

Emerging Markets Briefer

February 04, 2008

Investment research

From decoupling to recoupling

The Fed has put monetary easing on fast track

- During the past month, the perception of the US economy has turned ever more grim in the financial markets and the Fed has tried to restore confidence in the US economy by aggressively cutting rates by 125 bp. Remarkably, USD has survived this ordeal rather well.
- The main reason is that the markets are increasingly questioning the global economy's and the Emerging Markets' abilities to maintain robust growth in a scenario with a severe downturn in the US. During the past month, 'recoupling' rather than 'decoupling' has become the buzzword.

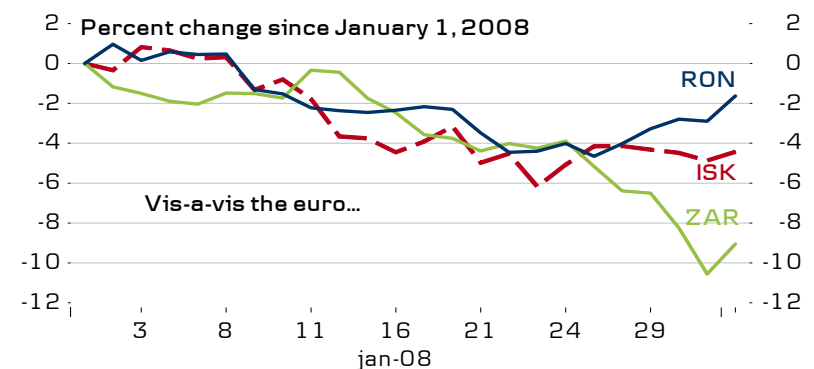
Investors lost confidence in the decoupling story

- Emerging Markets' stock markets have underperformed in 2008 and there has been a major shift in interest rate expectations in some of the Emerging Markets in recent weeks. It has increasingly become the expectation that the monetary tightening cycle in the Emerging Markets has peaked.
- We still see considerable strength in the Emerging Markets especially the BRIC countries and parts of Asia, while growth in the most imbalanced markets is likely to slow during 2008.

Stock markets losing confidence in decoupling



Imbalanced markets under pressure



Movers and shakers – last month and in the coming months

From decoupling to recoupling

During the past month, the perception of the US economy has turned ever more grim in the financial markets and the Fed has tried to restore confidence in the US economy by aggressively cutting rates by 125 bp. Remarkably, USD has survived this ordeal rather well. The main reason is that the markets are increasingly questioning the global economy's and the Emerging Markets' abilities to maintain robust growth in a scenario with a severe downturn in the US. During the past month, 'recoupling' rather than 'decoupling' has become the buzzword.

For Emerging Markets, there have been two major implications. First, the stock markets in the Emerging Markets have strongly underperformed the stock markets in the developed markets since the start of the year. Second, there has been a major shift in interest rate expectations in some of the Emerging Markets in recent weeks. It has increasingly become the expectation that the monetary tightening cycle in the Emerging Markets has peaked and some countries in the Emerging Markets might actually soon be forced to ease as slower global growth starts to hit home. The risks from this of course are that we are fast removing the most important drivers behind recent years' capital inflows into the Emerging Markets and strength in the Emerging Market currencies: Carry and strong capital inflows into local stock markets. This might be the explanation behind the strong underperformance in the South African markets during January. In addition, there is the risk that commodity prices might cave in if global growth slows dramatically although this is not our main scenario. This would be a negative for LATAM and CIS financial markets.

Let us here reiterate our stance that those countries with finance requirements will be most vulnerable in this environment. Eg, countries with major current account deficits and considerable foreign debt. Central and Eastern Europe and EMEA remain the prime candidates in this category. Good examples are the Baltic states, Romania, Bulgaria, and South Africa, which are all struggling with large external imbalances and therefore are relatively more at risk in the present global financial environment than those countries with more sound external balances.

We believe the rating agencies have been somewhat behind the curve in recognising the deteriorating credit quality in Central and Eastern Europe in the current risk-averse environment. However, they are starting to catch up. This week, Standard & Poor's rating agency downgraded Lithuania's sovereign rating by one notch and maintained its negative outlook on the rating. Fitch Ratings followed suit and changed its ratings outlook to "negative" from "stable" for Estonia, Latvia, Romania and Bulgaria.

The negative rating actions are unlikely to be the last negative news on the rating front this year and we are expecting more downgrades during the year – most at risk are the Baltic states, Romania and Bulgaria, but, in addition, Hungary seems to have moved back onto the radar screen of the rating agencies, as well as eg, countries like Kazakhstan and Iceland, with their highly leveraged financial sectors.

However, we still see considerable strength in the Emerging Markets – especially the BRIC countries and parts of Asia. Of the three Asian countries reporting Q4 GDP during the past month, two (South Korea and the Philippines) showed accelerating growth and one (China) only slightly lower growth. However, even in these countries, the uncertainty about the global economic outlook is starting to have an impact. We believe China will start to slow monetary tightening and soon the pace of CNY appreciation to avoid the economy being slammed between excessive monetary tightening and slower export growth. Most of the Asian central banks are currently on hold but in our opinion could turn to an easing bias as soon as export growth starts to slow. However, interest rate spreads relative to developed markets will remain supportive for Asian currencies in 2008.

Emerging Market performance over the past month

Chart 1: FX change against EUR and USD

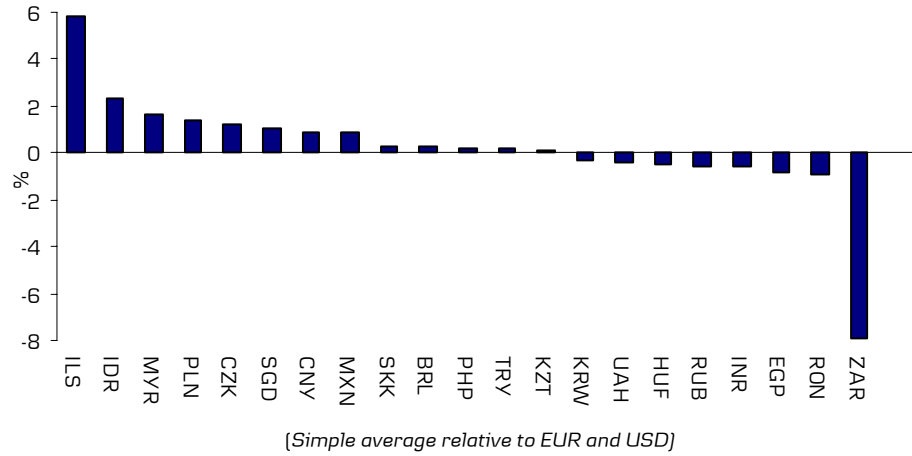


Chart 2: Risk adjusted FX change against EUR and USD

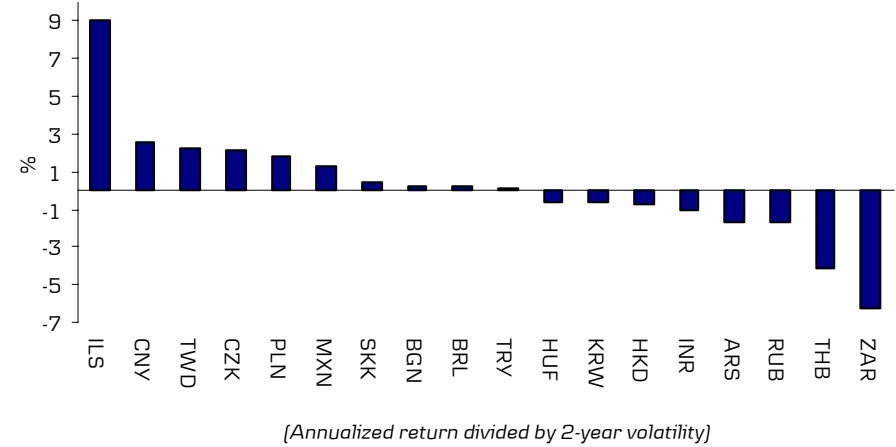


Chart 3: Change in 2 year swap yield

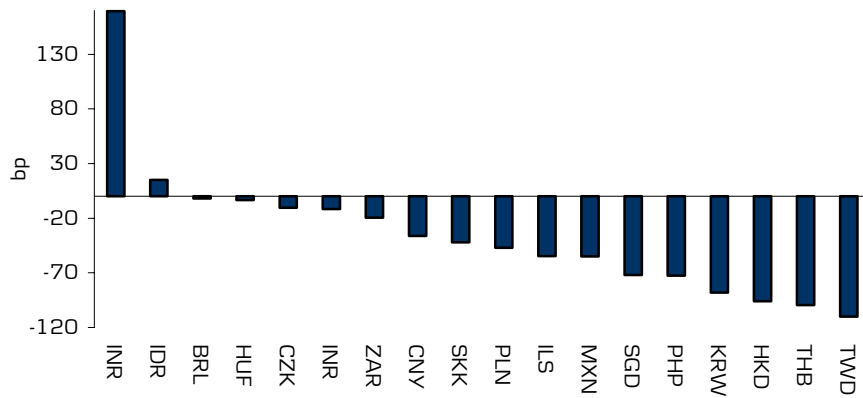
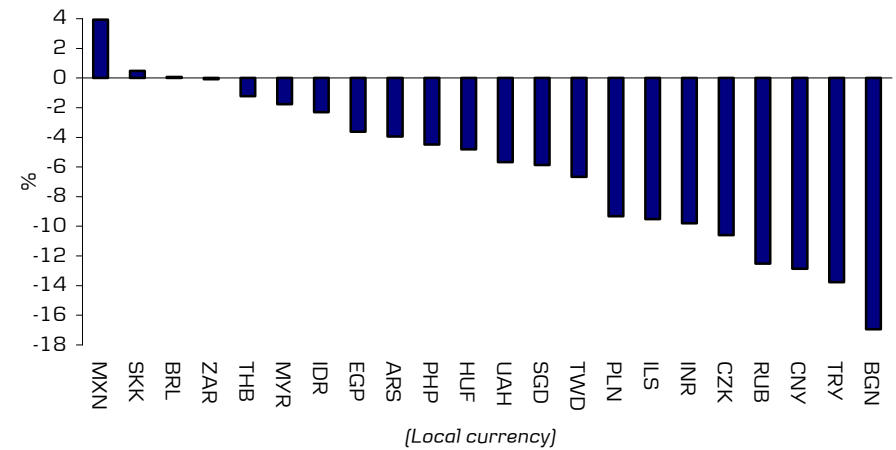










Chart 4: Stock market performance






	Macro Outlook	FX & Monetary Policy	Other factors
Region: CEE			
Poland  PLN	<ul style="list-style-type: none"> Domestic demand in the Polish economy remains fairly strong, but tighter credit conditions and a higher inflation could weigh on private consumption in 2008. The export-oriented Polish industry is showing some signs of a slowdown on the back of the (moderate) erosion of Polish competitiveness. 	<ul style="list-style-type: none"> Inflation has now moved well above the Polish central bank's (NBP) inflation target of 2.5% and the NBP therefore looks set to continue its tightening cycle, but given the expected easing of monetary policy from the ECB we do expect the tightening in Poland to come to an end in Q1 or Q2. 	<ul style="list-style-type: none"> The newly elected liberal coalition government should be expected to push ahead with reforms, but no revolution should be expected. After a couple of years of strong rises in property prices in Poland there are now signs that the property market boom is losing steam. This could be a major threat to economic growth in 2008.
Czech Republic  CZK	<ul style="list-style-type: none"> Economic growth will remain fairly strong this year, although weaker consumer spending will weigh negatively on growth. Inflation is heading upwards. Food, energy prices, higher regulated prices and VAT changes will put further pressure on inflation going forward. 	<ul style="list-style-type: none"> The Czech central bank will continue to tighten monetary conditions further in order to keep inflation under control, although the record strength of CZK might limit the size of monetary tightening. CZK remains at a record high, both against EUR and USD. We still see further strengthening as fairly limited. 	<ul style="list-style-type: none"> The presidential elections are drawing closer. In February, the Czech parliament has to vote on the new Czech President.


Region: CEE	Macro Outlook	FX & Monetary Policy	Other factors
<p>Slovakia</p>  <p>SKK</p>	<ul style="list-style-type: none"> The economy will continue to grow strongly this year driven by exports but also by consumer spending. Inflation remains fairly low but inflationary pressures are increasing partly due to accelerating food and energy prices. 	<ul style="list-style-type: none"> The Slovak central bank will keep interest rates on hold in Q1. Nonetheless, as we expect the ECB to ease monetary conditions this year, due to the planned euro entry in 2009, the Slovak central bank must at some point follow the ECB and ease monetary conditions in Slovakia as well. SKK is being driven by global factors. News about the Slovak euro entry might be crucial for SKK. 	<ul style="list-style-type: none"> The Slovak government is confident in meeting all Maastricht criteria in order to qualify for euro adoption in 2009. Nonetheless, the sustainability of low inflation is, in our view, questionable in the longer run and could be the main reason for Slovakia's possible rejection in 2009.
<p>Hungary</p>  <p>HUF</p>	<ul style="list-style-type: none"> Hungarian growth has slowed down significantly on the back of last year's tightening of fiscal policy. This is positive as it contributes to improving both fiscal balances and the current account situation, but also increases the risk of political unrest resurfacing. 	<ul style="list-style-type: none"> The Hungarian central bank (MNB) is facing a serious dilemma: To respond to the dramatic slowdown in domestic demand by easing monetary conditions or to respond to the fact that inflation has to begin to rise again by keeping interest rates on hold. Interestingly enough the MNB at its recent monetary policy even discussed raising interest rates despite the very weak domestic economy. This is a clear indication that there are no cuts in the pipeline anytime soon. 	<ul style="list-style-type: none"> Tighter global credit conditions could potentially hit the fairly indebted Hungarian economy hard. This is the main risk to the Hungarian markets.


Region: CEE	Macro Outlook	FX & Monetary Policy	Other factors
<p>Romania</p>  <p>RON</p>	<ul style="list-style-type: none"> • Inflation remains on the upside, driven by rising food prices but also strong wage growth and consumer spending are contributing to accelerating inflation. • Romania is running a high risk of economic overheating with surging inflation and a high current account deficit. 	<ul style="list-style-type: none"> • Monetary policy is biased on the upside in order to keep inflation under control. Further monetary tightening can be expected. • Romanian leu is expected to remain under pressure mainly due to worsening external imbalances. 	<ul style="list-style-type: none"> • The Romanian government needs to maintain a tight fiscal policy if inflation should drop back toward lower levels.
<p>Bulgaria</p>  <p>BGN</p>	<ul style="list-style-type: none"> • The economy continues to grow strongly but it is driven more by consumer spending than investment. The economy shows signs of overheating. • Food prices pushed inflation into double-digits since August last year. The ballooning current account deficit is a key risk. 	<ul style="list-style-type: none"> • Widening of external balances makes Bulgaria vulnerable to worsening global credit and liquidity conditions. • Bulgaria's currency, the lev, is pegged to the Euro. The central bank is within a currency board set-up. Tight fiscal policy and a close monitoring of credit growth are needed to maintain a credible FX peg. 	<ul style="list-style-type: none"> • The Bulgarian government approved the 2008 budget surplus at 3.0% of GDP. • It is positive news as the tight fiscal policy is the only way to tackle external imbalances of the Bulgarian economy.



	Macro Outlook	FX & Monetary Policy	Other factors
Region: Baltic			
Estonia  EEK	<ul style="list-style-type: none"> We expect a sharp decline in growth in the Estonian economy in the coming years. However, the jury is still out on whether the economy will experience a hard or a soft landing. Inflation and wage growth have accelerated further and the development is clearly not sustainable. 	<ul style="list-style-type: none"> The Estonian krooni (EEK) is pegged to the Euro through ERM II. Until now, Estonia's currency board has functioned well and has not been questioned, but rising concerns over high imbalances and a deteriorated global environment have increased uncertainty. 	<ul style="list-style-type: none"> Despite some slowdown in demand, inflation remains on the upside mainly due to a hike in energy prices and a rise in excise duties. Excessive wage growth will continue to put pressure on consumer prices as well Estonian authorities announced their intention to adopt the euro in 2011, but there are many risks which may postpone adoption for some time.
Latvia  LVL	<ul style="list-style-type: none"> Latvian growth is far too strong, but a significant slowdown in growth is very likely. Signs of a slowdown in the economy are beginning to emerge. The Latvian real estate market has cooled down significantly, and a further drop in real estate prices is very likely. Inflation and wage growth are accelerating, which is unsustainable. 	<ul style="list-style-type: none"> The Latvian lat (LVL) is pegged to the euro through ERM II, but renewed pressure on the currency should certainly not be ruled out. The Latvian central bank has been defending the peg by actively intervening in the FX market. The situation remains very critical. 	<ul style="list-style-type: none"> There are clear concerns about financial and economic stability in Latvia. Despite some expected tightening in fiscal stance the fiscal policy remains loose.

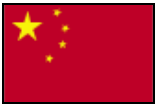

Region: Baltic	Macro Outlook	FX & Monetary Policy	Other factors
<p>Lithuania</p>  <p>LTL</p>	<ul style="list-style-type: none"> • Growth has slowed down in Q4 07 and we expect the continuation of this trend in 2008. • High and even accelerating inflation, credit restraint and a global slow down perspective are likely to press on the growth - potentially significantly - in the coming years: <ul style="list-style-type: none"> ○ The Lithuanian property market is still in "wait-and-see" mode, but judging from the developments in Estonia and Latvia we expect almost the same level of adjustment. 	<ul style="list-style-type: none"> • Lithuanian litai (LTL) is pegged to the euro through ERM II. • Large imbalances and a global slow down could increase the volatility in the Lithuanian markets further. 	<ul style="list-style-type: none"> • Despite the still-strong demand growth, policy responses have been very limited. Lithuania is still planning to have a budget deficit of around 0.5-1 % of GDP. • Strong pro-cyclicality in fiscal policy stance creates additional uncertainty on how more sustainable growth will be achieved • The intention to introduce the euro in 2010 seems to be non-realistic due to an expected rise in electricity prices.



	Macro Outlook	FX & Monetary Policy	Other factors
Region: CIS			
Russia  RUB	<ul style="list-style-type: none"> • Still no signs of a slowdown in economic activity. Industrial output keeps expanding faster than expected, and capital formation is also strong • Inflationary pressures will continue to build in the coming quarters. Inflation is expected to peak around 14%-15% y/y by May/June. 	<ul style="list-style-type: none"> • Rouble volatility seems set to be higher this year than seen in 2006-07. In recent weeks, the central bank allowed the rouble to weaken by 0.8% against its basket, driven by capital outflows. • We expect the RUB basket to move 2.0%-2.5% stronger during 2008. The timing of the appreciation will depend on the market sentiment. 	<ul style="list-style-type: none"> • As of 1 February, the Oil Stabilisation Fund will be split into two funds: the Reserve Fund and the National Wellbeing Fund. According to forecasts from the Ministry of Finance, the Reserve Fund is expected to reach USD 125bn, while the National Wellbeing Fund is projected to reach around USD 30bn.
Ukraine  UAH	<ul style="list-style-type: none"> • Preliminary data shows that GDP growth reached 7.3% y/y in 2007, driven by strong domestic demand. Growth will slow down in 2008 partly due to higher gas prices and inflation in general. • Inflation jumped to 16.6% y/y by year-end 2007, a level that threatens macroeconomic stability. 	<ul style="list-style-type: none"> • The Ukrainian central bank (NBU) plans to introduce restrictions on further growth of external borrowing. • This is unlikely to have any major effects on inflation, but on the margin we believe it is a step in the right direction. 	<ul style="list-style-type: none"> • Prime Minister Yulia Tymoshenko, has, on several occasions, stated that Ukraine should increase the price for transporting Russian gas, although her statement has been somewhat softened in the past weeks.



	Macro Outlook	FX & Monetary Policy	Other factors
Region: EMEA			
<p>Turkey</p>  <p>TRY</p>	<ul style="list-style-type: none"> • There are increasing signs of a fairly sharp slowdown in GDP growth in Turkey on the back of tighter credit conditions and a strong lira. • The current account deficit has increased significantly and is now at quite dangerous levels. 	<ul style="list-style-type: none"> • While the Turkish markets have weathered the recent political turmoil well, increasing worries on global credit conditions could obviously hit the heavily indebted Turkish economy and markets hard. • At its latest monetary policy meeting the Turkish central bank (TCMB) cut its key policy rate 25bp. This was less than the expected 50bp. This is an indication that the TCMB is aware of the risk of too aggressive easing. That said, we think that the TCMB is playing with fire if it continues to cut rates in the present negative global financial environment. 	<ul style="list-style-type: none"> • Political risk is re-emerging in Turkey with renewed discussions about changing the Turkish constitution. It is especially the controversial issue whether women students should be allowed to wear the Muslim headscarf at universities that is fuelling controversy.


Region: EMEA	Macro Outlook	FX & Monetary Policy	Other factors
<p>South Africa</p>  <p>ZAR</p>	<ul style="list-style-type: none"> • There are now significant signs that the South African economy is slowing down - visible in retail and new car sales. We expect this slowdown to continue in 2008. • Inflation proves to be stubbornly high. Electricity prices represent, in addition to food and oil prices, another significant risk to the inflation outlook. A high current account deficit represents another key risk. 	<ul style="list-style-type: none"> • The central bank ended a very long tightening cycle in January, after having brought the policy rate up by 400bp since June 2006. Inflation is still too high, but a less positive growth outlook keeps SARB from hiking further. • Due to South African external imbalances the rand will remain vulnerable to global market jitters and changes in global risk appetite. Also politics might weigh on the currency. 	

	Macro Outlook	FX & Monetary Policy	Other factors
Region: LATAM			
Brazil  BRL	<ul style="list-style-type: none"> Economic growth is still strong, driven by household consumption and a remarkable pick-up in capital formation. FDI inflows doubled in 2007 compared with 2006. There are risks that strong domestic demand, supported by a pro-cyclical public budget will bring inflation above the inflation mid-point target of 4.5% y/y. 	<ul style="list-style-type: none"> The BCB will take a long pause from the easing cycle. It has kept its leading rate unchanged at the last three meetings. We expect it to stay on hold for most of 2008. There are some risks for BRL in 2008. Especially if the global slowdown becomes severe, followed by a large drop in commodity prices. In that case BRL could take a large beating. 	<ul style="list-style-type: none"> Over the past couple of years, rising commodity prices have greatly supported the Brazilian financial markets. The main risk for valuation will be related to a larger fall in commodities, if global investors no longer buy into the BRIC decoupling story.
Mexico  MXN	<ul style="list-style-type: none"> The Mexican economy is facing a bleaker outlook for 2008, marked by further slowing of growth and external threats, related to a US slowdown, a flagging oil production and building inflationary pressures. Inflation, although still fairly subdued, is expected to move higher in the coming months, mainly driven by rising administrative prices. 	<ul style="list-style-type: none"> The central bank is currently fairly balanced. Inflation concerns will keep it from cutting, while US concerns will keep it from hiking interest rates. The biggest risk for the Mexican peso (MXN) would be a recession in the US. 	<ul style="list-style-type: none"> The phasing out of the last remaining tariffs and quotas restricting imports of US and Canadian staples, which was effective 1 January and was stipulated by the Nafta, has sparked protests around the country. These protests may well continue for months to come.

	Macro Outlook	FX & Monetary Policy	Other factors
Region: EM Asia			
China  CNY	<ul style="list-style-type: none"> GDP is expected to decline slightly towards 10.5% during 2008 on the back of recent domestic tightening and slower export growth. However, growth is expected to remain robust despite the weakness in the global economy. Inflation has soared close to 7% mainly on the back of higher food prices. Inflation is expected to decline gradually to 4%. That said, inflation could remain elevated for some time due to suppressed inflation on regulated prices like energy. 	<ul style="list-style-type: none"> Peoples Bank of China (PBoC) will start to turn more cautious to avoid catching the Chinese economy between slower export growth and excessive domestic tightening. PBoC is on hold on interest rates in the short run but will continue to increase the reserve requirement. We expect CNY to appreciate by 7% against the USD on an annual basis but do not expect the pace to accelerate further as PBoC turns more cautious. That said, a major one-off revaluation cannot be ruled out, although it is probably not imminent. 	<ul style="list-style-type: none"> The Hu Jintao leadership has made a shift in economic policy focusing on environmental and social development goals. This is very supportive for domestic demand but risks weakening China's cost advantage. With recent faster appreciation of CNY and signs of stabilisation of the trade surplus protectionist pressure is not expected to become a major problem
South Korea  KRW	<ul style="list-style-type: none"> GDP growth accelerated to 5.5% y/y in Q4 07 but is likely to slow in 2008 on weaker export growth. There is considerable downside risk as South Korea is very sensitive to the US market. Inflation has accelerated sharply in recent months on higher oil prices and has breached the upper limit of BoK's inflation target band of 2.5% +/-1%. 	<ul style="list-style-type: none"> Bank of Korea is on hold (leading rate at 5.0%) and could possibly soon turn to an easing bias. However, higher inflation and a fiscal policy package is expected to limit BoK's manoeuvring room. We expect KRW strengthening on a 12-month horizon on the back of both strong growth in Asia and a stronger JPY and CNY 	<ul style="list-style-type: none"> Lee Myung-bak from the right-wing GNP party won the presidential election and his party is expected to win the general election in April. Major easing of fiscal policy expected in 2008. Talks on ending North Korea's nuclear programme continue. Could be major positive.

Region: EM Asia	Macro Outlook	FX & Monetary Policy	Other factors
<p>Thailand</p>  <p>THB</p>	<ul style="list-style-type: none"> • There was no clear cut result or victory in December's general election and the risk is that political uncertainty will continue to be a drag on the economy. • However, there are finally signs of recovery in domestic demand. However, exports are still booming, supporting growth. The C/A has shifted back into surplus, riding on slowing imports and booming exports. • Headline inflation has accelerated sharply but core CPI is well within the 0%-3% inflation target band. 	<ul style="list-style-type: none"> • Fed rate cuts and recent THB appreciation have created slight easing bias in monetary policy. Another 25bp rate reduction to 3.0% cannot be ruled out completely. • Despite the disappointing election result with no clear cut victory, there has been no major impact on the currency. A possible gradual decline in political risk premium and an end to the easing cycle should support further appreciation of THB. 	<ul style="list-style-type: none"> • The pro-Thaksin Peoples Power Party (PPP) won the 23 December general election, without attaining a majority in the Lower House. PPP will to lead a new coalition government. • It is uncertain how the current military leadership will react to a PPP government, and the possible amnesty and return of former PM Thaksin. It could complicate the transition from military rule and extend political uncertainty.
<p>Hong Kong</p>  <p>HKD</p>	<ul style="list-style-type: none"> • Momentum in the economy has been maintained around 6% GDP growth and will be supported by lower interest rates and booming stock and real estate market. • Inflation is picking up because of a tighter labour market and appreciation of RMB. 	<ul style="list-style-type: none"> • HK will keep its currency peg for a long time despite USD/RMB breaking 7.80. We expect USD/HKD to stay below 7.80 in coming months on the back of strong capital inflows into the Hong Kong market. • Money market rates will gradually decline as the Fed eases and USD inter-bank interest rates decline. 	<ul style="list-style-type: none"> • No change in the political status is expected soon. Direct election for the Chief Executive and Legislature is possible by 2017. • China's gradual capital account liberalisation is expected to boost capital inflow into Hong Kong.

Region: EM Asia	Macro Outlook	FX & Monetary Policy	Other factors
<p>Philippines</p>  <p>PHP</p>	<ul style="list-style-type: none"> Strong growth is supported by continued strong exports and renewed strength in domestic demand. A big current account surplus around 4% of GDP is supported by remittances from Philipinos living abroad and strong FDI. The budget deficit has been reduced significantly partly through privatisation. The target is to eliminate the budget deficit by 2008. Ability to reach this goal is important for financial markets. Despite higher food prices, inflation remains below the central bank 2007 target of inflation between 4%-5%. 	<ul style="list-style-type: none"> The PHP is currently supported by a strong current account surplus and capital inflows. The PHP is expected to strengthen further, especially when domestic demand picks up. We believe the Philippine central bank is on hold but with an easing bias. Record strong growth in Q4 08 limits the ability to cut rates further. The central bank will await signs of weaker growth before cutting further. 	<ul style="list-style-type: none"> The mid-term election in May has created a political stalemate. The TEAM coalition behind president Arroyo has a more than two-thirds majority in the lower house, but the opposition has the majority in the upper house. However, the ruling coalition has been able to continue its fiscal consolidation policy. The next presidential election will be in 2010.
<p>Indonesia</p>  <p>IDR</p>	<ul style="list-style-type: none"> Growth has rebounded above 6% on strong private consumption and investments. The current account surplus is 3% of GDP and the public sector deficit has been reduced significantly. Risk of weaker public finances as Indonesia prepares for 2009 general election Inflation has been creeping up lately to 6.6% y/y band just within BI's target range and core inflation is close to 6% y/y 	<ul style="list-style-type: none"> The Bank of Indonesia's (BI) inflation target is 5%-7% and it is satisfied with the USD/IDR trading within 8,500-9,500. With IDR just below 9,400 and the recent increase in inflation, monetary policy is on hold with easing bias in the longer term. USD/IDR will remain flat in the short run but is expected to strengthen on a 12-month horizon supported by strong current account flows. 	<ul style="list-style-type: none"> President Yudhoyono is very business- and reform-minded but has only weak support in the parliament. Legislation concerning labour market liberalisation and foreign direct investment is currently being blocked by parliament. The next presidential election is in September 2009. It would be a big positive if Yudhoyono is re-elected.

Region: EM Asia	Macro Outlook	FX & Monetary Policy	Other factors
<p>India</p>  <p>INR</p>	<ul style="list-style-type: none"> • Growth has been slowing down on the back of weaker exports and private consumption while investments remain strong. C/A and trade balances are in slightly negative territory due to strong domestic demand. • Positive long-run fundamentals remain intact with FDI and corporate investments remaining strong. • Inflation has fallen to 3.2% far below the 5% central bank target. However, part of the decline is due to base effect from higher food prices last year. Hence inflation will increase in 2008 as the impact from food prices becomes neutral, but is expected to stay below 5%. 	<ul style="list-style-type: none"> • The Reserve Bank of India (RBI) is on hold but could soon turn to a downward bias. The next move on the leading interest rates will probably be down. RBI will continue to hike commercial banks' required reserve ratio to sterilise very strong FX reserve inflows. • The INR has appreciated strongly against USD and RBI has been selling INR to stem further appreciation. New controls on capital inflows are a possibility. RBI is stable in the short run but is expected to continue its appreciation trend later in 2008. 	<ul style="list-style-type: none"> • Prime Minister Singh faces problems in advancing much-needed structural reforms because of a highly-fragmented government. The Communist party has threatened to withdraw support to the government coalition because of a civilian nuclear deal with the US. • The next general election is in May 2009. The pace of budget consolidation could slow in 2008 as India increasingly focuses on the upcoming general election.

FX Forecast

Core Majors											
		EUR		USD		DKK		SEK		NOK	
		Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward
EUR	04-feb			1,48		745,0		937,8		803,2	
	+1m			1,50	1,48	746,0	745,1	935,0	937,9	780,0	804,1
	+3m			1,52	1,48	746,0	745,1	935,0	937,9	780,0	805,8
	+6m			1,50	1,47	746,0	745,2	930,0	937,9	775,0	808,6
	+12m			1,40	1,46	746,0	745,5	940,0	938,7	775,0	814,8
USD	04-feb	1,48				503,0		635,0		535,1	
	+1m	1,50	1,48			497,3	503,5	630,0	635,5	530,0	535,6
	+3m	1,52	1,48			490,8	504,5	621,7	636,9	513,2	536,8
	+6m	1,50	1,47			497,3	506,3	623,3	639,2	516,7	539,0
	+12m	1,40	1,46			532,9	509,5	667,9	643,9	553,6	544,4
JPY	04-feb	158,4		106,9		4,70		5,94		5,07	
	+1m	159	158	106	107	4,69	4,72	5,94	5,96	5,00	5,09
	+3m	158	157	104	106	4,72	4,75	5,98	5,99	4,94	5,13
	+6m	150	156	100	106	4,97	4,79	6,23	6,04	5,17	5,19
	+12m	147	153	105	105	5,07	4,86	6,36	6,14	5,27	5,31
Wider CEE											
PLN	04-feb	3,57		2,41		208,8		263,5		225,0	
	+1m	3,60	3,57	2,40	2,41	207,2	208,6	262,5	263,3	220,8	225,0
	+3m	3,65	3,58	2,40	2,42	204,4	208,2	258,9	262,8	213,7	225,0
	+6m	3,70	3,59	2,47	2,44	201,6	207,5	252,7	261,9	209,5	225,1
	+12m	3,70	3,63	2,64	2,48	201,6	205,4	252,7	259,3	209,5	224,5
HUF	04-feb	256,7		173,3		2,90		3,67		3,13	
	+1m	260,0	257,4	173,3	173,9	2,87	2,90	3,63	3,66	3,06	3,12
	+3m	265,0	258,7	174,3	175,1	2,82	2,88	3,57	3,64	2,94	3,11
	+6m	270,0	260,7	180,0	177,0	2,76	2,86	3,46	3,61	2,87	3,10
	+12m	275,0	264,8	196,4	180,9	2,71	2,82	3,40	3,56	2,82	3,08
CZK	04-feb	25,86		17,45		28,82		36,38		31,06	
	+1m	25,70	25,85	17,13	17,46	29,03	28,83	36,77	36,40	30,93	31,10
	+3m	25,70	25,84	16,91	17,49	29,03	28,85	36,77	36,42	30,35	31,19
	+6m	26,00	25,82	17,33	17,54	28,69	28,87	35,96	36,45	29,81	31,31
	+12m	26,00	25,84	18,57	17,65	28,69	28,86	35,96	36,47	29,81	31,53
SKK	04-feb	33,35		22,51		22,35		28,21		24,08	
	+1m	33,50	33,35	22,33	22,53	22,27	22,35	28,21	28,21	23,73	24,11
	+3m	34,00	33,34	22,37	22,56	21,94	22,36	27,79	28,23	22,94	24,17
	+6m	34,10	33,34	22,73	22,64	21,88	22,37	27,42	28,24	22,73	24,26
	+12m	34,10	33,34	24,36	22,78	21,88	22,37	27,42	28,27	22,73	24,44

FX Forecast

Wider CEE (Cont.)											
		EUR		USD		DKK		SEK		NOK	
		Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward
RON	04-feb	3,63		2,45		205,4		259,2		221,3	
	+1m	3,75	3,64	2,50	2,46	198,9	204,7	252,0	258,4	212,0	220,8
	+3m	3,90	3,66	2,57	2,48	191,3	203,4	242,3	256,8	200,0	219,9
	+6m	4,00	3,70	2,67	2,51	186,5	201,3	233,8	254,2	193,8	218,4
	+12m	4,10	3,79	2,93	2,59	182,0	196,9	228,0	248,8	189,0	215,0
BGN	04-feb	1,96		1,32		380,9		480,8		410,5	
	+1m	1,96	-	1,30	-	381,6	-	483,4	-	406,6	-
	+3m	1,96	-	1,29	-	381,6	-	483,4	-	399,0	-
	+6m	1,96	-	1,30	-	381,6	-	478,3	-	396,4	-
	+12m	1,96	-	1,40	-	381,6	-	478,3	-	396,4	-
TRY	04-feb	1,73		1,17		431,2		544,3		464,7	
	+1m	1,75	1,74	1,17	1,18	426,3	427,4	540,0	539,5	454,3	461,0
	+3m	1,80	1,78	1,18	1,20	414,4	419,7	525,0	529,9	433,3	453,7
	+6m	1,90	1,82	1,27	1,24	392,6	408,7	492,1	516,0	407,9	443,2
	+12m	1,90	1,92	1,36	1,31	392,6	388,3	492,1	490,7	407,9	424,2
CIS											
RUB	04-feb	36,27		24,48		20,55		25,93		22,14	
	+1m	36,38	36,29	24,25	24,51	20,51	20,54	25,98	25,93	21,86	22,16
	+3m	36,40	36,34	23,95	24,60	20,49	20,51	25,96	25,90	21,43	22,17
	+6m	35,91	36,43	23,94	24,74	20,77	20,46	26,04	25,84	21,58	22,20
	+12m	34,44	36,75	24,60	25,10	21,66	20,30	27,15	25,65	22,50	22,17
UAH	04-feb	7,49		5,06		99,5		125,5		107,2	
	+1m	7,62	7,53	5,08	5,09	97,9	99,0	124,0	124,9	104,3	106,7
	+3m	7,69	7,55	5,06	5,11	97,0	98,8	122,9	124,7	101,4	106,8
	+6m	7,56	7,59	5,04	5,16	98,7	98,2	123,7	124,0	102,5	106,5
	+12m	7,03	7,67	5,02	5,24	106,1	97,2	133,0	122,9	110,3	106,2

FX Forecast

Baltics											
		EUR		USD		DKK		SEK		NOK	
		Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward
EEK	04-feb	15,65		10,56		47,6		60,1		51,3	
	+1m	15,65	15,67	10,43	10,58	47,67	47,57	60,38	60,05	50,80	51,31
	+3m	15,65	15,72	10,30	10,64	47,67	47,43	60,38	59,87	49,84	51,06
	+6m	15,65	15,81	10,43	10,73	47,67	47,16	59,74	59,53	49,52	50,60
	+12m	15,65	16,02	11,18	10,94	47,67	46,53	59,74	58,73	49,52	49,63
LTL	04-feb	3,45		2,33		215,85		272,46		232,62	
	+1m	3,45	3,45	2,30	2,33	216,23	215,85	273,91	272,48	230,43	232,84
	+3m	3,45	3,46	2,27	2,34	216,23	215,54	273,91	272,08	226,09	232,03
	+6m	3,45	3,48	2,30	2,36	216,23	214,44	271,01	270,69	224,64	230,08
	+12m	3,45	3,51	2,46	2,40	216,23	212,59	271,01	268,36	224,64	226,76
LVL	04-feb	0,70		0,47		1068,38		1348,56		1151,41	
	+1m	0,70	0,70	0,47	0,47	1065,71	1066,59	1350,00	1346,41	1135,71	1150,57
	+3m	0,70	0,70	0,46	0,48	1065,71	1061,20	1350,00	1339,60	1114,29	1142,41
	+6m	0,70	0,71	0,47	0,48	1065,71	1048,86	1335,71	1324,02	1107,14	1125,37
	+12m	0,70	0,73	0,50	0,50	1065,71	1018,76	1335,71	1286,03	1107,14	1086,64

FX Forecast

MEA											
		EUR		USD		DKK		SEK		NOK	
		Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward
ILS	04-feb	5,31		3,59		140,3		177,1		151,2	
	+1m	5,78	5,31	3,85	3,59	129,2	140,3	163,6	177,0	137,7	151,3
	+3m	5,85	5,32	3,85	3,60	127,5	140,2	161,5	177,0	133,3	151,6
	+6m	5,78	5,32	3,85	3,61	129,2	140,1	161,9	176,8	134,2	151,9
	+12m	5,39	5,34	3,85	3,65	138,4	139,6	173,5	176,4	143,8	152,4
ZAR	04-feb	10,96		7,40		68,0		85,9		73,3	
	+1m	11,25	11,17	7,50	7,44	66,3	66,7	84,0	84,2	70,7	73,0
	+3m	11,55	11,15	7,60	7,55	64,6	66,9	81,8	84,4	67,5	72,3
	+6m	11,70	11,35	7,80	7,71	63,8	65,7	79,9	82,9	66,2	71,2
	+12m	11,20	11,77	8,00	8,04	66,6	63,4	83,5	80,1	69,2	69,2
EGP	04-feb	8,21		5,54		90,8		114,6		97,8	
	+1m	8,54	8,21	5,69	5,55	87,4	90,8	110,7	114,6	93,1	97,9
	+3m	8,63	8,20	5,68	5,55	86,4	90,9	109,5	114,8	90,3	98,3
	+6m	8,49	8,18	5,66	5,55	87,9	91,2	110,1	115,1	91,3	98,9
	+12m	7,87	8,14	5,62	5,56	94,8	91,6	118,8	115,8	98,5	100,1
LATAM											
BRL	04-feb	2,59		1,75		287,9		363,4		310,2	
	+1m	2,60	2,60	1,73	1,75	287,5	286,9	364,2	362,2	306,4	309,5
	+3m	2,66	2,62	1,75	1,77	280,5	284,7	355,3	359,4	293,2	307,8
	+6m	2,70	2,66	1,80	1,81	276,3	280,5	346,3	354,1	287,0	304,2
	+12m	2,52	2,75	1,80	1,88	296,0	270,8	371,0	342,2	307,5	295,8
ARS	04-feb	4,67		3,15		159,5		201,4		171,9	
	+1m	4,77	4,68	3,18	3,16	156,4	159,2	198,1	200,9	166,7	171,7
	+3m	4,89	4,70	3,22	3,18	152,4	158,5	193,1	200,1	159,4	171,3
	+6m	4,88	4,76	3,25	3,23	153,0	156,6	191,8	197,7	159,0	169,8
	+12m	4,62	4,89	3,30	3,34	161,5	152,7	202,4	192,9	167,7	166,8
MXN	04-feb	16,00		10,80		46,57		58,8		50,2	
	+1m	16,50	16,04	11,00	10,83	45,2	46,5	57,3	58,7	48,2	50,1
	+3m	16,72	16,12	11,00	10,91	44,6	46,2	56,5	58,4	46,7	50,0
	+6m	16,65	16,24	11,10	11,03	44,8	45,9	56,2	57,9	46,5	49,8
	+12m	15,26	16,53	10,90	11,29	48,9	45,1	61,3	57,0	50,8	49,3

FX Forecast

EM Asia											
		EUR		USD		DKK		SEK		NOK	
		Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward
CNY	04-feb	10,65		7,19		69,95		88,3		75,4	
	+1m	10,71	10,56	7,14	7,14	69,7	70,6	88,2	89,1	74,2	76,1
	+3m	10,75	10,37	7,07	7,02	69,4	71,9	87,9	90,7	72,6	77,7
	+6m	10,35	10,11	6,90	6,87	72,1	73,7	90,3	93,1	74,9	80,0
	+12m	9,38	9,67	6,70	6,61	79,5	77,1	99,7	97,5	82,6	84,3
KRW	04-feb	1397		943		0,53		0,67		0,57	
	+1m	1425	1397	950	944	0,52	0,53	0,66	0,67	0,56	0,6
	+3m	1444	1396	950	945	0,52	0,53	0,65	0,67	0,54	0,6
	+6m	1365	1394	910	947	0,55	0,53	0,68	0,68	0,57	0,6
	+12m	1246	1388	890	948	0,60	0,54	0,75	0,68	0,62	0,6
THB	04-feb	46,1		31,1		16,2		20,4		17,4	
	+1m	47,3	46,2	31,5	31,2	15,8	16,1	20,0	20,4	16,8	17,4
	+3m	48,6	46,3	32,0	31,3	15,3	16,1	19,4	20,3	16,0	17,4
	+6m	46,5	46,5	31,0	31,6	16,0	16,0	20,1	20,3	16,7	17,4
	+12m	42,0	46,7	30,0	31,9	17,8	16,0	22,3	20,2	18,5	17,4
SGD	04-feb	2,1		1,42		356		445		383,1	
	+1m	2,12	2,09	1,42	1,41	351	356	445	450	375	384,3
	+3m	2,16	2,08	1,42	1,41	346	358	438	452	361	386,9
	+6m	2,10	2,07	1,40	1,40	355	360	445	455	369	390,9
	+12m	1,93	2,05	1,38	1,40	386	365	484	461	401	398,4
HKD	04-feb	11,6		7,80		64,5		80,7		69,5	
	+1m	11,69	11,54	7,79	7,80	63,8	64,6	80,9	81,5	68,0	69,7
	+3m	11,84	11,50	7,79	7,79	63,0	64,8	79,8	81,8	65,9	70,1
	+6m	11,69	11,45	7,79	7,78	63,8	65,1	80,0	82,2	66,3	70,6
	+12m	10,92	11,35	7,80	7,76	68,3	65,7	85,6	83,0	71,0	71,8

FX Forecast

EM Asia (Cont.)											
		EUR		USD		DKK		SEK		NOK	
		Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward
MYR	04-feb	4,78		3,23		156		197		168	
	+1m	4,88	4,78	3,25	3,23	153	156	194	197	163	168
	+3m	4,94	4,77	3,25	3,23	151	156	191	197	158	169
	+6m	4,88	4,75	3,25	3,22	153	157	192	198	159	170
	+12m	4,48	4,71	3,20	3,22	167	158	209	200	173	173
PHP	04-feb	60,2		40,7		12,4		15,6		13,3	
	+1m	62,3	60,3	41,5	40,7	12,0	12,4	15,2	15,6	12,8	13,3
	+3m	63,1	60,2	41,5	40,7	11,8	12,4	15,0	15,6	12,4	13,4
	+6m	63,0	60,1	42,0	40,8	11,8	12,4	14,8	15,7	12,3	13,5
	+12m	57,4	59,8	41,0	40,9	13,0	12,5	16,3	15,8	13,5	13,6
IDR	04-feb	13652		9215		0,055		0,069		0,059	
	+1m	13950	13673	9300	9235	0,053	0,055	0,068	0,069	0,057	0,059
	+3m	14440	13704	9500	9275	0,052	0,054	0,065	0,069	0,054	0,059
	+6m	13800	13769	9200	9350	0,054	0,054	0,068	0,068	0,056	0,059
	+12m	12880	13907	9200	9500	0,058	0,054	0,073	0,068	0,060	0,059
INR	04-feb	58,5		39,5		12,8		16,0		13,7	
	+1m	59,3	58,4	39,5	39,4	12,6	12,8	15,9	16,1	13,4	13,8
	+3m	60,8	58,5	40,0	39,6	12,3	12,8	15,5	16,1	12,8	13,8
	+6m	57,0	58,4	38,0	39,7	13,1	12,8	16,4	16,1	13,6	13,8
	+12m	53,2	58,5	38,0	39,9	14,0	12,8	17,6	16,1	14,6	13,9
TWD	04-feb	47,5		32,0		15,7		19,7		16,9	
	+1m	48,8	47,1	32,5	31,8	15,3	15,8	19,4	20,0	16,3	17,1
	+3m	50,2	46,6	33,0	31,6	14,9	16,0	18,8	20,2	15,6	17,3
	+6m	45,0	46,1	30,0	31,3	16,6	16,2	20,8	20,4	17,2	17,5
	+12m	40,6	45,4	29,0	31,0	18,4	16,4	23,0	20,8	19,1	17,9

Monetary Policy Calendar

	Policy Rate (%)	Latest Change	Next Change	Next Meeting
	04 February 2008			
Wider CEE				
PLN	5.25	+ 25 bp (Jan, 2008)	+ 25bp (Mar/Apr, 2008)	27 February 2008
HUF	7.50	- 25 bp (Sep, 2007)	Unchanged 2008	25 February 2008
CZK	3.50	+ 25 bp (Nov, 2007)	+ 25bp (Q1, 2008)	07 February 2008
SKK	4.25	- 25 bp (Apr, 2007)	- 25bp (Q2, 2008)	26 February 2008
TRY	15.50	- 25 bp (Jan, 2007)	-25bp (Feb, 2008)	14 February 2008
MEA				
ILS	4.25	+ 25 bp (Dec, 2007)	- 25bp (Q2, 2008)	25 February 2008
ZAR	11.00	+ 50 bp (Dec, 2007)	+50 bp (Q1, 2008)	10 April 2008
LATAM				
BRL	11.25	- 25 bp (Sep, 2007)	Unchanged 2008	05 March 2008
MXN	7.50	+ 25 bp (Oct, 2007)	Unchanged 2008	15 February 2008
EM Asia				
CNY	7.29	+27 bp (Sep, 2007)	+27 bp (Q3, 2008)	Not announced
KRW	5.00	+25 bp (Aug, 2007)	-25 bp (Q3, 2008)	13 February 2008
THB	3.25	+25 bp (Oct, 2007)	Unchanged 2008	27 February 2008
HKD	6.00	-25 bp (Okt, 2007)	-25 bp (Mar, 2008)	Not announced
MYR	3.50	+ 25 bp (Apr, 2006)	Unchanged 2008	25 February 2008
PHP	5.00	-25 bp (Jan, 2007)	-25bp (Q2, 2008)	13 March 2008
IDR	8.00	-25 bp (Dec, 2007)	-25bp (Q2, 2008)	06 February 2008
INR	7.75	+25 bp (Apr, 2007)	-25 bp (Q3, 2008)	29 April 2008
TWD	3.25	+ 12.5 bp (Mar, 2007)	Unchanged 2008	20 March 2008

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