

Emerging Markets Daily

Asia Edition

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

Focus on India/Taiwan

- **India.** Benefits offered by SEZs will outweigh negatives over the long run (p. 2).
- **Taiwan.** Strong trade performance points to potential upside risks for TWD (p. 3).

Highlights

- **Singapore.** Substantial increases in retail sales were registered largely due to the Chinese New Year (p. 4).

Next Week's Market Drivers

- On Monday:
- **Euro Area.** Available country data suggest that increasing energy prices boosted headline consumer prices in March.
- **Germany.** A partly VAT-related increase in clothing prices probably propelled core CPI in March
- For the rest of next week:
- **Japan.** February's tertiary industry activity will likely fall by 1.1% mom sa
- **UK.** CPI inflation is likely to resume the downward trend of the last few months
- **China.** PBOC's monthly tightening measures introduced in the beginning of this year had so far merely eased rather than overturned the excess liquidity problem. We expect GDP to grow 10.7% in the first quarter this year
- **Hong Kong.** We expect continued employment growth in Jan-Mar given support from investment and consumption
- **Malaysia.** A sharp fall in headline inflation to slightly below 2% year-on-year is likely in March
- **Singapore.** Non-oil domestic exports are expected to gain 4.1% in March on electronics recovery.
- See page 10 for full data release calendar for the week ahead.

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Focus on India

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India: SEZ Update – Positives Outweigh the Negatives

Late last week, the government lifted the ban on Special Economic Zones (SEZ) and made favorable policy changes. A quick re-cap, following protests seen in W Bengal by families displaced due to land acquisition¹ for SEZs, the government put all SEZs on hold in January 07. While norms may have to be further tightened to prevent revenue leakages, the new amendments lend clarity to policy and help clear long-standing backlog to the development of these zones. The government's thrust on SEZs coupled with private sector participation is likely to promote industrial activity.

The amendments relate to size, processing area, forex earnings and the role of state – most of which we believe are favorable. The government has now capped the size of the SEZ at 5,000 hectares. However, state governments can prescribe a ceiling lower than 5,000 hectares. In addition, there is also a cap of 12,500 hectares for a single applicant. Furthermore, it has increased the minimum processing area to 50% for all SEZs. Earlier, the minimum processing area was 35% for multi-product SEZs and 50% for sector-specific SEZs. This could adversely impact developers who initially intended to use 65% of the SEZ land to build hotels, malls, schools and entertainment centers. Lastly, the onus of land acquisition will now fall on the private sector as compared to the earlier rules where states could acquire land. This is positive because the state governments' powers were misused in some cases.

Benefits offered by SEZs will outweigh negatives over the long run. The concept of SEZs in India has been subject to much controversy and debate over the past year. Although Indian SEZs are much smaller in scale than their Chinese counterparts, we think they are a step in the right direction. While norms may have to be further tightened to prevent leakages, the government's thrust on SEZs coupled with private sector participation is likely to promote industrial activity. Ministry estimates suggest that SEZs will bring in investments to the tune of Rs1000bn by the end of Dec07, creating 500,000 direct jobs. We believe the benefits that will accrue in terms of infrastructure, trade, employment, and investment will offset the teething problems that SEZs have encountered so far.

Quantifying the Benefits

	Prior to SEZ Act 2005	In 63 SEZs notified so far	Expected by Current	Expected by Dec09	If 234 FORMAL approvals are operational
Employment (No)	17,863	18,457	1.6mn	4mn	
Investments (Rs Bn)	Rs50bn	Rs134bn	Rs536bn	Rs3000bn	

* expected employment figures relate to additional jobs. Source: SEZ India

¹ The issue of land acquisition has been a major bone of contention for SEZs, leading to a freeze on approvals for almost 3 months. The land controversy issue found its roots in **Nandigram**, an area in W Bengal, where the state government allowed the acquisition of farmland (to the tune of about 14000 acres) in order to build an SEZ with the Indonesia-based Salim Group. Violent protests by displaced people in mid-March led to 14 deaths. The event forced the BoA to reconsider the SEZ policy and tighten norms related to land-acquisition and rehabilitation

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Focus on Taiwan

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Taiwan: Trade Will Continue to Support GDP Growth

We expect exports to retain its current momentum, while imports to pick up steam. We are raising our export growth forecast to 7% from 6.4% for 2007. Tech sector is expected to recover in 2H07 on continuous strong demand from China, and export performance in 1Q07 was robust. On the other hand, we think weakness in 1Q07 imports was temporary. Import growth should remain slightly stronger than export growth for the whole year. Given weak 1Q07 import performance, we lower 2007 import forecast to 7.8%YY from 8.2%YY. Risks to exports include a slowing U.S. economy (due to housing market correction), China demand (due to continuous government tightening policy), and underperformance in tech sector. For imports, the outlook of domestic demand remains the key factor.

Export in 1Q07 was better than expected and reflected the resilience of global demand, while imports disappointed. Despite a slowing U.S. economy and blurry outlook for tech sector, export grew robustly by 8.5% in 1Q07, improving from 7.6% of 4Q06. On the other hand, imports grew only 3.1% in 1Q07, slowing from 9.9% of 4Q07. As a result, trade surplus in 1Q07 amounted to US\$6.3bn, a gain of 81.9%, compared to US\$7.7bn or a decline of 5.1% in 4Q06. Among major export goods, base metals led the way with 33.5% growth, followed by chemical's 16.9% growth, thanks to strong infrastructure demand from China. Taiwan's most important export product—tech products, only gained 4.7% in 1Q07. Information and communication products declined 17.1%YY, in line with market expectation of an overall negative sector. For imports, growth was driven by raw materials at 4.4%, likely due to higher energy prices during the period. Import of capital equipment in 1Q07 declined 2.1%, a sharp reversal from a gain of 14.5% in 4Q06. By contrast, import of consumer goods grew 1.0% in 1Q07, an improvement from -8.3%YY of 4Q06. Overall, weak import indicated that domestic demand was still buoyant.

Strong trade performance points to potential upside risks for TWD. The strong position of current account (7.1% of GDP in 2006) may not be an important factor for the recent TWD weakness. But it does show that TWD right now is undervalued. We believe low interest rates and yen carry trade likely will continue to weigh on TWD strength. But we expect TWD to strengthen again once domestic interest rates increase. We maintain our 12-month forecast of TWD exchange rate at 31.8.

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News in Brief

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Singapore

The Retail Sales Index soared 21.2%yoy in February. Substantial increases were registered in major items such as household, food and medical items largely due to the Chinese New Year, which fell in the middle of February this year versus January last year. Other factors such as rising wages with a tightening

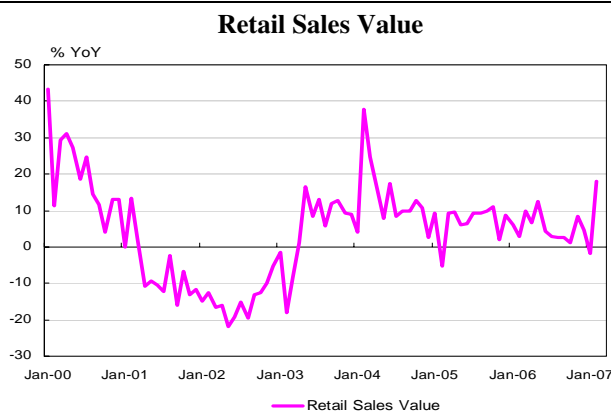
labor market and generally upbeat sentiments given an strong economy in the month of February also contributed to the positive figures.
(Hak Bin Chua/Leon Hiew)

Data Review

Announcement	Release Date	HK/SG-Time	For	Actual	Citi Fcst	Mkt Fcst	Prev	Comments
China								
Exports (US\$ % YoY)	10-Apr	12:00PM	Mar	6.9	31.0	25.3	51.7	The sharp decline of exports is likely temporary, unless the change reflects an adjustment of statistical method. We expect export growth to recover to above 20% in the coming months. The rising trade protectionism in the US is still a near-term risk to export growth.
Imports (US\$ % YoY)	10-Apr	12:00PM	Mar	14.5	14.8	15.6	13.1	
Trade Balance (US\$ Bils.)	10-Apr	12:00PM	Mar	6.9	25.5	20.0	23.8	
M2 (% yoy)	12-Apr	3:00 PM	Mar	17.3	17.4	17.0	17.8	Two hikes in the reserve requirement and one policy rate increase in the first quarter this year only had limited impact on money growth and liquidity
India								
Industrial Production (% YoY)	12-Apr	3:00 PM	Feb	11.0	11.3	11.2	11.4	Growth remains strong at 11% and could result in one last policy hike
Korea								
Unemployment Rate (% SA)	11-Apr	12:30 PM	Mar	3.2	3.3	—	3.2	Unemployment rate underlines an improving job picture that seems to match well with recent signs of strength in domestic demand.
Malaysia								
Industrial Output (% YoY)	9-Apr	12:01 PM	Feb	-0.2	4.0	3.6	2.3	
Philippines								
Exports (US\$, % YoY)	11-Apr	9:00 AM	Feb	7.0	12.0	10.3	21.8	Unless electronic exports supply the growth upside, we expect overall exports to remain consistent with a softer global trading scenario this year
Singapore								
Advanced Real GDP (% YoY)	10-Apr	8:00 AM	1Q07	6.0	6.0	5.4	6.6	The upside 1Q07 GDP surprise underscores the resilience of the Singapore growth story that should continue to rub-off positively on the currency outlook
Advanced Real GDP (% QoQ SAAR)	10-Apr	8:00 AM	1Q07	6.7	6.7	—	5.6	
Retail Sales Value (% YoY)	13-Apr	1:00 PM	Feb	18.1	8.0	7.5	-1.8	Substantial increases were registered largely due to the Chinese New Year, which fell in the middle of February this year
Taiwan								
Export (% YoY)	9-Apr	4:00 PM	Mar	10.4	2.2	10.2	-3.6	We expect trade expansion to stay moderate in 2Q07, mainly due to the traditional off-season of 2Q for (electronic) exports, tepid US economy and lack of visibility of a major turnaround in high-tech demand.
Import (% YoY)	9-Apr	4:00 PM	Mar	8.5	5.6	9.2	-21.1	
Trade Balance (USD bn)	9-Apr	4:00 PM	Mar	2.2	1.0	—	2.2	

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

Singapore. Substantial increase in retail sales value due to Chinese new year



Source: CEIC Data Company Limited, Department of Statistics, Singapore

Selected Market Indicators

Policy Rates					Currency						
	Spot	Change (ppt)			Spot	Change (%)					
		1 Day	1 Mo	1 Yr		1 Day	1 Mo	1 Yr			
China - 1-year lending rate	6.39	-	0.27	0.81	Bangladesh Taka	68.785	0.01%	0.20%	0.49%		
Hong Kong - 3-Month Interbank Rate	4.26	0.03	0.00	(0.33)	China Renminbi	7.7218	0.04%	0.22%	3.84%		
India - Overnight Reverse Repo Rate	6.00	-	-	0.50	Hong Kong Dollar	7.81415	0.00%	0.01%	-0.73%		
Indonesia - BI Rate	9.00	-	-	(3.75)	Indian Rupee	42.74	0.27%	3.54%	5.65%		
Malaysia - Overnight Policy Rate	3.50	-	-	0.25	Indonesian Rupiah	9094.5	0.08%	1.41%	-1.17%		
Philippines - O/N Rate	7.50	-	-	-	Malaysian Ringgit	3.4406	0.17%	2.06%	6.70%		
Singapore - 3-Month Interbank Rate	2.81	-	(0.24)	(0.65)	Phillipine Peso	47.905	-0.22%	1.54%	6.98%		
South Korea - Overnight Rate	4.50	-	-	0.50	Singaporean Dollar	1.5164	0.14%	1.18%	6.12%		
Taiwan - Overnight Rate	1.72	-	0.02	0.21	South Korean Won	929.2	0.33%	1.83%	3.49%		
Thailand - 14-Day Repo Rate	4.03	-	(0.50)	(0.72)	Taiwan Dollar	33.101	0.06%	-0.14%	-1.83%		
Long Term Bond Yield					Thai Baht (onshore)	34.935	0.04%	0.30%	9.06%		
	Spot	Change (ppt)			Thai Baht (offshore)	32.600	-0.77%	1.53%	16.87%		
		1 Day	1 Mo	1 Yr	Vietnam Dong	16036	-0.02%	-0.13%	-0.65%		
China - Government bond yield (5-Year)	2.85	-	0.13	0.40	Equities						
Hong Kong - 5-Year Exchange Fund Note	4.11	0.04	0.04	(0.46)	Last Index Level	Change (%)					
India - 10-Year Gilt	8.03	-	0.06	0.42		1 Day	1 Mo	1 Yr			
Indonesia - FR26	9.45	0.00	(0.28)	(2.60)	Bangladesh DHAKA	1719	0.00%	0.03%	20.93%		
Malaysia - MGS 1/05	3.41	-	(0.18)	(0.54)	China (H Shares)	10156	-0.07%	11.36%	33.27%		
Philippines - 5-Year T Bond	6.38	-	0.54	(0.48)	China (Shanghai SE Composite)	3518	-0.36%	17.39%	62.13%		
Singapore - 10-Year SGS	2.74	-	(0.17)	(0.91)	Hong Kong Hang Seng	20341	-0.19%	7.39%	19.23%		
South Korea - 5-Year Treasury	4.99	0.01	0.17	(0.26)	India NIFTY	3915	2.17%	6.99%	14.55%		
Taiwan - 10-Year Government Bond	2.02	0.04	0.05	0.20	Indonesia Jakarta	1941	0.55%	9.21%	28.80%		
Thailand - 10 Year Government Bond	4.18	-	(0.29)	(1.54)	Korea KOSPI	1521	-0.32%	7.46%	7.57%		
Vietnam - 5-Year Government Bond	7.01	-	(0.22)	-	Malaysia Kuala Lumpur	1308	0.08%	10.84%	28.43%		
Other Indicators					Philippines Composite	3217	-0.19%	4.44%	30.87%		
	Last Index Level	1 Day	Change		Singapore Straits Times	3374	0.03%	9.50%	24.58%		
			1 Mo	1 Yr	Taiwan Taix	8002	-0.91%	5.40%	14.33%		
Fed Funds	5.31	-	-	0.50	Thailand SET	692	0.00%	3.15%	-9.09%		
6 month LIBOR	5.37	-	0.07	0.15	Vietnam Ho Chi Minh	1013	-1.44%	-9.99%	45.55%		
10 Yr UST	4.73	(0.00)	0.20	(0.31)	EM CDS (5Yr)						
10 Yr Bund	4.205	0.02	0.32	0.25	Spread (in bp)	Prev	Change				
Eurostoxx	3764	0.48%	6.88%	7.23%		Close	1 Day	1 Mo	1 Yr	5s-2s	10s-5s
10 Yr JGB	1.669	(0.01)	0.09	(0.27)	China	10	0	0	-11	5	7
10 Yr Swap	5.27	(0.00)	0.19	(0.33)	India	48	0	-7	-11	-	-
HY BB Index	458	0.00%	0.24%	8.88%	Indonesia	114	0	-16	-58	62	81
HY B Index	502	0.00%	0.78%	10.53%	Korea	17	0	-2	-7	6	7
VIX	12.71	-	(4.56)	0.33	Malaysia	16	0	-2	-14	7	10
DJIA	12553	0.00%	3.34%	11.27%	Philippines	115	0	-18	-79	64	85
SPX	1448	0.00%	4.19%	10.96%	Thailand	40	0	-4	1	15	22
TPX	1706	-1.21%	1.79%	-2.24%	Volatility						
NASDAQ	1813	0.00%	3.88%	5.59%	Last ATMf		1 Day	1 Mo	1 Yr		
Oil, WTI	64	0.90%	9.73%	-7.59%	China	1M Vol	1.30	-0.03	-0.06	-0.85	
Copper Index	349.30	0.00%	19.21%	17.89%	Hong Kong	3M Vol	1.40	-0.15	-0.13	-1.15	
JPY/USD	118	-0.65%	1.10%	-0.14%	India	1M Vol	0.70	0.00	0.00	0.38	
USD/EUR	1.3527	0.33%	2.25%	10.49%	Hong Kong	3M Vol	0.70	0.00	-0.08	0.30	
ECB Marginal Lending	4.75	-	-	1.25	India	1M Vol	4.93	-0.33	0.93	-0.08	
BOJ	0.50	(0.08)	(0.63)	(0.63)	Hong Kong	3M Vol	5.08	-0.13	0.88	-0.03	
Palm Oil Future	2,212	1.67%	12.07%	-	India	1M Vol	3.90	0.00	-0.15	-2.40	
Gold	677	0.15%	4.79%	11.91%	Hong Kong	3M Vol	4.00	0.00	-0.10	-2.35	
DRAM Benchmark Value Weighted Index	3,300	-0.05%	-9.82%	6.52%	Singapore	1M Vol	3.35	0.00	0.13	-1.05	
					Taiwan	3M Vol	3.45	0.00	0.18	-1.00	
					Hong Kong	1M Vol	2.83	0.00	-0.35	-1.48	
					Hong Kong	3M Vol	3.25	0.00	-0.13	-1.60	
					Thailand	1M Vol	15.06	1.06	-0.19	8.36	
					Thailand	3M Vol	11.50	1.45	0.00	4.80	

Source: Bloomberg (as of 4/13/2007 1:26 PM).

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Week Ahead Data Calendar

Date	Day	Local Time	Country	Indicator	For	Citi Fcst	Mkt Fcst	Prev.
16-Apr	Mon	8:30 PM	US	Retail Sales (%)	Mar	1.3	0.5	0.1
16-Apr	Mon	8:30 PM	US	Retail Sales Less Autos (%)	Mar	1.8	0.7	-0.1
16-Apr	Mon	8:30 PM	US	Empire State Manufacturing (%)	Apr	13.5	7.5	1.9
16-Apr	Mon	5:00 PM	Euro Area	CPI (%MoM)	Mar	0.6	0.6	0.3
16-Apr	Mon	5:00 PM	Euro Area	CPI (%YoY)	Mar	1.9	1.9	1.9
16-Apr	Mon	2:00 PM	Germany	CPI (%MoM)	Mar F	0.3	0.3	0.5
16-Apr	Mon	2:00 PM	Germany	CPI (%YoY)	Mar F	1.9	1.9	1.9
16-Apr	Mon	4:30 PM	UK	Producer Input Prices (%MoM sa)	Mar	0.2	0.9	1.3
16-Apr	Mon	4:30 PM	UK	Producer Output Prices (%MoM)	Mar	0.5	0.3	0.3
17-Apr	Tue	1:00 AM	US	NAHB Housing Market Index	Apr	40.0	35.0	36.0
17-Apr	Tue	8:30 PM	US	Consumer Price Index (%MoM)	Mar	0.8	0.6	0.4
17-Apr	Tue	8:30 PM	US	CPI Ex Food & Energy (%MoM)	Mar	0.3	0.2	0.2
17-Apr	Tue	8:30 PM	US	Housing Starts (mn)	Mar	1.5	1.5	1.5
17-Apr	Tue	8:30 PM	US	Building Permits (mn)	Mar	1.5	1.5	1.5
17-Apr	Tue	9:15 PM	US	Industrial Production (%)	Mar		0.1	1.0
17-Apr	Tue	9:15 PM	US	Capacity Utilization (%)	Mar		81.9	82.0
17-Apr	Tue	5:00 PM	Germany	ZEW Bus. Expectations	Apr	10.9	10.0	5.8
17-Apr	Tue	4:30 PM	UK	CPI (%MoM)	Mar	0.3	0.3	0.4
17-Apr	Tue	4:30 PM	UK	Retail Prices (%MoM)	Mar	0.3	0.5	0.7
17-Apr	Tue	1:00 PM	Singapore	Non-Oil Domestic Exports (% YoY)	Mar	4.1	2.0	-6.6
18-Apr	Wed	4:30 PM	UK	LFS Unemployment (%)	Dec-Feb	5.4	5.5	5.5
18-Apr	Wed	5:00 PM	Malaysia	CPI (% YoY)	Mar	1.8	1.9	3.1
19-Apr	Thu	8:30 PM	US	Initial Jobless Claims (th)	15-Apr		—	342.0
19-Apr	Thu	8:30 PM	US	Continuing Claims (th)	8-Apr		—	2527.0
19-Apr	Thu	10:00 PM	US	Leading Indicators (%)	Mar		0.1	-0.5
19-Apr	Thu	7:50 AM	Japan	Tertiary Industry Index (%MoM)	Feb	-1.1	-0.4	1.6
19-Apr	Thu	7:50 AM	Japan	Tertiary Industry Index (%YoY)	Feb	0.7	—	1.3
19-Apr	Thu	2:00 PM	Germany	Producer Prices (%MoM)	Mar	0.5	0.4	0.3
19-Apr	Thu	2:00 PM	Germany	Producer Prices (%YoY)	Mar	2.8	2.7	2.8
19-Apr	Thu	10:00 AM	China	Real GDP (% YoY)	1Q07	10.7	10.3	10.4
19-Apr	Thu	10:00 AM	China	CPI Inflation (% YoY)	Mar	3.1	2.8	2.7
19-Apr	Thu	10:00 AM	China	Retail Sales (% YoY, nominal)	Mar	14.3	14.5	16.9
19-Apr	Thu	10:00 AM	China	Value Added Industry (% YoY, real)	Mar	17.2	15.8	12.6
19-Apr	Thu	10:00 AM	China	Fixed Asset Investment (% yoy, YTD)	Mar	24.0	23.0	23.4
19-Apr	Thu	4:15 PM	Hong Kong	Unemployment Rate (%SA)	Mar	4.2	—	4.3
20-Apr	Fri	12:00 AM	US	Philadelphia Fed.	Apr	2.5	2.0	0.2
20-Apr	Fri	7:50 AM	Japan	All Industry Activity Index (%MoM)	Feb	-0.5	-0.2	0.7
20-Apr	Fri	7:50 AM	Japan	All Industry Activity Index (%YoY)	Feb	0.8	—	1.4
20-Apr	Fri	4:30 PM	UK	Retail Sales Volume (%MoM)	Mar	0.3	0.4	1.4

Note: Full discussion of Asia data previews available in *Asia: A Look at the Week Ahead* (EC 250), 13 April 2007.
 Source: Bloomberg, CEIC Data Company Limited, Citigroup estimates.