

Emerging Markets Daily

Asia Edition

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See Disclosure Appendix A1 for the
Analyst Certification and Other
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Focus on India/Singapore

- **India.** Water management - an emerging focus area that is crucial for agriculture developments and reducing the child mortality rate (p. 2).
- **Singapore.** In booming times, policymakers have had to cope with surging capital inflows, a tightening labor market, and a buoyant property market (p. 3).

Market Drivers

- **US.** Retail sales likely post the largest increase since last July at 1.3%yoy while ex-auto is forecasted at 1.8%. We also expect March Empire State survey to show continual manufacturing expansion and the housing market index to rebound to a ten-month high in early April.
- **Euro Area.** In the CPI details release, we see increasing energy prices to boost headline CPI in March, but the core inflation rate likely edged down to 1.8%.
- **Singapore.** We expect a 4.1% gain in NODX in March, with tech exports registering a small positive growth.

Data Calendar

Date	Day	Local Time	Country	Indicator	For	Citi Fcst	Mkt Fcst	Prev.
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	0.1	1.0
17-Apr	Tue	9:15 PM	US	Capacity Utilization (%)	Mar	82.0	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

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

Focus on India

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India: Water Management - An Emerging Focus Area

As “inclusive growth” has now become the new mantra of policy makers, **water management is an emerging focus area for India.** This is because both agriculture and the provision of basic services – two basic offshoots of inclusive growth depend on it. Inaugurating the 2007 World Water Day which focused on “Coping with Water Scarcity,” two interesting comments from PM Singh were that water is now fast becoming the most critical constraint for India’s agricultural development and that un-cleaned dirty water is a major cause for child mortality. This issue is further compounded by concerns on climate change which India is most vulnerable to as its monsoon systems and flow of Himalayan rivers are all dependent on current climatic patterns¹. To this end, we see two key water-related areas that have further opportunity for growth - water treatment; and the development of irrigation facilities.

Uneven availability and distribution of water is a critical constraint for agriculture. Though total precipitation in India, including snowfall, amounts to 4000bn cubic meter across the country, 50% of the precipitation takes place in 15 days and 90% of the rivers are filled within four months. This makes the availability and distribution of water in India uneven across both space and time. Another concern is that storage facilities are poor – Indian dams can store only 200 cubic meters per capita, as compared to over 1,000 cubic meters in China and 5,000 in the US. This coupled with less than 40% of the country irrigated, has resulted in erratic trends in the agriculture sector. This points to emerging opportunities in irrigation, tube-wells as well as building more dams, as climate change is likely to further increase the variability of rainfall in India.

Water treatment is an emerging opportunity given higher child-mortality rates. Another water-related challenge is providing basic services which includes the quality of water. The UN estimates that 1.1bn people do not have access to improved sources of drinking water which is a major cause of child mortality. Child mortality rates in India are still high at 65 per 1000 vs. 30 in China and 6.4 in the US. To this end, companies that have made forays in water treatment/water purification facilities in India include Thermax, Ion Exchange, and HLL.

To its credit, the government has recognized the urgent need to address water infrastructure. The National Water Policy recognizes water as a ‘national asset’ and prioritizes water allocation; encouraging various forms of rain water harvesting. Moreover, the proposed establishment of a water authority for the Brahmaputra along the lines of the Tennessee Valley Authority would combine water infrastructure with modern management approaches to make water a stimulus for growth. One study finds that for every Rs100 of direct benefits, the construction of a dam in northern India generated Rs90 of indirect benefits for the regional economy as well. Government efforts are positive and could help solve the water crisis, provided they are implemented.

¹ A UN Report recently released predicts that climate change will hit poorer nations first through a decline in crop yields, flooding and water shortages, and sharp changes in temperature. Water scarcity is a key aspect of climate change. Further, a **World Bank study** estimates that 4bn people – or one half of the world’s population – will live under conditions of severe water stress in 2025, with conditions particularly severe in Africa, the Middle East, and South Asia

Focus on Singapore

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Singapore: Coping with Good Times

The Singapore economy is weathering the tech slump and a slowing US economy with remarkable resilience. First quarter GDP flash estimate came in at a healthy pace, growing 6% from a year ago. A small GDP upgrade, come May, might even be possible, with signs that the tech slump is past its worst.

But a booming economy brings new headaches. **Policymakers have had to cope with surging capital inflows, a tightening labor market, and a buoyant property market**

MAS is maintaining its SGD policy stance, but intervening heavily to stem SGD strength on the back of strong capital inflows. Government is raising civil service pay to reduce staff turnover and retain talent. The MAS issued a warning shot that deferred payment schemes may increase risks to property developers and banks.

Policy responses to these problems will support, rather than hurt, growth and asset prices. MAS is guiding short-term interest rates lower to curb money growth and capital inflows. We think that lower short-term interest rates are here to stay. And this move would be supportive of property and financial assets. Prices on high-yield stocks and bonds appear to be on gradually pricing in an increasing likelihood of a permanently lower interest rate outlook.

Policies on foreign workers and permanent residents will be relaxed further to ease labor market pressures. A construction boom is already leading to a shortage of workers. Further relaxation in policies towards permanent residents and/or citizens may also be in the pipeline. The government has set an ambitious target of 6.5 million people in 20 years. Accommodative labor policies coupled with continued business demand suggest that job growth will remain healthy this year, likely in the range of 100-120K.

A clampdown on deferred schemes, in our view, is unlikely despite recent concerns. This is largely an arrangement between the developer and buyer, falling outside MAS' purview. The warning shot and moral suasion may be sufficient to persuade banks to be more cautious in lending to projects with a large fraction of deferred schemes. The eventual shift in loan composition towards households when completions jump will also effectively lower the risks to banks, as default rates on mortgages are significantly lower.

News in Brief

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Philippines

Upbeat remittances in Feb supported the advance of the peso against USD in today's trading to close the session at 47.80 having opened the week at 47.85. Feb was supposed to be a lean month for the remittance flows following the Christmas remittance season. But the update for Feb indicated a 25.4%yoy rise in remittances up from a 19.9%yoy increase in Jan. Remittance update seems to elude seasonality as formal banking channels continue to attract these flows away from the informal system. The strong peso trend probably hastened the conversion of these remittance flows. In real terms, we estimate the Jan-Feb remittance flows to reflect a 10.6% yoy growth likely to provide the upside to basic consumption in 1Q07. Finally the remittance flows comprise a key foreign exchange source supporting the sustained buildup in BSP's dollar reserves. (*Jun Trinidad*)

Slower bank lending growth of 7.7%yoy in Feb from 9.4%yoy in Jan offers another statistics to prolong the tiering mechanism. BSP estimated seasonally adjusted bank loans fell 1.5%MoM in Feb from +0.3%MoM in Jan. Despite abundant liquidity in the banking system, BSP reported outstanding bank loans to manufacturing, utilities and mining and quarrying sectors recorded declines of 1.3%yoy, 4.4%yoy, and 20.7%yoy, respectively. BSP highlighted the need to bolster broad-based bank lending as a key reason behind the implementation of tiering scheme last Nov. (*Jun Trinidad*)

Selected Market Indicators

Policy Rates					Currency						
	Spot	Change (ppt)			Spot	Change (%)					
		1 Day	1 Mo	1 Yr		1 Day	1 Mo	1 Yr			
China - 1-year lending rate	6.39	-	0.27	0.81	Bangladesh Taka	68.795	0.00%	0.25%	0.48%		
Hong Kong – 3-Month Interbank Rate	4.28	0.02	0.08	(0.32)	China Renminbi	7.7288	-0.09%	0.04%	3.75%		
India - Overnight Reverse Repo Rate	6.00	-	-	0.50	Hong Kong Dollar	7.8132	0.01%	-0.02%	-0.71%		
Indonesia - BI Rate	9.00	-	-	(3.75)	Indian Rupee	42.10	1.05%	4.69%	7.26%		
Malaysia - Overnight Policy Rate	3.50	-	-	0.25	Indonesian Rupiah	9093	0.02%	1.43%	-1.15%		
Philippines – O/N Rate	7.50	-	-	-	Malaysian Ringgit	3.4395	0.06%	2.01%	6.76%		
Singapore – 3-Month Interbank Rate	2.81	-	(0.25)	(0.65)	Phillipine Peso	47.78	0.15%	2.25%	7.26%		
South Korea – Overnight Rate	4.50	-	-	0.50	Singaporean Dollar	1.5134	0.19%	0.79%	6.26%		
Taiwan - Overnight Rate	1.72	0.00	0.02	0.21	South Korean Won	931.7	-0.31%	1.37%	2.87%		
Thailand - 14-Day Repo Rate	4.03	-	(0.50)	(0.72)	Taiwan Dollar	33.154	-0.03%	-0.09%	-2.04%		
Long Term Bond Yield					Thai Baht (onshore)	34.953	-0.01%	-0.09%	8.98%		
	Spot	Change (ppt)			Thai Baht (offshore)	32.520	0.18%	0.83%	17.13%		
		1 Day	1 Mo	1 Yr	Vietnam Dong	16035	0.01%	-0.12%	-0.67%		
China - Government bond yield (5-Year)	2.85	-	0.09	0.39	Equities						
Hong Kong – 5-Year Exchange Fund Note	4.14	0.03	0.07	(0.43)	Index Level	Change (%)					
India - 10-Year Gilt	8.10	-	0.07	0.49		1 Day	1 Mo	1 Yr			
Indonesia - FR26	9.45	(0.00)	(0.27)	(2.61)	Bangladesh DHAKA	1704	0.00%	-1.45%	20.22%		
Malaysia - MGS 1/05	3.40	-	(0.20)	(0.61)	China (H Shares)	10314	1.53%	11.64%	34.29%		
Philippines - 5-Year T Bond	6.38	-	0.45	(0.48)	China (Shanghai SE Composite)	3596	2.17%	18.52%	62.20%		
Singapore - 10-Year SGS	2.77	-	(0.14)	(0.88)	Hong Kong Hang Seng	20758	2.01%	8.69%	20.85%		
South Korea - 5-Year Treasury	5.00	0.01	0.21	(0.28)	India NIFTY	4007	2.24%	9.95%	16.51%		
Taiwan - 10-Year Government Bond	2.02	0.00	0.06	0.20	Indonesia Jakarta	1964	1.15%	9.47%	29.62%		
Thailand - 10 Year Government Bond	4.18	-	(0.29)	(1.54)	Korea KOSPI	1532	0.73%	6.80%	6.48%		
Vietnam - 5-Year Government Bond	7.10	0.09	0.07	-	Malaysia Kuala Lumpur	1323	1.11%	10.64%	29.07%		
Other Indicators					Philippines Composite	3268	1.55%	6.29%	31.94%		
	Last	Change			Singapore Straits Times	3414	1.19%	10.12%	25.48%		
	Index Level	1 Day	1 Mo	1 Yr	Taiwan Taiex	8044	-0.02%	4.02%	13.56%		
Fed Funds	5.31	-	0.19	0.56	Thailand SET	692	0.00%	3.09%	-9.09%		
6 month LIBOR	5.37	-	0.05	0.15	Vietnam Ho Chi Minh	983	-3.05%	-12.90%	43.52%		
10 Yr UST	4.76	(0.00)	0.22	(0.29)	EM CDS (5Yr)						
10 Yr Bund	4.230	(0.00)	0.33	0.27	Prev	Change					
Eurostoxx	3810	0.87%	6.56%	8.35%		1 Day	1 Mo	1 Yr			
10 Yr JGB	1.705	0.04	0.12	(0.27)	Spread (in bp)	Close	1 Day	1 Mo	1 Yr	5s-2s	10s-5s
10 Yr Swap	5.30	(0.00)	0.22	(0.30)		China	10	0	-1	-11	5
HY BB Index	458	0.00%	0.26%	8.89%	India	48	0	-6	-11		
HY B Index	502	0.00%	0.72%	10.55%	Indonesia	115	0	-14	-58	62	81
VIX	12.20	-	(4.59)	(0.18)	Korea	16	0	-2	-8	6	7
DJIA	12612	0.00%	3.98%	11.69%	Malaysia	16	0	-2	-14	7	10
SPX	1453	0.00%	4.54%	11.27%	Philippines	115	0	-16	-78	64	84
TPX	1726	1.16%	2.81%	-1.07%	Thailand	39	0	-5	0	14	22
Volatility											
	Last	ATMF	1 Day	1 Mo	1 Yr						
China	1M Vol	1.30	0.00	0.05	-0.85						
	3M Vol	1.40	0.00	-0.20	-1.05						
Hong Kong	1M Vol	0.70	0.00	0.00	0.38						
	3M Vol	0.70	0.00	-0.08	0.30						
India	1M Vol	6.35	1.45	2.55	1.35						
	3M Vol	5.75	0.85	1.60	0.70						
Korea	1M Vol	3.90	0.00	-0.15	-2.48						
	3M Vol	4.00	0.00	-0.10	-2.48						
Singapore	1M Vol	3.35	0.00	-0.13	-0.85						
Taiwan	3M Vol	3.45	0.00	-0.05	-0.90						
	1M Vol	2.83	0.00	-0.48	-1.48						
	3M Vol	3.25	0.00	-0.10	-1.70						
Thailand	1M Vol	15.92	0.86	2.42	9.22						
	3M Vol	11.50	0.00	0.50	4.80						

Source: Bloomberg (as of 4/16/2007 5:11 PM).

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