

# Summer Roadmap

## EM sell-off should end once...

...we see large fund outflows (happening), stabilization of risk appetite (not yet) and the re-appearance of value (happening). A bounce is imminent we think.

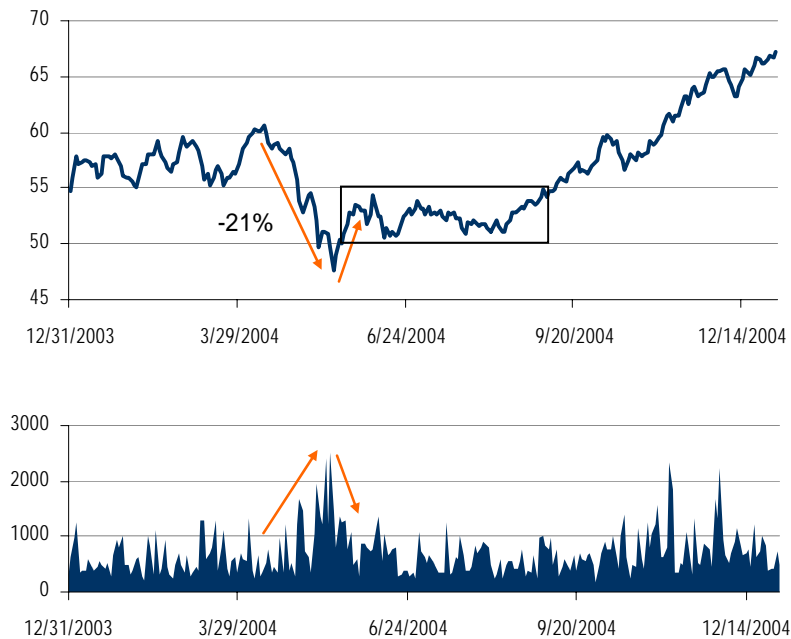
## Bull market should resume later in 2006, once...

...inflation/stagflation fears abate, global growth consensus shifts from "no landing" to "soft landing" and Chinese stop tightening, in our view.

## 2006 Roadmap

We think 2004 offers a useful summer '06 roadmap for investors. EM traveled from "panic" to "rebound" to "summer consolidation" in '04 (see Chart 1). 2006 journey should be similar. Once this "panic" is over, "fallen angels" and "cheap conviction stocks" are likely to outperform.

Chart 1: 2004 Summer Road Map



Source: Bloomberg



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Table 1: EM Performance (as of 5/29/06, US\$)

	Since High	YTD
U.A.E. - Dubai	-61.9%	-52.4%
Saudi Arabia	-49.0%	-37.2%
Egypt	-30.8%	-18.0%
Turkey	-29.0%	-13.8%
Colombia	-23.7%	-7.8%
Lebanon	-20.5%	17.4%
Jordan	-19.5%	-15.7%
Indonesia	-18.9%	22.4%
Poland	-17.0%	14.0%
Pakistan	-15.9%	6.3%
India	-14.6%	12.9%
Philippines	-14.4%	9.4%
<b>Latam</b>	<b>-14.3%</b>	<b>12.2%</b>
Russia	-14.2%	32.6%
<b>BRIC</b>	<b>-14.1%</b>	<b>19.7%</b>
<b>EMEA</b>	<b>-13.2%</b>	<b>9.1%</b>
Brazil	-13.1%	18.0%
Mexico	-12.9%	4.3%
Argentina	-12.8%	7.8%
South Africa	-12.2%	12.0%
<b>EM</b>	<b>-12.0%</b>	<b>9.5%</b>
Hungary	-11.6%	12.5%
<b>Asia</b>	<b>-11.4%</b>	<b>8.7%</b>
South Korea	-10.4%	2.7%
Thailand	-9.5%	8.4%
Taiwan	-8.5%	7.6%
Chile	-6.2%	6.9%
Israel	-5.1%	9.1%
Malaysia	-5.1%	7.4%
Peru	-4.4%	61.7%
Czech	-4.2%	4.1%
China	-1.5%	42.9%

Source: Bloomberg, as of May 29, 2006

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Refer to important disclosures on page 36. Analyst Certification on page 35.

# Recommendations

Table 2: Country Recommendations

Country	MSCI Weight*	Stance	Rationale	What would change our view?
Russia	6.54	Overweight	Growth, liquidity, high oil prices and oversold	Oil prices decline
Brazil	10.39	Overweight	Cheap, rate cuts and growth recovery	A slump in the real
Korea	18.01	Overweight	Cheap. Not over owned. Investors should add to position in Q3	US recession
Indonesia	1.67	Overweight	Cheap, still unloved, lots of rate cuts coming, fallen angel	Risk aversion increases sharply
Turkey	1.69	Overweight	Hardest hit in sell-off, look for vigorous dead-cat bounce	Further weakness in TRY and debt
Taiwan	14.25	Neutral	Investors pessimistic; place to look for high dividend yield in Asia	NASDAQ slumps
South Africa	9.79	Neutral	Best place for infrastructure and consumption plays	Rand and commodity price weakness
Thailand	1.71	Neutral	Investors overweight; shame as its cheap	Falling oil prices bullish.
Mexico	5.98	Neutral	US economy to slow.	U.S. equity outperformance
Israel	3.16	Neutral	Laggard, defensive rotation candidate	Politics
Rest of MSCI***	6.51	Neutral	Overweight: Pakistan, Vietnam, Morocco	Global risk aversion returns
India	6.14	Underweight	Most expensive GEM market, inflation, CB tightening	Cheaper market.
Central Europe**	3.81	Underweight	Expensive, FX vulnerability	M&A activity boosts region
China	8.78	Underweight	Growth too strong	Big policy easing
Chile	1.57	Underweight	Expensive, vulnerable to copper prices	Cheaper market
<b>Total EMF</b>	<b>100</b>	<b>OVERWEIGHT</b>		

Source: Merrill Lynch estimates, MSCI. \*Data as of 29 May 2006; \*\* Hungary, Czech Republic and Poland; \*\*\* Includes: Argentina, Colombia, Egypt, Jordan, Malaysia, Morocco, Pakistan, Peru, Philippines and Venezuela

Table 3: Sector Recommendations

Sector	MSCI Weight*	Stance	Rationale	What would change our view?
Materials	13.50	Overweight	Good H2 supply/demand fundamentals	Big China slowdown
Staples	5.62	Overweight	Strong domestic demand in GEM	Revenue growth disappoints
Industrials	7.20	Overweight	Infrastructure theme	Nasty politics
Technology	16.01	Neutral	ML more positive U.S. tech	Global "hard landing"
Energy	14.77	Neutral	Oil price assumptions fair	Higher oil prices
Utilities	3.36	Neutral	Corporate restructuring + valuation decent	Higher energy prices a negative
Telecom	10.57	Neutral	High dividend yields are a positive	Fed/GEM stops tightening
Financials	19.73	Neutral	Global growth healthy	Global slowdown a positive
Cons Disc	6.87	Neutral	Weak US consumption/strong GEM consumer	Stronger US housing market
Health Care	2.38	Underweight	Expensive	Defensive rotation

Source: Merrill Lynch estimates, MSCI. \*Data as of 29 May 2006.

# GEM strategy

## What Next?

Some quick thoughts on the vicious May emerging market equity sell-off and its aftermath.

### Why the Sell-Off?

We think the sell-off was caused by the combination of:

1. excess positioning in EM equities at a time of
2. excessive risk appetite & liquidity expectations

All the recent short-term turning points in EM have coincided with liquidity “events”. This time around the combination of U.S. inflation and dollar fears hit liquidity expectations and initiated the sell-off. Markets sell-off aggressively when investors fret about inflation, rates and the availability of liquidity. And markets rally aggressively when those fears prove overdone or an exogenous event makes investors believe central banks must inject liquidity into the financial system (e.g. Katrina – see Chart 2).

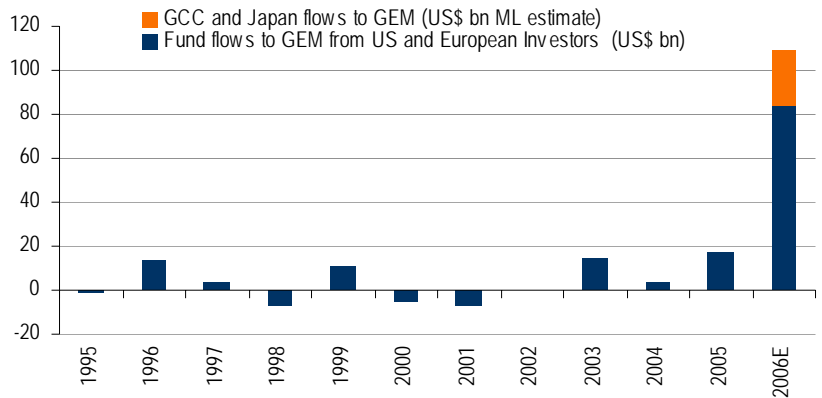
**Chart 2: Liquidity “Events” cause turning points in EM Equities**



Source: Bloomberg, Emergingportfolio.com

The severity of the sell-off is best explained by the excess positioning in EM equities, in our opinion. We estimate inflows into EM equity funds of \$125 billion (annualized – see Chart 3) in 2006, a figure that engulfs the previous annual record of \$25 billion. Such outsized inflows made the asset class vulnerable to a change in sentiment, we think.

**Chart 3: Phenomenal YTD Inflows help explain severity of recent correction**



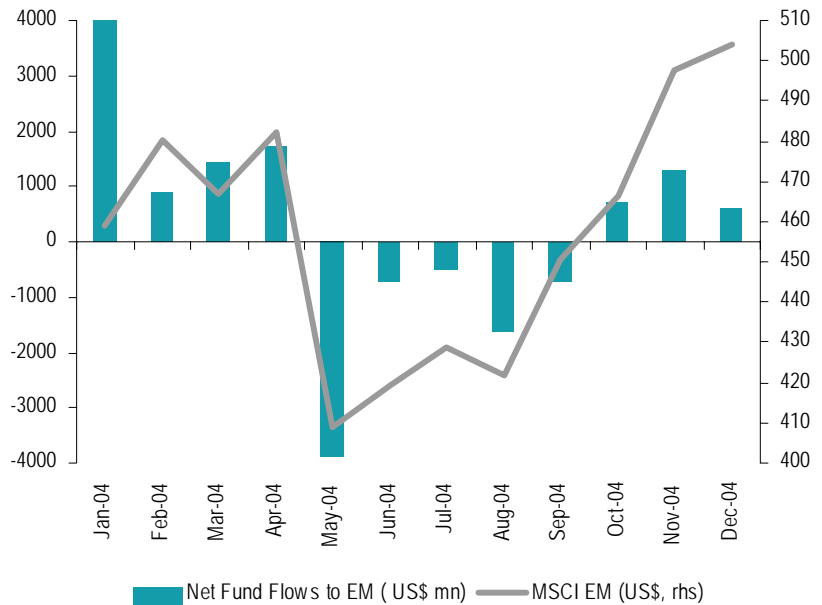
Source: Emergingportfolio.com & Merrill Lynch estimates

### Oversold Checklist

Here's a checklist to gauge when the EM equity sell-off is coming to an end. We think a bounce is coming soon.

- 1. Big fund outflows – now happening.** Market lows normally coincide with large fund outflows. As the following chart shows, the +21% sell-off in 2004 ended with monthly outflows of \$4 billion (and note further outflows during the summer of 2004 hindered market upside but did not cause further price losses, see Chart 4). Big outflows have now begun. In the week to May 24<sup>th</sup> emerging market equity funds saw a huge \$5 billion of outflows (1.7% of total assets).

**Chart 4: In 2004, big outflows coincided with the 20% sell-off lows in EM**



Source: Bloomberg, Emergingportfolio.com

Chart 5: EEM resistance at \$92.80 and \$81.45



Source: Bloomberg

2. **Technical support levels hold – not yet.** For EEM another weekly close above the \$92.80 Fibonacci support level is crucial (see Chart 5). Next big support level for the asset class comes in about 10% lower than present and would offer a substantial buying opportunity in our view. Other key weekly support levels to watch are 1300 for the Kospi, 35000 for the Bovespa, 3500 for the ISE, 10000 for the BSE and 1250 on the S&P500.
3. **Risk appetite measures stabilize – not yet.** EM debt spreads, the Brazilian real, U.S. broking stocks, Japanese small cap stocks, VIX index and so on are great risk barometers and all have recently “corrected”. Stabilization would signal risk aversion trade is over.
4. **Value reappears – now happening.** The EM price-to-book ratio has dipped from 2.6X to 2.3X, the forward PE has fallen back from 12.6X to 11.0X and 32% of all EM companies now trade below 10X 2006 earnings. Valuation is a useless timing tool but should soon attract buyers back into still-cheap emerging markets, in our view.

In short, once excess positioning in EM equities has corrected and once risk aversion subsides, the sell-off should be complete. In our view, the large size of outflows last week suggests markets are starting to look oversold from a short-term trading perspective. Non-stagflationary U.S. data and a positive Turkish inflation number on Friday could allow EM to quickly retrace up to one-half of recent losses in our view.

### When will the bull market resume?

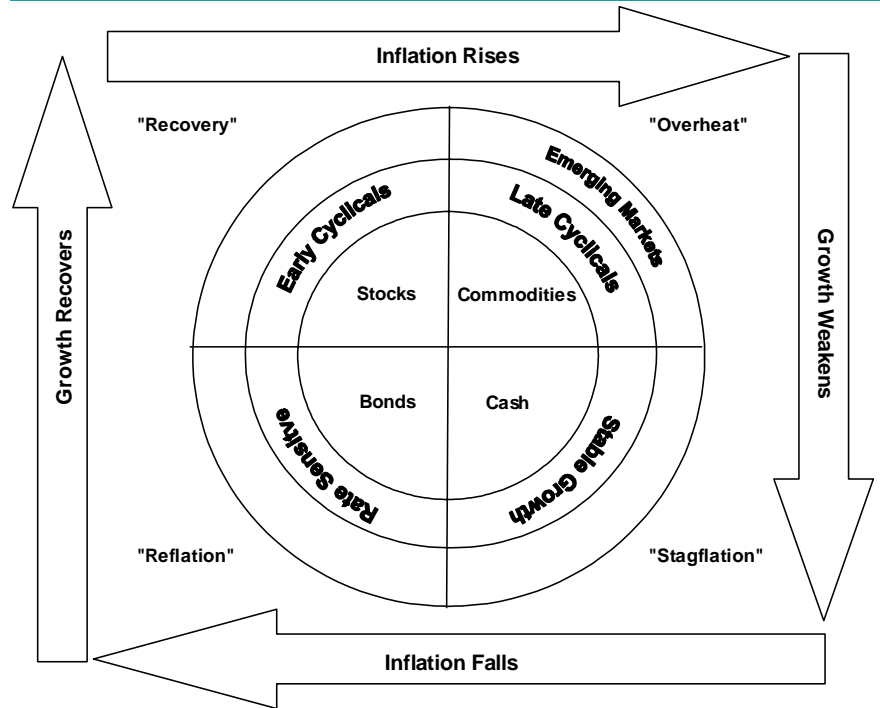
The bull market in emerging market equities should resume later in 2006, once:

1. U.S. & EM inflation/stagflation fears abate
2. The global growth consensus shifts from “no landing” to “soft landing” (but not “hard landing”)
3. China stops tightening
4. Seasonality starts to improve in the autumn

For a few months now we have become more tactically cautious on the asset class. We think a necessary period of consolidation and relative underperformance following a period of abnormally high returns (45% annualized since October 2002!) began on February 1<sup>st</sup> since when EM has underperformed developed markets. Softer liquidity, risk appetite, the forthcoming U.S. slowdown and seasonality all argue for further consolidation through the summer. But we think a bear market is unlikely so long as we avoid:

1. a bout of inflation which would shift assets into the defensive stagflation phase of the investment cycle (see Investment Clock framework in Chart 6)
2. a collapse in the U.S. dollar that similarly shifts the cycle into stagflation
3. a financial event which causes major liquidation pressures in the commodity markets

Chart 6: The Investment Clock



Source: Merrill Lynch

### The 2004 Summer Roadmap

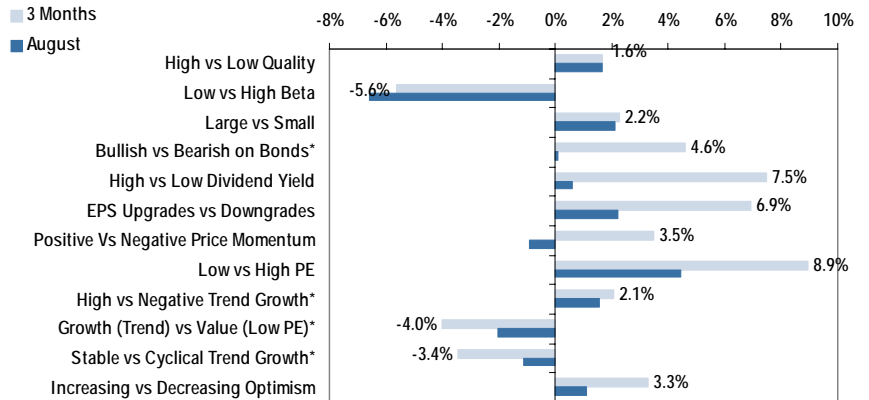
We believe the April/May 2004 meltdown in EM equities offers some clues for traders and investors today. Then as now liquidity and risk appetite were under pressure from Fed/China tightening fears, EM currencies were in a spin (the Turkish lira tumbled 19%) and EM debt spreads gapped higher by 150 basis points.

From April 2004 to August 2004 there were three distinct phases of performance: a sharp 21% sell-off, a 12% "rebound" and then a 3-month period of consolidation. The front page chart shows price performance and volume for EEM over this period - note that EM equities did not go back to their old highs until November 2004.

Chart 7 shows a quantitative analysis of which EM strategies worked during the summer of 2004 (courtesy of GEM Quant strategist Carrie Zhao). Table 4 shows the country and sector performance across emerging markets during the "panic", the "rebound" and the "consolidation" phases of 2004.

Low P/E, high dividend yield, EPS upgrades and high beta strategies worked during the summer 2004 consolidation

Chart 7: Three-month Performance of GEM Strategies, Ending Aug 2004



Source: Merrill Lynch GEM Quantitative Strategy, MSCI, IBES  
\* Global Portfolios

Worse performing countries during the "panic" period of 2004 became the top performers in the "rebound" that followed

Table 4: The 2004 Roadmap

"Panic" 12 <sup>th</sup> Apr – 17 <sup>th</sup> May EEM lost 21.4%	"Rebound" 17 <sup>th</sup> May – 28 <sup>th</sup> May EEM gained 12.0%	"Consolidation" 28 <sup>th</sup> May – 31 <sup>st</sup> Aug EEM gained 0.7%
<b>Best Performing Markets</b>		
1. Israel -4.6%	1. China 18.8%	1. Brazil 20.5%
2. Hungary -10.6%	2. Korea 14.6%	2. Turkey 18.8%
3. Malaysia -EM -12.4%	3. Taiwan 13.5%	3. Chile 14.1%
4. Poland -12.6%	4. Peru 12.9%	4. Hungary 7.0%
5. Chile -13.1%	5. Turkey 12.2%	5. South Africa 6.5%
6. Czech Republic -13.7%	6. Argentina 12.0%	6. Argentina 5.9%
7. Mexico -13.9%	7. Thailand 11.7%	7. India 5.5%
8. Indonesia -15.4%	8. Hungary 10.1%	8. Poland 5.3%
9. South Africa -17.8%	9. South Africa 9.6%	9. Indonesia 2.9%
10. Peru -19.8%	10. Brazil 9.2%	10. Peru 2.8%
<b>Worse Performing Markets</b>		
1. Turkey -27.2%	1. Russia -5.6%	1. Israel -11.3%
2. Argentina -27.0%	2. Philippines 2.5%	2. Taiwan -9.0%
3. Korea -26.0%	3. Malaysia -EM 3.2%	3. Korea -4.0%
4. China -25.9%	4. Israel 3.9%	4. Thailand -3.1%
5. Brazil -25.7%	5. Chile 4.0%	5. China 0.2%
6. India -25.7%	6. Mexico 5.0%	6. Russia 0.2%
7. Taiwan -20.6%	7. Indonesia 7.3%	7. Philippines 1.1%
8. Russia -20.3%	8. Czech Republic 7.5%	8. Mexico 1.1%
9. Thailand -20.1%	9. Poland 7.8%	9. Malaysia -EM 1.6%
10. Peru -19.8%	10. India 8.9%	10. Peru 2.8%
<b>Best &amp; Worse Sectors</b>		
1. Health Care -4.9%	1. IT 14.3%	1. Materials 10.5%
2. Staples -11.9%	2. Financials 11.2%	2. Energy 6.9%
3. Telco Services -17.5%	3. Industrials 11.1%	3. Utilities 6.7%
4. Financials -19.7%	4. Materials 11.0%	4. Staples 5.0%
5. Utilities -20.4%	5. Cons. Disc. 10.9%	5. Industrials 4.6%
6. Industrials -20.6%	6. Telco Services 9.1%	6. Cons. Disc. 2.9%
7. Energy -20.7%	7. Utilities 6.5%	7. Telco Services 1.0%
8. Cons. Disc. -22.2%	8. Staples 4.4%	8. Financials 0.8%
9. Materials -23.5%	9. Health Care 3.6%	9. IT -11.6%
10. IT -24.0%	10. Energy 3.6%	10. Health Care -11.6%

Source: MSCI/Factset, Merrill Lynch GEM Equity Strategy estimates

We think the messages from 2004 are as follows:

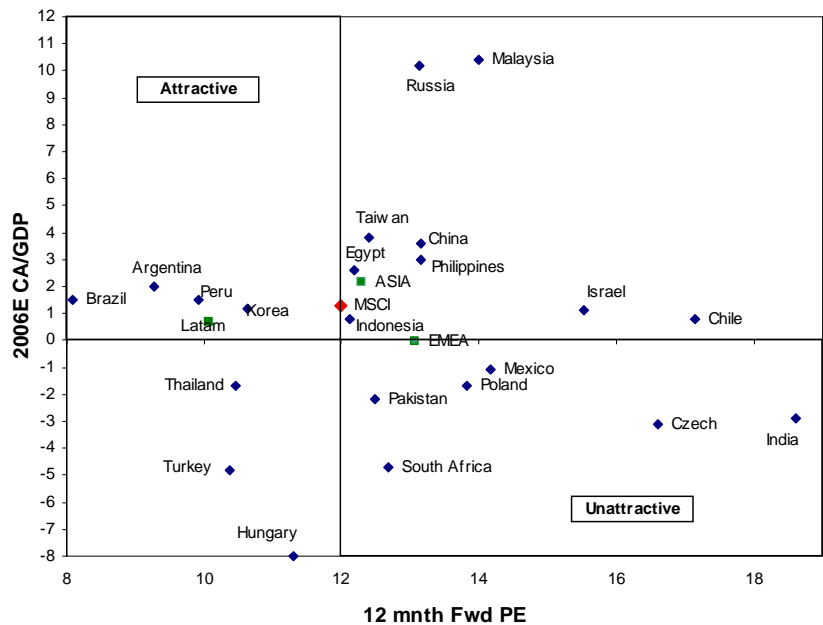
1. The performance tables show that after a pronounced sell-off in emerging markets, higher beta “fallen angels” rebound strongly. Today this means investors should not at this stage in the sell-off be looking to collapse holdings in Turkey, Brazil, India, energy and so on. They have the potential to bounce the hardest.
2. The quantitative message from the rebound/consolidation phases is that high dividend yield, low PE, EPS momentum strategies worked. In other words, investors should be looking for markets and stocks that are cheap and can experience upward EPS revisions through the summer of 2006.

### Fallen Angels and Cheap Stocks

We will be conducting a thorough revise all of our country-sector recommendations once the dust settles.

Previously we stated that we would buy undervalued markets with CAC surpluses such as Brazil, Korea, Russia and Indonesia on weakness. We stick with that view (see Chart 8).

Chart 8: CA surplus + low P/E = attractive markets



Source: Factset / IBES, EIU

In Table 5 we screen for “fallen angels” that are likely to bounce aggressively once “panic” subsides. These stocks have had sizable declines since May 9<sup>th</sup> and have high beta. In addition, we looked for stocks that have experienced upward revisions to consensus earnings estimates in the last six months as a sign of conviction over their earnings prospects.



**Table 5: A Screen of "Fallen Angels"**

Company	ML		Mkt Cap USD mn	QRQ	Beta	Price Chg	Div Yield 06E
	Symbol	Price 5/29/06				5/9/06 to 5/29/06	
TURKCELL ILETISIM HIZMET	TKCZF	TRY 7.3	8,829	C-1-7	1.9	-27.6%	5.4
TURKIYE GARANTI BANKASI	TKGBF	TRY 4.8	6,569	C-1-7	2.4	-21.7%	1.8
GAZPROM ADS (USD)	RGZPF	USD 43.5	257,449	C-1-7	1.2	-15.4%	0.2
VALE DO RIO DOCE ON	RIO	BRL 55.6	36,767	Rw	1.4	-15.6%	n/a
CORPORACION GEO B	CVGEF	MXN 41.7	1,991	C-1-9	1.4	-13.0%	0.0
INT'L NICKEL INDONESIA	PTNDF	IDR 17950.0	1,926	C-1-7	1.2	-15.3%	5.0
ELLERINE HOLDINGS	ELNJF	ZAR 82.6	1,543	C-1-7	1.5	-17.4%	3.2
SAMSUNG ELECTRO-MECH.	SSEMF	KRW 31550.0	2,492	C-1-8	2.0	-17.0%	1.7
SBERBANK RUSSIA COM(USD)	AKSJF	USD 1630.0	30,970	C-1-7	1.3	-12.4%	0.7
BHARAT HEAVY ELEC	BHRVF	INR 1944.2	10,369	C-1-7	1.1	-20.5%	0.8
LARSEN & TOUBRO	LTOUF	INR 2362.6	7,097	C-1-7	1.4	-16.7%	1.0

Source: Merrill Lynch GEM Equity Strategy

And lastly in Table 6, we screen for value stocks. These stocks offer a generous dividend that they can pay out of cash generation. In particular, we looked for stocks with ML coverage that are expected to promise a dividend yield above 3% and a free cash flow yield above 5%. As a sign of conviction about fundamentals, we looked for stocks that are expected to increase its ROE from 2005. The stocks listed in Table 6 all have ROE that ranges from 18% to 42%.

**Table 6: A Screen of "Value" Ideas**

Company	ML Symbol	Price	Mkt Cap	QRQ	P/E 06E	FCF	Div	ROE 06E
		29-5-06	USD			Yield	Yield	
Ford Otosan	FOVSF	TRY 12.7	2,906	C-1-8	9.2	14.9	10.3	26.2
Aracruz Celulose	ARA	USD 52.2	5,382	C-1-7	11.0	7.9	5.7	24.4
Telesp Fixed	TSP	USD 21.3	10,528	C-1-7	8.5	15.5	16.1	29.4
Norilsk Nickel	NILSF	USD 130.0	24,782	C-1-7	4.7	19.0	5.3	38.7
IOC	IOCOF	INR 459.8	11,608	C-1-7	8.5	10.7	4.7	21.0
Woolworth Hldgs	WLWHF	ZAR 15.4	1,885	C-1-7	12.6	5.4	4.7	39.5
Truworths Intl	TRWKF	ZAR 25.4	1,804	C-1-7	12.7	5.4	3.8	40.7
Barloworld Ltd.	BRRAF	ZAR 119.5	3,859	C-1-7	10.8	6.0	4.2	18.2
Edgars Con Store	XECSE	ZAR 35.0	2,782	C-1-7	10.2	7.4	5.0	42.3
Lite-On Tech	LOTZF	TWD 50.1	4,277	C-1-7	12.7	8.8	6.1	19.5
GES Intl	GESKF	SGD 0.9	411	C-1-7	10.3	7.3	7.4	22.9
Sincere Navig	SCNVF	TWD 35.0	440	C-1-7	5.2	11.1	14.3	27.4

Source: Merrill Lynch GEM Equity Strategy

# Investment drivers

Table 7: GEM Investment Drivers

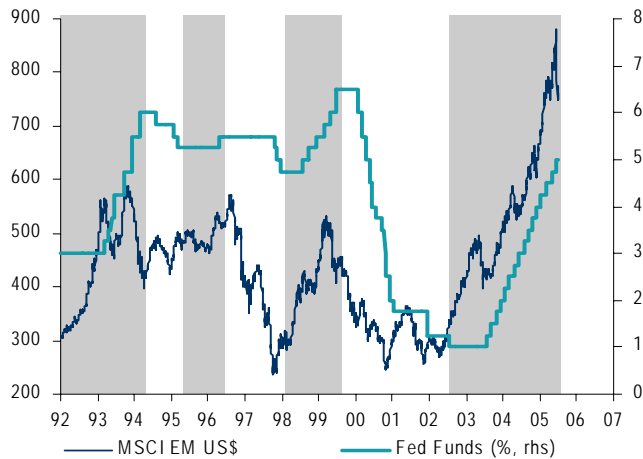
Driver	View
Liquidity	↑
Growth	↑
Sentiment	↓
Valuation	↔
Risk Appetite	↑

↑ = Positive, ↓ = Negative, ↔ = Neutral

## Global liquidity: less positive for GEM

- Low inflation = low rates = ample liquidity. Will inflation stay low?
- Our measure of global liquidity growth remains supportive.
- GEM underperforms once Fed has done enough to halt liquidity.
- Higher global rates=less liquidity.

Chart 9: MSCI EM & Fed Funds Rate



Source: Bloomberg. Shaded areas denote the period between the last Fed rate cut and the last hike of each economic cycle.

GEM underperforms once Fed has done enough to halt liquidity.

Chart 11: Global Liquidity\*



Source: ML GEM Strategy. \* U.S. securities held at the FED for Foreign Central Banks + U.S. monetary base

Global liquidity was accelerating before the sell-off.

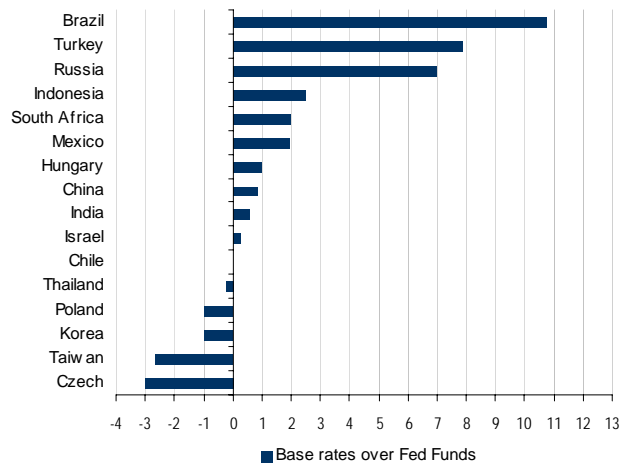
Chart 10: MSCI EM & U.S. 10-Year Bond Yield



Source: Thomson DataStream.

Higher yields starting to hurt EM.

Chart 12: High Short-Term GEM Rates = Carry Trade



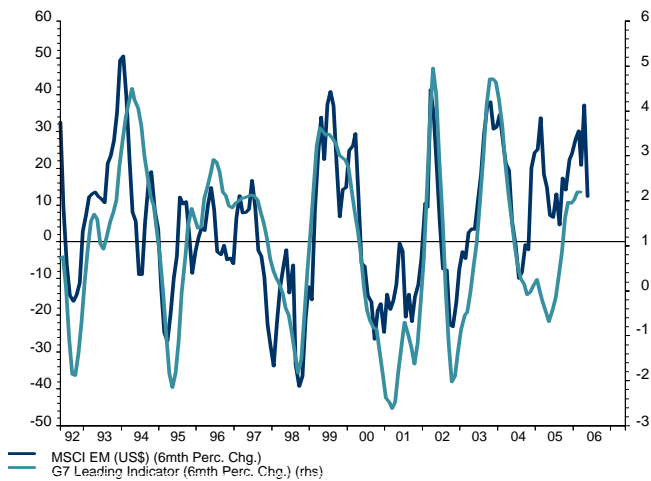
Source: ML GEM Strategy, Bloomberg.

Carry trades hit hard in recent sell-off.

### Growth Expectations: Less Positive

- Are EM anticipating a global growth peak?
- Chinese imports and industrial production= Proxy for global growth slowing down.
- U.S. consumer slowing but no collapse.

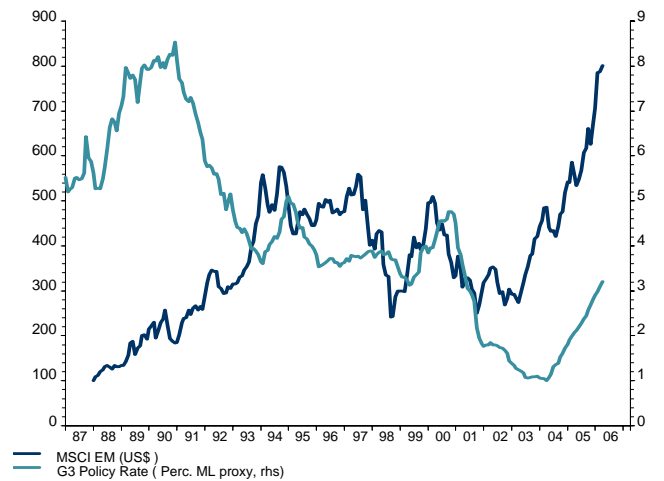
Chart 13: MSCI EM & G7 Lead Indicator



Source: Thomson DataStream.

Are EM anticipating a global growth peak?

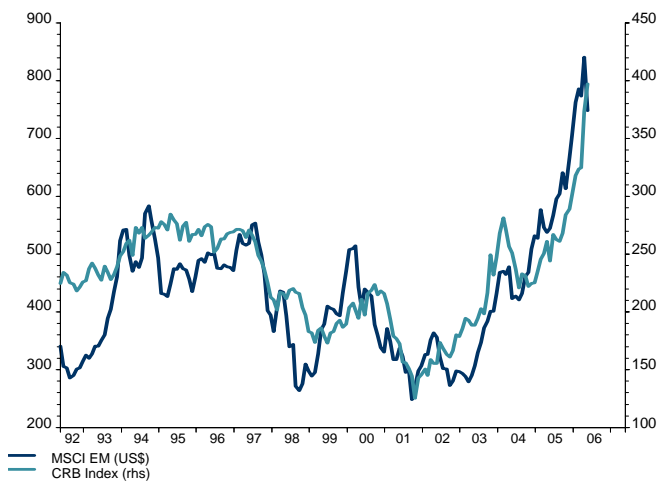
Chart 14: MSCI EM & G3 Monetary Policy Proxy



Source: Thomson DataStream.

Tighter G3 monetary policy.

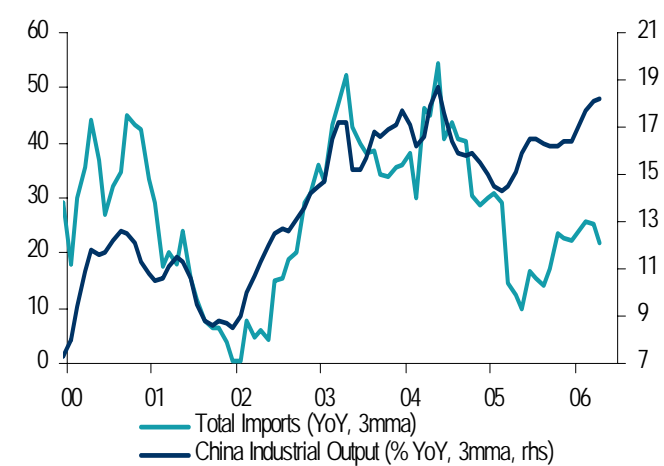
Chart 15: MSCI EM & CRB Index



Source: Thomson DataStream.

Commodity prices continue to support GEM equities.

Chart 16: China Imports and Industrial Production Growth



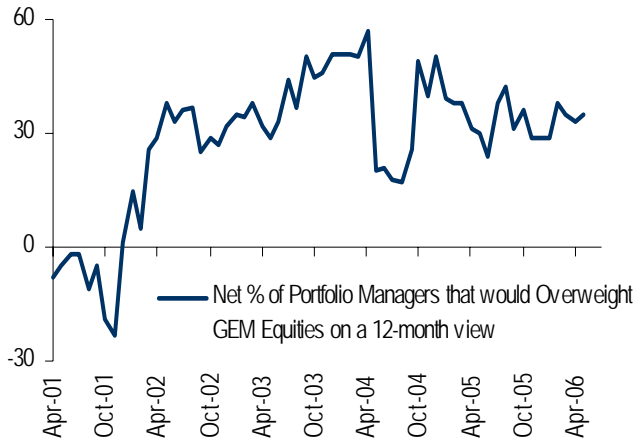
Thomson DataStream, Bloomberg

Watch Chinese imports as proxy for commodity demand.

**Sentiment: Less negative**

- Investor sentiment was too positive on GEM.
- Mutual fund inflows into GEM were unsustainable.
- EM equity fund net outflows = \$5 billion in week to May 24th.
- Market lows normally coincide with large fund outflows.

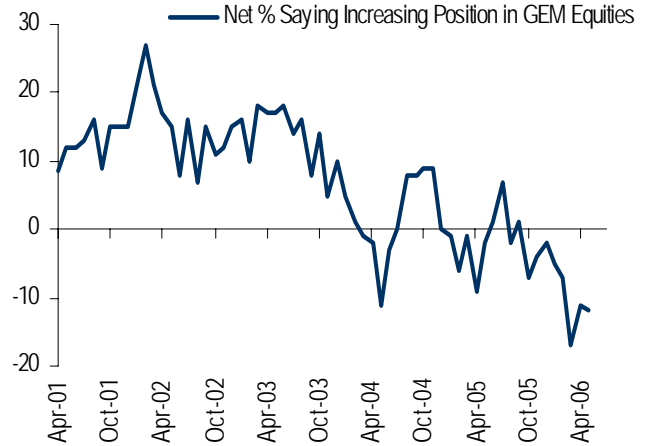
**Chart 17: Fund Manager's Relative Appetite for GEM Equity**



ML Global Fund Manager Survey

Fund managers want to remain overweight GEM...

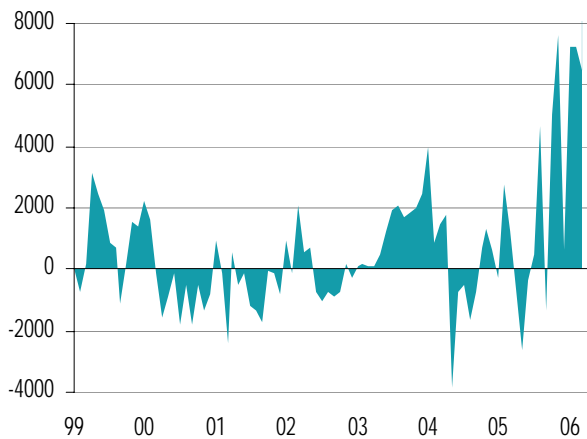
**Chart 18: GEM Fund Managers' Positions**



ML Global Fund Manager Survey

...but few are increasing allocations.

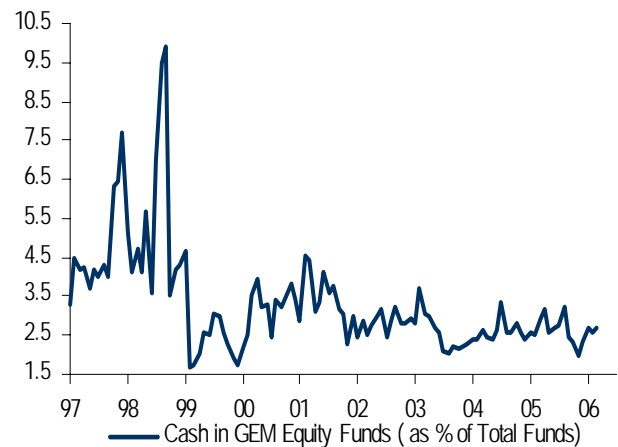
**Chart 19: Monthly Emerging Market Equity Net Inflows, US\$ mn**



Source: Emergingportfolio.com

Market lows normally coincide with large fund outflows.

**Chart 20: Cash Levels in GEM Equity Portfolios**



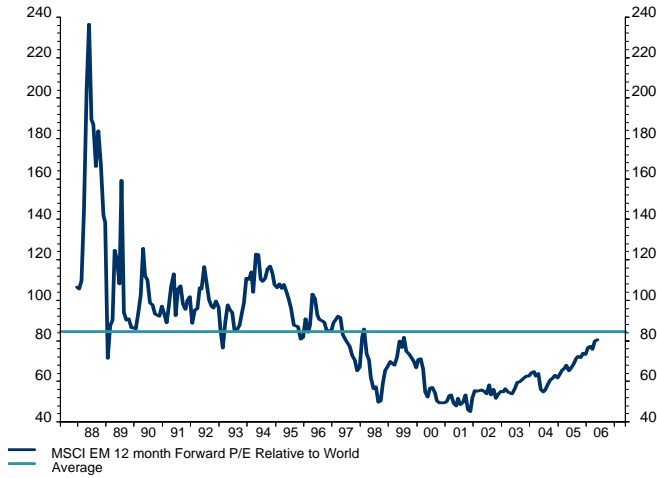
Source: EmergingPortfolio.com

April cash position was 2.7% of total assets.

**Valuation: Neutral**

- Relative to world, MSCI EM trades at a 22% discount.
- But MSCI EM still expensive on Price to book basis.
- EMEA is most overvalued region, while Asia is cheapest relative to world.
- EM Earning yields and corporate bonds yields are similar.

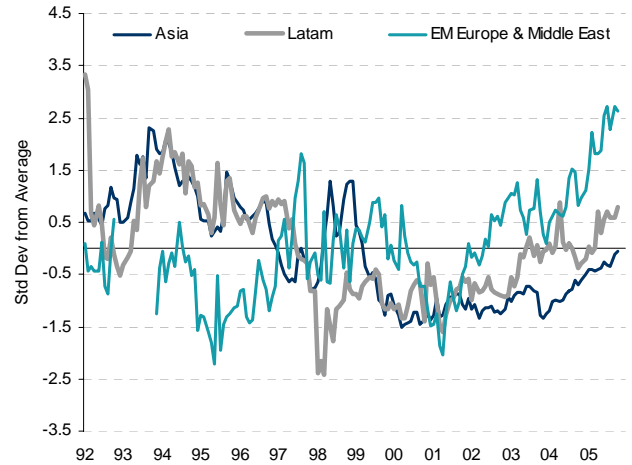
**Chart 21: MSCI EM Forward PE Relative to World**



Source: Thomson DataStream

GEM trades at a 22% discount relative to World.

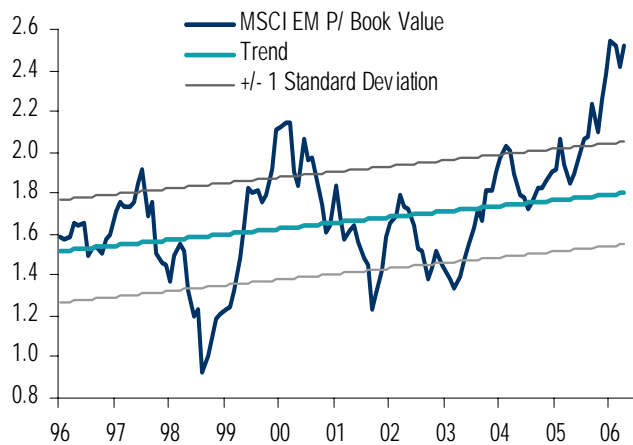
**Chart 22: Regional 12 Month Fwd P/E Relative to World (Normalized)**



Source: Bloomberg and GEM Equity Strategy.

EMEA is the most overvalued.

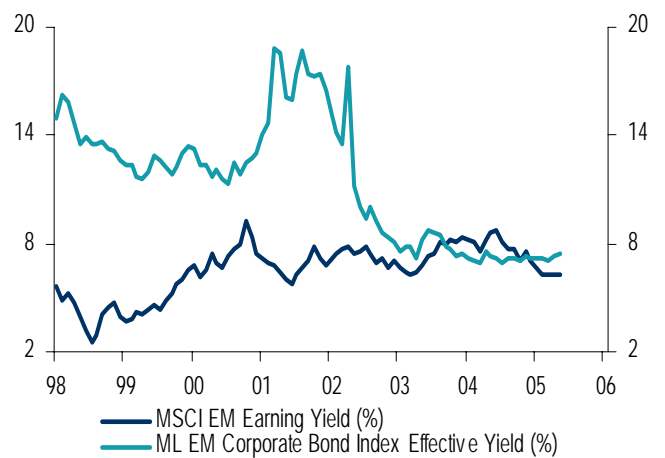
**Chart 23: EM MSCI P/BV**



Source: Bloomberg. Monthly data as of end of April

Valuation is still expensive on price to book basis.

**Chart 24: MSCI EM Earnings Yield & EM Corporate Bond Yields**



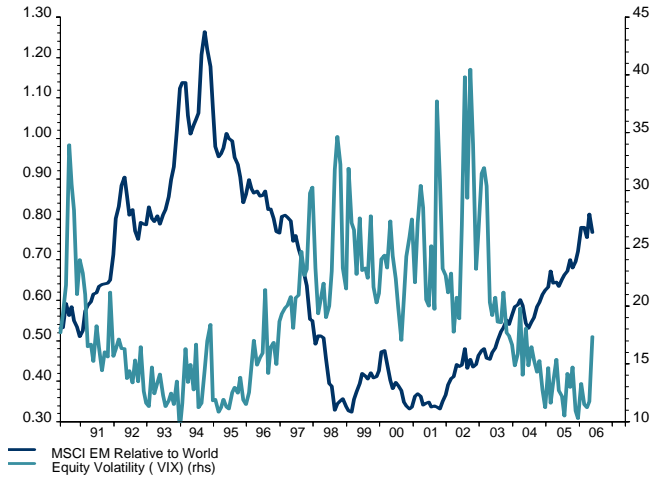
Source: Bloomberg

Earnings yield and the yield of EM corporate bonds are similar.

**Risk Appetite: Less Positive**

- Lower VIX needed for renewed GEM outperformance.
- US real rates no longer -ve; less +ve for GEM.
- Dollar weakness is normally good for GEM equities.
- GEM runs a CAC surplus = lowers risk to asset class.

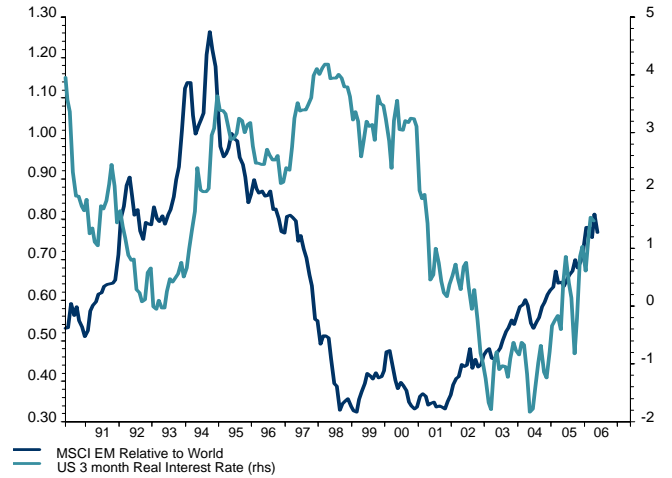
**Chart 25: MSCI EM Relative & VIX Index**



Source: Thomson DataStream.

Lower VIX needed for renewed GEM outperformance.

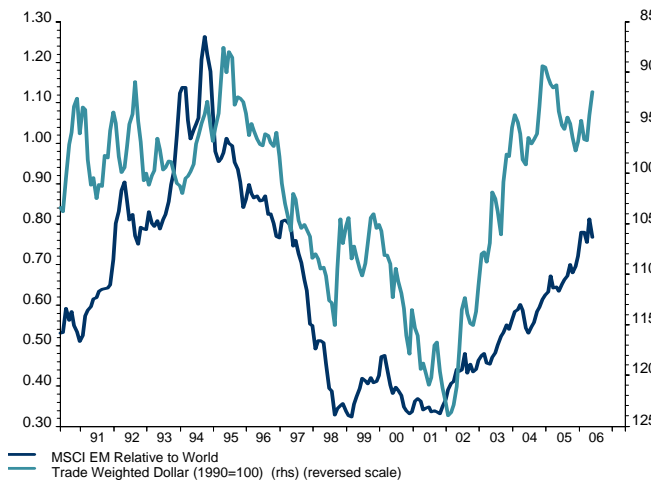
**Chart 26: MSCI EM Relative & U.S. Real Short Rates**



Source: Thomson DataStream.

US real rates no longer -ve; less +ve for GEM.

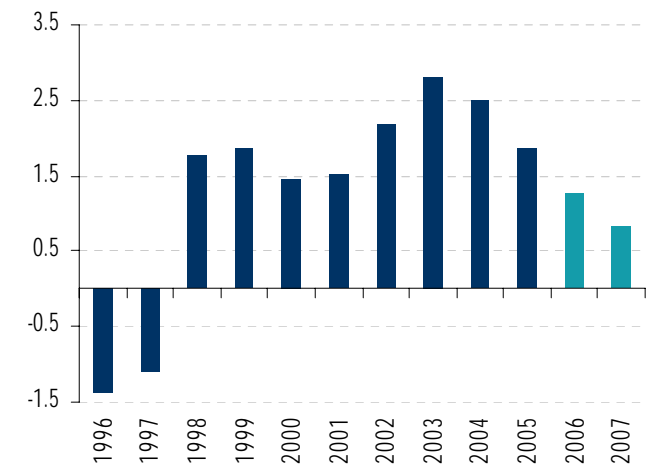
**Chart 27: MSCI EM Relative & U.S. Dollar**



Source: Thomson DataStream.

Dollar weakness is normally good for GEM equities.

**Chart 28: EM Current Account Balance/GDP (%)\***



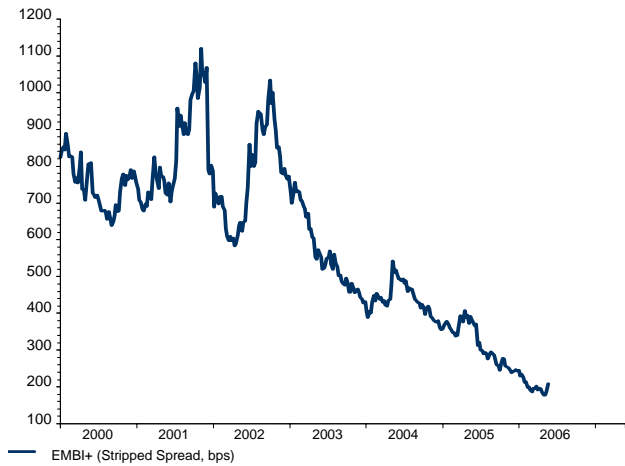
Source: EIU. \* Weighted by participation in MSCI.

GEM runs a CAC surplus = lowers risk to asset class.

**Risk Appetite: Less Positive**

- Risk aversion shock hit all asset classes.
- But EM sovereign spreads & US high yield spreads are close to all-time lows.
- And small cap continues to outperform EM equities.

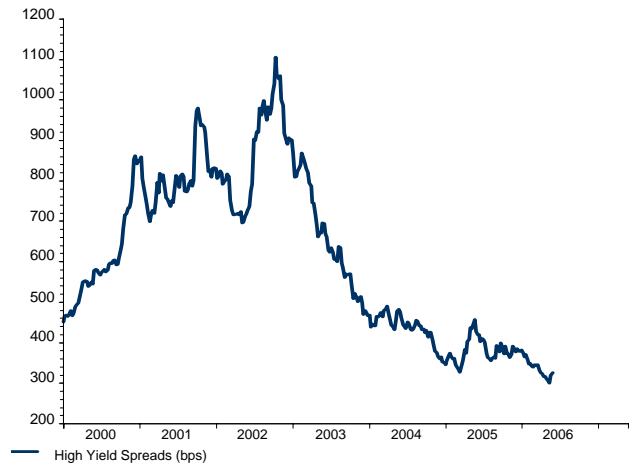
**Chart 29: EM Sovereign Debt Spreads**



Source: Thomson DataStream.

EM debt spreads remain near historical lows.

**Chart 30: U.S. High Yield Spreads**



Source: Thomson DataStream.

High yield spreads still low.

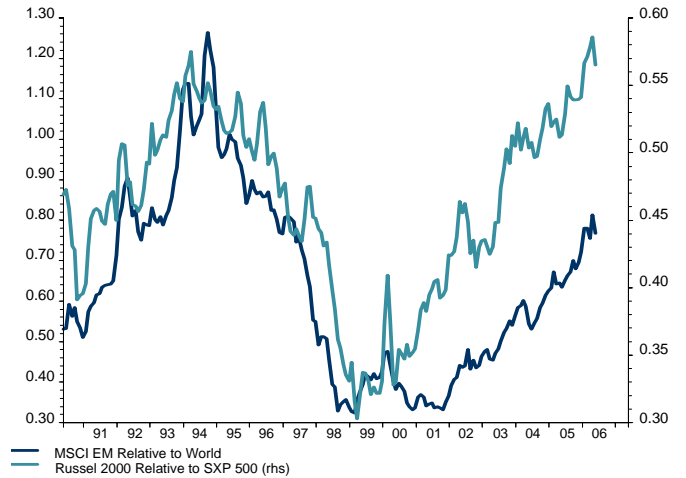
**Chart 31: U.S. Yield Curve**



Source: Thomson DataStream.

Steeper yield curve may hinder GEM equities.

**Chart 32: MSCI EM & Small Cap**



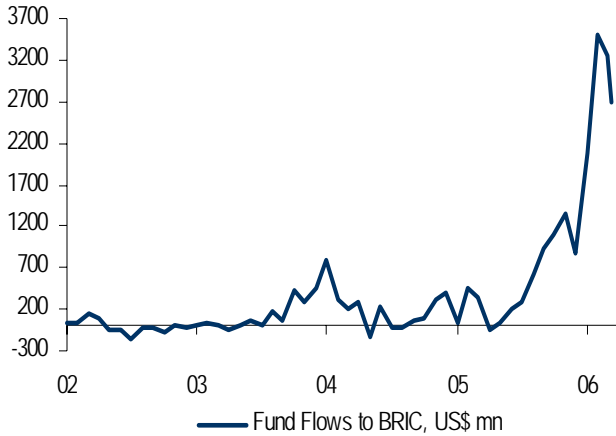
Source: Thomson DataStream.

Small cap outperformance continues.

## BRIC Views

- Fund flows to BRIC markets were recently at record high.
- BRIC markets are becoming expensive.
- BRIC index highly concentrated in commodities (energy & materials represent 48% of index).

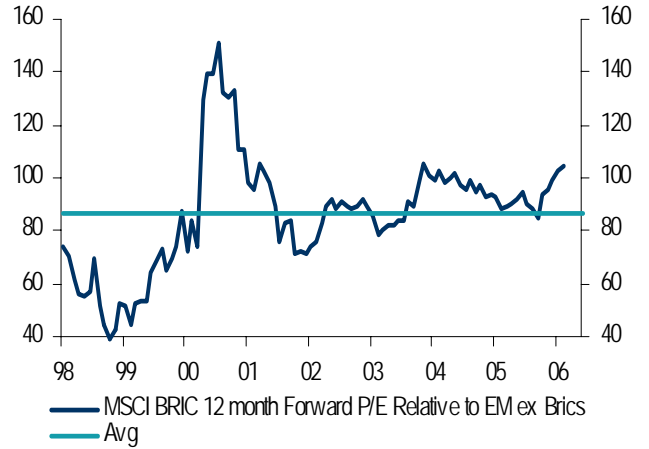
Chart 33: GEM fund flows to BRIC



Source: Emergingportfolio.com

Fund flows to BRIC markets were recently at record high.

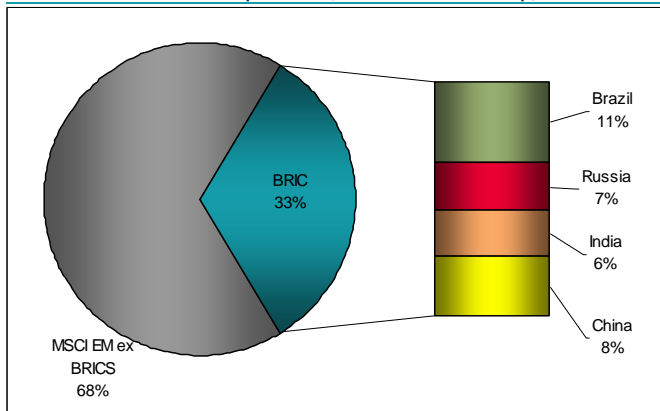
Chart 34: BRIC Forward P/E Relative to EM-ex-BRIC (%)



Source: IBES/Datstream and Merrill Lynch GEM Equity Strategy calculations

BRIC markets are becoming expensive.

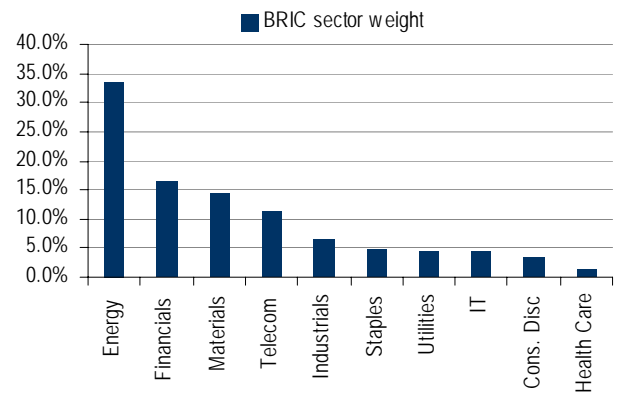
Chart 35: EM & BRIC composition (% of total market cap)



Source: MSCI / Factset

BRIC represents a third of the MSCI EM.

Chart 36: BRIC sector composition (% of total mkt cap)



Source: MSCI / Factset

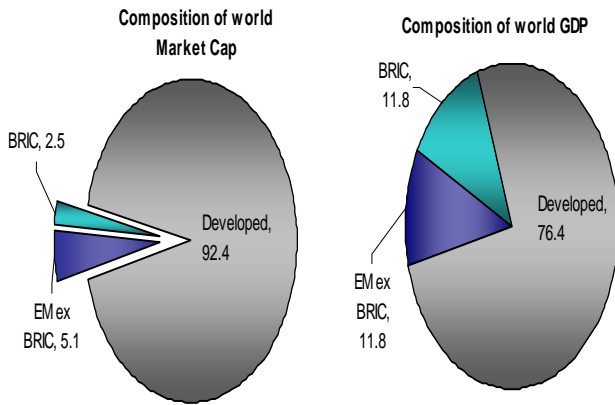
The BRIC index is very commodity sensitive. Energy and materials represent 48% of the index.



## BRIC

- BRIC still underleveraged.
- BRIC outperforming recently developed markets.
- High commodity prices = BRIC outperformance.

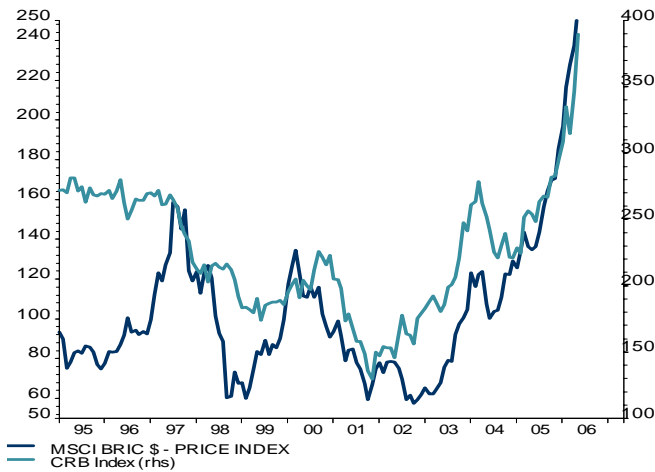
Chart 37: Composition of world market cap and GDP



Source: Factset, EIU. GDP Data as of 2006E from EIU. Market Cap Data as of 5/9/2006. World defined as all the countries included in the MSCI All Countries Index.

BRIC still underleveraged.

Chart 39: BRIC & CRB index



Source: Thomson DataStream.

High commodity prices = BRIC outperformance.

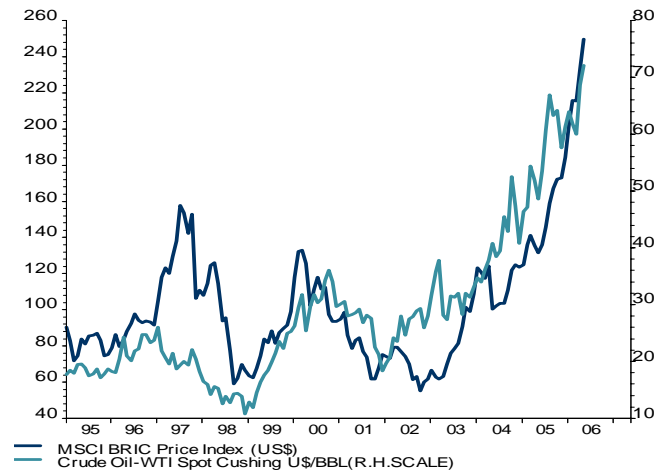
Chart 38: BRIC Relative to MSCI Developed (price performance)



Source: Datstream and Merrill Lynch GEM Equity Strategy calculations

BRIC outperforming recently developed markets.

Chart 40: BRIC & Oil Prices



Source: Thomson DataStream.

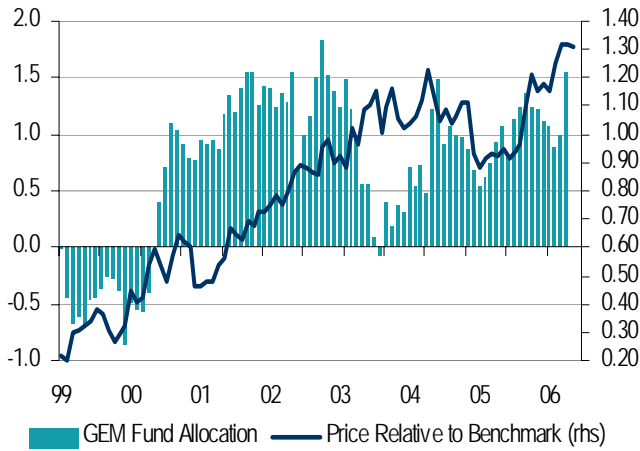
Oil is a big BRIC driver, representing 33% of the index.

# Country Views

## Russia: Overweight

- Russia is down 14.2% from peak.
- We remain overweight Russia.
- Energy prices & liquidity drivers are still positive.

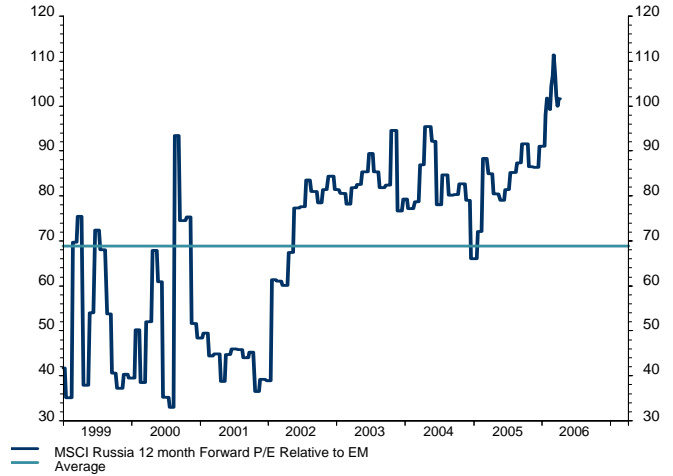
Chart 41: Russia price relative & GEM fund allocation



Source: EmergingPortfolio.com

Dedicated investors were 120 bps overweight before the sell-off.

Chart 42: Russia Forward P/E Relative to EM (%)



Source: Thomson DataStream.

Now trading at par to GEM.

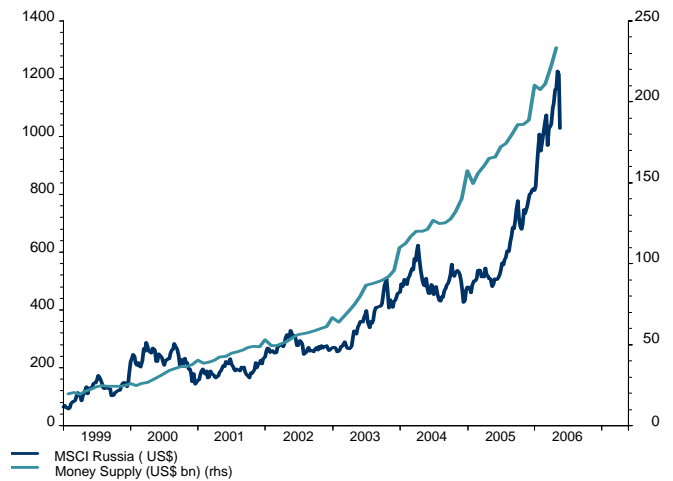
Chart 43: Russia & Oil Price



Source: Thomson DataStream.

High energy prices = Russian outperformance.

Chart 44: Russia & Money Supply



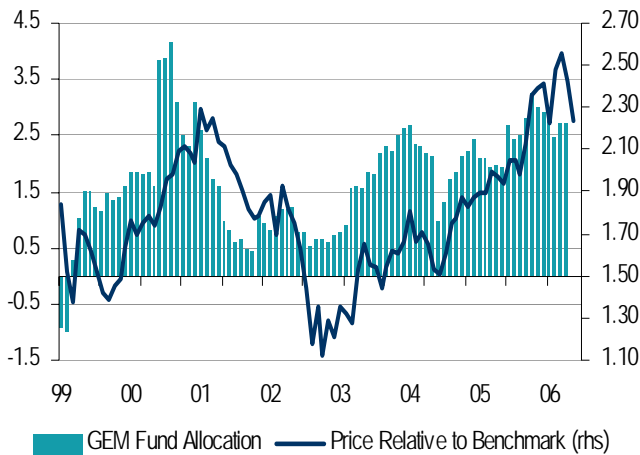
Source: Thomson DataStream.

Domestic liquidity is ample.

### Brazil: Overweight

- Brazil is down 13.1% from peak.
- We remain overweight Brazil.
- Growth recovery, rate cuts and great valuation are the positives.

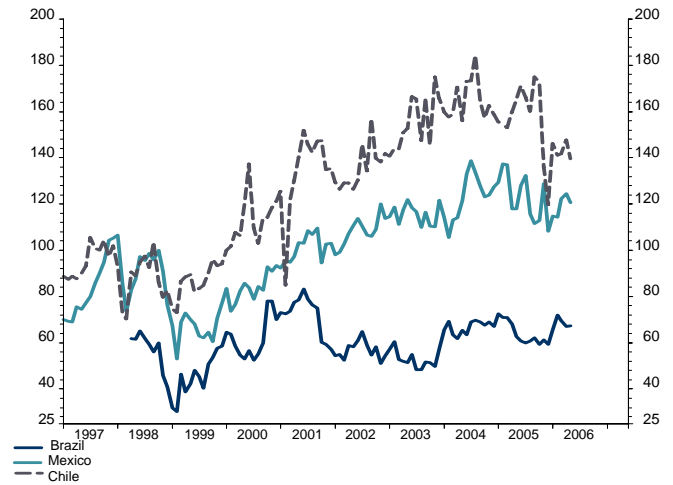
Chart 45: Brazil price relative & GEM fund allocation



Source: EmergingPortfolio.com

Largest overweight in GEM, hit hard in sell off.

Chart 46: Latam 12 month Forward P/E Relative to EM (%)



Source: Thomson DataStream.

But valuation remains very cheap.

Chart 47: Brazil vs. Commodities



Source: Thomson DataStream.

Vulnerable to commodity prices.

Chart 48: Bovespa vs Brazil 40'



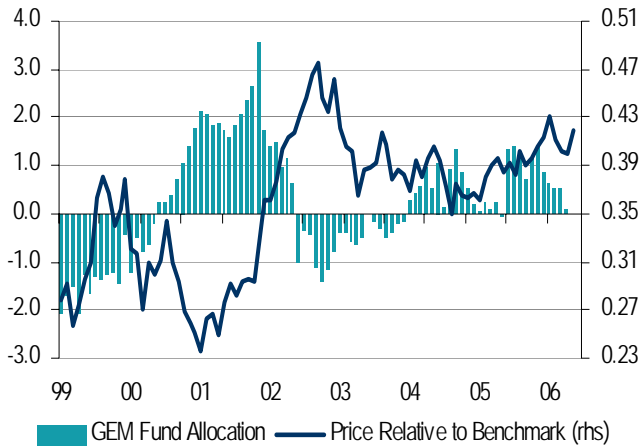
Source: Thomson DataStream.

Spreads remain near all time lows.

### Korea: Overweight

- Korea is down 10.4% from peak.
- We are buyers of Korean equities.
- Cheap relative to EM & not over-owned by foreigners.

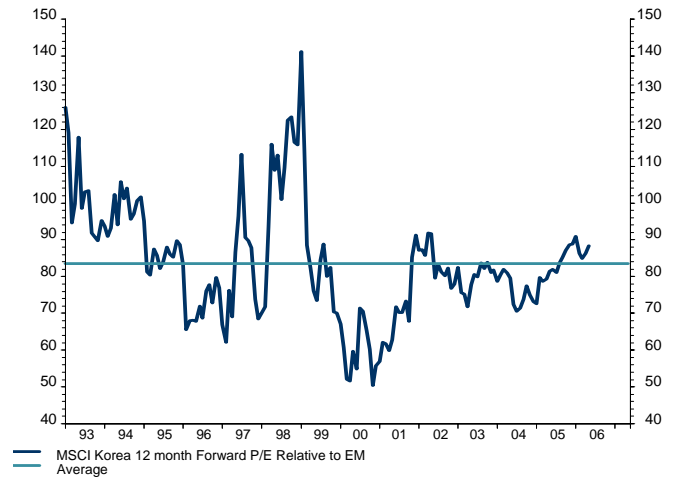
Chart 49: Korea price relative & GEM fund allocation



Source: EmergingPortfolio.com

Smallest overweight since May 05.

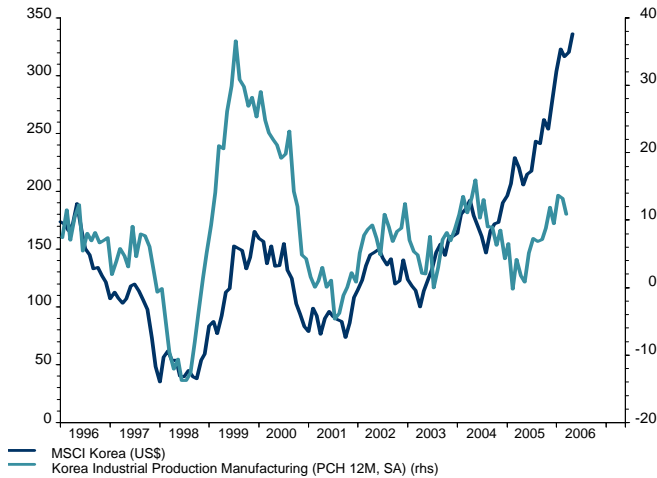
Chart 50: Korea Forward P/E Relative to EM (%)



Source: Thomson DataStream.

Korea remains cheap to GEM at a 15% discount.

Chart 51: Korea & Korean Industrial Production



Source: Thomson DataStream.

Industrial performance remains strong.

Chart 52: Korea & Short-Term Real Interest Rates



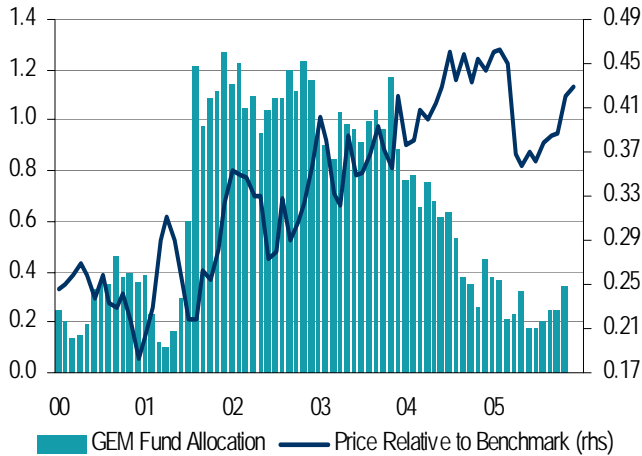
Source: Thomson DataStream.

Low real rates are supportive.

### Indonesia: Overweight

- Indonesia is down 18.9% from peak.
- We are buyers of Indonesian equities.
- Cheap market with current account in surplus in 2006.
- We like the financials and the infrastructure plays.

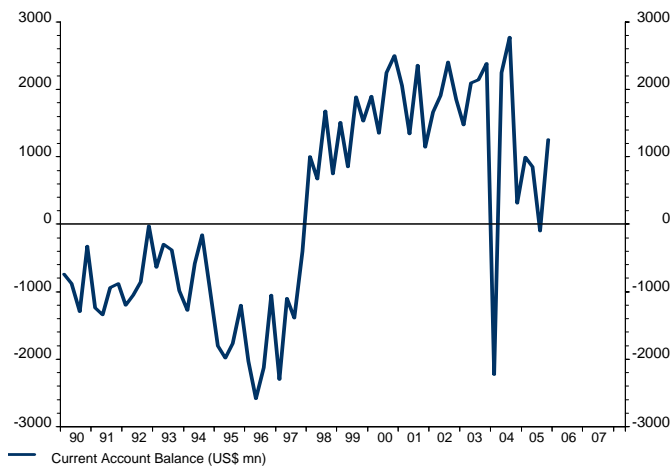
Chart 53: Indonesia price relative & GEM fund allocation



Source: EmergingPortfolio.com

Exposure to Indonesia is growing, but is still low.

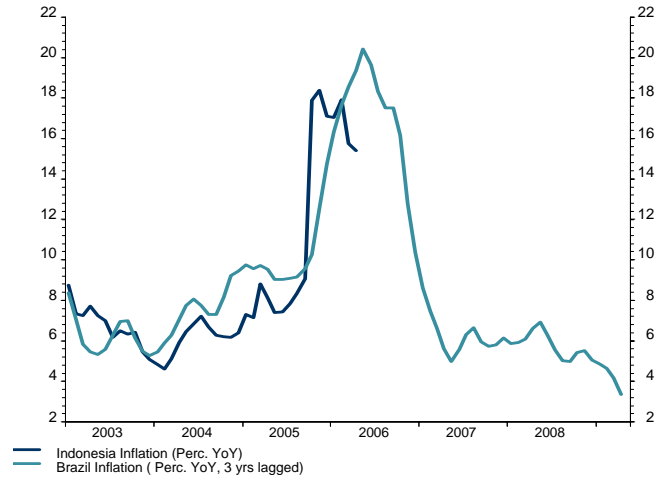
Chart 55: Indonesia Current Account Balance (US\$ mn)



Source: Thomson DataStream.

ML expects a slight current account surplus in 2006.

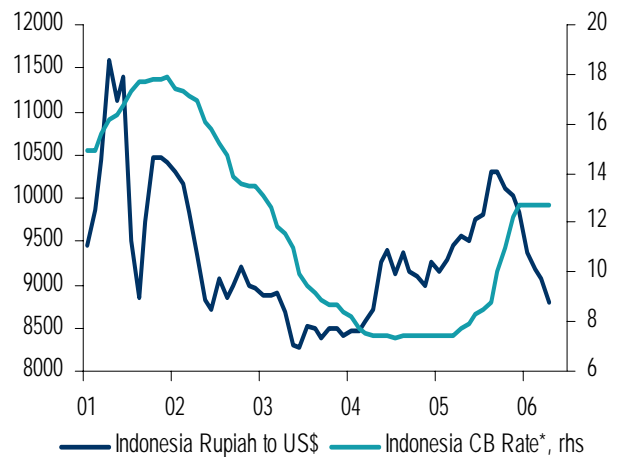
Chart 54: Brazil (3 years ago) vs. Indonesia Inflation (% YoY)



Source: Thomson DataStream.

Inflation peak in Brazil 3 years ago sparked a huge rally in Brazil. Same is happening in Indonesia.

Chart 56: Indonesia target rate & FX rate



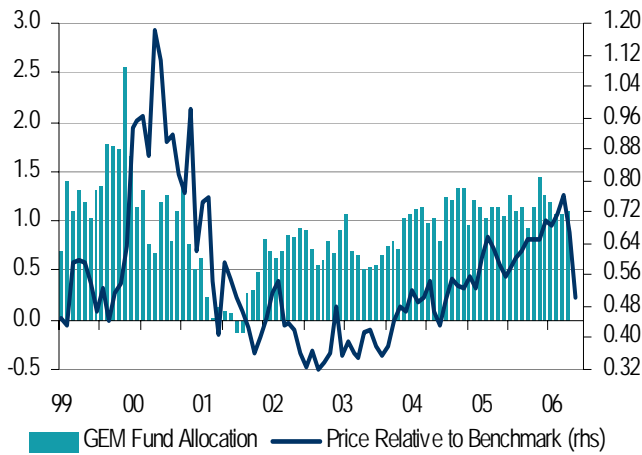
Source: Bloomberg. \*The BI rate was first announced by Bank Indonesia's board of governors on 5th July 2005. It is set by the board of governors in quarterly board meetings. For previous dates we use as a proxy, the Indonesia Jakarta Interbank Offering Rate 1 Month.

CB started to ease but rates still high.

### Turkey: Overweight

- Plunged 29% since peak.
- Expected near-term market recovery supports continued overweight.
- Risk remains current account deficit issue.

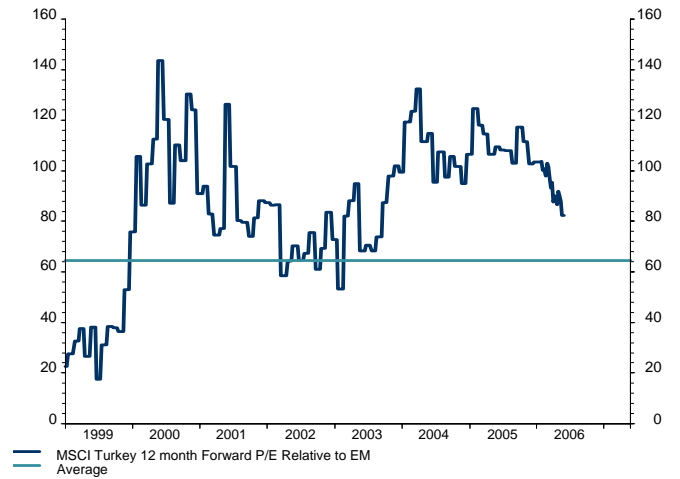
Chart 57: Turkey price relative & GEM fund allocation



Source: EmergingPortfolio.com

Overcrowded trade = hardest hit in sell-off.

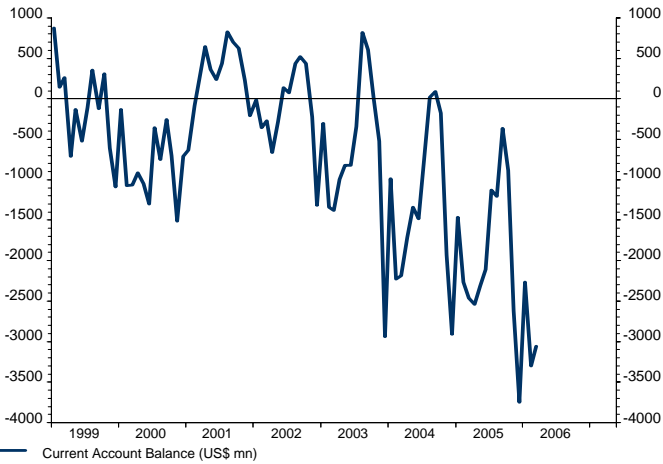
Chart 58: Turkey Forward P/E Relative to EM (%)



Source: Thomson DataStream.

Valuation OK and good relative earnings story in 2006.

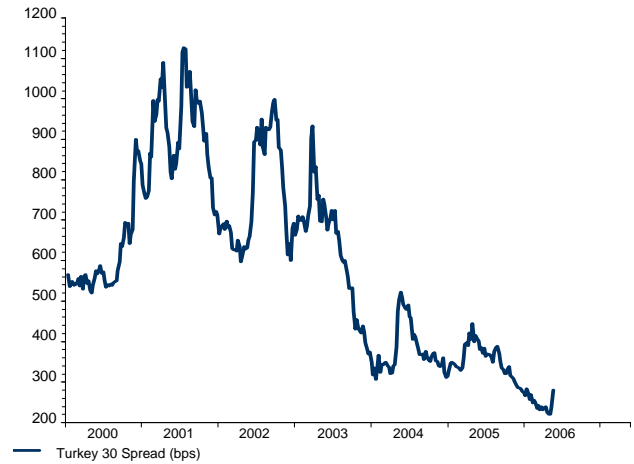
Chart 59: Current Account Balance



Source: Thomson DataStream.

Increasing current account deficit and higher inflation expectations are a concern.

Chart 60: Turkey 30's Spread



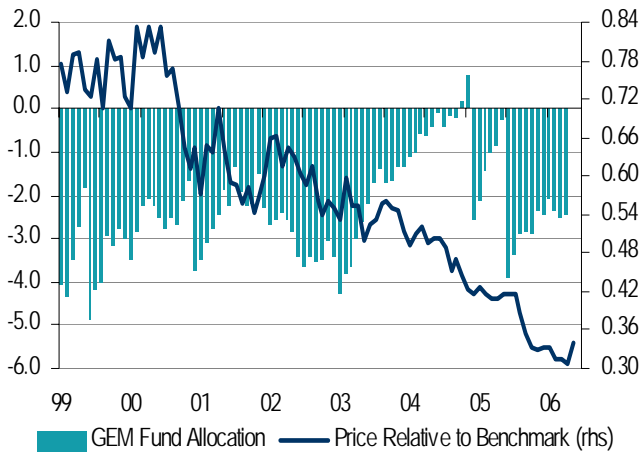
Source: Thomson DataStream.

Global risk aversion shock= a -ve for Turkey spreads.

### Taiwan: Neutral

- Taiwan is down 8.5% from peak.
- Investors remain underweight.
- Taiwan remains a rich-hunting ground for investors looking for high dividend yields within Asian and emerging markets.

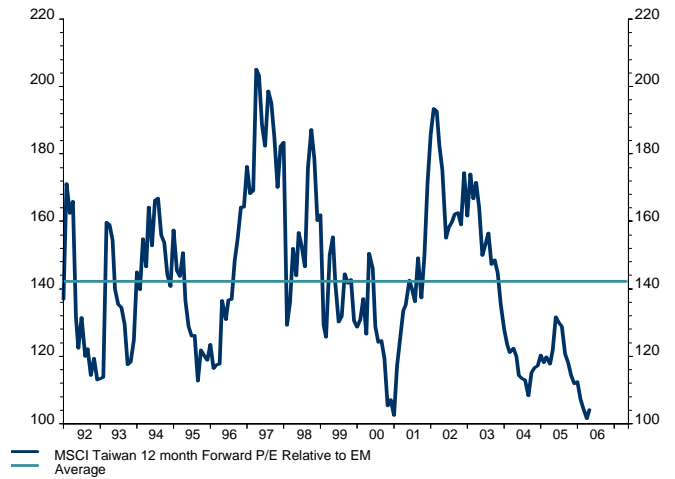
Chart 61: Taiwan price relative & GEM fund allocation



Source: EmergingPortfolio.com

Taiwan is the largest underweight in GEM.

Chart 62: Taiwan Forward P/E Relative to EM (%)



Source: Thomson DataStream.

Inexpensive by historic standards and getting cheaper.

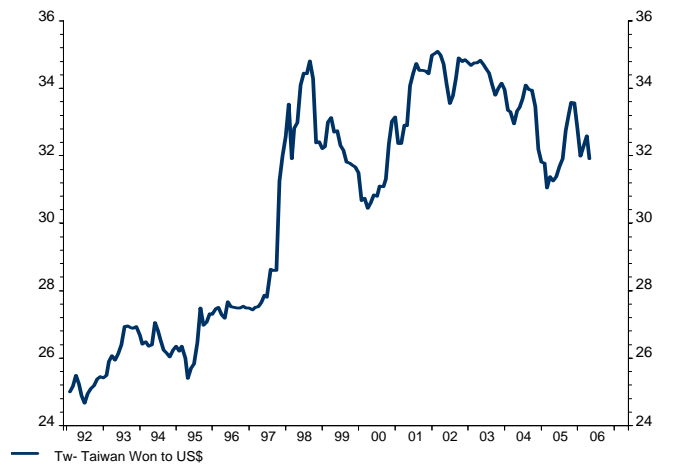
Chart 63: Taiwan financials vs Taiwan IT



Source: Thomson DataStream.

Favorite contrarian laggard trade: Taiwan financials

Chart 64: Taiwanese Dollar versus U.S. Dollar



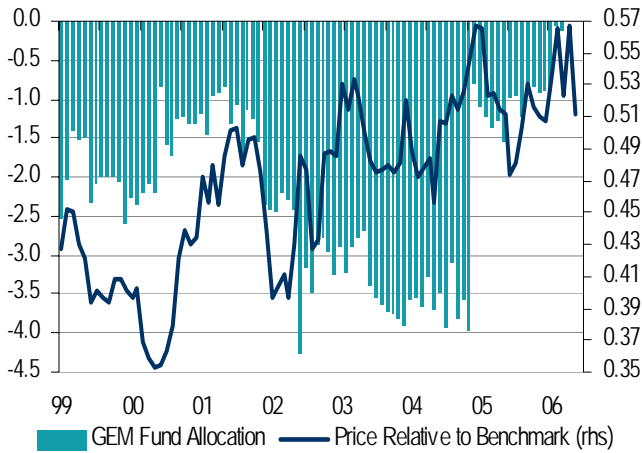
Source: Thomson DataStream.

We expect further appreciation.

**South Africa: Neutral**

- South Africa is down 12.2 % from peak.
- Rand is a risk.
- Best equity market for infrastructure and consumption plays.

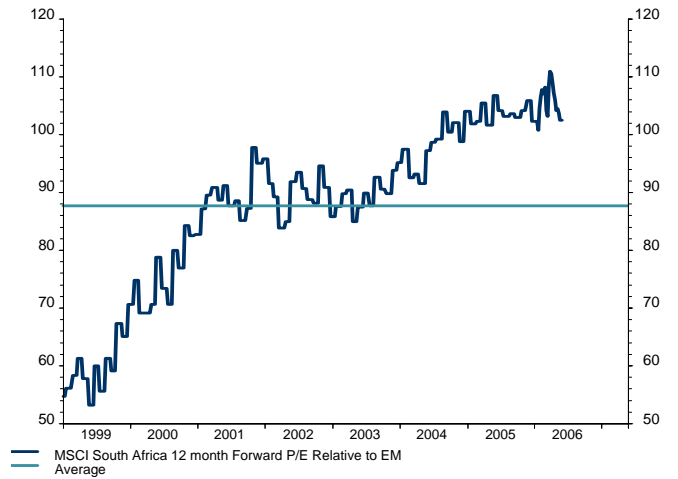
**Chart 65: South Africa price relative & GEM fund allocation**



Source: EmergingPortfolio.com

Best sentiment since 1999!

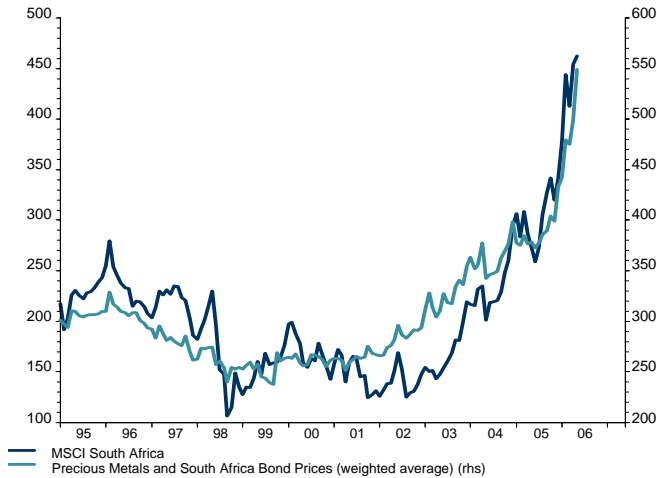
**Chart 66: SA Forward P/E Relative to EM (%)**



Source: Thomson DataStream.

Expensive relative to GEM.

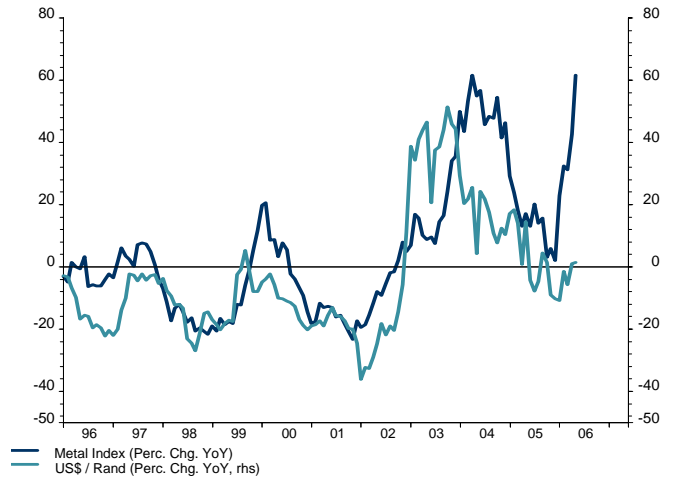
**Chart 67: SA vs. wtd. ave. of Precious Metals and Bond Prices**



Source: Thomson DataStream.

Strong precious metal prices & lower bond prices = SA equity prices should do OK.

**Chart 68: Rand & CRB Metals Index**



Source: Thomson DataStream.

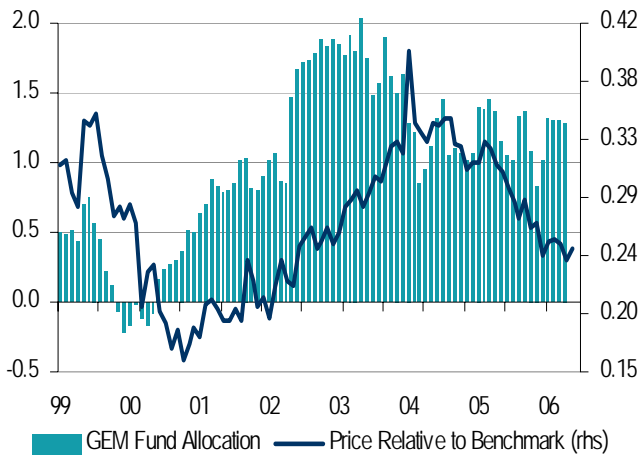
Vulnerable metal prices = Rand a risk.



### Thailand: Neutral

- Thailand is down 9.5% from peak.
- Inexpensive with high dividend yields.
- But current account in surplus but forecast to reverse into deficit in 2006.

Chart 69: Thailand price relative & GEM fund allocation



Source: EmergingPortfolio.com

Positive sentiment, outperformed during the sell-off.

Chart 70: Thailand Forward P/E Relative to EM (%)



Source: Thomson DataStream.

Market inexpensive. Highest dividend yield in Asia.

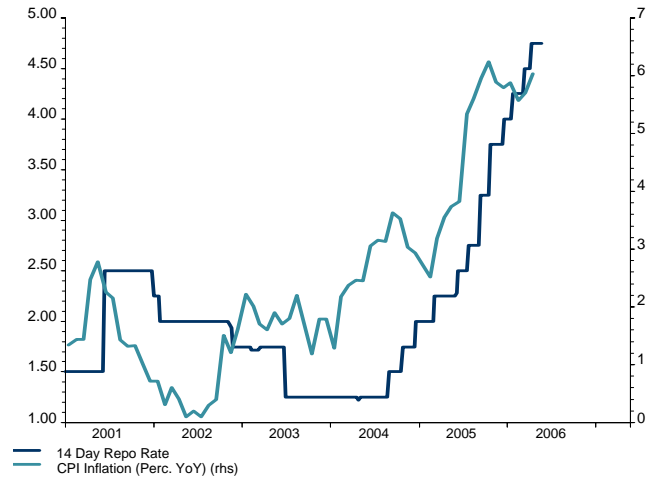
Chart 71: Thailand Current Account Balance



Source: Thomson DataStream.

Strong domestic demand growth = current account reverses into deficit in 2006.

Chart 72: Thai Rates & Inflation



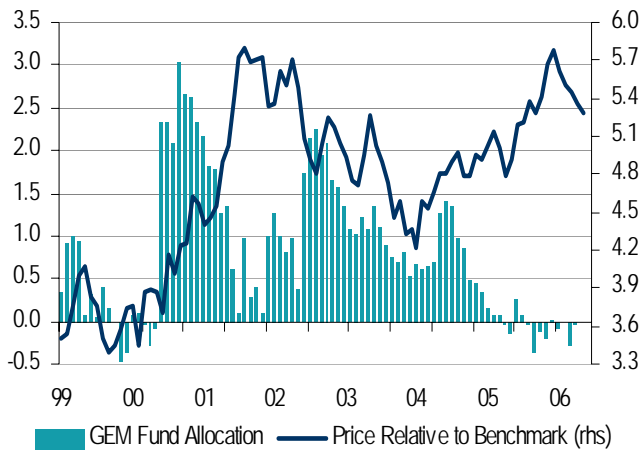
Source: Thomson DataStream.

CB to remain hawkish as inflation trends higher.

**Mexico: Neutral**

- Mexico is down 12.9% from peak.
- Earnings growth should under perform LATAM in 2006.
- Mexico trading expensive relative to GEM
- The consumer and infrastructure themes should continue to work well in Mexico.

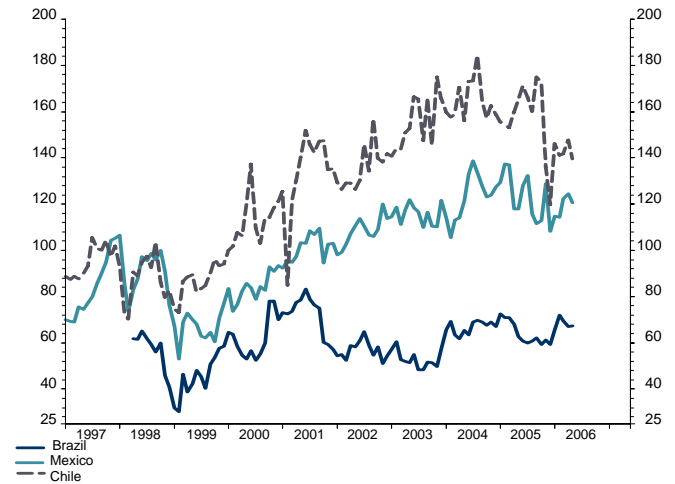
**Chart 73: Mexico price relative & GEM fund allocation**



Source: EmergingPortfolio.com

Investors are underweight Mexico.

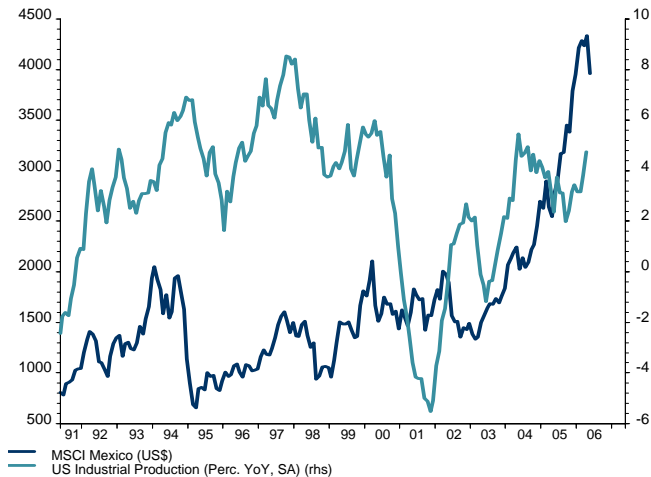
**Chart 74: Latam 12 month Forward P/E Relative to EM (%)**



Source: Thomson DataStream.

Market is expensive.

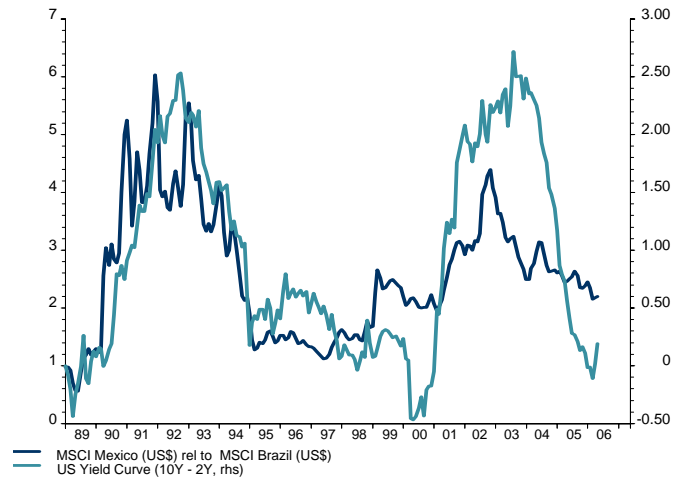
**Chart 75: Mexico & U.S. Industrial Production**



Source: Thomson DataStream.

Economy tied to U.S. and U.S. unlikely to boom in next 18 months.

**Chart 76: Mexico vs. Brazil Against U.S. Yield Curve**



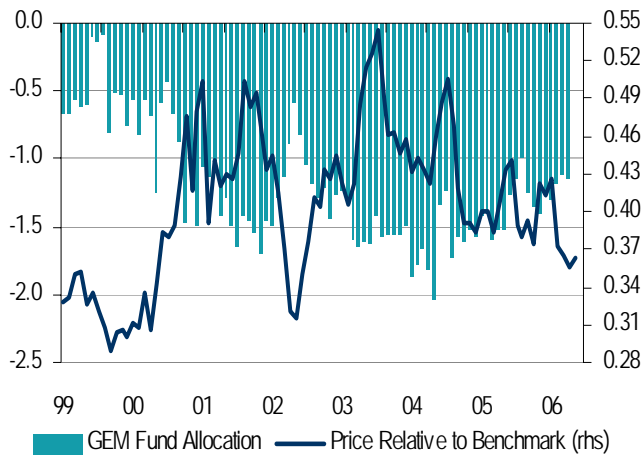
Source: Thomson DataStream.

Steeper U.S. yield curve historically suggests Mexico outperforms Brazil. Is it different this time?

### Israel: Neutral

- Israel is down 5.1% from peak.
- Big out performer in recent market sell off.
- Still expensive but mitigated by people underweight.

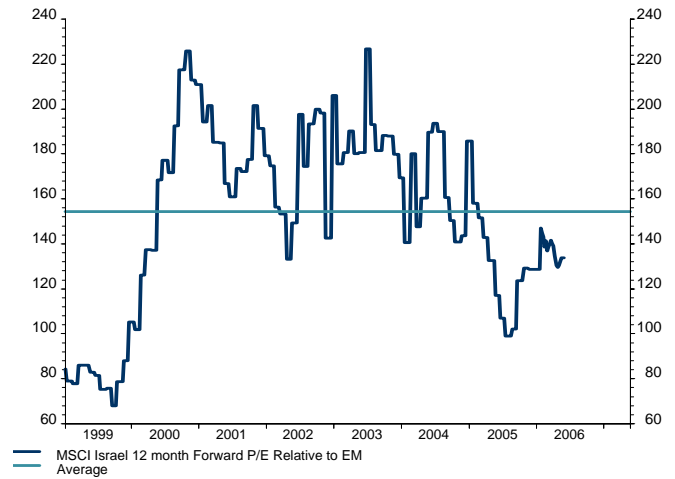
Chart 77: Israel price relative & GEM fund allocation



Source: EmergingPortfolio.com

Sentiment remains bearish.

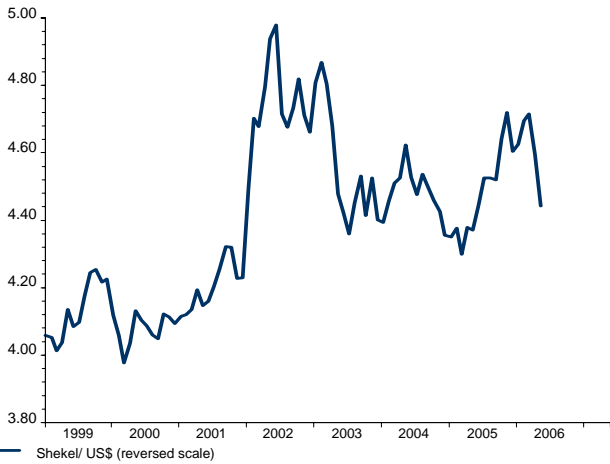
Chart 78: Israel Forward P/E Relative to EM (%)



Source: Thomson DataStream.

Relative valuation is expensive.

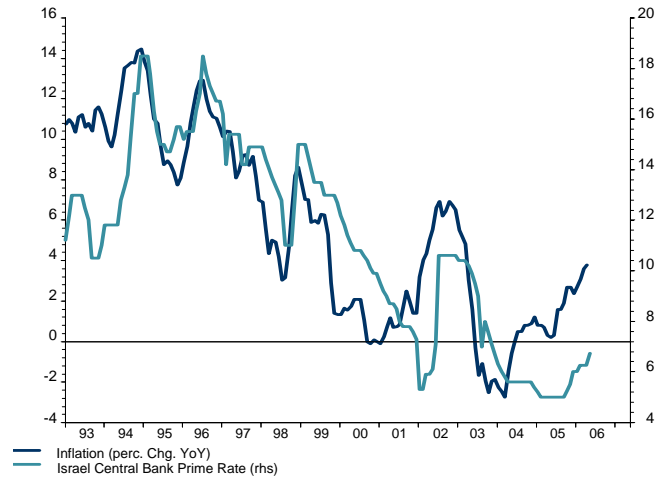
Chart 79: Israel Shekel



Source: Thomson DataStream.

Shekel appreciation = a positive for inflation.

Chart 80: Israel Inflation & Central Bank Rate



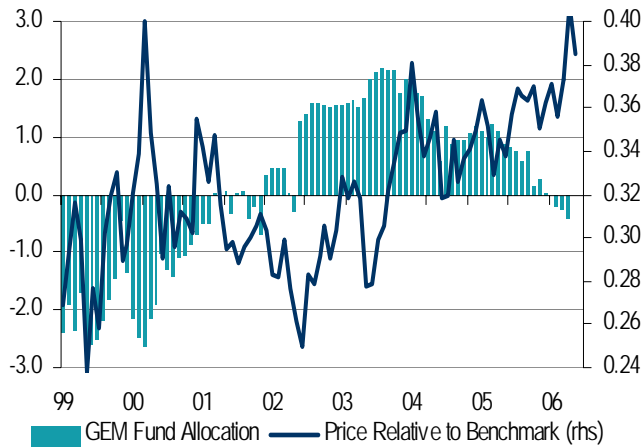
Source: Thomson DataStream.

Central Bank to become less hawkish.

### India: Underweight

- India is down 14.6% from peak.
- Strong growth, earnings & liquidity but...
- Most expensive market in GEM = 57% premium.

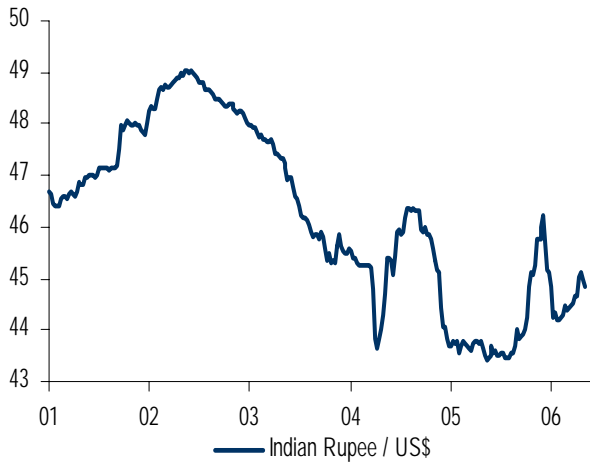
Chart 81: India price relative & GEM fund allocation



Source: EmergingPortfolio.com

Most bearish since November 2001.

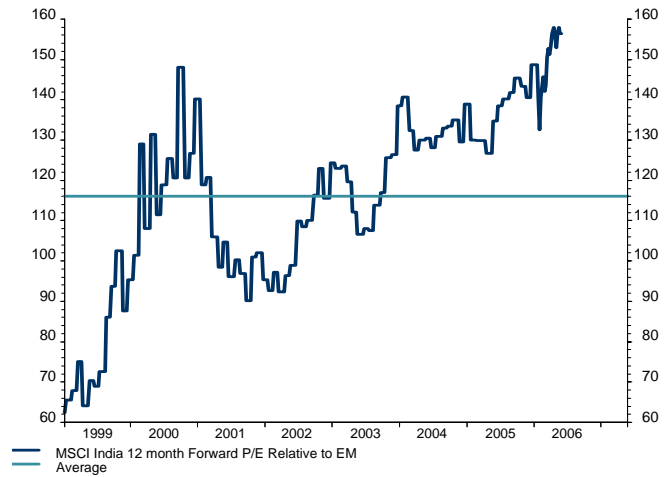
Chart 83: Indian Rupee / US\$



Source: Bloomberg

Higher inflation expectations to put pressure on exchange rate...

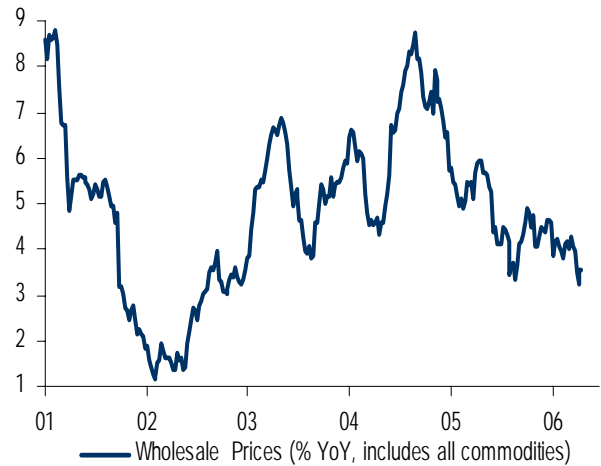
Chart 82: India Forward P/E Relative to EM (%)



Source: Thomson DataStream.

India is the most expensive GEM market. A 57% premium is not justified.

Chart 84: Inflation in India



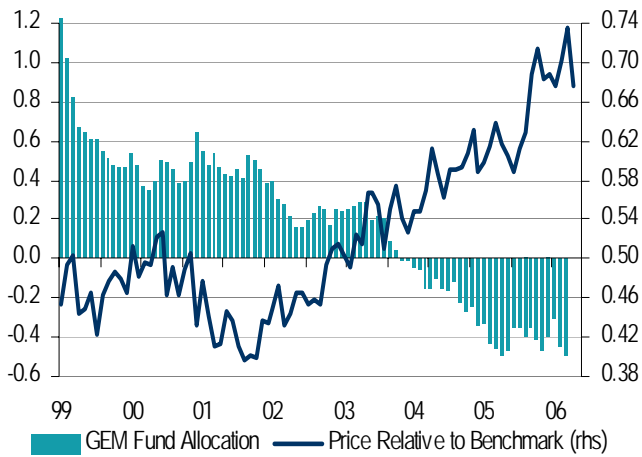
Source: Bloomberg

Locals expect further tightening in next few months.

### Central Europe: Underweight

- Hungary and Poland are down 16.4% and 17.8% respectively from peak.
- Central Europe valuation is expensive relative to GEM.
- We forecast negative earnings growth next year.

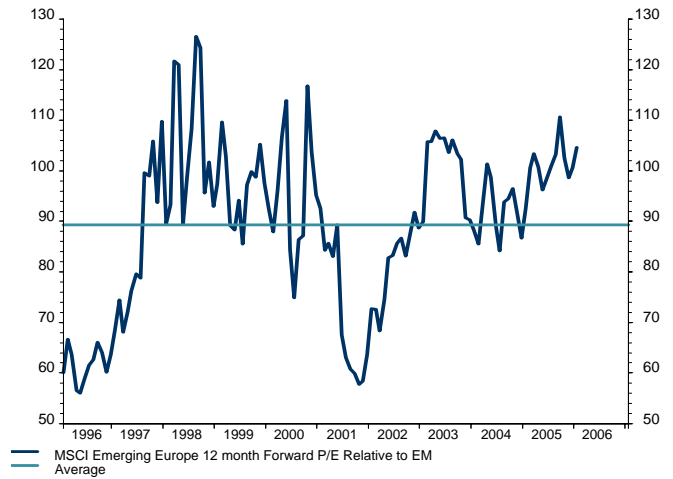
Chart 85: Central Europe price relative & GEM fund allocation



Source: EmergingPortfolio.com

CE remains under owned.

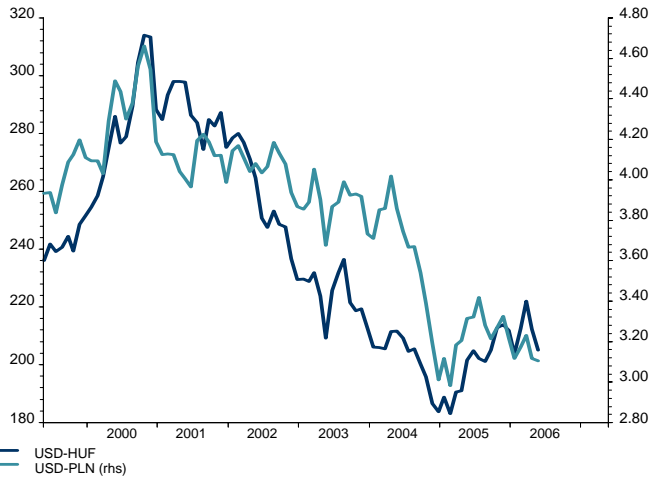
Chart 86: CE Forward P/E Relative to EM (%)



Source: Thomson DataStream..

CE is relatively expensive to GEM and its own history.

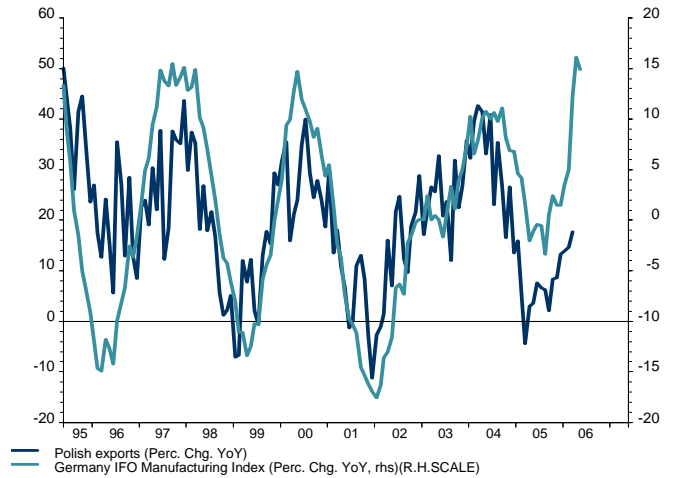
Chart 87: USD-HUF & USD-PLN



Source: Thomson DataStream.

What happens with FX when ECB tighten further?

Chart 88: USD-HUF & USD-PLN



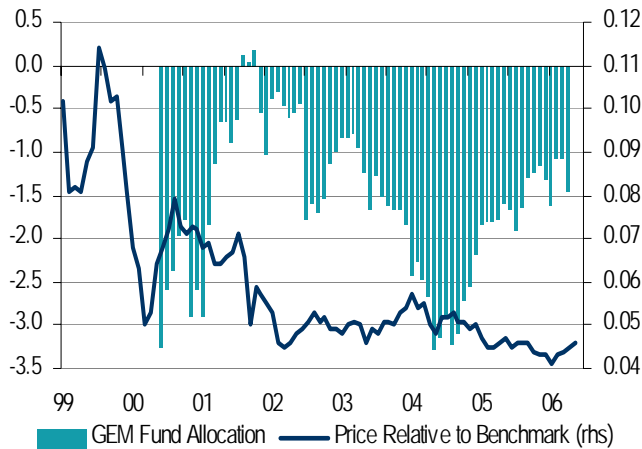
Source: Thomson DataStream.

Central Europe recovery driven by German exports.

### China: Underweight

- China is down 1.5% from peak.
- Growth more likely to slow, earnings growth declining sharply & revaluation likely to exacerbate current trends.
- We prefer to buy after policy tightening.

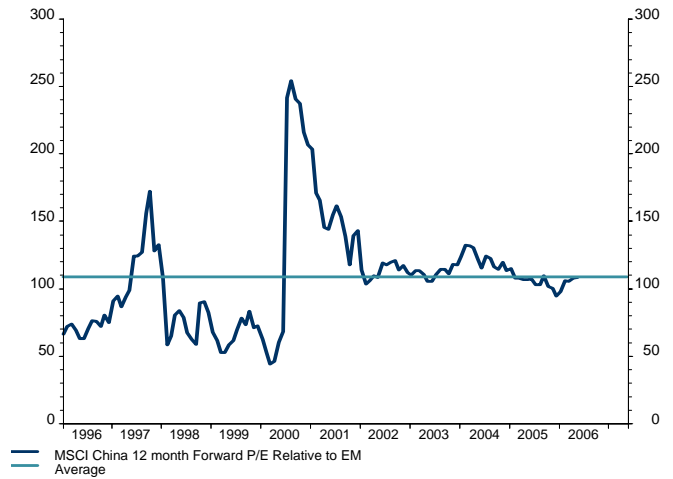
Chart 89: China price relative & GEM fund allocation



Source: EmergingPortfolio.com

Investors increased the underweight in China going to the sell off.

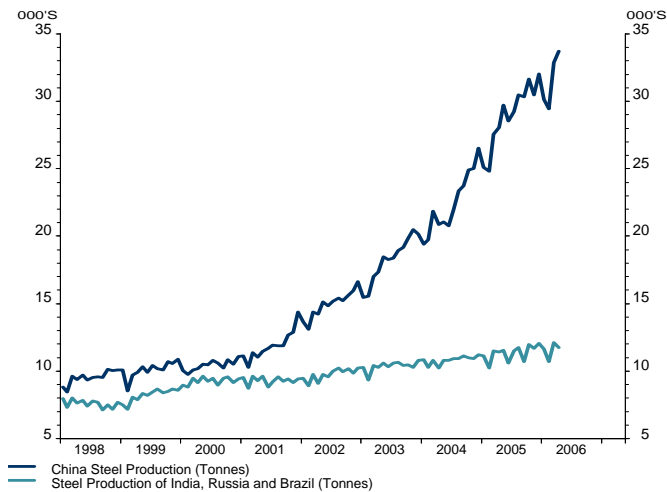
Chart 90: China Forward P/E Relative to EM (%)



Source: Thomson DataStream.

Fair value.

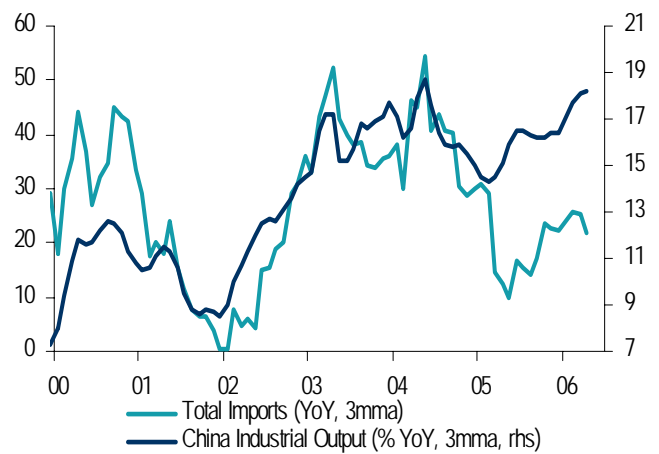
Chart 91: China vs. Brazil + Russia+ India Steel Production



Source: Thomson DataStream.

Massive capacity build = weak margins.

Chart 92: China Imports and Industrial Production Growth



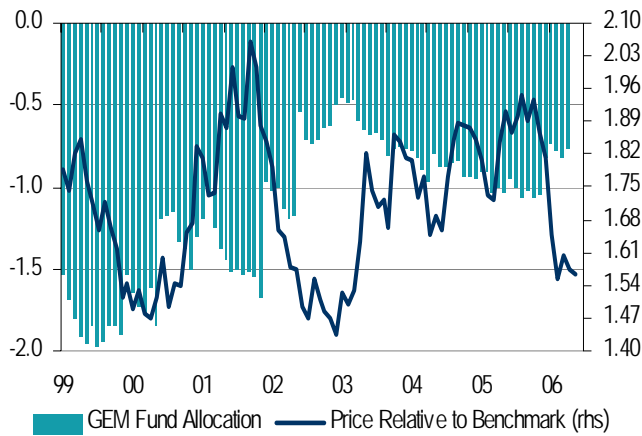
Thomson DataStream, Bloomberg

Industrial production remains supportive.

### Chile: Underweight

- Chile is down 6.2% from peak.
- Big drop in valuation, but still relatively expensive.
- Market vulnerable to copper prices.

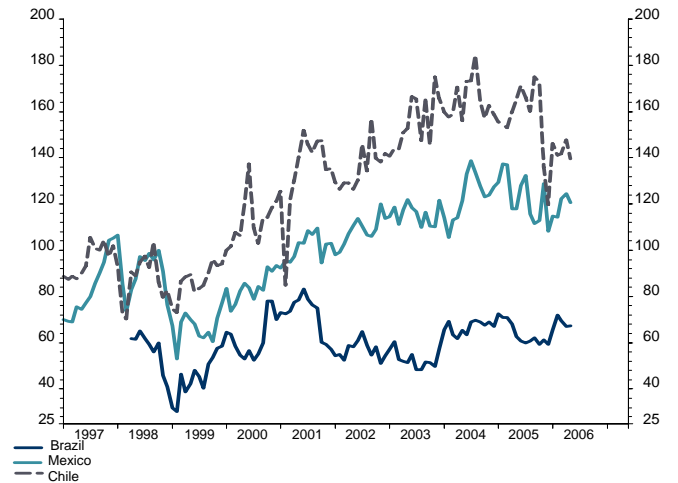
Chart 93: Chile price relative & GEM fund allocation



Source: EmergingPortfolio.com

Sentiment stays bearish.

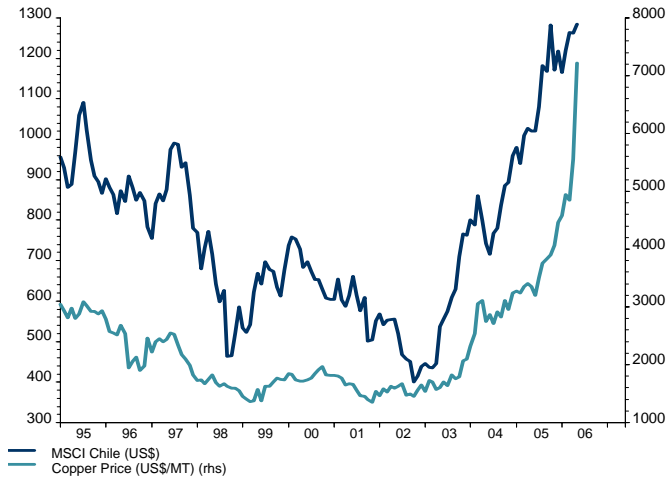
Chart 94: Latam 12 month Forward P/E Relative to EM (%)



Source: Thomson DataStream..

Big drop in valuation in Chile, but still relatively expensive.

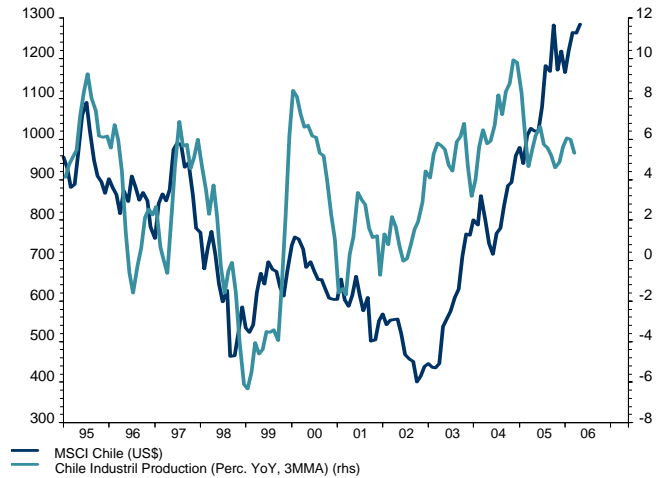
Chart 95: Chile & Copper Prices



Source: Thomson DataStream.

Market vulnerable to copper prices.

Chart 96: Chile & Chilean Industrial Production



Source: Thomson DataStream..

As economic activity slowdowns = CB more dovish.

Table 8: Country Valuation

Region	Stocks	EV/EBITD																							
		Makt Cap	PER			PBR		Return on Equity			Earnings Growth (%)			EV/Sales (x)			Revenue Growth (%)			A (x)		EBITDA Growth (%)			
		USD mn	05	06E	07E	05	06E	05	06E	07E	05	06E	07E	05	06E	07E	05	06E	07E	05	06E	05	06E	07E	
<b>GEM</b>	<b>394</b>	<b>2,901,132</b>	<b>13.9</b>	<b>11.6</b>	<b>10.9</b>	<b>2.5</b>	<b>2.1</b>	<b>19.2</b>	<b>19.6</b>	<b>18.2</b>	<b>21.2</b>	<b>19.5</b>	<b>6.3</b>	<b>1.9</b>	<b>1.6</b>	<b>1.5</b>	<b>28.1</b>	<b>16.5</b>	<b>5.6</b>	<b>7.6</b>	<b>6.3</b>	<b>19.9</b>	<b>18.9</b>	<b>4.2</b>	
<b>EM ASIA</b>	<b>265</b>	<b>1,646,404</b>	<b>13.7</b>	<b>11.9</b>	<b>10.9</b>	<b>2.4</b>	<b>2.1</b>	<b>19.2</b>	<b>18.9</b>	<b>18.0</b>	<b>9.4</b>	<b>14.9</b>	<b>9.3</b>	<b>1.7</b>	<b>1.5</b>	<b>1.4</b>	<b>27.2</b>	<b>16.3</b>	<b>7.4</b>	<b>7.5</b>	<b>6.5</b>	<b>11.4</b>	<b>15.5</b>	<b>6.6</b>	
Korea	42	367,230	10.9	10.3	8.9	1.7	1.4	17.1	15.2	15.2	4.3	6.3	15.1	1.3	1.2	1.1	17.8	13.9	6.2	6.0	5.4	3.2	11.3	9.5	
Taiwan	57	310,022	14.4	12.1	10.4	2.3	2.1	16.5	17.9	18.7	-3.2	19.0	15.9	1.5	1.2	1.0	26.2	25.5	16.8	13.5	9.2	3.8	16.5	14.6	
China	33	468,808	13.6	11.5	12.0	2.6	2.3	21.4	21.0	17.8	24.2	17.5	-3.7	1.8	1.6	1.6	40.6	12.1	0.2	10.4	7.8	20.2	16.9	-0.4	
India	76	323,389	19.0	15.5	13.7	3.9	3.3	22.2	23.0	22.2	13.6	22.6	13.5	3.1	2.6	2.3	26.3	15.7	12.2	23.2	14.6	17.6	18.8	9.9	
Indonesia	13	52,477	15.3	11.7	9.2	3.3	2.7	22.6	25.7	27.5	-8.7	30.6	26.6	2.5	2.1	1.8	20.6	18.5	17.5	9.5	7.3	10.9	24.7	17.4	
Malaysia	12	41,371	16.5	14.5	13.0	2.5	2.2	15.7	16.1	16.2	11.4	14.0	11.5	2.4	2.1	2.1	19.8	15.4	-2.5	12.7	10.4	7.3	10.4	12.4	
Philippines	3	9,886	12.1	11.8	10.5	3.3	2.8	31.1	25.5	24.5	21.5	2.2	13.2	3.2	2.8	2.6	2.0	8.8	2.2	9.0	6.9	8.8	9.7	1.7	
Thailand	29	73,222	10.4	9.8	9.3	2.5	2.0	25.0	22.7	20.6	13.5	5.7	5.4	1.5	1.3	1.3	23.4	17.7	2.0	10.9	8.0	15.6	15.3	2.4	
<b>EMEA</b>	<b>81</b>	<b>806,988</b>	<b>15.1</b>	<b>11.8</b>	<b>12.1</b>	<b>2.6</b>	<b>2.2</b>	<b>18.5</b>	<b>20.4</b>	<b>17.4</b>	<b>41.0</b>	<b>27.3</b>	<b>-2.4</b>	<b>2.4</b>	<b>2.0</b>	<b>1.9</b>	<b>27.1</b>	<b>19.4</b>	<b>-0.7</b>	<b>8.7</b>	<b>6.8</b>	<b>31.7</b>	<b>26.2</b>	<b>-4.4</b>	
Czech	3	13,766	18.4	16.7	14.2	2.2	2.0	12.0	12.6	13.7	19.3	10.0	17.5	3.0	2.6	2.4	7.4	12.2	3.9	7.1	6.2	1.6	14.2	4.6	
Hungary	4	28,421	10.7	9.7	9.4	2.6	2.3	24.9	25.2	22.5	20.1	10.5	3.7	1.4	1.4	1.4	21.4	-7.8	-9.6	6.0	5.4	16.8	1.9	4.7	
Poland	7	39,254	10.8	11.4	12.2	2.3	2.0	22.5	18.8	15.7	65.7	-5.4	-6.8	1.2	0.9	1.0	39.6	34.9	-10.2	4.9	4.5	39.8	8.9	-7.4	
Russia	12	407,121	15.5	10.7	13.1	2.6	2.2	18.6	22.4	15.8	52.1	44.1	-18.0	3.0	2.3	2.4	43.2	26.2	-9.0	9.0	6.2	40.4	37.9	-16.8	
Israel	11	58,607	17.5	22.7	12.7	3.0	2.3	17.3	11.3	17.1	18.8	-23.1	78.9	3.3	2.8	2.4	11.0	25.4	12.1	11.1	12.7	36.0	-8.0	52.5	
Egypt	1	2,721	13.4	10.8	9.0	7.6	6.1	65.4	62.9	64.6	55.7	24.4	19.7	3.1	2.5	2.2	29.9	20.4	14.4	6.1	5.1	44.1	19.0	13.2	
South Africa	26	189,528	18.0	14.4	12.8	3.0	2.6	17.8	19.3	19.4	29.1	24.6	13.1	2.2	1.9	1.6	13.5	15.1	11.6	10.1	8.0	22.2	24.6	12.7	
Turkey	17	67,570	11.2	9.6	8.0	1.8	1.7	17.2	18.5	20.2	34.2	16.4	19.9	1.2	1.2	1.2	17.9	6.9	7.3	6.6	7.1	19.0	2.0	8.8	
<b>LATAM</b>	<b>48</b>	<b>447,739</b>	<b>13.0</b>	<b>10.5</b>	<b>9.5</b>	<b>2.4</b>	<b>2.0</b>	<b>20.1</b>	<b>20.9</b>	<b>20.1</b>	<b>44.6</b>	<b>23.8</b>	<b>10.6</b>	<b>1.9</b>	<b>1.6</b>	<b>1.5</b>	<b>32.2</b>	<b>14.0</b>	<b>7.8</b>	<b>6.6</b>	<b>5.5</b>	<b>31.9</b>	<b>19.2</b>	<b>8.6</b>	
Brazil	24	222,597	11.2	8.6	7.9	2.0	1.6	19.8	20.7	19.0	59.1	30.2	8.5	1.9	1.6	1.4	37.6	17.2	7.6	9.6	7.8	37.3	22.1	8.3	
Mexico	17	186,631	14.8	13.3	11.5	3.1	2.8	22.3	22.2	23.4	31.6	11.6	15.6	1.9	1.7	1.5	25.9	11.1	8.7	11.0	9.8	23.1	15.1	10.6	
Chile	4	13,064	33.1	22.7	19.1	1.6	1.6	4.9	6.9	8.1	-51.4	45.7	19.0	2.1	2.0	1.8	19.7	7.4	6.5	10.8	9.4	18.9	4.5	5.1	
Argentina	2	23,337	15.1	12.7	13.5	4.2	3.3	31.2	29.4	22.8	99.1	19.1	-5.8	2.6	2.3	2.2	58.2	8.8	-0.1	18.5	14.6	78.8	13.0	-5.1	
Venezuela	1	2,110	21.2	5.6	4.2	1.2	1.2	5.3	22.2	28.2	-54.9	281.9	31.2	0.7	0.6	0.5	18.5	23.1	13.4	4.8	1.9	-38.0	148.5	24.2	

Source: IQ ML. Data as of 24 May 2006





Table 9: Sector Valuation

Region	Stocks	Mkt Cap USD mn	PER			PBR			Return on Equity			Earnings Growth (%)			EV/Sales (x)			Revenue Growth (%)			EV/EBITDA (x)		EBITDA Growth (%)		
			05	06E	07E	05	06E	05	06E	07E	05	06E	07E	05	06E	07E	05	06E	07E	05	06E	05	06E	07E	
Telecom Fixed	7	48,276	10.9	8.9	8.2	1.8	1.7	17.2	19.7	21.7	4.8	21.4	9.0	1.6	1.4	1.4	24.5	8.6	0.1	4.1	3.5	15.3	14.7	1.6	
Telecom Wireless	2	60,562	20.5	16.7	12.5	7.1	6.2	37.6	39.5	44.8	95.2	22.2	34.3	3.8	3.0	2.5	38.8	29.3	13.9	12.6	8.7	34.0	44.4	23.9	
Transportation	2	5,003	23.0	19.0	15.3	5.5	4.4	26.9	25.8	26.0	1.0	21.2	24.4	1.9	1.6	1.5	22.2	23.8	12.3	13.8	10.7	11.0	35.8	18.0	
Utilities	7	36,589	17.1	8.4	8.8	0.8	0.7	5.1	9.1	8.0	61.7	103.8	-5.0	2.1	1.9	1.7	32.0	10.8	6.0	7.0	5.3	19.7	29.2	4.9	

Source: IQ.ML. Data as of 24 May 2006

Table 10: Key Macro Indicators

	GDP Growth (%)				Inflation (% eop)				Interest Rates (% eop)			
	2004	2005	2006F	2007F	2004	2005	2006F	2007F	2004	2005	2006F	2007F
<b>Latam</b>												
Brazil	4.9	2.3	3.6	3.2	7.6	5.7	4.6	4.5	17.8	18.1	14.8	13.3
Chile	6.1	5.9	5.5	4.4	2.4	3.7	3.9	3	2.5	4.8	5.5	5
Mexico	4.4	3	3.5	3.1	5.2	3.3	3.6	3.6	9	8	7.5	7
<b>EMEA</b>												
Czech Republic	4.7	4.9	4.1	n/a	2.8	1.9	2.5	n/a	2.5	2.1	2	n/a
Hungary	4.6	4.1	3.7	n/a	6.8	3.6	1.4	n/a	9.4	6.3	6	n/a
Poland	5.3	3.2	4.3	n/a	3.5	2.1	0.6	n/a	6.5	4.5	3.6	n/a
Israel	4.4	5.2	4.2	3.5	1.2	2.4	2.2	2.6	3.7	4.5	5.5	5.5
Russia	7.1	6.4	7	6.5	11.7	10.9	10.8	n/a	13	12	12.5	n/a
South Africa	4.5	4.9	4.5	4.5	3.4	3.6	5.4	5.5	7.5	7	8	8
Turkey	8.9	7.4	5	5.4	9.3	7.7	6.1	5.3	18	13.5	12.3	11.5
<b>Asia</b>												
China	10.1	9.9	9.4	8.5	3.9	1.8	2.5	4	5.4	5.6	6	6
India	7.1	7.5	8	7	3.8	4.2	5	5.5	5.3	6.1	7	8
Korea	4.7	4	5.8	4.5	3.6	2.8	2.6	3	3.3	3.8	4.8	5.3
Taiwan	6.1	4.1	4.7	4	1.6	2.3	2.7	2.5	1.8	2.3	2.8	2.8
Thailand	6.2	4.5	4.5	4.8	2.8	4.5	3.5	3	2	4	4.8	4.8

Source: Merrill Lynch Economic Research

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