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Global Markets – Asia Team :

EconsAndResearchAsia@anz.com

Paul Gruenwald

Chief Economist, Asia

+65 6216 1814

Paul.Gruenwald@anz.com

Tamara Henderson

Director, Currency and Rates

Strategy

+65 6216 1845

Tamara.Henderson@anz.com

Chang Wei Liang

Analyst, Economic Research

+65 6216 1838

Weiliang.Chang@anz.com

Research Interns:

Chong Jun Jie

Vimal Balasubramaniam

Zhou Hao

Naresh Navaratnaraja

Our Vision:

For Economics & Markets Research to be the most respected, sought-after and commercially valued source of economics and markets research and information on Australia, New Zealand, the Pacific and Asia.

Highlights

- Asian trade has taken a direct hit from the global recession. All economies in our report now have negative year-on-year export growth. The NIEs have been hit hardest.
- There does appear to be *some* domestic demand in the region. While industrial production has fallen in tandem with exports, a few economies (China, India, Indonesia, the Philippines) are holding onto respectable consumption momentum. Will it last?
- 2009 will be a sub-par year for the region. Moreover, there is little to be done in the near term except to nurture whatever domestic demand there is, including by using fiscal stimulus, and to wait for a recovery in the advanced economies.
- USD-AXJ will remain in an uptrend, but the momentum should slow. MYR, SGD and TWD are seen as under-performers as the currencies with large export exposures play catch-up. CNY will continue to tread water.
- Emerging Asian rates should out-perform US counterparts. Many Asian central banks still have ample monetary policy ammunition and stronger government finances means supply is less of a concern. IDR rates are our favourite market.

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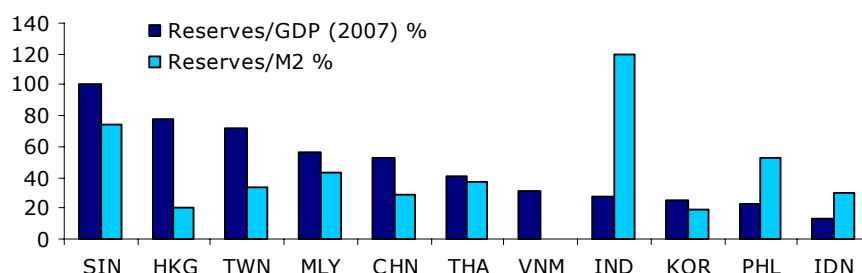
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Feature Article: Is “Hot Money” Leaving China?

This article investigates the recent evolution of Chinese official reserves, including the noticeable slowing of the rate of increase in late 2008. We conclude that short-term capital or “hot money” outflows emerged in Q4. These outflows coincide with a marked shift in USD-CNY expectations on-shore as well as those expressed in the non-deliverable forward market. However, the size of these outflows is currently too small to pose a balance of payments threat and we see no change in exchange rate policy as a result of recent developments.

China’s reserve accumulation has continued at a phenomenal pace in recent years. Official reserves rose by over 80% between end-2006 and end-2008 to reach \$1.9 trillion, by far the highest in the world (twice the level of Japan, which has the second highest total). The ongoing rise in reserves reflects the authorities’ efforts to manage the value of Yuan which, given ongoing large trade and current account surpluses, amounted to purchasing US dollars. This reserve accumulation took place despite the Yuan being the best performing currency in emerging Asia. It is worth noting that when China’s high level of reserves is scaled by either GDP or the money supply, it does not appear out of line with the rest of the region. For example, China’s reserves as a share of GDP are relatively modest compared with economies like Hong Kong, Singapore, or even Taiwan.

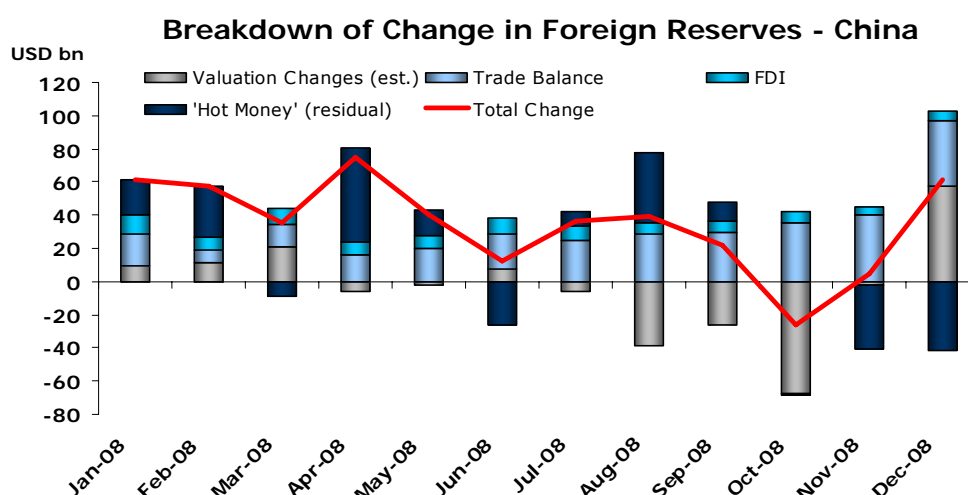
Emerging Asia - Selected Reserve Indicators



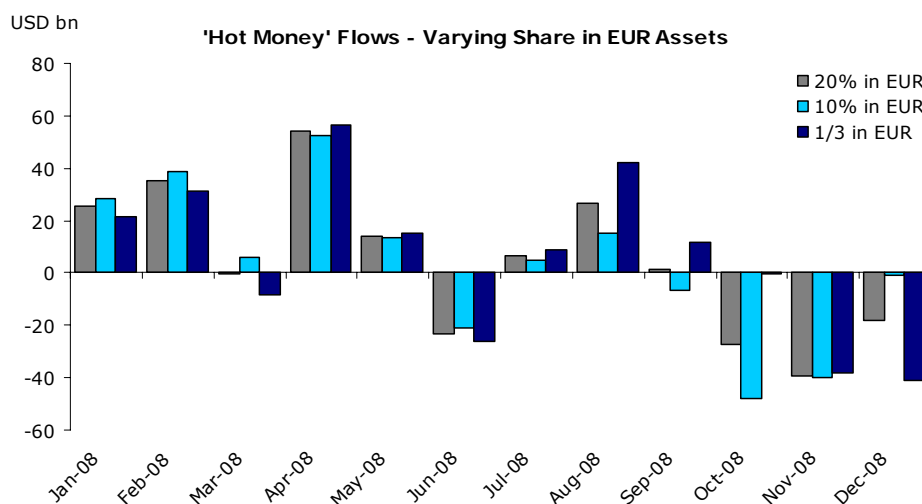
Source: ANZ, Bloomberg, CEIC.

In recent months the growth of China’s official reserves has levelled off. Indeed, in October 2008 China experienced its first monthly *decrease* in reserves since December 2003. For the final quarter of 2008, reserves rose by only \$40 billion. This figure pales in comparison with an average rate of accumulation of \$126 billion per quarter in the first three quarters of 2008, and is well below the Q4 trade surplus of \$114 billion.

Using a residual approach, we conclude that China likely experienced hot money outflows on the order of 1% of GDP in November and December 2008. China’s relatively closed capital account restricts outflows more than inflows and short-term flows more than longer term flows, but it has long been suspected that short-term or hot money outflows can take place through loopholes in the system. However, the amounts are not known due to a lack of hard numbers. Moreover, the absence of detailed data on the composition of official reserves makes it difficult to distinguish the impact of currency movements on reserves (valuation effects) from those of underlying balance of payments flows. In order to estimate short-term capital flows, we therefore used a residual approach, which is described in Box 1. Breaking down the change in official reserves, our analysis shows that that China likely experienced residual, short-term outflows of around \$40 billion in both November and December 2008, equivalent to about 1% of GDP per month. Short-term flows were close to zero in October, although reserves dropped in that month owing to large valuation effects as the US dollar strengthened against the Euro. The outflows in November and December were in sharp contrast to the first three quarters of 2008, when residual balance of payments flows were positive in seven out of nine months, and in four months were larger than the trade surplus.



Our assumptions regarding the currency composition of reserves affect the distribution, but not the total size, of hot money outflows in Q4 2008. Valuation changes, which have been large relative to total reserve changes in recent months, are sensitive to assumptions about the currency composition of reserves. For simplicity, we assume that two-thirds of official reserves are held in US dollar-denominated assets while the remainder are held in Euro-denominated assets. As a stress test, we looked at alternative proportions of Euro-denominated assets, namely 10% and 20%. Using these values, the amount of residual short-term outflows remained in the range of \$80 to \$89 billion for Q4 as a whole, but the distribution across months changed. Our original assumption generated outflows mainly in the last two months of the year, while the assumption of a 10% Euro asset share resulted in outflows occurring mainly in October and November. Nonetheless, we estimate that China saw broadly similar hot money outflows in the last quarter of 2008 under all three scenarios.



Recent capital outflows are correlated with expected USD-CNY movements. The emergence of capital outflows from China in the past few months has occurred at roughly the same time as a switch in expectations regarding the near-term path of USD-CNY. With the accelerating deterioration of the global economy in general (and a strengthening of the US dollar, including against many currencies in emerging Asia) and the marked slowdown in Chinese growth expectations in particular, markets began to retreat from the view that USD-CNY would continue to trend lower. Evidence suggests that this view was held on-shore as well as off-shore. The 12-month NDF market (the most liquid tenor) has also been pricing in a depreciation of the Yuan against the US dollar in recent months. As of end-January 2009, the 12-month NDF rate for USD-CNY stood at 7.07, implying an appreciation of 3¼%. A complete assessment of the causation of short-term capital outflows from China would require more detailed information as well as a fully specified model, which is beyond the scope of this article.

In our view, the current pace capital outflows will not affect Chinese exchange rate policy. The monthly outflows remain relatively small when scaled appropriately. \$40 billion is equivalent to 2/3 of 1% of broad money, 1% of total loans from financial institutions, and 2% of official reserves. Moreover, at current levels capital outflows broadly match the trade surplus so that the overall balance of payments is close to zero. Thus, the authorities are not required to intervene in order to stabilize the USD-CNY rate. (And we suspect not having to intervene to buy US dollars and thereby continue to accumulate more reserves would be welcomed). So, given the authorities' stated—and demonstrated—preference for currency "stability," we see little chance of a change in exchange rate policy in the near term. However, a sustained acceleration of outflows would be a cause for concern. But we see this as a very low probability event that would reflect a sizeable loss of confidence in the economy and banking system.

Over the medium term, we expect the trend appreciation Yuan against the US dollar (and on a NEER basis) to reassert, and capital inflows to return. China's growth and productivity potential remain large, so on a fundamental basis the case for a long-run appreciation of the local currency against the US dollar and a basket of trading partner currencies remains intact. Given that, we would expect capital inflows to return in light of the implicit expected high returns from investing in the Chinese economy as well as the currency play since the Yuan is currently weaker than most estimates of its long-run equilibrium (or purchasing power parity) level.

Jun Jie Chong

Paul Gruenwald

Box 1: Estimating "Hot Money" Flows Using the Residual Approach

Our methodology for estimating hot money flows employs the following equations:

$$\Delta R_t = \Delta V_t + BOP_t \quad (1)$$

$$BOP_t = TB_t + FDI_t + HM_t \quad (2)$$

$$\Delta V_t = \Phi * R_{t-1} * \Delta(USD-EUR)_t \quad (3) \quad \text{where}$$

ΔR_t :	Change (gain: +) in official reserves in period t
ΔV_t :	Valuation change (gain: +) in period t
BOP_t :	Overall balance of payments flows in period t
HM_t :	Hot money inflow (+) or outflow (-) in period t
TB_t :	Trade surplus (+) or deficit (-) in period t
FDI_t :	Inward foreign direct investment in period t
Φ_t :	Proportion of reserves invested in non-USD currencies in period t
USD-EUR:	Euros per US dollar (the inverse of EUR-USD), average value for period t.

The first six variables are measured in US dollars. Equation (1) states that reserve changes are the sum of valuation changes and BOP flows. Equation (2) states that BOP flows are assumed to be the sum of the trade balance, FDI inflows and hot money flows (and that other variables have negligible value). Equation (3) states that valuation changes depend on the proportion of reserves in non-US dollar assets, the stock of reserves, and movements in USD-EUR. We assume that "theta" takes on a value of one third. If the US dollar weakens (strengthens) against the Euro, then valuation gains are positive (negative) since the dollar value of the EUR-denominated reserves rises (falls). Of note, hot money flows are the residual in this system.

There are several shortcomings of the residual approach that should be identified. First, other flows in the balance of payments may from time to time be significant, although they are restricted here to be zero. Second, the assumption of a two-currency basket is too simplistic, particularly since the Chinese authorities have stated that they are managing the Yuan against a basket of currencies (with undisclosed weights). Third, the reserve composition is unknown and the assumption that two-thirds of reserves are in US dollar assets is made for tractability. Finally, the analysis does not address transfers out of official reserves for the sovereign wealth fund, bank recapitalization or other plans. Nonetheless, we think the approach adopted here is a reasonably robust method for approximating short-term capital movements.

FX and Rates Strategy Overview: New Year, Similar Story

Market Outlook

In 2009, markets will be hoping for signs of a trough in the global downturn. Until then, risk appetite will remain suppressed amid protracted volatility, which will support rates markets and keep the currencies in emerging Asia under pressure. Although we expect the uptrend in USD-AXJ to remain intact in H1, the momentum should slow as aggressive fiscal and monetary policy responses from around the globe will be expected to eventually start to bear fruit.

FX Strategy

In 2008, the currencies of countries with current account deficits or small surpluses — Korea, India, Indonesia, the Philippines and Thailand — led emerging Asia lower versus the US dollar. In 2009, the currencies of countries with large export exposures — Malaysia, Singapore and Taiwan — are expected to feel the heat, albeit less so given that these are tightly managed currencies.

As we also believe that the peak in USD-KRW and USD-INR has already occurred (near 1500 and 50, respectively), these currencies are strong candidates for out-performance against the Malaysian ringgit, Singapore dollar, and Taiwan dollar—all of which have yet to trough in our view. In January, this theme was already playing out in the case of the Indian rupee, but not so for the Korean won, which remains beset by sharp volatility.

Turning to the Chinese Yuan, speculation about a possible devaluation has intensified in the wake of painful Q4 data and rhetoric from Obama's Treasury Secretary Geithner, with twelve-month NDFs indicating expectations for a devaluation of 3%. However, we continue to believe that the authorities will prefer to reap the long-term political gains from USD-CNY stability, especially since economic gains from a devaluation would be short-lived at best. Notably, during the Asian crisis in 1997/98, the authorities kept the CNY steady amid sharply weaker currencies in the rest of the region.

- **Corporates** should hedge MYR, SGD and TWD export exposures and balance sheet risk.
- **Real money funds** with AXJ allocations should under-weight MYR, SGD and TWD.
- **Leveraged funds** should take advantage of dips to buy USD-MYR, USD-SGD, and USD-TWD forward outright.

Rates Strategy

Central banks in much of emerging Asia have already cut policy rates aggressively, but unlike the US Federal Reserve, many Asian central banks still have ample monetary “space” to ease further. Meanwhile, government finances in much of emerging Asia are sufficiently strong to absorb announced fiscal stimulus programmes, in contrast with US Treasuries which have become expensive and where concerns about supply have begun to weigh on the market.

Within emerging Asia, we are most bullish on IDR rates markets (currency hedged), anticipating out-performance within AXJ in 2009. We like IDR rates for three reasons: 1/ Bank Indonesia is only just getting started with rate cuts, whereas the rest of the region is beyond the half-way mark to say the least; 2/ Indonesia has enough surplus financing from 2008 to cover much of the 2009 budget, reducing worries about supply; and 3/ IDR bonds offer good value and attractive yields, having sold off massively during 2008.

- **Real money funds** with emerging Asia in their benchmark should increase the allocation in emerging Asia; others should increase off index allocations in emerging Asia. Duration extensions for Indonesia are recommended, but should be currency hedged. Specific MYR, SGD or TWD allocations should also be currency hedged.
- **Leveraged funds** should opt for receiver positions in emerging Asian rates.

Tamara Henderson

Foreign Exchange and Policy Rate Forecasts

		Current	Mar 09	Jun 09	Sep 09	Dec 09	Mar 10	Jun 10
China	USD/CNY, eop	6.838	6.84	6.84	6.84	6.84	6.84	6.84
	AUD/CNY, eop	4.427	4.30	4.00	3.80	3.70	3.70	3.80
	PBoC base lending rate	5.31	5.04	4.77	4.50	4.50	4.50	4.50
Hong Kong	USD/HKD, eop	7.756	7.76	7.77	7.80	7.80	7.80	7.80
	AUD/HKD, eop	5.015	4.90	4.50	4.40	4.20	4.20	4.40
	HKMA discount rate	0.50	0.50	0.25	0.25	0.25	0.50	1.00
India	USD/INR, eop	48.99	49.0	49.0	48.0	48.0	47.0	47.0
	AUD/INR, eop	31.68	30.9	28.4	26.9	25.9	25.4	26.3
	RBI repo rate	5.50	5.00	4.50	4.00	4.00	4.00	4.50
Indonesia	USD/IDR, eop	11,370	11,350	11,500	11,900	11,600	11,600	11,300
	AUD/IDR, eop	7,347	7,200	6,700	6,700	6,300	6,300	6,300
	BI rate	8.75	8.00	7.00	6.00	6.00	6.00	6.00
Malaysia	USD/MYR, eop	3.61	3.64	3.74	3.80	3.80	3.80	3.75
	AUD/MYR, eop	2.33	2.29	2.17	2.13	2.05	2.05	2.10
	BNM overnight rate	2.50	2.00	1.50	1.00	1.00	1.00	1.00
Philippines	USD/PHP, eop	47.36	47.5	48.5	49.3	49.5	49.5	48.8
	AUD/PHP, eop	30.48	29.9	28.1	27.6	26.7	26.7	27.3
	BSP reverse repo rate	5.00	4.75	4.25	4.00	4.00	4.00	4.00
Singapore	USD/SGD, eop	1.51	1.54	1.58	1.62	1.66	1.66	1.63
	AUD/SGD, eop	0.97	0.97	0.92	0.91	0.90	0.90	0.91
	3M SGD SIBOR	0.65	0.65	0.55	0.55	0.65	0.75	0.95
S Korea	USD/KRW, eop	1,383	1,375	1,400	1,400	1,375	1,350	1,325
	AUD/KRW, eop	890	870	810	780	740	730	740
	BoK overnight call rate	2.50	1.50	1.00	1.00	1.00	1.50	2.00
Taiwan	USD/TWD, eop	33.69	34.2	35.2	36.0	36.0	35.5	35.0
	AUD/TWD, eop	21.69	22.6	22.2	20.9	20.2	19.2	18.9
	CBC discount rate	1.50	1.50	1.00	0.50	0.50	1.00	1.25
Thailand	USD/THB, eop	34.92	35.8	37.6	39.4	39.4	38.8	38.8
	AUD/THB, eop	22.54	22.6	21.8	22.1	21.3	21.0	21.7
	BoT repo rate	2.00	1.50	1.00	0.50	0.50	0.50	0.50
Vietnam	USD/VND, eop	17,484	17,500	17,800	18,100	18,500	18,500	18,000
	AUD/VND, eop	11,324	11,000	10,300	10,100	10,000	10,000	10,100
	SBV base lending rate	7.00	6.00	5.00	5.00	5.00	5.00	5.00

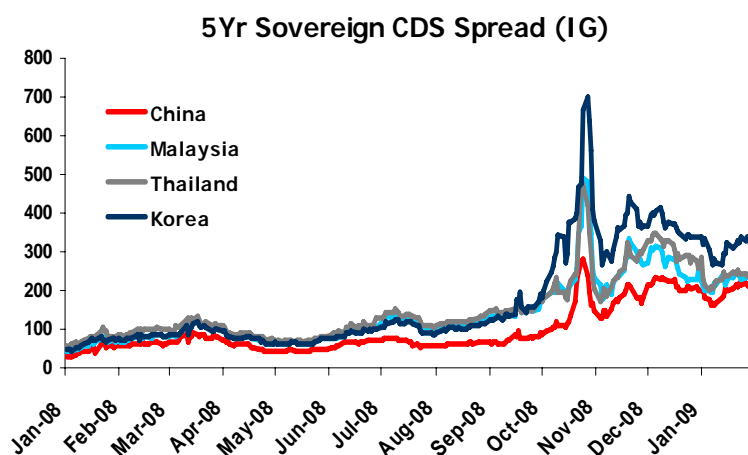
Foreign Exchange Cross-Rate Forecasts

	Current Spot	Forecast Level					Current 12M Fwd or NDF	12M % Change	
		Mar-09	Jun-09	Sep-09	Dec-09	Mar-10		ANZ	Market
CNY-HKD	1.13	1.13	1.14	1.14	1.14	1.14	1.10	0.5%	-3.2%
CNY-INR	7.16	7.16	7.16	7.02	7.02	6.87	7.14	-4.1%	-0.3%
CNY-IDR	1,660	1,660	1,680	1,740	1,700	1,700	1,790	2.4%	7.8%
CNY-MYR	0.528	0.532	0.547	0.556	0.556	0.556	0.518	5.4%	-1.9%
CNY-PHP	6.93	6.94	7.09	7.21	7.24	7.24	7.00	4.5%	1.0%
CNY-SGD	0.221	0.225	0.231	0.237	0.243	0.243	0.213	10.0%	-3.3%
CNY-KRW	202	201	205	205	201	197	193	-2.4%	-4.4%
CNY-TWD	4.93	5.00	5.15	5.26	5.26	5.19	4.76	5.4%	-3.3%
CNY-THB	5.11	5.23	5.50	5.76	5.76	5.67	5.07	11.1%	-0.8%
HKD-INR	6.32	6.32	6.31	6.15	6.15	6.03	6.51	-4.6%	3.0%
HKD-IDR	1,470	1,460	1,480	1,530	1,490	1,490	1,630	1.4%	10.9%
HKD-MYR	0.465	0.469	0.481	0.487	0.488	0.488	0.471	4.9%	1.4%
HKD-PHP	6.11	6.13	6.24	6.32	6.35	6.35	6.37	3.9%	4.3%
HKD-SGD	0.194	0.199	0.203	0.208	0.213	0.213	0.194	9.4%	-0.1%
HKD-KRW	178	177	180	179	176	173	176	-2.9%	-1.3%
HKD-TWD	4.34	4.41	4.53	4.62	4.62	4.55	4.34	4.8%	-0.1%
HKD-THB	4.50	4.62	4.84	5.05	5.05	4.97	4.62	10.5%	2.5%
INR-IDR	232	232	235	248	242	247	251	6.3%	8.2%
INR-MYR	0.074	0.074	0.076	0.079	0.079	0.081	0.072	9.9%	-1.6%
INR-PHP	0.97	0.97	0.99	1.03	1.03	1.05	0.98	8.9%	1.3%
INR-SGD	0.031	0.031	0.032	0.034	0.035	0.035	0.030	14.7%	-3.0%
INR-KRW	28.2	28.1	28.6	29.2	28.6	28.7	27.0	1.8%	-4.2%
INR-TWD	0.688	0.698	0.718	0.750	0.750	0.755	0.667	9.8%	-3.1%
INR-THB	0.713	0.731	0.767	0.821	0.821	0.826	0.709	15.8%	-0.5%
IDR-MYR	0.00032	0.00032	0.00033	0.00032	0.00033	0.00033	0.00029	3.4%	-9.1%
IDR-PHP	0.00417	0.00419	0.00422	0.00414	0.00427	0.00427	0.00390	2.5%	-6.4%
IDR-SGD	0.00013	0.00014	0.00014	0.00014	0.00014	0.00014	0.00012	7.9%	-10.4%
IDR-KRW	0.122	0.121	0.122	0.118	0.119	0.116	0.108	-4.3%	-11.5%
IDR-TWD	0.00296	0.00301	0.00306	0.00303	0.00310	0.00306	0.00265	3.3%	-10.4%
IDR-THB	0.00307	0.00315	0.00327	0.00331	0.00340	0.00334	0.00282	8.9%	-8.0%
MYR-PHP	13.1	13.0	13.0	13.0	13.0	13.0	13.5	-0.9%	2.9%
MYR-SGD	0.418	0.423	0.422	0.426	0.436	0.436	0.412	4.4%	-1.4%
MYR-KRW	383	378	374	368	361	355	373	-7.4%	-2.6%
MYR-TWD	9.34	9.40	9.41	9.47	9.46	9.33	9.20	-0.1%	-1.5%
MYR-THB	9.68	9.84	10.05	10.37	10.36	10.20	9.79	5.3%	1.1%
PHP-SGD	0.032	0.032	0.033	0.033	0.034	0.034	0.030	5.3%	-4.2%
PHP-KRW	29.2	28.9	28.9	28.4	27.8	27.3	27.6	-6.6%	-5.4%
PHP-TWD	0.711	0.720	0.726	0.730	0.727	0.717	0.681	0.8%	-4.3%
PHP-THB	0.737	0.754	0.775	0.799	0.796	0.784	0.725	6.3%	-1.7%
SGD-KRW	917	893	886	864	828	813	906	-11.3%	-1.2%
SGD-TWD	22.3	22.2	22.3	22.2	21.7	21.4	22.3	-4.2%	-0.1%
SGD-THB	23.2	23.2	23.8	24.3	23.7	23.4	23.8	1.0%	2.6%
KRW-TWD	0.024	0.025	0.025	0.026	0.026	0.026	0.025	7.9%	1.2%
KRW-THB	0.025	0.026	0.027	0.028	0.029	0.029	0.026	13.8%	3.9%
TWD-THB	1.04	1.05	1.07	1.09	1.09	1.09	1.06	5.4%	2.7%

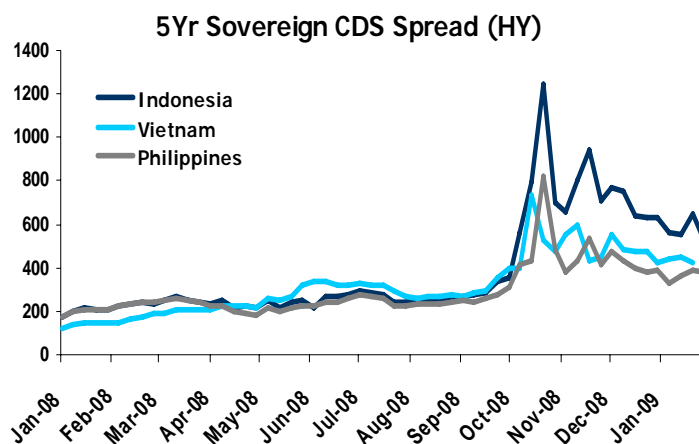
Long-Term Foreign Currency Government Bond Ratings

	Moody's	S&P	Fitch
Investment Grade			
China	A1	A+	A+
Hong Kong	Aa2	AA+	AA
India	Baa2	BBB-	BBB-
Korea	A2	A	A+
Malaysia	A3	A-	A-
Singapore	Aaa	AAA	AAA
Taiwan	Aa3	AA-	A+
Thailand	Baa1	BBB+	BBB+
Sub-Investment Grade			
Cambodia	B1	B+	NR
Indonesia	Ba3	BB-	BB
Philippines	B1	BB-	BB
Vietnam	Ba3	BB	BB-
* denotes an upgrade; # denotes a downgrade over previous month			
Source: Bloomberg			

Sovereign CDS Spreads



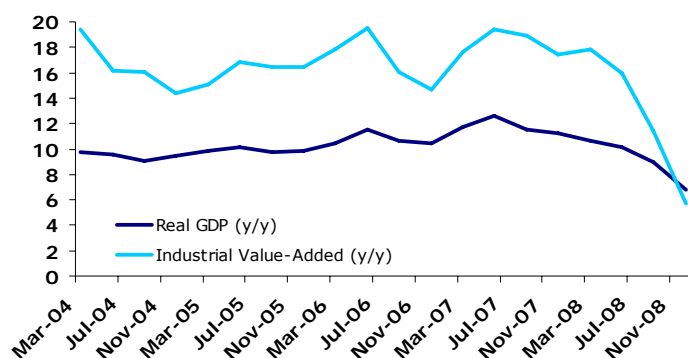
Source: Bloomberg



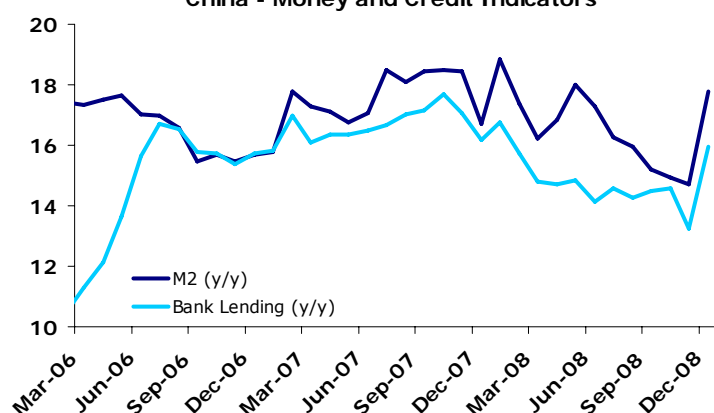
Source: Bloomberg

Country Update: China

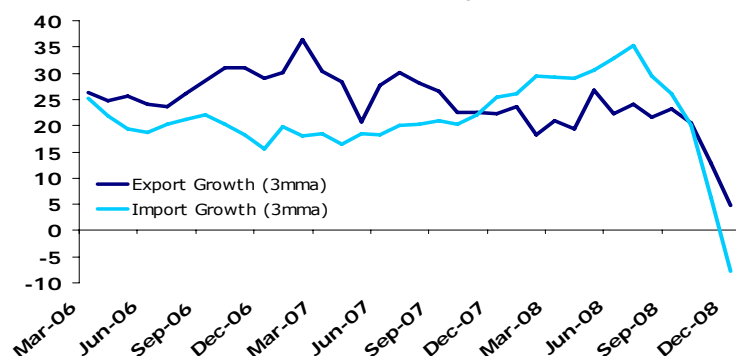
China- Real Activity Indicators



China - Money and Credit Indicators



China - Trade Developments



GDP growth slowed sharply in Q4 on weaker investment. Consumption momentum remains firm and net exports appear steady. Lending picked up in December as the authorities' stimulus plan started to kick in, and inflation has all but disappeared. The policy challenge is to bring growth back to 8% against strong headwinds.

- GDP growth fell sharply to 6.8% (y/y) in Q4 from 9.0% in Q3. Available data show significant reductions in activity in the secondary (manufacturing) and tertiary (services) sectors.
- Industrial value added growth stabilized at 5.7% in Dec, well below the double-digit pace of recent years. Nominal retail sales growth continues to ease, falling to 19% in Dec, down 2ppt from Nov, suggesting that real spending remains steady.
- Export growth was negative (-2.8%, y/y) for the second straight month in Dec, somewhat better than elsewhere in the region. Import growth fell by 21.3%. The trade surplus remained near \$40 bn.
- Inflation continues to abate. Consumer prices rose just 1.2% (y/y) in Dec, Producer prices are now falling (by 1.1% in Dec) after having risen by 10% in Q3.
- Money and credit growth both rebounded by 3ppt in Dec. The authorities eliminated lending limits late in 2008 and encouraged banks to extend more credit to SMEs as part of their efforts to stimulate growth.
- Official reserves rose by more than \$60 billion in Dec to reach nearly \$2 trillion. However, most of this was valuation. Estimated "hot money" outflows were \$40 bn for the second straight month.
- We expect GDP growth to be below the authorities' 8% "comfort level" for much of 2009 given the weak Q4 outturn and since the huge stimulus package will take time to gain traction. The risks are on the downside as recent growth has become largely dependent on consumption.

Paul Gruenwald

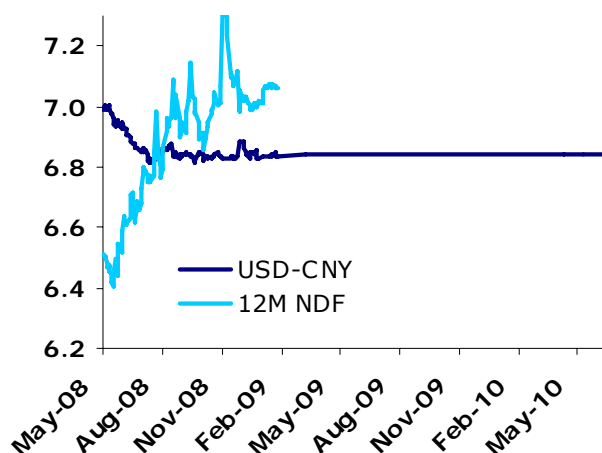
Economic Data - China

Monthly data	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08
Industrial Production, % y/y	16.0	16.0	14.7	12.8	11.4	8.2	5.4	5.7
Retail Sales, % y/y	21.6	23.0	23.3	23.2	23.2	22.0	20.8	19.0
Consumer Price Index, % y/y	7.7	7.1	6.3	4.9	4.6	4.0	2.4	1.2
Exports, % y/y	28.1	17.7	26.9	21.1	21.3	19.1	-2.2	-2.8
Imports, % y/y	40.1	31.2	33.6	22.9	20.9	15.4	-18.0	-21.3
Trade Balance, US\$ bn	20.2	21.4	25.3	28.7	29.4	35.2	40.1	39.0
Foreign Exchange Reserves, US\$ bn	1,797.0	1,808.8	1,845.2	1,884.2	1,905.6	1,879.7	1,884.7	1,946.0
Quarterly data	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08
Real GDP, % y/y	13.0	14.0	13.0	12.0	10.6	10.1	9.0	6.8
-Primary Sector ytd	4.4	4.0	4.3	3.7	2.8	3.5	4.5	5.5
-Secondary sector ytd	14.6	15.0	14.8	14.7	11.5	11.3	10.5	9.3
-Tertiary sector ytd	12.7	13.5	14.0	13.8	10.9	10.5	10.3	9.5
Nominal GDP, RMB tn	5.3	11.2	17.4	25.7	6.1	13.1	20.2	30.1
Current Account, US\$ bn (semi-	N/A	162.9	N/A	371.8	N/A	191.7	N/A	N/A
Capital Account, US\$ bn (semi-annual)	N/A	1.5	N/A	3.1	N/A	1.7	N/A	N/A

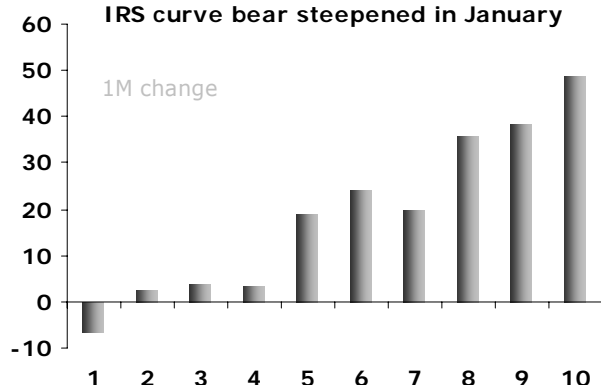
Source: CEIC

China: FX and Rates Strategy

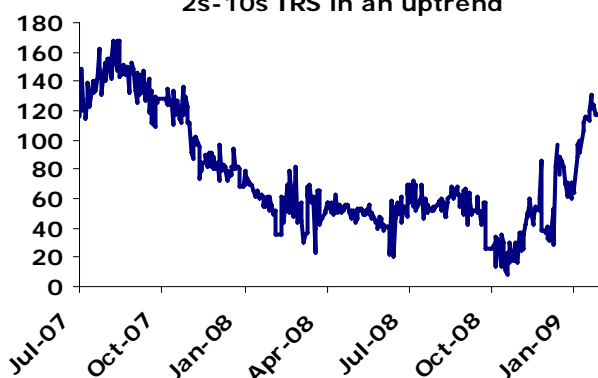
NDFs priced for mild CNY devaluation



IRS curve bear steepened in January



2s-10s IRS in an uptrend



CNY continues to tread water against USD, but a weak print for Q4 GDP has helped re-ignite market speculation that the authorities will opt for a bit of depreciation to support exports. However, we continue to believe that the current trading range will hold until the global economy gets back on its feet.

FX

USD-CNY remains rock solid—holding in the 6.84 area since July 2008—but speculation about a possible devaluation has intensified in the wake of painful Q4 data and rhetoric from Obama’s Treasury Secretary Geithner. Twelve-month NDFs are priced for a devaluation of 3%.

Q4 GDP slowed sharply to 6.8% y/y from 9.0% in Q3, and exports contracted by an average 2.5% (y/y) in November and December. In relative terms, however, China’s economy continues to out-perform. Elsewhere, GDP is *contracting*, and exports are dropping at a *double-digit* pace.

We continue to believe that the authorities will prefer to reap the long-term political gains from USD-CNY stability, especially since economic gains from a devaluation would be short-lived at best. Notably, during the Asian crisis in 1997/98, the authorities kept the CNY steady amid sharply weaker currencies in the rest of the region.

A devaluation would not boost foreign demand. Moreover, net exports are not the primary driver of Chinese GDP growth. Finally, in response to Geithner’s accusation that it is “manipulating its currency,” China’s commerce ministry said “China will keep its currency stable and will not depreciate the currency to support exports” (24 Jan). As such, we expect USD-CNY to remain in its current trading range until we see an upturn in the global economy.

Rates

Markets are expected to discount further PBoC policy stimulus, suggesting even lower CNY rates and further steepening in the curve.

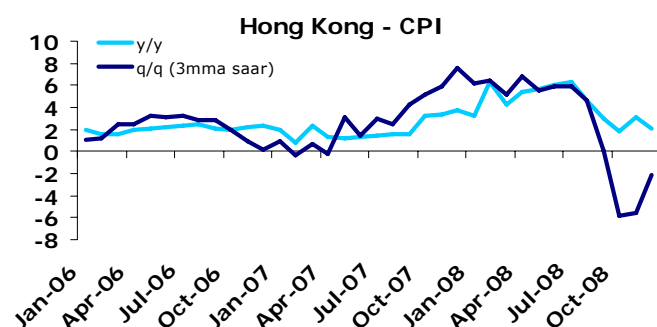
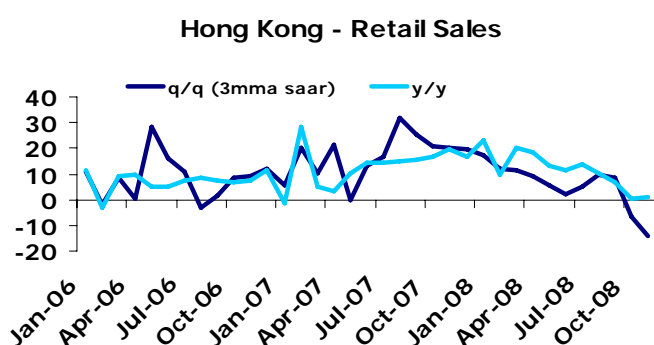
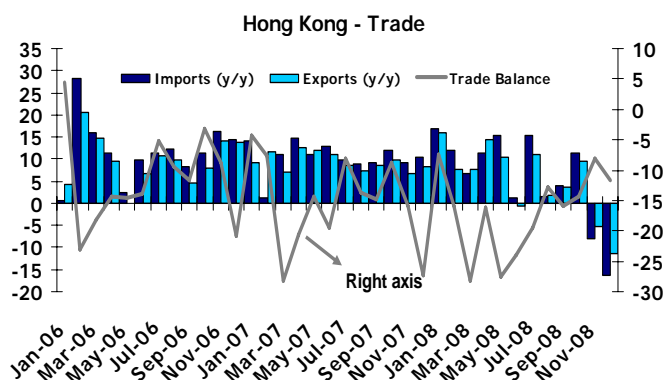
Tamara Henderson

Market Forecasts - China

FX	Current	Ytd	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10
USD-CNY	6.838	0.2%	6.84	6.84	6.84	6.84	6.84	6.84
AUD-CNY	4.427	-7.7%	4.30	4.00	3.80	3.70	3.70	3.80
NZD-CNY	3.480	-11.9%	3.60	3.20	3.10	3.00	3.10	3.10
JPY-CNY	0.076	1.3%	0.070	0.068	0.068	0.067	0.065	0.063
EUR-CNY	8.828	-7.4%	8.55	8.21	7.66	7.39	7.39	7.52
Rates	Current	Ytd	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10
PBOC's 1-year base lending rate	5.31	0	5.04	4.77	4.50	4.50	4.50	4.50
3-month SHIBOR	1.39	-39	1.1	1.0	0.8	0.8	0.8	1.0
2-year IRS (onshore vs 7-day repo fix)	1.10	3	0.8	0.7	0.6	0.6	0.6	0.7
10-year IRS	2.28	49	2.2	2.1	2.1	2.1	2.1	2.1

Sources: ANZ and Bloomberg

Country Update: Hong Kong



The pace of activity continues to weaken. Retail sales momentum is fading and exports are contracting. Inflation continues to decline. To stimulate demand, the government announced a sizeable stimulus package. However, given the openness of the economy, growth is likely to be negative in 2009.

- Retail sales growth remains very weak rising by only 1.2% (y/y) in Nov, marginally up from 0.3% in Oct. In terms of volume, retail sales continue to contract, by 2.8% in Nov following a decline of 4.3% in Oct.
- Exports fell by 11.4% (y/y) in Dec, after a 5.3% decline in Nov as external demand evaporated. Imports, however, contracted at an even faster pace of 16.2%, keeping the trade deficit broadly stable at HK\$12bn.
- Inflation pressures continue to ease. CPI inflation fell to 2.1% (y/y) in Dec from 3.1% in Nov.
- The unemployment rate continued the rise that began in Sep 2008, reaching 4.1% at end-year. The increase was mainly seen in the import-export, transport and manufacturing sectors.
- The HKMA's benchmark interest rate was cut by 100bps to 0.5% in mid-Dec following the rate cut by the US Federal Reserve. The HKMA's composite interest rate dropped 18bps from Nov to 0.68% in Dec, reflecting downward adjustments in the interbank and base rates.
- The HKMA and PBoC strengthened their cooperation by signing in mid-Jan a three-year swap agreement worth up to HK\$227bn. The agreement is expected to increase liquidity support to banks operating in both economies.
- A stimulus package was announced by the government to tackle the economic downturn. Besides providing up to HK\$100bn in loan guarantees for enterprises and creating over 60,000 jobs this year, the government has expedited the implementation of public projects and pledged HK\$29bn in infrastructure spending this year.
- Hong Kong's openness and reliance on trade flows and financial services for growth implies that 2009 will not be a strong year. We currently project sub-zero GDP growth.

Jun Jie Chong

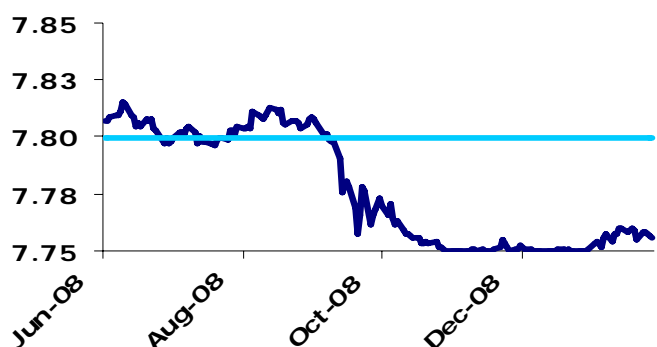
Economic Data - Hong Kong

Monthly data	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08
Retail Sales, % y/y	13.1	11.7	13.7	10.2	7.0	0.3	1.2	N/A
Composite Consumer Price Index	5.6	6.1	6.3	4.5	3.1	1.7	3.1	2.1
Exports, % y/y	10.3	-0.6	11.1	1.9	3.6	9.4	-5.3	-11.4
Imports, % y/y	15.4	1.3	15.4	1.5	3.9	11.3	-7.9	-16.2
Trade Balance, US\$ bn	-3.5	-3.1	-2.5	-1.6	-2.1	-1.8	-1.1	-1.5
Foreign Exchange Reserves, US\$ bn	154.2	152.1	153.3	153.2	153.7	149.3	160.5	178.1
Quarterly data	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08
Industrial Production, % y/y	-1.6	-2.3	-2.0	-0.3	-4.4	-4.2	-6.7	N/A
Real GDP, % y/y	5.5	6.2	6.8	6.9	7.3	4.2	1.7	N/A
-Private consumption	4.5	6.6	10.6	9.5	7.9	3.2	0.2	N/A
-Government consumption	2.3	3.0	1.5	2.3	0.3	3.0	2.3	N/A
-Gross fixed capital formation	0.8	8.1	-0.5	8.2	9.9	3.5	3.0	N/A
Nominal GDP, HKD bn	373.6	380.1	413.8	448.7	410.2	404.3	429.7	N/A
Current Account, US\$ bn	8.4	3.5	7.7	6.1	6.6	4.5	9.8	N/A
Capital & Financial Account, US\$ bn	-10.2	-5.1	-9.6	-8.3	-4.3	-2.6	-11.9	N/A

Sources: Bloomberg, CEIC

Hong Kong: FX and Rates Strategy

USD-HKD has come off the floor



In January, USD-HKD made a more sustained move above the floor of the trading band. As risk aversion concurrently spiked after a reprieve in December, we attribute the upmove in USD-HKD more to fundamentals rather than a piling back into carry trades.

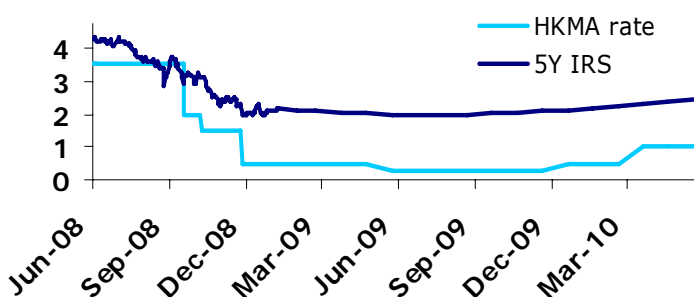
FX

Acute risk aversion has kept USD-HKD pinned to the floor of its 7.75-7.85 trading range for most of the post-Lehman Brothers bankruptcy period. Amid a massive unwinding of carry trades, the HKMA reportedly has had to intervene from time to time to keep the currency above the floor of the trading band.

In January, USD-HKD made a more sustained move above the floor of the band. As risk aversion concurrently spiked after a consolidative reprieve in December, we attribute the upmove in USD-HKD more to economic fundamentals, rather than a U-turn in preferences for risk trades.

We expect further gains in USD-HKD in the months ahead, paced by a more accelerated deterioration in Hong Kong's growth prospects. Notably, the contraction in Hong Kong's exports more than doubled in December to -11.4% (y/y), and the feedback effects from the drop in global demand are only just starting to hit home. A significant narrowing in the current account surplus is also anticipated, which should underpin further gains in USD-HKD.

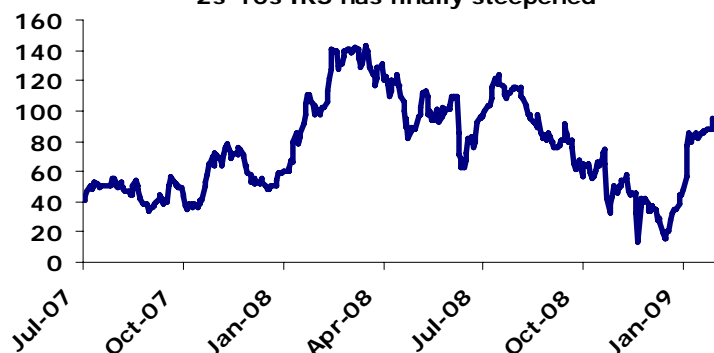
Downtrend in rates still intact near-term



Rates

In order to maintain the viability of the USD-HKD currency peg, HKMA monetary policy must mirror that of the US Federal Reserve. Like the Fed, the HKMA has cut policy rates sharply. Unlike the Fed, the HKMA has a bit more ammunition left, with a remaining 50 bps gap with the Fed funds rate. We expect to see a further narrowing in the gap in H1, supportive of HKD rates markets into mid-year.

2s-10s IRS has finally steepened



Tamara Henderson

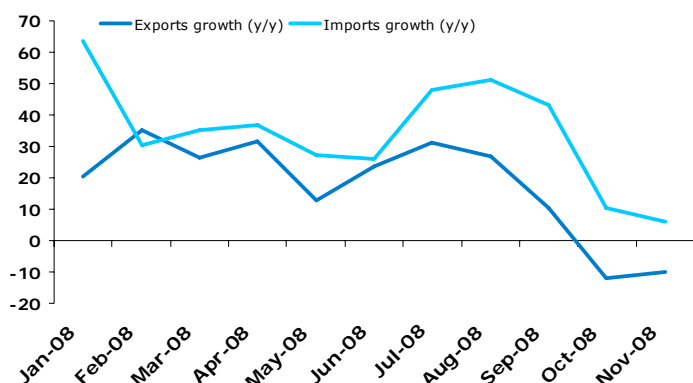
Market Forecasts - Hong Kong

FX	Current	Ytd (%)	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10
USD-HKD	7.756	0.1%	7.755	7.770	7.800	7.800	7.800	7.800
AUD-HKD	5.015	-7.9%	4.9	4.5	4.4	4.2	4.2	4.4
NZD-HKD	3.954	-11.9%	4.0	3.7	3.5	3.4	3.5	3.6
JPY-HKD	0.087	1.3%	0.079	0.078	0.077	0.076	0.074	0.072
EUR-HKD	9.997	-7.7%	9.7	9.3	8.7	8.4	8.4	8.6
Rates	Current	Ytd (bps)	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10
HKMA's discount rate	0.50	0	0.50	0.25	0.25	0.25	0.50	1.00
3-month HIBOR	0.95	0	0.8	0.7	0.7	0.8	1.1	1.3
2-year IRS (onshore vs 3M HIBOR)	1.47	-2	1.3	1.2	1.2	1.3	1.6	1.8
10-year IRS	2.36	43	2.3	2.3	2.3	2.3	2.4	2.5

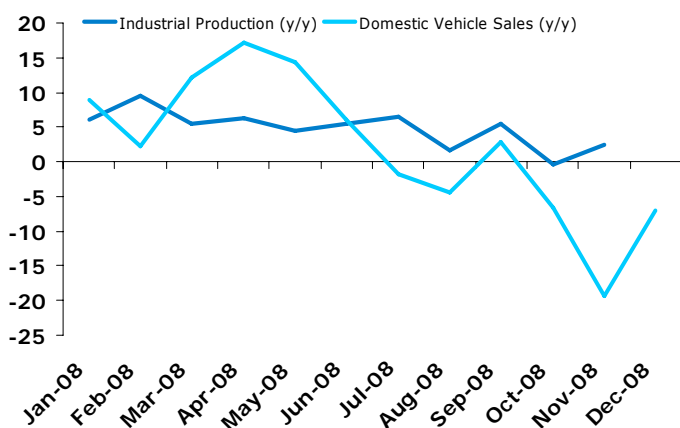
Sources: ANZ, Bloomberg

Country Update: India

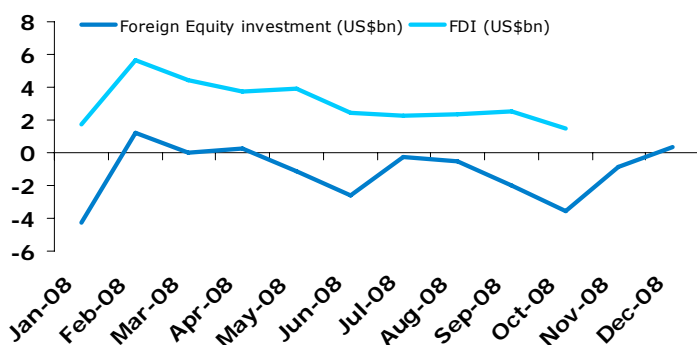
India - Trade



India - Domestic Vehicle Sales & Industrial Production



India - FDI & Foreign Equity Investment



Economic Data - India

Monthly data	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08
Industrial Production, % y/y	4.4	5.4	6.4	1.7	5.5	-0.3	2.4	N/A
Automobile Sales, % y/y	9.2	8.7	15.3	11.7	15.2	-9.3	-10.4	-11.8
Wholesale Price Index, % y/y	9.4	12.0	12.5	12.9	12.1	10.7	8.3	5.9
Exports, % y/y	27.6	38.4	35.7	26.9	10.4	-12.1	-9.9	N/A
Imports, % y/y	38.7	32.3	57.2	51.2	43.3	10.6	6.1	N/A
Trade Balance, US\$ bn	-11.2	-9.3	-11.9	-13.9	-10.6	-10.5	-10.1	N/A
Foreign Exchange Reserves, US\$ bn	304.9	302.3	295.9	286.1	277.3	244.0	239.0	N/A
Quarterly data	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08
Real GDP, % y/y	9.7	9.2	9.3	8.8	8.8	7.9	7.6	N/A
-Agriculture	4.9	4.4	4.7	6.0	2.9	3.0	2.7	N/A
-Industry	12.6	9.9	10.0	8.8	8.0	7.4	6.5	N/A
-Services	10.3	11.0	10.5	10.4	11.2	10.0	9.6	N/A
Nominal GDP, INR tn	10.4	9.9	9.8	11.4	11.9	11.5	11.7	N/A
Current Account, US\$ bn	4.2	-6.7	-4.3	-4.5	-1.5	-9.8	-12.5	N/A
Capital Account, US\$ bn	15.8	17.8	33.2	31.0	26.0	11.8	8.2	N/A

Sources: Bloomberg, CEIC

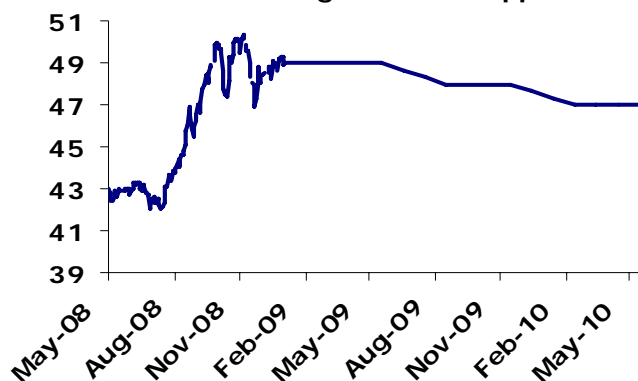
Exports shrank again in November and industrial production improved. Reflecting lower retail oil prices and lower borrowing costs, domestic demand is supporting activity. Inflation fell towards the RBI's comfort level of 5% paving way for more rate cuts. GDP growth should moderate to around 5% this year.

- Exports registered a 9.9% (y/y) decline in Nov, and import growth slowed to 6.1% as a result of low commodity prices. Net exports are a drag on growth.
- Industrial production surprisingly improved to 2.4% (y/y) in Nov, following a contraction of 0.3% in Oct. Manufacturing PMI was at 44.4 for Dec, below the 50 threshold, signalling further contraction.
- The WPI fell to 5.6% (y/y) in the week ending January 10, nearing the RBI's comfort level of 5%, creating further room for easing monetary policy.
- Net FDI contracted by 26.1% (y/y) in Oct. Net foreign equity investment fell by \$0.9bn in Jan, after posting a rise of \$0.3bn in Dec. Worsening risk appetite due to another wave of global financial deterioration caused the BSE Sensex to fall by 10% last month.
- The RBI noted that the transmission of the policy interest rate signal in the credit market has been subdued and, to the markets' surprise, left the repo rate unchanged at 5.50% at its Jan meeting.
- Fiscal measures announced on 7 Dec and 2 Jan contain targeted tax-rate reductions for the real estate and exports sectors, while planned fiscal expenditure has been increased by 6.4% of 2008 GDP. Further scope to increase government expenditure remains constrained, although the authorities have hinted at a second relief package.
- We expect GDP growth to continue to moderate and forecast a 5 to 5½% expansion this year. Any support to GDP growth will come from domestic consumption, and measures undertaken by the authorities are expected to hold up domestic demand.

Vimal Balasubramaniam

India: FX and Rates Strategy

USD-INR gains seen capped



Portfolio outflows continue to slow and India's trade deficit continues to narrow, reducing pressure on the rupee. Meanwhile, inflation is back near the RBI's comfort zone of 5%, but the central bank disappointed bond markets by failing to cut interest rates in January.

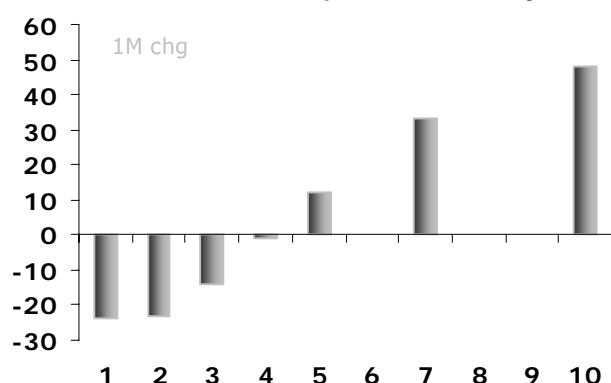
FX

We think we've already seen the peak in USD-INR during this upcycle, although another foray above the 50 level cannot be ruled out given that financial markets remain whippy amid further fallout in the banking sector and much weaker than expected performance in the global economy in Q4.

Net foreign portfolio equity outflows were a key driver of rupee weakness in 2008, but outflows are progressively slowing. Year-to-date, these flows have improved by 75%! Also, India's trade deficit continues to narrow, which reduces the amount of external financing required to support the current account deficit.

The INR helped lead USD-AXJ higher last year, with INR under-performing all of AXJ with the exception of the KRW. In sharp contrast, we expect 2009 to be a period of out-performance for the INR as the currencies of countries with extremely large export exposures (e.g. Malaysia, Singapore and Taiwan) play "catch-up" (albeit to a much more limited degree given that these currencies are more tightly managed).

IRS curve steepened in January



Rates

INR rates markets have come under pressure as the RBI opted for a steady hand instead of a rate cut in January. Inflation is back near the RBI's comfort zone of 5%, but banks have failed to pass on enough of the RBI's hefty 350 bps of monetary stimulus.

Meanwhile, concerns about supply are building, with the RBI recently stating that the fiscal deficit would be "substantially higher" than previously estimated. Ultimately, we expect the RBI to continue cutting its policy rate, which should bring the bulls back to the Indian rates market. Until then, we expect more bear-steepening.

2s-10s IRS in an uptrend



Tamara Henderson

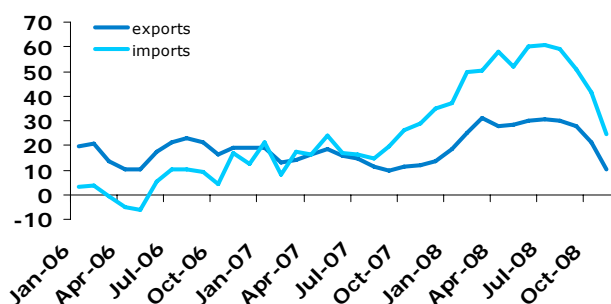
Market Forecasts - India

FX	Current	Ytd (%)	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10
USD-INR	48.99	0.4%	49.0	49.0	48.0	48.0	47.0	47.0
AUD-INR	31.68	-7.4%	31	28	27	26	25	26
NZD-INR	24.93	-11.6%	25	23	22	21	21	22
JPY-INR	0.55	2.0%	0.50	0.49	0.48	0.47	0.45	0.44
EUR-INR	63.16	-7.2%	61	59	54	52	51	52
Rates	Current	Ytd (bps)	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10
RBI's repo rate	5.50	-100	5.00	4.50	4.00	4.00	4.00	4.50
3-month MIBOR	8.00	-89	7.3	6.8	6.6	6.6	6.7	6.9
2-year IRS (vs NSE MIBOR)	4.21	-23	3.5	3.0	2.8	2.8	3.0	3.1
10-year IRS	5.31	48	5.1	4.9	4.8	4.8	4.9	4.9

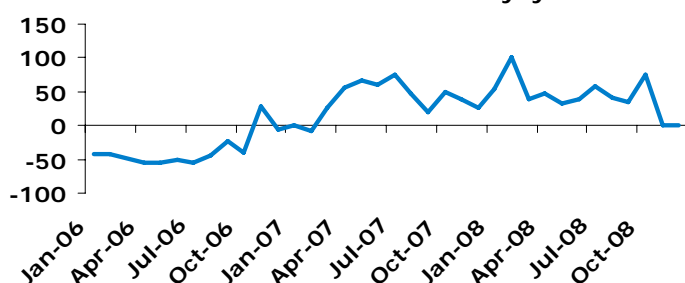
Sources: ANZ and Bloomberg

Country Update: Indonesia

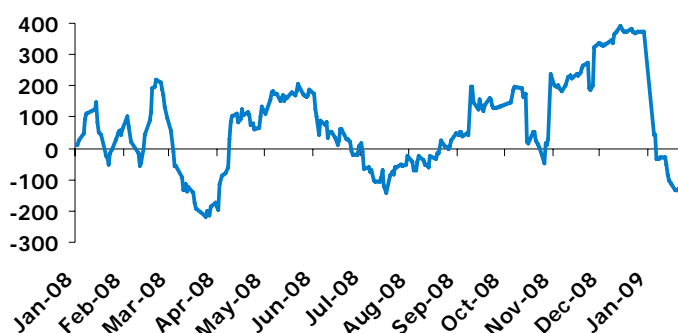
Indonesia - Trade 3mma



Indonesia - Auto sales y/y



Indonesia - Net Foreign Equity Flows (20d MA)



The economy is slowing after having grown at its fastest pace in a decade. Inflation has been declining, allowing room for the BI to reduce its key interest rate by a surprising 50bps to 8.75%.

- Domestic demand indicators tumbled in the last quarter. Auto sales grew by only 1.2% (y/y) in December as compared with Q3 average growth of 44.7%. Cement sales fell 0.1% (y/y) in Dec, slowing from an average growth rate of 12.6% for the whole year, signalling a slowdown in construction. The consumer confidence index declined to a 4-month low of 90.6 in Dec from 96.3 in Nov.
- Inflation eased to 11.1% (y/y) in Dec, from 11.5% in Nov, due largely to a decline in food and fuel prices. President Yudhoyono also announced fuel and electricity price cuts that would help bring inflation down to the BI's 6% target and stimulate consumer spending.
- Exports contracted by 2.4% (y/y) in Nov, down from 4.7% growth (y/y) in Oct, led by declines in raw materials and manufactured goods. However imports fell by even more, shrinking by 5.6% (y/y) in Nov as compared with 40.3% growth in the previous month, improving the trade balance to \$2.5bn.
- Net foreign equity purchases were positive for much of Q4, bucking the trend of outflows for countries in the region. However, foreigners were net sellers in Jan, possibly reflecting fears that Indonesia cannot be fully isolated from the global recession.
- Finance Minister Indrawati believes that growth will hold up with help from the government's stimulus package, lower inflation and a stable exchange rate. The government announced plans to spend more than 72 trillion rupiah (\$6bn) on infrastructure and other projects to boost growth and create jobs.
- Bank Indonesia cut its benchmark interest rate to 8.75% from 9.50% over two consecutive meetings. With the inflation threat receding amidst growth concerns, the BI should have greater room to enact rate cuts to support growth.
- We see Indonesia outperforming most of the region this year with growth of nearly 5%.

Chang Wei Liang

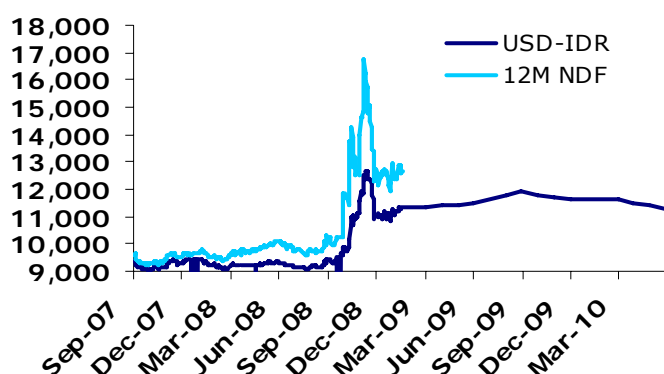
Economic Data - Indonesia

Monthly data	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08
Industrial Production, % y/y	4.0	1.3	2.6	2.9	0.2	7.0	N/A	N/A
Retail Sales Index, % y/y	7.5	7.4	6.5	13.7	3.2	-15.5	-23.9	N/A
Consumer Price Index, % y/y	10.4	11.0	11.9	11.8	11.9	11.6	11.5	11.1
Exports, % y/y	31.6	34.1	24.8	29.9	30.2	4.7	-2.4	N/A
Imports, % y/y	49.8	63.4	68.8	45.4	38.5	40.3	-5.6	N/A
Trade Balance, US\$ bn	3.2	3.0	1.8	2.4	3.0	2.0	2.5	N/A
Foreign Exchange Reserves, US\$ bn	54.9	56.8	58.0	55.9	54.6	48.4	47.8	49.2
Quarterly data	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08
Real GDP, % v/v	6.1	6.4	6.5	6.3	6.3	6.4	6.1	N/A
-Private consumption	4.7	4.7	5.1	5.6	5.7	5.5	5.3	N/A
-Government consumption	3.7	3.8	3.3	2.0	3.6	5.5	20.5	N/A
-Gross fixed capital expenditure	7.0	6.9	10.4	12.1	15.6	13.1	12.0	N/A
Nominal GDP, IDR tn	920.2	962.8	1,033.3	1,041.1	1,125.0	1,236.5	1,343.8	N/A
Current Account, US\$ bn	2.6	2.2	2.1	3.4	2.6	-1.2	-0.6	N/A
Capital & Financial Account, US\$ bn	1.8	2.0	-1.0	0.7	-1.6	2.6	0.5	N/A

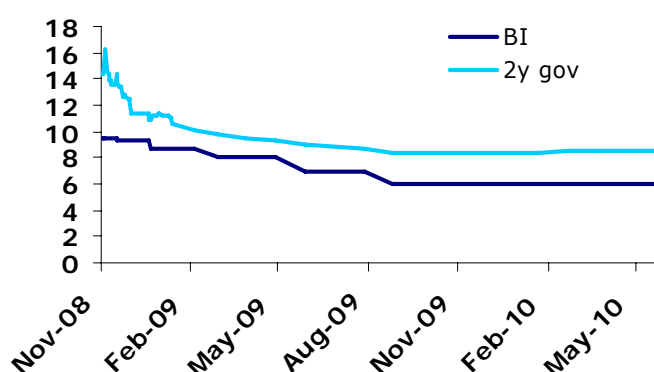
Sources: Bloomberg, CEIC

Indonesia: FX and Rates Strategy

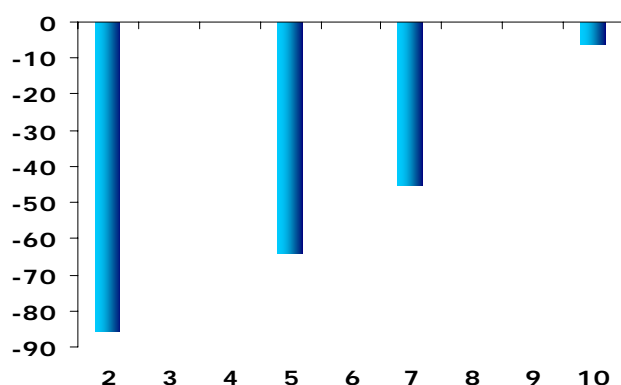
Foreigners are less pessimistic



BI just getting started with cuts



2Y GOV out-performed in January (bps)



IDR has recovered a lot of ground since November, but upside risk in USD-IDR remains intact. Meanwhile, we find IDR rates markets quite attractive on a currency-hedged basis.

FX

The IDR has recovered a lot of ground, now back in the 11,300 area versus a high of 13,000 toward the end of Nov. At that time, markets were anxious about the possibility of full-fledged capital controls after the government imposed a new rule requiring buyers of foreign currency over the amount of \$100,000 to provide evidence of an underlying transaction. It would seem that the rule helped counter contagion, dampening speculative pressures on the IDR, as intended.

Although we do not expect to see USD-IDR back near 13,000 anytime soon—especially as elections approach—we remain a bit concerned about net foreign equity flows, which are down 134% (y/y) as of 31 January (at -\$111.5 mln). In contrast, India, Korea, the Philippines and Taiwan all experienced a let up in outflows over the same period. Indeed, seasonal analysis indicates that Indonesia is susceptible to net outflows in Q1 (when Korea, the Philippines and Taiwan are prone to net inflows). However, over the last 133 months (about eleven years), Indonesia has infrequently (19% of the time) recorded a month of net outflows, and rarely (4.5%) recorded a monthly net outflow above \$100 mln.

Ahead of elections this Spring, the authorities will likely keep a tight reign the IDR. At the same time, we will closely monitor Indonesia's portfolio flows.

Rates

We are quite bullish on IDR rates markets (currency hedged), anticipating out-performance within AXJ in 2009. We like IDR rates for three reasons: 1/ BI is only just getting started with rate cuts, whereas the rest of the region is beyond the half-way mark to say the least; 2/ Indonesia has enough surplus financing from 2008 to cover much of the 2009 budget, reducing worries about supply; and 3/ IDR bonds offer good value and attractive yields, having sold off massively during 2008.

Tamara Henderson

Market Forecasts - Indonesia

FX	Current	Ytd (%)	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10
USD-IDR	11,370	2.2%	11,350	11,500	11,900	11,600	11,600	11,300
AUD-IDR	7,347	-7.7%	7,200	6,700	6,700	6,300	6,300	6,300
NZD-IDR	5,795	-11.7%	5,900	5,400	5,400	5,100	5,200	5,200
JPY-IDR	127	1.9%	120	120	120	110	110	100
EUR-IDR	14,675	-7.3%	14,200	13,800	13,300	12,500	12,500	12,400
Rates	Current	Ytd (bps)	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10
BI's bank rate	8.75	-50	8.00	7.00	6.00	6.00	6.00	6.00
3-month JIBOR	10.71	-142	9.7	8.7	8.0	8.0	8.0	8.1
2-year IRS (versus IDR fix)	13.50	-50	12.5	11.5	10.8	10.8	10.8	10.9
10-year IRS	9.50	0	9.2	8.8	8.6	8.6	8.6	8.6

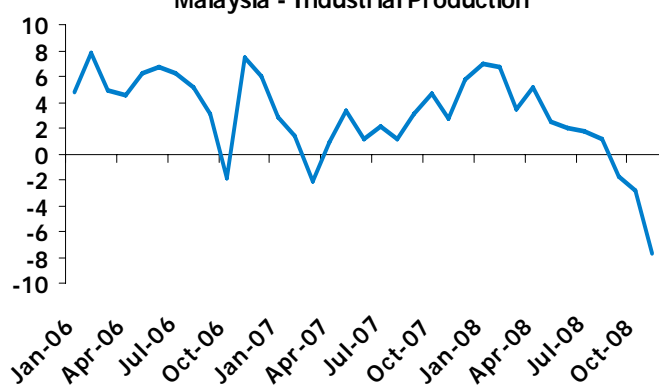
Sources: ANZ and Bloomberg

Country Update: Malaysia

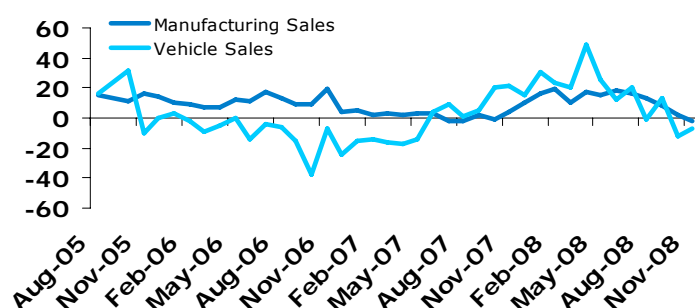
Malaysia - Trade



Malaysia - Industrial Production



Malaysia - Manufacturing & Vehicle Sales



Domestic demand indicators point to a continued slowdown. Bank Negara cut its overnight rate by the most in more than a decade. The political situation seems somewhat less stable with Deputy Prime Minister Razak losing a key by-election.

- Consumption is softening as vehicle sales continued to contract, falling 6.7% (y/y) in Nov. Manufacturing sales also contracted in Nov, by 1.6%, following modest growth in Oct.
- Industrial production continues to weaken, contracting by 7.7% in Nov due to a reduction in electricity, manufacturing and mining activity.
- Exports fell by 4.9% (y/y) in Nov due to declines in electronics and commodities exports. Imports also fell in Nov, declining 8.6%.
- Inflation fell to 5.7% (y/y) in Nov and 4.4% in Dec due to falling oil prices. The transport component fell by 6.0% in the month.
- Bank Negara lowered its overnight policy rate by 75bps to 2.5% and reduced the amount that banks need to set aside as reserves. The cut was the most in more than a decade, and exceeded market (and ANZ) expectations.
- Malaysian equity markets had a wild ride in Jan (up by over 5% in the first week of the year), finishing up by around 1%.
- The fragile political outlook seems somewhat less stable. In a key by-election in Terengganu, Malaysia's National Front lost the election signalling continuing support for opposition leader Anwar Ibrahim.
- We see Malaysia's growth at the low end of the range for ASEAN economies in 2009, with GDP projected to expand by around 2%. A second fiscal stimulus package is expected to help support growth.

Naresh Navaratnarajah

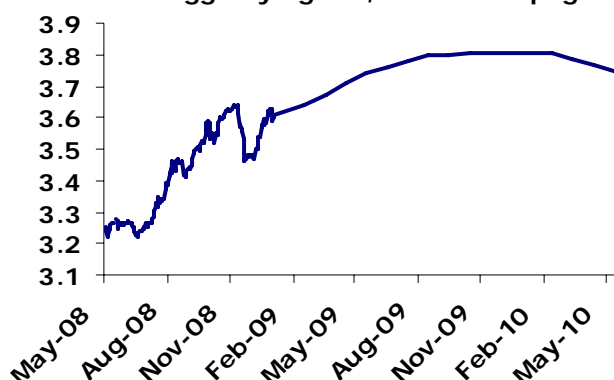
Economic Data - Malaysia

Monthly data	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08
Industrial Production, % y/y	2.9	2.3	2.4	1.2	-1.7	-2.8	-7.7	N/A
Manufacturing Sales, % y/y	15.1	18.1	16.2	13.4	8.6	2.1	-1.6	N/A
Consumer Price Index, % y/y	3.8	7.7	8.5	8.5	8.2	7.6	5.7	4.4
Exports, % y/y	22.9	18.6	25.3	10.7	15.0	-2.6	-4.9	N/A
Imports, % y/y	9.4	12.5	15.0	4.4	11.4	-5.3	-8.6	N/A
Trade Balance, USD bn	4.8	3.9	4.4	3.7	4.3	2.7	3.2	N/A
Foreign Exchange Reserves, US\$ bn	119.4	120.0	119.3	116.9	104.5	94.9	92.1	85.7
Quarterly data	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08
Retail Sales, % y/y	25.3	33.0	39.7	35.7	19.8	23.8	25.4	N/A
Real GDP, % y/y	5.5	5.7	6.7	7.3	7.4	6.7	4.7	N/A
-Private consumption	7.6	12.3	13.0	10.2	11.7	9.0	8.1	N/A
-Government consumption	7.3	10.4	6.0	4.2	14.7	10.9	6.9	N/A
-Gross fixed capital formation	9.5	6.0	12.8	10.2	6.0	5.6	3.1	N/A
Nominal GDP, MYR bn	144.6	154.3	166.3	176.7	175.4	189.4	198.7	N/A
Current Account, US\$ bn	5.7	7.3	8.6	8.0	7.5	11.3	11.2	N/A
Capital & Financial Account, US\$ bn	0.8	2.2	-9.0	-5.2	8.3	-3.8	-17.8	N/A

Sources: Bloomberg, CEIC

Malaysia: FX and Rates Strategy

Ringgit eying 3.8, the former peg

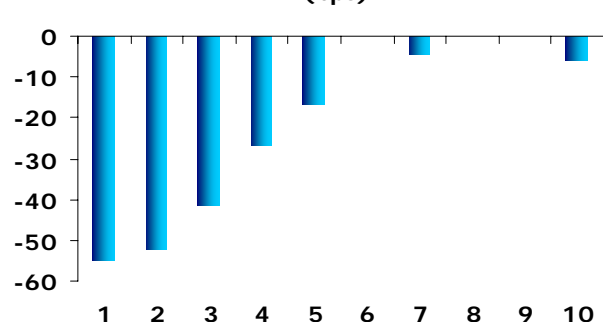


The combination of political uncertainty and a sharp deterioration in exports has put USD-MYR back in the 3.60 area. A test of the December high of 3.64 seems only a matter of time. We continue to target a peak of 3.80 in 2009.

FX

The MYR was an out-performer in 2008, shedding just 4.7% against the US dollar compared with an average loss of 10.5% within AXJ. This has changed in 2009, with the MYR now among the under-performers in the region—having lost 3.7% already in January. For one thing, political uncertainty has increased; but also, as exports have started to plummet in the region, FX markets have started to focus more on the currencies of countries with large export exposures.

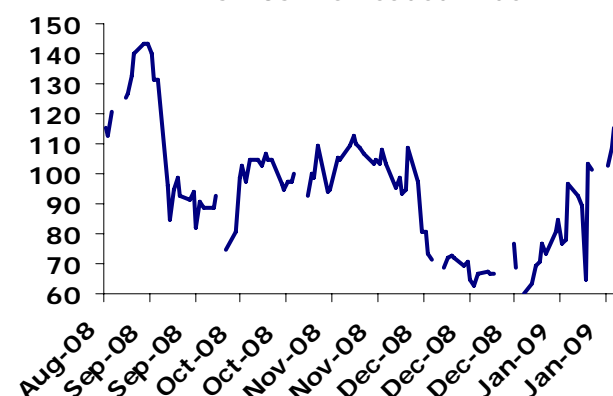
Front-end out-performed in January (bps)



Indeed, Malaysia has significant export exposure (over 100% of GDP) and, as has occurred across AXJ, exports have started to contract (-2.6% (y/y) in October and -4.9% in November). The figures for December should be even worse, perhaps even double-digit, judging by performance elsewhere in the region. Meanwhile, the knock-on effects from the slump in global demand are only just starting to filter through the local economy.

As such, we expect the authorities to tolerate further advances in USD-MYR in order to support economic growth and to maintain competitiveness within the region. We continue to target a peak of 3.80—the former level of the peg.

2s-10s IRS headed wider



Rates

Bank Negara opted for an uncharacteristically aggressive rate cut in January, cutting the OPR by a larger than expected 75 bps to 2.5%. Still, the move prompted an unexceptional rally in rates markets, hesitant to price in much more. However, we believe at least another 75 bps are in the pipeline, and this should benefit receiver positions, especially at the front-end of the MYR IRS curve.

Tamara Henderson

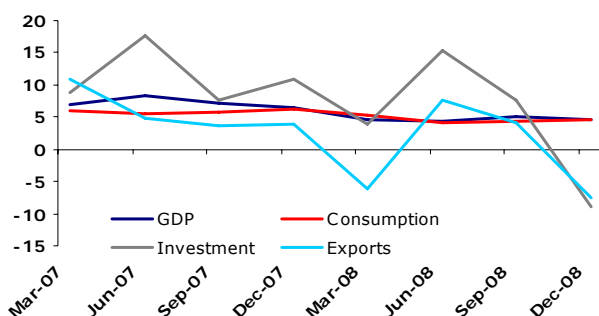
Market Forecasts - Malaysia

FX	Current	Ytd (%)	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10
USD-MYR	3.61	4.0%	3.64	3.74	3.80	3.80	3.80	3.75
AUD-MYR	2.33	-4.0%	2.3	2.2	2.1	2.1	2.1	2.1
NZD-MYR	1.84	-8.0%	1.9	1.8	1.7	1.7	1.7	1.7
JPY-MYR	4.24	1.2%	3.7	3.7	3.8	3.7	3.6	3.5
EUR-MYR	4.66	-3.5%	4.6	4.5	4.3	4.1	4.1	4.1
Rates	Current	Ytd (bps)	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10
BNM's overnight policy rate	2.50	-75	2.00	1.50	1.00	1.00	1.00	1.00
3-month KLIBOR	2.60	-77	2.1	1.6	1.1	1.1	1.1	1.2
2-year IRS (vs 3M KLIBOR)	2.29	-53	1.8	1.3	0.8	0.8	0.8	0.9
10-year IRS	3.44	-6	3.3	3.1	2.9	2.9	2.9	3.0

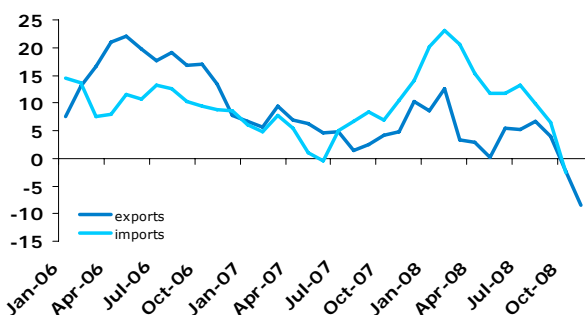
Sources: ANZ and Bloomberg

Country Update: Philippines

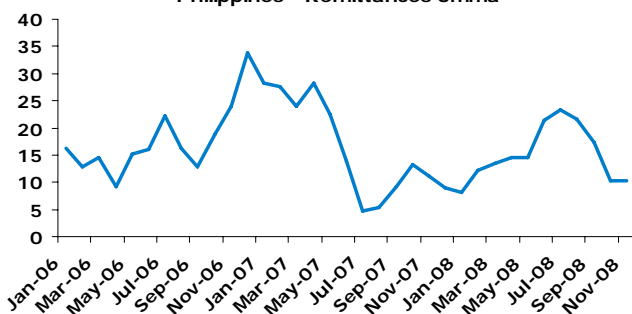
Philippines - GDP Growth by Components



Philippines - Trade 3mma



Philippines - Remittances 3mma



Growth surprised on the upside in Q4 as consumption remained buoyant, although trade contracted sharply in line with regional trends. Remittances are likely to remain subdued, putting pressure on the current account. The high public debt-to-GDP ratio and ongoing budget deficits imply limited fiscal space.

- GDP growth in Q4 came in at 4.5 (y/y), well above expectations. Quarterly growth of 1.0% (sa) was even more impressive. Consumption was robust, although investment weakened substantially, as did exports.
- Exports fell 11.4% (y/y) in Nov, a second monthly decline after a 14.8% contraction in Oct, due to lower shipments of manufactures and electronics. Imports posted their largest decline in five years, contracting 31.5% due to a drop in consumer goods.
- Overseas remittances growth held up at 10.5% (y/y) in Nov, improving from the 3.3% growth registered in Oct. However, with 70% of remittances originating from the US and Middle East, we will likely see remittances coming down in 2009.
- Inflation has finally peaked, dropping to 8.0% (y/y) in Dec from 9.9% in Nov, led by declines in fuel prices. The BSP cut rates by 50bp to 5% at its late January meeting, and Deputy Governor Diwa Guinigundo said inflation may dip below 6% in 2009.
- The government unveiled a 300bn peso (\$6.4bn) stimulus package aimed at generating 35,000 jobs by the first half of the year, with a promise to increase the budget deficit by more than 102bn pesos (or 2% of GDP) to support growth if necessary. However, the relatively high public debt-to-GDP ratio of 60% may limit the Philippines' employable fiscal space.
- Despite the high print in Q4, we see GDP growth declining this year in the Philippines as remittances slow in line with the global recession and consumption momentum wanes.

Chang Wei Liang

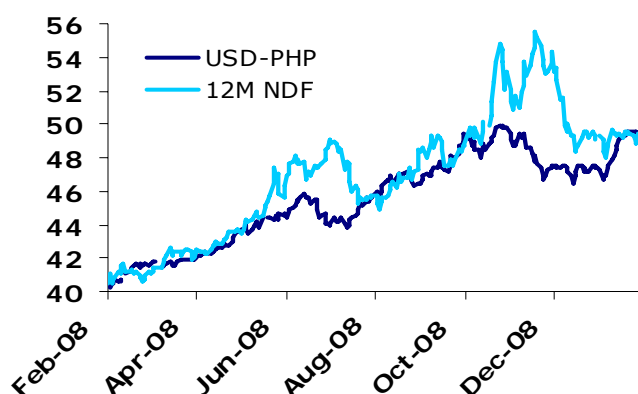
Economic Data - Philippines

Monthly data	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08
Manufacturing Production Value	8.6	7.5	10.3	6.3	12.5	9.2	1.4	N/A
Passenger Car Sales, % y/y	-0.5	17.4	31.0	20.6	12.3	-5.9	2.0	-19.5
Consumer Price Index, % y/y	9.5	11.4	12.3	12.4	11.8	11.2	9.9	8.0
Exports, % y/y	2.3	8.8	4.4	6.6	1.1	-14.8	-11.4	N/A
Imports, % y/y	10.9	12.7	16.0	1.1	2.5	-11.1	-31.5	N/A
Trade Balance, US\$ bn	-0.5	-0.8	-1.4	-0.6	-0.4	-0.6	N/A	N/A
Foreign Exchange Reserves, US\$ bn	31.8	32.1	32.4	32.5	32.3	31.8	32.4	N/A
Quarterly data	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08
Real GDP, % y/y	7.0	8.3	7.1	6.4	4.7	4.4	5.0	4.5
-Private consumption	5.9	5.6	5.7	6.2	5.2	4.1	4.4	4.5
-Government consumption	9.5	11.9	6.4	4.6	1.9	-1.5	13.4	4.7
-Gross fixed capital formation	10.3	20.9	8.8	6.7	2.9	3.0	7.0	1.9
Nominal GDP, peso bn	1,524.1	1,618.6	1,613.8	1,891.8	1,668.0	1,837.9	1,864.9	2,126.8
Current Account, US\$ bn	1.9	1.7	1.0	1.7	0.9	0.8	-0.5	N/A
Capital & Financial Account, US\$ bn	0.5	-0.4	3.3	-0.5	0.7	0.5	0.5	N/A

Sources: Bloomberg, CEIC

Philippines: FX and Rates Strategy

Uptrend in USD-PHP seen intact



GDP growth held up in Q4 and portfolio outflows have slowed, helping the peso out-perform within AXJ in January. Nevertheless, we continue to anticipate another test of the 50.0 level later in the year as feedback effects from the global recession hit harder in H1.

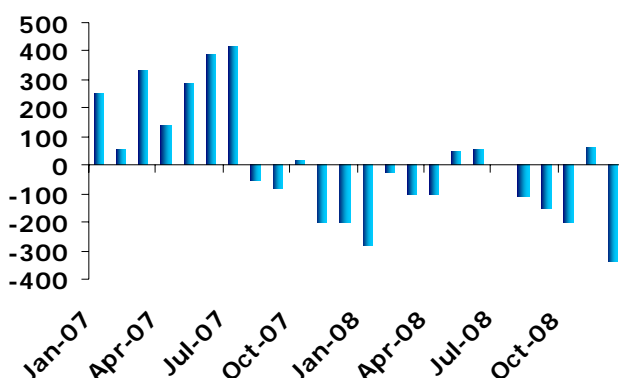
FX

The peso tumbled 15% against the US dollar in 2008 and further upside in USD-PHP is expected in 2009 as global growth prospects continue to deteriorate. Although the uptrend in USD-PHP should remain intact, having come so far already in 2008, the momentum should slow.

More recently, however, the peso has benefited from a relatively impressive outturn for Q4 GDP as well as a slowdown in portfolio outflows. Indeed, the peso out-performed all of AXJ in January, and gained 0.9% against the US dollar.

This strength in the peso is expected to be temporary—as beneficial seasonal effects from remittances and portfolio flows give way to the realities of global recession and continued risk aversion in the months ahead.

Net foreign equity investment (\$ mln)

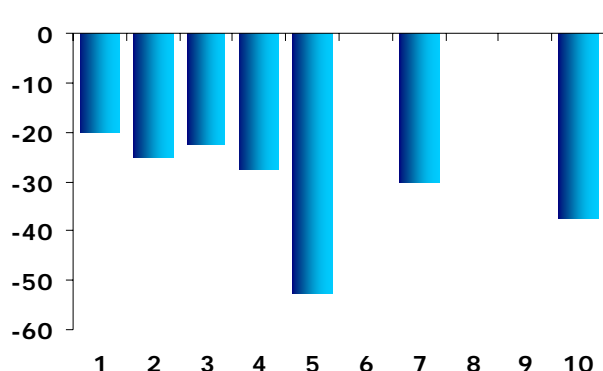


Rates

Inflation fell into the single digits, finally providing scope for the BSP to cut interest rates—for a total of 100 bps since mid-December. Another 100 bps of cuts in the policy rate are likely in the months ahead.

Meanwhile, the government has promised to increase the budget deficit by 2% of GDP if necessary to support growth. There is not much duration in the PHP curve, so issuance at the longer tenors would be welcome, supportive of trading in the secondary markets.

PHP 5Y IRS out-performed in January



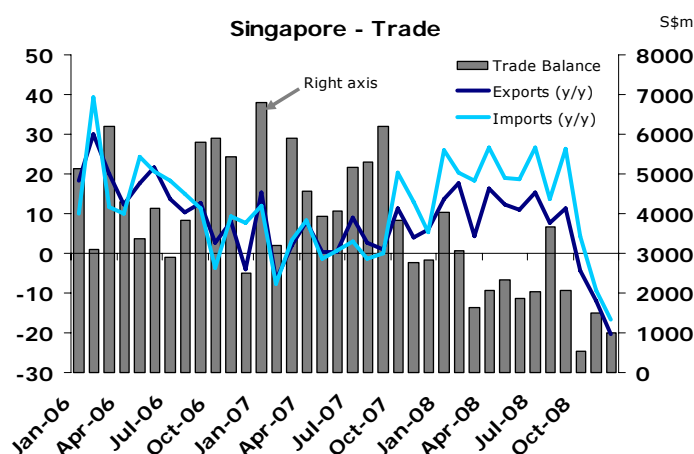
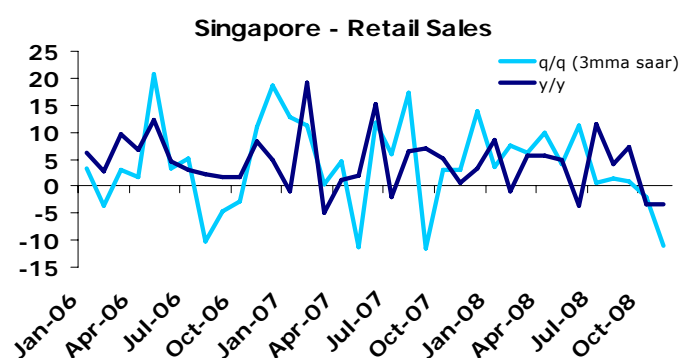
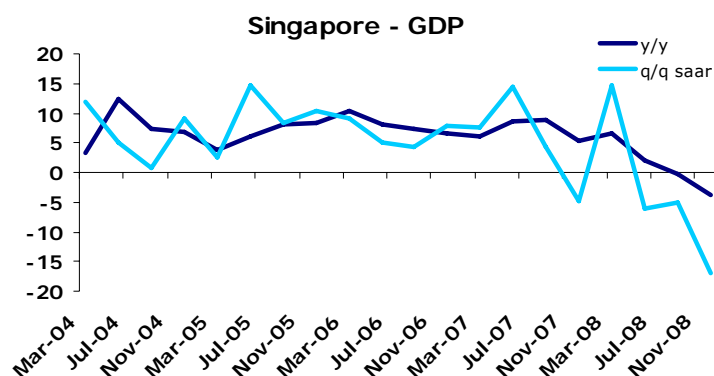
Tamara Henderson

Market Forecasts - Philippines

FX	Current	Ytd (%)	Mar-09	Jun-09	Sep-	Dec-	Mar-10	Jun-
USD-PHP	47.36	-0.3%	47.5	48.5	49.3	49.5	49.5	48.8
AUD-PHP	30.48	-8.5%	29.9	28.1	27.6	26.7	26.7	27.3
NZD-PHP	24.07	-12.3%	24.7	22.8	22.2	21.8	22.3	22.4
JPY-PHP	0.53	1.4%	0.485	0.485	0.488	0.485	0.471	0.452
EUR-PHP	61.07	-7.8%	59.4	58.2	55.2	53.5	53.5	53.7
Rates	Current	Ytd (bps)	Mar-09	Jun-09	Sep-	Dec-	Mar-10	Jun-
BSP's overnight reverse repo rate	5.00	-50	4.75	4.25	4.00	4.00	4.00	4.00
3-month PHIBOR	5.31	6	4.8	4.1	3.8	3.8	3.9	4.1
2-year IRS (versus 3M IB ref rate)	3.83	-25	3.3	2.6	2.3	2.3	2.5	2.6
10-year IRS	5.73	-38	5.6	5.3	5.2	5.2	5.3	5.3

Sources: ANZ and Bloomberg

Country Update: Singapore



The recession is deepening and the economy is expected to contract this year. Consumer sentiment continues to weaken and the manufacturing outlook remains bleak. External demand has vanished as exports continue to fall. In January, the government unveiled a large stimulus package to tackle the downturn.

- Preliminary estimates show that GDP in Q4 2008 contracted by 3.7% (y/y) following a decline of 0.6% in Q3. For 2008 as a whole, Singapore's GDP grew 1.2% compared with 7.7% in 2007.
- Retail sales continue to fall, declining 3.4% (y/y) in Nov, the same rate as in Oct. Consumer sentiment continues to weaken.
- Industrial production fell for the third month in a row, to 13.5% (y/y) in Dec after declining 6.6% in Nov. The manufacturing outlook remains pessimistic as the PMI reading for Dec was 44.8, a marginal 0.5 point rise over the previous month.
- Reflecting weak external demand, non-oil exports plunged 20.8% (y/y) in Dec after contracting 17.5% in Nov. Non-oil imports also declined sharply, by 14.0% in Dec after falling 12.4% in Nov. The trade surplus for Dec was \$669m, down from \$1bn in previous month. The total amount of cargo handled at Singapore's ports dropped 18% (y/y) in Dec.
- Inflation eased to 4.3% in Dec, down from 5.5% in Nov as commodity prices fell. The government has projected deflation of 1% for 2009.
- The government has slashed its GDP forecasts for 2009 to -2% to -5%, reflecting the deepening of the downturn. ANZ forecasts a 3% decline.
- To tackle the downturn, the government unveiled a \$13.7bn stimulus package of tax rebates and infrastructure projects. Singapore will dip into its fiscal reserves for the first time to help finance a budget deficit expected to be around 6% of GDP.

Jun Jie Chong

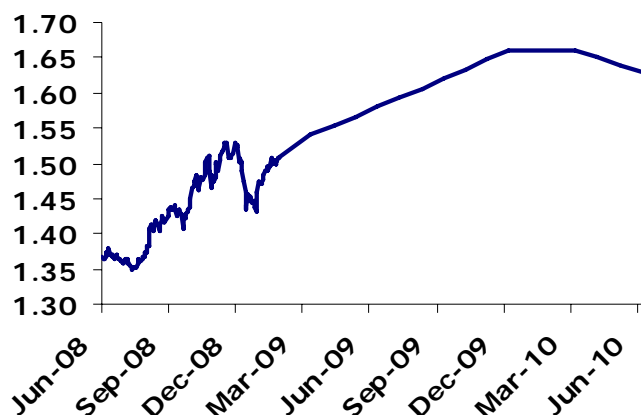
Economic Data - Singapore

Monthly data	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08
Industrial Production, % y/y	-13.4	2.4	-21.9	-11.9	3.0	-12.2	-6.6	-13.5
Retail Sales, % y/y	4.9	-3.6	11.4	4.0	7.2	-3.4	-3.4	N/A
Consumer Price Index, % y/y	7.5	7.5	6.5	6.4	6.7	6.4	5.5	4.3
Domestic Exports (Non-oil), % y/y	-10.5	-10.6	-5.8	-13.9	-5.7	-15.5	-17.5	-20.8
Imports (Non-oil), % y/y	3.6	3.1	4.3	0.1	12.6	-2.2	-12.4	-14.0
Trade Balance, US\$ bn	1.7	1.4	1.5	2.6	1.5	0.4	1.0	0.7
Foreign Exchange Reserves, US\$ bn	174.9	175.3	175.6	171.5	169.1	162.5	165.8	168.9
Quarterly data	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08
Real GDP, % v/v	7.0	9.1	9.5	5.4	6.9	2.3	-0.6	N/A
-Private consumption	2.4	5.3	5.6	5.1	4.5	5.1	4.7	N/A
-Government consumption	0.3	3.9	0.7	5.1	14.4	4.6	10.2	N/A
-Gross fixed capital formation	21.4	27.6	17.0	16.5	30.2	24.1	13.1	N/A
Nominal GDP sa, SGD bn	57.7	60.5	62.5	62.5	65.5	64.2	63.6	N/A
Current Account, US\$ bn	9.8	9.7	12.1	7.5	7.4	6.7	7.5	N/A
Capital & Financial Account, US\$ bn	-8.7	-2.5	-7.4	0.1	0.6	-5.4	-8.7	N/A

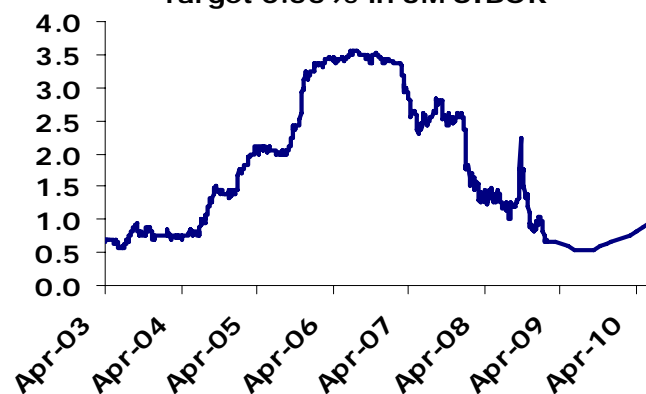
Sources: Bloomberg, CEIC

Singapore: FX and Rates Strategy

USD-SGD to peak ahead of 1.70



Target 0.55% in 3M SIBOR



2s-10s IRS still near bottom of range



The MAS is expected to officially widen its S\$NEER policy band at its next regular meeting in April, paving the way for further gains in USD-SGD. Our target for the peak in USD-SGD in 2009 is in the 1.66 area.

FX

USD-SGD was an out-performer within AXJ in 2008, gaining 0.7% against USD. With the realities of the global recession now hitting the Singapore economy in full force, however, we expect the authorities to allow for some restoration of competitiveness in 2009. SGD has already weakened 5% in January.

The SGD has yet to be dealt the full punishment given to other currencies in the region—such as the Korean won, Indian rupee, Indonesian rupiah, Thai baht and Philippine peso—largely because Singapore enjoys an ample current account surplus (17% of GDP). The collapse in world trade, however, will put significant pressure on Singapore's surplus, and FX markets will likely respond in kind. In addition, the MAS will likely wish to neutralize some of the downward pressure on Singapore's economic growth. The combination points to further gains in USD-SGD in 2009.

We expect the MAS to announce a re-centring and widening of its S\$NEER policy band, allowing greater flexibility in the exchange rate. No change in the slope of the band (currently zero percent) is anticipated unless the downward momentum in the global economy fails to ebb—something we will not have a handle on until the middle of this year. Notably, the MAS maintained a zero percent appreciation path in its policy band during the downturn in 2001, when GDP contracted by 2.2%.

Rates

During the 2001/03 downturn, 3-month SGD SIBOR hit a low of 0.56, a target we continue to adopt for 2009. Meanwhile, the 2s-10s SGD IRS spread has moved off the bottom of its trading range and appears set to widen further.

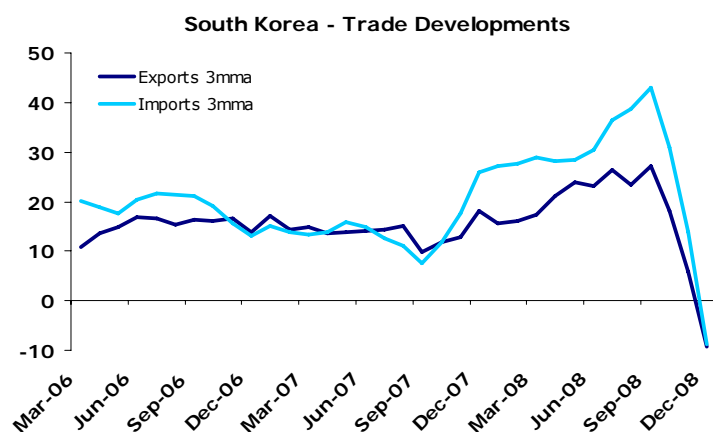
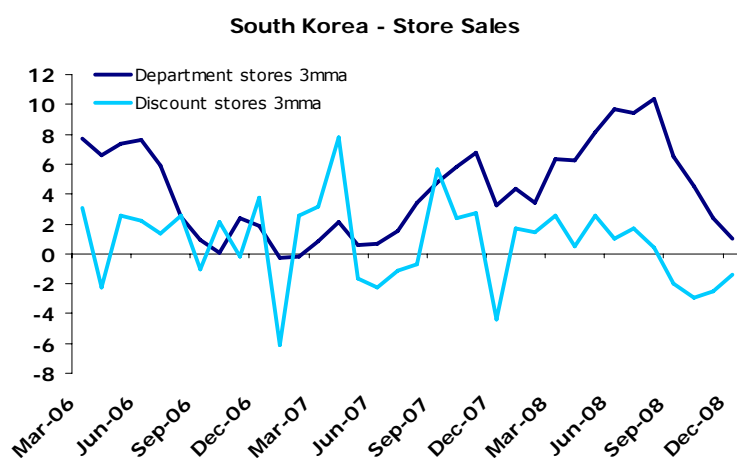
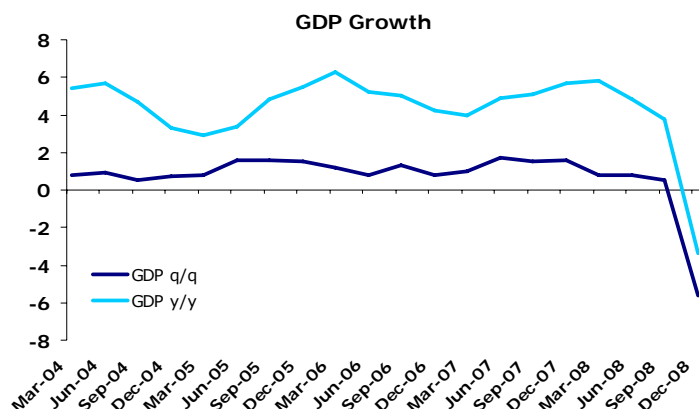
Tamara Henderson

Market Forecasts - Singapore

FX	Current	Ytd (%)	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10
USD-SGD	1.508	5.5%	1.54	1.58	1.62	1.66	1.66	1.63
AUD-SGD	0.972	-3.3%	0.97	0.92	0.91	0.90	0.90	0.91
NZD-SGD	0.770	-7.0%	0.80	0.74	0.73	0.73	0.75	0.75
JPY-SGD	1.688	7.1%	1.57	1.58	1.60	1.63	1.58	1.51
EUR-SGD	1.944	-2.7%	1.93	1.90	1.81	1.79	1.79	1.79
Rates	Current	Ytd (bps)	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10
3-month SIBOR	0.65	-31	0.65	0.55	0.55	0.65	0.75	0.95
2-year IRS (onshore vs 6M SOR)	1.47	-10	1.5	1.4	1.2	1.2	1.3	1.5
10-year IRS	2.39	12	2.4	2.4	2.3	2.3	2.3	2.4

Sources: ANZ and Bloomberg

Country Update: South Korea



Growth fell spectacularly in Q4, which was the worst quarter since 1998. Investment and consumption plunged while net exports provided an offset as imports collapsed. The government is stepping up spending, but negative growth looks inescapable in 2009.

- GDP growth fell by a staggering 5.6% in Q4 (q/q saar) or 22.4% annualized! Private consumption dropped by almost 5% in the quarter while investment, led by facilities, dropped 15%. Government consumption was a bright spot.
- Trade continues to collapse. Export growth was -17.9% in Dec, with shipments to all markets save Japan falling sharply. Imports were down by 21.6% in the same period. The trade account was in modest surplus.
- Consumer price inflation fell to 4.1% (y/y) in Dec as the index was flat. Transportation costs continued to decline. Producer price inflation fell to 5.6 in the period, with the index falling 1.7% for the month on lower commodity prices.
- January 2009 business confidence fell to 52, below the nadir of the tech bust in early 2001, reaching its lowest point since early 1998.
- The Bank of Korea rate cut its policy rate by 50bp to 2.50% on 9 January, the fifth reduction since Oct. On fiscal policy, the government remains open to further stimulus measures. Korea has considerable fiscal space to help support growth.
- Following the dismal Q4 outturn, negative GDP growth for 2009 looks inescapable. We are looking for a decline of around 3 percent, although by the final quarter of the year growth may turn positive.
- We do not see a repeat of the balance of payments crisis of 1997-98, but with the sharp drop in growth and the attendant credit quality deterioration, bank balance sheets are at risk.

Paul Gruenwald

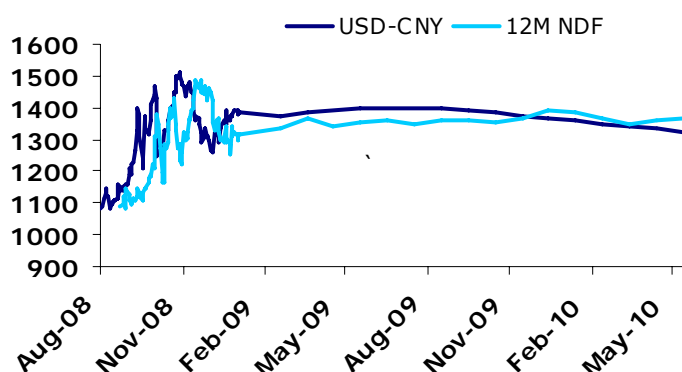
Economic Data - South Korea

Monthly data	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08
Industrial Production, % v/y	8.6	6.6	8.7	1.9	6.1	-2.3	-14.0	-18.6
Retail Sales, % y/y	10.1	6.8	12.3	10.4	4.7	1.5	-1.0	N/A
Consumer Price Index, % y/y	4.9	5.5	5.9	5.6	5.1	4.8	4.5	4.1
Exports, % y/y	26.9	16.4	35.6	18.1	27.6	7.8	-19.5	-17.9
Imports, % y/y	29.6	32.7	47.0	36.4	45.4	10.3	-15.0	-21.6
Trade Balance, USD bn	0.7	-0.6	-2.0	-3.8	-2.1	1.0	0.0	0.5
Foreign Exchange Reserves, US\$ bn	258.7	258.5	247.9	243.4	240.4	212.8	201.0	201.0
Quarterly data	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08
Real GDP, % y/y	4.0	4.9	5.1	5.7	5.8	4.8	3.8	-3.4
-Private consumption	4.1	4.4	4.8	4.6	3.4	2.3	1.1	-4.4
-Government consumption	6.3	6.9	4.5	5.6	3.9	4.0	4.4	4.9
-Gross fixed capital formation	7.2	5.5	1.3	2.9	0.5	0.1	1.4	-8.4
Nominal GDP, KRW tn	204.8	221.6	226.9	247.9	218.7	241.1	242.6	N/A
Current Account, US\$ bn	-1.9	1.1	2.0	-0.8	-0.1	1.8	-1.3	0.9
Capital & Financial Account, US\$ bn	4.7	-0.3	-3.9	0.3	0.4	-3.6	-4.4	-4.8

Source: Bloomberg, CEIC

South Korea: FX and Rates Strategy

USD-KRW: 1500 area was the peak



Additional measures to improve liquidity, a sustained period with the current account back in surplus, and an influx of foreign capital—all provide traction for the KRW and reinforce our expectation for KRW out-performance in 2009. Nevertheless, risk appetite remains an obstacle over the near-term.

FX

The KRW shed 35% against the US dollar in 2008 and lost another 10.6% in January—the worst performances within AXJ. Although admittedly off to a bad start, the KRW is ultimately expected to out-perform within AXJ in 2009.

Still susceptible to sharp swings, USD-KRW has fended off a number of forays—not only at the 1500 level (which is near the 2008 peak), but more recently at the 1400 level—even as Q4 GDP contracted by a jaw-dropping 22.4% (y/y).

Meanwhile, foreign interest is returning. FDI rose 2% (y/y) in Q4, following a decline of 2% in Q3. Unlike the rest of AXJ, Korea also attracted healthy net foreign equity inflows in December and January (\$0.6bn and \$0.5bn, respectively). This suggests that valuations are starting to look attractive enough for bargain-hunters.

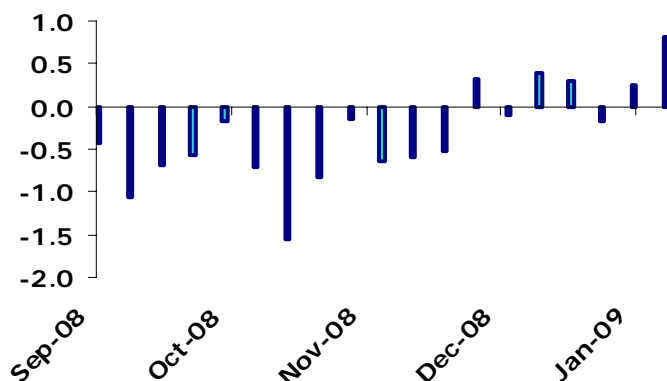
Since October, Korea has continued to post current account surpluses, providing added traction in the KRW. Also, FX markets are starting to hone in on the currencies of countries with large export exposures. As such, KRW should start to out-perform the MYR, SGD and TWD. Nevertheless, a potential obstacle is that risk aversion trades are expressed using the more liquid and less tightly managed KRW as a vehicle.

Rates

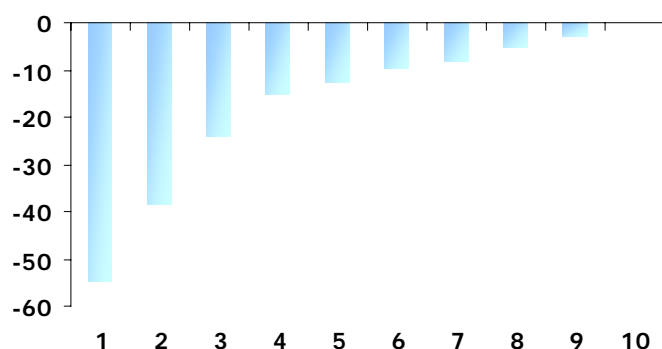
The BoK has delivered a total of 275 bps of rate cuts since the Lehman bankruptcy in mid-September, and we anticipate another 100 bps of cuts before the end of the easing cycle is reached. As such, we remain bullish on KRW rates markets, and look for another 65 bps of widening in the 2s10s KRW IRS spread.

Tamara Henderson

Net Foreign Equity Flows (\$ bn)



KRW IRS bull-steepened in January (bps)



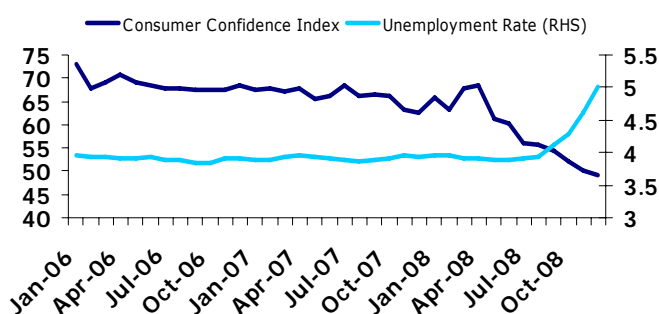
Market Forecasts - South Korea

FX	Current	Ytd (%)	Mar-09	Jun-09	Sep-09	Dec-09	Mar-	Jun-10
USD-KRW	1383	9.8%	1375	1400	1400	1375	1350	1325
AUD-KRW	890	0.6%	870	810	780	740	730	740
NZD-KRW	706	-3.3%	720	660	630	610	610	610
JPY-KRW	15.48	11.5%	14.0	14.0	13.9	13.5	12.9	12.3
EUR-KRW	1782	1.2%	1720	1680	1570	1490	1460	1460
Rates	Current	Ytd (bps)	Mar-09	Jun-09	Sep-09	Dec-09	Mar-	Jun-10
BOK's overnight call rate	2.50	-50	1.50	1.00	1.00	1.00	1.50	2.00
3-month KORIBOR	2.95	-100	2.5	2.0	1.6	1.6	1.9	2.4
2-year IRS (vs 91D KRW CD)	2.91	-38	2.4	1.9	1.6	1.6	1.8	2.3
10-year IRS	3.57	0	3.4	3.2	3.1	3.1	3.2	3.4

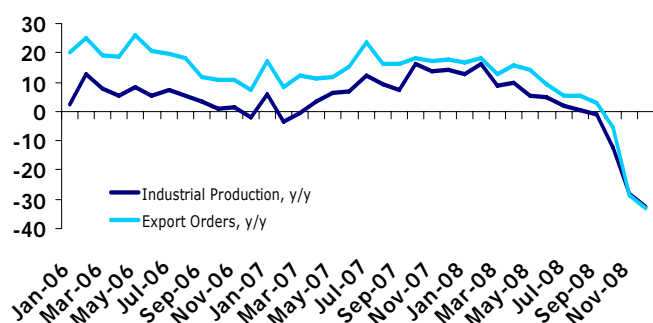
Sources: ANZ and Bloomberg

Country Update: Taiwan

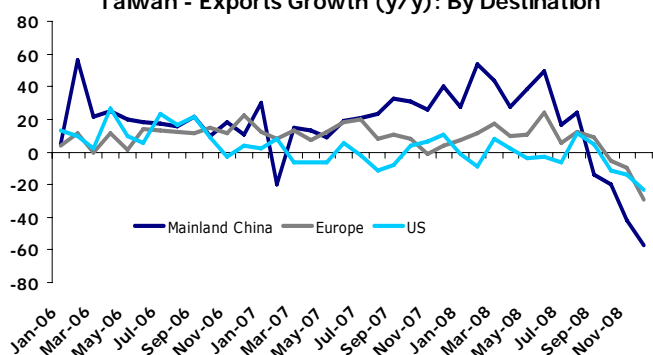
Taiwan - CCI and Unemployment Rate



Taiwan - Industrial Production and Export Orders



Taiwan - Exports Growth (y/y): By Destination



Exports (and imports) have tanked, accelerating the trend that began in September. Moreover, export orders data suggest no rebound in Q1. With weak industrial production and consumption, growth is currently negative and the jobless rate hit a five-year high in December. The outlook is pessimistic.

- Exports fell by a staggering 41.9% (y/y) in Dec as electronics shipments plunged. Exports to China including Hong Kong tumbled a record 54%. Imports fell by 44.6% (y/y), allowing the island to post a trade surplus. In real terms, exports and imports declined by 19.5% and 17.3%, respectively.
- The sluggish external sector depressed industrial production growth in Dec as the IP index posted an annual decrease of 32.4%. Manufacturing fell by 33.4%.
- Commercial sales in Dec contracted by 16.3% (y/y), with sharp declines in wholesale, retail and food sales—by 19.2%, 9.8%, and 8.1% respectively.
- The consumer Confidence Index (CCI) continued its downward trend. The reading for Dec was 49.1, down 0.9 points from the previous period. In the sub-indices, the sharpest drop was in “job opportunity”, in line with unemployment rate of 5.0% in Dec, a 5-year high.
- Inflation eased to 1.2% (y/y) in Dec, with core inflation increasing by 2.1%.
- In terms of the leading indicators, export orders growth fell sharply to -33.0% (y/y) in Dec, down from -28.5% in Nov. In particular, orders from China (including Hong Kong) and the U.S contracted by 47.1% and 24.0%, respectively.
- Looking forward, the region’s most export-dependent economy may not be able to recover until we see a rebound in external demand. As such, the near-term outlook is still pessimistic. However, we expect Taiwan’s recovery to come earlier than its regional peers once external demand and trade financing return to normal.

Zhou Hao

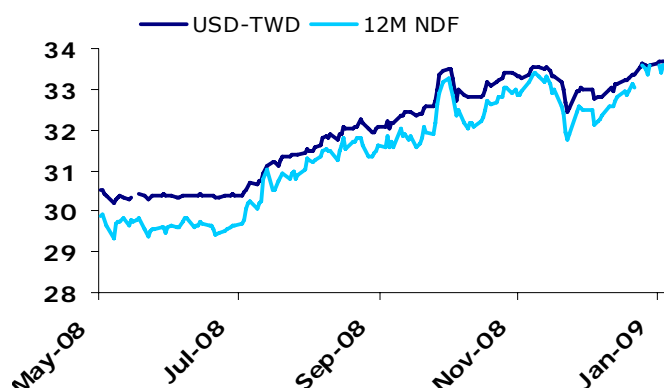
Economic Data - Taiwan

Monthly data	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08
Industrial Production, % y/y	5.6	5.1	1.8	0.7	-1.2	-12.6	-28.3	-32.3
Retail Trade Index, % y/y	-1.4	-5.1	-10.0	-7.3	-7.8	-6.1	-9.0	-10.9
Consumer Price Index, % y/y	3.7	5.0	5.8	4.7	3.1	2.4	1.9	1.2
Exports, % y/y	20.5	21.2	7.9	18.2	-1.6	-8.3	-23.3	-41.9
Imports, % y/y	17.6	22.4	11.8	39.8	10.3	-7.2	-13.2	-44.6
Trade Balance, US\$ bn	2.1	1.4	-0.4	-0.1	0.8	2.9	1.5	1.8
Foreign Exchange Reserves, US\$	290.1	291.4	290.9	282.1	281.1	278.2	280.7	291.7
Quarterly data	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08
Real GDP, % v/v	3.8	5.5	7.0	6.4	6.2	4.6	-1.0	N/A
-Private consumption	2.3	2.2	3.1	1.6	2.1	0.5	-2.0	N/A
-Government consumption	0.0	0.7	1.7	1.1	1.3	-0.2	1.3	N/A
-Gross fixed capital formation	-0.3	4.7	3.8	-0.8	3.7	-8.0	-10.7	N/A
Real GNP, % y/y	4.1	6.2	6.4	6.1	6.8	3.1	-0.5	N/A
Nominal GDP, TWD tn	2.6	2.5	2.8	2.9	2.7	2.6	2.7	N/A
Current Account, US\$ mn	9,410.0	5,909.0	6,477.0	11,183.0	8,658.0	6,959.0	2,009.0	N/A

Source: Bloomberg, CEIC

Taiwan: FX and Rates Strategy

USD-TWD yet to fully align with AXJ



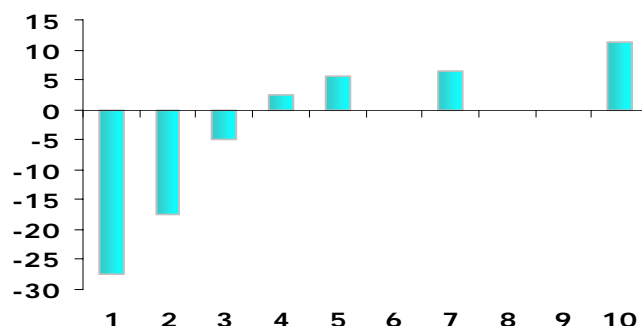
The TWD has started to play a bit of “catch-up” within AXJ, falling 3% against the USD in January—compared with a relatively benign 1% loss for 2008 as a whole. The catalyst was a 42% (y/y) drop in December exports. As the economic outlook for Q1 remains bleak, further gains in USD-TWD are expected in the months ahead.

FX

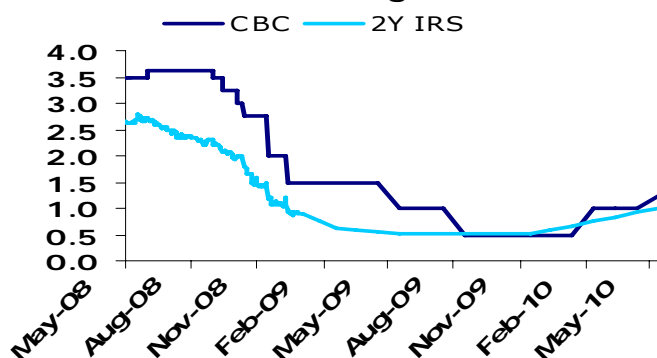
Within AXJ, Taiwan is one of the more exposed economies to a global slowdown, with exports nearly 75% of GDP. As such, a 42% (y/y) hit to exports in December and prospects for further fallout in Q1 has not gone unnoticed by currency markets or by the authorities, who tightly manage the TWD. The CBC has even said that it does not favour appreciation in the TWD.

Indeed, the TWD has already slipped 3% against the USD in January—compared with a 1% loss for all of 2008. Further gains in USD-TWD are expected in the months ahead, although seasonal flows should help the pair tread water over the near-term. Net foreign portfolio flows remained negative in January at -\$1.6bn, but the pace of outflows has slowed—for a gain of 14% (y/y).

TWD IRS curve steepened in January (bps)



2Y IRS to trough near 0.50%



Rates

We expect another 50 bps of rate cuts before the CBC brings an end to its easing cycle. With the policy rate now at 1.50%, however, the CBC has less ammunition than other central banks in the region. As such, TWD rates markets are likely to under-perform. We maintain a neutral view on the curve, which was relatively unresponsive to the cumulative 212.5 bps of cuts in 2008.

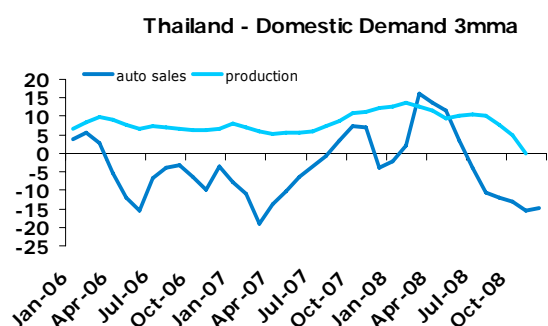
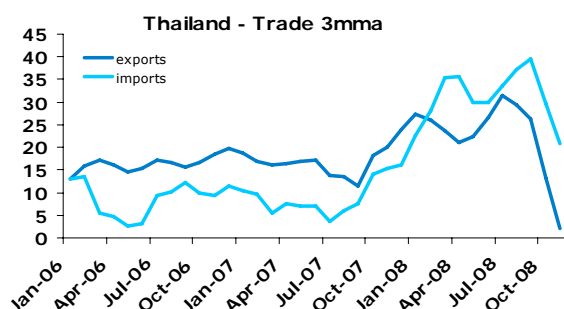
Tamara Henderson

Market Forecasts - Taiwan

FX	Current	Ytd (%)	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10
USD-TWD	33.69	2.7%	34.2	35.2	36.0	36.0	35.5	35.0
AUD-TWD	21.69	-6.0%	22.6	22.2	20.9	20.2	19.2	18.9
NZD-TWD	17.21	-9.5%	19.8	19.4	19.1	18.0	17.4	16.8
JPY-TWD	0.376	4.0%	0.349	0.359	0.360	0.356	0.348	0.333
EUR-TWD	43.33	-5.5%	42.8	42.2	41.0	38.9	38.3	37.8
Rates	Current	Ytd (bps)	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10
CBC's discount rate	1.50	-50	1.50	1.00	0.50	0.50	1.00	1.25
3-month CP	0.74	-34	0.5	0.4	0.4	0.4	0.6	0.9
2-year IRS (versus 3M CP)	0.88	-18	0.6	0.5	0.5	0.5	0.8	1.0
10-year IRS	1.55	11	1.5	1.4	1.4	1.4	1.5	1.6

Sources: ANZ and Bloomberg

Country Update: Thailand



Thailand's economy faces headwinds from an unstable political situation that affects consumer confidence and deters tourist arrivals, and a weaker external environment, which reduces demand for its automobile and electronics exports. It remains uncertain if the appointment of a new Prime Minister will stabilize the political situation and allow the government to enact a much need fiscal stimulus.

- Domestic demand continues to languish amid the unstable political situation.
- Automobile sales contracted 8.3% (y/y) in Dec, although this was an improvement over the average H2 contraction of -12.2%, possibly due to a bounce-back after months of political stand-off. The private consumption index declined 6.6% in Nov from -2.3% in Oct.
- Manufacturing production contracted by -6.6% in Nov, the worst decline since 1998.
- Exports plummeted, falling 20.5% (y/y) in Nov, down sharply from growth of 3.0% in the previous month. Manufactured goods and machinery led the decline. Import growth also fell in Nov, down to 2.0% (y/y) as compared with 21.7% in Oct.
- Tourist arrivals were down by 22.4% (y/y) in Nov, from -6.3% in Oct as tourists stayed away after the high-profile takeover of the Bangkok International Airport by protestors.
- Leading indicators also paint a gloomy picture falling 2.2% (y/y) in Nov, down from -0.9% in Oct.
- Inflation eased to 0.4% (y/y) in Dec from 2.2% in the previous month.
- The lower inflation print, and the weak growth and inflation outlook, allowed the Bank of Thailand to enact an aggressive 75bps rate in order to stimulate growth. The move brought its benchmark policy rate to 2.0%.
- New Prime Minister Abhisit retained the previous government's plan to allocate another THB 100 billion in a supplementary budget, as well as additional measures of some THB 200 billion to support growth.
- We expect Thailand to underperform the ASEAN group in 2009, with GDP growth of about 2%.

Chang Wei Liang

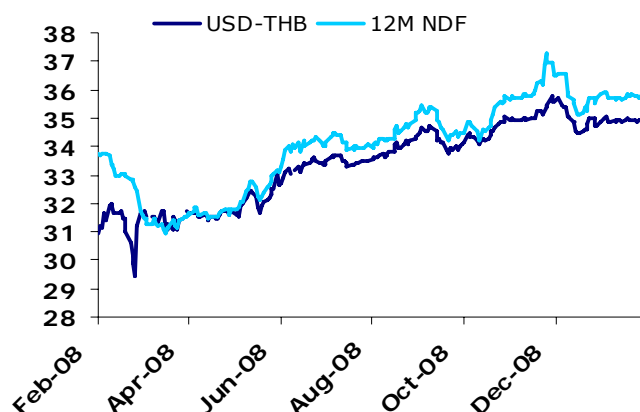
Economic Data - Thailand

Monthly data	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08
Industrial Production, % y/y	9.0	11.3	11.1	7.8	4.3	2.3	-6.6	N/A
Retail Sales, % y/y	10.1	6.9	5.9	4.7	-0.6	-2.5	-100.0	N/A
Consumer Price Index, % y/y	7.6	8.9	9.2	6.4	6.0	3.9	2.2	0.4
Exports, % y/y	24.5	30.2	45.1	15.9	20.0	3.0	-20.5	N/A
Imports, % y/y	15.7	30.7	55.1	26.9	39.4	21.7	2.0	N/A
Trade Balance, US\$ bn	1.5	0.8	-0.8	-0.6	0.4	-0.7	-1.3	0.2
Foreign Exchange Reserves,	106.4	103.0	102.1	98.9	99.9	101.0	103.8	108.3
Quarterly data	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08
Real GDP, % y/y	4.4	4.4	5.1	5.7	6.0	5.3	4.0	N/A
-Private consumption	1.4	1.2	1.9	1.9	2.7	2.5	2.6	N/A
-Government consumption	8.4	10.5	8.9	9.0	-0.4	-3.7	-2.9	N/A
-Gross fixed capital formation	-1.4	0.1	2.5	3.8	5.4	1.9	0.6	N/A
Nominal GDP, THB bn	2,096.5	2,047.3	2,093.7	2,255.7	2,297.1	2,283.1	2,319.9	N/A
Current Account, US\$ bn	1.8	1.1	1.7	2.2	1.0	0.7	-0.3	N/A
Capital & Financial Account, US\$ bn	-0.1	0.6	2.3	1.0	6.8	-4.1	2.6	N/A

Source: Bloomberg, CEIC

Thailand: FX and Rates Strategy

Uptrend in USD-THB seen intact

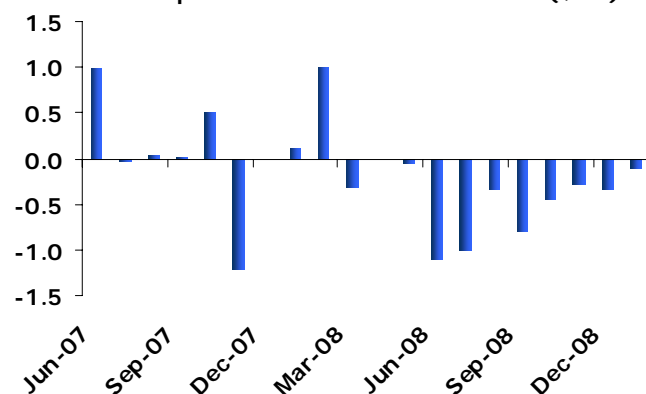


Elevated political uncertainty remains an added hurdle for the baht against the backdrop of collapsing global demand. The baht was an underperformer within AXJ in 2008—a theme that is expected to continue in 2009.

FX

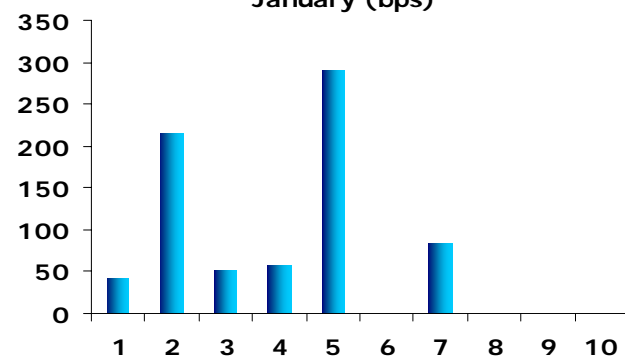
Unlike other currencies within AXJ which underperformed in 2008—such as the Korean won and the Indian rupee—we expect the baht to continue to underperform in 2009. However, a near-term speed bump is the key 35.3-35.4 area in USD-THB, which corresponds to the 38.2% Fib retracement for both the 1997/98 and 2001 cycle highs on the weekly chart. Ultimately, however, an assault on the 40.0 level is expected before year-end.

Net portfolio outflows have slowed (\$ bn)



Political unrest not only has failed to recede, but also has considerable scope to escalate further in 2009—providing an added weight on tourism, domestic demand and foreign investment. Notably, net foreign equity flows remained negative in January—down roughly 150% from a year ago and the worst performance in AXJ. The net outflow is also in sharp contrast with the typical seasonal pattern of healthy net inflows in January. Meanwhile, Thailand is experiencing increased effects from the global slowdown. Exports contracted 15.7% (y/y) in December, and leading indicators paint a gloomy picture for Q1.

THB 5Y IRS under-performed in January (bps)



Rates

The BoT has finally slashed interest rates, cutting the one-day repo rate by 75 bps to 2.0% in mid-January—the last central bank in the region to act. Nevertheless, Thai rates markets remained in a foul mood, with the 2s10s government curve bear steepening by over 100 bps in January. As we anticipate another 150 bps of BoT rate cuts, the Thai curve is expected to continue to steepen.

Tamara Henderson

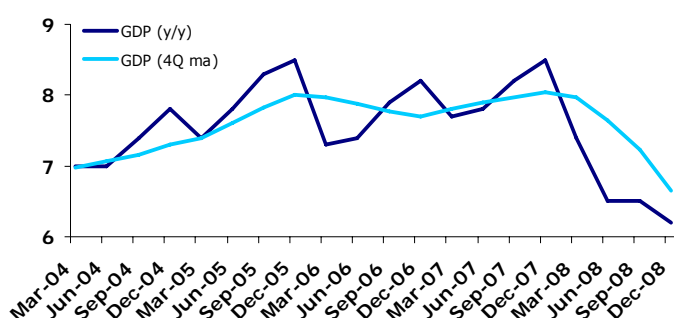
Market Forecasts - Thailand

FX	Current	Ytd (%)	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10
USD-THB	34.92	0.5%	35.8	37.6	39.4	39.4	38.8	38.8
AUD-THB	22.54	-7.7%	22.6	21.8	22.1	21.3	21.0	21.7
NZD-THB	17.88	-11.1%	18.6	17.7	17.7	17.3	17.5	17.8
JPY-THB	17.94	0.0%	0.365	0.376	0.390	0.386	0.370	0.359
EUR-THB	18.28	-11.1%	44.8	45.1	44.1	42.6	41.9	42.7
Rates	Current	Ytd (bps)	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10
BOT's 1-day repo rate	2.00	-75	1.50	1.00	0.50	0.50	0.50	0.50
3-month BIBOR	2.22	-72	1.7	1.2	0.8	0.6	0.6	0.6
2-year IRS (vs 6M THB fix)	2.15	215	1.7	1.2	0.7	0.5	0.5	0.5
10-year IRS	3.44	107	3.3	3.1	3.0	2.9	2.9	2.9

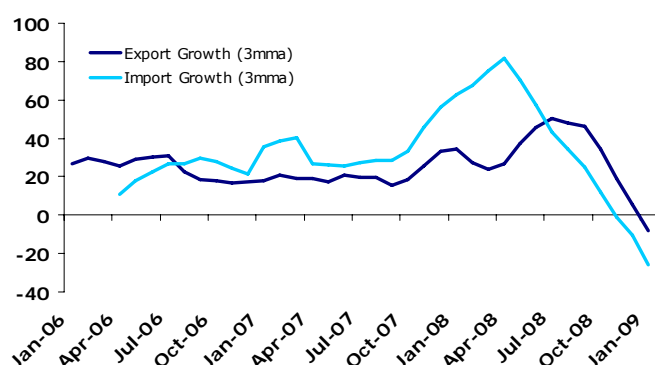
Sources: ANZ and Bloomberg

Country Update: Vietnam

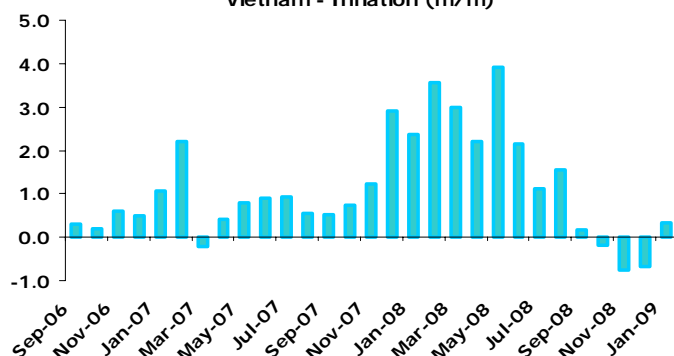
Vietnam - Real GDP Growth



Vietnam - Trade Developments



Vietnam - Inflation (m/m)



Growth continues to moderate but is the highest in ASEAN. Consumption appears robust, but investment has weakened substantially. On the external front, export and import growth have slowed sharply. Inflation has remained close to zero in recent months and the SBV continues to cut rates. The government has enacted further measures to stimulate the economy.

- GDP growth eased to 6.2% (y/y) in Q4 as activity in the construction and tourism sectors continued to weaken. While this was the lowest rate for Vietnam in a decade, it is still among the highest in emerging Asia.
- Domestic demand developments are mixed. Retail sales growth (nominal) continues near 30% (y/y) suggesting strong consumption momentum. In contrast, industrial production growth has fallen steadily and is now negative on a year-on-year basis.
- Export and import growth (y/y) have fallen sharply in recent months, and now stand at -23% and -42%, respectively. The trade balance (q/q) continues to improve and has returned to pre-crisis levels.
- Reflecting slower growth and lower commodity prices, inflation remains under control. While the headline year-on-year number remains elevated at 17½%, monthly inflation has been running close to zero since Sep 2008.
- The State Bank of Vietnam lowered its key policy rate to 7% from 8.5% effective Feb 1 as inflation pressures ease and growth moderates. This is the sixth cut since Oct, when the rate reached 14%. Separately, the government lowered taxes on exports and production, and eliminated the cap on interest rates charged to consumers in an effort to spur growth.
- Vietnam should fare better than most emerging Asian economies in 2009 given its weak links to the global financial system and its domestically-led growth. The overall pace of activity should decline to 5 to 5½%, and the risks are on the downside.

Paul Gruenwald

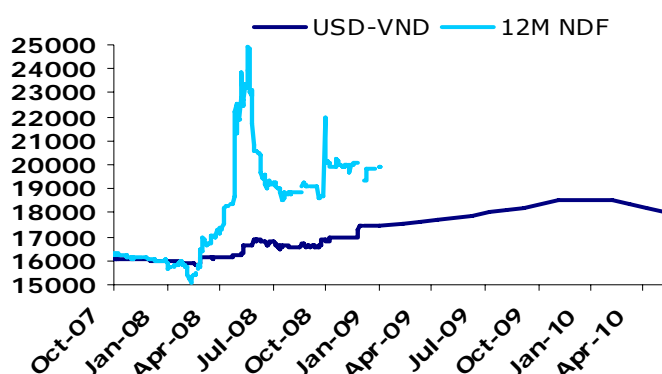
Economic Data - Vietnam

Monthly data	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08
Industrial Production, % y/y	13.9	12.0	11.4	29.3	9.1	9.2	-0.3	12.5
Retail Sales, % y/y	25.5	35.5	36.1	27.5	37.7	38.9	26.9	34.1
Consumer Price Index, % y/y	25.2	26.8	27.0	28.3	27.9	26.7	24.2	19.9
Exports, % y/y	43.7	53.7	43.7	34.1	59.4	16.7	14.1	-10.2
Imports, % y/y	45.1	43.0	36.4	15.1	29.5	-8.2	-2.0	-26.2
Trade Balance, USD bn	-1.9	-0.7	-1.0	-0.4	-0.5	-0.2	-0.9	-0.4
Quarterly data	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08
Real GDP, % y/y	7.7	7.8	8.2	8.5	7.5	6.5	6.5	6.2
-Agricultural, forestry, fishery	2.3	2.8	3.1	3.7	3.2	3.3	3.8	3.8
-Industry and construction	9.2	9.7	10.1	10.6	8.0	7.0	7.0	6.3
-Services	7.8	8.5	8.6	8.7	8.3	7.6	7.2	7.2
Nominal GDP, VND tn	210.9	282.6	293.8	356.8	254.1	371.7	390.8	462.2
Foreign Exchange Reserves, USD bn	18.3	20.8	22.6	23.6	25.0	21.0	N/A	N/A

Sources: Bloomberg, CEIC, General Statistics Office of Vietnam

Vietnam: FX and Rates Strategy

USD-VND NDF is less pessimistic



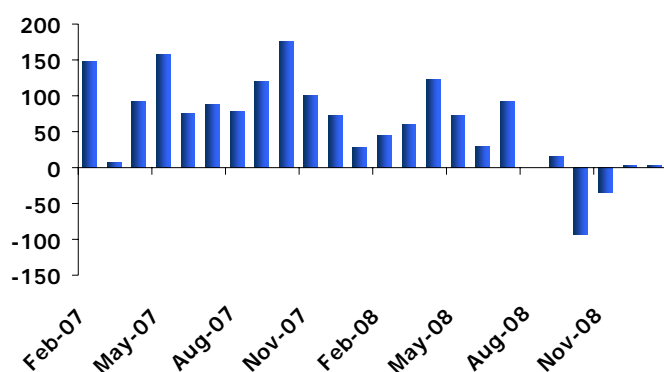
The authorities have devalued the dong and have continued to aggressively cut interest rates—all in an effort to contain the damage from a global recession. More of the same is expected in the months ahead.

FX

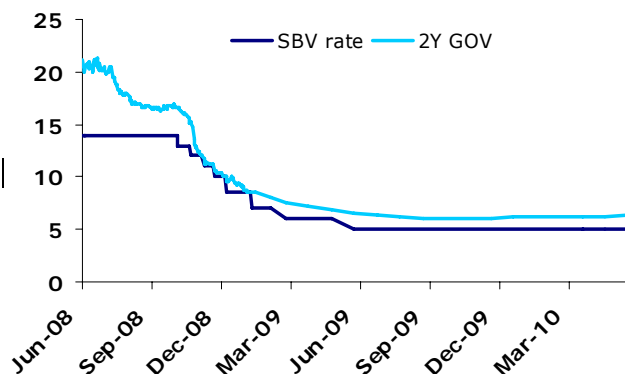
In late December, the authorities devalued the dong by 3%, at the same time maintaining the daily trading band in USD-VND at 3% either side of the fixed rate. The decision was justified as a means to “stabilize” the economy and support exports, which fell nearly 30% in 2008. A month earlier, the government had promised to manage the currency more “flexibly” in 2009, paving the way for even further gains in USD-VND this year.

The question for markets is how much higher the authorities will allow spot USD-VND to travel. With real effects from the global downturn only just starting to come through to the local economy, we are now more inclined to view 18,500 as the peak this year (from 17,500 previously), whereas the NDF market remains priced for a level approaching 20,000 in twelve month’s time.

Foreign portfolio outflows have slowed (\$ mln)



Yields still headed lower



Rates

Although headline inflation rates remain above 15% (y/y), monthly inflation has been close to zero for an extended period of time. This has provided the SBV with scope to cut the policy rate by a cumulative 700 bps since the Lehman bankruptcy in mid-September—the most aggressive central bank in emerging Asia. We expect another 200 bps of cuts in 2009, which should maintain the bid in Vietnamese bond markets for a while longer.

Tamara Henderson

Market Forecasts - Vietnam

FX	Current	Ytd (%)	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10
USD-VND	17,484	0.0%	17,500	17,800	18,100	18,500	18,500	18,000
AUD-VND	11,324	-7.8%	11,000	10,300	10,100	10,000	10,000	10,100
NZD-VND	8,964	-11.5%	9,100	8,400	8,100	8,100	8,300	8,300
JPY-VND	196	1.5%	179	178	179	181	176	167
EUR-VND	22,561	-7.7%	21,900	21,400	20,300	20,000	20,000	19,800
Rates	Current	Ytd	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10
SBV's base lending rate	7.00	250	6.00	5.00	5.00	5.00	5.00	5.00
Overnight VNIBOR	15.04	N/A	14.0	13.0	12.5	12.5	12.6	12.7
2-year IRS (versus 3M VNIBOR)	8.80	-168	7.8	6.8	6.3	6.3	6.4	6.5
10-year IRS	9.15	-56	8.8	8.5	8.3	8.3	8.3	8.4

Sources: ANZ and Bloomberg

Contacts

ANZ Economics & Markets Research

Saul Eslake	Chief Economist	+61 3 9273 6251	Saul.Eslake@anz.com
Fiona Allen	Business Manager	+61 3 9273 6224	Fiona.Allen@anz.com

Industry and Strategic Research

Julie Toth	Senior Economist	+61 3 9273 6252	Julie.Toth@anz.com
Paul Deane	Rural and Regional Economist	+61 3 9273 6295	Paul.Deane@anz.com

Australian Economics and Interest Rates Research

Warren Hogan	Head of Australian Economics and Interest Rates Research	+61 2 9227 1562	Warren.Hogan@anz.com
Katie Dean	Senior Economist	+61 3 9273 1381	Katie.Dean@anz.com
Riki Polygenis	Economist	+61 3 9273 4060	Riki.Polygenis@anz.com
Dr. Alex Joiner	Economist	+61 3 9273 6123	Alex.Joiner@anz.com
Patricia Gacis	Strategist	+61 2 9227 1272	Patricia.Gacis@anz.com

Global Markets Credit Research

Jason Hill	Global Markets Credit Analyst	0434 312 356	Jason.Hill@anz.com
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Commodities Research

Mark Pervan	Head of Commodities Research	+61 3 9273 3716	Mark.Pervan@anz.com
Amber Rabinov	Economist	+61 3 9273 4853	Amber.Rabinov@anz.com
Doug Whitehead	Soft Commodity Strategist	+61 3 9273 6684	Doug.Whitehead@anz.com
Natalie Robertson	Graduate Analyst	+61 3 9273 3415	Natalie.Robertson@anz.com

Property and Financial System Research

Paul Braddick	Head of Property and Financial System Research	+61 3 9273 5987	Paul.Braddick@anz.com
Ange Montalti	Senior Economist	+61 3 9273 6288	Ange.Montalti@anz.com
Dr. Alex Joiner	Economist	+61 3 9273 6123	Alex.Joiner@anz.com
Stephanie Wayne	Research Analyst	+61 3 9273 4075	Stephanie.Wayne@anz.com

Foreign Exchange and International Economics Research

Amy Auster	Head of Foreign Exchange and International Economics Research	+61 3 9273 5417	Amy.Auster@anz.com
Tony Morriss	Senior Currency Strategist	+61 2 9226 6757	Tony.Morriss@anz.com
Amber Rabinov	Economist	+61 3 9273 4853	Amber.Rabinov@anz.com

Foreign Exchange and Interest Rates Research (London)

Tim Riddell	Currency and Interest Rate Strategist		Tim.Riddell@anz.com
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Asian Economics Research (Singapore)

Paul Gruenwald	Chief Economist, Asia	+65 6419 7902	Paul.Gruenwald@anz.com
Tamara Henderson	Director, Currency & Rates Strategy	+65 6216 1845	Tamara.Henderson@anz.com
Chang Wei Liang	Analyst, Economic Research	+65 6216 1838	WeiLiang.Chang@anz.com

New Zealand Economics Research (Wellington)

Cameron Bagrie	Chief Economist, New Zealand	+64 4 802 2212	Cameron.Bagrie@anz.com
Khoon Goh	Senior Economist	+64 4 802 2357	Khoon.Goh@anz.com
Philip Borkin	Economist	+64 4 802 2199	Philip.Borkin@anz.com
Steve Edwards	Economist	+64 4 802 2217	Steve.Edwards@anz.com
Kevin Wilson	Rural Economist	+64 4 802 2361	wilsonk1@anz.com
David Croy	Interest Rate Strategist	+64 4 802 2286	David.Croy@anz.com

Research and Information Services

Marilla Rough	Senior Information Officer	+61 3 9273 6263	Marilla.Rough@anz.com
Manesha Jayasuriya	Publications Coordinator	+61 3 9273 4121	Manesha.Jayasuriya@anz.com

Important Notice

Australia and New Zealand Banking Group Limited is represented in:

AUSTRALIA by:

Australia and New Zealand Banking Group Limited ABN 11 005 357 522

14th Floor 100 Queen Street, Melbourne, Victoria, 3000, Australia

Telephone +61 3 9273 6224 Fax +61 3 9273 5711

UNITED KINGDOM by:

Australia and New Zealand Banking Group Limited

ABN 11 005 357 522

40 Bank Street, Canary Wharf, London, E14 5EJ, United Kingdom

Telephone +44 20 3229 2121 Fax +44 20 7378 2378

UNITED STATES OF AMERICA by:

ANZ Securities, Inc. (Member of FINRA and SIPC)

6th Floor 1177 Avenue of the Americas

New York, NY 10036, United States of America

Tel: +1 212 801 9160 Fax: +1 212 801 9163

NEW ZEALAND by:

ANZ National Bank Limited

Level 7, 1-9 Victoria Street, Wellington, New Zealand

Telephone +64 4 802 2000

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