

India: RBI - what now?

■ Things to Watch Next Week

Important releases next week include industrial production for August from Singapore (Wednesday) and Korea (Friday). Singapore will also report its August inflation (Monday), which we expect to have eased to 3.6% yoy from 4% yoy a month ago. Important releases in Japan include August industrial production (Friday) which probably slowed by 0.1% compared to a negative growth of 1% in the previous month and retail sales for August (Friday) which we expect to have slowed by 0.8% compared to a slowdown of 1.5% last month. Korea (Friday) and Thailand (Friday) will report their August current account balance, which for Thailand is expected to be US\$0.5bn.

■ India in Focus: RBI - what now?

We believe that the RBI will increasingly focus on reviving growth after exclusively fighting inflation since 2010. It should cut the cash reserve ratio by 50bp on 30 Oct and conduct OMO of Rs1000bn by March to pull down lending rates. It will likely cut rates by 75bp in December-March quarter as inflation abates. We expect the RBI to buy FX if the INR slips to Rs52/USD levels with USD ruling at 1.20s/euro. *(I. Sen Gupta)*

■ News and Views

China HSBC Flash Manufacturing PMI slightly edged up to 47.8 in September.

Indonesian Government may increase non-taxable income to Rp24-30mn. In

Japan exports fell 5.8% yoy in August. **Philippines** BOP remains in surplus.

Malaysian financial system can absorb volatilities, says BNM governor Zeti. In

Taiwan CBC holds rate to tame inflation as economic growth slows and no

meaningful recovery yet in August export orders. *(page 6)*

■ Today's Market Movers

It will be a quiet day in Asia today with no major releases.

We are **hosting our annual GEMs Investor Conference on 13 October in Tokyo**, Japan, concurrent with the IMF/WB meetings. See our [agenda](#). We have a great lineup of speaker panels on relevant and interesting topics for the day. **Please contact your BofAML sales representative to register.**

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Conf. Call: India- Politics and Reforms: What happens today?

21 Sep, 10am India time / 12.30pm HKT

Speaker

- Bhupendra Chaubey, National Bureau Chief & Political Editor, CNN-IBN

Moderator

- Indranil Sen Gupta, Chief India Economist

** Contact your salesperson to participate.*

GEMs Monthly: [September issue](#)

Asia Year Ahead: [2012 – Year of the Drag-on?](#)

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Refer to important disclosures on page 19 to 21. Analyst Certification on Page 17. Link to Definitions on page 17.

In Focus

India: RBI - What now?

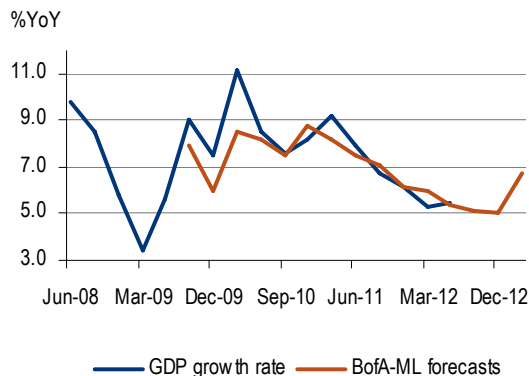
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- Review:** The Central Banks of Taiwan and Japan kept their policy rates unchanged at 1.875% and 0.05% respectively, same as we expected. In India, RBI cut cash reserve ratio by 25bps to 4.50%, again matching our forecast. Singapore August NODX surprised on the downside, falling 10.6%, compared to a positive growth of 5.7% last month. On inflation, Malaysian August CPI grew 1.4% yoy, same as last month, while Hong Kong CPI rose 3.7% yoy from 1.6% in July.
- Hot topic:** We believe that the RBI will increasingly focus on reviving growth after exclusively fighting inflation since 2010. It should cut the cash reserve ratio by 50bp on 30 Oct and conduct OMO of Rs1000bn by March to pull down lending rates. It will likely cut rates by 75bp in December-March quarter as inflation abates. We expect the RBI to buy FX if the INR slips to Rs52/USD levels with USD ruling at 1.20s/euro.
- Preview:** Important releases next week include industrial production for August from Singapore and Korea. Singapore will also report its August inflation, which we expect to have eased to 3.6% yoy from 4% yoy a month ago. Important releases in Japan include August industrial production which probably slowed by 0.1% compared to a negative growth of 1% in the previous month and retail sales for August which we expect to have slowed by 0.8% compared to a slowdown of 1.5% last month. Korea and Thailand will report their August current account balance, which for Thailand is expected to be US\$0.5bn.

Bottom line: Growth as important as price stability

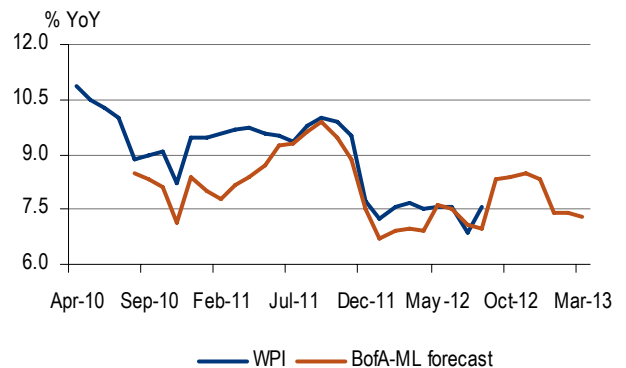
We believe that the RBI will increasingly focus on reviving growth after exclusively fighting inflation since 2010. After all, it targets multiple objectives of growth, price stability, INR and financial stability, with the emphasis depending on the circumstances. With FY13 growth set to slow below its 6.5% forecast (5.6% BofAMLe), we expect the RBI to step up the pace of monetary easing in the coming months (Chart 1). Not surprisingly, the monetary policy on 17 September pointed out that the RBI "...also has an important role in supporting the growth revival....". Do read our latest RBI report [here](#).

Chart 1: FY13 growth set to slow below RBI's forecast



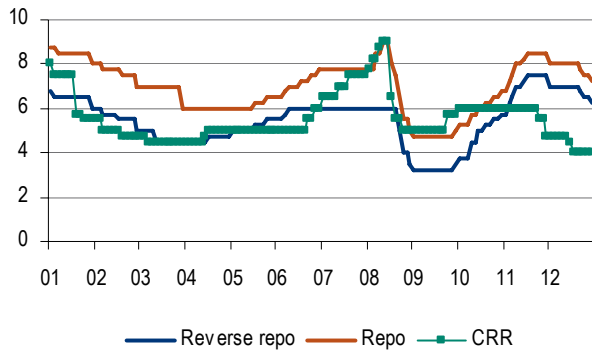
Source: CSO, BofA Merrill Lynch Global Research estimates

Chart 2: Inflation to peak at 8-8.5% by December



Source: Ministry of Industry, BofA Merrill Lynch Global Research estimates

Chart 3: 50bp CRR cut October, 75bp rate cut December -



Source: BofA Merrill Lynch Global Research estimates

Table 1: India's lending rates at 2008 peak

Country	Lending rates		
	2004-07	2008-10	Current
BRICs			
India	13.8	11.8	13.75
Brazil	31.8	25.5	25.0
Russia	17.4	8.0	10.0
China	7.5	5.3	6.0

Source: BofA Merrill Lynch Global Research

What about inflation? We continue to expect it to peak off at 8-8.5% in the next few months with both oil and electricity price hikes done (Chart 2). This, in turn, supports our call that RBI rate cuts will resume in December. The recent revival of rains should contain agflation ahead. Second, Operation Twist II is unlikely to have much of an inflationary impact on India unless oil spikes. There are three other commodity markets – edible oils, raw cotton and sugar – in which Indian and global prices are closely linked. All the three commodities face a reasonably favorable demand-supply balance globally. Besides, commodity prices are now receding after having shot up locally on drought fears. Third, the long-pending electricity and administered oil price hikes have finally taken place. Finally, excessively tight M3 growth is constraining corporate pricing power by restraining demand. Do read our latest inflation report [here](#).

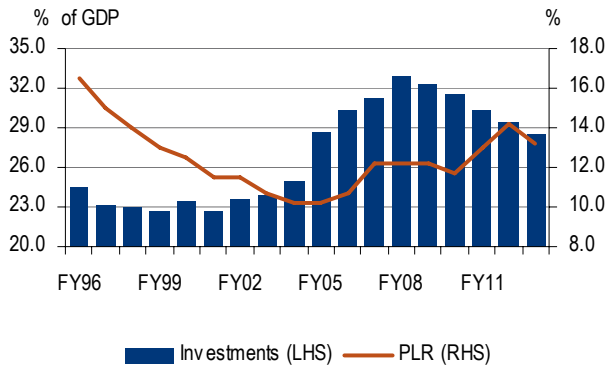
CRR cuts, OMO to soften lending rates

We expect the RBI to continue to ease liquidity to soften lending rates to revive growth (Chart 3). After all, experience suggests that cycles turn up (down) only when the real lending rate, now 8% (=14% prime rate - 6% long-term inflation expectations) slips below (pierces) the 7.5-8% potential growth. In fact, India is the only BRIC in which lending rates are at their peak (Table 1). For details, please read our last lending rate report [here](#).

We are relieved that Delhi has finally taken steps to revive growth, although there could be some rollback due to political opposition. Still, while 'reforms' like introducing FDI in multi-brand retail are boosting sentiment, their impact will likely be felt only in the medium term. In the short run, the revival of growth and investment will need softer rates, as was the case in the downturn of 1998-2004 (Chart 4). For our assessment of any rollback of reforms, read [here](#).

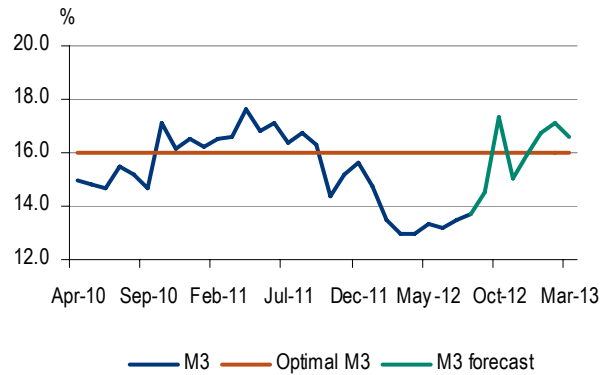
In order to soften lending rates, the RBI will need to push up M3 growth back to 16% from the current 13.7% (Chart 5). This leads us to expect another 50bp CRR cut in its monetary policy on 30 October to pull down lending rates to revive growth. Given the need to improve bank liquidity, we expect the RBI to resume OMO by October given that its US\$14bn of FX forwards contracted have effectively neutralized the Rs815bn of OMO conducted so far.

Chart 4: Lower rates necessary to boost investment



Source: BofA Merrill Lynch Global Research estimates

Chart 5: RBI to cut CRR/OMO to boost M3 growth



Source: BofA Merrill Lynch Global Research estimates

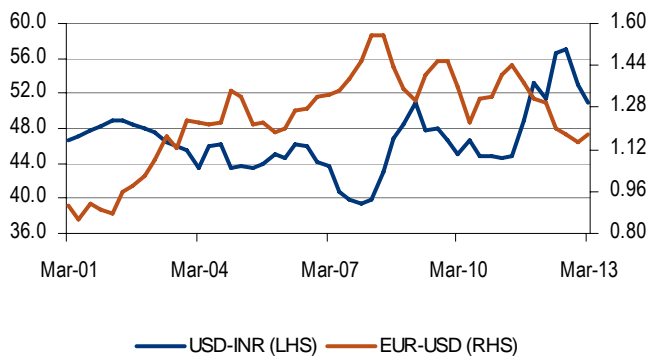
75bp RBI rate cuts likely from December

With inflation likely to peak off in the March quarter, we expect the RBI to cut policy rates by 75bp in the December-March quarter. We do appreciate that the RBI Governor Subbarao is reluctant to take chances with the RBI's inflation fighting credentials by cutting rates when September inflation will likely pierce 8%. After all, the RBI typically prefers to keep a positive real policy rate *ex post* (although we think the real rate should be estimated on the basis of 6-6.5% *ex ante* inflation expectations). No matter. In any case, the RBI rate cuts are unlikely to translate into lending rate cuts until bank liquidity improves. Against this backdrop, our rates strategists recommend paying 5y NDOIS [here](#).

INR: RBI to buy FX if INR slips to Rs52/USD levels

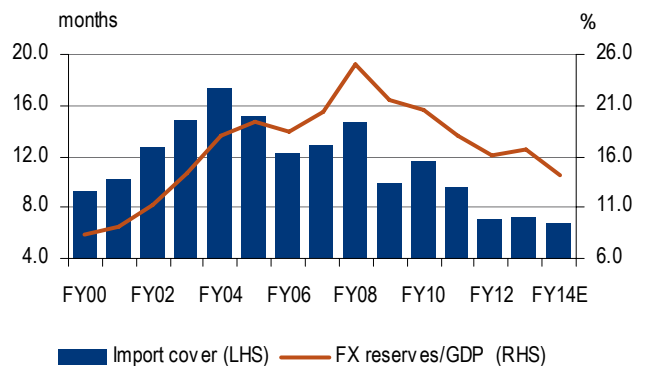
We continue to expect the RBI to keep the INR around Rs55/USD levels if the US dollar settles around 1.20s/euro (Chart 6). If risk on weakens the US dollar to 1.30s/euro, the RBI will likely buy FX at Rs52/USD levels to recoup the US\$65bn (including forwards) sold since mid-2008 (Chart 7). If risk off strengthens the US dollar back to 1.10s/euro, the RBI will likely allow the INR to go to Rs60/USD. By the way, our FX strategists have entered a short 2m NDF USD/INR trade with a target of Rs53/USD (and stop of Rs56.40/USD) [here](#).

Chart 6: RBI to buy FX if INR slips to Rs52/USD levels...



Source: RBI, BofA Merrill Lynch Global Research estimates

Chart 7: ...to recoup falling FX reserves



Source: RBI, BofA Merrill Lynch Global Research estimates

Things to watch next week

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China: HSBC Flash Manufacturing PMI slightly edged up in Sep

China's HSBC Flash PMI edged up slightly to 47.8 in Sep from 47.6 in Aug. The employment sub-index came in at 48.1, below 50 for the seventh straight month.

- **Neutral:** Although rebounding from August, the result from this leading indicator remains weak. The soft reading suggests that China's growth momentum is still fairly sluggish and pressure for destocking could continue weigh on manufacturers. Overall the message is in line with our call of weaker GDP growth in 3Q (7.4% yoy in 3Q vs 7.6% in 2Q).

Indonesia: government may increase non-taxable income to Rp24-30mn

Indonesia's Finance Minister Aug Martowardojo has said that the government is considering raising non-taxable income to Rp24mn – Rp30mn, from the current Rp15.8mn. However, he did not provide a timeframe as to when such an increase could happen.

- **Positive:** Weak global economic conditions have hurt Indonesia's exports, which has been contracting (on a yoy basis) since April to July. Strong domestic demand has however supported growth (2Q GDP +6.4% yoy). An increase in non-taxable income will help boost consumer spending further, in turn driving economic expansion. However, concerns on a consumer lending bubble have surfaced. Indonesian banks' lending growth came in at +25.2% yoy in July. Household mortgage loans increased 43.9% yoy in July, up from +29.4% yoy at end-2011.

Japan: exports still stagnant

According to the customs-cleared trade data for August released by the Ministry of Finance, exports fell 5.8% yoy and imports declined 5.4%. Imports were broadly on par with the market expectation of a 5.5% yoy decrease, but exports declined somewhat less than the 7.5% forecast fall. However, exports still fell more than imports to bring about a ¥754.1bn trade deficit, the second largest for an August followed by August 2011.

- **Negative:** Looking ahead, the decline in exports to Asia could gradually come to a halt, mainly on a boost from Chinese economic measures (but may not come clearly into play due to the Japan-China border dispute). However, we believe the spotlight will be on the US. We cannot ignore the possibility that hitherto solid exports to the US will see narrower gains if the US economy loses steam due to the fiscal cliff. With exports to Europe unlikely to quickly recover, continued export stagnation through 1H 2013 is a concern.

Jojo Gonzales^^
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Philippines: BOP remains in surplus

The Bangko Sentral reported a balance of payments (BOP) surplus of US\$582mn in August and US\$5.08bn for the first eight months of 2012. This however is sharply lower than the US\$2.7bn surplus recorded in Aug-2011 and US\$9bn for the first eight months of 2011. A higher trade deficit and reduced portfolio flows accounted for the year-on-year decline.

- **Supportive of peso strength:** The surplus, albeit lower than year-ago levels, remains supportive of the peso, which closed at Php41.61/US\$ and around 4-year highs. The BOP surplus for August also pushed the gross international reserves (GIR) to a new record of US\$80.8bn at end-Aug-2012.

Malaysia: financial system can absorb volatilities, says BNM Governor Zeti

Malaysia's financial system was now more developed with strong intermediaries capable of absorbing any volatility from the QE exercise, according to Bank Negara Malaysia (BNM) governor Tan Sri Dr Zeti Akhtar Aziz. She spoke during the Global Islamic Finance Forum on Wednesday. Governor Zeti also said that measures such as the development of the bond market, consolidation of the banking sector and the move to more flexible exchange rate regime are "sufficient" now to deal with volatility of financial flows.

- **Neutral:** Malaysia's Financial Sector Masterplan (a ten-year plan introduced in 2001) helped develop and strengthen Malaysia's financial system. Last year, BNM launched the Financial Sector Blueprint to further enhance the domestic financial market by 2020. BNM expects the financial sector to grow at an annual pace of 8% - 11% from now to 2020.

Taiwan: CBC holds rate to tame inflation as economic growth slows

Citing the uncertain outlook for the global economy whilst remaining vigilant on inflation risks, the CBC (Taiwan's central bank) kept its benchmark rate on hold, leaving it unchanged at 1.875%. The secured and unsecured loan rates are maintained at 2.25% and 4.125%, respectively.

- **Neutral:** This decision is in line with the forecasts of 17 out of 19 economists polled by Bloomberg survey. This is the fifth pause after five consecutive quarters of 12.5bp hike. In line with our expectation, CBC will continue using open market operation to control liquidity.

Taiwan: no meaningful recovery in August orders yet

Export orders fell 1.5% yoy, extending but improving from the contraction of 4.4% in July. Demand for non-tech orders remains muted (+0.0% yoy) while we were not able to see any significant rebound in orders for tech products yet (-2.7% yoy). Export orders have been in contraction since December 2011 (except February which was distorted by the Chinese New Year effect).

- **Negative:** As external conditions improve with recent QE and ECB boosts, we expect a revival in orders going forward, albeit modestly, as we remain skeptical of a quick turnaround amidst a tepid recovery in the US, China's too rapid growth slowdown and lingering weakness in Europe.

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^^ Merrill Lynch participated in the preparation of this report, in part, based on information provided by Philippine Equity Partners, Inc. (Philippine Equity Partners). Refer to "Other Important Disclosures" for information on certain Merrill Lynch entities that take responsibility for this report in particular jurisdictions. ^^Philippine Equity Partners employees are not registered/qualified as research analysts under NYSE/NASD rules.

Data Preview

Local time	Country	Data/Event	BofAMLe	Cons.†	Previous	Comments	
Sept 23 – Sept 28							
☉	--	Philippines			-39.2bn	The Philippines is likely to report a budget deficit in August 2012, in contrast to a mild Php9bn surplus reported in Aug-2011. August 2012 was hampered by severe weather and a number of public holidays that reduced the number of business days from typically 23 to just 19, which is likely to impact revenue collection more than spending. Government too has accelerated spending in recent months. However, the government has a lot of room in that its full-year deficit target is closer to Php250bn compared with a deficit of only Php44bn through the first seven months of 2012	
☉☉	--	Thailand		-4.4%	-5.9%	-4.5%	August export growth is expected to fall by 4.4% from weak agriculture prices and slowing global demand.
Monday, 24 Sep							
☉	08:30	Taiwan			4.3%	4.3%	
☉☉	13:00	Singapore		3.6%	3.8%	4.0%	Headline inflation probably eased to +3.6% in August (from +4% in July), helped in part by a high base last year for transport and housing. Transport inflation likely fell below 5%, while housing inflation probably dipped to about 6%. MAS core inflation (which excludes housing & private transport) also likely moderated to +2.2% in August (from +2.4% in July) on slowing growth and easing demand pressures. On a month-on-month seasonally adjusted basis, CPI probably rose a mild +0.1% from July. Lower inflation readings will likely give the MAS room to ease policy at the October meeting.
☉☉	14:00	Japan				-4.9%	
☉☉	16:00	Taiwan			-0.5%	-0.0%	
Tuesday, 25 Sep							
☉	6:00	Korea				99	
☉	9:00	Philippines				13.3%	July 2012 imports are expected to grow for the third consecutive month, which is consistent with the strong GDP numbers being reported. Moreover, when paired with strong exports earlier reported (+7.9% YoY), we may see only a mild expansion the July trade deficit from US\$545mn a year ago
☉	14:00	Japan				-0.2%	
☉	16:20	Taiwan				3.8%	
☉	16:30	Hong Kong				-3.5%	
Wednesday, 26 Sep							
☉☉	13:00	Singapore		0.5%	1.0%	1.9%	IP probably expanded a weak +0.5% in August (vs. +1.9% in July), with electronics production continuing to contract. Softening global demand is hurting manufacturing output and exports. Industrial output is probably near stagnant over the month (-0.2%) from July. A poor IP reading increases the risk of a technical recession.
Thursday, 27 Sep							
☉☉	6:00	Korea				75	
Friday, 28 Sep							
☉	8:00	Korea				6.1bn	
☉☉	8:00	Korea				0.3%	
☉	8:30	Japan		4.3%	4.3%	4.3%	A recovery in employee numbers to be moderated by deceleration of industrial output.
☉	8:30	Japan		0.8	0.8	0.8	
☉☉	8:30	Japan				-0.7%	
☉☉	8:30	Japan		-0.3%	-0.3%	-0.3%	A continued run of deflation will call into question the Bank's projection of a 0.2% yoy core CPI rise in FY2012
☉☉	8:30	Japan		-0.4%	-0.6%	-0.6%	
☉☉☉	8:50	Japan		-0.8%	-0.8%	-1.5%	
☉☉☉	8:50	Japan		-0.1%	-0.7%	-1.0%	The trend in industrial output is likely to be flat, weighed down by Europe's debt crisis and slowdowns in Asian economies.
☉	10:00	Singapore				5.9%	
☉☉	10:30	China				47.6	
☉☉	14:00	Japan			-9.0%	-9.6%	
☉☉	14:30	Thailand		0.5bn		0.1bn	
☉	17:00	Hong Kong				5.1%	
☉☉	17:00	India		-14.8bn		-21.7bn	

Data Review

Thursday, 20 September

NYT	Country	Data/Event	For	Actual	BofAMLe	Cons.†	Previous	Comments	
⊛	0:30	Japan	All industry index (sa,mom)	Jul	-0.6%	n.a.	n.a.	0.3%	
⊛⊛	1:30	Japan	Department store sales (yoy)	Aug	-1.0%	n.a.	n.a.	-3.3%	
⊛⊛	3:00	Japan	Convenience store sales (yoy)	Aug	-1.3%	n.a.	n.a.	-3.3%	
⊛⊛⊛	3:00	Taiwan	CBC rate decision		1.875	1.875%		1.875%	Citing the uncertain outlook for the global economy whilst remaining vigilant on inflation risks, the CBC kept its benchmark rate on hold, leaving it unchanged at 1.875%.
⊛⊛⊛	4:00	Taiwan	Export orders (yoy)	Aug	-1.5%	-1.8%	-2.0%	-4.4%	Export orders (an indication of shipments in the next 1-3 months) fell 1.5% yoy, extending but improving from the contraction of 4.4% in July.
⊛⊛	4:30	Hong Kong	CPI (yoy)	Aug	3.7%	3.5%		1.6%	

Wednesday, 19 September

NYT	Country	Data/Event	For	Actual	BofAMLe	Cons.†	Previous	Comments	
⊛⊛	5:00	Malaysia	CPI (yoy)	Aug	1.4%	1.5%	1.4%	1.4%	
⊛⊛	19:50	Japan	Trade balance (JPY bn, nsa)	Aug	-754.1	-910.0	-829.3	-518.9	According to the customs-cleared trade data for August released by the Ministry of Finance, exports fell 5.8% YoY and imports declined 5.4%. Exports fell more than imports to bring about a ¥754.1bn trade deficit, the second largest for an August followed by August 2011.
⊛⊛⊛	19:50	Japan	Trade balance (JPY bn, sa)	Aug	-472.8	-440.0	-384.6	-371.9	
⊛⊛⊛	19:50	Japan	Exports (nsa, yoy)	Aug	-5.8%	-6.0%	-7.5%	-8.1%	
⊛⊛⊛	19:50	Japan	Imports (nsa, yoy)	Aug	-5.4%	-3.0%	-5.5%	2.1%	
⊛	21:53	China	Actual FDI (yoy)	Aug	-1.4%		-5.8%	-8.7%	
⊛⊛	22:30	China	HSBC Flash Manufacturing PMI	Sep	47.8			47.60	
⊛	-	Philippines	Balance of Payments (US\$)	Aug	582mn			3.2bn	
⊛⊛⊛	23:44	Japan	BoJ rates decision	-	0.05%	0.05%	0.05%	0.05%	

Tuesday, 18 September

NYT	Country	Data/Event	For	Actual	BofAMLe	Cons.†	Previous	Comments	
⊛	4:30	Hong Kong	Unemployment rate (sa)	Aug	3.3%			3.2%	

Monday, 17 September

NYT	Country	Data/Event	For	Actual	BofAMLe	Cons.†	Previous	Comments	
⊛⊛⊛	1:30	India	RBI rate decision		8.00%	8.00%	8.00%	8.00%	
⊛⊛⊛	1:30	India	RBI rate decision		4.50%	4.50%	4.75%	4.75%	We welcome the RBI's 25bp CRR cut - in line with our contrarian view - to pull down lending rates.
⊛	02:02	Philippines	Overseas remittances (yoy)	Jul	5.4%			4.2%	
⊛	21:00	Philippines	Unemployment rate	Jul	7.0%			6.9%	

Sunday, 16 September

NYT	Country	Data/Event	For	Actual	BofAMLe	Cons.†	Previous	Comments	
⊛⊛⊛	20:30	Singapore	Non-oil domestic exports (yoy)	Aug	-10.6%	-4.6%	-4.0%	5.7%	Non-oil domestic exports (NODX) in August surprised on the downside, contracting 10.6% from a year ago, from +5.7% in July. The weak reading was largely due to contraction in electronics exports (-11% yoy), while pharmaceuticals also declined (-3.2% yoy). On a month-on-month seasonally adjusted basis, NODX contracted 9.1% in August from July (vs. -3.6% in previous month). This is the second consecutive month of mom

Notes: †Bloomberg consensus; ⊛ = level of importance; A = advanced; F = final; P = preliminary; sa = seasonally adjusted; saar = seasonally adjusted annualized rate; nsa = not seasonally adjusted; wda = working-day adjusted; n.a. = not available; mom = month-on-month; qoq = quarter-on-quarter; yoy = year-on-year.

Source: BofA Merrill Lynch Global Research, Bloomberg, Central banks * denotes previous month

Macro Forecasts

BofAML Global Research Forecasts						BofAML Global Research Forecasts					
GDP Growth (yoy)	2011	2012		2013		Fiscal balance (% of GDP)	2011	2012		2013	
	F'cst	F'cst	Chg.	F'cst	Chg.		F'cst	F'cst	Chg.	F'cst	Chg.
Emerging Asia	7.4	6.2	-	6.6	-	Emerging Asia	-1.8	-2.5	-	-2.2	-
China	9.2	7.7	-	7.6	-	China	-1.6	-2.7	-	-2.7	-
Hong Kong	5.0	1.4	-	2.7	-	Hong Kong	1.9	1.1	-	1.1	-
India	6.5	5.6	-	6.9	-	India	-8.5	-8.5	-	-8.6	-
Indonesia	6.5	6.0	-	6.0	-	Indonesia	-1.3	-3.0	-	-1.5	-
Korea	3.6	2.6	-	3.4	-	Korea	1.5	1.8	-	1.7	-
Malaysia	5.1	4.7	-	4.5	-	Malaysia	-5.0	-5.0	-	-4.8	-
Philippines	3.9	5.7	-	5.5	-	Philippines	-2.1	-2.5	-	-2.8	-
Singapore	4.9	1.9	-	3.0	-	Singapore	0.7	-0.2	-	0.5	-
Taiwan	4.0	1.4	-	3.2	-	Taiwan	-2.0	-1.6	-	-1.2	-
Thailand	0.1	5.3	-	4.5	-	Thailand	-1.5	-4.1	-	-4.0	-

CPI inflation (yoy, avg)	2011	2012		2013		Trade balance US\$bn	2011	2012		2013	
	F'cst	F'cst	Chg.	F'cst	Chg.		F'cst	F'cst	Chg.	F'cst	Chg.
Emerging Asia	4.7	3.7	-	3.6	-	Emerging Asia	125.4	21.5	-	-44.3	-
China	5.4	2.9	-	4.0	-	China	157.9	150.0	-	104.5	-
Hong Kong	5.3	4.3	-	3.7	-	Hong Kong	-54.8	-59.5	-	-55.2	-
India	8.9	8.0	-	6.5	-	India	-184.9	-183.5	-	-202.0	-
Indonesia	5.4	4.7	-	5.5	-	Indonesia	26.1	-6.5	-	-5.0	-
Korea	4.0	2.4	-	2.8	-	Korea	26.6	20.5	-	13.2	-
Malaysia	3.2	2.0	-	2.5	-	Malaysia	48.8	40.1	-	39.7	-
Philippines	4.7	3.3	-	3.7	-	Philippines	-12.1	-12.1	-	-12.5	-
Singapore	5.2	4.3	-	2.8	-	Singapore	67.5	34.0	-	39.0	-
Taiwan	1.4	2.0	-	1.7	-	Taiwan	26.8	27.4	-	21.7	-
Thailand	3.8	3.1	-	3.2	-	Thailand	23.5	11.1	-	12.3	-

Policy rate (% eop)	Current	2012		2013		CA balance (US\$bn)	2011	2012		2013	
		F'cst	Chg.	F'cst	Chg.		F'cst	F'cst	Chg.	F'cst	Chg.
Emerging Asia	3.85	3.80	-	3.4	-	Emerging Asia	470.8	217.0	-	157.6	-
China	3.00	3.00	-	2.50	-	China	201.7	170.0	-	110.0	-
Hong Kong	0.40	0.45	-	0.55	-	Hong Kong	12.9	12.7	-	15.0	-
India	7.00	6.75	-	6.00	-	India	78.9	-72.1	-	-77.0	-
Indonesia	5.75	5.75	-	5.75	-	Indonesia	1.7	-26.8	-	-15.0	-
Korea	3.00	2.75	-	3.25	-	Korea	26.5	23.4	-	16.1	-
Malaysia	3.00	3.00	-	3.00	-	Malaysia	31.8	23.5	-	21.0	-
Philippines	3.75	3.75	-	4.00	-	Philippines	6.8	6.5	-	5.5	-
Singapore	0.38	0.50	-	0.50	-	Singapore	57.0	40.0	-	46.0	-
Taiwan	1.88	1.88	-	1.750	-	Taiwan	41.6	41.2	-	35.7	-
Thailand	3.00	3.00	-	3.00	-	Thailand	11.9	-1.4	-	0.3	-

Exchange rate (to USD, eop)	Current	2012		2013		Int. reserves (US\$bn)	2011	2012		2013	
		F'cst	Chg.	F'cst	Chg.		F'cst	F'cst	Chg.	F'cst	Chg.
Emerging Asia						Emerging Asia	5,161	5422	-	5601	-
China	6.30	6.40	-	6.25	-	China	3,181	3,325	-	3,387	-
Hong Kong	7.75	7.80	-	7.80	-	Hong Kong	285	300	-	325	-
India	54.3	53.0	-	50.0	-	India	296	297	-	320	-
Indonesia	9,569	9,400	-	9,000	-	Indonesia	110	120	-	140	-
Korea	1,123	1,100	-	1,000	-	Korea	298	303	-	300	-
Malaysia	3.07	3.10	-	2.95	-	Malaysia	129	145	-	160	-
Philippines	41.7	42.00	-	39.80	-	Philippines	65	68	-	69	-
Singapore	1.23	1.24	-	1.20	-	Singapore	236	275	-	300	-
Taiwan	29.4	30.0	-	27.5	-	Taiwan	386	412	-	421	-
Thailand	30.9	30.0	-	29.0	-	Thailand	175	176	-	180	-

Source: BofA Merrill Lynch Global Research

Key Economic and Financial Forecasts

	GDP Growth			CPI Inflation			Interest Rate*			Currency*		
	2011	2012F	2013F	2011	2012F	2013F	Current	2012F	2013F	Spot	2012F	2013F
World	3.8	3.1	3.1	4.3	3.2	3.2	3.04	2.50	2.40			
US	1.8	2.1	1.4	3.2	2.0	1.8	0.25	0.10	0.00			
Euro area	1.5	-0.7	-0.7	2.7	2.4	2.0	0.75	0.50	0.50	1.26	1.15	1.20
Japan	-0.8	2.3	1.2	-0.3	-0.1	0.0	0.10	0.10	0.10	78.4	78.0	85.0
Emerging Asia	7.4	6.2	6.6	4.7	3.7	3.6	3.85	3.80	3.41			
China	9.2	7.7	7.6	5.4	2.9	4.0	3.00	3.00	2.50	6.30	6.40	6.25
Hong Kong	5.0	1.4	2.7	5.3	4.3	3.7	0.40	0.45	0.55	7.75	7.80	7.80
India	6.5	5.6	6.9	8.9	8.0	6.5	7.00	6.75	6.00	54.3	53.0	50.0
Indonesia	6.5	6.0	6.0	5.4	4.7	5.5	5.75	5.75	5.75	9,569	9,400	9,000
Korea	3.6	2.6	3.4	4.0	2.4	2.8	3.00	2.75	3.25	1,123	1,100	1,000
Malaysia	5.1	4.7	4.5	3.2	2.0	2.5	3.00	3.00	3.00	3.07	3.10	2.95
Philippines	3.9	5.7	5.5	4.7	3.3	3.7	3.75	3.75	4.00	41.7	42.0	39.8
Singapore	4.9	1.9	3.0	5.2	4.3	2.8	0.38	0.50	0.50	1.23	1.24	1.20
Taiwan	4.0	1.4	3.2	1.4	2.0	1.7	1.88	1.88	1.75	29.4	30.0	27.5
Thailand	0.1	5.3	4.5	3.8	3.1	3.2	3.00	3.00	3.00	30.9	30.0	29.0

*Interest rate and currency forecasts are end-period. India GDP and inflation forecasts are for the fiscal year ending in March and inflation refer to wholesale price inflation. Spot interest rate and currency values are as of Sep 20. Source: BofA Merrill Lynch Global Research projections except the Philippines and Thailand, which are provided by Philippine Equity Partners, Inc., and Phatra Securities, respectively.

Interest rates—US: Fed Funds target rate; Eurozone: ECB policy rate; Japan: overnight rate; Philippines: overnight RRP rate; India: reverse repo rate; Hong Kong and Singapore: 3M interbank rate; Indonesia: 30 day SBI rate; Malaysia: overnight policy rate; Korea: Base rate; Taiwan: CBC rediscount rate; Thailand: 1-day repurchase rate; China: 1 year lending rate; Australia: RBA cash rate; New Zealand: RBNZ cash rate.

Market Valuations

	EPS Growth (%YoY)			P/E Ratio (x)			Price/Book Value (x)			Dividend Yield (%)		
	2011	2012	2013	2011	2012	2013	2011	2012	2013	2011	2012	2013
World	2.5	6.9	13.3	14.3	13.4	11.8	1.8	1.6	1.5	2.8	2.9	3.2
US	17.3	6.6	13.1	15.6	14.6	12.9	2.6	2.4	2.1	1.9	2.2	2.4
Euro area	-30.5	27.2	19.4	16.0	12.6	10.5	1.3	1.2	1.1	3.8	3.8	4.2
Japan	-8.3	20.0	23.6	16.5	13.8	11.1	1.0	1.0	0.9	2.5	2.7	2.9
Australia	6.5	-5.7	8.4	12.5	13.2	12.2	1.8	1.7	1.6	4.6	4.5	4.8
New Zealand	-6.7	-2.6	16.4	12.8	13.2	11.3	1.9	2.0	1.9	5.7	6.1	6.6
Emerging Asia	3.1	3.6	11.0	12.2	11.8	10.6	1.7	1.5	1.4	3.2	3.2	3.4
China	7.3	1.7	6.8	8.6	8.4	7.9	1.4	1.2	1.1	3.8	3.8	3.9
Hong Kong	11.9	-8.1	11.0	13.7	14.9	13.4	1.5	1.4	1.3	2.8	2.9	3.1
India	10.1	10.7	15.5	15.4	13.9	12.0	2.4	2.1	1.9	1.6	1.8	2.1
Indonesia	19.5	8.2	9.5	16.9	15.7	14.3	3.9	3.4	3.0	2.1	2.6	2.9
Korea	-12.4	18.6	19.9	13.0	10.9	9.1	1.3	1.2	1.1	1.3	1.3	1.4
Malaysia	7.8	3.0	7.2	16.8	16.3	15.3	2.5	2.3	2.2	3.7	3.4	3.6
Philippines	1.3	3.8	11.9	16.9	16.3	14.5	3.4	2.8	2.5	3.5	3.2	3.2
Singapore	3.6	4.1	6.0	15.1	14.5	13.7	1.5	1.4	1.4	3.5	3.2	3.4
Taiwan	-38.9	18.4	32.3	24.1	20.3	15.4	2.0	1.9	1.8	3.5	3.0	3.7
Thailand	8.4	17.6	13.8	14.6	12.4	10.9	2.5	2.1	1.9	3.7	3.8	4.2

*As of Sep 20. Source: BofA Merrill Lynch Global Research estimates and projections.

Central Bank Monitor

	Current policy stance		Next move		Watch for	
	Current rate (%)	Stance	Rate forecast	Date	2012YE forecast (%)	Inflation target
China	3.00	Proactive fiscal, prudent monetary	3.00		3.00	4%
	<p>The PBoC announced to cut interest rates on 5 July, effective on 6 July. The 1y benchmark lending rate is cut by 31bp to 6.00%, and 1y benchmark deposit rate is cut by 25bp to 3.00%. In the meantime, the PBoC lowers the floor of lending rates to 70% of benchmark rates from 80% which was just lowered from 90% in the previous cut.</p>		<p>We had expected the PBoC to cut benchmark rates twice and RRR three times before year-end, but with politicians' reluctance in using high-profile measures, we now expect no more rate cuts and two 50bp RRR cuts this year. With a much bigger room (30% below benchmark lending rates) for offering lower lending rates, trimming headline benchmark rates has limited impact on actual lending rates anyway, and the PBoC could partially replace RRR cuts with reverse repo to inject liquidity.</p>		<p>Top leaders might have already reached some preliminary agreement on leadership transition after the Beidaihe gathering, and most likely the CPC 18th congress will be held in mid-to-late October. In the meantime, macro indicators could deteriorate further in August. Putting together economic fundamentals and timing of major political events, we reckon there could be a 2nd round of policy easing including RRR cuts in Sep and Oct.</p>	
India	7.00	Dovish	7.00	30-Oct	6.75	6%
	<p>The RBI kept rates on hold but cut the CRR by 25bp to ease liquidity and pull down lending rates. It releases Rs170bn/US\$3bn. This should support our call of lending rates coming off another 50bp by March - atop the 25-50bp done - to support an early 2013 recovery.</p>		<p>We continue to expect the RBI to cut the CRR by 50bp on October 30 and cut rates by 75bp between December-March as inflation abates.</p>		<p>We continue to expect inflation to peak off at 8-8.5% in the next few months with both oil and electricity price hikes done. This, in turn, supports our call that RBI rate cuts will likely resume in December.</p>	
Indonesia	5.75	Neutral	5.75	11-Oct	5.75	3.5-5.5%
	<p>Bank Indonesia (BI) left its BI policy rate unchanged at 5.75% for the seventh straight month on September 13, as widely expected.</p>		<p>In our view, BI will likely leave the policy rate unchanged at 5.75% for the rest of 2012. Inflation is expected to stay within targets of 3.5% - 5.5% in 2012 and 2013.</p>		<p>According to BI governor Nasution, policy focus will remain on reducing rupiah volatility. We expect BI to tighten further by hiking the deposit facility rate to 4.75% (from the current 4%), narrowing the interest rate corridor to +/- 100bps.</p>	
Korea	3.00	Dovish	2.75	11-Oct	2.75	3.0% +/- 1.0%
	<p>The Bank of Korea (BoK) kept the benchmark interest rate unchanged at 3.0%. The BoK has paused for two months since the first rate cut in July.</p>		<p>We now expect the BoK to cut rates at the next MPC meeting in October, when the central bank also updates its economic forecasts. We expect the BoK to pause after the next rate cut, bringing the policy rate to 2.75% by end-2012.</p>		<p>The government has recently announced additional support measures. These measures should mitigate downside risks to growth, albeit without materially altering growth outlook. Similarly, recent global policy measures have significantly reduced tail risk, though still leaving overall risks to global growth tilted to the downside.</p>	

	Current policy stance		Next move		Watch for	
	Current rate (%)	Stance	Rate forecast	Date	2012YE forecast (%)	Inflation target
Malaysia	3.00	Neutral	3.00	8-Nov	3.00	2.5% - 3.5%
	Bank Negara Malaysia (BNM) left the overnight policy rate unchanged at 3% for the eighth straight month on Sept 6, as widely expected.		We expect BNM to maintain the overnight policy rate at 3% for the rest of the year. Inflation has eased, coming in at +1.4% in July (slowest in more than two years). Domestic demand remains strong, lifting 2Q GDP growth to +5.4% yoy (vs. 4.7% in 1Q). BNM is also reluctant to cut rates, as this may result in an increase in household debt, which is one of the highest in Asia (about 76% of GDP).		BNM considers the current monetary policy stance to be "accommodative and supportive". "Considerable uncertainties" in global economic and financial conditions remain, and BNM notes that it will "continue to carefully assess" evolving conditions and their implications on the overall outlook for inflation and Malaysia's economic growth.	
Philippines	3.75	Neutral	3.75	25-Oct	3.75	3-5%
	The Bangko Sentral cut policy rates 25bps to 3.75% on September 13, in line with market expectations for no change in interest rate.		We maintain that the rate of growth in the economy remains healthy and, coupled with mildly accelerating inflation, should discourage monetary authorities to cut policy rates further in 2H12.		We do not think policy rates would be cut further in 2H12. Only the recent concern shown by monetary authorities for sustained peso strength (which undermines the BPO sector and purchasing power of families dependent on OFW remittances) may leave a small probability for a policy rate cut in 2H12.	
Singapore	S\$NEER Appreciation	Modest and gradual stance	NEER Appreciation	--	---	2.5% - 3.0%
	MAS has tightened slightly with a steeper appreciation slope (to 3% by our estimates) while narrowing the trading band (to +/-2% from +/-3%).		MAS is likely to ease from the current "slightly steeper" stance to a "modest and gradual" S\$NEER appreciation stance in October. Core inflation has eased and economic growth is weakening. We forecast GDP growth to come in +1.9% for the full year, but risks are tilted towards the downside. Our forecast nevertheless assumes that Singapore will narrowly escape a technical recession.		In our view, headline inflation will likely slip below 4% by the policy meeting in October, while core inflation will likely be closer to 2%. Soft global commodity prices and slowing global growth would help offset inflationary pressures domestically. In the event of a "technical recession" and headline inflation coming in below 3.5%, we think the MAS will revert to a "neutral bias" at the October meeting.	
Taiwan	1.875	Neutral	1.875	27-Dec	1.875	
	The CBC kept its benchmark rate on hold on Sept 20, leaving it unchanged at 1.875%.		CBC governor Perng emphasized that the current monetary policy is 'adequately loose' and both long-term and short-term rates are still low, thereby benefitting companies. We believe this indicates that at the moment, upward inflation risks amid possible capital inflows from QE3 and the domestic inflationary pressure dominate downside growth risk. Hence, the chance of a rate cut has almost disappeared in the near term, in our view.		Given lingering growth headwinds and weak fundamentals, we are still far from believing Fed's action in prompting any monetary tightening in Taiwan. So far we see no need to change our views of expecting the CBC to stay on hold for the rest of the year.	
Thailand	3.00	Neutral	3.00	17-Oct	3.00	0.5-3.0%
	The Monetary Policy Committee (MPC) kept its policy rate unchanged at 3.0% on Sep 5 with a 3-2 vote. Only five committee members attending the meeting. Two MPC members were absent due to obligations abroad. The same as in the previous meeting, two voted for a 25bp cut.		BoT assistant governor Paibul summed up the attitude of the MPC at the press conference by saying that the MPC is confident that robust domestic demand will offset weak global demand. Indeed, he went on to say that loan growth is already high and as such a rate cut could overstimulate demand. Therefore, the BoT remained confident that GDP growth this year will be 5.7%.		However, the MPC reiterated that it will monitor the situation closely and "stood ready to take appropriate action as warranted". The bottom line, in our view, is that despite weaker global economic conditions Thailand is no closer to an interest rate cut.	

GEM TradeBook

Trade	Trade dates	Prices	Target/Stop	Notional*	Rationale	Risks
EMFX						
<u>BUY TRY/CZK</u>	(O): 18-Sep-12 -	(O): 10.55 (C): 10.61	(T): 10.86 (S): 10.35	10.00	We see the CNB increasingly dovish and concerned about FX strength, more so than the CBT.	The CZK appreciates relative to TRY, which could occur if the market favors Eastern European risk relative to Turkey.
<u>Short 2m USD/INR NDF</u>	(O): 13-Sep-12 (E): 13-Nov-12	(O): 55 (C): 55	(T): 53 (S): 56	10.00	QE3 implementation in the US. INR has been one of the best performers in previous rounds of QE.	Potential Central Bank intervention.
<u>Short 2m USD/KRW NDF</u>	(O): 13-Sep-12 (E): 13-Nov-12	(O): 1127 (C): 1119	(T): 1080 (S): 1145	10.00	QE3 in the US likely to reinforce capital inflows trend.	BoK intervention ahead of December Presidential elections.
<u>Buy 1m USD/IDR NDF</u>	(O): 11-Sep-12 (E): 11-Oct-12	(O): 9605 (C): 9550	(T): 9850 (S): 9480	10.00	We maintain our near-term bearishness on the IDR as the CA deterioration is due to cyclical divergence.	Quick improvement in CA deficit that leads to appreciation of the IDR.
<u>Buy 6m USD/CNY call spread (strikes 6.45/6.65)</u>	(O): 4-Sep-12 (E): 5-Mar-13	(O): 0.21% (C): 0.20%	- -	10.00	Weak economic data in China and ability to exercise exchange rate flexibility in a slowing global growth environment. Relatively cheap OTM call spread.	Stronger than expected economic data. If G3 central banks reengage in QE could lead to CNY appreciation.
<u>Buy 3m USD/EGP NDF</u>	(O): 23-Aug-12 (E): 23-Nov-12	(O): 6.36 (C): 6.20	(T): 6.15 (S): 6.35	10.00	We believe EDP devaluation is unlikely in the near term, with or without IMF deal due to regional support and government's efforts to contain consumer prices.	Domestic politics. Important series of supreme court decisions in September. Our view is that court rulings will not affect transition.
<u>Buy 2m USD/COP call spread (strikes 1820/1870)</u>	(O): 14-Aug-12 (E): 11-Oct-12	(O): 0.65% (C): 0.29%	- -	20.00	Low short term implied vols ahead of what may be a rocky September. Policy also indicates risk is for weaker currency.	Position would not perform well if global risks are contained or if inflows to oil and mining continue pushing COP stronger.
<u>Buy 9m USD/BRL double-no-touch (barriers 1.85/2.20)</u>	(O): 7-Aug-12 (E): 7-May-13	(O): 31.90 (C): 40.82	- -	1.00	Rollover our previous 6m DNT into a 9m DNT to benefit from steep the vol curve and current range bound BRL.	Rapid move toward any two barriers or a sharp rise in the implied vol curve.
<u>Buy 2m USD/KRW call spread (strikes 1153.5/1210)</u>	(O): 25-Jul-12 (E): 25-Sep-12	(O): 1.13% (C): 0.00%	- -	10.00	Risk-off, downside growth risks and Asia Fx policy asymmetry. We expect KRW will weaken in August due to travel related expenditures.	If G3 central banks reengage in QE to fight downside risks it could lead to KRW appreciation.
<u>Buy 3m USD/CNY call ATM (strike 6.3675)</u>	(O): 25-Jul-12 (E): 25-Oct-12	(O): 0.35% (C): 8.34%	- -	10.00	Risk-off, downside growth risks, Asia Fx policy asymmetry. We up our 3Q CNY forecast from 6.30 to 6.45.	If G3 CBs reengage in QE to fight downside risks it could lead to CNY appreciation.
<u>Long 6m MXN/CLP NDF</u>	(O): 25-May-12 (E): 30-Nov-12	(O): 36.46 (C): 37.05	(T): 40 (S): 35	20.00	MXN most undervalued LatAm FX and CLP most exposed to global risks.	Deterioration of global backdrop and, in particular, US growth prospects.
<u>Buy 6m CAD/MXN binary (strike 12.80)</u>	(O): 25-May-12 (E): 30-Nov-12	(O): 19.0% (C): 17.5%	- -	3.30	MXN most undervalued in LatAm and most exposed to US.	In a sharp risk-off scenario, G10 FX would be more resilient than EMFX.
LDM						
<u>Czech: 5s10s flattener</u>	(O): 19-Sep-12 -	(O): 60 (C): 61	(T): 40 (S): 75	19 x 10	Potential for asset purchases by the CNB and fade the weakness in G3 rates as increasingly overdone.	Risk is that the CZK curve continues to steepen together with G3 rates.
<u>Thailand: Receive 3y NDIRS</u>	(O): 18-Sep-12 -	(O): 3.17% (C): 3.14%	(T): 2.95% (S): 3.30%	36.67	The curve has meaningfully bear steepened. Central bank rate hikes are unlikely.	Unexpectedly strong domestic macro data.
<u>Indonesia: buy FR58 (20yr) bonds</u>	(O): 13-Sep-12 -	(O): 6.53% (C): 6.63%	(T): 6.00% (S): 6.85%	10.00	Benefit from yield search after QE3 and BI policy on hold. Use our current long position in USD/IDR as an FX hedge.	Main risk: rise in inflation.
<u>India: Pay 5y NDIRS</u>	(O): 7-Sep-12 -	(O): 7.21% (C): 7.28%	(T): 7.45% (S): 7.01%	36.00	Limited room for interest rate cuts after high inflation and growth slightly better than expected. Also seasonal liquidity factors.	Deterioration of growth outlook or global risk sentiment.
<u>Brazil: DJ Jan13 x Jan14 flattener</u>	(O): 28-Aug-12 -	(O): 54 (C): 52	(T): 17 (S): 78	659 x 178	The slope has steepened significantly in the last weeks and pricing too many hikes for 2013. The Jan13xJan14 gains if BCB keep rates stable for long.	If the curve steepens, which could occur if activity and inflation begin to increase at rapid rates.
<u>S. Africa: Receive 5y IRS</u>	(O): 21-Aug-12 -	(O): 5.92% (C): 5.76%	(T): 5.65% (S): 6.05%	10.00	Steep curve with maximum carry + roll in 5y sector of 45bp/yr. Balance of arguments supports another 50bp cut in November.	High CPI reading and further selloff in US Treasuries which spills over into higher rates across the S. Africa curve.
<u>Malaysia: Buy 10y MALAYSIAGB. Pay 5y Malaysia IRS</u>	(O): 15-Aug-12 -	(O): 9 (C): -8	(T): -15 (S): 21	31.9 x 32.6	We believe liquid bonds in Asia, such as Malaysia, could rally further. We pick Malaysia which is steeper than Korea and Thailand.	Selloff in the 10y sector in Malaysia or widening in Malaysia rates without a rally in Malaysian bonds.
<u>Turkey: Buy CPI linker Feb '22</u>	(O): 3-Aug-12 -	(O): 2.86% (C): 2.37%	(T): 2.25% (S): 3.25%	10.00	As July marks our last forecasted negative CPI print we expect inflation to pick up and exceed the breakeven.	We believe CPI bonds are not incorporating any upside risk premium and we see scope for inflation premium to be priced.
<u>Brazil: buy NTN-B Aug '22s. Fx un-hedged</u>	(O): 30-Jul-12 -	(O): 4.15% (C): 3.92%	(T): 3.15% (S): 4.60%	10.00	Inflation has bottomed and will increase. Breakevens are not pricing risk premium. Brazilian real rates still high relative to international rates.	A rise in economic activity without a rise in inflation.
<u>Mexico: pay 2s5s10s fly</u>	(O): 22-May-12 -	(O): -30.0 (C): -35.1	(T): -10 (S): -45	26 x -22.6 x 6.7	The 2y5y slope at 60bp was flatter on 3 episodes and the 5y10y at 95bp is close to 118bp historic high.	If the 2y5 flattens and/or 5y10y steepens further, which could materialize if the 5y rallies more than the 2y and 10y.
<u>Korea: sell 1y1y vs buy 2y1y payer swaptions</u>	(O): 20-Apr-12 -	(O): 10.25 (C): 3.94	- -	10.00	Weaker US macro data and Euro concerns favor receiving rates, but KRW rates to fall slowly.	If 1y1y bounces a lot more than 2y1y. Keep in mind that the 2y1y vs 1y1y spread is narrow.
<u>Chile: 2s5s steepener</u>	(O): 5-Mar-12 -	(O): 25.0 (C): 20.0	(T): 70.0 (S): 9.0	106 x 46	CB's aggressive rate policy makes it attractive hedge to global decline. Returns are asymmetric with low volatility.	Main risks: rise in inflation; thus CB policy rate increases. Persistent increase in oil prices might induce these.
EXD						
<u>Buy Turkey sell Russia 5y CDS</u>	(O): 16-Aug-12 -	(O): 12 (C): 9	(T): 50 (S): -5	10 x 10	Cheap tail risk hedge: rise in carry in Russia and potential geo-political risks favors Russia.	If risks do not materialize or if energy prices drop it could lead to Turkey outperformance.
<u>Sell 5y Brazil CDS, sell Brazil '21s</u>	(O): 31-Jul-12 -	(O): 42 (C): 22	(T): 9 (S): 62	9.2 x 5	The CDS-bond basis has become exceptionally wide in LatAm. We recommend acting on liquid names Brazil and Mexico.	Imbalance between the CDS and bond becomes severe and CDS spreads rise more or fall less than bond spreads.
<u>Buy ARG Discounts, sell Glocabl '17s</u>	(O): 27-Jul-12 -	(O): 24 (C): 21	(T): 19 (S): 27	10 x 13.5	Discounts lagged recovery since late May. We propose the trade on a price spread basis.	Further price widening, which could occur if there continues to be steepening.
<u>Sell 5y Mexico CDS, sell Mexico '20s</u>	(O): 26-Jun-12 -	(O): 18 (C): 5	(T): 0 (S): 45	16.6 x 10	The CDS-bond basis has become exceptionally wide in LatAm. We recommend acting on liquid names Brazil and Mexico.	Imbalance between the CDS and bond becomes severe and CDS spreads rise more or fall less than bond spreads.
<u>Sell 5y Brazil CDS, sell Brazil '21s</u>	(O): 26-Jun-12 -	(O): 26 (C): 22	(T): 9 (S): 62	18.4 x 10	The CDS-bond basis has become exceptionally wide in LatAm. We recommend acting on liquid names Brazil and Mexico.	Imbalance between the CDS and bond becomes severe and CDS spreads rise more or fall less than bond spreads.
<u>Buy Brazil '41s vs Sell Brazil '21s</u>	(O): 20-Mar-12 -	(O): 151 (C): 171	(T): 121 (S): 171	10 x 21.6	After technical moves the curves in LatAm look very steep. In Brazil, the 21s rallied excessively, and in our view should underperform the longer bonds.	Surprise issuance in the long end.

Notes: For guidelines see [GEMs TradeBook, 16 Dec 2011](#). Trade Dates: O=Open, E=Expiry; Prices: O=Open, AO=Adjusted, C=Current; Target/Stop: T=Target, S=Stop. *US\$m.

Source: BofA Merrill Lynch Global Research, Bloomberg

EXD Views

Country	Views	Index weight	Dur. (yrs)	Yield (%)	Comments
Asia					
Indonesia	OW	7.0	7.9	3.16	We are overweight Indonesia vs Philippines given the excessive spread due to supply and an expected new ruling on foreign ownership of local banks. Indonesian bonds have been outperforming for three months but have more room to go.
Philippines	UW	7.4	9.1	3.15	We are underweight the Philippines on technical tightening to Indonesia, though we are constructive on the country's fundamentals. Philippines' plan to extend duration and retire bonds has helped underpin investor interest. Phil's liquid issues (21,26,34,37) tightened 3-9bp over the past week on Z-spreads, slightly more than Indon's 22s/42s.
EEMEA					
Hungary	MW	1.9	6.5	5.33	We retain Hungary at market weight. We have closed the long CDS vs Croatia position after the spread moved beyond our target. Risks of a delay to the IMF program are now better priced. The government's response to IMF over the program guidelines is now key and will help provide further direction. We remain wary of a drawn out negotiation.
Poland	MW	3.2	5.6	2.44	We maintain our market weight on Poland. Global central bank support and relative calm in Europe in the near term provides support, but the rating adjusted risk premium on Poland does not justify moving the credit to overweight.
Russia	OW	10.5	6.7	3.20	We maintain Russia at overweight. A better risk environment, relative calm in Europe and buoyant energy prices should support Russia in the near term.
South Africa	MW	2.3	7.1	2.83	We retain South Africa at market weight given its lower beta, relatively tight credit spreads with little risk premium, and the potential risks from a continued rise in UST yields on stronger US data in the near term.
Turkey	MW	10.3	8.0	3.62	The better risk environment should favor Turkey along with Russia. However, valuations not being particularly cheap, higher energy prices and regional geopolitics make us prefer Russia over Turkey at this stage.
Ukraine	MW	1.9	4.4	7.77	We tactically moved Ukraine to market weight given the improved risk environment. We will look to move back to underweight closer to October elections, as underlying political/macro risks remain non-negligible and prevent us from an overweight despite the better risk environment. We would also look to underweight if the market environment worsens.
MENA	UW	7.4	6.5	3.0	We recommend an underweight on lower beta MENA. We underweight high grade defensive names like Abu Dhabi and Qatar, and maintain Dubai and Iraq at market weight, as both could benefit from a better risk environment. We hold Egypt at market weight following the strong rally on the increased possibility of a deal with the IMF in the next three months.
LatAm					
Argentina	MW	1.6	8.3	10.49	We prefer Argentina to Venezuela given the improved risk environment and recent rise in grain price. The carry is high and positioning in New York Law Bonds is neutral, despite the risks from plans to nationalize YPF and recent currency control measures, the BCRA balance sheet deterioration that increased loans to the government, the IMF call on remedial measures to align CPI and GDP data with international statistical guidelines, and the US suspending Argentina's trade preferences and withdrawing the country from the Generalized System of Preference Program. Argentina would likely underperform Venezuela in a major global meltdown scenario. We like Discounts, Pars and CDS over Global '17s. The GDP warrants are attractive for long-term investment, even considering the near-term downside risk due to the possibility that GDP slips below threshold for one or maybe two years.
Brazil	OW	10.2	8.6	2.92	We keep Brazil at overweight on solid fundamentals and its resilience to a global slump. We like the '37s.
Chile	MW	0.5	7.5	2.13	We are market weight Chile, a solid credit with limited supply and low liquidity.
Colombia	MW	4.1	9.1	2.91	We are market weight Colombia and remain constructive on the country's fundamentals. We forecast a \$net issuance until the end of the year. We like the '24s.
Mexico	OW	9.9	9.8	2.92	We keep Mexico at overweight, as solid fundamentals make it a safe haven relative to other EXD even if the US slows down further. We like the '34s and recommend moving out of the '19s.
Peru	UW	3.0	11.2	3.33	We are underweight Peru on increased protests against the mining sector, which could deter investment. The country has strong fundamentals, but social unrest can affect its growth prospects. Despite our bearish view on Peru, the '37s are the most attractive on the curve on a DV01 neutral basis.
Uruguay	MW	1.6	10.5	3.48	We are market weight Uruguay, which remains a solid credit. The yields are a bit wider to other BBBs in the region, but typically with higher priced bonds. The government has maintained prudent asset liability management and has sufficient cash to cover its amortization and interest payments. Uruguay has not issued a dollar-denominated external bond since 2009, and continues to shift to local debt issuance with tactical play in the EXD market. We like the '33s.
Venezuela	MW	7.6	6.0	10.67	We hold Venezuela at market weight ahead of the elections, as the market has downplayed the uncertainty around the final outcome. As long as oil prices remain steady Venezuela will not face challenges to meet debt payments. Supply through the SITME has increased recently, and we continue to expect it to remain steady given currency pressure and the US\$5bn we forecast to be issued this year. We recommend the shorter duration bonds ('14s and '16s) for carry with less price and default risk. We also like the '22s, '25s and '27s on a risk neutral basis, which look cheap to the '28s and '34s.

Source: BofA Merrill Lynch Global Research

Recent Research

Date	Publication	Headline	Authors
20-Sep-12	GEMs Trade Note	Malaysia – Close 5y Bond-Swap Spread	Leung, Albert
20-Sep-12	GEMs Daily - Global Edition	Brazil state debt, Czech & Israel central banks, Taiwan CBC decision	GEMs FI Strategy & Economics
20-Sep-12	GEMs Strategy Weekly	Throwing money down the cliff	GEMs FI Strategy & Economics
19-Sep-12	GEMs Daily - Asia Edition	Taiwan: CBC decision day	GEMs FI Strategy & Economics
19-Sep-12	GEMs Daily - Global Edition	CBT not going all in, Argentina's budget, Asia rates consolidation	GEMs FI Strategy & Economics
18-Sep-12	GEMs Daily - Asia Edition	Asia rates: consolidation likely but still biased to pay dips	GEMs FI Strategy & Economics
18-Sep-12	GEMs Trade Note	EEMEA – who's less dovish	Sen, Arko
18-Sep-12	GEMs Trade Note	Hungary: risks better priced	Sen, Arko
18-Sep-12	GEMs Daily - Global Edition	GEMs carry trade, European trip note, China property sector recovery	GEMs FI Strategy & Economics
17-Sep-12	GEMs Trade Note	Thailand – Scale in Receive 3y NDIRS	Leung, Albert
17-Sep-12	GEMs Daily - Asia Edition	China: across-the-board recovery in property sector	GEMs FI Strategy & Economics
17-Sep-12	GEMs Daily - Global Edition	Polish easing, Mexico food price gains, India easing dilemma	GEMs FI Strategy & Economics
16-Sep-12	GEMs Daily - Asia Edition	India: the RBI's easing dilemma	GEMs FI Strategy & Economics
16-Sep-12	GEMs Trade Note	Korea – Close Pay 5y IRS	Leung, Albert
14-Sep-12	LatAm Macro Weekly	Brazil: improvement in credit markets ahead	LatAm FI Strategy & Economics
14-Sep-12	EEMEA Macro Weekly	Russia: committed to inflation targeting	EEMEA FI Strategy & Economics
13-Sep-12	GEMs Trade Note	QE3 = Enter Long KRW and INR, FR58 Indo 20yr	Piron, Claudio
13-Sep-12	Asia Macro Weekly	Growth and stock markets in 2012	Asia FI Strategy & Economics
13-Sep-12	India Macro Weekly	Fiscal deficit: Monster... and myth	Sen Gupta, Indranil
13-Sep-12	GEMs Strategy Weekly	Abracadabra	GEMs FI Strategy & Economics
13-Sep-12	GEMs Daily - Global Edition	Venezuela election stretch, Egypt rates peak, worst over in India	GEMs FI Strategy & Economics
13-Sep-12	Venezuela Macro Viewpoint	An investor's guide to Venezuela's elections	Rodriguez Caballero, Francisco
12-Sep-12	Asia Strategy Viewpoint	Asia hedge funds: loser's game vs winner's proposal	Piron, Claudio
12-Sep-12	GEMs Daily - Asia Edition	India: cash demand bottoming confirms worst over	GEMs FI Strategy & Economics
12-Sep-12	GEMs Daily - Global Edition	Russia CBR preview, Venezuela's fiscal push, pay Korea 3-5y IRS	GEMs FI Strategy & Economics
11-Sep-12	GEMs Daily - Asia Edition	Korea: focus on BoK, biased to pay 3-5y IRS	GEMs FI Strategy & Economics
11-Sep-12	GEMs Paper #10	2012 Guide to EM Local Markets	Ades, Alberto; Brauer, Jane
11-Sep-12	GEMs Trade Note	Close long IDR NDF points: Re-enter long 1M USD/IDR	Piron, Claudio
11-Sep-12	GEMs Trade Note	Closed: pay CNY NDIRS depo 2y	Gao, Bin
11-Sep-12	GEMs Daily - Global Edition	LatAm inflation curves, GEM exports to slow, Korea labor market	GEMs FI Strategy & Economics
10-Sep-12	GEMs Daily - Asia Edition	Korea: intra-labor decoupling	GEMs FI Strategy & Economics
10-Sep-12	Chile Macro Viewpoint	Decoupling debunked	Buscaglia, Marcos
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09-Sep-12	GEMs Daily - Asia Edition	China: where is PBoC's easing?	GEMs FI Strategy & Economics
07-Sep-12	LatAm Macro Weekly	Trade vs financial flows, who will win?	LatAm FI Strategy & Economics
07-Sep-12	EEMEA Macro Weekly	Poland: Belka to the rescue	EEMEA FI Strategy & Economics
07-Sep-12	Poland Macro Viewpoint	Equities: nil – Bonds: one	Tenconi, Raffaella
07-Sep-12	GEMs Trade Note	India – Pay 5y NDIRS	Leung, Albert
06-Sep-12	Asia Macro Weekly	China: nexus between land cost and home price	Asia FI Strategy & Economics
06-Sep-12	GEMs Daily - Global Edition	Brazil FDI, Naira in check, ASEAN resilience	GEMs FI Strategy & Economics
06-Sep-12	GEMs Strategy Weekly	The usual suspects	GEMs FI Strategy & Economics
05-Sep-12	GEMs Daily - Asia Edition	ASEAN's resilience	GEMs FI Strategy & Economics
05-Sep-12	GEMs Daily - Global Edition	Explaining our GEMs models, Mexico remittances, Asia FX	GEMs FI Strategy & Economics
04-Sep-12	GEMs Trade Note	CNY – no upside	Piron, Claudio
04-Sep-12	GEMs Daily - Asia Edition	Asia FX: revisiting strategies	GEMs FI Strategy & Economics
04-Sep-12	GEMs Daily - Global Edition	Brazil curve dynamics, Turkey CPI headwinds, HK slowdown	GEMs FI Strategy & Economics
03-Sep-12	GEMs Daily - Asia Edition	HK: impact of China's slowdown	GEMs FI Strategy & Economics
03-Sep-12	GEMs Trade Note	Hungary: risk of disappointment	Hauner, David
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02-Sep-12	GEMs Daily - Asia Edition	Asia rates: opportunities into Thailand, Malaysia MPC meetings	GEMs FI Strategy & Economics
31-Aug-12	GEMs Trade Note	TRY: lower rates, higher FX vol	Hauner, David
31-Aug-12	EEMEA Macro Weekly	S. Africa: Mining – still a potential to shock	GEMs FI Strategy & Economics
30-Aug-12	China Macro Chartbook	August macro data forecasts: No recovery in sight	Lu, Ting
30-Aug-12	Asia Macro Weekly	Exports versus exports	GEMs FI Strategy & Economics
30-Aug-12	GEMs Trade Note	Close India flattener	Leung, Albert
30-Aug-12	GEMs Daily - Global Edition	Argentina warrant, Iraqi external debt, China industrial profit	GEMs FI Strategy & Economics
29-Aug-12	GEMs Daily - Asia Edition	China: Good and bad news from industrial profit data	GEMs FI Strategy & Economics
29-Aug-12	GEMs Trade Note	Brazil: open Jan13x14 CDI DV01 flattener	Irigoyen, Claudio
29-Aug-12	GEMs Trade Note	Stopped out long Indo FR61(10yr)	Piron, Claudio
29-Aug-12	GEMs Daily - Global Edition	Turkey CA deficit, Brazil Selic path, Indo FX & bond	GEMs FI Strategy & Economics

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