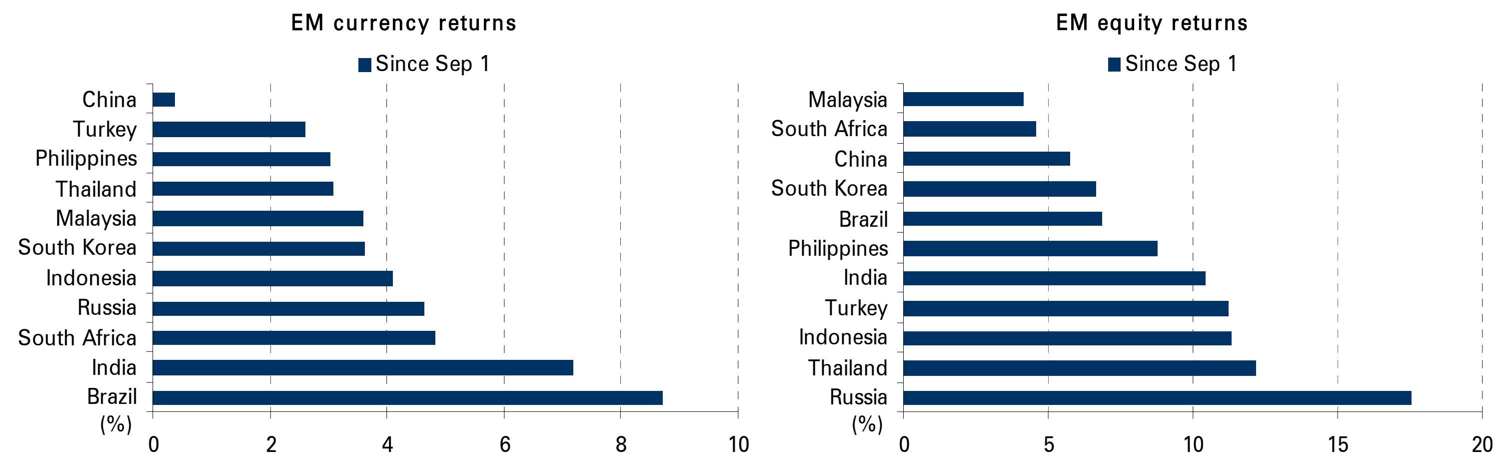
Theme of the month

It's been an eventful month, beginning September, for global markets and a rather favourable one for EMs. Broad based gains were witnessed across all asset-classes, and more notably in FX markets. First and most importantly, the US Fed unexpectedly deferred QE tapering in its September 18th FOMC meeting, thereby offering a temporary reprieve to EMs. Secondly, concerns of a slowdown in China, a major export destination for EMs, have eased considerably amidst signs of economic recovery. Thirdly, the nomination of known-dove Yellen as the next Chairperson of the Fed has provided a measure of comfort to markets. And more recently, expectations of a further deferral of QE tapering have gained traction on account of the possible growth implications of the recently ended fiscal standoff in the US.

On the whole, near-term risks seem to have ebbed. We believe that the current economic scenario offers the perfect window of opportunity for EMs to address structural constraints and fortify domestic fundamentals in order to withstand the impact of the inevitable QE tapering, whenever it happens.

FX and equity return across the EM pack since September



Source: Bloomberg, ICICI Bank Research

Market indicators across the EM

	Fx returns (%)		Equity returns (%)		Change in 10Y bond yield (bps)	
	Since Sep 1st	CYTD	Since Sep 1st	CYTD	Since Sep 1st	CYTD
Brazil	8.7	-5.8	6.8	-11.5	0.0	171.0
China	0.4	2.3	5.7	5.3	10.0	51.0
Indonesia	4.1	-11.3	11.4	4.6	-94.5	227.1
Philippines	3.0	-5.0	8.8	12.7	8.3	-56.3
Malaysia	3.6	-3.2	4.2	7.5	-31.4	22.2
Russia	4.6	-4.1	17.6	-3.8	-57.6	119.6
South Korea	3.6	0.3	6.6	1.0	-15.0	28.0
Thailand	3.1	-1.5	12.2	5.5	-48.1	27.7
South Africa	4.8	-15.7	4.6	11.6	-79.2	57.0
Turkey	2.6	-10.3	11.2	-2.8	-98.4	154.7
India	7.2	-12.6	10.4	6.5	8.6	56.2

Source: Bloomberg, ICICI Bank Research

China: GDP growth improved in Q3; Yuan at record highs

Data released last week showed that China's GDP rose by 7.8% YoY (+2.2% QoQ), faster than prior quarter's +7.5% YoY reading (+1.9% QoQ). Evidently, growth in Q3 relied heavily on investment spending as the Government maintained its focus on urbanization, thereby encouraging spending on railways and affordable housing projects. However, leading indicators suggest that growth might slow down a bit in Q4'2013.

<u>Macroeconomic snapshot</u>

- <u>Q3 GDP +7.8% YoY vs. prior +7.5% YoY</u> – According to the National Bureau of Statistics (NBS), the improvement in Q3 growth was primarily on account of investment spending; the contribution of investment to growth rose from +4.1 pp (percentage points) in Q2 (YTD) to +4.3 pp in Q3 (YTD).
- <u>Industrial output growth eased slightly in September</u> – the pace of industrial output growth eased to 10.2% YoY in September, after having risen to a 15-month high of 10.4% YoY in August. Growth in electricity generation eased to +8.2% YoY in September compared to prior +13.4% YoY. Sequentially, electricity output fell by 13.6% MoM, partly attributable to cooler weather in September which reportedly weighed on demand for air conditioning. Besides, cement and steel products output growth also eased. Moreover, urban fixed assets investment for September (YTD) also showed a slower growth rate (20.2% YoY YTD vs. prior +20.3% YoY YTD). Thus leading indicators of economic activity suggest that economic activity might cool a bit in Q4.
- <u>Consumer price inflation breached 3% in September</u> – CPI inflation rose in September (to 3.1% YoY vs. prior 2.6% YoY), mainly on account of vegetable prices (+17.4% YoY) amidst Typhoon Usagi in September which disrupted vegetable supplies.

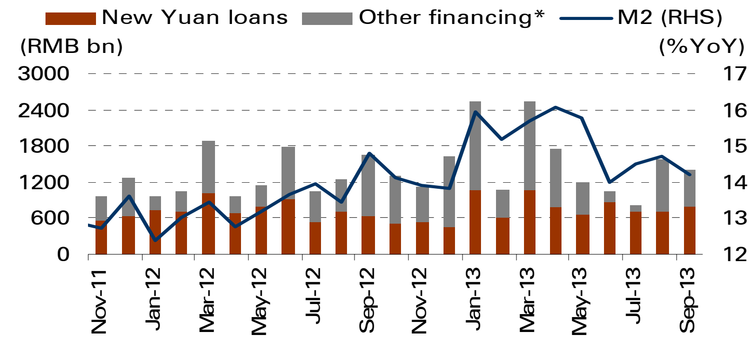
<u>Monetary policy</u>

Liquidity and credit conditions were tightened slightly in September; M2 growth fell to 14.2% YoY in September from prior 14.7% YoY, moving closer to PBoC's stated target of 13-14%, announced at the beginning of the year. Meanwhile, (net) non-bank loan financing (an indicator of credit creation outside formal banking channels) fell slightly to RMB 613 bn from a 4-month high of RMB 859 bn in August. Given continued rise in property prices, the PBoC might try to slightly slow down the pace of credit creation in the coming months, thereby again weighing on the outlook for Q4 growth.

<u>Currency Outlook</u>

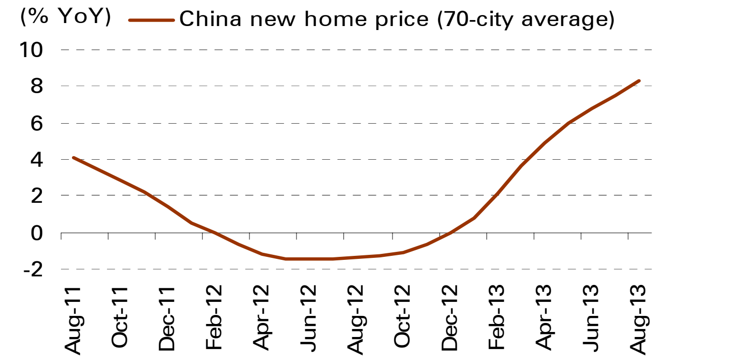
The Central Bank allowed the Yuan to strengthen last week despite concerns over exports growth, suggesting that policymakers are determined to move away from an export-dependent growth model. The PBoC seems to view the recent appreciation in currency as permissible in the face of inflationary concerns. The PBoC successively set lower USD/CNY mid-point fixings and consequently, the Chinese Yuan hit successive record highs last week. USD/CNY has breached below the 6.10-level and was last seen around 6.0925.

PBoC slightly tightened policy in September...



** "Other financing" refers to non-bank-loan financing*
Source: Reuters, ICICI Bank Research

...amidst concerns over rising property prices



Source: Reuters, ICICI Bank Research

Indicator	Period	Current	Prior	Average over 3 month	2012	2011
Economic data						
GDP (% YoY)	Q3-2013	7.8	7.5	--	7.8	9.3
Retail sales (% YoY)	Sep-13	13.3	13.4	13.3	14.2	17.1
Industrial production (% YoY)	Sep-13	10.2	10.4	10.1	9.8	13.7
Fixed Asset Invt Urban (% YoY)	Sep-13	20.2	20.3	20.2	20.6	25.0
Manufacturing PMI	Sep-13	51.1	51.0	50.8	50.7	51.4
Exports (% YoY)	Sep-13	-0.3	7.2	4.0	8.3	20.6
Trade balance (USD bn)	Sep-13	15.2	28.5	20.5	19.2	13.2
CPI (% YoY)	Sep-13	3.1	2.6	2.8	2.6	5.4
Market indicators						
Shanghai Composite index	Oct-13	2208.5	2126.0	2096.7	2219.1	2666.9
FX Reserves (USD bn)	Sep-13	3660.0	3496.7	3557.2	3275.6	3155.2
Benchmark 1-year lending rate	Sep-13	6.00	6.00	6.00	6.27	6.34
USD/CNY	Oct-13	6.09	6.12	6.12	6.31	6.46

South Africa: Inflation concerns to restrict SARB's policy options

South Africa remains in the midst of a fragile economic recovery, with continued labour unrest posing downside risks to growth. The unemployment rate remains high at 25.6%. However, the Central Bank is unlikely to ease policy as inflation remains above the SARB's comfort range.

Macroeconomic snapshot

Q2 GDP growth improved to 2.0% YoY from prior 1.9% YoY. The South African Reserve Bank (SARB), in its latest monetary policy statement (September), kept unchanged its growth forecasts for 2013 (at +2.0% YoY) and 2014 (at +3.3% YoY), compared to +2.6% YoY GDP growth in 2012. Nevertheless, the fragile labour market condition continues to pose risks to growth. To illustrate, the manufacturing PMI fell to an 8-month low of 49.1 in September (vs. prior 56.5) as a strike in the auto sector hurt new sales orders. Besides, new car sales decreased by 1.5% YoY in September, further weighing on the outlook for the auto sector. However, on the other hand, many of the labour disputes in the mining sector have been reportedly resolved and mining output rose 2.1% YoY in August.

Monetary policy

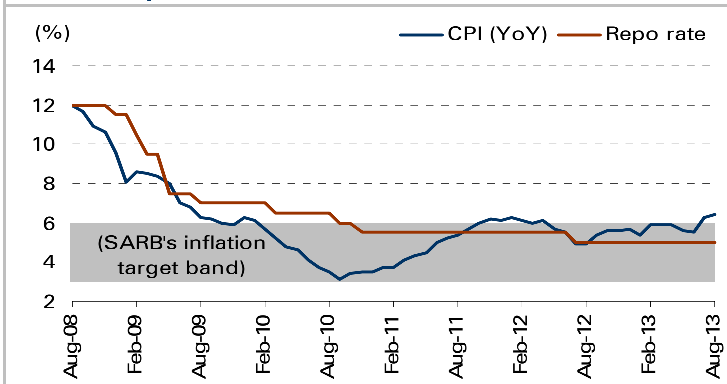
The mandate of the SARB is to ensure price stability and the Central Bank targets an inflation rate of 3-6%. The headline CPI currently stands at 6.4% YoY (for August), staying above SARB's comfort zone for the second consecutive month. However, the sequential momentum in the CPI has eased; CPI rose by 0.3% MoM in August, slower than +1.1% MoM in July. The SARB, in its September monetary policy statement, expressed caution over possibility of inflation remaining above the comfort zone owing to effect of Rand depreciation, high food prices (+7.1% YoY in August vs. +6.8% YoY in July) and rise in administered prices (like petrol).

The SARB expects inflation to average 6.2% in 2014 and 6.1% in 2015. Thus, the SARB is unlikely to ease monetary policy going ahead despite persistent unemployment. Meanwhile, a rate hike also seems unlikely given the considerable risks to growth and the subdued employment scenario. Consequently, the Central Bank is expected to maintain its benchmark 2-week repo rate unchanged at 5.0% in the medium-term.

Currency Outlook

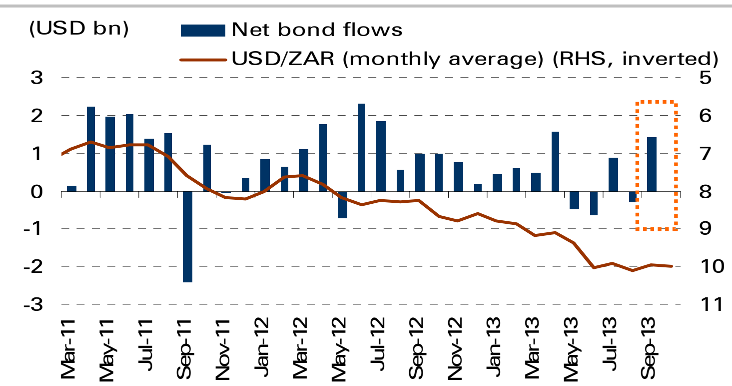
The South African Rand has depreciated more than 17% in 2013 so far. The sustained depreciation this year was a result of labour unrest in the mining sector and worries over QE-tapering by the US Fed. Consequently the USD/ZAR reached around 4-year highs of 10.4 in August 2013. However, the ZAR has appreciated since then as QE-tapering expectations have been pushed back. USD/ZAR is currently hovering around 9.95. Nevertheless, the ZAR is expected to remain under pressure in the 3-month to 6-month horizon owing to a high current account deficit (6.5% of GDP) and as-yet subdued growth. Moreover, the Rand being a high beta currency remains highly vulnerable to global developments and is likely to suffer losses if the global economic condition again deteriorates.

SARB likely to maintain status quo despite growth concerns, as inflation breaches comfort zone



Source: Bloomberg, ICICI Bank Research

Recent inflows have helped stabilize the Rand



Source: Bloomberg, ICICI Bank Research

				Average over		
Indicator	Period	Current	Prior	3 month	2012	2011
Economic data						
GDP(% YoY)	Q2-2013	2.0	1.9	-	2.6	3.5
Mining (%YoY)	Q2-2013	-2.8	3.7	-	-4.0	0.4
Manufacturing (%YoY)	Q2-2013	2.7	-0.4	-	2.4	3.7
CPI(% YoY)	Aug-13	6.4	6.3	6.1	5.6	5.0
Trade Balance (ZAR bn)	Aug-13	-19.1	-13.4	-13.4	-9.6	-1.7
Exports (% YoY)	Aug-13	15.1	20.5	15.4	2.7	18.4
Imports (% YoY)	Aug-13	21.9	28.1	20.9	15.8	23.7
Market indicators						
USD/ZAR	Oct-13	9.83	9.97	10.01	8.21	7.26
FTSE Top40 (equity index)	Oct-13	40161	39051	38736	31026	28285
Govt bond 10 yr(%)	Oct-13	7.38	7.81	7.83	7.22	8.27

Indonesia: Domestic imbalances to keep the Rupiah under pressure

The Indonesian economy continues to battle against domestic imbalances, namely- a high current account deficit, persistently high inflation and a weak currency. Some of the measures taken to correct these imbalances, such as a hike in subsidized fuel prices and interest rates and stricter bank lending norms, are likely to weigh on near-term growth. Against this backdrop, the Rupiah is also likely to remain under pressure.

Macroeconomic snapshot

Q2 2013 GDP growth moderated to a 3 ½ year low of 5.8% YoY vs. last quarter's growth of 6.0% YoY. This came on the back of lower investment demand while consumption growth remained subdued. On the external front, Q2 current account deficit widened to USD 9.8 bn (4.4% of GDP) - the highest since early-1990, reflecting weak exports growth and surging oil imports. However, recent data prints have been encouraging; August trade balance swung into a surplus of USD 0.1 bn following a deficit of USD 2.3 bn in July aided by a moderation in imports, particularly oil imports. This reflects the impact of the fuel price hikes in June and sharp depreciation of the Rupiah. Going ahead, the recent measures taken by the Government to curb imports (tax levied on some luxury items) and boost exports (tax-breaks for certain industries) are expected to help correct external sector imbalances.
Headline inflation for September eased to 8.4% YoY from 8.8% earlier, aided by lower food inflation; this however remains well above the Bank Indonesia's (BI) target range of 3.5-5.5% YoY. Meanwhile, core inflation rose to 4.7% YoY from 4.5% YoY. Going ahead, we expect inflation pressures to persist, partly reflecting the fuel price hikes and partly due to a pass through of higher import prices stemming from a weaker Rupiah.

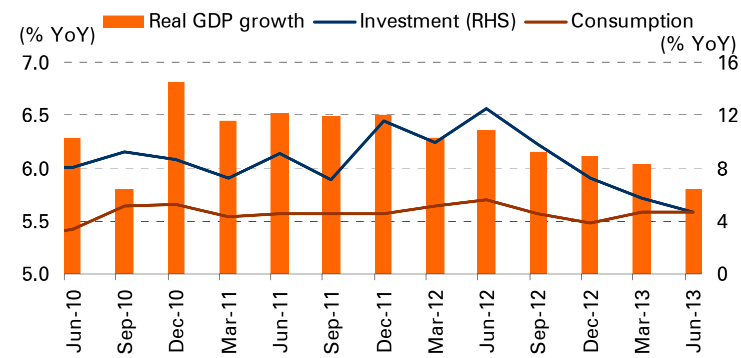
Monetary policy

The Central Bank has hiked interest rates by 150 bps CYTD amidst high inflation and currency volatility. In the October 8th policy meeting, it maintained status quo, keeping the key policy rate unchanged at 7.25% as expected, giving time for the transmission of past interest rate hikes and awaiting further cues on domestic economy. Going ahead, if incoming economic data prints disappoint, another 25 bps rate hike by end 2013 looks likely.

Currency Outlook

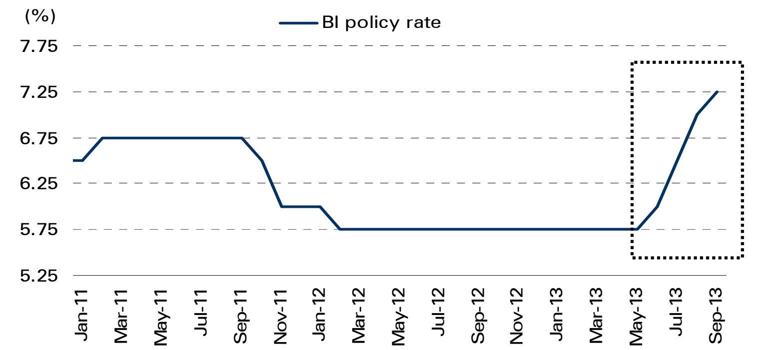
The Indonesian Rupiah remains one of the worst performers in the EM currency pack, having depreciated by around 11% CYTD. However, like its other currency peers, it has pared some of its losses since September, having gained by 4.1%. In the near term, the high current account deficit and weak growth outlook are expected to weigh on the currency. However, paring of expectations of a year-end QE tapering would help limit the downside. On the whole, the Rupiah is expected to trade with a depreciation bias.

Growth weighed by weak investment demand



Source: Bloomberg, ICICI Bank Research

Policy rate hiked by 150 bps CYTD amidst high inflation and FX market volatility



Source: Bloomberg, ICICI Bank Research

				Average over		
Indicator	Period	Current	Prior	3-month	2012	2011
Economic Data						
GDP (% YoY)	Jun-13	5.8	6.0	-	6.2	6.5
CPI (% YoY)	Sep-13	8.4	8.8	8.6	4.3	5.4
Trade Balance (USD mn)	Aug-13	132.4	-2329.1	-1024.6	-81.3	2171.7
Imports (% YoY)	Aug-13	-5.7	6.5	-1.9	8.7	31.5
Market indicators						
Indonesian Rupiah	Oct-13	10904	11125	10897.57	9387.86	8772.29
Jakarta SE (Equity Index)	Oct-13	4547	4519	4424	4101	3727
Govt. bond 10 yr (%)	Oct-13	7.4	7.4	8.1	5.8	7.4

Malaysia: Recovery around the corner

Malaysia's economy is showing signs of recovery, as reflected in the higher Q2 GDP growth number. Investment and private demand remains firm and export growth is on the rise. These three demand factors are expected to keep growth supported going ahead. However, a downside risk stems from the possible fiscal consolidation measures that the Government might consider to address the high fiscal deficit.

Macroeconomic snapshot

Malaysia's Q2 GDP growth rose to 4.3% YoY vs. last quarter's print of 4.1% YoY, and recorded a positive growth on a QoQ basis, following a contraction in the last quarter. This came on the back of robust domestic demand, particularly private demand. Weakness in the exports sector on account of global headwinds, though, weighed on Q2 growth. However, recent data prints show some improvement; Exports surged by 12.4% YoY compared to a growth of 4.5% last month, buoyed by a rise in electronic shipments to China and strong fuel demand from Southeast Asia. Manufacturing output also remains healthy, registering a growth of 4.6% YoY in August. In other developments, PM Najib Razak and his team emerged victorious at the UMNO internal elections, thereby eliminating any uncertainty on the political front. The PM has now promised measures to reduce the budget deficit to avoid a possible ratings downgrade and also to compensate for the pre-election spending spree. The 2014 Budget, due to be announced on October 25th, will be closely watched.
Headline CPI inflation eased to 1.9% YoY in August from prior print of 2.0% YoY on the back of moderation in food and house prices. The nation's central bank, Bank Negara Malaysia (BNM) expects inflation pressures to persist owing to domestic supply-related constraints, but to remain within acceptable levels. The recent fuel price hike in September is also likely to reflect in higher inflation figures in the coming months.

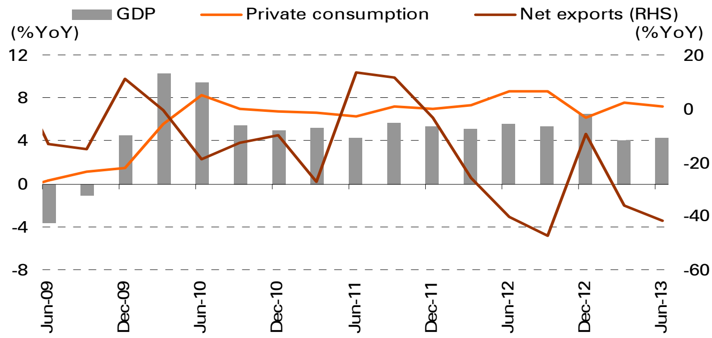
Monetary policy

BNM decided to hold the key overnight policy rate (OPR) unchanged at an accommodative 3.0% in its September 2013 meeting, citing modest growth recovery prospects and acceptable levels of inflation. We believe that it would continue to maintain status quo in its next meeting amidst moderate economic growth.

Currency Outlook

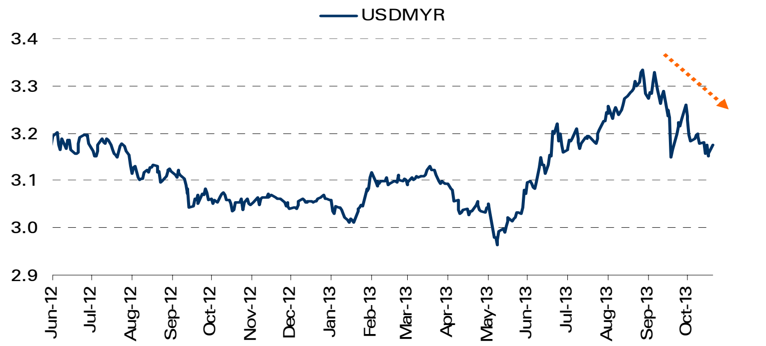
The Ringgit has depreciated by 3.2% CYTD. However, September has been a favourable month for the Ringgit on the back of improved global risk sentiment. Further, firm exports growth in recent months has aided the currency. In the near-term, paring of expectations of a QE taper any time soon, following the fiscal issues in the US, is expected to limit losses in the MYR. Going ahead, the MYR is likely to trade with a mild appreciation bias if the recovery in exports continues at the current pace.

Growth aided by firm consumption demand; weak net exports growth still a drag



Source: Bloomberg, ICICI Bank Research

Recovery in the Ringgit since September as market participants pushed back Fed QE-tapering expectations



Source: Bloomberg, ICICI Bank Research

				Average over		
Indicator	Period	Current	Prior	3-month	2012	2011
Economic data						
GDP (% YoY)	Jun-13	4.3	4.1	-	5.6	5.1
Industrial Production (%YoY)	Aug-13	2.3	7.5	4.8	4.4	1.6
CPI (% YoY)	Aug-13	1.9	2.0	1.9	1.7	3.2
Trade Balance (USD bn)	Aug-13	2.2	0.9	1.1	2.6	3.3
Exports (% YoY)	Aug-13	12.4	4.5	-2.5	0.9	9.3
Market Indicators						
USDMYR	Oct-13	3.16	3.20	3.24	3.09	3.06
KLCI (equity index)	Oct-13	1800	1781	1770	1604	1507
Govt. bond 10 yr (%)	Oct-13	3.7	3.7	3.8	3.5	3.9

South Korea : On the path of gradual recovery

South Korea's economy seems poised for a gradual recovery, led by government spending and investment. However, the external sector remains under pressure. Domestic demand, meanwhile, is likely to remain at the current low-levels as household debt remains high. Going ahead, a recovery in exports coupled with firm private investment is expected to keep growth supported.

Macroeconomic Snapshot

Q2 2013 GDP recorded a growth of 2.3% YoY, higher than prior quarter's print of 1.5% YoY. The expansion came on the back of a pick up in private investment and government spending, reflecting the impact of the huge fiscal stimulus package worth KRW 17.3 tn (~USD 16 bn) approved earlier this year. However, continued weakness in the external sector weighed on growth. Data for September showed a contraction in exports to 1.5% YoY vs. last month's firm growth of 7.7% YoY, indicating that some external pressures persist. Meanwhile, on the domestic front, industrial production for August posted a firm growth of 3.7% YoY after remaining in the contractionary territory for six consecutive months, signaling a possible recovery in the investment cycle.

Headline CPI inflation for September eased to 0.8% YoY from 1.3% YoY last month, led by a moderation in food inflation. Core inflation, however, inched up to 1.6% YoY. The Bank of Korea (BoK) cut its 2013 inflation forecast to 1.2% YoY from 1.7% YoY, citing lower international commodity prices and the mitigating impact of social-welfare policies such as free childcare provision.

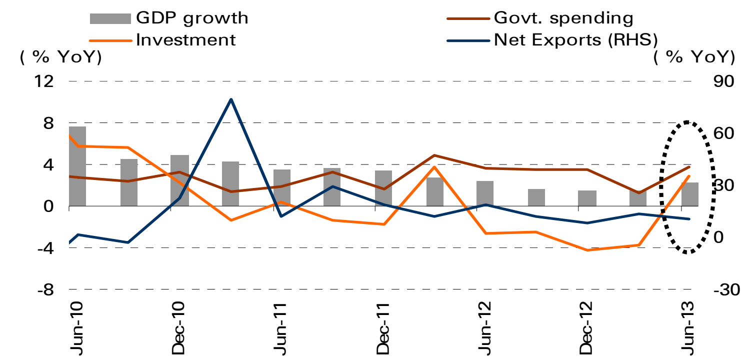
Monetary Policy

The BoK, in its October 2013 policy maintained status quo, keeping the key base rate unchanged at 2.50%, citing the absence of additional cues to warrant a change in stance. The Bank expects growth to remain at current levels, supported by some recovery in exports. Going ahead, we expect the BoK to remain in wait- and- watch mode in November, awaiting further cues from the global economy (particularly related to Fed's tapering of QE).

Currency Outlook

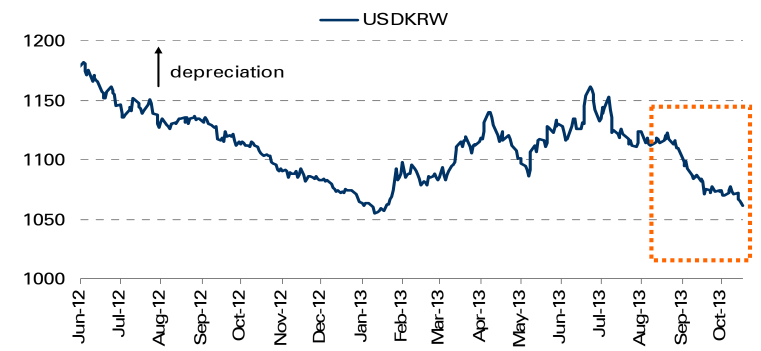
The Korean Won has staged a significant recovery over the last month, taking the CYTD return to a positive 0.3%. This has come primarily on account of the improved global risk sentiment following the Fed's decision to maintain status quo. Foreign investment in domestic equities picked up significantly in September, rising to USD 7.7 bn, which also aided gains in the currency. In the near-term, paring of expectations of aggressive QE tapering by the Fed is likely to keep the Won supported. Also, the comfortable level of FX reserves and the large current account surplus will help cushion against any possible capital outflows. On the whole, the Won is likely to trade with a mild appreciation bias.

Growth led by domestic investment and government spending



Source: Bloomberg, ICICI Bank Research

Significant recovery in the Won since September took CYTD return into positive territory



Source: Bloomberg, ICICI Bank Research

Indicator	Period	Current	Prior	Average over 3-month	2012	2011
Economic data						
GDP (% YoY)	Jun-13	2.3	1.5	-	2.1	3.7
Industrial Production(%YoY)	Aug-13	3.7	-0.6	-1.5	1.2	6.0
CPI (% YoY)	Sep-13	0.8	1.3	1.2	2.2	4.0
Trade Balance (USD bn)	Sep-13	3.7	4.8	3.7	2.4	2.6
Exports (% YoY)	Sep-13	-1.5	7.6	3.1	-1.0	19.8
Market Indicators						
USDKRW	Oct-13	1060.8	1071.7	1097.6	1126.5	1108.0
JPYKRW	Oct-13	10.9	10.9	11.1	13.4	14.1
KOSPI(equity index)	Oct-13	2052.4	2012.0	1944.6	1930.4	1983.4
Govt bond 10 yr (%)	Oct-13	3.5	3.5	3.5	3.4	4.2

Brazil: Currency expected to recover in the near term

The Brazilian Real depreciated very sharply in the period between May-September and has only recently started recovering its lost ground. Maximum depreciation was witnessed during August when at the peak the Real had fallen by almost 23% from the beginning of May. However, from the latter half of September it has started recovering again primarily as concerns about Fed tapering have been laid to rest for now.

Macroeconomic snapshot

The Brazilian economy witnessed dismally low growth for 2012 at 0.4% QoQ. Compared to that, the situation has improved this year and Q2 2013 clocked 1.5% QoQ taking the first half growth for H1 2013 to 1.1% QoQ. High frequency indicators are showing signs of a pickup with retail sales for August registering 6.2% YoY. Inflation levels in the country are also showing signs of easing and the IPCA CPI stood at 5.9% YoY in September as against 6.1% YoY previously. Inflation levels are now inching lower into the Bank's tolerance levels of 4.5%+/- 2% band. CPI is now fairly lower than the March highs of 6.59% YoY. The repeated rate hikes conducted by the Central Bank would also have helped in lowering inflation levels in the economy.

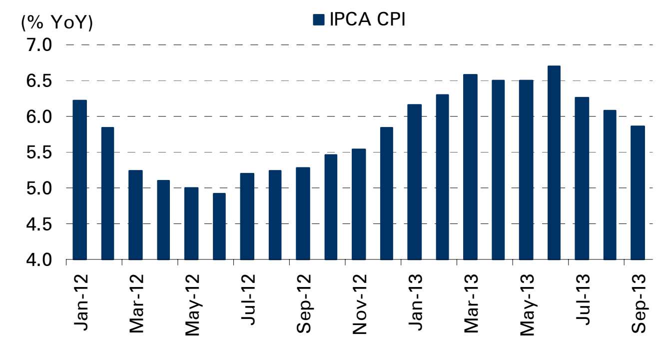
Monetary policy

The Central Bank had started hiking the Selic rate from April of this year primarily on inflation concerns and then more recently they have had to raise rates more aggressively to check considerable capital outflows that led to a sharp currency decline. The Selic rate is now at 9.5% and has been hiked cumulatively by 225 bps since April. Going ahead, since the currency markets have now stabilized and since excessive rate hikes may impinge on growth, further policy action is likely to be calibrated.

Currency Outlook

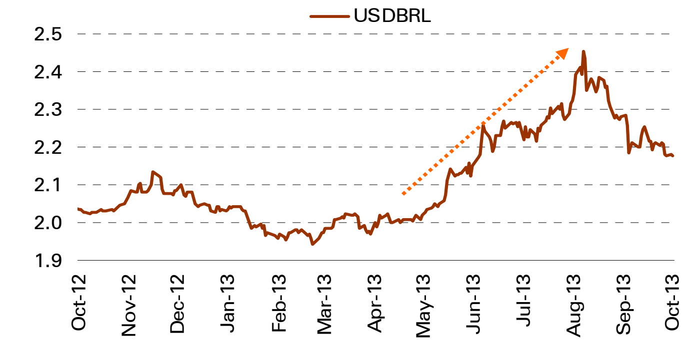
Apart from raising rates, the Brazilian Central Bank had also announced a USD 60 bn FX intervention program which is to last till the end of this year by which Dollar liquidity would be provided to the system on a daily basis through swaps. This program along with the delayed Fed tapering program has managed to reduce volatility in the FX markets and has helped Real to rise from its lows. Given that the fundamentals of the economy are just showing nascent signs of recovery and that the Dollar is expected to trade mostly strong over the medium to long term, we expect the Real to trade with a mild depreciation bias over the medium to long term. However, it is likely to witness some recovery in the short term as capital flow concerns subside.

Inflation showing signs of cooling



Source: Bloomberg, ICICI Bank Research

Real has recovered some lost ground recently



Source: Bloomberg, ICICI Bank Research

				Average over		
Indicator	Period	Current	Prior	3 month	2012	2011
Growth						
GDP (% YoY)	Jun-13	3.3	1.9	--	0.9	2.8
Retail sales (% YoY)	Aug-13	6.2	6.0	4.6	8.6	6.7
Industrial production (% YoY)	Aug-13	-1.2	1.7	1.2	-2.6	-0.5
External sector						
Exports (% YoY)	Sep-13	5.0	-4.3	-0.1	-4.3	27.7
Current account balance (USD bn)	Aug-13	-5.5	-9.0	-6.2	-54.0	-52.5
Portfolio flows (USD bn)	Aug-13	5.8	3.9	3.6	8.8	35.3
BoP (USD bn)	Aug-13	-3.2	0.5	-1.4	18.9	58.6
Inflation						
CPI (% YoY)	Sep-13	5.9	6.1	6.1	5.4	6.6
Market indicators						
BOVESPA index	Oct-13	54981	52338	52128	59324	61276
Policy rate	Sep-13	9.5	9.0	--	7.3	11.0
USD/BRL	Oct-13	2.2	2.2	2.3	2.0	1.7

Thailand: Economy expected to recover from recession

The Thai Baht had seen a maximum depreciation close to 10% against the Dollar during September as compared to its levels at the beginning of May. Since then however, it has recovered some ground as global risk sentiment has improved on the back of a delay in Fed tapering.

Macroeconomic snapshot

The economy has been in recession over the first half of the year with growth notching -1.7% QoQ and -0.3% QoQ for Q1 and Q2 respectively in 2013. In annual terms, the economy printed 2.8% YoY in Q2 as against 5.4% YoY earlier. Going ahead, growth prospects are likely to witness modest improvement and may exit recessionary territory but will overall remain weak. The Thai Finance Ministry expects growth to print 3.7% YoY for the year. The Bank of Thailand is also expected to have reduced its growth forecast for the year. As far as inflation is concerned, the trend has been downward and the current print of 1.42% YoY for CPI in September is the lowest since November 2009. On the external front, surprisingly exports have shown an uptick in August at 2.53% YoY as compared to -1.3% YoY previously.

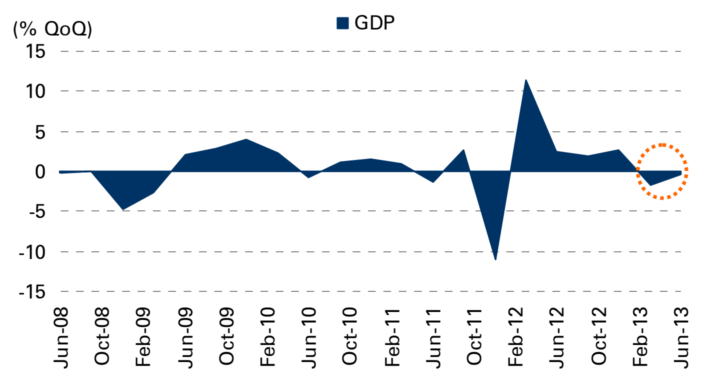
Monetary policy

The Bank of Thailand has chosen to maintain an accommodative monetary policy stance in order to underpin growth and held policy rates steady at 2.5% at its last policy meeting in October. The last time it cut rates was in May by 25 bps. The Central Bank reiterated that the economy is now stabilizing and should witness gradual recovery and in this backdrop the current policy environment remains appropriate. We expect the BoT to continue with this stance for at least two more quarters although a further rate cut cannot be ruled out if growth in Q3 dips substantially again.

Currency Outlook

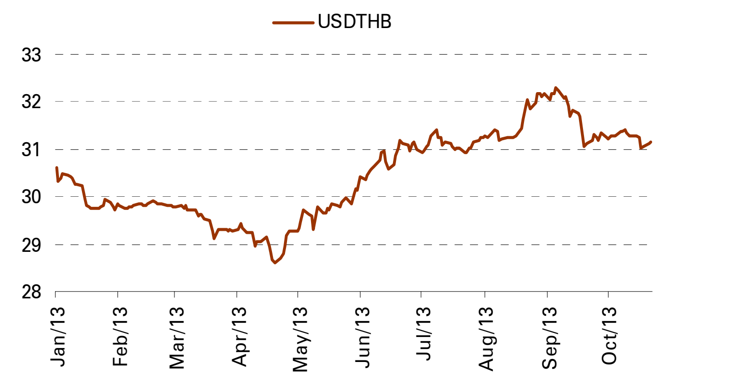
Given the fact that domestic fundamentals of the Thai economy still remain weak and monetary policy is likely to remain commensurately accommodative, we expect the Thai Baht to trade with a mild depreciation bias over the medium to long term. Our expectation of a stronger Dollar over the medium term will also weigh on the Baht. However, any further sharp depreciation spikes appear to be ruled out for now as the Fed tapering concerns seem to have been laid to rest for the time being.

Economy expected to recover from recession in the next quarter



Source: Bloomberg, ICICI Bank Research

Thai Baht has regained some lost ground against the Dollar after sharp losses earlier



Source: Bloomberg, ICICI Bank Research

				Average over		
Indicator	Period	Current	Prior	3-month	2011	2012
Growth						
GDP(% YoY)	Jun-13	2.8	5.4	-	0.2	6.8
Industrial Production(%YoY)	Aug-13	-3.1	-4.9	-3.8	-8.5	7.0
Inflation						
CPI(% YoY)	Sep-13	1.4	1.6	1.7	3.8	3.0
Core CPI(% YoY)	Sep-13	0.6	0.8	0.7	2.3	2.2
External sector						
Trade Balance(USD mn)	Aug-13	2214.0	258.0	1020.0	1415.8	501.3
Exports (% YoY)	Aug-13	2.5	-1.3	-0.8	1415.8	3.8
Imports (% YOY)	Aug-13	-2.5	-0.3	-0.6	25.3	9.3
Other indicators						
Thai Baht	Oct-13	31.1	31.3	31.6	30.5	31.1
SET(equity index)	Oct-13	1461.6	1436.8	1461.6	1025.6	1203.6

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