

# 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

- **India.** Clinical trials are fast-becoming an integral part of Knowledge Process Outsourcing - a positive for the balance of payments and the rupee (p. 2).

## Highlights

- **Hong Kong.** Weaker-than-expected retail sales are unlikely to be the starting point of a weak consumption trend (p. 3).
- **Taiwan.** Legislators lifted insurers' overseas investment cap to 45% from 35% currently (p. 3).

## Market Drivers

- **US.** Despite likely increase in housing-related job losses, employment in other sectors should expand at a pace commensurate with overall economic growth.
- **Euro Area.** Following two months of consecutive declines we expect a recovery in the service sector business activity index.
- **Philippines.** We think headline inflation probably bottomed in February despite a favorable exchange rate.
- **Taiwan.** CPI inflation is likely to remain modest in April, despite rising supply-side pressures.

## Data Calendar

Date	Day	Local Time	Country	Indicator	For	Citi Fcst	Mkt Fcst	Prev.
4-May	Fri	8:30 PM	US	Nonfarm Payrolls (th)	Apr	120	100	180
4-May	Fri	4:00 PM	Euro Area	PMI Services	Apr	57.8	57.5	57.4
4-May	Fri	9:00 AM	Philippines	CPI (%YoY)	Apr	2.3	2.4	2.2
4-May	Fri	4:00 PM	Taiwan	CPI (%YoY)	Apr	0.6	—	0.8

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

## Focus on India

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### India: Clinical trials – The new wave of Knowledge Process Outsourcing

**Clinical trials are fast-becoming an integral part of Knowledge Process Outsourcing<sup>1</sup> in India.** While outsourcing as a concept is not new to global pharma majors, the Indian presence has been sporadic despite its lower cost and strong chemistry skills. However, with India having adopted a more stringent IPR law, there has been growing traction on contract research organisations – firms that assist companies (both domestic and global) in research, testing and the approval processes of products – over the past year. Recent deals, such as Merck–Advinus, Eli Lilly–Nicholas Piramal, and BMS–Syngene, increase the likelihood that contract research to India might reach up from US\$4bn currently to more than US\$17bn by 2010, as estimated by our pharma analyst. This would be positive for the balance of payments and the rupee, as revenues from this are classified under invisibles (*other invisibles include software services and remittances*). A growing niche segment *within* contract research has been outsourcing in clinical trials. With Indian companies also making progress with their own new drug discovery efforts, demand for clinical research services will likely grow further.

**India is today identified as a major resource centre for conducting clinical trials and data management services.** Key factors in India's favor include: (1) A large patient population, or patients that are treatment-naïve<sup>2</sup> (2) Besides lower trial costs, the average time to clear a clinical trial in India is 3-9 months compared with 9 months to a year in China. (3) India has well trained investigators and is compliant with global standards on clinical practice. Recent government initiatives to ensure that India remains globally competitive include exempting trials from service taxes, strengthening patent protection, and eliminating 'phase-lags' so that clinical trials can be conducted simultaneously with other markets.

**As evidence of the emerging opportunities in this space, we have seen a number of global players conducting trials in India.** Reports suggest that there are currently more than 226 clinical trials in progress in India. These include those sponsored by Pfizer, GlaxoSmithkline and Eli Lilly. Quintiles, one of the largest healthcare and drug-testing firms in the world, is also setting up a lab in Mumbai to support global and regional clinical trials. Domestic players include Vimta Laboratories, Lambda Therapeutics, Clinigene (Biocon's clinical research arm), and Wellquest (Nicholas Piramal's clinical research division)

**However, challenges remain ahead.** While India is developing as an R&D hub, it faces several challenges. Key among these are poor medical infrastructure, regulatory hurdles and the small size of the Indian drug market by global standards. (In September 2006, India accounted for less than 1% of the 763 human clinical trials conducted around the world). Moreover, India does not allow phase I clinical trials on the basis of patient safety and only began allowing phase II trials a couple of years ago.

<sup>1</sup> **Knowledge process outsourcing:** Inroads into this space involve several global companies outsourcing skilled and high-ended functions such as R&D in pharmaceuticals, biotechnology, engineering, and legal services; to domestic engineers and researchers.

<sup>2</sup> This implies that patients have not been subject to drugs for the specific disease that the drug is testing for.

## News in Brief

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### Hong Kong

**Consumers are taking a break after the festival shopping spree** The growth of retail sales in March is much weaker than we expected (+10.7%) and the market consensus (+10.5%). Unsurprisingly, the value of supermarket sales fell 1.8% yoy in March after strong growth during the Lunar New Year in February. The stronger growth of clothing and footwear (+14.2% yoy), however, suggest that local consumers still have strong desire to increase spending. Weaker-than-expected retail sales in March likely show that consumers took a break after a surge in spending during the Christmas, New Year holiday and Lunar New Year. It is unlikely to be the starting point of a weak consumption trend. With favorable factors including strong consumer confidence, low jobless rate, higher pay rises and stable interest rates, we expect retail sales to grow more rapidly in coming months. *(Joe Lo/Patricia Pong)*

### South Korea

**FKI's survey continued to suggest stable business sentiment:** the seasonally adjusted outlook index has remained around the neutral level of 100 since the beginning of the year. Firms serving domestic demand still appear more upbeat on their business outlook than exporters. Stable business sentiment supports our view that the current condition in the Korean economy is pretty good except for the difficulties in high-tech exports. *(Suktae Oh)*

### Philippines

**Potentially lower fiscal borrowings in 2008 will minimize government debt supply risk and sustain the flat local yield curve.** Cut in government borrowings reflects continued reduction of the fiscal deficit and positive impact of favorable financial market trends led by a strong currency. According to Finance Sec. Teves, the national government will cut its fiscal borrowings in 2008 by 17% to Php325.6bn from Php390.7bn in this year's budget program (although the gross borrowings in the 2007 budget is a total of Php380.9bn). Government will borrow Php228bn from the domestic market or about 70% of

the total in 2008. This year's cash borrowing program will source 68% from the domestic market. Sec. Teves plans to raise US\$2.1bn from official development assistance and commercial sources next year. This year's total foreign borrowings is US\$2.5bn with commercial borrowings of US\$1bn raised last Jan via a global bond float. *(Jun Trinidad)*

**Texas Instruments Inc (TI) made an investment pledge of US\$1bn helping the peso gain against the USD in the morning session.** TI made this capex announcement despite the election season. TI's investment pledge helped the peso to rally against USD in the morning session. Over the next 10 years, TI plans to build an assembly plant and testing facility in the Clark Freeport Zone that's likely to generated 3,000 jobs. *(Jun Trinidad)*

### Taiwan

**Legislators reached a consensus to lift insurers' overseas investment cap to 45% from 35% currently.** The passage of the bill is pending the second and third readings, which are scheduled next week. We estimate that total potential amount of portfolio capital outflows from life insurance companies could reach about US\$21.5bn if they fully utilize the 10% increase in cap. Based on the life insurance sector's balance sheet (from the central bank statistics), life insurance companies invested about 30.2% of their capital (reserves and net worth) in foreign assets as of the end of February. Government bond yields edged up 2-3bps on 3 May ahead of the news, as the market had largely priced in the expectation for some degree of consensus being reached.

**Likely limited financial market impact:** (1) The potential capital outflow is not substantial compared with the size of market liquidity (more than US\$230bn in outstanding central bank short-term papers and deposits at the Postal Savings fund); (2) We think insurance companies will take time to adjust their investment portfolios given the concern about hedging costs and the desire for prudent risk management; (3) There are supervisory measures in place to manage an orderly and gradual liberalization of capital outflows,

for example, investors need to get the approval from the central bank on outward remittance; (4) An earlier study done by the Financial Supervisory Commission and central bank suggested that insurance companies currently invested only about 6% of their capital in domestic equities and 9% in mortgage and construction loans, and the relaxation would not have much impact on domestic equity or housing market. We do not

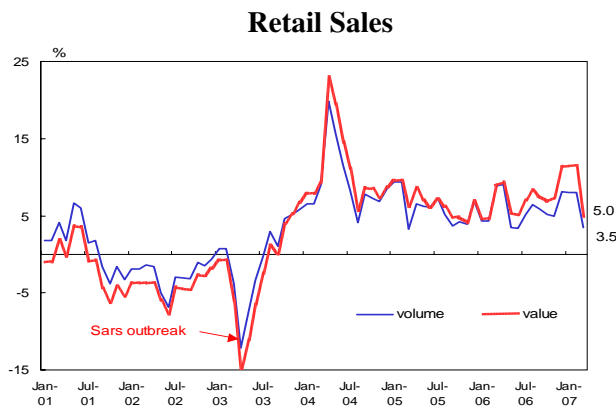
expect this latest development to trigger another bond sell-off, as it did not come as a surprise. The market is now closely eyeing the auction result for the 364-day certificates of deposit (CDs) and negotiable CDs on 8 May. Most traders expect an awarded rate at 1.92-1.93%, higher than 1.901% in the April auction.  
*(Cheng Mount Cheng/Renee Chen)*

# Data Review

Announcement	Release Date	HK/SG- Time	For	Actual	Citi Fcst	Mkt Fcst	Prev
<b>Hong Kong</b>							
Retail Sales Value (%YoY)	3-May	4:15 PM	Mar	5.0	10.7	10.5	28.6
Retail Sales Volume (%YoY)	3-May	4:15 PM	Mar	3.5	7.5	8.5	25.2
<b>Korea</b>							
FKI: Overall Performance (Seasonally Adjusted)	3-May		Apr	105.8	—	—	109.4
FKI: Overall Outlook (Seasonally Adjusted)	3-May		Apr	96.9	—	—	94.4
Domestic Demand	3-May		May	110.9	—	—	107.7
Export	3-May		May	99.5	—	—	99.1
	3-May		May	113.2	—	—	118.3
	3-May		May	110.9	—	—	111.0

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

**Hong Kong. The weaker-than-expected retail sales in March likely show that consumers took a break after holidays**



Source: HK SAR Government

# Selected Market Indicators

Policy Rates				
	Spot	Change (ppt)		
		1 Day	1 Mo	1 Yr
China - 1-year lending rate	6.39	-	-	0.54
Hong Kong - 3-Month Interbank Rate	4.32	0.09	0.17	(0.28)
India - Overnight Reverse Repo Rate	6.00	-	-	0.50
Indonesia - BI Rate	9.00	-	-	(3.75)
Malaysia - Overnight Policy Rate	3.50	-	-	-
Philippines - O/N Rate	7.50	-	-	-
Singapore - 3-Month Interbank Rate	2.63	0.00	(0.31)	(0.81)
South Korea - Overnight Rate	4.50	-	-	0.50
Taiwan - Overnight Rate	1.74	0.00	0.01	0.22
Thailand - 14-Day Repo Rate	4.03	-	(0.28)	(0.72)

Long Term Bond Yield				
	Spot	Change (ppt)		
		1 Day	1 Mo	1 Yr
China - Government bond yield (5-Year)	3.13	-	0.32	0.59
Hong Kong - 5-Year Exchange Fund Note	4.05	-	0.05	(0.57)
India - 10-Year Gilt	8.18	-	(0.01)	0.67
Indonesia - FR26	9.17	(0.00)	(0.35)	(2.71)
Malaysia - MGS 1/05	3.46	-	-	(0.71)
Philippines - 5-Year T Bond	5.93	-	-	(0.82)
Singapore - 10-Year SGS	2.76	-	(0.11)	(0.76)
South Korea - 5-Year Treasury	5.01	(0.02)	0.15	(0.00)
Taiwan - 10-Year Government Bond	2.07	-	0.11	(0.13)
Thailand - 10 Year Government Bond	3.86	0.00	(0.45)	(1.66)
Vietnam - 5-Year Government Bond	7.32	0.08	0.54	-

Other Indicators				
	Last Index Level	Change		
		1 Day	1 Mo	1 Yr
Fed Funds	5.13	-	-	0.31
6 month LIBOR	5.36	-	0.03	0.11
10 Yr UST	4.65	0.00	(0.02)	(0.50)
10 Yr Bund	4.214	0.00	0.12	0.21
Eurostoxx	3837	-0.29%	3.23%	8.47%
10 Yr JGB	1.635	0.00	(0.03)	(0.30)
10 Yr Swap	5.19	0.01	(0.01)	(0.48)
HY BB Index	462	0.00%	1.09%	9.65%
HY B Index	507	0.00%	1.34%	10.92%
VIX	13.08	-	(0.38)	1.09
DJIA	13212	0.00%	5.31%	13.71%
SPX	1496	0.00%	3.89%	12.57%
TPX	1704	0.00%	-0.01%	-1.93%
NASDAQ	1890	0.00%	4.94%	10.77%
Oil, WTI	64	0.34%	-1.16%	-13.11%
Copper Index	362.85	0.00%	8.79%	5.61%
JPY/USD	120	0.00%	0.99%	5.47%
USD/EUR	1.3607	0.10%	2.03%	7.17%
ECB Marginal Lending	4.75	-	-	1.25
BOJ	0.52	-	(0.48)	(0.48)
Palm Oil Future	2,271	2.51%	8.15%	-
Gold	675	0.28%	1.64%	1.19%
DRAM Benchmark Value Weighted Index	3,109	-0.04%	-9.40%	-5.09%

Currency				
	Spot	Change (%)		
		1 Day	1 Mo	1 Yr
Bangladesh Taka	69.195	0.00%	-0.58%	0.91%
China Renminbi	7.7021	0.04%	0.31%	4.05%
Hong Kong Dollar	7.8207	0.02%	-0.06%	-0.87%
Indian Rupee	41.16	0.08%	4.63%	8.90%
Indonesian Rupiah	9047.5	0.29%	0.61%	-3.01%
Malaysian Ringgit	3.4210	0.03%	1.15%	5.48%
Phillipine Peso	47.585	0.30%	1.13%	7.91%
Singaporean Dollar	1.5236	0.15%	-0.28%	3.30%
South Korean Won	926.9	0.39%	1.05%	0.80%
Taiwan Dollar	33.281	0.16%	-0.44%	-5.00%
Thai Baht (onshore)	34.755	0.04%	0.68%	8.44%
Thai Baht (offshore)	32.750	-0.24%	-0.31%	15.08%
Vietnam Dong	16054	-0.04%	-0.18%	-0.67%

Equities				
	Last Index Level	Change (%)		
		1 Day	1 Mo	1 Yr
Bangladesh DHAKA	1743	0.00%	0.72%	22.30%
China (H Shares)	10134	1.39%	4.05%	29.93%
China (Shanghai SE Composite)	3841	0.00%	14.32%	62.51%
Hong Kong Hang Seng	20682	1.42%	3.28%	17.67%
India NIFTY	4144	1.36%	10.94%	12.30%
Indonesia Jakarta	2026	0.84%	6.47%	26.00%
Korea KOSPI	1560	0.42%	6.16%	7.99%
Malaysia Kuala Lumpur	1343	1.53%	6.40%	29.23%
Philippines Composite	3272	-0.01%	0.72%	28.45%
Singapore Straits Times	3451	0.95%	4.70%	22.92%
Taiwan Taiex	7927	0.30%	-0.08%	8.63%
Thailand SET	711	0.80%	3.47%	-8.89%
Vietnam Ho Chi Minh	937	0.21%	-9.61%	34.71%

EM CDS (5Yr)						
Spread (in bp)	Prev Close	Change			5s-2s	10s-5s
		1 Day	1 Mo	1 Yr		
China	11	0	0	-10	5	7
India	44	0	-5	-12	-	-
Indonesia	108	0	-10	-61	61	79
Korea	15	0	-3	-8	5	6
Malaysia	13	0	-4	-13	6	7
Philippines	109	0	-11	-64	62	78
Thailand	37	0	-4	0	16	22

Volatility					
	Last ATM	1 Day	1 Mo	1 Yr	
<b>China</b>	1M Vol	1.26	-0.04	-0.24	-1.14
	3M Vol	1.62	0.12	-0.18	-0.98
<b>Hong Kong</b>	1M Vol	0.70	0.00	-0.15	0.30
	3M Vol	0.70	0.00	-0.15	0.20
<b>India</b>	1M Vol	7.65	-0.35	2.35	2.90
	3M Vol	6.19	-0.27	0.87	1.39
<b>Korea</b>	1M Vol	3.65	0.00	-0.37	-2.90
	3M Vol	3.90	0.00	-0.29	-2.65
<b>Singapore</b>	1M Vol	3.00	0.00	-0.40	-1.80
	3M Vol	3.25	0.00	-0.40	-1.45
<b>Taiwan</b>	1M Vol	2.60	0.00	-0.56	-3.55
	3M Vol	3.00	0.00	-0.39	-3.00
<b>Thailand</b>	1M Vol	11.37	-0.73	-8.06	4.52
	3M Vol	9.28	-0.22	-4.85	2.63

Source: Bloomberg (as of 5/3/2007 5:24 PM).

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