

EMERGING ASIA THEMES AND TRADES

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# Agenda

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# Top Trades across Emerging Asia asset classes

## FX

### Short 3M TWD/IDR NDF

Based on the JPMorgan risk-to-carry metric, short USD/IDR & long USD/TWD are the 1st and 3rd most attractive carry currency pairings in a basket of 15 EM currency pairs. This places the TWD/IDR cross as an attractive Asia FX vehicle to leverage a carry friendly environment. The short TWD leg also provides exposure to global and regional growth risks.

-Entered Aug 23 at outright 280.85 with a stop at 285.00

### Long 2M THB ratio call spread

Irregardless of politics, JPMorgan expects THB to appreciate, in light of favorable current account and FDI flows. Modest USD/THB downside with a ratio THB call spread.

- Entered Aug 21: long 2M THB call USD put strike 37.70 against short 2M 2x notional THB call USD put strike 36.70. Now worth 46bp against cost 62bp

### Hold short KRW via options

USD/KRW downside is being driven by a long position unwind and opportunistic exporter sales. We view the down move as technical in nature and maintain a medium-term view for KRW weakness; the current account reported another deficit in August.

- Our 3M USD call KRW put (strike: 960, KO: 935) entered Jul 26 at 68bp is now worth 4bp

## Local rates

### Philippines: Stay long 10y benchmark bonds

The rally has been fuelled by strong external balances coupled with weak loan demand, strong fiscal improvement and rising international participation. However, while the underlying dynamics are positive we do not expect to see BSP cutting its policy rates and this could limit the psychological downside on the 10-year yields. The bond has rallied more than 60bp, and the PHP strengthened by 100bp since we opened this trade. Cut risk as the 10y approaches 8%.

### Indonesia: Stay long FR34

Stronger FX reserve growth, appreciable fiscal improvement, reduced issuance expectations, falling inflation, and steadily lower policy rates, along with better liquidity, rising foreign participation, and duration extension by local investors will continue to support a bond rally. However, given worsening global risk appetite, foreign investors' holdings are a legitimate risk. We now shift the target to 10.75% from 10.25% and tighten the stop to 11.8%.

### Malaysia: Extend duration

Stay invested at the long end. The compelling FX trade will continue to flatten the curve. Hold the benchmark 10y bond, FX unhedged. The bond has rallied 17bp over the past two weeks.

# Top Trades across Emerging Asia asset classes (continued)

## External debt

### Indonesia: Overweight Adaro Finance 8.5%

We continue to find value in this credit based on its improving fundamentals on the back of higher average selling prices, increasing production, and expected debt reduction. Management has indicated that they would like to improve the company's capital structure without affecting the senior bond holder risk exposure on top of a planned IPO in FY08. We trim our target spread tightening to just another 17bps, versus 32bp on the back of better market sentiment.

- Entered Aug 10. Achieved target. Reopen Sept 1

### Philippines: Buy RoP '11s vs. 5-year protection, 10x9

The basis for the Philippines 5-year CDS has been around 70-100bps over the past year - and is currently trading at an all-time low of 46bps with almost all good news being priced in. Although the credit fundamentals continue to improve, the recent tightening in the 5-year CDS appears to be overdone and looks to be vulnerable to any pullback in sentiment. We thus position this trade with a view that the markets have not fully priced-in the risk of Fed tightening beyond August and this complacency could lead to a pullback.

## Equities

### Overweight countries

- Singapore
- Taiwan
- China
- Philippines

### Underweight countries

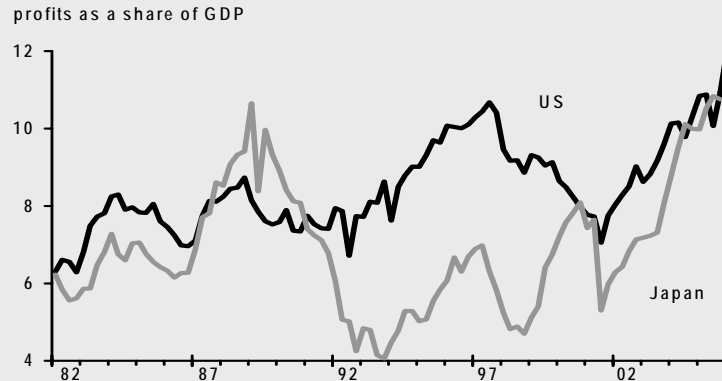
- Hong Kong
- Malaysia
- Indonesia
- India
- South Korea

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# Don't get too bearish on growth: Global profits still high, global money still easy

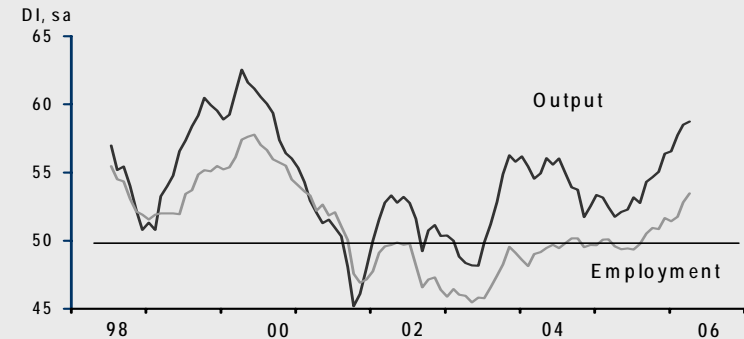
## Profits at record levels



## US housing to slow, but no big multiplier

Units as marked	4Q05		4Q06	
	Level	%oya	Level	%oya
Single-family home sales (mn, saar)	7.3	0.4	6.3	-15
New	1.3	3.5	1.1	-15
Existing	6.0	-0.3	5.1	-15
Housing starts (mn, saar)	2.04	3.1	1.8	-10
Real residential construction (\$2,000 bn, saar)	615.2	7.7	578.3	-6
House price (OFHEO index, sa)		12.0		2

## Euro area growth to 2.5%

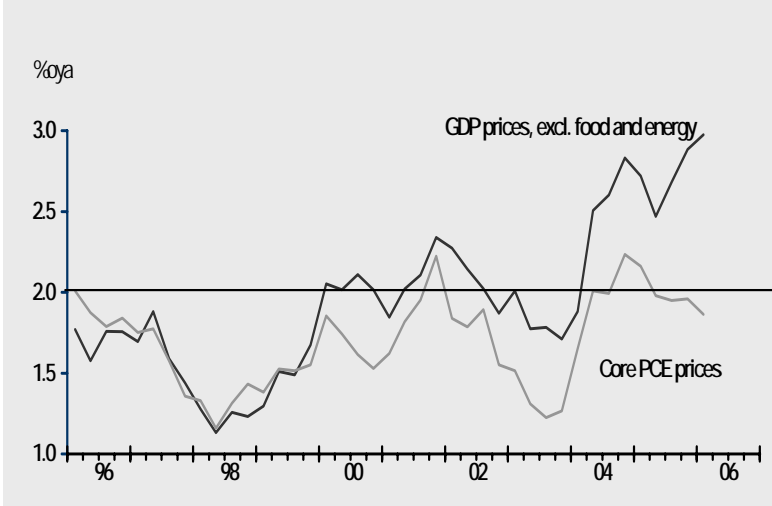


## Less US-centric growth pattern

	2005	2006	2007	06Q3	06Q4
Global	3.2	3.7	3.3	3.0	3.9
US	3.2	3.4	2.9	2.0	3.5
Euro	1.5	2.8	2.5	3.3	3.5
Japan	2.6	2.8	2.8	3.2	3.0

# Fed in pause mode, but global CB tightening resumes soon

## US core inflation drifts up; Fed Funds 6%



## Central bank policy rates forecast

	Official interest rate	Current	Dec 06	Mar 07	Dec 07
US	Federal funds rate	5.25	5.25	5.50	6.00
Euro area	Refi rate	3.00	3.50	3.75	4.00
UK	Repo rate	4.75	5.00	5.00	5.00
Australia	Cash rate	6.00	6.25	6.25	6.25
Japan	Overnight call rate	0.25	0.50	0.75	1.50

## Position for bear equity market later this year and expect USD weakness to resume

**During Fed pause, bias to slightly weaker USD**  
Recent USD strength from short covering, not fundamental reassessment. EUR/USD to 1.28 and USD/JPY to 119 by year-end.

**Relief rally in equities now; bears come out later**  
Fed pause in June will sustain rebound with EM to benefit most. But medium term risks biased to downside, with Fed to resume hikes just as earnings slow. Year-end S&P target 1190.

**Pause, not end of cycle, means UST only drift up**  
Some who see end of cycle expect bull steepening. We expect pause, with yields only drifting up slowing, curve flattening slightly. UST 10-year to hit 5% by year-end, Euro to 3.75%, and JGBs to 2.3%.

### Neutral EM debt

Technicals remain very supportive even though we are close to all-time tights for EMBIG.

**Oil to stay firm; prefer precious over base metals**  
Expect WTI to stay between \$65-70 before dipping to the \$60-65 range in the middle of 2007.



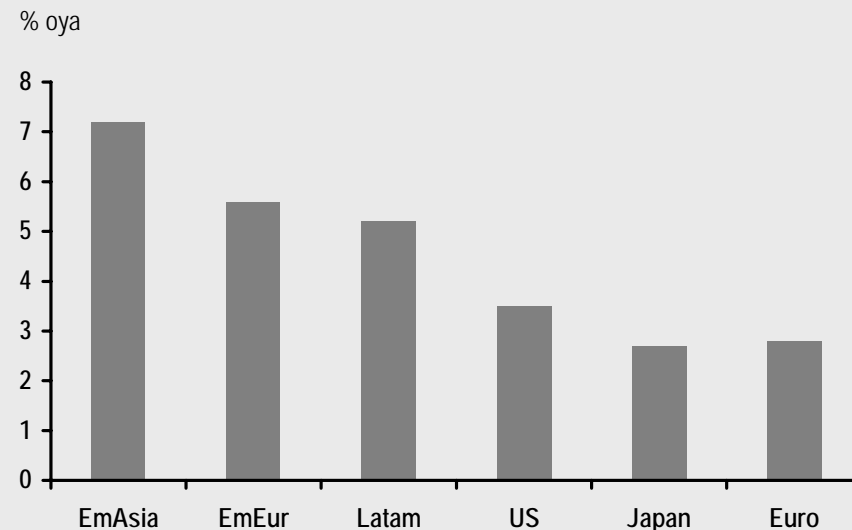
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# Asia's global growth leadership increasingly matters

## Leading global growth in 2006

### GDP growth forecasts for 2006

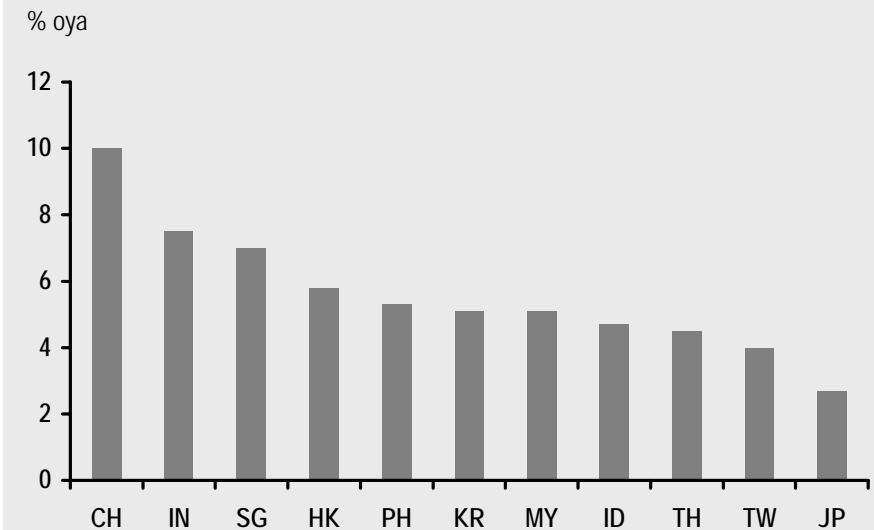


**Emerging Asia to lead global growth in 2006, again**  
Growth expected to remain solid with external demand still positive and domestic demand remaining well underpinned

**Policy settings still supportive**  
Recent rate hikes in Emerging Asia still leaves real rates low - with inflation peaking across the region, rate hikes should pause soon

## India and China the regional growth leaders

### Emerging Asia GDP growth forecasts for 2006

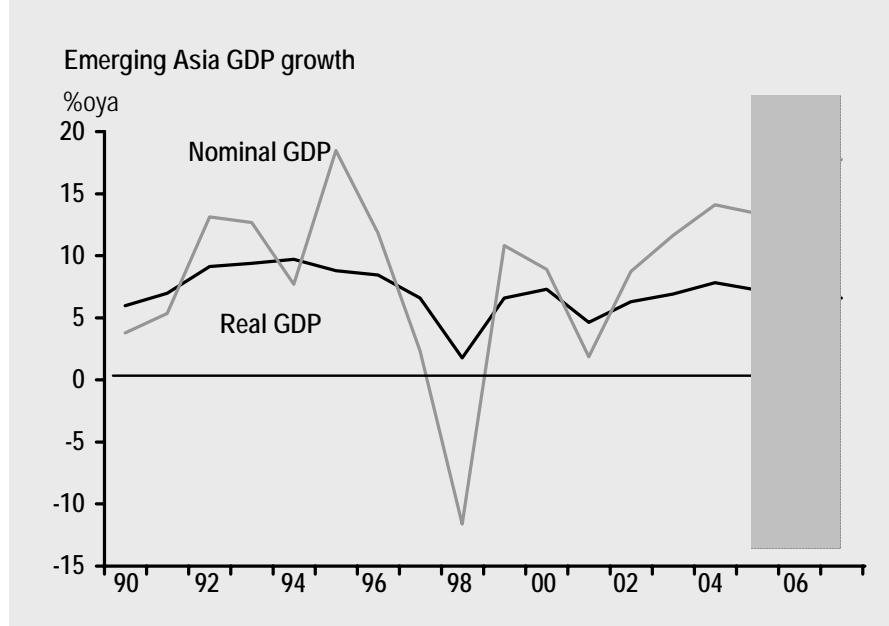


**China and India expected to lead growth**  
Solid domestic demand continues to support growth in China and India

**Domestic demand has been supportive**  
A broad return of confidence has helped domestic demand across the region - unemployment rates continue on steady decline across the region

# Reflation occurring across the region and across asset classes

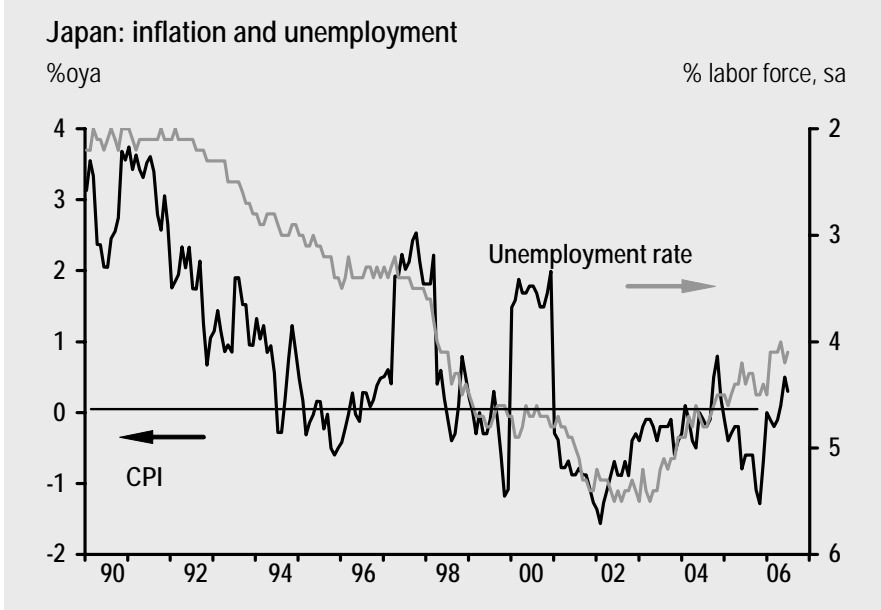
## Emerging Asia continues to reflate



**Solid external and domestic demand + loose monetary policy settings = reflation**

The combination of solid external and domestic demand is putting in place reflationary conditions, helped along by easy monetary policy and fuel subsidies in the two largest economies in Emerging Asia

## Japan's recovery is real - AND nominal



**Japan's recovery - not another false dawn**

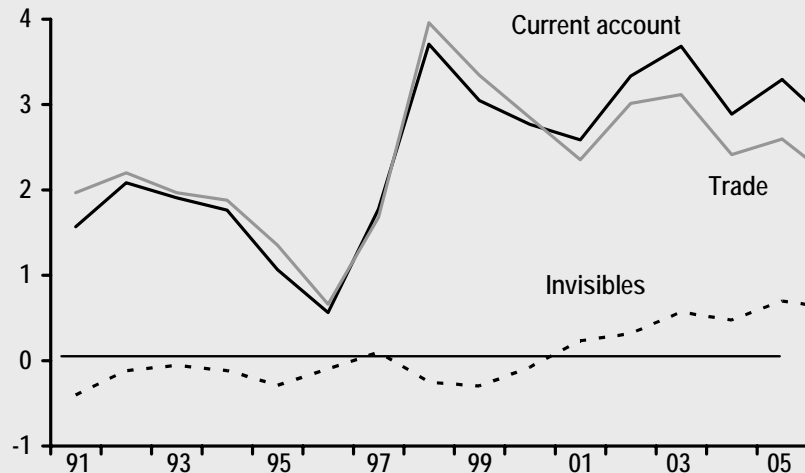
Japan's underlying economic momentum is building - inflation moving into positive territory, labor market showing solid gains

# Stronger external balances inoculate Asia from bouts of risk aversion

## External balances provide solid buffer against external shocks

Asia: current account balance

% of GDP



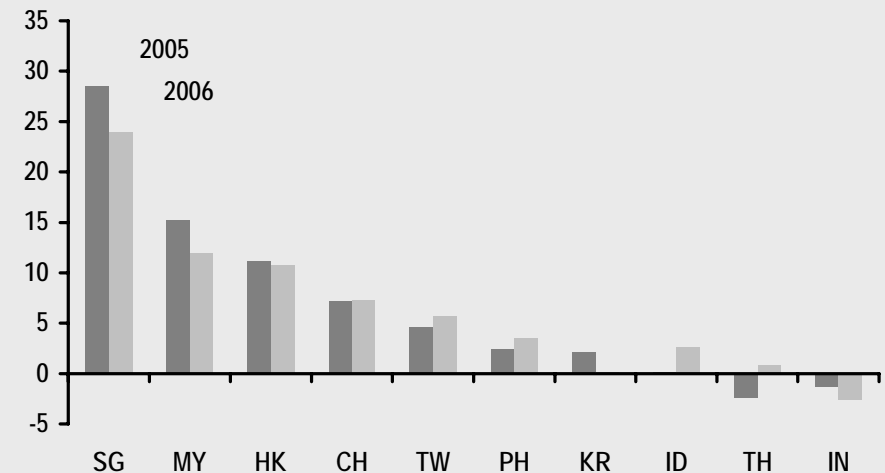
### Solid current account balances continue

Trade surpluses have moderated while contribution from invisibles has gained - leaving overall current account in solid surplus

## Almost all continue to be in the black save India

Emerging Asia: current account balance

% of GDP



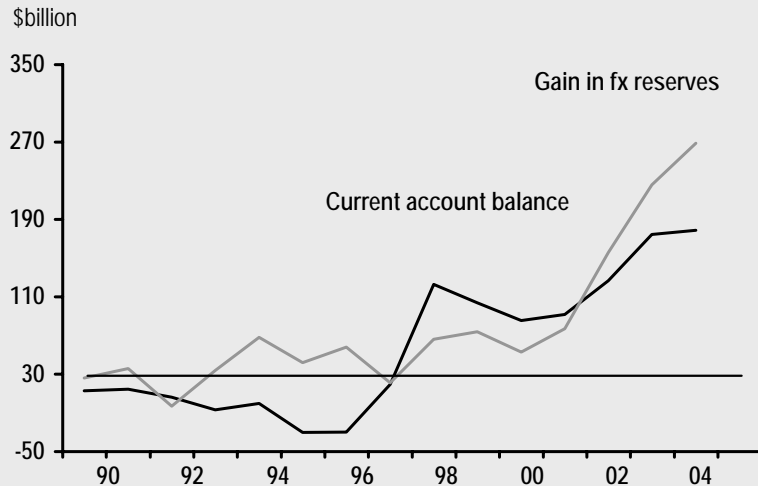
### India the exception in the region

Trade deficit keeping the current account balance well in the red - funded to a large extent by portfolio capital

# The world's liquidity is coming to Asia: Solid post-crisis inflows without the pre-crisis hang-ups

## Solid current account supplemented by strong capital inflows

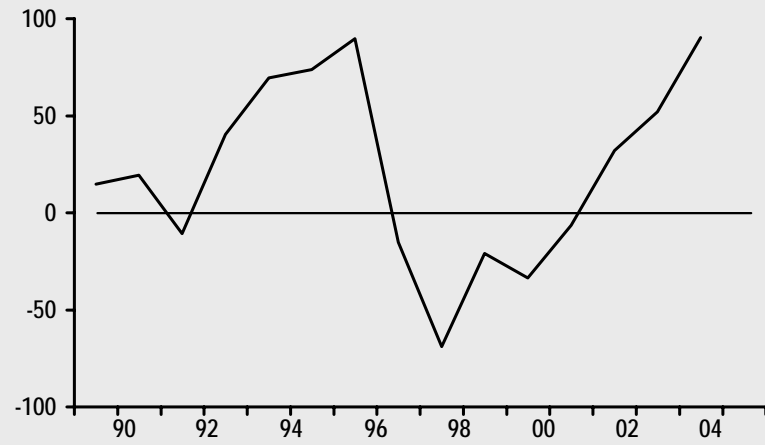
Regional current account balance and annual change in fx reserves



Combination of solid growth and strong external balances makes Asia attractive  
Capital flows into Asia continue to surge - growth expectations with FX upside makes Asia attractive

## Reaching post crisis highs without the pre-crisis vulnerabilities

Net private capital flows to Emerging Asia  
\$ billion



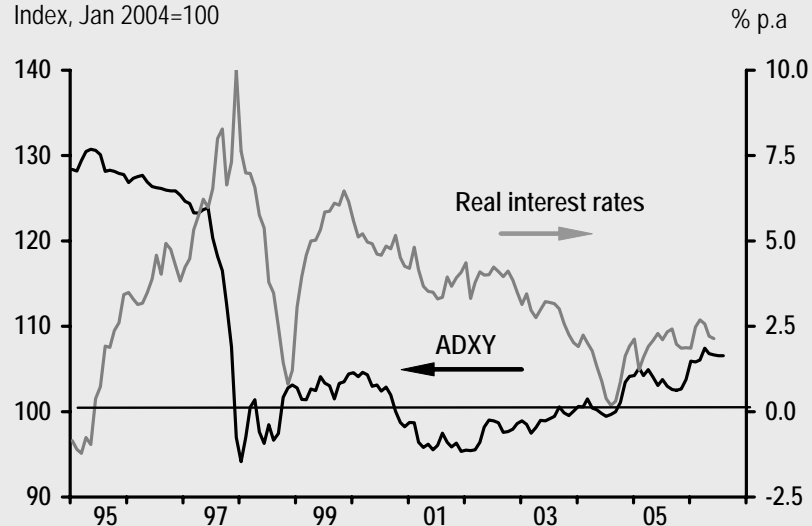
Capital inflows reaching highs  
Solid inflows across most of the region has lead to a remarkable recovery in capital flows - surpassing levels seen before the crisis

# A different Asian tightening cycle: Managed FX appreciation takes the lead in monetary conditions shift

## Real rate continue to be low - FX doing the heavy lifting

### ADXY and real interest rates

Index, Jan 2004=100



### A shift in Asia's tightening cycle

July 2005 liberalization of the CNY putting in place longer term move for currency appreciation

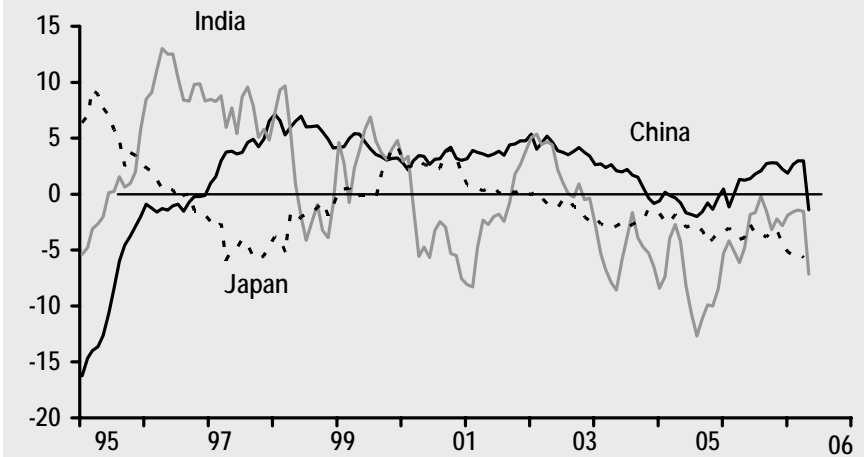
### Real rates continue to be low - FX appreciation already reaching post crisis highs

The return of domestic demand following a recovery in external demand has provided central banks confidence to allow FX appreciation and yet keep rates relatively low

## Monetary conditions among Asia's big-3 remains easy

### Monetary condition indices

% deviation from long-run average



### Despite recent tightening, overall conditions remain easy

Monetary conditions continue to be easy across the Big-3 in Asia. Policy settings continue to be very loose in Japan with modest tightening in China and India

# Current accounts at center stage for Asian FX

## Emerging Asia: fx and current account balance forecasts

### Emerging Asia: fx and current account balance forecasts

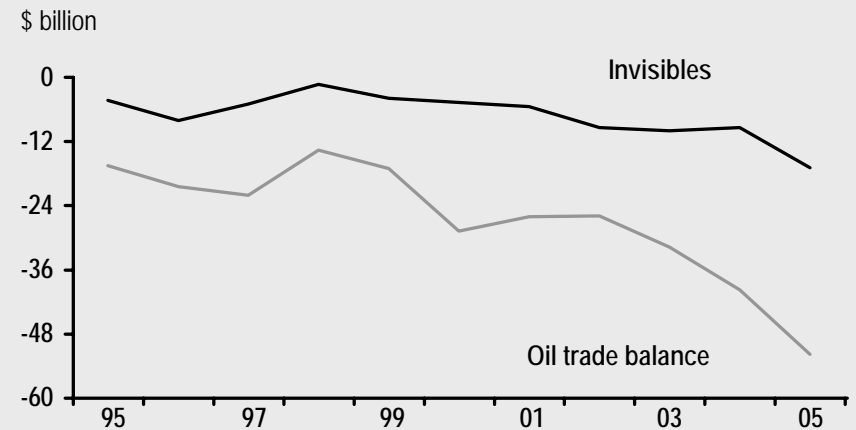
	Exchange rate versus USD			CA forecast % of GDP, 2006
	Current	Year end	Expected change (%)	
SGD	1.59	1.53	3.8	24.0
MYR	3.68	3.48	5.4	12.0
CNY	7.90	7.50	5.1	8.1
TWD	32.9	31.0	5.8	5.7
ADXY <sup>1</sup>	106.9	109.2	2.2	5.1
PHP	50.1	49.0	2.2	3.5
IDR	9200	8900	3.3	2.6
KRW	943	980	-3.9	0.1
THB	37.5	37.0	1.3	0.8
INR	45.8	45.5	0.7	-2.6
<i>memo: JPY</i>	118.0	119.0	-0.8	3.7

1. The Bloomberg-JPMorgan ADXY is an index of 10 regional currencies (ex Japan). CA forecast is for Emerging Asia.

- Monetary tightening since 2004 reflects stronger currencies and policy rate hikes (albeit lagging the Fed)
- Emerging Asia policy rates to continue lagging the Fed into the last legs of the global tightening cycle
- More varied policy mix will develop in next 12 months as regional inflation trajectories diverge

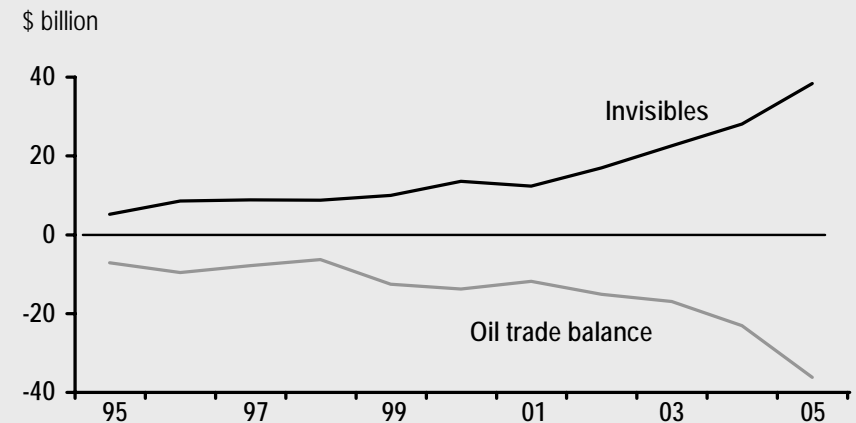
## Korea to see current account deficit in 2007

### Korea: invisibles and oil trade balances



## India invisibles cannot offset trade deficit

### India: invisibles and oil trade balances



## Asia is a big loser from an oil price shock

### Sensitivity impact of a sustained \$10/bbl rise in oil prices

	GDP (% point)	Current Acct (% GDP)	Inflation (% point)
<b>Losers</b>			
Malaysia	-0.4	0.4	1.0
Hong Kong	-0.1	-0.5	0.2
Korea	-0.2	-0.2	0.2
China	-0.3	-0.6	0.2
<b>Bigger Losers</b>			
India	-1.0	-0.8	1.7
Singapore	-1.7	-0.7	0.8
Taiwan	-1.0	-0.8	0.7
Indonesia	-1.0	-0.7	2.0
Philippines	-1.7	-1.5	1.3
Thailand	-1.3	-1.5	1.7
Emerging Asia	-0.6	-0.6	0.7

Source:



# Growth and current account impact large, though buffers in place

## Oil and growth in Asia

	Tot. Exports (%GDP)	Oil Intensity <sup>1</sup>		GDP Sensitivity (%)		
		US\$	PPP	JPM	IMF	ADB
Philippines	43	187	41	-1.7	-1.6	-1.9
Thailand	59	270	86	-1.7	-1.8	-2.2
Indonesia	28	212	68	-1.3	0.2	0.1
Singapore	168	357	344	-1.0	n/a	-1.7
India	12	172	37	-1.0	-1.0	-0.8
Taiwan	57	136	n/a	-1.0	n/a	-0.4
China	36	187	43	-0.4	-0.8	-0.8
Korea	37	154	112	-0.3	-1.8	-0.6
Hong Kong	157	94	75	-0.2	n/a	-0.6
Malaysia	107	197	88	-0.1	-0.4	-0.9

<sup>1</sup> tons of oil per US\$1mn GDP (2004 US\$ prices)

## Oil and inflation in Asia

	CPI <sup>1</sup>		Sensitivity		
	Fuel	Core	JPM	IMF	ADB
Indonesia	12.4	7.5	2.0	2.0	1.3
Thailand	20.7	0.9	1.7	0.8	1.5
India	10.5	n/a	1.7	2.6	1.7
Philippines	21.3	8.2	1.3	1.6	1.4
Malaysia	5.7	1.9	1.0	2.0	1.4
Singapore	2.7	n/a	0.8	n/a	1.3
Taiwan	7.6	-0.2	0.7	n/a	0.3
China	9.8	-0.1	0.2	0.8	0.5
Hong Kong	5.3	0.2	0.2	n/a	0.3
Korea	10.1	2.8	0.2	1.6	0.8

<sup>1</sup> % Average %oya in 1H05 of the fuel component of CPI

## Oil and current account dynamics in Asia

	Oil Trade			CA Sensitivity (%GDP)		
	Imports <sup>1</sup>	Exports <sup>1</sup>	Balance <sup>2</sup>	JPM	IMF	ADB
Philippines	10.7	n/a	-5.5	-1.5	-2.0	-0.9
Thailand	14.0	3.1	-6.4	-1.5	-3.0	-1.2
Taiwan	12.8	3.1	-5.2	-0.8	n/a	-0.6
India	27.9	8.6	-3.3	-0.8	-1.2	-0.7
Indonesia	25.4	25.9	2.6	-0.7	1.2	0.9
Singapore	14.8	12.2	-2.1	-0.7	n/a	-1.3
China	8.6	2.4	-2	-0.6	-0.6	-0.1
Hong Kong	2.4	0.2	-3.5	-0.5	n/a	-0.8
Korea	22.4	4.1	-5.8	-0.2	-2.0	-0.8
Malaysia	6.0	11.5	6.9	0.4	0.0	0.3

<sup>1</sup> % of total

<sup>2</sup> Balance / GDP

## Oil and fiscal balance in Asia

	Oil Pricing	Ownership <sup>1</sup>	Subsidies	
			04 Cost <sup>2</sup>	Reform <sup>3</sup>
China	Controlled	State	n/a	n/a
Hong Kong	Market	Private	n/a	n/a
India	Controlled	State	0.1	no
Indonesia	Controlled	State	2.5	yes
Korea	Market	Private	n/a	n/a
Malaysia	Controlled	State	1.0	yes
Philippines	Market	Private	0.0	n/a
Singapore	Market	Private	0.0	n/a
Taiwan	Market	State	n/a	n/a
Thailand	Market	Private	1.0	yes

<sup>1</sup> Ownership of upstream oil companies

<sup>2</sup> direct cost to govt budget (%GDP)

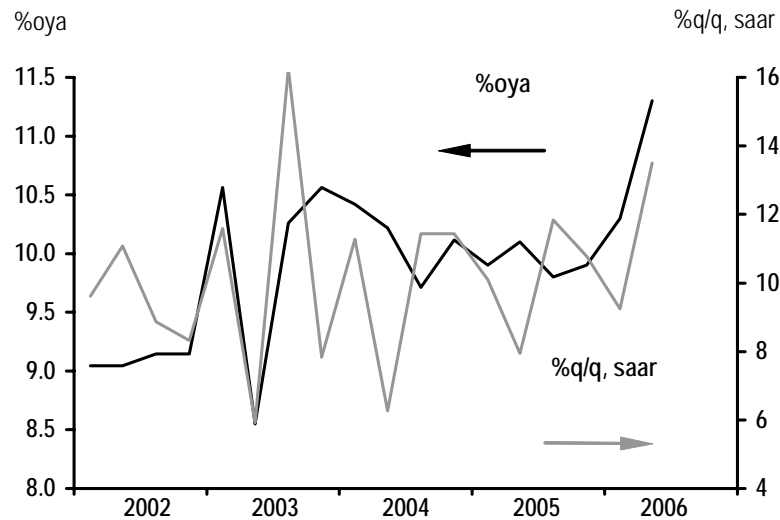
<sup>3</sup> reform in 2005

# Agenda

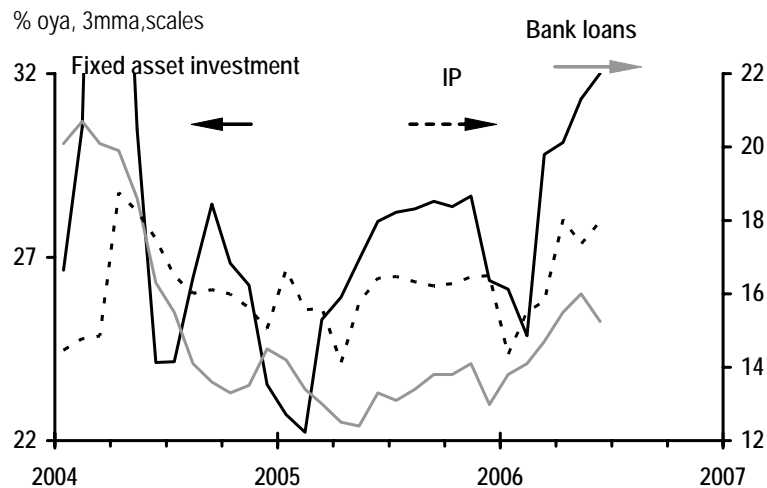
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# China: A liquidity fueled investment boom increasing risks of overheating

China: Real GDP growth



China: fixed asset investment, IP, and bank loans



## Economic indicators

	Average	2004	2005f	2006f	2007f
	1999-03				
Real GDP, % change	8.7	10.1	10.2	10.0	9.0
Consumption*	3.7	4.3	4.5	4.4	4.7
Investment*	4.9	4.5	3.2	3.7	3.7
Net trade*	0.1	1.3	2.5	2.0	0.7
Consumer prices, %oya	0.0	3.9	1.8	1.5	2.5
% Dec/Dec	0.6	2.4	1.6	2.2	2.0
Government balance, % of GDP	-2.9	-1.3	-1.1	-1.0	-1.0
Merchandise trade balance (\$ bil.)	38.9	59.2	134.1	186.4	183.9
Exports	295.0	593.6	762.5	950.8	1119.5
Imports	256.1	534.4	628.4	764.4	935.6
Current account balance	28.3	68.9	161.1	211.7	206.1
% of GDP	2.1	3.6	7.2	8.1	6.2
International reserves, (\$ bil.)	248.1	600.8	818.9	1028.9	1218.9
Total external debt, (\$ bil.)	177.9	226.6	244.6	258.6	269.6
Short term	44.5	96.3	114.3	130.3	144.3
Total external debt, % of GDP	13.1	10.9	10.6	9.6	7.9
Total external debt, % of exports	50.1	30.2	26.1	22.7	20.3
Interest payments, % of exports	7.2	3.4	3.1	2.9	2.9

\* Contribution to growth of GDP.

? Debt with original maturity of less than one year.

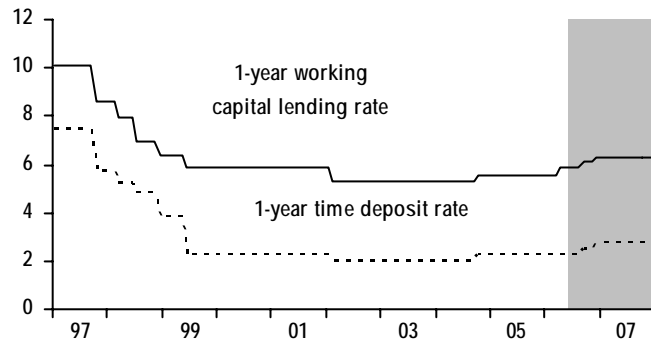
? Exports of goods, services, and net transfers.

Source: JPMorgan

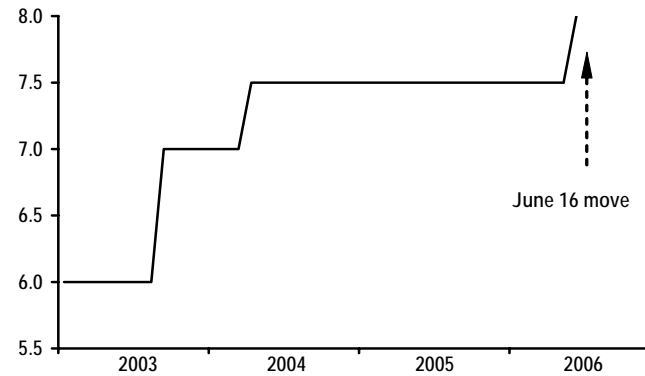
# China: Macro-control may be frustrated by the limited role of the banking sector

Macro-measures may start to slow bank lending...

China: benchmark lending and deposit rates  
Percent per annum

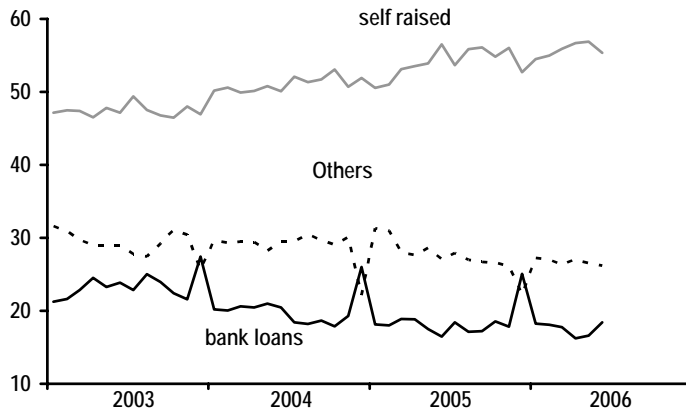


China: PBoC required reserve ratio  
%



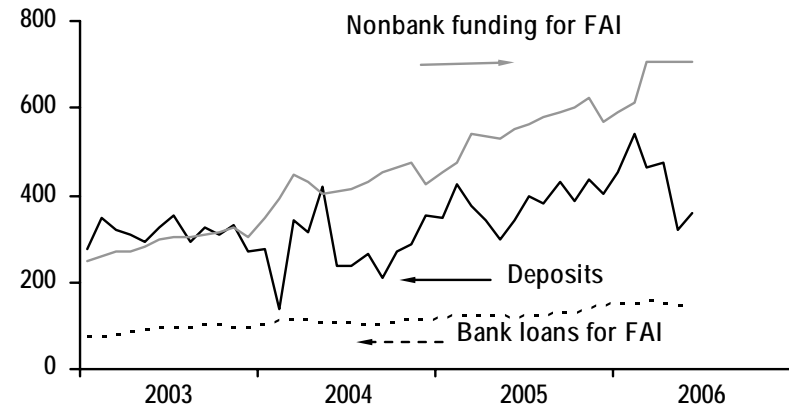
... but will have a limited effect in curbing overall investment

China: Funding Sources for Fixed Asset Investment  
% of total, sa



Financial institution deposits and funding for FAI

US\$ bn equiv alent outstanding, sa, 3mma

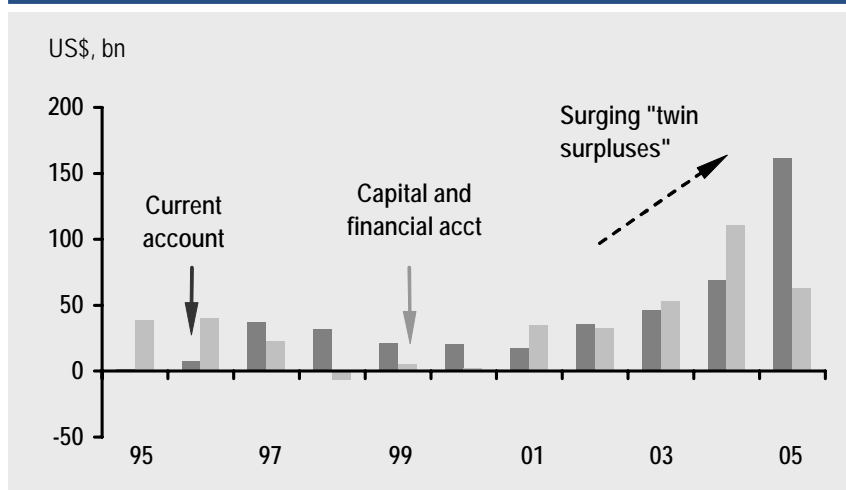


# China: more micro-management may help, but the fundamental issue lies with the CNY

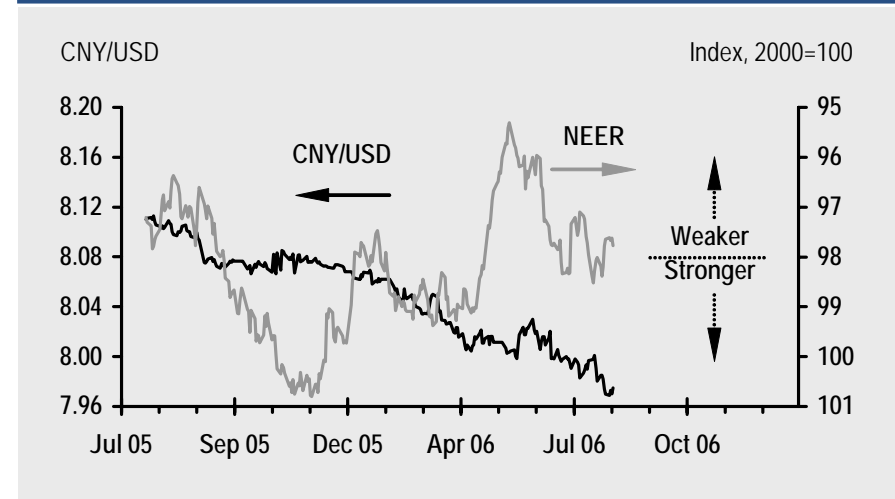
Authorities will also increasingly rely on more traditional administrative controls on lending and investment (micro-management), targeted at specific sectors.

However, key to any broad tightening policy must address the fundamental root problem: the undervalued currency.

Balance of payments: surging "twin surpluses"



CNY: Modest spot appreciation is even less in basket terms



However, if the authorities fail to allow the currency to appreciate more rapidly, and the CNY undershoots our forecast, then the risk will be that the macroeconomy will continue overheat and overshoot our forecasts.

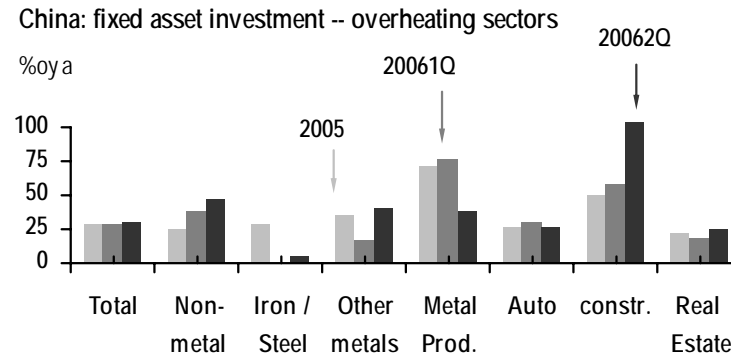
China: CNY forecast

CNY/USD, end of period

Current	2Q06	3Q06	4Q06	1Q07	2Q07	3Q07	4Q07
7.997	7.95	7.80	7.50	7.30	7.00	6.80	6.50

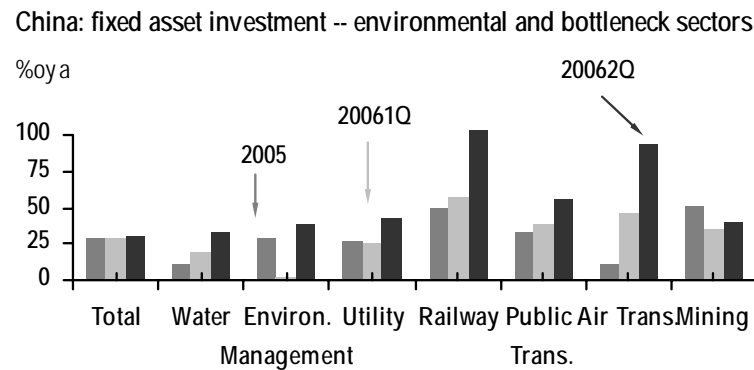
# China: are we overheating yet?

True, surging investment is driven in part by well-known problem sectors, such as real estate...



... but investment in other problem sectors have been moderating as of late.

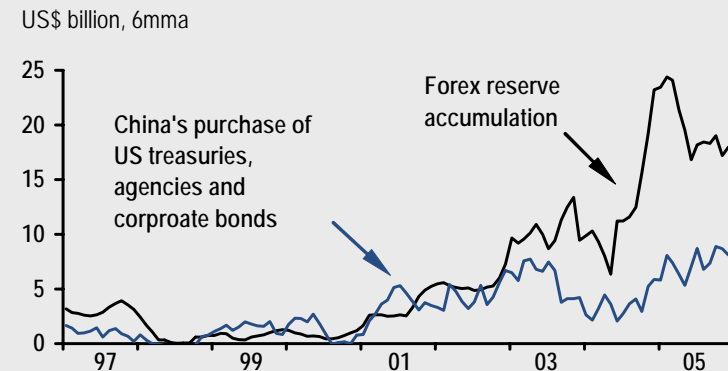
Moreover, a healthy rotation is occurring into sectors that badly need more investment:



## PBoC's FX reserve diversification is incremental

- According to the TIC data, China's net purchase of US dollar assets, including US treasuries, US agency securities, and US corporate bonds at US\$47.6 billion in 2004 and US\$90.8 billion in 2005.
- These numbers compare to total increases in China's forex reserves of US\$206.7 billion in 2004 and US\$209 billion in 2005.
- By this measure, at least 33% of the increase in China's forex reserves went into US dollar assets in the past two years.
- This is likely to be an underestimate, since the TIC data may not capture all net purchases of USD assets by China.
- However the PBOC governor has publicly said recently that its USD asset holdings is "below 50%" compared to 70% three years ago.
- Such "Incremental adjustment" of FX reserve holdings should continue.

China's USD asset purchases



China's holding of US treasuries against outstanding forex reserves

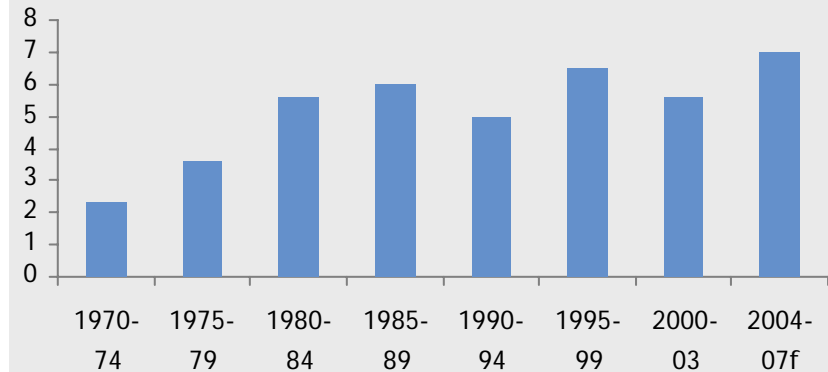


# India: Economy has potential to grow faster than 7% (though unlikely to get there soon)

- The Indian economy offers a delectable mix of structural and cyclical drivers that are powering the current impressive economic expansion
- Rising household incomes, significant structural decline in local interest rates, greater and easier access to credit, and favorable demographics are boosting the spending power of India's population of over one billion, and fueling a major boom in consumer spending
- Faster implementation economic reforms could raise the speed limit on economic growth to around 10% annually
- Strong domestic demand and higher global crude oil prices are causing a record ballooning of the current account deficit. Indeed, India's current account deficit is the largest in Emerging Asia, and the deficit is playing a small but an important role in easing global imbalances

## Real GDP

average % change, fiscal years beginning April 1



## Household distribution by annual income

Rs 000, fiscal years starting April 1	1995/96	2001/02	2009/10f
Less than 90,000	131176	135378	114395
90,000 to 200,000	28901	41262	75304
200,000 to 500,000	3881	9034	22268
500,000 to 1 million	651	1712	6173
1 to 2 million	189	546	2373
2 to 5 million	63	201	1037
5 to 10 million	11	40	255
Over 10 million	5	20	141
Memo: No of households (mn)	165	188	222

Source: NCAER



# India's current economic upturn is broadening

- GDP growth is powered by higher domestic spending and improving external demand
- Full-year GDP is forecast to rise 7.5%oya in 2006-07 (year that began April 1), driven by services and industry
- Ongoing pickup in investment spending could surprise on the upside
- Demand-driven inflationary pressures will increase as corporate pricing power improves
- The RBI will be on hold for the remainder of the year but hike again in January
- Recent fiscal data casts early doubts on consolidation efforts of the government
- Wider current account deficit and slowing capital inflows will cause INR to weaken

## Economic indicators

fiscal years beginning Apr 1	Average				
	1999-03	2004	2005f	2006f	2007f
Real GDP, % change	5.7	7.5	8.4	7.5	7.0
Consumption*	3.4	5.4	6.4	5.7	5.5
Investment*	1.6	2.5	3.2	3.8	3.9
Net trade*	0.7	-0.4	-1.2	-2.0	-2.3
Consumer prices, %oya	4.1	3.8	4.2	5.6	5.3
% Dec/Dec	3.2	3.8	5.6	5.4	4.6
Wholesale prices, %oya	4.5	6.6	4.7	4.5	5.2
Government balance, % of GDP	-5.5	-4.0	-4.1	-3.8	-3.5
Merchandise trade balance (\$ bil.)	-13.3	-36.6	-51.6	-68.6	-87.5
Exports	49.6	82.2	104.8	122.6	143.5
Imports	62.8	118.8	156.3	191.2	231.0
Current account balance	3.3	-5.4	-10.6	-21.6	-30.5
% of GDP	0.7	-0.8	-1.3	-2.6	-3.2
International reserves, (\$ bil.)					
Total external debt, (\$ bil.)	116.6	125.5	138.0	141.0	153.1
Short term	12.5	14.7	17.2	20.2	23.7
Total external debt, % of GDP	22.9	18.1	16.5	16.5	15.5
Total external debt, % of exports	130.1	82.2	67.4	61.5	54.9
Interest payments, % of exports	8.1	4.6	5.4	4.0	3.5

\* Contribution to growth of GDP.

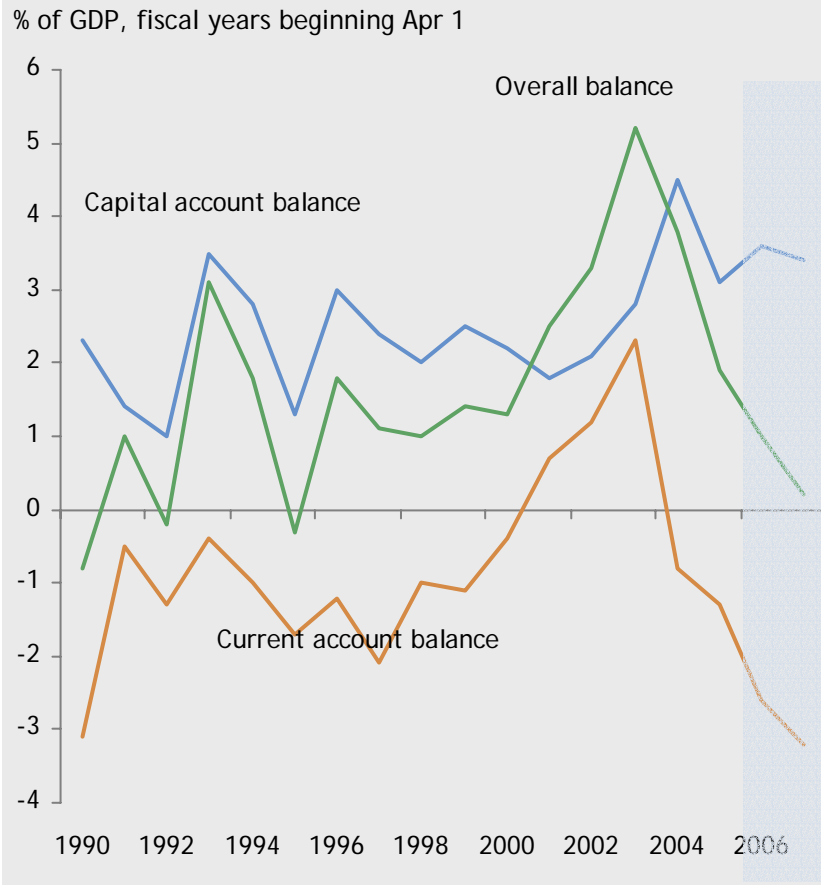
? Debt with original maturity of less than one year.

? Exports of goods, services, and net transfers.

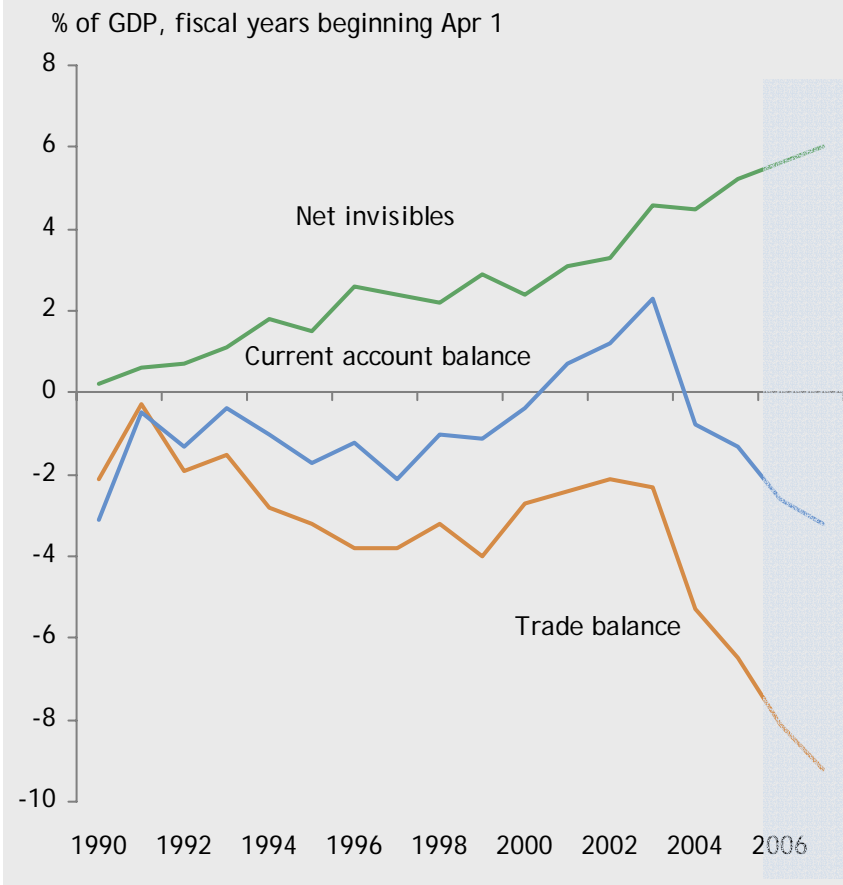
Source: JPMorgan

# India: Current account deficit to deteriorate further

## Balance of payments



## Balance of payments: current account balance



## Keep a close watch on fiscal trends

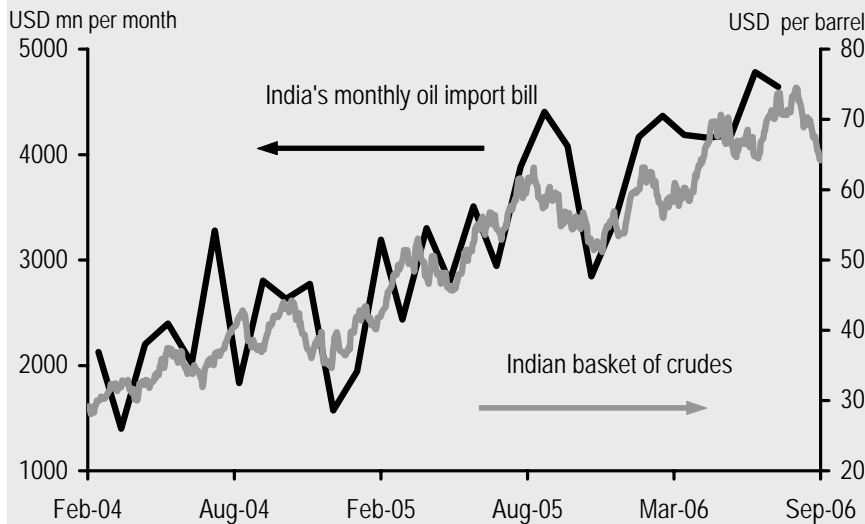
- Higher revenues, lower interest costs, and restraint on spending have lowered the fiscal deficit-to-GDP ratio
- Public debt situation improving as primary deficits shrink and growth-interest rate differential widens
- In the budget for 2006-07, the government got back on track on the targets of the Fiscal Responsibility and Budget Management Act.
- However, fiscal deficit in the first four months of 2006-07 has already ballooned to 58.1% of the full-year 2006-07 target owing to front-loading of spending, raising concern that the government could overshoot its fiscal deficit target of 3.8% of GDP

### Budget deficits

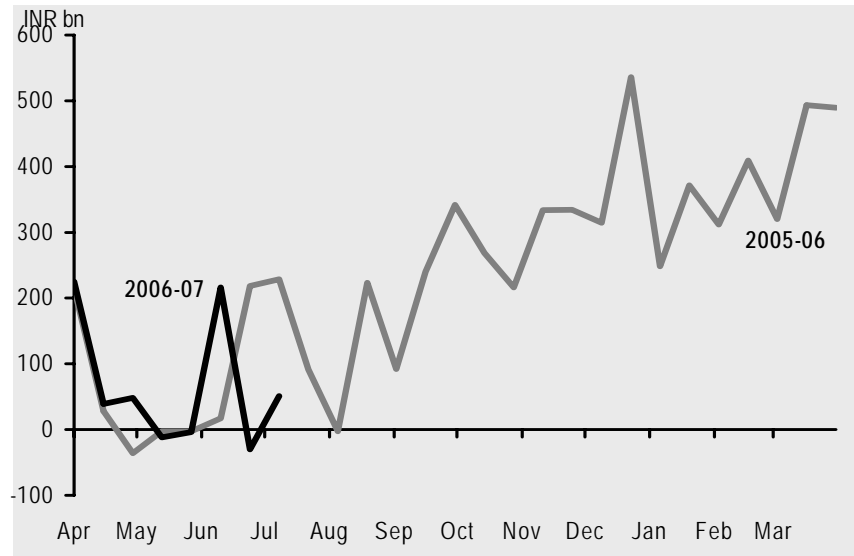


# Lower oil prices will help current account deficit, but the capital account is still unreliable; recent bond market rally is not a turning point

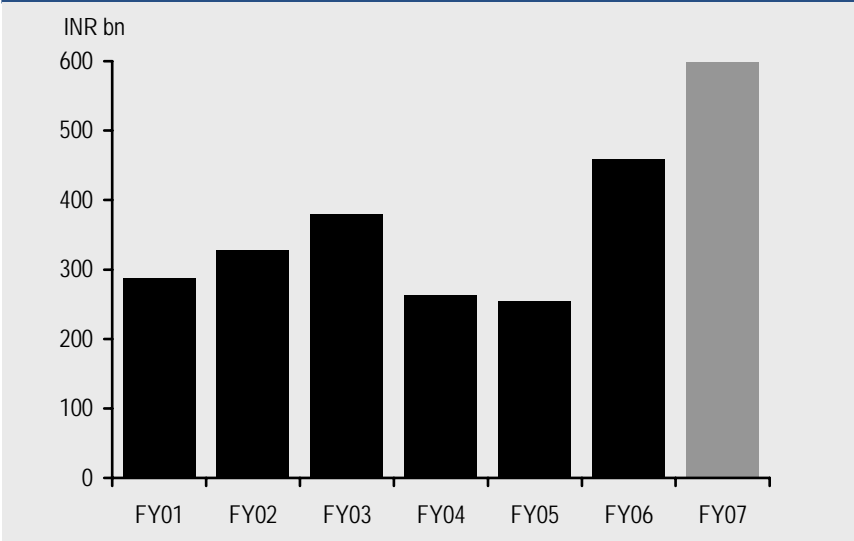
Lower oil prices will contain India's oil import bill



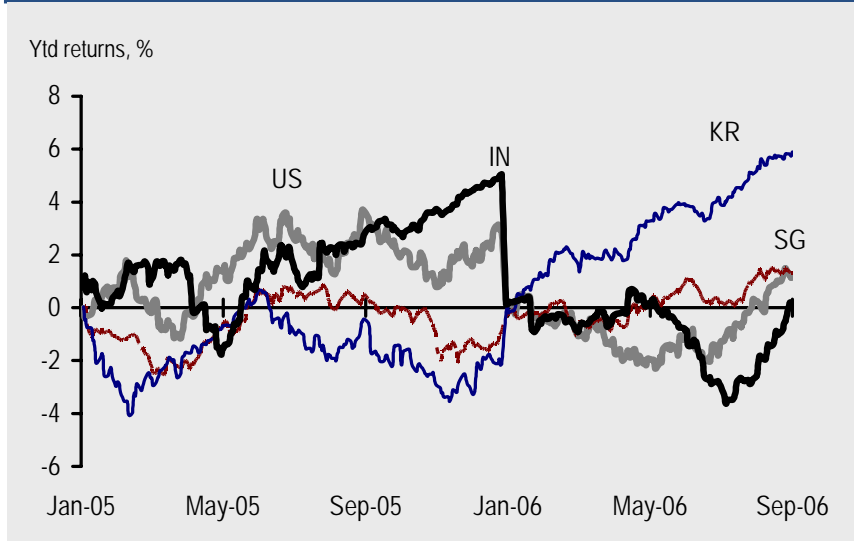
Government cash surplus may rise, tightening liquidity



Planned issuance for Oct-Mar is historically high



Indian bonds have rallied strongly recently

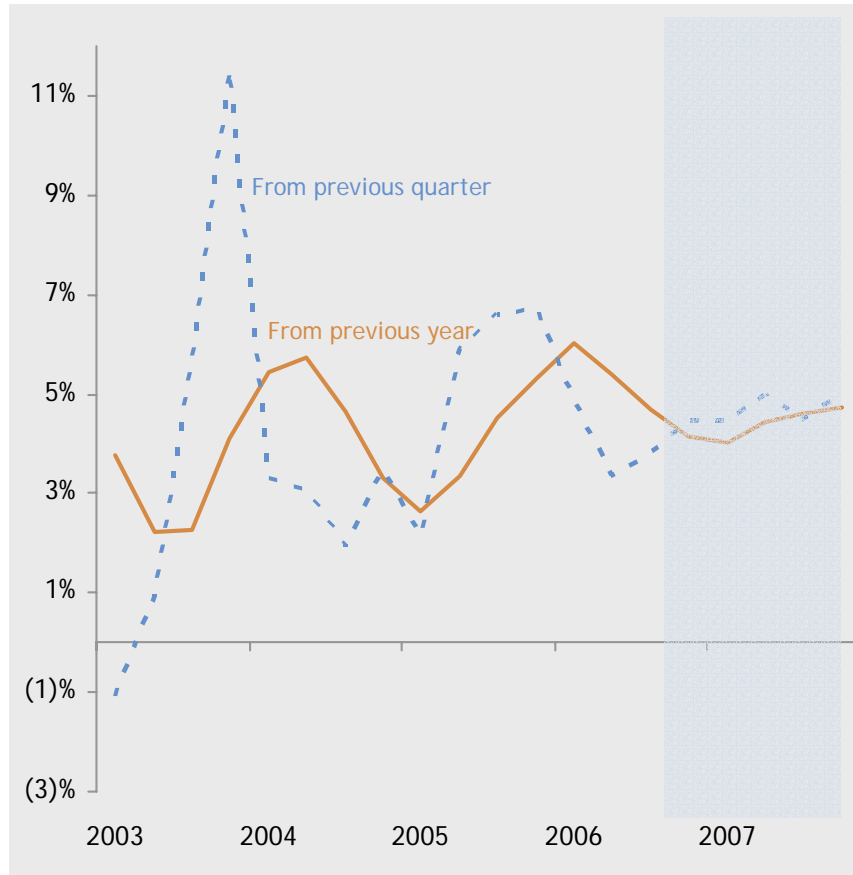


COUNTRY OVERVIEWS

# Korea

## Key question: Is it a start of a serious downturn?

### Real GDP (percent change, annualized)



### Economic indicators

	Average				
	1999-03	2004	2005f	2006f	2007f
Real GDP, % change	6.3	4.7	4.0	5.1	4.5
Consumption*	3.4	0.3	2.1	2.5	2.5
Investment*	2.7	1.1	0.4	1.3	1.0
Net trade*	0.2	3.3	1.4	1.3	1.0
Consumer prices, %oya	2.7	3.6	2.8	2.6	3.2
% Dec/Dec	2.9	3.0	2.6	3.0	3.3
Producer prices, %oya	0.3	6.1	2.2	2.3	4.0
Government balance, % of GDP	0.7	0.7	0.7	1.0	0.7
Merchandise trade balance (\$ bil.)	19.1	37.6	33.5	25.7	19.1
Exports	166.8	257.7	289.0	318.2	346.2
Imports	147.6	220.1	255.5	292.5	327.0
Current account balance	14.5	28.2	16.6	1.2	-4.2
% of GDP	2.8	4.1	2.1	0.1	-0.4
International reserves, (\$ bil.)	109.9	199.0	210.0	226.0	224.0
Total external debt, (\$ bil.)	145.8	172.3	162.8	164.8	159.3
Short term	46.4	56.3	55.8	58.8	58.3
Total external debt, % of GDP	28.2	24.2	21.3	17.8	17.1
Total external debt, % of exports	71.8	53.4	48.6	43.9	40.1
Interest payments, % of exports	3.7	2.7	3.3	1.9	1.5

\* Contribution to growth of GDP.

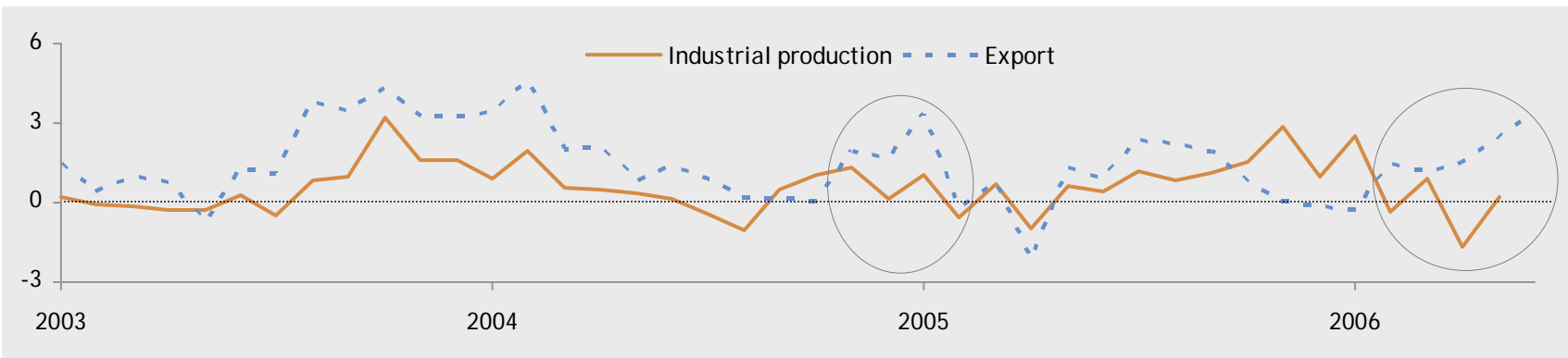
? Debt with original maturity of less than one year.

? Exports of goods, services, and net transfers.

# Industrial production slows while exports staying solid

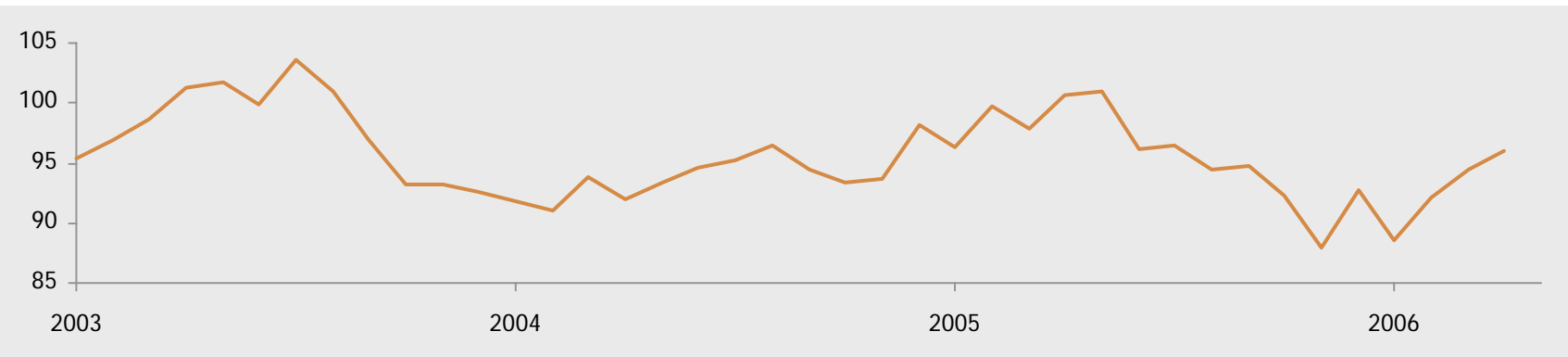
## Industrial production and exports

%m/m, sa, 3mma



## Inventory ratio to shipment

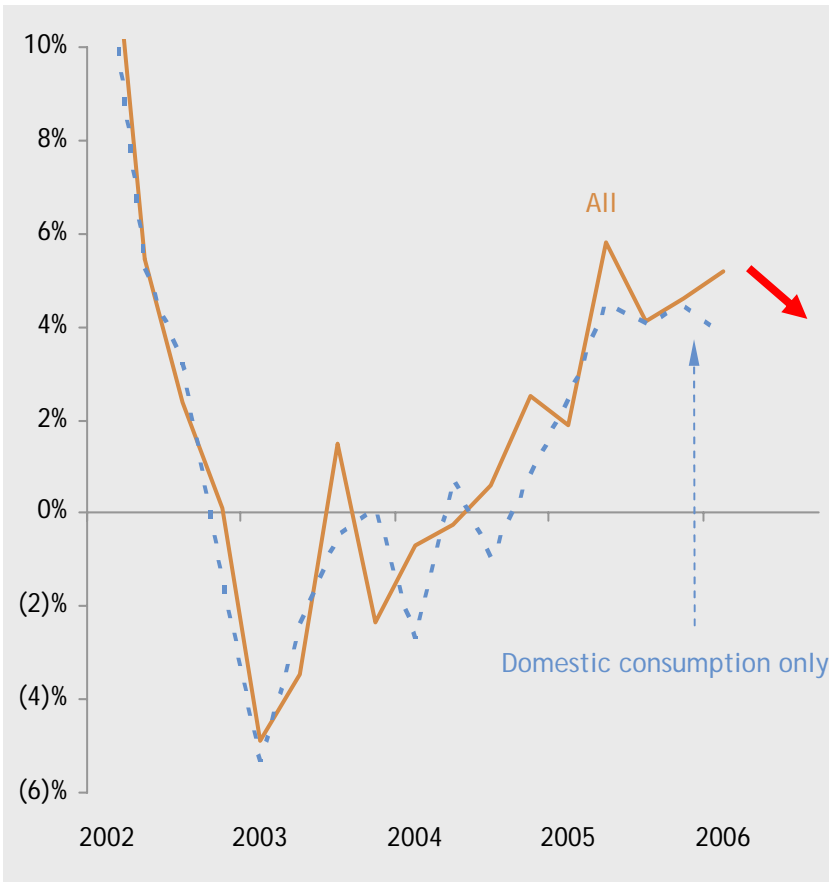
2000=100, seasonally adjusted



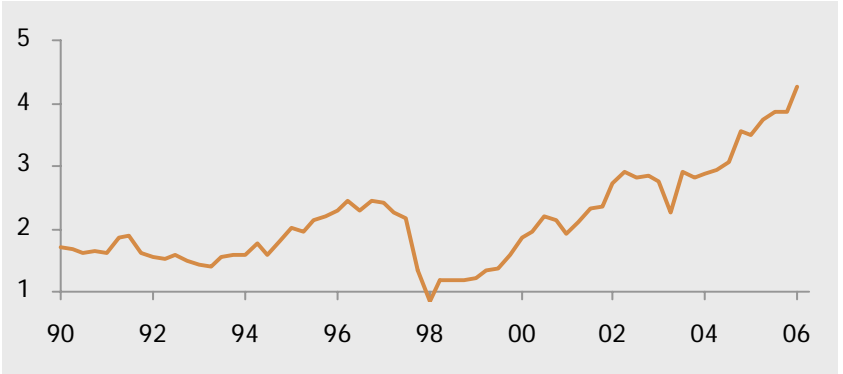
# Consumption steadily improved, but details less healthy

COUNTRY OVERVIEWS

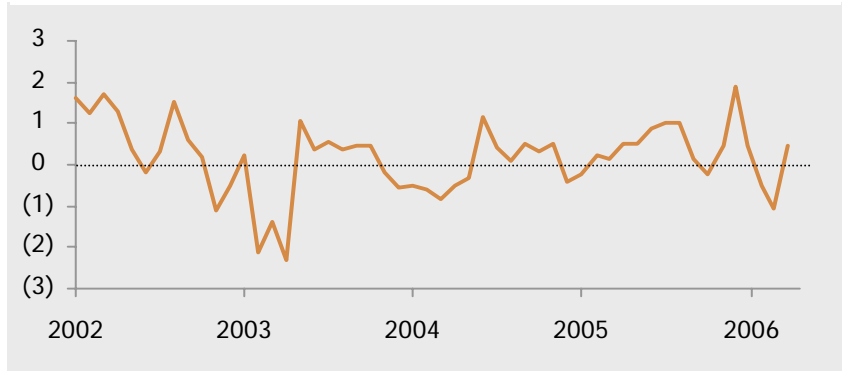
**Private consumption**  
% change, annualized



**Korea consumers' overseas spending**  
% of total consumption

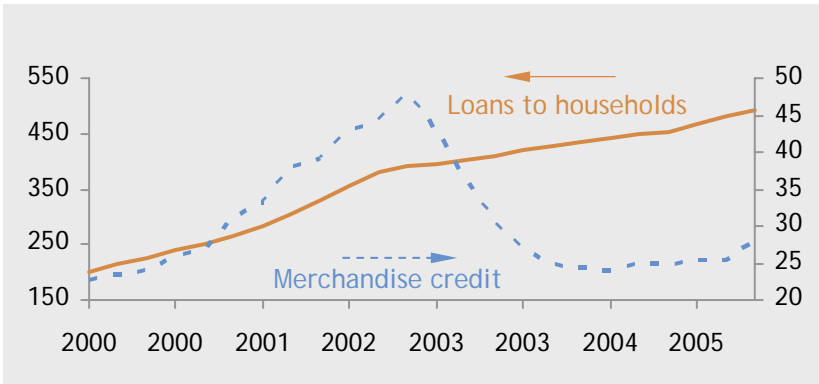


**Domestic consumption good sales**  
%m/m, sa, 3mma

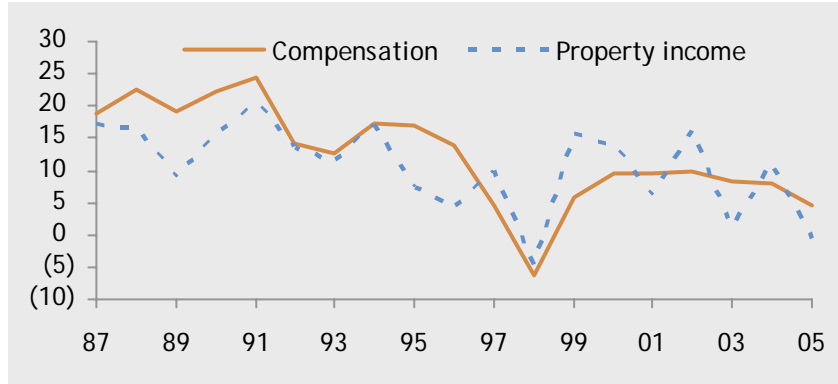


# Consumers turn positive, but no complacency yet

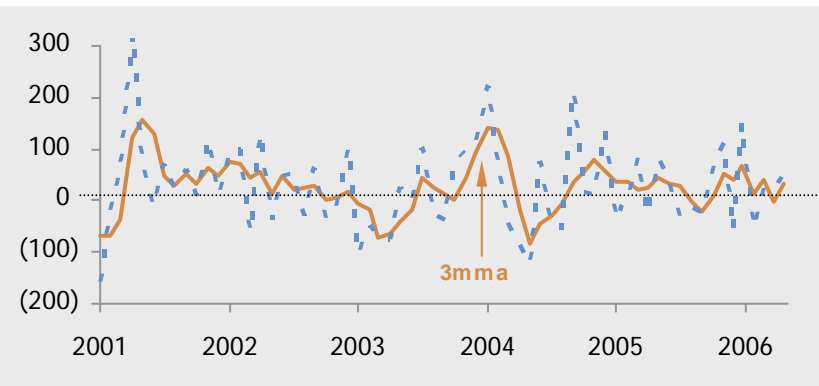
**Household credit**  
Trillion won



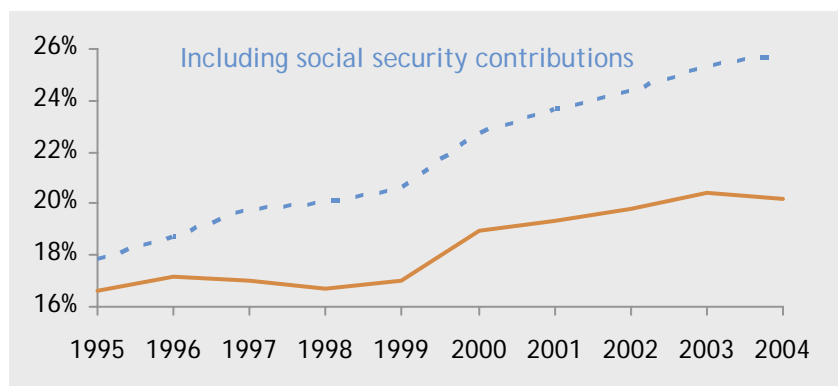
**Compensation of employees and property income**  
Percent change



**Employment gain**  
Thousands, seasonally adjusted



**Tax burden**  
% of GDP





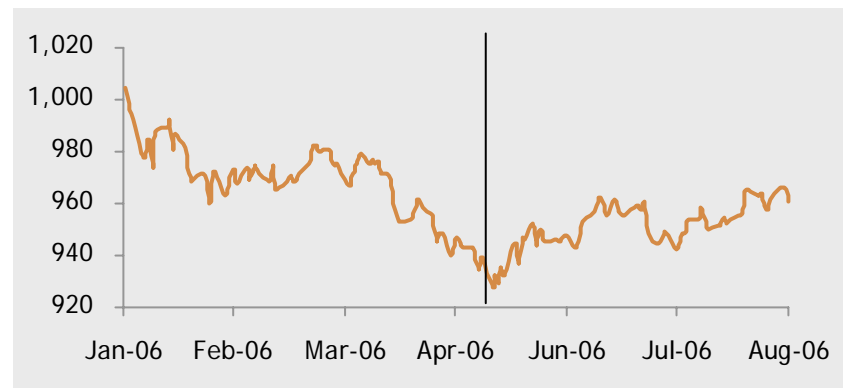
## New drags in, but with some positive catalysts

### Near-term growth constraint

- Labor strike effect
- Longer-than-usual rainy seasons
- Prospective rise in property taxes
- Wealth effect likely to be less positive

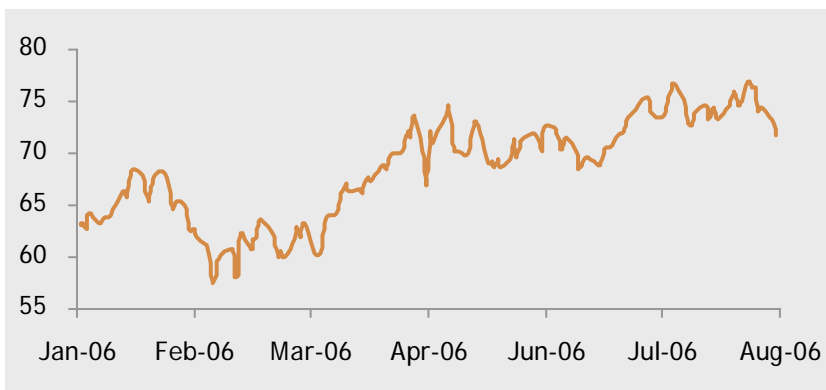
### KRW/USD exchange rate

Spot, daily mid-point



### WTI crude oil price

\$ per barrel, midpoint



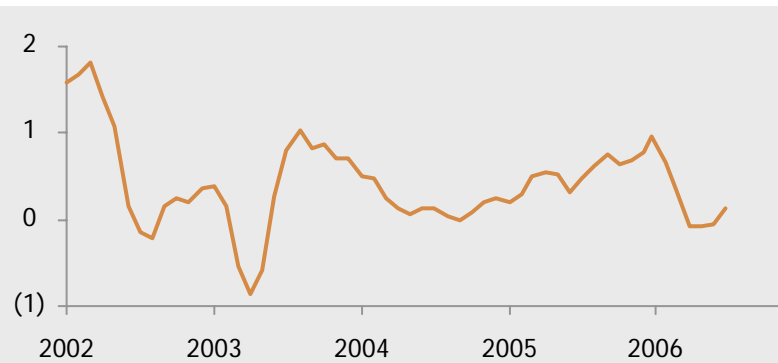
### Consolidated budget balance

Won trillions, cumulative

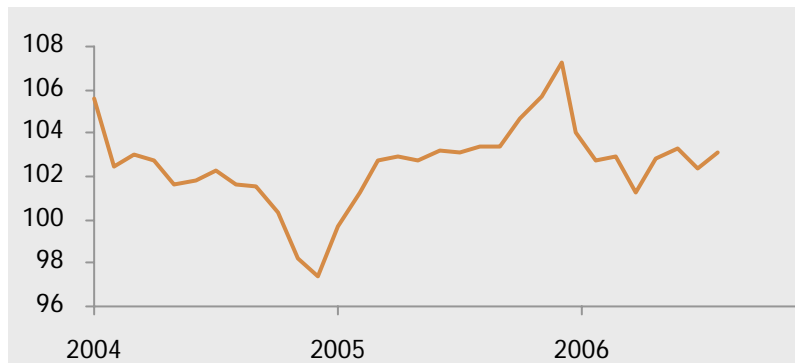


# Messages from key forward-looking indicators

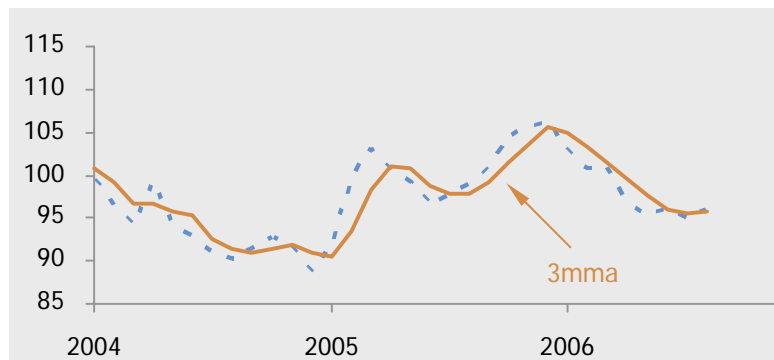
**Leading indicator**  
%m/m, sa, 3mma



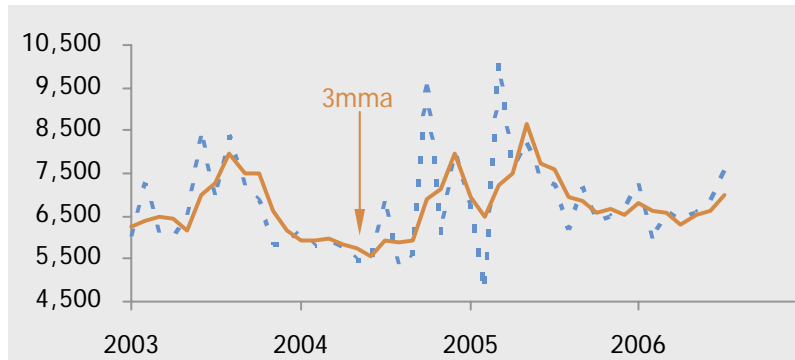
**BSI : composite index**  
100=neutral reading, sa



**CSI: 6-month ahead outlook**  
100=neutral reading, sa

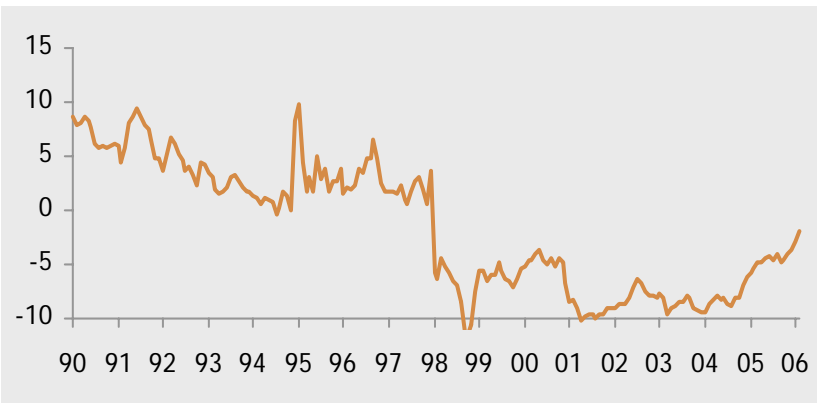


**Construction orders**  
Won billion, sa

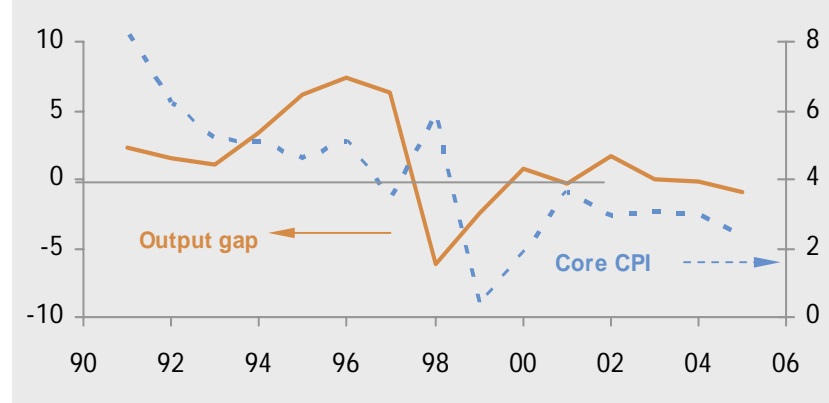


# Bank of Korea not yet done, as inflation likely to rise further

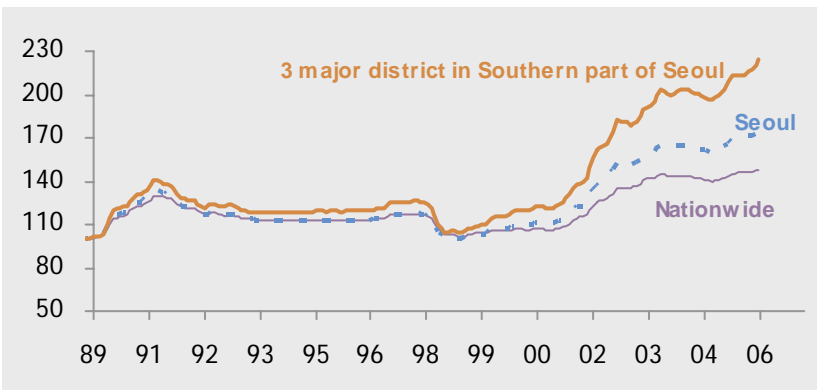
**Monetary condition index**  
% deviation from long-term trend (1987-2004)



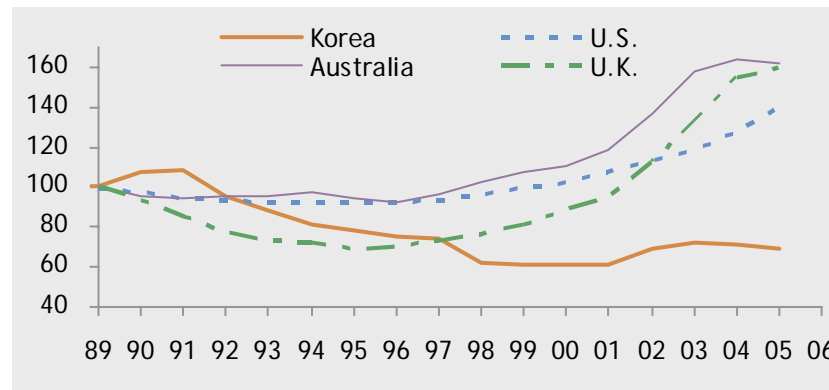
**Output gap and inflation**  
% deviation of actual from potential output



**Korea housing price index (nominal, monthly avg)**  
1989 = 100



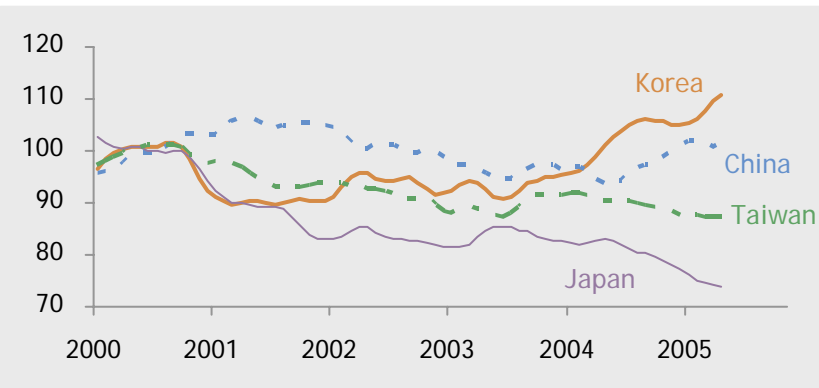
**Real housing prices (annual avg)**  
1989 = 100



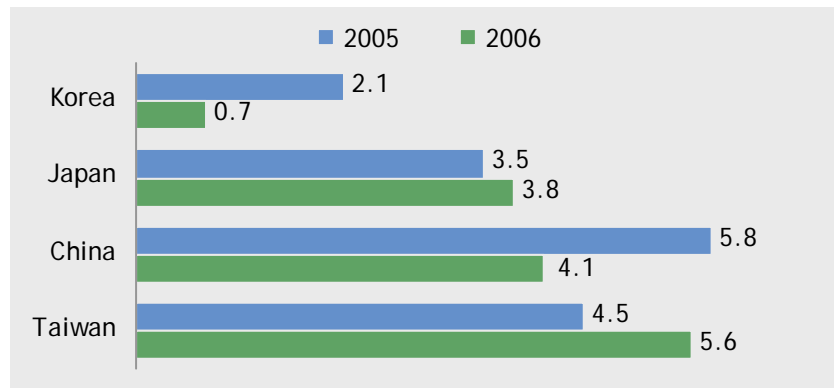
COUNTRY OVERVIEWS

# Pace of KRW appreciation to moderate; target 950 floor and 980 year-end

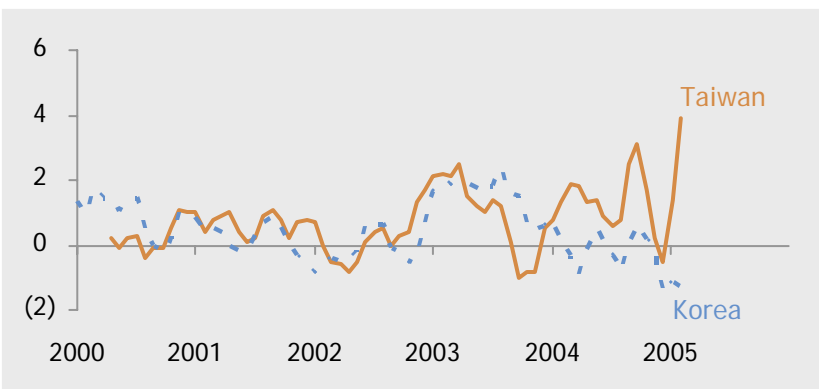
Real effective exchange rate  
2000=100, JPMorgan indices, 3mma



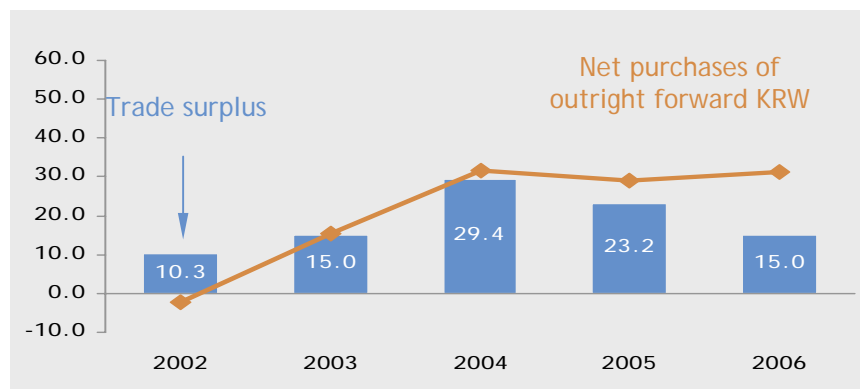
Current account surplus  
% of GDP



Foreign investors' net purchases in equity market  
US\$ billion, 3mma

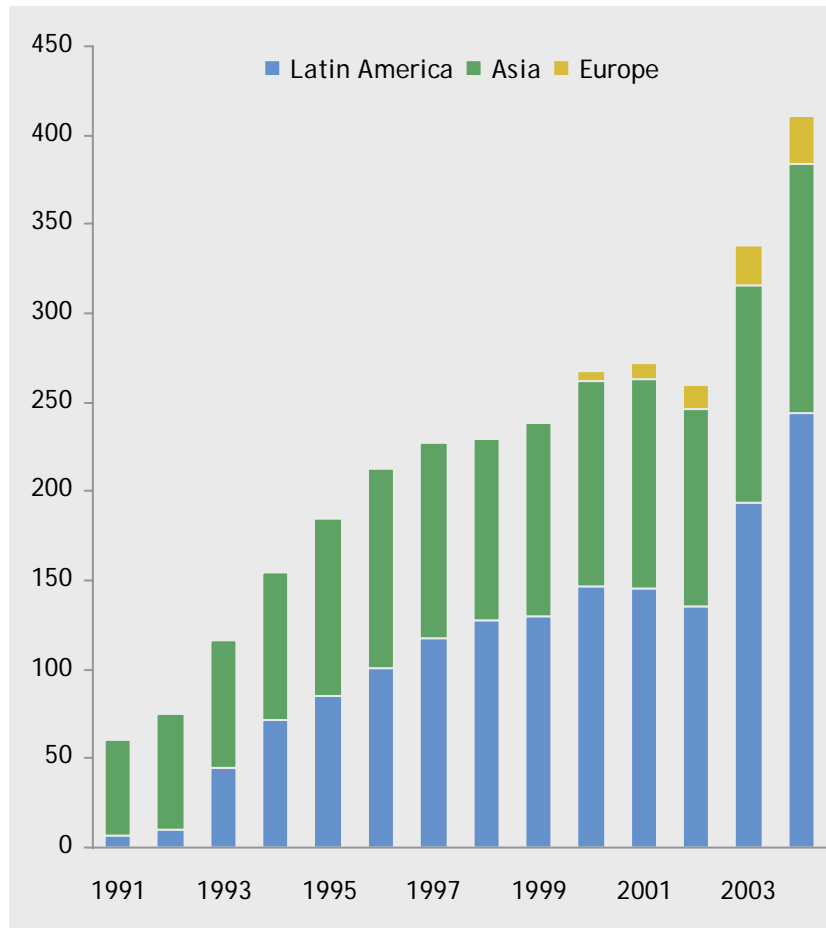


Trade surplus & local companies' forward transactions  
US\$ billion, annual

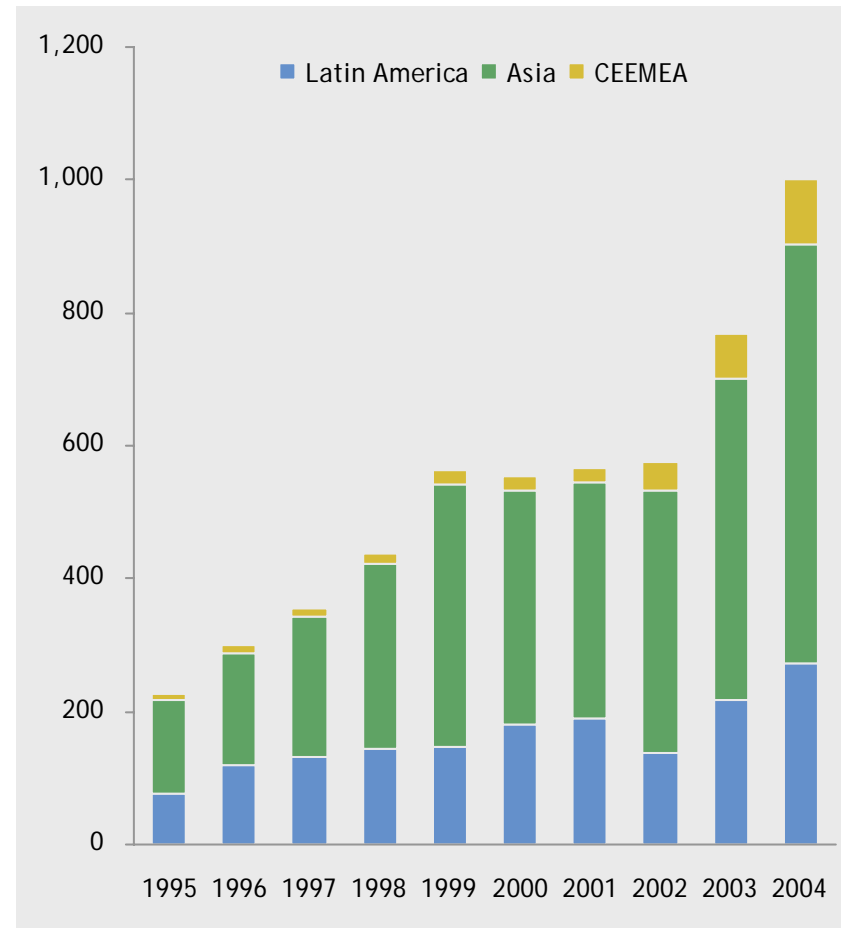


# Korea rates are buffered from global forces and are generally fairly priced given BoK; swaption vols are historically very cheap

Pension fund assets under management (\$ billion)



Mutual fund assets under management (\$ billion)

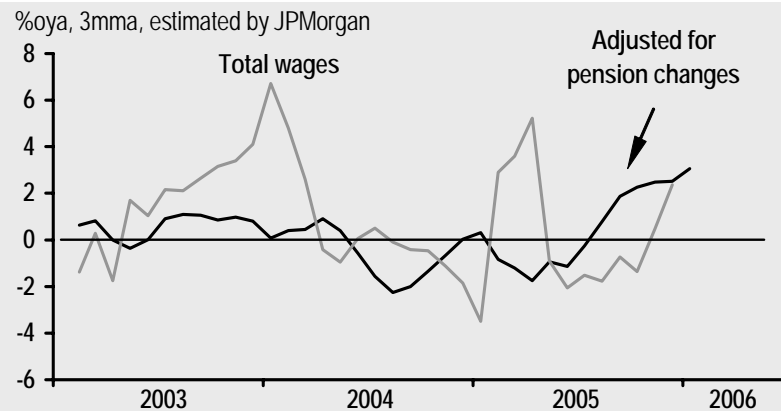


- Life insurance companies in Asia account for a significant additional pool of local funds—life insurance companies in the Republic of Korea alone had \$163 billion in assets at the end of 2004, with Singapore and Malaysia accounting for a further \$65 billion

# Taiwan private consumption: bruised but ready to stand

- A consumer credit scare is raising concerns about the household spending outlook
- However, the debt problem appears localized and contained, and important cushions still exist
- Despite the downside risks, our baseline view is for private consumption to turn up mildly in 2006

## Real wage growth



## Economic indicators

	Average				
	1999-03	2004	2005f	2006f	2007f
Real GDP, % change	3.4	6.1	4.0	4.0	4.4
Consumption*	1.6	2.3	1.7	1.2	2.3
Investment*	-1.0	4.0	-0.1	0.1	0.7
Net trade*	2.8	-0.2	2.4	2.7	1.4
Consumer prices, %oya	0.2	1.6	2.3	1.0	2.0
% Dec/Dec	0.2	1.6	2.2	1.5	1.9
Producer prices, %oya	-0.3	7.0	0.6	5.7	4.1
Government balance, % of GDP	-2.8	-2.5	-2.0	-1.8	-2.0
Merchandise trade balance (\$ bil.)	19.5	16.1	17.9	20.8	20.7
Exports	137.6	182.4	198.5	224.0	251.9
Imports	118.1	166.3	180.6	203.3	231.2
Current account balance	18.0	18.5	16.1	21.4	21.1
% of GDP	6.0	5.7	4.6	5.7	5.0
International reserves, (\$ bil.)	140.8	242.5	254.5	274.5	294.5
Total external debt, (\$ bil.)	47.4	53.2	55.4	57.6	59.8
Short term	29.9	33.4	34.7	36.0	37.2
Total external debt, % of GDP	15.5	16.1	15.7	15.0	14.0
Total external debt, % of exports	27.8	23.3	22.5	20.8	19.3
Interest payments, % of exports	0.4	0.4	0.8	0.8	0.9

\* Contribution to growth of GDP.

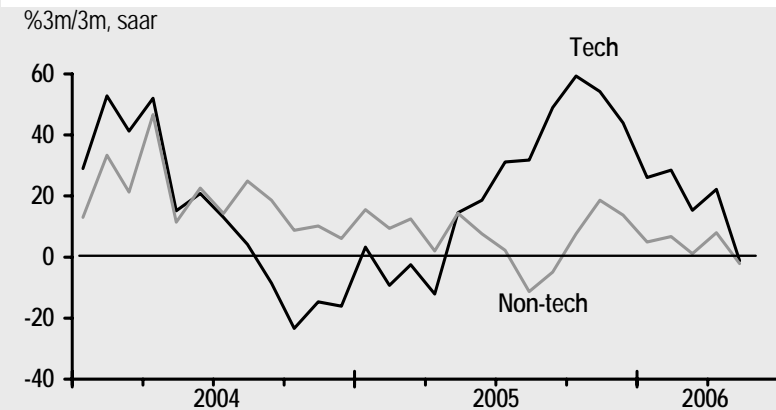
? Debt with original maturity of less than one year.

? Exports of goods, services, and net transfers.

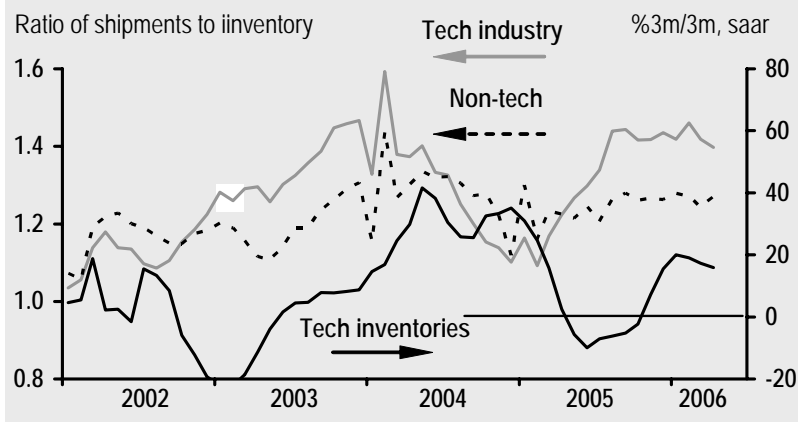
# Taiwan's export growth to hold up through 2006

- Export growth, particularly from the tech sector, has slowed much more sharply than expected
- But the pessimistic picture painted by the headline data obscures a situation that is more benign
- Our baseline view is for exports to sustain trend-like growth in 2H06, and to support domestic recovery

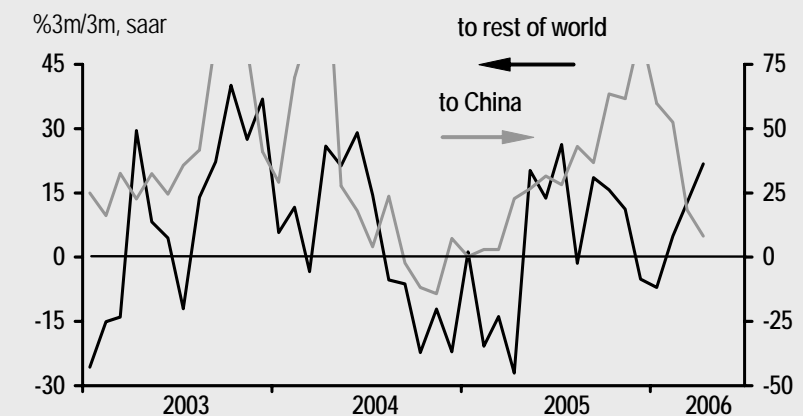
## Taiwan: exports



## Taiwan: shipments and inventory



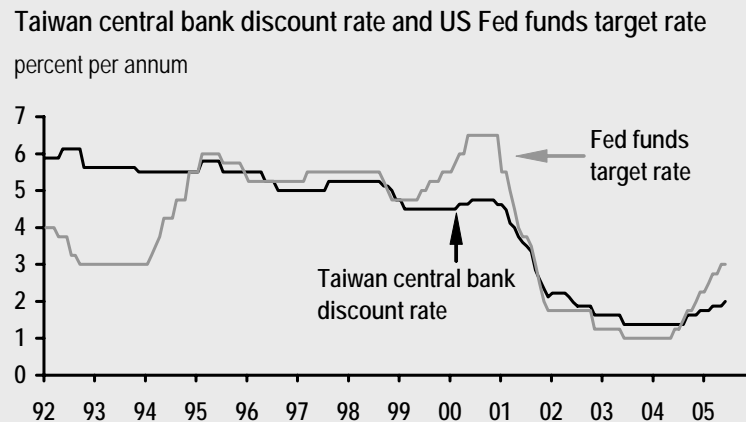
## Taiwan: exports of machinery, electronics, and optics



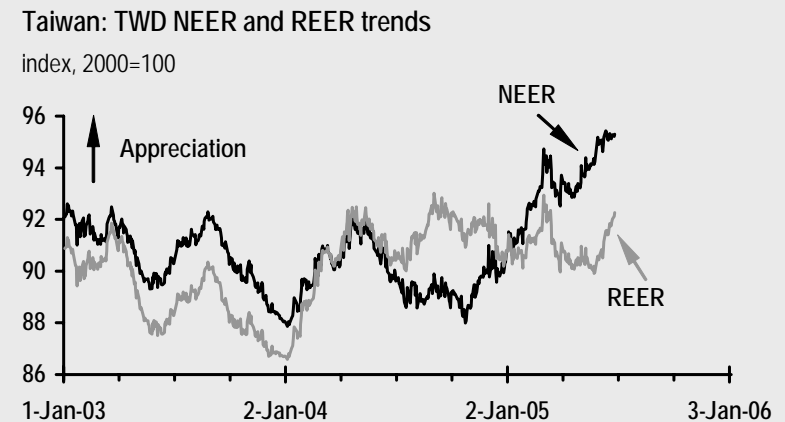
## Interest rate outlook: CBC on the path to policy normalization

- Despite the near-term growth concern, the CBC went ahead to raise rates by 12.5bp in June. JPMorgan expects CBC to severely lag the Fed
- Modest rate hikes combined with moderate currency strength remain the most appropriate approach to support domestic demand and manage imported inflation

Taiwan central bank discount rate and US Fed funds target rate



Taiwan: TWD NEER and REER trends





# Indonesia: 2006 - moving from pain to gain

## The drivers of growth forecast

- Policy moves in 3Q05 setting up for slow growth 1H06 - consumption and investment to drag
- With inflation coming off in 2H06, rates expected to decline
- Solid BoP - the 2005 FX bugbear will provide a solid 2006 story - due to demand compression
- BI's policy stance will be key to the outlook, continued vigilance remains critical to benign FX and rates view

## Economic indicators

	Average				
	1999-03	2004	2005f	2006f	2007f
Real GDP, % change	3.8	4.9	5.6	5.3	5.8
Consumption*	2.6	3.3	3.0	2.7	2.7
Investment*	0.1	4.3	3.1	0.5	2.7
Net trade*	1.1	-2.7	-0.5	2.1	0.4
Consumer prices, %oya	10.8	6.1	10.5	13.5	6.2
% Dec/Dec	7.7	6.4	17.1	7.3	6.5
WPI - manufacturing, %oya	10.3	4.0	14.3	10.0	8.7
Government balance, % of GDP	-1.7	-1.2	-0.5	-0.9	-0.8
Merchandise trade balance (\$ bil.)	23.1	19.3	15.5	23.6	19.6
Exports	59.3	68.7	79.3	90.0	102.0
Imports	36.2	49.4	63.8	66.4	82.4
Current account balance	7.2	3.2	0.2	8.9	5.0
% of GDP	4.0	1.3	0.1	2.6	1.2
International reserves, (\$ bil.)	29.0	35.0	33.4	44.9	46.4
Total external debt, (\$ bil.)	138.2	132.2	127.7	116.7	104.2
Short term	22.5	24.8	26.3	27.8	29.3
Total external debt, % of GDP	77.0	52.6	46.2	35.8	26.5
Total external debt, % of exports	204.3	168.5	142.1	118.6	94.8
Interest payments, % of exports	11.6	7.2	6.0	5.3	4.8

\* Contribution to growth of GDP.

? Debt with original maturity of less than one year.

? Exports of goods, services, and net transfers.

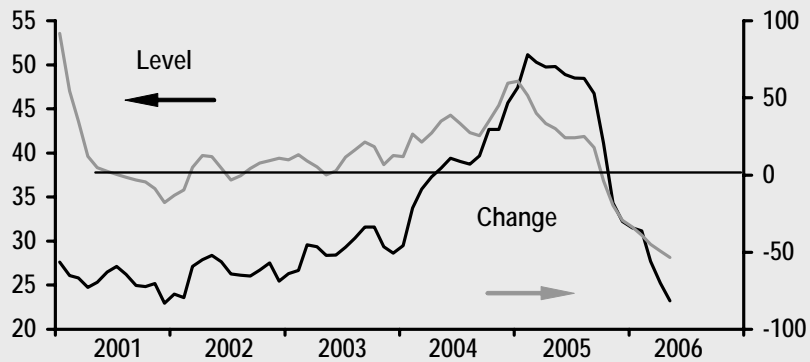
# Current state of economy - not a pretty picture

## Car sales have crashed

### Domestic motor vehicle sales

Thousand units, 3mma, sa

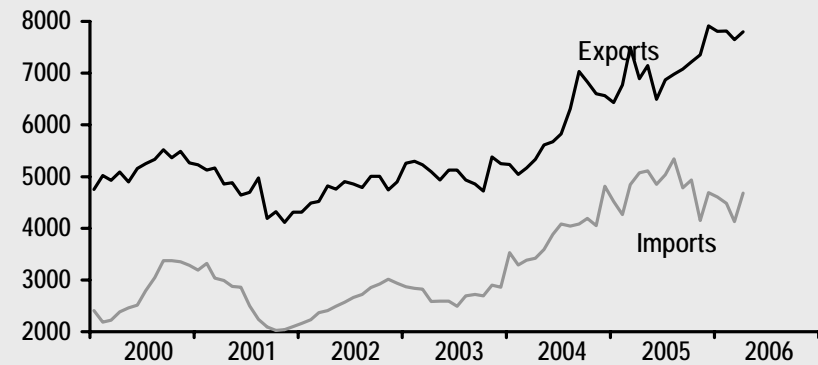
%oya, 3mma



## Imports continue to slow

### Indonesia: merchandise trade

US\$ million, sa

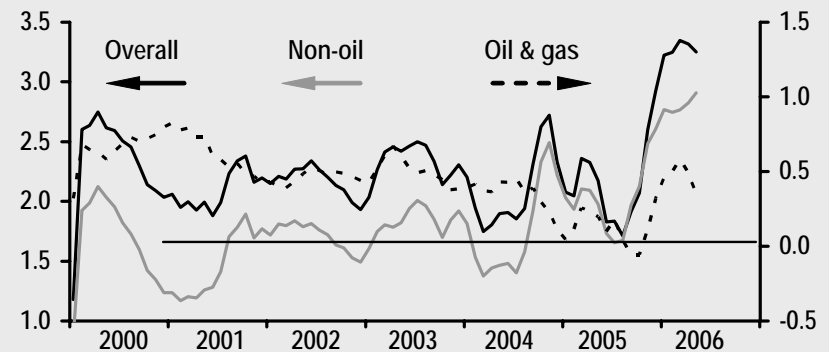


- Domestic demand indicators continue to remain weak
- Imports have continued slowing
- Non-oil trade balance surging to recent highs - a story of import compression and relative pricing effects on exports

## Trade balance continues to expand

### Trade balance

US\$ billion, 3mma, sa, both scales



# Weak domestic demand and impact on the BoP dynamics

## Indonesia: balance of payments - an improving story

### Balance of payments summary

US\$ billion, net balances, following IMF manual 5th edition

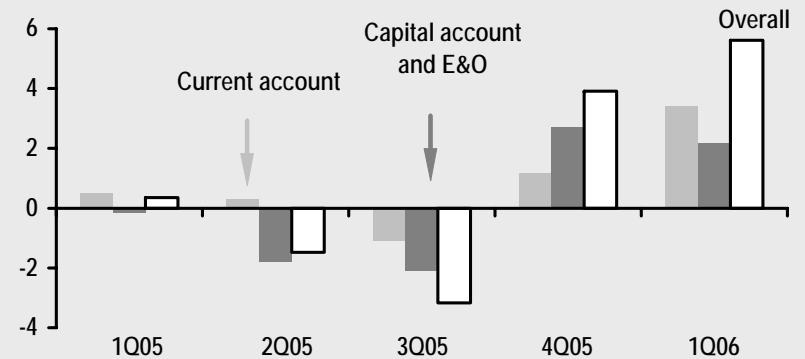
	1Q05	2Q05	3Q05	4Q05	1Q06	2005	2006f
Current account	0.5	0.3	-1.1	1.2	3.4	0.9	8.9
Trade balance	5.0	4.8	4.6	7.9	9.0	22.3	30.0
Services	-2.3	-1.6	-2.7	-4.2	-3.2	-10.8	-
Income	-2.5	-3.1	-3.3	-3.0	-2.7	-11.8	-
Transfers	0.3	0.2	0.3	0.4	0.3	1.3	-
Capital and financial acct	-0.5	-2.0	-4.1	3.0	0.8	-3.6	0.0
FDI	0.3	2.3	0.2	-0.7	0.3	2.1	5.5
Portfolio investment	0.8	-1.5	1.9	3.5	3.7	4.6	5.5
Other	-1.6	-2.8	-6.3	0.0	-3.3	-10.7	-11.0
Errors and omissions	0.3	0.2	2.0	-0.2	1.4	2.3	-
Overall balance	0.4	-1.5	-3.2	3.9	5.6	-0.4	9.0

- Weak demand and import compression driving recent current account surplus
- Portfolio inflows have also been strong
- Debt investors have been piling in

## Current account and portfolio capital driving inflows

### Balance of payments

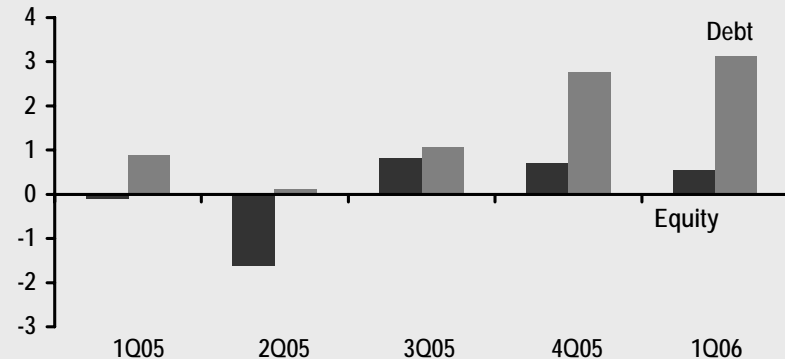
US\$ billion



## Portfolio capital coming mainly from debt investors

### Portfolio capital inflows

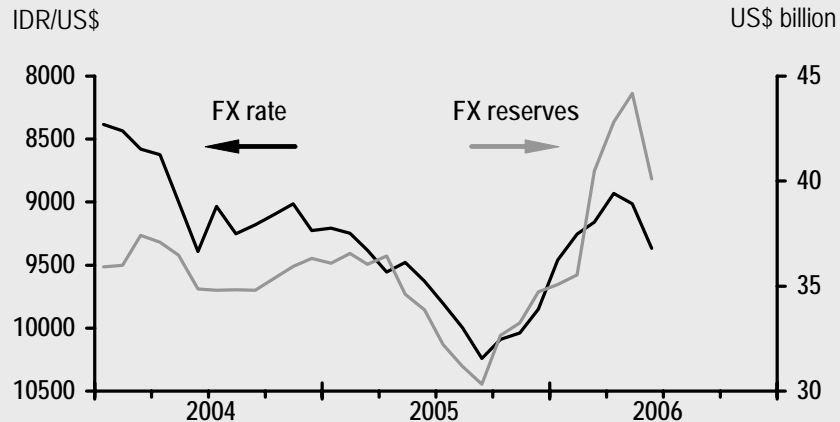
US\$ billion, net



# The good news: the flip side of weak domestic demand

## BoP and FX - a close linkage

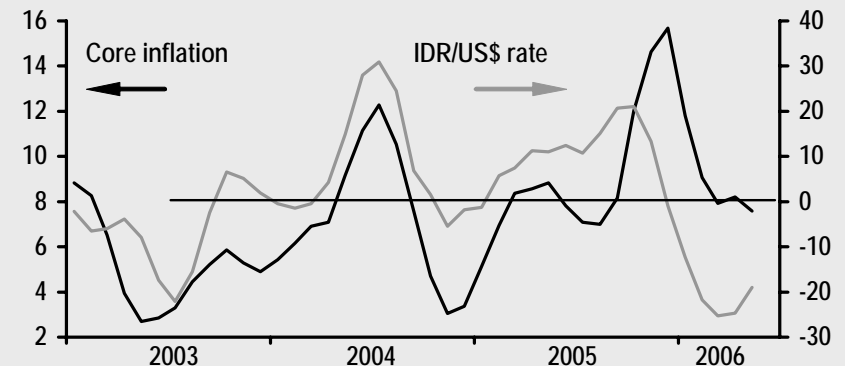
Indonesia: FX and FX reserves



## FX and core inflation

Indonesia: core inflation and exchange rate

%3m/3m, saar, both scales

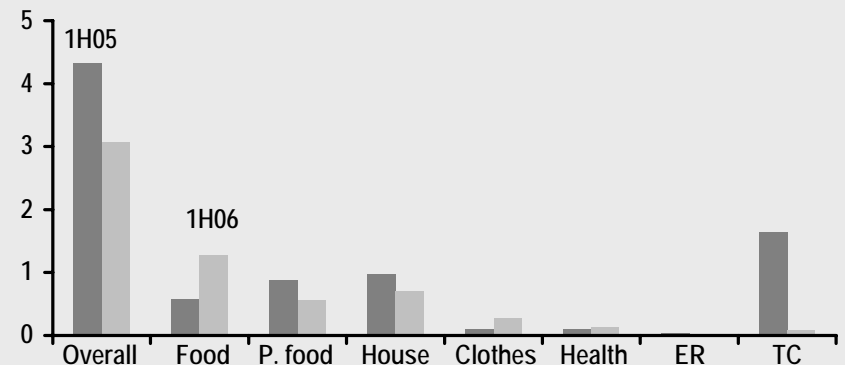


- Solid 2006 BoP will drive the FX view - looking for IDR/US\$9000 by end 2006
- Strong FX will drive the core inflation view - key to setting inflation expectations
- Already inflationary pressures appear to be easing for most items

## Inflation already more muted than in 2005

Indonesia: contribution to consumer price inflation

% pt. contribution to headline CPI increase over six months

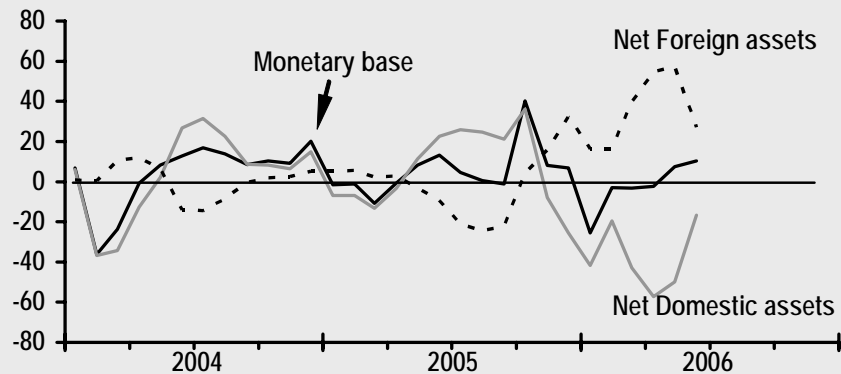


## BI also keeping a tight lid on monetary policy

### NI keeping reserve money growth well-contained

#### Indonesia: contributions to adjusted monetary base

Trillion, change over 3 months

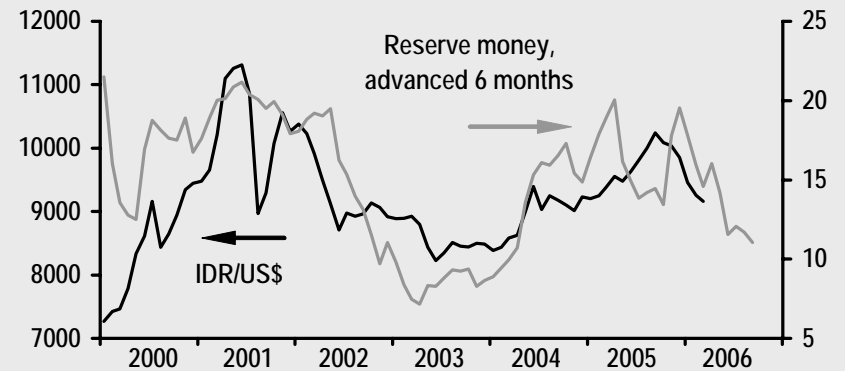


### Tracking reserve money and FX

#### Exchange rate and adjusted reserve money

IDR/US\$, average

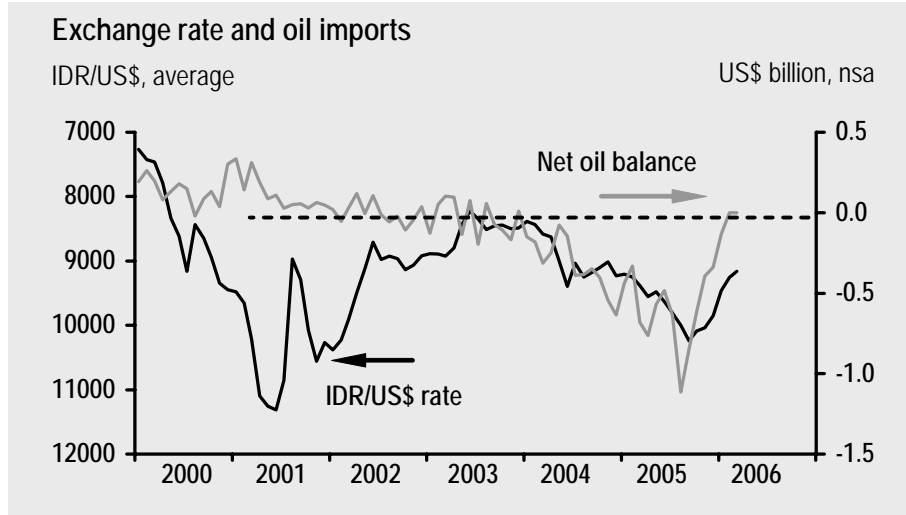
%oya, 6mma



- So far so good - reserve money growth under control
- Reserve money restraint and positive BoP to lead to steady IDR appreciation
- BI rate expected to reach 11% by end 2006

# Tracking the risks: 1. Oil demand

## Watching oil demand and imports



## Indonesia: domestic refining capacity

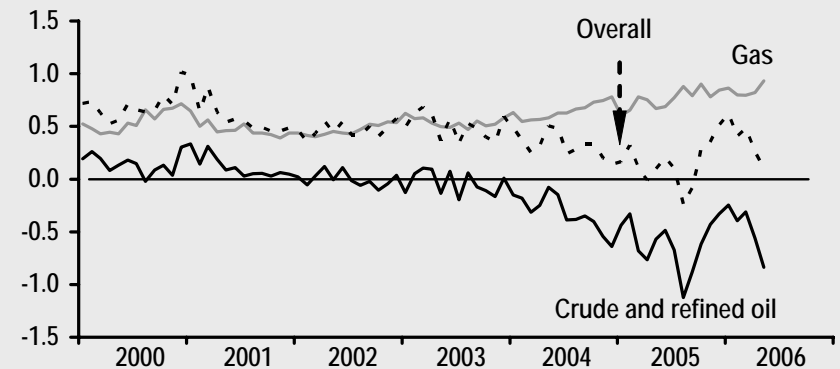
million barrels per year, 2004 data

	Capacity	Processed	Utilization (%)
1. Cilacap	127.0	121.4	95.5
2. Balikpapan	94.9	96.5	101.7
3. Musi	48.8	39.2	80.3
4. Balongan	45.6	40.8	89.5
5. Dumai	43.8	44.6	101.8
6. Sungai Pakning	18.3	17.7	97.2
7. Kasim	3.7	3.1	84.0
8. Pangkalan Brandan	1.8	0.8	46.0
9. Cepu	1.4	0.8	57.9
<b>Total</b>	<b>385.3</b>	<b>364.9</b>	<b>94.7</b>

## So far so good - inventory replenishment not a key threat

### Indonesia: oil and gas trade balance

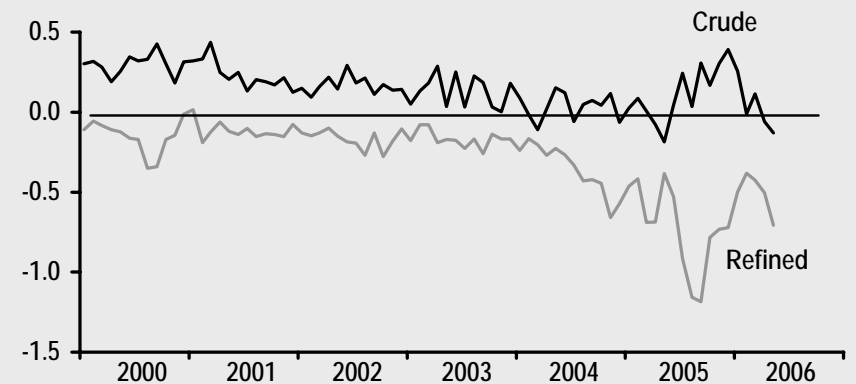
US\$ billion, nsa



## Watch refined oil demand - refinery shutdown not good news for FX

### Indonesia: oil balance

US\$ billion, nsa

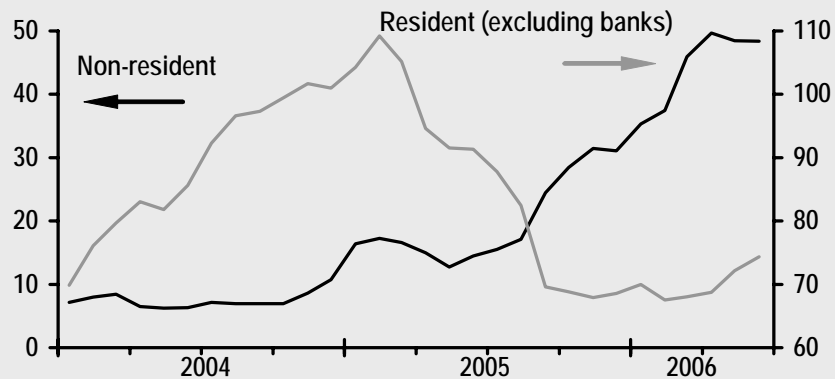


## Tracking the risks: 2. Risk aversion and capital reversal

### Foreign holdings steady despite market volatility in May and June

#### Resident and non-resident holdings of govt. bonds

IDR trillion, both scales



- Despite market volatility in May and June, government bond holdings remained steady
- Bulk of pull-out from SBI holders - around US\$2 billion over two months
- Equity flows have remained stable
- All eyes on the Fed and end of rate hikes

### Mutual funds are coming back -slowly

#### Holders of outstanding government securities

IDR trillion

	Dec 06	Jun 06	Dec 05	Mar 06	Apr 06	May 06	Jun 06
1. Total	402.1	405.0	399.8	399.6	402.9	404.2	407.3
2. Banks	290.4	292.6	289.6	278.2	277.0	276.1	277.1
3. Residents	101.0	91.4	68.6	68.0	68.7	72.2	74.4
Insurance	27.0	30.0	32.3	32.5	32.1	32.3	33.1
Mutual funds	53.4	37.8	9.1	8.7	9.5	12.6	13.8
Pension funds	17.1	20.0	22.0	22.0	22.2	22.4	22.6
Other	3.5	3.5	5.1	4.9	5.0	4.9	4.8
4. Foreigners	10.7	14.5	31.1	45.9	49.7	48.4	48.4
5. Total (2+3+4)	402.1	398.5	389.3	392.1	395.4	396.7	399.8
Residual (1-5)	0.0	6.5	10.5	7.5	7.5	7.5	7.5

### Equity flows have remained steady across the region

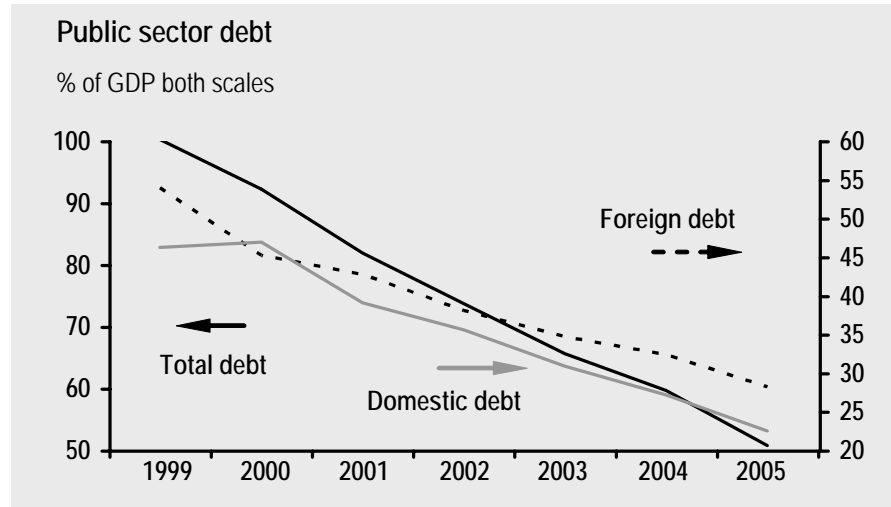
#### Emerging Asia: net equity inflows

US\$ billion

	Jan	Feb	Mar	Apr	May	Jun	Jul	1Q06	2Q06
Taiwan	1.54	1.72	0.54	4.75	-0.46	-1.17	-0.93	3.80	3.12
Indonesia	0.23	0.07	0.21	0.34	0.05	-0.05	0.03	0.52	0.34
Philippines	0.03	0.20	0.05	0.03	0.11	0.00	0.02	0.29	0.14
Thailand	1.73	0.49	0.00	0.29	-0.92	-0.20	0.21	2.22	-0.84
Korea	2.27	-0.79	0.12	1.01	-3.79	-2.80	-1.11	1.59	-5.57

# Fiscal consolidation well underway - expect move to BB in 3-4 years

## Consistent decline in public debt



- Debt ratios have been on consistent decline since 1999
- Consistency has been striking especially given volatility in markets over the past 6 years
- Debt accumulation suggests continued prudence

## Debt management has been prudent

### Decomposing increases in public sector debt<sup>1</sup>

IDR trillion

	2001	2002	2003	2004	2005	Total
Domestic debt	660.0	650.0	624.0	620.1	617.8	
1. Change (annual change)	6.0	-10.0	-26.0	-3.9	-2.3	-36.2
2. Net (a-b)	0.0	-1.9	-3.1	-2.0	7.7	0.7
a. Issuance	0.0	11.1	22.9	24.0	38.0	96.0
b. Amortization	0.0	13.0	26.0	26.0	30.3	95.3
3. Unaccounted	6.0	-8.1	-22.9	-1.9	-10.0	-36.9
Foreign debt (US\$ billion)	70.4	74.7	81.7	82.7	79.6	
Foreign debt (IDR trillion)	732.1	668.2	687.8	767.9	782.9	
1. Change (annual change)	7.5	-63.8	19.6	80.1	15.0	58.3
2. Net (a-b)	7.4	-5.2	-2.1	-14.0	3.4	-10.5
a. Issuance	26.1	18.8	20.4	32.4	40.4	138.1
b. Amortization	18.7	24.0	22.5	46.4	37.0	148.6
3. FX effect <sup>2</sup>	4.9	-69.5	-5.7	87.3	-7.0	10.1
4. Unaccounted debt (1-2-3)	-4.9	10.8	27.4	6.8	18.6	58.7
Total unaccounted debt	1.1	2.7	4.5	4.9	8.6	21.9

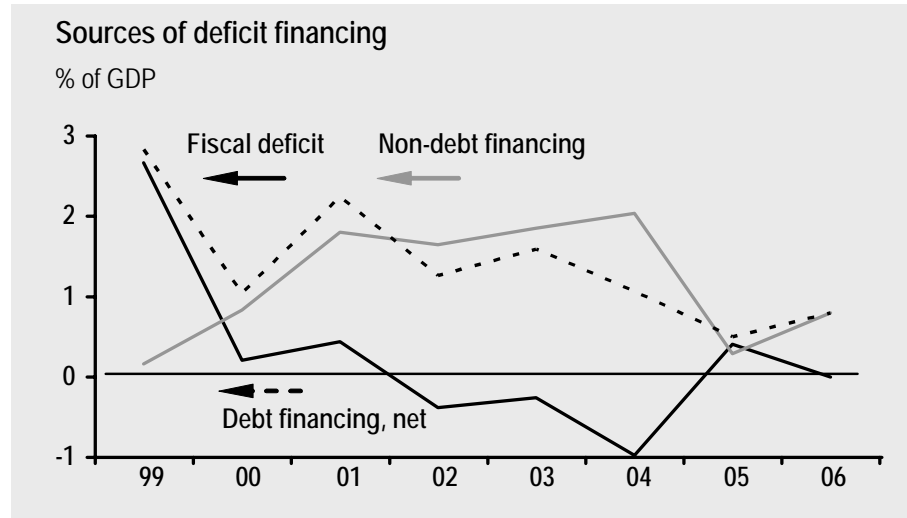
1. Includes BI debt

2. Assumes external debt stock equally split between JPY and USD



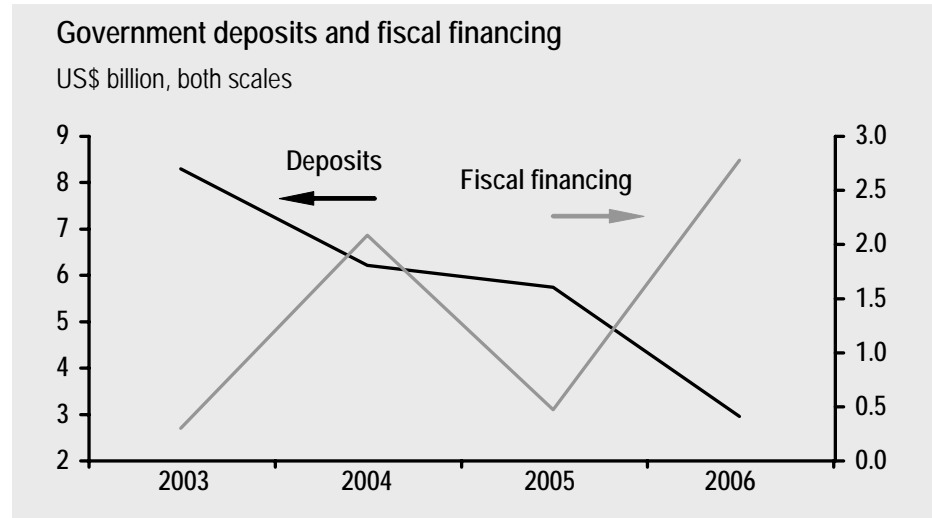
# Financing coming mainly from non-debt sources

## Funding the deficit via non-debt sources



- Deficit financing funded through IBRA and government deposits

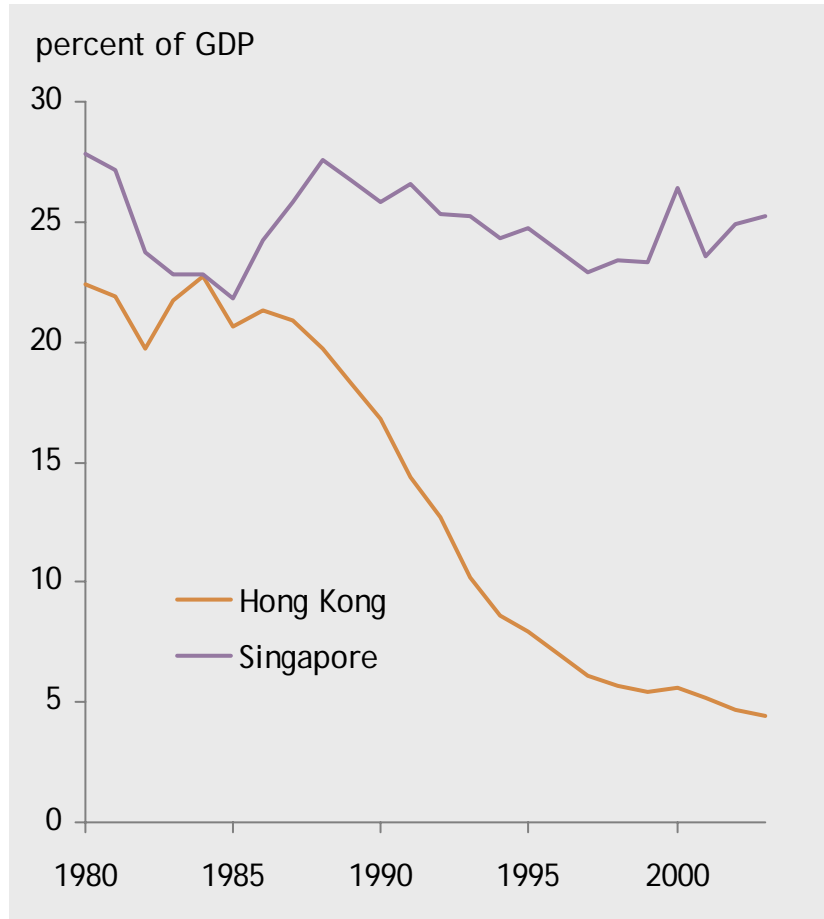
## RDI has been a large source of non-debt financing



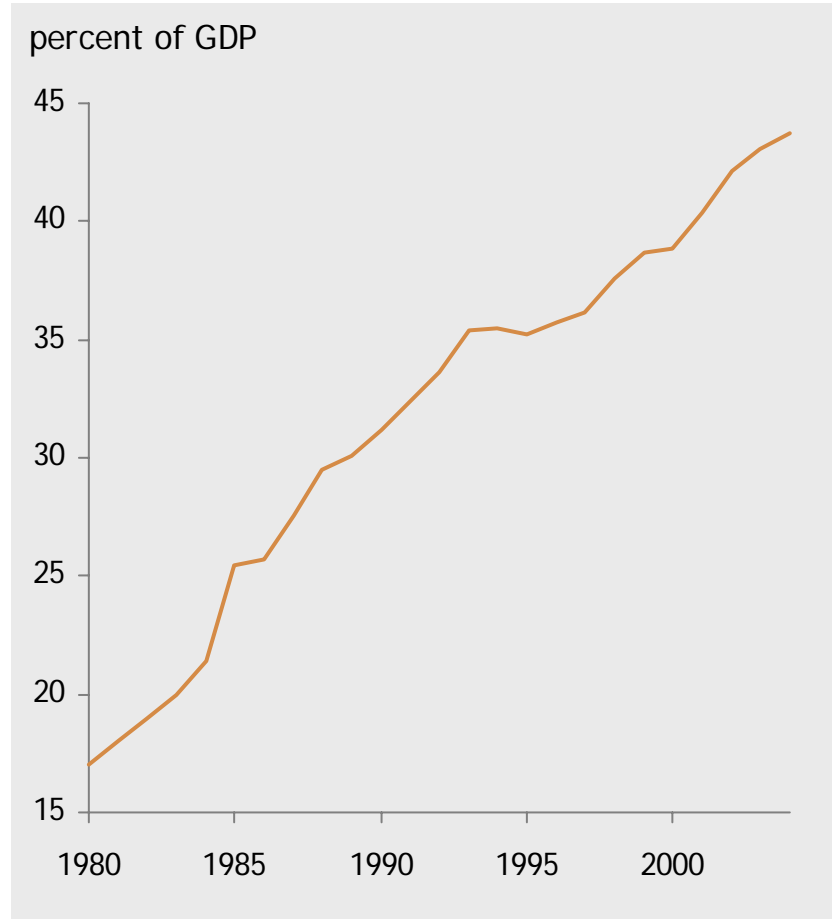
- Market well is aware of a gradual shift to debt issuance post RDI financing
- RDI accounts not a sustainable source of deficit financing
- Important to signal to market the magnitude of issuance size per year
- Supply risk is a factor that holds back performance

# Hong Kong: changing composition of the economy

## Manufacturing output



## Goods trade with China

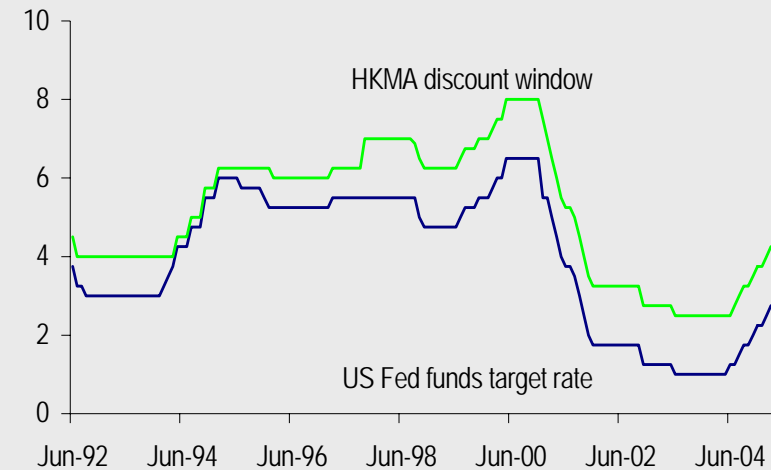


# HKD—FX regime and framework

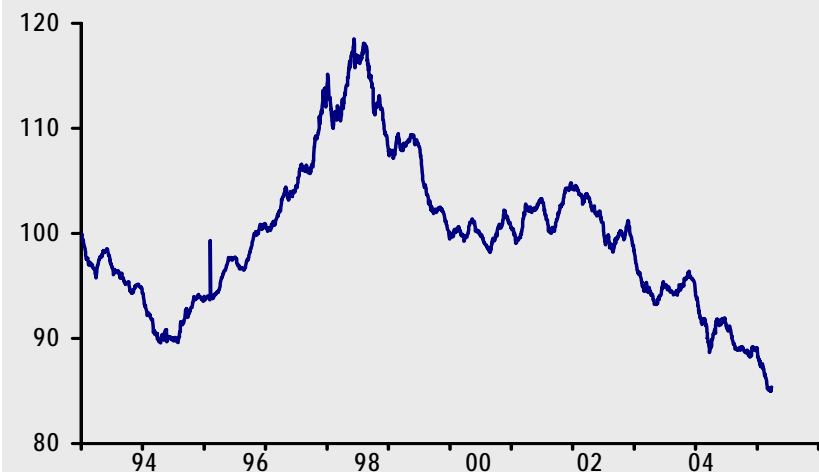
## Fixed exchange rate and open capital account

- Hong Kong has no currency controls or restrictions
- HK has operated a currency board system since October 17, 1983 which requires:
  - Monetary base to be backed by the reserve currency at the fixed exchange rate of USD:HKD 7.8
  - The commitment to “one way” convertibility was changed to two-way at 7.75-785 on May 18 2005
  - Three commercial banks are authorized to issue HKD notes and deposit the equivalent USD with the HK Exchange Fund
  - In return, the three commercial banks receive Certificates of Indebtedness
- HKMA conducts open market operations via purchase and sales of Exchange Fund bills, or through the discount window

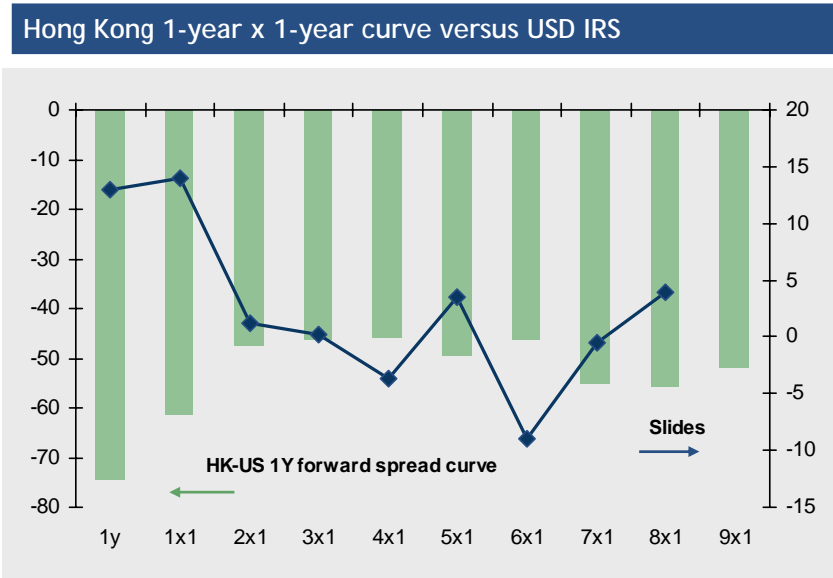
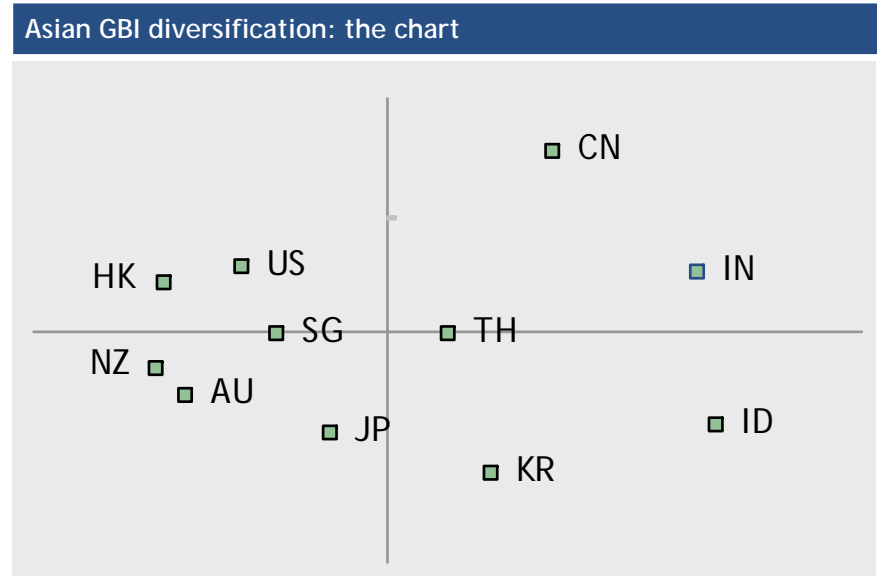
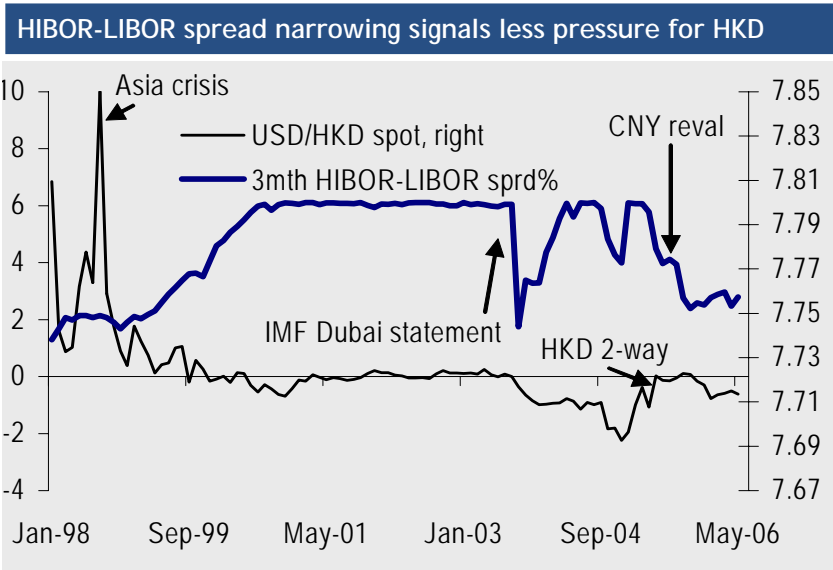
## Interest rates move lock step with the US



## HKD Real Effective Exchange Rate



# In the face of IPO and other-related inflows, Hong Kong two-way convertibility offers arbitrage against US interest rates



### Asian GBI diversification: the table

	US:	JA:	KR:	HK:	SG:	IN:	CN:	MY:	TH:	ID:	AA:	NZ:
US:	100	-	-	-	-	-	-	-	-	-	-	-
JA:	44	100	-	-	-	-	-	-	-	-	-	-
KR:	7	13	100	-	-	-	-	-	-	-	-	-
HK:	58	37	19	100	-	-	-	-	-	-	-	-
SG:	51	34	28	52	100	-	-	-	-	-	-	-
IN:	0	2	-6	-7	-6	100	-	-	-	-	-	-
CN:	10	-13	-14	10	9	2	100	-	-	-	-	-
MY:	25	9	7	32	38	1	11	100	-	-	-	-
TH:	34	30	10	26	29	15	0	28	100	-	-	-
ID:	-10	4	-11	-19	0	-5	-16	-6	11	100	-	-
AA:	50	39	15	48	52	0	5	22	30	-4	100	-
NZ:	49	35	13	53	54	0	1	25	32	3	81	100

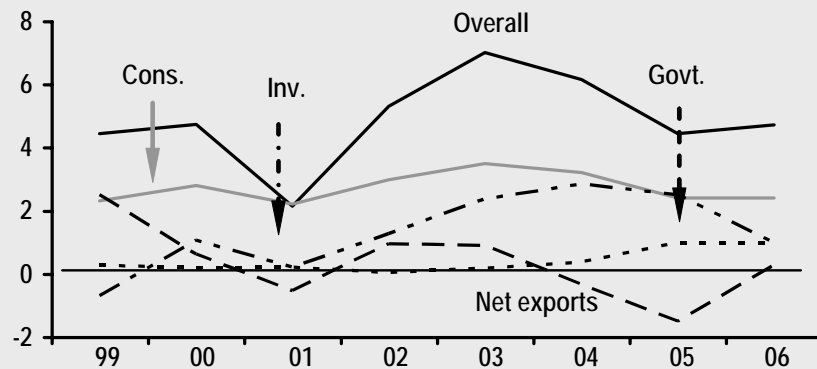
COUNTRY OVERVIEWS

# Thailand: domestic demand slowing, public investment will be delayed

## Domestic demand slowed in 1Q06 -more to follow in 2Q

### Thailand: contribution to real GDP growth

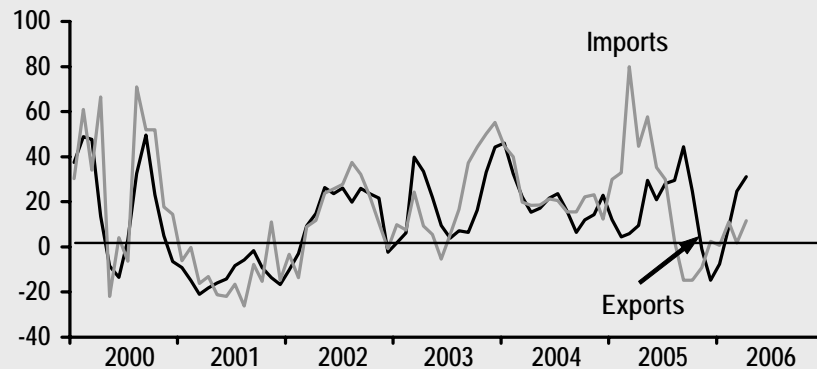
% pt. contribution to overall oya gain



## Exports continue solid while imports slowing

### Thailand: merchandise trade

%3m/3m, saar



## Economic indicators

	Average	2004	2005f	2006f	2007f
	1999-03				
Real GDP, % change	4.7	6.2	4.5	4.5	4.0
Consumption*	2.8	3.6	3.4	2.9	2.9
Investment*	1.7	3.1	3.2	0.7	0.7
Net trade*	0.3	-0.6	-2.2	0.9	0.3
Consumer prices, %oya	1.2	2.8	4.5	4.7	2.0
% Dec/Dec	1.2	2.9	5.8	3.7	1.8
Wholesale prices, %oya	1.4	6.7	10.4	8.5	8.0
Government balance, % of GDP	-2.2	0.1	0.5	-0.8	-0.8
Merchandise trade balance (\$ bil.)	4.7	1.7	-8.3	-1.8	-3.2
Exports	66.4	96.1	106.9	120.7	131.8
Imports	61.6	94.4	115.2	122.5	135.0
Current account balance	8.6	7.3	-4.3	1.5	0.1
% of GDP	6.9	4.5	-2.4	0.8	0.1
International reserves, (\$ bil.)	35.5	48.7	50.9	58.9	63.9
Total external debt, (\$ bil.)	71.3	53.0	49.0	46.0	43.0
Short term	14.8	14.0	14.0	14.0	14.0
Total external debt, % of GDP	60.9	33.3	29.2	24.1	21.6
Total external debt, % of exports	89.8	44.9	39.5	32.8	28.3
Interest payments, % of exports	5.0	1.6	0.8	0.7	0.6

\* Contribution to growth of GDP.

? Debt with original maturity of less than one year.

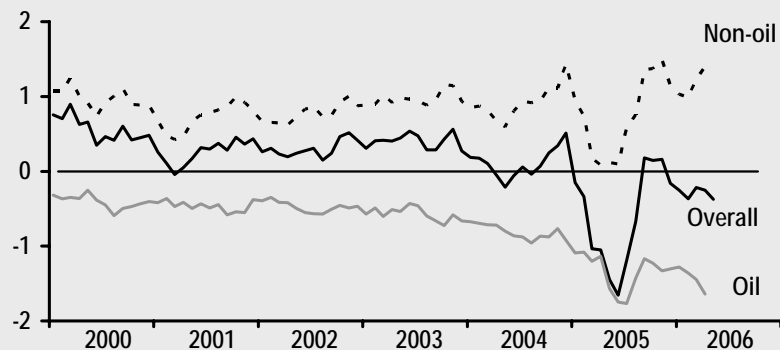
? Exports of goods, services, and net transfers.

# Thailand: Impact of slowing demand on BoP mildly positive - key will be private capital flows

## Non-oil balance offset by oil trade deficit

Thailand: trade balance

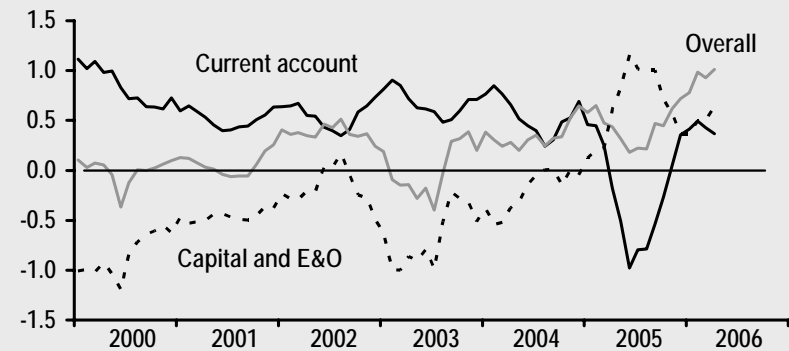
US\$ billion, 3mma, nsa



## Balance of payments

Thailand: balance of payments

US\$ billion, 6mma, nsa



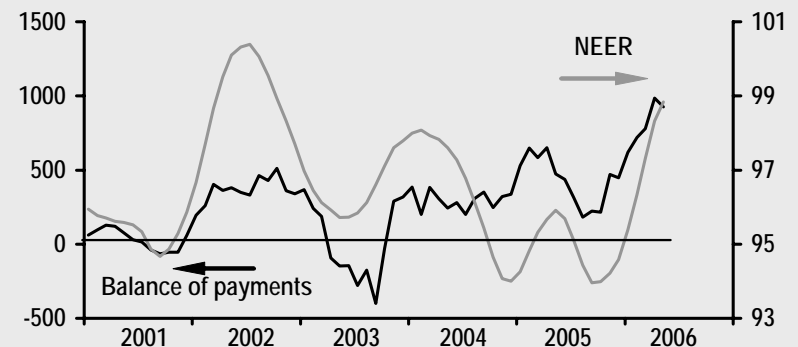
- Non-oil trade surplus reflects slowing demand and stronger agricultural output
- Oil trade deficit continues to widen - net impact of slower domestic demand on current account mildly positive
- Key swing factor in the BoP will be capital flows which figured prominently in 2005 and 1Q06

## BoP and the FX rate

Thailand: balance of payments and NEER

US\$ million, 6mma, nsa

2000=100, 6mma, nsa

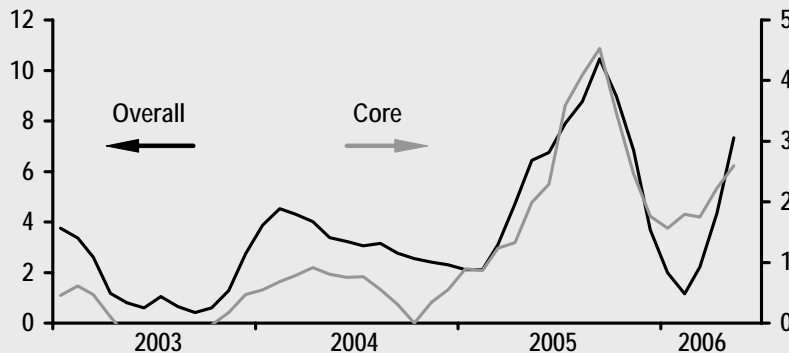


# Thai core inflation has been rising smartly- reflecting oil price effects - but should have peaked

## Core inflation trending up

Thailand: overall and core inflation

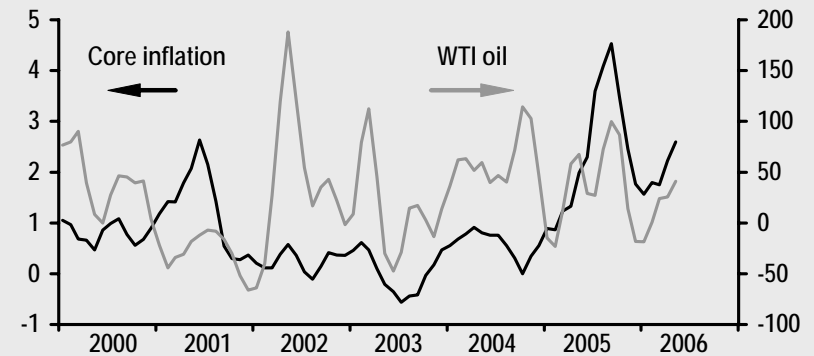
%3m/3m, saar, both scales



## Recent core rise reflects oil price pass-through

Thailand: core inflation and oil prices

%3m/3m, saar, both scales

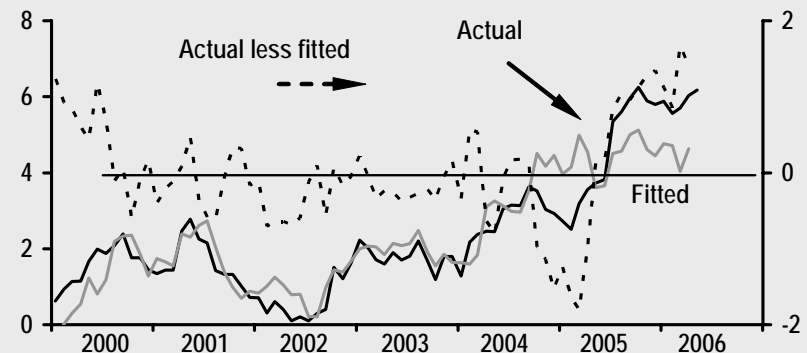


- Core inflation broadly a supply side effect - recent increase reflects oil second order price pass-through
- Removal of subsidies in 3Q05 has led to broad adjustment in core prices - should ease in 2H06 from stable oil prices and bas effects

## Recent core rise reflects oil price pass-through

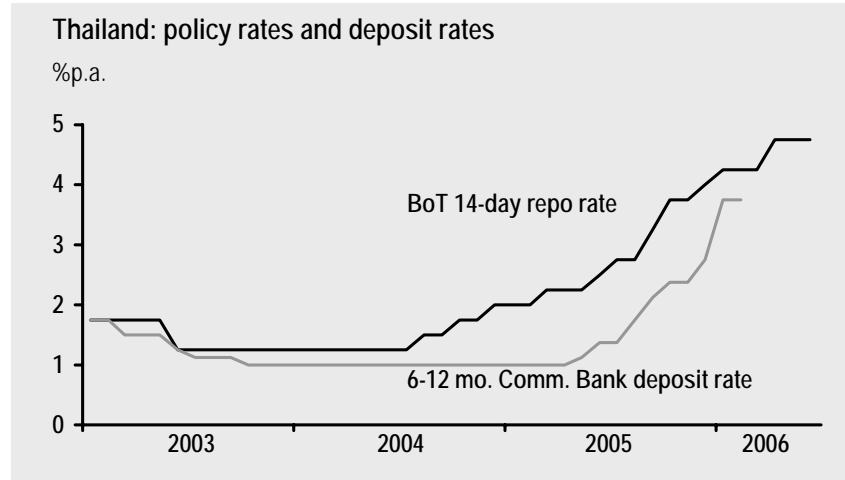
Thailand: headline inflation regression

%oya, both scales

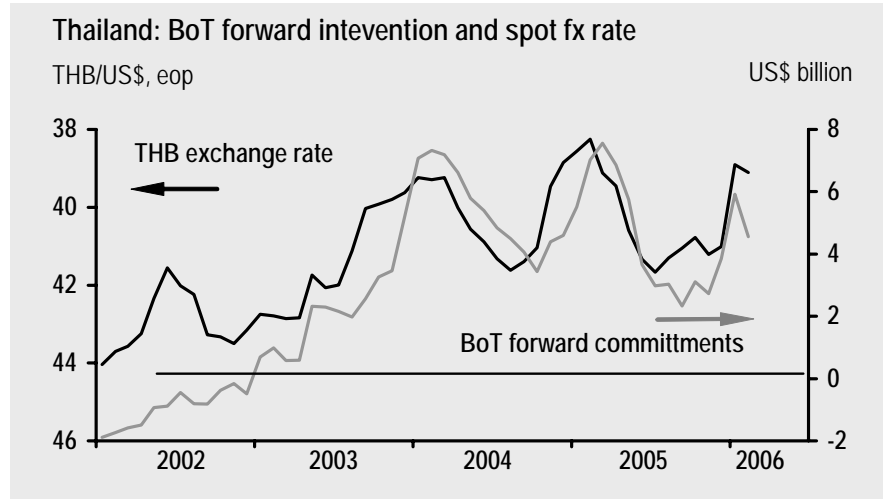


# Rate hikes done for the year - though BoT remains vigilant

## BoT has focused mainly on rates to deliver policy tightening



## Thailand: core CPI and exchange rate

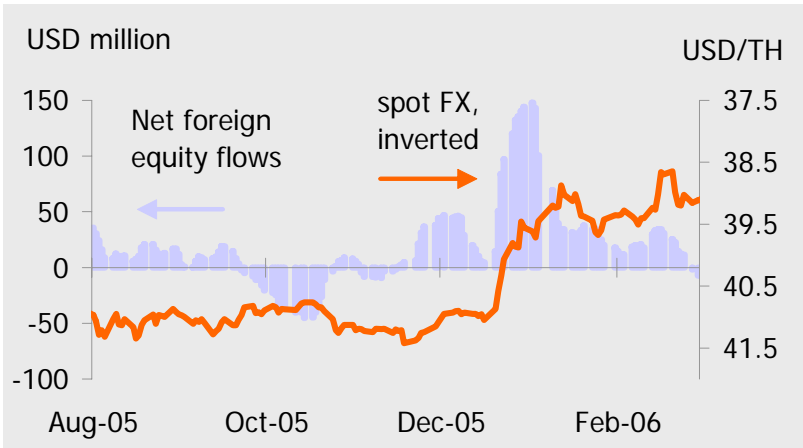


- BoT has been delivering consistent tightening through policy rate hikes. Easing in inflation in 2H06 should mean BoT on pause for the rest of 2006 - key risk will be oil price impact
- BoT has been active in FX markets to prevent too much appreciation

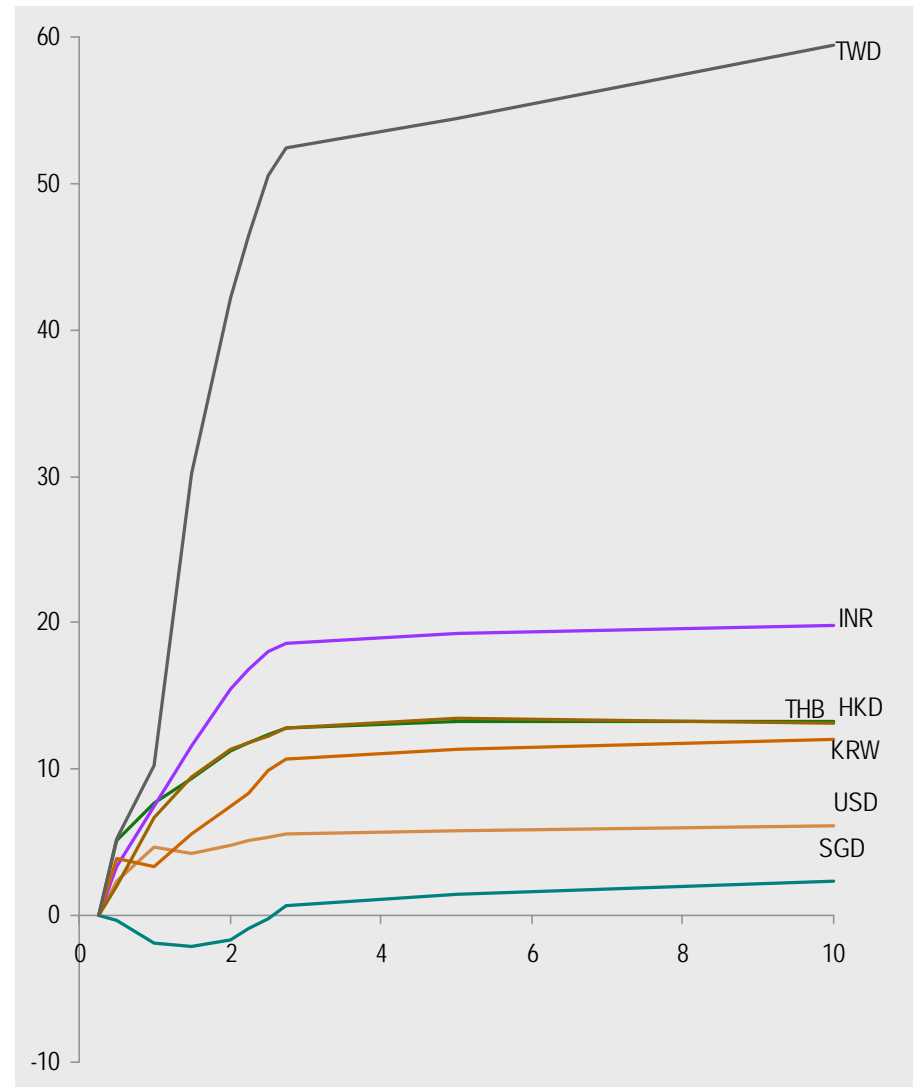


# Thailand FX has been an equity story, that is fading, while a BoT on hold is neutral USD/THB but bullish for bonds

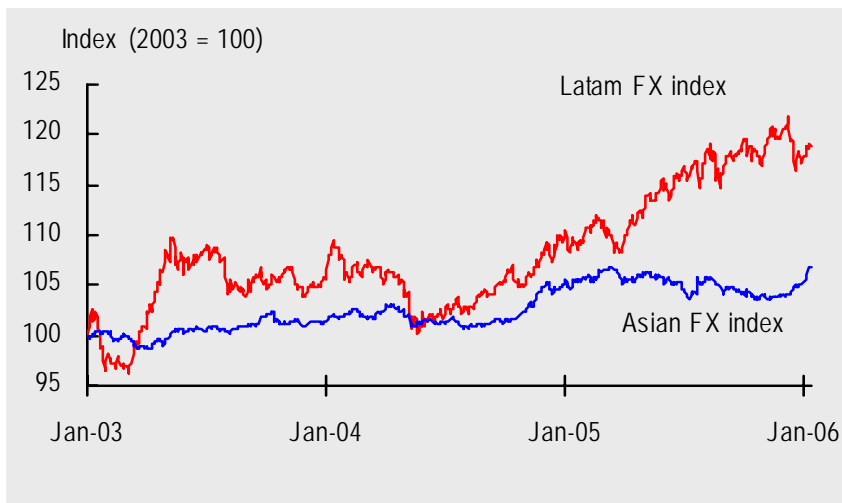
THB: Equity inflow support for THB is ebbing



Thailand Curve sit in the middle of the Asian curves



Asian FX has significantly underperformed Latam



# Malaysia: Growth moderating, inflation contained, current account surplus still solid

- Growth: extremely vulnerable to external demand swings as exports + imports are a stunning 175% of GDP
- Inflation: still no evidence of secondary effects. Consumer price index will moderate towards year-end. JPMorgan forecasts full-year 2006 inflation to average 3.8%
- BNM kept the overnight policy rate (OPR) at 3.5%. Increased external uncertainty and slow growth hold back rate normalization process
- Solid current account surpluses stemming from strong trade balances.

## Economic indicators

	Average				
	1999-03	2004	2005f	2006f	2007f
Real GDP, % change	5.0	7.3	5.2	5.1	5.1
Consumption*	4.0	5.8	5.2	4.8	3.5
Investment*	1.0	3.9	-1.4	1.6	1.6
Net trade*	0.0	-2.5	1.3	-1.3	0.0
Consumer prices, %oya	1.7	1.4	3.1	3.8	2.7
% Dec/Dec	1.5	2.1	3.4	3.3	2.5
Producer prices, %oya	0.9	8.9	6.9	8.0	7.0
Government balance, % of GDP	-5.1	-4.3	-3.8	-3.5	-3.5
Merchandise trade balance (\$ bil.)	21.3	27.5	33.4	30.9	32.8
Exports	94.0	126.6	141.8	150.3	162.5
Imports	72.7	99.1	108.4	119.4	129.7
Current account balance	10.0	14.9	19.9	18.0	19.5
% of GDP	10.9	12.6	15.2	12.0	11.6
International reserves, (\$ bil.)	33.9	66.7	71.8	86.8	96.8
Total external debt, (\$ bil.)	47.0	66.6	68.8	71.0	73.2
Short term	7.4	18.2	19.4	20.6	21.8
Total external debt, % of GDP	50.1	51.5	51.8	46.8	42.7
Total external debt, % of exports	41.6	41.3	40.7	39.7	37.7
Interest payments, % of exports	1.7	1.3	1.3	0.9	0.8

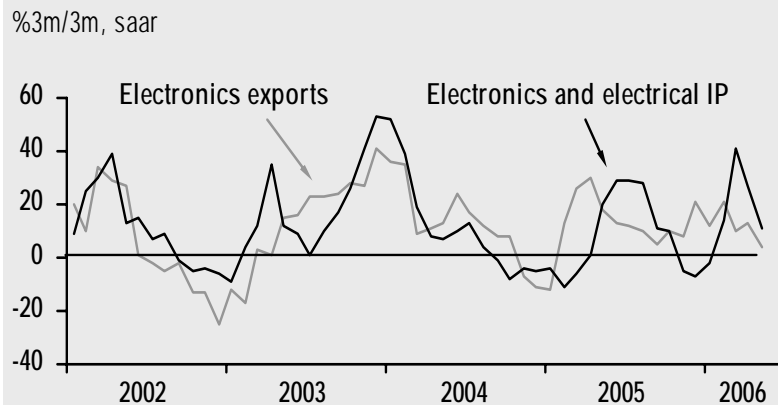
\* Contribution to growth of GDP.

? Debt with original maturity of less than one year.

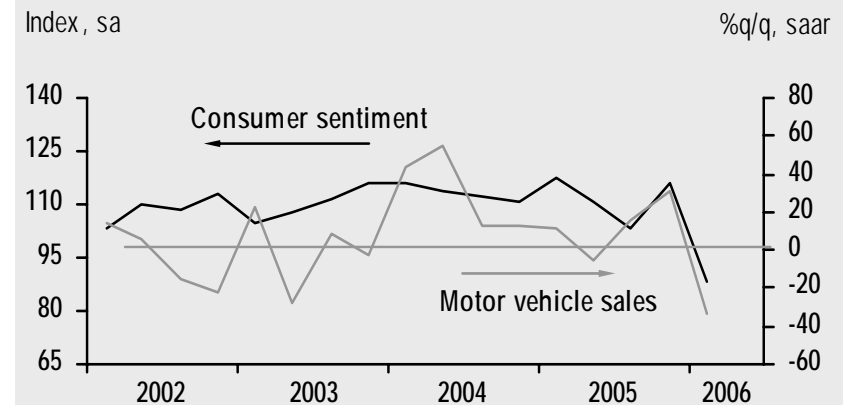
? Exports of goods, services, and net transfers.

# Malaysia: Slowing external activity, sluggish domestic demand

### Electronics and electrical IP and electronics exports



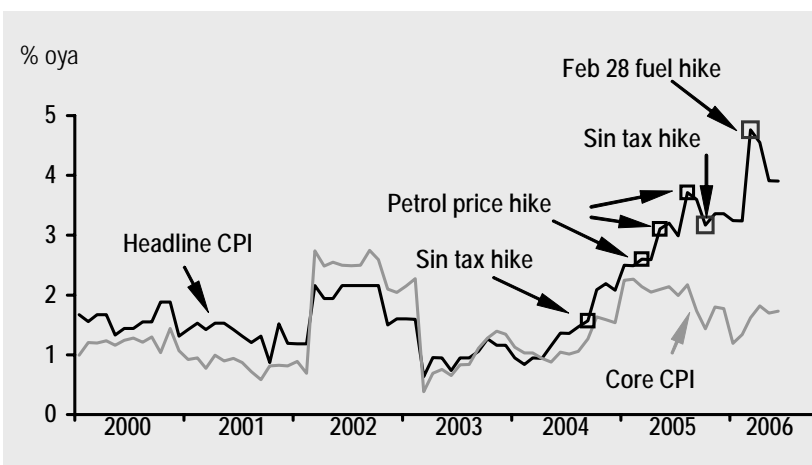
### MIER consumer sentiment and motor vehicle sales



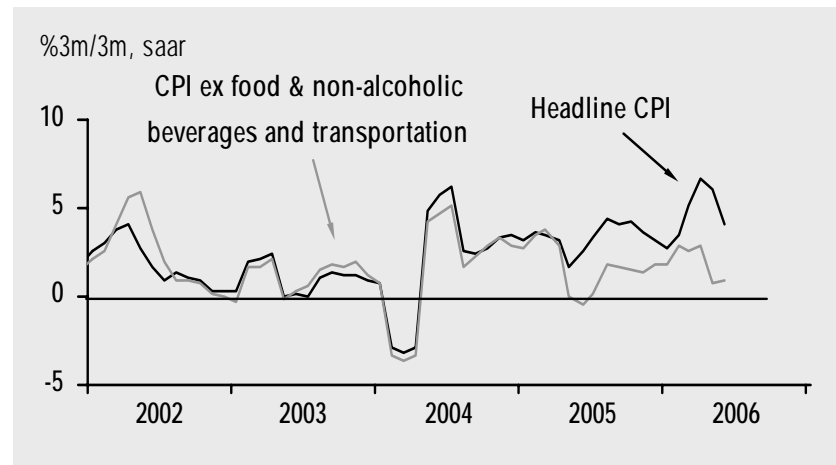
- External activity impacted by the slowdown of the electronics cycle
- Manufacturing activity is affected, causing knock-on effect on domestic demand
- Consumer sentiment is dampened by rising fuel prices and interest rates. Motor vehicle sales remained sluggish.

# Malaysia: Headline inflation moderating, muted passthrough to core

## Headline CPI and PPI

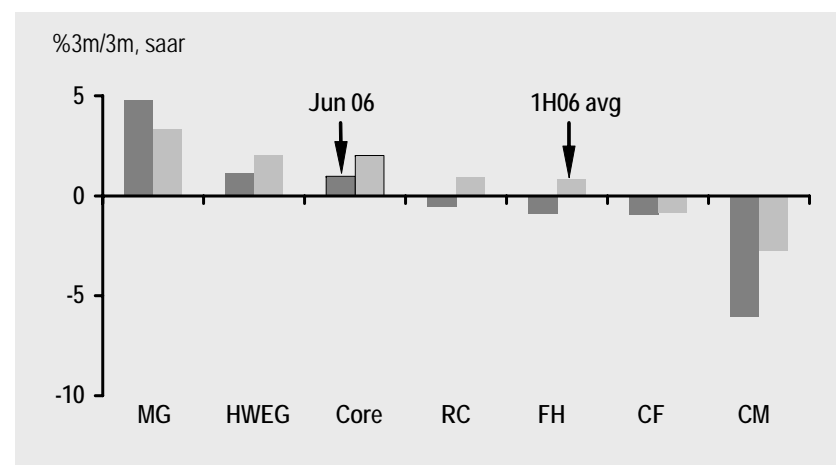


## Headline and core CPI



- Inflation surged on administrative price hikes
- Headline inflation will moderate towards year-end due to base effect
- Secondary passthrough remains muted, slowed by modest rise in house rents

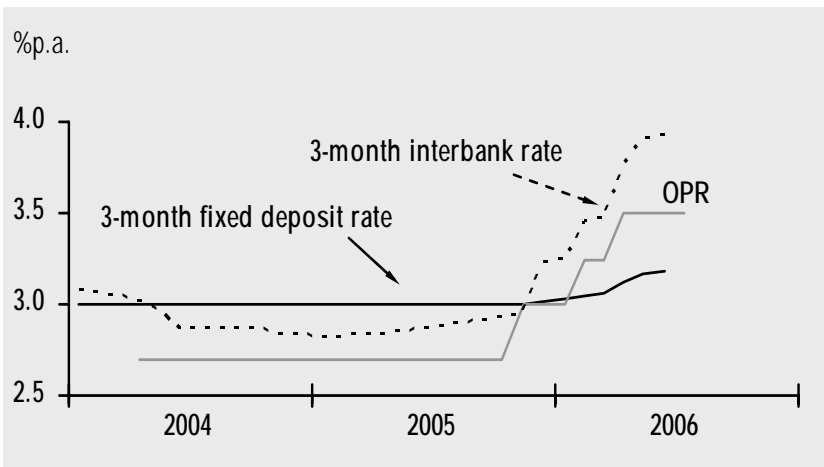
## June and 1H06 core CPI



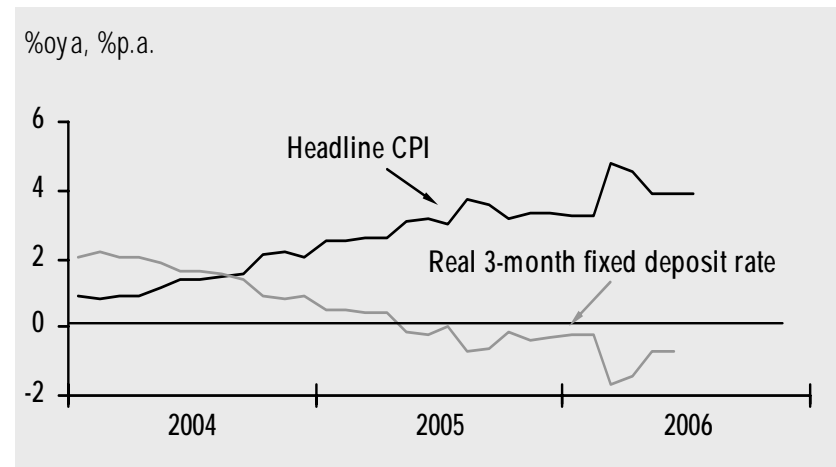
Note: core CPI excludes food and nonalcoholic beverages and transportation. Components in the chart are: MG: miscellaneous goods and services; HWEG: housing, water, electricity, gas, and other fuels; RC: recreation and culture; FH: furnishing, household equipment and maintenance; CF: Clothing and footwear; CM: communication

## Malaysia: BNM to pause for now

OPR, 3-month interbank rate and fixed deposit rate



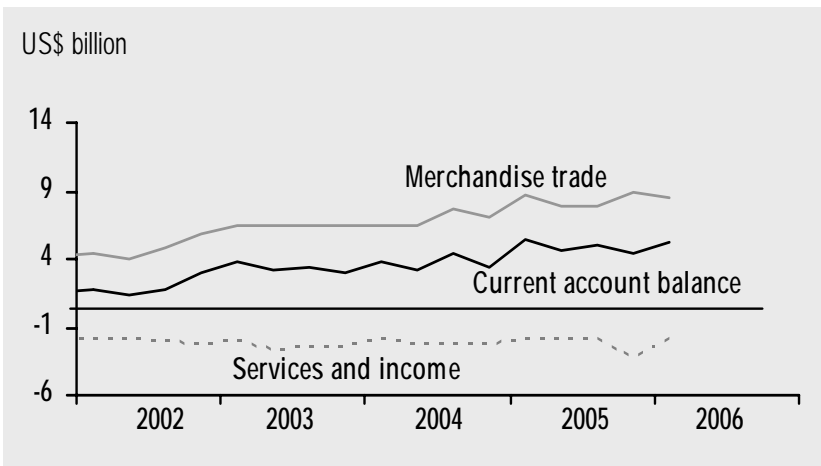
Headline CPI and real 3-month fixed deposit rate



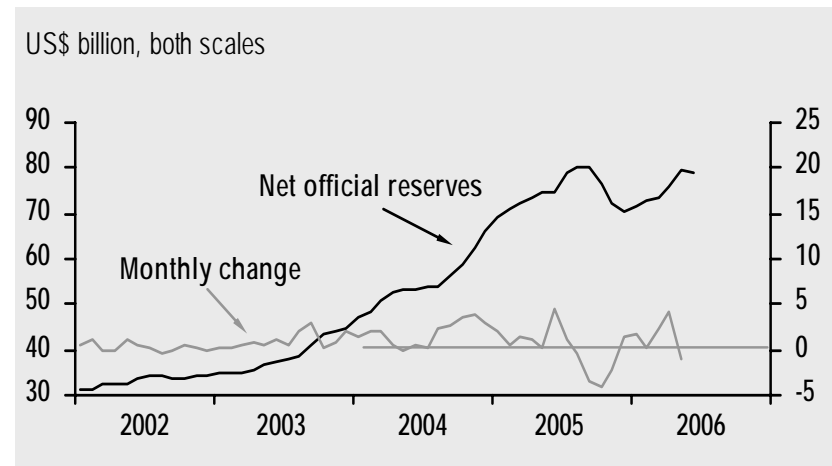
- JPMorgan expects BNM to hold in August and September as growth slows and inflation remains contained
- Potential rate action in 4Q06 (November) or 1Q07 is contingent upon the growth and inflation dynamic at that time
- Real 3-month fixed deposit rate remains negative - rate normalization to be continued through a falling headline CPI

# Malaysia: Solid current account surpluses

## Current account balance



## Net official reserves



- Solid current account surpluses supported by positive trade balances
- Net portfolio investment reverted to inflow in 1Q06
- Net official reserves reached US\$ 78.9 billion as of July 14, 2006, enough to withstand potential portfolio outflow as rate differential with the US widens

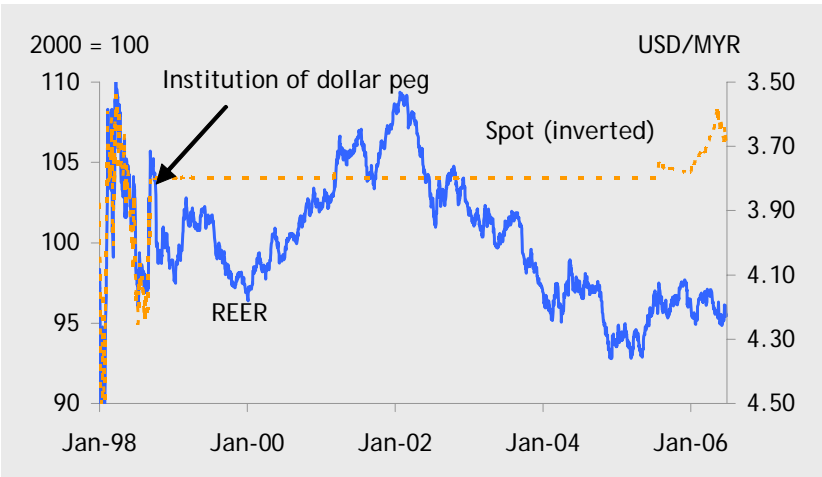
## Balance of payments

US\$ billion

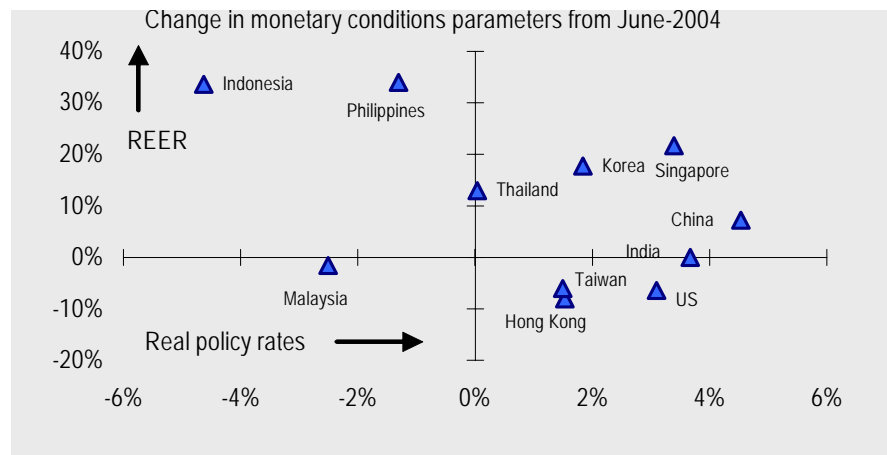
	2Q05	3Q05	4Q05	1Q06
<b>Current account</b>	4.7	5.0	4.5	5.3
Trade	7.8	8.0	8.9	8.5
Services and income	-1.9	-2.0	-3.4	-1.9
Current transfer	-1.2	-1.0	-1.0	-1.3
<b>Capital and financial account</b>	0.1	1.6	-12.3	-1.4
FDI, net	0.7	-0.4	0.7	-0.3
Portfolio investment, net	0.9	-0.3	-4.3	2.3
Other investment, net	-1.5	2.3	-8.8	-3.3
<b>E &amp; O</b>	-2.1	-2.1	-1.7	-2.5
<b>Overall balance</b>	2.8	4.5	-9.6	1.4

# Malaysia is our top FX pick and yields have backed up enough to warrant taking some duration risk

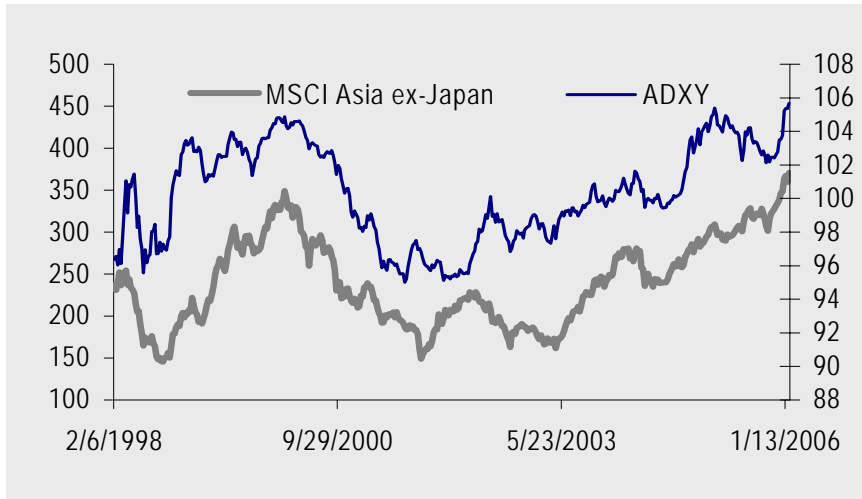
MYR: REER indicates 5% undervaluation persists against '98 peg



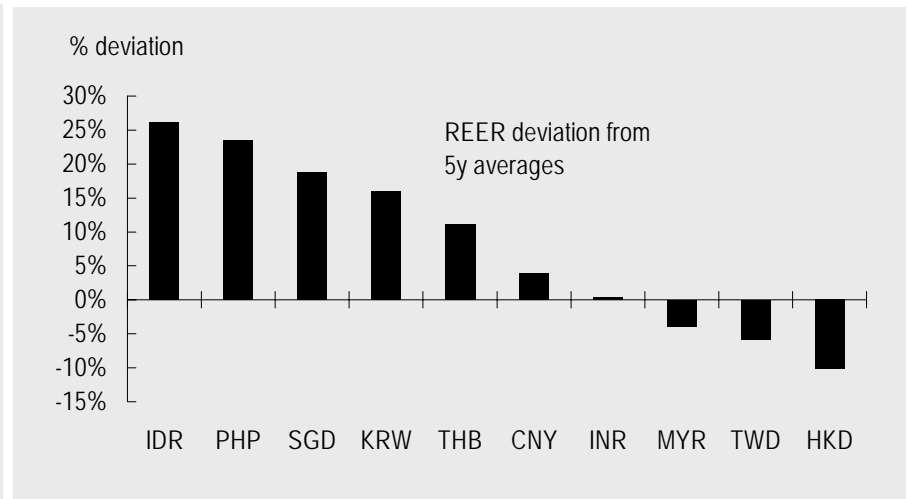
BNM policy lagging regional adjustments



ADX is being led by Asian equities



REER valuations: HKD, MYR and TWD stand out



COUNTRY OVERVIEWS

# Singapore: Growth moderating, inflation remains contained

- Growth: small open economy extremely dependent on external conditions (exports + imports = 300+ % of GDP). Slowdown in the electronics sector affects current growth momentum
- Employment: 2Q06 unemployment rate rose to 2.9% (sa). Slack in the labor market appears to have edged up
- Inflation: limited demand-pull forces contain inflation passthrough. Expect headline CPI to be within 1 to 2% for 2006 as a whole
- FX managed as a basket and is the primary operating target for monetary policy. The MAS is maintaining “a modest and gradual appreciation” of the S\$NEER policy band

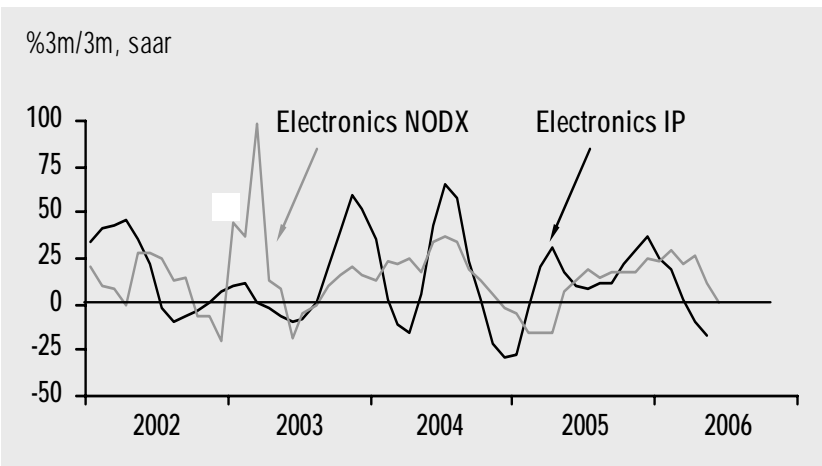
Economic indicators					
	Average				
	1999-03	2004	2005f	2006f	2007f
Real GDP, % change	4.3	8.7	6.4	7.0	4.0
Consumption*	3.5	2.5	1.8	2.0	2.0
Investment*	-2.3	5.0	0.0	2.8	1.3
Net trade*	3.1	1.2	4.6	2.2	0.7
Consumer prices, %oya	0.5	1.7	0.5	1.1	1.1
% Dec/Dec	0.7	1.3	1.3	0.6	1.0
Producer prices, %oya	1.8	5.2	9.6	3.0	2.0
Government balance, % of GDP	0.7	0.0	1.0	1.0	1.0
Merchandise trade balance (\$ bil.)	16.8	32.9	38.0	39.6	42.3
Exports	134.6	201.0	232.5	265.4	304.4
Imports	117.8	168.1	194.5	225.9	262.1
Current account balance	18.7	26.3	33.3	31.7	30.6
% of GDP	21.2	24.5	28.5	24.0	21.0
International reserves, (\$ bil.)	82.0	101.7	107.7	112.7	117.7

\* Contribution to growth of GDP.

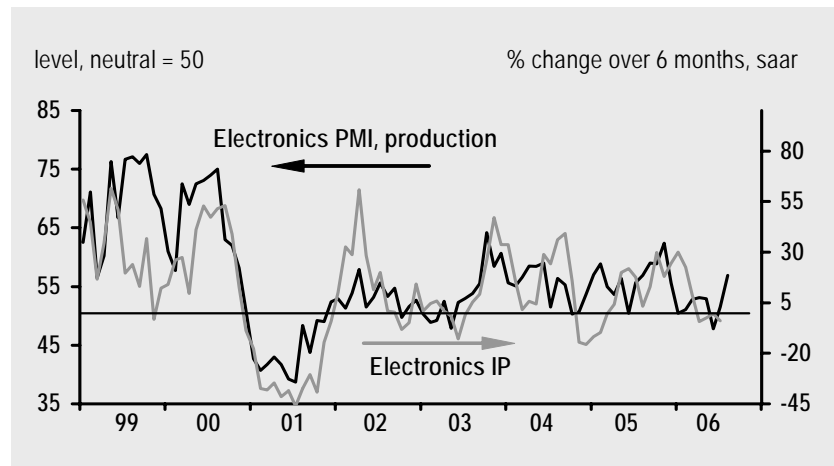


# Singapore: Manufacturing slows, domestic demand recovers but outlook uncertain

## Electronics IP and electronics NODX

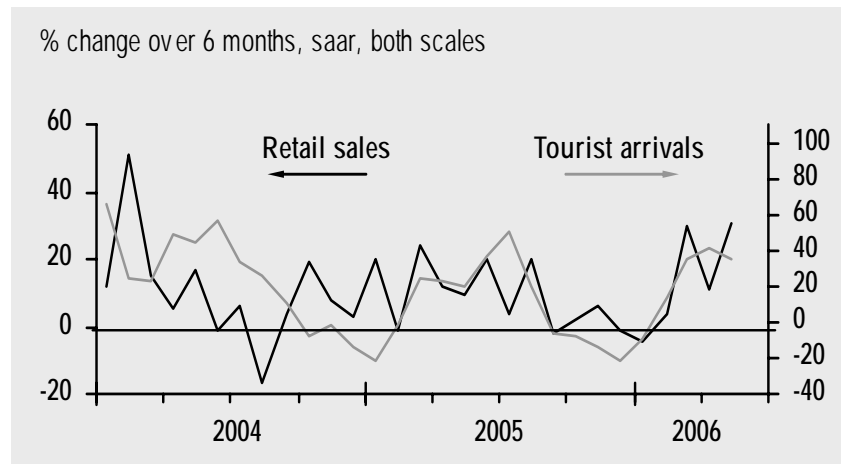


## Electronics PMI production and electronics IP



- Slowdown in the tech cycle holds back manufacturing activity. Strong bio-med IP provides some support.
- August electronics PMI reverted into expansionary territory
- Domestic demand recovers, helped by increased tourist arrivals and good employment condition, but longer term outlook is clouded by slowing external activity

## Retail sales and tourist arrivals

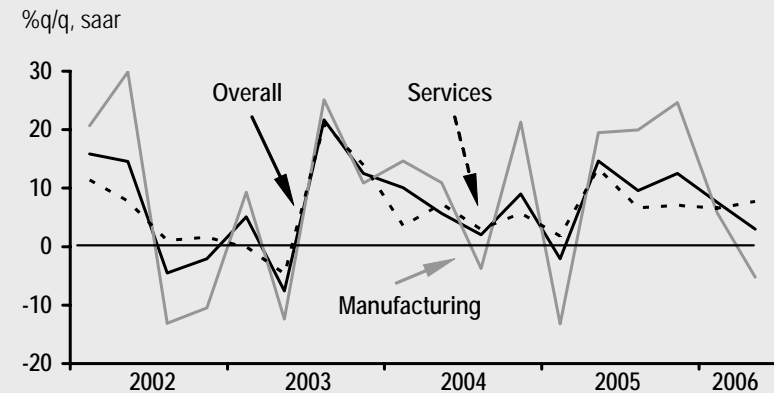


## Singapore: The service sector supported 2Q GDP growth

### 2Q06 preliminary GDP

% q/q, saar	2Q05	3Q05	4Q05	1Q06	2Q06
Real GDP	14.6	9.6	12.5	7.6	3.0
Goods producing industries	19.5	20.0	24.6	5.8	-5.2
Manufacturing	28.2	25.6	28.1	3.9	-4.2
Construction	-20.5	-9.9	5.6	26.9	-16.3
Service industries	13.4	6.6	7.1	6.6	7.7
Wholesale and retail trade	17.5	11.3	13.0	19.5	-2.2
Hotels and restaurants	17.8	-0.7	4.6	7.8	12.8
Transport and communication	7.4	4.3	5.9	2.9	1.7
Financial services	27.6	2.1	10.7	-3.3	31.6
Business services	9.1	8.5	2.5	5.9	9.0

### Real GDP growth



- Growth in 2Q06 was supplied entirely by the service sector as manufacturing and construction contracted
- Since the 1980s, the service sector has provided stability and also contributing significantly to GDP growth
- As tech sector output moderates in the near term, we expect growth in the service sector to hold up

## Singapore: Slack in the labor market edged up

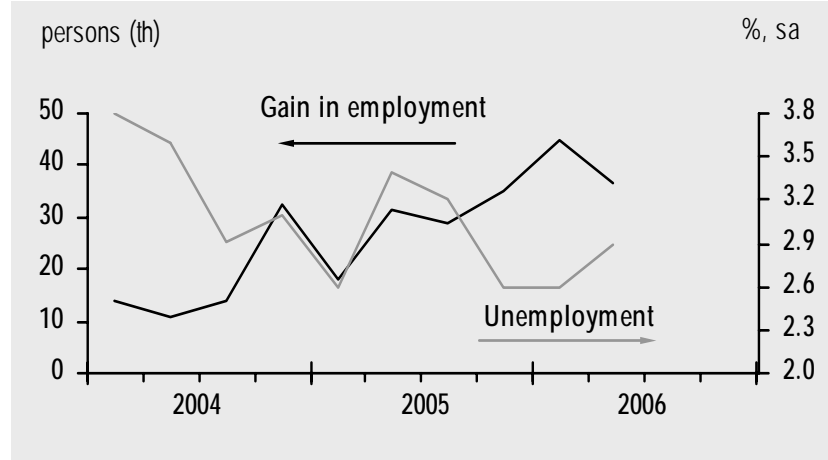
### 2006 unemployment rate

	05Q3	05Q4	06Q1	06Q2
Unemployment Rate (sa)	3.2	2.6	2.6	2.9
Employment Change (th)	28.7	35.3	45.0	36.5
Goods	10.3	9.6	17.0	12.3
Services	18.4	25.7	28.0	24.2

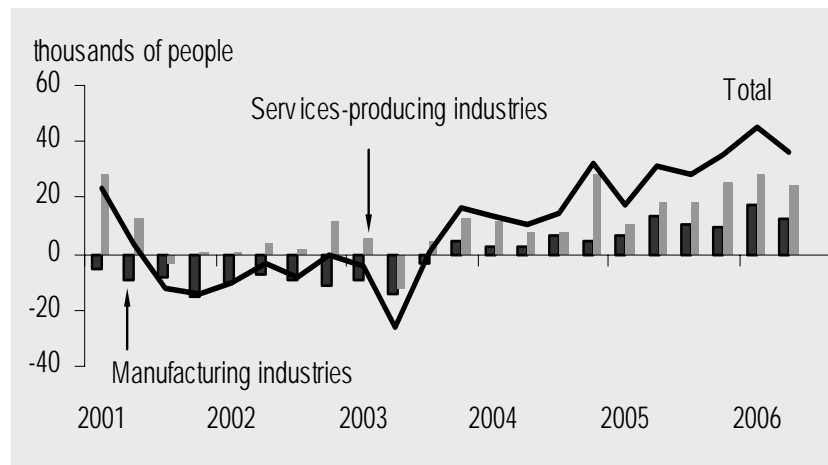
Source: Ministry of Manpower, Singapore

- Unemployment rate rose to 2.9%, sa from 2.6%, sa in the previous two quarters
- Higher unemployment rate was driven by an increase in labor supply. The number of resident unemployed persons rose to 72,300 in 2Q, higher than the 63,000 average in 1Q and 4Q
- Employment gains in the service sector doubled those in the goods sector, reflecting the structural change of the labor market towards a more service-oriented economy

### Gain in employment level vs unemployment rate

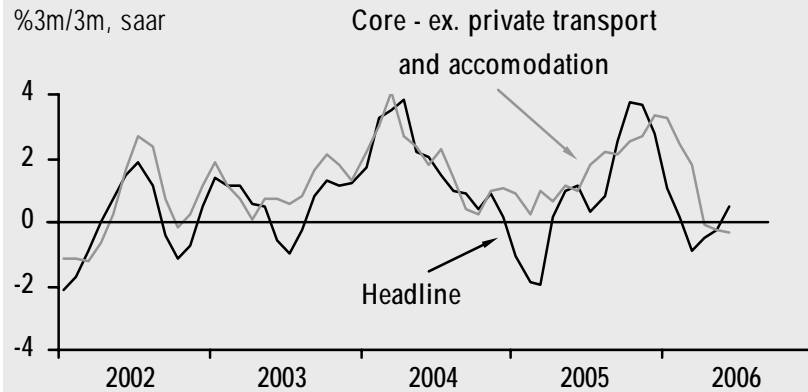


### Change in employment



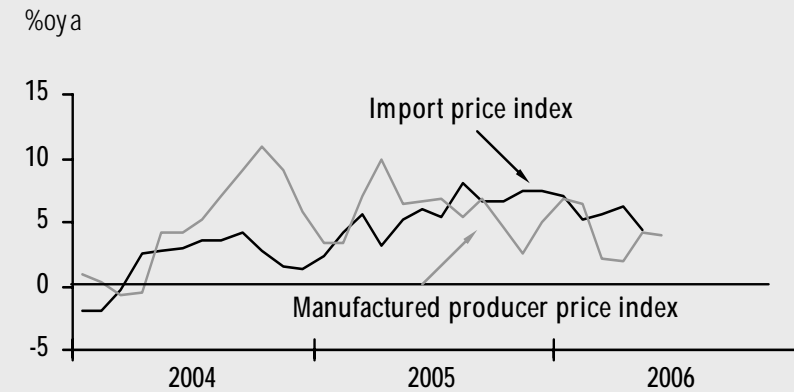
# Singapore: Inflation to be contained by limited demand-pull forces

## Headline and core CPI

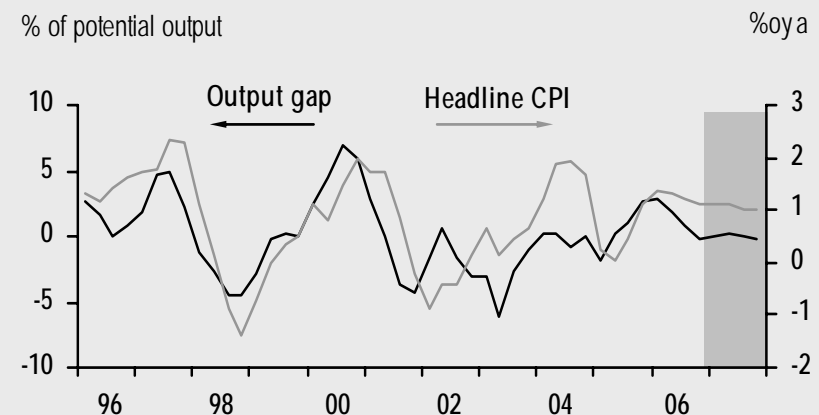


- Inflation is contained by the tightening of domestic liquidity through FX appreciation and increased local interest rates
- JPMorgan expects inflationary pressures to stay moderate as narrowing output gap limits demand-pull forces
- The main risk lies in global oil prices, which remain much influenced by geopolitical event

## Import price and manufactured producer price

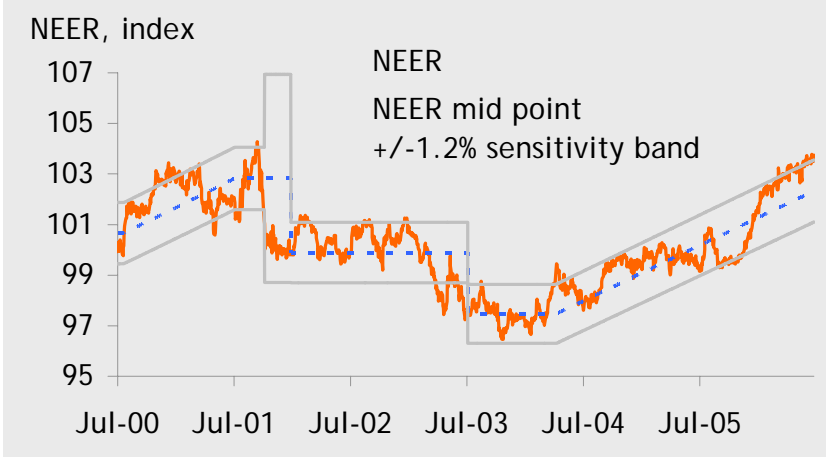


## Output gap and inflation

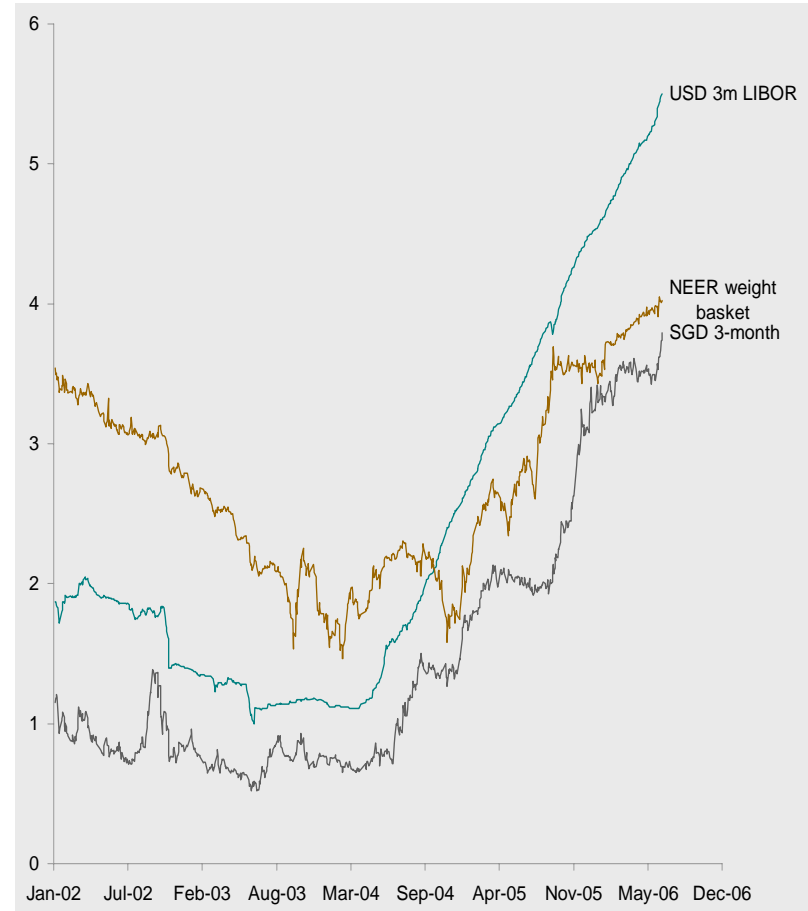


# Singapore's currency and rates will continue to push against the strong-end of their respective bands

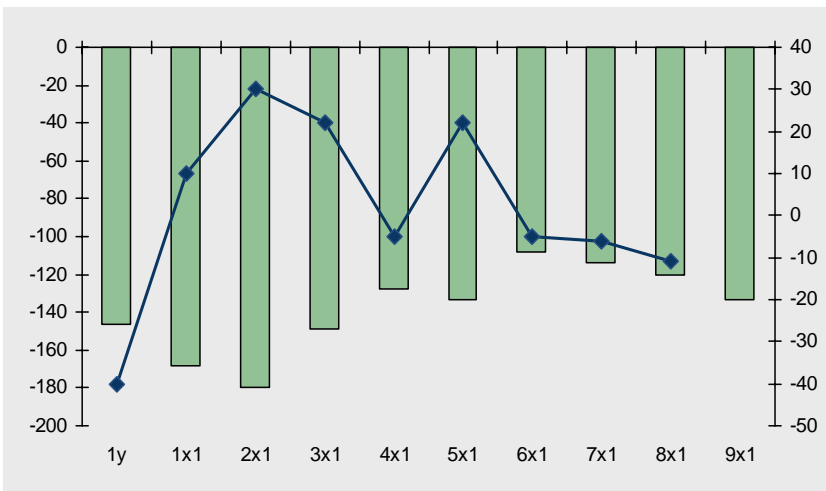
USD/SGD: sticking to the strong side of the band



Singapore 3-month rates are pushing towards basket implied



Singapore 1-yr X 1-year curve versus USD



# Philippines on the cusp of a fiscal recovery

- Positive headline fiscal outcome in 2005
- Contingent debt support and non-deficit debt issuance fell in 2005
- BIR and BoC collections need to be watched
- Growth remains in low-level equilibrium
- Key will be policy consistency
- Watch the campaigning for the 2007 mid-term elections

## Economic indicators

	Average				
	1999-03	2004	2005f	2006f	2007f
Real GDP, % change	4.1	6.2	5.0	5.5	5.5
Consumption*	3.0	4.7	4.1	3.6	3.4
Investment*	1.3	-1.5	0.2	0.5	0.7
Net trade*	-0.2	3.1	0.6	1.4	1.4
Consumer prices, %oya	4.6	5.7	7.6	6.9	6.3
% Dec/Dec	4.1	8.5	6.7	6.1	7.9
Wholesale prices, %oya	9.4	7.5	10.8	7.0	7.0
Government balance, % of GDP	-4.8	-4.9	-3.7	-2.1	-1.0
Merchandise trade balance (\$ bil.)	1.4	-5.7	-7.5	-4.5	-5.3
Exports	34.4	38.8	40.2	45.2	48.4
Imports	33.0	44.5	47.8	49.7	53.8
Current account balance	4.5	1.6	2.4	4.1	3.2
% of GDP	5.9	1.9	2.4	3.5	2.3
International reserves, (\$ bil.)	13.3	12.9	15.8	20.3	23.8
Total external debt, (\$ bil.)	59.2	61.2	61.6	58.8	55.3
Short term	8.5	7.6	9.4	8.9	8.4
Total external debt, % of GDP	76.7	71.5	62.3	51.2	40.5
Total external debt, % of exports	125.5	111.2	102.2	92.2	83.0
Interest payments, % of exports	6.1	4.3	4.5	6.1	5.8

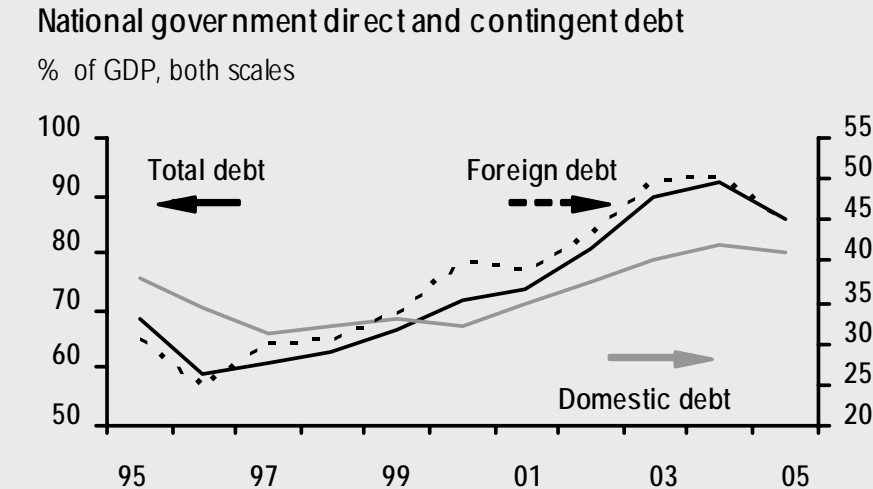
\* Contribution to growth of GDP.

? Debt with original maturity of less than one year.

? Exports of goods, services, and net transfers.

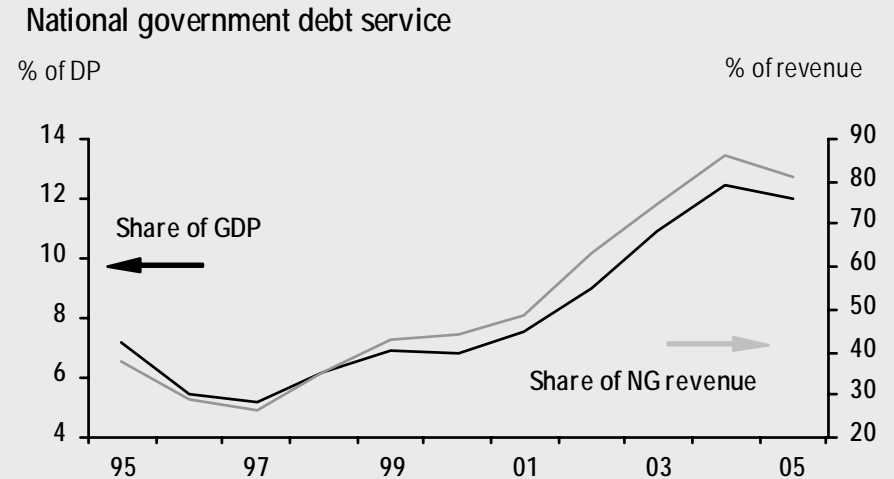
# Philippines: Debt stock has been rising since 2001 as have servicing requirements

## Debt ratios declined in 2005



- Debt increase has been particularly worrisome since 2001
- Driven to a large extent by foreign debt issuance

## Servicing burden stabilized



- Debt service has risen particularly quickly
- Total financing now running at close to 80-85% of total revenue
- Large foreign debt stock implies continued focus on raising US\$ debt to provide balance to the BoP—which would otherwise decline US\$2-3 billion

# Philippines: Debt accumulation not just a fiscal story

## Debt accumulation does not gel with the deficit

### Decomposing increases in national government debt

PHP billion, annual change

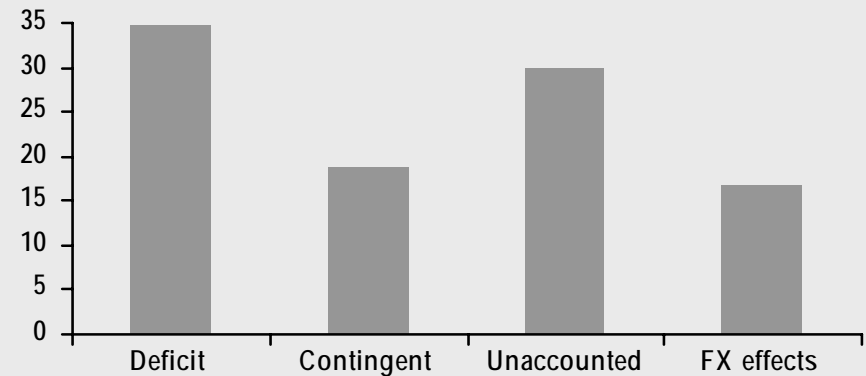
	1999	2000	2001	2002	2003	2004	2005e
1.Domestic debt	127	90	179	224	233	297	161
- Deficit financing	99	119	152	155	143	161	143
- explicit contingent	0	4	11	-2	2	11	15
- Unaccounted	29	-34	16	71	88	126	3
2.Foreign debt	215	413	42	305	422	274	-319
- Deficit financing	83	84	23	109	144	81	92
- explicit contingent	63	111	3	98	115	115	-256
- FX effect	30	278	44	53	89	29	-149
- Unaccounted	39	-60	-28	45	74	49	-6
<b>Total (1+2)</b>	<b>342</b>	<b>502</b>	<b>221</b>	<b>529</b>	<b>655</b>	<b>572</b>	<b>-158</b>
<b>Source of debt (3+4+5+6)</b>	<b>342</b>	<b>502</b>	<b>221</b>	<b>529</b>	<b>655</b>	<b>572</b>	<b>-158</b>
3.Deficit financing	182	204	175	264	287	243	236
a. Deficit	112	134	147	211	200	187	147
Excess financing (3-a)	70	70	28	53	87	55	89
4. Explicit contingent	63	115	14	96	117	125	-241
5. FX effect	30	278	44	53	89	29	-149
6. Unaccounted	68	-94	-12	116	162	174	-4

Note: 2005 debt data through November

## Deficit is but one factor behind debt increase

### Decomposition of increase in NG debt

% of total increase in debt, cumulative 1998-2004 change



- Deficit is a large contributor to debt accumulation
- Unaccounted and contingent debt increase has been striking—not clear what the sources are

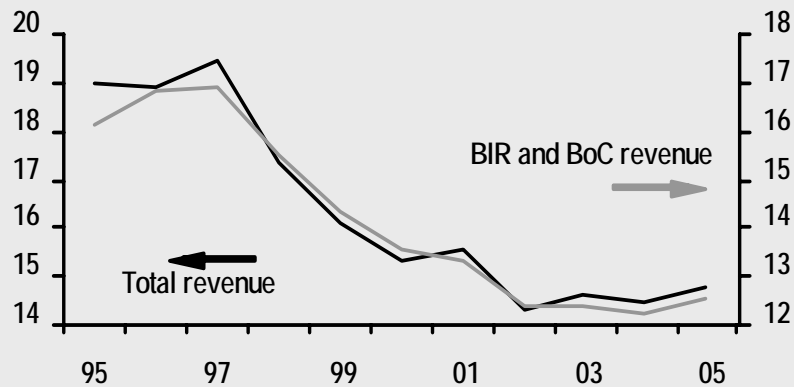


# Philippines: Necessary Step 1: Raise revenue efforts by 2-2.5% of GDP to 16.5%-17% of GDP—still waiting

## Revenue stabilization—but limited signs of a turnaround

### National government revenue

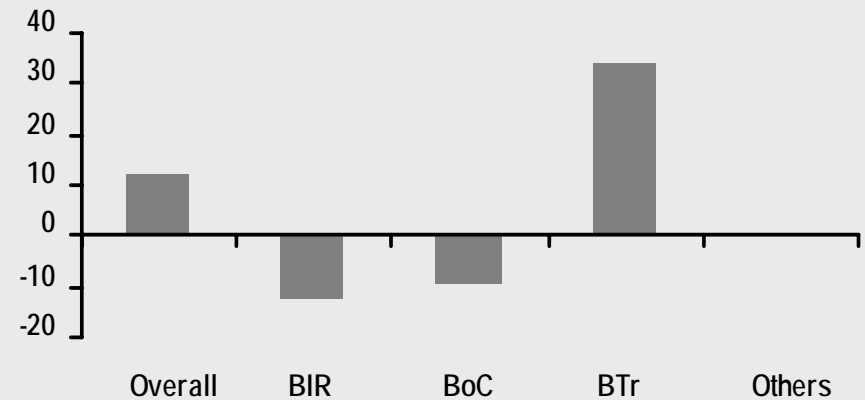
% of GDP, both scales



## Revenue gain mainly a treasury story

### 2005 revenue performance

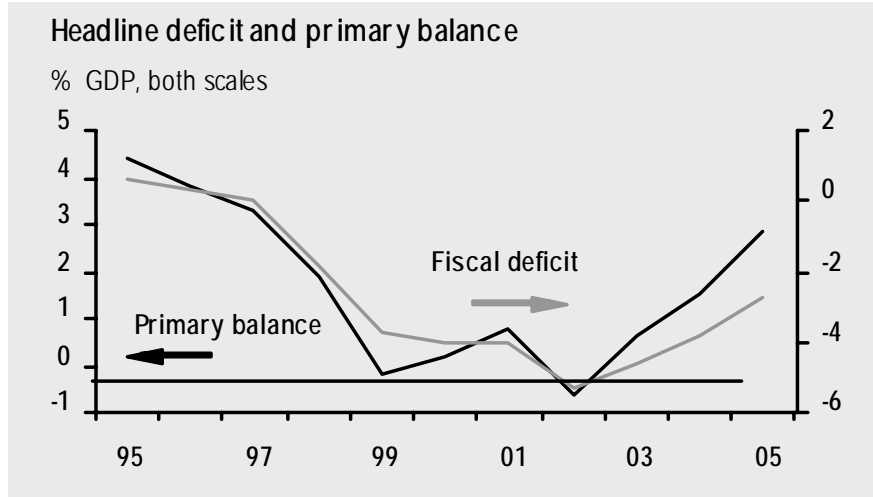
PHP billion, 2005 actual less target



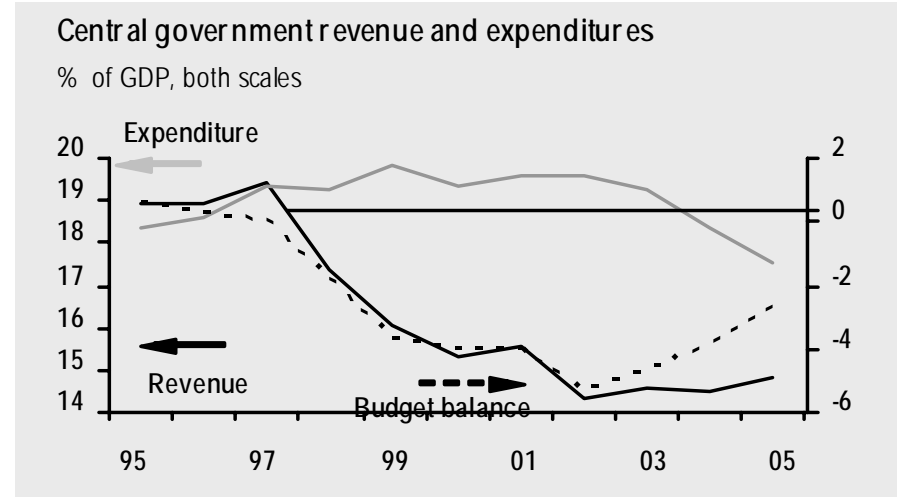
- Deficit appears to be tracking better than expected
- Headline revenue is looking up—mainly from BTr contribution
- BIR and BoC collection still disappointing

# Philippines: Necessary Step 2: A primary balance of 3% of GDP—a pyrrhic victory

Primary balance continues solid upward trend

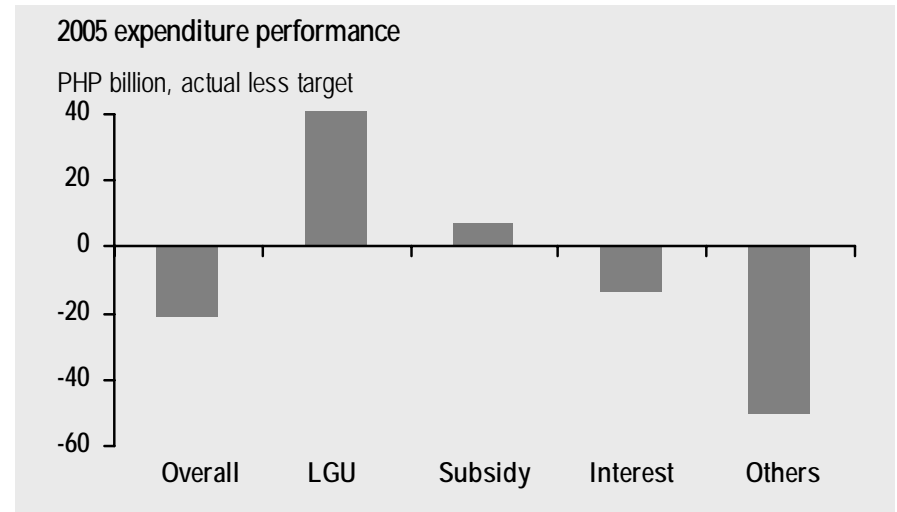


Expenditure compression key driver of deficit improvement



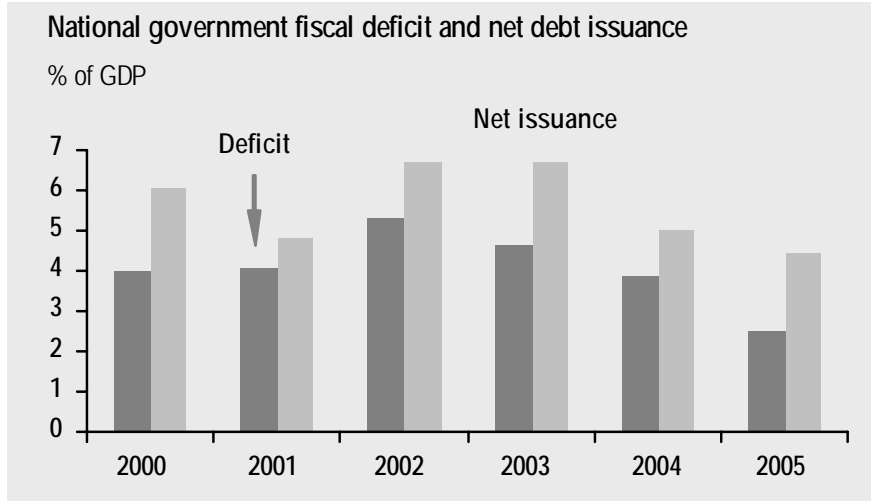
- Primary surplus continues to gain
- Expenditure compression main driver
- Sustainability continues to be a concern

Expenditure decline owes to decline in development expenditure

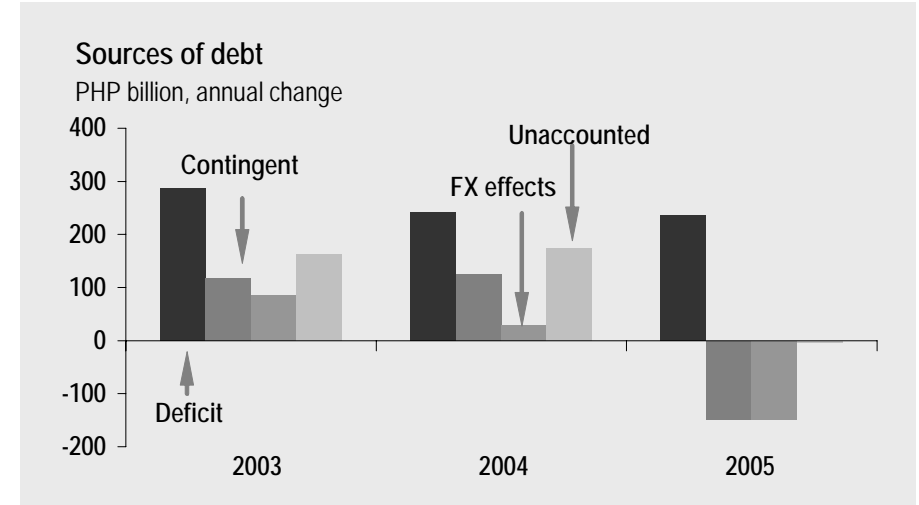


# Philippines: Necessary Step 3: Contingent debt support slows to 1% of GDP—BTr scores home run

## Net issuance remains higher than deficit



## Unaccounted debt drops to zero - a very positive development



- Significant decline in debt levels—owes to NPC debt takeover by the NG
- Contingent and unaccounted debt shows significant decline
- Net issuance continues to be higher than actual deficit
- Stock of accounts payable remains a question

# BoP buoyed by strong OFW and portfolio flows; PHP to stay supported

## BoP surged in 2005 - boosted by OFW and portfolio flows

### Balance of payments

US\$ billion, Jan-Sep data

	1999	2000	2001	2002	2003	2004	2005	Change <sup>1</sup>
<b>Current account</b>	<b>5.06</b>	<b>4.37</b>	<b>-0.25</b>	<b>2.79</b>	<b>0.45</b>	<b>0.42</b>	<b>1.21</b>	<b>0.79</b>
Goods	3.04	2.38	-1.87	-0.06	-4.48	-5.66	-6.07	-0.41
Services	-2.24	-1.58	-1.53	-0.76	-1.39	-0.93	-0.98	-0.06
Income	3.89	3.23	2.81	3.24	-0.16	0.07	-0.38	-0.45
Current transfers	0.38	0.34	0.34	0.36	6.48	6.93	8.63	1.70
<b>Cap. &amp; Fin. acct.</b>	<b>0.55</b>	<b>-1.63</b>	<b>0.24</b>	<b>-0.52</b>	<b>-0.38</b>	<b>-0.50</b>	<b>2.25</b>	<b>2.75</b>
Capital account	-0.02	0.04	-0.01	-0.01	0.02	-0.01	0.00	0.02
Financial account	0.57	-1.67	0.25	-0.51	-0.40	-0.48	2.25	2.73
- FDI	0.94	1.21	0.77	1.58	0.11	0.02	0.76	0.74
- Portfolio	4.66	0.37	0.46	0.36	-0.11	-0.60	3.18	3.78
- Other investment	-5.02	-3.25	-0.98	-2.44	-0.34	0.10	-1.68	-1.78
E&O	-2.51	-3.27	-1.30	-1.52	-0.84	-0.09	-0.72	-0.64
<b>Overall BoP</b>	<b>3.11</b>	<b>-0.53</b>	<b>-1.32</b>	<b>0.75</b>	<b>-0.78</b>	<b>-0.18</b>	<b>2.71</b>	<b>2.89</b>

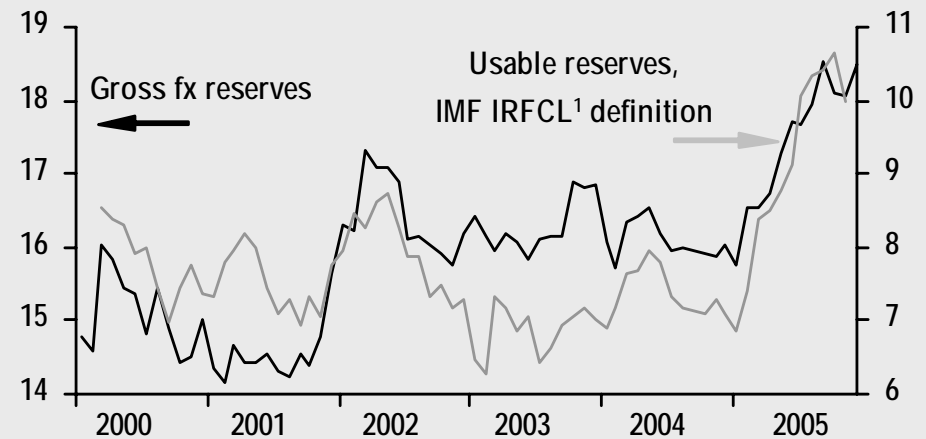
1. 2005 less 2004.

- Strongest BoP outcome in several years
- OFW and portfolio flows drives the outcome
- Basic balance has not shifted
- Vulnerable to pullback in global risk appetites

## FX reserves stages strong increase in 2005

### Gross and uncommitted reserves

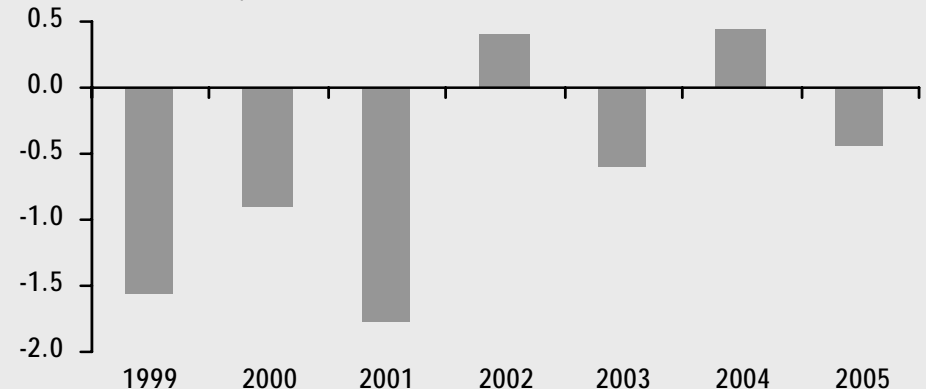
US\$ billion, both scales



## Basic balance remains in deficit

### Balance of payments ex. portfolio flows

US\$ billion, Jan-Sep

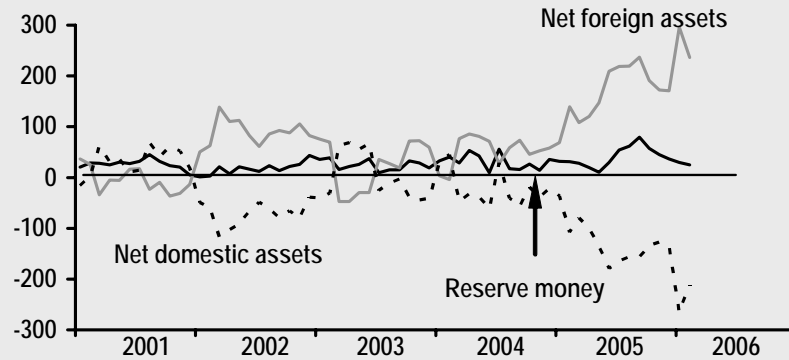


# Philippines: External liquidity creating liquid domestic conditions

## Strong rise in NFA lifting base money

### Philippines: contribution to reserve money

PHP billion, changes from year earlier

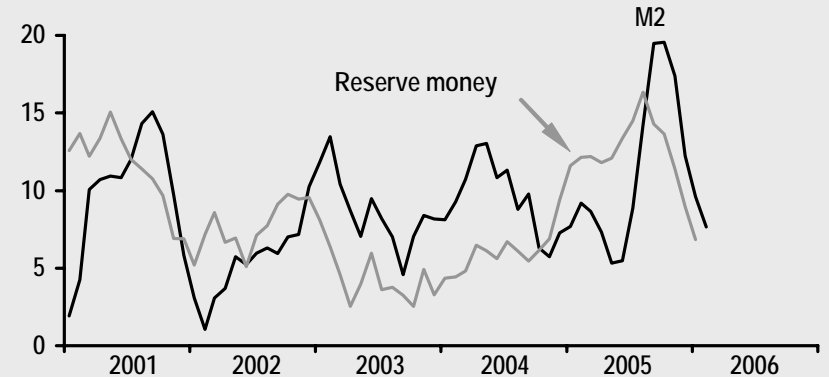


- Liquidity conditions remain ample
- Bank lending to private sector remains low
- Banks biased towards government paper—leading to a broad decline in the term-structure

## M2 reflects surge in domestic liquidity

### Philippines: M2 and reserve money

% oya

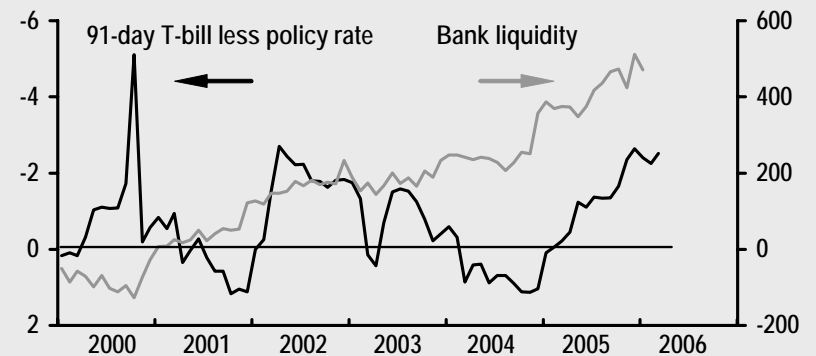


## Loan demand still weak— holdings of government bonds rise

### Philippines: interest rates and bank liquidity

% p.a., 91-day T-bill less O/N RRP rate

PHP billion, M2 less loans



# Agenda

Top Trades across Emerging Asia asset classes	1
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Emerging Asia economic themes	7
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<b>Emerging Asia forecasts</b>	<b>76</b>

# Global outlook: Interest rates & exchange rates

## Global economic outlook in summary

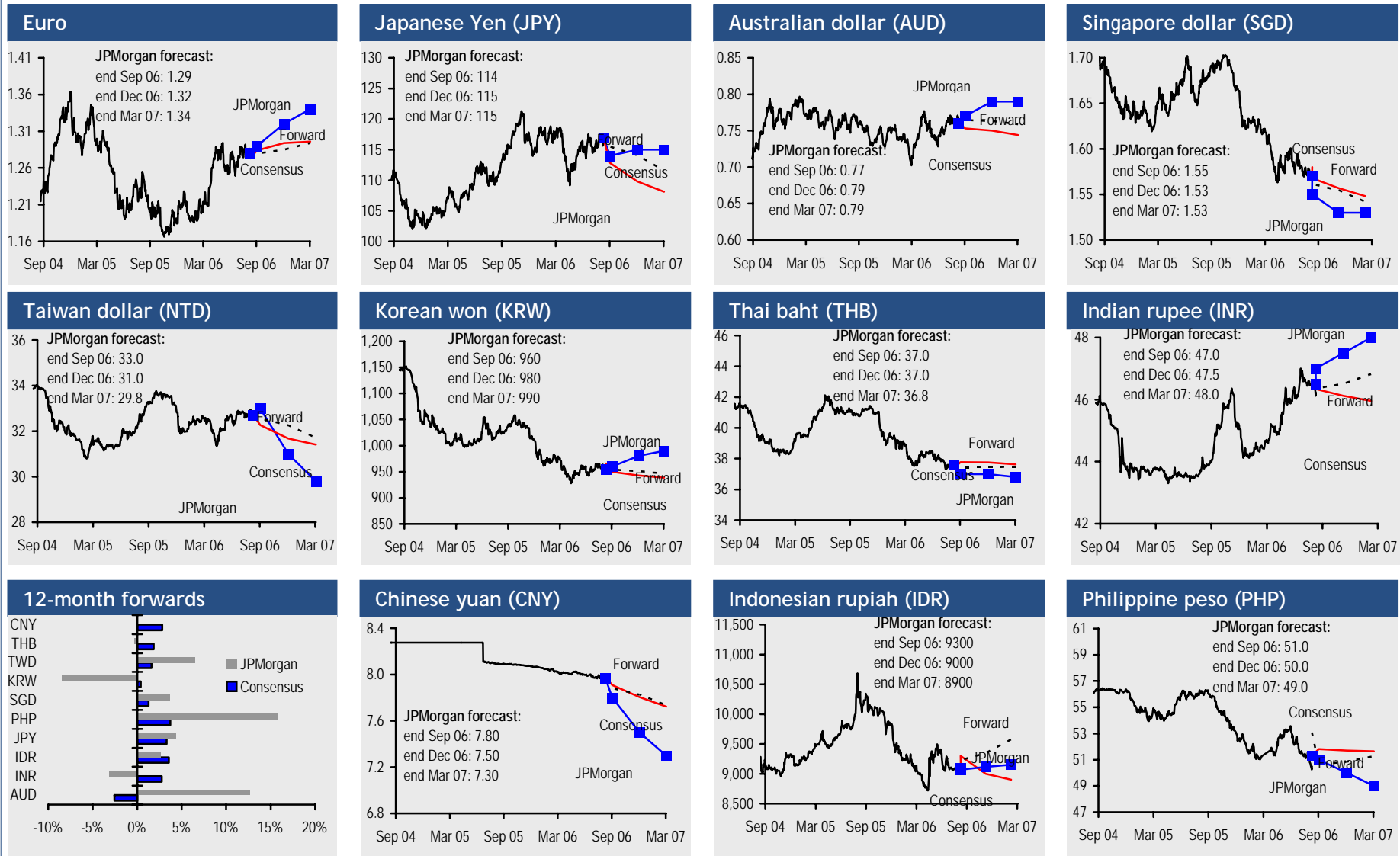
		2005	2006	2007	1Q06	2Q06	3Q06	4Q06	1Q07	2Q07	3Q07	4Q07
<b>Official interest rates, % p.a., end-period</b>												
United States	Federal funds rate	4.25	5.25	6.00	4.75	5.25	5.25	5.25	5.50	6.00	6.00	6.00
Euro	Refi rate	2.25	3.50	4.00	2.50	2.75	3.00	3.50	3.75	4.00	4.00	4.00
Japan	Overnight call rate	0.00	0.50	1.50	0.00	0.00	0.25	0.50	0.75	1.00	1.25	1.50
Australia	Cash rate	5.50	6.25	6.25	5.50	5.75	6.00	6.25	6.25	6.25	6.25	6.25
New Zealand	Cash rate	7.25	7.25	6.50	7.25	7.25	7.25	7.25	7.25	7.25	7.00	6.50
China	1-year working capital	5.58	6.30	6.30	5.58	5.85	6.12	6.30	6.30	6.30	6.30	6.30
Hong Kong	Discount window base	5.75	6.75	7.50	6.25	6.75	6.75	6.75	7.00	7.50	7.50	7.50
Taiwan	Official discount rate	2.25	2.75	3.00	2.38	2.50	2.63	2.75	2.88	3.00	3.00	3.00
Korea	Overnight call rate	3.75	4.50	4.50	4.00	4.25	4.50	4.50	4.50	4.50	4.50	4.50
India	Reverse repo rate	5.25	6.00	6.50	5.50	5.75	6.00	6.00	6.25	6.25	6.50	6.50
Indonesia	1-month SBI rate	12.75	10.00	9.50	12.75	12.50	11.25	10.00	9.50	9.50	9.50	9.50
Malaysia	Overnight policy rate	3.00	3.50	3.50	3.25	3.50	3.50	3.50	3.50	3.50	3.50	3.50
Philippines	Reverse repo rate	7.50	7.50	7.50	7.50	7.50	7.50	7.50	7.50	7.50	7.50	7.50
Thailand	14-day repo rate	4.00	5.00	5.00	4.50	5.00	5.00	5.00	5.00	5.00	5.00	5.00
<b>Exchange rates, end-period</b>												
Euro	EUR/USD	1.18	1.28	1.29	1.16	1.25	1.27	1.28	1.26	1.26	1.29	1.29
Japan	JPY/USD	115.7	119.0	116.0	117.2	114.5	118.0	119.0	120.0	119.0	118.0	116.0
Australia	AUD/USD	0.75	0.79	0.77	0.73	0.74	0.75	0.79	0.79	0.79	0.78	0.77
New Zealand	NZD/USD	0.69	0.68	0.56	0.66	0.61	0.66	0.68	0.66	0.65	0.60	0.56
China	USD/CNY	8.07	7.50	6.50	8.05	7.99	7.90	7.50	7.30	7.00	6.70	6.50
Hong Kong	USD/HKD	7.75	7.75	7.76	7.76	7.78	7.79	7.75	7.75	7.76	7.76	7.76
Taiwan	USD/TWD	32.8	31.0	29.0	32.5	32.5	32.9	31.0	29.8	29.0	29.0	29.0
Korea	USD/KRW	1012	980	1000	972	949	944	980	990	990	990	1000
India	USD/INR	45.0	45.5	45.0	44.5	46.1	45.9	45.5	46.0	45.5	45.0	45.0
Indonesia	USD/IDR	9840	8900	9100	9087	9105	9197	8900	8800	8800	9000	9100
Malaysia	USD/MYR	3.8	3.5	3.4	3.68	3.65	3.68	3.48	3.45	3.43	3.42	3.40
Philippines	USD/PHP	53.1	49.0	49.5	51.1	52.2	50.3	49.0	48.0	48.5	49.0	49.5
Singapore	USD/SGD	1.66	1.53	1.51	1.62	1.58	1.59	1.53	1.53	1.53	1.52	1.51
Thailand	USD/THB	41.0	37.0	36.2	38.9	37.9	37.5	37.0	36.8	36.5	36.2	36.2

# Global outlook: Growth & inflation

Global economic outlook in summary											
	2005	2006	2007	1Q06	2Q06	3Q06	4Q06	1Q07	2Q07	3Q07	4Q07
<b>Real GDP, %-ch over 1 quarter, saar</b>											
US	3.2	3.4	2.9	5.6	2.6	2.0	3.5	3.0	3.5	2.5	2.0
Euro	1.5	2.8	2.5	3.2	3.6	3.3	3.5	1.3	2.5	2.0	2.0
Japan	2.6	2.8	2.8	3.3	1.0	3.2	3.0	2.9	2.9	2.8	2.6
Australia	2.7	2.8	4.0	2.7	1.3	4.9	5.2	3.1	4.4	4.1	3.5
New Zealand	2.2	1.7	1.8	3.0	1.9	1.5	1.6	1.8	1.8	1.7	2.0
<b>Emerging Asia</b>	<b>7.4</b>	<b>7.3</b>	<b>6.7</b>	<b>7.5</b>	<b>7.6</b>	<b>5.2</b>	<b>6.3</b>	<b>7.1</b>	<b>7.0</b>	<b>6.8</b>	<b>6.9</b>
<b>ex China and India</b>	<b>4.9</b>	<b>5.1</b>	<b>4.7</b>	<b>4.5</b>	<b>3.0</b>	<b>4.1</b>	<b>5.2</b>	<b>5.1</b>	<b>5.0</b>	<b>4.5</b>	<b>4.6</b>
China	10.2	10.0	9.0	9.3	13.5	6.0	7.4	9.7	9.7	9.7	9.7
Hong Kong	7.3	5.8	5.0	10.0	0.0	6.5	7.5	5.0	4.5	4.0	4.0
Taiwan	4.0	4.0	4.4	1.1	0.5	4.5	6.0	4.5	4.5	4.0	4.0
Korea	4.0	5.1	4.5	4.9	3.4	3.8	4.5	4.5	5.0	4.5	5.0
India	8.4	7.5	7.0	12.4	7.7	7.0	7.0	7.0	7.0	7.0	7.0
Indonesia	5.6	5.3	5.8	1.6	7.4	5.0	7.0	6.0	5.0	5.0	5.0
Malaysia	5.2	5.1	5.1	7.3	2.7	3.2	4.2	6.5	6.3	5.4	5.0
Philippines	5.0	5.5	5.5	4.6	6.8	4.0	4.0	6.5	6.0	4.8	4.8
Singapore	6.4	7.0	4.0	7.6	3.0	1.0	1.5	6.0	5.5	4.5	4.5
Thailand	4.5	4.5	4.0	3.4	4.2	2.5	4.0	5.0	5.0	5.0	5.0
<b>Consumer prices, %oya, average</b>											
US	3.4	3.4	2.3	3.7	4.0	3.4	2.5	2.6	2.0	1.9	2.6
Euro	2.2	2.3	2.2	2.3	2.5	2.2	2.0	2.4	2.1	1.9	2.1
Japan	-0.3	0.2	0.3	-0.1	0.2	0.4	0.3	0.1	0.2	0.3	0.6
Australia	2.7	3.6	2.7	3.0	4.0	3.8	3.6	3.5	2.5	2.3	2.6
New Zealand	3.0	3.6	3.0	3.3	4.0	3.5	3.4	3.4	3.0	2.8	2.8
<b>Emerging Asia</b>	<b>3.0</b>	<b>3.2</b>	<b>3.2</b>	<b>4.4</b>	<b>3.6</b>	<b>3.4</b>	<b>3.4</b>	<b>3.6</b>	<b>3.5</b>	<b>3.5</b>	<b>3.4</b>
<b>ex China and India</b>	<b>3.5</b>	<b>3.7</b>	<b>3.1</b>	<b>4.1</b>	<b>4.1</b>	<b>3.7</b>	<b>3.1</b>	<b>3.3</b>	<b>3.2</b>	<b>3.2</b>	<b>3.3</b>
China	1.8	1.5	2.5	1.2	1.4	1.5	2.2	2.7	2.5	2.5	2.0
Hong Kong	0.9	2.2	2.7	1.6	2.0	2.3	3.0	3.3	2.9	2.6	2.6
Taiwan	2.3	1.0	2.0	1.3	1.5	0.2	1.2	2.0	1.8	2.0	2.0
Korea	2.8	2.6	3.2	2.4	2.3	2.8	3.0	3.2	3.4	3.2	3.2
India	4.2	5.6	5.3	12.4	7.7	7.0	7.0	7.0	7.0	7.0	7.0
Indonesia	10.5	13.5	6.2	16.9	15.5	15.4	6.9	6.7	6.5	6.8	7.1
Malaysia	3.1	3.8	2.7	3.8	4.1	3.9	3.4	3.1	3.0	2.7	2.5
Philippines	7.6	6.9	6.3	7.3	6.9	7.6	6.9	6.0	5.7	6.4	7.5
Singapore	0.5	1.1	1.1	1.4	1.2	1.2	1.1	1.1	1.1	1.0	1.0
Thailand	4.5	4.7	2.0	5.7	6.0	2.1	2.2	2.4	2.4	2.4	2.4



# Asian currency movements and forecasts



Source: JPMorgan.

EMERGING ASIA FORECASTS

# Regional fixed income forecasts

## JPMorgan Asia rates forecasts

	Previous 23-Aug-06	Actual 14-Sep-06	4Q-06 Dec-06	1Q-07 Mar-07	2Q-07 Jun-07	3Q-07 Sep-07	Change	Forecasted Change		
								Dec-06	Mar-07	Jun-07
<b>US</b>										
3-month LIBOR	5.37	5.36	5.70	6.15	6.15	6.15	-1	35	45	0
10-year UST	4.84	4.76	5.20	5.70	5.80	5.80	-8	44	50	10
<b>HONG KONG</b>										
3-month	4.26	4.17	5.40	5.95	5.95	5.95	-9	123	55	0
10-year	4.53	4.45	4.70	5.20	5.30	5.30	-8	25	50	10
<b>TAIWAN</b>										
3-month (offshore)	1.81	1.58	2.00	2.10	2.10	2.30	-23	42	10	0
10-year govt	2.04	1.97	2.25	2.45	2.45	2.50	-7	28	20	0
<b>KOREA</b>										
3-month	4.7	4.75	4.95	4.95	5.00	5.00	5	20	0	5
5-year	4.77	4.80	5.25	5.30	5.30	5.30	3	45	5	0
<b>SINGAPORE</b>										
3-month	3.2	3.44	3.65	3.75	3.90	4.00	24	21	10	15
10-year	3.38	3.33	3.75	3.90	4.05	4.10	-5	42	15	15
<b>PHILIPPINES</b>										
3-month (offshore)	6.63	5.38	5.00	5.00	5.50	5.50	-125	-38	0	50
5-year	8.4	7.94	7.70	7.50	7.70	7.70	-46	-24	-20	20
<b>INDONESIA</b>										
3-month (offshore)	11.8	11.35	10.10	9.60	9.60	9.60	-45	-125	-50	0
7-year	11.8	11.35	10.00	9.50	9.50	9.50	-45	-135	-50	0
<b>THAILAND</b>										
3-month	5.58	5.58	5.60	5.60	5.60	5.60	0	2	0	0
10-year	5.47	5.47	5.30	5.20	5.40	5.60	0	-17	-10	20
<b>INDIA</b>										
3-month	6.35	6.40	6.40	6.50	6.50	6.70	5	0	10	0
10-year	7.99	7.70	8.00	8.20	8.20	8.00	-29	30	20	0

# Biography

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Mr. Fernandez serves as JPMorgan's Head of Emerging Asia Research team.

Before joining JPMorgan in January 1998, Mr. Fernandez spent five years as a professor of economics at the Johns Hopkins University International Studies School where he taught international macroeconomics. He was named Professor of the Year in 1996.

Earlier, he served as an Economist in the Council of Economic Advisers in the administration of U.S. President George Bush. In 1987, he joined the Federal Reserve Bank of New York in its OECD economic research department and in the foreign exchange intervention group.

Mr. Fernandez has a B.A. in Economics from the University of Pennsylvania and received a Doctorate in Economics from Princeton University where, as a National Science Foundation fellow, he wrote his dissertation under Ben S. Bernanke.

In addition to his work at JPMorgan, Mr. Fernandez is on the Advisory Board of Singapore Management University's School of Economics and Social Sciences.