of GDP; FY)	-2.4	-2.1	-2.4	0.4	0.3	-1.8	-0.3	-2.0	-1.0
Population (persons million)	62	63	63	64	65	65	67	68	69

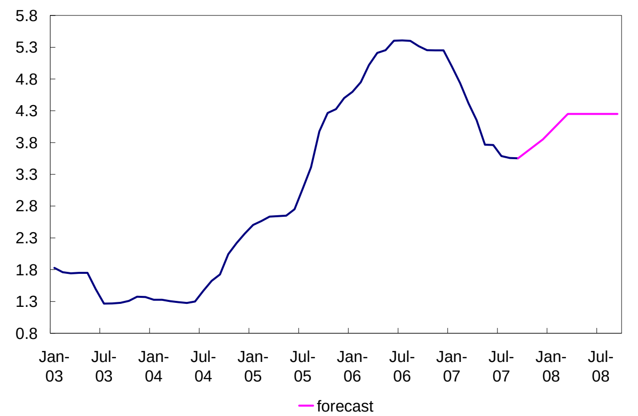
Source: CEIC Data Company Limited, IFS and Citi estimates.

Figure 50. Exchange Rate: USD-THB



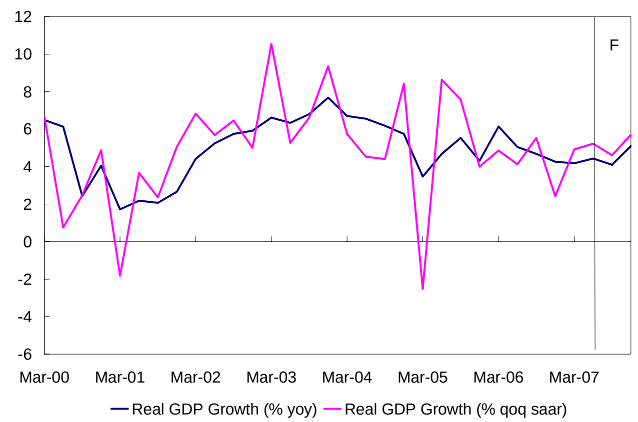
Source: Bloomberg, Haver Analytics, Citi estimates.

Figure 51. Interest Rate (%): 3 Months Interbank Rate



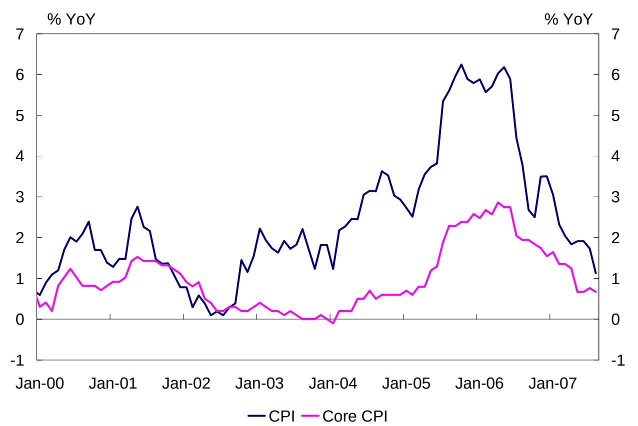
Source: Bloomberg, Haver Analytics, Citi estimates.

Figure 52. 2Q GDP continued to be suported by net exports, but private spending appears to be missing



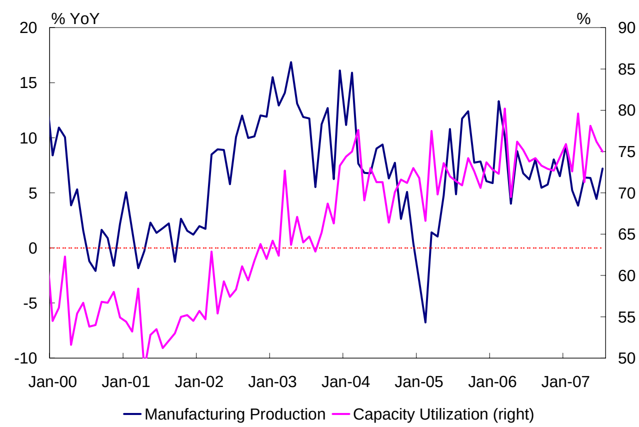
Source: CEIC Data Company Limited and Citi estimates.

Figure 53. Inflation heads downward in Aug, confirming limited threats from either private demand or cost-push side



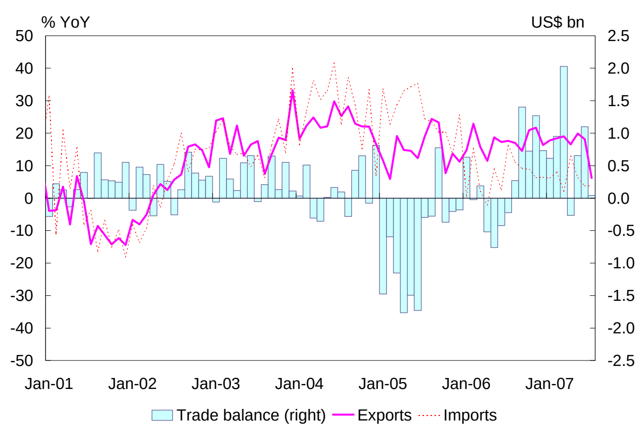
Source: CEIC Data Company Limited.

Figure 54. Improving vehicles demand and some inventory replenishment probably accounted for the upbeat manufacturing growth in Aug



Source: CEIC Data Company Limited.

Figure 55. But a series of months of waning export volume will test manufacturing's resiliency



Source: CEIC Data Company Limited and Citi estimates.

Other Country Section

Bangladesh

Rohini Malkani and Anushka Shah

Summary of Direction in Change in Views

Growth	Inflation	Short Rates	Long Rates	Exchange Rate	Current Account
•	+	•	•	•	•

Note: Symbols above are directional indicators with (+) indicating a nominal rise, (–) a fall, and (•) no change. Source: Citi estimates.

Recent Economic Developments and Prospects

Real Sector	Industrial production decelerated to 2.6% yoy in May, with the slowdown most pronounced in food production (+2.6% in May vs. 13% in April) and in the jute, cotton and leather industries (-0.2% in May). While IP growth on a cumulative basis is still healthy (+10% yoy during July-May), the impact of recent floods has yet to be gauged. Initial estimates suggest that floods in July and August caused agricultural damage of Tk6bn.
Inflation	Inflation spiraled to a record high of 9.2% in June, with food prices (+9.8%) and a depreciating currency as key factors contributing to pressure. With food prices likely on an uptrend due to supply shortages as the flood impact kicks in, we revised our FY08 inflation estimate to 7.5% from 6.5% previously.
Monetary/Fiscal Policies	Despite a slowdown in the growth of credit and money supply, reports[2] suggest that monetary policy will be a balancing act going forward, given that tight policy could create greater supply constraints and fuel higher inflation. Tax collections are on track, with NBR revenue up 14% yoy in July (around 6% of the budgeted target). However, with expenditure rising as flood rehabilitation efforts get under way coupled with higher administrative expenditures, we believe the 3.7% fiscal deficit target is ambitious.
External Sector	Weaker export growth – a result of a contraction in jute and tea – coupled with rising imports (led largely by petroleum products and industrial raw materials) resulted in the trade deficit widening to US$3.5bn in FY07 from US$2.9bn the previous year. However, similar to past trends, continued buoyancy in remittances, up 25% yoy to US$6bn in FY07, resulted in a current account surplus of US$952mn.
Other (e.g. Political) Developments	The crackdown on corruption continues, and following last month's arrest of Sheikh Hasina of the Awami League, the government arrested Khaleda Zia, head of the BNP. Also, restrictions on political activity were eased, with major parties re-opening offices in the country after a six-month ban.
Issues to Watch/Key Risks	Further natural disasters, a setback to exports, inflation and politics are key risks to our outlook.

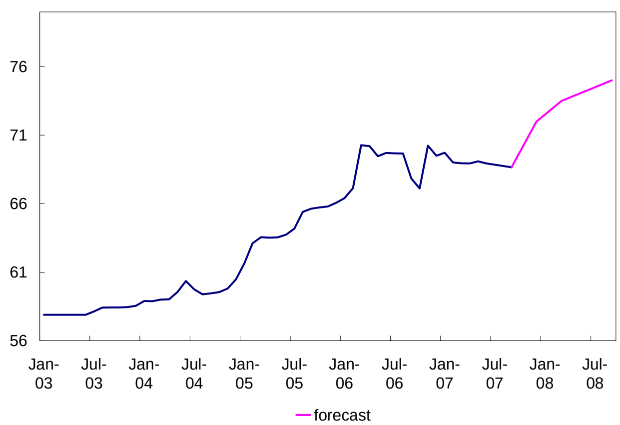
Figure 56. Key Economic Forecasts

	FY01	FY02	FY03	FY04	FY05	FY06	FY07E	FY08E	FY09E
Real Sector									
Real GDP (% yoy)	5.4	4.4	5.3	5.8	5.9	6.9	6.0	6.1	6.1
Domestic demand (% yoy)	5.0	6.3	5.0	5.0	5.8	6.1	6.1	6.3	6.3
Real Consumption: Private (% yoy)	4.7	4.9	3.5	3.2	3.9	5.2	5.2	5.2	5.2
Real Total Investment (% yoy)	5.8	8.2	7.9	9.2	10.7	8.0	7.9	8.3	8.3
Consumer Prices (period average, % yoy)	1.9	2.8	4.4	5.8	6.5	7.2	7.2	7.5	6.5
Nominal GDP (US$ bn)	47	48	52	56	60	62	67	71	75
GDP per capita (USD)	362	389	418	442	448	482	504	527	558
Industrial Production (% yoy)	7.4	6.5	7.3	7.6	8.3	9.6	8.1	8.2	8.2
External Sector									
Exports (% yoy, US$)	12.6	-7.6	9.5	15.9	14.0	21.6	17.0	17.0	17.0
Imports (% yoy, US$)	11.4	-8.7	13.1	13.0	20.6	12.1	13.0	15.5	15.5
Trade balance (US$ bn)	-2.0	-1.8	-2.2	-2.3	-3.3	-2.9	-2.8	-3.1	-3.4
Current account (% of GDP)	-2.3	0.3	0.3	0.3	-0.9	0.9	1.3	1.3	1.2
International Reserves ex. Gold (US$ bn)	1.3	1.6	2.5	2.7	3.0	3.5	4.7	6.1	7.3
Local Currency/USD (period average)	54.0	57.4	57.9	58.9	61.3	67.0	69.0	73.1	77.5
Other									
Bank rate (period end, %)	7.0	6.0	6.0	5.0	5.0	5.0	5.0	6.0	6.0
10 Year Benchmark bond (period end, %)	#N/A	#N/A	#N/A	#N/A	10.0	11.0	11.8	12.5	11.3
Fiscal balance (% of GDP)	-5.2	-4.3	-4.2	-4.2	-4.4	-3.9	-3.7	-5.7	-5.9
Population (persons million)	130	132	133	135	137	139	140	141	143

*Bangladesh Fiscal year runs from July-June. Source: Historical data from CEIC Data Company Limited and Bangladesh Bank, forecasts are by Citi.

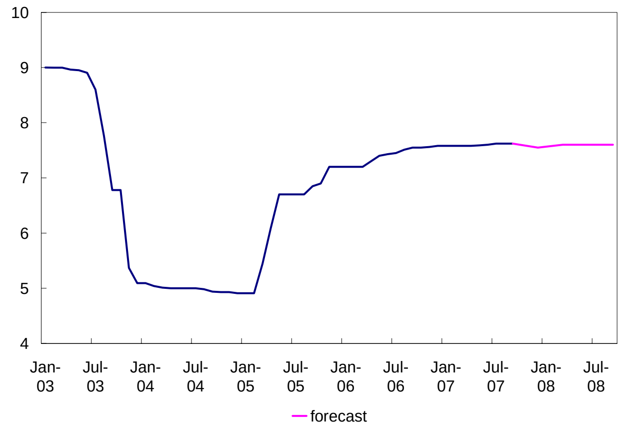
[2] "*BB Sticks to its Guns Despite IMF Insistence*", Daily Star, 7 September 2007.

Figure 57. Exchange Rate: USD-BDT



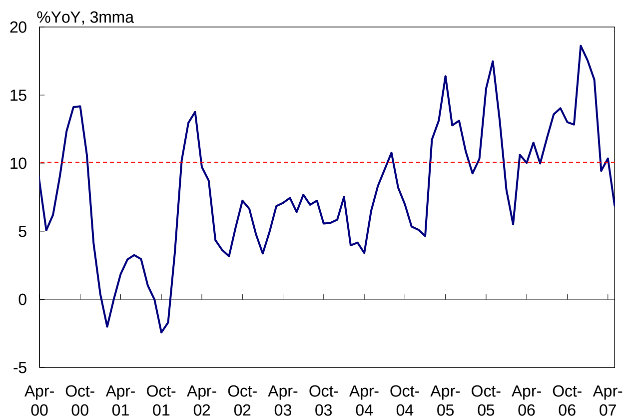
Source: Bloomberg, Haver Analytics, Citi estimates

Figure 58. Interest Rate (%): 91 Day T-bills



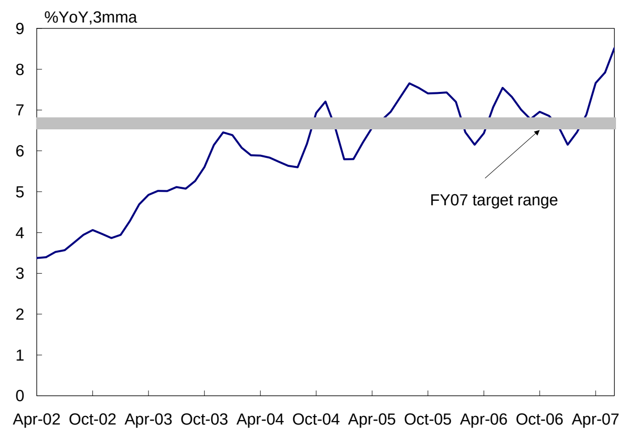
Source: Bloomberg, Haver Analytics, Citi estimates

Figure 59. Industrial production decelerated in May, on slower food production, jute, cotton and leather industries



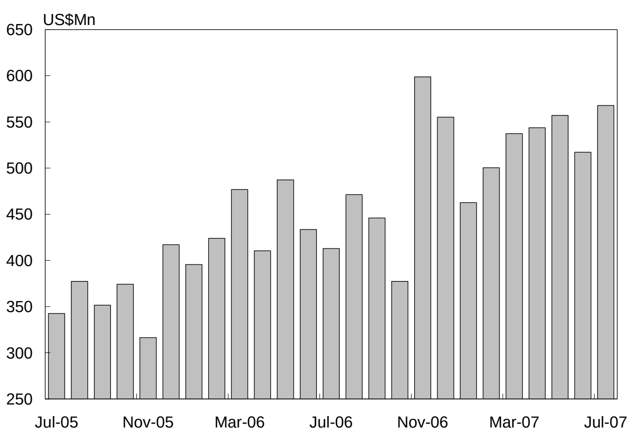
Source: Bangladesh Bank

Figure 60. Higher than government's target range inflation continues to be a concern, and earlier floods likely increase food price pressures going forward



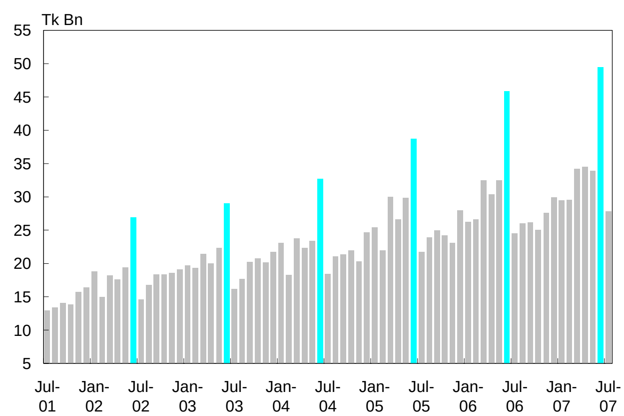
Source: Bangladesh Bank

Figure 61. Continued buoyancy in remittances help offset a rising trade deficit and underpin the current account surplus



Source: Bangladesh Bank

Figure 62. Tax collections are on track, but rising expenditure is making government's fiscal deficit target of 3.7% look ambitious



Source: Bangladesh Bank

China

Minggao Shen

Summary of Direction in Change in Views

Growth	Inflation	Short Rates	Long Rates	Exchange Rate	Current Account
•	+	•	•	•	•

Note: Symbols above are directional indicators with (+) indicating a nominal rise, (–) a fall, and (•) no change. Source: Citi estimates.

Recent Economic Developments and Prospects

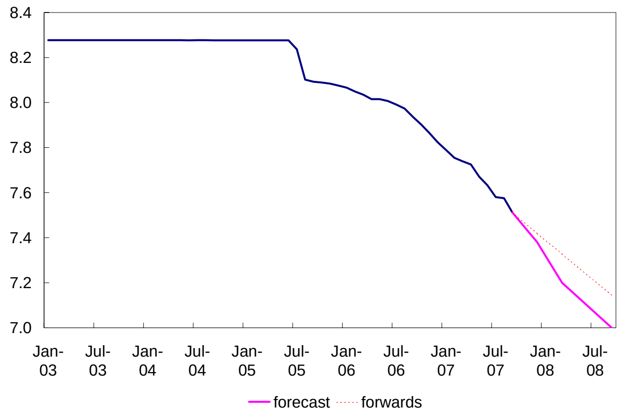
Real Sector	China's strong growth momentum continued in August despite an accelerated pace of tightening policies. Fixed asset investment rose 26.7% YTD in August along with 17.1% yoy growth of retail sales, up from 16.4% in July. Industrial production eased 17.5% yoy, but is still on a fast-track compared with a year ago. We expect no significant risk of a downward change for the rest of the year unless the external economy weakens sharply on new developments in the subprime crisis.
Inflation	Headline CPI rose to 6.5% yoy in August, 0.9ppt higher than a month ago and a level not seen since 1996. The monthly increase in CPI since June is around 1ppt. Food prices remain as the main contributor to rising CPI while non-food CPI is unchanged at 0.9% yoy. We still expect headline CPI to peak within a couple of months, but continued high inflation could point to a rising risk of the macroeconomy.
Monetary/Fiscal Policies	Money supply (M2) moderated to 18.1% yoy in August from a high of 18.5% yoy in July. Still, the PBOC quickened its pace of tightening by raising the bank reserve requirement for the seventh time and hiking the policy rate for the fifth time this year. Another rate hike should be enough to raise the deposit rate to above 4%, close to the long-term price movement. Thus, we expect the PBOC to hike the policy rate one more time by 27bps, together with probably another increase in the reserve requirement.
External Sector	Largely due to last year's high base, export growth dropped to 22.7% yoy from 34.2% yoy a month ago. Imports also weakened to 20.1% yoy from 26.9% yoy. However, the trade surplus still reached US$25bn, the second highest in history. The US slowdown lowered the growth of exports to the US to 9.4% yoy in August, compared with 22.6% yoy a year ago. The robust growth of the trade surplus will likely continue as long as the US slowdown does not lead to a recession.
Other (e.g. Political) Developments	The 17th Party Congress will convene on 15 October with an official reshuffle expected in the party. Once a new policy-making body is affirmed, future monetary policy will likely be more decisive, which could lead to the acceleration of RMB revaluation and structural adjustment.
Issues to Watch/Key Risks	(1) CPI inflation; (2) subprime crisis and US slowdown; (3) Fed rate cut; and (4) Taiwan issue

Figure 63. Key Economic Forecasts

	2000	2001	2002	2003	2004	2005	2006	2007E	2008E
Real Sector									
Real GDP (% yoy)	8.4	8.3	9.1	10.0	10.1	10.2	11.1	11.2	11.0
Domestic demand ex Inventory (% yoy)	10.2	9.0	11.1	12.2	11.8	13.1	12.9	14.4	13.9
Real Consumption: Private (% yoy)	9.0	6.6	7.7	6.8	8.1	9.6	10.9	11.1	12.3
Real Gross Fixed Capital Formation (% yoy)	9.8	11.2	15.4	20.4	16.1	17.1	15.3	17.5	14.8
Consumer Prices (period average, % yoy)	0.4	0.7	-0.8	1.2	3.9	1.8	1.5	3.5	4.5
Nominal GDP (US$ bn)	1,193	1,317	1,454	1,648	1,937	2,303	2,765	3,403	4,396
GDP per capita (USD)	856	1,032	1,132	1,275	1,490	1,761	2,104	2,553	3,252
Unemployment Rate (Urban, %)	3.1	3.6	4.0	4.3	4.2	4.2	4.1	4.2	4.0
External Sector									
Exports (% yoy, US$)	27.8	6.8	22.4	34.6	35.4	28.4	27.2	26.1	23.0
Imports (% yoy, US$)	35.8	8.2	21.2	39.8	36.0	17.6	20.0	19.0	22.0
Trade balance (US$ bn)	24	23	30	25	32	102	177	280	354
Current account (% of GDP)	1.7	1.3	2.4	2.8	3.5	7.0	9.0	10.1	9.7
International Reserves ex. Gold (US$ bn)	168	216	291	408	615	822	1068	1480	1650
Local Currency/USD (period average)	8.28	8.28	8.28	8.28	8.28	8.19	7.97	7.61	7.00
Other									
1 Year Lending rate (period average, %)	5.9	5.9	5.4	5.3	5.4	5.6	5.9	7.0	7.7
5 Year Benchmark bond (period average, %)	#N/A	#N/A	#N/A	2.7	4.1	3.2	2.6	3.3	4.5
Fiscal balance (% of GDP)	-2.5	-2.3	-2.6	-2.2	-1.3	-1.2	-0.7	-1.8	-2.0
Population (persons million)	1267	1276	1285	1292	1300	1308	1314	1333	1352

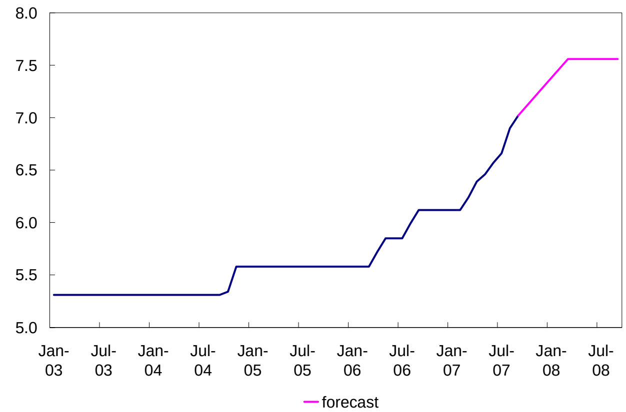
Source: CEIC Data Company Limited, IFS and Citi estimates.

Figure 64. Exchange Rate: USD-CNY



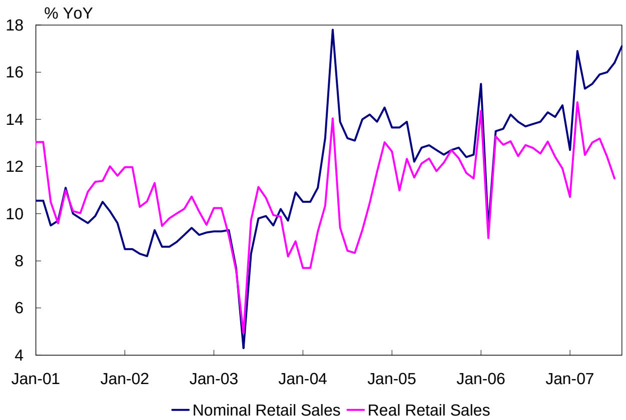
Source: Bloomberg, Haver Analytics, Citi estimates

Figure 65. Short Rate (%): 7 Day Bond Repo Rate



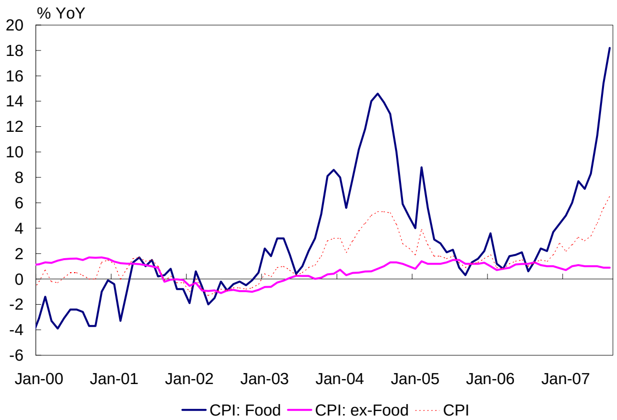
Source: Bloomberg, Haver Analytics, Citi estimates

Figure 66. Nominal retail sales accelerate further, but consumption improvements remains limited in real terms



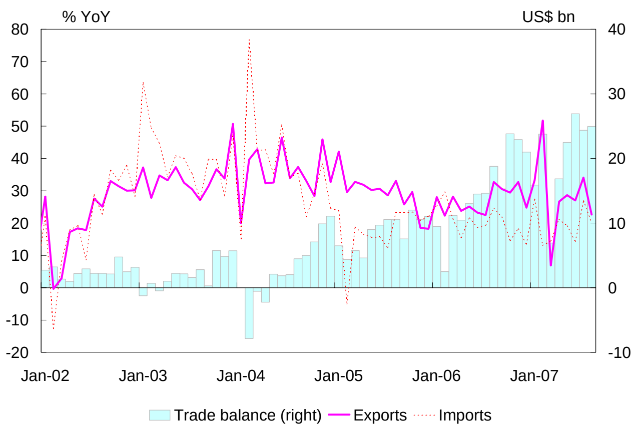
Source: CEIC Data Company Limited

Figure 67. Headline CPI rose to 6.5% in August, a level not seen since 1996. Prices continue to surge on food prices



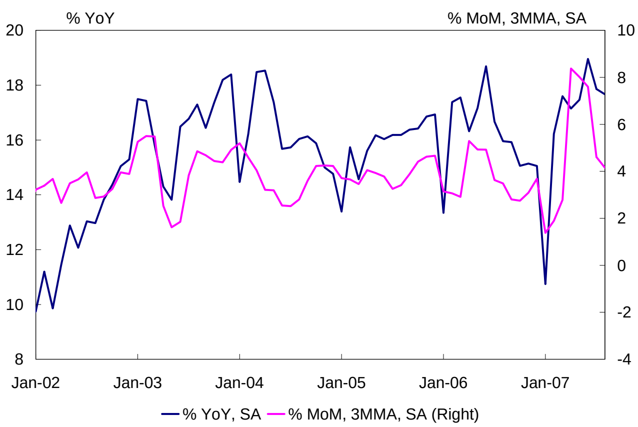
Source: CEIC Data Company Limited

Figure 68. Trade surplus reaches second highest in history despite weakening trade ties with the US



Source: CEIC Data Company Limited

Figure 69. Moderating industrial output could ease the overheating concerns, although the trend still needs to be confirmed



Source: CEIC Data Company Limited

Hong Kong

Joe Lo and Patricia Pong

Summary of Direction in Change in Views

Growth	Inflation	Short Rates	Long Rates	Exchange Rate	Current Account
-	•	•	•	-	-

Note: Symbols above are directional indicators with (+) indicating a nominal rise, (–) a fall, and (•) no change. Source: Citi estimates.

Recent Economic Developments and Prospects

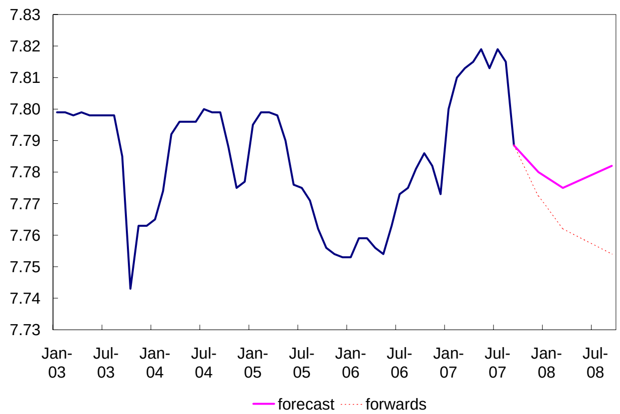
Real Sector	Economic growth maintained strong momentum in 3Q07 despite overseas market turmoil. Business activity has improved, as firms in the Aug PMI survey reported the strongest output and new orders in three months. The local stock market has decoupled from the sell-off in overseas markets thanks to expectations of an influx of Chinese funds. Meanwhile, the confidence of consumers and homebuyers remains strong, as indicated by robust retail and home sales. In coming months, lower interest rates would boost domestic demand while exports may face uncertainties about a US slowdown and China's foreign trade policies. We maintain our forecast for 6% real GDP growth this year, but we lowered our growth forecast from 5.8% to 5.5% for 2008.
Inflation	The headline inflation rate remained low in 3Q07, as the government cut rates (a levy on property) and public housing rent. But underlying inflation is edging up. Tighter labor supply is pushing up wages while import prices are rising due to RMB appreciation.
Monetary/Fiscal Policies	The HKD strengthened after the recent global market turmoil. Investors no long have the risk appetite to sell the HKD and buy the USD to earn higher interest income, hence removing the selling pressure on the HKD. Moreover, the actual and expectation of Chinese funds investing in Hong Kong's stock market have boosted the HKD. We expect the HKD to trade at levels below the peg rate of 7.8/USD in coming months. Meanwhile, HKD interbank rates are likely to fall after the Fed's interest rate cuts. But the process may take time. In fiscal policy, we expect another fiscal surplus this year, enabling the government to cut taxes again in 2008.
External Sector	Hong Kong exporters are facing challenges. Export growth weakened in July, as China's reduction in export tax rebates hurt Hong Kong's re-exports of Chinese goods. Overseas factors have also become less favorable, as shown by a cloudy outlook for the US economy and overseas consumer concerns about the safety of Chinese products.
Other (e.g. Political) Developments	We expect a stable political environment. Hong Kong's next major political event will be a Legislative Council election in 2008.
Issues to Watch/Key Risks	(1) US credit market; (2) China's monetary policy; (3) HKD interest rates; (4) RMB appreciation; (5) Taiwan politics; (6) US consumer spending; and (7) protectionism against China

Figure 70. Key Economic Forecasts

	2000	2001	2002	2003	2004	2005	2006	2007E	2008E
Real Sector									
Real GDP (% yoy)	10.0	0.6	1.8	3.2	8.6	7.5	6.9	6.0	5.5
Domestic demand ex Inventory (% yoy)	7.0	2.6	-1.6	-0.1	5.4	3.0	5.5	6.1	5.3
Real Consumption: Private (% yoy)	6.0	2.1	-1.0	-0.9	7.2	3.3	5.2	6.1	5.2
Real Gross Fixed Capital Formation (% yoy)	11.0	2.6	-4.5	0.9	3.1	4.6	7.9	7.4	6.0
Consumer Prices (period average, % yoy)	-3.7	-1.6	-3.0	-2.6	-0.4	0.9	2.0	1.8	3.6
Nominal GDP (US$ bn)	169	167	164	158	166	178	190	202	217
GDP per capita (USD)	25,319	24,804	24,274	23,544	24,439	26,093	27,677	29,199	31,053
Unemployment Rate (%)	4.975	5.125	7.3	7.9	6.8	5.5	4.8	4.0	3.6
External Sector									
Exports (% yoy)	16.1	-5.9	5.4	11.8	15.8	11.6	9.5	9.3	8.6
Imports (% yoy)	18.5	-5.5	3.3	11.7	16.9	10.5	11.7	10.2	9.3
Trade balance (US$ bn)	-10.9	-11.2	-7.6	-8.1	-11.8	-10.2	-17.9	-22.6	-27.1
Current account (% of GDP)	4.1	5.9	7.6	10.4	9.5	11.4	10.8	9.7	7.0
International Reserves ex. Gold (US$ bn)	108	111	112	118	124	124	133	140	145
Local Currency/USD (period average)	7.791	7.799	7.799	7.787	7.790	7.777	7.768	7.804	7.779
Other									
3M Interbank Rate (period average, %)	6.1	3.4	1.8	1.1	0.5	3.1	4.3	4.3	3.9
5 Year Exchange Fund Note (period average, %)	6.8	5.1	4.2	3.1	3.1	3.7	4.2	4.3	4.5
Fiscal balance (% of GDP; FY)	-0.6	-4.9	-4.8	-3.3	-0.3	1.0	4.0	2.0	1.5
Population (persons million)	6.7	6.7	6.8	6.8	6.9	6.8	6.9	6.9	7.0

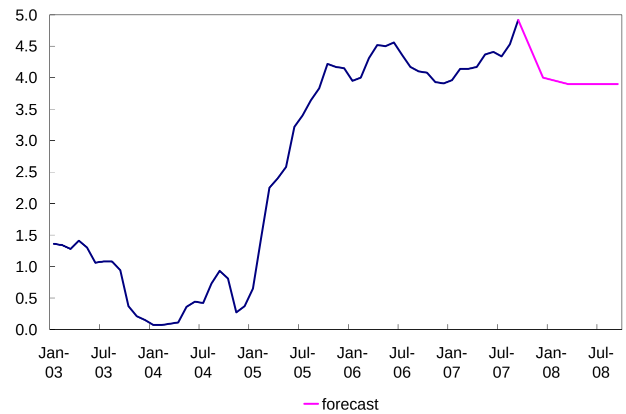
Source: CEIC Data Company Limited, IFS, Citi estimates.

Figure 71. Exchange Rate: USD-HKD



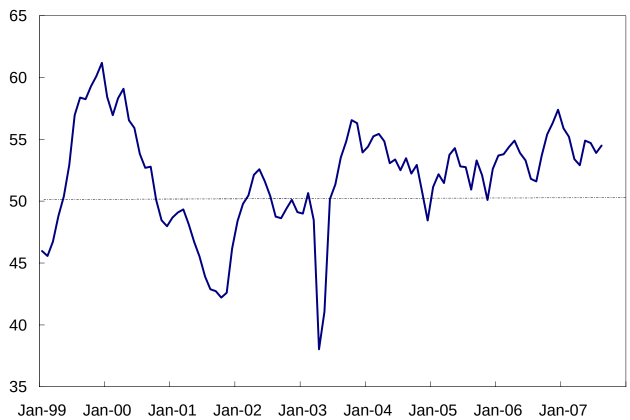
Source: Bloomberg, Haver Analytics, Citi estimates

Figure 72. Short Rate (%): 3 Month HIBOR



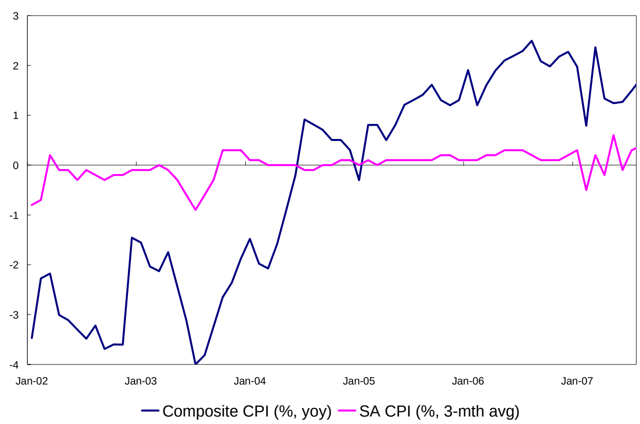
Source: Bloomberg, Haver Analytics, Citi estimates

Figure 73. The August PMI rebounds to the average level in 1H07 suggesting robust economic growth



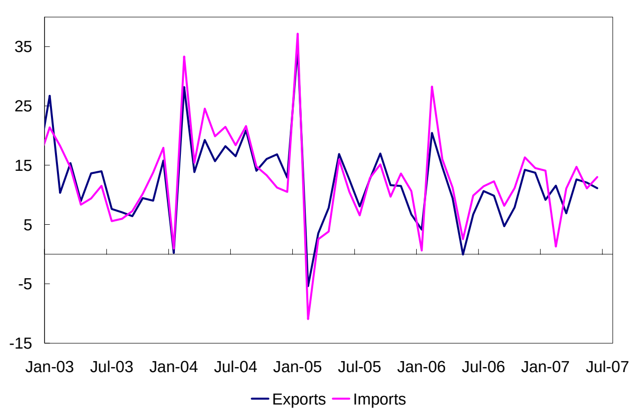
Source: CEIC Data Company Limited, HK SAR Government

Figure 74. Real interest rates could fall in coming quarters if inflation maintains an upward trend, boosting local asset prices



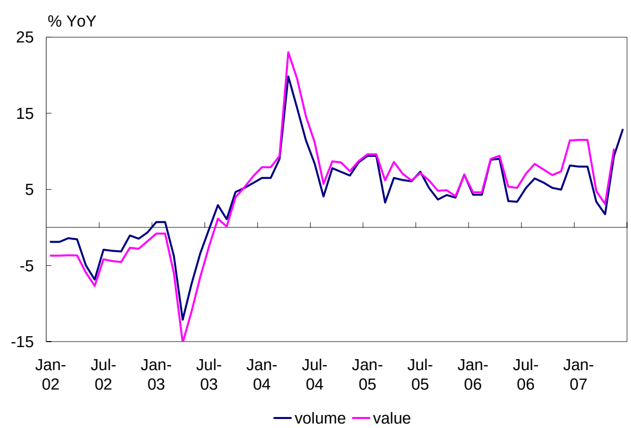
Source: CEIC Data Company Limited, HK SAR Government

Figure 75. The initial impact on Hong Kong's re-export of Chinese goods from China's export VAT rebate cut hurt total exports growth



Source: CEIC Data Company Limited, HK SAR Government

Figure 76. Robust retail sales in July reflects solid domestic demand and marked improvement in tourism



Source: CEIC Data Company Limited, HK SAR Government

India

Rohini Malkani and Anushka Shah

Summary of Direction in Change in Views

Growth	Inflation	Short Rates	Long Rates	Exchange Rate	Current Account
•	•	•	+	+	-

Note: Symbols above are directional indicators with (+) indicating a nominal rise, (–) a fall, and (•) no change. Source: Citi estimates.

Recent Economic Developments and Prospects

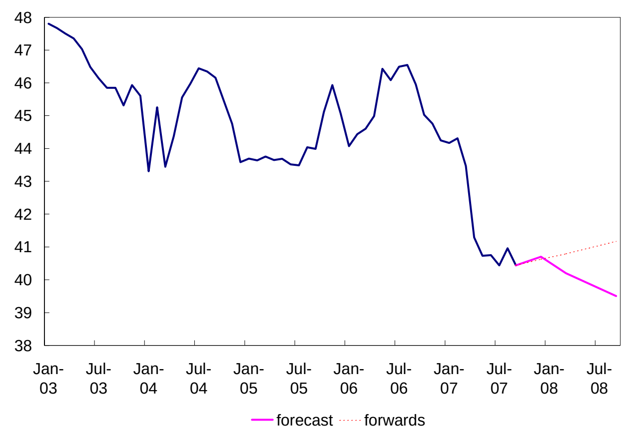
Real Sector	Real GDP in 1Q FY08 rose 9.3% yoy, led by a 10.6% yoy rise in industry and services while agriculture grew 3.8% yoy. However, growth in industry and infrastructure dropped to 7.1% yoy and 6.3% yoy, respectively, in July. Given current trends in industrial growth, our full-year 10% yoy growth estimate appears optimistic, but we maintain our full-year 9.3% yoy GDP estimate as: (1) the infrastructure slowdown is largely supply driven; (2) agriculture could surprise on the upside; and (3) a relatively benign monetary policy environment should further stem the decline in consumption.
Inflation	We expect to see continued moderation in inflation on the back of the base effect, RBI's tightening measures and fiscal measures taken in FY07. Going forward, we expect inflation to remain at sub-5% levels during the remainder of 2007, in line with RBI's 5% target for inflation in FY08.
Monetary/Fiscal Policies	While the government is likely to meet its FY08 fiscal deficit target, we need to watch for deterioration in the revenue deficit and off-balance sheet items. These include the likely issuance of oil/food bonds and additional fertilizer subsidies.
External Sector	Higher-than-expected exports coupled with a deceleration in imports resulted in the trade deficit narrowing to US$5bn in July from US$7.3bn in June and US$6.2bn in May. The commodity composition of trade continues to support the investment pickup. Looking ahead, we expect India's trade deficit on a customs basis (excludes defense) to widen to US$71bn in FY08 vs. US$56bn in FY07. While this takes into account a deceleration in export growth to 15% and an increase in the oil import bill (assumes 10% volume growth and Dubai crude at US$70/bbl), continuation of strong trends in non-oil imports would warrant a slight adjustment.
Other (e.g. Political) Developments	The Indo-US nuclear agreement has possibly precipitated a political crisis for the United Progressive Alliance (UPA) government with the Left Parties giving the government an ultimatum not to "operationalize" the agreement "till objections are considered and the implications of the Hyde Act analyzed." While a looming concern is that the Left Parties could walk out of the co-ordination committee of the UPA, thus bringing the fault lines in the open, we do not expect to see much further downside as far as reforms are concerned.
Issues to Watch/Key Risks	A worsening global credit crunch and politics remain risks to the outlook.

Figure 77. Key Economic Forecasts

	FY01	FY02	FY03	FY04	FY05	FY06	FY07E	FY08E	FY09E
Real Sector									
Real GDP (% yoy)	4.4	5.8	3.8	8.5	7.5	9.0	9.4	9.3	9.4
Agriculture (% yoy)	-0.2	6.3	-7.2	10.0	0.0	6.0	2.7	3.0	2.8
Industry (% yoy)	6.3	2.7	7.1	7.4	9.8	9.6	10.9	10.0	10.4
Services (% yoy)	5.7	7.2	7.4	8.5	9.6	9.8	11.0	11.0	11.0
Wholesale Prices (period average, % yoy)	7.1	3.6	3.4	5.5	6.5	4.4	5.3	4.5	4.5
Nominal GDP (US$ bn)	460	475	509	603	695	805	919	1117	1322
GDP Per Capita (US$)	457	467	495	584	673	769	864	1035	1207
External Sector									
Exports (US$, % yoy)	21.1	-1.6	20.3	23.3	28.5	23.4	23.9	15.2	15.0
Imports (US$, % yoy)	4.6	-2.8	14.5	24.1	48.6	32.0	29.4	18.3	12.1
Trade Balance (US$ Bils.)	-12.5	-11.6	-10.7	-13.7	-33.7	-51.8	-56.7	-71.1	-75.6
Current Account (% of GDP)	-0.6	0.7	1.2	2.3	-0.4	-1.1	-1.0	-1.3	-1.4
International Reserves ex. Gold (US$ Bils.)	40	51	72	106	135	145	192	213	230
Local Currency/USD (period average)	45.70	48.00	48.30	45.90	45.00	44.30	44.90	41.55	40.00
Other									
Prime Lending Rate (period average, %)	11.5	11.3	10.8	10.3	10.0	10.3	10.8	10.8	10.5
10 Year Benchmark bond (period average, %)	9.8	7.3	5.9	4.7	5.2	7.0	7.8	8.0	7.5
Fiscal balance (% of GDP)	-9.5	-9.9	-9.6	-8.5	-7.5	-7.4	-6.3	-6.0	-6.1
Population (persons million)	997	1007	1017	1027	1031	1032	1047	1063	1079

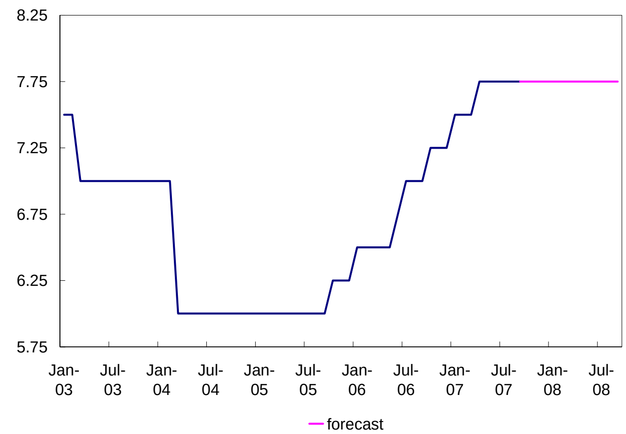
Note: India's fiscal year runs from April – March. Source: CSO, RBI, Ministry of Finance, CEIC Data Company Limited, IFS and Citi estimates.

Figure 78. Exchange Rate: USD-INR



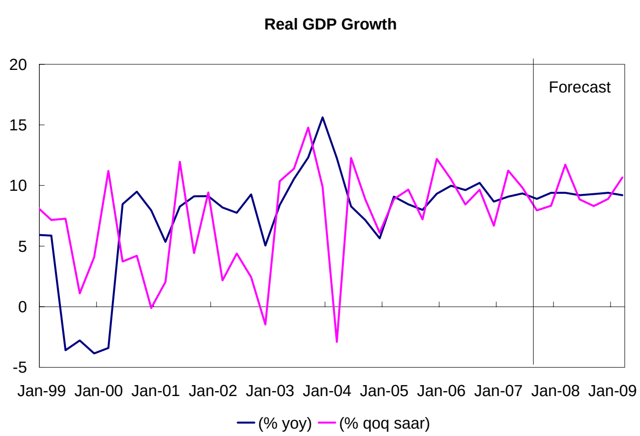
Source: Bloomberg, Haver Analytics, Citi estimates

Figure 79. Short Rate (%): Overnight Reverse Repo Rate



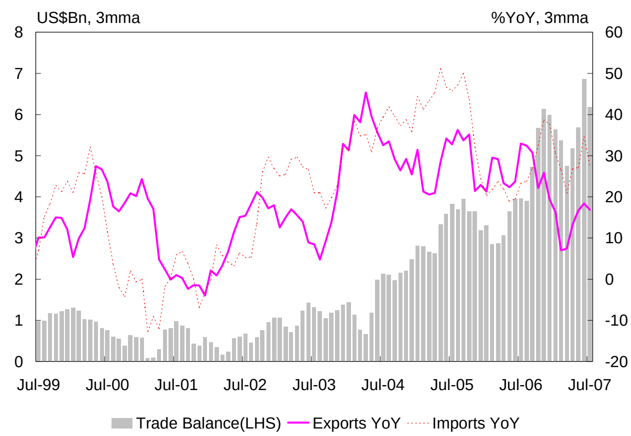
Source: Bloomberg, Haver Analytics, Citi estimates

Figure 80. 1QFY08 GDP in line with expectations, with growth led by rise in both industry and services



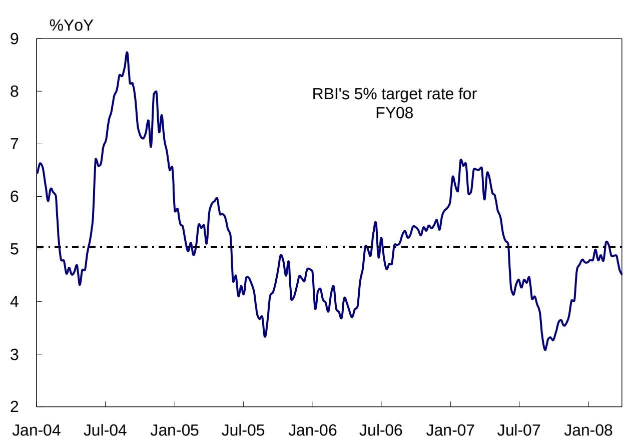
Source:

Figure 81. Higher than expected exports coupled with a deceleration in imports resulted in trade deficit narrowing in July



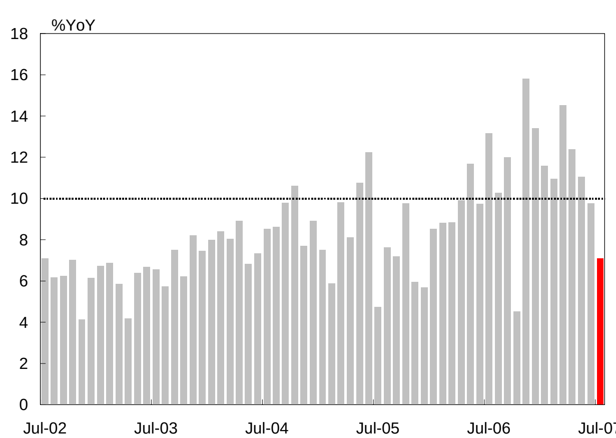
Source: Directorate General of Commercial Intelligence and Statistics

Figure 82. While inflation has been on a steady downtrend since January's high, we expect trends to bottom out in the coming week on oil and food prices risks



Source: DGCI&S

Figure 83. Industrial production slowed in July with deceleration seen across all sectors with the interest sensitive sectors worse off



Source: CSO

Indonesia

Anton H. Guanwan

Summary of Direction in Change in Views

Growth	Inflation	Short Rates	Long Rates	Exchange Rate	Current Account
+	+	•	-	-	•

Note: Symbols above are directional indicators with (+) indicating a nominal rise, (–) a fall, and (•) no change. Source: Citi estimates.

Recent Economic Developments and Prospects

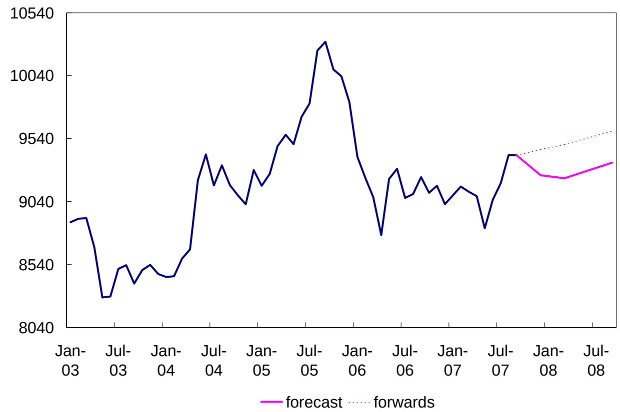
Real Sector	With exports continuing to grow and investment starting to pick up, we see upside risk for our economic growth forecast of 6.0% toward the government forecast of 6.3%. After a subpar increase in June, cement consumption grew 10.5% yoy in July and 11.0% yoy in August. Domestic investment rose 176.5% yoy and foreign direct investment grew 96.8% yoy over January–July.
Inflation	Food prices have risen earlier than usual before the fasting month of Ramadan. The poor transition from household use of kerosene to LPG (liquefied petroleum gas) pushed up the market price of subsidized kerosene. Thus, we think end-2007 inflation may reach our forecast of 6.6%, which is higher than the 6.0% assumed in the revised 2007 government budget.
Monetary/Fiscal Policies	We expect BI to maintain its policy rate at 8.25% in October due to currency volatility and cut by 25bps in November to follow the US Fed funds rate cut. Recent increases in world oil prices will have a slightly positive impact on the fiscal balance, but affect the market price of fuel. Despite the possibility of higher spending for natural disasters, we think a fiscal deficit of 1.5% of GDP in 2007 will likely be achieved.
External Sector	After the financial market sell-off and foreign investors pulling out their investments, which weakened the IDR/USD, we see investors returning to buy SBI and government bonds. Official foreign exchange reserves of US$51.4bn fell slightly in August due to the central bank's need to defend the currency.
Other (e.g. Political) Developments	The Japan and Indonesia Economic Partnership Agreement (JIEPA) is intended to attract investment from Japanese businesses. The PDI-P has started to prepare for the 2009 general election by appointing former President Megawati as its presidential candidate in the upcoming election.
Issues to Watch/Key Risks	(1) A sudden reversal of the short-term foreign portfolio investment influx; (2) excessive lending by state banks for infrastructure projects; and (3) a newly proposed government regulation to relax the labor market

Figure 84. Key Economic Forecasts

	2000	2001	2002	2003	2004	2005	2006	2007E	2008E
Real Sector									
Real GDP (% yoy)	4.9	3.6	4.5	4.8	5.0	5.7	5.5	6.0	6.5
Domestic demand ex Inventory (% yoy)	4.6	4.5	4.7	3.6	7.0	5.8	3.7	6.5	8.4
Real Consumption: Private (% yoy)	1.6	3.5	3.8	3.9	5.0	4.0	3.2	4.7	5.4
Fixed Investment (% yoy)	16.7	6.5	4.7	0.6	14.7	10.8	2.9	10.7	15.0
Consumer Price (% yoy)	3.8	11.5	11.8	6.8	6.1	10.5	13.1	6.3	6.3
Nominal GDP (US$ bn)	166	161	196	235	257	287	364	409	459
GDP per capita (US$)	742	697	928	1,100	1,187	1,308	1641	1820	2016
Unemployment Rate (%)	6.1	8.1	9.1	9.5	9.9	10.3	10.3	10.0	9.6
External Sector									
Exports (US$% yoy)	27.7	-9.3	1.5	6.8	17.2	19.7	17.5	7.0	10.0
Imports (US$% yoy)	39.6	-7.6	1.1	4.0	42.9	24.0	5.9	15.3	20.0
Trade Balance (US$ bn)	29	25	26	29	25	28	40	37	34
Current Account (% of GDP)	4.8	4.3	4.0	3.5	0.6	0.1	2.6	1.8	0.9
International Reserves ex. Gold (US$ bn)	29	28	32	36	36	35	43	50	54
Local Currency/USD (period average)	8389	10247	9315	8573	8936	9711	9167	9162	9217
Other									
1M SBI Rate (period average, %)	12.4	16.5	15.1	10.1	7.5	9.6	11.6	8.3	6.5
FR0028 10% 07/15/2017 (period average, %)	#N/A	#N/A	#N/A	#N/A	11.0	11.0	12.1	9.0	9.8
Fiscal balance (% of GDP)	-1.2	-2.5	-0.9	-1.9	-1.2	-0.5	-1.1	-1.5	-1.5
Population (persons million)	205	208	211	214	216	219	222	225	228

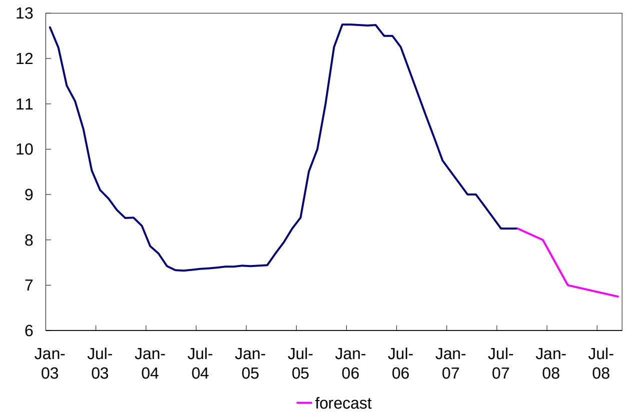
Source: CEIC Data Company Limited and Citi estimates.

Figure 85. Exchange Rate: USD-IDR



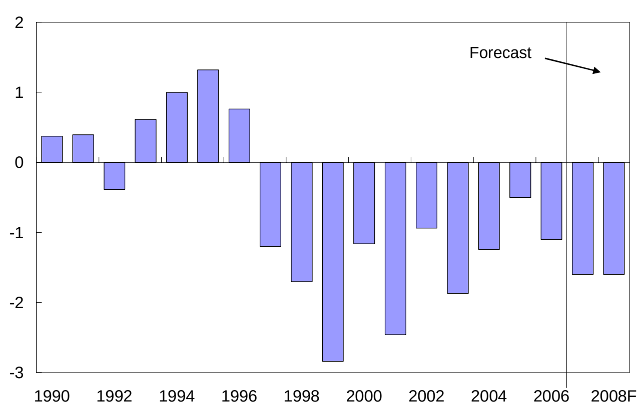
Source: Bloomberg, Haver Analytics, Citi estimates

Figure 86. Interest Rate (%): 28 Days SBI



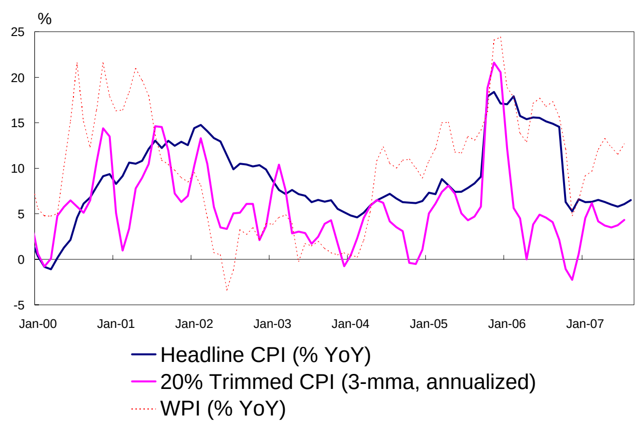
Source: Bloomberg, Haver Analytics, Citi estimates

Figure 87. Increase fiscal deficit in 2007 may look small but with efficient reallocation of government expenditures may prove growth expansionary



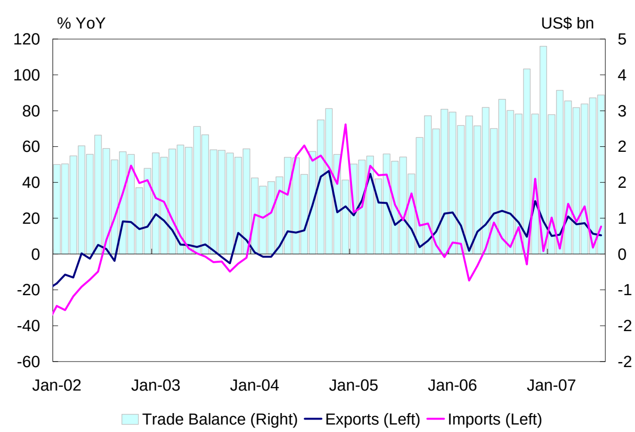
Source: CEIC Data Company Limited and Citi estimates

Figure 88. Aug CPI rose on education, kerosene and food inflation. We think the early rise of food prices facing Ramadhan may be partially offset in Sep



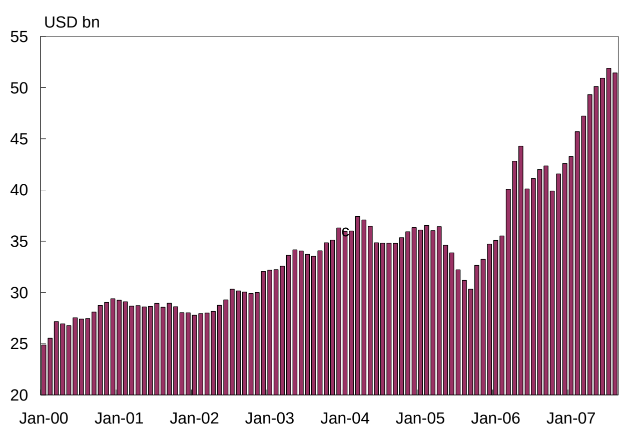
Source: CEIC Data Company Limited and Citi estimates

Figure 89. Trade surplus rose further in July, as exports gained again, while imports bounced back up



Source: CEIC Data Company Limited

Figure 90. Foreign exchange reserves declined as the central bank intervened to help stabilize the recent financial market turmoil



Source: CEIC Data Company Limited

Malaysia

Hak Bin Chua

Summary of Direction in Change in Views

Growth	Inflation	Short Rates	Long Rates	Exchange Rate	Current Account
•	+	•	•	•	•

Note: Symbols above are directional indicators with (+) indicating a nominal rise, (–) a fall, and (•) no change. Source: Citi estimates.

Recent Economic Developments and Prospects

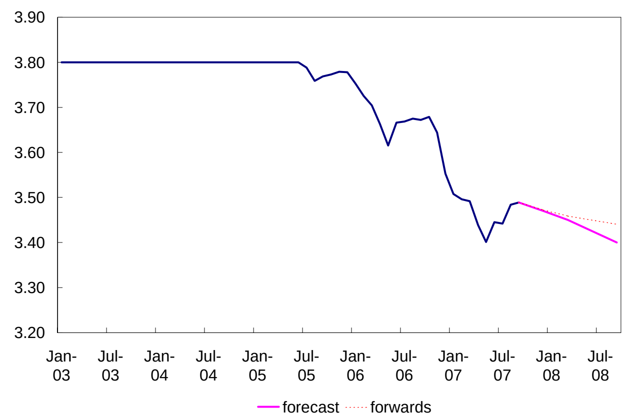
Real Sector	Second-quarter GDP growth came in slightly better than expected at 5.7% yoy, bringing first half growth to 5.6% yoy. Services and consumer spending are supporting growth. Exports and manufacturing continue to be downbeat because of a tech slump. Full-year GDP growth may fall short of the government's target of 6% yoy given a slow investment recovery.
Inflation	We are raising our average inflation forecast to 2.0% yoy for 2007 and 2.5% yoy for 2008. Inflation has probably bottomed out and is expected to climb given rising wage costs, softer currency and likely fuel subsidy cuts early next year. A 25% increase in the excise duty on tobacco products in July also increased the CPI component for alcohol and tobacco.
Monetary/Fiscal Policies	We expect Bank Negara to maintain the policy rate at 3.5% despite the recent financial turmoil and risk to growth. The governor reiterated that the policy stance remains appropriate. There is a small likelihood, however, that Bank Negara may cut the policy rate by 25bps if the Fed cuts by 75bps or more by year-end. The government did not unveil an expansionary budget. Rather, there was a substantial pullback in development expenditure. This is a marked shift from what was a government-led effort to one that completely counts on the private sector to revive investment, an optimistic and perhaps unrealistic strategy.
External Sector	We remain less upbeat about prospects for exports than recent government pronouncements. The current tech and export slump will likely persist into the second half, particularly given slower US consumer spending amid a housing recession.
Other (e.g. Political) Developments	We expect the government to call for early elections, possibly by early next year. Another set of incentives will be announced for the Southern Corridor project, while details for the Eastern Corridor project will be unveiled closer to year-end.
Issues to Watch/Key Risks	Investment recovery has been slow despite a spate of measures and ambitious projects in the Southern and Northern Corridor. The government is targeting a more modest increase in public investments. There is also a risk that tighter global credit conditions and financial turmoil could deter foreign investment inflows.

Figure 91. Key Economic Forecasts

	2000	2001	2002	2003	2004	2005	2006	2007E	2008E
Real Sector									
Real GDP (% yoy)	8.9	0.3	4.4	5.5	7.2	5.2	5.9	5.7	6.0
Domestic demand ex Inventory (% yoy)	15.5	2.5	3.9	6.1	7.5	7.3	7.4	7.7	7.5
Real Consumption: Private (% yoy)	13.0	2.4	4.4	6.6	10.5	9.2	7.0	9.0	7.3
Real Gross Fixed Capital Formation (% yoy)	25.7	-2.8	0.3	2.7	3.1	4.7	7.9	7.4	6.1
Consumer prices (% yoy)	1.6	1.4	1.7	1.2	1.4	3.1	3.6	2.0	2.5
Nominal GDP (US$ bn)	90	88	95	104	118	131	149	170	186
GDP per capita (USD)	3,844	3,665	3,884	4,152	4,631	5,005	5,591	6,239	6,706
Unemployment Rate (%)	3.1	3.7	3.5	3.6	3.6	3.6	3.5	3.4	3.4
External Sector									
Exports (% yoy, US$)	16.2	-10.4	6.9	11.6	20.5	11.4	14.0	3.2	5.5
Imports (% yoy, US$)	25.5	-10.2	8.0	4.8	25.9	8.9	14.4	6.5	8.2
Trade balance (US$ bn)	16.1	14.2	14.3	21.4	21.2	26.4	29.6	26.2	23.9
Current account (% of GDP)	9.4	8.3	8.4	12.8	12.6	15.3	17.1	12.4	11.1
International Reserves ex. Gold (US$ bn)	30	30	34	45	66	70	82	90	100
Local Currency/USD (period average)	3.800	3.800	3.800	3.800	3.800	3.787	3.668	3.468	3.430
Other									
3 Month KLIBOR Fixing (period average, %)	3.19	3.13	2.92	2.88	2.84	2.88	3.55	3.63	3.60
5 Year MGS Yield (period average, %)	5.11	3.54	3.47	3.60	4.09	3.57	4.01	3.64	3.88
Fiscal balance (% of GDP)	-5.7	-5.5	-5.6	-5.3	-4.3	-3.8	-3.5	-3.2	-3.3
Population (persons million)	23	24	25	25	26	26	27	27	28

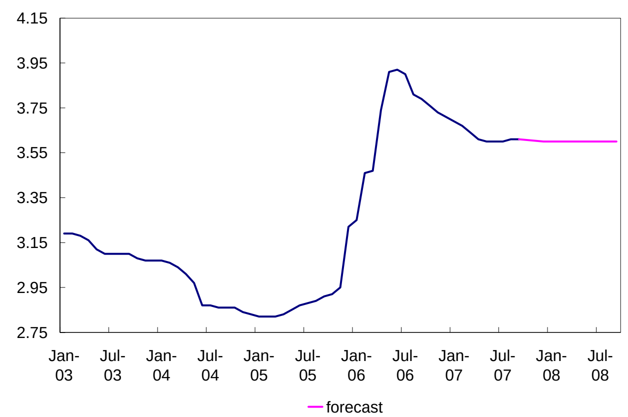
Source: CEIC Data Company Limited and Citi estimates.

Figure 92. Exchange Rate: USD-MYR



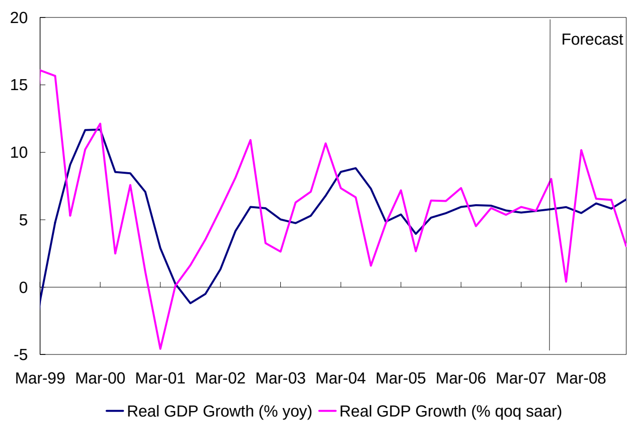
Source: Bloomberg, Haver Analytics, Citi estimates

Figure 93. Interest Rate (%): 3 Month KLIBOR



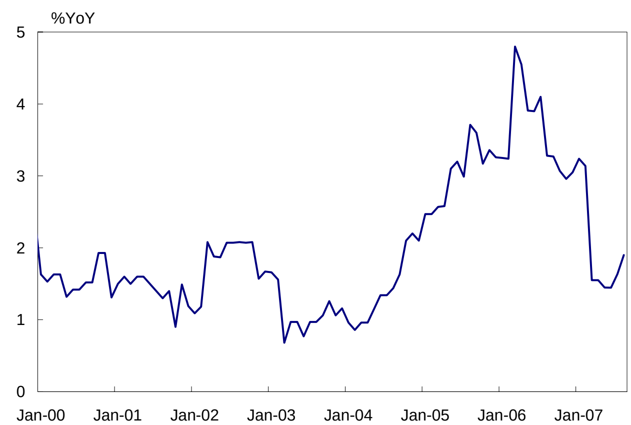
Source: Bloomberg, Haver Analytics, Citi estimates

Figure 94. 2Q GDP grew strongly, supported by services, mining and construction



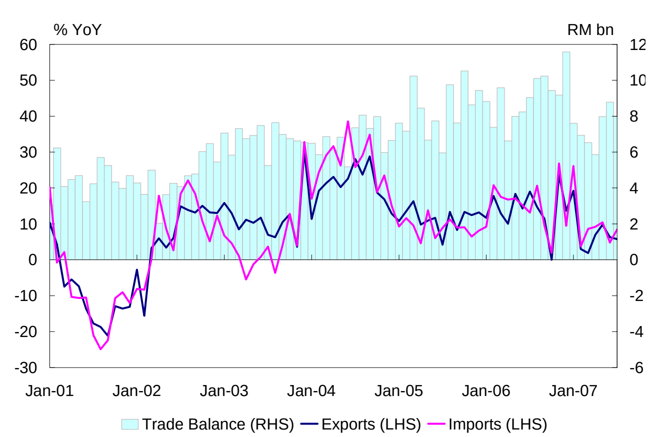
Source: CEIC Data Company Limited and Citi estimates

Figure 95. A weaker ringgit and higher food and cigarette prices increased inflation pressures



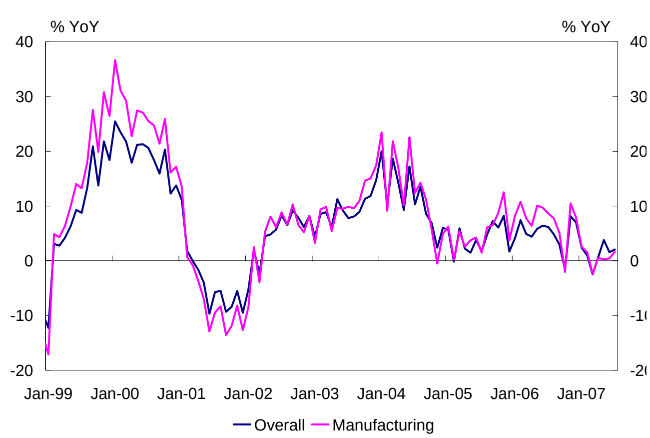
Source: CEIC Data Company Limited

Figure 96. Exports continue to contract on disappointing tech exports and likely to remain soft in the coming months



Source: CEIC Data Company Limited

Figure 97. Mining, manufacturing and electricity production supported industrial output growth, but IP likely remain modest in the near future on tech drag



Source: CEIC Data Company Limited

Philippines

Jun Trinidad

Summary of Direction in Change in Views

Growth	Inflation	Short Rates	Long Rates	Exchange Rate	Current Account
+	-	•	•	•	•

Note: Symbols above are directional indicators with (+) indicating a nominal rise, (–) a fall, and (•) no change. Source: Citi estimates.

Recent Economic Developments and Prospects

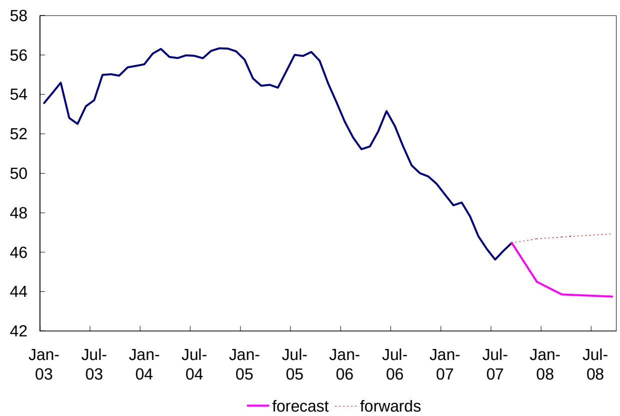
Real Sector	We upgraded our GDP forecast to 7.1% yoy following upbeat 2Q07 GDP growth of 7.5% yoy. A fiscal spending catalyst and a favorable pace of consumption were behind the strong domestic demand (ex-inventory). We believe lackluster gains in collection efficiency comprise a larger risk to buoyant growth prospects than a 2H07 export downtrend.
Inflation	We upgraded our inflation forecast to 2.8% yoy in 2007 from the previous 3% yoy. The influence of the strong currency pass-through in 1H07 will not be muted or overturned by recent developments, especially rising oil prices. The main adjustment to higher oil prices will be the consumption of durable goods. An expected resumption of a strong peso in 4Q07 will help mute fuel price increases.
Monetary/Fiscal Policies	We believe there is an even chance that the Monetary Board will reciprocate the US Fed's 50bp rate easing. The high real interest rate setting and its adverse impact on domestic demand can be a drag on near-term prospects. We think there is more reliance on the fiscal spending catalyst than monetary action to prime recent growth. Lower nominal policy rates would also ease interest rate pressure from BSP's swap activities and special deposit accounts that are in place to curb liquidity growth. These measures, which offer favorable yields in excess of inflation, tend to signal and sustain tightening risk that encourages investor preference for short duration. Three straight months (Jun-Aug) of fiscal surpluses with the latest surplus at PHp13.9bn and recent retail Treasury bond floats with more than Php70bn in proceeds strengthened Treasury's cash position.
External Sector	We lowered our 2007 export and import forecasts in anticipation of a lackluster global trading environment in 2H07 and slow private investment. A lower trade deficit of Php4.9bn boosts our forecast for a current account surplus of 5.8% of GDP this year. This supports a strong peso trend that is likely to resume in 4Q07.
Other (e.g. Political) Developments	The conclusion of former President Estrada's trial was a non-event risk. Corruption allegations involving the president's husband recently intensified political noise. Financial markets recovered on the day that Estrada's trial ended as the worst-case scenario of political violence failed to materialize.
Issues to Watch/Key Risks	Financial market rallies are likely to be short-lived. Disappointing 3Q07 corporate earnings disclosures especially from banks could trigger a return of global risk aversion.

Figure 98. Key Economic Forecasts

	2000	2001	2002	2003	2004	2005	2006	2007E	2008E
Real Sector									
Real GDP (% yoy)	6.0	1.8	4.4	4.9	6.4	4.9	5.4	7.1	6.8
Domestic demand ex Inventory (% yoy)	7.0	-0.8	3.1	4.8	4.7	2.5	4.8	6.5	6.7
Real Consumption: Private (% yoy)	3.5	3.6	4.1	5.3	5.9	4.8	5.5	5.8	5.7
Real Gross Capital Formation (% yoy)	19.9	-13.0	2.1	3.8	1.3	-6.6	1.4	8.6	10.7
Consumer prices (% yoy)	4.3	6.1	2.5	3.5	6.0	7.7	6.3	2.8	3.8
Nominal GDP (US$ bn)	76	71	77	80	87	99	117	142	167
GDP per capita (USD)	985	906	956	972	1,037	1,153	1,359	1,617	1,871
Unemployment Rate (%)	11.7	10.9	11.5	11.5	11.9	11.2	11.0	10.0	9.0
External Sector									
Exports (% yoy, US$)	9.1	-16.2	9.9	2.7	9.8	3.8	14.6	5.5	8.0
Imports (% yoy, US$)	7.7	-13.3	6.3	3.1	8.0	8.0	10.6	1.0	7.5
Trade balance (US$ bn)	-6.0	-6.3	-5.5	-5.9	-5.7	-7.8	-7.0	-4.9	-5.1
Current account (% of GDP)	-2.9	-2.4	-0.4	0.4	1.9	2.0	4.3	5.8	5.3
International Reserves ex. Gold (US$ bn)	13.1	13.5	13.3	13.7	13.1	15.9	20.0	24.4	30.8
Local Currency/USD (period average)	44.2	51.0	51.6	54.2	56.0	55.1	51.6	46.7	43.8
Other									
91 Day T-Bill (period average, %)	9.9	9.7	5.5	5.4	7.3	6.1	5.1	4.5	4.6
5-Year T-Bond (period average, %)	16.5	14.7	11.7	10.8	11.7	10.9	7.9	6.2	6.5
Fiscal balance (% of GDP)	-4.0	-4.0	-5.3	-4.6	-3.8	-2.7	-1.0	-0.7	-0.3
Population (persons million)	76	78	80	81	83	84	86	88	90

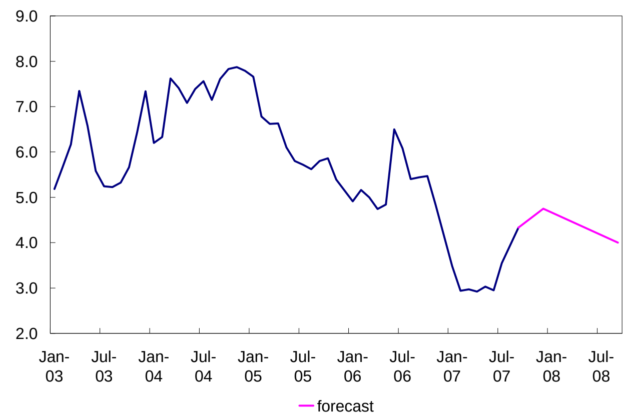
Source: CEIC Data Company Limited and Citi estimates.

Figure 99. Exchange Rate: PHP-USD



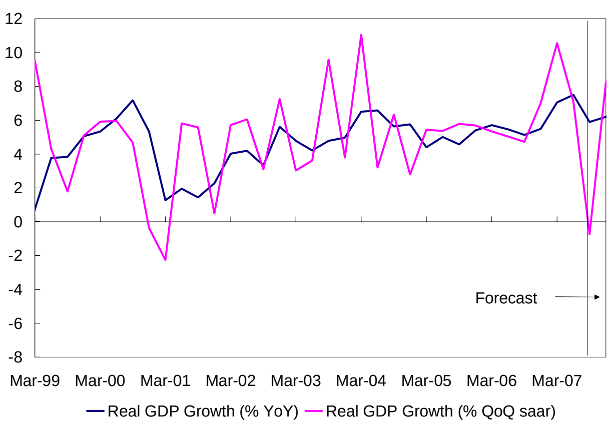
Source: Bloomberg, Haver Analytics, Citi estimates

Figure 100. Interest Rate (%): 91 Day T-Bill



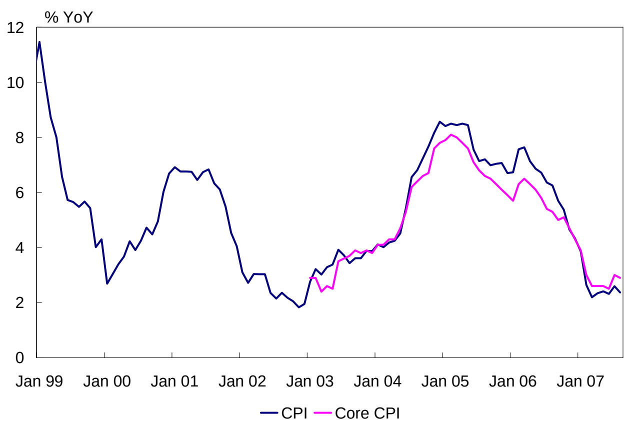
Source: Bloomberg, Haver Analytics, Citi estimates

Figure 101. Despite strong 2Q GDP update, global financial turmoil will be a challenge to upbeat expectations in 2H07



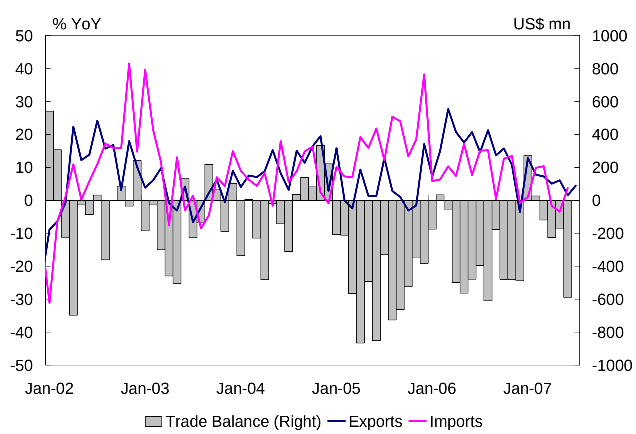
Source: CEIC Data Company Limited and Citi estimates

Figure 102. Improving farm output, limited pressures on capacity, broad money growth and the strong peso kept inflation favourable.



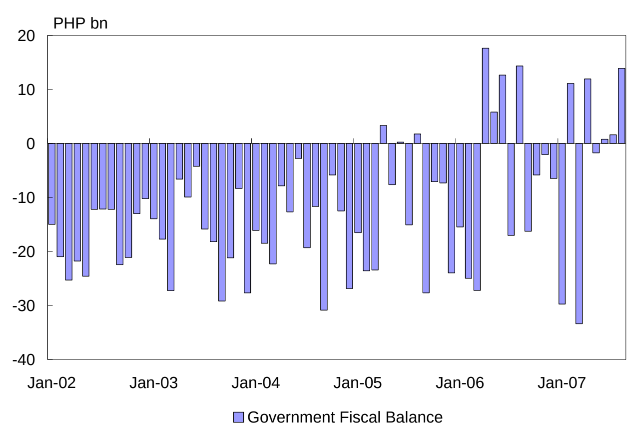
Source: CEIC Data Company Limited

Figure 103. The pace of electronics will likely remain unexciting, we downgraded our full year exports forecasts to 5.5%yoy



Source: CEIC Data Company Limited

Figure 104. Aug fiscal surplus occurred on interest savings, no material revenue shortfalls and non-tax revenue proceeds



Source: CEIC Data Company Limited and Citi estimates

Sri Lanka

Rohini Malkani and Anushka Shah

Summary of Direction in Change in Views

Growth	Inflation	Short Rates	Long Rates	Exchange Rate	Current Account
•	+	•	•	•	•

Note: Symbols above are directional indicators with (+) indicating a nominal rise, (–) a fall, and (•) no change. Source: Citi estimates.

Recent Economic Developments and Prospects

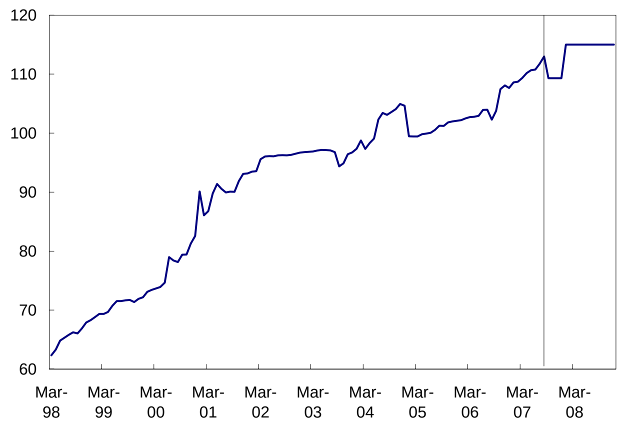
Real Sector	Industrial production remained healthy at 6.1% yoy in June, but came in marginally lower than 7% yoy in May. This was largely on the back of lower growth in textile and ready-made garment production. Due to political uncertainties, we expect GDP growth to slow to 6.3% yoy in 2007.
Inflation	The Colombo consumer price index remained in the 17% range in August, much higher than the central bank's inflation target of 10%, due to higher food prices. Given that oil prices and politics remain as threats, we expect inflation in 2007 to trend closer to 16% vs. our earlier estimate of 13%.
Monetary/Fiscal Policies	Money supply growth over January-July remained high at 19.6% yoy. This coupled with higher disbursements of private-sector credit is likely to result in a continuation of the central bank's tightening stance. Continued buoyancy in taxes (+30% yoy and 44% of budgeted estimates) resulted in total revenue over January-June remaining strong at 43% of the budgeted estimate. However, with rising expenditure (43.4% of estimates) the government's fiscal deficit target of 7.5% of GDP in 2007 looks ambitious.
External Sector	Export growth decelerated in June to 7% yoy, and imports contracted by 11.5% yoy due to lower fertilizer, petro and consumer good imports. This resulted in the trade deficit narrowing to US$157mn. However, we will watch the currency, which saw sharp depreciation toward the end of August due to government intervention and dwindling international reserves.
Other (e.g. Political) Developments	The leader of the United National Party (UNP) – the opposition party – reportedly sent a letter to three mandated investment banks declaring that a proposed US$500mn sovereign bond issue would be a "violation of the law." Given the volatile political scenario in the country, the odds of the UNP coming back into power cannot be ruled out, which would jeopardize the issuance of the sovereign bond. While issuance could be a strain on public finances, it will help ease the current pressure on yields due to tight liquidity conditions, stabilize the currency and aid infrastructure financing.
Issues to Watch/Key Risks	Key risks to our outlook are politics and weak governance, higher inflation, and deterioration in the BOP.

Figure 105. Key Economic Forecasts

	2000	2001	2002	2003	2004	2005	2006	2007E	2008E
Real Sector									
Real GDP (% YoY)	5.9	-1.5	4.1	6.0	5.4	6.0	7.4	6.3	6.6
Agriculture (% YoY)	1.8	-3.4	2.5	1.6	-0.3	1.9	4.7	3.0	3.0
Industry (% YoY)	7.5	-2.1	1.0	5.5	5.2	8.3	7.2	7.0	7.0
Services (% YoY)		-0.5	6.3	7.9	7.6	6.2	8.3	7.0	7.5
Consumer Price (Period Average, % YoY)	1.5	12.0	10.2	2.6	7.9	10.6	9.6	16.0	10.0
GDP (US$ Bils.)	16.6	15.7	16.5	18.3	20.1	23.5	27.0	30.1	33.1
GDP Per Capita (US$)	857	840	870	948	1030	1197	1355	1495	1627
External Sector									
Exports (US$, % YoY)	19.8	-12.8	-2.4	9.2	12.2	10.2	8.4	11.0	12.0
Imports (US$, % YoY)	22.4	-18.4	2.2	9.3	19.9	10.8	15.7	12.0	11.0
Trade Balance (US$ Bils.)	-1.8	-1.2	-1.4	-1.5	-2.2	-2.5	-3.4	-3.8	-4.2
Current Account (% of GDP)	-6.4	-1.4	-1.4	-0.4	-3.3	-2.8	-4.9	-4.0	-3.1
International Reserves ex. Gold (US$ Bils.)	1.0	1.3	1.7	2.3	2.2	2.5	2.5	2.7	2.9
Currency/USD (Period Average)	75.8	89.4	95.7	96.5	101.2	100.5	104.0	110.0	115.0
Other									
3 Months Treasury Bills (Average, %)	12.3	17.1	12.0	8.2	7.5	8.7	10.7	19.0	14.0
T-bill; 364-Day (Average, %)	13.1	17.5	12.7	8.1	7.7	8.9	10.9	18.0	15.0
Consolidated Fiscal Balance (% of GDP)	-9.9	-10.8	-8.9	-8.0	-8.2	-8.7	-8.8	-8.5	-8.4
Population (persons million)	19.0	19.3	19.5	19.7	19.9	20.1	20.3	20.5	20.8

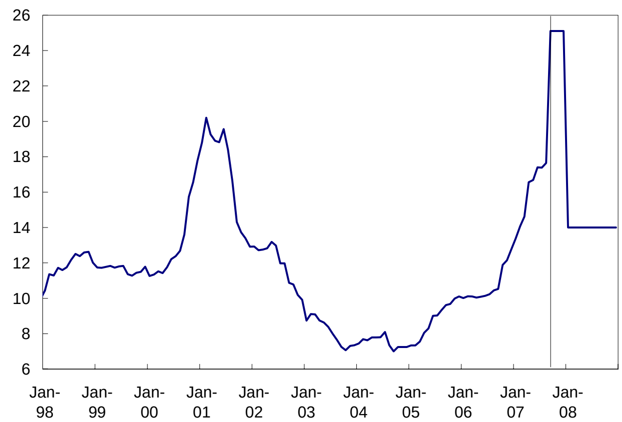
Source: CEIC Data Company Limited and Citi estimates.

Figure 106. Exchange Rate: USD-LKR



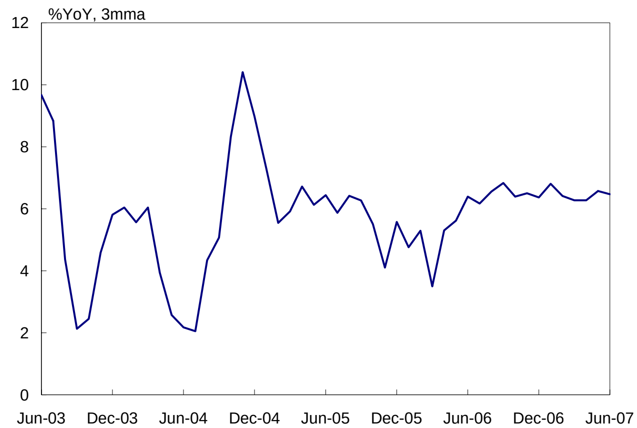
Note: Historicals up to Jul07 are monthly data; Jun07 onwards data are annual forecasts
Source: Bloomberg, Haver Analytics

Figure 107. Short rate (%): 3-Month Treasury Bills



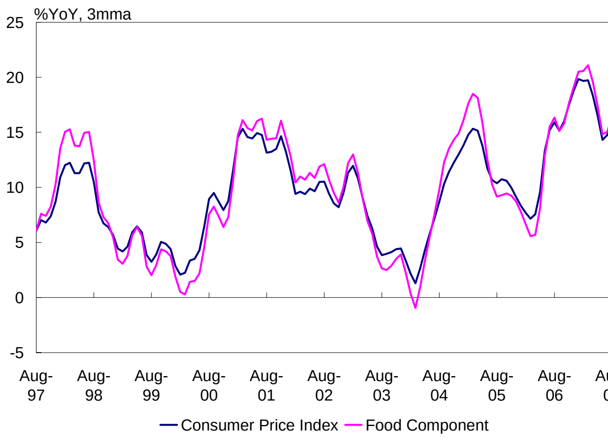
Note: Historicals up to Mar07 are monthly data; Aug07 onwards data are annual forecasts
Source: Bloomberg, Haver Analytics

Figure 108. Induatrial production trends remain healthy, albeit slightly lower June reading



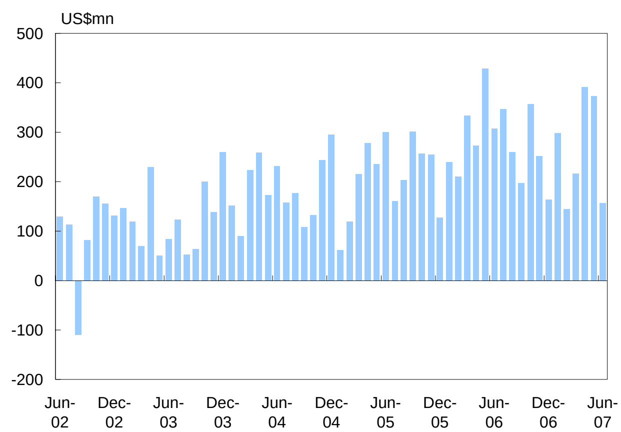
Source: CEIC Data Company Limited and Central Bank of Sri Lanka

Figure 109. Inflation remains a worry with the CCPI on an uptrend again and above the central bank's inflation target of 10%



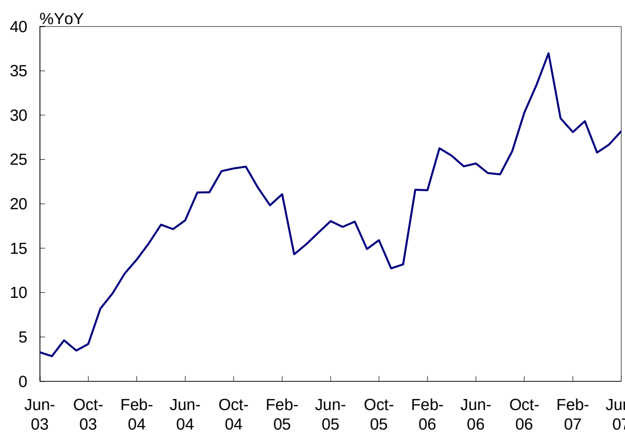
Source: CEIC Data Company Limited and Central Bank of Sri Lanka

Figure 110. Trade deficit narrowed in June on sharp imports contraction



Source: CEIC Data Company Limited and Central Bank of Sri Lanka

Figure 111. Credit growth sees a slight moderation on the back of central bank tightening, but continues to remain high



Source: CEIC Data Company Limited and Central Bank of Sri Lanka

Taiwan

Cheng-Mount Cheng and Renee Chen

Summary of Direction in Change in Views

Growth	Inflation	Short Rates	Long Rates	Exchange Rate	Current Account
–	•	•	•	•	•

Note: Symbols above are directional indicators with (+) indicating a nominal rise, (–) a fall, and (•) no change. Source: Citi estimates.

Recent Economic Developments and Prospects

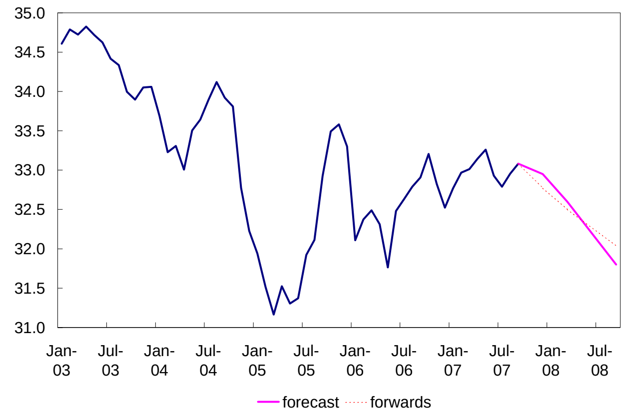
Real Sector	Despite better-than-expected 2Q07 GDP growth from surging business investment, recent global financial market turmoil and potential slowdown in US consumer spending pose downsize risks to the 2H07 outlook and going forward. We maintain our 2007 GDP forecast at 4.5%, but we cut our 2008 GDP forecast to 4.6% from 5.0%.
Inflation	Inflation pressure rose in August, with both headline CPI and core CPI increasing 1.59% yoy each. We expect inflation pressure to rise in coming months on rising prices of agricultural products. Our headline CPI forecasts remain at 1.4% for 2007 and 1.7% for 2008.
Monetary/Fiscal Policies	Despite recent financial market turmoil and the Fed's rate cut, the CBC still raised policy rate by another 12.5bp at September meeting, showing inflation concern is still a policy focus. Meanwhile, rising tax revenues have narrowed the fiscal deficit, but we expect the government's fiscal stance to remain neutral, despite upcoming elections possibly causing the government to promise more expansionary fiscal policies.
External Sector	Exports remain resilient on strong China demand, with tech exports also improving. But imports weakened on declining imports of crude oil and iron. We still expect resilient external demand in 2H07, but recognize the uncertainty in US consumer spending.
Other (e.g. Political) Developments	The US government expressed opposition to a referendum on Taiwan's bid to join the United Nations under the name Taiwan. Tensions between the cross-strait governments as well as between Taipei and Washington will likely rise further. But we believe the political tensions will not dampen financial markets, as we believe market participants perceive the referendum as part of the presidential election campaign and not an event that would change the status quo.
Issues to Watch/Key Risks	(1) US subprime woes and potential US economic slowdown; (2) China's economy overheating; (3) rising oil prices; and (4) volatile financial markets

Figure 112. Key Economic Forecasts

	2000	2001	2002	2003	2004	2005	2006	2007E	2008E
Real Sector									
Real GDP (% yoy)	5.8	-2.2	4.6	3.5	6.2	4.1	4.7	4.5	4.6
Domestic demand ex Inventory (% yoy)	5.0	-4.3	2.2	1.4	6.7	1.9	1.1	2.7	3.1
Real Consumption: Private (% yoy)	4.6	0.7	2.6	1.5	4.5	2.8	1.4	3.0	3.2
Real Gross Capital Formation (% yoy)	9.0	-19.9	1.1	1.7	19.5	0.2	1.0	2.9	3.9
Consumer prices (% yoy)	1.3	0.0	-0.2	-0.3	1.6	2.3	0.6	1.4	1.7
Nominal GDP (US$ bn)	321	292	298	306	331	355	364	376	407
GDP per capita (USD)	14,519	13,093	13,163	13,327	14,271	15,271	15,991	16,417	17,704
Unemployment Rate (%)	3.0	4.6	5.2	5.0	4.4	4.1	3.9	3.9	3.8
External Sector									
Exports (% yoy, US$)	22.8	-16.9	7.1	11.3	21.1	8.8	12.9	7.0	9.5
Imports (% yoy, US$)	26.6	-23.3	4.9	13.0	31.8	8.2	11.0	7.8	9.7
Trade balance (US$ bn)	11.2	18.3	22.1	22.6	13.6	15.8	21.3	21.1	22.7
Current account (% of GDP)	2.8	6.3	8.6	9.6	5.6	4.5	6.9	6.5	5.8
International Reserves ex. Gold (US$ bn)	107	122	162	207	242	253	266	275	287
Local Currency/USD (period average)	31.2	33.8	34.6	34.4	33.4	32.2	32.5	33.0	32.1
Other									
Money Market 90-day (period average, %)	4.7	3.6	2.0	1.1	1.0	1.3	1.6	2.0	2.2
10 Year Government Bond (period average, %)	5.6	4.0	3.5	2.2	2.7	2.1	2.0	2.2	2.7
Fiscal balance (% of GDP)	-4.5	-6.4	-4.2	-2.7	-2.8	-0.6	-1.1	-1.0	-1.0
Population (persons million)	22	22	22	23	23	23	23	23	23

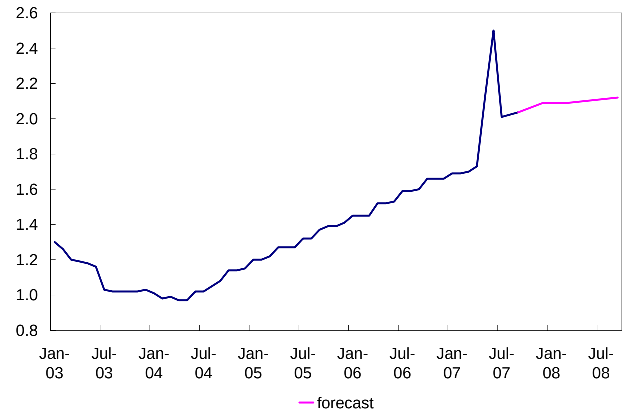
Source: CEIC Data Company Limited and Citi estimates.

Figure 113. Exchange Rate: USD-TWD



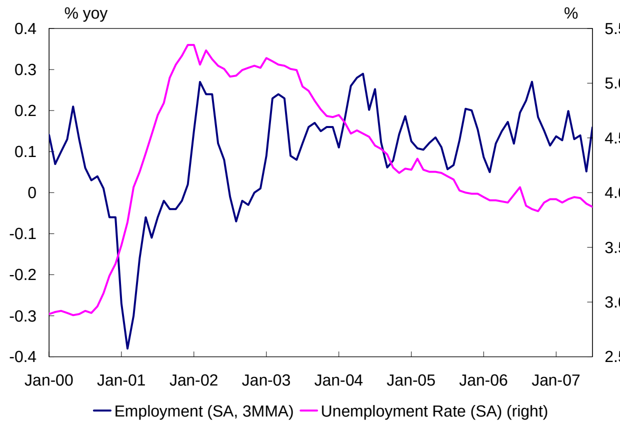
Source: Bloomberg, Haver Analytics, Citi estimates

Figure 114. Interest rate (%): Interbank Call Loan Rate



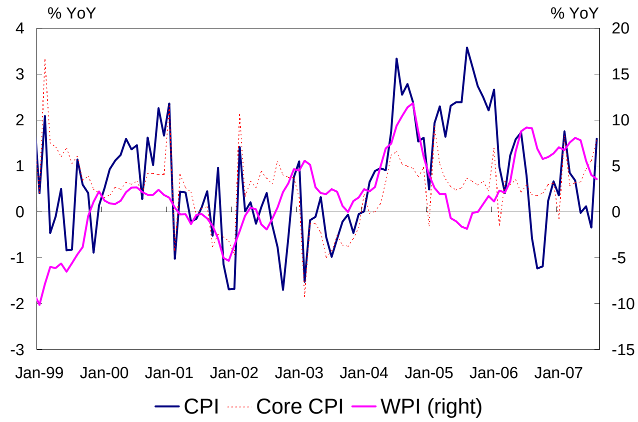
Source: Bloomberg, Haver Analytics, Citi estimates

Figure 115. Solid employment gains and modest pickup in wage/salary growth support firmer consumer spending



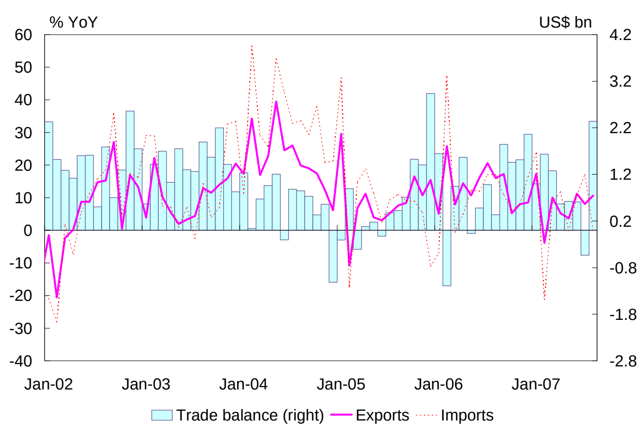
Source: CEIC Data Company Limited

Figure 116. Inflation jumped in Aug on typhoon impacts of food prices, but underlying price trend is clearly upward



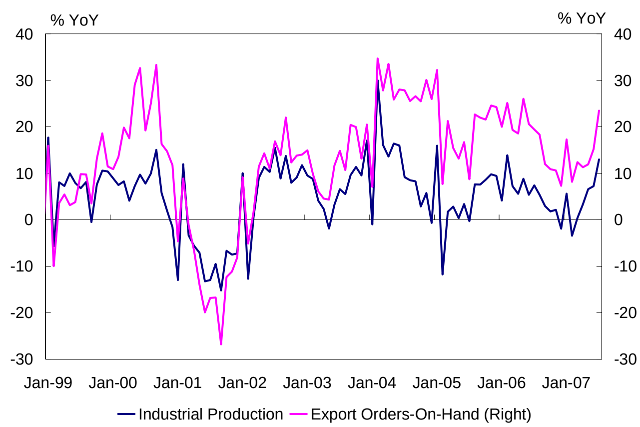
Source: CEIC Data Company Limited

Figure 117. Despite resilient exports, Aug trade surplus widened on weak imports (due to unexpected decline in crude oil and metals)



Source: CEIC Data Company Limited

Figure 118. The upbeat July output and order data point to a firm start into 2H07, riding on a solid tech demand and production



Source: CEIC Data Company Limited

Vietnam

Renee Chen

Summary of Direction in Change in Views

Growth	Inflation	Short Rates	Long Rates	Exchange Rate	Current Account
•	+	+	+	•	•

Note: Symbols above are directional indicators with (+) indicating a nominal rise, (–) a fall, and (•) no change. Source: Citi estimates.

Recent Economic Developments and Prospects

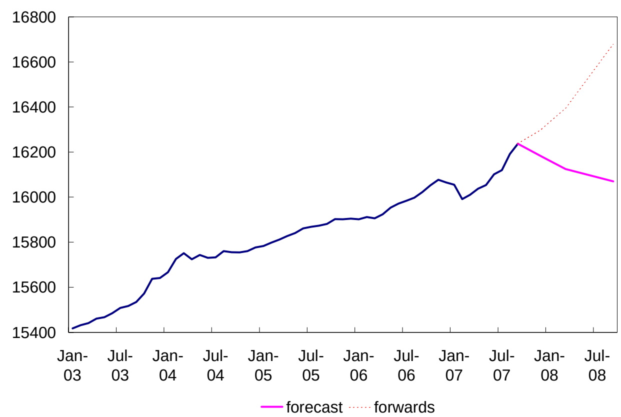
Real Sector	Industrial output grew by 18.9% yoy in August after rising 17% in the first seven months. FDI commitments rose by 40%yoy to US$8.3bn over Jan-Aug07. Strong retail sales growth suggests robust consumer spending. We expect continued strength in investment and consumption and maintain our 2007 GDP forecast at 8%.
Inflation	CPI picked up to 8.6%yoy in August (Jan-Jul07: 7.2%). Monetary tightening, tariff reductions and measures to control commodity prices have been stabilizing factors. But risks to our 2007 CPI forecast of 7.4% are on the upside, even without resurging oil prices. We raised our 2008 CPI forecast to 7.2% from 6.6%.
Monetary/Fiscal Policies	The SBV stepped up open market operations to withdraw VND liquidity while keeping the key lending rates and the VND stable. Excess VND capital has been intensifed by funds in the stock market retuning to bank deposits amid rising risk aversion. Some credit institutions have faced USD shortages due to a surge in corporate demand for USD loans and a widening trade deficit, and raised USD deposit rates. The SBV is drafting a decision to restrict those who are eligible for foreign currency loans to ease the pressure on banks to mobilize capital in foreign currencies and curb dollarization. We expect the SBV to retain a moderate tightening bias amid high inflation and increased market and growth uncertainty. A determent in minimum state wage increases and the containment of capital spending suggest little fiscal stimulus to the economy in 2H07.
External Sector	The trade deficit more than doubled its year-ago size in the first eight months to US$6.4bn (vs US$4.8bn in 2006). Demand for capital goods and production materials coupled with lower tariffs has boosted imports. Crude oil exports have declined, but other products have maintained solid growth. Apparel exports posted strong gains despite uncertainty from an import-monitoring program imposed by the US. The SBV plans to lower state VND loan rates to boost exports, but we see a minimal effect on narrowing the trade deficit.
Other (e.g. Political) Developments	The US is conducting a biannual review of apparel imports from Vietnam, which we think is unlikely to lead the US to launch an anti-dumping investigation.
Issues to Watch/Key Risks	(1) Inflation risks from epidemics causing food shortages and resurging oil prices; (2) US subprime woes and economic slowdown; (3) volatile capital flows amid protracted disruptions in financial markets; and (4) a delay in banking and SOE reforms.

Figure 119. Key Economic Forecasts

	2000	2001	2002	2003	2004	2005	2006	2007E	2008E
National Account									
Real GDP (% yoy)	6.8	6.9	7.1	7.3	7.8	8.4	8.2	8.0	8.0
Domestic demand ex Inventory (% yoy)	5.2	6.5	9.0	9.2	8.3	8.6	8.2	8.4	8.8
Real Consumption: Private (% yoy)	3.1	4.5	7.6	8.0	7.1	7.3	7.5	7.7	8.0
Real Gross Capital Formation (% yoy)	10.2	10.7	12.9	11.9	10.4	9.7	8.6	9.8	10.2
Consumer Prices (% yoy)	-1.6	-0.3	3.9	3.2	7.7	8.3	7.5	7.4	7.2
Nominal GDP (US$ bn)	31.2	32.7	35.1	39.7	45.2	52.4	60.9	69.7	80.5
GDP per capita (USD)	402	415	440	490	551	631	723	816	929
Unemployment Rate (%)	6.4	6.3	6.0	5.8	5.6	5.3	4.4	4.3	4.2
External Sector									
Exports (% yoy, US$)	25.5	3.8	11.2	20.6	31.4	22.5	22.7	22.5	23.8
Imports (% yoy, US$)	33.2	3.7	21.8	27.9	26.6	15.0	22.1	26.8	20.1
Trade balance (US$ bn)	-1.2	-1.2	-3.0	-5.1	-5.5	-4.3	-5.1	-8.1	-8.0
Current account (% of GDP)	2.1	2.0	-1.9	-4.9	-3.5	0.4	0.5	-2.7	-1.9
International Reserves ex. Gold (US$ bn)	3.4	3.7	4.1	6.2	7.0	9.1	13.4	25.0	33.0
Local Currency/USD (period average)	14174	14808	15270	15513	15732	15855	15985	16120	16095
Other									
3 Month VNIBOR Rate (period average, %)	#N/A	#N/A	#N/A	7.2	7.0	7.6	8.0	7.7	7.4
5 Year Government Bond (period average, %)	#N/A	#N/A	#N/A	#N/A	8.4	8.7	8.4	7.7	7.6
Fiscal balance (% of GDP; FY)	-2.8	-2.5	-2.4	-1.8	-1.1	-1.6	-1.8	-2.2	-2.5
Population (persons million)	78	79	80	81	82	83	84	85	87

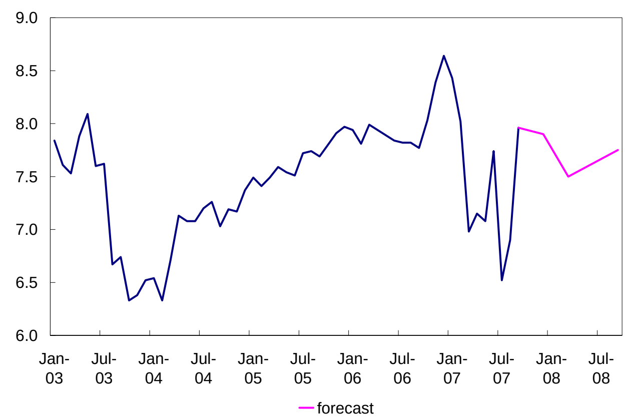
Source: CEIC Data Company Limited and Citi estimates.

Figure 120. Exchange Rate: USD-VND



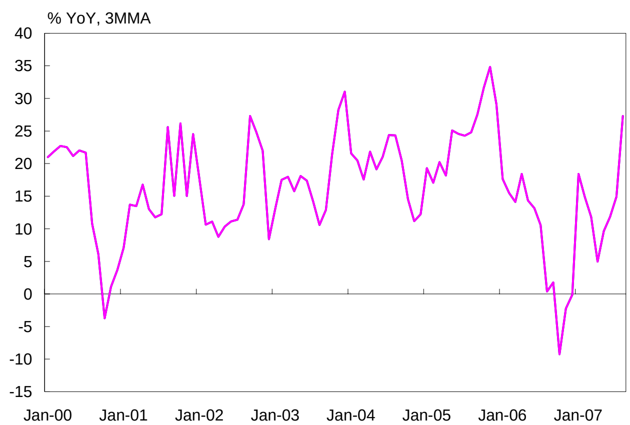
Source: Bloomberg, Haver Analytics, Citi estimates

Figure 121. Short Rate (%): 3 Month Interbank Rate



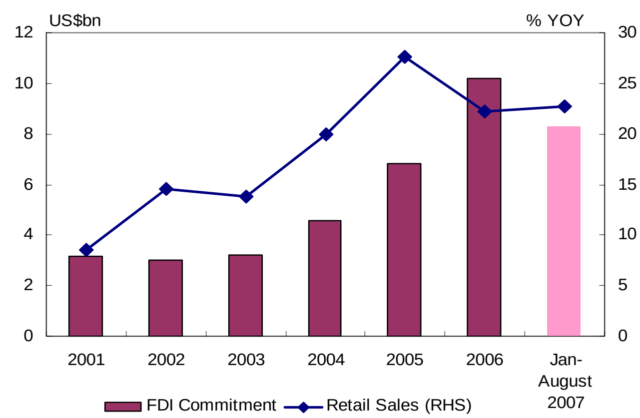
Source: Bloomberg, Haver Analytics, Citi estimates

Figure 122. Robust growth in industrial output continued, fueled by risign FDI



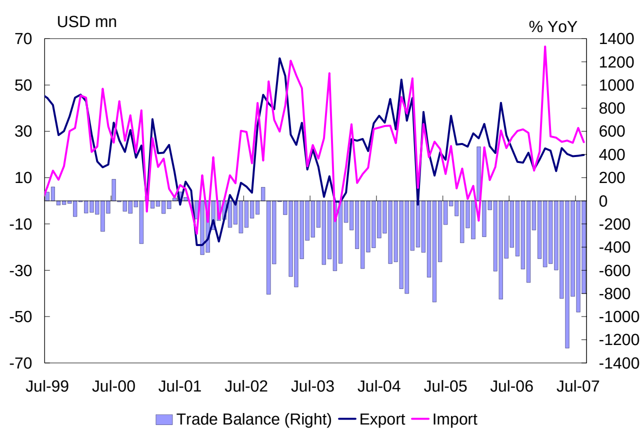
Source: CEIC Data Company Limited

Figure 123. Strong investment and consumption help to cushion the economy against slower US consumption



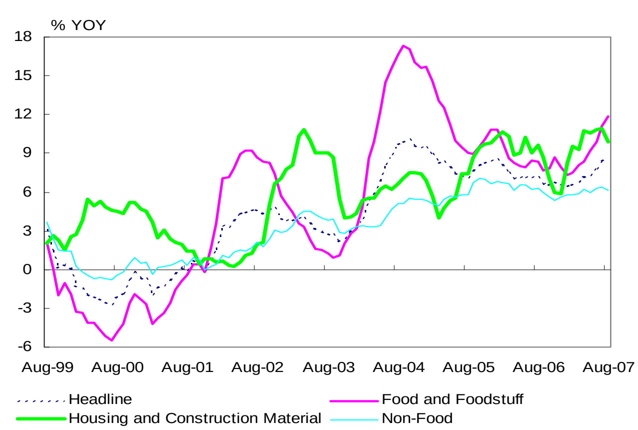
Source: CEIC Data Company Limited

Figure 124. The trade deficit more than doubled its year ago size in Jan-Aug



Source: CEIC Data Company Limited

Figure 125. Inflation has shown little sign of abating. The SBV has stepped up open market operations to absorb excess liquidity



Source: CEIC Data Company Limited

Asia-Pacific Economics and Market Analysis

Yiping Huang
Head of Asia Pacific
Economic & Market Analysis
(852) 2501-2735
yiping.huang@citi.com

Hak Bin Chua
Asia Equity Themes,
Malaysia and Singapore
+65 6432-2057
hak.bin.chua@citi.com

Adrienne Lui
Asia
+852 2501-2753
adrienne.lui@citi.com

Michael Luk
Asia
+852 2501-2775
michael.y.luk@citi.com

Leon Hiew
Asia, Malaysia and Singapore
+65 6432-1166
leon.hiew@citi.com

Rohini Malkani
Bangladesh and India
+91 22 5631-9876
rohini.malkani@citi.com

Anushka Shah
Bangladesh and India
+91 22 5631-9878
anushka.shah@citi.com

Minggao Shen
China
+86 10 6510-2933 x71068
minggao.shen@citi.com

Joe Lo
Hong Kong
+852 2868-8442
joe.lo@citi.com

Patricia Pong
Hong Kong and China
+852 2868-8449
patricia.pong@citi.com

Anton H. Gunawan
Indonesia
+62 21 5290-8423
anton.gunawan@citi.com

Suktae Oh
Korea
+82 2 2077-4014
suktae.oh@citi.com

Jun Trinidad
Philippines and Thailand
+63 2 894-7270
jun.trinidad@citi.com

Cheng Mount Cheng
Taiwan
+886 2 2777-7070
chengmount.cheng@citi.com

Renee Chen
Taiwan and Vietnam
+886 2 2777-7063
renee.chen@citi.com

Disclosure Appendix

Analyst Certification

This report contains equity strategy, foreign exchange strategy and emerging markets analysis. Each of the individuals responsible for those sections hereby certifies that, with respect to the material contributed by him/her, all of the views expressed in this report accurately reflect his/her personal views about any and all of the subject securities, issuers, currencies, strategies, or emerging markets. Further, each of these individuals also certifies that no part of his/her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

Other Disclosures

ADDITIONAL INFORMATION REGARDING THIS REPORT IS AVAILABLE ON REQUEST.

The MSCI sourced information in this report is the exclusive property of Morgan Stanley Capital International Inc. (MSCI). Without prior written permission of MSCI, this information and any other MSCI intellectual property may not be reproduced, re-disseminated or used to create any financial products, including any indices. This information is provided on an "as is" basis. The user assumes the entire risk of any use made of this information. MSCI, its affiliates and any third party involved in, or related to, computing or compiling the information hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any of this information. Without limiting any of the foregoing, in no event shall MSCI, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind. MSCI, Morgan Stanley Capital International and the MSCI indexes are services marks of MSCI and its affiliates.

The Global Industry Classification Standard (GICS) was developed by and is the exclusive property of Morgan Stanley Capital International Inc. and Standard & Poor's. GICS is a service mark of MSCI and S&P and has been licensed for use by Citigroup Investment Research.

The MSCI sourced information in this report is the exclusive property of Morgan Stanley Capital International Inc. (MSCI). Without prior written permission of MSCI, this information and any other MSCI intellectual property may not be reproduced, re-disseminated or used to create any financial products, including any indices. This information is provided on an "as is" basis. The user assumes the entire risk of any use made of this information. MSCI, its affiliates and any third party involved in, or related to, computing or compiling the information hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any of this information. Without limiting any of the foregoing, in no event shall MSCI, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind. MSCI, Morgan Stanley Capital International and the MSCI indexes are services marks of MSCI and its affiliates.

The Global Industry Classification Standard (GICS) was developed by and is the exclusive property of Morgan Stanley Capital International Inc. and Standard & Poor's. GICS is a service mark of MSCI and S&P and has been licensed for use by Citigroup Investment Research.

Citigroup research analysts receive compensation based on a variety of factors. Like all Citigroup employees, analysts receive compensation that is impacted by Citigroup's overall profitability, which includes revenues from, among other things, investment banking activities. Analyst compensation is determined by Citigroup research management and other senior management (not including investment banking personnel).

ISSUER-SPECIFIC DISCLOSURES

Citigroup, its officers, directors and/or employees, may from time to time have long or short positions in, act as principal in connection with, and buy or sell securities or derivatives (including options and warrants) discussed in this report. For purposes of your review of this report, you should assume that this is the case with respect to the securities covered herein.

Citigroup does and/or seeks to do business with many issuers, including through the provision of investment banking or other services. For purposes of your review of this report, you should assume that Citigroup has acted as a manager or co-manager of an offering of securities discussed in this report within the prior 12 months or has provided other services to the issuer within the prior 12 months for which it has received or expects to receive compensation.

Citigroup is an active market maker or liquidity provider for many fixed-income securities and from time to time takes principal positions in such securities or related derivatives. For purposes of your review of this report, you should assume that this is the case with respect to the securities covered herein.

OTHER GENERAL DISCLOSURES

This research report was prepared by Citigroup Global Markets Inc. ("CGMI") and/or one or more of its affiliates (collectively, "Citigroup"), as further detailed in the report, and is provided for information and discussion purposes only. It does not constitute an offer or solicitation to purchase or sell any securities or other financial products.

This report does not take into account the investment objectives, financial situation or particular needs of any particular person. Investing in securities and other financial products entails certain risks, including the possible loss of the entire principal amount invested. Certain investments in particular, including those involving structured products, futures, options and other derivatives, are complex, may entail substantial risk and are not suitable for all investors. The price and value of, and income produced by, securities and other financial products may fluctuate and may be adversely impacted by exchange rates, interest rates or other factors. Prior to effecting any transaction in options or options-related products, investors should read and understand the current Options Clearing Corporation Disclosure Document, a copy of which may be obtained on request from your Citigroup representative. Certain securities may not be registered with, or subject to the reporting requirements of, the US Securities and Exchange Commission or any comparable regulatory authority. Information available on such securities may be limited. Investors should obtain advice from their own tax, financial, legal and other advisors and only make investment decisions on the basis of the investor's own objectives, experience and resources.

The information contained in this report is based on generally available information and, although obtained from sources believed to be reliable, its accuracy and completeness is not guaranteed. The analysis contained in this report is based on a number of assumptions. Changes in such assumptions could produce materially different results. This communication is not intended to forecast or predict future events. Past performance is not a guarantee or indication of future results.

Citigroup research analysts may communicate with sales and trading personnel and other Citigroup personnel for the purposes of gathering and analyzing market information and may discuss with such personnel information regarding, among other things, market trends, economic trends, the market for bonds of a specific issuer and other market information (such as current prices, spreads and liquidity), so long as such communications do not impair the analyst's independent ability to express accurately his or her personal views about any and all of the subject securities or issuers. Other Citigroup personnel who do not function as research analysts, including sales and trading personnel, may provide oral or written market commentary or trade ideas to Citigroup's customers or proprietary trading desks that differ from the views expressed in this report. Citigroup's proprietary trading and asset management businesses may make investment decisions that are different from the recommendations contained in this report.

Citigroup has no duty to update this report and the opinions, estimates and other views expressed in this report may change without notice. No liability whatsoever is accepted for any loss (whether direct, indirect or consequential) that may arise from any use of the information contained in or derived from this report.

IMPORTANT DISCLOSURES

Analysts' compensation is determined based upon activities and services intended to benefit the investor clients of Citigroup Global Markets Inc. and its affiliates ("the Firm"). Like all Firm employees, analysts receive compensation that is impacted by overall firm profitability, which includes revenues from, among other business units, the Private Client Division, Institutional Sales and Trading, and Investment Banking.

For important disclosures (including copies of historical disclosures) regarding the companies that are the subject of this Citi Investment Research product ("the Product"), please contact Citi Investment Research, 388 Greenwich Street, 29th Floor, New York, NY, 10013, Attention: Legal/Compliance. In addition, the same important disclosures, with the exception of the Valuation and Risk assessments and historical disclosures, are contained on the Firm's disclosure website at www.citigroupgeo.com. Private Client Division clients should refer to www.smithbarney.com/research. Valuation and Risk assessments can be found in the text of the most recent research note/report regarding the subject company. Historical disclosures (for up to the past three years) will be provided upon request.

Citi Investment Research Ratings Distribution

Data current as of 19 July 2007	Buy	Hold	Sell
Citi Investment Research Global Fundamental Coverage (3320)	47%	39%	14%
% of companies in each rating category that are investment banking clients	71%	70%	70%

Guide to Fundamental Research Investment Ratings:
Citi Investment Research's stock recommendations include a risk rating and an investment rating.
Risk ratings, which take into account both price volatility and fundamental criteria, are: Low (L), Medium (M), High (H), and Speculative (S).
Investment ratings are a function of Citi Investment Research's expectation of total return (forecast price appreciation and dividend yield within the next 12 months) and risk rating.
For securities in developed markets (US, UK, Europe, Japan, and Australia/New Zealand), investment ratings are: Buy (1) (expected total return of 10% or more for Low-Risk stocks, 15% or more for Medium-Risk stocks, 20% or more for High-Risk stocks, and 35% or more for Speculative stocks); Hold (2) (0%-10% for Low-Risk stocks, 0%-15% for Medium-Risk stocks, 0%-20% for High-Risk stocks, and 0%-35% for Speculative stocks); and Sell (3) (negative total return).
For securities in emerging markets (Asia Pacific, Emerging Europe/Middle East/Africa, and Latin America), investment ratings are: Buy (1) (expected total return of 15% or more for Low-Risk stocks, 20% or more for Medium-Risk stocks, 30% or more for High-Risk stocks, and 40% or more for Speculative stocks); Hold (2) (5%-15% for Low-Risk stocks, 10%-20% for Medium-Risk stocks, 15%-30% for High-Risk stocks, and 20%-40% for Speculative stocks); and Sell (3) (5% or less for Low-Risk stocks, 10% or less for Medium-Risk stocks, 15% or less for High-Risk stocks, and 20% or less for Speculative stocks).
Investment ratings are determined by the ranges described above at the time of initiation of coverage, a change in investment and/or risk rating, or a change in target price (subject to limited management discretion). At other times, the expected total returns may fall outside of these ranges because of market price movements and/or other short-term volatility or trading patterns. Such interim deviations from specified ranges will be permitted but will become subject to review by Research Management. Your decision to buy or sell a security should be based upon your personal investment objectives and should be made only after evaluating the stock's expected performance and risk.

Guide to Corporate Bond Research Credit Opinions and Investment Ratings:

Citi Investment Research's corporate bond research issuer publications include a fundamental credit opinion of Improving, Stable or Deteriorating and a complementary risk rating of Low (L), Medium (M), High (H) or Speculative (S) regarding the credit risk of the company featured in the report. The fundamental credit opinion reflects the CIR analyst's opinion of the direction of credit fundamentals of the issuer without respect to securities market vagaries. The fundamental credit opinion is not geared to, but should be viewed in the context of debt ratings issued by major public debt ratings companies such as Moody's Investors Service, Standard and Poor's, and Fitch Ratings. CBR risk ratings are approximately equivalent to the following matrix: Low Risk Triple A to Low Double A; Low to Medium Risk High Single A through High Triple B; Medium to High Risk Mid Triple B through High Double B; High to Speculative Risk Mid Double B and Below. The risk rating element illustrates the analyst's opinion of the relative likelihood of loss of principal when a fixed income security issued by a company is held to maturity, based upon both fundamental and market risk factors. Certain reports published by Citi Investment Research will also include investment ratings on specific issues of companies under coverage which have been assigned fundamental credit opinions and risk ratings. Investment ratings are a function of Citi Investment Research's expectations for total return, relative return (to publicly available Citigroup bond indices performance), and risk rating. These investment ratings are: Buy/Overweight the bond is expected to outperform the relevant Citigroup bond market sector index (Broad Investment Grade, High Yield Market or Emerging Market), performances of which are updated monthly and can be viewed at http://sd.ny.ssmb.com/ using the "Indexes" tab; Hold/Neutral Weight the bond is expected to perform in line with the relevant Citigroup bond market sector index; or Sell/Underweight the bond is expected to underperform the relevant sector of the Citigroup indexes.

OTHER DISCLOSURES

For securities recommended in the Product in which the Firm is not a market maker, the Firm is a liquidity provider in the issuers' financial instruments and may act as principal in connection with such transactions. The Firm is a regular issuer of traded financial instruments linked to securities that may have been recommended in the Product. The Firm regularly trades in the securities of the subject company(ies) discussed in the Product. The Firm may engage in securities transactions in a manner inconsistent with the Product and, with respect to securities covered by the Product, will buy or sell from customers on a principal basis.

Securities recommended, offered, or sold by the Firm: (i) are not insured by the Federal Deposit Insurance Corporation; (ii) are not deposits or other obligations of any insured depository institution (including Citibank); and (iii) are subject to investment risks, including the possible loss of the principal amount invested. Although information has been obtained from and is based upon sources that the Firm believes to be reliable, we do not guarantee its accuracy and it may be incomplete and condensed. Note, however, that the Firm has taken all reasonable steps to determine the accuracy and completeness of the disclosures made in the Important Disclosures section of the Product. The Firm's research department has received assistance from the subject company(ies) referred to in this Product including, but not limited to, discussions with management of the subject company(ies). Firm policy prohibits research analysts from sending draft research to subject companies. However, it should be presumed that the author of the Product has had discussions with the subject company to ensure factual accuracy prior to publication. All opinions, projections and estimates constitute the judgment of the author as of the date of the Product and these, plus any other information contained in the Product, are subject to change without notice. Prices and availability of financial instruments also are subject to change without notice. Notwithstanding other departments within the Firm advising the companies discussed in this Product, information obtained in such role is not used in the preparation of the Product. Although Citi Investment Research does not set a predetermined frequency for publication, if the Product is a fundamental research report, it is the intention of Citi Investment Research to provide research coverage of the/those issuer(s) mentioned therein, including in response to news affecting this issuer, subject to applicable quiet periods and capacity constraints. The Product is for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of a security. Any decision to purchase securities mentioned in the Product must take into account existing public information on such security or any registered prospectus.

Investing in non-U.S. securities, including ADRs, may entail certain risks. The securities of non-U.S. issuers may not be registered with, nor be subject to the reporting requirements of the U.S. Securities and Exchange Commission. There may be limited information available on foreign securities. Foreign companies are generally not subject to uniform audit and reporting standards, practices and requirements comparable to those in the U.S. Securities of some foreign companies may be less liquid and their prices more volatile than securities of comparable U.S. companies. In addition, exchange rate movements may have an adverse effect on the value of an investment in a foreign stock and its corresponding dividend payment for U.S. investors. Net dividends to ADR investors are estimated, using withholding tax rates conventions, deemed accurate, but investors are urged to consult their tax advisor for exact dividend computations. Investors who have received the Product from the Firm may be prohibited in certain states or other jurisdictions from purchasing securities mentioned in the Product from the Firm. Please ask your Financial Consultant for additional details. Citigroup Global Markets Inc. takes responsibility for the Product in the United States. Any orders by US investors resulting from the information contained in the Product may be placed only through Citigroup Global Markets Inc.

The Citigroup legal entity that takes responsibility for the production of the Product is the legal entity which the first named author is employed by. The Product is made available in Australia to wholesale clients through Citigroup Global Markets Australia Pty Ltd. (ABN 64 003 114 832 and AFSL No. 240992) and to retail clients through Citi Smith Barney Pty Ltd. (ABN 19 009 145 555 and AFSL No. 240813), Participants of the ASX Group and regulated by the Australian Securities & Investments Commission. Citigroup Centre, 2 Park Street, Sydney, NSW 2000. The Product is made available in Australia to Private Banking wholesale clients through Citigroup Pty Limited (ABN 88 004 325 080 and AFSL 238098). Citigroup Pty Limited provides all financial product advice to Australian Private Banking wholesale clients through bankers and relationship managers. If there is any doubt about the suitability of investments held in Citigroup Private Bank accounts, investors should contact the Citigroup Private Bank in Australia. Citigroup companies may compensate affiliates and their representatives for providing products and services to clients. The Product is made available in Brazil by Citigroup Global Markets Brasil - CCTVM SA, which is regulated by CVM - Comissão de Valores Mobiliários, BACEN - Brazilian Central Bank, APIMEC - Associação Associação dos Analistas e Profissionais de Investimento do Mercado de Capitais and ANBID - Associação Nacional dos Bancos de Investimento. Av. Paulista, 1111 - 11º andar - CEP. 01311920 - São Paulo - SP. If the Product is being made available in certain provinces of Canada by Citigroup Global Markets (Canada) Inc. ("CGM Canada"), CGM Canada has approved the Product. Citigroup Place, 123 Front Street West, Suite 1100, Toronto, Ontario M5J 2M3. The Product may not be distributed to private clients in Germany. The Product is distributed in Germany by Citigroup Global Markets Deutschland AG & Co. KGaA, which is regulated by Bundesanstalt fuer Finanzdienstleistungsaufsicht (BaFin). Frankfurt am Main, Reuterweg 16, 60323 Frankfurt am Main. If the Product is made available in Hong Kong by, or on behalf of, Citigroup Global Markets Asia Ltd., it is attributable to Citigroup Global Markets Asia Ltd., Citibank Tower, Citibank Plaza, 3 Garden Road, Hong Kong. Citigroup Global Markets Asia Ltd. is regulated by Hong Kong Securities and Futures Commission. If the Product is made available in Hong Kong by The Citigroup Private Bank to its clients, it is attributable to Citibank N.A., Citibank Tower, Citibank Plaza, 3 Garden Road, Hong Kong. The Citigroup Private Bank and Citibank N.A. is regulated by the Hong Kong Monetary Authority. The Product is made available in India by Citigroup Global Markets India Private Limited, which is regulated by Securities and Exchange Board of India. Bakhtawar, Nariman Point, Mumbai 400-021. The Product is made available in Indonesia through PT Citigroup Securities Indonesia. 5/F, Citibank Tower, Bapindo Plaza, Jl. Jend. Sudirman Kav. 54-55, Jakarta 12190. Neither this Product nor any copy hereof may be distributed in Indonesia or to any Indonesian citizens wherever they are domiciled or to Indonesian residents except in compliance with applicable capital market laws and regulations. This Product is not an offer of securities in Indonesia. The securities referred to in this Product have not been registered with the Capital Market and Financial Institutions Supervisory Agency (BAPEPAM-LK) pursuant to relevant capital market laws and regulations, and may not be offered or sold within the territory of the Republic of Indonesia or to Indonesian citizens through a public offering or in circumstances which constitute an offer within the meaning of the Indonesian capital market laws and regulations. If the Product was prepared by Citi Investment Research and distributed in Japan by Nikko Citigroup Limited ("NCL"), it is being so distributed under license. If the Product was prepared by NCL and distributed by Nikko Cordial Securities Inc., Citigroup Global Markets Inc., or Monex, Inc. it is being so distributed under license. NCL is regulated by Financial Services Agency, Securities and Exchange Surveillance Commission, Japan Securities Dealers Association, Tokyo Stock Exchange and Osaka Securities Exchange. Shin-Marunouchi Building, 1-5-1 Marunouchi, Chiyoda-ku, Tokyo 100-6520 Japan. In the event that an error is found in an NCL research report, a revised version will be posted on Citi Investment Research's Global Equities Online (GEO) website. If you have questions regarding GEO, please call (81 3) 5574-4860 for help. The Product is made available in Korea by Citigroup Global Markets Korea Securities Ltd., which is regulated by Financial Supervisory Commission and the Financial Supervisory Service. Hungkuk Life Insurance Building, 226 Shinmunno 1-GA, Jongno-Gu, Seoul, 110-061. The Product is made available in Malaysia by Citigroup Global Markets Malaysia Sdn Bhd, which is regulated by Malaysia Securities Commission. Menara Citibank, 165 Jalan Ampang, Kuala Lumpur, 50450. The Product is made available in Mexico by Acciones y Valores Banamex, S.A. De C. V., Casa de Bolsa, which is regulated by Comision Nacional Bancaria y de Valores. Reforma 398, Col. Juarez, 06600 Mexico, D.F. In New Zealand the Product is made available through Citigroup Global Markets New Zealand Ltd., a Participant of the New Zealand Exchange Limited and regulated by the New Zealand Securities Commission. Level 19, Mobile on the Park, 157 lambton Quay, Wellington. The Product is made available in Poland by Dom Maklerski Banku Handlowego SA an indirect subsidiary of Citigroup Inc., which is regulated by Komisja Papierów Wartosciowych i Gield. Bank Handlowy w Warszawie S.A. ul. Senatorska 16, 00-923 Warszawa. The Product is made available in the Russian Federation through ZAO Citibank, which is licensed to carry out banking activities in the Russian Federation in accordance with the general banking license issued by the Central Bank of the Russian Federation and brokerage activities in accordance with the license issued by the Federal Service for Financial Markets. Neither the Product nor any information contained in the Product shall be considered as advertising the securities mentioned in this report within the territory of the Russian Federation or outside the Russian Federation. The Product does not constitute an appraisal within the meaning of the Federal Law of the Russian Federation of 29 July 1998 No. 135-FZ (as amended) On Appraisal Activities in the Russian Federation. 8-10 Gasheka Street, 125047 Moscow. The Product is made available in Singapore through Citigroup Global Markets Singapore Pte. Ltd., a Capital Markets Services Licence holder, and regulated by Monetary Authority of Singapore. 1 Temasek Avenue, #39-02 Millenia Tower, Singapore 039192. The Product is made available by The Citigroup Private Bank in Singapore through Citibank, N.A., Singapore branch, a licensed bank in

Singapore that is regulated by Monetary Authority of Singapore. Citigroup Global Markets (Pty) Ltd. is incorporated in the Republic of South Africa (company registration number 2000/025866/07) and its registered office is at 145 West Street, Sandton, 2196, Saxonwold. Citigroup Global Markets (Pty) Ltd. is regulated by JSE Securities Exchange South Africa, South African Reserve Bank and the Financial Services Board. The investments and services contained herein are not available to private customers in South Africa. The Product is made available in Taiwan through Citigroup Global Markets Inc. (Taipei Branch), which is regulated by Securities & Futures Bureau. No portion of the report may be reproduced or quoted in Taiwan by the press or any other person. No. 8 Manhattan Building, Hsin Yi Road, Section 5, Taipei 100, Taiwan. The Product is made available in Thailand through Citicorp Securities (Thailand) Ltd., which is regulated by the Securities and Exchange Commission of Thailand. 18/F, 22/F and 29/F, 82 North Sathorn Road, Silom, Bangrak, Bangkok 10500, Thailand. The Product is made available in United Kingdom by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. This material may relate to investments or services of a person outside of the UK or to other matters which are not regulated by the FSA and further details as to where this may be the case are available upon request in respect of this material. Citigroup Centre, Canada Square, Canary Wharf, London, E14 5LB. The Product is made available in United States by Citigroup Global Markets Inc, which is regulated by NASD, NYSE and the US Securities and Exchange Commission. 388 Greenwich Street, New York, NY 10013. Unless specified to the contrary, within EU Member States, the Product is made available by Citigroup Global Markets Limited, which is regulated by Financial Services Authority. Many European regulators require that a firm must establish, implement and make available a policy for managing conflicts of interest arising as a result of publication or distribution of investment research. The policy applicable to Citi Investment Research's Products can be found at www.citigroupgeo.com. Compensation of equity research analysts is determined by equity research management and Citigroup's senior management and is not linked to specific transactions or recommendations. The Product may have been distributed simultaneously, in multiple formats, to the Firm's worldwide institutional and retail customers. The Product is not to be construed as providing investment services in any jurisdiction where the provision of such services would be illegal. Subject to the nature and contents of the Product, the investments described therein are subject to fluctuations in price and/or value and investors may get back less than originally invested. Certain high-volatility investments can be subject to sudden and large falls in value that could equal or exceed the amount invested. Certain investments contained in the Product may have tax implications for private customers whereby levels and basis of taxation may be subject to change. If in doubt, investors should seek advice from a tax adviser. The Product does not purport to identify the nature of the specific market or other risks associated with a particular transaction. Advice in the Product is general and should not be construed as personal advice given it has been prepared without taking account of the objectives, financial situation or needs of any particular investor. Accordingly, investors should, before acting on the advice, consider the appropriateness of the advice, having regard to their objectives, financial situation and needs. Prior to acquiring any financial product, it is the client's responsibility to obtain the relevant offer document for the product and consider it before making a decision as to whether to purchase the product.

This Product is not intended for distribution in Poland. Any receipt or review of the Product in Poland is not authorized by the Firm.

 The information contained in the Product is intended solely for the recipient and may not be further distributed by the recipient. The Firm accepts no liability whatsoever for the actions of third parties. The Product may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the Product refers to website material of the Firm, the Firm has not reviewed the linked site. Equally, except to the extent to which the Product refers to website material of the Firm, the Firm takes no responsibility for, and makes no representations or warranties whatsoever as to, the data and information contained therein. Such address or hyperlink (including addresses or hyperlinks to website material of the Firm) is provided solely for your convenience and information and the content of the linked site does not in anyway form part of this document. Accessing such website or following such link through the Product or the website of the Firm shall be at your own risk and the Firm shall have no liability arising out of, or in connection with, any such referenced website.

ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST